

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

RURAL POTABLE WATER PROGRAM

(AR-0113)

LOAN PROPOSAL

03/01/1965

SOCIAL PROGRESS TRUST FUND

ELIGIBILITY MEMORANDUM ^{1/}

LOAN APPLICATION FROM THE MINISTRY OF
SOCIAL WELFARE AND PUBLIC HEALTH
REPUBLIC OF ARGENTINA

RURAL POTABLE WATER PROGRAM

1. Country: Argentina.
2. Date of Application: January 1965.
3. Applicant: The Republic of Argentina through the Ministry of Social Welfare and Public Health.
4. Amount: US\$ 5,000,000.
5. Term: 26 years.
6. Interest and Commission: 2.75% interest per annum, plus 0.75% service charge.
7. Purpose: Partial financing of the first stage of the National Rural Water Supply and Sanitation Plan.
8. Summary of the Application: The project, the first stage of the National Rural Water Supply and Sanitation Plan, consists of the design, construction, and improvement, throughout the country, of water supply systems in rural communities of less than 3,000 people, with an estimated total population of 425,000 people.

The rates to be charged will be intended to cover operating and maintenance costs and amortization of the Bank's loan. The rates will be based upon repayment of 50% (the IDB share) of the cost of the individual projects in 15 years, a shorter period than the proposed 26 year amortization period of the IDB loan; this is designed to provide a new national water supply revolving fund which can be reinvested in additional projects.

The project will help improve the hygienic conditions and water service in Argentina where practically the entire rural population in communities of less than 3,000 inhabitants lack such service and, as a consequence, consume polluted water and suffer a high morbidity and high infant mortality rate from water borne diseases. In 5 of the provinces, the overall infant mortality rate exceeds 100 deaths per 1,000 live births (1961 census).

^{1/} The official rate of exchange in Argentina as of February 19, 1965 is M\$N 150 = US\$ 1.

The total cost of this first stage project is US\$ 10,000,000, as follows:

	<u>Local Costs</u>	<u>Foreign Ex- Change Costs</u>	<u>Total</u>
	(in thousands of US\$)		
Design, construction and improvement of rural water supply systems	8,925	1,000	9,925
Engineering equipment and supplies		20	20
Inspection, supervision and advisory services in fiscal management and administration	<u>35</u>	<u>20</u>	<u>55</u>
	8,960	1,040	10,000

It is anticipated that the administrative expenses of the National Water Supply and Rural Sanitation Service, which will administer the program, will be met from other funds available to it.

The sources of financing for the project would be as follows:

<u>Source</u>	<u>Amount</u>	<u>Percentage of Total</u>
	(equivalent in US\$)	
Provincial Governments	1,000,000	10%
Communities	2,000,000	20%
National Government	<u>2,000,000</u>	<u>20%</u>
Subtotal	5,000,000	50%
IDB - SPTF	<u>5,000,000</u>	<u>50%</u>
Total	<u>10,000,000</u>	<u>100%</u>

9. Characteristics and technical feasibility of the project: The Government of Argentina prepared the National Rural Water Supply and Sanitation Plan for execution in three two-year stages. Responsibility for the planning and execution of the national program is to be vested in the National Water Supply and Rural Sanitation Service (The "National Service").

The National Plan is to be carried out in 6 years and is to design, construct and improve water systems to serve a population of approximately 1,700,000 people (38% of the rural population of Argentina).

The first stage of this plan is to benefit approximately 425,000 people (approximately 10% of the rural population). The Plan will be carried out at three governmental levels, in order to develop local responsibility and participation as much as possible.

- a) Overall policy administration, supervision and management will be the responsibility of the national organization.
- b) In the majority of the provinces, existing organizations will be responsible for the preparation of designs and plans and for the construction of individual systems. Construction will be done by administration and by contract.
- c) Operation and management of the individual systems will be the responsibility of community organizations, such as cooperatives and village committees, as best suited to local customs and circumstances. The National Service will provide assistance and guidance to the provincial organizations that will work with the communities.

Each system to be built will consist preferably of a deep well, a pump to raise the water to an elevated tank, a distribution system, direct house connections, and public faucets. House connections will be paid for over a 15 year period on a monthly basis. The average amount of water to be provided is 100 liters per person per day.

The communities and provinces will have the continuous assistance of the National Service in all aspects of the program.

The documentation supplied by the applicant indicates that the project is technically feasible. This information will be reviewed and evaluated as soon as the detailed analysis and studies of the program, required to prepare the technical report, are completed.

10. Institutional measures adopted by Argentina: The institutional measures adopted by Argentina in connection with the mobilization of domestic resources are summarized in Annex III. The achievements in the fields covered by the Social Progress Trust Fund are outlined in Annex IV. 1/

1/ Annexes III and IV summarize the 1964 Annual Report of the SPTF relating to Argentina.

Decree No. 9762 of December 2, 1964 creates the Servicio Nacional de Agua Potable y Saneamiento Rural under the Ministerio de Asistencia Social y Salud Pública.

11. Social Progress Trust Fund criteria:

- a) This project comes under the heading of "community water supply and sanitation facilities" (Sec. 1.04 c). The loan would be granted to an eligible country.
- b) The project constitutes the first stage of the National Rural Water Supply and Sanitation Plan (2.01 a).
- c) Through the National Water Supply and Rural Sanitation Service and the provincial and local community organizations, the Government of Argentina would be able to assume the costs of the continued support of the project, including costs of maintenance and operation. Appropriate fees would be charged to the beneficiaries.
- d) The project will benefit 425,000 people, or 10% of the rural population.

12. Recommendations:

- a) That the application be considered eligible prima facie and that a Project Committee be appointed.
- b) That the Project Committee bear in mind the following aspects:
 - (i) That systems of coordination between the National Service, the provincial governments, and the various communities be established to the satisfaction of the IDB.
 - (ii) That the operating and maintenance costs and, to the extent possible, the expense of amortization of the loan come from the establishment of an adequate system of rates and fees.
 - (iii) That technical assistance in fiscal management of the National Service be provided for the overall project, using funds from the loan.
 - (iv) That a resident IDB engineer be assigned permanently to approve subprojects as completed and to supervise execution of the program.
 - (v) That a system of supervision and control of the execution of the subprojects at provincial and local levels be established by the National Service and the Ministry to the satisfaction of IDB.

STATUS OF LOANS TO ARGENTINA
as of December 31, 1964

A. ORDINARY CAPITAL

<u>Loan No.</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount US\$</u>	<u>Disbursed US\$</u>
13	Provincial Banks	Global loan	15,000,000	9,105,811
16	Agua y Energía Eléctrica	Technical assistance	630,000	630,000
28	Tool Research S.A.	Manufacture of axles and gear assemblies	252,000	252,000
36	Vialsa S.A.	Prefabricated houses	2,200,000	2,158,573
38	La Merced S.A.	Poultry development	568,201	487,651
39	Agua y Energía Eléctrica	Expansion of Rosario facilities	9,671,966	5,715,480
45	Corporación Entre- rriana de Citrus	Citrus-processing plant	1,637,000	1,637,000
46	Armetal S.A.	Automotive plant	1,492,000	1,243,310
61	Cominco S.A.	Chipboard plant	230,706	230,706
66	Banco de la Nación	Farm mechanization	25,000,000	20,887,000
67	Cía. Sudamericana de Cemento Portland	Purchase and instal- lation of equip- ment	7,000,000	-
69	Carboclor S.A.	Petrochemical plant	2,500,000	-
80	Wilson y Cía.	Industrial expansion	1,517,000	596,751
91	Banco Central	Export financing	3,000,000	227,371
93	Energía Eléctrica Córdoba	Power project	4,500,000	-
101	Adamas S.A.	Paper and cardboard	1,500,000	-
108	Banco de la Nación	Farm mechanization	15,000,000	-
	TOTAL ORDINARY CAPITAL		91,698,873	43,171,653

B. FUND FOR SPECIAL OPERATIONS

<u>Loan No.</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount US\$</u>	<u>Disbursed US\$</u>
17	Argentine Republic	Technical assistance in planning	669,240	307,285
24	Río Negro Province	Land settlement	5,528,000	-
40	Minera Siderúr- gica	Studies of iron and steel industry	400,000	-
43	Administración General de Obras Sanitarias de la Nación	Water supply (Buenos Aires)	2,000,000	-
TOTAL, FUND FOR SPECIAL OPERATIONS			8,597,240	307,285

C. SOCIAL PROGRESS TRUST FUND

26	Argentine Republic	Technical education	5,000,000	1,020,363
47	Banco Hipotecario	Housing	30,000,000	2,600,000
86	Administración General de Obras Sanita- rias de la Nación	Water supply (Buenos Aires)	3,500,000	-
TOTAL, SOCIAL PROGRESS TRUST FUND			38,500,000	3,620,363

RECAPITULATION

A. ORDINARY CAPITAL	91,698,873	43,171,653
B. FUND FOR SPECIAL OPERATIONS	8,597,240	307,285
C. SOCIAL PROGRESS TRUST FUND	38,500,000	3,620,363
GRAND TOTAL	<u>138,796,113</u>	<u>47,099,301</u>

ANNEX II

SOCIAL PROGRESS TRUST FUND
LOAN APPLICATIONS IN PROCESS

as of February 8, 1965

<u>Applicant</u>	<u>Purpose</u>	<u>Amount</u> <u>US\$</u>	<u>Status</u>
Administración General de Obras Sanitarias de la Nación	Water supply for 13 cities	15,000,000	Being studied

MOBILIZATION OF RESOURCES

In the 1960-63 period the total revenues of the National Government showed a net increase of 33% at current prices, while the cost of living rose by 80%. The ratio of National Government tax receipts to the gross domestic product fell from 9% in 1960 to 6.6% in 1963. During that period, tax receipts wavered around 93% of total National Government revenues.

In the same years the expenses of the National Government increased by 76% at current prices, or at a somewhat slower rate than the cost of living but faster than the growth of fiscal revenues.

As a result of these changes, the National Government has been faced with increasing deficits which amounted to 69 billion pesos in 1963 and 150 billion in 1964, the latter being equal to 54% of the total expenses of the National Government. In recent years the Argentine authorities have increasingly resorted to Central Bank credits to cover those deficits.

The Argentine government has taken various steps in the past few years to increase its tax revenues. In 1962 a number of changes were made in the tax system, particularly the tax on corporate earnings, and customs surcharges were placed on various imports from countries other than LAFTA members.

In the same year new levies were placed on the sale of automotive vehicles and lubricants and certain low-yield taxes were eliminated. In late 1963 the government suspended the application of various decrees issued by the previous administration, its purpose being to counteract a trend toward economic recession.

In 1963 the National Government set up a National Budget Office responsible for preparing an annual program-budget and created special incentives, notably a 5 to 10 year exemption from the income tax, for new enterprises established within the country.

In 1964 a bill was presented to Congress proposing various modifications in the tax system, including increased rates on fuels, sugar, alcohol and certain consumer goods in the luxury category. This bill was approved on December 30, 1964 and promulgated as Ley No. 16656.

PROGRESS IN THE FIELDS COVERED BY THE SOCIAL PROGRESS
TRUST FUND

A. Planning

The Consejo Nacional de Desarrollo (National Development Council), established in mid-1961 to take charge of planning matters, completed a Development Plan in September 1964. The Plan was accepted by the Executive Branch and is currently being considered in Congress.

The basic purpose of the plan is to achieve an annual increase of 5.7% in the GDP. This rate of growth will require an over-all rate of investment of 20.5% of the GDP. Ninety per cent of the investments would come from internal sources, and 80% of the internal investment would be made by the private sector.

The Plan does not give a breakdown of investments by sector or by sources of financing, but it does indicate the total investment for the five-year period from 1965 to 1969, which is 1,302,234.9 million pesos. ^{1/} Investment would amount to 223,175 million pesos in 1965 and 282,888.7 million pesos in 1969. The largest amounts of investment would be made in the industrial, transportation and power sectors, with a smaller proportion for mining. A substantial promotional effort in the agricultural sector is also anticipated. For the same period the balance-of-payments forecast indicates a trade surplus of US\$630 million and foreign debt payments decreasing from US\$626 million in 1965 to US\$207 million in 1969. A total external contribution of US\$1,391 million is envisaged in the plan for the five-year period from 1965 to 1969.

B. Land settlement and improved land use and tenure

1. From the Act of Bogota to December 31, 1963

The national program for land settlement is governed by Decree Law No. 2964 of 1958, which re-established the Consejo Agrario Nacional (CAN). This organization is charged with distributing inadequately exploited lands following their expropriation or purchase in suitable amounts.

The CAN has been handicapped by a shortage of trained technical personnel and by lack of sufficient funds, and since it commenced its activities in late 1964 has awarded only 7,000 ownership titles. In 1964 it distributed 141 parcels of land representing a total of 11,057 hectares.

^{1/} In terms of 1960 pesos.

The Instituto Nacional de Tecnología Agraria (INTA), established in December 1956 to foster research, experimentation and agricultural extension operations, is better organized and financed, which has enabled it to conduct some successful experimental programs. Within the Alliance for Progress program this organization has developed an agricultural study including a livestock development plan for the Northeast and the establishment of a National Institute of Agricultural Economics.

In the field of highway communications, a program of farm-to-market roads was begun in 1957. This has basically been carried out through the efforts of interested local groups.

The Comisión Nacional de Promoción Agropecuaria (PROAGRO), established in 1963, is actively engaged in increasing the availability of agricultural credit and improving production techniques in coordination with INTA.

A program for the mechanization and technical improvement of agricultural and livestock production was initiated by the Banco de la Nación through the granting of medium-term credits for purchasing machinery and equipment. The program is estimated to cost US\$83.3 million, of which US\$25 million was provided by the IDB in April 1963 through a loan from its Ordinary Capital Resources. By August 1964, Banco de la Nación had extended more than 20,000 credits under this program.

Banco de la Nación also administers a system of credits to tenant farmers to enable them to purchase land. The funds for this program are provided by the government. In 1963 some 900 credits were authorized for a total of 700 million pesos.

A Banco Cooperativo Agrario Argentino (Argentine Agricultural Cooperative Bank) is now being organized with contributions from farm cooperatives and their members as a supplementary source of bank credit.

2. Progress in 1964

INTA began the preparation of a soil map for la Pampa, including a detailed survey of approximately 55,000 hectares. The study will take approximately 5 years to complete.

Under an agreement between INTA and FAO a working group was established to consider the development of pasturelands in the seaboard area. Arrangements have also been made by the two organizations to provide research and assistance for sheepraising in Patagonia. The project will probably be financed with the help of the United Nations Special Fund.

Programs are under way to increase agricultural production through the use of supervised credit.

In order to encourage efficient producers and discourage low-yield operations, the Department of Agriculture and Animal Husbandry proposed an amendment to the land tax which would substitute the potential earning power of the land for actual income as a basis for figuring the tax. This legislation would be submitted to Congress in May 1965.

Finally, the IDB granted a further loan of US\$15 million to assist in financing the second phase of the farm improvement program of Banco de la Nación. This is a six-year program with a total cost of US\$300 million, and its principal goal is the expansion of exports.

C. Housing for low-income groups

1. From the Act of Bogota to December 31, 1963

The stagnant condition of the Argentine economy has led to an increase of the housing deficit and growing unemployment in the construction and related industries.

In 1962, to alleviate the problem, the IDB made a US\$30 million loan from the Social Progress Trust Fund to the Banco Hipotecario Nacional. The loan will finance 50 per cent of the cost of a program to build more than 15,000 housing units where they are most needed.

In 1963 the responsibilities of the National Development Council and the Federal Housing Council in connection with housing policy were transferred to the Banco Hipotecario Nacional, which is drawing up a National Housing Plan and preparing a project to be financed with government participation.

To supervise the savings and loan associations, a Savings and Loan Superintendency was established under the Ministry of Economy.

A Federal Savings and Loan Agency was later established and received a US\$12.5 million loan from AID in 1963.

In order to encourage the construction of housing for low-income groups, it was decided in 1963 to exempt from all national taxation the construction of housing included in programs approved by the Banco Hipotecario Nacional. At the same time, all building materials for use in those programs were exempted from the sales tax.

Also in 1963, AID approved a US\$2 million loan for a self-help and mutual aid program.

Almost all the Argentine provinces have regional programs administered by provincial organizations, and other provincial institutions have been established to promote interest in the solution of the housing problem.

2. Progress in 1964

The Banco Hipotecario Nacional has established the goals and basic policies of its Plan. At the same time that consultations were proceeding with the provincial governments, studies were made to determine the areas of most critical need where the Bank should concentrate its activity.

On December 31, 1964, 3,249 dwellings were under construction as part of the program financed in part by the Bank (SPTF) and initiated in 1962. In addition, contracts had been awarded for the construction of another 8,671 units.

D. Community water supply and sanitation facilities

1. From the Act of Bogota to December 31, 1963

The general policy in financing water and sewerage works is to obtain a substantial participation from the municipalities concerned and from the users of the systems. In December 1961 a decree was issued decentralizing the Administración General de Obras Sanitarias de la Nación (AGOSN). In 1963 construction was begun on the General Water Sewerage Program for Greater Buenos Aires, which calls for a total investment of 25 billion pesos.

2. Progress in 1964

To help finance a part of the over-all plan which provides for the expansion and improvement of water supply systems in other communities within Greater Buenos Aires, the IDB granted the AGOSN a US\$5.5 million loan (US\$3.5 million from the SPTF and US\$2 million from the Fund for Special Operations). The project will benefit approximately 800,000 persons, mostly in the low-income brackets. Between 1963 and 1964 AGOSN concluded 30 projects at a total cost of 1.8 billion pesos. Another 60 facilities representing a total cost of 9.5 billion pesos are under construction, and 50 more, costing 11 billion pesos, are scheduled.

A Comprehensive Sanitation Program for 1965-1969 with a total cost of 52,833 million pesos and including some 200 projects throughout the country has been prepared. The program calls for a total investment of 4,677.9 million pesos in 1965.

The general outlines have been prepared for a supplementary plan to provide drinking water to localities in the interior of the country through an investment of some 22 billion pesos. The Congress is now considering an urban sanitation law designed to solve this problem in the interior communities.

Finally a national census is being taken to arrive at an accurate estimate of water and sewerage requirements and prepare the necessary programs.

E. Advanced education and training

1. From the Act of Bogota to December 31, 1963

Various institutions are active in the field of higher and technical education, including the National Service for Comprehensive Educational Planning, the National Council for Technical Education, the Institute of Technical Teaching Personnel and the Argentine Business University.

The Inter-University Council, composed of the Rectors of the Universities, has been engaged since 1957 in financing and coordinating the National Universities and allocating funds for advanced education. From 1962 through June 1964, the institutions of higher education and advanced research received a total of US\$16.5 million in loans and grants from various sources.

2. Progress in 1964

In the University City at Buenos Aires the basic science buildings were completed and considerable headway was made in constructing other facilities.

INTA participated in financing various agricultural and livestock studies conducted by universities, producers' organizations and other agencies. It also established fellowships for agricultural and veterinary studies, provided assistance for agricultural programs in the universities and, recently, in conjunction with the University of Texas, initiated a course on marketing of farm products.