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Washington, D.C.

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McNamara Papers

Travel brief

The World Bank Group
Archives



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Travel Briefings: Argentina - Travel briefs 01

Folder 1 of 2

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ARGENTINA

- 10/18/68 (B.A.) Dr. Pedro Eduardo Real, President of the Central Bank
Hernando Campos Menendez, Vice President
- " Bernardo J. Loitegui, Secretary of Public Works
Other urban officials
- 10/21/68 (B.A.) Dr. Fernando M. Morduchowicz, Director, Analisis
- " Dr. Jose Alfredo Martinez de Hoz, Director, Aceros Industria Argentina
- " Emilio F. van Peborgh, Minister of Defense
- " Dr. Guido di Tella, Vice President, Siam di Tella, Ltd.
- " Dr. Krieger Vasena, Minister of Economy and Labor
Dr. Francisco Soldati, Adviser, Ministry of Economy and Labor
- " Dr. Roberto Alemann, Director Delegado, Alemann & Cia; former
Minister of Economy and Ambassador to the U.S.
- 10/22/68 (B.A.) President Juan Carlos Ongania
Dr. Krieger Vasena, Minister of Economy and Labor
- " Dr. Carlos M. Llerene, Lawyer and Economic Consultant
- " Dr. Carlos C. Helbling, Presidente, Promotora de Finanzas (industrial
finance)
- " Dr. Jorge Rosner, population expert; director of an institute for
research, a part of the Jesuit University in Buenos Aires
- " Prof. Dr. Julio H.G. Olivera, Director, Instituto de Investigaciones
Economicas, University of Buenos Aires
- 10/19/68 (B.A.) Pablo Larreta, Estancia Acelein-Tandil (overnight at the ranch)
- 10/19/68 (Rio Negro) Senor Comisionado Municipal de la Ciudad de Cipolletti
- 10/20/68 (Mar del Plata) Gen. Juan Carlos de Marchi, Presidente Ferro Carrilles, Argentinas
- 10/20/68 (Balcarce) Prof. Gaston Bordelois, President of INTA
- 10/21/68 (B.A.) Luis M. Gotelli, Secretary of Energy and Mining

~~A. Schedules, etc.~~

B. Transport

C. Convention on the Settlement of Investment Disputes

D. Economic Policy

E. Livestock

F. SEGBA

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I. IFC investment commitments

J. Press Comments on Annual Meeting Speech

~~K. Arrival and departure statements~~

532/3/29

PROPOSED SCHEDULE FOR
MR. McNAMARA's VISIT TO ARGENTINA
October 18-22, 1968

Friday, October 18

- 0900 Arrival at Ezeiza Airport (Buenos Aires); proceed to suite at Plaza Hotel.
- 1030-1100 Meeting with the President of the Central Bank of the Argentine Republic (Dr. Pedro Real) and Governor of the IBRD at the Central Bank. *Mr. Campos V. VP of RB*
- X 1115-1315 Briefing from urban development officials at Secretariat of Public Works. *Mr. LOITEGUI Sec of Public Works & URBAN OFFICES*
- 1315-~~1430~~¹⁴¹⁵ Free time.
- 1430-1730 Helicopter to outskirts of Buenos Aires; thence by car to view urban development project and access roads to Buenos Aires. Helicopter tour of Buenos Aires harbor (with wife).
- 1730 ~~1740~~ ¹⁷³⁰ *2574* Return to Plaza Hotel; free time. *William Clark*
- 2030 Reception and dinner by courtesy of Sociedad Interamericana de Prensa (organization, reception and transportation to be handled by SIP - Inter-American Press Association). (Black tie).

Saturday, October 19

- 0745 Leave Plaza Hotel for city airport (Aeroparque).
- 0800 Leave Aeroparque (military apron) in Presidential Avro.

Fly over Colonia Catriel and Neuquen oilfields; site of Chocon-Cerros Colorados hydropower complex, and irrigation zone of Upper Rio Negro Valley.
- 1130 Land at Neuquen airport.

Leave by car from airport for Cipoletti (visit to "Cascada" or "Tres Ases" fruit packing plant and cold-storage chambers; Rear Admiral Cordero dam; and "Mono Azul" farm).
- 1345 Lunch at "Mono Azul" farm.
- ~~1445~~¹⁵⁰⁰ Tour of "Mono Azul" farm. Conversations with local producers. *Travel to other chaca*
- ~~1530~~¹⁶⁴⁵ Leave "Mono Azul" for Neuquen airport.
- ~~1600~~¹⁷⁰⁰ Depart by air from Nequen airport.
- Fly over Bahia Blanca.
- ~~1900~~¹⁸⁰⁰ Arrive at Tandil Military air base.
- X *2130 AM* Travel by car to "Acelain" ranch. This ranch is owned by a prominent Argentine family by the name of Larreta. Mr. Pablo Larreta will be at the ranch. *D... ..*

2200

Saturday, October 19, cont'd

~~2130~~ Dinner and overnight at "Acelain" ranch.

Sunday, October 20

0730 Breakfast at "Acelain" Ranch.

0800-1030 Tour of main installations of "Acelain" ranch.

1030 Leave "Acelain" ranch by car for INTA (Instituto Nacional de Tecnologia Agropecuaria - National Institute of Agricultural Technology) in Balcarce (headquarters of the Balcarce Plan). A small farmstead will be visited during the trip.

1330 Lunch at INTA in Balcarce.

1415-1445 Talk with farmers.

1445 Leave by car for Mar del Plata. A small farmstead will be visited en route.

1615 Arrival at Mar del Plata and rapid tour of the city.

1705 Leave by train for Buenos Aires.

2215 Arrive in Buenos Aires and travel by car to Plata Hotel.

Monday, October 21

0745 Leave Hotel for Aeroparque (military apron).

0800-0930 Leave by air, flying over La Plata (Propulsora steel mill under construction), industrial belt of Buenos Aires, and Pacheco-Escobar-Campana-San Nicolas-Villa Constitucion-Rosario-San Lorenzo; land in San Nicolas.

0930 Travel by car from the San Nicolas landing strip to SOMISA (Sociedad Mixta Siderurgia Argentina). *Olivetti*

0945-1130 Visit to SOMISA (briefly discussions with management; and possibly labor leaders).

1130 Leave SOMISA by jet helicopter (Huey) for Olivetti factory, in Merlo.

1200-1300 Visit to Olivetti.

1300 Leave Olivetti by helicopter.

1325 Arrive at Buenos Aires Aeroparque (military apron).

1345 Return to Plaza Hotel.

Monday, October 21, cont'd

- 1600 Dr. Roberto Alemann, Director Delegado, Alemann & Cia. (pub., former Minister of Economy and U.S. Ambassador)
- 1645 Dr. Guido di Tella, Vice Presidente Ejecutivo, Siam di Tella, Ltd. (diversified manufacturing).
- 1730 Dr. Fernando M. Morduchowicz, Director, Analisis (friend of Clark).
- 1815 Dr. Jose Alfredo Martinez de Hoz, Hijo, Director, Aceros Industria Argentina (ACINDAR). (Former Finance Minister *Pres of Ecuador + justice*)
- 1930 Meeting with Minister of Economy and Labor, Dr. Adalbert Krieger Vasena, and other members of the economic staff.
- 2030 Return to Plaza Hotel.
- 2130 Dinner as guest of Minister of Economy and Labor, Dr. Adalbert Krieger Vasena, at the Circulo de Armas (with wife). (Black Tie)

Tuesday, October 22

- 0900 Prof. Dr. Julio H. G. Olivera, Director, Instituto de Investigaciones Economicas, University of Buenos Aires. (He preferred meeting at hotel.)
- 0945 Dr. Jorge Rosner, population expert.
- 1030 Dr. Carlos C. Helbling, Presidente, Promotora de Finanzas (industrial finance)
- 1115 Dr. Carlos Moyano Llerene, Lawyer and Economic Consultant. *friend of Clark*
- 1315 *Interview with Krieger Vasena at Ministry*
~~Travel by car to the Casa Rosada (Government House).~~
- ⁴⁵1330 Lunch with His Excellency, the President of Argentina (at Government House).
- ¹⁵³⁰1630 Leave from Plaza Hotel to Ezeiza Airport.
- ¹⁷⁵⁰1800 Leave Ezeiza Airport for Brazil.

532/3/28

September 4, 1968

yes
[ok with P. ...?]

PROPOSED SCHEDULE FOR
Mr. McNAMARA'S VISIT IN ARGENTINA
October 18-22, 1968

Friday, October 18

ok time of departure
from NY to Arr. B.A.
note PAALines 4112 +
Amelia 8745-

Early morning

Arrive Buenos Aires by non-stop Aerolineas flight from New York.

During day

Meeting with Dr. Pedro Real, President of Central Bank and Governor of IBRD. Even if invitation to lunch with Dr. Real is not accepted, a meeting is essential for courtesy reasons. Dr. Real may wish to review Bank activities in Argentina. The Argentines have also suggested a drive through the city in the course of Friday.

In addition to a meeting with Real during the day, could meet with (individually or in small groups)

- 1) Development economists re development Argentina + L.A.
- 2) Urban planning problems re urbanization in B.A.

See at least 3 hrs. before 9.00 p.m. before dinner.

Dinner of Inter-American Press Association followed by Mr. McNamara's address.

Saturday, October 19

Sunday, October 20

) These two days might be devoted to field trips outside Buenos Aires, one on each day. The following three possibilities are suggested from which two might be selected:

1. Visit to Balcarce livestock project, financed by Bank. Travel to Balcarce by car across pampa (about five hours) and return by plane - or both ways by plane. Lunch at Balcarce. Visit to Balcarce experimental station of INTA (research, extension and training agency) and to two ranches (one with improved pasture and the other not).

I lean to
1 & 4

Trip might be in company of Mr. Pedro Bordelois, President, INTA and Mr. Saturnino Llorente, President of Banco de la Nacion, and some ranchers. INTA and Banco de la Nacion are jointly carrying out the Bank-financed project. Admiral Francisco Castro, Secretary of CONADE (planning and coordinating agency) might also accompany.

2. Trip to Rosario-San Nicolas, northeast of Buenos Aires. Travel one way by recently reconstructed road, return by train. Visit one or two factories (possibly SOMISA (government) or ACINDAR (private) steel mills; PETROSUR fertilizer factory). Suggest road journey in company of Secretary of Public Works Loitegui, and Administrator of Vialidad, Mangonnet. Visit to ACINDAR and/or PETROSUR should be in company of Mr. Martinez de Hoz, former Minister of Finance and now President of both companies. Visit to SOMISA would doubtless be with Director General of Fabricaciones Militares, General Aguilar Benitez. Journey by rail should be in company of General de Marchi, President, and other senior officials of the railway. Interesting discussion of railway problems could be arranged during lunch or dinner in private railway car. General de Marchi does not speak English, but some of his aides do.
3. Visit to Mesopotamia region (area bounded by Parana River, Brazil, Paraguay and Uruguay). Travel to and from

*probably
not from
Saturday or
Sunday*

Concordia by plane. This is an area containing many quite recent European settlers; agricultural potential (e.g. citrus) is supposed to be great. Argentines intend to ask the Bank to finance road development in the area. Visit should be in company of high transport officials, and representatives of Secretariat of Agriculture and INTA. Access to region planned by proposed new lower Parana bridge for which Bank finance is not sought. N.B. None of the plane trips proposed here exceed 1 - 2 hours.

4. *Tupiza (northwest Argentina). see note attached*

Monday, October 21

*Yes - ok
test & approach
with me*

Morning and
early afternoon

Talks with business, financial and intellectual leaders and directors of Bank-financed projects chosen from attached list.

OK 7.30 p.m.

Meeting with Minister of Economy and Labor Krieger Vasena and secretaries of economic departments who report to him.

OK 9.00 p.m.

Dinner given by Dr. Krieger Vasena.

Tuesday, October 22

Press noon

*Yes - ok
test & approach with me*

Morning

Further talks with people selected from attached list.

Yes - ok suggestions with me

Visit to factory or power station in Buenos Aires might also be arranged if desired.

Yes 1.30 p.m.

Lunch with President of the Republic Ongania.

~~4.00 p.m.~~

~~Press Conference.~~ *not reg'd in view of speech to "press"*

Yes Early evening

Departure for Brazil.

An early opportunity should be taken to go over the tentative program with

a Government representative, at the Annual Meeting or before, in order to make sure that none of the private appointments scheduled would cause embarrassment to the Government.

532/3/26

PRINCIPAL PARTICIPANTS AT THE DIFFERENT FUNCTIONS

Friday, October 18

At Central Bank: Mr. McNamara and party, and President of Central Bank and Directors.

At Secretariat of State for Public Works and on afternoon tour: Minister of Social Welfare, Mr. Conrado Bauer, Secretary of Public Works, Mr. Bernardo Loitegui, and government specialists, Secretary of Transport, Mr. Armando Ressia.

Saturday, October 19

Trip to Upper Rio Negro Valley and "Acelain" ranch: Mr. McNamara, accompanied by wife and party (Messrs. Alter, Steckhan and Clark). Vice President of Central Bank, Dr. Hernando Campos Menendez and wife. Secretary of Mining and Power, Mr. Luis Maria Gotelli. Under-Secretary of Mining and Power, Mr. Juan Pedro Thibaud. Under-Secretary of Electric Power, Mr. Carlos Robertson Lavalley. President of Hidronor, Gen. Manuel Olascoaga (returning from Neuquen to Buenos Aires). Dr. Francisco Soldati (Ministry of Economy) (At Neuquen Mr. Raul Ondarts, Vice President of Hidronor, will be waiting, accompanied by provincial representatives of INTA, bankers and local producers).

(It is envisaged that Mrs. Gotelli and Mrs. Thibaud may accompany Mrs. McNamara, but this will be decided later).

Sunday, October 20

~~Sunday~~

In the morning ("Acelain" and INTA)

Mr. McNamara and wife and party. Vice President of Central Bank, Mr. Hernando Campos Menendez and wife. Secretary of Mining and Power, Mr. Luis Maria Gotelli. Secretary of Agriculture, Mr. Rafael Garcia Mata. One of the Under-Secretaries of Mining and Power. President of INTA, Mr. Gaston Bordelois. Dr. Saturnino Llorente, President of Banco de la Nacion. Dr. Francisco Soldati. Technicians.

In the afternoon at INTA or Mar del Plata the party will be joined by the Secretary of Transport, Mr. Armando Ressia, and the President of the Argentine Railroads, Gen. Juan Carlos De Marchi.

Monday, October 21

Trip to industrial zone

Mr. McNamara (without wife) and party.
Minister of Defense, Mr. Emilio van Peborgh.

At the Ministry of Economy

Mr. McNamara and party (without wife).
Minister of Economy, Dr. Adalbert Krieger Vasena.
Dr. Francisco Soldati.
Officials to be named later.

People whom Mr. McNamara might like to meet,
in addition to those referred to in the schedule
(* especially recommended)

Private

Yes

*Dr. Roberto Alemann, former Minister of Finance and Ambassador to the U.S. during Kennedy administration, now a publisher. One of Argentina's chief economists. He was a Minister of Economy and Ambassador to the United States during the Frondizi Government. He "represents" the Swiss Banking Company for all of Latin America and is highly regarded in business and political circles. He is also the owner of a widely circulated German language newspaper and is involved in a variety of business interests. He is currently in contact with IFC in connection with a publishing project, Editorial Codex, sponsored by a Mr. Gibelli. This project involves expansion of the company's publishing business with installation of printing machines and provision of working capital and is estimated to cost about \$10 million, of which about \$6 m. is being sought from IFC. The present status of this project is that IFC has informed the company that IFC involvement is predicated upon (a) the Company's obtaining a meaningful commitment from one or more leading domestic financial institutions (b) further strengthening of management (c) essential completion of the re-organization of the group's structure (d) a satisfactory consolidated audit on that basis. The Company has indicated its intention to comply with these requirements as soon as possible, but expects that this will take a few months.

Mr. Carlos Arturo Coll Benegas, Minister of Economy for brief period in 1962, older, one of the more distinguished financial people.

Mr. Adolfo Burlich is an interesting businessman with important cattle, real estate and industrial interests.

Yes

*Mr. Guido Di Tella, head of important Di Tella industrial group, young (in his thirties) and articulate.

*Dr. Felix G.M. Elizalde, former President of the Central Bank, and a political opponent of the present Government.

Dr. Aldo Ferrer, a private economic consultant who at one time was Minister of Finance of the Province of Buenos Aires.

Mr. Carlos Helbling, a former executive of Roberts & Co. (private bank) who is now head of a new private finance company in which Bank of America and Credit Suisse are participating. He is President of Promotora de Finanzas, S.A., a leading private investment house, and we are discussing the Dalmine and oil refinery projects with him. He was formerly Economic Attache of the Argentine Embassy in London and one of the promoters of the Club de Paris -- a leading European investment group in Argentina.

Mr. Rudolfo Katz, editor of widely-read weekly, Economic Review.

Mr. Fernando Morduchewicz, editor of the periodical Analisis. Friend of Mr. William Clark.

Yes
Ing. Enrique Oteiza, Executive Director Torcuato Di Tella Institute, recommended by Mr. Wilhelm of Ford Foundation, heads social science sections in economics, social research, urban and regional planning, and public administration, and arts sections in music and plastic arts.

Dr. Luis Baudizzone or Dr. Federico A. Peña of the Chamber of Commerce (Bolsa de Comercio) which, together with ADELA, is sponsoring the establishment of a new private industrial development finance institution.

Dr. Peña is President of the Bolsa de Comercio de Argentina (Stock Exchange). Together with a number of business and financial organizations and in conjunction with ADELA, he is presently studying the possibility of setting up an investment finance institution in Argentina. Dr. Peña is also a member of the Board of Directors of Dalmine-Siderca, which is referred to under Dr. Rocca.

Mr. Federico Pinedo, an articulate, older-school, conservative; many times Minister of Economy.

1/40
Dr. Jorge Rosner, Director, Laboratory of Endocrine Research, Faculty of Medicine, University of El Salvador, recommended by Mr. Wilhelm. According to the latter, Dr. Rosner is "administrator of a collaborative training enterprise in reproductive biology and population dynamics among institutions in Argentina, Uruguay and Chile."

Dr. Oberdan Sallustro, Director General of Fiat Concord. Fiat plays a prominent part in Argentine industry.

Closely associated with Fiat is a consulting and industrial promotion company known as Techint. Mr. Roberto Rocca is in charge. Techint's financial advisor is Mr. Arnaldo Musich, former close advisor to President Frondizi.

In the banking community, one possible contact is Mr. Oscar Braun Menendez, Vice President of the Banco de Galicia. Foreign banks are quite active, notably the First National Bank of Boston (Mr. Clark Burton), the Bank of London and South America (Mr. H.E.L. Plant), and several continental banks.

Dr. Augustin Rocca. An Italian national who came to Argentina at the end of 1945, Dr. Rocca has developed his extensive business interests in Latin America and the Mediterranean area by means of a Panamanian holding company San-Faustin-Techint; he is recognized as being one of the outstanding businessmen in Argentina. He heads a group of Italian interests which now is believed to have assets of over \$80 million in Argentina. As President of Dalmine-Siderca, one of the three leading seamless tube manufacturers in Latin America, he is currently in contact with IFC regarding a possible underwriting transaction. Dalmine is in the process of completing the installation of a new continuous casting machine for small diameter billets and is planning to add a new electrical furnace and to increase permanent working capital. The Company needs \$3-4 million and at the moment Mr. Kneip of IFC staff is in Argentina discussing the details of the project with the sponsors and the proposed financing jointly with local financial institutions.

Dr. Francisco Soldati is the Chairman and principal officer of La Italo, one of the two largest electrical power generating companies in the country. He is also Chairman of Astra, the largest of a group of five independent domestic oil companies which are planning to build an oil refinery and to merge their independent distribution operations to form a single privately controlled concern, that can effectively compete with the state owned YPF and foreign companies. IFC is having preliminary discussions with Dr. Soldati and the current status of the project, estimated to cost about \$70 million, is that a pre-feasibility study is being prepared and is expected to be ready for discussions shortly.

Mr. Enrique Roberts is a Vice-Chairman of one of the better known private financial houses, Roberts S.A. de Finanzas in which Baring Brothers have a leading interest. Roberts' directors have been and are in contact with IFC on the Editorial Codex project, the Dalmine project, and a hotel project sponsored by Intercontinental. He was a special guest at this year's Annual Meeting.

Dr. Martin A. Cobo is Director Delegado of another highly regarded finance house, Banco Tornquist, S.A., with whom IFC has held a number of discussions, particularly with respect to Editorial Codex, the oil refinery project and the Intercontinental hotel project.

Dr. Luis Firpo Miró is President of Sociedad Rural, one of the oldest and more powerful organizations in the country representing the big land owners and cattle interests and is believed to have considerable influence in the economic and political life of the country. Mr. Firpo himself has extensive land and cattle holdings and is one of the more important personalities in business circles.

Government

*Engineer Luis Maria Gotelli, Secretary for Power and Fuels, was General Manager of SEGBA during the Frondizi administration and has been a good friend of the Bank ever since. He is now in a responsible post just under Krieger (at times reporting directly to Ongania). He will be in the meeting scheduled with Dr. Krieger, but would be worth having a separate talk with.

Minister of Defense van Peborgh, a liberal who was previously President of the Industrial Bank. Minister of Defense has an important voice in industrial policy and direct supervision over steel industry.

Top officials of agencies who have borrowed from the Bank, or hope to, will probably seek to pay courtesy calls on Mr. McNamara. These include Ing. Butty and Ing. Meoli, President and Executive Vice President, respectively, of SEGBA, and General Olascoaga and Ing. Ondarts, President and Executive Vice President, respectively, of Hidronor (El Chocon).

B. C. R. A.	Referencia:	Hoja N°
	Exp. N°	
	Act.	

HIERARQUIAS DE LOS FUNCIONARIOS PARTICIPANTES DE LAS DIVERSAS ETAPAS

- MINISTRO DE ECONOMIA Y TRABAJO : Dr. Adalbert KRIEGER VASENA *S. J. J. J.*
- MINISTRO DE BIENESTAR SOCIAL : Ing°. Conrado BAUER *S. J. J. J.*
- MINISTRO DE DEFENSA NACIONAL : Sr. Emilio VAN PEBORCH *S. J. J. J.*
- PRESIDENTE DEL BANCO CENTRAL : Dr. Pedro E. REAL *S. J. J. J.*
- VICEPRESIDENTE DEL BANCO CENTRAL : Dr. Ernesto MALACORTO *S. J. J. J.*
- VICEPRESIDENTE 2° DEL BANCO CENTRAL : Ing°. Hernando CAMPOS MENENDEZ *S. J. J. J.*
- DIRECTOR DEL BANCO CENTRAL Y PRESIDENTE DEL BANCO NACION : Ing° Agron. Saturnino LLORENTE *S. J. J. J.*
- GERENTE GENERAL DEL BANCO CENTRAL : Sr. Egidio IANNELLA
- SECRETARIO DEL DIRECTORIO : Sr. Ernesto MARCELO
- GERENTE DEPARTAMENTAL ADSOR.GCIA.GNAL. : Sr. Pedro C. LOPEZ
- SECRETARIO DE ENERGIA Y COMBUSTIBLE : Ing° Luis COTELLI *S. J. J. J.*
- SECRETARIO DE OBRAS PUBLICAS : Ing° Bernardo LOITEGUI
- SECRETARIO DE TRANSPORTES : Ing° Armando RESSIA
- SECRETARIO DE IND. y COM. INTERIOR : Dr. Raúl PEYCERE
- SECRETARIO DEL CONSEJO NACIONAL DE DESARROLLO : Contralmirante Francisco CASTRO
- SECRETARIO DE AGRICULTURA Y GANADERIA : Ing° Rafael GARCIA MATA
- SUBSECRETARIO DE ECONOMIA : Lic. Enrique FOLCINI
- SUBSECRETARIO DE OBRAS PUBLICAS : Ing° Victor MANGONNET
- SUBSECRETARIO DE MINERIA Y COMBUSTIBL. : Ing° Juan THIBAUD *S. J. J. J.*
- SUBSECRETARIO DE ENERGIA Y COMBUSTIBL. : Ing° Carlos ROBERTSON LAVALLE *S. J. J. J.*
- PRESIDENTE DEL CONSEJO DIRECTIVO DEL INSTITUTO NACIONAL DE TECNOLOGIA AGROP. : Ing° Gaston BORDELOIS
- PRESIDENTE DE HIDRONOR : Gral. Manuel OLASCOAGA *S. J. J. J.*
- VICEPRES. EJECUTIVO DE HIDRONOR : Ing° Raúl ONDARTS
- PRESIDENTE FERROCARRILES ARGENTINOS : Gral. Brig. Juan C. DE MARSEI
- ASESOR DE AGRICULTURA : Sr. Tomás GONZALEZ ALZAGA
- ASESOR : Ing° Luis IGLESIAS
- ASESOR DEL MINISTRO DE ECONOMIA : Dr. Francisco SOLDATI *S. J. J. J.*
- ASESOR DEL SECRET. OBRAS PUBLICAS : Ing° OGUETA
- ASESOR DEL SECRET. OBRAS PUBLICAS : Sr. Federico BATROSSE
- ASESOR : Ing° DELLA PAOLERA
- ASESOR DEL MIN. ECONOMIA Y TRABAJO : Sr. Alfredo DURAN
- CAPITAN DEL PUERTO DE BS. AIRES Y D. SUD : Cap. Navio (R) Mario DURANTEU
- ASESOR : Ing° FRIAS e Ing° DANIELI
- JEFE DE CEREMONIAL BANCO CENTRAL : Sr. Rodolfo J. GIUDICE
- PERSONAL DE CEREMONIAL : Sr. Juan C. PORTICLIA
Sr. Carlos SARABIA

Ceremonial,

S. J. J. J.
m. Elena Benignel a a. v. v. v. v.
414835 *S. J. J. J.*

Transportation Mission Report

Letter to Dr. Krieger Vasena advising of Bank's interest in sending transport mission to Argentina, from Mr. Knapp, dated April 24, 1968

Memorandum to Files re Mission to Discuss Bank Assistance to Transport Sector from B. Chadenet, Warren Baum and R.F. Skillings, dated May 23, 1968

Letter to Dr. Krieger Vasena following return to Bank of transport mission, from Mr. Knapp, dated June 13, 1968

Letter to Mr. Knapp in reply to his letter of June 13, from Dr. Krieger Vasena, dated July 5, 1968, accepting suggestion of further transport mission.

Letter to Dr. Krieger Vasena in reply to letter of July 5 and referring to transport mission in September, from Mr. Knapp, dated July 12.

Letter to Mr. Knapp giving Government's views on various points in letter of June 13, from Dr. Krieger Vasena, dated August 8, 1968.

Letter to Dr. Krieger Vasena acknowledging his letter of August 8, from Mr. Knapp, dated August 15, 1968.

Transport Policy and Coordination

ARGENTINE TRANSPORT

POINTS FOR DISCUSSION WITH MR. McNAMARA

The preliminary reports of the Argentine transport mission bring out the following issues that will call for further discussion within the Bank:

a. Level of Road Investment

The mission found that the level of road investment which the Argentines are seeking to achieve is probably greater than can be justified on economic grounds. While we shall want to review this finding carefully, if it is substantiated it will have serious implications for our future road lending in Argentina, especially in view of Argentina's budget difficulties. The mission suggests a reconnaissance survey of new roads proposed for construction, that would include roads within the current three-year program that have not yet been started (whose start would be postponed). This would have the effect of reducing the overall level of investment as well as help ensure that only economic projects are carried out. These are matters of the greatest importance and we should seriously consider making any future road loan conditional upon a satisfactory understanding about overall road investment.

b. Organizational Questions

The mission has also identified a number of needed organizational changes, of which the most important is probably the need for a revised relationship between Vialidad Nacional and the provincial road administrations. After these conclusions have been considered, we may well want to make them also conditions for future road lending.

c. Amount of Proposed Second Loan

The projects appraised by the mission for the proposed second loan would call for a Bank loan of about \$18 million if we financed only the estimated foreign exchange cost (about 35% of total costs). The Argentines have requested that we cover 50% of the cost in order to bring the loan up to \$25 million and Mr. Loitegui, the Secretary of Public Works, has said that such increased Bank participation would provide him with backing to strengthen Vialidad's ability to execute and plan future road projects. We shall have to consider very carefully whether any local financing would be justified in this case.

d. Access Roads to Buenos Aires

Secretary Loitegui pressed upon the mission the view that the most urgent transport problem was that of access roads to Buenos Aires. He intends to bring this up with Mr. McNamara. So far we have taken the line that any planning of new access roads should be done only in the context

of a broader survey of development of the metropolitan area of Buenos Aires. While this no doubt would be the ideal approach, we should consider whether the problem is not so urgent that certain things ought to be done (conceivably with our assistance) even before such an overall survey is undertaken. We should also consider whether we could help the Argentines organize and carry out such a survey.

e. Railways

The mission has drawn up a detailed list of things which the railways should do to rehabilitate their service and their finances. Management staff of the railways are in agreement. It is doubtful, however, whether the Government at the highest level is prepared to launch such a program promptly. The mission still has to prepare an estimate of the year by year reduction in the deficit over the next few years, in order to enable us to see more clearly the impact of the plan on the general budget. As a first step, we should be able to identify a target deficit for 1969 upon which to seek an understanding with the Argentines.

cc: Mr. McNamara
Mr. Chadenet
Mr. Sadove
Mr. Geolot
Mr. Wright
Mr. Skillings
Mr. Dosik

Western Hemisphere Department
RFSkillings:jd

October 16, 1968

532/3/24

OFFICE MEMORANDUM

TO: Mr. R. Sadove

DATE: October 15, 1968

FROM: A.F. Geolot *A.F. Geolot*SUBJECT: ARGENTINA: Transportation Mission
Back-to-Office Report

The Mission that worked in Argentina from September 16 to October 11 was composed of Messrs. Geolot (Chief); Kesson, Loven and Tivy (Railway Engineers); Alexander (Highway Engineer); Chapman (Financial Analyst); and Haker, Thalwitz and Siret (Transport Economists). Mr. Dosik, Area Department Economist, assisted the Mission. The results of this Mission are given below with some background information.

Summary

The principal matters that result are: 1) to establish the railways as a commercial enterprise and to plan to achieve physical and financial goals by 1973; 2) for the highways, to proceed with the second highway loan, to reduce the level of road investments, and to have Vialidad control the provincial investments; and 3) for transport coordination, to get the proper institutional arrangements, to screen investments for economic productivity and to have competition based on transport costs.

The Railways

*used: 1) 5 yr plan
2) contract with SFA
rail for consultants for technical assistance*

1. The Argentine Railways (EFA) has about 42,000 km of lines and 158,000 employees divided among six railway systems. It is managed as a State enterprise under the Secretary of Transport. The Government is considering legislation (the new enterprise law), now with the Secretariat of Transport, to establish EFA as a commercial enterprise which would enable EFA to manage the railways on sound commercial lines. The law should be promulgated without delay with certain amendments ~~to~~ defining the responsibilities of EFA, among which should be one on its financial viability.

2. In January 1967, the Army assumed the direction of EFA, and made Gen. De Marchi its President. There was a general strike during March 1967 which was broken by government action. In September 1967, the government, concluding that EFA's civilian personnel was not able to plan and carry out the task of revitalizing the railways, installed army officers in the senior positions in headquarters and in the railway systems. Discipline has been restored, much house cleaning has been done and a large amount of planning has been carried out. On October 1, 1968, a new and satisfactory organization was put into effect; assignment of staff to the various posts is still being completed.

3. The operating deficit, before depreciation charges and interest on debt, was Ps 52 billion (US\$150 million equivalent) in 1966, and was reduced to Ps 45 billion (US\$128 million) in 1967. These figures have been approximately 50% of Argentina's total budget ^{deficit} on current account. The railways forecast a further reduction in deficit to Ps 35 billion (US\$100 million) in 1968 but results to date indicate that it may be Ps 42 billion (US\$120 million).

4. The 1967 wage bill amounted to 76% of total working expenses. There is a large excess of labor which the railways have not yet identified in detail. Removal of staff is also held up awaiting the enactment of a law making adequate provision for separation benefits; this law is expected to be enacted at an early date. The Government is considering the possibility of putting these benefits under the social security system, with wider application than railways.
5. However, there is a shortage of qualified and skilled technical staff, mainly because salaries are much below the market level. When the new enterprise law becomes effective EFA should remedy this situation. In the meantime to help fill the gap, technical cooperation with consultants (Sofre-rail, France) is being arranged.
6. In operating terms it is imperative to eliminate uneconomic lines and services (possibly up to 14,000 km out of 42,000 km), complete the elimination of steam traction and reduce the number of workshops. In addition, improvements are needed in the maintenance of track and rolling stock.
7. In 1967, passenger and freight rates were increased substantially. This brought freight rates to a generally satisfactory level but the new enterprise law is needed to provide flexibility to deal with specific cases in competitive situations. For passengers, however, the revenues cover less than half the costs; these services and particularly the suburban, are responsible for a large proportion of the operating deficit. Therefore, further substantial increases in passenger fares are needed.
8. The accounting system is generally satisfactory but does not provide sufficient data for costing. In particular, the costing of equipment maintenance needs to be extended rapidly.
9. EFA has prepared an investment program for 1969 which is considered reasonable. A medium term (5 years) plan has not yet been completed. This should concentrate principally on the renewal of freight cars and track improvements. A rehabilitation investment of about Ps 25 million (US\$75 million equivalent) per year would seem to be appropriate.
10. Based on the traffic forecast for 1973 and on feasible targets for staff reductions, closure of lines, improved availability of equipment, elimination of steam traction, increased passenger tariffs, and with some provision for higher supervisory salaries, a tentative budget forecast indicates that operating revenue could cover expenses plus an allowance for depreciation by that year.
11. The Mission emphasized to EFA the importance of bringing about by 1973 all the major changes in staff, operations, railway systems, etc., and urged that these should be the basis of the 5-Year Plan that is in preparation; rather than 1978, which appears to be the goal for some EFA policies.
12. The information obtained and the conclusions of the Mission have been set out in more detail in an "Aide Memoire", a copy is attached, which was used in an oral statement to EFA and to the Ministry of Economy and the Secretariat of Transport.

The Second Highway Project

- 13. The project which is recommended consists of
 - (i) the construction of four road sections totalling 796 km at a cost of US\$39.0 million including consulting services for the supervision of construction;
 - (ii) consulting services for identifying a future road program and for carrying out pre-investment studies totalling US\$6.5 million; and
 - (iii) technical assistance amounting to US\$4.0 million.

14. The total cost of the project is US\$49.5 million, with a foreign exchange component of US\$18.0 million.

15. A large proportion of consulting services would be provided by Argentine firms in collaboration with foreign firms. It has not been possible to estimate the effect of the recent decision to allow a proportion of foreign exchange for Argentine consulting services; this matter is being gone into but a rough estimate is US\$2 million, which would increase the foreign exchange component to US\$20 million. At the last meeting with Ing. Loitegui, the Secretary of Public Works, he remarked that the amount of the proposed loan was small, and that he would take this matter up with Mr. McNamara with the hope of increasing Bank participation to US\$25 million. Ing. Loitegui considers that participation at this level would give him the support needed to carry through the major administrative reforms that he expects to introduce, with which we agree.

(150m)
50% or part 5
13% or part 5
2/3 of part 3
in contrast
physically
impossible
to reduce
below 100-
cr.

16. The four road sections have rates of return of between 10-15%. The future road program and related pre-investment studies will lay the foundation for a five-year highway development plan for 1971-1975 and a possible third highway project for Bank financing of some 2,000 km of roads amounting to US\$100 - 120 million (for a possible loan of US\$40 - 50 million) to be appraised towards the end of 1970.

17. The technical assistance program is geared to ease the present strain on Vialidad caused by the recent great acceleration of its investment activities and to produce basic data which is required to solve its long-term managerial problem. It comprises the consulting services for supervision of ongoing construction works under the Three-Year Plan 1968-70, a road inventory study, the installation of a traffic counting system and assistance to improve Vialidad's accounting system and procedures.

18. The Vialidad management has recently adopted the decentralization of its planning, execution and maintenance activities. In view of the expanded activity and expected future growth of the highway sector, this is a sound policy and the recent setting up of seven Vialidad Nacional regional administrations is a first step to implementation. The aim is eventually to transfer all the executive functions to the provincial administrations.

Road people will oppose restriction
Gen " (Kueger) will favor "

Considerable time will have to elapse before a satisfactory and efficient relationship is evolved between the newly established regions and headquarters on one hand and the provinces on the other. Once the traffic and the road inventory data will be available from the studies financed under technical assistance, a further step, possibly with the help of UNDP financing, would be to launch a pilot project in one of the new regions to define the best organizational and operational arrangements for the attainment of the objectives of the new regional policy.

19. A different dimension of the problem concerns the relationship between Vialidad Nacional and the independent provincial administrations. Lack of action by Vialidad in exercising its right to review and decide whether roads proposed by the provincial administrations for construction with co-participation funds (which are made available by the National and Provincial Government) are to be constructed, has resulted in instances of duplicate road investments and wastage. The Mission informed the Secretary of Public Works that the Bank, in considering highway loan operations, would wish to see Vialidad exercise this right of decision.

20. As explained later, there does not appear to be need to maintain the high and increasing level of investment in roads. The present highway system is generally sufficient for traffic requirements. The need to restrain expenditures for highways and to level off investments was discussed with the Secretary of Public Works, with reference to the deferment of projects in the last two years of the Three-Year Plan to 1971-74. He agreed in principle. This matter is dealt with further in the Transport Coordination Section below.

21. The findings of the Mission are dealt with in detail in the attached memorandum - Report of the Second Highway Appraisal Mission.

Transport Coordination

22. Argentina has not developed a consistent transport policy. There exist measures which affect transport coordination but they have not been integrated into a system, and they are not being tested for their effectiveness in achieving the economic objectives of transport coordination. The Mission believes, however, that the Government is ready to correct this situation and develop a set of policies aimed at providing transport services at the lowest total cost to the country in terms of resource consumption.

23. Efforts are being made to concentrate responsibility for the formulation and implementation of transport policies in one secretariat. In the Mission's opinion this responsibility should rest with the Secretary of Transport. At present the Secretary of Transport is responsible for both infrastructure and operations in the case of railways; in road transport his responsibility is limited to the road transport industry, while the responsibility for the infrastructure lies with the Secretary of Public Works. A first attempt towards improving this situation has been made with the creation of a sectoral development office within the Secretariat of Transport. The latter is charged with the supervision of investment planning for both railway and highway. This office, however, does not yet function due to the lack of qualified staff. As there are no personnel available in the Secretariat,

the Mission recommends that the Bank consider financing, as part of the forthcoming highway loan, expenditure for the employment of two consultants to start the operation of the office, to advise the Secretary on transport policy and effective coordination, and to train personnel. Two advisers to the Secretary of Transport who have been principally involved in the discussions with the Mission are expected to visit the Bank for further briefing on the subject.

24. The Mission emphasized that the present data gathering system does not allow the formulation of policies, control of implementation and possible corrective adjustments. Major gaps in data collection for road traffic and road inventory would be filled by the technical assistance proposed for financing in the Second Highway Loan.

25. Allocations of public investment, the most direct instrument for transport coordination, are presently not based on studies of economic productivity of particular investments. A large expansion is currently underway in road infrastructure investments. In the past five years an average of Ps 50 billion (expressed in 1968 prices) was disbursed annually. Present plans would call for at least a doubling of this amount for the next three years. The Mission believes that this level of expansion is not justified as the road network appears generally adequate and preliminary economic tests show that it would be difficult to find sufficient projects with satisfactory economic returns, to justify the very high level of capital investment. The Mission therefore suggested delaying projects in the Third-Year Plan for which contracts have not yet been made and subject them to economic feasibility studies to be provided for under the second highway loan.

26. As indicated in the section, The Railways, investments should presently be confined to rehabilitation and modernization to increase the operating efficiency without adding new capacity. Preliminary estimates would place annual investment requirements at about Ps 25 billion during the next few years, mainly for renewal of freight wagons and track on principal lines. At the same time the disinvestment program for abandoning uneconomic lines should be substantially accelerated. The Mission finds the railway approach to this question to be too timid and recommends against retaining branch lines with reduced service ("Rationalization") as in most cases operating ratios remain at a high level even after rationalization.

27. Current Government pricing policies in respect of resources used in transport services do not reflect the scarcity of these resources. The aggregate contribution by road users more than covers annual expenditures for highway infrastructure. However, due to the very low rate of taxation in diesel oil, long distance freight traffic accounts for about 75% ton/km travelled but contributes only 15% of total revenues collected from freight transport by road. The Mission therefore recommends that diesel tax be raised gradually to eliminate the present distortion.

28. Railway users make no contribution to infrastructure costs at all. A further distortion as compared to road transport exists, since on the basis of operations costs alone in 1967, passenger traffic was subsidized to the extent of Ps 42 billion while freight traffic received only about PS 2 billion. The Mission therefore recommends that passenger fares be substantially increased.

29. The overall railway deficit would in effect be higher than at present, if distortions in taxation and price of fuel did not exist. Ideally,

these distortions should be eliminated immediately and rates and fares should be raised to make users contribute to new infrastructure costs. However, the Mission is convinced that it would not be correct to compare the economic costs and the tax contribution of two modes of transport which operate at very different levels of efficiency. As the rehabilitated and reduced railway system will have a role to play in the future the railway should enjoy protection through preferential treatment, on a declining scale, while the rehabilitation process is taking place.

30. In its conversations with the Government, the Mission argued that restrictive regulations in transport would be unnecessary if investments were made on the basis of cost/benefit studies and if prices to users reflected the economic cost of resources consumed. After discussion with the Government, the Mission was satisfied that the new transport law, which is being drafted, will not be used to introduce restrictive regulations for traffic, rates and fares.

31. The Government indicated its readiness to continue the dialogue with the Bank on matters of transport policies and coordination in order to provide a basis upon which the Bank could assist Argentina in financing transport facilities.

32. The paper that was used as the basis for an oral statement to the Ministry of Economy, the Secretariat of Transport and other agencies concerned, is attached.

Action

We propose during the coming week to send:

A copy of the Aide Memoire on the Railways to Gen. De Marchi, the Ministry of Economy and the Secretary of Transport.

A copy of the Transport Policy and Coordination Paper to the Ministry of Economy and the Secretary of Transport.

A letter to Secretary Ressia inviting two of his staff members to the Bank for further briefing on transport coordination matters.

When agreement has been reached within the Bank, a letter would be sent to Ing. Loitegui on the project content for the Second Highway Loan.

AFGeolot:gh
Bank

cc: Mr. S. Aldewereld, Messrs. G. Alter, B. Chadenet, W. Baum,
R. Skillings (2)

(*) Maps of the railway and road systems are being prepared and should be available October 16th.

AR-Transport
532/3/23

April 24, 1968

See memo from
H. Skilling, May 1968

Dr. Adalbert Krieger Vasena
Minister of Economy and Labor
Hipolito Irigoyen 250
Buenos Aires, Argentina

Dear Mr. Ministers:

In your talks with Mr. Alter in Buenos Aires last February, you indicated that the Argentine Government would like the Bank to consider financial assistance for the transport sector, including both roads and railways. In approaching our lending to Argentina I think you will agree that we should avoid dispersing our efforts over too many sectors, and instead try to concentrate on those fields where we can be of the greatest assistance. Transport is indeed a sector whose development in terms both of new investment and of institutional re-organization is crucial to Argentina's general economic development, where the capital requirements are great and where, I believe, the Bank is equipped to play a useful role. We hope, therefore, that transport will become a sector where the Bank will be justified in extending a substantial measure of assistance. It is in this sense that we would like to consider the road project which has been presented to us, not as an isolated operation but, hopefully, as the beginning of a more substantial involvement in the transport sector.

To pave the way for future work, I think it would be useful if we could have a preliminary discussion with you concerning the Government's progress in formulating road and railway investment programs, its policy with respect to transport coordination, its plans for rehabilitation and redimensioning of the railways, and its program for improving the operations of Vialidad Nacional. In due course we should wish to review these matters in more detail. In such a review, we would pay special attention to the Government's plans for the railways, because we are convinced that railway rehabilitation, and alleviation of the burden which the railways now place on the public finances, constitutes one of the most important and urgent problems now facing the Government. Our thought is that this review might be carried out later this year in Argentina by a group of transport specialists from the Bank.

First, however, in order to gain greater familiarity with the thinking of the Government on the broad issues of transport policy, I

would propose that Mr. Chadenet, Director of the Bank's Projects Department, accompanied by Mr. Baum, Assistant Director - Transportation in that Department and Mr. Skillings of the Western Hemisphere Department, come to Buenos Aires in the near future for a few days of preliminary discussions on these matters with you, the Secretaries for Public Works and Transport, and CONADE.

In the meantime, we shall keep under active consideration the request by Secretary Loitegui that the Bank finance several sections of Routes 3 and 7. During the past few weeks we have received from his part of the supporting documentation for these projects, and we expect to receive further studies in the weeks to come. We are presently examining the documents to determine whether the project is suitable and ready for a field appraisal. Given a favorable outcome of this examination, and of the preliminary discussions referred to above, we would schedule an early appraisal of this project, which might thus become the basis for the first of several loans in the transport sector that the Bank may be able to consider over the next few years.

If this proposal is agreeable to you, Messrs. Chadenet, Baum and Skillings would plan to begin discussions in Buenos Aires on May 13. I should appreciate your advising me whether the approach outlined in this letter meets with your agreement.

I am sending copies of this letter to Secretaries Loitegui and Ressia and Dr. Daniel Fernandez, Alternate Executive Director.

Yours sincerely,

J. Burke Knapp
Vice President

cc. Ing. Bernardo J. Loitegui
Secretary for Public Works
Secretariat for Public Works
9 de Julio 1925
Buenos Aires, Argentina

cc. Ing. Armando Silvia Ressia
Secretary of Transport
Ministry of Economy and Labor
Hipolito Irigoyen 250
Buenos Aires, Argentina

cc. Dr. Daniel Fernandez, Alternate Executive Director

cc. Messrs. Chadenet, Alter, Baum, Wright/Dosik, Skillings/Fajans, Cancio, Keltie
JFajans/RChaufournier/WCBaum:mdk

LA. JAK

OFFICE MEMORANDUM

532/3/22

To: Files Date: May 23, 1968

From: B. Chadenet, Warren Baum and R.F. Skillings

Subject: ARGENTINA - Mission to Discuss Bank Assistance to Transport Sector

1. We spent May 13 - 16 in Buenos Aires in order to acquaint the Argentine authorities with the Bank's thinking about possible assistance to the transport sector, and to explore the present thinking of the Government with respect to highway and railway organization and transport coordination. We emphasized that the Bank wished to concentrate its lending in the transport sector provided agreement could be reached on the means necessary to develop the sector as a whole.
2. On the whole, we believe that the Government is receptive to our approach, and that a climate exists in which the Bank can render substantial technical assistance in the organization of Vialidad Nacional (the highway department) and in the rehabilitation and reorganization of the railways. The new railway management is tackling its problems with vigor, but it remains to be seen whether it will be possible to prepare and implement the drastic reforms necessary to make the railways a viable enterprise. The highway department has also made progress: it has improved its procedures for supervising construction and is starting to develop a road planning mechanism, but here again much remains to be done. The problems of transport investment planning and transport coordination will be difficult and will require further discussions before the Bank's position is fully understood in Argentina and before effective institutions can be devised to deal with these matters. We believe, however, that there are enough Government officials who understand and share the Bank's objectives in this area to warrant our adopting the overall sector approach and helping the Argentines to formulate suitable policies and institutions.
3. The Minister of Economy and Labor, who occupies a uniquely important position in the formulation and execution of Argentina's economic program, welcomes the proposed concentration of Bank assistance in the transport sector (provided it does not stop altogether lending for other sectors - notably power). He reiterated to the mission that he had great hopes that the Bank's technical assistance could reinforce his own efforts to bring order to the railways and other transport agencies.
4. The Minister also stated that while necessary policy changes and institutional reforms were being planned and carried out it was necessary to proceed with investment projects (particularly in highways) of obviously high priority. It would be wrong to hold these up pending the formulation of policies and the establishment of new institutions. The mission expressed sympathy with this view and agreed that the Bank would appraise for lending the proposed improvements to Routes 3 and 7, and would consider incorporating into the same loan finance for feasibility and engineering studies for highways that might be eligible for lending later. Other projects would probably be ready for financing before policies had

crystallized and institutional reform completed. In considering such projects, the Bank would judge whether the momentum of progress toward the agreed objectives was being maintained. We added that if all went well the Bank's association with the Argentine transport sector might become a vehicle for seeking joint financing of projects in this sector with other external lending institutions. The Minister said he would be very pleased if this proved possible.^{1/}

5. We informed the Minister that, as the next step, the Bank would forthwith send him a letter setting forth in some detail its proposed approach to the Argentine transport sector, recording areas in which agreement appeared to have been reached during the mission's discussions, and outlining a further program of work. We would expect a specific reaction from the Government to this letter indicating agreement (or areas of possible disagreement). If it then appeared that there was substantial agreement between the Bank and the Government on the appropriate policies to be followed in the transport sector, the Bank would organize a mission around September to (1) study the railways' problems in detail and help in the preparation of the rehabilitation and investment program on which it is now working; (2) review the organization and operations of Vialidad Nacional with particular reference to its capacity for highway planning and project execution; (3) further explore the subject of transport coordination with a view to helping the Government define its policies and consider what institutions should administer them; (4) appraise a highway project consisting of Routes 3 and 7 and feasibility and engineering studies for other highways. The Minister agreed with this program.

6. During the mission's stay, several Argentine officials brought up plans for transportation investment in the Buenos Aires metropolitan area, namely plans for expanding the Buenos Aires subway, and building new access roads into the city (including a super-highway from La Plata to Buenos Aires). The Secretary of Public Works requested that a study of access roads be one of those to be financed under the proposed next road loan. The mission expressed the view that the planning of the metropolitan transport system was inextricably tied in with plans for urban development in general, and suggested that there should be a special study of overall metropolitan development in Buenos Aires. The United Nations Development Programme would be the most suitable agency to finance such a study. If asked to do so, the Bank could consider whether it would act as Executing Agency for such a study.

7. The Secretary of Transport told the mission about plans for a new deep water port southeast of Buenos Aires. The mission offered the Bank's services in commenting on the terms of reference of the feasibility study that is proposed to be made soon.

^{1/} He said that he had hoped that a similar arrangement might have been worked out for El Chocon.

May 23, 1968

8. The Argentine authorities are preoccupied with drafting certain transport coordination legislation. It is apparent that their minds are turning to legislation of a restrictive nature. The mission questioned this approach and suggested that one or two Argentine experts in this field might spend one or two weeks in the Bank in the near future talking with various Bank staff members who have experience in this area. It also offered to have the legislation reviewed by the forthcoming transportation mission.

cc: Mr. Knapp
Mr. Aldewereld
Mr. Alter
Mr. Bell
Mr. Chauffournier
Mr. Wright
Mr. Geolot
Mr. Mackay
Mr. Alexander
Mr. Wouters
Mr. Fajans
Mr. Dosik
Mr. Riley (see paragraph 6)
Mr. Cancio
Mr. Keltie

RFSkillings/WBaum/BChadenet:jd

June 13, 1968

Dr. Adalbert Krieger Vasena
Minister of Economy and Labor
Ministry of Economy and Labor
Hipolito Irigoyen 250
Buenos Aires, Argentina

Dear Mr. Minister:

I have been most interested to learn of the conversations that Mr. Chadenet, Mr. Baum and Mr. Skillings held in Buenos Aires during the week of May 13 with you and your colleagues associated with the transport sector. They have asked me to extend to you their warm appreciation for the time which you yourself devoted to them, and for the many kindnesses with which they were received by all concerned.

I am writing to inform you that those discussions have confirmed our feeling that the Bank should in the next few years seek to focus a large part of its lending to Argentina in the transport sector. There may well be other opportunities, for example in electric power, in agriculture and in telecommunications, where some Bank assistance may also prove feasible.

In reaching this conclusion we have been influenced by the vigorous action which the Government has taken to improve the organization and operations of Vialidad Nacional and of the Argentine railway system, and by the plans that are contemplated for further improvement. We were also glad to learn of the importance which the Government attaches to the sound planning of transport investment and to the formulation of coordinated policies with respect to the transport sector as a whole.

I am summarizing below the mission's findings. I should be very grateful if you would confirm to me whether or not the mission's understanding of the Argentine Government's plans and objectives in the transport field is accurate, or whether there are individual aspects on which further comment is called for. I think it is important that, in launching this common endeavor, we be satisfied in advance that there is indeed a meeting of the minds.

In the field of highways we are impressed by the improvements that the present management of Vialidad has been able to accomplish. Indeed, we had already observed this in the administration of the Bank's first road loan and the recent mission confirmed this progress. Vialidad's capacity to execute road construction work efficiently now appears to be greater than at any time during our association. However, the new three-year highway construction plan is very ambitious, and there are a number of areas in which the organization of Vialidad (e.g. accounts and finance) will need to be strengthened to meet the challenge of the plan, as Mr. Mangonnet himself is well aware. Also, the three-year plan was necessarily somewhat improvised (given the limited time available for its formulation) and, looking ahead to the next program, it is very desirable that a sounder basis for highway planning be established. In this respect, we were very pleased to learn of the intention of the management of Vialidad to establish an adequate planning organization and of the beginnings that have been made in this direction. We shall follow with great interest Vialidad's efforts to expand its capacity to administer construction works and to establish the highway planning unit on a sound footing, and be pleased to provide or help to arrange whatever advice and assistance you may think appropriate to further these objectives.

As a first step toward assisting the highway sector, we have been reviewing the information that was sent to us with regard to the reconstruction of sections of Routes 3 and 7. We have also held conversations with Messrs. Mangonnet and Agüero in Buenos Aires about the possibility of including in the proposed loan finance to cover the foreign exchange cost of feasibility and detailed engineering studies of selected roads, whose construction might later be financed by the Bank under a subsequent loan. We were pleased to continue these conversations during their recent visit to Washington at which time we reviewed the procedures for selecting roads suitable for study, as well as the additional information required in connection with the reconstruction works. Messrs. Mangonnet and Agüero indicated that most of the foregoing information could be sent to the Bank in a short time and that the rest could be available before September 1968. They also indicated that priority would be given to: (i) completing a feasibility study for sections of Routes 3 and 251, which are being proposed as substitutes for the Northern Sector of Route 3 originally included in the proposed project but which appears to have low economic priority; and (ii) preparing a list of the roads to be the subject of feasibility and engineering studies, and a detailed program for carrying out such studies.

We expect to appraise the above project in September, in the hope that a loan might be signed early in 1969. Messrs. Mangonnet and Agüero agreed that, in the meantime, they would seek the Bank's concurrence on the various steps necessary to proceed with the engineering and put out to contract the sections of Routes 3 and 7 which now appear to be economically justified. If our appraisal of the proposed project turns out to be favorable, the proposed loan should be available soon enough to contribute

to construction costs almost from the start. In addition, as soon as agreement is reached on a program for carrying out the feasibility and engineering studies of selected additional roads, Vialidad could initiate these studies and the loan would cover their foreign exchange cost.

Turning to the railways, the mission was impressed, both from its meetings with General de Marchi and his colleagues, and from independent reports and observations, by the improvement in efficiency and discipline of the railways under its present management. We were also interested to learn of the railways' plans for the future and heartily endorse the management's objectives of providing economic and efficient service in accordance with the needs of its customers. As you are well aware, this is a task of the highest national importance, if only because alleviation of the burden which the railways now place on Argentina's national finances is, in our view, a sine qua non of the success of the Government's overall stabilization plans.

Like General de Marchi, we are confident that the objectives of better and more economical service can be achieved, in part by carrying out a large reduction in the labor force employed by the railways and a large reduction in the length of the railway network. However, Mr. Chadenet discussed with General de Marchi his concern that the railways' objectives, while in the right direction, might turn out to be insufficient in magnitude. I understand that this has been your concern too. I hope that we can help to dispell a false impression which seems to prevail in some countries, namely that railway operations must necessarily be run at a deficit. In fact, there are more than 15 countries in which the World Bank has made railway loans where the railways have achieved an operating ratio (the ratio of operating expenses, including depreciation, to operating revenues) of less than one, and are financially viable. If the burden of the railways on the public finances is to be lifted, this should be the objective that Argentina fixes as the basis for its planning.

General de Marchi told us that the railways' management is now working on a detailed reorganization, investment and rehabilitation program and he invited the Bank to become acquainted with this program during the course of its preparation and to assist in the completion of its final version. I am happy to confirm that we are prepared to extend whatever assistance we can in this important task. I would hope that the program thus adopted by the railways and approved by the Government could form the basis for the Bank to provide help in its implementation.

Turning to the subject of general transport investment planning and the formulation of transport coordination policies, I must say that our mission found this subject, in Argentina as in many other countries, somewhat more difficult to deal with.

With responsibility for investment planning for individual transport modes necessarily dispersed among several agencies - the Secretariats of Transport and Public Works, the Railways, Vialidad Nacional, and the Provincial Highway Departments, there should be good communication among them in the preparation of investment plans. We found evidence that this communication leaves something to be desired. While the Secretariat of CONADE is attempting to prepare transport plans, it lacks both the technical staff and the weight to have its ideas translated into decisions. In the light of these shortcomings, we feel it would be desirable to select a central place in the governmental organization where the coordination of transport investment planning can be undertaken on the basis of consistent criteria for the various transport modes. This office should be staffed by a team of functional experts who are not specially interested in any particular mode. More fundamentally, sound investment planning should be accompanied by a concerted effort to place the various transport modes on an equal competitive footing. Transport coordination does not, in our view, mean extensive regulation of transport but rather:

1. freedom of choice by consumers, on the basis of prices that reflect real costs, quality of service and other characteristics;
2. competition among transport modes, but on an equal basis, to ensure that costs are not distorted because of direct or indirect subsidies or discriminatory rules.

An important element of this policy is that the rates charged by each mode (including the level of road-user charges collected by the Government to cover the costs of providing the highway infrastructure) should be such that users pay the economic cost of the facilities they are using. To do otherwise, will result in over-utilization of one or more modes of transport and under-utilization of others - both creating serious economic burdens for the country as a whole. We would hope that the Government will soon make an overall investigation to determine whether its policies are in fact in line with this general approach. Argentina is fortunate in that it has avoided mistakes made by some other countries in restricting competition unduly among various transport modes, through measures such as limitation on entry into trucking, fixing of trucking rates or arbitrary limits on movement of goods by one transport mode or another. It should, therefore, be easier in Argentina than in other countries to achieve proper transport policies.

Our mission was told that basic legislation is now being prepared in Argentina to set the framework for future transport coordination. I should like to repeat the invitation which the mission extended, namely, that one or two of the people most closely associated with the preparation of this legislation come to Washington to talk with staff of the Bank who have devoted much time and thought to this question. I would hope that this could help Argentina formulate and adopt a sound transport coordination policy.

June 13, 1968

Much of the foregoing has necessarily been couched in general terms, for Mr. Chadenet and his colleagues did not, in the few days they spent in Buenos Aires, have time to discuss details. In order for us to become better acquainted with these problems, we proposed that a specialized mission from the Bank should visit Argentina to study them in detail. If you agree with this approach, we would expect to be able to bring together the staff necessary for such a mission in the month of September. The mission would review not only the programs for investment and institutional improvement in highways and railways and the Government's general transport investment and coordination policies, but would also make a detailed appraisal of the sections of Routes 3, 7 and 251 that are being proposed for Bank financing.

We would hope that, following this mission, the Government would proceed to review and refine its policies in the transport sector, that Vialidad Nacional would take steps needed to enlarge its capacity to administer highway construction and to improve highway planning, and that the railways would finalize a detailed, time-phased, rehabilitation and investment program for the future, which the Bank could support. After these measures are adopted, we would hope to keep in close touch with their execution, and examine detailed investment projects proposed for Bank finance as and when they are formulated. If, as I am confident will be the case, the general momentum is maintained in the future toward the objective of an efficient and viable transport system in Argentina, we would envisage further financing from the Bank even though attainment of the final objectives may still be some years ahead.

In sum, this is the approach which we would like to suggest to enable us to support the transport sector in Argentina. I would hope very much that it is an approach which meets with the approval of the Argentine Government. I look forward to receiving your views.

With kindest regards,

Sincerely yours,

J. Burke Knapp

J. Burke Knapp
Vice President

cc: Ambassador Alsogaray
Dr. Daniel Fernandez

Cleared with and cc: Messrs. Alter, Chadenet
cc: Mr. McNamara, Mr. Aldewereld
cc: Messrs. Mackay, North, Alexander, Wouters, Fajans, Dosik, Cancio, Keltie

RFSkillings/WCBAum:jd

532/3/20

Mr. Skillings
Room 584

Ministry of Economic Affairs and Labor
Buenos Aires

July 5, 1968

Mr. J. Burke Knapp
Vice President
IBRD
Washington, D.C.

Dear Sir,

I have pleasure in writing to you in reference to your memorandum of June 13, summarizing the important conclusions the World Bank has reached as a result of the mission which visited us last May.

As I read it I was able to feel once again, and with profound gratification, the great and meaningful spirit of cooperation that has animated the Bank in its relations with Argentina.

I am especially pleased to note the accurate analysis which the Bank mission made of different aspects of the transportation sector during its short stay in our country. Together with the various bodies concerned -- the Ministry of Transportation, the Ministry of Public Works and the Secretariat of the National Development Council -- we have embarked on an analysis of the means at our command and how they can be utilized to achieve the objectives outlined in your memorandum. I shall thus be in a position to reply very shortly.

In regard to your proposal that a specialized Bank mission should come to Argentina to study in greater detail programs of investment and institutional improvement relating to highways and railroads, Government policy on investments in and coordination of transportation, and other special aspects of the same sector, I agree with you that such a mission would be desirable and give you my formal assent that it should take place during September next. I look forward to receiving your confirmation of the date set.

In closing, I wish to repeat my thanks for the Bank's valuable cooperation in the process of modernization in which we are at present engaged.

Yours very truly,

(sgd.) Adalbert Krieger Vasena

TRANSLATION SECTION E-976/68
Translated From: Spanish 10/8/68 By: FRW/hh

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July 12, 1968

Dr. Adalbert Krieger Vasena
Minister of Economy and Labor
Ministry of Economy and Labor
Hipolito Irigoyen 250
Buenos Aires, Argentina

Dear Mr. Minister:

I was very happy to receive your letter of July 5, reinforcing as it does my confidence in the potential for fruitful cooperation between the Bank and your Government in the transport sector. We are looking forward to receiving your detailed reactions to the mission's findings and to its understanding of the Government's plans and objectives, as set forth in my letter of June 13.

Your acceptance of my suggestion that a mission to study transport problems in greater depth visit Buenos Aires in September was most welcome. Preparations for this mission are now well advanced and Mr. Alter will inform you of our specific staffing and timing plans as soon as these can be made definite.

Sincerely yours,

S/ J. Burke Knapp
Vice President

Cleared with and cc. Messrs. Skillings
Baum
Alter

RDosik:agr/mdk:mh

National Executive Branch
Ministry of Economic Affairs and Labor
Buenos Aires

August 8, 1968

Mr. J. Burke Knapp
Vice President
IBRD
Washington, D.C.

Dear Sir,

I have pleasure in writing to you to let you know my Government's views on the various points in your memorandum of June 13 concerning the transportation sector.

Broadly speaking, I am gratified to note the extent to which the plans and objectives of my Government coincide with those suggested in your memorandum. I should now like to examine certain aspects of this.

In regard to the National Highways Department (Vialidad Nacional), this agency's chief concern is that a planning office be set up and that the Department's administrative capacity be strengthened. As you indicate in your memorandum, the authorities in the Ministry of Public Works and the National Highways Department are alive to this need and have drawn up plans for a new structure of the Highways Department which we believe adequately meets both requirements.

We also agree with the priority which has with a view to Bank financing, been assigned to various sections of Routes 3, 7 and 251. Moreover, the Highways Department is initiating feasibility studies, and your offer to finance the foreign exchange costs involved will be most useful.

I saw with satisfaction that the Mission concurred with EFA's management on methods to operate the railroad system more efficiently and economically. With respect to your misgiving as to whether the targets may have been set too low, I should be happy to see this matter cleared up by talks between the experts on the mission that is to visit us in September and the EFA officials responsible for preparing the plan.

EFA's officials are looking forward to the assistance of these experts in making adjustments, on a joint basis, to the plan now in course of preparation, as they suggested to the mission led by Mr. Chadenet. We are pleased that the Bank also approves of this approach, instead of waiting to receive the finished plan for study and comments, and accordingly I am anxious that the railroad experts on the mission in September be able to work together with EFA for as long as possible.

In connection with the transport coordination policy, the Ministry of Transport has been busy collecting and sorting domestic and foreign statistics and records and sounding out the opinions of the transport sectors and users, and has not yet begun to prepare the bill. I understand that exhaustive discussions took place with the mission on this subject, and I agree with the Bank's view that the modes of transport should compete on a basis of equality and that their costs should not be distorted by subsidies or discriminatory rules.

We are also pleased to accept the Bank's official invitation, tendered by the mission, for two officials to travel to Washington to confer with Bank experts on the bases that could be adopted to ensure that this principle is upheld. The Ministry of Economic Affairs will be naming them soon, and the Bank will be informed of their date of arrival in Washington.

I am similarly convinced of the need to set up an office, composed of experts without any bias toward a particular mode of transport, to analyze all aspects of transport coordination. We have been studying where we can best locate it in order to enhance its effectiveness, and before the mission arrives in September we shall have made up our minds on this point.

I feel that the foregoing answers the misgivings the Bank expressed concerning the transport sector, in addition to showing how anxious my Government is to bring about an improvement in the efficiency and secure the more economical operation of our transportation system. Such an improvement will make it possible to remove one of the chief obstacles to the further development of our economy. In this endeavor we are already counting on suitable and long-range assistance from the Bank, which will undoubtedly be of the standard for which your institution has become renowned.

Yours very truly,

(sgd.) Adalbert Krieger Vasena
Minister

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August 15, 1968

Dr. Adelbert Krieger Vasena
Minister of Economy and Labor
Ministry of Economy and Labor
Hipolito Irigoyen 250
Buenos Aires
Argentina

Dear Mr. Minister:

I am grateful for your letter of August 8 conveying your reaction to the conclusions of Mr. Chadenet's mission of last May and confirming the broad similarity of views between your Government and the Bank on matters of transport. The specific points covered in your letter are being studied by the staff and will form the subject of detailed discussions with the Argentine officials during the forthcoming transport mission. We shall do our best to comply with your desire for close and lasting collaboration between your Government and the Bank in the interest of sound development of the Argentine transport system.

With kindest regards,

Sincerely yours,

(SGD.) J. Burke Knapp
Vice President

Cleared by and cc: Mr. Baum
cc: Messrs. Skillings/Dosik o/r
MacKay/Hardy
Cancio
Keltie

JFajans:mdk/mmt

532/3/18

Argentina
TRANSPORT POLICY AND COORDINATION

A. Objectives

1. Argentina so far has not developed a consistent transport coordination policy. There are of course measures which affect transport coordination but they have not been integrated into a system, and measures are not tested as to their effectiveness in achieving the economic objectives of transport coordination.
2. Public transport policy is concerned with the allocation of scarce economic resources for investments and operation of transport facilities to meet the nation's transport requirements. It must be the objective of public transport policy to ensure that transport services are provided at the lowest total cost to the economy in terms of resource consumption. This implies that transport policies provide the signals to channel resources towards that mode of transport which can use them most efficiently and that each mode handles the type and volume of transport to which it is best suited.
3. The Government has started work on a legal framework for transport coordination. The drafts for the relevant law were not ready for review by the mission. Under these circumstances the mission can only recommend that the objective of minimum resource consumption in the provision of transport services be clearly stated as a guiding rule for the entire system of transport coordination. The following recommendations deal in more detail with measures which should be adopted to achieve the economic objectives of transport policy.

B. Data Collection

4. For a country of Argentina's degree of economic development, it has a surprisingly weak system of data gathering and interpretation in the field of transport, especially road transport. It will be one of the pre-requisites for the implementation of a rational transport policy that the data collection system be improved. Only then will it be possible to have policy decisions

based on adequate knowledge of existing facilities and requirements. A continuous flow of information will be required to control the effects of implemented measures and to initiate corrections.

5. Specifically, the data gathering system needs improvement in the following fields:

- (i) Road Vehicle Fleet: total size; composition by capacity, power, fuel type, age composition. On some of these items information does exist, but completion is required which could be achieved by a system whereby registration data from the provinces are promptly transmitted to a central statistical office.
- (ii) Road Traffic: Total traffic divided between freight and passenger traffic; identification of long distance and urban traffic; identification of traffic flows in specific regions and on specific routes.

At present, traffic estimates are based on evaluations of the available capacity of the vehicle fleet and some rough judgments of annual capacity utilization. This is highly inaccurate and does not permit judgments on the spatial distribution of traffic. The mission therefore recommends that comprehensive traffic counts, combined with origin - destination checks be introduced. A beginning towards such a census has been made and the mission discussed the suggested methods with the responsible authorities. So far, the forms lack detail and require interpretation by the interviewer; they can therefore not be used for mechanical or electronic processing. The mission recommends that Argentina adopt one of the systems suitable for machine processing which are available and the Bank would be prepared to provide the necessary information.

(iii) Highway investments and maintenance expenditures: Total size and composition by federal, provincial and urban expenditures. It is presently easy to ascertain expenditures in the federal highway sector. However, large gaps exist in the information available on expenditures by provinces and, especially, by municipalities. In order to measure the entire resource consumption for the provision of road infrastructure in the nation, provinces and municipalities should be asked to transmit relevant data to the federal authorities.

(iv) Railway rolling stock and shop equipment: while traffic data are satisfactory as in most railways, EFA does not have an inventory of rolling stock and shop equipment by condition and serviceability of the equipment. It is extremely difficult to estimate future investment requirements without an inventory which would permit a judgment on the possibility and cost of salvaging existing equipment.

(v) Railway costs: at present EFA cannot accurately determine the cost of specific operation on specific routes. This prevents accurate judgments on the profitability of particular services and makes comparative studies of road and rail transport difficult. The mission therefore recommends that a system of analytical accounting be introduced in the railways. The lack of adequate costing in the railways and the lack of traffic data for road transport make it impossible to identify to what extent rail and road are actually competing. It would be important from the point of transport coordination to delineate the area of competition between the two modes and to identify that traffic which by type of commodity

and distance of shipment are so clearly suited for either road or rail that its distribution between the different modes is unaffected by any coordination measures. At present it appears that this type of traffic is smaller in Argentina than in most other countries and that transport coordination policies affect a large part of total transport requirements.

C. Institutional Arrangements

6. At present, the institutional arrangements in Argentina are not well suited to permit the formulation, implementation and control of coordination policies. The fact that the responsibility for the entire transport sector rests with a single Ministry should facilitate the implementation of a consistent coordination policy. However, at the execution level the present institutional set-up is not well geared to implement and control new policies. The Secretariat of Transport is responsible for transport coordination but controls directly only the railways and the road transport industry, whereas planning for the road infrastructure is done in Vialidad which reports to the Secretary of Public Works. An important part of transport coordination -- the balancing of investments for different modes of transport -- can therefore not be handled by the institution which is charged with the responsibility for transport coordination as a whole.

7. The Sectoral Development Office recently created within the Secretariat of Transport is to be directly responsible for transport coordination. The mission believes that this office should be effectively involved in the preparation and control of investment planning for roads in the same manner as it is to control the railway investment program. This would end the isolated investment planning for roads and facilitate the application of common criteria for all types of transport investments.

8. The mission agrees in general with the terms of reference and proposed functions of the Sectoral Development Office. However, the law which marked the creation of this office should be amended to establish as the prime guiding rule for its operating the objective of minimum consumption of economic resources.

9. At present, the Office does in practice not function. It has less than five professional staff, none of whom have any training in the field of transport coordination. There is no other personnel available in the Secretariat who could make this office function. Since the execution of transport coordination policies is not possible without this office the mission suggests that two consultants be employed -- and fully integrated -- into the administrative structure to build up the office, advise the Secretary on matters of transport coordination, to help in the drafting of a transport coordination law and to train available personnel who would later replace the consultants. The minimum time required for their assistance is one year, during which the senior consultants should head the Sectoral Development Office. The Bank would be ready to help recruit suitable candidates and would consider financing the cost of this assistance.

10. It had earlier been suggested that two officials of the Secretariat spend some weeks at Bank headquarters to acquaint themselves with the Bank's thinking on transport coordination. In order to ensure continuity in the build up of an institution capable of handling transport coordination, the mission recommends that at least one of these officials be a permanent employee in the secretariat.

11. As soon as the Office starts functioning it should become the controlling agency of resource allocation, not only for the Federal highway investment program, but also for provincial investments which are now entirely outside central analysis.

12. Part of the responsibility for transport coordination rests presently with the Economic Development Council (CONADE), especially in the preparation of investment plans. There are a few very competent people in the Secretariat of CONADE but the Secretariat cannot be charged with the entire responsibility for transport coordination. It will have a useful role in the collection and interpretation of data, general economic research and the working out of appropriate methodologies for investment analysis.

D. Investments

13. The allocation of resources is a strong instrument to influence the relative growth of different modes of transport by public policy. In the past few years a strong effort has been made to improve the highway system. Investments by the federal and provincial administrations averaged around 50 billion pesos per year (expressed in constant 1968 prices):

Year	1963	1964	1965	1966	1967
Total Investment for Highways	49.0	65.5	48.0	51.0	53.5
of which for National Highways	26.6	32.2	21.0	24.6	27.0

14.- During the past five years about 1,500 km of paved roads were added each year to the national and provincial networks. For the 1968-1970 period the Government intends to step up road investments considerably. For the national highway system alone disbursements are expected to reach 46 billion pesos in 1968, 71 billion pesos in 1969 and 76 billion pesos in 1970 (including investments on federal access roads). Including proposed expenditures on provincial roads total capital expenditures would amount to 88 billion pesos in 1968, 113 billion in 1969, and 123 billion in 1970. The proposed level of expenditures implies doubling the rate of disbursements as compared to the 1963-67 period.

15. The mission gained the impression that the investment plans for highways are exceedingly ambitious and could be reduced. This judgment is based on the following evidence:

- (i) sample inspection of the road network tends to show that the system is adequate in general, and signs of over-investments existed in some cases. ✓
- (ii) available traffic data indicate that the degree of utilization is far from critical. ✓

(iii) preliminary economic tests show that it would be difficult to find sufficient projects with satisfactory economic returns to justify a high level of capital investment. ✓

16. The mission is convinced that on economic grounds the 3-year program should be reduced but realizes that more than two thirds of this program have already been committed. It therefore recommends that the remainder be studied for economic feasibility and scheduled for construction over a longer period.

17. The major problems with which the railways are faced relate to improvement of operating efficiency and reduction of the railway network. Rail investments are therefore geared at rehabilitating and modernizing the existing system without adding new capacity. The tentative program prepared by the mission shows the immediate requirements per year to be as follows:

-freight wagon replacements	bill. pesos 10.50
-passenger coaches	3.50
-track renewal	7.70
-track improvement	2.80
-workshop equipment	0.35
-communication equipment	0.17
-plant equipment	0.17
-miscellaneous	<u>0.35</u>
Total	25.55 ^{1/}

18. The size of the major item, freight car replacements can only be accurately determined when more is known on the optimum dimension of the networks, composition of traffic, and improvements in equipment utilization. The mission's estimate is a minimum to avoid over-investment now and yet to permit the initiation of a rehabilitation program.

1/ Figures represent actual investments, not cash disbursements.

19. At the same time the disinvestment program for abandoning uneconomic railway lines should be appreciably accelerated. In 1966 the total system extended to 45,281 km. Since then, 2,994 km of line have been closed while service on 208 km have been reduced (Rationalization). At present, studies on 5,462 km are well under way and the railways' preliminary conclusions are that only 27% of these would ultimately be closed while the rest would be rationalized. In the mission's view rationalization makes little sense in view of the fact that the operating ratio for those lines even after rationalization would remain unacceptably high, in many cases exceeding 5.0. Most of the lines proposed for rationalization should immediately be abandoned. In addition, the entire study program so far concerns only relatively unimportant branch lines. The total savings to be derived from abandoning or rationalizing 6,556 km (5,462 + 886 + 208) are expected to amount to 1.7 billion pesos per year (US\$4.85 million) or about 4% of the annual operating deficit. The real problem is to eliminate parallel rail trunk lines which would make a substantially higher contribution to the reduction of the annual deficit.

20. In general the mission believes the railways are far too timid in tackling the problem of redimensioning of the entire system. The studies presently under way use only financial criteria from the standpoint of the railways alone and, as has been pointed out above, these criteria are not stringent enough. The mission saw no reason to repudiate the conclusions of the Larkin report which on the basis of economic comparative studies of incremental rail and road cost on specific routes recommended abandoning 14,000 km of line by 1970. However, if the present rate is maintained and service is discontinued on only 27% of lines studied, the railways will fail to achieve the goals set by the Larkin report. The mission therefore recommends the railways adopt the Larkin report as a basis for future line closing. Only in those cases where important changes have intervened since the Larkin report was prepared, should the studies be redone. Since there is no staff available in the railways, or in the Government, which could conduct these new economic and financial studies, the mission recommends that external assistance

be secured. For this purpose a consultant could be employed; perhaps RENFE or SOFRERAIL or alternatively a Bank transport economist could be seconded to the Argentine railways for a few weeks to work exclusively on these matters.

21. The central government investment program for ground transportation proposed by the mission would imply expenditures of about 30 billion pesos for railways and 60 billion pesos for highways (excluding the vehicle fleet) during the next 3 years.

22. These estimates of future investment requirements had to be established without the benefit of adequate economic analysis of particular projects. So far, programs in the transport sector have been determined without prior analysis of the productivity of proposed investments. A beginning has been made to use the tool of cost/benefit analysis for preliminary selection of roads for feasibility studies. The mission believes that all major investments for road and rail transport should be subjected to such studies to arrive at rational judgments of the absolute productivity of transport investments and the priority of particular investments.

23. Economic highway studies could to a large extent be standardized and the mission agrees with the format which has recently been used by Vialidad, supported by consultants TAMS.^{1/} This would permit to have the preparatory work done directly by Vialidad, despite the shortage of qualified personnel. The mission also discussed the railway studies on rolling stock requirements and track renewal. The methodology of these studies is adequate although the present results cannot be used for investment planning since all parameters, except traffic, reflect the present operational efficiency of the railways. Excellent work has been done on the establishing of a framework of studies and in collecting data; now it is urgently required that the actual calculations be redone to reflect reasonable efficiency targets instead of present efficiency coefficients.

24. In general, the railways and Vialidad would be capable of doing the preparatory work for economic studies. However, the final economic analysis and comparative studies on major investments should be done in the Sectoral Development Office of the Secretariat of Transport. (See C above.)

1/ The mission has also been informed of, but could not discuss in detail -
a model for traffic forecasts and investment analysis being used in the
Province of B.A.

E. Prices and User Charges

25. The Mission believes that the objectives of transport coordination can best be achieved if the users of transport facilities have an unrestricted choice between the available modes of transport and if transport industries can freely compete. This can only be achieved if the prices for resources used in the provision of transport services reflect the scarcity of these resources in the economy. It also implies that the price paid for transport services by the ultimate user includes a compensation for the economic cost of resources required to provide the infrastructure. The Mission has reviewed to what extent present price structures of the transport sector in Argentina meet these requirements.

26. Road users in Argentina contribute to the economic cost of the road infrastructure through five different types of taxes and fees: taxes on fuel, lubricants and tires, purchase and transfer of vehicles; license fee. The incidence of all these taxes and fees in operating costs of vehicles is relatively low compared with the levels observed in other countries.

27. The entire tax component of vehicle operating costs amounts to 15% in the case of passenger cars, 12% for gasoline trucks and 8.5% for diesel powered truck/trailers, made up as follows:^{1/}

<u>Taxes on</u>	<u>Passenger cars</u>	<u>Gasoline trucks</u>	<u>Diesel trucks/trailers</u>
Fuel	7.8	7.4	0.5
Lubricant	0.1	0.1	0.1
Tires	1.5	3.4	6.9
Purchase/transfer & vehicle production	3.5	0.6	0.7
License fee	2.1	0.5	0.3
	<u>15%</u>	<u>12%</u>	<u>8.5%</u>

^{1/} See Table 1 for detail.

28. The relatively low incidence of taxes in total vehicle operating costs is explained by the moderate tax rates on fuel, especially on diesel fuel.

Present rates are as follows:

	<u>Price</u> Pesos	<u>Fuel Taxes</u> ^{1/} Pesos	<u>%</u>
Gasoline	33.0	16.5	50
Super	38.0	19.0	50
Diesel	16.0	1.16	7.3

as for tires the rates are 424.85 Pesos per kilo which corresponds to about 30% of the market prices for tires.

29. The level of taxation of the vehicle manufacturing industry is quite high in Argentina. An analysis of the industry shows that about 36% of production cost plus sales cost represent taxation; this consists mainly of import duties on parts and sales tax. In order to calculate the specific road user charge it would be necessary to deduct the taxes levied on manufactured products in general; no accurate information on this item is available. A rough estimation prepared by the Mission would show that, including the purchase and transfer tax (which is specific for road vehicles), the differential between taxation of road vehicles and other manufactured products would amount to about 10% of the retail price.

30. The aggregate contribution by road users for 1968 is difficult to estimate due to the lack of data on quantities. The estimate prepared by the Mission uses 1967 physical quantities, but 1968 tax rates have been applied. This provides an estimate of what tax collection would have been in 1967 had the law regulating the tax structure been in force during 1967. Excluding

^{1/} For nationally produced fuel, which accounts for 85-90% of consumption.
See Table 1 for detail.

specific taxes of vehicle production the overall contribution of road users would have amounted to 127 billion Pesos. The Mission's rough estimate of the revenue from specific taxes on vehicle production is about 15 billion Pesos, which brings the total of road user charges to about 140 billion Pesos, divided as follows: ^{1/}

	<u>Billion Pesos</u>
Gasoline	48.6
Super	30.0
Diesel	2.1
Tires	20.5
Lubricants	1.6
License	17.6
Transfers	6.9
Tax on production	15.0

31. Due to the extremely low rate of tax on diesel fuel long distance freight traffic makes a very small contribution to total road user charges:

<u>Total</u> ^{2/}	<u>Passenger Cars</u>	<u>Pick-ups</u>	<u>Buses</u>	<u>Gasoline trucks</u>	<u>Diesel trucks</u>	<u>Others</u>
(Billion pesos)						
127.1	42.9	39.4	1.9	27.9	11.7	3.3

This distribution of revenues from road users corresponds in no way to the distribution of traffic carried by the different types of vehicles. Diesel powered trucks account for 75% of ton/km traveled but contribute only 15% of total revenues from freight transport by road. As the low rate on diesel fuel mainly concerns freight traffic and since the gasoline taxes are relatively much higher, passenger traffic carries the main burden of road user charges.

^{1/} See Table 2 for details

^{2/} Excluding tax on production

32. This distribution between the revenues from long distance freight traffic and passenger traffic (of which urban traffic has by far the major share) would be acceptable if the economic cost of the infrastructure were to be understood as shortterm marginal cost, covering only the variable maintenance expenditure and congestion costs. In this case the burden should indeed be carried by passenger traffic. However, the Argentine road system is still expanding, especially in the long distance connection outside urban areas. The Mission therefore believes that each group of users should be charged for the incremental cost incurred for infrastructure; this would include the entire maintenance and new construction expenditures on a pay-as-you-go basis. These expenditures amounted to 93.5 billion Pesos in 1967 (expressed in 1968 prices) divided as shown in Table 3. For 1968 the total expenditures are expected to approach 120 billion Pesos. Although total revenues would adequately cover these expenditures, distortions exist in the distribution among the various classes of road users and the fuel taxes on diesel should be substantially increased. While this would further increase the excess of revenues over expenditures the mission would consider a large part of the revenue received from passenger traffic as general taxation for budgetary purposes and as a compensation for congestion in urban areas. If this were not acceptable the Mission would still recommend an increase in diesel taxes, while other taxes affecting passenger transport could be reduced.

33. Railways' users presently make no contribution to infrastructure costs at all. In effect, the large operating deficit could be regarded as a negative contribution. The latter is unevenly distributed between freight and passenger traffic. In 1967 freight revenues were 38.0 billion Pesos as against costs of approximately 40.0 billion Pesos (excluding depreciation). Revenues from

passenger traffic were 28.3 billion Pesos against cost of 70.2 billion Pesos. Consequently passengers contributed to the deficit with 41.9 billion while only a deficit of 2 billion was incurred on account of freight traffic.

34. Expressed in terms of resource consumption at economic cost the railway deficit would in effect be higher than it appears in financial terms, due to the fact that railways purchase certain types of fuel at prices below manufacturing cost subsidized by the Government; in addition there is no taxation on the manufacturing of railway equipment, and interest rates for capital borrowed from the Government are below the opportunity cost of capital.

35. Theoretically it would be required to correct these distortions immediately. However, the mission is convinced that it would not be correct to compare the factor costs and the tax contributions of two modes of transport which function at very different levels of efficiency. The mission is convinced that the railways with a substantially reduced network, have a role to play in Argentina and will be capable of rehabilitation with the result of improved efficiency and reduced costs. This process will take time - in the mission's judgement perhaps five years. During this period the railways are protected due to the fact that the road users are paying for the incremental cost - especially if diesel taxes are raised, but it must be the objective to make rail users fully pay for the incremental cost of rail infrastructure consisting of annual expenditures for new investments at economic cost, i.e. after elimination of government subsidies for fuel and other resources used. The railways should not be exempted from general taxation on equipment and income taxes. Apart from the cost reduction to be achieved during the rehabilitation process rates and fares will have to be increased to eliminate gradually the operating deficit and to permit contributions to infrastructure at economic costs.

F. Regulation of Transport

36. Argentina has been fortunate enough to avoid the mistakes of other countries to regulate administratively the distribution of traffic between modes. If in fact new investments are decided upon economic cost benefit studies and if financial indicators to the users reflect economic costs of resource consumption, restrictive regulation of transport is unnecessary. The mission accepts of course the necessity of normative regulations which are based on safety and technical considerations.

37. The mission therefore recommends the proposed transport coordination law do away with existing restrictive regulations which concern the assessment of need in the case of passenger and freight transport. There should be completely free entry and the licensing system should be limited to normative requirements. The road transport industry and the railways should have the freedom to set rates and tariffs. In general rail rates should reflect costs of particular services. The Sectoral Development Office in Secretariat of Transport should make its approval of rail rates and tariffs conditional upon the enforcement of this principle. This is intended to avoid excessive cross-subsidization between various types of services made possible by the very size of the railway enterprise.

TABLE I - ARGENTINA ROAD VEHICLES OPERATING COST (1968 pesos)

	Passenger Car (Gas. Super)				Truck 6.5 Ton (Gas. regular)				Truck 6.5 Ton (Diesel)				Truck/Trailer 20.8T (Diesel)			
	W/o Tax	Tax	With Tax	% Tax	W/o Tax	Tax	With Tax	% Tax	W/o Tax	Tax	With Tax	% Tax	W/o Tax	Tax	With Tax	% Tax
FUEL	2.28	2.28	4.56	50 %	4.341	4.341	8.682	50 %	4.452	.348	4.800	7.3	4.897	.383	5.280	7.3
LUBRICANT	.50	.03	.53	6 %	.511	.033	.544	6 %	.511	.033	.544	6 %	1.022	.066	1.088	6.
TIRES	.87	.43	1.30	33 %	4.923	1.915	6.838	28 %	4.923	1.915	6.838	28 %	12.218	5.050	17.268	2.8
TUBES					.247	-	.247	0 %	.247	-	.247	0	.738	-	.738	0
MAINTENANCE	4.28	-	4.28	0 %	1.903	-	1.903	0 %	1.903	-	1.903	0	3.221	-	3.221	0
EQUIP VEHICLE	-	-	-		.530	-	.530	0	.530	-	.530	0	.583	-	.583	0
REPAIRS					3.152	-	3.152	0	3.152	-	3.152	0	2.918	-	2.918	0
AMORTIZATION	9.0	1.0	10.0	10 %	3.782	.420	4.202	10 %	3.782	.420	4.202	10 %	3.502	.389	3.891	10
INTEREST	5.43	-	5.43	0	3.927	-	3.927	0	3.733	-	3.733	0	4.737	-	4.737	0
LICENSE	-	.67	.67	100 %	-	.333	.333	100	-	.333	.333	100	-	.183	.183	100
INSURANCE	2.08	-	2.08	0	6.421	-	6.421	0	6.421	-	6.421	0	4.539	-	4.539	0
WAGES	-	-	-	-	17.691	-	17.691	0	17.691	-	17.691	0	23.200	-	23.200	0
OVERHEADS	-	-	-	-	4.523	-	4.523	0	4.523	-	4.523	0	3.840	-	3.840	0
TOTAL VEH/Km	24.44	4.41	28.85	15 %	51.951	7.042	58.993	12 %	51.868	3.049	54.917	5.5 %	65.415	6.071	71.486	8.5
TOTAL Ton Cap/Km							9.0				8.5				3.4	

TABLE 2. ARGENTINA. Road user charges (1)
(Million pesos)

	Quantity	Tax rate	Total amount	Auto	Pick up	Bus	Truck (Gasoline)	Trucks (Diesel)	Other road users	Non road users
Gas. Regul. (million liters)	3,148	16.50	51,942	-	27,050	935.	19,750	-	883	3,324
Gas. Super (million liters)	1,580	19.00	30,023	28,913	-	-	-	-	1,110	-
Diesel oil (million liters)	3,132	1.16	3,570	-	-	307	-	1,774	7.	1,482
Auto	658,000	4,390	2,880	2,880						
Pick up	1,210,000	4,290	5,160		5,160					
Bus	120,000	19,100	229			229				
Truck (Gas)	220,000	19,100	4,200				4,200			
Truck (Diesel)	375,000	19,100	7,150					7,150		
Others	80,280	1,116	931						931	
Lubricants			2,169	198	360	72	260	440	26	813
Transfers			6,924	3,270	2,000		1000	537	118	-
Sub total			115,148	35,261	34,570	1,543	25,210	9,901	3,075	5,619
Licenses			17,613	7,648	4,800	418	2,700	1,778	270	-
Total			132,761	42,909	39,370	1,961	27,910	11,679	3,345	5,619

Aggregate Road User Contribution: 132,761 - 5,619 = 127,142

(1) Estimates based on 1967 physical quantities and 1968 tax rates.
Specific taxation of manufacturing industry is not accounted for in this table.

T A B L E 3

Argentina: FEDERAL GOVERNMENT AND PROVINCIAL ADMINISTRATION

HIGHWAY EXPENDITURES

(In million of pesos)

CURRENT PRICES

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
A. <u>Current Expenses</u>					
1. Administration Federal Government	1,178.9	1,894.0	2,400.6	4,017.4	5,082.6
2. Administration Provincial Administration	2,592.9	3,783.1	5,376.7	7,542.7	8,721.1
<u>Total Administration</u>	3,771.8	5,671.1	7,777.3	11,560.1	13,803.7
3. Maintenance Federal Administration	1,942.9	3,066.0	3,571.7	5,811.4	7,735.5
4. Maintenance Provincial Administration	2,234.1	3,061.6	5,741.0	7,872.6	8,930.8
5. Equipment Purchases (Federal Govt.)	530.1	1,049.8	780.3	864.9	2,281.0
<u>Total Maintenance</u>	4,707.1	7,177.8	10,093.0	14,548.9	18,947.3
<u>Total Current Expenses</u>	8,478.9	12,848.9	17,870.3	26,109.0	32,751.0
B. <u>Investments</u>					
National Highway System	6,956.2	8,241.3	6,626.3	10,083.5	17,320.6
Provincial Primary System	6,749.1	9,522.6	8,685.5	7,021.3	9,707.9
Other Provincial Roads	420.1	1,996.6	3,510.6	8,296.9	12,294.4
Federal Access Roads	1,595.0	2,961.5	2,877.2	4,230.6	5,002.5
<u>Total Investments</u>	15,720.4	22,722.0	21,699.6	29,632.3	44,325.4
<u>Total Expenditures</u>	24,199.3	35,571.9	39,569.9	55,741.3	77,076.4
<u>Constant 1968 prices</u>					
<u>Total Investments</u>	49,000.0	65,500.0	48,000.0	51,000.0	53,500.0
<u>Total Expenditures</u>	75,500.0	102,500.0	87,500.0	95,800.0	93,500.0

C

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 15, 1968

FROM: A. Broches

SUBJECT: Argentina - Convention on the Settlement of Investment Disputes

1. As you know, the Latin American countries have abstained as a group from participation in the S.I.D. Convention. The formation of this negative bloc in 1964 (at the Latin American caucus preceding the Tokyo Annual Meeting) was in large part due to accident rather than design, and in addition based on a partial misunderstanding of the nature of the Convention which was still in the drafting stage at the time. Nevertheless, "El 'No' de Tokyo", as it became known in the Latin American press, had a great deal of political sex appeal, being presented as a heroic joint defense of Latin America's inalienable sovereignty.
2. Thanks to the fact that the Bank (a) accepted this Latin American "ganging up" without the slightest indignation, (b) quietly continued work on the Convention which shortly thereafter entered into force and (c) as it happened increased its lending in Latin America, the political excitement over the Convention has died down. The fact remains, however, that the absence of Latin America from the Centre continues to be noted and commented on in capital exporting circles; that it has somewhat harmed our prestige in the eyes of those who -- foolishly -- think that we should have applied sanctions to the recalcitrants; but mainly, and most importantly, that it has been bad for Latin America's image as a host area for foreign investment.
3. Consistent with our position that the Convention is intended as a service to member countries, and not something to be imposed on them by the Bank, we have observed great restraint in trying to persuade countries to join. At the same time the operational staff of the Bank raises the question from time to time with countries and when a suitable occasion has presented itself the President of the Bank has brought the question up in his contacts with high officials of member countries.
4. Of all the Latin American countries Argentina is at the moment the one most likely to reconsider its earlier attitude (adopted under the Illia Government). Argentina seeks new foreign investment in new productive facilities; the present government is well disposed to private investment in general; arbitration, at least of private disputes, is well accepted in Argentina in distinction to some other Latin American countries; and, finally, Argentina has agreed to arbitration in some of the settlement agreements it has made with the foreign oil companies.

5. Mr. Krieger Vasena is sympathetic to the idea of Argentina's adhering to the Convention. The matter was last raised with him by Mr. Woods in March of this year at which time Mr. Krieger Vasena told him that he was planning to move ahead.

6. The opposition in Argentina is said to come from the Foreign Office which does not like the departure from tradition which the Convention embodies, namely to permit private citizens and States to appear before an international jurisdiction on a footing of procedural equality. I have the feeling, however, that this view could be overruled if the economic sector of the government, headed by Mr. Krieger Vasena, would take a strong stand.

7. As stated above, the atmosphere in Argentina is more favorable than that in other Latin American countries. At the same time adherence to the Convention as the first member of the Latin American group would pose less of a problem to Argentina than it would to some of the smaller countries. Adherence to the Convention does not obligate a State to resort to conciliation or arbitration of any particular dispute unless the State has previously consented to do so. Argentina is strong enough to make this optional character of the Convention a reality. It has the power to be selective and to agree to an arbitration clause in investment agreements only in cases where the proposed investment is regarded as being in the national interest.

8. Mr. Krieger Vasena's statement to Mr. Woods will give you a perfectly legitimate reason for bringing the subject up in your talks with Mr. Krieger Vasena and other Argentine leaders. If Argentina decided to move a number of other Latin American countries would undoubtedly follow. I believe that this would be a most constructive development in the one area of the world where private investment is permitted to play an important role and foreign private investment is urgently needed.



D

Staff Paper

Dr. Krieger Vasena's comments on the Economic Report,
Memo to Mr. Alter from Mr. Dosik, December 5, 1967

Letter on Economic Policy to Dr. Krieger Vasena, Minister of Economy
and Labor, from Mr. Alter dated December 13, 1967

Economic Committee paper, Economic Policy Memorandum, EC/O/68-57
of June 3, 1968

Letter re economic mission's final report, to Dr. Krieger Vasena
from Mr. Knapp, dated July 23, 1968

Letter to Mr. Knapp in reply to his letter of July 23, 1968
from Dr. Krieger Vasena, dated August 27, 1968

June 14, 1968

532/3/16

ARGENTINA

Past Trends

1. Argentina's economic history over the past 20 years has been characterized by slow and uneven growth and chronic inflation. GDP in real terms has risen since 1950 at an average rate of 3 percent a year, or just over 1 percent on a per capita basis. The average conceals sharp year-to-year fluctuations reflecting variations in agricultural output and the stop-go character of the economic policies with which successive governments have attempted to halt inflation and deal with recurring balance of payments difficulties. Over the same period the cost of living has risen by an average of 28 percent a year, and in none of the last 10 years was the rate of inflation less than 14 percent. Since 1961 alone the external value of the peso has dropped by over three-quarters from approximately 1.2 US cents to under 0.3 US cents.
2. The level of investment during this period has been quite high. According to official national income estimates, gross fixed capital formation has averaged close to 20 percent of GDP. Although these estimates probably overstate the real level of investment because of the high prices of locally produced capital goods, there is good reason to believe that investment has been out of all proportion to the growth of output, indicating poor use of capital in many sectors of the economy, particularly in manufacturing industry and rail transport where much investment has obviously been misdirected. The level of investment was particularly high during the years 1960-62 when there was a large expansion of industrial capacity mainly financed from abroad. Since then, private investment has dropped off and total investment has averaged 17-18 percent of GDP over the years 1963-67.
3. Forced industrialization at the expense of agriculture in the Peron era led to the stagnation of exports during the 1950s, but in recent years export performance has greatly improved, with a more than 50 percent expansion in dollar values between 1961 and 1967. Much of this increase in export earnings has been absorbed by the growth of external debt service resulting from massive borrowing abroad during the years 1959-62; part has also been used to rebuild foreign exchange reserves. Imports have not risen at all; indeed, expenditure on imports during the past three years, in dollar terms, has been 16-17 percent less than in 1960-62. It has been a conscious objective of government policy in recent years to keep the balance of payments in surplus on current account so as to repay external debt, and private consumption has been held down below the levels reached in 1960-61. Domestic savings have in consequence been maintained throughout the past five years at close to 20 percent of GDP (somewhat less, of course, if investment has been overstated).
4. Many factors have helped to keep production down and to push prices up. During the Peron era there was a sharp shift in the distribution

of income in favor of wage-earners, and since that time the workers have been engaged in a constant struggle to maintain their position, keeping up pressure on wages and resisting efforts made by successive governments to increase the efficiency of the public services by eliminating excess labour. Feather-bedding has been carried to extremes in both the private and the public sectors. Heavy financial losses incurred by the railways, the failure of other public undertakings to generate adequate surpluses and weaknesses in tax administration have undermined the fiscal structure and forced the Government to borrow heavily from the banking system. The Government's policy of promoting industrial development through import substitution at almost any cost, in an environment that has offered almost complete protection against imports, has led to high-cost production, which in large part reflects excessive product diversification and minimal opportunities for taking advantage of economies of scale. The expansion of agriculture, which still produces 90 percent of Argentina's exports, has been impeded by constant uncertainty over exchange rates, and over export taxes which have been used to provide finance for the budget and to help keep the cost of living down. The particularly close interaction of domestic prices and the exchange rate has been an important factor in keeping the inflationary spiral on the move.

Key Problems and Policy Issues

5. Argentina has a quite exceptionally favorable resource endowment in relation to its population, and there is no obvious reason why the country should not in time succeed in coming close to European levels of economic efficiency and thereby greatly increase its present national output. What is most needed to achieve this is a sense of national purpose capable of galvanizing the people into a sustained effort to exploit the economic possibilities open to them. With this must be combined a sufficient degree of political stability to avoid the continual changes in government administration and policies which have been one of the most serious obstacles to efficient economic management during the past 10 years; and a sufficient degree of internal financial stability to enable the price mechanism to function normally.

6. Apart from these general pre-conditions of more rapid growth, there are many specific structural problems that require attention if Argentina is greatly to improve its economic performance in the years ahead. Some of the key problems, and the nature of possible policy solutions, are indicated in the following paragraphs.

7. Increasing Agricultural Production. This is first and foremost a problem of establishing and maintaining remunerative prices for agricultural producers and minimizing the uncertainties inherent in heavy reliance on export taxes as a source of government revenue. Flexibility in adjusting the exchange rate to movements in internal prices is part of the answer. Greatly improved enforcement of the income tax in the agricultural sector, and a national agricultural land tax, could be substituted, at least in large part, for export retentions. Given improved incentives, and a consistency in policy which would give confidence

in their maintenance over time, private farmers can be expected to show greater interest in modernizing their production methods, investing more in machinery, fertilizers, improved seeds and other key inputs and generally improving their efficiency. The Government can help by expanding the supply of medium and long-term credit, by reducing the tariffs applied to imports of farm requisites, by improving its research and extension services in selected fields, by promoting the more efficient marketing of perishable crops, by encouraging the immigration of farm workers and in various other ways. But there is no need for any major increase in government expenditures on agriculture, with the possible exception of irrigation and land settlement in the Rio Negro valley. Transport as such is not a major problem in the Pampas or in the South, but agricultural producers in Mesopotamia and some other parts of Northern Argentina are seriously handicapped by poor communications with Buenos Aires, and new investments are planned for the next few years to take care of this situation.

8. Industrial Redeployment. Industry has been promoted in the past with little regard for efficiency. An entirely different policy is called for in future, oriented towards export expansion and with domestic producers increasingly exposed to competition from imports. The process obviously has to be a gradual one taking many years to accomplish. Much the most important contribution which the Government can make towards industrial efficiency is to bring inflation under control. Apart from this, industrial promotion and tariff policies will be the main instruments at the Government's disposal for bringing about the necessary changes in the industrial structure. While the Bank Group has not been deeply enough involved in Argentine industry to be able to identify in detail the measures that need to be taken, a thorough review of the present multiplicity of fiscal and other devices for promoting investment in specific industries and/or regions would appear to be an urgent first step toward developing a more effective means of promoting industry, and one less costly to the Treasury. A principal objective of tariff policy should presumably be to follow up the across-the-board cuts made in 1967 with a phased reduction of effective tariffs on selected items, based on objective and recognizable criteria and linked with the understandings already reached in ALALC.

9. Oil and Other Mineral Development. Argentina's mineral resources have as yet been very inadequately mapped and explored, and a vigorous program of exploration and development is called for over the next five to ten years, concentrated mainly in the petroleum sector (Argentina has recently been spending around \$100 million a year on petroleum imports), but extending also to other minerals such as copper which have been found in large quantities on the other side of the Andes. The prime requisite of policy is that private enterprise should be given all reasonable encouragement to participate in the development of the country's natural resources. The present Government has recently taken an important step in this direction by opening up certain areas to exploration by foreign oil companies and by inviting private companies to explore in other areas as contractors for the State petroleum corporation (YPF).

10. Rationalization of the Public Sector. Public payrolls, particularly in State enterprises, were swollen out of all proportion to economic requirements over a period of many years in which government employment served as a means of absorbing unemployment in a slowly growing economy. While the number of redundant workers can be only roughly estimated in the absence of comprehensive manpower studies, possibly as many as 100,000 workers (about one-third of the labor employed in the major State enterprises) may be superfluous. The worst offender is the railways, followed by YPF, the telephone company (ENTEL) and SEGBA. Public finances will remain precarious so long as the budget must support so many non-productive employees, and a major reduction in the labor force is an essential part of any program for improving the efficiency and financial performance of the public sector. There is also great scope for improving the organization and management of State enterprises (a prime requirement here being the introduction of new pay scales) and for the modernization of techniques in such fields as cost accounting, purchase and inventory control and rate fixing. On the railways the problem goes well beyond this and involves cutting the railway system down to a size commensurate with the more limited and specialized role it has to play in a modern economy in competition with other modes of transport. Relations between the trade unions and the Government will be a key factor in the success of any program for the rationalization of the public sector.

11. Tax Reform. Tax revenues in Argentina, excluding local taxes and social security contributions, constituted less than 10 percent of GDP over the years 1962-65. In 1967 and 1968 this proportion has been raised to about 13 1/2 percent, but at least part of this increase is due to psychological factors and may prove temporary (tax receipts typically rise in Argentina during the first year or two of a new Government and then fall off). It is of first importance in dealing with the fiscal problem and containing inflation that the public revenue should be more responsive to increases in national income. Stricter enforcement of existing taxes may contribute more in the short run than the introduction of new taxes, and there is clear need to strengthen immediately the branches of the revenue service employed in auditing tax returns and proceeding against delinquent taxpayers. In addition, penalties for evasion should be more strictly enforced. Apart from finding new agricultural taxes (something which, at best, will take two or three years to work out), the Government should cast its net widely in looking for additional sources of revenue (e.g. the special taxes on electricity and crude oil authorized by the law for El Chocon) and should be particularly careful to ensure that adequate returns are obtained on the capital invested in State enterprises, whether in the form of taxes accruing to the Government or of profits retained by the enterprise.

12. Incomes Policy. Time and again in the past, attempts to contain inflation in Argentina have been undermined by wage increases out of all relation to increases in labor productivity. An incomes policy designed to limit wage and salary increases in both public and private sectors to levels consistent with the maintenance of reasonable price stability

is, in Argentine conditions, a sine qua non of any realistic government economic program. The present Government's success in maintaining a firm incomes policy has been a major factor in the progress so far under its stabilization program. However, even for a military government the task is one of extreme delicacy, requiring the exercise of great skill in all aspects of public relations, including particularly relations with labor leaders.

13. Public Expenditure Policies. The problem of public expenditures in Argentina has in the past been more a problem of excess government employment and constantly rising wages and salaries than a problem of excessive expenditures on any particular function of government. Neither expenditures on social services nor military expenditures have moved seriously out of line with the growth of the economy, and total Treasury expenditures, including transfers to the social security system, to the provinces and to certain State enterprises, have been fairly constant over the past five years at around 11 percent of GDP. Defense expenditures, which currently absorb about 2 percent of GDP, could become a problem under a military government. In both education and housing - with neither of which sectors has the Bank any great familiarity - there is probably a need for expenditures to be redistributed and for the quality of expenditures to be improved rather than for any major changes in the allocations to the two sectors as a whole. In education, the bias should be shifted away from the general arts towards more specialized training in technical and scientific subjects, including agriculture, and in housing the public authorities should focus more on the needs of the lower paid workers and spend less on subsidizing the middle income groups.

14. Overtaking Arrears of Public Investment. The economic infrastructure of Argentina is suffering at present from certain serious deficiencies resulting from many years of mismanagement and neglect. The highway system has in places failed to keep pace with the needs of the economy, and major investments will be required over the next few years in improving the access roads to Buenos Aires, in modernizing the highways linking the capital with important centers of activity in the provinces (e.g. Cordoba, Rosario and Mar del Plata), in developing road communications between Mesopotamia and the capital and in opening up agricultural areas in the North. On the railways the main task will be to reduce rather than to enlarge the network, but substantial sums will have to be invested in modernizing equipment. The telephone system is urgently in need of modernization and expansion. There are also serious arrears of investment to be made good in water supply and sanitation in the Buenos Aires area.

15. Decentralization of Economic Activity. The population of greater Buenos Aires is now in the region of 8 million, or about one third of the total population of Argentina, and more than three-quarters of all manufacturing industry in the country is located in the Buenos Aires-Rosario area. Encouragement should continue to be given by the Government to the creation of new poles of development outside the capital. The

growth of Cordoba during the past ten years as a center of the automobile industry is an illustration of what can be done along these lines, and the El Chocon project, which is doubtfully justifiable if used simply as a source of power, should be used to give a stimulus to the development of the Rio Negro valley and the port of Bahía Blanca, which is a natural location for new industrial activity in the South.

16. Immigration Policy. Argentina, where the present rate of population growth is under 2 percent a year, is a country which badly needs more people to open up new areas outside the capital. Although there is considerable under-employment in Buenos Aires, those who have become accustomed to life in a big city cannot easily be attracted to rural occupations. At present some additional labour is being provided for agriculture through migration, part seasonal, part permanent, from neighboring countries such as Chile, Paraguay and Bolivia, but there has been no significant net immigration into Argentina in recent years. There are strong resistances to admitting poorly educated unskilled workers from the more backward areas of Latin America, and it is probably unrealistic to expect Argentina to provide an outlet for the surplus population of other Latin American countries. But there is no similar prejudice with respect to European immigrants, and the Government should make a real effort to attract more immigrants from Europe (and possibly also from some parts of Asia). Little, if anything, is at present being done about this.

17. Mobilization of Private Savings. Inflation has tended to divert private savings into uses which contribute little to economic growth. A major objective of policy in the coming years should be to revive the private capital market and mobilize private savings for financing investments of high priority in both private and public sectors. Apart from general financial and economic policies, this raises a whole range of complicated legal and institutional problems relating to such matters as company law, supervision of the stock market, organization of investment banks and finance companies, indexing of loans, taxation of income earned abroad, exchange controls and so forth. The Bank Group has rather limited knowledge of these problems, and no attempt is therefore made here to suggest detailed solutions.

18. External Debt Management. Service of external public debt alone will this year absorb over one quarter of all Argentina's external receipts on current account. This high debt service is largely a reflection of the unfavorable terms on which debt was incurred in the past (the terms on which the public sector has borrowed abroad in recent years have been amongst the least favorable reported to the Bank by any Latin American country). Prudent debt management requires that in future as large a proportion of public sector borrowing as possible should be shifted from medium term suppliers' credits and commercial bank loans to loans from international development institutions and other sources of long-term credit. This will require a major effort at project preparation on the part of Argentina and a readiness on the part of the capital-exporting countries to make new credits available on better terms.

If the role of project financing in meeting Argentina's external capital requirements is to be significantly expanded, it will be necessary to include a substantial element of local cost financing, since only about 10-15 percent of gross domestic investment is accounted for by imports of capital equipment.

Required Changes in Policy

19. The lines of policy indicated in the preceding paragraphs are for the most part broadly consistent with the announced intentions of the present economic team in Argentina, headed by Dr. Krieger Vasena, which took over at the beginning of 1967. They do not by any means, however, represent the unanimous views of the Onganía Government in which economic "nationalists" exercise strong influence. There is likely to be a sharp division of opinion within the present regime as between the "liberals" and the "nationalists" (and between the Government and other political groups such as the Peronists) on such key issues as the role of foreign capital in the development of the economy, the protection of domestic industry, the priority to be accorded to agriculture, the use of direct controls, the reduction in the size of the railways and other measures for rationalizing the public sector. Nationalist influence is also felt in key investment decisions which seem to place more weight on a project's contribution to the country's prestige and defense than to economic considerations. Moreover, organized labor, though apparently divided and much less powerful than it was under the Illia Government, is still a force to be reckoned with in the determination of economic policy.

20. There are indications of a widespread feeling in Argentina that something must be done to put an end to the grosser forms of waste and inefficiency from which the economy has suffered during the past twenty years, and many people are evidently fed up with inflation. These attitudes have been reflected in a significant improvement in attitudes to work, which by all accounts is evident in the private sector as well as in many public enterprises (most notably in the ports and merchant marine). There is therefore some basis for the belief that the recent improvement in Argentina's economic performance may be maintained over the next few years. However, the inherent difficulties of putting an end to chronic inflation and the historical divisions in Argentine society both justify a note of caution in any prediction concerning the country's longer term growth prospects.

Five-Year Projections

21. Agricultural production, because of its impact on the balance of payments, will probably be the most important single determinant of economic growth over the next five years, and of year-to-year fluctuations in GDP during this period. Argentina has usually in the past managed to find a market abroad for all the grains and livestock that it has produced in excess of domestic requirements, and supply rather than demand is assumed to be the limiting factor on agricultural exports. Assuming a fairly flexible exchange rate policy and other policies generally favorable to the promotion of agriculture, including a substantial reduction in export taxes (but not necessarily the total abandonment of these taxes, which may not be feasible within so short a period), we have projected the rate of growth of total agricultural production at 3.5 percent a year, compared with an average 2 percent growth rate in recent years. Domestic consumption of food is assumed to rise by about 2.5 percent a year, and the volume of exports of agricultural production by 5 percent a year. This would imply only a modest increase in per capita food consumption - a result that would be consistent with the present high level of consumption in Argentina, and with a policy of stimulating agricultural production by permitting food prices to rise somewhat faster than prices of other goods. With agricultural production rising at the projected rate, an increase of about 7 percent a year in industrial output, compared with the 4-5 percent rate of expansion recorded in recent years, would be required to achieve an acceleration of the overall growth rate to 5 percent, a reasonable target for the period.

22. In projecting the major components of the balance of payments (Table 3A), a 25 percent increase in the value of agricultural exports by 1973 was estimated, allowing for some decline in commodity prices in line with projected trends in world markets. A \$100 million, or 7 percent per year, expansion of non-agricultural exports was assumed as an ambitious, but not unrealistic, target over the period. This would give an overall increase in export earnings of 30 percent, or an average of some 4.5 percent yearly. Imports are projected to rise at an average 6 percent per year, a rate which should be sufficient to permit a sizeable expansion of capital goods imports and the growth in imports of raw materials and intermediate products that would be required for the maintenance of a 5 percent growth rate. The need to reduce the external debt burden has been taken as a primary objective of policy and projections for borrowing abroad have been limited accordingly, with the terms of borrowing assumed to be substantially better on average than in the past. In this way, we come out with a long-term gross capital inflow requirement (disbursements) averaging some \$225 million annually over the period, compared with an estimated \$400 million in 1968. About \$130 million of the gross capital inflow would be for the public sector. Private direct investment, increasing at a moderate rate, might provide an average \$55 million yearly, while disbursements from the existing pipeline of long-term loans would average some \$45 million, leaving \$125 million or so of the gross foreign exchange inflow required each year to come from new loans. It is assumed that reserves, now ample, would be drawn down to help cover foreign exchange requirements in the earlier years while the pipeline of long-term loans is being built up, but that the reserves would be reconstituted again in later years.

23. The Government is presently engaged in preparing a public investment program for the next five years, but even the macro-economic framework for this is still far from complete, while sectoral programs are in the process of being worked out in a preliminary way. In Table 4A we have attempted to suggest, for illustrative purposes the overall level and possible sectoral composition of the public investment that would be desirable during 1969-1973 to meet basic infrastructure needs and support an acceleration of the growth rate. It should be emphasized that the "requirements" shown in the table have been neither built up from a systematic study of individual projects, nor derived from aggregate input-output relationships; rather, the estimates are based on the existing, tentative future investment plans of some of the principal Government agencies supplemented by our own rough guesses as to what may be needed in other areas. Given the character of the projection, it should be regarded as indicating what would be desirable in the way of public investment, subject to a careful review of actual needs and sectoral priorities and, most importantly, to the availability of adequate financing through increased public saving. As the table shows, public investment at the national level would average some M\$N 545 billion (about \$1.5 billion) per year, an increase of about 40 percent over the planned 1968 level. The sectoral pattern of public investment would differ from that in recent years, principally in that the petroleum sector would be taking a significantly smaller share of the total (assuming, as the Government does, that the private sector can be counted on to provide most of the necessary increase in investment in this sector), while proportionally more would be invested in electric power and transport. The telephone system and water and sewerage works would also be playing a more important role in investment. Assuming that provincial and municipal investment increases pari pasu with that at the national level, total public investment during 1969-1973 would average about 10 percent of GDP, compared with an estimated 8.5 percent in 1968 and 5.6 percent in 1965^{1/}.

24. To the extent that output in Argentina over the next five years is directly related to investment undertaken during this period, private investment in agriculture and industry is likely to be much more significant than public investment, which (petroleum apart) is mainly concentrated on economic and social infrastructure. Official estimates of past private investments are based on rather unreliable calculations relating to domestic output and imports of capital goods, (from which public investment is deducted), and quantitative projections in this field would be subject to so many qualifications as to be virtually meaningless. The same goes, of course, for private savings.

^{1/} The public investment figures used here are not comparable with those in the national accounts, which are substantially lower, presumably because the investments of all or most of the state enterprises are included in private investment.

25. Public finances in Argentina lend themselves more easily to quantitative projections which can serve as a useful guide to policy. Table 4B illustrates how public finances might be managed to generate sufficient public savings to make it possible to finance the projected level of investment without undue recourse to foreign borrowing or excessive pressure on the domestic banking system. For this purpose, public savings would have to be raised to cover 90-95 percent of public investment, compared with the 80 percent savings-investment ratio reached in 1967, and the 85 percent planned for this year. To achieve this savings target, it would be necessary to (1) reinforce tax structure and administration along the lines already indicated; (2) hold the increase in government current expenditures to about 3.5 percent per year; (3) restore savings generation by the social security system to at least the level achieved in past years; and (4) substantially improve the financial performance of the State enterprises, which in the past have been the weakest link in the public savings effort. A doubling of state enterprise savings over the next five years would be essential to the fiscal performance envisioned here; this seems a reasonable goal in the light of what has been accomplished recently, but it is one which can probably only be achieved if the railway deficit is very substantially reduced over the period.

External Capital Requirements

26. With a public savings effort of the magnitude just indicated, Argentina should not need to borrow abroad more than will be required to fill the projected foreign exchange "gap" over the period. To obtain the capital inflow required for balance of payments equilibrium, it will probably be necessary to undertake new long-term borrowing (commitments) totalling \$850 million, or \$170 million per year. Of this amount, rather over \$100 million a year might be provided by the World Bank group and the Inter-American Development Bank, with the remainder to come from private sources, mainly in the form of suppliers' credits. If the terms of IBRD and IDB lending remain as at present and the terms of suppliers' credits can be improved to an average of seven years' maturity, including two years of grace, with interest at 7 percent, the total cost of servicing the external debt in 1973 can be limited to \$320 million or the equivalent of 14 percent of projected external receipts on current account.

27. It should be emphasized that the "model" sketched here of economic development over the next five years reflects an optimal level of performance which, while we believe it to be within the country's capabilities, is unlikely to be fully achieved in practice and will in any case depend in part on circumstances beyond the Government's control (e.g. weather, world commodity market conditions), as well as on the basic changes in economic policy and administration that have been discussed. It will be difficult to attain the high levels of investment assumed, and even more difficult to generate the projected amounts of public savings. Levels of public investment and savings which fall somewhat short of the targets we have indicated would still be a distinct improvement on past performance and reflect a satisfactory development effort. A wider gap between public savings and investment than we have projected would require greater

recourse to foreign borrowing. This would be feasible, if kept within reasonable bounds, but it would mean less rapid progress toward reduction of the debt service burden.

BANK/IDA STRATEGY

Conclusions Relevant for Bank Operations

28. Policies: Of the problem areas identified in the previous sections, five have been selected as of critical importance to be watched by the Bank closely:

- i. Inflation
- ii. Economic revival and structural reform
- iii. Public savings
- iv. Export incentives
- v. Foreign borrowing terms

It is not appropriate at this particular stage to try to fix exact performance tests in these areas (for one thing, the Government's own objectives are on the ambitious side). This may be possible toward the end of 1968, when we formulate criteria for judging the 1969 program. What is important is that the progress in key areas made in 1967 and 1968 now opens the possibility of a transformation that within a few years should enable Argentina to pursue its economic growth on a self-sustaining basis.

29. In this light - and assuming the continuation of suitable policies by Argentina - the Bank should be able to play an important role in promoting Argentina's transformation and helping to re-establish the country's credit in international capital markets. We could do this by (1) making available long-term capital on a significant scale - \$100 million a year or more - and thus give visible and strong support to the Government's present economic policies as long as they are pursued; and (2) by directing Bank assistance to sectors where we can help the Government in tackling difficult institutional and structural problems.

30. Priorities. In line with the foregoing, priority in expanding Bank operations should be given to the transport sector, since the railways' huge deficit is one of the principal obstacles to increased public savings, while the inadequacy of the road system is perhaps the major gap in the country's economic infrastructure. The transport, and especially the railway problem, is so important that the Government's success or failure in overcoming it will play a large role in determining whether its entire stabilization program succeeds or fails. Progress (or the lack of it) in carrying out suitable transport policies should thus trigger a larger or smaller volume of Bank lending. In addition to contributing to the resources necessary for transport development, the Bank can plan an important role in advising on the necessary restructuring of the railways, on improving the planning and management capabilities

of both the railways and the Highway Department, and on transport coordination policies in general.

31. The existing loans to SEGBA and the one now in preparation for El Chocon mean that the power sector will remain an important focus of Bank operations, at least over the next year or two. Additional lending for power will enable us to continue to support the necessary institutional changes in the sector and to maintain Bank operations at a high level in the years immediately ahead. However, power is a sector in which a reduction in Bank activities over the longer-run is indicated, as opportunities for expanded operations in transport and other sectors are developed and as SEGBA becomes increasingly able to tap private capital resources, at home and abroad.

32. While agriculture merits high priority in Argentina's overall development effort, the problem in this sector is basically one of providing incentives for Argentina's generally well-off and quite sophisticated farmers, rather than one of lack of resources or of serious institutional shortcomings to which the Bank might make a major contribution. IDB has been helping meet general agricultural credit needs, and plans to continue to do so, and the most appropriate role for the Bank would appear to be in such specialized areas as livestock, especially if by doing so our weight could increase the chances of maintaining adequate price incentives. Special opportunities to aid agricultural development may also open up in the area of El Chocon (Comahue).

33. Gross deficiencies in telephone service, side-by-side with an equipment manufacturing industry operating well below capacity, make it appear worthwhile to study carefully the possibility of Bank lending in the telecommunications sector, since such lending might serve the dual purpose of helping meet basic infrastructure needs and of promoting industrial efficiency.

34. Lending Terms. Argentina is not eligible for IDA credits because of its relatively high income level, but is creditworthy for Bank lending. Although debt service obligations are heavy over the next few years, export prospects are promising and the balance of payments fundamentally strong. There is no reason for special lending terms.

Five-Year Lending Program

35. The projected Bank lending program for 1969-1973 by major sectors is shown in the attached table (Annex 1). The \$435 million of new Bank lending under this program, together with existing loans, would result in estimated disbursements averaging some \$77 million per year over the period. This would be equivalent to about one third of Argentina's gross capital inflow requirements, as indicated in the balance of payments projection, and to an estimated 50 percent of the public sector's external financing needs. The projected program would increase the net Bank stake in Argentina from \$102 million on April 30, 1968 to about \$480 million on June 30, 1973.

36. We do not expect project readiness to be an important constraint on the Bank's program, particularly if the measures now under way to improve planning and project preparation in the Railways and the Highway Department are successfully pursued. In addition, under the present Government CONADE has been playing an increasing important role in organizing and coordinating project preparation throughout the public sector. Early Bank participation in the shaping of projects, through such means as the transport mission scheduled for later this year, will put us in the best position to process projects as rapidly as possible.

37. If the Bank's role in meeting Argentina's external capital requirements is to be expanded significantly, it would be desirable to include a substantial element of local cost financing in our projects. Argentine industry is capable of meeting the bulk of the country's capital goods requirements, as reflected in the facts that imported equipment has accounted for only 10-15 percent of domestic investment and less than 20 percent of total imports in recent years. Argentina's relatively modest requirements for imported capital goods, together with the heavy debt service burden over the next few years, makes a case for lending which will provide "free" foreign exchange and on terms which will help significantly to lengthen the structure of the debt.

Alternative Lending

38. If it should prove necessary to scale back lending in Argentina because of a shortage of Bank resources, the reduction or elimination of the loans for power and telephones planned for 1969/70 and 1970/71, respectively, should be contemplated first - particularly if this transport sector exercise is going well and there are good prospects for lending in that sector. In transport, any lending cutbacks that might become necessary could probably be best accomplished by reducing the size of the proposed loans, rather than by eliminating any of them completely, this being feasible because road and railway loans will, in fact, finance "programs" in those sectors rather than single, indivisible projects. On the other hand, if scaling back becomes necessary because of shortcomings in general economic performance, we shall probably be led to cut back transport lending first because, as already indicated, sectorial and general performance are so closely interjoined.

39. In view of the importance of improving efficiency and reducing costs in Argentina's already highly developed manufacturing industry, the Bank should be alive in all of its operations to opportunities to contribute to this objective. The problems besetting Argentine industry represent, in advanced form, the difficulties most developing countries face in this sector and there is, therefore, particularly fertile ground for further case studies of industrial policies, and of the development of particular lines of industry along the lines of studies the Bank has already done.

Western Hemisphere Department
June 14, 1968

ANNEX 1

REVISED
May 27, 1968

Five-Year Forecasts

Western Hemisphere Department

Argentina

(a = Amount; b = Number of projects)
(\$ million)

	1968/69	1969/70	1970/71	1971/72	1972/73	Total
	<u>Bank</u>					
<u>Power</u>						
a.	70	50				120
b.	1	1				2
<u>Transport</u>						
a.	20	50	50	50	60	230
b.	1	1	1	1	1	5
<u>Agriculture</u>						
a.			30		15	45
b.			1		1	2
<u>Communications</u>						
a.			40			40
b.			1			1
<u>Total</u>						
a.	90	100	120	50	75	435
b.	2	2	3	1	2	10

		Actual Data						Projected Data						Period Growth Rates	
		1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1962-66	1969-73
Population - growth rate	%	23.0	22.0	21.8										1.5	1.5
birth rate	per 1000														
Price Change - c.o.l. index	%	28.2	24.0	22.2	28.5	31.9								26.6	
exchange rate (pesos per US\$)		134.10	132.50	150.90	188.50	247.30	350.0								
GNP at Factor Cost; 1964 prices - Total	\$ mil.	14,931	14,408	15,561	16,899	16,815	17,168	18,026	18,927	19,873	20,867	21,910	23,006	3.0	5.0
per capita	\$	699	664	707	756	742	746	772	799	827	856	886	917	1.5	3.4
GDP - at current market prices, Total	\$ mil.	10,529	13,087	15,659	17,220	16,349	15,709/a	16,194	17,319	18,185	19,094	20,049	21,051	3.0	5.0
real growth rate	%	-1.9	-3.5	8.0	8.6	-0.5	2.1	5.0	5.0	5.0	5.0	5.0	5.0		
Production Growth (real rates) - agriculture	%	2.8	10.8	-2.4	-10.0									-0.9/b	
food per cap.	%	2.1	9.9	-3.8	-12.0									-2.4/b	
manufacturing	%	-7.4	-6.0	14.9	11.1									6.3/b	
GDP by Branch - agriculture	%	15.2	17.1	19.3	16.6										
mining	%	1.6	1.6	1.2	1.2										
manufacturing	%	32.1	31.1	31.5	30.0										
construction	%	4.3	4.0	3.6	4.1										
transport & communication	%	7.6	8.5	8.1	8.2										
public admin. & defense	%	9.8	9.1	9.4	9.5										
other branches	%	29.4	28.6	26.9	26.4										
Resource Gap	% of GDP	1.5	-2.4	-0.8	-1.4	-2.0	-1.9	-1.2							-1.2
National Saving - private	% of GDP														
public	% of GDP														
Total	% of GDP	20.1	19.1	17.9	20.1	18.9	20.0								
Marginal Saving Rate															.18
Consumption - private	% of GDP	68.2	70.4	71.2	69.1	68.9		67.5					64.8		4.6
public	% of GDP	11.1	10.2	10.3	10.4	11.4		11.7					10.9		3.5
Total	% of GDP	79.3	80.6	81.5	79.5	80.3		78.2					75.7		4.4
Exports of Goods and Services	\$ mil.	1,371	1,499	1,555	1,656	1,784	1,561	1,610	1,710	1,810	1,910	2,015		6.8	5.8
Imports of Goods and Services	\$ mil.	1,569	1,199	1,115	1,379	1,376	1,263	1,328	1,416	1,509	1,597	1,706		-3.4	6.5
Net Goods and Services	\$ mil.	-198	300	440	277	408	298	282	294	301	313	309			
Interest on Public Debt, Gross: Outflow (-)	\$ mil.							-130	-114	-98	-92	-65			
Other Investment Income, Net: Outflow (-)	\$ mil.							-65	-75	-85	-95	-110			
Net investment income: Outflow (-)	\$ mil.							-195	-189	-183	-187	-175			
CURRENT SURPLUS(+)/DEFICIT(-)	\$ mil.	-270	232	37	224	256	184	87	105	118	126	134			
Long Term Private Capital, Net inflow	\$ mil.	280	46	77	-99	-11	316								
Long Term Public Capital, Gross inflow	\$ mil.	47	211	84	139	168	19	206	163	106	97	123			
Less: amortization	\$ mil.	11	84	14.6	94	110	70	357	280	206	169	157			
Net long term pub. cap. inflow	\$ mil.	36	127	-62	45	54	-51	-151	-117	-100	-72	-34			
Other Capital Inflow, Net (incl. errors, etc.)	\$ mil.	-322	-238	2	10	-193	-73								
NET BALANCE	\$ mil.	-285	181	12	136	130	328	-100	-50		50	100			
IMF Drawings(+)/Repayments(-)	\$ mil.	-9	14	-42	-44	24	-48								
Foreign Exch. Reserves, Inc.(+)/Dec.(-)	\$ mil.	-272	356	-117	83	-20	511	-100	-50		50	100			
Foreign Exch. Reserves, Gross - gov't. entities	\$ mil.	114	270	153	236	216	727								
com. banks	\$ mil.														
Total	\$ mil.	114	270	153	236	216	727								
Foreign Exchange Reserves, Net - Total	\$ mil.														
External Debt	\$ mil.					1,852									
Debt Service Ratio	%							27							
Net Factor Payments to Abroad	% of GDP	0.6	0.3	0.6	0.4	0.8	0.7								
Central Government - Current revenue	\$ mil.	1,230	1,404	1,518	1,814	1,739									
Current expenditure	\$ mil.	1,357	1,532	1,856	1,910	1,808									
Saving	\$ mil.	-127	-128	-338	-96	-69									
Capital revenue	\$ mil.														
Capital expenditure	\$ mil.	27	36	38	35	36									
Budget Surplus(+)/Deficit(-)	\$ mil.	-154	-164	-376	-131	-105									
Military expenditure	% of GDP	2.8	2.3	2.1	2.0	1.7									
Education - expenditure (general government)	% of GDP	3.4	3.1	3.1	3.1										
school enrol., primary & second.	%		73												
literacy rate, adult	%	91/c													
Tax Revenue (general government) /d	% of GDP	5.9	5.1	4.5	5.8										
Public Saving (% of public fixed investment)	%														
Gross Investment - private fixed	% of GDP	19.2	14.7	13.7	14.3	15.3		12.1					13.0		8.7
public fixed	% of GDP	3.4	3.5	2.8	3.0	2.5		8.5					10.1		6.5
increase in stocks	% of GDP	-0.3	-1.2	1.2	1.8	-0.1									
Total	% of GDP	22.3	17.0	17.7	19.1	17.7		20.6					23.1		7.5
Finance of Investment - National saving	%	90.1	112.4	101.1	105.2	106.8	107.5								
Foreign capital	%														
private	%	8.6	-19.2	0.7	-6.2	-8.2	-5.4								
public	%	1.3	6.8	-1.8	1.0	1.4	-2.1								
Total	%	9.9	-12.4	-1.1	-5.2	-6.8	-7.5								
Public Investment by Purpose - agriculture	%				0.7	0.9	2.0	2.3							
industry	%							3.1							
power	%							4.3	4.8	38.5	37.2	35.4	34.5		
housing	%				52.3	51.0	46.4								
transportation	%				18.1	26.1	19.2	21.6	24.1	26.8	26.7	26.2	25.7		
telecommun.	%				3.5	3.1	6.0	6.0	6.5	6.9	7.9	8.9	8.9		
education	%				3.3	1.0	5.9	5.7							
health	%				0.5	0.6	1.0	0.8							
other	%				21.6	14.3	14.4	16.8							

/a Converted into US\$ at 333 pesos. /b 1962-65. /c 1960. /d Includes government Enterprises and Decentralized Agencies.

4/4/68

ARGENTINA

BRIEFING PAPER

I. Economic Diagnosis

Population:	22.8 million
Per Capita	\$750
Income:	

1. Argentina's rich physical and human resources have given it the second highest income per head in Latin America (after Venezuela) and a degree of development comparable to many parts of Europe. However, several decades of financial and institutional mismanagement have led to stagnation of output, chronic inflation and misallocation of investment and manpower resources. A cumbersome, expensive bureaucracy has been allowed to grow up in the banking system and state enterprises - notably the railways - and has frustrated efforts to put the public finances in order, arrest inflation and restore confidence to what ought to be a thriving private sector.

2. The present governmental economic team headed by Dr. Krieger Vasena has made a better start at tackling the country's main economic problems than other governments of the past few decades. The stabilization program has already sharply reduced the budget deficit and increased public savings and a significant slowing of inflation seems likely this year. There has been a notable improvement in the top management of many public sector entities, and the Government appears to have attenuated the power of the labor unions to the point where it can now begin to tackle the problem of over-employment in the railways and other state enterprises.

3. In the private sector, industry is now capable of producing virtually all of the country's consumer goods and of meeting the bulk of its capital goods requirements, but Argentine industry has grown up behind high tariff walls and much of it is inefficient and high-cost by international standards. Agriculture, upon which Argentina depends for nearly 90 percent of its foreign exchange earnings, has been the slowest growing sector of the economy, largely due to exchange rate, tax and price policies which kept returns to farmers from keeping pace with the constant cost inflation. Government policies aimed at providing more adequate economic incentives have been reflected in a better performance by the agriculture sector in recent years, but a real revival of Argentine agriculture will require continuing efforts to improve and stabilize farmers' price incentives, to lower the costs of machinery, fertilizers and other modern inputs, and to expand research and extension services. Looking beyond the immediate needs to improve the level of public savings and arrest inflation, the long run aim of public policy ought to be to restore the incentives for growth in the private sector. This in turn should absorb excess labor in the public sector.

4. A special feature of Argentina's financial problem is its heavy external debt service in the next few years, the result of past foreign borrowing on unusually onerous terms. The past few years have seen a reduction in the debt,

but the burden is still such that Argentina will need to continue to borrow abroad heavily on a gross basis for a time in order to meet its obligations and to permit accelerated economic growth. We estimate that Argentina would need to borrow abroad an average of some \$325 million annually during 1968-71. In its current borrowing Argentina is trying to improve the terms of foreign borrowing so as to relieve the balance of payments in the future.

5. In the longer run, Argentina should be able with good economic management to finance its development very largely from its own savings, obtaining the long-term capital it will need from abroad by borrowing in the private market. To reach this goal will require at least four or five years of reasonable political and financial stability, and consistent pursuit of economic policies designed to increase the nation's productivity. If these conditions are present, loans from the Bank and other international lending agencies on a substantial scale could make an important contribution to the transition of the Argentine economy over the next five years or so.

6. In the light of this diagnosis, we formulated in late 1967 five criteria for gauging the success of the Government's efforts in the medium term and so informed the Government:

- i. A slowing of the rate of inflation.
- ii. Progress in stimulating a revival of economic activity, and in setting in motion the structural reforms in both public and private sectors that are necessary to put the economy on the road to more rapid and sustained growth.
- iii. An adequate public savings effort, giving high priority to appropriate tax measures and to the implementation of the program for rationalizing employment in the public sector, particularly in the railways.
- iv. The maintenance of adequate export incentives through the progressive reduction of retentions in line with the trend of domestic costs.
- v. Improvement of the terms upon which Argentina borrows abroad.

II. Lending Strategy

7. Argentina joined the Bank only in 1956 and regular relations were not developed until the Frondizi Government took office in 1958. The Bank was well impressed with the economic policies which the Frondizi Government pursued at first and decided to make a major effort to supply capital to the country. Through

its role as executing agency for sector studies financed by the United Nations Special Fund, the Bank became intimately acquainted with the transport and power sectors, and this orientation was evidenced by two large loans in 1961-2, \$48.5 million for roads and then \$95 million to SEGBA for power in Buenos Aires. Unfortunately, subsequent political circumstances and economic policies, coupled at times with project problems, made new lending impossible until 1967-8, after the Onganía Government had taken office and the economic program of Dr. Krieger Vasena had been started. The first loan was in the livestock sector, \$15.3 million, where we felt that our assistance could help the Government pursue policies that would restore adequate incentives to livestock producers and exporters. Another loan, \$55 million to SEGBA, marked our re-entering the power sector. The Bank delayed for over two years the second loan to SEGBA, mainly to satisfy itself that the management was in competent hands and that steps were being taken gradually to reduce the over-grown labor force.

8. There is now a reasonable possibility that, if consistent economic policies are followed over a long enough period, Argentina will be gradually transformed into a country whose growth will be largely self-sustaining. The next three or four years could be a critical period from the point of view of catching up with arrears of development and modernising the economy and the Bank may be able to play an important role in getting this process moving and in helping to re-establish Argentina's credit in international capital markets. We could do this by (1) making available long-term capital on a significant scale in the order of \$100 million a year, or more if the Bank's resources permit, and thus give visible and strong support to the Government's present economic policies as long as they are pursued; and (2) by directing Bank assistance to sectors where we can help the Government in tackling difficult institutional and structural problems. A large part of our lending should be directed to those problem areas, such as transportation, where the success or failure of the Government in tackling difficult problems would thus trigger a larger or smaller volume of Bank lending.

9. In the current year we are well able to give visible and strong support to the Government's policies by our association with the El Chocon project, to which we are planning to contribute \$70 million, and also give some assistance in mobilizing an additional \$100 million from supplying countries. We may also wish to make another loan to SEGBA, even though SEGBA should be encouraged to turn in the future to other sources of funds, including the domestic capital market. If we did lend to SEGBA, it should be in recognition of significant progress in rationalizing work rules and employment practices. SEGBA is regarded as a test case for the application of the Government's policies in this vital area.

10. Given the importance of transport to the economy as a whole, and the burden which the present railway deficit imposes on Government's finances, that is the sector where a priori we should be able to make our most significant

contribution. We are planning to send a transport mission to Argentina in September of this year to review with the appropriate authorities their plans for action in the transport sector, and if we find that these plans provide a satisfactory basis for Bank lending to this sector, we would try to identify projects for financing over the next two or three years which would enable us to throw our weight behind the right policies. Although our knowledge of the telephone sector is still preliminary, there is some evidence that this may also be a sector where the Bank could extend useful assistance, not only financial but in terms of policies and institutions. Finally, if experience with the first livestock loan is satisfactory, the Bank should be able to continue to exert influence in the direction of proper agricultural policies through further lending in that sector.

III. Prospects for Future Operations

11. In line with the foregoing lending strategy the following operational forecast can very tentatively be made:

Possible Lending in Argentina
1968-71

	<u>Fiscal Years</u>		
	<u>1968/1969</u>	<u>1969/1970</u> (in \$ million)	<u>1970/1971</u>
Power (SEGBA)	40	-	-
El Chocon	70	-	-
Roads (Vialidad)	15	50	35
Railways	-	50	-
Telephones	-	-	40
Agricultural credit	-	-	30
	<u>125</u>	<u>100</u>	<u>105</u>

A few of the entries in this table (El Chocon, for example) represent projects at an advanced stage of discussion, but others should be taken as no more than an indication that lending in the sector may be desirable.

12. El Chocon is a very large hydroelectric project located 700 miles to the south-west of Buenos Aires. It would take about ten years to build, have a generating capacity of 1650 MW, provide flood control and, in due course, make possible

considerable extension of settlement and irrigated agriculture in the Rio Negro Valley. The full cost of the dams, electrical installations and transmission line to Buenos Aires is estimated at \$525 million, of which about \$365 million would be spent on a first stage to be completed in 1973/74. The foreign and local cost of the first stage would be roughly equal. The Bank has informed the Government that it is ready to consider a loan of \$70 million to cover the foreign exchange cost of the civil works contract for the El Chocon dam and half of the fees of the consultants, Sir Alexander Gibb and Partners of London. Hidronor, S.A., the Government agency established to build and operate the project, are presently seeking finance for imported equipment in the main capital exporting countries. The Government will finance at least the local cost of the project from earmarked special taxes. We have urged that the Government cover some part of the foreign cost as well. The project appraisal mission is scheduled for July, and, subject to a completion of the financing plan, we would present the loan to the Executive Directors in December.

13. In the transport sector the next step is to send a mission to examine the Government's policies and investment program for roads and railways. The timing of this mission will be linked to some beginnings of progress in reducing the railway's deficit, through reductions in labor force and the network. If the Government accepts our general approach to the transport sector, we will, on the same occasion, appraise a small road project which is nearly ready for execution (and may involve a Bank loan of up to \$20 million), as well as identify other projects in roads and railways which we might assist if policies develop suitably.

14. The following table shows the status of past loans to Argentina as of February 29, 1968:

<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u> (US\$ million)	<u>Undisbursed</u>
1961	The Argentine Republic	Roads	32.0	6.2
1962	Servicios Electricos del Gran Buenos Aires, S.A. (SEGBA)	Power	93.3	—
1967	The Argentine Republic	Livestock	15.3	15.3
1968	Servicios Electricos del Gran Buenos Aires, S.A. (SEGBA)	Power	<u>55.0</u>	55.0
	Total (less cancellations) of which has been repaid to Bank and others		195.6	
	Total now outstanding		<u>14.4</u> <u>181.2</u>	
	Amount sold of which has been repaid	4.3 .9	<u>3.4</u>	
	Total now held by Bank		<u>177.8</u>	
	Total undisbursed			<u><u>76.5</u></u>

Western Hemisphere Department
April 4, 1968

ECONOMIC COMMITTEE

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WBG ARCHIVES

EC/O/68 - 57

June 3, 1968

Argentina: Economic Policy Memorandum

1. The attached Economic Policy Memorandum on Argentina from the Western Hemisphere Department (EC/O/68-57/1, dated June 3, 1968) will be discussed at a Special Meeting which will be held on Wednesday, June 5, 1968.

C. F. Owen
Secretary

Attachment

Secretary's Department

D I S T R I B U T I O N

Messrs. Friedman	Adler	Orcutt
Kamarck	Collier	Sacchetti
Alter	de Vries	Sadove
Avramovic	King (B.B.)	Thompson
Bell	Larsen	van der Mel
Krishnaswamy	Lipkowitz	Weiner
Rist	McDiarmid	Wright
Stevenson		

Also: Mr. McNamara, Mr. Knapp, Sir Denis Rickett and Mr. Shoaib

532/3/15

Mr. Gerald Altar

December 5, 1967

Richard Donik

ARGENTINA - Dr. Krieger Vasena's Comments on the Economic Report

1. On Monday morning, December 4, Dr. Krieger Vasena transmitted by Telex to Dr. Fernandez quite extensive comments on the Economic Report. Dr. Krieger's message begins with the statement that he is in general agreement with the Report, but that he is transmitting information that could lead for a "more realistic focus" and a more favorable judgment on the results of the 1967 program. Secondary data as of November 30 and preliminary fiscal figures for the same date are provided. While these figures do appear to confirm that good progress was continuing toward the achievement of the 1967 targets, there is nothing in them that indicates to us that a more favorable appreciation of the rehabilitation program than that already in the Report would have been called for.

2. The most interesting part of Dr. Krieger's message is the new information provided on the 1968 fiscal program. The principal points he makes are as follows:

- a) The Ministry of Economy intends to freeze current expenditures of the budgetary entities at the 1967 level, and to apply similar criteria to the State Enterprises.
- b) The decline in tax revenues from the expiration of the emergency property tax, the reductions already made in the import tax rates, and possible income tax reductions will be "more than compensated for" by new resources. With higher exports in prospect for 1968 the import tax would, in fact, yield about as much as in 1967 despite the rate reductions just made.
- c) The net revenues required will come principally from increased taxes on petroleum products, with the increases for some products ranging up to 50%.
- d) Public investment is to be increased by about M\$N 100 billion, or some 20% above the level now estimated for 1967.
- e) With stabilizations consolidated, it should be possible to call non-responsable government bonds in the domestic market to finance part of the investment program.

- f) It is estimated that some \$75 million of Government bonds can be sold abroad in 1967 (including the \$25 million German issue already announced).

3. From the above information it appears that the Government appreciates the magnitude of the fiscal problem with which it is confronted and that it intends to deal with this problem by action along some of the lines discussed in the Economic Report. That the Government intends to raise petroleum taxes substantially is, of course, especially good news. The only important point of difference with the analysis in the Report appears to concern the possible yield from the export tax next year. While the decline in receipts from the source may not be so great as estimated in the Report, I cannot see how the 1967 level can be maintained unless it is assumed that no further tax reductions will be made next year.

4. Since the Talor in one place speaks of the Economic Report as a draft and Dr. Frieger could not have received the actual gray cover report before Monday evening and makes no mention of your letter, I assume that the comments were based on a copy of the draft of the gray cover version which was forwarded to him by Dr. Jansen. Dr. Frieger may well have transmitted his comments in the expectation that they could be incorporated in the gray cover version to be sent to the Board, although I advised Dr. Jansen that there would be no time for comments from Hecuba Aires prior to distribution.

5. We will want to write to Dr. Frieger again shortly to inform him of the Mission's arrival date and to request that specified information on certain sectors be prepared in advance. I express that in writing we thank Dr. Frieger for his comments and assure him that we will draw on the information he has provided on the latest results of the 1967 program and the Government's fiscal intentions for 1968 in presenting the World Bank loan to the Board (i.e., in the President's Report and any oral presentation).

Wbosik/cor.
cc: Jansen. Wright
Billings
Tajima

December 13, 1967

Dr. Adalbert Krieger Vasena
Minister of Economy and Labor
Ministry of Economy and Labor
Hipolito Irigoyen 250
Buenos Aires, Argentina

Dear Mr. Minister:

Thank you very much for your comments on the Economic Report which were transmitted to us by Dr. Fernández. We were particularly interested in the information you provided on the latest results of the 1967 program and the Government's fiscal plans for 1968, including the decision to increase petroleum taxes next year, and we will draw on this information in presenting the SMGSA loan to the Executive Directors. The Economic Report had, of course, already been distributed by the time your comments reached us.

The Economic Mission which we are planning to send to Buenos Aires in January, as I proposed in my letter of November 29, will give us the opportunity of exploring more fully the various issues raised in the report and discussed in your comments. The principal subjects the mission will seek to study were outlined in my letter of the 29th. For its analysis of the results of the 1967 stabilization program and prospects for 1968, the mission will wish to have available, in addition to the general information on fiscal, monetary and balance of payments matters regularly provided to Bank and Fund missions, the special analyses of savings and investment in the public sector, of the public investment program and of the sources and uses of funds in the state enterprises which have been prepared for the Bank in the past. While it will be concerned with current policies and the near-term outlook, the mission will seek to concentrate its efforts on reviewing long-term development problems and policies in principal sectors of the economy. As regards three sectors likely to figure importantly in public and private investment - transport, energy and industry - the type of information the mission will be seeking is outlined in the attachment to this letter. It would greatly facilitate the mission's work if as much of this information as possible could be gathered prior to its arrival in Buenos Aires.

December 13, 1967

I understand from Dr. Fernandez that my proposal to have the mission in Buenos Aires at approximately the same time as the International Monetary Fund mission is agreeable to you. Our present plans are for the mission to arrive on Friday, January 5, and to remain for about four weeks. The composition of the mission has not yet been finally settled, but in addition to Mr. Wright and Mr. Dosik it will probably include one or two sector specialists from our Projects Department. While the mission will spend most of its time in Buenos Aires, it will also want to visit some other parts of the country during its stay.

Sincerely yours,

Gerald Alter
Director
Western Hemisphere Department

cc: Messrs. Fernandez
Skillings ✓
Baum
Knox
Kamarck

RDosik/agr.

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EC/O/68 - 57/1

June 3, 1968

ECONOMIC COMMITTEE

Economic Policy Memorandum from
Western Hemisphere Department

ARGENTINA

I. Introduction

1. There have been two phases in Bank lending to Argentina. The first, which consisted of two major loans for highways and power, occurred in 1961-62 during the closing period of the Frondizi Government. The second began in 1966 with the advent to power of the military government led by General Ongania and has so far included a livestock loan of \$15 million and a power loan of \$55 million, work on both of which was initiated before the present Government took office. The Bank now stands on the brink of a major expansion of its lending activities in power and transport and possibly other sectors. Indeed, in the preliminary draft of the Bank's Five-Year Plan, the amount suggested for lending to Argentina over the next five years is in the region of \$350-\$450 million. The Government has already been informed that we are ready to consider a loan of \$70 million for El Chocon (in certain circumstances it could be larger), and a mission will be going to appraise the project in August. Discussions have been initiated with the Government on a sectoral approach to transport lending, and a transport mission is tentatively scheduled for September, with the possibility of an interim road project being appraised at the same time as a study is made of the future development of the transport system as a whole. Other sectors in which the Bank is exploring the possibility of lending are agriculture and telecommunications. ✓

II. Statement of Issues

2. The issues before the Committee are:

- (a) Is the Bank justified in planning a major expansion of its lending activities in Argentina over the next five years?
- (b) What should be the Bank's response to a failure on the part of the Argentine authorities to maintain adequate economic and financial policies?

III. Discussion of Policy Issues

3. Argentina is not really, in the accepted sense of the term, an underdeveloped country. Like Australia it has a highly productive agriculture based on exceptionally favorable natural conditions, but only a comparatively small proportion of the labor force (around 20 per cent) is directly engaged in agriculture (c.f. around 50 per cent in Brazil and Mexico), and the contribution of manufacturing industry to GDP (just over 30 per cent) is higher than in any other Latin American country (Mexico comes next with about 25 per cent). Although a further expansion of agricultural production is vitally important for the promotion of exports, increased efficiency in industry, and in the public services supporting it, is an equally indispensable condition of satisfactory long-term growth. A high level of Bank lending to Argentina cannot easily be justified by the need to relieve poverty, because there is probably less poverty in Argentina, in relation to its size, than almost anywhere else in the world apart from the industrialized countries. The main justification for such lending must therefore be found in the exceptional opportunities that exist, given improved economic management, for making more efficient use of the country's resources and thus greatly increasing national output. In my view lending on the scale indicated above can only be justified if the Government continues to demonstrate by its economic and financial policies, and by the way in which these are implemented, that it is seriously concerned to raise national productivity and has sufficient popular support to carry its program through. ✓

4. I do not draw any sharp distinction here between short-term and long-term performance. Failure to achieve at least some measure of success in stabilizing economy in the short run will surely defeat the long-term objective of maintaining a satisfactory rate of growth. Failure to tackle long recognized structural problems such as the railway deficit or agricultural incentives will be reflected in short-term fiscal and balance of payments difficulties. The Government's policies and programs must be judged as a whole.

5. The progress made during the past 18 months in tackling the country's problems, which is described in the attached Summary and Conclusions from the report of our most recent economic mission, does, I believe, justify the Bank in going ahead with planning a substantial lending program over the next few years. However, to the extent that actual performance falls seriously short of what can be reasonably expected in the circumstances, the commitment of Bank funds should be restricted accordingly.

6. As pointed out in the last Economic Policy Memorandum on Argentina (EC/O/67 - 135), there are various tests which can be applied in judging performance. The most single important measure of success or failure in carrying out the policies which the present Government has adopted will be movements in domestic prices, since there is very little prospect of ✓

Argentina developing satisfactorily so long as inflationary expectations persist to the degree they have in the past. However, the rate of inflation must not only be brought down, it must be kept down, and it will take more than a single year's results to show that stabilization has really been achieved. Exchange rate policy, and the related questions of export retentions and import tariffs, will be another aspect of government policy which will need careful watching. It is also essential that public savings should be maintained at a high level. In this connection the revenues obtained by the Central Government from taxes other than taxes on foreign trade will give some indication of the adequacy of tax administration, while progress made in reducing the railway deficit and in rationalization of other State enterprises will be crucial from the point of view both of the Budget and of the redeployment of the nation's resources towards more productive uses. The planning of public expenditures needs to be undertaken on a long-term basis and progress in formulating and implementing a well-balanced public investment program will be an important test of the Government's ability to get things done. Last but not least, the overall trend of production will indicate whether the Government is being successful in reviving the economy and establishing the conditions needed for a renewed advance in private investment.

7. I do not think that it would be appropriate at this stage to attempt to establish precise quantitative tests of performance. The economic team headed by Dr. Krieger Vasena has staked a great deal on achieving stabilization this year, and the latest economic indicators suggest that the rate of inflation in 1968 will be very much lower than in any recent year. However, there are still many things that could go wrong. The labor unions are restive, and the Government appears to have been only partly successful in its efforts to negotiate changes in working rules which would permit a major improvement in labor productivity in public utilities and other State enterprises. Demand for industrial goods has shown signs of picking up, but some sectors of industry are still depressed, and there is a lot of short time working and under-utilization of capacity. Livestock production is currently threatened by serious drought in the Pampas. The meat trade is having considerable difficulty in expanding the outlets for its exports, and the outlook for the balance of payments this year is none too promising, though foreign exchange reserves are still very high. At the best of times, the management of an economy emerging from a long period of inflation is an extremely delicate task, and it is too early yet for stocktaking. The Bank will, however, be keeping in close touch with the situation, and we shall no doubt have some rather more precise policy objectives in mind towards the end of the year when the time comes for the Government to formulate its program for 1969.

IV. Recommendations

8. I recommend that the Bank should go ahead with planning a major expansion of its lending activities in Argentina, but that the actual commitment of Bank funds should be dependent to an important extent on what we judge to be the adequacy or inadequacy of the Government's economic and financial policies.

Gerald Alter
Director

Attachment: Summary and Conclusions of the draft economic report
"Economic Position and Prospects of Argentina -
WH-182 - dated May 29, 1968.

SUMMARY AND CONCLUSIONS

(from draft economic report "Economic Position and Prospects of Argentina")

1. At the end of last year it was clear that the Government had been singularly successful in carrying out the far-reaching fiscal, monetary, incomes and foreign exchange policies which formed the core of its 1967 stabilization program. The rehabilitation of public finances through the sharp reduction of the budgetary deficit and the achievement of an even greater than planned increase in public savings was perhaps the most impressive of the year's accomplishments. The Treasury was able to keep borrowing from the Central Bank well below the ceiling fixed in the monetary program agreed with the IMF, and under the Government's incomes policy wages were effectively frozen following a round of increases granted early in the year. The danger that stabilization might seriously aggravate the business recession which had begun in 1966 was averted, and GDP last year rose by some 2 percent, mainly reflecting advances in agricultural production and a rapid expansion of construction activity. However, with consumer demand far from buoyant and businesses liquidating inventories, industrial production showed no improvement over the 1966 level, and unemployment rose moderately. The cost of living increased over the year by 27 percent, or only a bit less than in 1966, but price trends in the later months indicated that the cost increases stemming from the devaluation, the increases in public services tariffs and the wage adjustment, had been largely absorbed. Despite a drop in exports, gross foreign exchange reserves increased by more than \$500 million last year to about \$750 million as a result of a massive inflow of foreign exchange reflecting the repatriation of Argentine funds held abroad and an inflow of foreign short-term funds following the devaluation.

2. The program the Government has laid out for 1968 reflects a continuation of the major lines of policy pursued last year, but with a distinct shift in emphasis toward growth objectives which gives this year's program a new dimension. The strategy adopted stems from certain key assumptions: (a) that the decisive battle in the war against inflation was won in 1967, making price stability attainable this year; (b) that with wage and other costs stable, excess capacity in industry and ample foreign exchange reserves, demand can be stimulated to promote growth without generating inflationary pressures, and (c) that with the private sector still maintaining a "wait and see" attitude, the increase in investment needed for sustained growth would have to be initiated by the public sector. The growth target for 1968 is a 5 percent rise in real GDP based on projected output increases in the major sectors which, except for agriculture, would be sharp improvements over last year's performance.

3. The 1968 public investment program calls for an increase of about 30 percent in real terms, with the bulk of the added expenditure to be in the transport and energy sectors, although investments in communications and water and sewerage works are also to be boosted sharply. Fiscal policy aims at increasing public savings by 45 percent in real terms and, at the target level, public savings would cover 85 percent of planned investments compared with 80 percent in 1967. The budget freezes current expenditures throughout the public sector at the 1967 level; increased

yields from existing taxes are expected to be the major factor on the revenue side, the principal new measure taken having been a sharp increase in gasoline prices and taxes. Large-scale borrowing from private sources at home and abroad, building on the initiatives taken in 1967 to revive the domestic capital market and to reopen foreign markets to Argentine public securities, is another major element in the Government's fiscal program. As regards incomes policy, the wage freeze was maintained, but employee social security contributions were reduced by 6 percent on January 1, thus augmenting workers' incomes without increasing business costs.

4. In deciding to focus its 1968 program on economic expansion and an increase in public investment, the Government was accepting the risk that this might prejudice the stabilization effort, and the course being followed clearly puts a high premium on the careful management of fiscal and monetary policy. Whether the budget deficit can be held to the planned level will depend not only on the success of the Government's economy efforts, but on its ability to keep the revenue system performing at last year's high level, something which appears very much open to question given the past ups and downs in tax collections and the deficiencies in tax administration. The trend of prices over the next several months will test the realism of the program. Actual price movements through April were encouraging, and if the prospects for a marked reduction in the rate of inflation this year are borne out, it should be possible to carry out the 1968 program with relatively minor adjustments. If not, it will be necessary to tighten up the program substantially, especially on the fiscal side. Balance of payments prospects appear less favorable than in recent years owing to the rather unpromising export outlook, but it should be possible to maintain foreign exchange reserves at the high level reached last year.

5. Argentina has a quite exceptionally favorable resource endowment in relation to its population, and there is no reason why the country should not in time succeed in coming close to European levels of economic efficiency and therefore greatly increase its present national output. The basic preconditions for achieving this are a sufficient degree of political stability to avoid the continual changes in Government administration and policies which have been one of the most serious obstacles to effective economic management during the past two decades; and a sufficient degree of internal financial stability to enable the price mechanism to function efficiently. Apart from these general preconditions, there are many structural problems in the various sectors of the economy that require attention if the prospects for greatly improved economic performance in the years ahead are to be realized.

6. Agriculture has been the most laggard sector of the economy, and stimulating a more rapid and sustained growth in production is first and foremost a matter of providing farmers with the economic incentives, and the confidence in their maintenance over time, which they need to change their practices and invest in long-term improvements. Given the necessary incentives, much can be done to increase livestock production through pasture improvement and better herd management and to increase crop production by the wider use of fertilizers, introduction of new grain

varieties, and improved farm practices. If the Government adjusts its foreign exchange, tax and price policies to the need to increase agricultural output - particularly by eschewing export taxes (retentions) as a major source of revenue - the rate of expansion could be stepped up progressively from the present 2-3 percent a year to 4-5 percent a year by the middle 1970s.

7. The promotion of industry through import substitution at almost any cost, and in an inflationary environment which has dulled incentives to improved efficiency, has resulted in high cost production reflecting excessive product diversification and minimum opportunities for taking advantage of economies of scale. Much the most important immediate contribution which the Government can make to industrial efficiency is to bring inflation under control. Apart from this, an entirely different policy of industrial promotion is required for the future, oriented towards export expansion and with domestic producers increasingly exposed to competition from imports. That the present Government recognizes this to a greater extent than its predecessors is reflected in the tariff reductions it has made and in the various incentives it has offered to private investors, but much remains to be done in the way of a selective further lowering of protective barriers and the development of more effective, efficiency-oriented industrial promotion policies.

8. Transport is one of the weakest sectors of the country. The railways' need for huge Treasury subsidies is one of the principal obstacles to the further strengthening of public finances, while the inadequacy of the road system is perhaps the major gap in the country's economic infrastructure. Although great improvements have been made in the operation of the railways under the present management, there is little likelihood of anything like the present rail network being profitably employed in the future. The restructuring of the railways in the light of their real economic possibilities is, of course, a long-run task, but the need to reduce the financial deficit of the railways is so pressing from the overall economic point of view that measures to step up the rate of reduction in the labor force, and to accelerate the closing of uneconomic branch lines, are clearly required on an urgent basis. Highway construction is being stepped up sharply in an effort to make good the long neglect of the roads, but if the massive investments required for this purpose are to be efficiently carried out, it will be necessary to strengthen the planning, project preparation and executive capabilities of the National Highway Department.

9. High priority has been given to investment in the power sector, the major new departures being the Government's decisions to rely mainly on hydroelectric power to meet Buenos Aires' needs in the 1970s through the construction of the El Chocon project, and to build a nuclear plant to meet interim requirements. The heavy investments being made to assure an adequate power supply underscore the need to attack the other major problem in this sector - high operating costs, mainly reflecting loss of management control over the size and utilization of the labor force, which have undermined the financial position of the electric utilities and put constant upward pressure on tariffs. The Government is looking to the

private sector for the bulk of the investment necessary to increase petroleum production; the initial response of investors to the Hydrocarbons Law enacted last year to clear the way for private participation in exploration and production on a large scale appears to have been favorable.

10. A continuing large-scale public investment effort will be necessary in the coming years if Argentina's hopes for achieving more rapid and sustained economic growth are not afoul of worsening infrastructure bottlenecks. For a public investment effort of the magnitude indicated by estimated requirements in the major sectors over the next five years to be financially feasible, public savings will have to be raised sufficiently to cover 90-95 percent of investment. To achieve this target, it will be necessary to (a) reinforce tax revenues; (b) substantially improve the financial performance of the State enterprises; (c) hold the increase in Government current expenditures to 3-4 percent per year, and (d) restore savings generation by the social security system to at least the levels attained in past years. The most pressing tax problem is to develop a permanent source of increased revenues from the agricultural sector to help replace the present high export retentions, but income tax reform is also essential if the revenue structure is to have the long-run elasticity needed to meet public savings requirements. And, whatever structural changes are made, greatly improved tax administration will be a crucial ingredient in maximizing the growth of revenues. The emphasis in improving the savings performance of the State enterprises should be on raising operating efficiency through the vigorous implementation of the Government's "rationalization" program. Progress so far in implementing the rationalization program seems to have been slow and uneven, and the pace will clearly have to be stepped up on an urgent basis if rationalization is to make a significant contribution to public sector savings in the years immediately ahead.

11. With a modicum of good management, and in reasonably favorable circumstances (e.g., as regards the weather and world commodity market trends), Argentina should be able to attain a 5 percent average growth rate over the next 5 years. Underlying world demand for Argentina's traditional exports may be expected to grow rapidly, and the country's competitive position in world markets is fundamentally strong, so that there should be firm support for accelerated growth on the balance of payments side. With realistic exchange rate policies and a substantial reduction of export taxes, it should be possible to raise exports by more than 30 percent to the \$2 billion level by 1973. Over the 1969-1973 period as a whole, a gross external capital inflow totaling something over \$1.1 billion, or an average of about \$225 million per year, will be required to maintain equilibrium in the balance of payments. Taking loans presently in the pipeline into account, and allowing for a modest expansion of private direct investment, some \$850 million in new loans

will probably have to be obtained to meet the gross capital inflow requirements. Reducing the burden of servicing the external debt will need to be a cardinal objective of policy, since amortization and interest payments are currently absorbing an estimated 27 percent of total foreign exchange earnings on current account. Prudent debt management requires that in the future as large a portion of public sector borrowing as possible be shifted from medium-term suppliers' credits and commercial bank loans to loans from international development institutions and other sources of long-term credit. If this is done, Argentina should be able to undertake the foreign borrowing necessary to its development efforts while substantially easing its debt service problem.

From: Draft economic report "Economic Position and Prospects of Argentina" - WH-182, dated May 29, 1968.

Western Hemisphere Department

July 23, 1968

Dr. Adalbert Krieger Vasena
Minister of Economy and Labor
Ministry of Economy and Labor
Hipolito Irigoyen 250
Buenos Aires, Argentina

Dear Mr. Minister:

I am happy to send you herewith the final report of the Economic Mission that visited Argentina earlier this year, entitled "Economic Position and Prospects of Argentina". The final report incorporates many of the suggestions and comments which Messrs. Wright and Dosik received from you and your colleagues when they discussed a draft with you in June. The Report has just been circulated to the Bank's Executive Directors.

I was pleased to hear from Messrs. Wright and Dosik that you broadly concur in the mission's findings and consider the analysis of Argentina's major long-term growth problems will be useful to the Government. I believe that the present time is strategically important for the future of Argentine economy, because the progress made in the stabilization effort has laid the basis for a successful attack on the structural problems which stand in the way of more rapid and sustained economic growth. I would like to take this opportunity to mention some areas of economic policy, dealt with in detail in the Report, that we feel are of special importance.

First, we believe that it is vital to maintain incentives to expand production and exports of the major traditional agricultural commodities. This means eventually eliminating export retentions, or reducing them to a relatively low, fixed level; in the immediate context, we rely on your assurances that the Government is keeping the level of retentions under continuous review, and will adjust them downward if, as may now be the case, they are exerting a depressing effect on output. Second, tax reform I am sure you agree, is a pressing problem. In addition to the development of new, more effective means of taxing agriculture, and other structural changes, we believe there is urgent need for a stepped-up effort to improve tax administration, especially by strengthening the collection and enforcement mechanisms. Third, more effective measures to "rationalize" the labor force in the public sector and to generally improve operating efficiency, particularly in the State Enterprises, are necessary for budget equilibrium and for the Government's overall program for redeploying resources to more productive uses. We share the view that you expressed

to Mr. Chadenet in May that high priority needs to be given to the preparation of a definite program for the restructuring of the railways to ensure that the operating deficit will be reduced as rapidly as possible. Fourth, long-run planning of public investment and its financing would help to reconcile competing investment demands on the basis of considered decisions about economic priorities, and to ensure that the overall public investment effort is compatible with the availability of public savings and other non-inflationary forms of financing. Finally, we attach great importance to external debt management policies to relieve the balance of payments of the present heavy debt service burden by limiting foreign borrowing and securing improved terms on the new debts which are incurred.

Effective action in these areas would open the way to the achievement of the greatly improved performance of which the Argentine economy is so clearly capable, and would provide a firm basis for a substantial and continuing Bank lending program in Argentina. I know these are matters to which you and your colleagues have already devoted a great deal of attention and I understand that you are considering important additional measures in the context of your 1969 program. We look forward to another opportunity to review progress with you around the end of this year.

With kind regards,

Sincerely yours,

J. Burke Knapp

J. Burke Knapp
Vice President

Cleared with and cc: Mr. Chaufournier

RDosik/RFSkillings/agr.

Mr. Knapp

Room 1220

MINISTRY OF ECONOMIC AFFAIRS AND LABOR

Buenos Aires

August 27, 1968

Mr. J. Burke Knapp
Vice President, IBRD

Dear Sir:

I have the honor to refer to your letter of July 23, 1968, in which you enclosed the final report prepared by the Bank Mission that visited us in February.

I have read the report with the utmost satisfaction, as it provides an effective diagnosis of the present state of our economy. I wish to express my admiration for the high technical standards maintained by the Mission composed of Messrs. Wright and Dosik, with whom we discussed the main points of the report and who at all times exhibited a broad understanding of our country and a desire to cooperate with us.

I am pleased to say that I agree with the views on economic policy summarized in your letter and to assure you that all of our efforts in using the means at our disposal will be directed along these lines. As regards the external sector, we have constantly followed the trends in our exports so as to prevent any weakening of the incentives to stock-raising. Nevertheless, the situation on the foreign markets has not favored some of our chief export products because of restrictions imposed by the importing countries, which have recently become more severe, especially in the European Common Market, although we trust that these difficulties will prove to be only temporary.

I believe that our perseverance in the efforts we have been making will enable our country to achieve the place it merits in view of its human and material resources. The first positive results are already discernible in the field of stabilization, as the foundations have been

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laid for sustained growth. I hope to continue analyzing these factors and also the 1969 program in association with another Bank Mission.

Very truly yours,

(signed)

Adalbert Krieger Vasena
Minister