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Report No:ICR0000000101

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(Loan No. 4585-AR)

ON A LOAN

IN THE AMOUNT OF US$303.00 MILLION

TO THE

ARGENTINE REPUBLIC

FOR A

PROVINCIAL REFORM ADJUSTMENT LOAN

TO SUPPORT THE PROVINCE OF

CÓRDOBA

February 28, 2007

LATIN AMERICA AND CARIBBEAN
Argentina, Chile, Paraguay and Uruguay Country Management Unit
Poverty Reduction and Economic Management
Latin America and the Caribbean Regional Office

CURRENCY EQUIVALENTS

(Exchange Rate Effective 11/30/2006)
Currency Unit = Argentine Peso
US$1.00 = Arg$3.07

Fiscal Year
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

APROSS	Administration of the Provincial Health Insurance *(Administración Provincial del Seguro de Salud)*
BPC	Córdoba's Provincial Bank *(Banco de la Provincia de Córdoba)*
CAS	Country Assistance Strategy
CUIT	Single Tax Identification Code *(Clave Única de Identificación Tributaria)*
EPEC	Córdoba's Provincial Electric Company *(Empresa Provincial de Energía de Córdoba)*
FRL	Fiscal Responsibility Law *(Ley de Responsabilidad Fiscal)*
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
ICR	Implementation Completion and Results Report
IFI	International Financial Institutions
IMF	International Monetary Fund
IPAM	Provincial Health Insurance Agency *(Instituto Provincial de Atención Médica)*
IRIS	Integrated Records Information System
MOP	Memorandum to the President
PCB	Polychlorinated Biphenyls
PDO	Program Development Objective
PFO	Bilateral Agreements–Provincial Orderly Financing Program
PRESSAL	Provincial Health Sector Reform Project
PRL	Provincial Reform Loan
PROAPS	Primary Health Care Program
PRODYMES	Secondary Education Decentralization Project
PROMIN	National Program for Maternal and Child Nutrition and Health
PSR	Project Status Report
RuGePreSa	Provincial Registry of Health Insure Providers
SEEJEP	Provincial Budgeting System *(Sistema Experto de Ejecución Presupuestaria)*
SINTyS	National System for Tax and Social Identification
SNSS	National Health Insurance Superintendence *(Superintendencia Nacional de Seguro de Salud)*
SUAS	Single Registry of Beneficiaries of Social Programs *(Sistema Único de Acción Social)*
VAD	Added Value of Distribution *(Valor Agregado de Distribución)*

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ICR Team Leader:	Ronald Myers

Argentina
AR Cordoba PRL5

CONTENTS

A. Basic Information

Country:	Argentina	Program Name:	AR Cordoba PRL5
Program ID:	P068344	L/C/TF Number(s):	IBRD-45850
ICR Date:	03/01/2007	ICR Type:	Core ICR
Lending Instrument:	SAL	Borrower:	REPUBLIC OF ARGENTINA
Original Total Commitment:	USD 303.0M	Disbursed Amount:	USD 228.0M

Implementing Agencies:
Ministry of Economy; Province of Cordoba

Cofinanciers and Other External Partners:

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	07/11/2000	Effectiveness:	08/02/2001	08/02/2001
Appraisal:	07/25/2000	Restructuring(s):		04/24/2003
Approval:	11/22/2000	Mid-term Review:		
		Closing:	03/31/2003	03/31/2006

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	Government:	Not Applicable
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Not Applicable
Overall Bank Performance:	Satisfactory	**Overall Borrower Performance:**	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators

Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	Yes	Quality at Entry (QEA):	None

Problem Program at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
General education sector	26	26
General finance sector	11	11
General public administration sector	37	37
Health	18	18
Other social services	8	8
Theme Code (Primary/Secondary)		
Education for all	Primary	Primary
Health system performance	Primary	Primary
Public expenditure, financial management and procurement	Primary	Primary
State enterprise/bank restructuring and privatization	Secondary	Secondary
Tax policy and administration	Secondary	Secondary

E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Pamela Cox	David de Ferranti
Country Director:	James Parks	Myrna L. Alexander
Sector Manager:	Ronald E. Myers	Ernesto May
Program Team Leader:	Fernando Rojas	Ronald E. Myers
ICR Team Leader:	Ronald E. Myers	
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F. Results Framework Analysis

Program Development Objectives (from Project Appraisal Document)

The Program Development Objective was to promote an efficient and responsive delivery of public services by the Province of Córdoba within fiscally sound policies. The operation focused on three main policy areas: public finance, public administration, and social sectors (health, education, and social protection). The specific objectives within each of these policy areas are shown below (see Section 1.4).

Key Indicators were not explicitly defined during appraisal. Output indicators reflected the policy conditionalities included in the Policy Matrix. No impact indicators were defined.

Revised Program Development Objectives (if any, as approved by original approving authority)

PDO were not revised during implementation. However, output indicators, which reflected the operation's policy conditionalities, were de facto modified in April 2003, when a number of loan conditions corresponding to the second and third tranche disbursements were amended as part of the operation's overall restructuring (see Section 1.6).

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator :	Improved and sustainable fiscal situation (Overall Balance/Current Revenues)			
Value (quantitative or Qualitative)	-5.8% (13.3% for all provinces)	Overall deficit not to exceed US$78 million	Targets in the PFO bilateral agreements with the national government for 2002 and 2003	0.5% (2.2% for all provinces)
Date achieved	12/31/1999	03/31/2002	12/31/2005	12/31/2005
Comments (incl. % achievement)	Achieved. Córdoba has attained an overall surplus from 2003 onward. However, it receives more discretionary transfers as a proportion of current revenues than provinces as a whole (11.1% compared to 7%), which makes the province less fiscally autonomous.			
Indicator :	Maintain constant and, if possible, reduce debt burden (Debt Stock/Current Revenues)			
Value (quantitative or Qualitative)	45.2% (53.3% for all provinces)	No more than 70%	Targets in the PFO bilateral agreements with the	134.5% (115.6% for all provinces)

			national government for 2002 and 2003	
Date achieved	12/31/1999	03/31/2002	12/31/2005	12/31/2005
Comments (incl. % achievement)	Achieved as amended. Although Córdoba has complied with the targets agreed under the 2002 and 2003 PFO bilateral agreements with the national government, its debt stock has grown comparatively more than for provinces as a whole.			
Indicator :	Reduction in infant mortality rates (per 1,000 live births)			
Value (quantitative or Qualitative)	16.8 (19.5 for all provinces)			14.3 (16.5 for all provinces)
Date achieved	12/31/1999			12/31/2003
Comments (incl. % achievement)	Achieved. Córdoba's key health statistics continue to be better than for provinces as a whole.			
Indicator :	Improved student test scores			
Value (quantitative or Qualitative)	Ranked 3rd in language and 4th in math			Central region ranked 1st in math and language
Date achieved	12/29/2000			12/31/2003
Comments (incl. % achievement)	Undetermined due to the lack of national standardized evaluations (ONE) at the provincial level since 1999. Data for the Central Region suggests that quality of education in the Central Provinces—including Córdoba—remains among the top in the country.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator :	Provincial Bank of Córdoba (BPC)			
Value (quantitative or Qualitative)	Provincial bank is under full ownership of the province	BPC brought to point of sale. Budget includes resources to cover remaining liabilities	The Central Bank has approved the BPC Restructuring Plan, which is being implemented. A firm is managing BPC's residual assets	Restructuring Plan is being implemented, although Central Bank's approval is still pending. A firm is managing BPC's residual assets
Date achieved	12/31/2000	03/31/2001	12/31/2005	12/31/2006

Comments (incl. % achievement)	Partially achieved as amended (under implementation). BPC was offered for sale in 2001, but was unsuccessful. Decision to halt BPC privatization was announced in May 2006. The Central Bank and the province are still negotiating recapitalization terms.			
Indicator :	Electric company (EPEC)			
Value (quantitative or Qualitative)	Electric company is under full ownership of the province	EPEC brought to point of concession. Regulatory entity established. Norms issued	Performance contracts subscribed. Concession contracts with all private electric cooperatives. Environmental assessment (EA), mitigation plan complete. Regulatory entity established and implementing plan to raise tariffs.	Performance and concession (200 of 203 cooperatives) contracts signed. EA and mitigation action plan completed. Regulatory entity established; tariffs increased but may not reflect full cost structure.
Date achieved	12/31/2000	03/31/2001	12/31/2005	07/31/2006
Comments (incl. % achievement)	Partially achieved as amended. EPEC was unsuccessfully offered for concession in 2001. Targets in performance contract are being largely met, although technical losses remain high. Tariff increases have been insufficient to reflect actual costs.			
Indicator :	Financial management system			
Value (quantitative or Qualitative)	Antiquated financial management	Financial management system used to prepare 2002 budget		Financial management system used to prepare budgets from 2003 onward
Date achieved	12/31/2000	03/31/2002		03/31/2006
Comments (incl. % achievement)	Achieved. In addition to the implementation of an integrated financial management system with support from IADB, the province has also approved a Financial Administration Law (Law No. 9.086) in 2003.			
Indicator :	Improved tax administration (Provincial gross receipts collections compared to national value-added tax IVA relative to 1999 base)			
Value (quantitative or Qualitative)	1999 Base Gross receipts: 1 IVA: 1	Increase in Gross Receipts Tax at least 2% higher than increase in IVA relative to 1999		Gross receipts: 2.3 IVA: 1.9

Date achieved	12/31/1999	03/31/2002		12/31/2005
Comments (incl. % achievement)	Achieved. To offset 30% reduction in tax burden, Córdoba has made substantial efforts to enhance its tax administration, particularly in gross-receipt tax collections. Property taxes, however, have actually decreased between 1999 and 2005.			
Indicator :	Civil Service Reform (Personnel Expenditures/Current Revenues)			
Value (quantitative or Qualitative)	57.3% (58.1% for all provinces)			39.4% (45.1% for all provinces)
Date achieved	12/31/1999			12/31/2005
Comments (incl. % achievement)	Achieved. Although the number of personnel has increased relatively more than in provinces as a whole between 1999 and 2004, Córdoba still remains the province with the fewest public employees in relation to its population.			
Indicator :	Increased spending on primary health services			
Value (quantitative or Qualitative)	1% of health budget	9% of health budget		18.8% of health budget
Date achieved	12/31/2000	03/31/2002		12/31/2005
Comments (incl. % achievement)	Achieved. Córdoba has enhanced the rationality of health expenditures, with personnel expenditures declining slightly from 61% to 57% of the health budget and spending in primary health care increasing significantly between 2000 and 2005.			
Indicator :	Increase financial autonomy of provincial hospitals			
Value (quantitative or Qualitative)	Poor cost recovery by public hospitals	Public hospitals collect at least 40% of the amounts billed to insured patients	Public hospitals collect at least 15% of the amounts billed to insured patients	Public hospitals collected 29.4% of the amounts billed to insured patients between January and June 2006
Date achieved	12/31/1999	03/31/2002	12/31/2005	06/30/2006
Comments (incl. % achievement)	Achieved. As of June 2006, all provincial hospitals were billing all insured patients. Cost recovery was 29.4% of the amounts billed between January and June 2006 and over 83% when including payments from previous billing periods.			
Indicator :	Reducing drop-out and repetition rates			
Value (quantitative or Qualitative)	5.8% repetition rate 1.2% drop-out rate for the system as a whole	25% reduction in 400 schools (4.4% repetition rate 0.9% drop-out rate)		4% repetition rate 0.8% drop-out rate for the system as a whole
Date achieved	12/31/1998	03/31/2002		10/31/2005
Comments (incl. % achievement)	Achieved. Actual accomplishments have exceeded original targets, not only for 400 individual schools but for the system as a whole. From being ranked 8th among all provinces in 1998, Córdoba ranked 3rd in repetition rates in 2003 (latest year available).			
Indicator :	Human resource management in the education sector			

Value (quantitative or Qualitative)	No system in place	100% of teachers included in human resource management system		100% of teachers in primary education included in the system. Teachers for other levels still being incorporated
Date achieved	12/31/2000	03/31/2002		07/31/2006
Comments (incl. % achievement)	Partially achieved (under implementation). Currently, there are 33,264 teaching posts already incorporated into the system, corresponding to all primary schools in the province. Completion is expected during 2007.			
Indicator :	Provincial registry of beneficiaries from social programs (SUAS)			
Value (quantitative or Qualitative)	No centralized system in place	80,000 beneficiaries		1.5 million beneficiaries and family relations
Date achieved	12/31/1999	03/31/2002		07/31/2006
Comments (incl. % achievement)	Achieved. The implementation of the SUAS has been highly successful, amply exceeding PRL targets.			

G. Ratings of Program Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/22/2001	Satisfactory	Satisfactory	0.00
2	12/20/2001	Satisfactory	Satisfactory	103.00
3	06/28/2002	Satisfactory	Unsatisfactory	103.00
4	12/19/2002	Satisfactory	Unsatisfactory	103.00
5	06/13/2003	Satisfactory	Satisfactory	228.00
6	12/17/2003	Satisfactory	Satisfactory	228.00
7	06/17/2004	Satisfactory	Unsatisfactory	228.00
8	12/09/2004	Satisfactory	Unsatisfactory	228.00
9	05/06/2005	Moderately Satisfactory	Moderately Unsatisfactory	228.00
10	12/13/2005	Moderately Satisfactory	Moderately Unsatisfactory	228.00

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
04/24/2003	N	S	U	103.00	See Annex 7.

1. Program Context, Development Objectives and Design

1.1 Context at Appraisal:

Following the flight of private capital flows to emerging markets in 1998 as a result of the Asian and Russian crises, and the devaluation of the Brazilian Real in early 1999, Argentina's economy slipped into recession, as evidenced by negative growth rates and a sharp deterioration of social indicators experienced from 1999 onward. As a result of the prolonged economic downturn combined with weak fiscal discipline during a national election year, Argentina's fiscal program went astray in 1999, resulting in a fiscal deficit of approximately 4.1 percent of GDP, 37 percent of which was generated by provincial governments. In 2000, the incoming De la Rúa administration initiated a set of economic reforms in an attempt to revitalize economic activity and boost the confidence of foreign and domestic investors. In addition, the government negotiated a three-year US$7.4 billion stand-by agreement with the International Monetary Fund (IMF) that included a deficit target for the national government as well as a consolidated deficit target for provincial governments. In October-November 2000, external debt markets closed for Argentine public borrowing, and domestic interest rates rose sharply. The markets were calmed by the swift action by the government to negotiate a broader international financing package of $39.7 billion, the so-called *'blindaje'*, with the IMF and other international and bilateral lenders to cover most of Argentina's external financing needs for 2001 and part of 2002. Although there were signs that the political cohesion of the governing political alliance was deteriorating, as indicated by the resignation of the vice-president in October 2000, the government remained firm in its commitment toward restoring fiscal balances. The expectation was that the new financing package would provide the time needed for implementation of the planned economic reforms, which, in turn, would help restore growth and investors' confidence.

Restoring order in the fiscal accounts at the national and sub-national levels was at the core of the national government's efforts, which included setting up binding deficit targets as part of the new Stand-By agreement with the IMF, limiting borrowing at the provincial level, and implementing a debt relief effort to support small provinces willing to control their spending. In addition, the national government subscribed to an agreement with provincial governments to transfer a fixed amount to the provinces during 2000 and 2001 in lieu of the automatic revenue-sharing transfers (*coparticipación*) that are proportional to federal taxes. The Bank was asked to assist the larger provinces in meeting the deficit targets and to support second generation reforms at the provincial level, focusing mainly on health and education spending. The Bank and the government agreed to replicate the model piloted by the Second Provincial Reform Loans (PRL-II) in Tucumán, Salta, San Juan and Río Negro. These operations sought to ensure an efficient and responsive delivery of public social services within fiscally sound policies by providing support to three pillars of the provinces' reform program: public finance, education, and health. Córdoba, the third largest province in Argentina's rich central region, was selected to be the second province in this new phase. The choice of Córdoba was based on its relative importance. With a population of 3.1 million and a per capita income of $7,900 (about 90 percent of the national average), Córdoba faced serious challenges, including a history of volatile fiscal performance, high taxes, a large stock of debt, and inadequate human and physical infrastructure.

Approved in November 2000, Córdoba's PRL was consistent with the objectives of the Joint IBRD-IFC Country Assistance Strategy (CAS) covering FY 2001-2004 (Report No. 20354-AR, dated September 8, 2000), which was discussed by the Executive Directors on June 27, 2000, shortly after the new administration had taken office. Specifically, the FY 2001-2004 CAS identified the need to: (i) enhance social development, including poverty alleviation and human resource development; (ii) improve the performance of the state, particularly at the sub-national

level; and (iii) consolidate structural reforms. Together with continuing support for reform in revenue-sharing, individual provincial reform programs were identified as the main pillars of the Bank's continued support for provincial reform in Argentina. Likewise, the operation reflected the recommendations from OED's Country Assistance Evaluation (July 2000), which emphasized the need to concentrate lending on social sectors and provincial reform, without neglecting the reform of federal institutions. As discussed in the Board Paper (R96-55) approved in April 1996, the fiscal justification for sub-national reform lending rested on the link between fiscal deficits and pressures on the current account of the balance of payments, as provincial fiscal deficits increased country risks and added to Argentina's vulnerability to external shocks. In addition, provinces were considered a an important focal point for achieving development objectives in social development, as they accounted for almost all public spending in health and education, as well as being responsible for providing basic infrastructure services (pp. 15-18, FY 2001-2004 CAS).

1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved):

The Program Development Objective was to promote an efficient and responsive delivery of public services by the Province of Córdoba within fiscally sound policies. The operation focused on three main policy areas: public finance, public administration, and social sectors (health, education, and social protection). The specific objectives within each of these policy areas are shown below (see Section 1.4).

Key Indicators were not explicitly defined during appraisal. Output indicators reflected the policy conditionalities included in the Policy Matrix. No impact indicators were defined.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification:

PDO were not revised during implementation. However, output indicators, which reflected the operation's policy conditionalities, were de facto modified in April 2003, when a number of loan conditions corresponding to the second and third tranche disbursements were amended as part of the operation's overall restructuring (see Section 1.6).

1.4 Original Policy Areas Supported by the Program (as approved):

Córdoba's reform program was designed to improve its competitive position in the global economy and lay the basis for sustained growth through an ambitious program to stabilize government finances, improve public services, and strengthen human capital formation. The vision was to create a model provincial administration by reducing the size of the provincial administration while increasing its efficiency, cutting taxes, redirecting its efforts more to the social sectors, and improving the efficiency and transparency of its services to citizens. Córdoba's Provincial Reform Loan (PRL) supported a combination of first and second generation reforms focusing on three policy areas: (a) strengthening public finances; (b) modernizing public administration; and (c) reforming the social sector, focusing on health, education and social protection. The specific objectives within each of the policy areas were as follows:

A. Public Finance: During the 1990s, Córdoba's fiscal performance was highly volatile, largely as a result of short-term policies and poor management. After a brief improvement between 1996 and 1997, the lack of fiscal restraint resurged once more in 1998. While spending increased as the elections approached, revenues fell as a result of the protracted economic downturn and the deficit ballooned to nearly five percent of revenues that year. Unable to turn to the nearly

bankrupted Provincial Bank of Córdoba (BPC), the province sought short term financing from private banks. Indebtedness increased sharply, even as service standards declined. In turn, poor fiscal performance undermined economic growth and the ability of the province to pursue more effective social sector policies. With the support of the PRL, the government undertook several actions aimed at reaching a sustainable fiscal situation, with a specific focus on:

- *Enhancing fiscal performance* by striving toward achieving a fiscal balance and limiting the unsustainable growth of provincial debt and, if possible, reducing its stock.
- *Strengthening tax administration* to increase own-source revenues while decreasing the tax burden on individual taxpayers and businesses.
- *Strengthening municipal finances* by supporting the creation of new regional entities to consolidate similar functions for groups of municipalities, implementing financial and tax administration reforms, and providing technical assistance to support these initiatives.
- *Increasing private sector participation* by supporting the privatization of the provincial bank and the electricity company.

B. Modernizing Public Administration: With PRL support, Córdoba undertook an ambitious state modernization program aimed at enhancing efficiency, effectiveness, and transparency of public services to ultimately improve the business climate and provision of services to its citizens. Specifically, Córdoba's state modernization agenda was aimed at:

- *Enhancing financial management*, including undertaking the modernization of the Ministry of Finance and the adoption of a new budget formulation module for the preparation of the 2002 provincial budget.
- *Promoting civil service reform*, including conducting a civil service census, observing ceilings on filling vacancies, reviewing civil service policies, and expanding training.
- *Undertaking organizational reform*, including the undertaking of a pilot program to modernize the Ministries of Solidarity and Production.
- *Enhancing transparency*, including preparing and undertaking an action plan to combat corruption and submitting a new procurement law to the legislature.

C. Reforming Social Sectors: With PRL support, Córdoba undertook an ambitious program aimed at enhancing social services, including health, education, and social protection. The specific components of Córdoba's state modernization agenda that were supported under the program included:

a. Health Reforms: With universal access to health services, a life expectancy of 72.8 years, and a decline in infant mortality, Córdoba's health indicators are reasonable relative to other provinces of Argentina. Nevertheless, toward the end of the 1990s the province still faced significant problems in terms of regulation, management and planning of its health care delivery system that resulted in higher costs, lower quality, and poor oversight of services. Over time, the Ministry of Health had lost its role as the planning, regulatory and control agency of health activities in the province, limiting itself primarily to financing/purchasing as well as providing some health services directly. The health delivery system was oversized and inefficient, with most public hospitals being old, inadequately maintained, and inefficiently managed. As in the rest of the country, the quality of care for lower income sectors of the population depends primarily on public hospitals, with few controls from the Ministry of Health. To address these shortcomings, the specific actions supported under the program focused on:

- *Protecting the health budget*, in terms of its size and relative distribution, limiting personnel salary and benefit expenditures.
- *Enhancing the performance of public hospitals*, by increasing cost recovery from patients with health care coverage, establishing monitoring systems to systematically oversee performance of public hospitals, and developing quality assurance systems of patient care.
- *Extending coverage to the uninsured poor* by implementing a pilot scheme to identify and evaluate the potential costs and impacts associated with adopting a large scale insurance-based subsidy scheme for the poor.
- *Strengthening of the Ministry of Health*, with a focus on enhancing its regulatory functions, such as accreditation of health care providers, implementing quality assurance mechanisms, and enhancing purchase control systems.
- *Strengthening of the province's health insurance agency (Instituto Provincial de Atención Médica - IPAM)*, by supporting its financial solvency, implementing an integrated health care network, and enhancing the quality of its health care.

b. Education Reforms: Despite having one of the highest per-student unitary costs in the country, roughly 11 percent higher than the national average, Córdoba's education system suffered from relatively low quality, and poor motivation and school attendance by both students and teachers. With salaries accounting for approximately 95 to 98 percent of the education budget, there was little funding available for teaching materials and maintenance, resulting in a dearth of needed books and equipment as well as a deteriorating infrastructure. Other factors hindering the education sector were high teacher absenteeism, poor teacher training, inequitable distribution of subsidies to private education, and poor use of human resources. Under the PRL, education reforms focused on the following areas:

- *Enhancing management of education* expenditures by implementing a human resource management system for educational personnel, reducing teachers' absenteeism, increasing student/teacher ratios, implementing a human resource management system for education personnel, and rationalizing the use of education resources with an emphasis on increasing capital and non-salary expenditures as a proportion of the overall education budget.
- *Enhancing quality of education*, by implementing a pilot program to monitor students' performance and socio-economic status to better target programs to reduce drop-out and repetition rates and disseminating the results of provincial and national standardized tests to enhance accountability.
- *Rationalizing teacher training and teacher training institutes* by implementing an accreditation system and tying public subsidies to performance.
- *Improving the allocation of resources to the private sector* by conducting regular independent audits to verify that the subsidies are distributed and utilized as intended.
- *Promoting decentralized management* by giving individual schools increased autonomy in resource management and implementing programs targeting students from more vulnerable socio-economic backgrounds.

c. Social Protection: Social protection in Córdoba was characterized by inadequate funding and weak implementation capacity. In the past, the Ministry of Solidarity, which oversees social assistance programs, had faced serious and unpredictable fluctuations in its cash flow, undermining program effectiveness. These deficiencies were aggravated by organizational weaknesses, as evidenced by extremely high administrative costs, high staff-client ratios, and outmoded and cumbersome administrative procedures. In addition, provincial social assistance programs were characterized by a generalized lack of transparency in eligibility criteria and poor targeting. To address these shortcomings, the specific actions supported under the program focused on:

- *Protecting the social protection budget* by ensuring the allocation of adequate and predictable resources to social protection in the provincial budget.
- *Enhancing the quality of provincial social protection programs* by conducting an assessment of the various programs under the Ministry of Solidarity.
- *Improving targeting* by developing a register of beneficiaries of social programs.
- *Enhancing the organizational structure of the Ministry of Solidarity*, including the review of its structure, legal framework, substantive goals and business processes, staffing requirements, audit operations, and change management needs.

1.5 Revised Policy Areas (if applicable):

N/A

1.6 Other significant changes:

Restructuring: By restructuring the operation in April 2003, the Bank sought to respond to the profound changes that followed the economic collapse of December 2001, while preserving the overall objectives of the loan. The decision to restructure the operation instead of canceling the two undisbursed tranches was based on the substantial progress Córdoba had made in the implementation of its reform program despite the adverse implementation environment. Restructuring provided the opportunity to reframe the province's program in a manner that was feasible given the macroeconomic uncertainties and poor investment climate without detracting from the operation's original development objectives.

At restructuring, modifications were introduced in both the configuration of the loan tranches and individual conditions. As original conceived, the loan was structured into three equal tranches of US$100 million, the first of which was disbursed upon effectiveness. The second tranche-called the 'floating' tranche-included conditions related to the sale of the provincial bank and electricity company. The final third tranche was comprehensive and tied to a wide variety of reforms in the areas of public finance, public administration and the social sectors. At restructuring, the two pending tranches of US$100 million each were modified as follows:

- *Second tranche (US$100 million):* It included conditions relating to fiscal performance, protection of social funding, and the provincial bank and the electricity company, most of which were amended to reflect the post-2001 fiscal and social conditions.
- *Third tranche (US$25 million):* It was cut back to include only those original conditions in the areas of public finance, public administration, and the social sectors that were already met. The 15 conditions corresponding to the restructured third tranche were not amended, except for a waiver given to a pilot program to provide health insurance to the poor.
- *Fourth tranche (US$75 million):* A new tranche was created to incorporate conditions originally included in the third tranche that were still under implementation. Some of these conditions maintained the original targets, and others were amended. The bulk of conditions were in the areas of public finances, public administration and social sector reform. Additional conditions were added with respect to the provincial bank and the electricity company.

The second and third tranches were eligible for immediate disbursement, while the disbursement of the fourth tranche was to be disbursed once the Province met the corresponding conditions.

In the case of individual conditions that had been rendered infeasible or overly ambitious by the crisis, an upfront agreement was reached with the province on revised actions that, although scaled down, were still consistent with the operation's development objectives. Overall, a total of 17 out of 53 conditions were either waived or had their scope modified-five and 12 conditions corresponding to the original 'floating tranche' and third tranche, respectively. The most important amendments and waivers related to fiscal targets, the privatization of the provincial bank, the concession of the electricity company, the elimination of a pilot program to provide health insurance to the poor, and municipal finances. Specifically, original fiscal targets were replaced by those included in the 2002 and 2003 PFO bilateral agreements. In the case of the provincial bank and the electricity company, conditions calling for their privatization or concession were replaced by amended conditions calling for the implementation of restructuring plans to ensure the continuing financial and operational strengthening of these entities, so they could be ready for privatization once market were more favorable. The elimination of a health insurance pilot program for the poor due the tight fiscal situation clearly constituted a loss for the program supported under the PRL. In retrospect, some of the amendments weakened original conditions by replacing result-oriented conditions with less substantial requirements, such as formal agreements and the presentation of action plans that in practice had little, if any, impact. For example, the conditions calling for the implementation of municipal fiscal pacts and the harmonization of municipal cadastres were replaced by actions such as the adoption of formal agreements and the preparation of technical assistance programs that have had little impact on improving municipal revenues (see Table 7.1, Annex 7 for a detail of the individual amendments).

Given the severity of the crisis and its adverse consequences, it was clearly impossible to adapt the operation to the new realities without significant trade-offs. While the development objectives remained unaltered, the operation's scope was diminished relative to the original expected outcomes as a result of the restructuring. For example, although steps were taken under the restructured operation to enhance the operational and financial performance of the bank and electricity company, these entities remained in the hands of the province. Likewise, revised fiscal targets were substantially less ambitious than the original ones, particularly in terms of reductions in the debt stock. However, by restructuring the operation as opposed to canceling it, the Bank offered the province its support in responding to the crisis, as well as substantial incentives to continue with the implementation of the critical set of reforms supported by the operation despite the heightened fiscal and social pressure.

Cancellation: The current Argentina CAS, which was discussed by the Board in June 2006, proposes a US$3.3 billion lending program that, at the request of the authorities, is made up exclusively of investment operations. In this context, in agreement with the government, the three provincial reform loans, including Córdoba's PRL, which were approved prior to the 2004-2005 CAS, were closed on March 31, 2006, and undisbursed tranches totaling US$226 million were cancelled. These loans are envisaged to be replaced with new investment operations in the provinces concerned (pp. 44, 49, CY 2006-2008 CAS). In the case of Córdoba, a Provincial Road Infrastructure Project in the amount of US$75 million, was approved in July 2006 under the new CAS envelope.

2. Key Factors Affecting Implementation and Outcomes

2.1 Program Performance:

Tranche	Amount	Expected Release Date	Actual Release Date	Release
Original Design				
First Tranche Effectiveness	103,000,000.00 USD	2nd Quarter FY2001	08/02/2001	*(1) Regular*
'Floating' Tranche	100,000,000.00 USD	3rd Quarter FY2001	Restructured	*(2) Waiver*
Third Tranche	100,000,000.00 USD	3rd Quarter FY2002	Restructured	*(2) Waiver*

Tranche	Amount	Expected Release Date	Actual Release Date	Release
After Restructuring				
First Tranche Effectiveness	103,000,000.00 USD	2nd Quarter FY2001	08/02/2001	*(1) Regular*
Second Tranche	100,000,000.00 USD	4th Quarter FY2003	05/14/2003	*(1) Regular*
Third Tranche	25,000,000.00 USD	4th Quarter FY2003	05/14/2003	*(1) Regular*
Fourth Tranche	75,000,000.00 USD	2nd Quarter FY2006	Cancelled	*(3) Cancelled*

First Tranche – Effectiveness	Status
1. Maintain supportive macroeconomic framework in Argentina	Met
2. Resources and expenditures review; fiscal performance met targets regarding current account surplus, overall deficit, and debt	Met
3. Tax administration reforms plans prepared; annual auditing plan for 2001 prepared, agreement between Cadastre and Property Registry Office; system to monitor large tax payers designed; legislation prohibiting new tax amnesties passed	Met
4. Municipal finances: action plans for fiscal reform for at least 25 municipalities; action plans to modernize cadastres of alt least 25 municipalities	Met
5. Provincial Bank of Córdoba's privatization law approved; privatization team appointed; privatization strategy adopted incl. residual assets	Met
6. Electric company's concession law passed; concession team appointed; Laws 8836 and 8837 being implemented	Met
7. Civil service reform strategy prepared; limits on new hiring; decree authorizing reduction in personnel	Met
8. Action plan for review of procurement system; creation of an Anti-Corruption Office	Met
9. Technical group appointed to lead financial management reform; strategy adopted	Met
10. Health sector budget to remain constant in real terms for two years; 9 percent of health budget for primary health services	Met
11. Public hospital reform, including improving quality of service and patients' satisfaction, establishing foundations for patient identification and cost recovery; strengthening managerial capacity; improve budget planning; and preparation of performance indicators and benchmarks	Met

12. Ensuring financial viability of provincial heath insurance agency IPAM; prepare reform strategy; prepare methodology to measure profile of health service utilization; and prepare action plan for ensuring quality of service	Met
13. Strengthening of Ministry of Health, including enactment of decree for control of medical equipment, central Customer Service office established and customer service offices established in six hospitals	Met
14. Pilot health insurance program, incl. preparation of strategy, action plan, and budget analysis	Met
15. Management of resources in education sector, incl. establishing guidelines for human resource management system (*legajo único electrónico*); baseline of student/teacher ratios and average absenteeism days by district, level of education, gender, and urban/rural areas; agreement reached on privatized medical control system; education budget to meet targets for non-salary and capital expenditures	Met
16. Report and recommendations based on results from standardized national performance tests; conceptual design of socio-economic student monitoring system prepared	Met
17. Guidelines prepared for accreditation of teachers' training institutes	
18. New mechanisms for auditing compliance with subsidies to private schools.	Met
19. Report on experiences with decentralization; baseline values for drop-out and repetition rates by district, level of education, gender, and urban/rural areas	Met
20. Budget to social protection to meet agreed minimum levels; designation of Ministry of Solidarity and Production as pilot agencies for organizational restructuring	Met
Second Tranche	**Status**
21. Maintain supportive macroeconomic framework in Argentina	Met
22. Stipulated budget funding has been allocated to social protection	Met
23. Compliance with the 2002 bilateral agreement (PFO) including a reduction in its overall deficit of at least 50 percent as well as signing and legislative approval of the 2003 bilateral agreement (PFO)	Met
24. BPC has employed a consulting firm under terms of reference acceptable to the Bank to conduct a comprehensive financial operational and institutional diagnostic	Met
25. The Central Bank of Argentina has provided to BPC preliminary guidance on adjusting and carrying out the Regularization and Financial Strengthening Plan	Met
26. BPC has initiated a process to employ a firm to manage its residual (bad) assets	Met
27. The legislature has approved new by-laws which provide EPEC to enter into periodic performance contracts with the Province	Met
28. Concession contracts have been granted to at least 50 percent of the private electric cooperatives registered in the Province	Met
29. A special environmental unit has been established within EPEC and is fully staffed	Met
30. A fully functioning power sector regulatory public agency created, staffed, and operating	Met
Third Tranche	**Status**
31. Maintain supportive macroeconomic framework in Argentina	Met
32. Reconciliation of reported tax payments and reporting bank statements	Met
33. Single taxpayer identification code system (CUIT) operational	Met
34. Special system to monitor tax returning filing and payments by large taxpayers functioning	Met
35. System in operation to use the CUIT system to identify property owners	Met
36. Two thirds of all properties are registered in a computerized data base	Met
37. Performance indicators and benchmarks established for all public hospitals	Met

38. IPAM (the Province's health insurance agency) is implementing an integrated health care network	Met
39. Specified student/section ratio for the Specialization Cycle of public secondary schools in urban areas achieved	Met
40. Publicly funded teacher training institutes evaluated with results published and accreditation linked to agreed guidelines	Met
41. Complete an assessment of its core social protection programs	Met
42. Complete register of beneficiaries	Met
43. A civil service census completed	Met
44. Ceilings on filling vacancies observed	Met
45. Review of civil service policies conducted	Met
46. An expanded training program implemented	Met
Fourth Tranche (Although cancelled, progress was made on policy conditions)	**Status**
47. Maintain supportive macroeconomic framework in Argentina	Not met (continuing uncertainties in medium-term macro framework)
48. Compliance with the quarterly targets of the 2003 bilateral agreement (PFO) for the period immediately preceding the fourth tranche release date	Met
49. BPC has submitted to the Central Bank a revised Regularization and Financing Plan based on the results of the diagnostic of an external firm and recommendations of the Superintendence of Banks	Met
50. The central bank has approved the revised Plan and BPC is implementing the Plan	Not met (under implementation)
51. A firm has been selected and initiated operations to manage BPC's residual assets	Met
52. The environmental unit of EPEC has completed an environmental assessment and prepared a time-bound action plan to implement mitigating measures	Met
53. The regulatory agency is implementing a plan to gradually adjust the structure of EPEC's electricity tariffs and has issued regulations on service obligations in the power sector	Partially met (tariff increases have been insufficient to offset rising costs)
54. EPEC has signed a performance contract to improve its operational performance	Met
55. Concession contracts have been granted to all private electric cooperatives registered in the Province	Met
56. Provincial tax collection running at least 2 percent higher than national tax collection based on a 1999 index base	Met
57. Adherence to the 2003 tax audit plan	Met
58. No provincial tax amnesties have been provided since the beginning of the program	Met
59. Municipalities would be grouped as legal entities and the Province would provide training to them on tax collection, the provision of core public services, and cadastre harmonization activities	Met
60. Size and distribution of the health budget is maintained at least in nominal terms (and a specified floor for public health and ceiling for personnel salary and benefits is respected	Met
61. Independent evaluation of public hospitals confirms attainment for at least two continuous months of specified indicators of quality assurance affecting patient	Met

care	
62. All public hospital patients have been identified, those without insurance have been registered in a central data base, hospitals have been issuing invoices for all patients covered by insurance or pre-paid health plans and have collected at least 15 percent of payments due	Met
63. One independent field study or survey on discrimination against the uninsured has been conducted and made publicly available	Met
64. A study on hospital budget planning has been completed and an action plan to establish a demand based budget system prepared; hospital staff training and personnel management modifications completed	Met
65. IPAM has prepared and made public audited financial statements of its operations, which show that expenditures are not exceeding its revenues	Met
66. IPAM is regularly issuing findings on its health care quality	Not met (expected in 2007)
67. The Province's medical equipment purchase control system is functioning properly	Met
68. The Health Ministry's Customer Service Office has evaluated hospitals' customer service centers and is making public the results of user satisfaction surveys	Met
69. An accreditation system for all health service facilities in the Province is operating with public access to a regularly updated database	Met
70. A unified computerized personnel registry and single file for individual teachers fully established	Partially met (under implementation)
71. A time-bound action plan prepared to attain a new student/teacher ratio in urban primary schools	Met
72. A study evaluating the privatized system of medical monitoring of teachers completed as well as study completed on medium term education reforms	Met
73. Education budget approved with no less than ten percent to capital investment, no more than 92 percent of all recurrent expenditures to personnel salary and benefits; and all maintenance and consumable school supply expenditures self-administered by schools	Met
74. Reduction in teacher absenteeism due to sickness to no more than 80 percent of its 2000 rate	Met
75. An assessment of the Province's educational performance completed and publicly disseminated	Met
76. A student performance monitoring system created in at least 400 schools and dropout and repetition rates cut by 25 percent each from their 1999 levels	Met
77. At least 30 percent of publicly funded private schools are evaluated with results published and public subsidies adjusted in line with the results	Met
78. Stipulated budget funding has been allocated to social protection	Met
79. An action plan to combat corruption will be prepared, announced, and undertaken	Met
80. A new procurement law acceptable to the Bank will be submitted to the legislature	Met
81. An action plan to modernize administration of the Province's Córdoba Solidarity Agency and Ministry of Production and Finance has been agreed upon and is under implementation	Met

2.2 Major Factors Affecting Implementation:

Following the Board's approval in November 2000, there was rapid progress in the implementation of various reforms, reflecting the strong commitment on the part of the provincial authorities, the thoroughness of the preparation process, and the overall effectiveness of the PRL model. However, the initial momentum was stopped short by the rapid deterioration of Argentina's macroeconomic conditions, which ultimately lead to a full-blown economic and political crisis in December 2001. In face of the ensuing economic and institutional chaos, provincial authorities turned their attention to crisis management and many reforms were postponed due to lack of adequate fiscal resources and mounting social tensions. Most notably, the ensuing macroeconomic uncertainty at the national level prevented the province to finalize the process of privatizing the provincial bank and concessioning its electricity company, as investor interest in Argentine companies evaporated. Córdoba's financial situation was particularly difficult during 2001 and 2002. Without the expected privatization receipts, the province (like many others) had to resort to issuing quasi-money to meet its financial needs in the face of falling revenues, lack of sources of credit, and discontinuities in the transfer of revenues-sharing funds. In 2003, Argentina began to emerge from the depth of the crisis. Economic growth rebounded, reaching 8.8 percent growth in GDP in 2003, as a result of the country's improved competitiveness due to the currency depreciation of 2002, favorable international market and financial conditions, and a renewed effort to improve fiscal management. Given Córdoba's prudent fiscal management in the aftermath of the crisis and its continued progress in the implementation of its reform program, even throughout the difficult 2001-2002 period, the PRL was given a new lease on life in April 2003, when it was restructured to adapt its policy conditionalities to the post-crisis environment. The restructured second and third tranches amounting to US$125 million were disbursed on May 2003. Although the US$75 million fourth tranche was cancelled in March 2006, Córdoba succeeded in achieving fully 32 of the 35 fourth-tranche conditions as restructured (see Section 2.1, Tranche Release Binding Conditions).

The various aspects affecting implementation can be summarized as follows:

Sustained Borrower's Commitment at the Provincial Level: The operation benefited from a strong commitment on the part of provincial authorities. The present governor came to power in mid-1999 with a strong reform agenda, including the redefinition of the role of the state, the imposition of supply-side limits on spending and tax cuts, and the privatization of the provincial bank, the power company, and the state-run lottery. Having a majority only in the provincial Senate, the management of the overall reform program depended on support of the opposition party. Thus, the current and former governors signed a compromise accord on February 2000 to seek support from their respective legislative factions for a fast track approval of an enabling legislative package. Approved in April 2000, the three laws included in the new legislative package provided the cornerstone for the new administration's reform program. The State Modernization Law (Law No. 8.836) set the foundations for achieving fiscal equilibrium by setting limits on current expenditures and public indebtedness, creating an information system for government finances, and restructuring the civil service. The Incorporation of Private Capital into the Public Sector Law (Law No. 8.837) authorized the privatization and/or concession of Córdoba's Provincial Bank, the electricity company, and the lottery agency. Finally, the Citizens' Charter Law (Law No. 8.835) explicitly defined citizens' rights to public services and access to information-including the establishment of a regulatory agency for water, electricity and transport, and the creation of the Anti-Corruption Office and Anti-Corruption and White-Collar Crimes Courts. Provincial authorities provided steadfast support for the reform program, even under unfavorable conditions. For example, the province voluntarily used Bank procurement procedures

and unofficial no-objections in their privatization efforts. Moreover, the provincial government insisted on pursuing the concession of the electricity company despite opposition from labor unions; though, in the end, there were no offers presented due to the deterioration in macroeconomic conditions. The operation has also benefited from political continuity, as the governor was reelected to a second term in August 2003.

Uneven Support from the National Government: The PRL program was designed to support reform efforts in selected provinces in a manner consistent with the national sector policy. Indeed, in many cases, the national government saw the reform efforts spearheaded by provincial governments as cutting-edge, and hoped they would have a demonstration effect on more hesitant provincial governments. As such, the reform programs were vetted by the national ministries and, in some cases, with promises of technical assistance and political support. With the change in the national administration in late 2001, the level of support was less forthcoming in some areas, such as education, but became even stronger in other areas, such as health. It is also important to note that the devaluation had an adverse impact in those provinces engaged in reform and investment operations with the World Bank and IADB vis-à-vis those provinces who had borrowed from commercial banks. Specifically, the provinces that had borrowed from development banks saw the burden of loans from international financial institutions (IFIs) triple overnight, as the loans had been passed on them in U.S. dollars and they had to bear the exchange risk.

Thorough Preparation Process: The Bank dedicated a significant amount of resources to the preparation of this operation, which resulted in technical soundness of the policy actions it supported. Specifically:

- *Internal consistency with the Bank's overall strategy*: As mentioned above, the operation reflected the objectives of the overall Bank's strategy as outlined in FY 2001-2004 and OED's Country Assistance Evaluation (July 2000).
- *Synergies with other sector operations*: The Bank's team effectively capitalized on the experience and know-how developed by national-level sector operations, including the Inter-American Development Bank's PRISE, the Secondary Education Decentralization Project (PRODYMES-I) in education reforms, the National Program for Maternal and Child Nutrition and Health Project (PROMIN), the Provincial Health Development Project (PRESSAL) and the Health Insurance Reform and Technical Assistance Projects in health reforms, the Water Sector Reform and the Provincial Roads Projects for water and transport sectors, and the Second Provincial Development (PPD-II) and the Provincial Bank Privatization Loan in public sector reform.
- *Technical soundness*: Project preparation benefited from a series of sector studies, including an expenditure review in the health and education sectors as well as of pension expenditures, a tax administration assessment, an in-depth analysis of the provincial bank, and an overview of the structure of the electricity sector. These studies, which involved the main actors within each sector, contributed to expanding the operation's base of support and enhancing the technical soundness of the overall reform program.

Operation's Design: Overall, the operation effectively built upon the PRL model and incorporated the lessons learned during the pilot PRL-II operations. However, policy conditionalities were overly complex, with those regarding privatization and concessioning proving to be unrealistic once the macroeconomic environment changed. Specifically, the strengths and weaknesses of the operation's design can be summarized as follows:

- *Effectiveness of the PRL model:* The operation replicated the PRL model previously piloted under the four preceding PRL-II operations. Actors at all levels, including national and provincial authorities and professional staff, as well as the Bank's task managers and sector specialists, noted the particular strengths of the PRL's cross-sector approach to public sector reform, which simultaneously addressed the need to enhance efficiency and service delivery in the social sectors while maintaining a sustainable fiscal framework, thus enhancing the medium- and long-term sustainability of the development process. Likewise, by lending directly to provincial governments, operations such as Córdoba's PRL can tailor policy actions to the specific needs of the provinces, as well as coordinate at the provincial level the various sector operations being sponsored at the national level.
- *Incorporation of lessons learned:* Córdoba's PRL effectively incorporated the lessons learned from the previous four PRL-II loans, including: (i) the need to extend the life of the operation beyond 12 to 18 months to adapt more realistically to the time needed to implement reforms and show initial results; (ii) the need to have broad political support for the reform program from civil society, which, in the case of Córdoba, was developed during the election campaign; (iii) the importance of capitalizing on ongoing sector operations to provide the needed know-how to implement sector reforms; and (iv) ensuring that legislation required for the program, including those involving privatization, were already in place.
- *Excessive complexity of the policy conditionalities:* As originally designed, the 'floating' tranche included six well-defined conditions that focused on fiscal targets and key policy actions related to the liquidation of the provincial bank and concession of the electricity company. In contrast, the third tranche included 47 conditions covering the various policy areas targeted under the province's ambitious reform program. The large number of conditions made supervision more difficult, particularly as the implementation environment itself grew more complex. The elimination of those policy conditions related to technical inputs (such as adopting action plans) would have helped streamline the Policy Matrix.

Risk Assessment: At appraisal, the Bank's team correctly identified the main risks affecting the operation at the provincial level and put in place measures to minimize their impact. Key risk factors included the administration's commitment toward reducing taxes and its potential negative effect on fiscal performance, the potential for political commitment to erode over time, and the possibility that the privatization efforts would be aborted by lack of market demand. To ameliorate the risk of a drop in provincial revenues due to tax cuts, the administration also embarked on tax administration reform with IADB support. To ameliorate the risk of waning political support, the program was designed to be fully implemented during the earlier years of the provincial administration's four-year term. While the political commitment of provincial authorities was considered to be strong, the program also included key upfront actions such as the passage of a law supporting the privatization of the provincial bank, to further demonstrate their resolve. The program also required legislation to support the policy changes, thus substantially reducing the risk of reversal. Finally, to address the uncertainty regarding the market's response to the privatization efforts, the conditions related to the provincial bank and the electricity companies were included in a 'floating' tranche, thus, ensuring that the third tranche could be disbursed even if these conditions were not met.

Although at the time of appraisal it was expected that the measures taken by the De la Rúa administration would succeed in averting a major economic crisis, in retrospect it is now clear that the risk of deteriorating macroeconomic conditions was underestimated by the markets, governments, and international financial institutions. This is made evident by the assumptions behind a forecast of Córdoba's finances performed as part of the project's preparation. Specifically, the forecast projected a 4.5 percent GDP growth for the 2001-2005. Later events

proved that this scenario was exceedingly optimistic, as Argentina's GDP actually dropped by 11 percent in 2002.

Economic and Political Collapse 2001-2002: By the time the project was declared effective in August 2001, the political and social situation was deteriorating rapidly. By the end of the year, capital flight led to the imposition of banking controls, a policy that proved highly unpopular and the cause of massive protests. In December 2001, President de la Rúa resigned and was succeeded by several interim presidents in the month after his resignation until President Duhalde was appointed by the national congress to complete the existing presidential term through May 2003. During the interim presidencies, the parity between the peso and the dollar was abandoned, and the government announced that it would not service its external debt (except for that with the IFIs). Meanwhile, the country continued to sink into a deeper recession, with GDP falling by 11 percent in 2002. The social costs of the crisis were profound, with poverty gripping more than 50 percent of the population by July 2002. As mentioned earlier, Córdoba was severely affected by the crisis; thus, managing the financial and social crisis absorbed much of the administration's attention during 2002. Given the highly unfavorable implementation environment, the achievements of Córdoba's PRL and the sustained support of the provincial authorities for its reform program are particularly noteworthy.

Post-Crisis Economic Environment: Despite the very difficult macroeconomic context, the federal and provincial governments took extraordinary measures to contain the fiscal situation during 2002, which led to the eventual stabilization of federal-provincial fiscal relations. The national government entered into bilateral agreements (*Programa de Financiamiento Ordenado de las Finanzas Provinciales* - PFO) with 17 of the 24 provinces, including Córdoba, agreeing to support debt restructuring and servicing in exchange for the provinces meeting specific fiscal and debt targets. The government also agreed on a transition program with the IMF, covering the period of January through August 2003. In view of the more promising macroeconomic prospects, the original closing date of March 2003 was extended to December 2003 to allow for the operation's restructuring, which was completed in April 2003 together with the disbursement of the second and third tranches. After three additional extensions, the operation was finally closed on March 31, 2006, and the US$75 million corresponding to the fourth tranche were cancelled. While some conditions were not fully met (i.e., completion of the human resource management system for the education sector, obtaining final approval from the central bank on the restructuring plan of the provincial bank, increasing electricity tariffs, and regularly publishing IPAM's findings on health care quality), the decision to cancel the fourth tranche was mainly related to continuing uncertainties in the country's macro framework, including concerns regarding the lack of engagement on the part of national authorities on structural issues affecting the investment climate and private sector participation. As noted below under lessons learned, the experience of Córdoba's PRL shows that failings or uncertainties at the macro level that are beyond the sphere of influence of provincial governments can override substantial achievements at the provincial level.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:

(a) M&E Design: As mentioned earlier, the Policy Matrix effectively operationalized the major aspects of Córdoba's reform strategy and the main project outputs associated with the operation. No additional monitoring and impact indicators were developed at appraisal.

(b) M&E Implementation: As noted earlier, implementation was severely disrupted by the 2001-2002 economic crisis, which also affected the continuity and fluidity of supervision efforts

during that period. It is important to note, however, that Project Status Reports (PSRs) were still completed on schedule. Full-fledged supervision efforts resumed in early 2003 to determine the viability of restructuring the operation and assess the progress made toward the accomplishment of second-tranche conditions. During supervision, the Policy Matrix and the corresponding sections in the legal agreement (Schedules 3 and 4) functioned as the main de facto M&E tool for the operation given the lack of other predetermined indicators.

(c) M&E Utilization: Particularly noteworthy are the performance contracts between the electricity company EPEC and the province, which constituted a particular useful M&E tool designed as part of the operation's restructuring. Specifically, these contracts clearly specify performance targets on an annual basis, which are formally agreed on by EPEC's board of directors and the province. These performance contracts have been very useful in monitoring progress toward the objectives of EPEC's restructuring plan. Concession contracts signed with almost all electricity cooperatives are expected to play a similar role regarding the monitoring by the regulatory authority of electricity service quality in areas served by these cooperatives. To fully capitalize on the potential benefits of these performance contracts in terms of enhancing transparency and accountability, the provincial government and EPEC's authorities could consider publishing the performance contract's targets and progress reports on EPEC's website-although a robust set of statistics on EPEC's performance is currently included in such website, it has not been updated since 2002 or earlier (http://www.epec.com.ar/PaginaOficial/index_mapa_sitio.html).

2.4 Expected Next Phases:

The current CAS reflects a significant shift from development policy lending to an investment-led strategy. As a result, policy-based operations like Córdoba's PRL are not envisioned in the near future despite a potentially substantial demand at the provincial level. Nevertheless, there are several operations within the current CAS that can support Córdoba's efforts to further strengthen public sector management and the delivery of basic infrastructure and social services. Specifically, the Sub-National Governments Modernization Loan (Loan No. 7352-AR, approved December 2005) is designed to support provincial governments in their efforts to improve their institutional capabilities, and those of their municipalities, to effectively manage their resources and improve the quality of public services. Based on a set of eligibility conditions designed to gauge progress in the core areas of public sector management-i.e., financial administration, tax administration, cadastres, and property registries-provincial governments can participate in a Basic Module to complete and consolidate the modernization of these core areas and, those that are more advanced in their modernization efforts, can also participate in the Advanced Module to focus on the modernization of other areas in their provincial or municipal administrations. While Córdoba could potentially be eligible to participate in this operation, for example to pursue its municipal agenda (i.e., harmonization of provincial and municipal cadastres), the province has not yet expressed an explicit interest.

In the health sector, the ongoing Maternal-Child Health Insurance APL (Loan No. 7225-AR; approved October 2003), which supports the implementation of the country's flagship maternal-child health program (*Plan Nacer*), is currently being implemented in the nine poorest provinces. Córdoba would be eligible to participate in the nation-wide rollout of this project (APL 2; Loan No. 7409-AR; approved November 2006) to continue the expansion of its provincial health insurance program, although with a focus on mothers and children. The province could also be potentially eligible to participate in the Essential Health Services Program (Loan No. 7412-AR; approved November 2006), which will replicate the incentive and governance structures

introduced under the *Plan Nacer* in public health functions at the provincial level, including vaccination, as well as implementation of provincial health prevention and promotion activities for HIV/AIDS, infectious diseases, and health monitoring. In the education sector, Córdoba is currently participating in the ongoing Rural Education Improvement Project (Loan No. 7353-AR, approved December 2005), which aims to increase school attendance among children in rural areas.

Sector operations focusing on basic infrastructure include the recently approved US$75 million Córdoba's Provincial Road Infrastructure project (Loan No. 7398-AR, approved July 2006). This loan focuses on upgrading Córdoba's road network and institutional strengthening in areas such as financial and debt management, project programming and monitoring, as well as management of contingent liabilities arising from legal claims. The province is also participating in the recently approved Provincial Roads Infrastructure Project (Loan No. 7301-AR, approved June 2005), which aims to support the use of CREMA contracts in participating provinces and strengthen the provincial road agencies. Another opportunity to carry out further reforms in the road sector with the Bank's support will open in FY 2009, with the Provincial Roads III Project.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation:

As a result of the uncertainties regarding the medium-term macroeconomic framework, together with the Bank's limited dialogue with the national government in key policy areas, the current CAS does not include policy-based lending operations. Consequently, policy-based lending operations directed at provincial governments such as Córdoba's PRL are not included in the current CAS. However, the objectives of this operation are still consistent with those established under the current as well as the 2004-2005 CAS. Specifically, by focusing on advancing reforms in the social sectors while maintaining fiscal responsibility, Córdoba's PRL is fully consistent with the current CAS objectives of promoting sustained growth with equity, social inclusion, and improved governance (p. 30, CY 2006-2008 CAS).

3.2 Achievement of Program Development Objectives (including brief discussion of causal linkages between policy actions supported by operations and outcomes):

In retrospect, the macroeconomic framework that existed at the time of Board approval proved to be unsustainable in light of the traumatic events of late 2001 and the first half of 2002. In particular, the vulnerability of the economy to the volatility of private capital flows and the imbalance in relative factor prices seem to have been underestimated. Also, in retrospect, the debt situation at the national level turned out to be more one of insolvency than illiquidity, as believed at the time the international financing package was put together. As a result, the operation's general objective of supporting macro stability and, implicitly, the convertibility of the exchange rate was thus not met during this period. However, with its emphasis on fiscal responsibility, Córdoba's PRL has contributed to restoring macroeconomic stability during the post-crisis period. Moreover, the operation has largely met its specific development objective of promoting an efficient and responsive delivery of public services within fiscally sound policies. As in the rest of the country, Córdoba's finances have improved significantly from 2003 onward. In 2005, Córdoba enjoyed an overall fiscal surplus and a robust current account surplus, as a result of responsible fiscal policies. With the support of the PRL, Córdoba has made significant progress towards modernizing its provincial administration and ensuring a more efficient, transparent and responsive delivery of key services in education, social protection, and in particular health, where

the achievements have been noteworthy. These accomplishments have taken place despite the economic, political and social upheaval that ensued after the 2001 crisis. Despite the failed attempt to privatize the provincial bank and concession the electricity company EPEC, the province has taken important steps to strengthen these entities, including establishing a regulatory entity for the electric sector. Achievements under the various policy areas can be summarized as follows:

A. Public Finance: ***Moderately Satisfactory Performance***. Córdoba's fiscal situation deteriorated severely during the second half of 2001 and 2002. In the face of rapidly falling revenues, rising interest rates, and disruptions in the transfer of revenue-sharing resources from the national government, Córdoba resorted to issuing more than Arg$700 million in provincial bonds (the so-called LECORs, one out of 15 *'cuasimonedas'* issued by provincial governments) to meet its financial needs during 2001 and 2002. The province also adopted other measures to address the crisis, including strengthening its own tax collection to offset tax cuts, continuing the freeze on nominal salaries of employees until 2004, reducing salaries of high officials, cutting capital investments, merging government agencies, and eliminating the upper house of the legislature. In 2002 and 2003, Córdoba signed bilateral agreements with the federal government (*Programa de Financiamiento Ordenado de las Finanzas Provinciales* - PFO) that specified agreed annual deficit reduction targets in exchange for debt refinancing. At restructuring, original fiscal targets were waived and, instead, the fiscal targets corresponding to the 2002 and 2003 PFO bilateral agreements were adopted. These targets were met and even exceeded. As in the rest of the country, Córdoba's finances have improved significantly from 2003 onward. In 2005, Córdoba achieved a modest overall fiscal surplus, equivalent to 0.5 percent of current revenues and a larger current account surplus, equivalent to 9.3 percent of current revenues (see Table 1).

Despite its improved fiscal performance, however, Córdoba exhibits less fiscal autonomy than other provinces, with a smaller share of own-source revenues and, conversely, a higher share of discretionary transfers from the national government relative to current revenues than other provinces (see Table 1). This is largely the result of the province's strategic decision to reduce the tax burden by approximately 30 percent to improve the business climate. While the improvements in tax administration have been substantial, they have not been sufficient to offset the tax cuts, as shown by the decrease in the share of provincial own-source revenues with respect to current revenues between 1999 and 2005. Likewise, Córdoba's debt situation has deteriorated with respect to other provinces. While Córdoba's level of indebtedness (i.e., stock of debt as a proportion of current revenues) was lower than that of provinces as a whole by roughly 8 percentage points in 1999, it exceeded it by 19 percentage points in 2005. In addition, the provincial bank and the electricity company remain in the hands of the province, as their privatization became unrealistic in the face of the existing macroeconomic environment. In line with the amended fourth-tranche conditionality, the province has made substantial progress toward further strengthening the operations of these entities. Despite these improvements, these two enterprises still pose the threat of future contingent liabilities, as their privatization and concessioning do not appear likely in the near future. With regard to municipal finances, while the loan conditions were met as amended, it is not clear they have had a significant impact on improving municipal finances.

Table 1. Fiscal Indicators for Córdoba and All Provinces, 1999-2005

	1999		2005	
	Córdoba	All Provinces	Córdoba	All Provinces
Fiscal Performance				
Current Account Balance / Current Revenues	4.6%	-2.1%	9.3%	14.7%
Overall Balance / Current Revenues	-5.8%	-13.3%	0.5%	2.2%
Fiscal Effort				
Own-Source Revenues / Current Revenues	35.7%	35.5%	28.3%	32.1%
Δ Property Tax Revenues (Base = 1999)	1	1	0.96	1.4
Δ Gross Receipts (Base = 1999)	1	1	2.31	2.3
Discretionary Transfers / Current Revenues	1.4%	3.7%	11.1%	7.0%
Expenditures				
Personnel / Current Revenues	53.7%	58.1%	39.4%	45.1%
Public Employees / 1000 Inhabitants	24	36	28	37
Real Capital Investment / Current Revenues	8.7%	10.7%	11.5%	12.5%
Water Connections	78%	70%	86%	77%
Sewerage Connections	16%	36%	26%	43%
Debt				
Debt Stock (US$ Million)	1,058	16,565	2,283	25,339
Δ Debt Stock in US dollars (Base = 1999)	1	1	2.2	1.5
Stock / Current Revenues	45.2%	53.3%	134.5%	115.6%

Source: Provincial Ministry of Finance for Córdoba's fiscal data for 2005; National Directorate for Fiscal Coordination with the Provinces, MECON (1999, 2005) for all other data.

The accomplishment of the specific objectives under public finances and administration can be summarized as follows:

- *Fiscal performance*: **Accomplished as amended**. Although the fiscal targets were met during the first half of 2001, Córdoba's fiscal program went severely off track during the second semester. In view of Córdoba's inability to meet the original second- and third tranche fiscal targets in terms of current account surplus, overall deficit, and debt stock, these conditions were waived and amended at restructuring. The new conditions called for compliance with the quarterly targets agreed under the 2002 and 2003 PFO bilateral agreements. These targets were met and exceeded. In May 2005, Córdoba subscribed to the national Fiscal Responsibility Law (*Ley Federal de Responsabilidad Fiscal* - FRL; Law No. 25.917), which sets general rules in terms of fiscal performance and public debt sustainability for the Argentinean public sector, including the provincial governments. Córdoba met the performance targets corresponding to 2005, including having a debt service of 11 percent of current revenues, which is below the 15 percent maximum level allowed under the FRL. In 2005, Córdoba enjoyed an overall fiscal surplus and a robust current account surplus, equivalent to 9.3 percent of current revenues (see Table 1). However, despite its improved financial health, Córdoba's relative share of own-source revenues with respect to current revenues has decreased since 1999, thus eroding its fiscal autonomy. Personnel expenditures increased by 39 percent between 2004 and 2005 and further salary increases have already been granted for 2006 and 2007. In addition, the stock of debt with respect to current revenues has increased significantly, from 45.2 percent in 1999 to 134.5 percent in 2005. Although this increase is partly explained by the devaluation of the peso, the increase in

Córdoba's debt stock during this period (i.e., 220 percent) surpassed that of provinces as a whole (i.e., 150 percent).

- *Tax administration*: **Accomplished as amended**. Córdoba's revenues are primarily derived from federal revenue sharing and two taxes under provincial jurisdiction-i.e., the gross receipts tax (*Ingresos Brutos*) and the property tax. To improve the business climate and strengthen Córdoba's competitive position vis-à-vis other provinces, the new administration embarked on a program of phased reductions in tax rates, equivalent to roughly a 30 percent reduction in the tax burden. To compensate for the reductions in tax rates, the province focused on increasing collections of over-due accounts and enhancing tax administration. While an amnesty on penalties and interest was declared in 1999, the government also announced that there would be no further provincial tax amnesties and, in line with PRL conditionality, has maintained its vow.

  All conditions in the area of tax administration have been met, including reconciling reported tax payments with actual bank deposits, incorporating the single taxpayer identification code (*Clave Única de Identificación Tributaria* - CUIT) to the records of taxpayers and property owners, implementing a special system to monitor tax returns focusing on large taxpayers, and ensuring that at least two thirds of all properties are registered in a computerized cadastre data base. In line with fourth-tranche conditions, revenues from the provincial gross receipts tax were at least 2 percent higher than revenues from national value-added tax (*Impuesto al Valor Agregado* - IVA) based on a 1999 index base-i.e., Córdoba's revenues from its gross receipts tax increased by 230 percent between 1999 and 2005, compared to an increase of 192 percent for the national government's IVA tax, well exceeding the PRL target. Likewise, no new tax amnesties have been granted and the province has implemented its 2003 tax audit plan. Moreover, the establishment of an innovative fiscal police force (*Policía Fiscal*) has proven to be highly effective in reducing tax evasion. Despite these efforts, increases in overall provincial revenues are below those of provinces as a whole-particularly in property taxes-mainly due to tax reductions. Between 1999 and 2005, Córdoba's provincial tax revenues increased by 76 percent in nominal terms, compared to an average 136 percent for all provinces. As a result, provincial tax revenues accounted for 28.3 percent of current revenues in 2005 compared to 35.7 percent in 1999.
- *Municipal Finances*: **Accomplished as amended**. Córdoba has over 400 municipal governments, many of which suffer from limited technical capacity in managing expenditures and generalized overstaffing. As a result, as of the late 1990s, the municipalities had accumulated significant levels of debt, particularly with the provincial bank. To address these shortcomings, the new administration signed a Fiscal Clean-Up Pact (*Pacto de Saneamiento*) with all municipal governments in 1999. Under this pact, the province agreed to refinance the municipal debt, in exchange for municipalities undertaking a comprehensive series of reform initiatives, including the creation of new regional entities to consolidate governmental functions for groups of municipalities, and financial and tax administration reforms including the implementation of cadastres, tax registries, and financial management systems. Technical and financial support for these initiatives was anticipated under an IADB municipal operation. At the time of restructuring, progress in the area of municipal finances had been limited, in part due to the cancellation of the IADB project. As a result and of the need to focus on priority areas in the post-crisis environment, the loan conditions relating to municipal finances were amended to support a scaled-down program of provincial technical assistance and training for groups of municipalities to support the most critical tax, cadastre, and financial management improvements. The amendments replaced result-oriented conditions for less substantial conditions calling for formal agreements, the presentation of action plans, and such (see Annex 7.1). Specifically, the amended conditions required that at least 20 municipalities be grouped as legal entities, and the province would subscribe technical assistance agreements to support 20 municipalities in tax collection, the provision of core

public services, and cadastre harmonization activities. As a result, although the amended conditions were met, the impact seems to be negligible.

- *Bank of the Province of Córdoba* (BPC)*:* **Partially accomplished as amended**. Córdoba's provincial bank was-and still is-one of the largest provincially owned banks in Argentina. A long history of poor management, questionable lending practices, and weak loan recovery, lead provincial authorities to the decision to privatize up to 87 percent of the BPC's shares, thus avoiding the contingent liabilities associated with future recapitalization needs. By the time the operation was taken to Board, a privatization law satisfactory to the Bank had been approved by the legislature, an independent regulatory body had been established, appropriate bidding documents in line with World Bank procurement guidelines had been issued, technical support by international investment banking, and consulting firms had been secured. The process of developing international investors' interest advanced well during 2000 and early 2001. However, the sharp and unanticipated fall in market confidence in mid-2001 aborted the privation efforts. While a winning bidder for the provincial bank was selected, a sales contract was never signed.

  At restructuring, conditions regarding the provincial bank were amended to reflect the unfavorable privatization environment and to prevent the further deterioration of the BPC's financial and operational situation. By the time of the disbursement of the second tranche, the province had taken the first steps in this direction, meeting the amended second-tranche conditions, including: employing a consulting firm to conduct an in-depth financial, operational and institutional diagnosis of the institution, seeking the Central Bank's guidance on adjusting and carrying out a Regularization and Financial Strengthening Plan, and initiating the process to outsource the management of its residual assets.

  The restructured fourth-tranche conditions focused on the Central Bank's approval and implementation of the BCP's restructuring plans to ensure the institution's continuing financial and operational strengthening, so it could be ready for privatization once markets were more favorable. Specifically, the fourth-tranche conditions called for: (i) the selection of a firm to manage BPC's residual assets; (ii) the submission to the Central Bank of a revised Regularization and Financing Plan based on the results of the diagnosis of the external consultant firm and the Central Bank's recommendations; and (iii) the central bank's approval and BPC's implementation of such plan. The province has met two of these conditions:

  a. Since 2004, a private firm has been effectively managing BPC's residual assets (i.e., old non-performing loan portfolio and the credit portfolio of *'Córdoba Bursátil'*). The firm is responsible for the administration and recovery of residual assets for five years, ending in November 2008.
  b. The BPC submitted to the central bank a revised regularization plan on June 2004 and subsequent revisions were made in August and October 2004 to reflect the Central Bank's observations. The plan focused, among other things, on restructuring the BPC's management structure, reductions in personnel and administrative costs, and expansion of commercial activities.
  c. Under the regulatory framework of Argentina's banking sector, the central bank does not give formal approval of restructuring plans. Although the central bank indicated its preliminary acceptance of the revised plan on January 7, 2005, there were still disagreements regarding the terms of the US$30 million recapitalization of the BPC that is required from the province. On November 7, 2006, a revised version of the BCP's restructuring plan was submitted to the central bank for its consideration. According to the BPC's management team, this version of the plan reflects all the requirements and suggestions previously expressed by the central bank, including the terms of the pending recapitalization. Specifically, provincial authorities have agreed to recapitalize the BCP in twelve fixed, consecutive, monthly installments, beginning on October 2006. Payment is being guaranteed with the province's automatic revenue-sharing funds

(*coparticipación*). The central bank is expected to emit its opinion by February 2007. Thus, this condition has not yet been met.

Although recapitalization is a core issue in ensuring BPC's financial viability and solvency over the short, medium and long term, it should be noted that the BPC has made progress toward strengthening its operations and improving internal controls and procedures. Under new management-one with extensive experience in private sector banking-the BPC has implemented organizational and procedural changes to transform its corporate culture, aligning it with private sector practices. It has also lowered its operating costs by reducing about 320 staff -equivalent to 10.5 percent of the staff-in 2004. Moreover, as Argentina's banking sector in general, the BCP has seen an improvement in its finances, as illustrated by the Arg$37 million operating surplus attained in 2005. However, the prospects for privatization of BPC are dim, and provincial authorities formally announced their decision not to proceed with the privatization in early 2006.

- *Electric company (Empresa Provincial de Energía de Córdoba* - EPEC*):* **Partially accomplished as amended**. A full service electricity company with generation, transmission, and distribution capacities, EPEC was-and still is-among the largest electric companies under government control. Despite several operational improvements during the 1990s, EPEC's operational performance remained in the lower 50 percent of all electricity distribution companies in Argentina, ranking particularly low in terms of energy losses and users per employee. EPEC's financial situation was highly vulnerable, with a negative cash flow in two of the five years between 1994 and 1999. Moreover, overall assets were stagnating, as the level of investments had been low. To address these shortcomings, including reducing operational costs and increasing investment, the provincial government opted to increase private participation in the entire electricity sector, as authorized by the Law of Incorporation of Private Capital into the Public Sector (Law No. 8.837) approved in April 2000.

  Although bid documents for the electricity company were provided in October 2001 to interested parties, no offers were forthcoming given investors' rising concerns about the macroeconomic environment. Alternatively, the province subsequently sought to improve the efficiency of the electric power utility until market conditions allowed resuming the effort to incorporate private capital into the sector. In line with the amended second-tranche conditions, important steps had been taken in this direction by the time of the disbursement of the second tranche, including: obtaining legislative approval of new by-laws that provided for EPEC to enter into periodic performance contracts with the province; granting concession contracts to at least 50 percent of the private electric cooperatives registered in the province; setting up a special environmental unit within EPEC; and establishing a fully functioning power sector regulatory public agency (*Directorio del Ente Regulador de los Servicios Públicos* - ERSeP). Likewise, the province has met three of the four amended fourth-tranche conditions, including the signature of a performance contract, the completion of an environmental assessment and a time-bound action plan to implement mitigating measures, and granting concession contracts to 200 of the 203 private electric cooperatives registered in the province. The fourth condition, calling for the gradual adjustment of electricity tariffs and the issuance by ERSeP of regulations on service obligations has only been met only partially. While regulations on service obligation have been issued, the tariff increases that have been implemented appear to be insufficient to ensure EPEC's financial sustainability over the medium and long term, as denoted by the lack of substantial improvement in EPEC's financial position since 2000.

  Specific achievement with regard to EPEC can be summarized as follows:

  a. Performance contracts: The performance-contract approach, which was adopted after the failed concessioning attempt, is being implemented. The first performance contract was subscribed between EPEC and the province in March 2003 covering the period between 2003 and 2005. Modeled after the French experience, the performance contract explicitly

defined the set of objectives to be achieved over the specified timeframe, together with clearly defined performance indicators with corresponding benchmarks and annual targets. A new performance contract was subscribed in early 2006. Based on the progress reports that EPEC submits to the province on a quarterly basis, considerable progress has been made toward improving EPEC's operational performance in some areas, including attaining significant reductions in the time required for connections and other services and for addressing customer complaints, significant increases in availability of generating plants, as well as important capital investments in the infrastructure supporting distribution, transmission, and generation. However, there are areas in which performance is lagging, such as technical and commercial losses of energy. Although EPEC has been able to reduce these losses by about 2 percentage points in the last three years, losses remain at high level (about 20 percent) compared to other, more efficient utilities in the region. Furthermore, the performance contract does not include financial targets to monitor EPEC's financial performance, which is key to ensure EPEC's sustainability in the medium and long term.

b. Environmental assessment and mitigation plan: A special environmental unit has been set up within EPEC. This unit is responsible for the implementation of the environmental mitigation measures outlined under EPEC's new environmental plan (*Plan de Gestión Ambiental*). One of the specific outcomes has been the clean-up of all transformers contaminated with Polychlorinated Biphenyl (PCBs-i.e., mixtures of man-made chemicals heavily used in electric equipment with levels of toxicity and chemical stability that can pose significant environmental damage) in accordance with legally established labor and environmental standards. In addition, fluid residues are being regularly tested and an environmental management system has been implemented in all the generating plants. Disposal of hazardous waste, including electrolyte-powered batteries, is done according to environmentally safe standards.

c. Concessions with electric cooperatives: As mentioned above, concession contracts have been signed with 200 of the 203 private electric cooperatives registered in the province.

d. Regulatory framework: A new power sector regulatory public agency, ERSeP, has been established. On July 1, 2003, ERSeP issued regulations on service obligations in the power sector, including quality standards for technical output (e.g., variations in the electric supply), technical service (e.g., frequency and duration of blackouts), and commercial service (e.g., response times corresponding to inquiries, connection requests and such), as well as the corresponding penalties. This constitutes a significant improvement, as before EPEC also acted as regulator of its own operations.

e. Tariffs: In terms of tariffs, the federal government and all the provinces have authorized increased electricity tariff to large commercial and industrial users to partially reflect seasonal higher generation costs and to include additional surcharges to finance new investments. In a second step, these increases were made permanent. While the remuneration recognized to the distribution companies, the so-called 'Added Value of Distribution' (*Valor Agregado de Distribución* - VAD), is still frozen, in January 2006 ERSeP authorized a fixed charge to be added to EPEC's tariffs to reflect the costs of service expansion. With respect to November 2001, residential tariffs have increased about 30 percent, commercial tariffs have increased 70 percent, and tariffs for large industrial and commercial consumers have increased about 140 percent as a result of both the fixed charge and the tariff increases. While Córdoba is among the provinces that have raised electric tariffs to, albeit partially, reflect higher costs, these increases have been insufficient to ensure EPEC's financial sustainability over the medium and long term, as indicated by the lack of substantial improvement in EPEC's financial position with respect to 2000. Thus, <u>this condition has been partially met</u>.

Overall, EPEC exhibits some operational improvements with respect to 2000, despite the failed concessioning attempt. However, based on the financial data provided by EPEC, the financial situation has not improved since 2000 due to insufficient tariff adjustments in the face of rising costs of inputs and labor. Thus, the financial prospects of EPEC in the medium and long term are not clear. The prospects for future concessioning seem slim at this point. As the provincial government does not intend to concession EPEC, it might be necessary to increase the efficiency and governance incentives entailed in the current performance contract, including monitoring EPEC's financial performance by incorporating financial targets in the performance contracts.

B. Public Administration: ***Satisfactory Performance.*** With PRL support, Córdoba embarked on a broad and ambitious state modernization agenda. The province has implemented a financial administration system that was used to prepare the FY 2003 and subsequent provincial budgets. Although not a PRL condition, a new Financial Management Law was also approved, providing an enabling legal framework for the new financial management system and enhancing the overall transparency of the budgeting process and its execution. All PRL conditionality relating to civil service was accomplished by May 2003 when the operation was restructured, including the completion of a civil service census, the observance of ceilings on vacancies, the review of civil service policies, and the implementation of an expanded training program. As a result of these and other actions, the relative importance of personnel expenditures within the provincial budget has decreased substantially, from 54 percent to 39 percent of current revenues between 1999 and 2005. Moreover, Córdoba continues to have the lowest ratio between provincial employees and population of all 24 provincial jurisdictions (28 employees per thousand inhabitants compared to 37 for the provinces as a whole in 2004). As part of Córdoba's efforts to enhance transparency, an Anti-corruption Office has been set up within the Secretariat of Justice to actively fight corruption. Finally, in accordance with a fourth-tranche condition, a bill was presented to the legislature to improve the current public procurement law in line with the principles of the new federal procurement legislation; however, the law has not yet been approved.

- *Financial Management.* **Accomplished**. A financial management system in line with international standards has been implemented with IADB support. The system, which was used to prepare and execute the FY2003 and subsequent budgets, allows for real-time controls and reports, as well as substantial reductions in operation costs and enhanced transparency. The province regularly publishes on its website its approved and executed budgets (http://www.cba.gov.ar/vercanal.jsp?idCanal=36158). In addition, a modern financial management law (*Ley de Administración Financiera y Control Interno de la Administración General* - Law No. 9.086) was approved in 2003 providing the legal framework for the establishment of the new financial management system. This law also imposes restrictions on increasing spending in face of revenues rising above the levels anticipated. While it allows for the reallocation of resources within the various spending categories, it does so as long as the overall budget and level of indebtedness are not modified. In addition, it limits budgetary reductions affecting social services. The passage of the law constitutes an important step toward enhancing Córdoba's financial management, exceeding original expectations.
- *Civil Service:* **Accomplished**. Under the PRL, the province undertook several actions aimed at enhancing civil service, including conducting a census of public employees to determine the number and characteristics of all current employees, regulating new hiring, revising employment policies, and strengthening training programs. As a result, the relative importance of personnel expenditures has decreased substantially, from 53.7 percent to 39.4 percent of current revenues between 1999 and 2005. While the number of personnel has increased relatively more than in provinces as a whole (by 24 percent and 8 percent, respectively) between 1999 and 2004, Córdoba remains the province with the fewest public

employees in relation to its population, with 28 public employees per thousand inhabitants compared to an average of 37 employees for provinces as a whole in 2004.

- *Organizational Reform*. **Accomplished.** With PRL support, Córdoba targeted the Ministries of Finance, Production and Labor, and Solidarity as pilots for programs of organizational reform. These agencies underwent a review of their structure and function, business processes were reengineered, and their management structure was reorganized. The action plans that were implemented included performance indicators and specific deadlines. The restructuring efforts of the Ministry of Finance went hand-in-hand with the implementation of the new financial management system. The modernization of the Ministry of Solidarity is discussed in further detail under Social Protection, Section 8.2.C.c.
- *Transparency:* **Accomplished**. An Anti-corruption Office (Law No. 8.835) has been established within the Secretariat of Justice to actively fight the abuse of power by public officials in their own benefit. An action plan to combat corruption has been prepared and made public and it is currently under implementation. An electronic mailbox has been set up on the Justice Secretariat's website for denunciations (oficina.anticorrupcion@cba.gov.ar). In accordance with fourth tranche conditions, a bill to improve the current public procurement law, in line with the principles of the new federal procurement legislation, was presented to the legislature; however, the law has not been approved.

C. Social Sectors: ***Satisfactory Performance***. With PRL support, there have been substantial improvements in the provision of key social services, including health, education and social protection. Specific accomplishments in each of these areas can be summarized as follows:

a. Health Reforms: ***Satisfactory Performance***. The actual achievements in the health sector are similar to or have exceeded the levels anticipated at project design. Under the PRL, Córdoba made substantial progress in the reforms of the health sector, particularly in terms of strengthening the regulatory capacity of the Ministry of Health and incorporating modern management tools aimed at enhancing resource management. The province has also succeeded in improving the equity, efficiency and quality of public hospitals, which are now regularly monitored in terms of quality of service, levels of production, and cost recovery. Although the implementation of a pilot health insurance program for the poor was waived as part of the 2003 restructuring, Córdoba has advanced toward a more comprehensive universal health insurance program, the Integrated Provincial Health System. The financial and operational structure of the Provincial Health Insurance Agency (IPAM) has also improved substantially, a necessary condition for its recent transformation into a decentralized provincial entity, which will become a central pillar in the financing of the provincial health insurance system.

The variation in health indicators in Córdoba between 1998 and 2004 was similar to that of provinces as a whole and, as a result, the province maintains a relatively high performance with respect to other provinces. Specifically, infant mortality decreased significantly in Córdoba and the country as a whole between 1998 and 2004, by 4.1 and 4.7 deaths per 1,000 births, respectively (see Table 2). The percentage of births taking place in health facilities remains at 99.7 percent, which is the same as the national average. The percentage of population without health insurance or a medical plan has decreased by 8.4 percentage points (from 45.8 to 37.4 percent) between 1998 and 2001, reflecting a better performance than the nation as whole, where roughly 12 percent of individuals with formal health insurance either discontinued or reduced their coverage due to rising unemployment and falling real wages during the crisis. Other indications that reflect the improvements in the health sector include increases in output, as illustrated by the significant increase in the number of health care services provided to the poor annually, which increased from 1.6 services in 2000 to 2.8 services in 2006.

Table 2. Health Indicators for Córdoba and All Provinces, 1998-2004

	1998			2004 (Latest available at the national level)		
	Córdoba		All Provinces	Córdoba		All Provinces
	Indicator	Rank	Indicator	Indicator	Rank	Indicator
Infant mortality (per 1,000 births)	16.8	7	19.1	12.7	7	14.4
% of births in health facilities (*)	99.7	3	97.5	99.7	6	99.0
% population without health coverage or medical plan (*)	37.4	12	n.a.	45.8	9	48.1

(*) Data for births in health facilities corresponds to 2003, and population without health coverage corresponds to 2001.
Note I: Rank ranges from 1 to 24, with 1 being the best performing province and 24 being the worst one.
Note II: In 1998 and 2003, Córdoba tied with one and two other provinces, respectively, for its ranking in percentage of births in health facilities.
Source: Ministry of Health and Environment, Annual Health Basic Indicators (1999, 2005); INDEC, Infant Mortality by Province, 1980-2004 (2004).

- *Protecting the health budget*: **Accomplished.** The agreed allocation of nominal resources within the health envelope was met over the period 2001-2005, although maintaining overall spending in real terms with respect to 2000 became impossible in light of the crisis. The health budget grew steadily from Arg$199.5 million in 2000 to Arg$401.6 million in 2005, equivalent to a 200 percent nominal increase. Personnel expenditures declined slightly at as a proportion of the overall health budget, from 61 percent to 57 percent between 2000 and 2005. Spending in primary health care has increased drastically during the same period, from representing just 1 percent of the health budget in 2000 to 18.87 percent in 2005. These high levels of spending in primary health care reflect Córdoba's decision to decentralize spending responsibility for municipal hospitals to the municipalities, as well as the implementation of a provincial health care initiative, the so-called *'Red Vida - Salud'*, which emphasizes primary care.
- *Strengthening of the Ministry of Health*: **Accomplished**. With PRL support, the Ministry of Health has implemented important steps resulting in the strengthening of its regulatory, management and overseeing functions.
  i) *Quality assurance*: A new Customer Service Office, which has been established within the Ministry of Health, is now responsible for evaluating the level of service provided by hospitals' customer centers. Results of user satisfaction surveys are published online on the Ministry of Health's website (http://www.cba.gov.ar/canal.jsp?idCanal=18738).
  ii) *Regulatory functions*: A new agency (*Registro de Unidades de Gestión de Prestaciones* - REGEPRESA) was created to regulate the activity of the networks (*empresas gerenciadoras*) responsible for managing health care for IPAM's beneficiaries and the activities of private insurers and providers. The accreditation system is fully operational, with public access to a regularly updated database (http://www.cba.gov.ar/canal.jsp?idCanal=18698).
  iii) *Purchasing of medical equipment*: The Ministry of Health has strengthened its capacity to supervise the purchasing process of medical equipment by developing a purchase control system that is fully operational.
  iv) *Overseeing of public hospitals*: Under the PRL, Córdoba has taken numerous actions aimed at improving the efficiency and effectiveness of hospitals, including implementing a state-of-the-art system for monitoring levels of production of public hospitals. Initially, performance indicators were developed for all public hospitals, together with the

corresponding baselines and benchmarks. These indicators have evolved into a sophisticated hospital management system (*Tablero de Control de Hospitales*), which is used to monitor actual versus potential hospital production of individual hospitals. In this way, the Ministry of Health now has real-time information on the actual resources (both staff and equipment) available within individual hospitals and compares the output they generate against established production standards. For example, the system has information on individual clinical physicians assigned to a specific hospital, the patients that have been assigned to her/him by admissions, and the patients she/he has actually seen-i.e., 'actual level of production.' The system also produces a 'theoretical level of production' for that particular physician based on the number of hours that she/he is supposed to work and the average time spent per patient as defined by current medical standards. Based on the 'actual' versus 'theoretical' level of production, managers, both within the individual hospital and the Ministry of Health, can determine whether that particular physician is being under- or fully utilized and whether there is a need to assign more professionals to that particular area. In this way, hospital managers have a powerful tool to rationalize the use of resources and maximize their effectiveness. At the same time, the new system has introduced an important element of accountability into the system, as it shows actual performance not only of the overall hospital but also disaggregated to the level of operational units and individual staff.

- *Improving performance of public hospitals:* **Accomplished as amended**. The province has effectively decentralized institutional, managerial and cost-recovery capacity of its 35 public hospitals, contributing to enhancing cost recovery and gradually improving patients' care. Customer satisfaction surveys from patients who had been admitted to public hospitals reveal a high level of satisfaction with the care they received. Specific results show the percentage of respondents giving a rating of 'good' for medical care, prescription drugs, administrative services, and food quality with scores of 92 percent, 90 percent, 85 percent, and 70 percent, respectively ('good' was the highest of the three possible ratings). Customer satisfaction surveys conducted among patients receiving outpatient care also show high levels of satisfaction with the care received from medical and nursing staff (i.e., 90 percent and 82 percent of respondents rated them as 'good,' respectively), although more dissatisfaction with administrative service, waiting times for lab and x-ray results, and waiting times for medical appointments (i.e., 63 percent, 56 percent, and 48 percent of respondents rated them as 'good,' respectively).
  i) Internal functioning of public hospitals: Actions have also been implemented to enhance the internal functioning of public hospitals, including providing all hospital administrators with administrative training. Independent evaluations conducted in a sample of hospitals during 2002 and 2003 confirmed the steady improvement in several performance indicators of quality assurance affecting patient care. Specifically, results for 2003 indicate that: (i) at least 80 percent of all patient's written inquiries or complaints have been formally answered by customer service centers in individual hospitals; (ii) 90 percent of patients undergoing high risk surgeries have signed the proper consent forms; (iii) 81 percent of patients admitted to the hospitals had their medical records properly registered and archived; and (iv) 84.5 percent of hospital staff are wearing their I.D. tags. The 2003 results reflect a considerable improvement over 2002, suggesting that ongoing monitoring has had a positive effect on compliance.
  ii) Cost recovery: Hospitals have been equipped with information and financial management systems that allow them to bill insurers for the services provided to those patients with health coverage. As of June 2006, all provincial hospitals were billing all insured patients and recovering on average 83.6 percent of the billed amounts, denoting a steady improvement with respect to previous years-e.g., between January and October 2003, the actual cost recovery rate was 72.8 percent. The financial impact of cost recovery has been

substantial, increasing from Arg$1.4 million in 2001 to Arg$7 million in 2004. Hospitals retain 90 percent of the costs recovered, which are used for performance-based bonuses, thus creating incentives among hospital staff. Information on health insurance coverage is provided by the National Health Insurance Superintendence. The province has built its own register of patients without health insurance by having public hospitals register them in a central database. All patients-both with and without insurance coverage-are currently in the process of receiving a magnetic I.D. card that has information on the individual's personal identification (*clave única de identificación sanitaria*), health coverage, medical records (*Historia Clínica Única*), and prescription drugs. This card will be required to receive services at provincial hospitals, ensuring patients' proper identification. It constitutes an important step toward the implementation of the Integrated Provincial Health System, Córdoba's ambitious new health initiative.

iii) Discrimination of noninsured patients in public hospitals: Under the PRL, an independent field study was conducted on potential discrimination against patients based on their insurance coverage. Results from personal interviews conducted with 2,696 patients at 21 hospitals throughout the province indicate that, while the large majority of patients did not perceive any differences in the attention they received, 13 percent of patients perceived that those with health insurance coverage receive better care, while 3 percent consider that the difference in care is in favor of those without health coverage.

iv) Demand-based budgeting: Córdoba is in the process of developing a more transparent budget process for public hospitals based on demand parameters rather than incremental adjustments to past budgets. With the support of the PRL, a study on hospital budget planning was completed and an action plan has been prepared to establish a demand-based budget system as recommended by the study. The hospital staff has been trained and the needed modifications in personnel management have taken place. The ongoing implementation of the provincial health management system (*Tablero de Control*) that will eventually include input/output data on all public health care providers, including 35 provincial hospitals, 101 municipal hospitals, and 900 primary health care posts, will make possible the migration toward a fully decentralized, demand-driven system.

- *Expanding health coverage among the poor*: **Waived**. A pilot scheme of health insurance for the uninsured was to be implemented in the west region (*Área Oeste*) to identify and evaluate the cost, impact and feasibility of switching from supply-side to insurance-based subsidies for the poor. Its main objective was to help narrow the gap in equity between the individuals covered by insurance and those who only have access to public hospitals. As a result of the 2001 crisis, the province lacked the necessary resources to pilot a universal health care scheme and this condition was waived. However, Córdoba has made substantial progress toward establishing an Integrated Provincial Health System (*Sistema Integrado de Salud Provincial*; Law No. 9.133) that received legislative approval in 2003. With a strong emphasis on self-care, preventive medicine, and primary health care, this ambitious health initiative sets the foundations for the restructuring of health service delivery and financing within the province, with the ultimate objective of ensuring that all sectors of the population have equal access to not only public health care but also to all accredited private providers operating in the province in the case of services not provided by public providers. Under the new system, individuals will be assigned an explicit basic benefit package based on geographic location and the level of vulnerability determined by medical evidence. In this way, although the pilot program originally envisioned under the PRL was not implemented, the province has continued to make progress toward expanding health coverage among all socio-economic sectors of the population.
- *Strengthening the provincial health insurance agency IPAM:* **Partially accomplished**. IPAM is a key player in Córdoba's health delivery system, providing health insurance coverage to over 450,000 people, equivalent to 18 percent of the overall population and 33 percent of

those with health insurance. IPAM accounts for 30 percent of health financing in the province, making it a key factor in the sustainability of health care providers, both private and public ones. In late 1999, IPAM faced serious financial and administrative challenges, including more than nine months in arrears to health care providers amounting to Arg$50 million, an obsolete technological platform, and the loss of key personnel during previous years as a result of voluntary retirement. Under the new administration, the IPAM was drastically revamped. On the financial side, an agreement was reached with health care providers to renegotiate the outstanding debt, including a 30 percent debt reduction and a new repayment schedule. In addition, outstanding debts in favor of IPAM from municipal governments (Arg$50 million) and the provincial social security agency (Arg$230 million) were regularized and automatic deduction mechanisms were set in place to ensure the regular flow of resources into IPAM. Since 2002, IPAM has maintained fiscal balance, with expenditures not exceeding its revenues. Moreover, payments to providers are made within 60 days and currently there are no pending payments exceeding this time limit.

IPAM's financial reversal was also the result of extensive changes on the operational side, as the service structure was fundamentally restructured in October 2000 when a new managed care system was adopted, with integrated networks of health care providers (*gerenciadoras*) selected on a competitive basis. These networks are organized around a system of primary physicians that are responsible for referrals to specialists. A new payment system was also introduced, based on a service-package and per-capita funding formula, thus bringing predictability to IPAM's expenditures. The system was subsequently modified in 2004 and early 2005 to increase competition among the networks and ensure a fair level of payment for individual providers. The implementation of the new system was supported with a new technological platform, which, through magnetic cards, allowed the identification of individual beneficiaries and the pre-approval of the services to be rendered. A regulatory framework has been established and a provincial entity (*Registro de Unidades de Gestiones de Prestadores de Salud* - RuGePreSa) was assigned responsibility for regulatory functions. The new system is subjected to regular management audits designed to safeguard quality of service.

In December 2005, IPAM was transformed into the Administration of the Provincial Health Insurance (*Administración Provincial del Seguro de Salud* - APROSS), a decentralized entity responsible for developing and administering a provincial health insurance system. On top of the automatic increase in revenues resulting from the recent salary increases, APROSS' revenues were also augmented by increasing the overall contribution to 10 percent of the salary (equivalent to an increase of 0.5 percent for the employee and 1 percent for the employer), which will further strengthen its financial position.

It should be noted that, although APROSS (formerly IPAM) conducts periodic surveys to monitor health care quality, findings are not issued on a regular basis, as required by fourth-tranche conditionality. Thus, <u>this condition was not met</u>. APROSS expects to begin publishing these findings regularly during 2007.

b. <u>Education Reforms</u>: ***Satisfactory Performance***. Over the past years, provincial education authorities have engaged in a participatory and far-reaching reform effort of primary and secondary levels. Córdoba was the first province to have fully implemented the new federally prescribed upper secondary education structure, and it produced in the academic year 1999 its first graduates under this system. With PRL support, Córdoba has taken additional steps toward enhancing efficiency, equity and quality of education while meeting expanding enrollment. Specific accomplishments include strengthening absenteeism controls, rationalizing public teacher training institutions, and overseeing the mechanisms to allocate public subsidies to private schools. In addition, Córdoba has advanced in the implementation of a human resource management system to include all teachers in the public sector and those in private schools

receiving public subsidies. Savings arising from the implementation of these administrative reforms have permitted to allocate more resources for learning materials and other non-salary expenditures. Likewise, the administrative and organizational reforms supported under the PRL will strengthen Córdoba's capacity to design and manage educational policies and strategies.

The impact of the reform efforts is evident in Córdoba's performance in key indicators of quality of education. Specifically, between 1998 and 2003, there has been a significant improvement in promotion, repetition rates, and drop-out rates, which have remained largely stagnant among other provinces (see Table 3). Illiteracy rates have also continued to steadily decline, from 3.2 percent to 2.1 percent between 1998 and 2003. Córdoba is one of the provinces of the Central Region, which has the highest test scores of all the regions in the country. Unfortunately, the lack of data at the provincial level on standardized test scores (results at the provincial level were last made public in 1999) prevents inter-year comparison for individual provinces. The overall student/teacher ratio, however, declined between 1998 and 2003, partly as result of the province's decentralization strategy and the construction of 237 new schools.

Table 3. Education Indicators for Córdoba and All Provinces – 1998-2003

	1998			2003 (Latest available at the national level)		
	Córdoba		All Provinces	Córdoba		All Provinces
	Indicator	Rank	Indicator	Indicator	Rank	Indicator
% Over-age students [1]	18.5	5	21.4	19.3	9	22.8
Repetition rates [1]	5.8	8	6.3	4.0	8	6.5
Promotion rates [1]	92.9	7	91.8	95.2	8	91.7
Inter-year drop-out rates [1]	1.2	6	2.0	0.8	12	1.8
Overall students / teachers ratio [2]	20.6	2	17.6	21.4	11	18.0
% Correct answers - language	69.3	3	65.7	*58.9* [4]	n.a.	57.2
% Correct answers - math	70.7	4	68.7	*59.3* [4]	n.a.	56.3
Illiteracy - 11 years-old or more [3]	3.2	5	3.7	2.1	6	2.6

[1] *Ciclo Básico I y II.*
[2] Data corresponds to 2004.
[3] Based on INDEC census data for 2001, Annual Health Basic Indicators 2005.
[4] Performance tests correspond to highest-grade of Intermediate Level (*Fin del Nivel Medio o Polimodal*) corresponding to 1999 and 2003; 2003 test scores are only reported at the regional level, which precludes inter-year comparison of quality of education.
Note: Rank ranges from 1 to 24, with 1 being the best performing province and 24 being the worst one.
Sources: *Dirección Nacional de Información y Evaluación Educativa*, 1999, 2003, 2004; *Operativo Nacional de Educación* 1999, 2003.

Specific achievements within the education sector can be summarized as follows:

- *Enhancing management of education expenditure*: Several actions have been implemented to rationalize the allocation of education expenditures and enhance their management, including:
  i) *Improving human resource management*: **Under implementation**. With PRL support, Córdoba is implementing a comprehensive human resources management system for all teachers and staff in the education sector. Based on a single teacher file (*Legajo Único Electrónico*), the implementation of this system represents an important tool for human resource management. Currently, there are 33,264 teaching posts already incorporated into the system, corresponding to all the 1,060 primary schools in the province serving a population of 418,000 students. The remaining 106,078 teaching posts corresponding to

the 519 intermediate schools in the province serving 295,000 students are still being incorporated into the system. Its completion is expected by mid-2007, thus, this condition was only partially met. This new system constitutes a significant step toward improving the efficiency of educational expenditures, as it provides a match between staff positions (*cargos*) and the individuals who occupy them, thus enhancing transparency of payroll expenditures. The system will also offer a true representation of the allocation of the teaching and non-teaching staffs in individual schools, thus making it possible to identify deviations from established staffing norms. Eventually, the system will also incorporate the 970 private schools that receive public subsidies for teachers' salaries, helping to better oversee the use of these subsidies.

ii) *Reducing teachers' absenteeism*: **Accomplished as amended.** Abuses of leave rules by teachers were endemic in Córdoba, resulting in an estimated additional 18 percent excess in personnel expenditures. Under the PRL, a study evaluating the privatized system of medical monitoring of teachers was completed, revealing that the main health causes resulting in sick leaves were voice-related problems, depression, and varicose problems, which provided the foundations to devise preventive actions to reduce their incidence among teachers. In addition, the province established a new system to improve the medical certification on sick leaves to reduce absenteeism and a private firm was hired to verify levels of absenteeism in the various areas of the provincial central administration. Although the 2000 benchmark is not fully reliable since there was no centralized system in place at the time, the results of the private firm's audits point to a significant reduction in absenteeism due to medical leaves, from 12.5 percent in 2000 to an average 2.7 percent between November 2003 and July 2004 (absenteeism is measured as the percentage of teachers' days lost due to sick leave compared to all teachers' days in a month). Therefore, the actual levels of absenteeism during such a period were well below the PRL target of 10 percent-equivalent to 80 percent of the 2000 rate. From 2005 onward, the province resumed responsibility for verifying absenteeism and no data has been made available.

iii) *Increasing student/teacher ratios:* **Accomplished as amended**. The province succeeded in increasing the student/teacher ratio for the upper cycle in high schools in urban areas to the original target of 28:1 by 2003. However, the original targets for primary and intermediate education were not achieved, mainly due to the need to staff the newly constructed schools and the province's overall decentralization strategy in the education sector. At restructuring, the original condition was amended to require the submission of an action plan aimed at attaining these ratios rather than their actual attainment. The condition was met as amended. Between 1998 and 2004, the student/teacher ratio for the public school system as a whole increased from 20:6 to 21:4. Córdoba has the third highest student/teacher ratio of all provinces.

iv) *Rationalizing educational expenditures:* **Accomplished**. The PRL has helped rationalize educational expenditures by increasing capital and non-salary spending as a proportion of the overall education budget. In 2003, a total of Arg$1.04 billion were allocated to the education budget, of which Arg$153.5 million were allocated to capital expenditures (equivalent to 18 percent of the overall education budget), exceeding the original 10 percent target. As a result, Córdoba has been able to implement an aggressive campaign to improve schools' infrastructure by remodeling 1,000 of the 3,800 schools in the public system and adding 237 new schools. In addition, non-personnel expenditures amounted to Arg$123.8 million, equivalent to 17.6 percent of all recurrent education expenditures, thus, amply exceeding the 8 percent target. This is a remarkable achievement, considering that non-personnel recurrent expenditures constituted a negligible amount in 1999. Resources allocated to education have continued to increase since 2003, with the overall education budget doubling between 2003 and 2006 to amount to Arg$1.4 billion, with non-salary expenditures representing 26.8 percent of all recurrent expenditures. All

school maintenance and supply expenditures are now self-administered by individual schools. The rationalization of resources has permitted increased spending on educational materials such as books and equipment, and infrastructure, as well as on programs aimed at decreasing drop-out rates among poor children and improving the quality of rural schools.

- *Enhancing education quality*: Several actions have been implemented to enhance the quality of education, particularly among students from more disadvantaged socio-economic groups, including:
  - *i) Reducing drop-out and repetition rates:* **Accomplished**. The education authorities have implemented a socio-economic student monitoring system, which has been implemented in 400 public schools. This system has helped target the poorest students and improve equity. Measures have been implemented to reduce the repetition and drop-out rates in primary and secondary schools, benefiting mainly the poorest students. Processes and procedures have been developed to improve tracking of student performance aiming to help identify problems earlier so as to reduce repetition and dropout rates. The overall reduction in repetition rates, with Córdoba's ranking improving from 8th to 3rd among all provinces between 1998 and 2003, points to the success of this initiative.
  - *ii) Dissemination of standardized test results:* **Accomplished as amended**. While the province completed an evaluation of Córdoba's education performance and disseminated the results, it could not publish a comparison with those of the standardized national testing system (*Operativo Nacional de Educación* - ONE), as this information has not been provided by federal authorities. Results from the provincial 2005 evaluations reflect a better performance in elementary education vis-à-vis intermediate education, both in language skills and math. Students in rural areas showed a better performance than their urban counterparts in both language skills and math. The results from these evaluations have been distributed to individual schools and they are being used as inputs into the design of teaching strategies.
- *Decentralization of school management:* **Accomplished**. A pilot program has been implemented to decentralize management to individual schools to test its potential in enhancing school autonomy and accountability. The 400 schools participating in this pilot program have been given responsibility for managing non-salary recurrent funds. School directors and staff have been provided with management and administrative training.
- *Rationalizing teacher training institutes:* **Accomplished**. The quality of Córdoba's teacher training system is low, as demonstrated by the fact that only 1,900 out of 10,000 graduates from 152 teacher training institutes met the requirements for a teaching degree in 1998. To address this weakness, the province developed accreditation criteria for teacher training institutes focusing on efficiency and output quality. The accreditation system is fully operational, with teacher training institutes being accredited based on transparent and verifiable performance indicators according to newly developed guidelines. Those teacher training institutions that did not succeed in obtaining accreditation will have their public subsidies phased out. These efforts are an important step in making teacher training institutes more cost-efficient, inducing the closure and merger of those that are less effective, and improving the overall quality of the teacher training.
- *Enhancing public subsidies to private schools*: **Accomplished**. About 24 percent of the public education budget is currently transferred to 970 private schools in the form of subsidies based on the number of teachers. Under the PRL, the province has carried out the auditing of private schools receiving public funds to verify that they are complying with the current legislation. A total of 329 audits were conducted in 2002 and 2003 (62 and 257 audits, respectively), representing approximately 34 percent of all private schools, thus meeting the PRL target of at least 30 percent. Some irregularities were detected (in terms of both under- and over-payment of teachers' salaries) and were corrected. As of 2004, private schools

receiving public subsidies are required to submit the information related to the subsidies as part of their monthly report (*Informe Mensual de Escuela*), for which all schools-as opposed to just a sample-will be regularly monitored.

c. Social Protection: ***Satisfactory Performance***. Córdoba's PRL was the first provincial reform operation in Argentina to include an explicit component to safeguard social protection expenditures targeted at the most vulnerable groups. The actual achievements in social protection are similar to or have exceeded the levels anticipated at project design, as these were not affected by the operation's restructuring. Specifically, the Ministry of Solidarity was identified as a priority to participate in a pilot organizational reform program. The targets for maintaining a minimum level of resources for social protection have been and continue to be exceeded. The goal set for registering beneficiaries from social programs has been amply exceeded, with more than 1.5 million individuals currently being registered compared to the PRL target of 80,000. An assessment of the province's social protection programs has been completed and social programs have been modified accordingly. As a result, Córdoba made substantial progress in enhancing its social protection, particularly in terms of ensuring an adequate allocation of resources and increasing their predictability, as well as enhancing the quality and equity of the various provincial social assistance programs. These achievements were particularly important for addressing the mounting social needs that arose in the aftermath of the 2001 crisis.

The specific accomplishments in the area of social protection include:

- *Social protection budget*: **Accomplished**. The PRL ensured the allocation of adequate and predictable resources to social protection in the provincial budget in the post-2001 period. Specifically, the budgetary resources assigned to social protection have exceeded the minimum targets established under the PRL. Between 2001 and 2003, Córdoba has assigned a larger percentage of its budget to social protection than other provinces, averaging 6.2 percent compared to 5 percent for provinces as a whole. Likewise, the resources allocated to social protection have almost doubled in nominal terms over the past five years, from Arg$93.3 million in 2001 to Arg$181.3 million in 2006 (including the resources allocated to the Sub-Secretariat for Children and Adolescents that were under the Ministry of Solidarity until 2004).
- *Quality of provincial social protection programs*: **Accomplished**. The Ministry of Solidarity conducted an assessment of the various programs under its administration, including the family-oriented program (*Programa Permanente de Atención a Nivel de la Familia*) and its youth-oriented program (*Programa de Desarrollo Solidario para Jóvenes* 'SOL'), among others. The province has continued to systematically evaluate its programs and their delivery systems with technical assistance from the National University of Córdoba's Economics Department, including assessing the performance of non-government organizations that act as intermediaries in the implementation of various provincial social programs.
- *Targeting of provincial social protection programs*: **Accomplished.** Under the PRL, Córdoba has developed a single register of beneficiaries of social programs (*Sistema Único de Acción Social - SUAS*), which centralizes information on benefits assigned by the Ministry of Solidarity such as non-contributive pensions, as well as social programs at the provincial and national levels. In addition to registering all the social benefits received by an individual and members in her/his family, the SUAS is linked to the provincial budgeting system (*Sistema Experto de Ejecución Presupuestaria* - SEEJEP) to issue orders for payment of benefits to individuals. In turn, the SEEJEP informs the SUAS once these payments have been made. Currently, the SUAS contains information on over 1.5 million individuals and their family relationships, corresponding to 877,000 households. The number of actual beneficiaries included in SUAS amply exceeds the original target of 80,000 beneficiaries.

Information on the SUAS database is periodically checked against the provincial payroll, the national Heads of Household program, and SINTyS (*Sistema de Identificación Nacional Tributario y Social*) to identify inappropriate benefits and, thus, enhance targeting of provincial programs.

- *Organizational structure of the Ministry of Solidarity:* **Accomplished**. The Ministry of Solidarity was one of two provincial ministries to participate in a pilot organizational reform program. The Ministry of Solidarity's functional structure has been reformulated to support the new provincial strategy toward social protection, which focuses on the harmonization of national and provincial interventions, the involvement of municipal governments and non-government organizations in the administration of social assistance programs, and the strong coordination with other provincial ministries, the Ministry of Production in particular. Moreover, the new functional structure reflects the three pillars that organize Córdoba's social promotion efforts: family-centered interventions, productive initiatives, and cultural and recreational activities. The new programs that are being created exhibit a shift away from the social assistance emphasis that characterized post-2001 social programs and toward a new emphasis on social promotion, focusing on fostering the sustainable welfare of vulnerable families.

3.3 Justification of Overall Outcome Rating (combining relevance, achievement of PDOs):

Rating: Moderately Satisfactory

The operation has largely achieved its development objectives-i.e., to promote an efficient and responsive delivery of public services within fiscally sound policies-which remained unchanged at restructuring. However, some of the key outcome targets as reflected in the loan's policy conditionalies were formally revised at restructuring to reflect the macroeconomic and social changes that resulted from the economic collapse of December 2001. Thus, the operation's overall outcome rating has been assessed against both the original and revised key outcome targets, in accordance with the Harmonized Evaluation Criteria for ICR and IEG Evaluations and the new ICR guidelines issued in August 2006.

With respect to the original key outcomes, the operation is rated 'Unsatisfactory.' Despite the operation's substantial achievements in the areas of public administration and social sector reforms, some key original outcomes, mainly in the area of public finances, were not met as a result of the deterioration of the macroeconomic environment. Specifically, the original debt stock target was not attained; the privatization of the provincial bank and the concession of the electricity company were not finalized; a pilot health-insurance program for the poor was aborted; and financial and cadastre modernization plans were not implemented by at least 20 municipalities as called by original loan conditions that were either waived or amended. However, it is important to note that, although the conditions were not met, substantial progress has been made in most of these areas in accordance with the amended loan conditionalities (see Annex 7.2).

With respect to revised key outcomes, the operation is rated 'Satisfactory.' All conditions of the restructured second and third tranche were met and the corresponding tranches were disbursed. Although the fourth tranche was cancelled in agreement with the government as part of the negotiations of the new CAS envelope, all but four of its conditionalities were also met. Two of the conditions that were not met are being implemented (i.e., ongoing negotiations with Central Bank on recapitalization to obtain final approval of BPC restructuring plan and ongoing implementation of human resources management system for the education sector), one has been partially implemented (i.e., gradual increases in electricity tariffs have been implemented,

although they do not fully reflect EPEC's cost structure), and the fourth has not been met but will reportedly be implemented in 2007 (i.e., APROSS-formerly IPAM does not publish its findings on heath care quality but plans to begin in 2007). (See Table 7.2, Annex 7).

Taking into consideration the operation's overall achievement, Córdoba's PRL is considered 'Moderately Satisfactory' (see Table 7.2, Annex 7 for specific calculations weighing original and revised key outcomes). Although the provincial bank and the electricity company still remain in the province's hands and the stock of debt is higher than originally envisioned, the operation has been successful in introducing substantial improvements into the management of provincial resources and in enhancing social protection, health and education services in a framework of fiscal responsibility. The operation has also resulted in significant institutional strengthening by supporting the adoption of sound management tools and legislation. Likewise, Córdoba's PRL helped protect the public safety net that provided support to the poor during the social and economic crisis that unfolded in December 2001. In terms of the operation's overall relevance, the objectives pursued by the operation are still highly pertinent vis-à-vis the current priorities of both the Kirchner administration and the Bank's current CAS.

3.4 Overarching Themes, Other Outcomes and Impacts (If any, where not previously covered or to amplify discussion above):

(a) Poverty Impacts, Gender Aspects, and Social Development

Although Córdoba's per capita income is close to the national average, serious poverty exists compounded by gaps in the delivery of health, education, and social protection services. By requiring a at least a minimum level of expenditures in education, health, and social protection, the PRL effectively protected the public safety net that provided support to the poor during the social and economic crisis that unfolded in December 2001. As shown on Table 4, Córdoba has consistently allocated a higher share of its budget to social protection than provinces as a whole between 1999 and 2004. Within the health sector, the number of health care services received by the poor annually has increased in average from 1.6 in 2000 to 2.8 in 2006. Likewise, although the implementation of a pilot health insurance program for the poor was waived as part of the 2003 restructuring, Córdoba has advanced toward a more comprehensive universal health insurance program, the Integrated Provincial Health System that received legislative approval in 2003. In terms of education, a monitoring system based on socio-economic variables was implemented to oversee drop-out and repetition rates in 400 schools. The notable improvements in drop-out and promotion rates obtained under the PRL affect primarily students from lower socio-economic backgrounds.

Table 4. Social Protection Expenditures as a Percentage of the Overall Budget for Córdoba and All Provinces, 1999 – 2004

	1999	2000	2001	2002	2003	2004
Córdoba	5.8	4.9	5.3	6.6	8.0	5.7
All Provinces	4.8	4.3	4.3	4.9	6.4	6.1

Source: National Directorate for Fiscal Coordination with the Provinces, MECON (1999, 2005).

(b) Institutional Change/Strengthening (particularly with reference to impacts on longer-term capacity and institutional development)

The operation has had a substantial impact on Córdoba's institutional development, as it has introduced innovative management tools that are likely to enhance public management, transparency and institutional development over the medium and long term in the areas of financial management, health, education, and social protection. Some of the specific advancements are:

- *Financial management*: The recently enacted Financial Administration Law constitutes an essential step toward enhancing the management of provincial resources. In combination with the newly implemented financial management system, the new law has enhanced the overall transparency and efficacy of the budgeting process.
- *Human resource administration*: The new system will enhance the province's ability to manage human resources within the education sector, ultimately contributing to a more efficient, effective, and equitable allocation of resources. The new system is already being used to automatically generate the ranking of individual teachers (*puntaje*) for new openings in primary education, adding substantial transparency to the designation process.
- *Cost recovery mechanisms by individual hospitals*: In this regard, it is important to bring attention to the sequencing of the reforms and the creation of a sound system of incentives. In terms of sequencing, the PRL capitalized on the existence of an enabling legal framework and subsequently, its actual implementation and actual results. Likewise, it benefited from the progress achieved under other operations, such as the creation of a national registry of beneficiaries of all national insurance carriers that is currently maintained by the SNSS. Without this database, the implementation of cost recovery mechanisms would be unfeasible. The financial viability of IPAM is another key component for the long-terms success of the strategy. In terms of incentives, cost-recovery proceeds from individual hospitals are used to fund salary bonuses, creating a clear link between performance and rewards. Awards are distributed uniformly among all personnel within each hospital and, although not theoretically perfect, this approach has helped overcome resistance and gain support among the staff.
- *Provincial register of beneficiaries of social programs*: The centralized registry of beneficiaries from social programs, SUAS, has helped identify inappropriate benefits and, thus, enhance targeting of provincial programs.
- *Transparency:* The establishment of an Anti-Corruption Office as well as anti-fraud courts has been an important step in combating corruption. In addition, all the management tools described above have also contributed to enhancing transparency in the management of provincial resources.
- *Regulatory entity for the electric sector:* While EPEC is still a provincial enterprise, a regulatory body for the electric sector is now functioning, effectively separating regulatory from management functions. In particular, ERSEP is administering customer complaints and the application of the social tariff program.

(c) Other Unintended Outcomes and Impacts (positive or negative)

The operation has helped provincial authorities to maintain their focus on their reform program in spite of the difficult financial and social circumstances they faced during 2001 and 2002.

3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops:

N.A.

4. Assessment of Risk to Development Outcome

Rating: Moderate

Presently, the risk that development outcomes will not be maintained is considered moderate in most respects. In general, policy actions undertaken under the PRL have either survived or were implemented during the traumatic 2001-2002 period, which is a good indicator of their sustainability. Other factors contributing to the sustainability of the operation's development outcomes include the favorable macroeconomic conditions prevailing in Argentina since 2003 and a robust flow of public revenues due to increases, primarily in automatic transfers from the national government (*coparticipación*) but also own-source revenues. At the national level, the Fiscal Responsibility Law establishes fiscal performance indicators and provides for the monitoring over time of fiscal results as well as for possible sanctions in the case of deviations from the provisions of the law. While the high level of discretion and the consensual approach under the Fiscal Responsibility Law create a potential risk that fiscal discipline will not be sustained, such an approach may also increase provincial ownership, which is critical given Argentina's strong federal character. It remains to be seen whether the Fiscal Responsibility Law will be more successful in improving provincial and national fiscal performance than the many national and provincial fiscal responsibility laws that preceded it, despite its relatively less stringent provisions when compared to similar pieces of legislation adopted in other countries in Latin America, such as Brazil.

Specific observations regarding the degree of the sustainability of the reforms pursued under the various policy areas can be summarized as follows:

A. Public Finances: The sustainability of the reforms in the area of public finances is considered to be moderately likely, with the exception of the privatization of the bank and electricity company. The province has succeeded in keeping increases in expenditures below those of revenues, thus, generating a current account and overall surplus. It has also capitalized on the robust increase in revenues from 2003 onward to establish a Arg$150 million fiscal reserve fund to meet unexpected drops in revenues, face financial obligations, finance public works or meet other emergencies. However, the fiscal surpluses of the consolidated provincial sector are expected to decline in 2006 and 2007. In this context, and as is true for most Argentine provinces, the sustainability of the recent improvements in Cordoba's public finances will depend on a number of factors, some of which are under the control of the province, while others are outside its sphere of influence. The large reductions in real public sector salaries and investment spending that were partly responsible for large fiscal surpluses in the years immediately following the crisis are no longer feasible or desirable. To maintain the health of provincial public finances, increases in own tax revenues and prudent management of the wage bill are required. These can be controlled in part by the province, although they are also constrained by federal legislation and precedents regarding tax responsibilities and salaries. In the case of Córdoba, current spending has been rising rapidly since 2005, primarily as a result of personnel spending, which increased by 39 percent in 2005. Further payroll increases are expected for 2006 and 2007. Likewise, Córdoba's fiscal performance is less impressive when noting that its 2005 current account surplus is almost equivalent to the current transfers received from the federal government during the same period. While the bulk of these current transfers (over 70 percent) reflects the 1999 Federal Agreement's provisions (Law No. 25.235, Section XII) to compensate those provinces, including Córdoba, that have not transferred their pension funds to the federal government, they point to Córdoba's increasing dependency on the federal government to meet its pension liabilities. Likewise, Córdoba is burdened by a heavier stock of debt than provinces as a whole, which limits

its ability to react swiftly to economic downturns. In addition, the provincial bank and the electricity company remain in the hands of the province and, although both entities are now operationally stronger than in 1999, they still pose the threat of future contingent liabilities. Moreover, the pending US$30 million recapitalization of the provincial bank will add to Córdoba's already substantial debt stock. Another potential contingent liability relates to municipal finances. Although loan conditions in this area were met, the task of introducing modern management tools and procedures at the municipal level (including cadastres, tax administration, financial management systems, budgeting procedures) is still pending, as the IADB operation that was intended to finance these improvements was cancelled. Some of these improvements, such as the harmonization of municipal and provincial cadastres are also critical to fiscal sustainability at the provincial level, as provincial property taxes-the province's second largest own-source revenue source-depend on such harmonization. As noted above, Córdoba's provincial authorities have desisted from their privatization efforts; thus, the bank and the electricity company are expected to remain in the hands of the province in the near future, increasing uncertainty regarding the prospects for the continued strengthening of these institutions' financial and operational performance. The recapitalization of the provincial bank and the further adjustment of electricity tariffs to fully reflect EPEC's cost structure are two critical issues that remain pending.

B. Public Administration: The sustainability of the progress attained in the area of public administration varies greatly among the various areas, being highly likely in terms of financial management but less certain in the areas of civil service and procurement. Specifically, the approval of the Financial Management Law is an important step toward ensuring the sustainability of the newly implemented financial management system, as it not only provides an enabling legal framework but also makes its reversal more difficult. In terms of civil service reform, it is important to note that the number of provincial employees increased more in Córdoba than in provinces as a whole between 1999 and 2004, by 24 percent and 8 percent, respectively. Conversely, personnel expenditures increased substantially less in Córdoba than in provinces as whole during the same period, by 17 percent and 30 percent, respectively. These two opposing trends point to an undesirable flattening of the civil service structure and the possibility of disproportionate incorporation of public employees with limited technical skills. In terms of the impact of salary increases on the province's finances, provincial authorities have agreed with labor unions representing provincial employees that salary increases for 2007 will be tied to increases in the consumer price index and provincial tax revenues, to avoid the erosion of salaries in real terms without threatening the province's fiscal solvency. Finally, as mentioned above, although the new procurement law was presented to the legislature as required by the PRL conditionality, its approval is still pending.

C. Social Sectors: The sustainability of the achievements in health, education, and social protection are considered likely.

a. *Health sector*: In the health sector, sustainability is considered highly likely, as the passage of the key legislation has gone hand-in-hand with the development of modern management systems that support their implementation. However, the departure of the former Minister of Health from his post in July 2006 will certainly present a test for the sector, as he served as a 'champion.'

b. *Education sector*: Achievements in the education sector are considered likely. The human resource management system is being implemented at a slower pace than originally anticipated. Its completion is expected by 2007. In terms of absenteeism, no data has been made available for 2005, thus it is not possible to assess the sustainability of this particular achievement. With respect to education, it is also important to note that the

national government has not published the provincial test scores corresponding to standardized national test scores (ONE) since 2005, when it made public the scores corresponding to 2003 tests. This deprives provincial governments of a valuable tool to measure performance within each province and relative to other provinces. Perhaps more importantly, by not making provincial test scores public, the national government is foregoing an important element of accountability that could play a major factor in enhancing quality of education in the long run. It is relevant to note that one of the main arguments in favor of decentralizing education to the provincial level was the expectation that increasing the proximity between citizens and those officials responsible for education would enhance accountability and, consequently, performance. The performance information provided by ONE scores is an important element toward building this accountability, thus, an important element in the ultimate success of the decentralization process.

c. *Social protection:* The sustainability of the SUAS is also considered likely given the thorough insertion that this centralized system has within the various areas of the provincial administration.

5. Assessment of Bank and Borrower Performance (relating to design, implementation and outcome issues)

5.1 Bank Performance:

(a) Bank Performance in Ensuring Quality at Entry

Rating: Satisfactory

The Bank's performance in identifying, preparing and appraising the operation was **satisfactory**. The Bank devised an effective strategy towards public sector reform at the sub-national level by focusing resources on select provinces with demonstrated willingness and ability to implement reforms, thus capitalizing on the window of opportunity provided by the presence of reform-minded administrations at the provincial levels. Likewise, the Bank's strategy correctly identified the need to promote reforms in the social sectors-education, health, and social protection-in a framework of fiscal soundness. Social sectors are central to the medium and long-term success of any provincial reform strategy, as they represent a significant share of provincial budgets. Moreover, the services in health and education are critical in determining the level of human capital development of the province in the medium and long term, while strengthening social protection was particularly important given the abrupt increase in poverty as a result of the crisis.

The Bank embarked on a thorough preparation process, including in-depth technical analysis within the various sectors. The Bank's staff helped to identify and prepare an operation consistent with both the Borrower's interests and the Bank's Country Assistance Strategy. The Policy Matrix effectively made operational key aspects of Córdoba's reform strategy supported by the operation that were ambitious but still feasible. The Bank worked in close collaboration with the provincial government and maintained a high degree of coordination between the PRL and other Bank operations, both provincial and sector loans.

Córdoba proved to be a sound choice for participating in the PRL. The province had demonstrated a commitment toward reform, with strong political support from the legislature and a remarkable implementation capacity. Despite by its high level of indebtedness, Córdoba was able to undertake social reforms while at the same striving toward fiscal adjustment. Despite the

unprecedented difficulties posed by the 2001-2002 implementation environment, Córdoba's performance under the PRL successfully demonstrated that difficult reforms can be advanced even in difficult implementation environments when there is substantial political will.

(b) Quality of Supervision (including M&E arrangements)

Rating: Satisfactory

Even under normal circumstances, policy development operations pose a challenge in terms of supervision, as they require both precision and agility. In the case of Córdoba's PRL, this challenge was exponentially more complex given the extraordinary circumstances under which the operation was implemented during 2001 and 2002. Once the macroeconomic environment situation improved, the Bank moved quickly to restructure the operation as to adapt it to the new realities. The supervision team that was constituted by staff from various networks succeeded in supporting the implementation of reforms in multiple sectors while maintaining internal cohesiveness. In this regard, PREM provided overall coordination and encouraged the other networks to take responsibility for supervising their sector reform programs; in turn, the Infrastructure and Human Development networks were fully cooperative and fully supported the operation. Thus, the experience of Córdoba's PRL-as well as those in Santa Fe and Catamarca-could be considered an example of successful cross-sector coordination between multiple networks-PREM, Infrastructure, and Human Development. In turn, the supervision team forged a close relationship with provincial authorities through periodic visits and fluid communication. At times when relations were tense between the government and IFIs, the task manager and the PRL team succeeded in maintaining the channels of communication open with provincial authorities and the professional staff working in the various sectors covered under the operation. During the interviews conducted as part of the ICR preparation, professional staff and authorities repeatedly praised the input of their Bank counterparts in terms of policy making and rigorous monitoring, reporting it as an important value-added benefit of the operation. The project was very well documented, as all official records, communications, e-mails and reports presented by the borrower and sector task managers during the life of the project were archived in the Bank's IRIS (Integrated Records Information System). This reflects a substantial effort, as many of the lengthy reports produced by the borrower were presented as hard copies, which required their manual scanning.

(c) Justification of Rating for Overall Bank Performance

Rating: Satisfactory

Given the severity of the economic collapse of December 2001, it is, of course, relevant to question whether the Bank should have predicted such an outcome. However, given the many different views on the causes of the crisis and whether it might have been avoided, this question can be more adequately addressed as part of the evaluation of the overall Bank strategy toward Argentina than as part of this ICR, which focuses on the specific reforms supported by the operation. Although the debate over what was the appropriate strategy under the conditions prevailing at the time is likely to continue, the implementation of Córdoba's PRL indicates that adjustment operations can help ensure the sustainability of ongoing reforms during difficult periods. Moreover, the specific reforms supported by the operation were necessary in any event, as illustrated by their impact on provincial management and service delivery as well as the sustained momentum for their continuing implementation-with the exception of privatization efforts. For the reasons outlined above, the Bank's performance is considered satisfactory with regard to the preparation and implementation of this particular operation.

5.2 Borrower Performance:

(a) Government Performance

Rating: Not Applicable

During preparation, the province provided full collaboration. Staff from the various provincial ministries and agencies participated in the preparatory work, ensuring that the proposed actions were consistent with the province's reform program. Córdoba had strong ownership of the reform program, illustrating the ideal case in which a Bank operation fully supports provincial objectives. The highly transparent approach used by Córdoba's authorities, by which key reforms were subjected to the legislature's scrutiny, was critical in developing support for the program being supported under the PRL.

The supervision of the program was entrusted to an Executing Unit that served as an effective interface between the different actors, including the governor, the provincial ministries, the Bank, and the executing units of other related projects. While the Ministry of Finance took the lead in implementing the reform program, the Ministries of Education, Health, Social Protection, and Production participated as well. Weekly meetings with those responsible for the implementation of the reforms in the various areas were important in ensuring internal coordination. In some cases, such as the health sector, the minister served as a champion for the reforms being supported under the operation. The Bank's supervision team was kept well informed of all relevant developments-both of progress and occasional difficulties-that took place during the implementation of the program. Adequate documentation was made available to support the request for disbursement of the second and third tranches. In general, the province emphasized formal compliance, submitting to the Bank legal documentation that provided legal proof of compliance, paying less attention to the substantial achievements-some of them quite remarkable-behind each of the conditions. The province demonstrated a strong internal cohesiveness during the implementation of the operation, articulating political support from the top with a demonstrated ability for implementation throughout the end of 2003. This fluidity was particularly noteworthy in the management of public finances and the health sector, which, despite their complexity, benefited from a uniting vision. The government also made genuine, good faith efforts to privatize EPEC and the BPC. Finally, the operation has benefited from political continuity, as the governor was elected to a second term in 2003.

(b) Implementing Agency or Agencies Performance

Rating: Not Applicable

(c) Justification of Rating for Overall Borrower Performance

Rating: Satisfactory

The lack of fiscal resources and the mounting social tensions that resulted from the country's economic collapse posed a difficult test for provincial authorities and their commitment toward reform. However, as opposed to abandoning their reform program, they continued with their efforts, pushing for difficult reforms on various fronts, even though privatization efforts failed due to lack of market demand. At the national level, the operation benefited from the clearly defined framework established by the national government for managing the fiscal situation of the provinces in the aftermath of the 2001 crisis, using the orderly financing agreements first, and

subsequently the Fiscal Responsibility Law. For these reasons and the ones noted above, the borrower's overall performance is considered satisfactory.

6. Lessons Learned (both operation-specific and of wide general application)

Provincial policy development operations such as Córdoba's PRL are only appropriate under stable macroeconomic conditions. While this type of operation requires an overall satisfactory macroeconomic policy framework, such framework is the responsibility of the national government and beyond the sphere of action of provincial authorities. As illustrated by the experience of Córdoba's PRL, failings or uncertainties at the macroeconomic level can override substantial achievements at the provincial level, leading to loan cancellation.

Under stable macroeconomic conditions, policy-based operations supporting a well-defined set of reforms can be effective tools in promoting structural adjustment at the sub-national level. Direct provincial lending using fast-disbursing operations have the advantages of: (i) addressing the needs of individual provinces more specifically; and (ii) introducing a critical mass of financial incentives and technical support that can effectively accelerate the pace of the reform process within individual provinces. In addition, operations such as Córdoba's PRL foster provincial ownership, internal consistency of provincial sector policies, and cross-sector coordination during their implementation. As reported by provincial authorities, the direct relationship with the Bank also brings added legitimacy and credibility to the province's reform program, as well as valuable technical assistance in the development of sector policies and methodological rigor in implementation, monitoring and evaluation.

Provincial operations can be effective complements of sector reforms and operations at the national level. While sector-specific investment operations targeting provincial governments provide for a sharper sector focus and longer term engagement, multi-sector provincial-level operations such as Córdoba's PRL can help promote sector objectives by boosting political will to take key policy actions at the provincial level. This is particularly important in the case of Argentina, where highly autonomous provinces play a predominant role in providing critical public services, such as education and health. On the downside, direct provincial lending concentrates risk on specific provinces-as opposed to national sector operations that diversify risk among multiple participating provinces.

For reforms to be successful, they have to follow the right sequence, take into consideration interrelationship of intermediate steps, and be supported by a sound incentive system. The successful implementation of the cost-recovery mechanisms by public hospitals underlines the importance of having in place not only an adequate legal framework but also the tools needed for implementation-in this case, the national register of beneficiaries of national insurance carriers. Likewise, consolidating the financial viability of the IPAM is an important factor determining the overall success of the cost recovery system, given that it provides health insurance to over 18 percent of the population. In addition, the rewards system tying cost recovery to salary bonuses for hospital workers ensures that there are strong incentives ensuring its sustainability.

For provinces to be fiscally responsible over the long term, a consistent system of incentives must be in place at the national level. A clear strategy of the national government towards the provinces is a prerequisite for broader fiscal adjustment among sub-national governments, such as the determination to avoid bailouts of fiscally irresponsible provincial governments. In this regard, the operation has benefited from the clearly defined framework established by the national government for managing the fiscal situation of the provinces in the post-2001 period, using the

orderly financing agreements first, and subsequently the Fiscal Responsibility Law. It is important to note, however, that the high level of discretion and political nature of bilateral financing arrangements under the Financial Responsibility Law generates uncertainties as to whether the law will ultimately lead to sustained fiscal discipline.

The Bank's continuous engagement during critical periods can help sustain ongoing reforms and protect previous achievements. The experience of Córdoba's PRL indicates it was beneficial to have an operation in place providing a clear roadmap for enhancing service delivery in key social sectors during times of economic, political and institutional chaos. The substantial financial resources attached to the PRL became even more attractive in face of the overall lack of liquidity in the country in 2001-2002, providing the province additional incentives to sustain the ongoing reforms in the short and medium term. The experience of Córdoba's PRL also shows that sector reforms are possible even when the overriding priority is fiscal adjustment; however, sector budgets need to be protected, in particular to ensure that cost savings from efficiency gains can be reinvested into the sector.

Uncertain macroeconomic conditions can undermine reforms focusing on privatization and concession, even when they have the full commitment of the authorities. The experience of Córdoba and the failed privatization efforts of the provincial bank and its electricity company show that lack of market demand can undermine privatization efforts, even when there is full commitment on the part of the provincial government.

The success of SAL loans depends on a combination of factors, the most important of which is strong political support. In the case Córdoba, the ambitious set of reforms supported under the PRL succeeded as a result of a unique combination of strong political support from the governor and the provincial legislature, as well as a solid leadership in the individual sectors.

Loan conditionality should focus on results, going beyond the enactment of legislation. Like many structural adjustment operations, Córdoba's PRL illustrates the danger of having conditionality that can be met despite not having any significant impact. In this particular case, the conditions related to municipal finances, which focused on formal agreements and the preparation of action plans, had little or no impact on strengthening municipal governments' in their capacity to manage resources.

Overly complex operations with a large number of conditionalities that lack a clear hierarchy are difficult to implement and supervise. These difficulties became evident during the implementation of Córdoba's PRL, which initially included over 50 conditionalities to cover the province's ambitious reform program. Reducing the number of conditionalities and establishing a clear hierarchy between them can improve overall design. In this regard, it might be useful to focus primarily on major policy actions and the achievement of specific targets, rather than including the satisfactory completion of technical inputs, such as studies and action plans, as policy conditions.

Cross-sector operations at the provincial level require strong coordination during both preparation and implementation. On the side of the borrower, this type of operation requires strong coordination efforts, both horizontal (i.e., between across multiple government agencies at the provincial level) and vertical (i.e., between ministries at the national and provincial levels). On the Bank side, operations such as Córdoba's PRL demand strong cooperation and coordination between the various sector teams. While successfully achieved in this case, the need for effective coordination could pose risks to other operations of similar complexity.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/Implementing agencies

Project Design, Objectives and Implementation Experience: The original project design clearly responded to the policy agenda of top provincial authorities, which, in turn, was consistent with the Bank's strategy for the region. Three laws provided the cornerstone for the new administration's reform program: the State Modernization Law (Law No. 8.836), the Incorporation of Private Capital into the Public Sector Law (Law No. 8.837), and the Citizens' Charter Law (Law No. 8.835). The loan's objectives targeted systematically those aspects of the provincial public sector that were considered critical to strengthen public finances, public administration and social sectors. The strong conviction and support of top provincial authorities were critical in transforming these objectives into strategic lines of action within the various provincial ministries and ensuring the strong commitment among various actors to their implementation. This is illustrated by the fact that, despite having one of the deepest crises in the history of Argentina as a backdrop, significant structural reforms were implemented, despite the high level of effort they required. Provincial authorities saw the 2001 crisis as a negative factor that, although it could perhaps delay the implementation of the reform program, would not cut it short.

Achievement of Objectives: The level of achievement has been noteworthy. Out of approximately 80 conditionalities corresponding to the four tranches, only a handful was not met, largely due to factors beyond the control of provincial authorities. According to the province's own assessment, approximately 97 percent of the conditions were met, although it is, of course, clear than not all conditions were equally important. In addition, it is important to underscore the critical importance of the structural reforms that were undertaken. In addition, it is once again important to underscore that the successful level of achievement of the loan could not have been attained without clear policy guidelines from top provincial authorities, which provided the executing unit and those responsible for project implementation a very precise definition of the expected results as well as their full support. Finally, the loan has indirectly enhanced the technical capacity of participating provincial technical staff.

Bank's Performance: The Bank's performance during project implementation was critical in ensuring in a satisfactory manner the achievement of original and, subsequently, revised objectives. The flexibility and understanding exhibited by the Bank's authorities in relation to the 2001 crisis permitted the revision of original loan targets without detracting from the overall program objectives, and the continuation with the implementation of needed structural reforms. In this way, provincial authorities were able to achieve and, in some cases, exceed the targets corresponding to the second and third tranche, and even the fourth tranche, notwithstanding its mutually agreed cancellation, reflecting their firm commitment toward the loan's overall objectives.

Lessons Learned: Some of the lessons learned during the implementation of the Loan No. 4585-AR include:

1. Macroeconomic variables beyond the control of provincial authorities can affect the implementation of projects focusing on structural reforms, as well as limit the availability of provincial financial resources.
2. To minimize resistance, structural reforms should be designed by those government areas that will be directly affected by the reforms or that will be responsible for their implementation. In

this case, participation was strongly promoted, with staff from different levels within each ministry being included in the process.

3. The implementation of structural reforms often involves the reconfiguration of operational procedures and the improvement of information systems within a large number of public entities, resulting in time requirements that exceed the expected lifetime of the operation.
4. It is crucial to have in place strategies to maintain the program as a top government priority, even after provincial authorities are replaced.
5. It is important to maintain a certain degree of flexibility during implementation to incorporate or eliminate activities as determined by unpredicted circumstances or demands.
6. It is important to establish a hierarchy among program goals and define implementation and supervision instruments that reflect the relative importance of the various goals.
7. It is vital to the success of project implementation to ensure from the onset that the provincial executing unit has adequate organization and capacity. In addition, it is important to balance the central control of the executing unit with the autonomy of the various ministries that participate in program implementation.
8. Assigning responsibility for coordinating program implementation at the provincial level and serving as the interface with the Bank to a centralized executing unit is important to ensure a successful implementation process.
9. Those goals that require coordinated actions of multiple provincial entities must be established jointly, taking into consideration the time requirements, availability of resources, and responsibilities of each of the parties.
10. In the context of future operations, it would be important to limit the number of loan conditionalities. As originally designed, the operation supported a broad and ambitious structural reform program that included several areas of the provincial public sector, including public finances, public administration, and social services. The implementation of such a program involved multiple actors across various ministries.

(b) Cofinanciers

N.A.

(c) Other partners and stakeholders (e.g. NGOs/private sector/civil society)

N.A.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/Specialty
Lending			
Osvaldo N. Albano	Consultant	LCSPS	Financial mngt. system
Stefan Alber-Glanstaetten	Lead Operations Officer	LCSPF	Provincial bank privatizat.
Sandra X. Alborta	Language Program Assistant	LCSPS	Team assistant
Jacob H. Bregman	Lead Education Specialist	AFTH3	Education
Milka Casanegra Jantscher	Consultant	IEGCR	Tax administration
William R. Dillinger	Lead Public Sector Management	ECSPE	Provincial finances
Michele Gragnolati	Senior Economist	ECSHD	Health
Peter Gregory	Consultant	ARD	Human resource mngt.
Jose L. Guasch	Sr Adviser	LCSSD	Provincial bank privat.
Gillette H. Hall	Senior Social Development Spec	SDV	Social protection
Linn A. Hammergren	Sr Public Sector Mgmt. Spec.	LCSPS	Anti-corruption
Romulo Jose Leon Rojas	Consultant	LCSPS	Information technology
Federico Ricardo Manuel Mejer	Consultant	AFTH2	Health
Ronald E. Myers	Sector Manager	ECSPE	Team leader
Truman G. Packard	Senior Economist	ECSHD	Social protection
Roberto O. Panzardi	Sr Public Sector Mgmt. Spec.	LCSPS	Public administration
Luis Orlando Perez	Sr Public Health Spec.	LCSHH	Health
Jeffrey James Rinne	Public Sector Mgmt. Spec.	LCSPS	Human resource mngt.
Martin Augusto Rodriguez Pardina	Consultant	FEU	
Hemant C. Shah	Lead Financial Economist	EASFS-HIS	Provincial bank privat.
Jyoti Shukla	Program Manager	PPIAF	Private sector develop.
Jorge Daniel Taillant	Consultant	LCSPS	Public administration
E. Alejandro Yepes	Consultant	LCSHH	
Supervision/ICR			
Sergio España	Consultant	LCSHS-DPT	Public finances
Luis Orlando Perez	Sr Public Health Spec.	LCSHH	Health reforms
Fernando Rojas	Lead Public Sector Management	LCSPS	PSM/Privatization
Juan Luis Sanguinetti	Consultant	LCSHH	Provincial roads
Luis M. Vaca-Soto	Consultant	LCSEG	Power sector reforms

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY00	61	371.86
FY01	27	134.40
FY02		0.00
FY03		0.00
FY04		0.00
FY05		0.00
FY06		0.00
FY07		0.00
Total:	**88**	**506.26**
Supervision/ICR		
FY00		0.00
FY01	7	50.01
FY02	13	102.29
FY03	19	162.70
FY04	16	108.47
FY05	8	51.55
FY06	10	63.46
FY07		14.43
Total:	**73**	**552.91**

Annex 2. Beneficiary Survey Results (if any)

N.A.

Annex 3. Stakeholder Workshop Report and Results (if any)

N.A.

Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR

See Section 7.a.

Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders

N.A.

Annex 6. List of Supporting Documents

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List of interviews:

Provincial Authorities:

C.P.N. Ángel Elettore, Minister of Finances
Dr. Roberto Chuit, Minister of Health
Dr. Daniel Passerini, Minister of Social Assistance
C.P.N. Silvina Rivero (Agencia Córdoba de Inversión y Financiamiento)
C.P.N. Mónica Zornberg (Under-Secretary of Financial Administration)
C.P.N. Eduardo Gauna (Under-Secretary of Public Revenues)
Dr. Carlos Sánchez (Under-Secretary of Education)
Ing. Simón Dasenchich (President, EPEC)
C.P.N. Juan Carlos Nouguer (General Manager, Provincial Bank of Córdoba)
Dr. Rodolfo Rodríguez (President, IPAM)
Dr. Carlos Peracca (Vice-President, IPAM)
Hernán Caserio (Social Assistance)

National Authorities:

Lic. Gerardo Hita (Ministry of Economy)
Anibal López (Ministry of Economy)
Alejandra de la Serna (Ministry of Economy)

World Bank Reviewers:

Jim Parks (Lead Economist and PREM Sector Leader)
Ron Myers (PREM)
Jesko Hentschel (HD)
Mark Hagerstrom (former Argentina's Country Officer)
Zeinab Partow (Public Finances)
Sergio España (Education)
Luis Perez (Health)
Luis Vaca-Soto (Electricity)
Philippe Durand (Electricity)

Annex 7. Additional Annexes

7.1 Restructuring:

By restructuring the operation in April 2003, the Bank sought to address the drastic changes that followed the economic collapse of December 2001 while preserving the overall objectives of the loan. The decision to restructure the operation instead of it as originally scheduled and canceling the two undisbursed tranches was based on the substantial progress Córdoba had made in the implementation of its reform program despite the adverse implementation environment. Restructuring provided the opportunity to reframe the province's program in a manner that was feasible given the macroeconomic uncertainties and poor investment climate without detracting from the operation's original development objectives.

At restructuring, modifications were introduced in both the configuration of its tranches and individual conditions. As original conceived, the loan was structured into three equal tranches of US$100 million, the first of which was disbursed upon effectiveness. The second tranche—called the 'floating' tranche—was linked to sale of the provincial bank and electricity company. The final third tranche was comprehensive and tied to a wide variety of reforms in the areas of public finance, public administration and the social sectors. At restructuring, the two pending tranches of US$100 million each were modified as follows:

- *Second tranche (US$100 million):* It included conditions relating to fiscal performance, protection of social funding, and the provincial bank and the electricity company, most of which were amended to reflect the post-2001 fiscal and social conditions.
- *Third tranche (US$25 million):* It was cut back to include only those original conditions in the areas of public finance, public administration, and the social sectors that were already met. The 15 conditions corresponding to the restructured third tranche were not amended, except for a waiver given to a pilot program to provide health insurance to the poor.
- *Fourth tranche (US$75 million):* A new tranche was created to incorporate conditions originally included in the third tranche that were still under implementation. Some of these conditions maintained the original targets, and others were amended. The bulk of conditions were in the areas of public finances, public administration and social sector reform. Additional conditions were added with respect to the provincial bank and the electricity company.

The second and third tranches were eligible for immediate disbursement, while the disbursement of the fourth tranche was to be disbursed once the Province met the corresponding conditions.

In the case of individual conditions that had been rendered unfeasible or overly ambitious by the crisis, an upfront agreement was reached with the province on revised targets that, although scaled down, were still consistent with the operation's development objectives. Overall, a total of 17 out of 53 conditions were either waived or their targets modified—five and 12 conditions corresponding to the original 'floating tranche' and third tranche, respectively. The most important amendments and waivers related to fiscal targets, the privatization of the provincial bank, the concession of the electricity company, the elimination of a pilot program to provide health insurance to the poor, and municipal finances. Specifically, original fiscal targets were replaced by those included in the 2002 and 2003 PFO bilateral agreements. In the case of the provincial bank and the electricity company, conditions calling for their privatization or concession were waived. Instead, amended conditions called for the implementation of

restructuring plans to ensure the continuing financial and operational strengthening of these entities, so they could be ready for privatization once market were more favorable. The elimination of a health insurance pilot program for the poor due to financial constraints clearly constituted a loss for the program supported under the PRL. In addition, some of the amendments weakened original conditions by replacing result-oriented conditions for less substantial requirements, such as formal agreements and the presentation of action plans that, in hindsight, had little impact. For example, the conditions calling for the implementation of municipal fiscal pacts and the harmonization of municipal cadastres were replaced by the adoption of formal agreements and the preparation of technical assistance programs that have had little impact on improving municipal revenues. Table 7.1 provides details of the individual amendments.

Given the severity of the crisis and its adverse consequences, it was clearly impossible to adapt the operation to the new realities without any significant trade-offs. While the development objectives remained unaltered, the operation's actual level of achievement was diminished relative to the original expected key outcomes as a result of the restructuring. Specifically, although steps were taken under the restructured operation to enhance the operational and financial performance of the bank and electricity company, they remained in the hands of the province. Likewise, revised fiscal targets were substantially less ambitious than originally envisioned, particularly in terms of reductions in the debt stock. However, by restructuring the operation as opposed to canceling it, the Bank offered the province its support as well as substantial incentives to continue with the implementation of the critical set of reforms supported by the operation despite the heightened fiscal and social pressure.

Table 7.1. Restructuring of Córdoba's Provincial Reform Loan – Original and Amended Policy Conditionality

Policy	Original Condition	Amended Condition
Public Finance		
Fiscal Targets	*Second Tranche* Current account surplus of at least 6% of current revenues.	*Second Tranche* Meet the quarterly targets of the 2002 PFO bilateral agreement.
	Overall deficit not greater than $124 millions.	Meet the quarterly targets of the 2002 PFO bilateral agreement, including a reduction in its overall deficit of at least 50 percent.
	Stock of debt no greater than 70% of current revenues.	Signing and legislative approval of the 2003 PFO bilateral agreement.
	Third Tranche Current account surplus of at least 7% of current revenues.	*Fourth Tranche* Meet the quarterly targets of the 2003 PFO bilateral agreement.
	Overall deficit not greater than US$110 millions if release is in 2001, or US$96 million if in 2002, or US$78 thereafter.	Waived (deficit targets covered under the 2003 PFO bilateral agreement).
	Stock of debt no greater than 70% of current revenues.	Waived (debt targets covered under the 2003 PFO bilateral agreement).

Policy	Original Condition	Amended Condition
Public Finance (cont.)		
Provincial Bank of Córdoba (BPC)	*Second Tranche* Winning private sector bidder has been chosen by the Province to be awarded ownership of at least 51% of the BPC's capital stock.	*Second Tranche* (i) BPC has employed a consulting firm to conduct a comprehensive financial, operational and institutional diagnostic; (ii) the Central Bank has provided to BPC preliminary guidance on adjusting and carrying out the Regularization and Financial Strengthening Plan; and (iii) BPC has initiated a process to employ a firm to manage its residual (bad) assets. *Fourth Tranche* (i) BPC has submitted to the Central Bank a revised Regularization and Financing Plan based on the results of the diagnostic of an external firm and recommendations of the Super-Intendancy of Banks. (ii) The Central Bank has approved the revised Plan and BPC is implementing the Plan; and (iii) A firm has been selected and initiated operations to manage BPC's residual assets.
Electric Company (EPEC)	*Second-Tranche* Winning private sector bidder has been chosen by the Province to be awarded either: i) a concession to exercise full managerial and operational control of EPEC; ii) ownership of at least 51% of the EPEC's capital stock; or ii) a combination of concession and majority stock. a) A power sector regulatory public agency established; and b) it issues norms on: i) price and standards for distribution companies; ii) the price and fees of the transmission company; and iii) subsidies, including criteria for the distribution of the Tariff Compensation Fund.	*Second-Tranche* (i) The legislature has approved new by-laws that provide for EPEC to enter into periodic performance contracts with the Province. ii) Concession contracts have been granted to at least 50% of the private electric cooperatives registered in the Province; (iii) A special environmental unit has been established and fully staffed. a) A fully functioning power sector regulatory public agency created, staffed, and operating; and b) it issues norms on: i) subsidies, including criteria for the distribution of the Tariff Compensation Fund; ii) <u>has prepared a plan</u> to gradually adjust the structure of EPEC's electricity tariffs to the structure originally designed to be applied after EPEC privatization (<u>norms for distribution companies and transmission company waived</u>). *Fourth Tranche* (i) The environmental unit of EPEC has completed an environmental assessment and prepared a time-bound action plan to implement mitigating measures; (ii) The regulatory agency is implementing a plan to gradually adjust the structure of EPEC's electricity tariffs and has issued regulations on service obligations in the power sector; (iii) EPEC has signed a performance contract to improve its operational performance; and (iv) Concession contracts have been granted to all private electric cooperatives registered in the Province.

Policy	Original Condition	Amended Condition
Public Finance (cont.)		
Tax Administration	*Third Tranche* Provincial taxes to increase at least 2% with respect to 1999.	*Fourth Tranche* Provincial gross receipts tax (*Ingresos Brutos*) increased by at least 2% more than the national value-added tax (IVA) with respect to 1999.
	Municipal Fiscal Plans are being implemented by at least 20 municipalities.	(i) At least 20 municipalities have been grouped into regional entities for purposes of providing tax collection services and other core public services; and (ii) The Province has prepared a program to provide training to said municipalities and communes on tax collection and the provision of core public services.
	At least 20 municipalities are implementing cadastre modernization plans.	(a) The Province has entered into cooperation agreements with at least 20 municipalities for cadastre harmonization; (b)The Province has prepared a program to provide training to said municipalities on cadastre harmonization activities.
Health		
Provincial Health Insurance for the Poor	*Third Tranche* A pilot universal public health insurance scheme has been implemented in a limited geographical area for at least four months. Such pilot has been formally evaluated and an action plan has been prepared.	Waived.
Public Hospitals	*Third Tranche* Public hospitals: (a) registers patients without heath insurance into the provincial database; (b) bill 100% of patients with insurance coverage; and (c) collects at least 40% of those amounts.	*Fourth Tranche* Public hospitals: (a) registers patients without heath insurance into the provincial database; (b) bill 100% of patients with insurance coverage; and (c) collects at least 15% of those amounts.
	Two independent studies have been conducted to assess potential discrimination of patients without health insurance in public hospitals.	One independent study has been conducted to assess potential discrimination of patients without health insurance in public hospitals.
	(a) A study has been conducted to assess budget planning in public hospitals; and (b) the Province has formally approved a demand-based plan budget planning to be implemented in all public hospitals.	(a) A study has been conducted to assess budget planning in public hospitals; and (b) the Province has prepared an action plan for implementing a demand-based plan budget planning to be implemented in all public hospitals.

Policy	Original Condition	Amended Condition
Education		
Student / Teacher Ratio	*Third Tranche* Student-teacher ratios of no less than 24:1 for EGB I and II, 15:1 for secondary level (*Ciclo Básico Unificado*); and no less than 28:1 for the upper cycle in secondary schools (*Ciclo de Especialización*) in urban areas.	*Third Tranche* Student-teacher ratios of no less than 28:1 for upper cycle for secondary schools (*Ciclo de Especialización*) in urban areas. *Fourth Tranche* A time-bound action plan has been prepared to attain a student-teacher ratio of no less than 24:1 for EGB I and II, and 15:1 for secondary level (*Ciclo Básico Unificado*); and no less than 28:1 for the upper cycle in secondary schools (*Ciclo de Especialización*) in urban areas.
Teachers Absenteeism	*Third Tranche* Teachers' absenteeism is equal or less than 80% relative to 2000.	*Fourth Tranche* Teachers' sick leave absenteeism is equal or less than 80% relative to 2000.
Test Scores	*Third Tranche* (a) Scores from national standardized testing system (ONE) are disseminated; and (b) such scores are compared against those from member countries of the Organization for Economic Co-operation and Development (OECD).	*Fourth Tranche* (a) Scores from national standardized testing system (ONE) are disseminated (comparison against those from OECD member countries waived).

7.2. Rating the Outcome of Projects with Formally Revised Objectives:

As noted earlier, the operation's development objectives—i.e., to promote an efficient and responsive delivery of public services within fiscally sound policies—remained unchanged at restructuring. While the operation has largely met its development objectives, some of the key outcome targets as operationalized by the loan's policy conditions were formally revised at restructuring to reflect the macroeconomic and social changes that resulted from the economic collapse of December 2001. Thus, the operation's overall outcome rating has been assessed against both the original and revised key outcome targets, in accordance with the Harmonized Evaluation Criteria for ICR and IEG Evaluations and the new ICR guidelines issued in August 2006.

Assessment of outcome with respect to original key outcome targets: ***Unsatisfactory***. Although the operation has clearly succeeded in supporting Córdoba in its efforts to enhance efficiency and responsiveness in the delivery of public services within fiscally sound policies, some of the key outcome targets envisioned at approval were not achieved. Not surprisingly in view of the severity of the 2001-2002 crisis, the outcome targets that were not achieved relate primarily to public finances. Because of the substantial achievements in the areas of public administration, health, education and social protection, the operation is rated 'Unsatisfactory' instead of 'Highly Unsatisfactory.' The operation's achievement with respect to the key original outcomes can be summarized as follows:

A. Public Finances: Several key of the original conditions were not met, including:

- *Fiscal targets*: The original fiscal target regarding the debt stock calling for a ratio not greater that 0.7 of current revenues was not met. In 2005, Córdoba's debt stock represented almost twice the original target at 134.5 percent of current revenues, in large part due to the peso devaluation with respect to the US dollar. Although with delays, the province met the remaining original fiscal targets that called for a current account surplus higher than 9 percent of current revenues and overall deficit of less than $78 million, as Córdoba's fiscal accounts for 2005 showed a current account surplus equivalent to 9.3 percent of current revenues and an, although modest, an overall surplus (see Table 1).
- *Increased private sector participation*: The privatization of the provincial bank and the concession of the electricity company were not met due to the unfavorable macroeconomic conditions and the dismal investment climate. The two entities, however, have made progress toward enhancing their operational performance.
- *Municipal finances:* The original conditions calling for the implementation of municipal fiscal plans and cadastre modernization in 20 municipalities were not achieved, mainly due to the cancellation of the IADB operation that provided technical and financial support for these activities.

B. Public Administration: All original outcomes were achieved or exceeded.

C. Social Sectors: All original key outcomes were achieved or exceeded, with the exception of:

a. Health: While some health-sector conditions were modified at restructuring, the changes represented mainly marginal adjustments to the operation's original outcomes. The most notable exception was the waiver given to the implementation of a pilot health insurance program for the poor (see Table in Section H). However, although the pilot program was not implemented, Córdoba has continued to make progress toward expanding health coverage among all socio-economic sectors of the population under the Integrated Provincial Health System (*Sistema Integrado de Salud Provincial)* that received legislative approval in 2003. In addition, APROSS (formerly IPAM) does not regularly publish its findings on health care quality, although it reportedly plans to begin in 2007.

b. Education: At restructuring, some of the original outcomes were modified to address technical aspects identified during implementation (see Table in Section H). Thus, except for the partial implementation of the human resources management system that is addressed below, there were no major deviations from key original outcomes.

c. Social Protection: All original outcomes were achieved or exceeded.

Assessment of outcome with respect to revised key outcome targets: *Satisfactory*. All conditions of the restructured second and third tranche were met and the corresponding tranches were disbursed. Although the fourth tranche was cancelled in agreement with the government as part of the negotiations of the new CAS envelope, all but three of its conditions were also met. Two of the conditions that were not met are being implemented and their achievement is expected, one was partially implemented and a fourth was not met but will be reportedly implemented during 2007. Specifically:

- *Obtaining central bank approval of the restructuring plan of the provincial bank:* The central bank and the province are still negotiating the terms of the US$30 million recapitalization package; thus, this condition was not met. However, under new management the provincial bank has taken important steps toward enhancing the competitiveness of the institution. In addition, a private firm has been managing residual assets since 2004.

- *Improving human resources management:* The implementation of the human resources management system based on a single teacher file (*Legajo Único Electrónico*) is well advanced, including teachers in responsible for approximately 59 percent of the student population and 67 percent of the schools. Its completion is anticipated for 2007. Thus, this condition was partially met.
- *Gradual increase in electricity tariffs:* While Córdoba is among the provinces that have raised electric tariffs to, albeit partially, reflect higher costs, these increases have been insufficient to ensure EPEC's financial sustainability over the medium and long term, as indicated by the lack of substantial improvement in EPEC's financial position with respect to 2000. Thus, this condition was partially met.
- *IPAM's regular issuing of findings on health care quality:* Although APROSS (formerly IPAM) conducts periodic surveys to monitor health care quality, findings are not issued on a regular basis, as required by fourth-tranche conditionality. APROSS expects to begin publishing these findings regularly during 2007. This condition was not met.

Weighted Overall Project Outcome: *Moderately Satisfactory*. Weighing the operation's ratings with respect to original and revised objectives based on the share of actual disbursements before and after the revision took place renders an overall outcome of Moderately Satisfactory, as shown on Table 7.2.

Table 7.2. Rating of Project Outcome Against Original and Revised Key Outcomes

Steps	Against Original Key Outcomes	Against Revised Key Outcomes	Overall Rating	Comments
1. Rating	**Unsatisfactory**	**Satisfactory**	--	Several **original key outcomes** were not achieved, of which the most notable are: ▪ Debt stock target ▪ Privatization of provincial bank ▪ Concession of electricity company ▪ Implementation of plans by municipalities ▪ Pilot health insurance program All **revised key outcomes** were achieved, except for: ▪ Central Bank's approval of BPC restructuring plan is still pending ▪ Human resources management system for education is still under implementation ▪ Increases in electricity tariffs have been insufficient to offset rising costs ▪ APROSS (formerly IPAM) does not issue findings on health care quality on a regular basis
2. Rating value [1]	**2**	**5**	--	
3. Weight	**45%**	**55%**	**100%**	US$103 million and US$115 million respectively out of US$228 million.
4. Weighted value (2) x (3)	**0.9**	**2.75**	**3.65**	
5. Final rating (rounded)	-	-	**Moderately Satisfactory**	PDO were met. Although some key outcomes were lowered, the operations' restructuring allowed for the successful implementation of needed reforms that have had a substantial impact on service delivery and public resource management.

[1] The values corresponding to each rating are: Highly Satisfactory = 6, Satisfactory = 5, Moderately Satisfactory = 4, Moderately Unsatisfactory = 3, Unsatisfactory = 2, and Highly Unsatisfactory = 1.

MAP


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BOLIVIA
PARAGUAY
BRAZIL
CHILE
URUGUAY
PACIFIC OCEAN
ATLANTIC OCEAN
JUJUY
San Salvador de Jujuy
Salta
SALTA
FORMOSA
Formosa
CHACO
Tucumán
TUCUMAN
SANTIAGO DEL ESTERO
Santiago del Estero
Resistencia
Corrientes
Posadas
MISIONES
CORRIENTES
CATAMARCA
Catamarca
LA RIOJA
La Rioja
SANTA FE
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Mar del Plata
Bahia Blanca
NEUQUÉN
Neuquén
RIO NEGRO
Viedma
Puerto Madryn
Golfo Nuevo
Rawson
CHUBUT
SANTA CRUZ
Río Gallegos
FALKLAND ISLANDS (MALVINAS)
A DISPUTE CONCERNING SOVEREIGNTY OVER THE ISLANDS EXISTS BETWEEN ARGENTINA WHICH CLAIMS THIS SOVEREIGNTY AND THE U.K. WHICH ADMINISTERS THE ISLANDS.
Ushuaia
TIERRA DEL FUEGO
ARGENTINA
PROVINCE AND CITY OF CORDOBA
SELECTED CITIES
PROVINCE CAPITALS
NATIONAL CAPITAL
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
0 100 200 300 400 500 600 KILOMETERS
0 100 200 300 400 Miles
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