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**Report No. P-1911-AR**

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED LOAN  
TO  
SERVICIOS ELECTRICOS DEL GRAN BUENOS AIRES, S.A.  
WITH THE GUARANTEE OF  
THE ARGENTINE REPUBLIC  
FOR AN  
ELECTRIC TRANSMISSION AND DISTRIBUTION PROGRAM

September 8, 1976

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CURRENCY AND EQUIVALENT

(As of July 31, 1976)

Currency Unit	=	Argentine Peso (\$a)
US\$1	=	\$a140.17 (Official Rate)
US\$1	=	\$a250.00 (Free Market Rate)
\$a1 Million	=	US\$7,134 (Official Rate)
\$a1 Million	=	US\$4,000 (Free Market Rate)

ABBREVIATIONS AND ACRONYMS

CEN	Corporacion de Empresas Nacionales
CIAE	Compania Italo Argentina de Electricidad S.A.
CNEA	Comision Nacional de Energia Atomica
CONCAP	Comision Nacional de la Cuenca del Plata
DEBA	Direccion de Energia Electrica de la Provincia de Buenos Aires
EPEC	Empresa Provincial de Energia de Cordoba
HIDRONOR	Hidronor S.A. Hidroelectrica Norpatagonica, Sociedad Anonima
SEGBA	Servicios Electricos del Gran Buenos Aires, S.A.

MEASURES AND EQUIVALENTS

kW	=	kilowatt
MW	=	megawatt (1,000 kW)
kWh	=	kilowatt hour
GWh	=	gigawatt hour (million kWh)
kV	=	kilovolt (1,000 volts)

FISCAL YEAR

January 1 to December 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSED LOAN TO  
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ELECTRIC TRANSMISSION AND DISTRIBUTION PROGRAM

1. I submit the following report and recommendation on a proposed loan to Servicios Electricos del Gran Buenos Aires S.A. (SEGBA) with the Guarantee of the Argentine Republic for the equivalent of US\$115 million to help finance an electric transmission and distribution program in the Greater Buenos Aires area. The loan would have a term of 15 years, including 3 years of grace, with interest at 8.9% per annum.

PART I - THE ECONOMY

Introduction

2. An economic report entitled "Current Economic Position and Prospects of Argentina" (540b-AR) dated February 20, 1975, was distributed to the Executive Directors. An updating economic memorandum has been completed recently and is being distributed separately to the Executive Directors. Country data sheets are attached as Annex I.

Background

3. Argentina is endowed with a favorable human and natural resource base and enjoys a relatively high GDP per capita, which reached almost US\$1,600 in 1975. However, it is by no means fully developed and its income level masks deep-seated structural imbalances in the economy, manifested in its inability to attain stable growth. Argentina has so far failed to develop a sufficiently productive and internationally competitive industrial structure. It has attempted to maintain, however, comparatively high levels of income and consumption in the urban sector. This has been done in part by price, income and subsidy policies which, in effect, transferred income from the agricultural to the urban sector. Lacking adequate incentives, the agricultural sector has produced and exported less than would be expected. In addition to the urban-rural conflict, there has been a clash of interests between the industrial and agricultural entrepreneurs on the one hand and the demands of a large mass of well organized employees and workers on the other. These social and economic tensions have made it difficult to pursue rational economic policies for any considerable period of time. Unsatisfactory economic results have, in turn, led to frustrated expectations and thus exacerbated the social tensions. The present government is attempting to break this "vicious circle."

4. Although Argentina's economic development in recent decades has been characterized by a "stop-go" syndrome, the economic and financial chaos of

1975/76 was virtually without precedent in the country's history. The annual rate of inflation which reached 355% in 1975, accelerated to an annual rate of about 1,000% during the first quarter of 1976. The last few months of the previous administration saw a total breakdown of economic management which propelled the nation toward hyperinflation and created a serious danger of default on its external obligations. The military forces which had been hesitant to displace the elected authorities finally took the reins of government on March 24, 1976.

#### The Government's Short-Term Program

5. The economic and financial chaos inherited by the military government when it came to power in March 1976 dictated in large measure the priorities of its actions. The most urgent tasks before the authorities were to halt hyperinflation and to preclude default on its international financial obligations. Since inflationary expectations manifested themselves in a flight from the peso and the consequent skyrocketing of the free market exchange rate, the authorities took prompt action to alter this pernicious situation. To contain the growth of the money supply and reduce the velocity of circulation, the authorities raised interest rates and intensified the use of indexed government bonds. With a view to further strengthening the peso, the authorities have permitted an ever increasing proportion of export transactions to be made at the free foreign exchange market rate and a US\$300 million short-term credit from U.S. and European banks was arranged. In addition, the authorities successfully rolled over about US\$350 million of payments due on public sector obligations from the second to the last quarter of 1976. These measures resulted in a sharp drop in the free exchange rate from 380 pesos per dollar to 240-250 pesos within one month, indicating initial success in lowering inflationary expectations and halting capital flight.

6. In pursuit of further deceleration of inflation, the authorities undertook the twin task of breaking the wage-price spiral and eliminating price controls which had led to a distortion of relative prices and paradoxically fueled inflation by generating widespread scarcities. To break the wage-price spiral, the authorities instituted on a temporary basis a procedure whereby they preempted the sole right to grant wage increases. Wages may not be increased except as decreed by the government. Adoption of such a strong incomes policy led to a continuation of the downward trend in real wages which ensued in the latter part of 1975 and early 1976, as nominal wage increases failed to keep pace with price rises and mounting scarcities of goods. A 15% wage increase was authorized in June and another of 12% for September. By May 1976, when real wages reached their lowest level, it is estimated that they were approximately 80% of the average for 1971-75. Indications are that since June real wages have improved somewhat. The combined effect of the decline in the free exchange rate and the change in incomes policy produced the intended deceleration of inflation. The first major slowdown occurred in May, when the cost-of-living index increased by 13% as compared with 38% in March, and it further dropped to 2.9% in June. In spite of additional increases in prices of public sector services instituted in July, the rate of inflation was only 4.2% that month, which was

well within the limits to maintain overall price increases of around 5% monthly by year-end.

7. The present authorities have recognized that sound management of public finances is the cornerstone of any successful campaign against hyperinflation. In large measure the debilitating events in the economy were brought about by a rapid deterioration in public sector finances culminating in March 1976 with four-fifths of the budget being financed by the Central Bank. Rehabilitation of public finances will require three basic elements: (i) restoration of the real value of tax revenues; (ii) adjustment in prices of public sector enterprises; and (iii) reduction in public expenditures. To achieve the first objective the Government has indexed many tax liabilities and thereby removed any incentive to postpone payments. Moreover, a deceleration in inflation should by itself remove the advantage associated with deferred tax payments. In addition to relying on these fundamental factors, the authorities have raised the most important value-added tax from 13 to 16%, have reinstated the high-yielding provincial turnover tax at 1.6% and increased the provincial property tax with a view to reducing budgetary transfers to the provinces, have undertaken a reassessment of urban and rural property, have reinstated the levy on capital of enterprises as well as enacted a number of other minor tax measures. With respect to state economic enterprises, the Government has adopted a program of phased increases in prices of publicly produced goods and services. As a first step, transportation and electricity rates were raised. Further substantial price adjustments were made in almost all other public enterprises with an effective weighted average increase of 70% between March and September. On the expenditure side, savings are being achieved in the largest expenditure category of salaries by both reducing the payrolls padded in recent years and through an emergency reduction of real wages of public sector employees. Provided the badly debilitated tax administration structure is promptly rehabilitated, the Treasury deficit should be reduced to 7% of GDP in 1976, compared to over 12% in 1975.

#### Recent Economic Developments and Prospects

8. The recessionary trend, which began in the second half of 1975 and continued into the first quarter of 1976, does not appear to have been seriously exacerbated by the Government's stabilization program. GDP which had fallen in the last quarter of 1975 to a level almost 7% below that of the previous year is now estimated to decline by 4% this year. It appears that during the second quarter of this year the economy has been experiencing a large-scale inventory liquidation phase. Producers, wholesalers, retailers and even households which previously had hoarded goods in preference to money were finding the practice too expensive with the cost of money greatly exceeding its depreciation and were rapidly dishoarding. This explains in part the tenfold drop in the rate of inflation between March and June. It appears reasonable to expect that the stabilization measures, which are introducing a semblance of order to the economy and have provided a strong impetus to exports, will also serve as a basis for revival of GDP growth in 1977.

9. Argentina's balance of payments is beginning to show signs of improvement after a disastrous year in 1975, when recorded export earnings fell by over 20%. The drop was due to not only the closing of the EEC market for meat, but also to export taxes and to smuggling stimulated by the large spread between the official and the free market exchange rate. Whereas the volume of wheat exports is expected to nearly double this year, little immediate improvement is expected in total foreign exchange earnings from grain exports because of generally lower prices than last year and a poor corn crop. Most other export categories, however, are already showing signs of recovery. Beef export volume is about double the level of 1975, although still substantially below the 1972 peak. The EEC is now permitting beef imports pari passu with its own sales from stock. The volume of manufactured exports has also increased noticeably, surpassing the 1974 level. Overall, the Government is projecting an increase in export earnings of about 20% this year over 1975, to US\$3.6 billion, which should stimulate the economy. Imports are expected to decline from US\$4 billion in 1975 to US\$3.3 billion this year, reflecting depressed economic activity in industry, drawdowns of stocks accumulated in 1975 and removal of incentives to overinvoice imports by a realistic exchange rate. The increase in export earnings and reduction of import payments should produce a swing of over US\$1,370 million in the resource balance, from a deficit of US\$900 million in 1975 to a surplus of US\$470 million in 1976. Factor payments are, however, expected to increase because of high interest payments and a current account deficit of about US\$100 million is forecast for the year. In addition, because of large payments due on capital account, a substantial overall balance-of-payments deficit is projected for 1976.

10. The prospects are favorable for Argentina's attaining and sustaining considerably higher growth rates than in the past if the economic authorities can persist in their program of economic reform and reconstruction. The first phase of the program has necessarily stressed stabilization measures with an immediate impact. During the next two or three years, growth rates are likely to be modest as the authorities must emphasize a rebuilding of depleted international reserves and reduction in the presently excessive level of short-term debt so economic policies will not be so vulnerable to even comparatively minor fluctuations in external circumstances. These measures must be accompanied by a strengthening of public sector finances and corrections in the structure of costs and prices which are needed to stimulate economic efficiency and growth. After the end of the first phase of the program the major tasks for the economic management include the adjustment of both industry and agriculture to the new conditions and opportunities, as well as putting in place the infrastructure needed to support expanded output. The levels of international trade--which have been low for an economy of Argentina's resource endowment and economic size--are expected to expand significantly as the economy adjusts to the more open economic policies. It will take a number of years and continuing large capital inflows to carry out these tasks, partly because of their inherent complexity and partly because public support needed to maintain the effort can be sustained only if social costs of the adjustment process are minimized. The inflows of medium and long-term capital from both private and official sources will play essential supporting roles in this process.

### Debt Service and Creditworthiness

11. The spectre of default on external debt, which seemed imminent at the beginning of the year, has been dispelled by a mammoth funding operation. The Government upon taking office secured a US\$300 million 180-day loan from commercial banks and had rolled over about US\$350 million of payments due on public sector debts from the second to the fourth quarter of this year. It has obtained a standby credit from the IMF of SDR260 million (about US\$300 million). This includes the first credit tranche of about US\$180 million to be used this year, and about US\$120 million or two-thirds of the second credit tranche for next year's availability. On the basis of the stand-by, the Government is currently negotiating with commercial banks in the U.S., Canada, Europe and Japan for a medium-term loan and expects to conclude shortly an agreement for US\$870 million with a four-year maturity. These loans and credits, although needed to make payments on the previously short-term bank borrowing and the rollovers, should nevertheless strengthen Argentina's foreign exchange position and further improve confidence in the peso. Moreover, since the loans and credits from the banks are of a medium-term character, they represent a step toward an improvement in the external debt structure.

12. Argentina's debt management problems result from the maturity structure more than from the level of its external debt. The latter is not excessively high. It is estimated that public and publicly guaranteed debt outstanding and disbursed was US\$3.2 billion at the end of 1975. Private external debt amounted to roughly US\$3.8 billion, of which "swaps" with a maturity of six months constituted US\$1.3 billion, and short-term import financing, also with a six-month maturity, US\$1.5 billion. The latter in large measure is revolving in character and normally excluded from medium- and long-term debt figures. However, almost one-third of the outstanding public debt and almost one-half of the private debt outstanding at the end of 1975 falls due during 1976. Over 70% of the total falls due within four years. This maturity structure constitutes a serious challenge to sound monetary and foreign exchange reserve management and will require realignment. The external public debt service ratio during the current year is estimated to reach 24%. Despite expected net borrowing averaging \$250 million annually in 1976-79, the public debt service ratio should decline to about 19% in 1979 and 16% in 1980 because of the improvement in the terms structure and the expected increases in exports. Provided the authorities successfully implement their policies of reconstructing the economy and manage the external indebtedness along the above indicated lines, debt service should not prove unduly burdensome. Under the circumstances, Argentina should be able to service the external borrowing required for economic rehabilitation.

PART II - BANK GROUP OPERATIONS IN ARGENTINA

Bank Operations

13. As a result of concerns about creditworthiness, along with delays and difficulties in arriving at agreements on specific projects, past Bank lending to Argentina has been sporadic. Since 1961, Argentina has received nine loans from the Bank amounting to US\$532.3 million, of which four have not been fully disbursed. After the first two loans were made in 1961/62 no loans were made until 1967. In the 1967 to 1969 period, five loans were made totalling US\$233.3 million. The last two Bank loans to Argentina were made in 1971. The proposed loan would mark a resumption of lending to Argentina after a hiatus of over five years. The Bank has made four loans for the power sector, four loans for the transportation sector and one loan for livestock development. Annex II contains a summary statement of Bank loans as of July 31, 1976 and notes on the execution of ongoing projects.

14. The Bank held 11% of Argentina's total medium- and long-term external debt at the end of 1975 (excluding financial credits). Service on Bank debt is approximately 3% of Argentina's total public debt service and Bank loans to Argentina constitute about 3% of the Bank portfolio.

15. In its past and projected lending to Argentina, the Bank has supported and hopes to continue to support several important development objectives. The first is institutional development and policy reform which will ensure that public savings are used economically. This has been an important objective in the power sector where the Bank has supported management reforms and a tariff structure which, while socially acceptable, furnishes adequate rates of return on invested capital. The proposed project supports the government's efforts to achieve these objectives. In lending for livestock development our loan has served to introduce modern methods of ranch management, within the framework of a supervised agricultural credit program.

16. A second lending objective is to support projects designed to increase Argentina's export capacity. Argentina's past economic policies have produced a low level of participation in the international economy relative to the country's economic resources. While policy changes, such as agricultural sector pricing, will provide much of the initial stimulus to increasing exports, sustained growth will also require an expansion of productive facilities and infrastructure, in order to eliminate the main development constraint, i.e., the frequently recurring balance-of-payments crisis. The ongoing livestock development and the proposed grain storage projects support this objective. Proposed future lending in the transport sector aims at eliminating bottlenecks for the export of agricultural commodities. The proposed loan to SEGBA would help facilitate the expansion of industrial capacity in the greater Buenos Aires area where most of Argentina's export industries are located.



17. Finally Bank lending to Argentina has helped provide necessary long-term external capital during times when these could be absorbed effectively within the framework of a sound overall financial plan. Investment requirements have grown steeply as a result of the neglect of the past. Even with a major effort, public sector savings will fall short of the necessary levels. This creates a substantial gap in the Government's financial program which can only be filled by external borrowing. Private sources, however, are not now prepared to offer Argentina financing in sufficient amount appropriate terms. It will take some years of successful economic management for Argentina to establish its position as a substantial borrower of long-term capital in private markets. During this process the Bank hopes to serve as a catalyst to stimulate lending from other sources as well as to directly provide a part of the needed inflow.

18. We are working with the Argentines on the preparation of further projects. A project for improvement and development of highways, which are important for agricultural exports, has been appraised. The Government has under preparation a project for grain storage and related facilities. Prospects for increased grain exports are favorable and such a project should help remove existing bottlenecks constraining the Government's efforts to increase exports. The Government is also preparing an industrial credit project to support the modernization and expansion of industry in general and particularly of export-oriented industries.

#### IFC Operations

19. IFC has made ten loans to borrowers in Argentina totalling US\$51.2 million, and one equity investment of US\$2.0 million, of which US\$28.6 million has been repaid, cancelled or sold. A summary of IFC's investments up to July 31, 1976, is given in Annex II.

### PART III - THE POWER SECTOR

#### Bank Financing in the Sector

20. The Bank has made four previous loans to the power sector in Argentina totalling US\$292 million. The first loan to SEGBA in the amount of US\$95 million was made in January 1962 to complete a 600 MW thermal generating station and expand the transmission and distribution systems in Buenos Aires metropolitan area. The second loan to SEGBA of US\$55 million in January 1968 enabled it to continue the expansion of its generation, transmission and distribution facilities. A third loan of US\$82 million was made to HIDRONOR, a Government-owned corporation, in December 1968 for hydroelectric power generation. In January 1973, the agreement for this loan was amended to expand the project to include additional generating facilities. The fourth Bank loan to the power sector and the third to SEGBA for US\$60 million was made in November 1969 to help SEGBA continue the expansion of its transmission and distribution facilities through 1972. The physical execution of the projects financed by the Bank has been satisfactory.

### General Energy Policy

21. In 1975, petroleum and natural gas accounted for 85% of total primary energy consumption in Argentina. The Government plans to reduce this proportion by expanding the production of hydroelectricity, nuclear energy and possibly coal. The electric power sector could make an important contribution to this objective, since the possibilities of substitution of petroleum in other major energy-consuming sectors are limited. Argentina's hydroelectric potential at 45,000 MW is sizeable but only some 4% of this resource has been developed. Projects totalling an additional 8% are under construction. Coal could also become an important source of energy, especially for power generation. The Government intends to decide shortly on the investment program necessary to increase production so as to permit the switching of some existing and future thermal plants from oil to coal. At present Argentina imports about 11% of its petroleum and 15% of its natural gas requirements at a cost of about US\$450 million in 1976. The Government intends to try to make the country self-sufficient by intensifying the exploration and production of oil and natural gas through the award of exploration contracts to international firms.

### Power Market

22. At present 80% of the Argentine population have access to electric service. In 1975, the per capita consumption was 991 kWh compared with 740 kWh for Brazil in 1975 and 1,140 kWh for Venezuela in 1974. The Greater Buenos Aires region is 90% electrified with a per capita consumption of 1,170 kWh (1975). The main consumer categories are industrial and residential, accounting for 43% and 32% respectively of total consumption. In 1975, public service generation was 24,554 GWh compared with 16,800 GWh in 1970. Captive generation was 4,900 GWh, practically unchanged since 1970. Total installed capacity in Argentina in 1975 was 9,280 MW of which about 2,000 MW correspond to captive plants.

23. The projection adopted by the previous authorities of an annual growth of 11.5% for the period 1976-86 proved to be unrealistic. The maximum growth rate now suggested by the Government are 0% growth in 1976, 5% in 1977, 8% in 1978 and 10% annually thereafter.

### Sector Organization

24. The power sector is, in theory, regulated by the Secretaria de Energia, which is responsible for planning, granting concessions to public utilities and self-suppliers and approving tariffs. However, many agencies participate in major investment decisions in the sector. The Comision Nacional de la Cuenca del Plata, CONCAP, a body which coordinates Argentina's participation in international projects with Bolivia, Brazil, Uruguay and Paraguay, plays a major role in the construction of the Salto Grande hydroelectric project with Uruguay and the preparation of the Yacyreta-Apipe hydroelectric project on the Parana river with Paraguay. The national nuclear energy commission (CNEA) is in charge of building and operating nuclear power plants

and reports directly to the President of Argentina. The two major provincial electric companies controlled by the provincial Governments of Buenos Aires and Cordoba, DEBA and EPEC, as well as other smaller provincial utilities, also make investment decisions and set tariffs independently of the Secretaria de Energia.

#### Future Sector Investments

25. In the absence of a proper long term sales forecast, the major power generation projects already under construction are likely to provide, well into the 1980's, the central interconnected system with substantial surplus capacity at considerable cost to the economy. In view of this, the Government has reviewed all outstanding commitments for major generation and transmission projects to determine the possibility of delaying or cancelling them, and decided to defer for the present the Alicura hydroelectric project recently initiated by HIDRONOR.

26. The Government is aware of the need for improvement in the sector's structure and, under the project, will carry out a national power sector organization study and also prepare a national power expansion plan based on the least-cost program for expanding generation and transmission. During negotiations, agreement was reached on the draft terms of reference for the plan and the study. The Government will retain individual international experts (to be financed under the proposed loan) to assist in certain specific aspects where national expertise is lacking (Section 2.03 (c) of the draft Guarantee Agreement) and will discuss the results of the study and the plan with the Bank (Section 2.04 of the draft Guarantee Agreement). Furthermore, the Government has agreed not to approve any major new investment in generation and transmission until the national power expansion plan is prepared (Section 3.07 of the draft Guarantee Agreement).

#### Tariffs and Asset Revaluation

27. In order to reduce operational deficits of public service enterprises, the new Government took action shortly after coming to power in March 1976, to raise their tariffs. SEGBA was authorized to raise its tariffs 10% monthly from April 1976 (a 20% additional increase was authorized in July) and the Government intends to continue this policy through 1976. SEGBA and the Government have agreed to maintain tariffs at the level necessary to obtain beginning in 1977 an 8% rate of return on its net fixed assets in operation, valued at acquisition cost in US dollars, as provided by its Concession Agreement (Section 5.05 of the draft Loan Agreement and Section 3.03 of the draft Guarantee Agreement). The Government has assured the Bank that it intends to raise the tariffs for bulk supply by HIDRONOR and CNEA's Atucha nuclear power plant to provide an 8% rate of return on investment by end-1977. In addition, the Government plans to gradually increase prices for fuel used in electricity generation (at present only 25% of international levels) to reach 75-80% of international prices by end-1978. These goals are reasonable and would lead to a substantial improvement in energy sector finances.

28. There is no consistent approach to revaluation of power sector assets. As stated above, SEGBA's concession stipulates the use of historic US dollar values and other entities use other methods. As part of the sector organization study, the government intends to carry out a study to develop proposals for a uniform methodology to enable all the power utilities to revalue their assets uniformly and realistically.

#### Greater Buenos Aires Subregion

29. Argentina's principal power market is located in a region covering the city of Buenos Aires and parts of the provinces of Buenos Aires, Entre Rios and Santa Fe. This area, referred to as the Buenos Aires-Litoral region, includes 57% of the country's population and accounts for 70% of total electric power consumption. Within the Buenos Aires-Litoral Region, the city of Buenos Aires and 31 surrounding municipalities of the province of Buenos Aires contain 70% of the population and account for 71% of the consumption of electric power. This power is distributed by SEGBA and Compania Italo Argentina de Electricidad S.A. (CIAE), which in 1976 had a combined installed generating capacity of 2,971 MW, all thermal. SEGBA is the principal supplier and its concession covers the whole subregion while CIAE's concession area (which overlaps with that of SEGBA) includes one third of the city of Buenos Aires and four of the remaining municipalities. The Government agreed to ensure that the two utilities will continue to coordinate their investment programs to avoid duplication of facilities which might otherwise result from their overlapping concession areas (Section 3.05 of the draft Guarantee Agreement).

30. SEGBA and CIAE served 3.1 million consumers in 1975 (of which 2.7 million were served by SEGBA) and sold 10,300 GWh, of which 8,800 GWh were sold by SEGBA. Captive plants in the subregion generated 1,400 GWh in 1975. These plants were installed by many industrial and commercial consumers as a result of the power shortages of the 1950s and early 1960s, but as a result of SEGBA's ability to provide more reliable and economic service, their output has stagnated since 1970.

#### PART IV - THE PROJECT

31. The project was appraised by a Bank mission which visited Argentina in June/ July 1976. A report, entitled "Appraisal of the Fourth Buenos Aires Power Project Servicios Electricos del Gran Buenos Aires (SEGBA)," No. 675b-AR dated September 7, 1976 is being circulated separately to the Executive Directors. A loan and project summary is presented in Annex III. Negotiations were held in Washington from August 16 to 20. The Government delegation was headed by Mr. Bernardo Bronstein, Subsecretary of Electrical Energy, Ministry of Economy, and the SEGBA delegation was headed by Mr. Oscar Briozzo, Executive Vice President.

### The Borrower

32. SEGBA, the proposed borrower, is a corporation formed in 1958 to take over most of the assets and responsibilities of the Compania Argentina de Eletricidad (CADE). Its shares are wholly owned by the Argentine Government through the Corporacion de Empresas Nacionales (CEN), a holding company for most government-owned enterprises. Although CEN has legal powers governing the general policies of its subsidiaries, the latter have retained their autonomy in carrying out their day-to-day business. SEGBA's Bylaws, as approved in 1961 in connection with Loan 308-AR, were intended to ensure that the company become an independent, well managed and financially viable utility. However, the Bylaws were amended in 1972 to reflect the Government's intention to exert a greater degree of control over the company. This action was reversed with the approval of the new Bylaws in July 1976, which are basically the same as those of 1961 and are satisfactory.

33. SEGBA has a Board of Directors of eight members, appointed by the Government through CEN. The Board chooses two of its members to serve as President (Chairman of the Board) and Executive Vice President (General Manager). The Executive Vice President is responsible for day-to-day management. He is assisted by a committee of six department heads (Administration and Finance, Planning, Personnel, Procurement, Commercial and Technical). In July 1976 a new Board of Directors took charge of SEGBA's management. The new Executive Vice President is a capable engineer with more than 30 years' service with SEGBA and its predecessor utility. Before resigning in 1972, he held the post of technical manager. The newly appointed managers and assistant managers are experienced SEGBA staff members and constitute a competent team.

34. SEGBA's accounting, internal audit and data processing are satisfactory. Nearly all commercial and accounting processes as well as personnel records, stores, inventories and procurement are computerized. The monthly financial statements and the budgetary report have been delayed in recent months. The necessary steps are being taken to speed up their preparation and ensure their timely availability.

35. The deterioration of SEGBA's efficiency and the effects of low tariffs were such that since 1970, SEGBA has been earning less than the 8% rate of return on its rate base guaranteed by its Concession Agreement and reflected in its agreements with the Bank; and in 1974 and 1975, its earnings became negative. This performance was particularly poor since SEGBA paid very low prices for its purchases of fuel and bulk electricity from other public enterprises. Although SEGBA's financial situation has improved considerably in 1976 owing to recent tariff increases, earnings and the contribution of internal cash generation to the expansion program this year are still expected to be very low. By December 31, 1976, SEGBA's total accumulated shortfall in earnings in comparison to its authorized 8% rate of return is expected to reach US\$123.4 million. To offset this shortfall, the Government agreed to make available US\$86.8 million through budgetary funds by June 30, 1977 (Section 2.02 (c) of the draft Guarantee Agreement) and intends to allow

SEGBA to charge tariffs sufficient to enable it to recover the remaining US\$36.6 million in the years 1977-79. After 1979, SEGBA would maintain a rate of return of 8%, while paying substantially higher prices for fuel and purchased power. The projected earnings would enable SEGBA to finance a significant portion (51%) of its 1977-80 expansion program from internal cash generation.

36. SEGBA's debt/equity ratio was 34/66 in 1975 and is expected to become 31/69 by 1981. SEGBA would not contract any long-term loans without the Bank's concurrence if its internal cash generation were less than 1.5 times debt-service obligations (Section 5.04 of the draft Loan Agreement).

37. The Government and SEGBA are fully aware of the problem of SEGBA maintaining employment levels far in excess of those usual for the sector. They intend to reduce substantially the number of employees from the present figure of 26,300 to 22,800 in 1978, and thus increase the number of customers per employee from 102 in 1975 to 126 in 1978.

38. SEGBA has a comprehensive training program and maintains two centers to fulfill the majority of its training needs. Other specialized training is carried out at other local institutions (technical universities, etc.) and for very specialized subjects (for graduate engineers) use is made of the training facilities of Electricite de France and of suppliers of sophisticated equipment. SEGBA intends to train 2,000 persons during the years 1977-78 in subjects varying from low-tension networks maintenance to load dispatching.

#### Project Description

39. The project proposed for Bank financing consists of the main elements of SEGBA's transmission and distribution expansion requirements for 1977-81. These include the addition of about 374 circuit km of transmission lines, 7,100 MVA of transformer capacity and associated switchgear, 8,240 km of distribution lines and 884 MVA of transformer capacity in 4,600 low-tension substations, meters and equipment for 180,000 service connections, and studies to be carried out by the Government with the assistance of consultants.

#### Service to Low-Income Groups

40. The low-income population of the Greater Buenos Aires area has grown very rapidly due to immigration from rural areas and neighboring countries and large shanty towns have developed. Many of these dwellings in these shanty towns are connected to the nearest power line through illegal hook-ups which present serious problems of safety, in addition to financial losses to SEGBA. SEGBA has estimated that about 250,000 persons live in 70,000 dwellings in 110 different shanty towns. SEGBA intends to reach agreement with the municipalities, where these shanty towns are located, on a plan to sell energy to the municipality in bulk for distribution within each shanty town.

41. There are also about 25,000 dwellings in new low-cost housing developments without electric service. SEGBA intends to connect these during the next three years with an investment of about US\$6 million as part of the project.

#### Cost Estimates and Financing Plan

42. The estimated cost of the project is US\$495.3 million equivalent, including a foreign currency component of US\$152.6 million. These cost estimates were prepared by SEGBA and are based on mid-1976 prices as quoted by different manufacturers. Physical contingencies were estimated at 2% for all project components except for the 500 kV installations for which a 10% physical contingency allocation has been provided. Price contingencies for both local and foreign costs were based on the following percentages: 4.5% in 1976 (half-year), 8% per annum in 1977 through 1979, and 7% per annum thereafter. The estimated cost for engineering, supervision and administration was based on SEGBA's experience with ongoing works. Consultant services have been estimated on the basis of an average cost of US\$4,870 per man-month (excluding travel and subsistence).

43. The proposed US\$115 million Bank loan to SEGBA would cover 75% of the foreign exchange cost of the Project. The Bank loan would have an interest rate of 8.9% and a term of 15 years including three years of grace. The proposed loan includes US\$500,000 for 60 man-months of consultant services to assist the Government to carry out the organization study and the expansion plan (para 26). The Government would assume the responsibility for the repayment of these funds to SEGBA (Section 3.02 of the draft Loan Agreement). The balance of SEGBA's financial requirements for the period 1977-80 is expected to be met by the Government's 1977 contribution of US\$36.5 million, loans from foreign and local banks of US\$206.0 million, and the drawdown of US\$39.8 million of existing loans. The Government agreed that it will provide funds sufficient to protect SEGBA against any failure to secure financing from foreign and local banks during 1977-80 on terms and conditions satisfactory to the Bank (Section 2.02 (c) of the draft Guarantee Agreement).

44. SEGBA's capital investment and financing plan during the period of loan disbursement can be summarized as follows:

	<u>1977 - 1980</u> <u>US\$ million</u> <u>equivalent</u>	<u>%</u>
<u>CAPITAL INVESTMENT PROGRAM</u>		
Construction Expenditures:		
IBRD Project	425.4 /1	51.3
Ongoing works	223.3	27.0
Future works	2.8	0.3
Other	55.2	6.7
Interest capitalized	<u>66.7</u>	<u>8.0</u>
Total construction expenditure	773.4	93.3
Increase in working capital	<u>55.2</u>	<u>6.7</u>
Total capital investment	<u>828.6</u>	<u>100.0</u>
<u>FINANCING PLAN</u>		
Net internal cash generation	424.9	51.3
Government grants	36.5	4.4
Other sources	0.4	0.0
Borrowings:		
Proposed IBRD Loan	115.0	13.9
Other Loans	<u>251.8</u>	<u>30.4</u>
Total borrowings	366.8	44.3
Total financing	<u>828.6</u>	<u>100.0</u>

/1 An additional US\$69.8 million (after the proposed loan is fully disbursed) would be expended in 1981 to complete the project.

45. While in Washington for negotiations, the representatives of Government and SEGBA held discussions with a US investment bank of international standing, regarding the possibility of a loan of about US\$50 million at medium term to supplement the proposed Bank loan. Such financing would be in addition to the Bank loan and in substitution for some of the borrowings which SEGBA would otherwise undertake within Argentina. We have informed the prospective lender, as well as SEGBA, that we would be prepared to recommend to the Executive Directors our association with them or other co-lenders, if this were to result in better terms for the Borrower than it could otherwise obtain in international markets. It seems likely that the arrangements for the private co-financing would be concluded within six



months after the approval of the Bank's loan. The form that this association might take is described in my memorandum to the Executive Directors of May 29, 1975 relating to a loan in Brazil to CSN (R75-103/1). If and when such a co-financing operation materializes we would return to the Executive Directors with full details regarding the proposed private loan and appropriate recommendations for amendments to the Bank Loan Agreement.

#### Tariff Structure

46. SEGBA's tariff schedule for residential consumers is based on a low "social" rate for small consumers (up to 60 kWh/month), with progressively higher charges to larger residential users. Tariffs for large industrial consumers incorporate a peak and off-peak variation in charges. SEGBA should consider a more elaborate tariff structure for medium-sized commercial and industrial consumers with a maximum demand of less than 50 kWh. Such consumers are presently included in a "general service" category which does not provide any incentive for high voltage supply or off-peak consumption. The Government and SEGBA have agreed to carry out a study of SEGBA's tariff structure with a view to identifying areas for improvement and to discuss its conclusions with the Bank (Section 4.02 of the draft Loan Agreement and Section 3.06 of the draft Guarantee Agreement).

#### Engineering and Construction

47. The basic design of the distribution expansion program as well as the studies for the high tension transmission system were developed by SEGBA with the assistance of consultants. SEGBA employs contractors for the construction of high and mid-tension overhead and underground transmission lines, for a part of the low-tension distribution lines and substations and for the new high-tension substations. Expansions of existing substations, part of the low-tension distribution lines and substations and service connections will be undertaken by SEGBA's own forces. With the exception of the lines and substations involved in the completion of the 500/220 kV ring, the above described works are part of a continuous expansion of the subtransmission and distribution system. The project corresponds to works to be initiated in mid-1977 and to be completed by mid-1981.

#### Procurement and Disbursement

48. Procurement procedures substantially the same as those agreed for the previous loan to SEGBA (Loan 644-AR) will be used for the proposed loan (Schedule 4 of the draft Loan Agreement). They provide that bids for two thirds of the equipment and materials of each lot to be procured would be invited on an international basis, with Argentine bidders receiving a 15% margin of preference of the cif price of the lowest qualified foreign bidder or the applicable custom duties, whichever is lower. If an Argentine bidder were successful for this two thirds, he will be invited to supply the other one third at the same price. If a foreign bidder were awarded the contract for the two thirds, separate bids from Argentine suppliers would be opened and a contract would be awarded to the lowest bidder if his price were below

138% of the cif price of the successful foreign bidder for the two thirds. However, any domestic procurement undertaken on this basis would not be eligible for financing out of the loan. If all Argentine suppliers' prices were above 138% and they were not willing to reduce their prices to that level, the successful foreign bidder for the two thirds would be invited also to supply the one third at the same unit price. This rather complex procurement procedure was adopted to give Argentine industry an expanded opportunity to supply some equipment under the project, without excessively increasing total project cost. Were foreign suppliers to be awarded two thirds of the contract under international competitive bidding and Argentine suppliers to win the remaining one third of the contracts at the 38% differential, the combined cost of the foreign and local supplier contracts would be less than 15% above the international competitive bid price.

49. Disbursement from the Bank loan would be made against appropriate documentation for 100% of foreign expenditures on imported goods and 60% (estimated foreign exchange component) of equipment procured in Argentina for contracts awarded through international competitive bidding and 100% of the cost of consultant services. Based on the experience of the previous SEGBA loans, it is estimated that about US\$40 million of the Bank loan will be disbursed against imported equipment and US\$75 million against domestic equipment.

#### Project Benefits and Risks

50. The proposed loan would make a significant contribution both to the Argentine power sector and to SEGBA. In terms of the sector we would assist the Government (a) to streamline sector organization, regulation, planning, financing and operation; and (b) to formulate a national power expansion plan based on the least cost program for expanding generation and transmission facilities which would incorporate reasonable criteria for establishing system reserves and the most rational use of indigenous energy resources, including coal, uranium, and hydroelectricity.

51. With regard to SEGBA, the project would provide the transmission facilities necessary to permit utilization of the energy produced at the hydro-power plants of El Chocon, Planicie Banderita and Salto Grande and at the nuclear power plant at Atucha. The availability of this energy will allow SEGBA to meet the increasing demand for power due to the expected revitalization of industrial activities in Argentina as a result of the economic policy applied by the present Government. The growth in the industrial sector has been the main factor in the increase of electricity consumption (56% of the total over the last five years) and the project would provide the facilities required to support a continuation of this growth. The project would also provide the distribution facilities necessary to bring this energy to the final consumers (65,000 new consumers are expected to be connected annually), reduce losses and improve the efficiency of SEGBA's operation and the reliability of service due to the incorporation of urgently needed communications, telecontrol, telemetering and load dispatching equipment. The project is not expected to have any adverse impact on the environment.

52. SEGBA is well qualified to implement the project and the risks of the project from the technical point of view are no greater than those normal for projects of this type. It is recognized, however, that in the past, Government intervention and an adverse general economic environment resulted in a deterioration of SEGBA's efficiency and a severe reduction in its earnings. The policies of the present Government and the measures agreed in conjunction with the proposed loan are designed to enable SEGBA to improve its efficiency and financial position in the future.

53. The benefits of the project, as a proxy, are assumed to be the price of electricity paid by the ultimate consumer. The project costs consist of investment and operating costs and the costs of bulk power and fuel (realistically priced as noted in paragraph 27) purchased by SEGBA. Based on these assumptions, the economic rate of return on the project investment is estimated to be about 21%. The sensitivity analysis shows that the rate of return would exceed 18% even if costs are assumed to rise by 10%.

#### PART V - LEGAL INSTRUMENTS AND AUTHORITY

54. The draft Loan Agreement between the Bank and Servicios Electricos del Gran Buenos Aires S.A., the draft Guarantee Agreement between The Argentine Republic and the Bank and the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement and the text of a draft resolution approving the proposed loan are being distributed to the Executive Directors separately. Features of the draft Loan and Guarantee Agreements of special interest are referred to in paragraphs 26, 27, 29, 35, 36, 43, 46 and 48.

55. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

#### PART VI - RECOMMENDATION

56. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara  
President

Attachments

September 8, 1976



TABLE 3A  
- SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM <sup>2</sup> )	ARGENTINA			REFERENCE COUNTRIES (1970)			
	TOTAL	1960	1970	MOST RECENT ESTIMATE	VENEZUELA	SPAIN	AUSTRALIA**
TOTAL	2776.9						
AGRIC.	..						
GNP PER CAPITA (US\$)		770.0	1330.0	1590.0	1450.0	1560.0	3640.0
<b>POPULATION AND VITAL STATISTICS</b>							
POPULATION (MID-YR. MILLION)		19.9	23.2	25.0	10.3	33.6	12.5
POPULATION DENSITY PER SQUARE KM.		7.0	8.0	9.0	11.0	67.0	2.0
PER SQ. KM. AGRICULTURAL LAND		..	13.0	..	..	97.0	3.0
<b>VITAL STATISTICS</b>							
CRUDE BIRTH RATE PER THOUSAND		24.9	22.5	21.8	42.1	21.0	20.9
CRUDE DEATH RATE PER THOUSAND		9.0	8.6	8.8	8.7	8.8	8.8
INFANT MORTALITY RATE (/THOU)		59.4	58.9	..	49.0	27.9	17.9
LIFE EXPECTANCY AT BIRTH (YRS)		64.7	67.4	68.2	63.0	70.8	71.9
GROSS REPRODUCTION RATE		1.5	1.5	1.5	2.9	1.4	1.4
<b>POPULATION GROWTH RATE (%)</b>							
TOTAL		1.5	1.5	1.5	3.4	1.1	2.0
URBAN		2.6	2.4	2.3	4.5	2.0	2.8
<b>URBAN POPULATION (% OF TOTAL)</b>							
		71.2	77.4	80.0	76.0	59.1	98.5
<b>AGE STRUCTURE (PERCENT)</b>							
0 TO 14 YEARS		30.7	29.3	29.0	47.1	27.8	28.1 /a
15 TO 64 YEARS		63.4	63.7	63.0	50.5	62.5	63.3 /a
65 YEARS AND OVER		5.9	7.0	8.0	2.4	9.7	8.6 /a
<b>AGE DEPENDENCY RATIO</b>							
ECONOMIC DEPENDENCY RATIO		0.6	0.6	0.6	1.0	0.6	0.6 /a
		1.0	1.0	..	1.6 /a	1.1	0.9 /a
<b>FAMILY PLANNING</b>							
ACCEPTORS (CUMULATIVE, THOU)		..	..	..	67.0	..	..
USERS (% OF MARRIED WOMEN)		..	..	..	..	..	..
<b>EMPLOYMENT</b>							
TOTAL LABOR FORCE (THOUSAND)		7500.0 /a	9000.0	..	3200.0 /b	11900.0	5300.0 /a
LABOR FORCE IN AGRICULTURE (%)		18.0 /b	15.0	..	22.0	24.8	7.0 /a
UNEMPLOYED (% OF LABOR FORCE)		9.0	5.0	3.0	8.0	2.0 /a	1.4
<b>INCOME DISTRIBUTION</b>							
<b>% OF PRIVATE INCOME REC'D BY-</b>							
HIGHEST 5% OF HOUSEHOLDS		27.5	21.4 /a	..	..	..	14.3
HIGHEST 20% OF HOUSEHOLDS		50.9	47.0 /a	..	..	..	38.7
LOWEST 20% OF HOUSEHOLDS		6.9	5.6 /a	..	..	..	..
LOWEST 40% OF HOUSEHOLDS		16.6	16.2 /a	..	..	..	20.1
<b>DISTRIBUTION OF LAND OWNERSHIP</b>							
<b>% OWNED BY TOP 10% OF OWNERS</b>							
		..	..	..	..	..	..
<b>% OWNED BY SMALLEST 10% OWNERS</b>							
		..	..	..	..	..	..
<b>HEALTH AND NUTRITION</b>							
POPULATION PER PHYSICIAN		670.0 /c,d	530.0	480.0 /a	1100.0	750.0 /b	790.0 /a
POPULATION PER NURSING PERSON		730.0 /c,d	1030.0 /b	1640.0 /a	530.0	1430.0	1030.0 /a
POPULATION PER HOSPITAL BED		170.0 /c	180.0	..	320.0	220.0	90.0
<b>PER CAPITA SUPPLY OF -</b>							
CALORIES (% OF REQUIREMENTS)		115.0	119.0	115.0 /b	100.0	107.0	115.0
PROTEIN (GRAMS PER DAY)		98.0	99.0	100.0 /b	62.0	81.0	101.0
-OF WHICH ANIMAL AND PULSE		54.0	64.0	..	32.0	40.0	..
<b>DEATH RATE (/THOU) AGES 1-4</b>							
		4.4	3.2	..	5.0	0.9	0.9
<b>EDUCATION</b>							
<b>ADJUSTED ENROLLMENT RATIO</b>							
PRIMARY SCHOOL		77.0 /a	104.0 /c	104.0 /a,c	100.0 /c	131.0 /c	106.0 /b
SECONDARY SCHOOL		31.0 /a	37.0	47.0 /a,c	41.0 /c	57.0 /c	83.0
<b>YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)</b>							
		12.0	12.0	12.0	11.0	13.0	13.0
<b>VOCATIONAL ENROLLMENT (% OF SECONDARY)</b>							
		50.0	59.0	62.0	33.0 /d	20.0	16.0
<b>ADULT LITERACY RATE (%)</b>							
		71.0	93.0	..	82.0	94.0	99.0
<b>HOUSING</b>							
<b>PERSONS PER ROOM (AVERAGE)</b>							
		1.3	1.4 /d	..	..	..	0.7 /b,c
<b>OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)</b>							
		53.0	..	..	..	..	..
<b>ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)</b>							
		69.0	..	..	..	..	98.0 /b
<b>RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)</b>							
		18.6	..	..	..	..	95.0 /b
<b>CONSUMPTION</b>							
<b>RADIO RECEIVERS (PER THOU POP)</b>							
		167.0	370.0	..	164.0	214.0	211.0
<b>PASSENGER CARS (PER THOU POP)</b>							
		24.0	62.0	72.0 /a	55.0	70.0	314.0
<b>ELECTRICITY (KWH/YR PER CAP)</b>							
		513.0	915.0	1117.0	1229.0	1627.0	4489.0
<b>NEWSPRINT (KG/YR PER CAP)</b>							
		8.2	11.4	7.3	7.8	5.8	35.8

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1973 and 1975.

\*\* Selection of Australia as an objective country is based on comparable resource endowments and economic structure.

<u>ARGENTINA</u>	<u>1960</u>	<u>/a</u> Persons 14 years of age and over; <u>/b</u> Persons 15 years of age and over; <u>/c</u> 1962, <u>/d</u> Registered, not all practicing in the country, <u>/e</u> 6-12 and 13-17 years of age respectively.
	<u>1970</u>	<u>/a</u> Income recipients, Buenos Aires - urban; <u>/b</u> Hospital personnel only; <u>/c</u> 5-11 years of age; <u>/d</u> Households, total, urban and rural.
	<u>MOST RECENT ESTIMATE:</u>	<u>/a</u> 1972; <u>/b</u> 1969-71 average; <u>/c</u> 5-11 and 12-16 years of age respectively.
<u>VENEZUELA</u>	<u>1970</u>	<u>/a</u> Ratio of population under 15 and 65 and over to total labor force; <u>/b</u> Economically active population; <u>/c</u> 7-12 and 13-17 years of age respectively; <u>/d</u> Including evening schools.
<u>SPAIN</u>	<u>1970</u>	<u>/a</u> Registered unemployed; <u>/b</u> Registered, not all practicing in the country; <u>/c</u> 6-10 and 11-16 years of age respectively.
<u>AUSTRALIA</u>	<u>1970</u>	<u>/a</u> 1971; <u>/b</u> 5-11 years of age; <u>/c</u> Total, urban and rural.

R3, July 29, 1976

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km<sup>2</sup>)

Total - Total surface area comprising land area and inland waters.

Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by the same conversion method as World Bank Atlas (1973-75 basis); 1960, 1970 and 1975 data.

Population and vital statistics

Population (mid-yr. million) - As of July first; if not available, averages of two end-year estimates; 1960, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Crude birth rate per thousand - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Crude death rate per thousand - Annual deaths per thousand of mid-year population, ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70, and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Services provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.

Years of schooling provided (first and second level) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (average) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newsprint (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newsprint.

COUNTRY DATA

GROSS NATIONAL PRODUCT IN 1974

ANNUAL RATE OF GROWTH (% , constant prices)

	US\$ Mln.	%	1965-70	1970-73	1973-76
GNP at Market Prices	41,074	100.0	4.1	4.1	1.6
Gross Domestic Investment	7,845	19.1	6.6	5.0	-5.3
Gross National Saving	6,942	16.9	4.2	7.0	-4.5
Current Account Balance	1,027	-2.5	-	-	-
Exports of Goods, NFS	2,875	7.0	2.6	7.0	1.9
Imports of Goods, NFS	3,573	8.7	4.2	-1.4	-1.8

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1973

	Value Added		Labor Force <sup>1/</sup>		V. A. Per Worker	
	US\$ Miln.	%	Mill.	%	US\$	%
Agriculture	4,888	12.3	1.1	15.5	4,444	79.4
Industry	17,286	43.5	2.7	38.0	6,402	114.4
Services	17,564	44.2	3.3	46.5	5,322	95.1
Total/Average	39,758	100.0	7.1	100.0	2951.0	100.0

GOVERNMENT FINANCE

	General Government <sup>2/</sup>			Treasury <sup>3/</sup>		
	(a\$ Mln.)	% of GDP		(a\$ Mln.)	% of GDP	
	1975	1970	1975	1975	1970	1975
Current Receipts	3,216	29.1	25.6	50.2	5.6	3.7
Current Expenditure	3,929	23.3	32.2	184.8	8.0	15.3
Current Surplus	-713	5.8	6.6	134.6	-2.4	-11.6
Capital Expenditures	7,170	7.3	9.4	6.7	0.7	0.5
External Assistance (net)	538	0.8	0.4	-	-	-

MONEY, CREDIT and PRICES

	1970	1971	1972	1973	1974	1975
		(a\$ billion)		outstanding end period)		
Money and Quasi Money	25.9	36.7	54.5	103.8	161.7	397.2
Bank credit to Public Sector <sup>3/</sup>	6.0	9.0	14.8	30.0	44.1	155.6
Bank Credit to Private Sector	21.3	32.1	42.6	78.7	122.1	317.2

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	27.3	27.7	24.8	28.5	33.1	29.5
General Price Index (1970 = 100)	100.0	148.2	260.8	341.2	464.3	2,083.4
Annual percentage charges in:						
General Price Index (wholesale)	16.2	48.2	76.0	30.8	36.1	348.7
Bank credit to Public Sector	-	50.0	64.4	102.7	47.0	252.8
Bank credit to Private Sector	-	50.7	48.2	65.3	55.1	160.8

NOTE: Conversion of GDP figures to dollars are at the average exchange rate of 1973 and 1975.

Output and Productivity figures are converted at 1972 exchange rate.

1/ Total labor force; unemployed are allocated to sector of their normal occupation.

2/ Consolidated public sector.

3/ Current expenditure of treasury includes transfers.

COUNTRY DATA

BALANCE OF PAYMENTS

	1973	1974	1975
	(in million US \$)		
Exports of Goods, NFS	2,197	4,791	3,749
Imports of Goods, NFS	2,131	4,331	4,647
<u>Resource Gap (deficit = -)</u>	<u>66</u>	<u>460</u>	<u>-898</u>
Interest Payments (net)	-222	-332	-457
Other Factor Payments (net)	-70	-35	-16
Net Transfers	-3	-	6
<u>Balance on Current Account</u>	<u>-159</u>	<u>128</u>	<u>-1,349</u>
Direct Foreign Investment	11	10	0
Net MLT Borrowing	189	412	376
Disbursements	576	1,262	1,330
Amortization	-387	-850	-955
<u>Basic Balance</u>	<u>41</u>	<u>550</u>	<u>-974</u>
Capital Grants	-	-	-
Other Capital (net)	89	-504	193
Other Items n.e.i.			
Increase in Reserves			
(- = increase)	-130	-46	781

MERCHANDISE EXPORTS (AVERAGE 1973-75)

	US\$ Mln	%
Cereals	1,090	32.1
Oils & Fats	235	6.9
Meats	498	14.7
Wool	130	3.8
Hides & Skins	96	2.8
Other Agriculture	575	17.1
Exports		
Industrial Exports	758	22.3
Fuels & Lubricants	10	0.3
<u>Total</u>	<u>3,392</u>	<u>100.0</u>

EXTERNAL DEBT, DECEMBER 31, 1975

	US\$ Bil
Public Debt, incl. guaranteed	3.2
Non-Guaranteed Private Debt	3.8
<u>Total outstanding &amp; Disb.</u>	<u>7.0</u>

DEBT SERVICE RATIO for 1975<sup>1/</sup>

	%
Public Debt, incl. guaranteed	20.9
Non-Guaranteed Private Debt	16.1
<u>Total outstanding &amp; Disb.</u>	<u>37.0</u>

IBRD/IDA LENDING (12/31/1975 (Million US \$)):

RATE OF EXCHANGE<sup>2/</sup>

December 31, 1975	June 30, 1976
US\$ 1.00 = a\$60.89	US\$ 1.00 = a\$140.17
a\$ 1.00 = US\$0.016	a\$ 1.00 = US\$0.007

	IBRD	IDA
Outstanding & Disbursed	341	-
Undisbursed	60	-
<u>Outstanding incl. Undisbursed</u>	<u>401</u>	<u>-</u>

<sup>1/</sup> Ratio of Debt Service to Exports of Goods and Non-Factor Services plus workers' remittances.

<sup>2/</sup> Official Exchange Rate.



THE STATUS OF BANK GROUP OPERATIONS IN ARGENTINA

A. STATEMENT OF BANK LOANS (as of July 31, 1976)

<u>Loan No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount Less Cancellations</u> (US\$ million)	<u>Undisbursed</u>
Fully disbursed loans				317.3	
505	1968	Argentina	Livestock	15.3	3.8
619	1969	Argentina	Roads	25.0	4.7
733	1971	Ferrocarriles Argentinos, S.A.	Railways	56.5	10.1
734	1971	Argentina	Roads	<u>67.5</u>	<u>29.4</u>
Total				481.6	48.0
of which has been repaid				<u>91.6</u>	
Total now outstanding				390.0	
Amount sold			7.0		
of which has been repaid			<u>7.0</u>	<u>- 0 -</u>	
Total now held by Bank				<u>390.0</u>	
Total undisbursed					<u>48.0</u>

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No IDA credits have been made to Argentina.

B. STATEMENT OF IFC INVESTMENTS (as of July 31, 1976)

<u>Year</u>	<u>Obligor</u>	<u>Type of Business</u>	<u>Amount in US\$ million</u>		
			<u>Loans</u>	<u>Equity</u>	<u>Total</u>
1960	Acindar Industria Argentina de Aceros, S.A.	Steel Products	3.6	-	3.6
1960	Papelera Rio Parana, S.A.	Pulp and Paper	3.0	-	3.0
1961	Fabrica Argentina de Engranajes, S.A.I.C.	Automotive Transmission	1.5	-	1.5
1962	PASA, Petroquimica Argentina, S.A.I.C.	Petrochemicals	3.1	-	3.1
1965/1972	Celulosa Argentina, S.A.	Pulp and Paper	12.5	-	12.5
1969/1975	Dalmine Siderca, S.A.	Steel Products	17.0	-	17.0
1969	Editorial Codex, S.A.	Printing and Publishing	5.0	2.0	7.0
1971	Calera Avellaneda, S.A.	Cement	<u>5.5</u>	<u>-</u>	<u>5.5</u>
		Total Gross Commitments	51.2	2.0	53.2
		Less Cancellations, Terminations Repayments and Sales	<u>26.6</u>	<u>2.0</u>	<u>28.6</u>
		Total Commitments Now Held by IFC	<u>24.6</u>	<u>-</u>	<u>24.6</u>
		Total Undisbursed	<u>15.5</u>	<u>-</u>	<u>15.5</u>

C. PROJECTS IN EXECUTION  
(As of July 31, 1976)

Loan No. 505 - Balcarce Livestock Project, US\$15.3 million loan of July 31, 1967; Effective Date: August 31, 1967; Closing Date: July 31, 1977.

Lending to ranchers and contractors progressed very slowly from loan effectiveness until 1970, then accelerated as cattle prices increased and technical services improved. From 1970 to 1973, project performance was satisfactory and a substantial amount of the loan was disbursed. However, the closing of the European Economic Community (EEC) to Argentine beef imports in 1974 limited external demand for beef and slowed down ranchers' demand for investment credits. Aware that a renewed interest by ranchers in investment credits is closely linked to the opening of European markets, the Argentine Government has recently held discussions with EEC authorities with a view to regaining a strong market in Europe. At present, about 25% of the Bank loan still remains to be disbursed.

Loan No. 619 - Second Highway Project, US\$25 million loan of June 24, 1969; Effective Date: October 1, 1969; Closing Date: December 31, 1976.

All components of the project as originally defined have been completed at a cost substantially below the appraisal estimate. The overall quality of construction and supervision is satisfactory. The undisbursed loan amount of US\$5.9 million has been reallocated to the construction of the Rio Colorado-Cotita and Pradere-Rufino roads, after being appraised by the Bank. The works in these two roads have been delayed mainly because of problems in the supply of materials such as steel, cement and asphalt. The National Highways Department has taken measures to improve this situation.

Loan No. 733 - Railway Project, US\$84 million loan of April 28, 1971; Effective Date: July 30, 1971; Closing Date: December 31, 1976.

Due to the socio-economic situation, it became clear in 1973-1974 that the original Project could not be implemented. On July 2, 1974, US\$27.5 million (or about one-third of the US\$84.0 million loan) was cancelled. The remaining US\$56.5 million were to finance procurement committed by the original Closing Date, April 30, 1974, which was then postponed to December 31, 1976. After having come almost to a standstill

in 1975, procurement has regained momentum. The last of 59 contracts for Bank-financed goods was finally signed in May 1976. Goods have been delivered for 40 contracts, and the revised loan is now 83% disbursed.

Loan No. 734 - Third Highway Project, US\$67.5 million loan of May 5, 1971; Effective Date: July 30, 1971; Closing Date: June 30, 1977.

The overall quality of construction and supervision for the 28 road sections included in the project is satisfactory. Fourteen of the road sections have been now completed, and seven will be finalized during the second half of 1976. However, the remaining are experiencing difficulties because of delays in execution and substantial cost overruns. Delays were due to unfavorable climatic conditions, unforeseen problems in the preparation of design plans arising from difficult soil conditions, and rampant inflation together with low contract prices which did not permit most contractors to operate profitably. The National Highways Department has taken measures to improve this situation.

Financing Plan: (in US\$ million equivalent)

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
IBRD	-	115.0	115.0
Internal Cash Generation, and Loans from Foreign and Local Sources	<u>342.7</u>	<u>37.6</u>	<u>380.3</u>
	<u>342.7</u>	<u>152.6</u>	<u>495.3</u>

A private co-financing of up to US\$50 million, when it materializes, would replace funds to be obtained from local sources.

Estimated Disbursements: (in US\$ million equivalent)

<u>Fiscal Year</u>	<u>Annually</u>
1977	0.7
1978	26.2
1979	42.0
1980	40.5
1981	5.6

Procurement:

Two-thirds of all equipment and materials would be procured in accordance with Bank guidelines on the basis of international competitive bidding with a margin of preference to local suppliers of 15% or the applicable import duties, whichever is lower. The remaining one-third would be awarded to an Argentine bidder, provided that this bid is not more than 38% above the successful foreign bidder or he is willing to reduce his bid to such level. If the remaining third goes to an Argentine supplier under this arrangement, the contract with that supplier would not be financed by the Bank. The Bank would finance 100% of the cif cost of imported equipment; 60% of the cost of equipment procured in Argentina (the estimated foreign exchange component) under international competitive bidding, and 100% of the cost of consultant services.

Rate of Return: 21% for the Project.

Appraisal Report: Report No. 675b-AR, dated September 7, 1976.

ARGENTINA

FOURTH BUENOS AIRES POWER PROJECT

SERVICIOS ELECTRICOS DEL GRAN BUENOS AIRES S.A. (SEGBA)

Borrower: Servicios Electricos del Gran Buenos Aires  
S.A. (SEGBA)

Guarantor: The Argentine Republic

Amount: US\$115 million equivalent

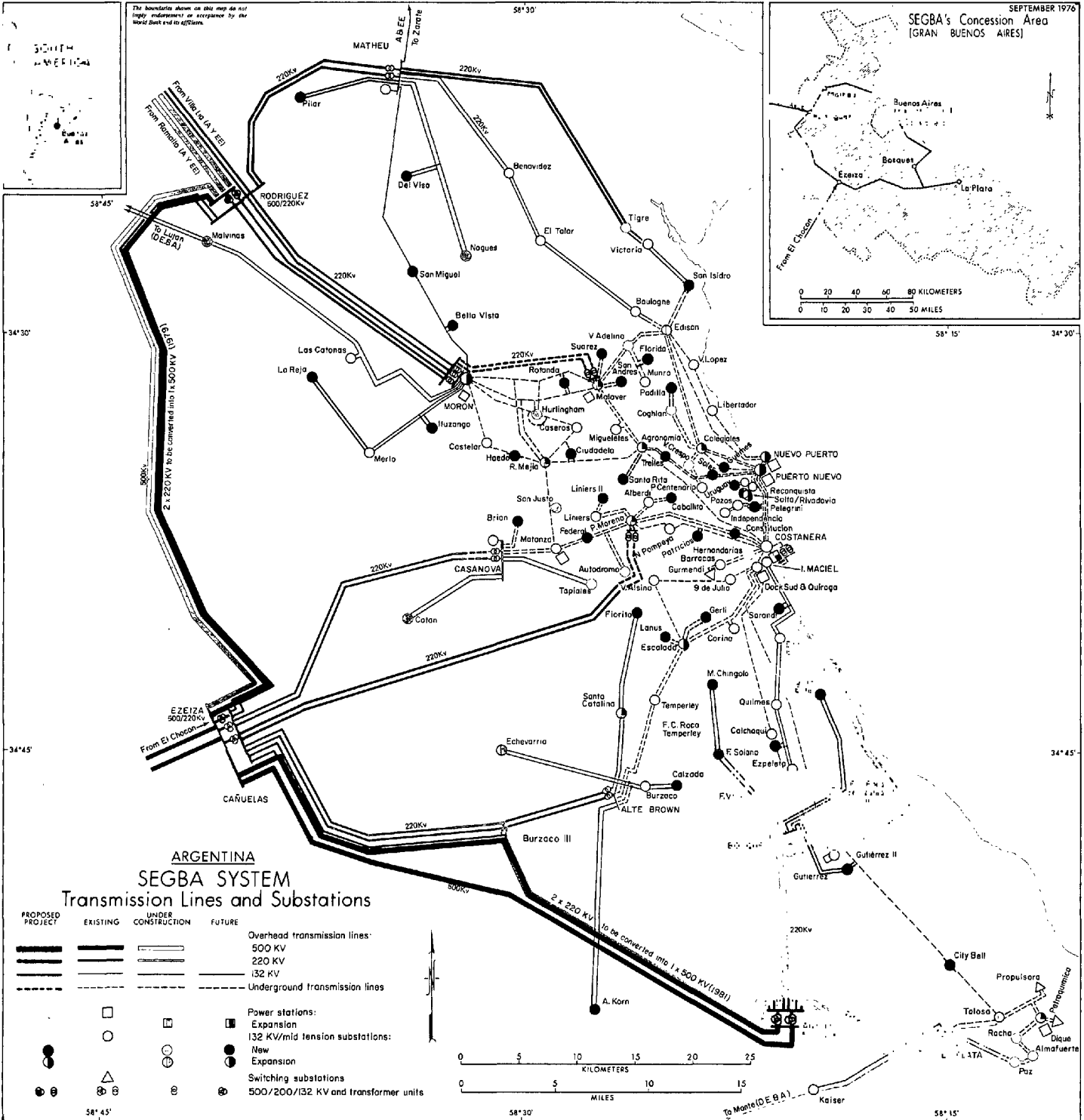
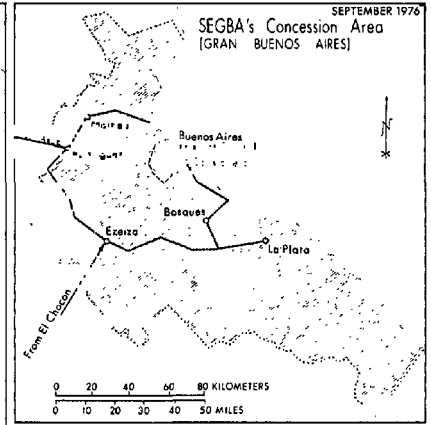
Terms: Payable in 15 years, including 3 years of  
grace and 8.9% interest per annum

Project Description: The project consists of the main elements of  
SEGBA's investments in transmission lines,  
substations and distribution facilities in  
the Greater Buenos Aires region for the years  
1977-1981, and the preparation of a national  
power expansion plan and a national power  
sector organization study, both to be carried  
out by the Government.

Estimated Cost: (in US\$ million equivalent)

<u>Component</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
A. Project Works			
Transmission Lines	50.0	18.3	68.3
Substations	86.2	52.4	138.6
Distribution	113.0	38.3	151.3
Communications and Load Dispatch	<u>9.7</u>	<u>5.0</u>	<u>14.7</u>
Total Base Cost	258.9	114.0	372.9
Contingencies			
Physical	7.9	4.1	12.0
Price	<u>75.8</u>	<u>34.1</u>	<u>109.9</u>
	83.7	38.2	121.9
B. Consultant Services	0.1	0.4	0.5
Total Project Cost	<u>342.7</u>	<u>152.6</u>	<u>495.3</u>

The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.



58°45' 58°30' 58°15' 34°45' 34°30'