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ARGENTINA

**IDB GROUP COUNTRY STRATEGY WITH ARGENTINA
2021–2023**

MAY 2021

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ABBREVIATIONS

BCRA	Central Bank of the Argentine Republic
CCLIP	Conditional Credit Line for Investment Projects
ICT	Information and communication technologies
IMF	International Monetary Fund
INDEC	National Statistics and Census Institute of the Argentine Republic
IPSAS	International Public Sector Accounting Standards
LAC	Latin America and the Caribbean
MSMEs	Micro, small, and medium-sized enterprises
MVA	Megavolts-amperes
MW	Megawatts
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Co-operation and Development
PMR	Product market regulation indicators
SMEs	Small and medium-sized enterprises
TFFP	Trade Finance Facilitation Program
UIF	Financial Information Unit

EXECUTIVE SUMMARY

Economic and social context

Argentina's economy is in the midst of a complex and fragile macroeconomic and social context that has been aggravated by the COVID-19 crisis. Economic activity has been in recession for three years, with GDP falling by 9.9% in 2020 according to the National Statistics and Census Institute—the result of both negative domestic supply and demand shocks and a drop in external demand associated with the global health crisis. Economic activity began to recover in May and is expected to grow 6.2% in 2021. Inflation rose to 53% in 2019, while in 2020 it stood at 36.1%. Market expectations are for inflation of 46% in 2021. Capital controls were introduced in 2019 to slow the decline in the peso, which depreciated by more than 600% between 31 December 2015 and the end of March 2021. In September, the government completed restructuring of both foreign- and local-law debt, clearing the outlook for debt maturities until 2024. Following the debt swap, negotiations began surrounding a new program with the International Monetary Fund (IMF). The government increased public spending in 2020 to contain the impact of the crisis, pushing the primary deficit up to 6.5% of GDP. The authorities project a primary deficit of 4.5% of GDP in 2021. The COVID-19 crisis adds to the structural challenges already faced by the country: returning to a path of economic recovery and improving the circumstances of the most vulnerable groups after 10 years of very low average growth.

The IDB in Argentina

The IDB Group country strategy with Argentina for 2016–2019¹ proposed three strategic priorities to 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 with a focus on the Norte Grande region and the Buenos Aires conurbation. Forty sovereign-guaranteed operations were approved during the period, totaling US\$7,230,900,000. IDB Invest approved operations for a total of US\$1,767,300,000, with IDB Lab approving a further US\$14.9 million.

The IDB Group remains Argentina's main multilateral partner. As of 31 March 2021, the active portfolio of sovereign-guaranteed operations in Argentina stood at approximately US\$10.05 billion, consisting of 57 loans.² IDB Invest's active portfolio as of the same date comprised 25 operations for an approximate amount of US\$591.1 million, while the IDB Lab active portfolio included 18 operations for a total of US\$17.9 million.

Priority areas

The priorities under the country strategy for the 2021-2023 period focus on assisting the most vulnerable segments of the population affected by the economic crisis and COVID-19 pandemic, while also helping to stabilize the macroeconomic environment and fostering an agenda of economic recovery and sustained poverty reduction. To that end, four strategic pillars are proposed to

¹ The 2016-2019 country strategy period was extended until 30 June 2021 in response to recommendations from the Office of Evaluation and Oversight and a request from the government.

² Excludes four regional operations totaling US\$300 million.

guide sovereign- and non-sovereign guaranteed operational activities, technical cooperation operations, and knowledge products: (i) poverty reduction and social protection for the most vulnerable, (ii) economic recovery and productive development 4.0, (iii) macroeconomic stability and public policy effectiveness, and (iv) digital transformation as a crosscutting contributor to development. Each pillar also provides support in the areas of environmental sustainability and diversity and gender.

Financing framework

In response to the health and economic crisis inflicted by COVID-19, the IDB undertook a restructuring of the portfolio in 2020, increasing sovereign-guaranteed disbursements in the short term. For the 2021-2023 period, the IDB projects average annual approvals of US\$1.479 billion under the baseline scenario, with average disbursements of around US\$1.394 billion. The provision of national and regional technical cooperation is also expected to continue. Average net loan flows are projected at around US\$458 million annually, bringing the country's debt with the IDB to US\$14.731 billion in 2023. In the event of any change in the macroeconomic stability and growth context during implementation of the strategy, including a new IMF agreement, the Bank's financial envelope may be modified to respond to that new context. Under this scenario, the IDB projects average annual approvals of US\$1.846 billion in the same 2021-2023 period, with average annual disbursements of around US\$1.636 billion. Average net loan flows would reach around US\$701 million per year, bringing the country's debt with the IDB to US\$15.459 billion in 2023. Access to these resources will be treated flexibly to accommodate the time frames established in the IMF agreement.

Main risks

The main risks identified for implementation of the strategy are (i) the macroeconomic context (particularly fiscal sustainability, price stability, and potential external shocks); (ii) execution challenges associated with the amount of fiscal headroom; and (iii) execution capabilities in the projects.

I. COUNTRY CONTEXT

- 1.1 **Argentina's economy is in crisis amid a complex and fragile macroeconomic and social context that has been aggravated by the COVID-19 crisis.** Economic activity has been in recession for three years, with GDP falling by 9.9% in 2020³ after a 2.1% decline in 2019. After bottoming out in April 2020, economic activity recovered in subsequent months in response to the government's implementation of a program of subsidies to companies and individuals, including greater flexibility in the rules for the program.⁴ Nonetheless, the COVID-19 crisis adds to the structural challenges already faced by the country: returning to a path of economic recovery and improving the circumstances of the most vulnerable groups after 10 years of very low average growth.⁵ Market expectations are for growth of 6.2% in 2021.
- 1.2 **The fiscal accounts were strongly affected by the pandemic, and the fiscal headroom available to buffer the economic impact of the crisis is limited.** The primary deficit was reduced to 0.9% of GDP in 2019⁶ as a consequence of significant compression in both capital and current expenditure.⁷ Before the emergence of the pandemic, it was projected at 1.1% of GDP in 2020; however, the home isolation and social distancing associated with COVID-19 have had a significant impact on tax revenue, while social protection measures and support to companies and workers have led to an increase in public spending. The fiscal outturn in 2020 showed an increase of 63.5% (15.3% in real terms) in primary spending compared to 2019 and a 23% rise in revenue, though the latter represented a decline of 13.7% in real terms. Accordingly, the primary deficit stood at 6.5% of GDP in 2020, including the cost of the measures adopted to mitigate the economic impact of the COVID-19 crisis, which is estimated at 4.2% of GDP.⁸ The latter was financed in its entirety by temporary advances and profit transfers from the Central Bank. The Ministry of the Economy has announced a target of 4.5% of GDP for the primary deficit in 2021.
- 1.3 **The country has lacked access to voluntary external financing since 2018.** Argentina's debt-to-GDP ratio increased by 32 percentage points in the 2016-2018 period. GDP grew by just 0.2% over the same period, while the primary deficit averaged 3.4% of GDP and the current account deficit 5% of GDP. After a sudden stop event at the beginning of 2018, the country lost access to voluntary financing. In June 2018, the previous government signed a three-year standby agreement with the International Monetary Fund (IMF) for US\$50 billion, which was subsequently increased to US\$57 billion in September 2018. Disbursements were US\$44 billion, with repayments falling due between 2021 and 2024. The program with the IMF was suspended after the elections, and in November 2020 the current government initiated negotiations for a new agreement.

³ Prior to the pandemic, the consensus was for an economic contraction of 1.5% in 2020.

⁴ The hotels and restaurants sector was one of the worst affected, reporting a cumulative drop of 45.8% year-on-year in the first eight months of the year.

⁵ Average GDP growth in the 2010-2019 period was 1.4%.

⁶ Refers to the federal government deficit.

⁷ Current public expenditure fell from 20.6% of GDP to 17.7% between 2017 and 2019, while capital spending declined from 2% of GDP to 1.1%.

⁸ Includes liquidity facilities provided as collateral.

- 1.4 **Restructuring of both foreign- and local-law sovereign debt was completed in September 2020, and progress was made toward consolidating the market for domestic debt.** Restructuring of the short-term domestic debt was undertaken by the previous government in November 2019, after which the current government launched a process to restructure the external debt in March 2020. The consolidated public debt was estimated at 88.8% of GDP at the end of 2019, 70% of which was U.S. dollar-denominated. Debt to public sector agencies represented 37.4% of gross central government debt, with multilateral and bilateral organizations accounting for 23.4% and the private sector for the remaining 35.9%. The Argentine proposal presented in August was accepted by 99% of debtholders, leading to the restructuring of US\$66 billion. Although the agreement provided for only a minimal principal reduction of around 1.9%, it postponed short-term debt maturities⁹ and significantly reduced interest payments. The government also restructured a total of US\$41.715 billion in local-law foreign currency debt on similar terms. A number of provinces, such as Buenos Aires, are expected to follow a similar strategy to the federal government in renegotiating their debts. In the local market, the government has succeeded in its plans to roll over maturing debt and issue new debt, generating positive net financing in the most recent rounds of financing.
- 1.5 **The inflation rate remained above 40% in the 2016-2019 period. The new authorities at the Central Bank of the Argentine Republic (BCRA) decided to implement a profound shift in monetary policy compared to the previous two years.** After taking office, the new BCRA administration discontinued targeting of the monetary aggregates used by the previous administration, allowing a recomposition of system liquidity. The new administration's monetary policy does not rely on explicit nominal anchors; rather, it is based primarily on the implicit use of a passive crawling peg, which seeks to avoid a gap between inflation and the rate of currency depreciation. This has recently become an active crawling peg. Growth in monetary aggregates has accelerated significantly following the Central Bank's decision to resume the use of currency issue to finance the Treasury, allowing it to meet the higher financing needs resulting from the pandemic. The expansion in base money rose from 5.6% year-on-year in September 2019 to 76.3% in August 2020, before declining to 31.4% in March 2021. Since November 2019, assistance to the Treasury has risen by Arg\$2.499 trillion, or 99% of base money, due to increased production financing needs during the pandemic and the absence of sources of financing. The government is expected to continue using monetary transfers to either partly or fully finance the deficit. Inflation rose to 48% in 2018 and 53% in 2019, standing at 36.1% in 2020. End-year inflation in 2021 is expected to be around 46%. Against this backdrop, the Central Bank has so far maintained the capital controls introduced at the end of August 2019, and has in fact intensified them since April 2020 with a view to containing pressure on the exchange rate and conserving international reserves for imports of production inputs. Since October 2020, the BCRA has also sought to manage the parallel exchange rate by intervening in the sale and purchase of U.S. dollar- and peso-denominated bonds. The gap between the official exchange rate and the parallel one stood at around 55% in mid-April.

⁹ Only US\$5.6 billion in debt is set to mature in the period to 2024, compared to US\$40 billion before the restructuring.

- 1.6 **COVID-19 has also affected external trade.** After an initial jump in 2016, the volume of Argentine exports stagnated in the period to 2018 before growing again in 2019, due to policy incentives that encouraged exporters to exchange foreign currency earned from the agricultural harvest. The trade account yielded a positive balance of US\$15.992 billion in 2019, after six years of deficits averaging US\$1.545 billion. The surplus reached US\$12.530 billion in 2020 due to a 24.2% decline in imports and a 5.2% drop in exports. The trade surplus is expected to remain at approximately the same level in 2021 as in 2020.
- 1.7 **Social indicators have deteriorated over the last two years, and the COVID-19 crisis has amplified the role of the State as a provider of social and economic assistance.** Over 35% of the population were below the poverty line at the end of 2019, representing an increase of almost 10 percentage points compared to the figure for the second half of 2017. Some 8% of the population was indigent. The COVID-19 pandemic and associated lockdown had a significant impact on the earnings of vulnerable groups: official figures for the second half of 2020 show the poverty rate rising to 42% and the rate of indigence to 10.5%. Meanwhile, the employment rate in the fourth quarter of 2020 stood at 40.1% of the population. Most of those who lost their jobs were not registered as unemployed as they left the labor force. The unemployment rate stood at 11.7% of the economically active population and was highest among both wage earners without pension contributions and self-employed workers associated with the informal economy. The decline among formal sector workers was smaller due to the protection policies introduced by the government, which included a prohibition on dismissals without cause and the absorption of part of the wage bill in sectors affected by lockdown. The government also introduced the Emergency Family Income (IFE), which targets lower-income groups. The program had 9 million beneficiaries, who received three payments in the period to September.¹⁰ Estimates from the Ministry of the Economy showed that these measures avoided an increase of 6-8 percentage points in the poverty rate. Children account for a large share of those living in poverty: it is estimated that more than half of children aged 0-14 years are poor. There is also significant dispersion in poverty rates at the geographical level, with higher rates in the Northeast and Northwest regions and in the Buenos Aires conurbation.
- 1.8 **Against this backdrop, the greatest development challenges faced by the country are poverty reduction and social protection in all their dimensions, as well as economic recovery and productive development.** As described in detail in Chapter 3, this will require progress toward closing gaps in social coverage and human development. There are significant challenges in the areas of health, education, employment and access to housing, basic services, and household financing. There is also a need to resolve the obstacles that affect the creation of productive employment: productivity levels and growth rates, entrepreneurship, and the formation of competitive supply chains, as well as adapting production, marketing, and employment to new health standards. To sustain the recovery and return the country to a path of growth and stability, it will be critical to support the development of those sectors with the highest levels of competitiveness and greatest impact on job creation in the formal sector. Accordingly, it will be key to strengthen the integration of the local productive sector into regional- and global-scale division of labor processes, facilitating

¹⁰ Government estimates show that as a result of these policies, nonwage income grew by 26.1 percentage points year-on-year among the lowest income deciles (reaching 55.6% of total income) and by 7.3 percentage points among middle-income groups.

trade and foreign direct investment and exploiting potential opportunities for nearshoring both globally and regionally (particularly in sectors such as automotive, telemedicine, and the orange economy). As highlighted in Chapter 3, Argentina exhibits structural gender and diversity inequalities that must be addressed if comprehensive development is to be achieved. To tackle poverty and growth challenges in a context of restricted fiscal headroom, it will be fundamental to improve macroeconomic stability, the quality of public policies, and technical and allocative efficiency in the use of government resources (particularly the targeting of policies to improve inclusion and social protection).

- 1.9 **Closing the country's digital gaps is a necessary condition for productive transformation** to make the country competitive at the global level, particularly in the context of the COVID-19 pandemic. The country needs to deepen its digital transformation with a view to spurring the recovery process and improving the inclusion of vulnerable sectors. Digitalization of the government and corporate sectors is critical for State efficiency and innovative development in the private sector. At the same time, greater digital inclusion and literacy can help to ensure greater equality of opportunity, through access to financing for Fintech, better health and education services, and more tools and opportunities for the current labor market.
- 1.10 **Climate change—with its growing impact on the disasters experienced by the country in terms of droughts, wildfires, and floods—is a central challenge that affects economic growth and requires comprehensive, crosscutting measures in the areas of resource management and environmental protection.** Projections point to an intensification of these extreme events and an increase in average temperatures of between 0.5°C and 1°C by the end of the 21st century. This will affect several sectors of the economy, particularly agriculture. Under the framework of the Paris Agreement, Argentina initially committed to limit its emissions of greenhouse gases to 483 million tons of carbon dioxide equivalent by 2030, with a focus on the energy, agriculture, forestry, transportation, industry, and waste management sectors. In December 2020, the country submitted a new target, committing to an absolute, unconditional, and economy-wide limit on greenhouse gas emissions of 359 million tons of carbon dioxide equivalent by 2030. Under the coordination of the Cabinet Committee on Climate Change, the country is also developing a long-term vision to tackle the current and future consequences of climate change. These are already affecting the country's production systems and power generation capacity.
- 1.11 **The Government of Argentina's agenda is focused on both assisting and protecting the most vulnerable groups affected by the crisis and stabilizing the macroeconomic environment.** The new administration's model of economic development is based on five pillars: inclusion, productive dynamism, stability, federalism, and sovereignty. In the short term, the budget has been formulated based on the government's assumptions that stabilization will flow from the recovery in activity and that fiscal and external sustainability, in turn, are necessary conditions for a stable economy. The COVID-19 crisis heightens the focus on poverty reduction and the recovery of the companies, sectors, and jobs that have been hardest hit by the health crisis, also including the strengthening of the health and education systems and enhancement of the country's science and technology capabilities.

II. THE IDB GROUP IN ARGENTINA

- 2.1 **The IDB Group remains Argentina's main multilateral partner.** Sovereign-guaranteed financing from the IDB Group accounts for 18.6% of the multilateral financing received by Argentina.¹¹ In comparison, financing from the IMF, World Bank Group, and Development Bank for Latin America account for 64.9%, 10.5%, and 5.4%, respectively. As of 31 March 2021, the active portfolio of sovereign-guaranteed operations in Argentina stood at approximately US\$10.05 billion in loans.¹² This portfolio represents 10.58% of the number of loans and 19.28% of the total value of the portfolio in Latin America and the Caribbean.¹³ IDB Invest's active portfolio as of 31 March 2021 comprised 25 loan operations, guarantees, and debt securities for an approximate amount of approximately US\$591.1 million. This amount increases to US\$547.76 million once third-party resources administered by IDB Invest and mobilized resources are included. IDB Lab's active portfolio as of 31 March 2021 included 18 reimbursable and nonreimbursable operations for a total of US\$17.9 million. This excludes 19 regional operations of which Argentina is a beneficiary, totaling approximately US\$29.6 million.
- 2.2 **The IDB Group country strategy with Argentina for 2016–2019** proposed three strategic priorities to 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 with a focus on the Norte Grande region and the Buenos Aires conurbation. The strategy also proposed support through interventions at the national and provincial levels, offering generalized support to help improve the quality of public management. A particular priority of the country strategy was the targeting of interventions on the Norte Grande region and the Buenos Aires conurbation, in response to significant income gaps and sector development gaps such as infrastructural development and access to basic services.
- 2.3 **The indicative lending framework in the 2016-2019 country strategy envisaged approvals of US\$6 billion. During the period—which in practice spanned four years¹⁴—40 sovereign-guaranteed loan operations were approved for a total of US\$7,230,900,000.¹⁵** Of that total, 11 loans totaling US\$2,329,300,000 were approved using Conditional Credit Lines for Investment Projects (CCLIPs), of which US\$1,509,300,000 related to CCLIP lines approved within the framework of the 2016-2019 country strategy, with the remaining US\$820 million using CCLIP lines from earlier periods. The total amount of CCLIP loans approved during the period was US\$4,224,300,000. Five policy-based loans were also approved during the country strategy period, in the amount of US\$1.2 billion. In terms of sector composition, Bank financing was distributed as follows: 53.1% in infrastructure (transportation, energy, and water and sanitation); 21.2% in the social sectors (education and health); 13.4% in institutions for development and competitiveness; 11.7% in urban development,

¹¹ Excluding the IMF loan, the IDB accounts for 53% of multilateral financing received by Argentina.

¹² Excludes four regional operations totaling US\$300 million.

¹³ IDBG-DATA data as of 31 March 2021. Active portfolio.

¹⁴ December 2016 to December 2019. The numbers and amounts cited for operations, programs under CCLIPs, and disbursements are measured on a calendar year basis for the period 1 January 2016 to 31 December 2019.

¹⁵ The number of sovereign-guaranteed operations indicated does not include the following operations: five regional operations approved over the same period for a total of US\$320 million, one guarantee operation for US\$490 million, and a US\$300 million contingent credit operation for natural disasters.

environmental and climate sustainability, and natural resources; and 0.7% in regional integration. During the period, 29.34% of financing contributed to the IDB's overall target for climate financing. Disbursements during the country strategy period were US\$4,927,700,000. According to project monitoring reports, average portfolio performance during the country strategy period was 80% satisfactory, with commitment and execution rates held back by the lack of budgetary space in the wake of the economic crisis of recent years.

- 2.4 **IDB Invest approved operations totaling US\$1,767,300,000 during the country strategy period.** Thirty operations were used to support medium- and long-term financing to the telecommunications, transportation, energy, agribusiness, industrial, and health sectors, for a total of US\$1,172,950,000. In addition, operations worth US\$594.3 million were approved under the Trade Finance Facilitation Program (TFFP), aimed at strengthening the country's foreign trade. **IDB Lab approved 17 operations during the period, for a total of US\$14.9 million** (2 loan operations for US\$2 million, 3 investment operations for US\$4 million, and 12 technical cooperation operations for US\$8.9 million). The operations were primarily to support inclusive financial development, financing for the entrepreneurial sector, and the development of business services and public goods to drive innovation. Two operations totaling US\$700,000 were also approved for Argentina under the Social Entrepreneurship Program, to support honey producers in the Gran Chaco region.
- 2.5 **The Bank also maintained its position as a major provider of technical assistance and knowledge transfer. Fifty-two technical cooperation operations were approved for a total of US\$22.3 million,** focused in the areas of institutional capacity of the State; social protection and health; the environment, natural resources, and disaster risk management; transportation; water and sanitation; and private sector development.
- 2.6 **Support for regional integration was a notable feature of the strategy period. Five operations were approved for Argentina under the regional financing envelope, totaling US\$320 million. These focused on two geographical axes:** (i) operations to expand the region's access to international markets by improving cross border integration between Chile and Argentina, such as the Agua Negra Pass International Tunnel Structuring Program (RG-L1074) and the First Operation of the Agua Negra Pass International Tunnel Construction Program (RG-L1116); and (ii) energy, productive development, and water and sanitation operations located on the border with Paraguay, particularly in the Province of Entre Ríos and the Salto Grande region, such as Modernization of the Salto Grande Binational Hydropower Complex (RG-L1124), Development and Integration Program of the Salto Grande Region (RG-L1126), and the Comprehensive Sanitation Program for the Cities of the Uruguay River Basin (RG-L1131).

Main outcomes attained under the 2016-2019 country strategy pillars

- 2.7 **With respect to improvement of the business climate, 22 projects aligned with this pillar were approved during the country strategy period, mainly in sectors such as transportation, institutional development, financial markets, and citizen security.**

- 2.8 In the **transportation** sector, nine operations totaling US\$1.924 billion were approved to upgrade 700 km of national and provincial roads, with the aim of reducing transportation costs and numbers of road accidents. The Bank also worked to improve transportation infrastructure throughout the country's interior, through programs such as the first and second operations under the Program to Build Capacity and Improve Safety on the Accesses to the Cristo Redentor Border Crossing,¹⁶ which supported training for provincial officials in innovative aspects of infrastructure design and management, including climate change resilience and gender equity. The IDB Group provided technical support for the design of public-private partnership bidding documents for the first six highway corridors, including (i) a technical cooperation operation to design an integrity framework for the trust fund created to initiate the works, and (ii) a public-private facility to attract private financing into the trust fund. Although the program of public-private partnerships was suspended in Argentina due to the economic situation, the results of these studies will provide a foundation that can be adapted for similar projects in the country in the future, while also providing a model for other countries.
- 2.9 With respect to **institutional development**, support was provided for institutional strengthening initiatives to improve the quality and efficiency of public management across all three levels of government. Of particular note were the strengthening of financial information systems in the Ministry of Finance and the modernization of budget management. In terms of transparency and integrity, the Bank promoted a group of reforms that represented a significant contribution to the legal and institutional framework, including: (i) improvements in access to public information, with the implementation of information systems showing the degree of effective response to information requests (95% of requests received a response in 2017) and a gifts register for public officials introduced through the document management system (GDE); (ii) transparency in public procurement through technology platforms such as CONTRAT.AR and COMPR.AR, which reduced the average duration of procurement processes by 37.8% and average prices (on a comparative basis) by 4.4%, while also increasing the average number of bidders per process from 3.3 to 3.8; and (iii) improvements in the financial autonomy of the Financial Information Unit (UIF), which was strengthened by Central Bank directives obliging all financial entities to observe International Financial Reporting Standards (IFRS) in 2020, thus helping the country to comply with recommendations by the UIF and Financial Action Task Force (FATF).
- 2.10 The IDB Group continued to support **financial inclusion** projects, particularly development of the National Financial Inclusion Strategy and the policy on Access to Productive Credit. It facilitated technical assistance and long-term credit to approximately 1,000 small- and medium-sized enterprises (SMEs) throughout the country, using a value chain approach. It also supported strengthening of the National Social Capital Fund (FONCAP) with a view to consolidating the country's microfinance system, and progress was made on regulatory proposals governing crowdfunding and factoring. IDB Invest support to the private sector allowed more than 5,000 micro-, small-, and medium-sized enterprises (MSMEs) to access financing for investment projects each year. IDB Lab also supported the development of financial services through the creation of an alternative green finance system based on crowdlending, as well as financial technology innovations focused on financial inclusion of the most

¹⁶ AR-L1279 and AR-L1285.

disadvantaged socioeconomic segments in Argentina. In 2020, IDB Invest supported the creation of a Sustainable Finance Roundtable under the auspices of the Cabinet Committee on Climate Change, involving financial institutions with a presence in Argentina. This succeeded in building a consensus in favor of the implementation of international best practices for the sustainable development of industry. From a gender perspective, IDB Lab also supported the design of a digital collaborative economy platform to facilitate the formalization and financial inclusion of female domestic workers. Additionally, the program “**Mujeres que Lideran [Women Who Lead]**” was launched under the umbrella of a bond issued by Banco de Inversión and Comercio Exterior S.A. (BICE) underwritten by **IDB Invest**. The aim of this program is to facilitate access to financing for women-led companies, and since its launch¹⁷ it has benefited 94 women-led companies.

- 2.11 In the area of **citizen security**, the IDB supported improvements in the Province of Buenos Aires' emergency response system, helping to expand geographical coverage of the 911 emergency system to around 96% of the population while also reducing police response times from 90 to 70 seconds.
- 2.12 **With respect to the strengthening of private-sector integration and insertion into value chains, five projects aligned with this strategic pillar were approved, focusing mainly on the areas of integration, innovation and technology, energy, agribusiness, and natural resources.**
- 2.13 Through its support for investment attraction, trade facilitation, and logistics, the Bank helped to promote export diversification toward differentiated and knowledge transfer-intensive products. It contributed to the design and initial stages of implementation of the **Single Window for Foreign Trade (VUCE)**, thus facilitating process simplification and a reduction in the costs and timelines for foreign trade. Improvements include a listing of all external trade processes (more than 320), cooperation agreements with 18 state agencies in the area of foreign trade, and digitalization of more than 95% of the listed export and import processes. A central database of information on external trade (CIVUCE) was also developed, and the VUCE was integrated with the Exporta Simple platform, which was used by 750 SMEs to make their first export.
- 2.14 To help develop the business services and public goods needed to drive integration and competitiveness, **innovation programs** sought to strengthen companies' technological innovation capabilities and the country's scientific and technological research capacities. In particular, financing was provided for innovative activities to enhance competitiveness and value added among MSMEs and in the science and technology system. As part of this framework, technical assistance was provided to 2,314 MSMEs and support was provided to improve the competitiveness of 35 production clusters. Assistance was also given to 467 start-ups.
- 2.15 With respect to **agribusiness and other natural resource-related sectors**, Bank programs facilitated the inclusion of sustainable dimensions in agricultural management, as well as significant improvements to infrastructure. The latter included the rehabilitation of 123.6 km of irrigation infrastructure, the upgrading of infrastructure across 23,228 hectares, and pressurized irrigation technologies for 1,600 producers. Quantitative results also show that participants in the Provincial Agricultural Services Program (PROSAP) produced 9.4% more than nonparticipants, with per-hectare

¹⁷ March 2018.

yields 7.7% higher than those of nonparticipants. The Program for Rural Development and Family Agriculture (PRODAF) supported the adoption of new technologies and provided technical assistance and training to more than 2,300 agricultural producers, helping to improve their productivity, environmental sustainability, and socioeconomic equity. IDB Invest supported an expansion in the country's soybean production and processing of the crop into higher value-added products, as well as greater inroads into international markets. IDB Invest operations also facilitated debt restructuring in the agroindustrial sector, allowing anchor companies to expand their links with small and medium-sized producers.

- 2.16 In terms of **natural resources and environmental sustainability**, a flagship project was approved to support the generation and use of satellite images, thus helping to improve Earth observation capabilities, disaster risk monitoring and management, and productivity in the agricultural sector. From an institutional perspective, assistance was provided for preparation of Law 27,520 on Minimum Budgets for Global Climate Change Adaptation and Mitigation (approved in December 2019), which establishes a multisector approach through the Cabinet Committee on Climate Change and acknowledges the importance of sustainable infrastructure. Using a regional approach (Argentina, Bolivia, and Paraguay), IDB Lab supported the integration of meteorological information from more than 150 measurement stations in the Gran Chaco region, and also developed new tools to connect the population, extend alerts, and obtain rainfall data collaboratively.
- 2.17 Under this pillar, IDB Lab also promoted **development of the science and technology-based entrepreneurial ecosystem** in the country through an investment in CITES I. This investment vehicle is a business accelerator and investor for early-stage startups that are based on disruptive technologies and offer sound intellectual property, global expansion prospects, and the ability to sustainably address social and/or environmental problems. In addition, financing was provided for agtech accelerators to generate innovative solutions for the agricultural sector through projects executed by NXTP Labs and the Argentine Association of Regional Agricultural Experimentation Consortia (AACREA), for example. IDB Lab also supported the development in five Argentine cities of the entrepreneurial ecosystem associated with digital platforms, thus contributing to the state of knowledge regarding the platform economy in the country.
- 2.18 Also consistent with the second strategic pillar, the Bank provided support through INTAL/INT for the **agenda to modernize and deepen MERCOSUR**. This contribution included: (i) the training of MERCOSUR officials in priority areas for trade negotiations; (ii) studies to support modification of the common external tariff; (iii) proposed strategies for increasing active participation of the private sector in MERCOSUR; (iv) a proposal for modernizing the bloc's institutional architecture; (v) support for implementation of trade agreements between MERCOSUR and other integration blocs; and (vi) technical support for the process of creating and designing the Forum for the Progress and Development of South America (PROSUR).¹⁸
- 2.19 **INTAL** also supported the country's international development and insertion strategy, through research, training, and dissemination in areas such as new technologies, industry 4.0, the bioeconomy, and cross-border integration. In particular, it participated actively in the World Trade Organization Ministerial Conference (MC11) and the

¹⁸ On 22 March 2019, Argentina, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, and Peru signed the "Declaration of Santiago for the Renewal and Strengthening of South America."

annual G20 meeting. On the operational front, the 2016-2019 country strategy period saw the approval of the Development and Integration Program of the Salto Grande Region, between Argentina and Uruguay.

- 2.20 **IDB Invest** helped to finance external trade through the TFFP program. In particular, support was provided through TFFP-authorized financial institutions for 2,356 individual foreign trade transactions totaling US\$532 million. These efforts will enhance the country's resilience in the face of the coronavirus pandemic, providing short-term liquidity to companies in the real sector to facilitate imports and exports of the goods necessary for production and consumption.
- 2.21 In the **energy** sector, regional power transmission systems were strengthened through the construction of 600 km of high-tension lines and 10 transformer stations (450 megavolt-amperes (MVA)), thus improving the delivery of electricity services to around 1.2 million inhabitants.¹⁹ This new infrastructure has helped to reduce the use of diesel fuel for power generation, leading to increased energy efficiency in the power system and lower generation costs and carbon dioxide emissions. In the area of power generation, modernization of the Salto Grande Binational Hydropower Complex (1,890 MW) was launched. This supports the conservation of one of the main sources of renewable energy while also promoting regional integration. IDB Invest also supported the development of infrastructure in the energy sector, with wind power projects such as El Corti (100 MW), Achiras (50 MW), La Castellana (99 MW), and Bicentenario (100 MW), and solar projects such as San Juan (80 MW). The IDB Group assisted the Argentine authorities with design of the RenovAr Program and with the development of nonconventional renewable energy projects, including the dissemination of knowledge on environmental and social best practices in the sector. Financial and technical support was also provided for design of the national action plan to decarbonize the country's energy sector. **IDB Lab supported the country through a model for converting forestry waste into energy** to cover the basic needs of vulnerable populations in the city of San Carlos de Bariloche.
- 2.22 **With respect to the third strategic pillar, “poverty and inequality reduction,” 16 projects were approved in alignment with this pillar. IDB Group interventions under this strategic pillar sought to reduce poverty by improving human capacities and access to basic services,**²⁰ mainly in the ten Northeastern and Northwestern provinces included in the Belgrano and Buenos Aires Conurbation Plan.
- 2.23 In the area of **social protection and early childhood support**, the IDB Group provided technical and financial assistance for the early childhood development policy, helping to strengthen nonschool interventions such as early childhood spaces and home visits. Remodeling activities were financed for 81 early childhood spaces in six Norte Grande provinces and the Buenos Aires conurbation. A tool was designed and implemented to monitor the quality of interactions in 643 early childhood spaces across the country, and a new approach to home visits was piloted.
- 2.24 In the **education sector**, support was provided to expand school coverage at all levels of education. Financing was provided to build new kindergartens and primary and secondary schools in the provinces of Norte Grande and the Buenos Aires conurbation, enabling the creation of 123,000 new slots. Technical and financial support was also provided to train teachers and school administrators and strengthen

¹⁹ In the provinces of Salta, Misiones, Formosa, El Chaco, Entre Ríos, San Luis, and Buenos Aires.

²⁰ Particularly water and sanitation.

school management. Some 30,000 teachers and 2,600 administrators participated in these programs. Progress was also made on institutional reforms and the delivery of teaching materials to 3,000 schools in vulnerable areas of the country. The provinces of Mendoza and Córdoba received Bank support to improve their management and educational equity systems to leverage the benefits of digital transformation.

- 2.25 The Bank also helped to strengthen the **quality of health services** at the primary care level, with a particular focus on the prevention of noncommunicable chronic diseases. It supported the promotion of a care model for patients with noncommunicable chronic diseases, involving integrated services networks, the prioritization of primary care, increased population access to screening procedures (allowing individuals to be classified on the basis of health risk), and an increase in the proportion of the population with health risks that receive ongoing care from the health system. Results include the registration of 3.75 million people for exclusive public coverage, the classification of 442,000 people aged 40-64 years for exclusive public coverage due to overall cardiovascular risk, and a total of 135,000 beneficiaries with high cardiovascular risk that attended a medical follow-up appointment after their classification. IDB Invest assistance to the sector focused on strengthening telehealth services by increasing the supply of these services in previously marginalized or very remote regions and communities. To achieve this objective, IDB Invest supported the procurement and replacement of vehicles for transporting people with disabilities, an increase in number of mobile clinics adapted for use in remote locations, the implementation of digital tools for detecting diseases, and greater efficiency in decision-making processes.
- 2.26 **Urban and housing programs** have provided crosscutting support for the objectives of the third country strategy pillar. In the **water and sanitation sector**, IDB Group actions have focused on supporting the creation, strengthening, and development of institutional capacities in the relevant organizations, fostering the expansion and improvement of service delivery (particularly in the Norte Grande region and the Buenos Aires conurbation). The main outcomes show increases in the number of water network connections for 65,000 families, the number of households with sanitation services for 100,000 families, and the number of households with wastewater treatment for 350,000 families. The IDB Group also helped to build institutional capacity through development of the National Water Plan, the reduction and improved targeting of subsidies, and the preparation of studies, management plans, governance and transparency frameworks, etc.²¹ Flood risk assessments were completed for the cities of Corrientes (Province of Corrientes), Lamadrid (Tucumán), and San Salvador de Jujuy (Jujuy), the lower watershed of the Municipio of Quilmes, and Arroyo Medrano (Buenos Aires). In the case of the first two cities, designs for flood risk mitigation works were also prepared. With respect to **urban mobility**, the Bank approved an electrification project for the San Martín railway that will improve the quality of the rail service and its accessibility to users (who belong primarily to the two lowest income quintiles). **Housing and urban development** programs also supported socio-urban integration and sector innovation in the country, benefiting

²¹ These actions to strengthen capacities and support public investment have provided a foundation for initiating the execution of water and sanitation interventions in the second and third rings in the Buenos Aires metropolitan area, the Belgrano Plan for the Norte Grande provinces, the Drainage and Flood Control Project in the Province of Buenos Aires, the Uruguay River Sanitation Program, formulation of the Integrated Water Resource Management Plan for the Pilcomayo River Watershed, and the preparation of studies on adaptation in the water system (both nationally and in the provinces of Mendoza, Salta, Jujuy, and Neuquén).

45,000 people living in the Barrio 31 settlement.²² **IDB Lab also continues to test the region's first self-sovereign digital identity based on blockchain technology** in this location, as a tool for promoting the social, civic, and economic integration of inhabitants in informal settlements. Support was provided for interjurisdictional coordination and the creation of institutional frameworks in ten of the country's metropolitan areas, aimed at supporting the delivery of urban-environmental, mobility, citizen security, and health services. The Bank also fostered the development of **municipal infrastructure** in more than 30 municipios, with a focus on the country's Norte Grande region. The Bank's **sustainable cities program** provided support for urban planning efforts and the innovation agenda in social housing.

- 2.27 Addressing the objectives of this third pillar, **IDB Lab also supported the creation of formal employment for young people in a situation of labor vulnerability** in the south of the Autonomous City of Buenos Aires, through implementation of Argentina's first social impact bond (known as "Vínculo de Impacto Social [Social Impact Link]"). This comprehensive program seeks to place young people in jobs and ensure that they can sustain themselves over the medium and long term.
- 2.28 **The crosscutting issues of environmental and climate sustainability, gender, and dialogue priorities included in the country strategy have been strengthened primarily through actions to generate and transfer knowledge, strengthen capacities, and promote innovation, as described in the three priority areas above.** The Bank's contribution in the area of gender inclusion is particularly noteworthy. During the country strategy period, the IDB Group approved 15 sovereign-guaranteed projects that include gender-related results and/or are strategically aligned with the crosscutting area of gender. It also approved five technical cooperation agreements focused specifically on gender issues such as violence against women, economic empowerment, and leadership. In 2018, the Argentine government approved the **Program to Support Gender Equality Policies**, which links six of the IDB Group's different sectors and is the world's first programmatic policy-based loan focusing on gender issues.²³ In this context, the **IDB Group** contributed to the design of the **Gender Parity Initiative (IPG)**, a public-private partnership that seeks to close gender gaps in the areas of workforce participation, remuneration, and leadership. Also in this area, IDB Invest developed a pilot program with the Wichí de Tartagal community to increase its production capabilities, and a program of internships was developed to integrate women into nontraditional areas and support female leadership in infrastructure projects (among other outcomes). During the 2016-2019 country strategy period, IDB Invest also expanded its advisory support services to guide clients in creating opportunities for diverse populations, as well as support for gender equity in the creation of economic opportunities for women.
- 2.29 **According to the evaluation of the 2016-2019 country strategy prepared by the Office of Evaluation and Oversight (OVE), IDB Group actions were adequately aligned with government priorities and addressed important development constraints in a relevant manner. However, risks materialized that could not be mitigated.** The effects of the crisis, such as fiscal austerity measures, compounded

²² This settlement is characterized by a high degree of cultural diversity due to its large migrant population.

²³ These actions include (i) the use of a gender-based budgeting methodology in the government budget; (ii) support for the implementation of actions linked to the Unplanned Teenage Pregnancy Plan (ENIA); and (iii) the approval, implementation, and monitoring of the first Equality of Opportunities and Rights Plan (PIOD), which contains more than 200 actions aimed at eliminating gender gaps and applies to 36 agencies in the federal executive branch.

ongoing institutional weaknesses and contributed to long project execution delays. The crisis prompted the IDB Group to reorient its program toward fast-disbursing operations that supported reforms within the framework of the agreements with the IMF. OVE acknowledges that in addition to its important financial contributions, the Bank also provided relevant technical support during the period. In spite of implementation problems, IDB Group assistance contributed to progress in several important areas (particularly infrastructure), albeit in many cases only after long delays. The effectiveness of IDB Group support to several other areas—such as the business environment, increased security, export integration levels, fiscal reforms, early childhood development, education quality, and employability—was more limited. Risks and future challenges highlighted by OVE relate to the sustainability of the reforms that are underway.

- 2.30 **In response to OVE recommendations, the 2016-2019 country strategy period was extended until June 2021 to allow the Bank to respond to the crisis and health emergency in Argentina resulting from the global pandemic.** The response in 2020 centered on a comprehensive restructuring of the portfolio that included (i) reallocating US\$470 million to a new public health response program; (ii) reallocating US\$500 million to a new program to support the productive sector and employment; (iii) expediting a US\$600 million social protection program; (iv) reformulating operations in a variety of sectors, totaling approximately US\$600 million; (v) US\$200 million provided by IDB Invest to support the foreign trade operations of Argentine companies; and (vi) IDB Lab assistance for innovative pilot operations in the area of digital health. Against this backdrop, the IDB Group disbursed US\$1.575 billion in 2020. This is the highest level of disbursements in 10 years and it is aimed at supporting the health system, the social safety net for the poorest, and a recovery in terms of both the economy and employment, targeting the most vulnerable (particularly SMEs).

Lessons learned during the country strategy period

- 2.31 **At the strategic and programmatic level:** The main lessons learned during the country strategy period are drawn from both the IDB Group's continuous monitoring of the effectiveness and performance of its portfolio and the Country Program Evaluation 2016-2019 prepared by OVE. From a strategic and programmatic standpoint, the Bank needs to provide value added in addition to its financial contribution. This requires: (i) generating knowledge and best practices and making them available to the country with a view to better targeting IDB Group interventions and achieving greater effectiveness; (ii) providing comprehensive, multisector responses in a relevant and timely manner; and (iii) strengthening strategic coordination and synergies among all parts of the IDB Group (IDB, IDB Invest, IDB Lab). Bank value added should be reflected in cutting-edge knowledge in all sectors targeted for intervention, so as to drive innovation and the digital agenda as a crosscutting pillar of development. This will help the Bank contribute more effectively to the formulation of medium- and long-term public policies aimed at addressing the main challenges facing the country, particularly in terms of healthcare against the backdrop of the COVID-19 pandemic, support for social needs and vulnerable groups, and economic recovery following the pandemic. Similarly, as highlighted in the OVE evaluation, it is essential to support the sustainability of public policies and reforms that bolster macroeconomic stability while also seeking to target policies as effectively as possible in a context of limited fiscal headroom. Bank value added should also be reflected in support for policies in the

areas of gender and diversity and the environment and climate change, which should be integrated into the entire operational program in a crosscutting manner.

- 2.32 At the **operational level**, a number of significant lessons have been learned that are already being applied, and these have also been confirmed by the OVE recommendations. These include: (i) performing comprehensive portfolio reviews with the participation of all those responsible for executing the operations (executing units and participating sector institutions, Presidential Secretariat for Strategic Affairs, Ministry of Finance, Office of the Chief of Cabinet); (ii) using precise criteria for granting final disbursement extensions under operations; (iii) closing institutional capacity gaps by providing support for the quality and capacity of executing units, providing them with training in planning and risk management tools; (iv) assisting the federal government to reassess its structure for project execution units with the aim of concentrating all crosscutting functions in either general departments or international financing departments; and (v) the need to emphasize the sustainability and maintenance of investment works once operations have come to an end. Within the IDB Group, the strengthening of operational management and coordination capabilities is important, as this has already been shown to have a positive impact on portfolio performance (project monitoring reports), yielding consistent improvements year after year.

III. PRIORITY AREAS

- 3.1 The priorities under the country strategy for the 2021-2023 period are consistent with the government's short-term needs and challenges, its government plan, the development challenges identified in the Country Development Challenges (CDC) note, and the recommendations made by OVE. They focus on assisting the most vulnerable sectors affected by the economic crisis and the COVID-19 pandemic, stabilizing the macroeconomic situation, and promoting an agenda of sustainable economic recovery and sustained poverty reduction. In those areas considered to be priorities, the strategy also proposes continuity of the interventions initiated under the previous strategy. Accordingly, four strategic pillars²⁴ are proposed to guide the Bank's operational activities consisting of sovereign- and non-sovereign guaranteed loans, technical cooperation operations, and knowledge products: (i) poverty reduction and social protection for the most vulnerable; (ii) economic recovery and productive development 4.0; (iii) macroeconomic stability and public policy effectiveness; and (iv) digital transformation as a crosscutting facet of development. Each pillar also incorporates a focus on issues of diversity and gender and environmental sustainability (investments in resilience and low-emission investments). There is a critical connection between the priorities identified. To achieve a sustained reduction in poverty, not only must access be provided to improved services, but more and better productive jobs must be created, in a context of limited fiscal space that creates a demand for more efficient and sustainable policies aimed at providing the public goods required by this agenda.
- 3.2 **The actions proposed by the IDB Group are aligned with the Update to the Institutional Strategy 2020-2023 and Vision 2025**, including, specifically, strengthening institutional capacity and rule of law, providing inclusive infrastructure

²⁴ The analysis of the strategic pillars draws on the 2019 CDC for Argentina and is based on the information and data available when that concept note was prepared.

and sustainable infrastructure services, developing quality human capital, building suitable institutional frameworks, providing adequate knowledge and innovation ecosystems, and improving urban planning and rural development based on environmental and climate sustainability principles (low greenhouse gas emission investments and those supporting resilience). Likewise, the gender equality and diversity agenda will continue to be promoted through crosscutting actions. The priorities outlined are also consistent with the priority segments in the IDB Invest 2020-2022 Business Plan,²⁵ in terms of supporting infrastructure development, strengthening capacities for supporting the corporate sector, and leveraging resources through the financial system to support priority areas and crosscutting themes. They are furthermore aligned with the IDB Lab 2019-2021 Business Plan (document MIF/GN-235-3) and its three thematic areas (the knowledge economy, climate smart agriculture, and inclusive cities).²⁶

3.3 The IDB Group will continue to pay special attention to its interventions in the Norte Grande region and the Buenos Aires conurbation. These areas continue to exhibit significant income and sector development gaps.

A. Poverty reduction and social protection of the most vulnerable

3.4 Argentina faces substantial poverty reduction challenges that have been intensified by the emergence of the COVID-19 pandemic. Poverty and indigence rates stood at 35.4% and 8%, respectively, at the end of 2019.²⁷ The sharply negative impact of COVID-19 on employment and real incomes has led to a further deterioration in social indicators. The rate of poverty reached 42% in the second half of 2020,²⁸ while the indigence rate is 10.5% of the population. Consistent with this, the proportion of the population with unmet basic needs was 18.4% of the total in the first quarter of 2020, with higher rates in the Buenos Aires conurbation (25.3%) and Norte Grande (25.6%). Due to the macroeconomic context, the government faces funding constraints in its efforts to reduce inequality and improve social protection (particularly for groups not yet covered by the current system). These constraints will require improved targeting and technical efficiency in public policies in order to assist vulnerable sectors and prioritize areas with high social impact. Assistance measures for the most vulnerable sectors—the Emergency Family Income (IFE) and support for wage payments through the Productive Work Contribution (ATP)—have helped to preserve jobs in the formal sector and partly contain rates of poverty. In this sense, when addressing the challenges described below, it will be critical to not only expand coverage but also improve targeting.

3.5 Child development indicators are very mixed, with greater gaps among the lower-income population. The percentage of children aged 3-5 years with developmental delays is almost three times higher in the lowest income quintile than in the highest one (21.8% versus 8.3%). The poor population is also weighted toward younger groups. This is due to the fact that social spending on early childhood is relatively low and is vulnerable to budget cutbacks. There is also a deficit in quality and access to early childhood care and education centers for lower-income groups.

²⁵ Document CII/GA-80-2.

²⁶ Thematic documents: Climate Smart Agriculture (document MIF/GN-237-1), Inclusive Cities (document MIF/GN-238-1), and the Knowledge Economy (document MIF/GN-241-1).

²⁷ Data from the National Statistics and Census Institute (INDEC), Permanent Household Survey, second half of 2019.

²⁸ INDEC data, Permanent Household Survey, second half of 2020.

Only one in five Argentine children in the first income quintile have access to early childhood spaces, compared with one in two in the fifth quintile. Quality problems, in turn, relate to a lack of formal standards for operating care centers.²⁹

- 3.6 **The emergence of the COVID-19 pandemic has exposed the fragility of Argentina's health system.** At a time when the demand for health services has increased sharply, significant deficiencies have been apparent in policies to prevent highly transmissible diseases, while there has also been a lack of inputs and infrastructure. The country's outcomes in terms of maternal mortality and the prevalence and risk of noncommunicable chronic diseases also fall short of expectations. In 2018, noncommunicable diseases were responsible for 73.4% of deaths in Argentina.³⁰ The financial impact and long-term care demands associated with these diseases reduce the ability of households to invest in education and curtail the ability of some of their members (generally women) to participate in the labor market. They also worsen the comorbidities that heighten mortality risk among those infected with COVID-19. Health outcomes vary enormously across the different regions of the country, with higher rates of infant and maternal mortality in the Norte Grande region. The gap in health spending between some provinces is estimated at up to six times,³¹ creating marked quality and capacity disparities in public health service delivery.
- 3.7 **Education indicators are mixed in Argentina. Problems persist in relation to attendance, quality, regional equity, and high dropout rates that limit the development of personal skills and affect productivity levels.** There are substantial disparities in school attendance and dropout rates based on region and socioeconomic group,³² and the COVID-19 crisis is expected to aggravate these differences. There are also significant challenges with respect to the levels and quality of learning; these—again—are most acute among the lowest socioeconomic groups. Student learning outcomes, as demonstrated through testing, show a deterioration over time in relative terms, as well as a learning gap of 25% between the lowest and highest quintiles—higher than in countries belonging to the Organisation for Economic Co-operation and Development (OECD) (21%).³³ Quality problems in education are strongly correlated with deficiencies in initial teacher training and with the relevance and quality of continuing education courses.³⁴ With mandatory home isolation and school closures, the need to ensure continuity in education through distance learning has exposed the lack of digital tools and capabilities in education centers—particularly those serving low-income groups—and this has further widened learning gaps in the

²⁹ Lopez Boo, F. and M. Ferro Venegas. (2019). Calidad de procesos y desarrollo infantil en los Espacios de Primera Infancia del Gran Buenos Aires: Validación de una lista corta de monitoreo de centros infantiles [Quality of processes and child development in early childhood spaces in Greater Buenos Aires: validation of a monitoring shortlist for childcare centers]. IDB.

³⁰ National Directorate for Health Promotion and the Control of Noncommunicable Chronic Diseases, 2019, "4ta Encuesta Nacional de Factores de Riesgo [4th National Survey of Risk Factors]," Ministries of Health and Social Development.

³¹ Rubinstein, A., M. C. Zerbino, C. Cejas, and A. López. (2018). Making universal health care effective in Argentina: a blueprint for reform. *Health Systems & Reform*, 4(3), 203-213.

³² The attendance rate was 87% for the highest income quintile and 73% for the lowest one (CIMA, 2017). The year-on-year dropout rate is 15% nationally, with provincial rates that vary from 7.1% in the City of Buenos Aires to 25.6% in Salta (National Education Information and Statistics Directorate, Ministry of Education, Culture, Science, and Technology, 2017).

³³ CIMA, 2015.

³⁴ Argentina CDC, 2019.

education system. This has been highlighted by Argentina's low scores in the International Computer and Information Literacy Study.³⁵ The crisis is also expected to lead to an increase in school dropout rates.

3.8 Argentina's labor market exhibits structural weaknesses that include high levels of informality, weak growth in labor productivity, and barriers to access among vulnerable groups. High levels of informality increase income vulnerability in the face of the economic standstill imposed by the coronavirus crisis. The informality rate in Argentina is close to 35.9%, and no progress has been made in terms of greater formalization of employment in recent years. In regional terms, levels of informality in the Northwest region are above the average for the country as a whole (42.3% versus 33.8%).³⁶ At the same time, there is a mismatch between the skills offered by workers and those needed by companies—a problem that will be further aggravated by higher demand for digital skills in the recovery phase. It is estimated that only 26% of all jobs in Argentina can currently be performed remotely. Argentina has one of the highest proportions of companies that identify inadequate labor force training as one of the greatest constraints on doing business. Women's participation in the labor force is also low and decreasing: the ratio fell from 56% to 49%³⁷ between 2013 and 2018, and it remains below the average rate for the region. In addition, the gross gender wage gap of 25%³⁸ is strongly linked to the occupational and vertical segregation faced by women. The key determinant of the lower quantity and quality of female employment is the unequal care burden that, due to traditional gender roles, usually falls on women. At the same time, there is potential for creating green jobs with a strong concentration in the country's services sector.³⁹

3.9 Argentina continues to exhibit deficits in access to housing, a lack of adequate urban integration of informal settlements, and restrictions on urban mobility. The country is estimated to have a housing deficit of 35.5%, meaning that approximately 4.3 million households lack adequate housing solutions, either because they live in overcrowded conditions (quantitative deficit) or their homes are of insufficient quality (qualitative deficit). Data from 2010 showed a qualitative deficit of 24.7% in the country: far above countries such as Chile (16%) or Colombia (19%). Such inadequacies particularly affect the most disadvantaged segments of the population. In particular, the process of integrating informal settlements into the urban environment has traditionally been limited. In 2018, the National Register of Low-Income Neighborhoods (RENABAP) estimated that there were 4,416 informal settlements with approximately 4 million people living in overcrowded and vulnerable conditions, without access to the formal housing market. These neighborhoods are characterized by a lack of socio-urban integration that limits their access to quality

³⁵ The study, carried out in 2013, showed that on a scale of 1 to 4 (with 4 being the highest level), 66% of pupils in the Autonomous City of Buenos Aires were classified as Level 1 in terms of their ability to use computers to create, research, and communicate. This compared with 15% in the Czech Republic, 24% in Australia and Norway, and 47% in Chile. The Buenos Aires results also showed that only a low proportion of students use computers outside school to develop programs, macros, or command sequences (Gajst and Frugoni, 2016).

³⁶ Data refers to the fourth quarter of 2018. INDEC, Permanent Household Survey.

³⁷ INDEC, Permanent Household Survey.

³⁸ Directorate General for Macroeconomic Studies and Labor Statistics. 2018. "Mujeres en el mercado de trabajo argentino [Women in Argentina's workforce]." Ministry of Labor, Employment, and Social Security.

³⁹ In "Jobs in a Net-Zero Emissions Future in Latin America and the Caribbean," the ILO and IDB (2020) show that there is potential for the net creation of as many as 2.1 million green jobs in the Southern Cone (excluding Brazil) by 2030, strongly concentrated in the country's services sector.

infrastructure, equipment, and public services. This, in turn, helps to create situations of poverty, marginalization, and social fragmentation. Many of the settlements exhibit a high degree of cultural diversity due to their large migrant populations. According to United Nations data, there were 2,212,879 immigrants in Argentina in 2019, accounting for 4.97% of the total population. Of these, 31.33% were from Paraguay, 19.27% from Bolivia, and 9.8% from Chile. Adding to this has been immigration from Venezuela in recent years, which accounted for 130,000 new immigrants in the period to March 2019. Meanwhile, public mass transit systems, which are critical for efficient and sustainable urban mobility, are characterized by unequal levels of service quality. This is partly the result of a sector financing model that requires high levels of subsidies (as fares are insufficient to cover operating and maintenance costs) and lacks adequate incentives for quality and efficiency.⁴⁰ These challenges are even more pressing in the current context of the COVID-19 crisis, as they hamper access to healthy housing conditions and hinder the social distancing needed to allow urban mobility without risking mass spread of the virus.

- 3.10 **In terms of access to drinking water, sanitation, and public sewer systems, there are considerable inequalities by level of income and region.** In Argentina, 87% of the population has access to drinking water and 58% to sanitation. However, coverage is lower in rural areas and for lower-income groups, where only 64% have access to water and 17% to sanitation.⁴¹ It is estimated that only 15%-20% of all collected sewage is treated; this leads to the pollution of surface and ground waters, affecting biodiversity and jeopardizing the health of the population. These deficiencies work against adequate containment of the coronavirus. Pollution is also aggravated by the flooding experienced by the most vulnerable population groups. With respect to solid waste management, although collection is close to 100%, these services do not extend to informal settlements due to access difficulties for garbage trucks. Moreover, final disposal coverage is only 64.7%, and there are still more than 5,000 open-air dumps.
- 3.11 **There are significant challenges in the areas of citizen security and justice that may be worsened by situations of increased poverty and inequality.** Although spending on security and justice represents 7% of public spending—higher than in other Latin American and Caribbean countries⁴²—crime figures remain high, with a crime rate of 3,930 per 100,000 inhabitants in 2019.⁴³ Perceptions of insecurity remain one of the main concerns expressed by the population: 85.1% of the population 18 and older considers insecurity to be a serious or very serious problem in their city,⁴⁴ and only 61.7% of the population trusts the police. Low police effectiveness and insufficient investment in crime prevention are challenges.⁴⁵ Meanwhile, high levels of

⁴⁰ In the Buenos Aires metropolitan area, operating subsidies currently account for 90% of urban rail revenues and 60% of bus revenues.

⁴¹ INDEC, 2010 Census.

⁴² Argentina has the highest number of police officers per capita in Latin America and the Caribbean, with 558 officers per 100,000 inhabitants, compared with an average regional rate of 301.

⁴³ Data from the 2019 Criminal Statistics Report by the National Criminal Statistics Unit.

⁴⁴ 2017 Victimization Survey.

⁴⁵ In Argentina, 79% of spending on security was channeled into police services and salaries, yet only 65% of officers are assigned to patrols. The rest perform administrative tasks, reducing police effectiveness.

gender-based violence⁴⁶ affect not only the victims but also their families and their opportunities for economic advancement. The femicide rate is estimated at 1.1 per 100,000 women (very similar to the rates in Brazil, Uruguay, and Mexico). Rates are highest in Argentina's Northwestern region, ranging from 2.1 to 2.7 femicides per 100,000 women.

- 3.12 **There are also deficits in household financial inclusion in Argentina, particularly among low-income households, women, and those living in rural areas.** Families' access to financial services falls short of the levels that would be expected based on the country's income levels, with slow adoption of Fintech, particularly among the poorest households and in rural areas. Only 7% of the population reports having a loan from a financial institution. Access to mortgage credit in Argentina (3%) is also below the average for 26 countries in Latin America and the Caribbean (7%). Meanwhile, 7.6% of women report having received credit from a financial institution in the past year, versus 11% in the 26 regional countries and 10% in PIMA, while only 5% of women have savings in the system (versus 12% in the 26 regional countries and 15% in PIMA). These shortcomings intensify the vulnerability of lower-income households to adverse employment and income shocks such as that unleashed by COVID-19.
- 3.13 **In the context of the challenges described above, the IDB Group country strategy with Argentina for 2021-2023 will place emphasis on reducing poverty and improving social protection through multisector actions, including the following:** (i) supporting early childhood initiatives, with emphasis on increasing the coverage and quality of early childhood care and education services; (ii) strengthening the quality of health services and infrastructure, with a focus on preventing noncommunicable chronic diseases and addressing the challenges created by the coronavirus crisis; (iii) ensuring successful educational pathways throughout life, through policies to support system inclusion and student retention, improve learning quality and relevance, and train teachers in the use of new teaching methods and technologies; (iv) strengthening the employability and labor conditions of the population, with particular support for efforts to improve the participation of women and vulnerable groups in the labor market, as well as the inclusion of digital talent and other 21st century skills to support sustainable development and low-emission economies;⁴⁷ (v) improving the habitat, with emphasis on improving access to housing, water and sanitation, urban mobility, urban drainage for flood control, and environmental sustainability and resilience to climate change; (vi) promoting financial inclusion and the increased supply of financial resources to population segments with greater credit constraints (particularly women and rural and low-income households), including the promotion of digital finance (digitization of financial services and digital payments) and development of Fintech services; and (vii) fostering improvements in citizen security and reductions in gender-based violence.

⁴⁶ Data from the 144 domestic violence hotline show that in 98 out of 100 calls, the caller has been exposed to repeated situations of violence, and 63% state that they are currently in a violent situation. According to the 2019 National Violence against Women Study, 49% of women surveyed reported having experienced at least one incident of physical or sexual violence in their lives, while 8.5% of women aged 18 to 69 years had suffered physical or sexual violence in the past year. The 144 hotline reported a 39% increase in daily calls during the period of mandatory social isolation.

⁴⁷ IDB (2020), [Jobs in a Net-Zero Emissions Future in Latin America and the Caribbean](#).

B. Economic recovery and productive development 4.0.

- 3.14 **To make headway in reducing poverty, Argentina must entrench economic recovery and productive development processes that support the creation of formal employment and raise productivity levels.** To this end, it will be critical to address the challenges described below.
- 3.15 **Argentina's productive sectors are characterized by a lack of dynamism and a high dispersion of business productivity. Most companies exhibit low levels of productivity, but there is also a segment of large, world-class companies.** Recovery from the economic crisis and the pandemic will require a more dynamic private sector and improvements in productivity levels, with greater integration of companies into competitive, innovative value chains. The lack of dynamism is reflected in levels of business innovation that are below those expected based on the country's per capita income. Argentina spent only 0.55% of GDP on research and development in 2017 (far below the levels in countries such as the United States (2.78%) and Brazil (1.26%)), while only 6.7% of Argentine researchers work for companies. The reasons for this innovation deficit include barriers to the global flow of ideas and the different specialization profiles of research and development activities between universities and companies.⁴⁸
- 3.16 **Related to this is a lack of both entrepreneurship⁴⁹ and collaborative efforts that limit the ability to build innovative value chains.** The rate of business creation in Argentina is low, and many companies experience serious difficulties in attaining an optimal size from a productivity standpoint. These difficulties stem from regulatory and bureaucratic inefficiencies that affect the competitiveness of domestic markets and, therefore, business dynamics.⁵⁰ They are also affected by market failures that the public sector has been unsuccessful in addressing and that the COVID-19 crisis may deepen. According to the Global Competitiveness Report, Argentina ranks 102nd out of 140 countries with respect to the development of clusters. The weakness of local clusters acts as an obstacle to the efficiency gains that can arise from knowledge transfer and circulation processes. Low levels of entrepreneurship appear even less satisfactory when analyzed from a gender standpoint. Only 8% of Argentine SMEs have women in managerial positions, compared with 19% in 26 Latin American and Caribbean countries (LAC-26) and 18% in the PIMA group.
- 3.17 **Argentina continues to face difficulties in using trade as an engine of growth, with very low integration of its companies into global value chains. This situation has been aggravated by the shrinking of global trade due to COVID-19.** An unsatisfactory export performance has had a negative impact on productivity levels. The number of export firms fell by more than 30% between 2006 and 2015,⁵¹ showing low levels of experimentation aimed at complying with external quality requirements, together with a loss of the productivity gains associated with learning by exporting. Meanwhile, the percentage of foreign value added in Argentina's exports is

⁴⁸ CDC Argentina, 2019.

⁴⁹ In Argentina, one formal enterprise is created per 2,326 inhabitants, while 14.5% of the economically active population is engaged in early-stage entrepreneurial activity. This compares to figures of 125 and 24.2%, respectively, in the case of Chile. Since 2008, the number of companies has remained almost constant, growing by only 3%. Fundación Observatorio Pyme report.

⁵⁰ The challenge of improving the quality of Argentina's regulatory framework and institutional capacity is addressed under the third pillar: Macroeconomic stability and greater effectiveness of public policies.

⁵¹ Arenas et al, 2019.

less than 20%, below the average for Latin America (25%), Asia (35%), and the European Union (almost 40%).⁵² This is a sign of the weak integration of local industry into division of labor processes at the regional and global levels, as well as higher export costs. Even in agriculture-based global value chains, the country's role is as a supplier of commodities and/or byproducts from the first stage of processing (Bisang et al., 2008), albeit with some exceptions. There are opportunities for expanding exports and nearshoring in sectors such as medical instruments, biotech, agroindustry, competitive segments of the auto industry, telemedicine, and the orange economy. At the same time, Argentina has demonstrated a comparative advantage in knowledge-based services with high growth potential, yet it compares unfavorably with its competitors in terms of the institutional environment needed to scale up these exports. The global shift toward the low-touch economy will increase the demand for services supported by digital platforms, generating opportunities for expanding these exports.

- 3.18 **Business development is constrained by a lack of access to finance, particularly in the case of SMEs.** Argentine companies, particularly SMEs, face significant financial constraints on investment and depend on internal funding to finance their investments. Credit to the private sector in Argentina averaged 16.1% of GDP between 1990 and 2017 (far below the levels in other LAC-26 countries), and only one third of small firms reported having a credit line from a bank.⁵³ Credit constraints are particularly acute in the case of women-led SMEs, with 72% of these firms having financing needs that are not being adequately met. The funding gap for this business segment is estimated at around US\$2 billion. Apart from the macroeconomic context, another determinant of lack of access to financing is the underdevelopment of the banking sector⁵⁴ and capital markets. This, in turn, is due to the absence of a critical mass of institutional investors and the crowding out of financing for the private sector by public sector borrowing. These financing constraints have become even more challenging in the context of falling cash flow associated with the lockdown and the decline in sales resulting from the COVID-19 crisis; these may have long-term effects due to the closure of viable enterprises that are unable to survive the lack of liquidity. Financial constraints have a particularly significant impact in the current context of uncertainty surrounding the investments required in information and communication technologies, which are subject to high liquidity risk. Given the negative impact of macroeconomic instability on financial development, support for a return to stability under the strategic pillar for the effectiveness and sustainability of public policies will be of great importance for this objective.
- 3.19 **Infrastructure gaps represent a significant obstacle to economic growth and improved competitiveness.** Investment in public infrastructure is low in Argentina, averaging only 1.3% of GDP from 2008 to 2017. This was below the average of 2.2% for Latin America and the Caribbean over the same period, and is accounted for by the fact that governments, faced with fiscal constraints, have tended to postpone capital expenditure so as to avoid reducing current spending. Looking ahead, the COVID-19 crisis and the need to prioritize spending on social protection may continue

⁵² Blyde, 2014, "Synchronized Factories: Latin America and the Caribbean in the Era of Global Value Chains."

⁵³ World Bank data. Enterprise Surveys, 2018.

⁵⁴ Financial system deposits are the lowest in the region, for example, accounting for only 19% of GDP compared to 45% for LAC-26. They are also generally very short term in nature, thus limiting the supply of long-term financial products.

to delay a recovery in infrastructure investment.⁵⁵ Accordingly, to avoid future bottlenecks in production processes, it may be crucial to consider alternative sources of financing. In particular, there has been increasing demand for road infrastructure due to growth in traffic, yet expanding capacity⁵⁶ and rehabilitating and maintaining roads to meet this demand remains a challenge. Twenty-four percent of the national road network is in poor condition⁵⁷ and only 23% of the provincial network—needed to connect production centers with trunk corridors—is paved.⁵⁸ In addition, the cargo matrix is slanted toward road transport (93% of the total). Rail and river transportation are underused, increasing total greenhouse gas emissions. Transportation accounts for 15.5% of these emissions (exceeded only by the energy industry, with 15.8%), and 90.5% of sector emissions relate to road transportation. In the energy sector, the challenge is to improve service quality⁵⁹ and reduce the extent of power outages by strengthening transmission and distribution systems. In order to achieve the emission targets included in the country's [Nationally Determined Contribution](#), there is also a need to reduce the emissions associated with an energy matrix that is dominated by fossil fuels. In the rural sector, infrastructure gaps are even more evident in terms of rural roads, water works, electrification, and telecommunications.

- 3.20 **Economic recovery and productive development are also highly vulnerable to climate risks and the absence of a governance framework for disaster risk prevention and management.** In Argentina, 93% of departments are vulnerable to the impact of natural disasters. In recent climate events, most economic losses have taken place in the agricultural sector. In the events experienced between December 2015 and June 2016, the private sector suffered 99% of economic losses (particularly the agricultural sector, with 89%).⁶⁰ The 2018 drought is estimated to have caused declines of 21% and 33%, respectively, in the production of maize and soybeans, causing losses of approximately 1% of GDP. Maize and rainfed wheat harvests, in particular, are expected to suffer declines of around 11% and 8%, respectively, by 2050.⁶¹ Water flow has been reduced by glacier recession and increasingly frequent droughts, leading to productivity losses in the Cuyo watershed and San Juan, among other regions with high levels of agricultural production.
- 3.21 **In response to these challenges, the second strategic focus of the IDB Group during implementation of the 2021-2023 country strategy will be to support economic recovery, sustaining the country's productive fabric and integrating companies into competitive value chains. To that end, comprehensive, multisectoral interventions will be prioritized with the following objectives:** (i) promoting entrepreneurship, innovation, and the development of competitive and sustainable business clusters, meeting the demands for adaptation associated with recovery from the COVID-19 crisis; (ii) promoting international trade integration on the

⁵⁵ Particularly in the tourism sector.

⁵⁶ Express roads and motorways account for only 7% of the national road network.

⁵⁷ According to information gathered by the National Roads Directorate in 2018-2019.

⁵⁸ Estudio de Evaluación de Estrategias Óptimas de Conservación de Redes Viales: Metodología y Aplicación en el Sector Vial de Argentina [Study to Evaluate Optimal Road Network Maintenance Strategies: Methodology and Application in Argentina's Road Sector], Esteban Travaglianti, 2018.

⁵⁹ Argentina ranks 113th in the world for the quality of its electricity services, while Brazil, Colombia, Mexico, and Peru are positioned between 60th and 80th in the rankings (World Economic Forum).

⁶⁰ Economic Commission for Latin America and the Caribbean, 2016.

⁶¹ IDB, 2020.

part of companies and independent workers (including women-led companies) based on products and services of value (including knowledge-based services), while also supporting regional integration initiatives that facilitate nearshoring; (iii) strengthening investment attraction arrangements, including the simplification and digitization of investment facilitation processes based on digital instruments such as a potential Single Window for Investment (VUI); (iv) strengthening inclusion mechanisms and the financing and coverage of risks in the financial system portfolio with a view to expanding the supply of credit to SMEs (including SMEs led by women or with a large number of female employees) and facilitating capital resources for post-pandemic recovery and the promotion of Fintech; (v) financing low-emission, resilient productive infrastructure that helps to reduce logistics costs, diversify the energy matrix in favor of renewables and greater energy efficiency, and develop regional economies and their connectivity to markets; (vi) promoting environmentally sustainable solutions that support the management of natural disaster risks associated with climate change.

- 3.22 **Contribution to a resilient, low-carbon economy.** Argentina's Nationally Determined Contribution (NDC) to the goals established under the Paris Agreement was updated in December 2020, through a commitment to limit the country's emissions of greenhouse gases to 359 million tons of carbon dioxide equivalent by 2030 (with a focus on the energy, agriculture, forestry, transportation, industry, and waste management sectors). It also includes adaptation measures. This country strategy contributes to the targets in the NDC through support for (i) renewable energy and energy efficiency; (ii) access to credit, particularly for investments that reduce emissions and create resilience, (iii) natural disaster risk management, and (iv) management of the treatment and final disposal of wastewater and solid waste in urban areas.

C. Macroeconomic stability and the effectiveness of public policies

- 3.23 **Argentina faces the challenge of stabilizing its economy and improving the impact of public policies while ensuring that public resources are used in a sustainable manner.** Consolidated public spending rose from 26% of GDP in 2006 to 43% of GDP in 2016, although there was a decline of 4% of GDP in the 2018-2019 period. This increase in spending was not accompanied by more efficient, stable revenue generation or higher investment in infrastructure, leading to a significant widening of the public deficit. The recent debt restructuring alleviates financial pressures for the period to 2024, but central government gross debt remains high (approximately 89.4% of GDP, 70% of which is U.S. dollar-denominated). The government is currently negotiating a new agreement with the IMF. The procyclical nature of fiscal policy and the loss of access to external financing have greatly constrained the fiscal headroom available for tackling critical situations such as COVID-19. Accordingly, the improved targeting and prioritization of public policies will be essential for making headway under the two pillars described above: poverty reduction and economic recovery, supported by productive development that will in turn help to consolidate macroeconomic stability.
- 3.24 **There are technical and allocative inefficiencies in public spending that limit the capacity to manage fiscal packages in periods of crisis such as COVID-19, as well as the effectiveness and impact of those packages.** Technical inefficiencies in primary spending stood at 7.2% of GDP in 2015, well above the average for

Latin America (4.4% of GDP).⁶² This technical inefficiency has been a particular problem in targeted transfer programs, which have exhibited substantial leakage, but it is also significant in remunerations and public procurement. Addressing these inefficiencies could help to amplify the impact of social protection policies. For example, there are inefficiencies in education, health, and citizen security spending that relate to the way expenditure is allocated and the lack of information and monitoring thereof.⁶³ Inefficiencies are reflected in the very mixed quality of these services across jurisdictions.⁶⁴ Resolving technical and allocative inefficiencies is also crucial for creating the fiscal space needed to fund pro-growth expenditures, including public investment and human capital formation.

- 3.25 **Pension costs help to explain rising expenditure and increased allocative inefficiencies.** Spending on pensions exceeds that expected for countries with Argentina's level of income. Pension system coverage of the target population grew by more than 40 percentage points between 2005 and 2016, while the pension deficit stood at 3% of GDP at the end of 2019.⁶⁵ Pension spending in Argentina has been found to be excessive given the country's demographic structure, with spending levels comparable to those in European countries despite a much younger population.
- 3.26 **Inefficiencies and procyclical patterns in expenditure have affected the quality and quantity of public investment.** The volume and quality of public infrastructure investment is below that expected for a country with Argentina's income levels.⁵³ Not only is infrastructure investment low, but it is also deficient from a quality standpoint. In the World Economic Forum's 2019 infrastructure ranking, Argentina was ranked 68th out of 141 countries—behind Latin American peers such as Chile (41), Mexico (49), and Uruguay (62). Quality measures in public spending⁶⁶ and the return on infrastructure investment⁶⁷ should include considerations relating to climate change and its effects, with the aim of ensuring that these investments are sustainable.

⁶² Izquierdo, Alejandro, Carola Pessino, and Guillermo Vuletin, eds. *Better Spending for Better Lives: How Latin America and the Caribbean Can Do More with Less*. Vol. 10. Inter-American Development Bank, 2018.

⁶³ Public spending in these areas is high compared with other Latin American and Caribbean countries. In education, for example, it is 5.8% of GDP, in health 3.02% of GDP, and in security and justice 2.9% of GDP. However, countries with lower levels of spending have achieved better test results under Programme for International Student Assessment (PISA), as well as similar or higher life expectancy and/or lower crime rates.

⁶⁴ CDC Argentina, 2019.

⁶⁵ Izquierdo, Alejandro, Carola Pessino, and Guillermo Vuletin, eds. *Better Spending for Better Lives: How Latin America and the Caribbean Can Do More with Less*. Vol. 10. Inter-American Development Bank, 2018.

⁶⁶ The different indicators available for the quality of public management place Argentina below the levels expected given the country's income. In the World Bank's Government Effectiveness Index, which measures the quality of public services, the civil service, and the formulation and implementation of policies, the country ranked in the 49th percentile in 2019, below the regional average (51st percentile). With respect to the Public Sector Performance Index in the Global Competitiveness Index produced by the World Economic Forum, Argentina stood slightly above the average for the region in 2018, but below the world average (73rd out of 140 countries). Thus, there is a need to strengthen public sector capacities at both the national and subnational levels with a view to improving the effectiveness of policies and boosting the economy.

⁶⁷ The planning and prioritization stages of the public investment cycle are weak: although 52% of infrastructure investment is executed by provinces and municipios, in addition to state-run enterprises, there are no coordination mechanisms for bridging gaps (a factor that also contributes to the procyclical nature of public investment).

- 3.27 **The tax burden in Argentina is one of the highest in the region and is largely based on taxes that are detrimental to business productivity, investment, and competitiveness.** The federal tax burden increased from 15.9% of GDP in 2000 to 25.3% in 2016 and 29% in 2019. Meanwhile, the provincial tax burden rose from 3.4% of GDP in 2000 to 5.5% in 2016. One example of a distortionary tax is the provincial tax on gross revenue, which taxes companies' sales directly and is considered distortionary because it affects sectors with a higher number of intermediate stages. It also affects interprovincial trade, encouraging geographical concentration due to differences in tax rates depending on the province in which the company is based. This is equivalent to a system of internal customs borders, and it significantly raises the cost of taxpayer compliance. This tax has an adverse impact on investment, productivity, and exports.
- 3.28 **Argentina exhibits problems of regulatory and institutional quality at the central and subnational levels, and this affects public sector efficiency and private sector competitiveness.** The inadequate regulatory framework described above has affected business investment and growth. Regulatory governance is currently weak and responsibility for regulatory processes and their quality is fragmented, without defined supervision arrangements. Argentina ranked 125th out of 140 countries on the burden of government regulation indicator in the World Economic Forum's 2019 Global Competitiveness Index. According to the OECD's product market regulation (PMR) indicators, the country's regulatory procedures (score 4.06) are also more complex than the averages for the region (3.53) and the OECD countries (1.9).⁶⁸ There is therefore a need to deepen the analysis of regulatory impact, and to develop a strategy to support subnational levels of government in improving the quality of regulation.
- 3.29 **In response to these challenges, the IDB Group's third strategic pillar during implementation of the 2021-2023 country strategy will be to support macroeconomic stability and the effectiveness of public policies. To that end, assistance will be provided to the government through sector loans, technical assistance, and knowledge products, with actions to support the following:** (i) institutional strengthening for fiscal sustainability and for improving the quality, transparency, and effectiveness of public investment, social spending, and economic recovery measures, thus helping to reduce poverty and return the country to a sustainable growth path; (ii) the design and implementation of fiscal and regulatory reforms to further support this agenda; and (iii) the development of efficient management and revenue collection tools.

D. Digital transformation

- 3.30 **The three strategic pillars described above are all influenced by the crosscutting opportunities created by digital transformation and the growing demand for digitalization in the post COVID-19 recovery phase.** Digitalization of the government and corporate sectors is critical for State efficiency and innovative private sector development, and it is also an essential transformative step in the process of recovery toward a low social contact economy with increased telework. At the same time, greater digital inclusion and literacy can help to ensure greater equality of

⁶⁸ The PMR are a collection of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market. A high score on the composite indicators indicates that regulatory conditions are less favorable to competition.

opportunity through access to financing for Fintech, better health and education services, and more tools for the labor market.

- 3.31 **The country is facing significant challenges in the area of digital transformation.** Argentina is behind the curve in terms of the effective use of information and communication technologies (ICT) to promote competitiveness and equity. This is underscored by the fact that it ranks 91st out of 143 countries in the 2015 Network Readiness Index.⁶⁹
- 3.32 **The country's underperformance in the area of digital inclusion (i.e., the adoption of digital technologies by the population) also encompasses gender inequities⁷⁰ and regional disparities.⁷¹** The population's lack of digital skills is partly the result of the low quality of the education system, particularly in science and mathematics.⁷²
- 3.33 **Technology adoption is slow, and several productive sectors have yet to make use of digitalization processes to boost their levels of innovation, productivity, and competitiveness.** This deficit in the effective use of digital tools has been highlighted during the COVID-19 crisis, in which only 37% of companies have been able to use teleworking to continue operating during mandatory lockdown. In 2018, only 34% of Argentine companies planned to introduce Industry 4.0 technologies within the next five years, compared with more than 70% in Germany and France.⁷³ Weaknesses can also be seen in companies' effective use of these technologies once they have been adopted. Data from the World Economic Forum's last Global Information Technology Report (2016) show Argentina in 103rd position out of 139 countries under the business usage pillar. One exception to this are start-ups, which are playing a key role in the digital transformation but are currently challenged by financing constraints. Sectors with high potential to benefit from the digital transformation include the agricultural and agritech sector. In this context, the use of blockchain may be a useful tool for responding to the demand for traceability and food safety.
- 3.34 **Argentina's network infrastructure is costly and deficient.** The cost of broadband is similar to that in other countries, but speeds are less than half. These differences increase when average speeds are compared across the provinces.⁷⁴ In 2018, Argentina's mobile market fulfilled only 20% of the targets for proposed for radio spectrum allocation in 2020, affecting the rollout of mobile broadband technologies and the quality of the service. The lack of investment in digital infrastructure is partly a

⁶⁹ World Bank Network Readiness Index, 2018.

⁷⁰ Women account for only 26% of the workforce in the software and IT services sector, and just 17% of professional staff working in the area of artificial intelligence.

⁷¹ The number of fixed internet connections per 100 inhabitants ranges from 45 in the Autonomous City of Buenos Aires to 7 in Santa Cruz, 8 in Catamarca and Formosa, and 9 in Chaco, Corrientes, Misiones, and Santiago del Estero.

⁷² World Economic Forum, 2017.

⁷³ Productive transformation efforts based on new, digitally-focused technologies are led in Argentina by large companies with sufficient financial capacity to invest in research and development and technological capital goods. Meanwhile, there are serious deficits in SMEs due to scant financing, a lack of specialized digital skills, resistance to technological change, and weak ICT coverage in certain geographical areas.

⁷⁴ Data from the National Communications Entity (ENACOM) for the fourth quarter of 2018 indicate that average download speeds in the Autonomous City of Buenos Aires were 23 Mbps, versus 4 in La Pampa, 5 in Santa Cruz, and 6 in Chubut, Mendoza, San Juan, and Santiago del Estero.

consequence of high uncertainty and low investment, as described in the pillar “macroeconomic stability and the effectiveness of public policies.” In addition, institutional, legal, and regulatory frameworks do not sufficiently promote investment in digital connectivity infrastructure. This is due to the fact that certain aspects of the legal framework for connectivity in Argentina are obsolete and also do not include recently developed key principles such as technological convergence, infrastructure sharing, and technology neutrality. Facilitating investment processes in this area and making them transparent may be key for allowing the rollout of mobile access technologies and including these in public policies to promote ICT adoption.

- 3.35 **Digitalization of government is critical for improving State efficiency.** Digital tools facilitate interaction with citizens, leveraging the interoperability of the different levels of public administration and offering digital services based on citizens' needs. Only 33% of public sector transactions could be initiated online at the end of 2017, and only 15% could be carried out entirely online. In addition, design processes for regulatory policies in the digital area are disjointed. As mentioned in the previous pillar, quality processes do not exist for generating regulations and this has an impact on both private investment and public services. The country has the ability to move forward with various principles and good practices adopted in the OECD countries and to improve digital transformation and regulatory processes at both the national and subnational levels. In the area of cybersecurity, Argentina exhibits weaknesses in the areas of metrics, bilateral and multilateral agreements, rules for companies, public awareness, and child protection. The country experiences the largest number of cyberattacks in the region each year. It is also far below the OECD average in terms of the number of secure servers per inhabitant.⁷⁵
- 3.36 **A crosscutting focus of the 2021-2023 country strategy will be to drive the digital transformation in all of the IDB Group's areas of intervention, across all sectors.** This includes (i) expanding digital inclusion and fostering digital literacy; (ii) fostering the adoption and effective use of digital technologies and innovation by companies, public service providers (such as water and sanitation), people in all sectors, and particularly in the sectors of health and education; (iii) increasing public and private investment in digital and network infrastructure; and (iv) moving toward digital government and proper regulation of the digital economy, including improving the ability of government institutions to manage cybersecurity policies and practices.

IV. ESTIMATED FINANCING FRAMEWORK

- 4.1 **After several months of negotiations, Argentina completed the restructuring of its foreign currency-denominated debt in September 2020.** The risk rating agencies revised their rating of the country's external public debt upward to CCC+ (on the Standard & Poor's scale). Further improvements are contingent upon favorable results in the fiscal and monetary areas, a decline in inflation, and a return to a sustainable growth path.
- 4.2 **In response to the health and economic crisis unleashed by COVID-19, the IDB undertook a restructuring of the portfolio in 2020, increasing sovereign-guaranteed disbursements in the short term. For the 2021-2023 period, the IDB projects average annual approvals of US\$1.479 billion**

⁷⁵ IDB-EVERIS (2019), Agenda Digital de Argentina. Informe Diagnóstico y Recomendaciones [A Digital Agenda for Argentina: Diagnostic Assessment and Recommendations], Buenos Aires, April 2019.

under the baseline scenario (Annex IV). The financing scenario also projects average disbursements of around US\$1.394 billion. National and regional technical cooperation operations are also expected to continue. Average net loan flows are projected at around US\$458 million annually, bringing the country's debt with the IDB to US\$14.731 billion in 2023. The assumptions underlying this financing framework are based on current financial conditions. In the event of any change in the macroeconomic stability and growth context during implementation of the strategy, including a new IMF agreement, the Bank's financial envelope may be modified to respond to that new context. Under that scenario, the IDB projects average annual approvals of US\$1.846 billion in the same 2021-2023 period, with average annual disbursements of around US\$1.636 billion. Average net loan flows would reach around US\$701 million per year, bringing the country's debt with the IDB to US\$15.459 billion in 2023. Access to these resources would be approached with flexibility to accommodate the time frames established in the IMF agreement.

V. STRATEGY IMPLEMENTATION

- 5.1 As part of its Country Program Evaluation: Argentina 2016-2019, OVE provided the following four recommendations: (i) continue to work with the government on reform implementation; (ii) given limited fiscal space, ensure that future IDB support through investment lending is focused on a limited number of areas where IDB can add most value, and ensure that project design is commensurate with implementation capacity; (iii) take measures to ensure that gaps in institutional capacity at IDB counterpart agencies are more effectively addressed; and (iv) develop and implement an action plan to more systematically address the lack of maintenance of IDB-financed infrastructure, especially at the subnational level.
- 5.2 Consistent with these recommendations and the lessons learned during the 2016-2019 country strategy period, the following will be considered in implementation: (i) implement programming exercises that focus on the Bank's value added and are based on comprehensive responses involving all areas of the IDB Group, including cross-sector coordination between all Bank departments; (ii) promote knowledge generation to support substantive reform processes in areas of high value added; (iii) develop appropriate support agendas for all three levels of government with a view to boosting execution capacity and impact; (iv) agree on protocols to ensure institutional strengthening, including maintenance commitments for works and services; (v) continue to promote the strengthening and use of country fiduciary systems; and (vi) facilitate coordination and participation in cofinancing with different multilateral and bilateral organizations.
- 5.3 The strengthening of coordination within the IDB Group will be of particular importance for enhancing the impact of the country strategy. To this end, the following priorities are proposed: (i) the joint development of dialogue and engagement with the authorities, particularly in areas that require policy reforms and/or offer clear synergies for working together at the operational level, as well as in advisory services and technical assistance; and (ii) the identification of strategic priorities that will improve the country's institutional capacity for facilitating optimum private sector participation in closing development gaps, as well as joint development of an agenda for implementing these priorities.

- 5.4 The IDB, IDB Invest, and IDB Lab have been coordinating from the very early stages of the programming process with a view to improving public-private coordination and maximizing the development impact of IDB Group operations in Argentina. They will continue to coordinate their work programs (including access to technical cooperation funding) in order to promote regulatory changes and create a favorable environment for private sector-led development. IDB Lab will continue to work in coordination with the IDB and IDB Invest in the area of innovation for inclusion, and with entrepreneurs, business accelerators, and investors to allow the development, adoption, and deployment of innovation, knowledge transfer, and collaboration with the public sector for the acquisition and application of innovative solutions. Examples of this coordination include the Group's work to promote the use of blockchain technology to support the social inclusion of vulnerable populations, as well as collaboration in the design of electric mobility pilot projects, innovation in public procurement, the strengthening of capital markets, and improved access to financing for women business owners.
- 5.5 With respect to other donors, the IDB Group will monitor coordination efforts with the government to facilitate participation of the different multilateral and bilateral organizations in cofinancing. The IDB Group will also promote the coordination of efforts to generate dialogue and policy proposals based on technical synergies between multilateral and bilateral organizations, with a view to adding new sources of financing and technical experience for our counterparts and private sector clients.
- 5.6 Country strategy implementation will also involve the strategic use of technical cooperation resources to support the country's new knowledge demands and facilitate the design and execution of projects. To this end, a strategic programming framework will be established in coordination with the country to foster an agenda of knowledge, lessons learned, and good practices focused on operations and complex, state-of-the-art issues.
- 5.7 **Country systems:** The Bank relies on the execution supervision of the following country systems for fiduciary management in operations: (i) the public procurement system: information and (ii) public financial management system: budget, accounting and reporting, and external control. During the country strategy period, dialogue is expected to continue, as are strengthening actions with the Ministry of Economy, the channel of communication, Secretariat for Strategic Affairs (SAE), and the external control bodies, aimed at: (i) increasing the effectiveness of fiduciary engagement between the programs' executing agencies and the Bank, including monitoring of the project portfolio; (ii) reducing the gaps with national public accounting standards (with respect to the IPSAS); (iii) performing a diagnostic assessment of the National Treasury (TGN) and the Single Treasury Account (CUT) to identify opportunities to strengthen and potentially validate the subsystem; and (iv) modernizing the system for managing execution units of external loans (UEPEX) used for the financial management of Bank-financed operations at the national and provincial levels. In terms of external control, dialogue will continue, as will actions to strengthen the Office of the Auditor General (AGN) and the Provincial Audit Offices to promote the institutional modernization and improvement of the technical capacities of auditors. In addition, dialogue and exchanges of experience and knowledge will be promoted regionally through participation in forums on financial management and control. With respect to public procurement: (i) identify lines of work and support with the Ministry of Public Works and the National Procurement Office, with emphasis on the upgrading of their regulatory system and their electronic procurement systems; (ii) strengthen

and technologically enhance the performance of the electronic procurement systems Compr.Ar and Contrat.ar; (iii) incorporate innovation into procurement and update regulations; and (iv) at the subnational level, maintain an active dialogue with the authorities and members of the Federal Public Procurement Network. Work will go into greater depth so that the diagnostic assessments and strengthening activities enable progress toward the use of local procurement systems in Bank operations in Argentina.

- 5.8 **Country Environmental and Social Governance Systems.** Argentina has a robust legislative framework in the area of basic social and environmental rights. Nonetheless, there is a need for strong interagency coordination due to both the decentralized nature of the country's governance system (in which the federal government develops general mandates or regulations and the provinces have primary responsibility for implementing regulatory processes) and the need to improve human resource capacities and citizen participation processes. The IDB Group will therefore seek to assist the country in strengthening its environmental and social systems in order to: (i) eliminate overlaps and gaps in the responsibilities of vertical and horizontal coordination bodies; (ii) increase human resource capabilities in the federal and provincial environmental authorities; (iii) improve the consistency and effectiveness of policies by supporting the Cabinet Committee on Climate Change; and (iv) improve the gathering, systematization, and management of environmental and social data and documentation, as well as access to information, in accordance with the recently ratified Escazú Agreement.

Table 1. Country Fiduciary Systems

Use of Country Systems	Baseline 2019 ⁷⁶	Projected Use 2023	Actions planned under the country strategy
Budget	100%	100%	No action planned.
Treasury	3%	100%	Diagnostic assessment and possible validation of the National Treasury system.
Accounting and reporting	99%	100%	Improvement of the UEPEX system – Technical support for participation in FOCAL events – Continue dialogue regarding the action plan for the IPSAS gap analysis.
Internal audit	3%	0%	No action planned.
External control	36%	36%	Ongoing dialogue with the Auditor General's Office and support for its participation in assemblies of the Organization of Latin American and Caribbean Supreme Audit Institutions.
Information system	100%	100%	Continued use of the information portal is planned as part of expanded efforts to improve transparency in the use of public resources.
Shopping	12%	30%	Approval of use in the public works, energy, and water and sanitation sectors.
Individual consultants	12%	12%	No action planned.
National Competitive Bidding	12%	14.5%	Approval of use in the public works, energy, and water and sanitation sectors.
Advanced National Competitive Bidding	12%	12%	Approval of use in the public works, energy, and water and sanitation sectors.

VI. RISKS

- 6.1 **Macroeconomic risks.** The main macroeconomic risks faced by the country relate to the excessive dependence on currency issue to finance the Treasury in a context of high fiscal deficits and low international reserves, as well as a possible withdrawal of quantitative easing in the advanced economies. Against the backdrop of a fragile social context with demands for higher spending on social protection, insufficient access to external financing has forced the authorities to resort to monetary financing for the Treasury. To contain pressure on inflation and reserves, the Central Bank has sought to manage the exchange rate through controls on capital flows and imports, thus creating significant excess liquidity. Looking ahead, there is a risk that capital and current account controls will have a negative impact on investment and growth. Excess liquidity may also precipitate a significant exchange rate correction, accompanied by accelerating inflation that would have a negative impact on poverty. The potential withdrawal of quantitative easing in the advanced economies would lead to a decline in capital flows to emerging countries and falling prices for the commodities exported by Argentina. This would complicate the economic recovery and the process of rebuilding external liquidity.

⁷⁶ Includes PBLs.

- 6.2 **External and domestic risks** may create significant challenges for policy formulation and macroeconomic stability. The priority areas selected for the strategy are associated with poverty reduction through improved targeting of social assistance; an enhanced role for the private sector in driving growth and generating skilled employment; and greater effectiveness in public policies to reduce short- and medium-term macroeconomic risks. Monitoring of the country's economic situation will be performed on a regular basis through the Bank's economic reports, such as the Independent Assessment of Macroeconomic Conditions and the macroeconomic report prepared by the Research Department.
- 6.3 **Execution risks.** The main execution risks faced by the IDB in Argentina include (i) potential fiscal constraints associated with macroeconomic uncertainty due to the pandemic, which could affect the budget space available for loan execution; (ii) possible changes in the structure of the federal government administration, which could affect project execution capacity; and (iii) exchange rate volatility, which could complicate the execution of projects (particularly infrastructure projects) by forcing adjustments in works contracts while also increasing the difficulty of executing loan resources denominated in U.S. dollars. These risks could impact physical execution and disbursements under the operations, thus affecting expected outcomes. The following mitigation measures will therefore be adopted: programming and portfolio management will take into consideration the current context, with the Bank working closely alongside the government to monitor these risks and address them in a timely manner. This will be accompanied by the necessary technical assistance and the strengthening of institutional capacities in counterpart agencies and project execution teams.

ANNEX I: RESULTS MATRIX

Government priority	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline, source, and year
Inclusion	Poverty reduction and social protection of the most vulnerable	Poverty reduction	Reduction of the population living below the poverty line	Population living below the poverty line (% of total population)	40.9%; National Statistics and Census Institute (INDEC); First half 2020
		Strengthen the health system	Expand access to quality and preventive health services	Percentage of people with effective health coverage among the population that only has public coverage	16%; Records from the SUMAR program, REDES, and document on the eligible population for SUMAR; 2019
		Prioritize early childhood development, especially within vulnerable groups	Expand access and enhance quality of early childhood centers and education	Percentage of children between 36 and 59 months who currently attend early childhood education	45.5%; UNICEF Multiple Indicator Cluster Surveys (MICS), 2012
		Move forward on greater inclusion, quality, and retention in the education system	Improve student levels of learning, with a focus on the most vulnerable sectors	Results of primary APRENDER program	In language, 75% (and 59% of students from the low socioeconomic level) achieve satisfactory or advanced results. In mathematics, 57% (and 43% of students from the low socioeconomic level) achieve satisfactory or advanced results. Aprender; 2018.
				Results of secondary APRENDER program	In language, 62.5% (and 41% of students from the low socioeconomic level) achieve satisfactory or advanced results. In mathematics, 31.2% (and 13.2% of students from the low socioeconomic level) achieve satisfactory or advanced results. Aprender; 2017.
			Improve the indicators for access and retention in the education system	School completion rate (secondary)	54.7%; IDB CIMA; 2018
		Improve the population's employability	Improve the skills plan based on current and future labor demand	Percentage of companies that identify workforce training as a major constraint	39.7%; World Bank Enterprise Survey; 2018
			Reduction of informality	Rate of informality, total and for women	Total: 35.9%, Continuous Household Survey (EPH); Q4 2019; women: 36%, EPH; Q3 2019
			Increase women's workforce participation	Percentage of women's workforce participation (out of % total participation)	49%; EPH; 2019

Government priority	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline, source, and year
		Improve habitat and mobility conditions of the population	Improve housing conditions	Households with critical overcrowding	2.5%, Household living condition indicators, INDEC; 2019
			Reduce the risk of floods in urban areas	Urban households living in housing in flood zones	11.1%, Household living condition indicators, INDEC; 2019
			Improve access and delivery of basic services	Percentage of households with access to piped drinking water	87.7%, Household living condition indicators, INDEC; 2019
				Percentage of urban households with access to sewer networks	70.9%, Household living condition indicators, INDEC; 2019
			Improve urban mobility services	TomTom Traffic Index congestion levels	Metropolitan Buenos Aires Area (AMBA) ranked 19th out of 189 cities; TomTom Traffic Index
		Strengthen citizen security	Reduce crime	Crime rate per 100,000 inhabitants	3930, Criminal Statistics Report; 2019
			Reduce levels of gender-based violence	Rate of femicides (per 100,000 women)	1.1; Argentine Supreme Court (CSJN); 2019
		Expand financial inclusion	Expand financial inclusion of the most vulnerable	Percentage of the population in the first and second quintiles and of women who report having a loan with a financial institution	First and second quintiles: 5%, Women: 7.6% Global Findex Database; 2017

Government priority	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline, source and year
Productive dynamism	Economic recovery and productive development 4.0.	Promote entrepreneurship, innovation, and the development of competitive business clusters	Greater entrepreneurship	Global Entrepreneurship Index	24 (Ranked 85th out of 137 countries); GEDI; 2018
			Simplify processes of opening and closing businesses	Number of procedures for opening a business	12; World Bank Doing Business; 2020
			Greater innovation and increased investment in R&D	Adoption of modern technologies	Ranked 101st; Global Competitiveness Report WEF; 2018
				Spending on R&D as a % of GDP	0.54%; World Bank; 2017
		Promote engagement in foreign trade with products and services of value	Increase the country's trade flow	Number of export businesses	9,529; Ministry of Production; 2017
			Increase diversification of exports	Economy Complexity Index	Ranked 73rd out of 133 countries; Harvard Growth Lab
			Reduce costs in international trade	Ease of doing international business	67.1 (Ranked 119th out of 190 countries); World Bank Doing Business, 2020

Government priority	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline, source and year
		Reduce infrastructure gaps	Improve the quality of infrastructure	Infrastructure index	68.3 (Ranked 68th out of 141 countries); WEF Global Competitiveness Index, 2019
			Reduce cargo transport and logistics costs	Logistics Performance Index	2.89 (Ranked 60th out of 213 countries); World Bank, 2018
			Improve electricity services	Number of interruptions of electricity service in one month and average duration	0.8 and 5.2 hours; World Bank Enterprise Survey; 2018
			Increase the share of renewable energies in the energy matrix	Share of renewable energies in the net generation of electricity (nonconventional and hydroelectric)	32.9%; Cammesa Annual Report; 2019
			Increase energy efficiency in the country	Energy intensity (TOE/GDP MMARS2004)	116; 2030 Energy Scenarios, Secretariat of Energy; 2019
		Expand coverage and access to financing for the sustainable productive sector	Facilitate access to credit (considering in particular investments that reduce emissions and create resilience)	Number of firms considering the lack of access to financing as a serious or very serious constraint	23%; World Bank; 2017
		Move toward environmental sustainability	Reduce greenhouse gas (GHG) emissions	GHG emissions Unit of measure: GgCO ₂ eq (Gigagrams of CO ₂ equivalent)	364,436 GgCO ₂ eq per year; National GHG Inventory Report of the Argentine Republic to the United Nations Framework Convention on Climate Change (UNFCCC); 2016
			Improve management of natural disaster risks	Risk Management Index	45.32, IDB, 2020
			Improve management in the treatment and final disposal of household waste water	Percentage of urban households whose waste water is properly treated and disposed	20%. Ministry of Public Works; 2015
			Improve the management of final disposal of urban solid waste	Percentage of households disposing of urban solid waste in sanitary landfills	64.7%. Ministry of Environment and Sustainable Development

Government priority	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline, source, and year
Stability	Macroeconomic stability and effectiveness of public policies	Move toward greater macroeconomic stability	Stability and fiscal sustainability	Financing from the BCRA to the Treasury as a percentage of GDP	6.3% of GDP; BCRA and MECON; Jan-Sep 2020
			Economic growth	Job creation: number of workers in the formal sector	-331,000 SIPA Ministry of Labor; First half 2020

Government priority	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline, source, and year
		Improve the technical and allocative efficiency of public spending	Improve the technical efficiency of public spending	Estimation of technical inefficiency	7.2% of GDP, IDB; 2015
		Improve the tax structure to boost investment and employment	Improve the tax structure to encourage job creation	Percentage of companies that identify tax rates as a serious or very serious constraint	79; World Bank Enterprise Survey; 2018
		Improve the regulatory framework	Make the regulatory framework more efficient to facilitate investment and private sector dynamics	Product Market Regulation (PMR) Indicators for the Whole Economy	2.77; Organisation for Economic Co-operation and Development (OECD); 2018

Government priority	Priority areas	Strategic objective	Expected outcomes	Indicator	Baseline, source, and year
Inclusion and productive dynamism	Digital transformation	Increase digital inclusion	More training in digital technologies at the various levels of education	Digital skills in the population	4 ranked 80th out of 141; WEF Global Competitiveness Index; 2019
			Ensure access to digital tools, particularly in vulnerable sectors	Percentage of the population with access to the Internet	74%; WEF Global Competitiveness Index, 2019
		Promote the adoption and effective use of digital technologies and innovation by companies	Greater digitalization of businesses	Global Digital Readiness Index	13.06; Ranked 57th out of 141 countries; CISCO; 2019
		Increase public and private investment in network infrastructure	Expansion of high-speed network infrastructure and national coverage	Technological infrastructure	1.51; Ranked 49th out of 141 countries; CISCO; 2019
		Digital government	Facilitate government procedures	Online Services Index, E-Government Index	0.8471 ranked 30th out of 193 countries; UN; 2020
			Improve governmental transparency with digital tools	Global Open Data Index	Ranked 17th out of 94 countries; Open Knowledge Institute; 2017
			Improve the regulatory and legal framework to enable and protect the expansion of the digital sector	National Cybersecurity Index	0.36; ITU; 2018

ANNEX II: FIDUCIARY SYSTEMS MATRIX

Strategic objective	Expected outcome	Indicator	Unit of measure	Baseline ⁷⁷	Baseline year	Main objective	Distribution over time	Alignment with the CRF
Increase in the use of fiduciary systems	Increase the use of the treasury subsystem	Active portfolio that uses the treasury subsystem	Percentage of the active portfolio	3%	2019	100%	At the end of the country strategy period	Institutional capacity and rule of law
	Increase the use of the accounting and reporting subsystem	Active portfolio that uses the accounting and reporting subsystem	Percentage of the active portfolio	99%	2019	100%	At the end of the country strategy period	Institutional capacity and rule of law
	Increase the use of the shopping subsystem	Active portfolio that uses the shopping subsystem	Percentage of the active portfolio	12%	2019	30%	At the end of the country strategy period	Institutional capacity and rule of law Productivity and innovation
	Increase the use of the national competitive bidding subsystem	Active portfolio that uses the national competitive bidding subsystem	Percentage of the active portfolio	12%	2019	14.5%	At the end of the country strategy period	Institutional capacity and rule of law Productivity and innovation
	Increase the use of the advanced national competitive bidding subsystem	Active portfolio that uses the national competitive bidding subsystem	Percentage of the active portfolio	12%	2019	12%	At the end of the country strategy period	Institutional capacity and rule of law Productivity and innovation
Strengthening of fiduciary systems	Strengthening of the treasury subsystem	Diagnostic assessment by the Bank and action plan	Action plan	0	2019	1	At the end of the country strategy period	Institutional capacity and rule of law

⁷⁷ Includes PBLs.

Strategic objective	Expected outcome	Indicator	Unit of measure	Baseline ⁷⁷	Baseline year	Main objective	Distribution over time	Alignment with the CRF
	Strengthening the accounting and reporting subsystem	Development of an action plan for IPSAS implementation	Action plan	0	2019	1	At the end of the country strategy period	Institutional capacity and rule of law
		Technological diagnostic assessment of the UEPEX system	Diagnostic assessment executed	0	2019	1	At the end of the country strategy period	Institutional capacity and rule of law
	Validation by application of the MAPS for public procurement systems	Validated national and subnational subsystems	Validated subsystems	1	2019	4	At the end of the country strategy period	Institutional capacity and rule of law Productivity and innovation Support and strengthening of Compr.AR and GDE systems

ANNEX III: MAIN ECONOMIC AND SOCIAL INDICATORS

Economic and social indicators	2016	2017	2018	2019
Real GDP growth (%)	-2.1%	2.8%	-2.6%	-2.1%
GDP at current prices (US\$ billions)	557.4	644.1	518.3	445.1
GDP per capita (US\$)	12790.2	14591.9	11683.9	10006.1
GDP per capita (APP)	20307.9	23562.9	23282.6	22947.1
Gross Fixed Capital Formation (GFCF) (% of GDP)	18.8%	20.7%	20.0%	17.2%
Gross national savings (% of GDP)	14.6%	13.1%	14.4%	15.8%
Unemployment rate (Economically active population - %)	8.5%	8.4%	9.2%	9.8%
Inflation (%)	41%	24.8%	47.6%	53.8%
Exchange rate (Peso/US\$ - end of period)	15.9	18.8	37.8	59.9
Multilateral real exchange rate (end of period - Dec/2015 = 100)	90.2	87.1	119.3	123.8
Current account balance (% of GDP)	-2.7%	-4.8%	-5.2%	-0.9%
Capital and financial account balance (% of GDP)	-2.4%	-5.3%	-6.1%	-2.3%
Foreign direct investment (% of GDP)	0.3%	1.6%	1.9%	1.2%
Portfolio investment (% of GDP)	6.3%	5.6%	1.3%	-1.6%
International reserves (US\$ billions, end of period)	39.3	55.1	65.8	44.8
National public sector fiscal balance (% of GDP)	-4.2%	-3.8%	-2.3%	-0.4%
Public sector primary balance (% of GDP)	-5.8%	-5.9%	-5.0%	-3.8%
Central government external debt (% of GDP)	17.7%	22.8%	41.9%	43.5%
Gross central government debt (% of GDP)	53.1%	56.5%	86.4%	90.2%
Other social indicators				
Population (millions)	43.6	44.0	44.5	44.9
Income inequality (Gini coefficient)	0.428	0.417	0.434	0.439
Poverty (% of total population)	30.30%	25.70%	32%	35.50%
Internet users (% of urban population)		74.3%	77.7%	79.9%
Mobile telephony usage (% of urban population)		81.20%	83.50%	84.26%

Source: INDEC, MECON, Central Bank of Argentina, and WDI.

ANNEX IV: ESTIMATED LENDING FRAMEWORK 2021-2023

Scenario 1: Baseline

	2016	2017	2018	2019	2020	2021	2022	2023	Average 2021-2023
Approvals	1,147	2,300	1,924	2,080	-	1,438	1,500	1,500	1,479
a. Disbursements	1,085	1,258	1,402	1,175	1,575	1,582	1,300	1,300	1,394
b. Repayments	870	887	863	868	859	927	916	964	936
c. Net loan flow	215	371	539	307	715	655	384	336	458
d. Subscriptions and contributions	42	-	-	-	-	-	-	-	-
e. Interest and fees	449	403	411	461	395	347	330	313	330
f. Net cash flow	(276)	(32)	128	(155)	320	308	54	23	128
IDB debt	11,424	11,795	12,334	12,641	13,356	14,011	14,395	14,731	
IDB debt/multilateral debt (%)	41%	40%	21%	17%	18%	19%	19%	20%	
IDB debt/External public debt (%)	12%	9%	8%	8%	9%	12%	11%	10%	
IDB debt/gross central govt. debt (%)	4%	4%	4%	4%	4%	6%	5%	5%	

Scenario 2: With the agreement with the IMF

	2016	2017	2018	2019	2020	2021	2022	2023	Average 2021-2023
Approvals	1,147	2,300	1,924	2,080	-	1,938	1,800	1,800	1,846
<i>Investment</i>						1,438	1,500	1,500	
<i>SDL or PBL</i>						500	300	300	
a. Disbursements	1,085	1,258	1,402	1,175	1,575	2,082	1,472	1,355	1,636
b. Repayments	870	887	863	868	859	927	916	964	936
c. Net loan flow	215	371	539	307	715	1,155	556	391	701
d. Subscriptions and contributions	42	-	-	-	-	-	-	-	-
e. Interest and fees	449	403	411	461	395	352	332	314	333
f. Net cash flow	(276)	(32)	128	(155)	320	803	224	77	368
IDB debt	11,424	11,795	12,334	12,641	13,356	14,511	15,068	15,459	
IDB debt/ multilateral debt (%)	41%	40%	21%	17%	18%	19%	20%	21%	
IDB debt/ External public debt (%)	12%	9%	8%	8%	9%	12%	11%	11%	
IDB debt/gross central government debt (%)	4%	4%	4%	4%	4%	6%	6%	5%	

ANNEX V: DEVELOPMENT EFFECTIVENESS MATRIX (DEM)

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
<p>In August 2008, the Board of Executive Directors approved the Development Effectiveness Framework (document GN-2489) to increase the evaluability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies 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.”</p>	
COUNTRY STRATEGY	
<p>STRATEGIC ALIGNMENT <i>Refers to the degree to which the design and objectives of the country strategy are consistent with the country development challenges and with the government’s development plans and priorities.</i></p>	
<p>EFFECTIVENESS <i>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 buildup of country systems.</i></p>	
Dimensions of effectiveness	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The diagnosis clearly identifies the main development challenges prioritized in the country strategy.	Yes
- The main development challenges included in the country diagnosis are based on empirical data.	Yes
II. Country strategy priority areas diagnostics**	%
- Identifies the main limitations and difficulties with the priority areas	100%
- Identifies the main factors /causes contributing to the specific constraints and challenges	100%
III. Results Matrix*	%
- The strategic objectives are clearly defined.	100%
- The expected outcomes are clearly defined.	100%
- The strategic objectives and expected results are directly related to the main constraints identified in the diagnosis.	100%
- The indicators are outcome indicators and are specific, measurable, attainable, relevant, and time-bound (SMART).	100%
- The indicators have baselines.	100%
IV. Vertical logic	
- The country strategy*** has vertical logic.	Yes
<p>* 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.</p>	
<p>** The country strategy includes the country development challenges document.</p>	

Country strategy diagnostic assessment: As part of the country strategy, a diagnostic assessment of country development challenges was presented (see the link to the country development challenges). The diagnostic assessment of country development challenges is comprehensive and based on empirical evidence. The diagnostic assessment of country development challenges identifies four priority areas for Bank intervention: (i) poverty reduction and social protection of the most vulnerable; (ii) economic recovery and productive development 4.0; (iii) macroeconomic stability and greater effectiveness of public policies; and (iv) innovation and digital transformation as a crosscutting pillar of development. Each pillar also incorporates a diversity and gender approach; as well as environmental sustainability.- Based on empirical data, the diagnostic assessment clearly identifies and determines the scale of the limitations and challenges in the priority areas.- The diagnostic assessment clearly identifies and measures, based on empirical data, the main factors or causes contributing to the specific constraints and challenges for the priority areas. - The diagnostic assessment offers policy recommendations for the Bank's actions, based on empirical data.

Results matrix: The section of the Results Matrix on the new priority area includes 21 strategic objectives for the Bank's actions, 43 expected outcomes, and 47 indicators to measure progress.

100% of the strategic objectives are clearly defined.

100% of the expected outcomes are clearly defined.

100% of the Country Strategy objectives are directly related to the main limitations identified in the diagnostic assessment.

100% of the indicators used are SMART.

100% of the indicators have baselines.

Country systems: For the fiduciary management of operations, the Bank relies on the supervision of execution under the following country systems: (i) Public procurement system: Information and (ii) Public financial management system: budget, accounting and reporting, and external control. During the country strategy period, dialogue is expected to continue, as are strengthening actions with the Ministry of Economy, the channel of communication, Secretariat for Strategic Affairs (SAE), and the external control bodies, aimed at: (i) increasing the effectiveness of fiduciary engagement between the programs' executing agencies and the Bank, including monitoring of the project portfolio; (ii) reducing the gaps with national public accounting standards (with respect to the IPSAS); (iii) performing a diagnostic assessment of the National Treasury (TGN) and the Single Treasury Account (CUT) to identify opportunities to strengthen and potentially validate the subsystem; (iv) modernizing the system for managing execution units of external loans (UEPEX) used for the financial management of Bank-financed operations at the national and provincial levels. In terms of external control, dialogue will continue, as will actions to strengthen the Office of the Auditor General (AGN) and the Provincial Audit Offices to promote the institutional modernization and improvement of the technical capacities of auditors. In addition, dialogue and exchanges of experience and knowledge will be promoted regionally through participation in forums on financial management and control. With respect to the public procurement system: (i) identify lines of work and support with the Ministry of Public Works and the National Procurement Office, with emphasis on the upgrading of their regulatory system and their electronic procurement systems; (ii) strengthen and technologically enhance the performance of the electronic procurement systems Compr.Ar and Contrat.ar; (iii) incorporate innovation into procurement and update regulations; and (iv) at the subnational level, maintain an active dialogue with the authorities and members of the Federal Public Procurement Network. Work will go into greater depth so that the diagnostic assessments and strengthening activities enable progress toward the use of local procurement systems in Bank operations in Argentina and its provinces. The Country Strategy has vertical logic.

RISKS. The main risks to implementation of the strategy are: (i) macroeconomic risks related to fiscal sustainability and external shocks; and (ii) execution risk related to the low capacity of executing agencies. The Country Strategy identifies specific mitigation and monitoring measures for each risk.

**ANNEX VI: MANAGEMENT’S COMMENTS ON THE COUNTRY PROGRAM EVALUATION:
ARGENTINA 2016-2019**

OVE recommendation	Management response
<p><u>RECOMMENDATION 1:</u></p> <p>Delay adopting a new Country Strategy until the effects of the COVID-19 pandemic are better understood.</p> <p>Given the still unknown extent of the health, social, and economic impact of the COVID-19 pandemic in Argentina, OVE recommends that the IDB Group not proceed with agreeing on a new full-term country strategy with the government until the extent of the crisis impact is better understood. Instead, OVE recommends that the IDB Group extend the current strategy period and, in its request for extension, include a roadmap covering a one-year period that outlines the IDB Group’s short-term support in response to the crisis. It will then be able to commit to a new multiyear country strategy under greater certainty at the end of the extension period.</p>	<p>Agreed. Management considers this recommendation appropriate. It is consistent with the measures under way and agreements reached with the government to address the health emergency and the post-pandemic recovery.</p> <p>With respect to the one-year roadmap summarizing the short-term support in response to the crisis, the fact that IDB Invest has developed a crisis response plan should be taken into account (“IDB Invest COVID-19 Response. Balancing Speed, Capital, and Impact” – document CII/GN-419). This plan was approved by the Board in April of this year. For purposes of the next strategy with Argentina, it will take into account the impact of the crisis and the country’s key development needs, as well as the authorities’ priorities to establish the IDB Group’s strategic objectives in Argentina.</p> <p>Actions proposed by Management:</p> <ul style="list-style-type: none"> • Agreement with the government for the reformulation of operations to support the health crisis. • Processing and approval of operations focused on the health needs and care of vulnerable groups. • Agreement with the government to postpone the dialogue exercise and processing of the country strategy. • Report on the Bank’s response to the COVID-19 crisis in Argentina. • Approval of the country strategy until June 2021.
<p><u>Recommendation 2:</u></p> <p>Continue to work with the Government on reform implementation.</p> <p>Many of the reform measures supported through PBPs during the evaluation period (as in transparency, fiscal reforms, and gender policies) will show their expected development results only if they continue to be implemented and the relevant counterparts take complementary actions. To this effect, the IDB should make continuation of these reforms an important part of its dialogue with the government going forward, stay abreast of progress on reform implementation, and provide technical support where needed.</p>	<p>Agreed. The reforms initiated through PBPs remain in effect with the new government, so the Bank will continue promoting strategic and sector dialogue and technical assistance for their implementation.</p> <p>Actions proposed by Management:</p> <ul style="list-style-type: none"> • Sector dialogues in the framework of the new country strategy focused on fiscal reforms, gender policies, vulnerable groups, and the transparency agenda. • Incorporation of these priorities in the new country strategy. • Incorporation of these priorities in the multiyear programming to be agreed with the government.
<p><u>RECOMMENDATION 3:</u></p> <p>Given limited fiscal space, ensure that future IDB support through investment lending is focused on a limited number of areas where the IDB can</p>	<p>Partially agreed. The limitation in the number of areas based on execution capacity is not necessarily the way to address the country’s needs. Nonetheless, Management agrees on the importance of strategic targeting, value added, and capacity-building. The current strategy prioritizes targeting in Norte Grande and the Buenos Aires conurbation, which are geographic areas where significant gaps persist in terms of</p>

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<p>add most value, and ensure that project design is commensurate with implementation capacity.</p> <p>Implementation of the investment portfolio was affected by fiscal austerity and implementation capacity issues. Given that fiscal space is likely to remain constrained, OVE recommends that the IDB provide more focused support and ensure that project design takes into account institutional and fiscal capacity constraints.</p>	<p>income and sector development. Likewise, the use of instruments such as CCLIPs has enabled the targeting of actions with value added and catalytic impact, while supporting strengthening processes over time.</p> <p>At the same time, despite limited fiscal space and the adverse economic and political context in recent years, the Bank has managed to achieve efficiencies in execution through rigorous portfolio management and review exercises. These good practices will continue to be strengthened in the future.</p> <p>Actions proposed by Management:</p> <ul style="list-style-type: none"> • Multiyear programming with high value added, considering the limited fiscal space. • Mainstreaming the digital agenda and innovative actions in all operations, with a focus on value added, execution efficiency, quality of expenditure, and the achievement of results. • Portfolio review exercises using innovative, participatory procedures.
<p><u>RECOMMENDATION 4:</u></p> <p>Take measures to ensure that gaps in institutional capacity at IDB counterpart agencies are more effectively addressed.</p> <p>Review the reasons for the under- or non-implementation of institutional strengthening components in numerous operations during the period, and ensure that future capacity-building activities—either in the form of components within operations or as stand-alone interventions—are consistently well tailored to counterpart and project needs and realities.</p>	<p>Agreed. The efforts that the Bank has been comprehensively and meaningfully promoting to strengthen institutional capacities will continue, as has been successfully done in water and sanitation, road, transportation, health, and gender programs.</p> <p>Actions proposed by Management:</p> <ul style="list-style-type: none"> • Continue biannual portfolio review methodologies with a focus on monitoring comprehensive institutional strengthening. • Incorporation of innovation instruments and technologies into portfolio supervision and monitoring.
<p><u>RECOMMENDATION 5:</u></p> <p>Develop and implement an action plan to more systematically address the lack of maintenance of IDB-financed infrastructure, especially at the subnational level.</p> <p>As in the previous CPE, OVE again found insufficient maintenance of infrastructure assets, especially by subnational entities, pointing to the need for more effective measures to improve the maintenance of IDB-supported infrastructure. Such measures can, for example, involve better integration of subnational maintenance activities into project design and ensure their implementation, and/or more systematic work with the government on strengthening relevant incentives.</p>	<p>Agreed. The Bank has been implementing some innovative tools to ensure infrastructure maintenance in transportation projects, including continuous training. Efforts will continue to disseminate these tools to other sectors and continue building the capacities of subnational entities in this area.</p> <p>Actions proposed by Management:</p> <ul style="list-style-type: none"> • Strengthen and scale the use of tools that the Bank has been using in various projects in Argentina, such as CREMA contracts in the transportation sector, as well as promoting more training workshops like those held in the transportation and the water and sanitation sectors. • Propose a public asset management model to the government.