To: The Board of Executive Directors
From: The Secretary

Inquiries to: Mr. Michel Planque (extension 3875)

Reference: GN-2328-1(11/04)
The Programming Committee of the Board met on October 18, 2004 to consider the IDB Country Strategy with Argentina for 2004-2008. In its opening remarks, Management emphasized that the strategy presents a long-term vision of the country’s challenges while defining short-term actions for the coming years. Management also stated that in order for Argentina to achieve the strategy’s objective of more sustainable growth, the country would need to raise its investment levels and the productivity of its physical and human capital. Regarding the current program between Argentina and the IMF, which extends until September 2006, Management stated that it would seek to maintain net neutral loan resource flows, by improving execution of the country’s large existing portfolio (US$2.4 billion) and a few targeted operations.

Directors expressed general support for the strategy’s areas of emphasis but had the following concerns:

1. Argentina’s debt. Although macro-economic conditions in Argentina were described as improved, some Directors noted the importance of more analysis of the country’s continuing large debt and requested an overview of the country’s repayment obligations over the medium term vis a vis all international institutions. Some Directors reaffirmed around the need to maintain net neutral flows with the country to contribute to debt sustainability, and the importance of having positive net flows of capital to contribute to development objectives. In terms of exposure, Management expressed optimism about the recovery prospects for the Bank’s private-sector portfolio in Argentina.

2. Strategic focus. There were recommendations from some Directors to focus the strategy more selectively on areas of IDB comparative advantage. Some Directors also questioned the strategy’s emphasis on neutral loan flows as a rationale for future loans, urging continued close attention to development impact through carefully selected operations. Other Directors mentioned that both aspects (financial flows from the IDB that are predictable and add to domestic resources, as well as the quality of the projects and programs that are financed with these flows) are important. Management indicated that it was continuing to work intensively with Argentine authorities in establishing priorities and developing a pipeline consistent with the concerns raised. Management indicated that these strategies would be presented with next year’s strategy review.

3. Lending Scenarios

Management described the strategy’s lending scenarios as indicative only. In response to questions from Directors on likely scenarios, Management indicated that it considered the US$5 billion scenario (with more loan approvals during the second half of the program) as the more desirable of the two. Management and Directors agreed that specific triggers
relating to improved portfolio execution, new projects, and structural reforms would be assessed in the strategy review.

4. Private Sector Development. Management and some Directors agreed that ensuring private investor confidence would be the key to sustained recovery in Argentina and would depend on progress in restructuring the country’s existing private-sector debt and creating a better business climate, through improvements in the country’s financial, legal, regulatory, and overall governance frameworks (including the outcome of pending legislation of public utility reforms). Other Directors considered that such confidence depends on maintaining sustained growth, social cohesion and adequate institutional frameworks.

5. Evaluability. In response to comments from Directors and OVE about the need to include more results-based indicators in the strategy matrix, Management confirmed its intention to add such indicators as concrete projects materialize, for inclusion in the strategy review.

6. OVE’s point of view.

   - OVE indicated that its review of the Country Strategy document showed that not all of the CPE recommendations had been addressed satisfactorily.
   - Regarding the investment program, the CPE had stressed the importance of the Bank dealing with the effectiveness of the government’s investment program as a whole, particularly in light of what would be, at most, a net neutral situation in terms of resource transfers from the Bank.
   - In OVE’s opinion, the lending program presented in the Country strategy did not respond to this recommendation and, in fact, simply listed a number of proposed operations.
   - OVE also noted that the CPE had recommended that Management make a significant effort to increase the evaluability of the upcoming strategy and that the Strategy Guidelines also call for the identification of separate indicators for tracking strategy implementation and for assessing the results of strategy implementation.
   - According to OVE, the strategy matrix presented by management presented indicators but was entirely lacking in results indicators.

Concerning the third indent above, the Director for Argentina indicated that the relevant point of view to define the integrality of a strategy corresponds to that of the country as a whole as defined by Argentina’s authorities, within which the Bank’s own strategy is a component that may encompass activities that look isolated.

Some Directors requested that the matrix be revised to include such indicators when the update is presented next year.

7. Following various requests from Executive Directors, Management has made a series of changes in the document, notably in the presentation of the financial and institutional crisis that affected the country and the lending scenarios. A table outlining
the IMF program objectives has been included in the document. Management has also sharpened the objectives of every specific operation contained in the lending program for 2004-2005. An annex describing the actions taken to implement each of OVE’s recommendations has been added, as well as a table showing the country’s repayment obligations towards the three IFIS (IDB, IMF and World Bank) over the 2004-2008 period.

In my capacity as Chairman of the Programming Committee, I recommend that the IDB Country Strategy with Argentina (GN-2328-1) be approved. I would also note that the Directors expect refined performance indicators in the matrix and a strategic pipeline in the country strategy update that will occur at the end of 2005.