



Argentina P3 Market Snapshot

Argentina is the second largest economy in South America, after Brazil, with a GDP of USD 512 billion in 2017. Historically, Argentina's investment case has rested on its abundant natural resources, talented and educated labor force, strong infrastructure, large middle class and its position as a regional gateway.

Presidential elections at the end of 2015 led to a significant change in Argentine economic policy. Since it took office, President Macri's administration has moved at a fast pace to implement core reforms such as the unification of the exchange rate, the agreement with international creditors, the modernization of the import regime, lifting restrictions to capital inflow/outflow and currency controls, the normalization of the energy market, the reduction of subsidies and the reform of national statistics system.

Although the business environment has improved significantly over the last few years, companies doing business in Argentina still face challenges – such as currency fluctuation, high inflation, significant bureaucracy and complex labour laws. In recent months Argentina has been hit hard by an emerging-market sell-off. The government has been obliged to seek an IMF lending agreement to help to ease market concerns and end a damaging peso run. Tighter macroeconomic policy is expected to certainly weigh on economic activity, which would show signs of recovery in the second quarter of 2019.

Environment for P3

In November 2016, the Congress passed a dedicated Public-Private Partnership contracts law, recognizing the need for private financing to make up for decades of underinvestment in the country's infrastructure. The law was further enhanced by regulations published in February 2017. Since Argentina is a federal country, with both federal and provincial levels of legal organization, the provincial states and the City of Buenos Aires have been invited to join the new regime by issuing similar laws in their jurisdictions.

The P3 Secretariat under the Ministry of Economy is in charge of implementing and designing the structure of the projects. It has four divisions: 1) Energy and Mining; 2) Transportation; 3) Water, Sanitation and Housing; 4) Health, Justice and Education.

The P3 Secretariat is currently transitioning to become a unit within the Bank of Investment and Foreign Trade (BICE).

To mitigate country risks, the Argentine programme borrows – and improves upon – a number of features viewed favourably by sponsors, contractors and investors. The essential structure guiding how projects are funded through construction and management is modelled on the RPI-CAO certificate framework implemented in Peru, whereby contractors secure and redeem certificates representing irrevocable guarantees for payment upon completion of certain project milestones.



The P3 Secretariat works in coordination with each contracting authority to build the pipeline of projects, to standardize agreements, bidding documents and guidance manuals, and to define prioritization schemes.

While this regime is still to build a track record, a Renewable Energy Program was launched by the federal government in 2016 under a tailor-made P3 regime set up by Law No. 27,191 (the Renewable Energy Law) and by Decree No. 882/2016 (RenovAr). As a result of this, 59 renewable energy projects have been awarded, representing a US\$4 billion investment.

Earlier this year (2018) the Ministry of Transport awarded six toll road projects in the first round of public-private partnership (PPP) project auctions. A total of 32 bids were received from 10 consortia representing 19 national and seven international companies. Five consortia were selected for projects which have yet to reach financial closure (see challenges paragraph).

Infrastructure Sector Highlights

Over the last decade, and despite a history of strong infrastructure, Argentina dropped 13 positions to 85th in the infrastructure pillar of the Global Competitive Report published by the World Economic Forum (WEF). Reviving infrastructure projects is a key part of Argentina's efforts to boost its economy.

Given its current tight fiscal policy aiming to reach a balanced budget in 2019/20, the Government is putting significant efforts in delivering an ambitious infrastructure program in transport, energy and utilities, and social infrastructure, with the PPP scheme as the main source to finance public works, in tandem with

public investment (1.6% of GDP in 2018) and multilateral funding.

In terms of existing transport infrastructure, the national road & railroad systems extend over 35,000 km, maritime connections operate through 43 ports while air traffic connects to 54 airports. The announced National Plan for Transport comprises USD 33.3 billion investments for the period 2016-2019. It includes significant cargo and passenger rail upgrades; the addition of over 2,700 kilometers to the national highway system; and significant subway, tunnel, and port upgrade in the city and Province of Buenos Aires. According to the Ministry of Transport, USD 8.5 billion of investment is expected to come from the private sector.

Argentina's electricity grid is currently operating at near capacity as electricity demand in recent years has increased at a quicker pace than generation, transmission and distribution capacities. Spare transmission capacity that existed before the 2016 and 2017 renewable energy and thermal energy auctions has already been taken. To follow demand growth and reinforce the transmission system in the short term, the government plans to tender via PPP, more than 3,000 km of 500 kV lines.

The Government has Argentina has also launched an ambitious four-year USD 40 billion water infrastructure plan. Several projects will be developed under a P3 model, including irrigation and watershed management corporations, multipurpose dams and water and waste water treatment plants.

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Main Opportunities

The pipeline of PPP projects includes 60 projects accounting for USD \$ 26 B. It is published at the following Government Webpage:

<https://www.minhacienda.gob.ar/ppp/english/eindex.php>

The following projects, in the energy and transportation sectors, will be tendered in the short term:

- **Power transmission lines** (9 projects in 3 stages, involving the construction of more than 3,300 km of high voltage lines representing an investment of USD 2.3 billion.). **Stage 1:** Construction of 500 Kv of EHV transmission line “Río Diamante – Charlone”, transforming stations and additional works in 132 Kv, as well as its operation and maintenance (USD \$ 600 Million)
- **Vaca Muerta Railroad**, a freight railway project between Bahia Blanca and Añelo (685 km of railway tracks) (USD \$ 783 million)
- Stage 2 of **Highways and Safe Routes** (up to USD\$ 2, 2 billion)

Challenges

Despite the strong institutional framework and financial structure that was developed for P3s in Argentina, the emergence of a corruption scandal locally named “GloriaGate” or “the Notebooks” involving leading Argentine construction companies has significantly raised the risk of a decline in investor confidence. While the eventual reach and legal consequences of the investigation remain unclear, the scandal poses several threats to Argentina's construction industry. Rising perceptions of corruption may

weigh on the ability of domestic firms to attain the financing needed to advance projects as investors and financiers choose to wait for the consequences of the scandal to become clearer.

To mitigate reputational risk, the Government recently unveiled a PPP financing trust to channel private funding and facilitate short term loans for the awarded highways and routes projects. In the medium to longer term, this scandal could lead to an improvement in anti-corruption norms, strengthening the market's appeal.

Argentina also suffers from years of negative precedents such as cancelled concession contracts, frozen electricity rates, and the sovereign default. The main challenges for Argentina are continuing to rebuild investor confidence in the country and gaining track record for the new P3 law. Also, with a long history of monetary crisis, managing currency risk is certainly a key challenge in this market.

Argentina is committed to improving its infrastructure in various areas and is willing to see more Canadian companies developing those projects. The decision is yours!

For additional information please contact:

Ana.Fisher@international.gc.ca

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