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Memorandum to Files - Note on the Livestock Loan, from Mr. Fajans,  
dated October 10, 1968

Map - Area de Influencia Proyecto Balcarce

Appraisal Report of the Balcarce Livestock Development Project,  
dated June 28, 1967



532/3/14

## OFFICE MEMORANDUM

TO: Files

DATE: October 10, 1968

FROM: Joseph Fajans

SUBJECT: ARGENTINA - Note on the Livestock Loan  
(Prepared for Mr. McNamara's visit to Argentina)

1. The project was appraised in early 1966 and a loan of \$15.3 million negotiated in June/July 1966 just when the Armed Forces turned out the Illia Government. After a long delay resulting mainly from uncertainty about the new Government's economic policy, the loan was signed on July 31, 1967. We had originally hoped that the loan proceeds would be channeled through the Central Bank to a number of banks for relending to farmers. However, already during the negotiations, it became clear that the Argentines were resolved to have the credit program concentrated in the Banco de la Nacion, the Government-owned bank that specializes in agricultural credit.
2. Loans to farmers are for investment in ranch development, in which pasture improvement is to be the key. To qualify, a farmer must adopt a development plan, approved and assisted by a Project Director. The Project Director is Mr. James Stewart, a New Zealander recruited by the Bank, who had previously worked for FAO in Argentina; Mr. Stewart, his Argentine Co-Director, Mr. Vismara, and their staff are attached to the Balcarce regional office and experimental station of the National Institute for Agricultural and Cattle Technology (INTA). INTA is further in charge of drainage and soil studies in the general area of the project, half of the cost of which is also being financed out of the Bank's loan. Also included in the loan are beef marketing studies being conducted by the National Development Council (CONADE) with the help of consultants.
3. The start of the credit program was delayed because the Argentines raised the question of the rate of interest to be charged to the farmers, and asked that this be reduced from the originally-agreed 16 percent (15 percent plus 1 percent for technical services) to 13 percent, in line with a reduction of Banco de la Nacion rates on other (generally shorter term) agricultural credits. After a series of discussions on this subject, the Bank agreed in May 1968 to a temporary reduction to apply, during their entire life, to all loans made to farmers before February 28, 1969. The interest rate to be charged to farmers after that date has to be agreed in early 1969, in the light of the then prevailing price trends; in the absence of new agreement, it will revert to 16%. Dr. Krieger Vasena is known to want the Bank to waive its right of approving the interest rate charged to the farmers. We have always retained such a right in similar cases.

October 10, 1968

4. With the issue of interest temporarily resolved, the project was officially launched at Balcarce on August 26, 1968. At that time, Mr. Stewart expected the pace of lending to farmers to accelerate gradually over the next several months as the new sowing season (March, 1969) approached. He was guardedly optimistic about the project. His only qualms related to the degree of autonomy afforded him within INTA, and to a possible danger of losing during the disbursement period some members of his carefully selected and trained staff because of the low level of INTA salaries.

5. Preparations for the soil and marketing studies are in hand.

Cleared by Mr. Skillings

cc. Messrs. Alter  
Stoops/Fransen  
Cancio

JFajans:mck



*Fajant*

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532/3/13

PROYECTO BALCARCE  
**p  
b**  
DE DESARROLLO GANADERO

# AREA DE INFLUENCIA PROYECTO BALCARCE





## A R G E N T I N A

### "BALCARCE" LIVESTOCK DEVELOPMENT PROJECT

#### SUMMARY

- i. The Government of Argentina has requested a Bank loan equivalent to US\$ 15.3 million to finance agricultural credit and technical services for a livestock project.
- ii. The Project is the first phase of a long-term pasture and livestock development program. It consists of investment in farm development of an estimated US\$ 34 million and expenditure of US\$ 5 million for technical services to Project farmers and for related surveys of drainage and water control, soils, and livestock marketing respectively. Results of these surveys are essential to development during and beyond the first phase. The proposed loan would cover 39 per cent of the total costs, and the balance would be derived from national lending institutions (35 per cent), from the Argentine Government (8 per cent), and from contributions of farmers and contractors (18 per cent).
- iii. The Project is directed mainly at on-farm investments for pasture improvement, fencing, watering and handling facilities, purchase of machinery and breeding cattle. It is expected that about 700 ranchers would participate. They would repay their loans in about 9 years, including 4 years of grace.
- iv. The technical and economic soundness of lending to individual borrowers would be assured by Project technicians of the Instituto Nacional de Tecnologia Agropecuaria (INTA), under the guidance of an internationally recruited Project Director. This Project staff would be responsible for assisting ranchers in preparing farm development plans, for recommending these to the lending agencies, for supervising the execution of the plans for which loans would be made, and for rendering technical assistance to the ranchers as needed.
- v. The loan would be administered by the Central Bank. Initially, the Banco de la Nacion would be the only agency lending to producers and contractors. Later on, additional banks, both public and private, once qualified by the Central Bank in agreement with the Bank, might also participate. The funds lent by the participating banks would emanate to the extent of 50 per cent from the proposed loan. The remainder would be made available from the presently immobilized obligatory reserves of the banks with the Central Bank. The Central Bank has given its agreement to this procedure.
- vi. The Project is suitable for Bank financing under terms and conditions as set out in the negotiated loan documents.



## A R G E N T I N A

### "BALCARCE" LIVESTOCK DEVELOPMENT PROJECT

#### I. INTRODUCTION

1. The Government of Argentina has applied for a Bank loan equivalent to US\$ 15.3 million to assist in financing the "Balcarce" Livestock Development Project, which seeks to improve a segment of the Argentine beef cattle industry. The Project was initially developed by an FAO project preparation mission which visited Argentina in April/May 1965 and completed its report in August 1965. In November 1965 the Argentine Government submitted a revised project and a request for a Bank loan.

2. This appraisal report is based on the findings of a mission which visited Argentina in January/February 1966. The mission was composed of Messrs. D. Stoops, H. von Oppenfeld, S. Asanuma (Bank) and C. Eugenio, J. Fransen, R. Rossi (Consultants). A further mission consisting of Messrs. C. Eugenio and Z. Kalim visited Argentina in early April 1967 to gather current data; this mission ascertained that the feasibility of the Project, as established in this report, had not been adversely affected as a result of changes in cost-price relationships nor by changes in the exchange system which took place in March 1967.

#### II. BACKGROUND

##### A. Importance of Livestock and Cattle in the Economy

3. With more than one million square miles, stretching for 2,300 miles from the tropics in the north to close to Antarctica in the south, Argentina is the second largest country in South America. The Pampas, located within the fertile crescent of a 400-mile radius around Buenos Aires, account for two-thirds of the crops and three-fourths of Argentina's livestock production.

4. Of the 22 million population, one-third lives in Buenos Aires and two-thirds in towns and cities. Population growth is estimated at 1.8 per cent per annum. Although the agricultural sector employs only 20 per cent of the labor force and produces some 16 per cent of the gross domestic product, it generates more than 90 per cent of Argentina's exports. Meat and livestock products alone account for more than 40 per cent of export revenue.

5. The importance of cattle production transcends the agricultural sector. Meat-packing and processing of livestock products lead all other industries in value of production and number of workers employed. Given the high per capita consumption, beef prices have an appreciable impact on the cost of living.



## B. Past Development

6. Historically, livestock has been the dynamic force propelling Argentina's economy. Hides of wild cattle were the principal exports up to 1800. In the following 70 years, dried and salted beef, tallow and wool gained increasing importance. The first export of fresh frozen beef in 1877 became a landmark for transformation to modern beef production. Demand for high quality beef led to the introduction of European beef breeds and to wide use of alfalfa-grass pasture for cattle fattening in the Pampas.

7. Beef exports increased to one-half million tons in 1914 and reached the one million ton mark in 1925. Total beef production has fluctuated around the two million ton plateau which it approached for the first time in 1925. Exports have shown a declining trend since 1925, partly because of competition from cash crops for the land area in the Pampas and partly because of growing local beef consumption.

8. A drought in 1963 resulted in a decline of beef production from 2.6 million tons in 1963 to 2.0 million tons the following year; consequently measures designed to curb beef consumption, such as a ban on cattle slaughter and a prohibition on the sale of beef in retail stores and restaurants two days each week, were introduced. Nevertheless, beef exports were adversely affected and per capita consumption in Argentina itself fell from 86 kgs in 1963 to 68 kgs in 1964. The output of beef rose in 1965 and 1966. Beef exports reached 455,000 tons in 1966, nearly 20 per cent more than in the previous year. The measures aimed at reducing internal demand for beef are no longer in force and per capita consumption stood at 80 kgs during 1966.

## C. Government Policies and Programs

9. Since World War II the Argentine Government has initiated many policy measures which have directly or indirectly affected farmers' incentives in the beef industry. Broadly, these measures can be classified into three categories, those affecting (i) the cost of inputs; (ii) the price of outputs; and (iii) tax exemptions and other incentives to stimulate modernization and expansion of the cattle industry.

10. On the input side, cattle producers have felt the adverse impact of protection of locally manufactured goods, although some goods not manufactured locally have been available at reasonable prices. The cost of labor has been relatively high in comparison with other South American countries, owing partly to a deliberate social improvement policy and partly to a relative scarcity of workers in rural areas. The cost per man day is the equivalent of nearly US\$ 3.00, yet cattle output per man and per dollar equivalent of wages in Argentina has been one of the highest in the world.

11. On the output side, cattle marketing was relieved in 1959 from a complex system of controls which had prevailed largely since World War II. Direct governmental intervention since 1959 has consisted primarily of measures intended to curb local consumption in order to raise the share of beef for exports. Simultaneously, however, other measures were introduced which discriminated against beef exports, primarily in the form of special export taxes and an over-valued currency. On the whole, urban beef consumers



were subsidized, for various periods in the past, to the detriment of the exporter and the producer. <sup>1/</sup>

12. To offset the ensuing disadvantages to the producers, the Government granted investment incentives in the form of special tax deductions for expenditure on investment items such as farm machinery and equipment, fertilizers, high-grade seeds, pasture improvement, purchase and/or retention of breeding animals and young stock, and the construction of farm buildings. Likewise, the Banco de la Nacion has, since 1965, been offering loans to farmers under a "National Pasture Development Program". Although this program appears to have increased credit availability to the agricultural sector and to have met with a good response from producers, it has no provisions for complementary investment in fencing, stock-watering and stock-handling facilities and ranch mechanization.

13. In summary, the policies intended to stimulate expansion and modernization of the cattle industry have been numerous and complex. Some are still too new to permit assessment of their long-run effect. The Government can hardly be criticized for lack of action. On the contrary, farmers and ranchers criticize the all-too-frequent change of policy. This, they claim, has undermined their confidence. Certainly the goal to expand cattle numbers has not been achieved. Except for short-term fluctuations, the national cattle herd has not expanded significantly in nearly 20 years beyond the plateau of about 40 million head which it had reached in 1947.

#### D. Production and Market Prospects

14. The national objective of substantially increased beef cattle production can be attained in two ways: through expansion of the area devoted to pastures, frequently at the expense of cash crops such as wheat, maize and oil seeds, or through intensification of production on existing land devoted to livestock production. The national economy cannot afford to sacrifice production of economic cash crops, because of their importance as earners of foreign exchange. The most economic means is therefore the increase of cattle output per unit area through improved pasture and herd management.

15. Limited experiments and demonstrations with high-yielding species of grasses and legumes and with improved herd management have been conducted by the Instituto Nacional de Tecnologia Agropecuaria (INTA), in close cooperation with UNDP/FAO technicians. Output has increased from 80 to 100 kgs per hectare of live weight cattle or sheep to a level of 300 kgs, not

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<sup>1/</sup> Argentina devalued its currency on March 13, 1967 to M\$N 350.00 = US\$ 1.00. Practically all meat exports, however, are still subject to a retention levy of 25 per cent. The effective rate of exchange to an exporter, therefore, is M\$N 262 to the US dollar. The Government has given assurances that it will maintain incentives for the export of livestock products by following foreign exchange, tax (including export taxes) and other policies that will result in net returns to livestock producers and processors from sales abroad that are attractive compared to returns from domestic sales.



only in experimental plots but on a ranch unit basis. This work has indicated a large potential for increased production. Cattle productivity can thus be increased through intensification, without a sacrifice in the output of grain and oil seed crops. A project such as the proposed "Balcarce" Livestock Development Project would demonstrate effectively that increased productivity is technically feasible and financially rewarding in this important area of Argentina.

16. Farmers' decisions to expand or contract pasture areas and cattle numbers have been influenced by changes in alternative returns from cash grain cropping or from cattle ranching, which are reflected in changes of the grain/cattle price ratio. <sup>1/</sup> If favorable beef cattle prices and grain/cattle price ratios could be sustained over a number of years, they could set the stage for herd expansion and increased beef output, a trend that appears to have been initiated in 1964. In the event that the world food shortage raises grain prices appreciably above present levels, Argentinian farmers could, by increasing productivity on grassland, shift some acreage to grain cultivation and simultaneously maintain or increase cattle production. It would not be realistic, however, to expect farmers to proceed with such intensification measures without adequate incentives for beef production.

17. Long and intermediate-term market prospects for Argentine beef are good. Demand in the domestic market is strong as evidenced by the traditionally high per capita consumption. Beef imports in major importing countries rose 7 per cent per annum from 1948/52 to 1962/64. Although the rate of increase is expected to slow down, the intermediate and long-term outlook for export of chilled and frozen Argentinian beef is good. Argentina's beef exports to the European Economic Community (EEC) countries are encountering some difficulties at present, due to the application of "variable charges" which affect Argentina most seriously during the main beef marketing season in EEC countries: Argentina's efforts to obtain relaxation of these restrictions have already resulted in some concessions on the part of the EEC countries. In the long run it can be expected that demand for high quality beef will outstrip production in EEC and other European countries. Although her share of the world beef market has declined from 27 per cent in 1948/52 to 22 per cent in 1962/64, Argentina, because of her natural advantage, can be expected to remain the world's leading single exporter.

18. The time lag necessary for cattle herd build-up varies considerably by country, depending upon existing production conditions and the current status of its cattle industry. Argentina, because of its very favorable conditions, is in a position to build up its herds within a minimum time lag and thus take advantage of the favorable market outlook more quickly than most countries. An integrated livestock development project has high priority in the Government's development plans. Its approval and implementation could hardly be more timely.

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<sup>1/</sup> Historically, the ratio of grain/cattle prices per kg has been as low as 1 : 2 and seldom higher than 1 : 4. When it increased to 1 : 5 in 1959, cattle numbers increased in 1960 and 1961. Conversely, when the ratio narrowed to 1 : 2.8 in 1962, cattle numbers declined in 1963. From 1964 through 1966 this ratio has been slightly higher than 1 : 5.



### III. PROJECT BACKGROUND

#### A. Agricultural Credit and Price Policy<sup>1/</sup>

##### Impact of Inflation

19. Agricultural credit accounts for about one-fourth of the loan portfolio of all banks. Although credit to agriculture has increased by 360 per cent from 1960 to 1966, it remains very inadequate. In view of nearly 275 per cent inflation during this period, agricultural lending has failed to meet farmers' needs for financing increasing quantities of cash inputs. Moreover, under the impact of inflation most of the loan volume has been in the form of short-term lending.

20. Inflation tends to distort the debtor-creditor relationship in favor of the debtor. To neutralize the effects of inflation, banks have raised interest rates to the legal ceiling, charged additional fees, deducted interest and other charges in advance and tried to limit lending to as short a term as possible. Under these conditions, financing for medium and long-term investments has not been readily available and in many instances depended on rolling over a series of short-term credits.

21. A limited amount of development credit has been available on concessional terms through official banks (see Annex 1, Table 1). Such concessional rates are justified as an interim measure in Argentina. Farmers' confidence was affected for many years by high input prices and unfavorable product prices as well as by discriminating taxes and an adverse exchange rate. A number of steps have been taken to improve this situation, but confidence has not yet been restored to a point where a more normal pattern of interest rates can be expected to prevail.

#### B. Credit Services

22. Among the banks, the Banco de la Nacion is of foremost importance. It has 357 branches and agencies in Argentina, of which 46 are in the Project area (see para 30 below and map of Project area). It accounts for more than half of all agricultural lending. It has been the official channel through which the Government has been supporting selected economic development activities (see paras 19 and 20 of Annex 1).

23. Since 1963 the Banco has obtained two loans totalling US\$ 40 million from the Inter-American Development Bank (IDB) for the financing of agricultural machinery. In collaboration with INTA, the Banco has embarked on a 4-year nationwide program (1965-68) for the financing of the National Pasture Development Program on more than 3 million hectares (para 12).

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<sup>1/</sup> See Annex 1.



24. Among the other banks the Banco de la Provincia de Buenos Aires is most important for the Project zone. It has a network of 122 branches and offices in the Province, of which at least 40 are in the Project zone. Lending to the agricultural sector is an important activity of this bank. Two other large banks represented in the Project zone, the Banco Cooperativo Agrario Argentino and the Banco Ganadero Argentino, are comparatively new institutions, established primarily for the credit needs of agriculture. Private banks, which account for about 15 per cent of agricultural lending in the country, are also well represented.

25. In summary, the institutional framework for agricultural credit is well developed. In most locations of the Project area farmers can choose among several banks. However, loan volume has been inadequate, particularly for medium and long-term investment.

### C. Technical Services <sup>1/</sup>

26. The Secretariat of Agriculture has overall responsibility for technical services to agriculture. While performing policy and regulatory functions on its own behalf, it has established the INTA as a semi-autonomous agency responsible for research, extension and development services to farmers. INTA derives practically all its financial support from a  $1\frac{1}{2}$  per cent tax on agricultural exports, mainly on meat and grain. Argentine farmers point out with pride that INTA is a unique institution. Its costs are paid by the farmers, not by the general taxpayer; its policy is directed by farm leaders on the Board of Directors; its program is in keeping with farmers' realistic needs. INTA operates, among others, a regional experiment station at Balcarce, about 400 km south of Buenos Aires. The Balcarce Director is responsible for supervising research and extension services in most of the Project zone. The Government proposes to locate the Project Director and his office staff at Balcarce, a strategic location for access to research and extension facilities and for proximity to most of the Project zone.

27. Consejo Nacional de Desarrollo (CONADE), the agency which has played a crucial role in crystallizing Project plans and proposals, is in charge of national economic development planning. In fulfilling this role, CONADE will retain the responsibility for coordinating Project policies and criteria with the overall economic development plans of the Government.

### D. Animal Health

28. Major animal health problems confronting the beef industry in the Project area can be adequately controlled by a well planned herd health program. Even the foot and mouth disease, which has historically constituted

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<sup>1/</sup> See Annex 4.



a problem in Argentina, is now coming under fairly adequate control through a compulsory vaccination program.

29. The most important health problem, according to reported calving percentages, appeared to be the low fertility in females. However, the calving rates obtained by the best commercial producers were quite satisfactory. Calf mortality, caused by diseases of the newborn, has also serious economic implications. Both low fertility and calf mortality can be brought to acceptable standards through good herd management. Disease control and acceptable production standards depend primarily on application of known animal health and herd management programs.

#### E. The Project Area <sup>1/</sup>

30. The Project area has an ample supply of fertile land not directly affected by the soil and water problems mentioned in Annex 2. It straddles the domestic market of an 8 million population alone in Greater Buenos Aires and additional urban markets of La Plata, Mar del Plata, and Bahia Blanca, with high per capita beef consumption. It has ready access to meat-packing plants (frigorificos) with excess capacity for slaughter and processing of beef for export. Small auction markets are owned and controlled by groups of farmers, terminal markets are well organized, livestock marketing, grading and price reporting are adequate. Infrastructure and communications are good.

31. Farmers in the Project zone are experienced in capital-extensive beef cattle production. Technical services, though available today, are spread thin. One INTA technician must serve 1,500 to 3,000 farmers. To achieve the necessary intensification, Project farmers would receive frequent and regular services from qualified technicians, combined with long-term loans.

32. Progressive farmers are becoming increasingly aware of the unused production potential that can be realized through modern pasture and herd management techniques. However, the necessary improvements cannot be made without long-term investment and medium to long-term credit. Supply of credit has been inadequate for the financing of these improvements. Demand for this credit is strong.

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<sup>1/</sup> See Annex 2 and map of Project area.



#### IV. THE PROJECT

##### A. Objectives

33. The Project is the first phase of a long-term pasture and cattle development program in Argentina. It proposes investment of US\$ 34 million for on-farm development and US\$ 5 million for technical services to Project farmers and for related surveys of drainage, soils, and livestock marketing.

34. The Project aims to step up beef cattle production per hectare and per animal unit on selected farms, in an established livestock production area. Its objectives are:

- (a) to raise production and income of Project farmers;
- (b) to augment the national breeding and fattening herd, primarily through increased production of heifers and feeder steers for sale to other farmers;
- (c) to demonstrate improved production techniques and investment opportunities to other farmers within and beyond the Project area.

##### B. Detailed Features

35. On-farm investment would involve primarily pasture improvement with provision for complementary measures required for good pasture and herd management. About 220,000 hectares would be improved on approximately 700 farm units. Criteria for selection of participating farms by Project staff would be: (i) quality of physical farm resources; (ii) ability and willingness of owner and/or manager to implement required management techniques; and (iii) creditworthiness. Eligibility would be by type and quality of operation rather than by farm size, emphasizing the commercial and economic nature of the operation. No maximum or minimum farm or ranch size limit would be imposed. <sup>1/</sup>

##### On-farm Investment and Phasing

36. Project technicians and the Project Director would classify participating farms into two categories, partial development and complete development, according to the farm plan determining the level of investment. The bulk of farms, about 640, in the first group would develop on the average about 300 hectares of improved pasture, leading to an overall increase in stocking rate from 0.8 to 1.2 animal units per hectare (see Annex 7). On

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<sup>1/</sup> The Government expects participation of farmers primarily from estancias ranging in size from 200 to 5,000 ha. Farms smaller than 200 ha, generally more oriented to crop farming, would less likely be efficient beef cattle units, while farms with more than 5,000 ha can usually finance themselves.



about 60 units (9 per cent of Project farms) provision would be made for 500 ha pasture improvement and complementary investment on the entire farm area, leading to an overall stocking rate of 1.8 animal units per hectare. Individual farmers would receive loan releases according to a 3-year investment plan. This would provide them sufficient funds on a timely basis to permit sustained ranch development and herd expansion. Type of investment and phasing for both categories is shown in the following table and in Annex 3.

ON-FARM INVESTMENT AND PHASING FOR ONE REPRESENTATIVE RANCH

	Estimated Investment Cost per Ranch <sup>a/</sup> M\$N '000	Percent Disbursement to Farmer by Year		
		1	2	3
A. <u>Partial Development Plan</u> ---	Applicable for 640 farms averaging 300 ha pasture improvement			
Pasture Establishment and Consolidation	2,980	34	33	33
Cattle Purchase	2,760	--	50	50
Machinery Purchase	430	70	30	--
Fencing	1,600	25	50	25
Stock-Watering Facilities	310	50	50	--
Stock-Handling Facilities	120	--	50	50
TOTAL	8,200	23	43	34
B. <u>Complete Development Plan</u> ---	Applicable for 60 farms averaging 500 ha pasture improvement			
Pasture Establishment and Consolidation	5,000	40	30	30
Cattle Purchase	6,840	--	50	50
Machinery Purchase	1,370	70	30	--
Fencing	2,000	40	35	25
Stock-Watering Facilities	560	34	33	33
Stock-Handling Facilities	190	--	50	50
TOTAL	15,960	25	39	36

<sup>a/</sup> In January 1966 prices.



37. Farm plans prepared and supervised each year would be in accordance with the number of Project technicians assigned, as projected below:

<u>Year</u>	<u>Number of Field Technicians</u>	<u>Farm Plans Prepared and Appraised</u>	<u>Farm Plans Supervised</u>
1	6	120	--
2	12	240	120
3	18	340	360
4	18	--	700
5	18	--	700

38. To assure the necessary services, one Project technician would assist farmers in developing approximately 20 new farm plans annually, would appraise the plans' technical feasibility and would supervise execution of the plans in addition to supervision of those developed in previous years. INTA would establish and maintain throughout the disbursement period a staff of Project technicians adequate in number and qualifications, with exclusive responsibility for execution of the farm plans and contractors' services. Under this Project, participating banks could lend only to producers with farm plans approved by the Project Director. The banks could reject loan applications for reasons of creditworthiness, but could not change plans approved by the Project Director. Contractors' applications for machinery loans would also be subject to technical appraisal and to approval by the Project Director. He would have to be satisfied that a genuine need exists for contractors' machinery services and that Project farmers would be assured of timely services from contractors receiving loans.

Production and Improvement Methods and Operating Patterns

39. Under the "partial" development plan, improvement on each farm would focus mainly on high-yielding pasture to be developed with complementary fencing and watering facilities averaging about 300 ha per farm. Purchase of agricultural machinery needed in pasture establishment and such uses as on-farm drainage ditches, or alternatively of contractual services for smaller farms, would also be financed. Loans from national lending institutions for the purchase of breeding cattle above normal replacement needs would enable producers, under the Project, to realize early gains from the improved pastures. These purchases are not likely to exceed 100,000 head and therefore would not constitute a strain on local supplies of breeding cattle. Subsequent herd expansion, aided by improved herd fertility, would be generated through retention of the producers' own heifers.



40. With reference to the 60 ranchers expected to invest under the "complete" farm plan, the investment categories are the same as under the partial plan. However, development of additional pastures (about 200 ha more than under partial development) with additional fences, watering and handling facilities, and with additional purchase of machinery and cattle would permit more intensive land use and herd management on the entire farm unit. The two plans differ mainly in the level of intensity. For the producer, the rate of return on the additional investment under the complete plan appears more attractive than under the partial plan (see Annex 5). For the economy, the incremental production may have little significance in the short run, because only 60 ranchers with high managerial competence would be eligible under this plan. However, these few responsible, progressive farmers would demonstrate that higher levels of technology and investment are profitable. Their example could have substantial impact on other farmers' management and investment decisions.

C. Cost Estimates

41. The estimated cost of on-farm investment and of contractors' machinery purchase for the Project is summarized below:

On-farm Development	Partial Ranch Develop- ment Plan	Complete Ranch Develop- ment Plan	Total On-farm Investment
	--- US\$ '000 equivalent ---		
Pasture Establishment	8,060	1,260	9,320
Pasture Consolidation	1,980	320	2,300
Fencing	5,390	630	6,020
Watering Points	1,050	180	1,230
Stock-Handling Facilities	410	60	470
Cattle Purchase	9,300	2,160	11,460
Machinery Purchase	1,440	430	1,870
Total On-farm Development	27,630	5,040	32,670
Contractors' Machinery	--	--	1,380
TOTAL PROJECT INVESTMENT			34,050



42. Technical services in connection with the Livestock Development Project would consist of:

- (a) technical services for Project farms;
- (b) drainage and soils studies in selected sites of the Project area;
- (c) beef and meat marketing studies.

The estimated technical services cost (about US\$ 5 million, as shown in Annex 4 and summarized below), together with the Project investment cost, aggregates the equivalent of US\$ 39 million (M\$N 7.4 billion), as projected below:

Item	Total Cost	
	US\$ '000	%
Project Investment Cost	34,050	87
Technical Services for Project Farms	1,940	5
Drainage and Soils Studies	2,870	7
Marketing Studies	240	1
<u>TOTAL COST</u>	<u>39,100</u>	<u>100</u>

The foreign exchange component is estimated at around 25 per cent of the total or about US\$ 10 million.

#### D. Proposed Financing

43. The cost of the Project and of related technical services and studies would aggregate about US\$ 39 million, of which Project investment cost would account for US\$ 34 million or 87 per cent. On-farm investment would be financed through funds obtained from three principal sources: the participating farmers and contractors, the participating banks, and the proposed World Bank loan (items I, II, and III in table below). Technical services to Project farms requiring mainly local currency (item IV) would initially be financed by advances from INTA's deposit with the Central Bank. The initial advances would later be recovered from farmers, contractors and participating banks (see para 46 below), while the proposed Bank loan would provide for reimbursement of the full foreign exchange cost of internationally recruited technicians, of vehicles and special equipment for technical services to be procured under the Project. The proposed studies of drainage soils and livestock marketing would be financed by the Government, which would obtain one-half of the cost through reimbursement from the proposed Bank loan. The approximate financial contributions from each source are shown below. A more detailed breakdown of estimated cost is shown in Annex 4, tables 1 and 2.



Cost Item	Participating Farmers or Contractors	Participating Banks	Government	World Bank	Total
			US\$ '000		
I. On-farm Investment <sup>a/</sup>	4,240	3,900	--	13,070	21,210
II. Cattle Purchase	2,290	9,170	--	--	11,460
III. Contractors' Machinery	<u>550</u>	<u>410</u>	<u>--</u>	<u>420</u>	<u>1,380</u>
Sub-total: Project Investment	7,080	13,480	--	13,490	34,050
Per Cent	20	40	--	40	100
IV. Technical Services for Project Farms (including vehicles and special equipment)	--	--	1,650	290	1,940
V. Drainage and Soils Surveys	--	--	1,440	1,430	2,870
VI. Marketing Studies	<u>--</u>	<u>--</u>	<u>120</u>	<u>120</u>	<u>240</u>
Sub-total: Technical Services, Surveys and Studies	--	--	3,210	1,840	5,050
Per Cent	--	--	64	36	100
TOTAL COST	7,080	13,480	3,210	15,330	39,100
PER CENT	18	35	8	39	100

<sup>a/</sup> Excluding cattle purchase.

44. For on-farm investments, the owners would contribute approximately 20 per cent of the estimated cost. This is within the means of their resources, since the contribution could be either in cash or in kind. For contractors' machinery, the contractors would contribute 40 per cent of the cost from their own financial resources. The remaining costs would initially be advanced to the farmers or contractors as loans by Banco Nacion or other



participating banks. In this manner, the participating banks would finance 80 per cent of the on-farm investments and 60 per cent of the contractors' investments. One-half of the Banco Nacion's or other participating banks' overall financing would come from their legal reserves, since the Central Bank has accepted the principle that this paper would be counted as satisfying their legal reserve requirements. The other half of loans made by Banco Nacion or other participating banks would be re-discounted by the Central Bank. This loan portion would be eligible for reimbursement from the proposed Bank loan, upon presentation of satisfactory evidence of disbursement by Banco Nacion.

45. The terms and conditions of lending and relending by Banco Nacion and participating banks would be as follows: Loans from participating banks to farmers and contractors would carry an interest rate of 16 per cent <sup>1/2</sup> and would be repayable in 9 years, including 4 years grace period. Contractors' loans would be repayable in 5 years, including one year grace period. The interest rate of 16 per cent is not out of line with present credit policy. Farmers now pay 15 per cent per annum for loans with repayment periods of up to 5 years.

46. It is intended that the 16 per cent interest rate charged by the participating banks to the farmers and contractors be distributed as set out in the table below. Such distribution appears reasonable in view of the projected favorable financial position of participating farmers (Annex 5) and in view of the 8 per cent spread of the participating banks.

	Interest Charges				Spread to Participating Banks
	To Farmers by Participating Banks	To Participating Banks			
		by Central Bank for Money from		Average	
		IBRD	Reserve		
		per cent			
Commercial Charge	12	7	--	3.5	8.5
Exchange Risk	3	3	3	3	--
Technical Services	1	1.5	1.5	1.5	- 0.5
<b>INTEREST</b>	<b>16</b>	<b>11.5</b>	<b>4.5</b>	<b>8</b>	<b>8</b>

47. The foregoing procedure applies solely to the funds allocated for lending to farmers and contractors (see items I-III in table above). In the case of technical services for Project farms (item IV in table above), the financing will be largely provided by the 1½ per cent contribution to INTA (see para 46), with only a small residual amount coming from the IBRD loan. At the outset, however, funds for these services will also have to come from INTA's deposit with the Central Bank (see para 44) for this Project. The

<sup>1/2</sup> This would include: 3 per cent contribution to a fund for exchange risk, and 1 per cent contribution to INTA for technical services.



financing of the studies (see items V and VI in the table above) will be covered to the extent of 50 per cent from the proposed loan, and the remainder will come from the Government. For purposes of loan administration, all transactions arising from the Project would be recorded in a Special Account and in the necessary sub-accounts of the Central Bank and the Banco Nacion.

48. The Bank loan of US\$ 15.3 million would be made to the Government of Argentina. In view of the fact that a foreign exchange risk is involved and that the ultimate borrowers would be unwilling to bear it in its entirety, the Government will assume this risk as a measure of its contribution to development of a significant export earning resource. The ultimate borrower will contribute 3 per cent of the loan amount (6 per cent of the World Bank portion of such loans; see paras 45, 46). The Government has also agreed that an adequate volume of short-term credit would be made available to participating farmers to assure that their operating expenditure requirements are satisfied as their output rises as a result of this loan.

49. Suggested terms of the Bank loan to the Government take account of the repayments by the participating farmers to the Central Bank through the participating banks. The first repayment by the early participants would start in the 5th year, and all repayments by farmers would have been finished by the end of the 11th year. In order to establish a revolving fund to continue the purposes of the present loan, it is proposed that repayment terms of the Bank loan should be 20 years, including 5 years grace period. Such terms are also justified on overall balance of payments grounds.

#### E. Operating Results of the Project

50. The projected financial implications for the farmer resulting from the Project are set out in Annex 5. Projections of input costs and output prices have been made in constant pesos as of January 1966. The underlying price and cost assumptions are on the conservative side, considering:

- (a) the strong domestic demand for beef (para 8);
- (b) the intermediate and long-run prospects for beef export (para 17);
- (c) the competitive position in world markets of high quality Argentinian beef which should further improve (and leave room for increases in producer prices) with anticipated reductions in the 25 per cent retention of beef exports (para ii); and
- (d) the expected increase in productivity as a result of improved pasture and herd management (para 15).

The implications for the Central Bank are set out in Annex 6. Repayments of principal and the interest would cover debt service on the proposed IBRD loan. The portion of collections from farmers over and above what is necessary for debt servicing will be relent to farmers for the same purpose on similar terms and conditions. This revolving feature would benefit an estimated additional 500 farmers. The technical assistance fee, charged



at 1 per cent on outstanding loans to the farmers and at  $\frac{1}{2}$  per cent to participating banks, would cover most of the costs of INTA's technical services.

#### F. Procurement

51. The goods and services required for farm development under this Project would be purchased by the individual farmer through normal commercial channels. Because of the number of the individual sub-loans, the time spacing of disbursements over a period of 5 years, and the necessity for farmers acquiring only those makes of machinery for which repair facilities are available, bulk procurement would be administratively cumbersome and unsound. Most of the items to be purchased under the sub-loans, including agricultural machinery, fence wire, windmills and tanks for stock-watering facilities, are manufactured locally, many of them by firms which are subsidiaries of major international companies active in the respective fields. These subsidiaries have well established service and repair facilities in the Project area. Argentine production of the above agricultural equipment is subject to protection and is somewhat more expensive than imported equipment would be. The balance of goods to be purchased by farmers and contractors would be imported through normal commercial channels. These include primarily phosphate fertilizers, some insecticides and herbicides and high-yielding grass seeds. Import duties and import surcharges on these inputs are negligible.

52. The procurement of vehicles and special equipment for technical services and for the drainage and soil studies under the loan will be made on a bulk purchase basis and in accord with normal Bank procurement procedure. As in similar instances, it has been agreed that a margin of 15 per cent will be granted to domestic producers.

#### G. Marketing

53. The incremental output of cattle to be produced under the impact of this Project would be marketed through a presently adequate marketing system. Excess capacity exists for slaughtering, processing and storage of meat. Facilities for utilization of by-products are likewise adequate. The demand for beef is strong in domestic and export markets (para 17). In the short run, no serious problems are foreseen for the marketing of beef cattle and cattle products in the Project area.

54. For the long-term planning, however, there is a need for careful reappraisal of the market structure. A study which would define needs and priorities for improving the marketing efficiency, not only in the Project zone, but in major present and potential production centers, is timely now. The Government is preparing projects similar to this pilot Project for other suitable areas (Corrientes and Misiones provinces). It has requested that an amount be included in this loan which would contribute about one-half of the estimated cost of the proposed marketing studies (Annex 4, pages 2 and 3, and Table 2). The nature and scope of these studies and steps for their implementation would be defined and agreed upon by the Consejo Nacional de



Desarrollo (CONADE) and the Bank, and carried out with the assistance of appropriate consultants.

#### H. Disbursement

55. The Bank would disburse, on the basis of documents submitted by the Central Bank, 50 per cent of sub-loans made by participating banks to Project farmers and contractors (items I, II and III, para 43) and 50 per cent of actual expenditures for drainage and soil surveys (items V and VI). For technical services to Project farmers (item IV) and for the drainage and soil studies the Bank would disburse, subject to documentation, for the foreign exchange cost of technicians and of vehicles and special equipment to be procured by INTA under this item. Banco Nacion and other participating banks would be required to maintain separate accounts for loans to farmers and contractors for the duration of this Project, as prescribed by the Central Bank.

56. The disbursement period of the sub-loans to the individual farmer would be 3 years. However, inasmuch as a new group of farms would begin their investment programs each year during the first three years (paras 36, 37 and Annex 3), the disbursement period of the entire Project would extend over a 5-year period.

#### V. ORGANIZATION AND MANAGEMENT

57. In recommending Project organization and responsibilities, the mission studied carefully the strength and functions of existing entities. While insisting on full-time services from a small Project staff, responsible directly to the Project Director, the mission was guided by the desire to integrate this staff into the INTA, the agency in charge of Government research, extension and development services. INTA has as yet limited activities in the development field. The Project would enable INTA to strengthen its development work through close cooperation with the credit agencies involved. The Project Director would be the key man. Before the loan becomes effective, INTA would appoint a Project Director satisfactory to the Bank.

58. Lending activities of the participating banks would be supervised by the Central Bank (para 44). Initially it would authorize the Banco de la Nacion to make sub-loans to farmers and contractors under the Project. Later on other banks would be permitted to participate in retailing and supervising Project loans. Permission to participate in making Project loans would be subject to qualifications laid down by the Central Bank, in agreement with the Bank.

59. The Central Bank would authorize the participating banks to finance up to one-half of the sub-loans from their legal reserves. It would rediscount the other half and subsequently ask for reimbursement from the proposed Bank loan (para 44).

60. INTA would be responsible for carrying out the drainage and water control surveys in cooperation with the Provincial Government of Buenos Aires with the main purpose of identifying and defining critical drainage districts within the Project zone. In drainage districts thus identified and designated as high priority in terms of improvement potential and need for further stud



INTA would then initiate semi-detailed soil surveys for the purpose of preparing soil classification and land suitability maps and feasibility reports for land development. Some surveys of this kind have already been planned or even initiated. However, at the present rate of accomplishment their completion would take at least 10 years. The proposed loan would enable the Government and INTA to accomplish these objectives within a 3 to 4-year period (see Annex 4). The nature and scope of these studies as well as organization and procedures for their implementation would be defined and agreed upon by the Government and the Bank.

VI. ECONOMIC BENEFITS AND JUSTIFICATION

61. Benefits to be realized by participating farmers from Project investments on representative 1,000 hectare units are projected in Annexes 5 and 7 and summarized below:

	Before Development	After 5 Years of Development	After 10 Years of Development	Percent Increase After 10 Years
<u>Partial Ranch Development</u>				
Stocking Rate per Hectare <u>a/</u>	0.8	1.2	1.2	--
Effective Calving Rate, Percent	70	80	82	--
Total Stock, Number <u>b/</u>	650	1,040	1,164	79
Cattle Sales, Number	286	393	638	123
Net Income, in M\$N '000 <u>c/d/</u>	3,257	2,657	8,502	161
<u>Complete Ranch Development</u>				
Stocking Rate per Hectare <u>a/</u>	0.8	1.6	1.8	--
Effective Calving Rate, Percent	70	86	90	--
Total Stock, Number <u>b/</u>	650	1,412	1,736	162
Cattle Sales, Number	286	604	1,008	252
Net Income, in M\$N '000 <u>c/d/</u>	3,257	3,993	14,364	341

- a/ In equivalent of adult animal units per hectare.
- b/ Excluding calves.
- c/ After debt service.
- d/ Including income from sheep and cash crops which were assumed to remain unchanged.

62. On Project farms productivity would increase markedly. Cattle sales would increase as a result of higher stocking, reduced mortality and improved calving rates. After 10 years, when development is completed, net income of participating farmers would have increased by nearly 200 per cent under "partial development" and by more than 300 per cent under "complete development".



63. The Project's impact on Argentina's meat supply and exports is summarized in Annex 8. After 10 years, annual beef production in liveweight would increase by about 80,000 tons, a gross value of about M\$N 4,000 million equivalent to US\$ 21 million. This increase would be primarily in the form of calves sold for fattening to farmers in other areas. If the fattened slaughter animals were taken into account, the Project would indirectly generate a total annual increase in liveweight of 130,000 tons, a gross value of M\$N 6,500 million, equivalent to US\$ 34 million.

64. Assuming further that half of the incremental meat supply could be exported, the Project's annual net contribution to Argentina's foreign exchange earnings is estimated at approximately US\$ 19 million.

65. Projected returns to farmers and to the economy are favorable. At the farm level the incremental investment on already established beef cattle ranches, selected for resource development potential and managerial competence, would lead to improved resource use and high marginal returns. Benefits to the economy are likewise high. Argentina, and especially the Project area, has the advantage of an established beef industry, with organized markets and related supporting institutions. Few countries can match these conditions.

66. Based on the cash flow projection, the financial return to the participating farmer would be about 25 per cent under partial development and 33 per cent in the case of complete development. Taking into account both partial and complete development and the estimated increase in tax payments of participating farmers, and also the cost of technical services to farmers, the internal rate of return of the entire Project to the economy would be approximately 27 per cent. (The probable increase in export tax proceeds is not considered.)

67. In addition to these direct production effects, the economy would gain from the demonstration of modern production techniques on Project farms. Although this benefit is more intangible, it could make a substantial contribution to the long overdue breakthrough in Argentina's static cattle industry.

## VII. CONCLUSIONS AND RECOMMENDATIONS

68. Argentina's cattle production would be increased significantly through long-term credit for supervised investment on Project farms. Satisfactory returns would result to Project farmers and to the economy.

69. The Project is technically and economically sound and is suitable for a Bank loan of US\$ 15.3 million. The borrower would be the Government of Argentina and the Central Bank would administer the loan proceeds. An appropriate term would be 20 years, including a grace period of 5 years. The Government would bear the exchange risk, partially defrayed by the producers' contribution (para 46). The Instituto Nacional de Tecnologia Agropecuaria (INTA) would be responsible for rendering technical services to Project farmers and for executing drainage and soil surveys in critical drainage districts. The Consejo Nacional de Desarrollo (CONADE) would be responsible for carrying out the marketing studies.

June 28, 1967



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*Mr. Fajans*

*532/3/12*

Files

September 10, 1968

Joseph Fajans

ARGENTINA - Visit to SEGBA, August 20, 1968

1. On August 20, 1968, Mr. Sheehan and I called on SEGBA in Buenos Aires and saw President Batty, Executive Vice-President Neoli, Planning Manager Bronstein and General Counsel Rabinovich. This memorandum summarizes the conversation. In due time, Messrs. Sheehan and Rydell will prepare a project supervision report on SEGBA.

New Loan Proposal

2. Ing. Neoli said that SEGBA would need about \$20 million to help finance its expansion program up to the end of 1970. The funds should be available three - four months before the December 31, 1969 Closing Date of the second SEGBA loan, i.e. the new loan should be signed in August/September, 1969. This would mean a field appraisal by April 1969. To make a request and provide information on the proposed project, Ing. Neoli would like to come to Washington next December.

3. Ing. Batty asked whether it would be possible to increase the second SEGBA loan, made on January 25, 1968, by \$20 million thus circumventing the procurement issue and avoiding a new battle with the Argentine industrialists. If it had to be a new loan, could it at least be negotiated on identical conditions?

4. We replied that Ing. Neoli would be welcomed in Washington about the turn of the year, preferably in early January, to raise with our principals the question of a new operation. Its timing would be discussed then, but we would put the Bank on notice about SEGBA's proposed timetable. The proposed operation would have to take the form of a new loan. Its conditions would have to be discussed. We knew already that the terms could not be identical because the interest rate had gone up since the signing of the second SEGBA loan. The problem of local expenditures was to be considered by the Executive Directors and the outcome of this consideration may have a bearing on the procurement method under a proposed third loan.

5. We also said that while the Bank may consider a third operation, SEGBA was approaching the stage at which it should be able to finance its expansion requirements in the market. The SEGBA representatives agreed that this should be possible in the foreseeable future. In the ensuing discussion, the floating of the Government's public works bonds in the Argentine market, and the need for SEGBA to establish a cash dividend record, were mentioned.

Procurement under the Second SEGBA Loan

6. Of the aggregate value, estimated at \$34 million, of the type of distribution equipment capable of being produced in Argentina, orders for \$14 million had been placed, contracts for \$7 million were about to be awarded, and contracts for \$6 million would be awarded soon. To date, 89% of the goods



had been ordered from Argentine suppliers. The proportion was expected to decline from now on. However, if it were maintained, SEGBA would have to finance from its own resources about \$2.1 million of distribution equipment. This possibility did not present any problem for SEGBA.

#### Possibility of a SEGBA - ITALO Merger

7. The activities of SEGBA and the Compañia Italo-Argentina de Electricidad (ITALO) were being coordinated satisfactorily. A committee, consisting of high SEGBA and ITALO officials, were secretly discussing the possibility of consolidating the Buenos Aires power system by way of SEGBA taking over ITALO against payment in SEGBA bonds or shares, or in Government bonds. If a take-over could be agreed and part of the payment were in SEGBA shares, the owners of ITALO would become the first large private shareholders of SEGBA.

#### SEGBA Assets in Fourteen Partidos

8. Since the signing of the second SEGBA loan last January, ownership of 70 pieces of real estate, half of them in the north-west zone of Buenos Aires (also called the fourteen partidos) and half in the southern zone, had been formally vested in SEGBA. All former properties of GEP had been registered in SEGBA's name. The rest of the CADR properties in the fourteen partidos was being dealt with expeditiously, owing to a change in legislation which made it possible to inscribe the transfer of property rights in the Register of Property immediately after the issue of a public deed. The process of transfer and registration should be completed before the end of 1968. SEGBA will advise the Bank in writing when this has happened.

#### Past Earnings Deficiency

9. The Government had paid 7 monthly installments toward the shortfall of past earnings which amounted to 6 billion pesos at the end of 1967. The entire amount should be recovered by January 15, 1969. SEGBA will advise the Bank in writing when this has taken place.

#### El Chocón Electricity Surtax

10. Due to savings in operations, SEGBA hopes to absorb the 5% surtax on electricity consumption, to be introduced as of January 1, 1969, and not to raise charges to consumers.

P.S. Talking to Ing. Noli on another occasion, I referred to the exchange, last Spring, of letters dealing with SEGBA's payments for local expenses of its consultants. I said that SEGBA should feel free to write us, if it wished to clarify further the distinction between foreign and local items of expenditure.

Cleared with and cc. Mr. Sheehan  
cc. Messrs. Skillings/Dosik, Knox/White, Cancio, Keltie

JFajans mdk



G



Memorandum to Files, Note on the Proposed Loan for El Chocon, by Mr. Fajans dated October 11, 1968

Map - Complexe El Chocon Cerros Colorados, dated Octobre 1965

Letter to General Olascoaga following visit to Washington of Hidronor representatives, from Mr. Alter, dated October 7, 1968

Letter to Ing. Gotelli, stating Bank had reviewed the preliminary conclusions of the appraisal mission of El Chocon, from Mr. Alter, dated September 27, 1968

Chocon/Cerros Colorados Project Appraisal Report - Agricultural Benefits expected from the Complex, dated September 12, 1968

Memorandum to Files on El Chocon, covering visits to Argentine representatives by Messrs. Chadenet and Skillings, dated May 29, 1968

Memorandum to Mr. Alter on the project discussing question to be raised and note by Mr. Alter on Mr. Knapp's agreement, from Mr. Fajans dated May 13, 1968

Letter to Mr. Sheehan from Mr. Jacoby of Harvard University giving preliminary results of the study of the systems analysis of proposed developments on the Limay and Neuquen Rivers in Argentina, dated May 9, 1968

Letter to Ing. Gotelli, summarizing our discussions with Dr. Krieger Vasena and the Hidronor delegation headed by General Olascoaga, from Mr. Alter, dated March 21, 1968

Memorandum to Files commenting on the luncheon at which Mr. Woods entertained Dr. Krieger Vasena and members of the Hidronor delegation, from Mr. Skillings, dated March 20, 1968



## OFFICE MEMORANDUM

TO: Files

DATE: October 11, 1968

FROM: Joseph Fajans

SUBJECT: ARGENTINA - Note on the Proposed Loan for El Chocon  
(Prepared for Mr. McNamara's Visit to Argentina)Background

1. Hydrological studies of the Neuquen and Limay Rivers started early in the century and the first flood control and irrigation structures on the Neuquen were built in the 20's and 30's. The hydroelectric potential of the Limay was investigated in the 40's and 50's, and a comprehensive feasibility report on the El Chocon-Cerros Colorados scheme was prepared in 1962 by Italconsult and Sofrelec.
2. The Bank had been kept informed of the progress of the preparatory work. First contacts with the Government and Agua y Energia Electrica (AyEE), the Government entity responsible for the scheme at that time, took place in 1965. The Bank took the position that the Government should, first of all, determine priorities between El Chocon and Salto Grande, a large hydroelectric project on the Uruguay River which forms the border between Argentina and Uruguay, about which the Bank had also been approached. The Bank also told the Argentines that it had to be satisfied that El Chocon was the most economic alternative to provide the power requirements of the Buenos Aires area.
3. A decision favoring El Chocon over Salto Grande was made in the fall of 1965 by the Government and endorsed in early 1966 by Congress. A law, promulgated in May 1966, a month before General Ongania took over, authorized the Government to proceed with the execution of the scheme, and created and earmarked special resources to finance its local cost. Meanwhile, two Bank missions had carried out a preliminary review of the economic justification, construction cost and irrigation aspects of El Chocon.

Economics of the Scheme

4. In the Autumn of 1966, Bank staff assisted a group of Argentine technicians in organizing and carrying out a study of the economic justification of the project. At the same time, the Bank retained a construction cost specialist to prepare an independent cost estimate. In early 1967, the Government retained Sir Alexander Gibbs and Partners of London as consulting engineers for the project. Their economic evaluation of the El Chocon-Cerros Colorados scheme was made available to the Bank at the end of the year. The attached memoranda of March 21, May 13 and May 29, 1968, and letters of May 9 and September 27, 1968, refer to further consideration of the economics of the project. Our most recent calculations indicate that the extra capital



to be invested in this project over and above the investment in the most favorable thermal alternative would have a rate of return in the range of 7% to 7½%. The attached paper of September 12, 1968, prepared by the FAO/IBRD Cooperative Program staff deals with the agricultural benefits. A paper assessing the progress of the UNDP study of the development of the Comahue region is now being prepared at FAO headquarters.

#### Hidronor

5. The concession to build and operate the El Chocon-Cerros Colorados scheme was granted by law in December 1967 to Hidroelectrica Norpatagonica S.A. Hidronor is a stock corporation owned by the Government, with small participations by AyEE and SEGBA, but managed along the lines of private enterprise. Its Board consists of six members and it is managed by a three-men Executive Committee.

6. The President of Hidronor is retired General Manuel J. Olascoaga, a 54-year old Army engineer, with a Chicago University M.Sc. degree and a doctorate in meteorology. Before retiring from the Army, he was head of the Military Technical Academy and Chief of the Military Household of the President of the Republic. He has taught at various universities and is member of numerous scientific associations. The Chief Executive, Ing. Raul A. Ondarts, is a 53-year old former mathematics professor, who in the past 10 years had held several high economic positions in the Government and was in 1967 Sub-Secretary of Economy and Labor under Dr. Krieger Vasena.

#### The Project

7. As appraised last August and presently envisaged, the first stage of the El Chocon-Cerros Colorados scheme consists of an earth dam on the Limay and the El Chocon power house with three generating units of 200 MW each, a diversion channel and dam at Portezuelo Grande on the Neuquen, and two 700 miles long transmission lines to Buenos Aires. These works should be completed at the end of 1973 at the cost of about \$325 million equivalent, including interest during construction. The second stage to be executed between 1972 and 1978 would consist of three more 200 MW units at El Chocon, and the construction of an intake and a power house with three 150 MW units at Planicie Banderita on the Neuquen, although the Government may consider substituting for Planicie Banderita a thermal plant burning natural gas. The cost of the second stage is presently estimated at \$156 million equivalent. The project to be assisted by the Bank is the first stage of the scheme, excluding the Portezuelo Grande structures.



The Financing

8. The cost of the first stage of the El Chocon-Cerros Colorados scheme will be paid for by the proposed Bank loan, buyer's credits to be made to Hidronor by government agencies or banks in several industrialized countries, and the Argentine contribution. The attached memorandum of March 20 and letter of October 7, 1968 show the proposed amount (presently \$82 million) and composition of the Bank's loan.

9. Hidronor has received letters of intent from the U.S., the U.K., Canada, Germany, France, Belgium, Switzerland and Italy, offering 20-year credits at interest rates similar to the Bank's lending rate, for equipment purchased in these countries. Banks in some of the countries are also prepared to provide medium-term accomodation to cover interest during construction on the buyer's credits. In addition to the eight countries mentioned above, Sweden has made credit proposals, and Spain and Japan have expressed interest. The cost of the equipment to be procured under restricted competitive bidding in the countries offering financial assistance is estimated at about \$70 million equivalent, if interest during construction is included.

10. Of the resources earmarked for the local cost of El Chocon in the 1966 law, the surtax on oil refining was introduced in 1967 at the rate of 3%. The Government has agreed to raise this surtax to 5% as of January 1, 1969. On the same date, the Government would start levying a 5% surtax on electricity consumption. During the construction of the first stage of the scheme, receipts from these two sources are expected to bring in about \$225 million equivalent. Thus, between \$350 million and \$400 million equivalent should be available to Hidronor between now and the end of 1973.

cc. Messrs. Alter  
Sheehan  
Rydell

JFajans :mdk



532/3/10

October 7, 1968

General Manuel J. Olaseoaga  
President  
Hidroelectrica Norpatagonica S.A.  
Av. Leandro N. Alem 1074 - 4 Piso  
Buenos Aires, Argentina

Dear General,

It was a pleasure to see you and Dr. Gonzalez del Solar in Washington last week, and to discuss with you the composition and amount of the proposed loan for El Chocón.

I am writing to confirm to you that it is now our intention to propose to the Executive Directors that the Bank make a loan of \$82 million to be applied to foreign exchange costs of the project as follows:

	<u>3 million equivalent</u>
Civil works	44
Gates and penstocks	15
Engineering	6
Interest during construction	<u>17</u>
Total	<u>82</u>

Our willingness to increase the amount of the proposed loan to \$82 million from the \$70 million previously discussed was made on the basis of your assurance that the Government would increase the surtax on oil refining to five percent as of January 1, 1969, and that the five percent surtax on electricity consumption would come into effect on the same date even if this necessitated increases in the cost of electricity to consumers.

Let us also confirm that we will recommend to the Executive Directors that provision be made for the disbursement of the proceeds of the proposed loan to reimburse expenditures incurred by Hidronor on the civil works contract as from the date of the letter of intent to the successful bidding contractor. This decision is predicated on the loan being concluded around January 1, 1969, as now envisaged. In respect of expenditures other than for civil works, we will recommend that disbursement of the proceeds of the proposed loan be made only in respect of expenditures incurred by Hidronor after the date of signing of the Loan Agreement.



I am sending copies of this letter to Dr. Krieger Vasena, Minister of Economy and Labor, and Ing. Gotelli, Secretary for Power and Mining.

With kindest regards,

Sincerely yours,

Gerald Alter  
Director  
Western Hemisphere Department

cc. Dr. Krieger Vasena  
Ing. Gotelli

Cleared in substance and cc. Mr. J. Burke Knapp

Cleared with and cc. Messrs. Sheehan  
Lecuona

cc. Messrs. Alter/Chaufournier  
Chadenet/Knox  
Skillings  
Cancio  
Keltie  
Rydell  
Fajans

JFajans/RFSkillings:mh



532/3/9

September 27, 1968

Ing. Luis Maria Gotelli  
Secretario de Energia y Minería  
Secretaria de Energia y Minería  
Diagonal Julio A. Roca No. 651  
Segundo Piso  
Buenos Aires  
Argentina

Dear Ingeniero Gotelli:

We have now reviewed the preliminary conclusions of the Bank mission which appraised the El Chocon project last month. We were particularly interested in the findings of the mission relating to flood control, namely, that the El Chocon dam, and a regulating structure and deeper channel to divert 4,000c<sup>3</sup>/sec. into Lago Pellegrini, would provide virtually complete flood control at a substantially lower cost than building the Portezuelo Grande diversion structure. While the works at Portezuelo Grande are estimated to cost about \$32 million equivalent, the additional investment at Lago Pellegrini might, roughly, amount to only \$12 million.

In view of this, we believe that there is an even stronger case than before for eliminating the Cerros Colorados investment and for putting the full 1650 MW of capacity at El Chocon. The present estimate of savings in capital would amount to about US\$90 million equivalent; and with a slightly better return on the investment.

I realize that this suggestion would involve a change in present plans. To provide for an increased capacity at El Chocon would require the construction of a larger power house and additional tunnels. We believe it would be possible to negotiate such changes with the successful bidder for the main construction contract without causing any appreciable delay in the time schedule and with little or no increase in unit prices.

I would appreciate your reaction to these suggestions.

With kind regards,

Cleared with and cc. Messrs. Skillings  
Knox  
cc. Messrs. Cancio, Ealtie, Sheehan/Rydell  
JFajana/RESheehan:mdk

Sincerely yours,

Gerald Alter  
Director  
Western Hemisphere Department



Mr. L. BARTSCH

532/3/8

ARGENTINA

CHOCON/CERROS COLORADOS PROJECT APPRAISAL

AGRICULTURAL BENEFITS EXPECTED FROM THE COMPLEX

Prepared by:

G.P. de Brichambaut )  
A.M. Eid ) FAO/IBRD Cooperative Program  
K.E. Snelson )

September 12, 1968



## ARGENTINA

### CHOCON/CERROS COLORADOS PROJECT APPRAISAL

#### AGRICULTURAL BENEFITS EXPECTED FROM THE COMPLEX

The CCC complex comprising control works on the Rivers Limay and Neuquen, which unite to form the Rio Negro, was originally conceived for flood control and irrigation development, power generation being only subsidiary. While the emphasis of the project has now changed and the complex is designed primarily as a power project, it will have some flood control and irrigation benefits. Since the natural flow of the Rio Negro is not yet fully utilized the irrigation benefits of the project will not be immediate. It is, therefore, necessary to project a rate of irrigation development to determine when storage and regulation would be needed without the CCC complex. Project benefits for the purpose of cost allocation will be the lower of (i) the present worth of the single purpose reservoir(s) giving irrigation facilities comparable to the ones provided by the complex and built only when this storage is needed, or (ii) the present worth of the irrigation benefits. The project is expected to insure complete flood control in the area; therefore, these benefits for allocation purposes will be the lower of (i) the present value of the foreseeable flood damages, or (ii) the cost of constructing single purpose flood control facilities giving comparable protection.

#### 1. The Present Agricultural Situation

The region crossed by the Rio Negro and its tributaries, on the northern boundary of Patagonia, has an arid, temperate climate. Crop production is only possible with irrigation and double cropping is difficult because of cold winters and a frost-free season not exceeding 200 to 250 days; high winds are common making the use of wind-breaks indispensable. The light alluvial soils of the valley belong to two main groups: "bardas", low quality and poorly drained and, "costa", lighter, more fertile and better drained along the river. In the



irrigated areas the water table is often close to the surface, ranging from three meters to less than one meter in depth and in low-lying areas this has created salinization problems. The flat unirrigated table land on both sides of the Rio Negro and of its tributaries is covered by shrubs only suitable for very extensive grazing (up to 100 hectares per animal unit).

Of the 90,000 ha irrigated, three-quarters are located in the Upper Valley (Lower Limay and Neuquen, upper Rio Negro) where most of the commandable lands have been developed and only limited expansion can be expected. Development of this area followed the construction of the railway at the end of the 19th Century and two-thirds are planted with apples, pears and grapes. With improved drainage conditions and improved water control a limited expansion of fruit trees and grapes areas and yields is still possible. Apples and pears are the most significant crops (US \$40 million exports in 1967), and have prompted a significant development of processing industries which also process grapes and some other industrial crops and fruits.

Development of the Middle Valley started later and is far behind the Upper Valley. Much of the area for which irrigation works have been constructed is not yet cultivated; annual crops and alfalfa cover about 80 percent of the area, and except for tomato paste, there are no processing industries. High water tables, especially on the island of Choele Choel, create acute drainage and salinity problems. Soil quality and production potential are slightly lower than in the Upper Valley and this potential will take some years to develop through building up soil fertility with alfalfa and improving drainage.

Except for limited private pumping, the Lower Valley is not yet irrigated although a main and secondary canal system has been constructed to serve 50,000 ha. IDEVI<sup>1/</sup> is beginning development this year but the flat slopes, heterogeneous soils

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<sup>1/</sup> Instituto de Desarrollo Economico del Valle Inferior



and a high saline water table will call for efficient drainage and careful irrigation practices.

## 2. Irrigation Possibilities and Benefits

### (a) Prospects for Irrigation Expansion

The existing irrigated areas depend on the natural river flow. Irrigation has expanded slowly. The area newly developed during the last ten years was less than 1.5 percent annually, although water and land availability were not limiting factors. On areas developed earlier, the cropping pattern improved significantly through the replacement of forage and annual crops by the more profitable apples and grapes (see Table 1).

The main constraints to irrigation expansion have been the distance from markets, insufficient marketing facilities, considerable price fluctuation, the farmers' lack of capital during the long farm development period, the small numbers of farmers and entrepreneurs and the insufficiency of government supporting activities. Other constraints have been lack of farmer's knowledge of irrigation practices and how to grow specialized crops, insufficient drainage facilities, "fiscal" lands and lands with "unknown" owners (which have not been cultivated), lack of staff and shortage of funds of the government organizations such as "Agua y Energia" which are responsible for operation and maintenance in most of the irrigated lands.

Many of these constraints are now being alleviated and a more rapid development can be expected in the future. The transport situation has improved considerably and active groups of entrepreneurs are creating modern processing and marketing facilities in the Upper Valley. The irrigation and drainage networks have been expanded and improved and farmers have become more experienced. Most of the marketing and plantation efforts have been limited to the Upper Valley but with suitable incentives could also be extended to the other areas.

One basic problem for future expansion is to determine whether the crop



pattern used in the Upper Valley should be adopted in the new areas. There are strong doubts as to the capacity of the foreign market to absorb a continued and rapid expansion of the apple production. The EEC market, until now the main outlet for Argentina's apple exports, is expected to shrink because of heavy plantings and the development of cold storage. Even a large expansion of the Latin American market would not allow the present rate of growth of exports to be maintained. This was recognized by the mission when making crop pattern projections.

The mission estimates that with proper government measures, the annual rate of irrigation expansion could rise from 2,000 ha to 3,500 ha during the next 15 years (see Table 2). Most of this expansion would take place on the land already canalized in the Middle and Lower Valleys. Afterwards, using the experience gained, 5,000 ha and more could be put under irrigation each year mainly in the Lower Valley and in a new "Valle Medio" project near Choele Choel.

It takes three or four years of alfalfa to build up soil fertility on newly developed land and thereafter 10 to 12 years to bring fruit trees to full bearing; hence production will rise only slowly in the newly developed areas. The mission expects the crop pattern on new lands to be about 40 percent alfalfa, 30 percent annual crop, 30 percent fruit trees and grapes; part of the fruit will be for processing; hence the value of production from these lands will be only half the value per ha of the presently irrigated lands at full development. In the presently irrigated areas, production is expected to continue to rise by three to four percent a year as young plantations come to bearing and productivity increases; this rate will lower progressively as new planting decreases.

The development foreseen for the next 25 years would bring an increase in total output of some 75 percent. One-third would come from intensification of presently irrigated area and the rest from newly irrigated area. This increase in output has been taken into account for flood-damage calculations.



(b) Irrigation Expansion Possible Without and With CCC

The average annual flow of the rivers Limay and Neuquen is respectively 24 and 10 milliards cubic meters. The ultimate irrigation potential is therefore immense; with a mobilization of 20 milliards cubic meters it would reach some two million ha.

At present, without storage, all irrigation development is dependent on natural flow diverted by one diversion dam and several free offtakes. There are a few private pumps. The main irrigation season is from December through April with a peak demand in January; the lowest river discharge is in March, which is the critical month for irrigation supply. The mission's analysis of historical flow during critical periods indicated that natural low season supplies will suffice for an expansion of 100,000 ha before they need be supplemented by storage. However, without storage on the Neuquen the area irrigated from that river cannot be increased substantially since shortages are already experienced in some very low years.

The operation of Chocon for power and its normal drawn down for flood control during February through April will increase irrigation water supply in the Limay and the Negro considerably during the critical season. The mission estimates from a power operation study during a critical year that 320,000 ha more could be irrigated than at present. The Cerros Colorados part of the complex operated as planned at present would permit 200,000 ha more to be irrigated.

(c) Irrigation Benefits of the Project

Summarizing, the availability of water from natural flow should permit the expansion of irrigation on 100,000 ha while the CCC complex operated for power and flood control could permit an increase of more than 500,000 new ha. If the project were operated specifically for irrigation, this area could be further increased. Since the next 100,000 ha will take 25 years to develop, it is



only in 1993 that storage would be needed if the CCC complex was not built. The most economical single purpose alternative reservoir which, operated strictly for irrigation, would allow the irrigation of 200,000 hectares in Nahuel Huapi in the Upper Limay. A dam here was designed by Agua y Energia some years ago and its present construction cost is estimated to be US\$11 million. A further reservoir of the same capacity would be required in around year 2011 with a present worth cost of \$0.4 million. Therefore, irrigation benefits of CCC can be considered as equivalent to the present worth cost of these dams, i.e., \$2.1 million discounting at eight percent or \$3.6 million at six percent from 1992-3. This value is probably below the net returns from lands to be irrigated after 1993 (taking into account the additional investment which would be necessary) and is therefore adopted as the portion of the project cost which can be allocated to irrigation.

### 3. Flood Control Benefits

#### (a) Flood Damages Without Project

The flood characteristics of the Rivers Limay and Neuquen are quite distinct. The Limay, having the larger drainage area and a number of lakes in its catchment has a larger flood volume but a lower flood peak than Neuquen. Flood peaks from the two rivers frequently reach the Rio Negro simultaneously. The threshold of damage in the Negro Valley is recognized as a flood with a peak of 4,500 m<sup>3</sup>/sec; it has been exceeded nine times during the last 90 years and always during the period June to August. The highest flood observed was in July 1899 with a peak between 8,000 and 9,000 m<sup>3</sup>/sec; about 80 percent of the presently cultivated area was covered by running or still water. In 1945 a flood of 6,500 m<sup>3</sup>/sec was observed after more than 1,000 m<sup>3</sup>/sec had been diverted to Lake Pellegrini; 10 percent of the presently cultivated area was inundated. The escape channel from the Neuquen to Lake Pellegrini became operational in 1937 and has a nominal capacity of 2,000 m<sup>3</sup>/sec. It is controlled by an earth bank which is breached during times of flood. Due to siltation, its capability has deteriorated to about 1,000 m<sup>3</sup>/sec.

Average annual flood damages for the present stage of development were



derived from a combination of two relationships, flood discharge-frequency and damage-discharge. The former was based upon a statistical analysis of annual peak discharges in the upper Rio Negro, adjusted for Lake Pellegrini diversions. The latter relationship was more difficult to derive; however, the mission calculated that a flood of the 1899 magnitude would now cause \$50 million damages in terms of crop losses and damages to infrastructure and farm lands. A flood of the 1945 magnitude would today cause damages of \$3.5 million. From these estimates, a damage/discharge curve was derived little different from the <sup>curve</sup> prepared by the consultants, Sir Alexander Gibb and Partners. On these bases, average annual flood damages at present development were calculated at \$1.4 million.

In the future, damages would increase with the expansion of irrigated area and the rise in productivity. Based on irrigation projections for 1973, 1983 and 1993 (see Table 2), the corresponding flood damages were estimated. The present worth of preventing these damages after 1973 upon completion of the project discounted at eight percent would be \$20 million, or \$32 million if discounted at six percent. This figure is lower than the consultant's estimate since they project a more rapid development of irrigation.

(b) Effect of CCC and Other Works on Flood Control

Chocon reservoir, with its 2.8 milliards flood control capacity would, the mission estimates, reduce flood damages by 73 percent if the Pellegrini escape channel retains its present capacity of 1,000 m<sup>3</sup>/sec. The 7,900 m<sup>3</sup>/sec inlet capacity at Portezuelo Grande would, together with Chocon, complete the protection of the valley. The mission estimates nevertheless that a wholly satisfactory degree of flood control (99.7 percent of that from the CCC complex) could be obtained by increasing diversion capacity to Lake Pellegrini up to 4,000 m<sup>3</sup>/sec, while eliminating Cerros Colorados. The mission feels that such a scheme should have been investigated before deciding on the Portezuelo Grande component which the Government proposes to build largely on the basis of its flood control effect.



The cost of increasing Pellegrini diversion capacity including a regulating structure would be less than half of the cost of the Portezuelo Grande diversion works.

(c) Flood Control Benefits

The mission estimates the flood benefits discounted at eight percent to be expected from the various flood control alternatives as follows:

<u>Project Component</u>	<u>Degree of Protection above present position <sup>1/</sup> (percent)</u>	<u>Flood Control benefits (\$ million)</u>
Chocon and Pellegrini with the present diversion capacity 1,000 m <sup>3</sup> /sec	73.0	14.6
Chocon plus Portezuelo Grande	100.0	20.0
Chocon plus Pellegrini with a 4,000 m <sup>3</sup> /sec diversion capacity	99.7	19.9

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<sup>1/</sup> Present position (Pellegrini 1,000 m<sup>3</sup>/sec)

Preliminary designs and cost estimates for a single purpose dam at Chocon with 2.8 milliards capacity only for flood control (the same capacity as that allocated for flood control in the proposed Chocon reservoir, and hence, the same flood control benefits) were prepared for the mission by the consultant. This dam would cost about \$40 million. In addition, for practically the same degree of flood protection (99.7 percent) as CCC it would be necessary to increase the capacity of the Pellegrini escape to 4,000 cumecs at a cost of \$12 million (mission estimate). Hence the total cost of providing present worth flood control benefits of \$20 million by these single purpose works would be \$52 million<sup>1/</sup>. Therefore, the part of the cost of the CCC which can be allocated to flood control can be taken as the actualized value of the damages prevented, \$20 million.

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<sup>1/</sup> It cannot be said with certainty that this is the least cost single purpose alternative but the mission has no basis upon which to propose a different solution.



4. Problems raised by Chocon Operations and Development of the Irrigation Areas

(a) Operation of the Power Plants

When Chocon power plant becomes fully operational as a peaking plant, its six units will discharge daily pulses of about 700 m<sup>3</sup>/sec. These daily fluctuating discharges may be expected to cause some bed scour and bank erosion in the rivers below the outlets, particularly on the Limay. Rapidly changing water levels will necessitate continuous adjustments to canal head regulators close to the power plants, but the effects will be attenuated as the pulses pass downstream. Possibly, at the Dique on Rio Neuquen, where irrigation canals take a total of 55 m<sup>3</sup>/sec, it might be necessary to arrange for a few hours of pondage.

HIDRONOR's consultants are commencing an investigation of these peaking effects and the remedial measures which will need to be taken. The mission feels that the provision in the consultants' estimate of \$100,000 per year for the five years, 1974 through 1978, for additional maintenance may not suffice for the remedial works and proposes that this figure be doubled.

(b) Protection of Irrigation Rights

The reglamento setting out HIDRONOR's rights and obligations under its concession is under preparation. This reglamento will oblige HIDRONOR to operate Chocon and Cerros Colorados for flood control (rule curves for reservoir operation are defined) and to meet the needs of the downstream users during the construction, filling and operation periods.

The manner in which these downstream requirements will be determined is as yet undefined as is also the representation that interested downstream authorities and users will have in their determination. This coordinating problem is not confined to the Rio Negro basin, but is a general one of interprovincial rivers in the country. It is under study by the Ministry of the Interior with the advice of the newly created National Hydraulic Institute.



In the case of the Rio Negro, HIDRONOR should be requested to keep the Bank informed of the arrangements which are made to determine downstream interests and the manner in which it is intended to meet them.

(c) Promotion of Irrigation Development

The mission was not in a position to determine the benefits to be expected from alternative investment in the area. It could only recognize the absolute need for irrigation to develop the valleys of Northern Patagonia and the impossibility of practicing intensive agriculture in this area without irrigation. For establishing their irrigation projections, the mission accepted the Government's view that priority will be given to the development of irrigation in the valleys.

There are a number of steps which should be taken if the projected increase is to be achieved. A considerable increase in medium and long-term credit facilities is essential, particularly for the area to be newly developed. The presently uncertain status of state land and unknown owners' land must be clarified and these lands put under irrigation. This would be only part of the necessary incentives to induce entrepreneurs and processors to take investment risks in new lands. A more efficient extension organization in the Middle Valley is urgently needed. The operation and maintenance services need more equipment. The mission suggests that the Government should consider actively encouraging entrepreneurs and investors with capital to take up large holdings.

5. Conclusions

If the Government were to take active measures to encourage irrigation development in the Rio Negro valley, a storage reservoir would be needed after 25 years and the irrigation facilities given by the project discounted at eight percent are worth about \$2 million. The project will prevent flood damages with a present value, also discounted at eight percent, of \$20 million. The total cost to be allocated to irrigation and flood control is therefore \$22 million.



TABLE 1

## DEVELOPMENT OF IRRIGATION AND LAND UTILIZATION

(on land under control of Agua y Energia)<sup>1/</sup>

1953/54 to 1966/67

	Irrigated ha	Percentage of which in				
		Alfalfa	Vineyards	Apples	Other Fruit	Tomatoes
ALTO VALLE						
1953/54	55.0	32	21	22	11	7
1966/67	65.4	22	25	32	11	5
Fully Developed Areas (Cinco Saltos, Cipolletti and Centenario)						
1953/54	12.9	15	16	48	13	-
1966/67	13.1	4	15	63	14	-
Developing Areas (Allen, Roca, Huergo, Villa Regina, Capital Neuquen)						
1953/54	42.1	38	22	14	8	10
1966/67	52.3	26	28	24	10	6
CHIMPAY AND BELISLE <sup>2/</sup>						
1953/54	4.7	86	3	-	-	6
1966/67	4.0	49	6	.....8.....		11
CHOELE-CHOEL						
1966/67	9.3	58 <sup>3/</sup>	10	.....9.....		20
CONESA AND FRIAS						
1966/67	4.1	60 <sup>3/</sup>	12	.....9.....		7

Source: Agua and Energia, Intendencia de Riego.

<sup>1/</sup> Excluding Campo Grande and other private irrigation works (about 4,000 ha).<sup>2/</sup> These data refer to areas supplied with water by Agua y Energia. Annual fluctuations are to be expected. Some low-lying land irrigated in 1953 may also have had to be abandoned.<sup>3/</sup> Including low yielding irrigated pastures.



TABLE 2

ESTIMATES OF IRRIGATION EXPANSION

(thousand hectares)

	<u>Present</u>	<u>1973</u>	<u>1983</u>	<u>1993</u>	<u>Structures already available for expansion</u>
<u>ABTO VALLE</u> (including Arroyito and Campo Grande)	69.5	72	78	82	Main and secondary canals cover 5,000 ha in Arroyito extension.
<u>VALLE MEDIO</u> (Middle Valley)					
Chimpay and Belisle	4	4	4	4	New project planned for 16,000 ha but structures not yet built.
Choele-Choel	10	13	20	20	Infrastructure exists for 22,800 ha, an extension of 10,000 ha net is possible with limited public investments, mainly in drainage.
Conesa and Frias	4	5	10	12	Infrastructure exists for 14,500 ha, an extension of 8,000 ha net is possible with limited public investments mainly in drainage.
Valle Azul + private development in Middle Valley	1	2	4	7	
New project "Valle Medio"	-	-	4	25	New project planned for 50,000 ha, but structures not yet built, except for the main canal from the offtake to the boundary of the proposed irrigable area. Studies are commencing shortly.
<u>VALLE INFERIOR</u> (Lower Valley)					
Private + IDEVI	0.5	4	15	40	Main canal commanding 50,000 ha exists. First tranche to be equipped will cover 8,500 ha. One thousand, seven hundred ha are fully equipped.
<b>TOTAL</b>	<b>89</b>	<b>100</b>	<b>135</b>	<b>190</b>	

Source: Agua y Energia and mission's estimates.



TABLE 3

ESTIMATION OF FLOOD DAMAGES FOR A 8,500 m<sup>3</sup>/sec

FLOOD AT PRESENT AND FUTURE LEVELS OF DEVELOPMENT

From the extent of the areas flooded in 1899, it is estimated that with such a flood 80 percent of the presently irrigated area would have been damaged by standing or running water. In the newly developed areas, a smaller percentage of the land will be affected as less land will be susceptible to flooding in view of its location.

	<u>Estimation of Damages (\$ million)</u>			
	<u>Present</u>	<u>1973</u>	<u>1983</u>	<u>1993</u>
1. Damages to farm lands	13.5	14.8	18.4	22.5
2. Damages to farm buildings and houses	3.5	4.2	5.9	7.9
3. Damages to secondary irrigation and drainage networks and to access roads	7.4	8.4	11.0	13.4
4. Damages to main infrastructure	10.3	11.3	13.6	15.7
5. Losses of agricultural products	15.0	18.7	27.9	38.7
Total damages	49.7	57.4	76.8	98.2



TABLE 4

IRRIGATION AND FLOOD CONTROL DATA

A. <u>IRRIGATION</u>	<u>Hectares</u>
Area presently irrigated	90,000
Area which could be irrigated	
(a) with natural river	190,000
(b) with Chocon <sup>1/</sup>	510,000
(c) with Chocon <sup>1/</sup> and Cerros Colorados <sup>1/</sup>	710,000
(d) ultimately	Over 2,000,000

<sup>1/</sup> Operated for power

B. FLOOD CONTROL

Flood Frequencies in Upper Rio Negro with

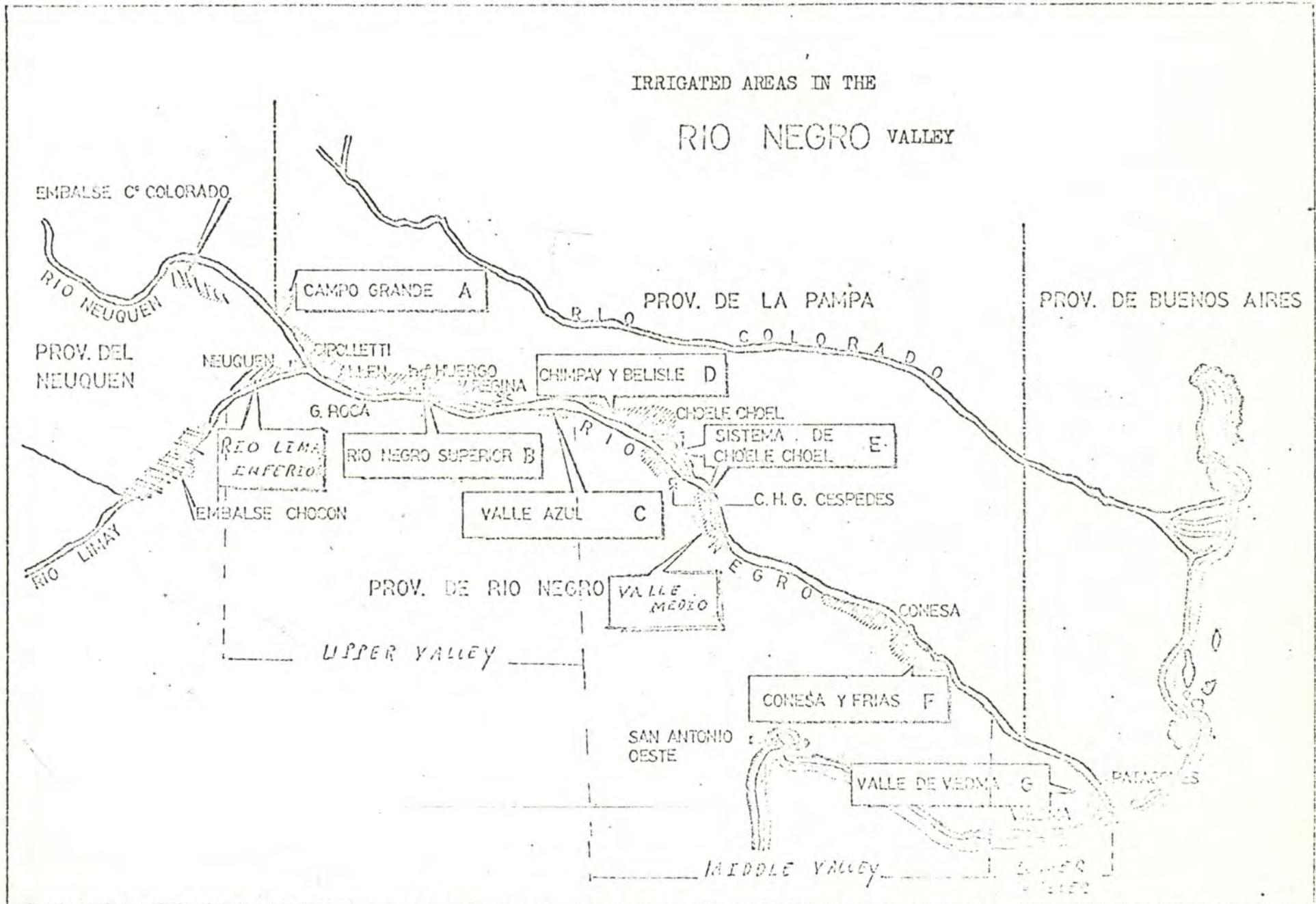
Different Project Components

System	Peak instantaneous discharges m <sup>3</sup> /sec			
	Return period - years			
	10	20	100	1,000
Present (Pellegrini 1,000 m <sup>3</sup> /sec)	5,200	6,100	8,300	11,200
Chocon added (Pellegrini 1,000 m <sup>3</sup> /sec)	4,600	5,200	6,500	9,000
Chocon and Pellegrini 2,000 m <sup>3</sup> /sec	3,900	4,500	6,000	8,100
Chocon and Pellegrini 4,000 m <sup>3</sup> /sec	3,900	3,900	3,900	6,100
Chocon and Portezuelo Grande	Complete control below danger threshold at all frequencies.			



IRRIGATED AREAS IN THE

RIO NEGRO VALLEY





Files

May 29, 1968

Robert F. Skillings

ARGENTINA - El Chocon

1. On May 14 in Buenos Aires, Messrs. Chadenet and I saw Secretary Gotelli in order to give him the Bank's answer with regard to the El Chocon alternatives. General Olascoaga and Messrs. Ondarts, Robertson Lavallo and Thibaud were present. Mr. Chadenet said that the Bank had engaged Mr. Henry D. Jacoby from Harvard University who had previously prepared a computer model of the Greater Buenos Aires electrical system to compare the various alternatives. His letter of May 9 to Mr. Sheehan (a copy of which was passed to the Argentines) indicated that the most advantageous of the alternatives was a 1650 MW electrical installation at El Chocon with no development on the Neuquen, for either power or flood control.

2. Mr. Gotelli said that subject to studying the details of Mr. Jacoby's findings, the Government was ready to agree in principle with the Bank. General Olascoaga and Mr. Ondarts seemed less sure and felt that in any case the Government would want some flood diversion work on the Neuquen. Mr. Robertson suggested that still another alternative should be explored: a much more limited diversion works than had been contemplated at Portezuelo Grande, which would divert into the cuencas only the peaks of the most serious floods. This would have the double advantage of lower costs and a longer period before the cuencas filled. In response to a question by Mr. Ondarts, Mr. Chadenet said that the Bank would be prepared to consider increasing its loan by the amount of the increase in the foreign exchange cost of the main civil works contract.

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3. The Argentines asked for a day to reflect on the matter. We saw them again on the morning of May 16. Mr. Gotelli said that the Government was in principle still willing to agree to the Bank's recommendation. However, it had noted that the difference in return between the original scheme and the proposed revision was very small, viz., 6.6% versus 6.8%. Moreover, there were uncertainties with regard to the effect down-stream of discharging greater quantities of water for short periods of time. The Government wanted, therefore, Sir Alexander Gibb and Partners to ascertain whether this alternative would require additional work to protect the down-stream riparians including, possibly, a reregulating dam. Mr. Gotelli thought that such a study should require only around three weeks. If Sir Alexander Gibb concluded that the Bank's preferred alternative would entail little or no extra cost, the Government would accept it. However, in that case the Government would look for a larger loan from the Bank. We underlined that the alternative which we recommended would save the Argentines about \$100 million, or \$65 million if flood control was retained.



May 29, 1968

4. Mr. Gotelli went on to say that the Government had decided that it wanted to introduce flood control in the Neuquen in any case. Moreover, they would like to have the Bank continue to give its blessing to the project as a whole. While the Government could understand that the Bank wished to have its own finance attached to El Chocon, only, they wanted to continue to be able to inform other potential lenders that the Bank's blessing extended also to the flood control works in the Neuquen. We said that it would be extremely difficult for us to do this, since we had already come to the conclusion that the costs of the Neuquen diversion far exceeded its benefits.<sup>1/</sup>

5. A discussion then ensued as to whether and when the consultants should prepare detailed bidding documentation on the alternative design for El Chocon (with enlarged power house). Mr. Ondarts was in favor of postponing this matter until the conclusion of Gibb's further studies. Mr. Chadenet suggested that the documents be prepared at once and issued to the respective bidders as soon as they were ready, either in substitution for the original documents (if the Government had by that time a final decision) or as an alternative (if the Government had not yet taken a decision). Despite the reluctance of the Hidronor representatives, Mr. Gotelli accepted this procedure.

6. Mr. Ondarts continued to believe that it was likely that further studies by Gibb on the effect on the Limay down-stream of the larger power house would lead them to revert to the original plan. I said that if doubts arose again, it would be best for representatives of Hidronor and Gibb to come to Washington so that the matter could be resolved quickly.

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7. Later that day, at the end of a long meeting on transport questions with Dr. Krieger Vasena, Minister of Economy, Dr. Krieger brought up the subject of the El Chocon alternatives and confirmed that the Government was ready to go along with the Bank's recommendation on the size of the power house in the main dam (subject to further engineering studies). However, he repeated the request Mr. Gotelli made earlier, namely, that the Bank continue to give its approval to the project as a whole, including the Neuquen diversion works. He made this request very emphatically, but before we could reply he then was obliged to leave the meeting. If the further discussions in the next few weeks confirm that only the works on the Limay are economic, I think that we must write Dr. Krieger and request that the Argentines do not leave potential lenders under the impression that the Bank approves of the Neuquen diversion.

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<sup>1/</sup> Mr. Gotelli had prepared some informal notes on these matters, a copy of which is attached to this memorandum.

Cleared with and cc: Mr. Chadenet  
cc: Messrs. Alter, Chauffournier, Knox, Wright/Dosik, Sheehan,  
Cancio, Keltie, Fajans.

RFSkillings/BChadenet:jd







Memorandum to Mr. Fajans attaching briefing for the President on  
Telephone Expansion Project, from Mr. Vasudevan, dated October 9, 1968

Memorandum to Files on Telephones, from Mr. Fajans, dated June 21, 1968

Memorandum to Files on Telephones, from Mr. Skillings, dated May 24, 1968



532/3/6

## OFFICE MEMORANDUM

TO: Mr. Joseph Fajans

DATE: October 9, 1968

FROM: C. P. Vasudevan *cmr*SUBJECT: ARGENTINA - Telephone Expansion Project - briefing for the President

As discussed, I am attaching a brief note which sets out the areas in which Mr. Scoffier will be gathering information on this project during his visit to Argentina for participating in the CCITT conference.

The key issue is likely to be on procurement matters. There are a number of factories in Argentina supplying most of the requirements but the prices are known to be high. ENTEL is however having discussions with the local suppliers on this subject. Mr. Scoffier will specially obtain up-to-date information on this subject which will then enable us to decide on a further course of action.

CPVasudevan:smo

cc: Operational Files  
Division Files  
Mr. Scoffier

Attachment



ARGENTINA

TELEPHONE EXPANSION PROJECT

Mr. Marcel Scoffier of the Public Utilities Division in the Projects Department will be visiting Argentina from October 21, to November 1, 1968, to participate in the conference of the International Consultative Committee for Telephones and Telegraph (CCITT). He will avail of this visit to discuss with Colonel Dietrich and others of ENTEL (the Government-owned telephone company in Argentina), and collect information on issues connected with their expansion program.

An important aspect in which information is required is in respect of the prices for locally manufactured telephone equipment materials in factories in Argentina owned by Siemens of Germany, the ITT of USA, and others. At present ENTEL obtain their requirements from these factories. ENTEL has been having discussions with the companies for bringing down the prices from the present high levels by increasing the volume of annual orders and thus helping to increase productivity.

Mr. Scoffier will also gather information on other aspects of ENTEL in order to form a broad judgment on likely problems regarding organization, financial viability, etc.

October 9, 1968



532/315

Mr. Skillings  
MS

Old files

40

Files

June 21, 1968

Joseph Fajans

ARGENTINA - Telephones

1. Colonel Oscar Dietrich, Administrator of Empresa Nacional de Telecomunicaciones (ENTEL) visited the Bank on June 17 and 18. He had meetings with Messrs. Skillings, Hittmair, Vasudevan, Lecuona and Fajans, and lunched with Messrs. Alter and Armstrong. Most of the discussions dealt with local procurement of telephone equipment.

ENTEL's Expansion Program

2. ENTEL, which accounts for 90% of the Argentine telephone system, has prepared a program for the 10 years 1969-78, estimated to cost \$1.1 billion equivalent. Most of it would be financed from own resources but, during the first 8 years, about \$122 million would have to be borrowed. The foreign cost component was estimated at 15-20%. The program would, in 5 years, make up for the backlog of 500,000 telephone lines, would meet the normal growth requirements, and would ensure the renewal of the system to reduce to 30 years the maximum age of the equipment. In carrying out the program, ENTEL would absorb the idle capacity of the Argentine telephone equipment industry and create additional jobs in that industry. This was an important aspect of the program.

Procurement

3. To avoid the closing of the plants, ENTEL has signed contracts with two local manufacturers for limited quantities of equipment (about 15,000 lines p.a. from each) to be supplied in 1968 and 1969. Last March 28, Col. Dietrich met with representatives of Siemens - Argentina, Standard Electric (ITT-Argentina), and the cable producers, and informed them that ENTEL would be prepared to enter into 5-year contracts for large quantities of equipment, if they quoted international prices and applied modern technology. He intended to continue these meetings, while organizing at the same time a team of competent officials to supervise the supplying industry. He also proposed to take up with the Government the question of tax relief for the industry to enable it to export and sell locally at competitive prices.

4. Recently, ENTEL received a first offer from Siemens-Argentina (attached to General File copy) for switching equipment for telephone exchanges, together with power plant but without installation and cables. If assured of a 5-year contract for 60,000 lines p.a., Siemens would quote \$194 equivalent per line, instead of \$275 payable per line under present contracts for 1968



June 21, 1968

and 1969. The foreign component of the quoted price was 25%, or \$48.50, covering mainly special contact points and relays. The Siemens offer further stated that in Argentina, traffic and service conditions, the European price for the same equipment would be \$150 per line. The difference was mainly explained by heavy social and financial charges in Argentina and the higher cost of materials.

5. Messrs. Hittmair and Vasudevan indicated that in contracts concluded by the Bank's borrowers after international competitive bidding, the price per line generally varied from \$60 to \$100, \$80 was a good average and in no single contract did the price exceed \$100. It was, however, unlikely that similar prices could be obtained from suppliers without exposing them to full international competition. Mr. Vasudevan described the situation in Australia, where the Telephone Administration had wanted to buy equipment locally but the two producers would not modernize their technology and quote acceptable prices. The Telephone Administration told the local producers of its intention to limit orders placed with each of them to 20,000 lines annually, and proceeded to invite tenders internationally for extra requirements. As a result, the existing producers changed over to new technology and lowered their prices, thereby winning additional contracts. Subsequently, a third manufacturer established himself in Australia thus ensuring better competition.

6. Col. Dietrich was visibly impressed and said repeatedly that ENTEL would not sign a contract if the price were not an international price. ENTEL's first condition was that local prices should be in line with international prices. If this condition were not met, ENTEL would not buy locally. Col. Dietrich hoped, however, that having had the Bank's advice, he would prevail and the local industry would accept an international price level. He would forthwith rediscuss the matter with Siemens and keep the Bank informed. If ENTEL were not able to buy locally at an international price, he would arrange for international tender before the end of August.

7. Mr. Skillings sympathized with ENTEL's desire to help the Argentine industry become efficient and sell at international prices. While the exact price was always debatable, the Siemens quotation was very substantially higher than the international prices of which the Bank was aware, and the Bank could not assist a program for which goods were procured at prices substantially above the international level. On the other hand, he felt that there was a strong probability that Argentine suppliers might quote lower prices and secure a large part of the orders in competition with others. The example set by SEGBA's suppliers was encouraging in this respect.

8. Mr. Skillings suggested that Col. Dietrich obtain information on the bids received by the Colombian and the Venezuelan Telephone Administrations under the Bank's loans. In two months from now, information on this subject could also be obtained in Taiwan and Singapore, where switching tenders were just being evaluated. He further urged Col. Dietrich to investigate on the spot the arrangements made in Australia and their results.



Financial Position of ENTTEL

9. It was not possible to form a judgement as to the financial position of ENTTEL on the basis of the statements received at the Bank before Col. Dietrich's visit. Additional information was necessary before an analysis of ENTTEL's finances could be made. Except for 1965, ENTTEL has been showing operating losses since 1962. Assets were valued at historic costs and their revaluation was clearly necessary. The inventory of assets made in 1967 would be helpful in this respect. It was not clear how depreciation had been calculated. According to the financial statements, annual depreciation allowances have amounted to 10% - 15% in recent years, which contributed to the operating deficits shown in the statements. Bank staff would have to explore how ENTTEL's accounts were being kept. Mr. Wittmair suggested that ENTTEL might want to retain consultants to help with the revaluation of fixed assets and to introduce proper cost accounting.

10. From a cash flow point of view, Col. Dietrich explained that ENTTEL had over the past years shown a cash surplus available for investment. ENTTEL's sources of investment finance had been suppliers' credits, bank loans, Government budget allocations and, starting in 1967, subscribers' contributions. All these sources, however, had not been sufficient for the investment necessary to provide adequate service. Col. Dietrich went on to describe his plans to improve the financial situation of the enterprise. He had already achieved substantial savings in operations, had strengthened management and supervision, and had told the labor union that he would not, during the period of expansion, add to his present labor force of 38,000. If necessary, he would take up with the Government the question of a rate increase. Rates were last raised on April 1, 1967 by 75%.

11. Rates were being set by the Secretary of Communications on the recommendation of ENTTEL and after obtaining the opinion of COMADE. The approach used in setting them appeared rather pragmatic due to the lack of proper cost figures. Until cost accounting has been introduced, and this would take 2 - 3 years, it would be difficult to set rates according to the cost of service. Mr. Skillings commented that the Bank attached great importance to the level and structure of rates. The rates should be set so as to ensure an 8% to 10% return on properly valued net fixed assets in operation. If the Bank felt, after a thorough review of ENTTEL's financial position, that an increase in rates was necessary, it would inform ENTTEL and the Government accordingly.

The Proposed Timetable

12. In his opening remarks at the first meeting, Mr. Skillings described the conversations as preliminary and exploratory. In order to situate them properly, he explained to Col. Dietrich the various steps in the preparation and formulation of a Bank loan and pointed to some differences between Bank and IDB procedures.



June 21, 1968

13. In the last meeting, Mr. Skillings suggested that, if Col. Dietrich thought it useful, the Bank might send a reconnaissance mission to Buenos Aires to familiarize itself with ENTEL and the telephone equipment industry, explore the two problems of financial position and of procurement, and identify additional issues, if any. In the light of the findings of that mission, the Bank and ENTEL would have to agree on a list of things to be done before organizing an appraisal of ENTEL's program in the field.

14. Col. Dietrich accepted the suggestion. He defined the Bank's position as perfectly reasonable and the conversations as helpful to him. He said that he would have to proceed with the program but would keep in touch with the Bank, advising us of his decisions as he proceeded.

Cleared by and cc. Messrs. Skillings and Hittmair  
cc. Messrs. Wright/Dosik  
Vasudevan  
Keltie  
Iacuona/Cancio

JFajans:mdk



Robert F. Skillings

ARGENTINA - Telephones

1. On May 17, in Buenos Aires I saw Col. Oscar Dietrich, the Interventor of Empresa Nacional de Telecomunicaciones, the company that serves Buenos Aires and most of the provinces, except the Mendoza region and the Entre Rios Province which are covered by private companies. Col. Dietrich took charge of ENTEL about two months ago.

2. He described to me his plans for increasing the investment program of the ENTEL in order to make up the backlog in telephone lines, estimated at about half million, and in addition to cope with growing demand. He showed me a chart (of which he promised to send a typewritten copy to Washington), describing this program and the means with which he intends to finance it. ENTEL is now operating profitably and is able to generate a considerable surplus toward its investment program. That expected surplus is not big enough, however, to meet Col. Dietrich's investment objectives, i.e., within five years to catch up with the backlog and put ENTEL in a position where it will thereafter have to invest only to meet current increases in demand.

3. Col. Dietrich said that he was anxious to obtain the financial support of an institution like the Bank, first to enable him to meet his program targets, and second, to enable ENTEL to be sufficiently assured of financing over the next few years to enter into firm agreements with the principal Argentine suppliers of telephone equipment. Such agreements would assure the manufacturers reasonably full order books and, therefore, enable them to charge lower prices than at present. They were now working at less than 20% of their capacity. The two principal companies were Standard Electric, a subsidiary of IFF, and a subsidiary of Siemens of Germany. Col. Dietrich said that he had been discussing such agreements with the companies. He was thinking of agreements by which each of the two companies would be assured of orders for at least 40,000 new lines per year. In exchange for such an assurance, each producing company would have to agree to sell its equipment at international prices and to keep abreast of the latest international technology. Col. Dietrich said that ENTEL possessed engineers and foreign contacts sufficiently good for him to supervise such agreements.

4. I said that as a first reaction such a scheme seemed somewhat risky to me since it depended upon fairly tight agreements with the two producers and no element of competition. I asked whether he had considered dividing the market into three parts with a third being supplied by a foreign supplier, to be chosen initially in some sort of international bidding. Alternatively, ENTEL might consider an arrangement such as the Bank had induced SCSBA to follow whereby Argentine suppliers competed with



May 24, 1968

foreign suppliers, with a 15% margin of preference. Under such an arrangement SEGBA was in fact placing most of its orders in Argentina but had brought its equipment costs down substantially. I suggested that Col. Dietrich talk with Mr. Koeli about SEGBA's experience.

5. Col. Dietrich appeared still to have an open mind about the means by which to gain his objectives, namely a good supply of equipment at a low price and, in line with the Government's wishes, a substantial block of orders to the Argentine telephone equipment industry.

6. I said to Col. Dietrich that I was not at all sure whether the program was one that would appeal to the Bank for financing. The Bank was a development institution as well as a financial institution and merely the provision of funds was not a sufficient justification for Bank lending. I was still uncertain as to what additional objectives a Bank association with ENTEL might accomplish. Col. Dietrich thought that the most important effect of such an association might be to enable ENTEL to obtain its equipment supplies at lower prices and ensure employment for the Argentine industry.

7. I asked Col. Dietrich to send me in Washington some basic information about ENTEL including annual reports and accounts for the past three years, a description of the history of the company, a description of the investment program and a brief note outlining Col. Dietrich's ideas about his relations with the suppliers. I said that I would like to have this information examined in Washington in order to gain a first impression as to whether the Bank could do something. The next step would probably be for a telecommunications specialist from the Bank to come to Buenos Aires for preliminary discussions. Col. Dietrich agreed to send the material that I requested. He said that he would himself be in Washington between June 10 and June 15 for an Inter-American meeting on the integration of communications. He would be prepared to stay over in Washington on June 17 and 18 for discussions on ENTEL and its program in the Bank, if I felt that would be useful. I said this would be very useful. However, I asked him not to make definite arrangements until he heard from us that those two dates were convenient to the Bank, i.e., that people qualified to speak on telephones would be available.

cc: Dr. Fernandez, Alternate Executive Director

cc: Messrs. Armstrong  
Hittmair  
Fajans  
Cancio  
Wright/Dosik  
Keltie

RFSkillings:jd







532/3/4

## OFFICE MEMORANDUM

TO: Mr. Neil J. Paterson

FROM: Victor Kneip

SUBJECT: ARGENTINA - Briefing Paper

DATE: October 14, 1968

IFC's investment commitments in Argentina total to date \$13.7 million and were made to five industrial companies. The amount presently outstanding is US\$ 5 million invested in three companies.

Only one commitment has been made since the beginning of the severe economic recession that started in 1962. The progress made by the Government's stabilization program, and the initiation of public investment programs earlier this year has helped to create a favorable outlook for private business. IFC has now four projects under active consideration and has received several preliminary inquiries.

Projects under active consideration are:

- a) seamless tubes and small diameter billets,
- b) publishing and printing,
- c) tourism,
- d) electro-mechanical, household appliances, and welded tubes.

Preliminary inquiries came from sponsors of projects in the fields of:

- a) titanium dioxide,
- b) oil refinery,
- c) cement,
- d) toll bridge,
- e) meat packing.

More detailed background on existing investments and new projects is given in Exhibit I.

Mr. McNamara's meetings in Argentina include persons who are related to IFC investments or projects as follows:

Dr. J. Martinez de Hoz, President of Acindar  
 Dr. Roberto T. Aleman, Adviser of Editorial Codex  
 Ing. Guido di Tella, Executive Vice President of Siam di Tella.Ltda.

c.c. Messrs. Charmugam, Hutheesing, Vourloumis, Prout, Circ. (3)

VKneip/cl



EXISTING INVESTMENTS1. Acindar Industria Argentina de Aceros, S.A. (Acindar):

Acindar is the largest privately owned steel company in Argentina and its shares are among the most actively traded on the Buenos Aires stock exchange. On September 30, 1968, IFC held US\$ 1,630,000 of a loan approved in June 1960 of US\$ 3,600,000 in the form of convertible debentures. The Company is studying the feasibility of a new project to expand and modernize its production facilities.

2. Celulosa Argentina S.A. (Celulosa):

Celulosa, one of the largest companies in Argentina, is a producer of printing, writing, and industrial paper. On September 30, 1968 IFC held US\$ 2,000,000 of a loan approved in July 1965 of US\$ 2,500,000. There is an associated stock option. This loan is the result of a former loan to La Papelera Argentina S.A. in 1964, a company that was merged into Celulosa in 1965.

3. Fabrica Argentina de Engranajes (FAE):

FAE manufactures fully assembled transmission units and gears for the automobile, truck, and tractor industries. It is wholly owned by Oerlikon-Buehrle, a Swiss concern, but is committed to introduce local equity when market conditions permit. On September 30, 1968 IFC held an amount of \$ 1,375,000 of a loan approved in June 1961 of US\$ 1,500,000. There is an associated stock option. In December 1967 IFC agreed to a rescheduling of maturities to permit the Company to undertake a substantial expansion program.

PROJECTS UNDER ACTIVE CONSIDERATION1. Dalmine Siderca, S.A. (Dalmine):

Dalmine is a producer of seamless tubes and small diameter billets, and is affiliated with the Techint group. It has requested IFC's assistance in raising US\$ 6 million for the financing of an expansion program, which will involve the acquisition of a new electrical furnace and the completion of the installation of a continuous casting machine. An appraisal mission visited the Company earlier this month and further conversations were held in Washington last week. The timing of an IFC commitment will depend, to some extent, on a proposed underwriting in the domestic capital market.

2. Editorial Codex, S.A. (Codex):

Codex is a printing and publishing Company which has requested IFC's participation in the financing of a project for the installation of printing machines and the provision of working capital for the Company's publishing business. The Company has been informed that an IFC investment will be predicated upon:



- a) the Company's obtaining a meaningful commitment from one or more leading domestic financial institutions;
- b) further strengthening management in depth;
- c) completion of the reorganization of the group's structure and a consolidated audit on this basis.

Subject to the three conditions being satisfied, IFC would consider an investment of approximately US\$ 6 million out of a total project cost of about US\$ 20 million. An appraisal mission has already visited the Company.

3. Tourism Project:

Intercontinental Hotel Corporation (IHC), a subsidiary of Pan Am, has asked IFC to participate in the financing of a US\$ 16 million hotel project in Buenos Aires which will be undertaken under the joint sponsorship of IHC and Aerolineas Argentinas. IFC has indicated willingness to consider the project, subject to IFC's prior satisfaction on market conditions. This question is under study.

4. Siam di Tella Ltda. (Siam):

Siam, a producer of electro-mechanical equipment, home appliances, and welded tubes is one of Argentina's most important industrial enterprises. It is now in the last stages of a major consolidation under a new management following a period of over-expansion and over-diversification. The Company has filed an application for rehabilitation in accordance with recent legislation. The Company has asked IFC to participate in the financing of a modernization, reorientation, and minor expansion program. IFC is planning an appraisal.

PROJECTS UNDER PRELIMINARY CONSIDERATIONS

IFC has received preliminary inquiries concerning the following projects:

Titanium dioxide (National Lead Argentina), oil refining (group of five independent domestic oil companies), cement (Italo-Holderbank), a toll bridge (Zarate-Brazo Largo bridge), and meat packing (Frigorificos Argentinos).



J



532/3/3

Mr. Fulton

Room 450

Document B

Translation of Clipping from "El Clarin", October 4, 1968

McNAMARA'S SPEECH

The speech just delivered in Washington by Mr. Robert McNamara will not help to make his forthcoming visit to our country a success. The President of the World Bank has put forward, simultaneously, two propositions that to our way of thinking represent the basic premises of the philosophy of stagnation. The fact that these propositions have been adopted by the head of the most important of the international financing agencies that are supposed to be committed to the objective of development hardly augurs well for the future.

The first of these propositions makes birth control a precondition of development or at least an assisting factor in obtaining World Bank aid. Our newspaper has already adopted a clear position on this subject in relation to the publication of the "Humanae Vitae" encyclical of His Holiness Paul VI, and we stand on that position. But we cannot omit to stress that the position adopted by Mr. McNamara, following the papal pronouncement and the declaration by the Latin American bishops in Medellin, constitutes a political fact of importance in itself.

The entire present polemic on the subject of birth control has an economic and social content in spite of the intimately ethical nature of the question. The economic datum is the pressure exerted by population growth on the resources of the developed countries. The social datum is the tension that will presumably be generated by the adverse economic picture. All the ink that is spilled in the name of moral freedom, of the right to plan one's family and of the anachronistic nature of the "papal autocracy" in this connection does no more than obscure the issue. Nobody cares whether people have few or many children in the developed, white societies that have reached the level of rational behavior that makes such decisions possible. What is sought is to persuade the great colored masses of the underdeveloped world to follow suit, by provoking in them reactions conditioned by the pressure of mass propaganda.

The argument used by Mr. McNamara is an obvious one: if the population grows, correspondingly greater efforts will be needed to increase per capita income. With a moderate population growth rate it will be possible also to obtain moderate rates of income growth without excessively

TRANSLATION SECTION E-997/68

Translated From: Spanish 10/15/68 By: GAG/hh

President has seen



great financial efforts on the part of the centers of world economic power. But the obviousness of the argument does not extend beyond its formulation: under a more careful scrutiny it crumbles.

Can it be asserted that the populations that make up the developed\* world, ignorant and deprived of every form of leisure, are in a position to plan their sexual life, ON A DAY-TO-DAY BASIS, in such a way as significantly to diminish the number of births? Does the World Bank perhaps not understand that in order for family planning -- in conformity with or contrary to the rules of Catholic ethics -- to be possible, it is necessary to live in an environment in which the tendency to rationalization extends to all acts of life -- a condition that is brought about by development itself?

It is truly astonishing that so much importance is assigned to the topic when everyone knows that the practice of birth control can, even in the most optimistic of hypotheses, play only a marginal role in economic growth programs. One obtains the impression that this campaign is one of the many diversionary operations that are mounted from time to time by the developed countries so that the underdeveloped countries will have to waste time and energy in refuting them. Control as an alternative to development is part of the same philosophy that maintains that the solution to development lies in the expansion of foreign trade, in increased agricultural production or in economic integration, all of which are effects, and not causes, of that development.

Reference was made by the President of the World Bank to another of these "priorities" when he stressed the plans for stepping up agricultural production as a key element of the programs of the underdeveloped world. This is another of the miracles that it is desired to bring about, by changing the natural sequence of things. To increase agricultural production when the natural "ceiling" has been reached in the exploitation of the resources of the land is one of the most complex of technological tasks. It results in fact from the promotion of a new revolution, the agrarian revolution, the difficulty of which can be gauged from the backwardness of the agricultures of societies as advanced as the socialist ones.

The agrarian revolution is typical of the developed countries of the west and has only proved to be feasible when industrial growth has made available to the producers the necessary inputs, such as fertilizers, farm machinery, pesticides and herbicides, and the whole complex series of improvements (hybrid seed, artificial pastures, etc., etc.) that are obtained at the cost of long effort and heavy investment in laboratories and experimental farms.

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T.N.: ? underdeveloped intended.



We do not maintain that agricultures are incapable of progress under the conditions of underdevelopment: it is clear that in Africa, in Asia and in Latin America the land is not worked today as it was four centuries ago. However, since what is aimed at is a total solution, there is a clear need to get our basic principles straight. Paradoxical as it might appear, agriculture is the latest arrival in the technological revolution, since, although this also may appear paradoxical, its present expansion is a luxury that can be afforded only by the societies that industry has made wealthy. And we say "might" appear paradoxical because the economic explanation is very simple: it is a matter of the well-known law of diminishing returns.

By all these indirect means it is being endeavored to divert the peoples with the will to transform themselves into industrial societies from the only road that can lead them to that goal, i.e. industrialization. They are being asked to increase their exports, when the large countries are supplying themselves with temperate-climate food products and are developing synthetics that replace tropical products. They are being exhorted to integrate regionally, when each of their societies is fragmented in itself. They are being asked to develop their agricultures, when they lack both the necessary markets for their products and the necessary know-how to step up their production. Finally, the philosophy of limitation of births, on the pretext of "internal" population balance in the underdeveloped countries, seeks to maintain a manageable status quo between the population of the industrial world and that of the primary producing world.

The truth is that speeches like that of Mr. McNamara supply additional ammunition for the Marxists when they assert the essentially Malthusian character of the capitalist system. This assertion is quite false even at the national level, as is demonstrated by the experience of each of the countries in which a "welfare state" exists. It is absurd, then, to supply "ammunition" at the international level. It is also absurd to leave the banner of industrialization in the hands of the communists. Russia preyed upon its former satellites by applying to them an inverse law of deterioration of terms of trade: it sold -- and continues to sell -- raw materials to them at high prices, and paid them low prices for their industrial products. But in doing so it opened up a market for industry that has made objectively possible -- and even inevitable -- the challenges that it is facing today.

It is truly displeasing that a member of John Kennedy's team should today formulate these proposals which, in the final analysis, embody a kind of callous racism: the racism that indifferently leaves hundreds of thousands of colored people to die in Nigeria and Biafra and that now aspires to ensure that no future problems will arise by preventing them from being born.



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Mr. David Fulton
Room 450

Translation of Clipping from "El Clarin," October 2, 1968

Unacceptable Prescription: Birth Control and Curb on Agricultural Development

Washington, October 1 (From our special correspondent. By wire).

If anyone was expecting world-shattering announcements at the opening session of the meetings, he was in for a disappointment. Admittedly, the speeches delivered do reflect, in all its aspects and shades of difference, the urgent preoccupation with the problems of underdevelopment, the root cause of the present critical situation of the world's economy and finances. And while the statement by Pierre-Paul Schweitzer was an outstanding keynote exposé of what must be done as a first step toward solving the problems of raw materials and discriminatory trade policies, and the international liquidity crisis, it is clear that the same cannot be said of the views put forward by Mr. McNamara, who appeared to be speaking not as an international civil servant but rather in his old capacity as Secretary of Defense of the United States. Or can an international official lay down rules on birth control? Is it one of the duties of a president of the World Bank, which was set up to further the economic development of nations, to demand that the underdeveloped world cut down its birth rate? Or is this perhaps not something that rests solely with the consciences of men and peoples?

After the calm words of Mr. Pierre-Paul Schweitzer, McNamara's harsh affirmations unquestionably left many people with a bitter taste, because -- and we should do well to bear it in mind -- the President of the World Bank once again brought to the forefront some of the basic and fundamental issues in the struggle for development and reaffirmed once more the unshakable commitment of international bureaucracy to the monopolistic interests underlying the present colonial structures in which so many African, Asian and Latin American peoples live.

Two aspects of McNamara's speech stand out. The first is his assertion that aid to the underdeveloped nations should be made conditional on the implementation of birth control programs by the borrowing countries. The second aspect, perhaps even more grave because of its insistence on outmoded theories on the international division of labor, is the statement that the World Bank will give overriding priority to the agricultural and educational development of the underdeveloped peoples, which makes Mr. McNamara guilty of a double contradiction. For, on the one hand, he makes the absurd claim that economic development can be reduced to a simple process of agricultural and educational mechanization and expansion, which, when one comes down to it, implies an inexplicable reversal of terms, since, as the experience of the United States itself shows, the processes involved call for the prior existence of powerful industrial stimuli. Where would the under-developed peoples get the steel, the fertilizers and the technical and financial resources to expand their agriculture and their universities if it is not from their own industrial resources? Can Mr. McNamara shrug off, just like that,

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Translated From: Spanish Oct. 15/68	By: RFW:ba

President has seen



the vast worldwide experience in this respect? The other contradiction we note is that he proposes massive aid for agricultural expansion at a time when the world grain market is showing a dangerous tendency to expand, to such an extent, indeed, that by the end of the current year it is known that there will be a gigantic wheat surplus -- 40 million tons in the United States alone -- which is going to confront the wheat-growing countries with serious problems of disposal. Here, it must be admitted that the President of IBRD was working with highly unrealistic information, as there is no other way of accounting for such a flagrant contradiction as that implied by his remarks.

Meanwhile, as the conference recovers from these shocks, the internal committees are the scene of feverish activity. After overcoming in Honduras the Chilean proposal to set up an inter-American compensatory fund for fluctuations in the prices of primary products, the Latin American countries are aligning themselves behind the progressive doctrine of the Fund. In other words, they will support the idea of giving active support to the Fund in its efforts to stabilize prices, abolish discriminatory policies, and provide technical and financial assistance to enable our peoples to lay reliable foundations for development. There is no doubt, however, that when the Minister of Economy of Argentina speaks on behalf of Latin America -- Venezuela will do the same at the Fund Meeting-- he cannot possibly avoid making a specific reference to the newly revived issue of birth control, brought up here by Mr. McNamara. Latin America-- and this is our country's official standpoint--does not need contraceptive devices; it requires suitable conditions and fair treatment for development. This is something which cannot and must not be glossed over before the Governors of the World Bank.

REINALDO BANDINI

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532/3/1

Mr. Fulton

Room 450

Press Cutting (? from)

" S I N T E S I S "

9th October 1968

BIRTH CONTROL AND HUNGER

By Carlos Marino

When he recently explained the new lending policy of the World Bank, the President of that institution, Mr. Robert S. McNamara made assistance to developing countries conditional upon the achievement of a decline in the birth rate, his argument being that any efforts that might be made to produce more food would be offset by the excessively high rates of population growth at present being recorded in the countries in question. This raises a delicate problem of individual and religious conscience, which has reached the level of an international controversy. Mr. McNamara also said that, with the increasing use of fertilizers, a higher level of farming skill and new methods of cultivation the World was on the brink of an agricultural revolution; in other words, a period of large scale production of primary products would soon begin.

The new policy of the World Bank appears directed towards expediting this revolution, bearing in mind the desperate need for food in a World that is already overcrowded. The question of the shortage of food has already formed the subject of many studies by experts and international organizations, who have pointed out that, unless steps are taken in time, a large part of the human race will die of starvation. The apparition of hunger enters into this scheme of things and, in order that this may be avoided or its effects mitigated, experts in the field of social sciences tell us, only these two alternatives are available: either there must be a fall in the number of births, or a large-scale increase in food production must be achieved, not in order to cover the needs of future generations, but so as to feed the hundreds of millions of the inhabitants of this globe who today receive less than half the amount of nutrition they need to keep themselves in adequate physical condition. Otherwise a large part of the earth's population will die of hunger.

(Next follows a summary of the doctrines of Malthus and Vogt)

The same problem as that raised by Malthus and Vogt is, therefore, now being discussed, and peoples and governments will have to opt --according to the sociologists and economists-- for one of these alternatives. Even if, however, Asia, Europe, the United States and Russia have reached saturation point from the demographic standpoint, or will soon be confronted with a dangerous density of population, this is not true of Argentina or of the remaining countries of Latin America, which still have a considerable

TRANSLATION SECTION E-997/68

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President has seen



geographic margin sufficient to allow scope for a larger population. In this connection they can put forward the same economic reasons for expanding their markets and increasing demand as were used by Europe and the United States to justify rises in population.



K