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INTER-AMERICAN INVESTMENT CORPORATION

**ARGENTINA**

**IDB GROUP COUNTRY STRATEGY  
2016–2019<sup>1</sup>**

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<sup>1</sup> This strategy period ends on 30 December 2019.

superseding and replacing the original version.

## CONTENTS

### EXECUTIVE SUMMARY

I.	COUNTRY CONTEXT .....	3
II.	THE IDB GROUP IN ARGENTINA .....	5
III.	PRIORITY AREAS .....	9
A.	Business climate improvement .....	10
B.	Strengthening of private-sector integration and insertion into value chains .....	16
C.	Poverty and inequality reduction .....	19
D.	Crosscutting areas of action .....	25
IV.	INDICATIVE LENDING FRAMEWORK .....	25
V.	STRATEGY IMPLEMENTATION .....	26
VI.	RISKS .....	27
	Annex I: Country Strategy with Argentina Results Matrix .....	29
	Annex II: Financial Scenario for Sovereign Debt 2016-2019 US\$ Millions .....	32
	Annex III: Main Economic and Social Indicators .....	33
	Annex IV: Active Portfolio of Sovereign-Guaranteed Loans .....	34
	Annex V: Sector Distribution of the Sovereign-Guaranteed Portfolio .....	35
	Annex VI: Active Portfolio of Non-sovereign Guaranteed Loans .....	36
	Annex VII: Regional and Provincial Gaps (“Original” and “Alternative”) by Dimension of Development .....	37
	Annex VIII: Management’s Response to the Country Program Evaluation: Argentina 2009-2015 .....	38
	Annex IX: DEM .....	43

### ELECTRONIC LINKS

- [Development challenges for Argentina](#)
- [Portfolio report](#)
- [Consultation with civil society](#)
- [Coordination with other donors](#)
- [Government Development Plan](#)
- [Fiduciary technical note](#)

## EXECUTIVE SUMMARY

Economic and social context	Argentina's new government administration has made a clear departure from the country's development policies and strategies of recent years. The incoming administration moved quickly to create a single, unified exchange rate and eliminate restrictions on capital flows. An agreement was reached with holdout creditors, allowing the country to emerge from technical default and regain access to the international credit markets. The government is implementing a strategy of gradual fiscal consolidation over a period of four years to eliminate the primary deficit, and the central bank has formally begun to transition toward a system of inflation targets. Argentina has been exhibiting high levels of poverty and inequality since the 2001 crisis.
The IDB Group in Argentina	The Bank's country strategy with Argentina for the 2012-2015 period prioritized interventions in the Norte Grande region and the Buenos Aires conurbation. Its objectives were: (i) alleviation of obstacles to growth in the Norte Grande region; (ii) social and economic inclusion of the population, focusing on both geographic areas; and (iii) urban sustainability and habitat improvement. Approvals included 15 sovereign-guaranteed loan operations for a total of US\$2.614 billion and 28 non-sovereign guaranteed loan operations for a total of US\$325.1 million.
Priority areas	The country strategy with Argentina for the 2016–2019 period will help to redirect the economy, with the private sector becoming the main driver of economic development and leading to faster growth, greater job creation, and reduced social inequalities. The IDB Group intends to work on three strategic priorities that will inform both sovereign-guaranteed and non-sovereign guaranteed interventions: (i) business climate improvement; (ii) strengthening of private-sector integration and insertion into value chains; and (iii) poverty and inequality reduction. While the country strategy will support a considerable number of interventions at the national level and will provide overall support to help improve the quality of public management at the provincial level, interventions will continue to focus on Norte Grande and the Buenos Aires conurbation, where income and sector development gaps continue to be significant. The Belgrano Plan will be supported by developing infrastructure and access to basic services, as well as by reducing poverty in the Norte Grande region. In the Buenos Aires conurbation, the strategy will support the components of the Pobreza Cero [Zero Poverty] plan, particularly interventions in early childhood development and improvement of water and sanitation services.
Lending framework	Approvals for the period are projected at US\$6 billion, including regional projects already identified with other countries, subject to the availability of Bank financial capital. This figure will be augmented by resources to be contributed by the IIC for private sector projects.

Risks	The main risks affecting implementation of the country strategy are: (i) macroeconomic risks associated with the weak external context and the relative success of the macroeconomic stabilization plan; (ii) risks related to the business climate, particularly regarding the materialization of investments; and (iii) portfolio execution risks arising from the institutional weaknesses of subnational governments.
Strategy validity period	The country strategy with Argentina for the 2016-2019 period will be in effect from its approval on 16 November 2016 until 30 December 2019.

## I. COUNTRY CONTEXT

- 1.1 **Argentina's new government administration has made a clear departure from the development policies and strategies of recent years.** The new framework is based on restoring the role of the private sector as the main driver of development, building a more efficient and transparent State to support this growth, and breaking with the policy of global isolationism, both economic and political, that characterized the country over the past decade. The incoming administration has made significant progress in its transition toward a policy framework better suited to macroeconomic stability, sustainable growth, and poverty reduction. Similarly, it has made strides in rebuilding credible statistics for inflation, social indicators, and economic activity levels.
- 1.2 **The implementation of this new vision began under extremely complex macroeconomic conditions that had been rapidly deteriorating in recent years and by late 2015 had become unsustainable.** Economic activity stagnated between 2012 and 2015 (growing at an average annual rate of 0.2%, according to INDEC),<sup>2</sup> compared to a 6.4% average annual growth rate over the 2003-2011 period. According to INDEC, export volume fell by 4.8% (average annual rate) in the 2012-2015 period. In 2015, the fiscal deficit was close to 7% of GDP, and annual inflation ranged from 25% to 30% (according to provincial statistics).<sup>3</sup> The external sector was subjected to multiple trade and foreign exchange restrictions introduced in the preceding five years to sustain external liquidity and manage the exchange rate in a context of limited access to external financing, declining exports, and a growing exchange rate lag that hindered economic growth.
- 1.3 **The new administration moved quickly to create a unified exchange rate and eliminate restrictions on capital flows. It reached an agreement with the holdout creditors, allowing the country to emerge from technical default and regain access to the international credit markets at a reasonable cost.** As a result, the exchange rate in relation to the US dollar initially depreciated by roughly 50% and then settled in the AR\$15 range; exporters began to normalize their business activities; and debt was issued in the international markets to pay the holdouts and partially finance the 2016 fiscal deficit. Standard & Poor's upgraded the country's long-term foreign currency debt rating from SD (selective default) to B-, and the other rating agencies followed suit.
- 1.4 **The government is implementing a strategy of gradual fiscal consolidation over a period of four years to eliminate the primary deficit while reducing tax distortions and investing in infrastructure to foster long-term growth.** The planned consolidation includes a reduction in total public expenditure (27% of GDP in 2015 at the national public sector level versus 15% in 2003) and in the national tax ratio (26.9% of GDP in 2015 versus 16% in 2003). One of the most dynamic expenditure components was represented by the energy and

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<sup>2</sup> The bibliographic quotes are referenced in the Country Development Challenges (CDC) document for Argentina.

<sup>3</sup> Inflation measured using the CPI for the Autonomous City of Buenos Aires (CABA) and for the province of San Luis, which INDEC suggested using until the new index for the Buenos Aires metropolitan area is presented.

- transportation subsidies, which went from 1.1% of GDP in 2006 to 4.0% of GDP in 2014. In 2016, the national government began to adjust the rates for public services, bringing rates more in line with costs and reducing subsidies. This adjustment process was subjected to some judicial constraints that limit the potential savings in 2016 to approximately 1.3% of GDP. For 2016, the primary fiscal deficit is projected to amount to 4.8% of GDP. The country's primary fiscal challenges include sustainability of the social security system in view of the rapid growth of retirement expenditures, which have gone from 4.5% of GDP in 2006 to an estimated 9% of GDP in 2016 (according to the 2017 budget bill) and are projected to reach 9.9% of GDP in 2017.
- 1.5 **The central bank reinstated price stability as the primary goal of monetary policy and has formally begun to transition into a system of inflation targets, which will be fully operational by January 2017 and is aimed at bringing inflation down to 5% per year by 2019.** Accordingly, the new administration has started to formally migrate toward this policy framework, using interest rates as its main instrument. In addition, critically important efforts have been made to imbue INDEC with greater transparency and rebuild its credibility. Thus, INDEC has already reported a new, official consumer price index (CPI) for May and June, with monthly inflation rates of 4.2% and 3.1% respectively. CPI records for CABA show that inflation rose from 2% in November 2015 to a monthly average of 4.4% between December 2015 and April 2016. This is attributable to the peso's depreciation being transferred to prices, the impact of the price adjustments for public services, and the delayed effects of the 2015 monetary expansion. However, the new monetary policy has started to bear fruit in the second half of 2016, slowing inflation down to a monthly average of 0.7% in July and August. As of September, market expectations (LatinFocus) are for inflation to decline to a yearly rate of 19.8% in 2017.
- 1.6 **Argentina faces the challenging task of increasing both short- and long-term growth.** The GDP-per-capita gap between Argentina and the United States is now 45%, compared to 28% in 1960. Argentina has a combined problem of low productivity growth (annual average of 0.4% for the 1999-2014 period) and low capital-per-worker growth (average investment equal to 18.9% of GDP for the 2003-2013 period).
- 1.7 **Argentine exports exhibit low secular dynamism and limited structural transformation.** In 2013, the country's export structure by major sector had not changed with respect to 1990. Argentina has become increasingly less consequential in global trade. Its share of global exports declined from more than 0.6% in 1962 to less than 0.4% in 2013, while Brazil expanded its share from slightly more than 0.4% in 1962 to 1.3% in 2013.
- 1.8 **Argentina has had high levels of poverty and inequality since the 2002 crisis.** The earnings in the lowest three deciles were one third of the earnings in the highest decile in 2013, and the GINI index was 0.423 in the second half of 2014, higher than the global average for this indicator (0.39 according to the World Development Indicators).<sup>4</sup> The percentage of the population with unmet

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<sup>4</sup> Estimated by CEDLAS, <http://sedlac.econo.unlp.edu.ar/esp/estadisticas-detalle.php?idE=18>.

basic needs was 25.8% in 2013.<sup>5</sup> New measurements by INDEC show that the national poverty rate is 32.2% and that 6.3% of the population is indigent. In the provinces of the Norte Grande region and in the Buenos Aires conurbation, there are significant gaps in terms of inequality and most indicators of social and economic development, particularly water and sanitation, health, and gender and diversity, along with high poverty rates (35.8% and 40.1% in the Northeast and Northwest regions, respectively) (see Annex VII and CDC for more details). The government has implemented poverty containment policies, such as refunding VAT paid on food purchases by retirees and beneficiaries of social plans and expanding the Universal Allocation per Child program (at a fiscal cost of 0.23% of GDP).

- 1.9 **The country faces external and internal constraints on growth and on the implementation of policies in the short term.** These constraints include the slowdown in the economies of Argentina's main trading partners (especially Brazil), the end of the commodities supercycle, the central government's minority position in Congress, and a complex federal system that includes a majority of governors from opposition parties.

## II. THE IDB GROUP IN ARGENTINA

- 2.1 **The IDB Group country strategy with Argentina for the 2012-2015 period.<sup>6</sup>** The 2012-2015 country strategy prioritized interventions and resources with a geographic focus on two critical areas: the Norte Grande region and the Buenos Aires conurbation (without excluding interventions in other geographic areas). The strategy's objectives were: (i) alleviation of obstacles to growth in Norte Grande; (ii) social and economic inclusion of the population, focusing on both regions; and (iii) urban sustainability and habitat improvement, with a particular focus on the Buenos Aires conurbation.
- 2.2 **During this period, which in practice lasted 3 years,<sup>7</sup> 15 sovereign-guaranteed loan operations were approved for a total of US\$2.614 billion.** Six of these operations (for US\$1.33 billion) related to programs established through Conditional Credit Lines for Investment Projects (CCLIPs). In addition, an emergency loan operation for US\$20 million was approved in response to floods during the transition period from January 2016 to 30 June 2016. Disbursements totaled US\$3.736 billion and net capital flows (2013-2016)<sup>8</sup> were positive, totaling US\$505 million, while cash flows were negative and amounted to US\$952 million. Approvals included US\$600 million in the area of transportation, US\$580 million in water and sanitation, US\$480 million in education, US\$474 million in private sector development, US\$450 million in urban development, and US\$50 million in environment and natural resources. The portfolio has an average age of 49 months from signing: 19% of the projects

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<sup>5</sup> Estimated by CEDLAS on the basis of the Continuous Household Survey (EPH). <http://sedlac.econo.unlp.edu.ar/esp/estadisticas-detalle.php?idE=17>. The unmet basic needs index is used instead of percentage of population living below the poverty line due to uncertainty as to the level of consumer prices.

<sup>6</sup> Strategy approved on 12 December 2012.

<sup>7</sup> 12 December 2012 to 12 December 2015.

<sup>8</sup> Figures as of 30 June 2016.

- are less than two years long, 29% are 2 to 4 years long, 18% are 4 to 6 years long, and 34% are longer than 6 years.
- 2.3 **The technical cooperation operations approved (29) totaled US\$12.0 million** and were concentrated in the areas of institutional capacity of the State (US\$5 million); social protection and health (US\$1.8 million); environment, natural resources, and disaster risk management (US\$1.6 million); transportation (US\$1.2 million); water and sanitation (US\$1 million); and private sector development (US\$470,000). Two GEF operations were approved for US\$16.1 million in climate change and energy efficient low-income housing.
- 2.4 **During this period, 28 non-sovereign guaranteed operations were approved for a total of US\$325.1 million**, including a loan for US\$130 million to improve road infrastructure and safety, 23 loans under four lines of credit for US\$173.3 million from the Trade Finance Facilitation Program, three loans for US\$21 million in the areas of agriculture and private sector development, and one loan for US\$800,000 from the MIF. The MIF also financed four nonreimbursable technical cooperation operations for a total of US\$700,000 on issues of financial inclusion, gender equality in education, and sustainable agriculture.
- 2.5 The financing was implemented essentially through CCLIPs and multiphase operations, and was sectorally and geographically consistent with the Bank's country strategy. The technical cooperation operations primarily supported the preparation and execution of the loan operations and results-based management through PRODEV.

#### **Main outcomes in the framework of the country strategy for 2012-2015**

- 2.6 **The main outcomes have to do with improved access to basic infrastructure:** (i) road transportation: improved connectivity in the poorest areas through 962 km of road construction, including new, rehabilitated, and upgraded roads, in the Norte Grande region and 310 km of expanded or rehabilitated integration corridors elsewhere in the country;<sup>9</sup> (ii) railroad transportation: reduction in effective travel time between Constitución station (Buenos Aires) and the city of La Plata from 80 minutes to 63 minutes;<sup>10</sup> (iii) water and sanitation: greater access to and improvement of water service for 250,248 households,<sup>11</sup> and delivery of new or improved sanitation services to 110,000 households;<sup>12</sup> (iv) rural and agricultural development: strengthening of agricultural sector competitiveness through the improvement of 474 km of rural roads;<sup>13</sup> upgrade of 96,252 hectares by installing irrigation and drainage, benefiting 10,349 producers,<sup>14</sup> and implementation of 103 innovative production chain initiatives,

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<sup>9</sup> Road work was performed under the following loan operations: 14.04 km under loan operation AR-L1144; 80.19 km under loan operation AR-L1133; 179.05 km under loan operation AR-L1131; 989.35 km under loan operation AR-L1014; and 161.3 km under loan operation AR-L1045.

<sup>10</sup> Loan operation AR-L1158 financed 98 km of overhead lines over the railway tracks and the design and implementation of a new railroad signage and safety system.

<sup>11</sup> Five potable water systems built or rehabilitated, comprising 149 km of aqueducts and 143 km of water networks.

<sup>12</sup> Two wastewater treatment systems rebuilt or rehabilitated, comprising 15 km of collection networks and 137 km of sewer networks.

<sup>13</sup> Loan operation AR-L1120 benefiting 14,700 households.

<sup>14</sup> Loan operation AR-L1120.

benefiting 734 producers;<sup>15</sup> and (v) energy: greater access to public energy services through the construction of 1,208 km of extra-high voltage transmission lines, benefitting close to 6,600,000 people.<sup>16</sup>

- 2.7 **Strengthening of innovation, tourism, and urban development infrastructure and institutional capacity:** (i) technological innovation: 196 researchers joined research projects, 384 fellowship recipients received training in priority technology areas,<sup>17</sup> and 2,700 producers were integrated into the value chain for small wine producers;<sup>18</sup> (ii) tourism development: 81 projects were financed in national parks in the Lakes Corridor and the Iguazú-Misiones Corridor, resulting in a 106% increase in visits, and 117,454 residents of the province of Salta were provided solid waste disposal systems, 65 km of highways were upgraded and paved, and 19 wineries were set up along the wine route, contributing to a 143% increase in visits; and (iii) urban development: 42,750 lots were legalized, the urban layout was regularized, and basic services were made available in 100 urban settlements; 4,481 households were provided basic infrastructure, services, community facilities, and housing improvements in the city of Rosario, and 1,040 households with irregular status had their status legalized.<sup>19</sup> All of these actions have helped to improve the living conditions of residents in these areas.
- 2.8 **Expansion of access to and coverage of social services:** (i) education: coverage was expanded by approximately 34,050 preschool slots, 23,640 primary school slots, and 45,780 secondary school slots by building and outfitting schools offering better learning opportunities (with laboratories, libraries, and sports areas) to the most vulnerable population groups (approximately 250 preschools, 71 primary schools, and 132 secondary schools were built);<sup>20</sup> (ii) health: the percentage of the population with high blood pressure without health insurance that has access to pharmacological treatment increased by 4 percentage points through financing of preventive exams for more than 300,000 individuals at cardiovascular risk and free delivery of the medications needed for their treatment;<sup>21</sup> and (iii) social protection: the conditional cash transfer program was expanded, ultimately resulting in the inclusion of 635,437 family units.<sup>22</sup>
- 2.9 **NSG operations complemented the actions of the Bank's public sector window.** Private sector competitiveness was strengthened through greater access to credit and through improved productive processes and infrastructure: (i) 350 businesses (300 of which were small and medium-sized enterprises (SMEs)) were provided support to perform foreign trade transactions through the

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<sup>15</sup> Loan operations AR-L1111 and AR-L1141.

<sup>16</sup> Through loan operations AR-L1079 and AR-L1095.

<sup>17</sup> Loan operation AR-L1141 financed 4,185 science and technology research projects and 1,524 technological modernization projects.

<sup>18</sup> Loan operation AR-L1063.

<sup>19</sup> These activities were financed through loan operations AR-L1019, AR-L1119, and AR-L1148.

<sup>20</sup> Through loan operations AR-L1108 and AR-L1152.

<sup>21</sup> Loan operations AR-L1020 and AR-L1142 financed the REDES and REMEDIAR programs. REDES funds provincial investment projects, setting performance targets that include actively searching for people at cardiovascular risk. REMEDIAR acquires medications on a decentralized basis and distributes them to all primary health care centers in the country, which in turn provide these medications in most cases to the uninsured population.

<sup>22</sup> Loan operation AR-L1118.

Trade Finance Facilitation Program (TFFP), mobilizing another US\$108.9 million in B loans;<sup>23</sup> (ii) 2,393 jobs were created by financing business expansion plans, access to credit was expanded to boost the productivity of 5,200 farmers, and US\$1.561 billion in foreign currency was generated in the food processing and agricultural inputs industries;<sup>24</sup> (iii) 150 producer groups and 810 individual producers were certified in Comercio Justo [Fair Trade],<sup>25</sup> a certification program that supports product visibility and competitiveness; (iv) road mobility and safety in the City of Buenos Aires was improved by financing investments that include underpasses as well as support for the development of road safety;<sup>26</sup> and (v) nominal energy capacity was increased by 6.3 MW, generating 24,672 megawatt-hours per year in clean energy, by financing a wind farm.<sup>27</sup> The employability of vulnerable population groups was also strengthened, along with the training of managers to support local development: (i) more efficient credit access was expanded to more than 9,000 individuals from the most vulnerable population groups through the microinsurance and microfinance sector;<sup>28</sup> (ii) the employability of 4,000 vulnerable youths was enhanced by supporting the implementation of innovative models for strengthening employability, socioemotional skills, and job placement;<sup>29</sup> (iii) 664 individuals with disabilities were integrated into the labor market by supporting programs to strengthen their job skills and encouraging their employment in specific positions in accordance with these skills;<sup>30</sup> (iv) training was provided to 1,319 national and regional government officials, and 240 local development managers and trainers were trained with the most renowned regional and international experts in territorial economic development.<sup>31</sup>

- 2.10 **Loan portfolio status.** As of 30 June 2016, the sovereign-guaranteed loan portfolio was comprised of 49 investment operations for a total of US\$7.886 billion, with an available undisbursed balance of US\$3.315 billion, primarily concentrated in the transportation (31%), water and sanitation (24%), urban development (11%), competitiveness and innovation (9%), rural development and environment (9%), education (6%), and energy (5%) sectors. In terms of non-sovereign guaranteed operations, the IIC has a US\$182.5 million exposure distributed in 14 loans, one guarantee, and one equity investment. There are also four uncommitted lines with various financial intermediaries under the TFFP to support foreign trade transactions. The MIF has seven technical cooperation operations in execution in the amount of US\$2.5 million in the areas of social inclusion, SME support, and value chains, and two social entrepreneurship projects for US\$1.9 million.

### **Lessons learned**

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<sup>23</sup> The lines of credit were opened with Banco de Galicia y Buenos Aires S.A., Banco Macro S.A., Banco Santander Rio, and Banco Supervielle.

<sup>24</sup> Through operations AR3870A-01, AR3884A-01, AR3906A-01, AR3897A-02, AR3870A-02, AR3963A-01, and AR3897A-03, AR-L1086, and AR-L1085.

<sup>25</sup> Operation AR-M1049.

<sup>26</sup> Through financing for AUSA, loan operation AR-L1166.

<sup>27</sup> Operation AR3915A-01.

<sup>28</sup> Operations AR-M1022, AR-M1043, AR-S1006, AR-M1066, and AR-M1068.

<sup>29</sup> Operations RG-M1231, AR-M1067, RG-M1210.

<sup>30</sup> Operation AR-M1055.

<sup>31</sup> Operation RG-M1149.

- 2.11 **The importance of using synergies between the private- and public-sector windows within the IDB Group**, given the weakness shown over the past five years in sector institutions and/or the weakness in their regulatory frameworks, discouraging private sector participation. These synergies will allow the Bank to provide a comprehensive response to the country's primary challenge, which is to restore the leadership role of the private sector in driving economic activity.
- 2.12 **The main lessons learned in the public window are:** (i) the importance of designing comprehensive strategies that allow the use of resources from different projects to augment the effects of the Bank's interventions; (ii) the use of CCLIPs, which make it possible to establish long-term objectives, build institutional capacity, and improve execution while at the same time orienting the technical cooperation in the context thereof for the preparation for future operations; (iii) the importance of geographic concentration, which makes it easier to focus efforts on specific regions, such as the Norte Grande region and the Buenos Aires conurbation, thus amplifying the Bank's impact; (iv) monitoring the project execution units jointly with the Office of the Chief of Cabinet and the Ministry of Treasury and Public Finance in order to monitor disbursements to enhance the level of project execution; and (v) the limited institutional capacity at the provincial and local levels hindered the execution of projects other than CCLIPs and multiphase programs, showing the need to carry out institutional strengthening programs at these levels of government for overall support purposes and/or to make individual Bank projects feasible.<sup>32</sup>
- 2.13 **From the standpoint of non-sovereign guaranteed operations**, the lessons learned are: (i) the IDB Group has the ability to play an important role in supporting the development of small and medium-sized enterprises even in the presence of adverse macroeconomic conditions; and (ii) it is important to keep an extensive network of cofinancing providers in place to replace those that run into problems and thus be in a position to continue to support highly feasible projects.

### **III. PRIORITY AREAS**

- 3.1 **Argentina's Government Plan focuses on four pillars:** (i) Pobreza Cero [Zero Poverty], which includes early childhood development, education, housing, employment, social protection, senior adults, rural areas, infrastructure, science, and SMEs; (ii) an integration agenda, aimed at reinserting Argentina into the international context and crafting an approach to the Pacific Alliance; (iii) uniting Argentine society around an improved democracy and an independent judicial system; and (iv) protecting Argentine society by fighting drug trafficking. The Government Plan places special emphasis on working on these pillars in the country's 10 poorest provinces, located in the Norte Grande region (which encompasses the Northeast of Argentina (NEA) and the Northwest of Argentina (NOA)), by implementing the Belgrano Plan. Each of these pillars is aligned with the UN Sustainable Development Goals, ensuring improvement in people's quality of life in conjunction with an agenda aimed at protecting the planet and the environment. Under Argentina's INDC and the 2030 Agenda for Sustainable Development (Sustainable Development Goals (SDGs)), "Argentina's goal is to reduce GHG emissions by 15% in 2030 with respect to projected BAU emissions

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<sup>32</sup> For more details, see OVE's Country Program Evaluation: Argentina 2009-2015 (RE-491-1), sections B and C of Chapter II on the Bank's program.

- for that year. The goal includes, *inter alia*, actions linked to: the promotion of sustainable forest management, energy efficiency, biofuels, nuclear power, renewable energy, and a modal shift in transportation.”
- 3.2 **The objective of the country strategy for the 2016–2019 period** is to support the redirecting of the economy, with the private sector becoming the main driver of economic development and leading to faster growth, greater job creation, and reduced social inequalities. The IDB Group will support the Government of Argentina through the Bank, the IIC, and the MIF, acting in coordination to maximize the impact of the interventions.
- 3.3 **This support involves a significant number of interventions at the national level and, in the case of the provinces, overall support to help improve the quality of public management. However, building on the successes of the previous country strategy (OVE, 2016), the IDB Group will continue to focus a significant portion of its interventions on the NEA and NOA provinces targeted by the Belgrano Plan and on the Buenos Aires conurbation.** Significant income and sector development gaps persist in these areas (see Annex VII). In the Norte Grande region, the Belgrano Plan will be supported by developing infrastructure and access to basic services as well as by reducing poverty. In the Buenos Aires conurbation, the IDB Group will support the components of the Zero Poverty plan, particularly interventions in the areas of early childhood development and improvement of water and sanitation services, with particular emphasis on habitat improvement.
- 3.4 **The country strategy for the 2016-2019 period is aligned with the Update to the Institutional Strategy 2010-2020 (UIS) and the IIC's Business Plan 2016-2019.** Accordingly, it calls for working on three strategic priorities that will inform both sovereign guaranteed and non-sovereign guaranteed operational activities: (i) business climate improvement; (ii) strengthening of private-sector integration and insertion into value chains; and (iii) poverty and inequality reduction.
- A. Business climate improvement<sup>33</sup>**
- 3.5 **Argentina's business climate does not favor investment or productivity.** The country is in 124th place in the World Bank's Doing Business ranking, below its expected position based on per capita income. According to the World Bank's World Enterprise Survey (WES), companies surveyed in Argentina in 2014 identified the tax burden, limited access to financing, and labor regulations as the main obstacles to doing business in the country.<sup>34</sup> This is compounded by a decade of macroeconomic imbalances, State inefficiency, infrastructure and energy shortcomings, absence of a disaster risk management strategy and climate change mitigation strategy, and high levels of insecurity.
- 3.6 **Limited access to financing is a significant constraint on investment and productivity (Sánchez and Butler, 2009; Auguste, Bebczuk, and Sánchez, 2013).** According to the World Bank's World Development Indicators, credit for the private sector in Argentina totaled on average 15.9% of GDP between 1990 and 2013, well below comparators such as Brazil (49.5%) and Chile (73.2%).

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<sup>33</sup> Chapter 3, section 3.2 of Argentina's CDC provides a detailed analysis of the issues discussed in this strategic area.

<sup>34</sup> The labor issue is discussed under the priority area of poverty and inequality reduction.

This situation is particularly restrictive for SMEs, which are forced to rely excessively on the availability of internal funding for expansion (Sánchez and Butler, 2009; Auguste et al., 2012). The capital markets are very underdeveloped; the market capitalization of listed firms is a modest 5.6% of GDP (as of 2012, the most recent World Bank figure), very far from the average for Latin America and the Caribbean (44%) and for Chile (118%). The funding deficit is associated with: (a) a low domestic savings rate;<sup>35</sup> (b) a long history of financial crises, changing rules, high inflation, and confiscation of financial assets; and (c) deficient functioning of the justice system for purposes of enforcing contract performance.<sup>36</sup> The reasons for limited financing to SMEs in particular have to do with: (a) high interest rates linked to information asymmetry and economies of scale on the part of banks when evaluating projects and processing credit applications; (b) SMEs' failure to comply with the requirements of financial institutions, particularly with regard to guarantees; (c) a high degree of tax informality among SMEs,<sup>37</sup> manifested in financial statements that do not properly reflect the true circumstances of the business and prevent an accurate assessment of risks (Ferraro, Goldstein, Zuleta, and Garrido, 2011).<sup>38</sup>

- 3.7 **Argentina exhibits inefficient management of public policies, adversely impacting productivity and investment as well as equity and inclusion.** This deficient management is associated with the growing presence of distortionary taxes, inefficiency in public expenditure and untargeted subsidies, and high transaction costs. This is evident at both the national and local government levels. According to the WEF's Global Competitiveness Report 2015-2016, Argentina is ranked 138th out of 140 countries in the government efficiency indicator. The taxes levied are also highly distortionary.<sup>39</sup> The allocation and management of public expenditures exhibit significant deficiencies, notably including untargeted subsidies and inefficient expenditure.<sup>40</sup> In 2014, energy,

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<sup>35</sup> Argentina's domestic savings rate was 20% of GDP over the 2003-2013 period, thus significantly lower than China's (50.3%) and South Korea's (33.8%), according to the World Development Indicators.

<sup>36</sup> The average rate of recovery during bankruptcy proceedings is a mere 25%, well below the rate in the OECD, for example (72%). (Doing Business, World Bank).

<sup>37</sup> The extent of tax informality in SMEs cannot be measured directly but can be approximated by looking at the number of unregistered employees as a percentage of total employment at SMEs (businesses with up to 200 employees). In the measurement taken in the second quarter of 2015, this figure was 36.8% (INDEC – EPH). By comparison, unregistered employees in businesses with more than 200 employees totaled only 7%.

<sup>38</sup> For technical justifications and quantitative data, see paragraphs 3.134, 3.137, 3.138, and 3.139 of the CDC.

<sup>39</sup> The tax ratio increased from 20.3% of GDP in 2004 to 26.3% of GDP in 2015, to a large extent based on distortionary taxes, such as the tax on financial transactions (1.4% of GDP in 2014), which discourage financial intermediation; failure to adjust for inflation the parameters for determining individual income tax (2.6% of GDP in 2014), reducing the tax's progressivity; inability to adjust corporate income tax for inflation, punishing the more capital-intensive sectors and SMEs; taxes on gross earnings in the provinces, creating a very distortionary cascade effect by taxing intermediate sales (in 2014 this tax accounted for 5.6% of GDP versus 3.8% in 2010).

<sup>40</sup> Between January 2010 and December 2014, the number of national public sector employees rose by 20%. Source: Boletín Fiscal, Cuarto Trimestre de 2014 [Fiscal Bulletin: Fourth Quarter 2014]. MECON. In addition, between 2008 and 2013, the number of provincial government employees rose by 21%. As a result of this, personnel expenditure accounts for roughly 60% of the provincial expenditure, compared to 46% in 2008. Source: Dirección Nacional de Coordinación Fiscal de las Provincias [National Department of Fiscal Coordination of Provinces], MECON.

communications, and transportation subsidies accounted for 5.1% of GDP.<sup>41</sup> These subsidies lead to very substantial leakages toward less poor segments of the population and are therefore not justifiable from a redistribution standpoint.<sup>42</sup> The overall efficiency of public expenditure in Argentina in terms of providing quality of life, equity, poverty reduction, and a favorable business climate for the private sector is low in comparison to the international context. Along these lines, Argentina's relative situation in terms of speed and cost of formalities (transaction services) is highly unsatisfactory. The government quality deficits are repeated at the subnational level (FIEL, 2007). Part of the difficulties in the municipios responsible for managing cities in Argentina is related to their narrow powers and limited fiscal autonomy (IDB, 2006; Artana et al., 2012). Another challenge for urban management is the administrative fragmentation of the metropolitan areas, where the city's functional territory extends beyond a single municipio's jurisdiction into the jurisdictional territory of several municipios.<sup>43, 44</sup>

- 3.8 According to the WEF's Global Competitiveness Report 2015-2016, Argentina is ranked in 122nd place out of 140 countries in infrastructure quality, behind Latin American comparators, exhibiting considerable deficits in sectors such as transportation, logistics, and energy.** The greatest deficit is in the area of quality of electricity supply (where it is ranked 124th out of 140 countries). The overall scarcity of infrastructure is the result of many years of underinvestment, as pointed out by Castro, Lotito, and Szenkman (2015). In the decade of the 2000s, an average of 2.7% of GDP was invested in infrastructure, less than half the investment in the 1990s (5.6% of GDP).<sup>45</sup> Between 2003 and 2013, private-sector investment in infrastructure was a mere 0.7% of GDP, while 5.0% of GDP had been invested in the 1990s (Castro, Lotito, and Szenkman, 2015). This is significant due to the public sector's difficulty in financing investment in infrastructure. Auguste (2012) notes that the decline in investment in the last decade was the result of a model shift, as contracts were broken following the 2002 crisis, discouraging private investment. However, the increase in public investment was not enough to offset the withdrawal of private investment. Investment in infrastructure has largely been taken over, directly or indirectly, by the public sector, even though in some instances (such as telecommunications), service delivery is in the hands of private-sector companies. The government's increased share of investment has been coupled with distorted prices for many infrastructure services, which often involves transfers of funds from the government to the service providers in order to offset the deficit. These prices fail to cover the long-term marginal cost (Artana et al. (2009)). This is compounded by a deterioration of the regulatory institutions.

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<sup>41</sup> Calculated by the authors using data from MECON's Observatorio de Gasto Ciudadano [Observatory of Citizen Expenditures].

<sup>42</sup> It is estimated that 20% of the higher-income population appropriates roughly one third of the amount of these subsidies (Castro, Szenkman, and Lotitto, 2015).

<sup>43</sup> For technical justifications and quantitative data, see paragraphs 3.151, 3.153, 3.156, 3.157, 3.164 to 3.166, and 3.169 to 3.172 of the CDC.

<sup>44</sup> Lack of coordination can create serious problems in the delivery of public goods, as shown by CAF (2011) in the case of transportation in the Buenos Aires metropolitan area.

<sup>45</sup> Source: CIPPEC, based on Calderón and Servén (2010), CAF (2012), World Bank (2014), ECLAC (2014), and Ministry of Economy (2014). Investment in economic infrastructure includes spending on gross fixed capital formation in transportation, energy, telecommunications, and water and sanitation, but does not include privatizations, mergers, and acquisitions.

According to the Worldwide Governance Indicators produced by Kaufmann, Kraay, and Mastruzzi, in 1996 Argentina was ranked in the top 30% in regulatory quality as compared to the rest of the world's countries, but by 2013 the country had fallen into the bottom 20%.

- 3.9 **Argentina has deficits in transportation infrastructure and service delivery that result in a loss of competitiveness and affect the lower-income population.** Indicators of length of road and rail networks, percentage of paved roads, and road and port quality show levels below the expected figures in view of Argentina's income.<sup>46</sup> The country's long-distance transportation networks have standards of design dating from the 1960s that do not reflect current traffic speeds, in addition to being in poor condition due to lack of maintenance (Huici, 2015). The transportation system has capacity constraints, is in poor condition in key road corridors for foreign trade, and experiences congestion in the approaches to ports. Over the past decade, the heavily trafficked sections of the road network have been under intense pressure due to a substantial increase in agricultural cargo, and have not been subject to the investment needed to adapt them to the new circumstances. This translates into increased congestion and rising logistics costs for the main types of export cargo.<sup>47</sup> Passenger transportation in the Buenos Aires metropolitan area (AMBA) experiences congestion problems due to the fast growth of the level of vehicle ownership<sup>48</sup> and a deterioration in the quality of public transportation services, particularly rail services.<sup>49</sup> It is worth noting that multiple medium-sized cities in Argentina face similar challenges to AMBA's, although on a smaller scale. Subsidies to the transportation sector doubled from 2003 to 2013, while also showing a pronounced social and geographic inequity. Approximately 70% of the subsidies are aimed at urban passenger transportation in AMBA, under a system of transfers to private-sector operators that has become increasingly regressive.<sup>50</sup> The increase in congestion in large urban agglomerations has diminished the productivity of cargo distribution. According to the Cámara Empresaria de Operadores Logísticos [Business Chamber of Logistics Operators] (CEDOL), in 2005 each distribution vehicle made 10 daily deliveries, using 1.5 employees per unit. At present, as a result of lower traffic speeds and fewer parking possibilities,

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<sup>46</sup> In 2011, the length of road networks (as a percentage of arable land) in Argentina was 0.6% (World Development Indicators); in OECD countries the average was 16.5%, in Chile it was 5.9%, and in Brazil it was 2.2%. In 2012, the length of rail networks (as a percentage of arable land) in Argentina was 0.06% (World Development Indicators); in OECD countries the average was 0.23% and in Chile it was 0.41%. In 2012, the percentage of paved roads in Argentina was 32.2% (World Development Indicators). In 2014, the overall quality of infrastructure was assessed at 3.2 (on a scale of 1 to 7); for OECD countries the average was 5.3, for Chile it was 5.0, and for Uruguay it was 3.9. Port quality was assessed at 3.7 (on a scale of 1 to 7) in 2014 (World Development Indicators); for OECD countries the average was 4.9, for Chile it was 5.2, and for Uruguay it was 4.7.

<sup>47</sup> According to CIPPEC data based on information from the Cámara Empresaria de Operadores Logísticos [Business Chamber of Logistics Operators] (CEDOL), logistics costs increased by 35% from 2003 to 2013.

<sup>48</sup> According to CIPPEC data, private vehicles accounted for less than half of travel in 2003 and close to 60% of travel in 2013. In addition, traffic at the approaches to the city of Buenos Aires grew by more than 80% over the same period.

<sup>49</sup> Between 2003 and 2013, the number of paid railroad passengers fell by close to 40%, while the number of bus passengers grew by more than 30%. Part of the aforementioned drop is due to ticket payment evasion. Notwithstanding this, in 2013 the national government launched a program to rehabilitate and modernize metropolitan railways with a view to reversing this trend.

<sup>50</sup> CIPPEC (2013).

- daily deliveries have been reduced to six and the number of employees per unit has increased to two.<sup>51</sup>
- 3.10 **Argentina shows a growing mismatch between energy supply capacity and energy demand, leading to low service quality, the need to ration electricity and gas supply to the productive sector, and an energy trade deficit.** With regard to the electricity sector, the evidence collected in the World Bank's World Enterprise Survey for the year 2013 shows that Argentina is one of the countries with the largest number of power outages per month and that, furthermore, these outages are of relatively long duration and generate the highest production losses in a group of relevant comparators. Argentina is the country with the highest percentage of businesses (54.2%) that identify electricity as the biggest constraint on production. In addition, Argentina faces growing constraints in the hydrocarbon sector, especially gas. These constraints matter because close to half of the national gas consumption is for power generation purposes (Navajas, 2013). In the nonconventional renewable energy sector, the country has a large potential that is now thoroughly underexploited (wind and solar energy sources account for merely 1% of the electricity matrix). The energy deficit is associated with rate distortions that discourage investment and result in excessive consumption (Hancevic and Navajas, 2013; Castro, Szenkman, and Lotito, 2015). Gas price distortions have been accompanied by a decline in the productivity of gas fields and limited development of new significant discoveries. In the middle years of the past decade, the country had an energy trade surplus. In 2013, according to data from INDEC, Argentina's energy balance recorded a historic deficit of more than US\$6 billion.<sup>52</sup>
- 3.11 **The effects of climate change**, added to the country's limited capacity to manage natural disasters, have led to considerable losses in the productive sector stemming from factors including the destruction of infrastructure, the impact on labor, and the distribution of goods. In the 1970-2015 period, Argentina was affected by 97 large-scale disasters (EM-DAT, 2016): 93% were of hydrometeorological origin (floods and landslides due to heavy rains), affecting 14 million people and causing US\$10 billion in economic losses, and the remaining 7% were of geological origin (earthquakes and volcanic activity), affecting 110,000 people and causing US\$180 million in economic losses. More recently, floods occurring in the province of Buenos Aires in 2013 resulted in losses of around US\$1.3 billion, while the effects of the floods that occurred in the country's north in 2015-2016 are still being quantified.
- 3.12 **Insecurity affects businesses in Argentina both directly (theft, insurance and private security costs, loss of labor productivity due to employee victimization) and indirectly (through the job markets and human capital accumulation), impacting the business climate.** According to the WES, 33% of companies surveyed in 2010 experienced theft or vandalism over the preceding year, leading to losses equivalent on average to 2% of annual sales. Of those surveyed by LAPOP in 2014, 34% believe that insecurity is the country's most pressing problem. Confidence in the institutions responsible for citizen security is low: 50% of those interviewed for the 2012 LAPOP survey

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<sup>51</sup> For technical justifications and quantitative data, see paragraphs 3.231 to 3.235 and Annex 2 of the CDC.

<sup>52</sup> For technical justifications and quantitative data, see paragraphs 3.219 to 3.222 of the CDC.

believed that the police was involved in crime, while 30% had no trust in the criminal justice system (UNDP, 2014).

- 3.13 **Proposed actions.** It is proposed that the IDB Group focus its interventions on: (i) support for institutional strengthening initiatives that can help to improve the quality and efficiency of public management at the three levels of government, including strengthening of the central government, better targeting of expenditures, implementation of electronic governance, and better tax administration, and supporting regulatory change initiatives (including public-private partnerships (PPPs)) that promote development of the private sector; (ii) support for the transportation sector in investments, capacity-building, and development of regulatory frameworks to make PPPs possible that can help to: (a) expand capacity and enhance safety in road corridors and transportation infrastructure in general, with an emphasis on facilitating physical integration, and (b) enhance the capacity and quality of urban and suburban road, subway, and railway networks, maximizing IDB-IIC synergies; (iii) support for direct investments and PPPs, capacity-building, and development of regulatory frameworks that can help to: (a) expand power generation capacity, particularly through nonconventional renewable (wind and solar) energy in coordination with the IIC, (b) strengthen the power transmission system, particularly to facilitate the implementation of renewable energy projects and optimize the national electricity system, (c) enhance energy efficiency in view of the rate adjustment and in line with the Sustainable Development Goals, (d) implement energy integration projects; (iv) financial inclusion and support for SMEs, both direct and indirect through financial institutions, development of capital markets, and financing through value chains, as well as by fostering the guarantee system, with an emphasis on women-led SMEs and SMEs that promote environmentally sustainable practices; (v) fostering of environmentally sustainable solutions and support for climate change-related disaster risk management; and (vi) strengthening of the law enforcement institutions and their capacities, combining crime prevention and control interventions, with an emphasis on reinforcing the crime reporting and analysis systems.
- 3.14 **This priority area contributes to the UIS objectives** of strengthening the capacity of the State; providing inclusive infrastructure and infrastructure services; establishing smart institutional frameworks; and inserting firms into value chains. This area also contributes to the strategic priorities of the IIC Business Plan of supporting infrastructure development and supporting SMEs directly and through financial intermediaries. This priority area contributes to the three pillars of the Government Plan (Zero Poverty, the Belgrano Plan for the country's north, and the integration agenda), while addressing infrastructure, institutional strengthening, and financial development issues that the government includes as lines of action under those pillars.<sup>53</sup>

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<sup>53</sup> The Bank has an active portfolio of sovereign-guaranteed operations that is already significantly aligned with this priority area. Of the total portfolio, 40% of the operations (in terms of amount) contribute to business climate improvement objectives. There are four approved sovereign-guaranteed operations for US\$2.0 billion to improve road infrastructure, 90% of it in the Norte Grande region, which is the geographic focus of this country strategy (AR-L1014, AR-L1131, AR-L1133, and AR-L1114), and one non-sovereign guaranteed operation to upgrade road infrastructure in the Autonomous City of Buenos Aires (AR-L1166).

**B. Strengthening of private-sector integration and insertion into value chains<sup>54</sup>**

- 3.15 **The levels and profile of Argentina's integration into global trade and global value chains (GVCs) are unsatisfactory.** According to the World Bank's WDI, Argentina's share of global exports fell from 0.7% in 1962 to 0.4% in 2013, while Brazil's share grew from 0.4% to 1.2% over the same period. Argentina's share of global manufacturing exports (not including agribusiness) has hovered around 0.2% in the last decades. Furthermore, the country has a very low degree of trade openness.<sup>55</sup> Argentina participates in GVCs primarily via specialization in commodities or goods with little transformation that are exported for processing abroad. Meanwhile, the percentage of foreign value added in the country's exports is less than 20%, below the average for Latin America (23%), Asia (35%), and the European Union (almost 40%) (Blyde, 2014). Even in agriculture-based GVCs, the country's role is as a supplier of commodities and/or byproducts from the first stage of industrial transformation (Bisang et al., 2008), with some exceptions. It is also worth noting that, in recent years, the agribusiness sector was subject to negative incentives despite the sector's large share of exports (two thirds) and potential GVC linkages. The agricultural sector's production has been limited by tariffs and product quotas, adversely affecting investment and production decisions. For example, because of these negative incentives, in 2015 Argentina practically stopped exporting meat and wheat, two of the country's export staples for several decades.
- 3.16 **These inadequate integration levels and profiles are associated with high logistics costs, high transaction costs, shortcomings in ICTs and technological capacities of businesses, and inadequate trade policies.** Blyde (2014) estimates that, if Argentina's logistics infrastructure were upgraded to the average level of the European Union's infrastructure, the number of vertical subsidiaries involved in GVCs would increase by 12%, and one third of that upgrade would come from strengthening the infrastructure for information and communications technologies (ICTs).<sup>56</sup> The high transaction costs of foreign trade in Argentina also conspire against the country's insertion into GVCs. For example, while the average number of days to export in Argentina is 12 compared to 10.5 in the OECD and 17 in Latin America and the Caribbean, export costs are much higher in Argentina (US\$1,800 per container versus US\$1,300 per container in the region (Doing Business, World Bank)). Part of the problem stems from the existence of multiple agencies involved in foreign trade transactions and from the fact that each of these agencies tends to have its own procedures and administrative systems, forcing businesses to make multiple efforts, not always coordinated, in order to complete a foreign trade transaction. The productive, technological, and management capacities of local businesses are another obstacle to participating and scaling positions in the GVCs. The World Competitiveness report ranks Argentina in 115th place in number of suppliers and in 108th place in quality of suppliers in a universe of 140 countries. Until 2015, the country adopted increasingly protectionist trade policies (tariff,

<sup>54</sup> Chapter 3, section 3.3 of Argentina's CDC provides a detailed analysis of the issues discussed in this priority area.

<sup>55</sup> For technical justifications and quantitative data, see paragraph 2.52 of the CDC.

<sup>56</sup> Between 2007 and 2014, the country fell from 45th to 60th place in the World Bank's Logistics Performance Index (LPI). The lack of investments and of suitable regulatory frameworks is the main factor behind these trends (Castro, Lotito, and Szenkman, 2015).

non-tariff, and discretionary), discouraging insertion into GVCs.<sup>57</sup> Mercosur, the only regional integration framework in which Argentina participated, made little concrete progress in the last decade, in a context dominated by the creation of mega-regional trade agreements.<sup>58</sup>

- 3.17 **Argentina's export pattern contributes relatively little to the long-term outlook for growth (Sánchez and Butler, 2008).** Argentine exports are highly concentrated in a few companies (Albornoz et al., 2015; CERA, 2013) and on the initial segments of the global value chains (Blyde, 2014; Bisang, 2008). In addition, a marginally diversified export basket specialized in goods with relatively short quality chains limits the available technology frontiers and diminishes incentives to innovate. This impedes access to the productive, technological, and commercial knowledge transfer channels that operate within these forms of trade. The country's export pattern reveals a relatively limited capacity to grow by structurally transitioning toward new and more complex activities. Even in exports to China (the most dynamic destination), differentiated goods have a very limited share. This is unlike the case of other countries rich in natural resources (such as Australia, Canada, and New Zealand), which have succeeded in exporting differentiated products to the Asian giant (Castro, 2013). The lack of diversification and export complexity is associated with information failures regarding standards, demand profiles, terms of access, marketing channels, and potential clients, partners, or distributors in the purchasing markets (Artopoulos et al., 2011). This is compounded by an infrastructure and culture of quality that are insufficient for satisfying external market requirements for these products (Artopoulos et al., 2011, and Sánchez and Butler, 2005).<sup>59</sup>
- 3.18 **There are significant capacities to generate greater added value in exports of knowledge-based services and in exports based on natural resources.** Argentine exports of knowledge-based services went from US\$1.300 billion in 2004 to more than US\$6.800 billion in 2013, and the country's market share grew significantly in the major categories comprising this aggregate. However, exports of more knowledge-intensive services (such as knowledge process outsourcing or R&D,<sup>61</sup> engineering, or design services), where competition via costs is not as strong as in more routine activities, did not rise as rapidly. Argentina has significant capacities to generate domestic added value by exporting biotechnology R&D-intensive seed varieties based on molecular biology techniques (Marín et al., 2012 and 2014). The use of biotechnology for plant enhancement can lead not only to productivity gains but also to the development

<sup>57</sup> According to 2013 data from the World Trade Organization (WTO), the arithmetic mean of the MFN tariff went from 10.4% in 2006 to 11.4% in 2012. In addition, Argentina became the fourth most frequent challenger of antidumping measures among WTO members, and mechanisms designed to restrict foreign trade were common. Examples include the discretionary use of mechanisms such as the requirement for Declaraciones Juradas Anticipadas de Importación [Advance Sworn Import Statements] (DJAI), non-automatic import licenses, and restrictions on foreign currency access to pay for imports in the prevailing context of capital controls.

<sup>58</sup> For technical justifications and quantitative data, see paragraphs 3.306, 3.308, and 3.309 of the CDC.

<sup>59</sup> Sánchez and Butler (2005), "Measuring the Demand for Trade-Related Public Goods," Background Paper for Capability Building for Catching-Up, Industrial Development Report 2005, UNIDO, Vienna.

<sup>60</sup> For technical justifications and quantitative data, see paragraphs 2.48, 2.49, and 3.297 to 3.299 of the CDC.

<sup>61</sup> The statistics reflect a significant increase in exports of R&D services, but these exports primarily consist of clinical trials.

- of new plant or animal products with specific properties (neutraceutical products,<sup>62</sup> active ingredients for medications, etc.). However, this development has been limited to date, despite the fact that the country has the scientific abilities to bring it to fruition (Bisang et al., 2011).<sup>63</sup>
- 3.19 **Expenditure in research and development (R&D) is relatively low.** In 2012, R&D expenditure in Argentina amounted to 0.6% of GDP, less than in relevant comparators, with the deficit being primarily concentrated in the private sector.<sup>64</sup> The Encuesta Nacional de Dinámica de Empleo e Innovación [National Survey on Innovation and Employment Dynamics] (ENDEI) for 2010-2012 found that expenditure by businesses in sales-related innovation activities amounted to a mere 1.36%, a very low figure in international terms. In addition to the low degree of trade integration and participation in GVCs (Sánchez and Butler, 2008), determining factors for the innovation deficit include shortcomings in human capital, financial development, and linkage between R&D centers and universities on one hand and enterprises on the other (López et al., 2011).
- 3.20 **Deficits in entrepreneurship and business assistance services also limit the capacity to innovate.** The business birth rate has slackened since 2007 (Kantis and Federico, 2014). In addition, the business death rate has risen, discouraging entrepreneurship in view of the now greater likelihood of failure. Low business dynamism is harmful given the fact that the largest businesses are almost four times as productive as the smallest and that, in comparison to Brazil, there is an excessive allocation of resources to low-productivity businesses. The entrepreneurship deficit is associated not only with access to financing and tax distortions, but also with difficulties in finding personnel with the required skills at the various levels of the occupational pyramid, particularly technical specialists and semiskilled and skilled workers (Bassi et al., 2015). Access to assistance services (e.g., quality assurance, training, consulting, foreign trade transaction processing, research and development, etc.), which is particularly significant for SMEs, is more limited in Argentina than in other economies in the region. The development level of business clusters, which could help mitigate the problem of collective action, is also limited (IDB, 2012).<sup>65</sup>
- 3.21 **The Bank will support the country in strengthening the private sector's integration and insertion into global value chains by:** (i) diversifying toward exports of differentiated products and knowledge transfer-intensive links through investment attraction, trade facilitation, and logistics; (ii) developing the business services and public goods needed to foster integration and innovation, including ICT and infrastructure for quality; (iii) supporting the development of business and business clusters in export areas with high added value (for example, financing logistics businesses and manufacturing businesses that add value); (iv) supporting the development of the agribusiness sector and other sectors associated with natural resources, introducing aspects related to sustainable agricultural management and climate-smart management; (v) supporting a

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<sup>62</sup> Foods associated with certain health benefits. The properties yielding these benefits can be developed or enhanced through biotechnology.

<sup>63</sup> For technical justifications and quantitative data, see paragraphs 3.295, 3.338, 3.313, and 3.314 of the CDC.

<sup>64</sup> For technical justifications and quantitative data, see paragraph 2.44 of the CDC.

<sup>65</sup> For technical justifications and quantitative data, see paragraphs 2.41 and 3.320 to 3.322 of the CDC.

globalized trade integration and negotiation agenda as well as supporting businesses that promote regional integration; and (vi) trade credit. The interventions in the preceding priority area (business climate) also help further this area's objectives of strengthening the private sector's integration and insertion into global value chains.

- 3.22 **This strategic area contributes to the UIS objectives of:** (i) including all segments of the population in financial markets; (ii) providing inclusive infrastructure and infrastructure services; (iii) developing quality human capital; (iv) providing adequate knowledge and innovation ecosystems; (v) providing urban planning and rural infrastructure; (vi) improving the regional infrastructure; and (vii) addressing the economic and social impacts of climate change adaptation and mitigation. This area also contributes to the IIC Business Plan's strategic priority of supporting the development of the agricultural sector and is consistent with the plan's emphasis on technological innovation and development. Furthermore, it contributes to the three pillars of the Government Plan (Zero Poverty, the Belgrano Plan for the country's north, and the integration agenda) by addressing innovation, entrepreneurship, support for the integration agenda and export diversification, and trade facilitation, which the government includes as lines of action under the aforementioned pillars.<sup>66</sup>

#### C. **Poverty and inequality reduction<sup>67</sup>**

- 3.23 **Argentina faces substantial challenges in reducing poverty.** In the second quarter of 2015, the country's indigence and poverty rates were respectively 5.7% and 20.2%.<sup>68</sup> In the same quarter, the population with unmet basic needs reached 19.9% of the total population, with higher percentages in the Buenos Aires conurbation (26.4%) and in the Norte Grande region (21.9%). The reasons for these high rates include a significant deficit in the human capacities, knowledge and skills (physical, cognitive, and socioemotional), and health conditions that directly determine labor productivity. This deficit operates as an active constraint, creating a perverse cycle of low productivity and poverty. It takes the form of employability problems, which result from a mismatch between the job skills of workers and the requirements of businesses, and is exacerbated by deficiencies in water and sanitation infrastructure and housing infrastructure, which are directly associated with the prevalence of inequality and poverty.
- 3.24 **Childhood development is where a significant lag is evident with respect to the potential for development of physical, cognitive, and socioemotional human capacities.** Preferences, cultural factors, and financial restrictions have lowered demand for nonparental care (Brilli, et al., 2013). While this is a growing trend, coverage is low both at child care centers and for mandatory preschool, while child health indicators are not improving at the expected pace. In 2013, only 3.1% of children less than one year of age attended a child care center; this

<sup>66</sup> The Bank has an active portfolio of sovereign-guaranteed operations that is already significantly aligned with this priority area. Of the total portfolio, 18% of the operations (in terms of amount) contribute to objectives of strengthening the private sector's integration and insertion into global value chains. There are eleven approved operations for US\$1.156 billion to facilitate and promote technological innovation, exports, telecommunications, and productive and technological regional development (AR-L1013, AR-L1017, AR-L1064, AR-L1092, AR-L1120, AR-L1130, AR-L1141, AR-L1154, AR-L1156, AR-L1157, AR-L1181).

<sup>67</sup> Chapter 3, sections 3.2 and 3.4, of Argentina's CDC provides a detailed analysis.

<sup>68</sup> Estimates based on FIEL's basic food basket and basic overall basket and income data from the EPH.

percentage rises to 8.4%, 20.2%, and 50.5% for children one, two, and three years of age, respectively (paragraph 3.20 of the CDC). Coverage of mandatory preschool for children four years of age is 75%, with significant disparities among the country's various provinces (*Encuesta Anual de Hogares Urbanos [Annual Urban Household Survey]* (EAHU), 2014). The supply of formal child care and early childhood development (zero to four) services is insufficient and of poor quality. Moreover, attendance at early childhood development centers by children aged zero to four is concentrated in the higher-income population groups. Attendance is 20.7% for the poorest quintile and 52.1% for the wealthiest quintile (CIPPEC, 2014). At the same time, there is a lack of progress in terms of improvement in maternal-infant health. The current rate of decline in infant mortality is lower than expected based on the experience of countries with similar income; moreover, there are significant differences among provinces, linked to their disparate degrees of economic development (DEIS, 2014). According to a 2013 report by FAO, the prevalence of infant malnutrition rose from 7% to 8% in 2013.

- 3.25 Education coverage is high. However, there continue to be significant gaps in preschool and secondary education, as well as high repetition and dropout rates. Learning is limited and inequitable, and there is a mismatch between the skills provided by schools and those required in the workplace. Despite significant advances in school enrollment, the rate of secondary school completion is very low in the provinces that lag furthest behind (less than 50% in Chaco, Chubut, Misiones, Neuquén, Salta, Santiago del Estero, and Tucumán). With regard to primary school, the results of the 2013 TERCE study show that 17% of students place within the lowest performance level in reading and writing and 13% place within this level in mathematics. With regard to secondary school, the 2012 PISA results show that only 33.5% of students reach the minimum threshold of mathematical skills. By comparison, 52% of students on average reach this threshold in Latin America and the Caribbean, and 82% of students do so in the OECD countries. The lowest socioeconomic groups perform consistently worse in learning results and have consistently higher repetition rates (paragraph 3.33 of the CDC). Of young people aged 20 to 24 in the wealthiest quintile, 90% completed secondary school, compared to only 41.9% in the poorest quintile (EAHU, 2014). The learning gaps between the national average and the average in the NEA and NOA regions are significant. Global business surveys rank Argentina among the countries with the highest percentage of businesses that identify inadequate education of the labor force as one of the biggest business constraints. While 42% of young men who dropped out of secondary school report that they did so because they needed to work and 24% because they did not like studying or because it was not useful, for young women the most important reason is pregnancy, motherhood, or a committed relationship (30%); only 15% of young women report dropping out in order to work (*Encuesta Nacional de Jóvenes [National Youth Survey]* (ENJ), 2014). The main reason for repetition is associated with school performance.<sup>69</sup> In Argentina, the socioeconomic level of the family and, particularly, the role of the father are critical in determining the learning performance and continuation of a child in

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<sup>69</sup> A distinctive fact in Argentina is that the likelihood of having repeated a grade is not associated (to a statistically significant extent) with a student's socioeconomic level, unlike in the majority of the world's countries, but is rather primarily associated with school performance (students who repeat a grade are poor students according to their PISA scores in mathematics), PISA (2012).

school. In Argentina, the lowest socioeconomic groups perform consistently worse in learning outcomes and internal efficiency indicators. The level of public expenditure in education seems adequate, but there is evidence of inefficiency when that expenditure is compared to performance on international tests. Decentralization in the delivery of education services to the provinces has led to significant asymmetries among provinces in terms of financing and management capacity, adversely affecting the quality of education (Morduchowicz, 2014; Rivas, 2008).<sup>70</sup> The deficit in the quality of education is in large part associated with deficiencies in teacher selection and training and in a lack of incentives for continuing teacher training (Mezzadra and Veleda, 2014; Aguerrondo and Vezub, 2008; Zamero, 2010; Tenti Fanfani, Acosta, and Noel, 2010; Birgin, 2012; and Diker and Serra, 2008; CEPP, 2012). The public education management and financing model does not help to improve the connection between education and work.<sup>71</sup>

- 3.26 **There is an observable employability problem, more pronounced in the young population, associated with a mismatch between the job skills of workers and the requirements of businesses, and a low rate of women's participation in the work force.** According to the 2014 World Enterprise Survey, Argentina is one of the countries with the highest percentage of businesses (56.6%) that identify an inadequately educated labor force as a major constraint on their activities. Approximately 52% of young people aged 18 to 24 have a job placement or education problem (Capello and García Oro, 2013). There is little investment in job training, distortions in private returns, and mismatch problems (Bassi et al., 2012). Between 2008 and 2015, the employment dynamics focused on the public sector, and this has also affected demand for job qualifications. Argentina has the highest public employment rate in Latin America (21.7%, CEDLAS, 2013). The high level of job informality (35% of those employed) undermines the acquisition of skills, particularly in the lower-income and less educated population (61% for the population with incomplete primary education, 50% for the population with incomplete secondary education, and 60% for unskilled work). The rate of labor force participation for women aged 15 to 64 has declined in the last 10 years, from 58.3% in 2003 to 55.5% in 2013. This decline has been even greater among women with a medium and low education level. One of the primary factors limiting the integration of women into the job market (in terms of quantity and quality) is their commitment to non-remunerated domestic work. A high adolescent fertility rate negatively contributes to the employability of women.
- 3.27 **Violence against women affects a significant number of Argentine women.** According to a representative survey in the city of Buenos Aires, 22.3% of women reported having been subjected to physical violence by a spouse at some point in their lives (ELA, 2015). The same study revealed that 15% of women were subjected to sexual violence by a current or former partner. While there are no representative data on the prevalence of intimate partner violence at the

<sup>70</sup> Education in Argentina is decentralized in terms of both the management and the funding of the education system. Provinces are responsible for 75% of the expenditure, while the remaining 25% is funded by the national government. There are fiscal asymmetries among provinces, stemming from their unequal social and productive development level. This means that the educational possibilities of the country's children and youth depend to a large extent on the province in which they happen to live.

<sup>71</sup> For technical justifications and quantitative data, see paragraphs 3.33, 2.32, 3.41 to 3.44, 3.49 to 3.55, and 3.57 of the CDC.

national level, the figures for Buenos Aires are similar to those of other countries in the region (OPS, 2013).<sup>72</sup>

- 3.28 **With regard to health, chronic diseases as a whole are the principal cause of (overall and early) death and disability, and there are significant health coverage deficits.** Cardiovascular disease and tumors cause 48% of deaths in the country and 39% of healthy years lost in the country (Boruel, 2010). Chronic disease risk factors disproportionately affect the low-income and low-education population (National Ministry of Health, 2010). Despite relatively high levels of service access and care, Argentina has not achieved universal health coverage under equitable quality conditions.<sup>73</sup> In addition, health expenditure is highly inefficient. In relation to its per-capita income level and the educational level of its population, Argentina achieves barely higher life expectancy but spends much more on health than is expected (Berman and Bitrán, 2011). A curative and specialized approach based on hospital care predominates in the Argentine health system. This makes health expenditure less efficient and contributes to lowering the quality of care, particularly in the case of chronic diseases. The high fragmentation of the Argentine health system makes it difficult to carry out public health actions and implement continuous lines of care, leading to an erosion of quality of care and an inefficient allocation of the health expenditure.<sup>74</sup>
- 3.29 **There is low coverage and unequal distribution of water and sewerage services and an inadequate flood prevention infrastructure.** Water and sanitation coverage at the national level has been measured at 82.6% and 47.6% respectively (2010 census). Within the population with no sewerage access, 9.2 million people use inadequate individual systems<sup>75</sup> that adversely affect the environment. Water network coverage was 85.9% in urban areas and 29.5% in rural areas, and sewer network coverage was 52.7% in urban areas and barely 2.0% in rural areas. The Buenos Aires metropolitan area (AMBA) exhibits the most significant coverage gaps: 99.6% of the population in the city of Buenos Aires is covered by the water network, compared to a mere 70% of the population in the Buenos Aires conurbation. In the case of sewerage service, the disparity is even greater, with 98.7% coverage in the city of Buenos Aires and 38.0% coverage in the Buenos Aires conurbation. The gaps in coverage are more pronounced for, and have a direct effect on, the most vulnerable population groups. The level of wastewater treatment is minimal; only about 15% to 20% of all collected wastewater is treated. Argentina is one of the world's 14 countries most affected by rural and/or urban flood disasters, with losses that exceed 1.1% of the national GDP. The causes for the deficits in water and sanitation coverage and in flood prevention include: (a) insufficient investment in water and sanitation

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<sup>72</sup> Pan American Health Organization. 2013. *Violencia contra la mujer en América Latina y el Caribe: Análisis comparativo de datos poblacionales de 12 países* [Violence against women in Latin America and the Caribbean: Comparative analysis of population data from 12 countries]. Washington: PAHO.

<sup>73</sup> For example, only 45% of the population without health insurance (the low-income population) suffering from hypertension or type II diabetes was examined and diagnosed at a primary health care center. Even more worrisome, only 12% of this population successfully completes the indicated treatment for these conditions.

<sup>74</sup> For technical justifications and quantitative data, see paragraphs 3.70, 3.76, and 3.77 of the CDC.

<sup>75</sup> Inadequate systems include drainage into cesspools only, drainage into a pit, drainage ditches, etc.

infrastructure;<sup>76</sup> (b) unstable and inefficient sector organization of service providers;<sup>77</sup> (c) advances in regulatory design that break down with the delayering of regulatory entities; (d) inefficient management of services (Lentini, 2015); (e) a rate policy that undermines the financial sustainability of the providers (Lentini, 2015);<sup>78</sup> (f) leakages in subsidies aimed at lowering service rates for low-income households, with these subsidies ending up benefitting the wealthy (Puig and Salinardi, 2015); (g) limited investment in flood prevention infrastructure (Viand and González, 2012) and inadequate risk management (World Bank, 2012).<sup>79</sup>

- 3.30 Argentina has housing deficits, qualitative in particular, that especially affect the lowest two income quintiles.** In Argentina, 10.3% of households face a quantitative housing deficit (CIPUV, 2015).<sup>80</sup> This deficit is greater than estimated for regional comparators. In addition, 28.6% of Argentine households face a qualitative housing deficit (measured as the number of housing units that fail to meet some type of quality standard, such as solid materials, wet cores, and/or electricity, water, and sanitation service connections).<sup>81</sup> The qualitative and quantitative deficit encompasses a total of 3,800,000 households. Households in the lowest two income quintiles show a qualitative deficit that is almost double the average for the country as a whole. Furthermore, Argentina has relatively high informal home tenure levels, especially in the lower income quintiles.<sup>82</sup> Argentine households, particularly those in the lowest two income

<sup>76</sup> In the 2001-2010 intercensus period, there was a 4% increase in water coverage, which provided access to an additional 4.6 million inhabitants, 42% of whom were concentrated in the province of Buenos Aires. In percentage terms, the largest increases in coverage took place in the three provinces with the lowest coverage in 2001: Misiones (13%), Formosa (12%), and Santiago del Estero (10%). In the same period, sewer coverage rose by 6%, although the performance of individual provinces was quite uneven. In eight provinces, the beneficiary population increased by more than 10%, and by as much as 18% in the province of San Luis. At the other end of the spectrum is Tierra del Fuego, where coverage declined by 1.3%. While sewer coverage has been historically lower than water coverage, sewer coverage has in the last decade expanded (6%) at a faster pace than water coverage (4%), helping to narrow the gap. In addition, Asís et al. (2013), using the statistical technique of cluster analysis, concluded that the institutional support and the contribution of public funds in the water and sanitation sector between 2001 and 2011 were allocated on the basis of coverage disparities without considering unmet basic needs in the various provinces.

<sup>77</sup> Water and sanitation services in Argentina have gone through several structural shifts in recent decades. First, they were provided as centralized services under the responsibility of the national government; in the 1980s they became decentralized at the provincial level; the 1990s ushered in private-sector participation; and 2002 marked the beginning of a renationalization process that returned control of these services to the (national or provincial) government. All these structural changes have had an effect on the evolution of coverage and the sector's performance.

<sup>78</sup> Rate levels were among the lowest in Latin America. For example, in 2015 AySA charged a mean rate of US\$0.17/m<sup>3</sup>, one of the lowest in the entire region, where the average rate is US\$1.40/m<sup>3</sup>. (Plan Nacional de Agua Potable y Saneamiento [National Water and Sanitation Plan], 2016).

<sup>79</sup> For technical justifications and quantitative data, see paragraphs 3.261 to 3.263, 3.265, 3.266, 3.259, and 3.270 to 3.281 of the CDC.

<sup>80</sup> The quantitative deficit is the difference between the number of housing units available in good condition and the total number of households. The quantitative deficit is comprised of: 1. inadequate dwellings in irreparable condition that need to be replaced, and 2. the number of households (at a minimum) or the number of households and family units (at a maximum) that live together in a single housing unit.

<sup>81</sup> The qualitative deficit refers to private dwellings that need to be upgraded in terms of materials, services, and/or space, and is calculated on the basis of homes with reparable problems, diagnosed as such through information on the typology, materials, services, and density of the habitable spaces.

<sup>82</sup> Of households in the lowest two income quintiles, 9.3% have informal home tenure. This percentage is far higher than the percentage in Brazil (4.3%), Chile (1.7%), and Paraguay (2.3%) (CIPUV, 2015).

quintiles, face financial and income restrictions limiting their ability to either buy or rent housing of reasonable quality. Other factors include the low degree of development of the mortgage loan market, the income volatility of workers in the informal sector, and the limited availability of guarantees for low-income families, hindering access to credit. Informal urban developments provide access to housing for the population not served by the formal market. It is estimated that approximately 500,000 families reside in shantytowns and informal settlements in Argentina ([TECHO, 2013](#)), lacking land tenure security, basic urban services, and access to green areas and social services. These shortcomings are due to the limited capacity of provinces and municipios to invest in expanding the coverage of services under their responsibility and the scarcity of incentives for service providers to serve these neighborhoods given the residents' limited ability to pay. Due to weak land-use regulatory frameworks and planning instruments, low-income housing tends to be located in areas where land prices are low, with limited access to services and urban infrastructure. Housing programs rarely focus their attention on the most vulnerable quintiles and not many programs specifically indicate that informal workers can avail themselves of their benefits through some income verification mechanism. Moreover, there has been no attempt to take advantage of the possibility of leveraging government investment with private investment by households and by materials suppliers, construction companies, or developers.<sup>83</sup>

- 3.31 **The IDB Group interventions will be aimed at helping to reduce poverty by improving human capacities and access to basic services, primarily in the 10 provinces of the NEA and NOA regions that fall under the Belgrano Plan and in the Buenos Aires conurbation, with a focus on:** (i) strengthening the employability of the population, and particularly supporting efforts to expand women's participation in the job market through both the IDB and the IIC; (ii) supporting early childhood, with an emphasis on expanding the coverage and quality of available care services; (iii) improving the quality of education at the three levels, with an emphasis on reducing repetition and dropout rates in the most affected regions, and providing access to preschool and secondary education where there is unmet demand; (iv) strengthening the quality of primary health care services, with special emphasis on the prevention of chronic noncommunicable diseases; (v) habitat improvement, with an emphasis on upgrading neighborhoods, expanding access to water and sanitation, and improving waste disposal in the poorest regions, which could be supported through PPPs; (vi) financing to obtain and build basic services such as health, education, and housing, which could also be supported through PPPs; and (vii) reducing violence toward women and providing quality services to women survivors of violence by supporting the National Action Plan for Preventing, Addressing, and Eradicating Violence against Women. The provision of financing to vulnerable groups through financial institutions or value chains, mentioned as a support action for the priority area of business climate improvement, will also contribute to the objectives of this area. In implementing these lines of action, efforts will be made to make them consistent with the UN Sustainable Development Goals, particularly goal 1 on poverty, goal 10 on inequality, and goal 16 on governance.

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<sup>83</sup> For technical justifications and quantitative data, see paragraphs 3.98, 3.293, 3.105 to 3.110, 3.119 to 3.128, and 3.130 to 3.133 of the CDC.

3.32 **This priority area contributes to the UIS objectives of:** eradicating extreme poverty, providing inclusive infrastructure and infrastructure services, and developing quality human capital. This area also contributes to the strategic priorities of the IIC Business Plan, particularly regarding the emphasis on providing basic goods and services and on creating job and mobility opportunities. Moreover, it contributes particularly to two of the three pillars of the Government Plan, Zero Poverty and the Belgrano Plan for the country's north, through the proposed lines of action on early childhood development, employability, education, health, and habitat quality and access to basic services.<sup>84</sup>

#### D. Crosscutting areas of action

3.33 **The country strategy will incorporate crosscutting issues of (i) gender and diversity; (ii) institutional capacity/strengthening; and (iii) climate change.**<sup>85</sup> Specifically, the strategy will seek to incorporate the gender and diversity perspective, with a special emphasis on interventions in the priority areas of poverty and inequality reduction and business climate improvement. This will be achieved by, for example, supporting financial inclusion initiatives that foster efforts to promote diversity and gender equity. The issue of institutional capacity will also be considered in all priority areas of the strategy, as, for example, in the initiatives in the business climate improvement area, by supporting institutional improvements that foster greater management efficiency. Similarly, the strategy will seek to incorporate climate change issues into all its priority areas, with special emphasis on interventions aimed at strengthening private sector integration and insertion into value chains, particularly those dealing with infrastructure improvement and support for the agricultural sector, ensuring that projects address climate change adaptation and mitigation. In addition, in the area of business climate improvement, the strategy will prioritize support for environmentally sustainable solutions. The mechanisms for implementing these crosscutting issues will be determined during the design of the respective programs.

### IV. INDICATIVE LENDING FRAMEWORK

4.1 **Argentina has carried out policies that envisage a return to the international markets, issuing bonds that have allowed the government to settle outstanding debts arising from litigation by holdout creditors.** The risk rating agencies revised their rating of the country's external public debt from selective default (SD) to B- (on the Standard & Poor's scale). Further improvements are contingent upon favorable results in the fiscal area and on a

<sup>84</sup> The Bank has an active portfolio of sovereign-guaranteed operations that is already significantly aligned with this priority area. Of the total portfolio, 42% of the operations (in terms of amount) contribute to poverty and inequality reduction objectives. There are nine approved sovereign-guaranteed operations for US\$1.760 billion to improve the habitat and access to basic services, focusing on the low-income population, primarily in the Buenos Aires conurbation (AR-L1025, AR-L1031, AR-L1080, AR-L1119, AR-L1121, AR-L1122, AR-L1151, AR-L1162, AR-L1179).

<sup>85</sup> In the gender and diversity dimensions, there is a significant connection with the socioeconomic level of the provinces. The greatest gender inequalities are found throughout the NEA and in the country's far northwest (Jujuy and Salta). However, in the NOA there are also cases of gender gaps favoring women (Santiago del Estero, La Rioja, and Catamarca). The average regional gaps show more unfavorable socioeconomic conditions for the indigenous or indigenous descendant population in large portions of the NEA (except in the case of Corrientes), as well as in Salta and Santiago del Estero in the NOA.

decline in inflation. The country strategy assumes an average growth horizon of 3.4% starting in 2017.

- 4.2 **Given this context, approvals for the strategy period are projected at US\$6.000 billion, including regional projects already identified with other countries, subject to the availability of Bank financial capital.** This figure will be augmented by resources to be contributed by the IIC for private sector projects. Argentina will be able to access all of the Bank's financing instruments, including policy-based loans, to the extent that the Bank's macroeconomic safeguard limits so permit.

## V. STRATEGY IMPLEMENTATION

- 5.1 **Coordination within the IDB Group.** Coordination among the IDB, the IIC, and the MIF will adhere to the follow parameters: (i) jointly preparing and implementing this country strategy; (ii) planning joint missions of outreach to the authorities, particularly in areas in which policy reforms are needed and/or there are evident synergies for working in tandem; (iii) organizing joint road shows; and (iv) maximizing operational synergies.
- 5.2 **Design of operations and portfolio execution.** The following aspects will be taken into account: (i) *addressing legal and staff changes in the execution units*, which requires formalizing the new government ministries' jurisdiction over 34 projects and supporting strengthening of the execution units, which have undergone staff changes, and of the relevant ministries; (ii) *prioritizing comprehensive management of the portfolio*, since 18 operations take place at the subnational level and many of them target the same geographic areas and their activities overlap; (iii) *maintaining the outcome and disbursement monitoring system* used in the past two years; (iv) *improving the execution of the institutional strengthening components* and using lessons learned when designing new operations; and (v) *reinforcing the Bank's technical assistance program* with a view to strengthening the dialogue with the authorities and the national and regional operational program.
- 5.3 **Country systems:** The Bank will continue to support strengthening of the country financial and procurement systems, so as to increase and consolidate use of the financial management systems and implement the use of the national procurement system in Bank-financed operations. With regard to the use of country systems, the Bank relies on the budget, accounting and reporting, and external control subsystems for the supervision of operations. In the procurement area, the individual consulting, shopping for nonstandard goods and services, and public procurement information subsystems were approved in 2013 and are expected to be implemented in the Bank portfolio during the 2016-2019 period. The Bank will continue to support strengthening of the external control system. Similarly, the Bank is expected to continue to support the Government of Argentina in: (i) updating the diagnostic assessment of country procurement systems; (ii) the strengthening actions arising from the diagnostic assessment; and (iii) strengthening and diagnosing the provincial procurement systems (at the subnational level), as well as providing ongoing support to the Red Federal de Contrataciones Gubernamentales [Federal Government Procurement Network] in the implementation of its strategic plan. The following table summarizes the

status of country systems in Argentina and their expected use during the strategy period:

Country systems	Baseline 2015 [1]	Expected use 2019	Expected actions during the country strategy period
<b>Budget</b>	100%	100%	None
<b>Treasury</b>	0%	0%	None
<b>Accounting and reporting</b>	97%	97%	None
<b>Internal audit</b>	0%	0%	None
<b>External control</b>	40%	42%	Measure the performance of the Courts of Accounts of the provinces of Buenos Aires, Mendoza, Rio Negro, and Salta against the benchmark of international good practices. The tool to be used is the SAI Performance Measurement Framework (PMF) promoted by INTOSAI.
<b>Information system</b>	100%	100%	In the context of increased efforts to achieve greater transparency in the use of public resources, plans call for continuing to use the information portal.
<b>Shopping</b>	0%	0%	The expected use by 2019 will depend on the strategy that the Government of Argentina wishes to implement with regard to the national public procurement system (SNCP) and any dialogue that may be initiated.
<b>Individual consulting</b>	0%	0%	The expected use by 2019 will depend on the strategy that the Government of Argentina wishes to implement with regard to the SNCP and any dialogue that may be initiated.
<b>NCB</b>	0%	0%	The expected use by 2019 will depend on the strategy that the Government of Argentina wishes to implement with regard to the SNCP and any dialogue that may be initiated.
<b>Advanced NCB</b>	0%	0%	The expected use by 2019 will depend on the strategy that the Government of Argentina wishes to implement with regard to the SNCP and any dialogue that may be initiated.

**5.4 Donor coordination.** The IDB Group will continue its dialogue and operational coordination with: (i) the Development Bank of Latin America (CAF) and FONPLATA in water and sanitation; (ii) the World Bank and CAF in transportation; (iii) the World Bank in citizen security; (iv) the World Bank and CAF in urban development; and (v) the World Bank in the agricultural sector and the low-income sector. Efforts will continue to make coordination with other donors more efficient, seeking greater comprehensiveness in interventions. In addition, coordination will continue with other multilateral institutions, particularly the IFC, to provide financing to private sector projects with development impact.

## VI. RISKS

**6.1 Macroeconomic risk.** The external context of weakness in global growth and in the prices of commodities exported by Argentina creates risks for economic growth and fiscal revenue. This has potential implications for the projects' counterpart risk and could potentially affect the impact of projects such as those aimed at reducing poverty and promoting and facilitating the private sector's integration and insertion into global value chains in the short term. One risk at the domestic level is that the pace of fiscal consolidation and inflation decline turns out to be slower than expected, resulting in a potential impact on counterpart risk and the redetermination of contract prices. Another risk, associated with the current administration's minority position in Congress, is that there will be a slow pace of implementation of the structural reforms aimed at boosting the effectiveness of the proposed lines of action. To minimize these risks, the Bank's

efforts are aimed at enhancing the level and pace of economic productivity growth and public management capacity-building. In addition, the Bank will use its macroeconomic monitoring instruments to monitor the aforementioned risks. Lastly, the Bank already has suitable mechanisms in place for price redetermination in the event of persistent inflation.

- 6.2 **Business climate risks.** Support for development of the private sector in the priority areas of the strategy will materialize to the extent that private sector investments are actually made, and this will depend in large measure on the business climate. If there is uncertainty regarding the external and domestic contexts, the private sector may maintain a wait-and-see attitude that delays local investment as well as foreign direct investment. This risk is particularly significant in sectors in which the country strategy will seek to support the development of PPPs, such as the energy and transportation sectors, where regulatory changes are a key to greater private sector participation. However, the new administration has given positive signals in terms of providing stability and improving the business climate. As a mitigation measure, in the priority area of business climate improvement, the Bank will seek to support public initiatives fostering a better regulatory environment. The Bank will monitor these risks and their potential impact on support for the private sector.
- 6.3 **Execution risks.** The main risks for the execution of portfolio projects and new approvals arise from the weakness of institutional capacities at the subnational government levels. To mitigate these risks, the Bank will work jointly with the subnational governments to support their strengthening through technical cooperation operations as well as through specifically targeted projects. The Bank will monitor these risks by implementing a continuous portfolio review process.

## ANNEX I: COUNTRY STRATEGY WITH ARGENTINA RESULTS MATRIX

Government priorities (strategies)	Strategic areas	Strategic Bank objective	Expected outcomes	Indicator	Baseline, source, and year
Integration agenda and Zero Poverty	Business climate improvement	Institutional strengthening of government	Enhance public management efficiency	Government efficiency indicator	2.3 (138 out of 140), WEF Global Competitiveness Index (2015-2016)
			Improve the regulatory framework for doing business	Distance to frontier, by Doing Business	56.78 (122 out of 189), Doing Business (2016)
		Improvement of infrastructure for investment and inclusion	Improve road infrastructure quality	Percentage of paved roads	29%, World Development Indicators (2014)
			Reduce logistics costs	Index of logistics costs	3,945.9 (base index Dec. 2001 = 100), CEDOL (2016)
			Improve the quality of electricity supply	Number of electricity outages at businesses per month	1.9 (67 out of 147), World Enterprise Survey (2010)
		Inclusive financial development and SME financing	Increase the financial depth of the private sector	Private sector credit in relation to GDP	14.3%, World Development Indicators (2014)
			Increase financing for SMEs	Credit to SMEs in relation to GDP	2.7%, Central Bank of Argentina (Second quarter 2016)
				Credit to SMEs in relation to total credit to private sector	18.9%, Central Bank of Argentina (Second quarter 2016)
		Development of environmentally sustainable solutions and support for disaster risk management	Improve environmental performance	Environmental performance index	49.6/100, Yale Center for Environmental Law & Policy and Earth Science Information Network (2014)
			Improve the institutional and legal framework for disaster risk management	Index of Governance and Public Policy in Disaster Risk Management	20.97% overall level of progress, within the "incipient" range, iGOPP, IDB (2014)
		Greater security for businesses and people	Reduce the economic costs of insecurity for businesses	Percentage of businesses that experienced theft or vandalism in the past year	32.7%, World Enterprise Survey (2010)
				Average losses from theft or vandalism in the past year	2% of annual sales, World Enterprise Survey (2010)
				Cost to businesses of hiring private security	1.4% of annual sales, World Enterprise Survey (2010)
			Reduce the crime rate in the population	Percentage of the population that has been a victim of crime	24.4%, LAPOP (2014)

Government priorities (strategies)	Strategic areas	Strategic Bank objective	Expected outcomes	Indicator	Baseline, source, and year
Integration agenda	Strengthening of private-sector integration and insertion into value chains	Improve export insertion levels and profile	Improve the country's position in global value chains	Indicator of position in the global value chain (percentage of country's exports used as inputs in the exports of other countries, divided by the foreign value added used in the country's exports).	1.5, IDB based on GTAP (2007)
			Diversify exports by product	Herfindahl-Hirschman index (HHI) of product concentration	0.0483, Comtrade, (2014)
			Add value to exports	Ratio of nonprimary exports to total exports	72.6%, INDEC (2015)
			Reduce export cost and time	Cost of exports per container	US\$1,770, World Development Indicators (2014)
		Development of business services and public goods to foster integration and innovation		Average number of days to export	12, World Bank Doing Business (2014)
		Improve local supplier quantity and quality	Quality of local suppliers	3.8 (108 out of 140), WEF Global Competitiveness Index (2015-2016)	
			Quantity of local suppliers	3.9 (115 out of 140), WEF Global Competitiveness Index (2015-2016)	
		Development of businesses and clusters in exporting areas with high value added	Increase spending on technological innovation	Total R&D expenditure in relation to GDP	0.6%, World Development Indicators (2012)
				Business expenditure in sales-related technological innovation	1.36%, Encuesta Nacional de Dinámica de Empleo e Innovación [National Survey on Innovation and Employment Dynamics]
			Increase development and depth of clusters	State of cluster development	3.1 (116 out of 140), WEF Global Competitiveness Index (2015-2016)
			Increase the entrepreneurship rate	Percentage of the adult population that is a nascent entrepreneur or owner/manager of a new business	17.74%, Global Entrepreneurship Monitor (GEM) (2015)
				Survival rate after the first eight years of life for businesses started between 2003 and 2007	50%, Kantis and Federico (2014) based on OEDE

Government priorities (strategies)	Strategic areas	Strategic Bank objective	Expected outcomes	Indicator	Baseline, source, and year
Zero Poverty	Poverty and inequality reduction	Stimulate early childhood development	Improve coverage in child care centers	Number of children 0-5 who attend a child care and/or early childhood development institution over the total number of children in that age group	47.9%, Encuesta Permanente de Hogares [Continuous Household Survey] (EPH) (2015)
			Improve preschool coverage	Percentage of children aged 4 who attend preschool	Base: 75% (Encuesta Anual de Hogares Urbanos [Annual Urban Household Survey] (EAHU),2014)
		Improve the quality of education and school completion rate	Improve learning indicators	Average result of PISA tests in reading and mathematics	Reading: 396 (60 out of 64); mathematics: 388 (59 out of 64), PISA (2012)
			Improve school completion rates, especially in lower-income segments	Percentage of young people who fail to complete secondary school	36.7%, EAHU (2014)
				Percentage of young people in the poorest quintile who fail to complete secondary school	58.1%, EAHU (2014)
			Reduce repetition rates	Percentage of students aged 15 who have repeated at least one grade	36.2%, PISA (2012)
		Employability of the population and women's participation in the labor force	Adaptation of skills to the requirements of the job market	Percentage of businesses that identify the labor force as a constraint	56.6%, World Enterprise Survey (2010)
			Reduce youth unemployment	Youth (aged 14-29) unemployment rate	18.9%, INDEC (Second quarter, 2016)
			Greater female participation in the labor force	Rate of labor force participation by women 15-64	55.5%, EPH (2013)
		Strengthen the quality of primary health care services for prevention and early detection of noncommunicable chronic diseases	Increase prevention and reduce the impact of noncommunicable chronic diseases	Probability of dying between the ages of 30 and 70 from any of the 4 main noncommunicable chronic diseases	17%, World Health Organization (2012)
				Individuals over 18 who report having had their blood pressure measured at least once in the last two years over the total number of individuals in the same age group.	72.0%, Encuesta Nacional de Factores de Riesgo [National Survey of Risk Factors] (2013)
				Women 50-69 with at least one mammogram in the last year over the total number of women in the same age group	8.12%, National Cancer Institute screening information system (2015)
		Improve the habitat and access to basic services, particularly in lower-income regions	Increase water and sanitation coverage, particularly in the Norte Grande region and the Buenos Aires conurbation	Percentage of the population in Argentina that receives drinking water from a network	82.6%, National Population Census(2010)
				Poercentage of the population in Argentina covered by sewerage services	47.6%, National Population Census (2010)
				Percentage of the population in the Greater Buenos Aires area that receives drinking water from a network	70%, National Population Census (2010)
				Percentage of the population in the Greater Buenos Aires area covered by sewerage services	38%, National Population Census (2010)
				Percentage of the population in the Norte Grande region that receives drinking water from a network	92.4%, National Population Census (2010)
				Percentage of the population in the Norte Grande region covered by sewerage services	46.7%, National Population Census (2010)
			Increase access to quality housing for the poorest population groups	Qualitative housing deficit for the lowest two income quintiles	49.2%, EPH (2014)

**ANNEX II: FINANCIAL SCENARIO FOR SOVEREIGN DEBT 2016-2019**  
**US\$ MILLIONS**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2016-2019
<b>Approvals 1/</b>	1,133	1,278	1,390	1,204	660	750	1,133	1,400	1,300	1,167	5,000
<b>Disbursements</b>	1,437	1,267	1,016	1,117	1,270	752	1,086	1,375	1,471	1,500	5,432
<b>Rewpayments</b>	841	879	903	875	1,036	886	876	898	882	904	3,559
Net loan flows	596	388	114	242	234	-135	210	477	589	596	1,873
Subscriptions	10	11	57	42	57	0	0	0	0	0	0
Net capital flows	586	377	57	200	177	-135	210	477	589	596	1,873
<b>Interest and fees</b>	380	348	322	375	382	370	435	418	398	372	1,624
Net cash flow	206	29	-265	-175	-205	-505	-225	59	191	224	249
<b>IDB debt</b>	10,149	10,563	10,699	11,008	11,341	11,207	11,417	11,894	12,483	13,079	12,218
IDB debt/GDP (%)	2.2%	1.9%	1.8%	1.8%	2.1%	1.9%	2.2%	2.1%	2.1%	2.2%	2.1%
IDB debt/Public external debt (%)	12.6%	12.5%	12.8%	13.5%	12.7%	11.7%	13.1%	12.3%	11.8%	11.6%	12.2%
IDB debt/Multilateral external debt (%)	59.8%	58.9%	55.8%	56.8%	57.1%	53.6%	48.7%	45.8%	44.2%	43.1%	45.5%

1/ Amounts subject to availability of Bank financial capital.

### ANNEX III: MAIN ECONOMIC AND SOCIAL INDICATORS

	2011	2012	2013	2014	2015
<b>Real sector</b>					
Annual real GDP growth (%) (3)	6.10	-1.10	2.30	-2.60	2.40
GDP per capita (US \$) (3)	12,859	13,963	14,563	13,303	14,617
Annual real GFCF growth (3)	17.59	-7.81	3.91	-7.59	5.54
Annual household consumption growth (3)	8.86	-0.09	4.64	-5.19	5.03
Unemployment rate (%) (annual average)* (3)	7.15	7.20	7.08	7.25	6.53
<b>Public sector</b>					
National public sector revenue (% of GDP) (5)	19.84	20.75	21.36	22.20	22.66
Of which the following is property income (% of GDP)** (5)	1.62	1.93	1.25	1.55	2.07
National public sector expenditure (% of GDP) (5)	21.24	22.85	23.28	24.58	26.53
Overall national public sector income (% of GDP) (5)	-1.40	-2.10	-1.92	-2.38	-3.86
Primary national public sector balance (% of GDP) (5)	0.22	-0.16	-0.67	-0.84	-1.79
Primary national public sector balance (net of BCRA earnings and FGS income, % of GDP) (5)	-0.69	-1.12	-2.33	-3.39	-4.15
Public debt (% of GDP) (5)	35.14	36.61	39.29	41.15	49.61
<b>Monetary and exchange rate</b>					
Annual inflation (%) (end of period) (1)	24.31	23.21	27.79	37.28	28.04
Nominal exchange rate (AR \$/US \$ -period average) (2)	4.13	4.55	5.47	8.12	9.27
Real exchange rate (period average, 17-12-2016=100) (2)	119.7	102.3	98.4	103.6	80.7
<b>Financial</b>					
Credit to the private sector (% of GDP) (2)	13.0	13.9	14.4	12.6	13.8
Financial system assets (% of GDP) (2)	28.7	29.8	29.9	28.1	31.6
<b>External sector</b>					
Trade balance (% of GDP) (3)	2.3	2.6	0.8	1.1	-0.1
Current account (% of GDP) (3)	-0.8	-0.2	-2.0	-1.4	-2.5
FDI (% of GDP) (3)	1.8	2.4	1.5	0.6	1.8
Portfolio investment (% of GDP) (3)	-0.7	-0.7	-0.1	1.1	-0.1
<b>Social</b>					
Poverty (poverty line, % of population) (4)	24.7	26.2	27.4	28.7	29.0
Extreme poverty (indigence line, % population) (4)	6.1	5.7	5.4	6.4	5.3
Population with unmet basic needs (%) (4)	16.9	16.1	15.2	16.2	s/d
GINI (4)	0.422	0.409	0.409	0.411	0.411

(1) Average of provincial indices (San Luis, Neuquén, Tierra del Fuego, and City of Buenos Aires)

(2) BCRA

(3) INDEC

(4) UCA

(5) Ministry of Economy

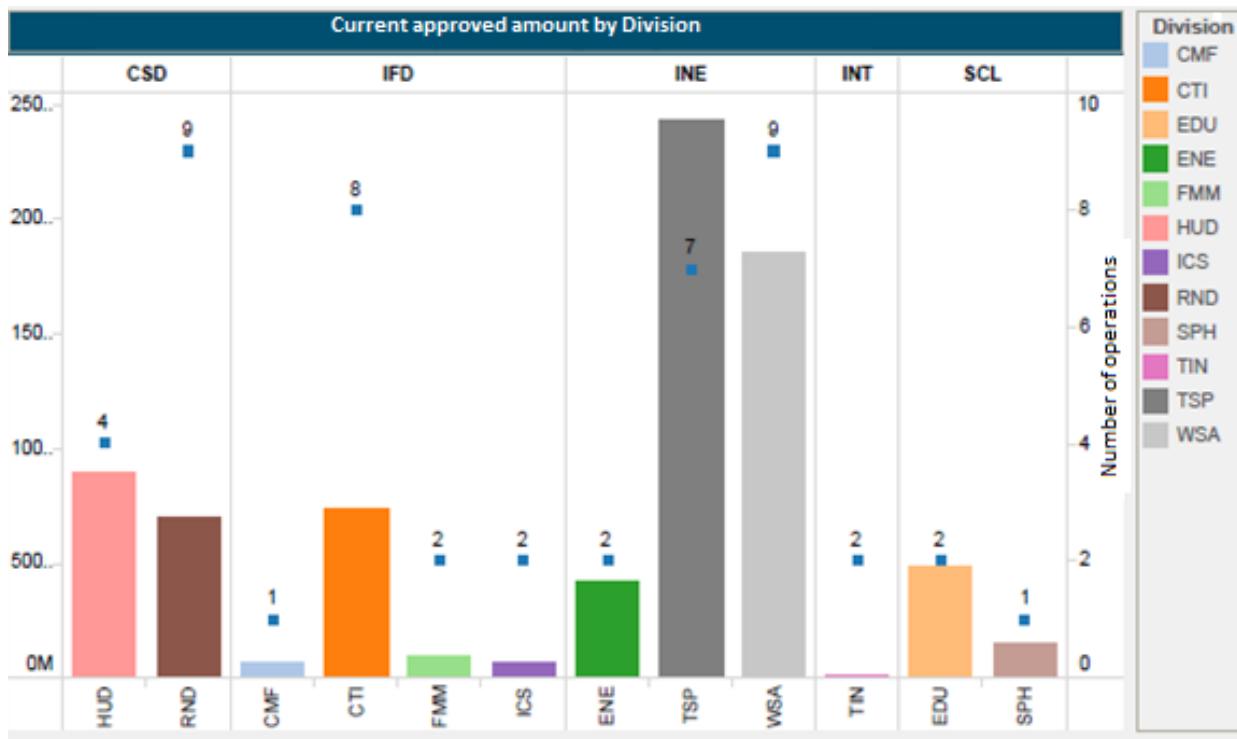
\* For first three quarters of 2015.

\*\* Includes BCRA earnings and FGS income (ANSES).

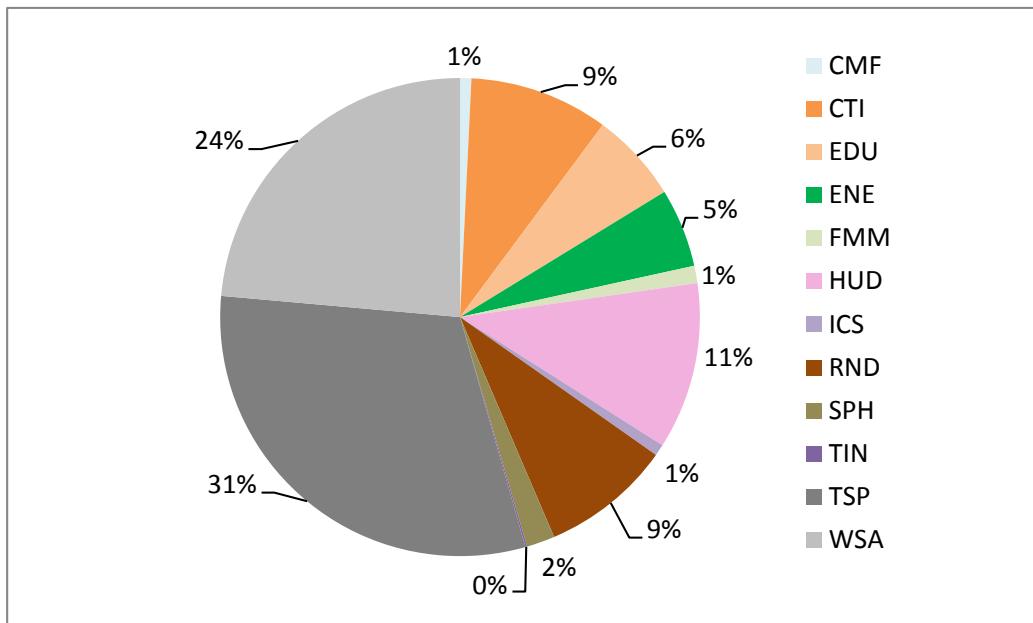
## ANNEX IV: ACTIVE PORTFOLIO OF SOVEREIGN-GUARANTEED LOANS

Nr proj	Nr contract	Date Approval	Name	Aprob.	Disb.	% disb	Avail.
AR-L1013	2005IOC-AR	6-Aug-08	Programa de Competitividad del Norte Grande	16.0	13.5	84.5%	2.5
AR-L1014	1851IOC-AR	28-Feb-07	Programa de Infraestructura Vial del Norte Grande	1200.0	1143.1	95.3%	56.9
AR-L1016	1855IOC-AR	14-Mar-07	Programa de Mejora de la Gestión Municipal	72.0	61.9	86.0%	10.1
AR-L1017	1777IOC-AR	6-Sep-06	Programa de Desarrollo de Sistema Satelital y Aplicaciones	50.0	49.9	99.8%	0.1
AR-L1025	1868IOC-AR	6-Jun-07	Programa de Gestión de Residuos Sólidos en Municipios Turísticos	60.0	56.3	93.9%	3.7
AR-L1026	1865IOC-AR	16-May-07	Gestión Ambiental para Producción Sustentable el Sector Productivo	40.0	35.1	87.8%	4.9
AR-L1031	1895IOC-AR	5-Sep-07	CCLIP: Agua Potable y Saneamiento en Comunidades Menores	120.0	79.8	66.5%	40.2
AR-L1036	1914IOC-AR	14-Nov-07	Multifase Desarrollo Infraestructura: Apoyo Producción de Entre Ríos	100.0	96.7	96.7%	3.4
AR-L1064	2412IOC-AR	21-Sep-10	Fortalecimiento del Sistema de Innovación Agropecuaria	170.0	107.5	63.2%	62.5
AR-L1067	2853IOC-AR	28-Nov-12	Programa de Sustentabilidad y Competitividad Forestal	60.0	14.4	23.9%	45.7
AR-L1068	2740IOC-AR	21-Jun-12	Programa de Desarrollo Rural y Agricultura Familiar, PRODAF	30.0	11.6	38.7%	18.4
AR-L1071	2606IOC-AR	2-Nov-11	Desarrollo de Corredores Turísticos	80.0	19.4	24.3%	60.6
AR-L1074	2210IOC-AR	21-Oct-09	Programa de Seguridad Ciudadana e Inclusión	25.0	11.7	46.7%	13.3
AR-L1078	2523IOC-AR	26-Apr-11	Fortalecimiento del Ministerio de R. E., Comercio Internacional y Cuto II	3.0	1.6	54.2%	1.4
AR-L1079	2514IOC-AR	11-Jan-11	Abast. Eléctrico Regiones del País en Marco Plan Federal Transporte Elec	120.0	93.5	77.9%	26.5
AR-L1080	2048IOC-AR	1-Jan-09	CCLIP: Programa de Agua y Saneamiento del Área Metropolitana de Buenos Aires	200.0	199.5	99.7%	0.5
AR-L1084	2343IOC-AR	7-Jul-10	Programa de Agua Potable y Saneamiento para Centros Urbanos y Suburbios	200.0	106.1	53.0%	93.9
AR-L1092	2239IOC-AR	23-Nov-09	Promoción de Exportaciones	6.0	1.4	23.6%	4.6
AR-L1095	764IOC-AR	30-Nov-09	Financiamiento Adicional Programa de Transmisión Eléctrica del Norte Grande	300.0	286.1	95.4%	13.9
AR-L1101	2499IOC-AR	15-Dec-10	Programa de Desarrollo de Áreas Metropolitanas del Interior	40.0	14.4	36.0%	25.6
AR-L1106	2491IOC-AR	14-Dec-10	Programa de Infraestructura Productiva y Turística de la Provincia de Río Negro	30.0	6.6	22.1%	23.4
AR-L1119	2662IOC-AR	7-Dec-11	Programa Mejoramiento de Barrios, Segunda Operación Individual	400.0	303.0	75.8%	97.0
AR-L1120	2573IOC-AR	14-Sep-11	Programa de Servicios Agrícolas Provinciales - PROSAP II	230.0	215.7	93.8%	14.3
AR-L1121	3256IOC-AR	23-Jul-14	Programa de Saneamiento Ambiental de la cuenca del Río Reconquista	230.0	4.5	2.0%	225.5
AR-L1122	2613IOC-AR	2-Nov-11	Agua y Saneamiento para el Área Metropolitana de Buenos Aires	200.0	123.5	61.8%	76.5
AR-L1127	2754IOC-AR	6-Jul-12	Programa de Fortalecimiento Instit. Prov. y de Gestión Financiera- Seg. Etapa (PROG)	36.0	22.8	63.3%	13.2
AR-L1130	2763IOC-AR	29-Aug-12	Programa de Crédito para el Desarrollo de la Producción de San Juan	60.0	28.7	47.8%	31.3
AR-L1131	2655IOC-AR	30-Nov-11	Infraestructura Vial Productiva II	200.0	163.6	81.8%	36.4
AR-L1133	2698IOC-AR	1-Feb-12	Programa de Infraestructura Vial del norte	300.0	223.0	74.3%	77.0
AR-L1136	2776IOC-AR	13-Sep-12	Programa de desarrollo de las provincias del Norte Grande: Infraestructura	500.0	134.0	26.8%	366.0
AR-L1140	2835IOC-AR	7-Nov-12	Desarrollo Turístico Sustentable de la Provincia de Salta	34.0	8.0	23.5%	26.0
AR-L1141	2777IOC-AR	13-Sep-12	Programa de Innovación Tecnológica II	200.0	181.6	90.8%	18.4
AR-L1142	2788IOC-AR	26-Sep-12	Prog Multif de Atenc Primaria de la Salud para Manejo de Enfermedad	150.0	127.4	84.9%	22.6
AR-L1144	3050IOC-AR	30-Oct-13	Programa de Infraestructura Vial del Norte Grande II	300.0	67.2	22.4%	232.8
AR-L1145	2923IOC-AR	27-Mar-13	Programa de Apoyo a la Competitividad de las MPMYMEs	50.0	10.6	21.1%	39.4
AR-L1148	2929IOC-AR	10-Apr-13	Programa de Infraestructura municipal urbana	250.0	45.0	18.0%	205.0
AR-L1149	2851IOC-AR	26-Nov-12	Programa multisectorial de preInversión IV (CCLIP)	20.0	3.0	15.0%	17.0
AR-L1151	3249IOC-AR	16-Jul-14	Programa de Gestión Integral de Residuos Sólidos Urbanos	150.0	8.1	5.4%	141.9
AR-L1152	2940IOC-AR	31-May-13	Programa de Apoyo a la Política de Mejoramiento de la Equidad Educativa	280.0	240.0	85.7%	40.0
AR-L1154	3174IOC-AR	21-May-14	Competitividad de Economías Regionales	200.0	80.0	40.0%	120.0
AR-L1156	3066IOC-AR	13-Nov-13	Programa de becas en ciencia y tecnologías - Programa BECAR	24.0	6.3	26.3%	17.7
AR-L1157	3169IOC-AR	14-May-14	Programa para el Desarrollo de Mendoza Tecnológica	50.0	14.8	29.6%	35.2
AR-L1158	2982IOC-AR	12-Sep-13	Proyecto de Mejora Integral del Ferrocarril Gral Roca: Ramal Colchihue	300.0	117.0	39.0%	183.0
AR-L1159	3255IOC-AR	23-Jul-14	Programa de Desarrollo Pesquero y Acuícola Sustentable	30.0	7.7	25.6%	22.3
AR-L1162	3451IOC-AR	23-Apr-15	Programa de Agua Potable y Saneamiento (PAyS) para Centros Urbanos	200.0	0.0	0.0%	200.0
AR-L1179	3458IOC-AR	14-May-15	Programa de Mejoramiento de Barrios III Operación Individual	200.0	3.0	1.5%	197.0
AR-L1180	3455IOC-AR	7-May-15	Programa de Mejoramiento de la Equidad y Calidad de la Educación. Prom	200.0	0.0	0.0%	200.0
AR-L1181	3497IOC-AR	25-Jun-15	Programa de Innovación Tecnológica IV	150.0	22.5	15.0%	127.5
AR-L1245	3688IOC-AR	2-Jun-16	Programa de Emergencia para Respuesta Inmediata por las Inundaciones	20.0	0.0	0.0%	20.0
Total				7886.0	4570.9	58.0%	3315.1

## ANNEX V: SECTOR DISTRIBUTION OF THE SOVEREIGN-GUARANTEED PORTFOLIO



Distribution by current approved amount



**ANNEX VI: ACTIVE PORTFOLIO OF NON-SOVEREIGN GUARANTEED LOANS**

Project Number	Project/Transaction Name	Total Exposure June 2016	Product	Sector (Risk categories)
AR-L1086	Adeco	7.69	Loan	Agribusiness
AR-L1135	Banco CMF	15.00	Loan	Financial Intermediaries
AR-L1166	AUSA	130.00	Loan	Transportation
AR3934A-01	BANCO ITAU ARGENTINA	1.15	Loan	Financial Intermediaries
AR3876A-02	BANCO PATAGONIA	1.07	Loan	Financial Intermediaries
AR-L1096	Cooperativa La Riojana	0.94	Loan	Agribusiness
AR3870A-02	FINCAS PATAGONICAS	0.29	Loan	General Manufacturing
AR1029A-01	GALICIA	1.72	Loan	Financial Intermediaries
AR3452A-02	GARANTIZAR	0.07	Equity	Financial Intermediaries
AR3915A-01	HYCHICO	4.80	Loan	Energy
AR-L1132	Plaza Logistica	6.00	Loan	Logistics
AR3897A-02	PROFERTIL	2.00	Loan	Agribusiness
AR3897A-03	PROFERTIL	6.00	Loan	Agribusiness
AR3901A-01	TERMINAL ZARATE	1.52	Loan	Transportation
AR3758A-01	TRP	0.82	Loan	Transportation
AR-X1019	RTFF - Banco Industrial (Argentina)	3.45	TFFP Guaranteee	Financial Intermediaries
	<b>TOTAL</b>	<b>182.52</b>		

## ANNEX VII: REGIONAL AND PROVINCIAL GAPS (“ORIGINAL” AND “ALTERNATIVE”)

Income	Social development														Economic development										Institutional development			
	Urban poverty and inequality		Water		Sanitation		Health		Education		Gender		Diversity		ICTs		Innovation		Transportation infrastructure		Electric power infrastructure		Financial system		Private development		Institutional quality	Public safety
	O	O	O	A	O	A	O	A	O	A	O	A	O	O	O	A	O	A	O	A	O	O	O	A	O	O		
NORTHEAST (NEA)	-8.9	-9.8	-14.3	-7.9	-14.1	-13.9	-12.1	-10.2	-7.8	-6.9	-5.5	-6.7	-15.7	-10.2	-8.2	-11.7	-9.7	1.8	0.1	-9.1	-6.5	-8.7	-7.9	-2.3	6.7			
Chaco	-8.2	-7.4	-18.8	-29.4	-13.6	-14.5	-11.4	-7.6	-7.0	-6.9	-7.4	-9.8	-21.3	-5.6	-3.4	-3.5	-4.2	-1.1	-2.0	-7.5	-2.9	-6.8	-3.4	6.3	4.3			
Corrientes	-7.3	-9.7	-2.2	3.1	-0.7	3.1	-5.6	4.2	-3.9	-2.1	-2.9	-3.6	0.4	-5.0	-3.4	-5.3	-5.6	-4.1	-4.7	-3.6	-2.8	-3.8	-6.7	-5.0	3.3			
Formosa	-8.4	-8.0	-16.5	-2.2	-11.2	-3.0	-18.6	-13.2	-7.7	-7.9	-6.2	-6.8	-23.2	-12.4	-10.7	-7.0	-6.2	0.8	-0.7	-9.9	-7.8	-12.3	-10.3	-1.1	-1.1			
Misiones	-4.8	-10.4	-20.5	-6.3	-17.3	-20.0	-6.1	-6.2	-7.9	-6.3	-5.8	-3.4	-15.5	-8.5	-4.9	-7.7	-5.5	2.7	2.2	-6.5	-8.3	-2.4	-2.8	8.0	-0.5			
NORTHWEST (NOA)	-7.9	-3.6	1.6	4.4	-3.0	-1.7	-1.1	-3.3	-1.4	-2.3	1.0	5.8	-3.7	-9.5	-9.8	-2.2	-1.8	1.1	-0.5	-7.4	-5.5	-9.6	-8.6	0.9	11.1			
Catamarca	-0.2	-8.8	5.5	5.3	-5.0	-3.8	5.3	3.6	-1.4	-0.1	4.4	5.9	1.3	-4.4	-2.8	-3.3	-4.2	4.3	1.9	4.9	-10.5	-10.3	-9.3	-0.2	12.1			
Jujuy	-6.5	-4.7	4.9	4.4	2.9	2.7	-4.0	-4.1	0.2	1.7	-6.9	-1.0	-2.1	-9.1	-7.6	-5.2	-2.9	0.7	-0.4	-7.3	-3.5	-8.7	-10.1	5.1	0.0			
La Rioja	-6.1	0.2	6.3	6.0	-1.8	-0.9	2.8	2.1	2.0	2.3	4.8	4.9	6.3	-2.3	2.8	5.3	10.3	-0.2	-1.5	1.4	-5.5	-11.2	-13.9	-4.2	1.8			
Salta	-7.0	-10.1	1.6	0.9	3.5	5.8	-4.1	-4.6	-3.0	-4.5	-7.7	-2.7	-13.0	9.2	-3.9	-5.2	-4.9	-1.3	-1.3	-7.9	-3.1	-3.5	-4.0	1.2	0.4			
Santiago del Estero	-8.7	-5.2	-15.9	-10.2	-15.8	-14.9	1.3	0.44	-10.4	-8.2	7.6	6.9	-9.8	-10.9	-8.6	-8.4	-8.1	-3.6	-4.1	-15.1	-6.0	-6.9	-6.5	-0.5	8.1			
Tucumán	-5.4	1.2	0.3	4.9	-3.9	-4.5	-1.5	-2.0	0.1	-2.0	-1.0	0.7	1.5	-5.5	-5.8	2.5	1.1	15.1	10.5	-0.2	-4.1	-4.0	-1.1	-2.3	7.0			
CUYO	-2.8	5.1	7.1	8.6	1.9	5.3	6.4	2.4	-0.9	1.3	-1.6	-2.5	4.8	2.5	5.0	6.7	6.5	2.9	1.3	2.5	-4.9	2.8	2.1	-2.5	-6.5			
Mendoza	-2.5	4.5	2.7	5.6	4.0	7.9	3.8	2.0	1.1	2.3	-2.5	0.7	2.2	1.6	1.4	0.8	0.2	-3.9	-3.2	3.2	0.2	3.0	3.2	-2.8	-11.5			
San Juan	-5.3	-4.7	5.5	5.0	-12.1	-16.2	4.8	2.0	-5.8	-4.8	-2.5	-4.7	3.4	-3.3	-1.9	1.6	1.8	21.2	14.8	2.1	-7.0	1.0	-1.3	8.1	2.6			
San Luis	-2.3	5.3	7.7	6.2	2.6	5.9	1.1	-2.1	0.1	0.8	2.3	-6.4	3.9	3.2	1.2	8.9	8.1	11.1	1.0	-0.6	0.1	-7.3	-1.5	0.7	-7.7			
CENTER	5.0	1.4	-5.1	-13.3	1.6	-2.7	-0.5	4.6	8.3	7.3	4.0	2.8	8.4	7.1	6.5	6.3	6.5	5.8	3.3	2.8	10.7	10.2	7.7	3.5	-3.1			
C.A.B.A.	25.8	5.2	14.0	6.3	20.7	13.2	0.7	15.0	20.0	19.3	6.8	9.4	10.6	20.1	20.5	15.3	12.1	n.a.	n.a.	8.5	19.6	27.7	22.4	10.4	-11.5			
Buenos Aires	-2.3	-0.3	-15.2	-26.2	-3.5	-5.2	-2.2	-0.9	2.6	1.2	0.2	0.1	6.3	0.7	0.6	2.0	1.6	5.2	3.3	2.3	2.8	1.9	1.3	-1.3	-0.9			
Córdoba	-1.6	0.4	4.4	4.8	-7.9	-15.5	2.7	3.3	6.1	4.5	6.2	5.0	7.3	2.0	-0.7	5.4	3.6	0.7	-0.3	1.1	5.5	8.8	6.4	4.5	0.2			
Entre Ríos	-3.1	-0.2	2.7	5.9	7.2	9.6	1.0	0.1	-0.02	-0.6	0.5	-2.5	4.6	-1.7	-4.1	-5.9	-2.9	-3.9	-4.4	0.3	0.3	1.6	-0.2	1.1	-1.0			
La Pampa	-1.4	9.0	-0.8	4.8	2.0	7.0	3.9	1.4	2.7	1.6	4.5	5.4	3.2	2.1	-1.4	-0.2	-1.6	-4.1	-4.5	-1.0	18.7	4.0	5.5	-3.9	4.6			
Santa Fe	-0.03	4.9	-4.6	-11.6	-2.2	-0.5	1.4	1.1	3.1	2.9	-0.7	-1.7	2.0	1.4	-0.7	2.4	5.1	2.4	0.4	2.3	7.1	6.6	5.9	1.6	-9.3			
PATAGONIA	14.6	6.8	10.7	8.1	13.7	13.0	7.3	6.4	1.8	0.7	2.2	0.5	6.2	10.1	6.6	0.8	-1.5	-11.6	-4.2	11.3	6.2	5.3	6.7	0.5	-8.2			
Chubut	7.9	3.5	9.7	5.5	11.0	7.9	-0.6	-1.5	-1.5	1.5	2.5	0.9	5.1	8.6	8.7	-0.1	-0.4	-9.7	-5.2	13.4	6.8	4.2	6.7	-2.2	-6.0			
Neuquén	7.1	1.3	6.4	5.9	8.3	7.7	11.6	7.5	-1.6	-4.0	0.4	-0.7	1.7	6.6	6.3	-1.9	-2.3	-0.3	0.8	17.3	0.1	0.7	2.5	1.0	-11.8			
Río Negro	-0.8	2.6	4.5	5.1	3.0	3.7	5.2	4.4	2.9	2.2	2.8	-0.9	3.3	-2.0	-15.1	12.9	7.8	-6.2	-3.2	0.7	2.7	4.5	6.6	7.1	-2.6			
Santa Cruz	21.2	12.7	10.9	6.3	13.2	12.9	-1.6	-1.2	2.6	2.6	-3.6	-0.01	10.1	10.5	10.2	-2.2	-3.8	-5.8	0.3	2.1	-1.7	-1.9	-0.5	-16.8	-8.9			
Tierra del Fuego	20.0	18.7	7.2	-0.3	16.5	11.4	10.0	4.6	7.0	7.5	4.0	4.3	11.9	23.1	23.5	-1.0	-2.0	-9.9	1.8	-0.8	6.8	9.2	8.9	9.7	9.5			

### BY DIMENSION OF DEVELOPMENT

Source: Argentina Country Development Challenges, IDB, August 2016.

**ANNEX VIII: MANAGEMENT'S RESPONSE TO THE COUNTRY PROGRAM EVALUATION: ARGENTINA  
2009-2015**

OVE's recommendation in the CPE	Management's response
<p><b>Recommendation 1: Prioritizing efforts to support the policy dialogue on key issues in order to attain the country's development objectives.</b> The policy dialogue supported by a knowledge agenda that addresses the complex challenges that Argentina faces could trigger consensus in the country in the main areas of reform. The Bank's effort to promote the policy dialogue should focus on the most urgent challenges to achieve development objectives, prioritizing areas in which the Bank has comparative advantages in knowledge generation and the identification of best practices. The potential reform areas include improving the regulatory framework to promote private investment in infrastructure, strengthening the capacity of provincial governments, improving the business climate, making expenditure more efficient, and increasing the quality of basic social services.</p>	<p><b>Agree.</b> As part of the new country strategy formulation process and the policy dialogue undertaken with the new authorities to support the development of the Government Plan, the Bank has been conducting analyses to inform the dialogue in the areas of:</p> <ul style="list-style-type: none"> <li>(a) Evaluation of the trade and exchange policy;</li> <li>(b) External debt workout strategy;</li> <li>(c) Growth diagnostic assessment;</li> <li>(d) Regional development gaps and policy proposals;</li> <li>(e) Poverty and cash transfer policies;</li> <li>(f) Policies for export transformation; and</li> <li>(g) Agriculture policy priorities.</li> </ul> <p>These inputs underpin the formulation of the Country Development Challenges (CDCs), in which the following main development challenges are identified:</p> <ul style="list-style-type: none"> <li>(i) development of human capacities;</li> <li>(ii) the business climate;</li> <li>(iii) integration, competitiveness, and innovation; and</li> <li>(iv) regional gaps.</li> </ul> <p>The government and the Bank have agreed that the Bank's country strategy with Argentina will focus on supporting policies aimed at addressing these challenges.</p> <p>Initiatives that explicitly address key aspects of OVE's recommendation have already been agreed upon with the government in the 2016 loan and technical cooperation program as well as the project pipeline. In the case of promoting private investment in infrastructure, joint action with the Inter-American Investment Corporation (IIC) is under way, as highlighted in Management's response to recommendation 5.</p> <p>In 2016, provincial government capacity strengthening is expected to be supported through technical cooperation funding and financing under the Provincial Management Strengthening Program (AR-L1248).</p> <p>As to improving the business climate, which depends on variables ranging from infrastructure to security, Management is</p>

OVE's recommendation in the CPE	Management's response
	<p>considering technical cooperation operations focused on band width, financial inclusion, digital strategy, and productive development policies. In addition, the following infrastructure loans were agreed upon with the authorities in 2016: Road Corridor Security and Capacity Expansion Program (AR-L1199) and Phase III of the Water and Sanitation Program for the Buenos Aires Metropolitan Area and Conurbation (AR-L1159). In the citizen security area, in addition to approval of a technical cooperation operation in 2016, Citizen Security Week will be held in Buenos Aires in September, with participation by the majority of the Bank's borrowing member countries.</p> <p>With regard to making expenditure more efficient, Ministry of Finance strengthening projects are envisaged as well as the improvement of the State's administrative management, to be approved during the new country strategy period.</p> <p>Lastly, regarding the quality of basic social services, Management's position, as well as the actions it envisages, is presented in response to recommendation 3.</p>
<p><b>Recommendation 2: Supporting the government in addressing institutional deficiencies that undermine the effectiveness and sustainability of the Bank's programs aimed at providing infrastructure.</b> Regulatory and planning deficiencies, weaknesses in investment prioritizing, and lack of strategic planning at the sector and provincial level have reduced the development impact of investment expenditure on infrastructure. The regulatory framework and the deficiencies of infrastructure operators also generate sustainability risks. The programs, particularly those that involve transfers of infrastructure to provincial and local governments, should incorporate clear and effective works maintenance agreements that include incentives, penalties, and monitoring and accountability mechanisms.</p>	<p><b>Agree.</b> Management will continue to support the government in dealing with the institutional weaknesses that affect all investment programs and those executed by the Bank, provided the government requests such support.</p> <p>As OVE recognizes, despite existing deficiencies, the Bank was able to work with a long-term vision through the extensive use (11) of Conditional Credit Lines for Investment Projects (CCLIPs). It also participated in a territorial plan formulation process with consultations in the provinces, incorporating various sectors of society. As the evaluation indicates, this made it possible to target less developed provinces and regions.</p> <p>Building on these accomplishments, the Bank will support the regulatory strengthening of infrastructure areas through technical</p>

OVE's recommendation in the CPE	Management's response
	<p>cooperation operations under the new country strategy. This support refers in particular to promoting private sector participation, modernizing the water and sanitation and energy sectors, and developing transportation sector logistics plans.</p> <p>As to maintenance agreements, the Bank will continue with its policy to ensure projects are sustainable in the context of the institution's general policies (OP-707, Maintenance and Conservation of Physical Works and Equipment; and OP-708, Public Utilities).</p>
<p><b>Recommendation 3: Addressing the problems of quality and equity in Bank programs that support the delivery of basic social services.</b> The programmatic approach in health care and education has positioned the Bank as an important actor in both sectors. However, the focus has been on supporting the expansion of infrastructure and supply, with less emphasis placed on improving quality, particularly in education. In the health sector, the Bank may continue to support improvements in quality by deepening the preventive approach and care through networks.</p> <p>Strengthening the components of quality and equity in operations involving the delivery of basic social services necessarily entails incorporating provincial governments as full actors in project design and implementation and developing incentives and management-for-results mechanisms at the federal level for provincial governments.</p>	<p><b>Partially agree.</b> The Bank's interventions in education have focused on improving equity of access and have incrementally incorporated actions to improve quality. With programs to improve equity in education, Phases I and II of the Program to Support the Policy on Improving Equity in Education (PROMEDU I and II) made significant investments in actions aimed at promoting retention and education quality. PROMEDU II included actions and indicators to improve science and mathematics in primary school, designed on the basis of the outcomes of an experimental impact evaluation. PROMEDU IV, approved in late 2015, included quality improvement programs in the amount of US\$100 million.</p> <p>In the health sector, the Bank will continue to support the consolidation and expansion of the preventive approach of the REDES program, with the added attention to other chronic diseases.</p> <p>In education and health as well as in other areas, the Bank's interventions will continue to respect Argentina's federal structure and the relationship framework between the nation and the provinces. The REDES program is a good example of participation by the provinces in program design and implementation.</p>

OVE's recommendation in the CPE	Management's response
<p><b>Recommendation 4: Clearly documenting market failures that justify subsidy components (NRCs) in projects and ensuring coordinated, effective, and sustainable implementation.</b> Projects that include NRCs should effectively substantiate the need for them and address specific local market failures. This process of diagnostics and evaluation should also technically justify the amounts and types of cofinancing to be provided as well as the beneficiary selection methodology. NRCs should be part of an intervention strategy that incorporates different windows to support the productive sector.</p>	<p><b>Agree.</b> The new country strategy will emphasize support for the new government's efforts centered on supporting small and medium-sized enterprises (SMEs) with a view to creating a sustainable framework for productive investment.</p> <p>The IDB Group will carry out interventions to enable access to financing for SMEs in instances of market failures.</p> <p>Support for SMEs will also include IDB Group assistance through its private sector window, the IIC, with a view to championing the expansion of credit to specific segments or for specific purposes consistent with its business plan and development objectives, such as SMEs in depressed regions or green projects.</p> <p>In preparing its operations, the Bank performs evaluations of the sectors and geographical and economic targeting in order to assess the scale of market failures so as to properly allocate resources in order to address them. The Bank fully agrees with OVE's recommendation and will ensure that each project contains financing amounts and types as well as the financing selection methodology and the necessary coordination between the various windows.</p>
<p><b>Recommendation 5: Exploit synergies between SG and NSG windows to support the provision of basic infrastructure and electric power.</b> Closing the country's infrastructure gaps and increasing urgently needed generation capacity constitute an important opportunity for the IIC. OVE recommends exploring ways to coordinate the actions of the NSG and SG windows to simultaneously support the government and the private sector in addressing regulatory and institutional weaknesses as well as the lack of access to financing, all of which have reduced the role of the private sector in the delivery of basic infrastructure and the generation of clean energy.</p>	<p><b>Agree.</b> Management is working together with the IIC to offer a joint vision in support of providing infrastructure and energy.</p> <p>The two windows are collaborating on the formulation of the country strategy and the dialogue surrounding it and on the structure of the program with the country. For 2016, for example, it already includes technical cooperation to establish institutional changes and regulatory mechanisms necessary to encourage private sector participation in transportation and energy. Moreover, there are plans to provide support through technical cooperation in logistics, renewable energy, and energy efficiency.</p> <p>In the dialogue with the authorities, joint missions by the IDB Group's public- and</p>

OVE's recommendation in the CPE	Management's response
	<p>private-sector windows have been organized to identify regulatory and financial needs in infrastructure—particularly in renewable energy—to promote greater operational participation by the IIC in these areas.</p> <p>With the collaboration of the Transport Division (INE/TSP), the Vice Presidency for Countries (VPC), the Multilateral Investment Fund (MIF), and the IIC, comments have been made on a preliminary version of a draft law aimed at promoting public-private partnerships.</p> <p>The IIC and the Integration and Trade Sector (INT) are jointly participating in discussions with the National Agency for Foreign Trade and Investment Promotion, to support it in the creation of trusts to attract investment funds for infrastructure project financing. This dialogue also includes holding a forum in September 2016 at which opportunities to invest in infrastructure works will be promoted together with participation in this trust.</p> <p>The IIC is collaborating with the Sustainability Guarantee Fund of the National Social Security Agency to explore the possibility of financing infrastructure projects with its financial support.</p>

## COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evalubility of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

### COUNTRY STRATEGY: ARGENTINA

#### **STRATEGIC ALIGNMENT**

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

#### **EFFECTIVENESS**

This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the <b>priority area's</b> specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the <b>main factors</b> or causes contributing to the specific constraints and challenges	95%
- That provide corresponding <b>policy recommendations</b>	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	96%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

\* The Result Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expect results stem from the strategic objectives.

#### **Diagnostic assessment:**

As part of the country diagnostic, a Country Development Challenges (CDC) document was presented for Argentina, containing comprehensive information based on empirical evidence. The diagnostic document identifies three priority areas of intervention: (i) business climate improvement; (ii) strengthening of private-sector integration and insertion into value chains; and (iii) poverty and inequality reduction.

- The diagnostic assessment clearly identifies and quantifies, based on empirical evidence, 100% of the constraints and challenges in the priority areas.
- The diagnostic assessment clearly identifies and quantifies, based on empirical evidence, the factors and causes contributing to the specific constraints for 95% of the priority areas.
- The diagnostic assessment provides policy-related recommendations for Bank action related to the causes identified for 100% of the priority areas.

**Results matrix:** The results matrix identifies 13 strategic objectives, 30 expected outcomes, and 45 indicators to measure progress.

- 100% of the strategic objectives are clearly identified.
- 100% of the expected outcomes are clearly identified.
- 100% of the objectives are directly related to the main constraints identified in the diagnostic.
- 96% of the indicators are SMART.
- 100% of the indicators have baselines.

#### **Country systems:**

In the area of financial management, the Bank will continue to make 100% use of the budget systems and 95% use of the accounting and reporting systems. In addition, the performance level of the Courts of Accounts of the provinces of Buenos Aires, Mendoza, Río Negro, and Salta will be measured against the benchmark of international good practices. The tool to be used is the SAI Performance Measurement Framework (PMF) promoted by INTOSAI. The result of this assessment could lead to increased use of the external control system, from 40% to 42%. In the area of procurement, the Bank plans to increase use of the information system to 80% of Bank-financed operations. For all other subsystems, more advanced use will depend on the strategy that the Government of Argentina wishes to implement with regard to the SNCB and any dialogue that may be initiated.

**Vertical logic.** The country strategy has vertical logic.

**Risks.** Three dimensions are measured: (i) identification of factors that may affect achievement of the proposed objectives; (ii) identification of mitigation measures; and (iii) monitoring mechanisms.

The strategy identifies three risks: (i) **macroeconomic**: to mitigate this risk, Bank efforts are aimed at boosting the levels and pace of economic productivity growth and strengthening of public management capacity; the Bank already has suitable mechanisms in place for price redetermination in the event of persistent inflation; (ii) **business climate risk**: to mitigate this risk, the Bank will seek, in the priority area of business climate improvement, to support public initiatives fostering a better regulatory environment; and (iii) **execution risks**: to mitigate these risks, the Bank will work jointly with the new ministries to build their execution capacity and will actively provide the necessary resources to train the new staff in project management and fiduciary management.

## ANNEX IX: DEM