

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

**PROGRAM TO SUPPORT PRODUCTIVE INFRASTRUCTURE FINANCING
IN ARGENTINA**

(AR-L1281)

INVESTMENT GUARANTEE FACILITY PROPOSAL AND LOAN PROPOSAL

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ABBREVIATIONS

AGN	Auditoría General de la Nación [Office of the Auditor General]
ESMR	Environmental and social management report
ESMS	Environmental and social management system
IBRD	International Bank for Reconstruction and Development
ICB	International competitive bidding
IFC	International Finance Corporation
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MDBs	Multilateral development banks
OECD	Organization for Economic Cooperation and Development
OPC	Operations Policy Committee
PPP	Public-private partnership
QCBS	Quality- and cost-based selection
RMFF	Risk Mitigation Flexible Facility
UCP	Unidad de Coordinación de Programas y Proyectos con Enfoque Sectorial Amplio [Coordination Unit for Sector-wide Approach Programs and Projects]
UEPEX	Sistema de Información y Contabilidad [Information and Accounting System]
WEF	World Economic Forum

PROGRAM SUMMARY

ARGENTINA PROGRAM TO SUPPORT PRODUCTIVE INFRASTRUCTURE FINANCING IN ARGENTINA (AR-L1281)

Risk Mitigation Flexible Facility – Financial Terms and Conditions		
Partial Credit Guarantees and Political Risk Guarantees for Investment Projects		
Guarantor: Inter-American Development Bank Guaranteed debtors: Productive infrastructure project developers in Argentina or issuers of negotiable instruments to finance such projects Guaranteed creditors: Investors or financiers of productive infrastructure projects in Argentina Counter-guarantor: Argentine Republic Coordinating agency: Ministry of Finance	Flexible Financing Facility ^(a)	
	Guarantee period:	Up to 25 years
	Original weighted average life:	Up to 15.25 years
	Guarantee fee:	^(b)
	Standby fee:	^{(b) (c)}
	Inspection and supervision fee:	^(b)
	Approval currency:	United States dollar
	Period for granting individual guarantees:	8 years
Source	Amount (US\$)	Percentage
IDB (Ordinary Capital)	490,000,000	98%
Investment Loan – Financial Terms and Conditions		
Borrower: Argentine Republic Executing agency: Ministry of Finance	Flexible Financing Facility ^(a)	
	Amortization period:	25 years
	Original weighted average life:	15.25 years
	Disbursement period:	5 years
	Grace period:	Up to 5.5 years ^(d)
	Inspection and supervision fee:	^(b)
	Interest rate:	LIBOR-based
	Credit fee:	^(b)
Source	Approval currency	United States dollar
	Amount (US\$)	Percentage
IDB (Ordinary Capital)	10,000,000	2%
Program at a glance		
Objective: The program's objective is to promote private-sector participation in productive investment and thereby help spur economic growth in Argentina. The program will help mitigate risks that hinder private financing for productive development by: (i) attracting a significant volume of private investment (institutional investors, international investors, as well as other national or multilateral institutions); and (ii) promoting efficient financing of a privately-funded portfolio of productive infrastructure projects that matches investors' performance, risk, and term requirements with the long-term needs of the projects.		
Special contractual condition precedent to issuing the first guarantee under the Risk Mitigation Flexible Facility (RMFF): The entry into effect of the program Operating Regulations will be a special contractual condition precedent to issuing the first guarantee under the RMFF, in accordance with the terms previously agreed upon between the Ministry of Finance and the Bank (paragraph 3.17). See also the environmental and social contractual conditions included in Annex B of the program's environmental and social management report (ESMR) .		
Special environmental and social contractual conditions of the RMFF: See the environmental and social contractual conditions included in Annex B of the program's ESMR.		
Delegation of authority to approve individual guarantees: See paragraphs 3.8 and 3.9.		
Exceptions to Bank policies: None.		
Strategic Alignment		
Challenges: ^(e)	SI	PI
	<input type="checkbox"/>	<input checked="" type="checkbox"/>
		EI
		<input type="checkbox"/>

Crosscutting themes: ^(f)	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC	<input type="checkbox"/>
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- ^(a) Under the Flexible Financing Facility (document FN-655-1) the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational risk management considerations into account when reviewing such requests. For guarantees issued under the RMFF, these options will apply when, for each individual guarantee, the counter-guarantor and the Bank agree that the guarantee can be repaid by means other than on-demand payment, but within the remaining weighted average life (excluding the guarantee period). See documents GN-2729-2 (paragraph 3.24) and GN-2729-4 (paragraph 5.14).
- ^(b) The guarantee, standby, credit, and inspection and supervision fees will be set periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.
- ^(c) The standby fee will be the same as the credit fee on sovereign-guaranteed loans, which will accrue from the effective date of the Agreement establishing the RMFF. It is calculated on the difference between the maximum amount approved for the RMFF and the amount of the guarantees issued. In addition, each guarantee issued will accrue a standby fee on the difference between the guarantee issued and its callable amount at any time.
- ^(d) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- ^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- ^(f) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale¹

- 1.1 **Macroeconomic context.**² Argentina changed its economic policy framework in early 2016 due to a deterioration of the macroeconomic outlook in previous years. The government's actions have initiated a correction of internal imbalances, as demonstrated by changes in the country's risk indicators, renewed access to international credit markets, and the slowing of inflation. According to the Central Bank's market expectations report, projected growth for 2017 is 2.8%, evidencing a recovery from the 2016 recession. National inflation for the available provincial price indexes stood at 35.6% year-on-year as of December 2016, although market expectations point to a slowdown (25% at year-end 2017). Leveraging the current moderate levels of public borrowing and the international credit markets' appetite for investing in Argentine debt, the government is pursuing a strategy to gradually narrow the fiscal deficit. Its fiscal program projects a primary deficit of 3.9% of GDP for 2017, falling to 3.2% in 2018, and to 1% in 2019 and 2020. This tighter fiscal headroom limits the growth of public investment in infrastructure, prompting authorities to encourage private sector participation in investment projects. While "fiscal gradualism" helps to soften adjustment costs, it necessarily entails considerable short-term financing needs and vulnerability to adverse shocks in the international financial markets. As part of its efforts to shore up medium- and long-term growth, the government has launched a structural reform agenda to boost productivity, strengthen international trade, and promote the country's return to the international markets.
- 1.2 **Financial system development.** The financial system is crucial for economic growth [1]. To be effective, it must: (i) channel resources from savings to productive investments; (ii) modify terms, redirecting short-term savings to long-term productive investments, such as infrastructure projects; and (iii) mitigate productive investment risks by facilitating broad and active participation of investors [2].
- 1.3 Argentina has low levels of private sector financing, with a ratio of domestic credit to GDP of 14% in 2016, as compared to Brazil (62% in 2016), Chile (112% in 2016), Colombia (47% in 2016), Mexico (35% in 2016), Peru (36% in 2016), and the global average (132% in 2016) [3].
- 1.4 In the World Economic Forum's (WEF) Global Competitiveness Report 2017-2018, Argentina ranked 121st out of 137 countries for financial market development. This reflects low key indicator values, which are essential for promoting productive development, such as financial services availability (ranked 130th), the cost (affordability) of such services (124th), financing through local equity markets (106th), and ease of access to loans (116th).
- 1.5 The financial system has been affected by macroeconomic conditions, particularly inflationary control, which has in turn impacted its growth [4]. The financial system contracted significantly following the 2001-2002 crisis, but despite expanding in recent years, it remains small, dominated by commercial banks, and has a short-term transactional profile. The most recent financial system stability assessment by

¹ See [bibliography](#).

² Central Bank of the Argentine Republic.

the International Monetary Fund (IMF) [5] confirmed the system's liquidity, solid capitalization, and good-quality assets. As of June 2017 [6], credit accounted for 45% of total financial system assets, which was low compared to the corresponding levels in Chile (69%) [7], Colombia (74%) [8], and Peru (69%) [9].

- 1.6 The capital market has a market capitalization rate of roughly 10% of GDP—below the 60% average in the higher-middle-income countries.³ However, with US\$4.4 billion in issues as of June 2017 it had grown by 40% compared to the previous year, mostly in the construction, infrastructure, and energy sectors [10]. Argentina had been absent from the international capital markets owing to holdout creditors for certain international bonds. However, this situation was recently resolved in 2016, enabling the country to resume access to external finance.
- 1.7 To stimulate Argentina's economy, productive investment should be promoted, especially in infrastructure. The government recognizes that its public investment capacity will be limited in the coming years, and therefore proposes to achieve macroeconomic stability, stimulate national productivity, and develop infrastructure⁴ by promoting private investment [11].
- 1.8 In keeping with the country's infrastructure needs, the government has called for US\$69 billion in investment by 2025 [12], which would include an estimated US\$30 billion in private investment. The financial system and domestic capital market have limited capacity to absorb investment, especially in the long term. Obstacles to more robust financial sector participation include: (i) the limited long-term exposure of the transaction profile of operations; (ii) risk and guarantee standards set by the Central Bank; and (iii) uncertainty about medium- and long-term costs, resulting in a perception of higher country risk [13].
- 1.9 **Rationale for the program.** The program will help reduce barriers to private sector financing for productive development in Argentina, and aims to catalyze private investment to finance productive infrastructure. The domestic market currently focuses on the short and medium term and lacks capacity to meet the country's productive development financing needs. Meanwhile, international financing sources have been scarce (paragraph 1.6), with limited financing since 2016 due to the high country-risk perception among international investors.
- 1.10 The program's focus is the logical result of the shift in the approach of multilateral development banks (MDBs) toward mobilizing private resources. In the document *From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance* [14], the MDBs and the IMF propose a new model that prioritizes the mobilization of private sector resources with a view to leveraging the funds at their disposal.
- 1.11 MDBs have put forward financing solutions that transcend conventional loans (e.g. guarantee instruments), focusing on: (i) increasing, combining, and facilitating new flows or better results with the same amount of resources; and (ii) managing or reducing the risk for investors, by addressing market failures or mitigating regulatory risks.

³ World Bank, World Development Indicators.

⁴ See www.casarosada.gob.ar/objetivosdegobierno.

- 1.12 Despite their limited use, experience with guarantees has been positive. According to the Organization for Economic Cooperation and Development (OECD) [15], international development agencies mobilized US\$36 billion from the private sector between 2012 and 2014, 59% of which through guarantees. According to the World Bank [16], demand for guarantees is based on: (i) perceived political risk; (ii) perceived regulatory and contractual risk; and (iii) improved access and financing conditions in underserved markets. Between 1990 and 2007, the World Bank issued 10 partial credit guarantees—amounting to US\$1.6 billion—to cover a total investment of US\$12 billion, i.e. a seven-fold leverage. In some cases, such as the Philippines and China, guarantees have facilitated access to longer loan terms (15 years –nearly double the term offered on the market) without much impact on financing charges. In others, such as Lebanon, Jordan, and Thailand, guarantees have facilitated access to previously untapped markets and reduced financing costs, improving the risk rating on three scales and boosting the appetite for financing. In Argentina and Colombia, the World Bank issued policy-based guarantees, resulting in leverages of 4.7 times and 6.3 times, respectively. Although the cost savings were insignificant in Argentina, the US\$1.2 billion external financing issue would not have been possible without the guarantee. The cost benefits are associated with the structure of the issue, the characteristics of the guarantee, and the timing of its placement in the market. A World Bank study of a sample of seven guarantees identified weighted average savings of 100 basis points in financing charges and a 3.8-year increase in the financing term.
- 1.13 Although the IDB has limited experience with guarantees backed by sovereign counter-guarantees, as noted in paragraph 1.21, guidelines exist for using the product. In 2013, the Bank approved the Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations (document GN-2729-2)⁵ as a flexible instrument that would make more strategic use of official resources available for development. Accordingly, this would include the mobilization of private financing through the diversification of financial products to better meet country needs, as stated in the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (document AB-2764), as well as innovation in products the Bank develops jointly with other stakeholders, the design and launch of financial and nonfinancial products and services, and various methods of participation in activities with a very diverse client base, as set out in the Better Bank Agenda.
- 1.14 The program therefore aims to establish the Risk Mitigation Flexible Facility (RMFF) in Argentina for up to US\$490 million to facilitate private investment in productive development using guarantees. This support will be provided in the form of partial credit guarantees and political risk guarantees issued by the Bank (with a sovereign counter-guarantee from the Argentine Republic), based on the needs of the projects identified, of potential investors, and of the guarantee instruments to achieve the project/program objective. To attract new, environmentally aware investors,⁶ options will be explored to promote investments with a low carbon footprint and climate-

⁵ Hereinafter, the “Guarantee Instrument Policy,” which includes operational guidelines (document GN-2729-4).

⁶ Global Investor Statement on Climate Change, 2014.

change resilient, which will lead to lower operating costs during the life of the investment and reduce risk [17].

- 1.15 The RMFF will be used to support productive infrastructure projects in Argentina, especially those carried out as public-private partnerships (PPPs). For the RMFF to be effective, it must include a flexible, efficient procedure for issuing individual guarantees that meets the needs of the private sector in the financial closing process for PPP projects. Given Argentina's considerable need for productive infrastructure projects that require long-term financing, it is essential that the RMFF send a strong signal that it will be available on the market from the moment it enters into effect. This will provide certainty and autonomy to potential sponsors, investors, and PPP financiers, encouraging them to more actively participate in PPP bidding processes. Similarly, the Bank's participation in the RMFF as an issuer of guarantees will no doubt provide the private sector with peace of mind in terms of the attractiveness of its AAA rating and high project review and monitoring standards. Accordingly, the program seeks to align itself with the incentives of the public sector (which requires greater investment in productive infrastructure) as well as those of the private sector (which is willing to diversify its financing portfolio, but faces considerable obstacles in doing so).
- 1.16 Based on recent performance, Argentina's investment in infrastructure amounted to approximately 2% of GDP between 2008 and 2015,⁷ of which private sector investment accounted for only 18% to 30%. According to the WEF [18], Argentina ranked 106th out of 137 countries surveyed in terms of infrastructure quality, with particularly low results for roads (96th) and electricity supply (113th). Similarly, the World Bank's Logistics Performance Index ranks Argentina fourth among the countries of the region in terms of infrastructure, after Mexico, Brazil, and Panama.
- 1.17 As mentioned above, one of the key pillars of the Argentine government's objectives⁸ is to prioritize infrastructure development and promote private sector participation in new investment projects. This would target: (i) road corridors; (ii) electricity supply; and (iii) renewable energy generation (see [productive infrastructure investment priorities](#)).
- 1.18 In view of the need for infrastructure as a driver of economic growth to counter the fiscal constraints facing the country, solutions need to be identified that attract private financing to help achieve Argentina's development goals. In Latin America and the Caribbean, however, private financing for infrastructure has traditionally been promoted by commercial banks, which account for about 50% of all such projects in recent years. Generally, this financing has been hampered by a stricter global regulatory framework, which allocates more capital to longer-term, project-oriented loans, favoring other more liquid, low-risk assets and a predictable return in the short term. The finance sector is also averse to long-term risk, which limits the appetite for infrastructure financing, since commercial banks and institutional investors do not necessarily have the capacity to structure projects around their financing needs. This problem is particularly pressing in Argentina [19] due to the limitations of local financial institutions, a fact reflected in the absence of investment projects to make banking services more viable; there is also a lack of specialized instruments for

⁷ [Economic Infrastructure Investment Data: Latin America and the Caribbean](#).

⁸ See: www.caserosada.gob.ar/objetivosdegobierno.

project financing in the country. The challenge, therefore, is to identify instruments that are capable of attracting new actors for infrastructure financing [20].

- 1.19 Institutional investment, as a percentage of total infrastructure financing in the region, is currently very low. Together, investment funds, pension funds, and insurance companies account for less than 3% of all financing. However, as an asset class, infrastructure often has a number of features that lend themselves to participation by various funds, since they: (i) are long-term assets with stable returns and usually indexed for inflation; (ii) offer predictable cash flows that facilitate greater leveraging; and (iii) are aligned with the characteristics required for participation in accordance with their legal structure and corresponding regulatory requirements [21]. Consequently, the Bank has the opportunity to support PPP projects prepared on solid technical grounds, which can then be financed in sufficient amounts and on appropriate terms and conditions. With the guarantee instrument, the Bank can help close this gap in project financing: (i) from the financing dimension, through its AAA guarantee to compensate the financial risks assumed by investors; and (ii) from the nonfinancial dimension, through its seal of quality for providing high common standards of fiduciary review, including environmental and social review.
- 1.20 The program will support a portfolio of PPP projects in Argentina's productive infrastructure sector. The financing of preliminary projects, which are yet to be determined, is anticipated in the following sectors: (i) road corridors, comprising 13 projects to build highways, passing lanes, shoulder paving works, bypass roads in urban areas, and ancillary works, amounting to more than 2,800 kilometers of highways and 4,000 kilometers of safe routes, for an estimated total investment of US\$7 billion; (ii) power lines, comprising seven 500-kilowatt transmission lines extending more than 3,000 kilometers throughout the country, as well as substations, for an estimated total investment of US\$3 billion; and (iii) alternative renewable energy generation under the RenovAr program, including wind, solar, biomass, and biogas projects with an estimated total investment of US\$1 billion. The Bank's participation in Argentina's PPP program would involve guaranteeing projects that meet high preparation and development impact standards for the country, and seeking to support the country in further strengthening preparation and financing standards for PPP projects.
- 1.21 **IDB experience and lessons learned.** The IDB Group has considerable infrastructure financing experience, whether directly or indirectly through national development banks, enabling it to mobilize public and private resources. Its experience using guarantees backed by sovereign counter-guarantees is limited to two projects that have been approved and executed. The lessons learned applicable to this project are: (i) for PPP projects, an ex ante socioeconomic analysis is needed to determine whether the PPP format is the most suitable and would provide an appropriate return for the country; and (ii) to ensure a catalytic effect, the capacity to structure financing, mobilize resources, and well-defined social and environmental management of the projects are essential. In designing this operation, care was taken to integrate these good practices and lessons learned in preparing the projects for bidding, to ensure that RMFF requirements are incorporated from the outset and that the projects are efficiently processed and executed. For more details, see [lessons learned](#).

- 1.22 **Coordination with the IDB Group and other donors.** In parallel with the program, IDB Invest is looking at the possibility of submitting a loan proposal for up to US\$100 million to create a financing vehicle for productive infrastructure projects in Argentina. The structure of that vehicle will be decided by the Ministry of Finance. IDB Invest has very relevant experience in financing investment funds and productive infrastructure projects in Argentina. For example, it is taking part in the RenovAr program, with 11 potential projects totaling more than 800 megawatts, some of which, including the El Corti project,⁹ have already secured internal approval and gone to financial closure.
- 1.23 The program has also been developed in collaboration with the World Bank Group, which is expected to participate: (i) through the International Bank for Reconstruction and Development (IBRD), using a structure similar to the one for this program, which could amount to US\$450 million; and (ii) through the International Finance Corporation (IFC) with a potential loan similar to that of IDB Invest. Details of the interventions by each of the four parties' have been extensively coordinated to ensure that they are consistent, compatible, and aligned; they have been processed separately and in parallel, taking into consideration the differences in each organization's outputs, policies, and requirements.
- 1.24 **Strategic alignment.** The program is aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008) with regard to the challenge of developing productivity and innovation via leveraged investment for infrastructure projects through the program. It will also contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) as regards the results indicators *installed power generation from renewable energy sources, electricity transmission and distribution lines installed or upgraded, and roads built or upgraded*. It is estimated that 9.8% of the operation's resources correspond to climate change mitigation activities, according to the [2016 Joint Report on Multilateral Development Banks' Climate Finance](#).¹⁰ These resources contribute to the IDB Group's goal of increasing financing for climate change projects to 30% of all approved operations by 2020.
- 1.25 The program is also aligned with the IDB Group Country Strategy with Argentina 2016-2019 (document GN-2870-1) in the priority area of improving the business environment and the strategic objective of improving infrastructure for investment and inclusion.
- 1.26 Furthermore, the program is aligned with the IDB Infrastructure Strategy – Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5) by promoting access to infrastructure services through projects for road corridors, transmission lines, and renewable energy generation that will be supported by the program, and by promoting innovative mechanisms to finance infrastructure and leverage private sector participation through the use of PPPs for infrastructure projects in Argentina. The program supports these initiatives by mitigating risks that could hinder the participation of international financiers. Lastly, the program is consistent with: (i) the Support to SMEs and Financial Access/Supervision Sector Framework (document GN-2768-7) by promoting productive sector access to financing and the resulting productivity gains; (ii) the

⁹ For more information, see the [El Corti Wind Project](#).

¹⁰ According to the methodology for estimating climate finance established by the MDBs, the Bank counts as climate finance the estimated portion of the guarantee to be channeled to renewable energy projects.

Transportation Sector Framework (document GN-2740-7) by promoting better infrastructure coverage, quality, capacity, and efficient connectivity through expanding and improving road corridors; and (iii) the Energy Sector Framework (document GN-2830-3) by promoting better access to energy in terms of coverage, reliability, and affordability through expanding transmission lines, as well as energy sustainability by promoting renewable energy generation projects.

B. Objectives, components, and cost

- 1.27 The program's objective is to promote private-sector participation in productive investment and thereby help spur economic growth in Argentina. The program will help mitigate risks that hinder private financing for productive development by: (i) attracting a significant volume of private investment (institutional investors, international investors, as well as other national or multilateral institutions); and (ii) promoting efficient financing of a privately-funded portfolio of productive infrastructure projects that matches investors' performance, risk, and term requirements with the long-term needs of the projects.
- 1.28 The program will cost up to US\$490 million, accounting for approximately 5% of all financing needs identified with respect to the potential demand for PPP projects. With these resources, the program will aim to mobilize private sector funding of between three and four times the size of the program, i.e. between US\$1.47 billion and US\$1.96 billion will be used to finance infrastructure projects in Argentina, accounting for 15% to 20% of the potential demand requirements identified in paragraph 1.20.
- 1.29 **Guarantees issued under the Risk Mitigation Flexible Facility (RMFF) – US\$490 million.** The program will have the objective of mitigating, through the use of guarantees, the risks associated with PPP projects for productive infrastructure in Argentina.¹¹ At the request of the Argentine Republic, the IDB can issue partial credit guarantees and political risk guarantees for investors and financiers of PPP projects in productive infrastructure. The Bank will issue the guarantee only when the project in question, the guaranteed debtors, and the guaranteed creditors fulfill the requirements and eligibility criteria set out in paragraphs 3.20 to 3.22 and detailed in the program Operating Regulations.
- 1.30 **Investment loan: Resources for program management and coordination – US\$10 million.** To assure the program's satisfactory implementation and to support the Ministry of Finance as the coordinating agency for the RMFF, an investment loan is included to finance consulting services for the technical and financial preparation, monitoring, evaluation, and supervision of projects that could potentially receive a guarantee under the RMFF, ensuring compliance with the requirements established in the agreement to be signed by the Argentine Republic and the Inter-American Development Bank to establish this facility.¹² Specifically, resources will be provided to enable the Ministry of Finance to: (i) exercise the requisite internal and financial control for the RMFF, including accounting and reporting; (ii) support the technical preparation of projects; (iii) support the preparation and financial structuring of

¹¹ The features of this component are consistent with those stated in the Guarantee Instrument Policy (document GN-2729-2), which will also apply to the issuance of individual guarantees under the RMFF.

¹² The environmental and social safeguard requirements included in this agreement can be found in Annex B of the program [ESMR](#).

projects; and (iv) monitor and supervise projects with guarantees and evaluate the program.

- 1.31 **Beneficiaries.** The final beneficiaries will be the users of infrastructure projects developed in Argentina as part of the project, i.e. users of road corridors, whether entrepreneurs (who will benefit from more efficient logistics) or individuals (who will have shorter travel times) whose productivity will improve in both cases. Electric power consumers will also benefit (further contributing to the goal of a diversified energy matrix), owing to greater coverage resulting from the installation of new transmission lines and potential improvements in access and cost. Although there is no definitive pipeline, the preliminary one suggests that projects—and therefore the program’s beneficiaries—will potentially be located in the provinces of Buenos Aires, La Pampa, Santa Fe, Córdoba, Mendoza, Santiago del Estero, Tucumán, Salta, Jujuy, Misiones, Corrientes, and Chaco.¹³

C. Key results indicators

- 1.32 The impacts of the program will be: (i) a narrowing of Argentina’s infrastructure gap, owing to higher scores on the Logistics Performance Index and Quality of Overall Infrastructure Index; and (ii) an increase in private infrastructure investment, measured in terms of private participation in Argentine infrastructure. The outcomes of the program will be: (i) the ability to leverage resources for the financing of productive infrastructure projects; and (ii) improved financing terms for the program’s beneficiary projects, measured as the difference between the average financing rate for the secured portion under an investment project compared to the financing for the unsecured portion, and the difference between the total average financing for secured projects versus the rate for similar projects with no guarantees, using these indicators as reasonable comparators.
- 1.33 **Cost/benefit evaluation.** Given the nature of the program, which aims to produce a leveraging effect on private resources and reduce financing costs, its costs and benefits were evaluated on the basis of a [financial analysis](#), which quantified the program’s expected net benefit, measured as finance cost savings—net of operating costs—attributable to the RMFF compared to the situation without the program. Its main finding was that the program would deliver an expected aggregate net benefit of US\$53.6 million. This figure had been adjusted in accordance with the key parameters of a sensitivity analysis and found to have an adequate degree of tolerance to variations in them. The program would still generate benefits if up to 82% of its total guarantees were executed. The analysis was conducted in accordance with IDB guidelines, particularly as regards the use of a 12% discount rate.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 Part of the program has been structured as a Risk Mitigation Flexible Facility to issue guarantees up to an aggregate total of US\$490 million over a period of eight years. It also includes a US\$10 million investment loan to support program

¹³ Ministry of Transport and Office of the President (Government of Argentina), 2017.

management and coordination, to be disbursed over five years. See Table 1, Program costs, below.

Table 1. Program costs (US\$)

Categories	Amount	Percentage
RMFF	490,000,000	98
Investment loan for program management and coordination	10,000,000	2
Total	500,000,000	100

- 2.2 Resources for the RMFF will be fully allocated from the Ordinary Capital funds available for programming operations with Argentina in 2018.
- 2.3 Individual guarantees must fulfill the requirements set forth in the Guarantee Instrument Policy (document GN-2729-2) as well as those described further on in this document, which generally address: (i) partial credit guarantees or political risk guarantees; (ii) involved in productive infrastructure projects in Argentina; (iii) for investors in productive infrastructure projects in Argentina; (iv) with a sovereign counter-guarantee from the Argentine Republic; (v) guaranteeing the repayment of U.S. dollar-denominated financing for loans and/or negotiable debt instruments issued for productive infrastructure projects in Argentina; (vi) for up to US\$490 million, bearing in mind that a bond could be guaranteed for a combination of productive infrastructure projects; (vii) for up to 70% of the total cost of each project; (viii) up to a term of 25 years with a weighted average life of up to 15.25 years; and (ix) its amount will be linked to the government's project cash flow commitments on the date each guarantee is issued. IDB-issued guarantees will be irrevocable against a duly documented claim. In accordance with the policy, the Bank will rigorously review projects seeking guarantees—specifically, the features of the PPP, value-for-money analysis, socioeconomic evaluation, private-sector participants, and financing structure, to ensure they meet the high standards of Bank operations.
- 2.4 In the event payment is made under a guarantee, the amount paid by the Bank can become a loan to the Argentine Republic for the amount of the reimbursement and any additional expenses incurred in the payment of the claim during the remaining weighted average life of the called guarantee (see paragraph 3.15).

B. Environmental and social risks

- 2.5 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), ex ante classification of this program is not feasible.
- 2.6 The potential socioenvironmental impacts of projects will be diverse, and their levels will depend on the specific features of each (e.g. sector, location, and size). Negative social and environmental impacts will mainly be localized, occurring in the short and medium term; effective mitigation measures for these are already in place. Category "A" projects will be excluded.
- 2.7 The potential environmental, social, health, and safety risks and impacts of the projects to be guaranteed with program proceeds will be identified, evaluated, and managed through an environmental and social management system (ESMS). It will

be designed in accordance with IDB safeguards and include a list of exclusions for certain types of projects. The ESMS will form part of the program Operating Regulations. During the life of the program, its design and execution will be implemented with the support of external and independent consulting services contracted with program resources. For more information, see the program's [environmental and social management report \(ESMR\)](#).

C. Other risks and key issues

- 2.8 **Development risks.** The risk that there may be an insufficient number of concession holders, builders, and sponsors to carry out PPP infrastructure projects in Argentina is considered moderate. The services contracted with the proceeds of the investment loan will support the Ministry of Finance, working in conjunction with the corresponding sector ministry, in the technical and financial aspects of preparing bidding processes for PPP projects. This involves promoting good practices and favorable conditions needed to attract the participation of various national and international actors. This risk will be monitored by tracking the number of bidders who have submitted financial bids for each PPP project, as documented by the Office of the Deputy Secretary for Public-Private Partnerships and reported to the IDB by the Ministry of Finance.
- 2.9 There is another moderate development risk associated with the possibility of insufficient demand among private sector investors to finance these projects or that the program may not produce the catalytic effect desired by investors. The project team, together with the IBRD, IFC, and IDB Invest teams, has conducted a survey of investors with a view to incorporating the necessary design elements for the RMFF to be effective, and therefore attract greater potential demand for project financing. Accordingly, monitoring of any related developments in this regard will take place during program execution. This risk will be assessed via monitoring requests for guarantees and loans processed by the Ministry of Finance.
- 2.10 Yet another moderate development risk concerns the correct preliminary identification, analysis, and prioritization of PPP projects. The traditional risks associated with project performance—i.e. meeting the expectations of asset demand—can be mitigated using the Ministry of Finance's cost/benefit evaluation and resulting estimates of initial demand, with a view to ensuring the projects' socioeconomic viability.
- 2.11 **Public management and governance risks.** There is a moderate risk of coordination difficulties between the Ministry of Finance, in its executing agency, and other sector managers of infrastructure projects. The project team has included a requirement for a formal framework of coordination among ministries in the program Operating Regulations, and will monitor compliance during the execution period.
- 2.12 **Financial risk.** There is a moderate risk that an exogenous macroeconomic shock could impact demand in the national and international private sector for investment in infrastructure projects in Argentina. Although this risk cannot be mitigated, the IDB will endeavor to issue demand guarantees for the projects to be financed, as stipulated in the program Operating Regulations.
- 2.13 **Sustainability.** The Argentine Republic has made a strong commitment to promoting the necessary conditions for mobilizing additional private investment, as evidenced by its development of key measures for promoting PPPs, including the

approval of a new legal framework and the creation of a new office—Office of the Deputy Secretary for PPPs—within the Ministry of Finance, to consolidate and optimize the management of these projects. The country has also taken significant steps to boost private investor confidence in the financial system, including its return to the international financial markets and measures aimed at strengthening the financial system, designed to promote productive financing. In view of this progress and the positive results achieved, the program is seen as a significant step toward mobilizing national and international private investment, which today is not invested in Argentina due to risks associated with public management. Over time, the program's demonstration effect will make it possible to gradually overcome obstacles to productive financing. As confidence in the market increases, investors should be able to enter the Argentine market without need for risk mitigation instruments.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Risk Mitigation Flexible Facility.** The Bank and the Argentine Republic will sign an agreement establishing the RMFF. It will include the requirements for issuing guarantees, term for using the RMFF, eligibility criteria, and the financial conditions applicable to operations with a guarantee. Under the agreement, the Argentine Republic commits to assuming the role of counter-guarantor for all Bank-issued guarantees under the RMFF.
- 3.2 **Investment loan.** For the investment loan, the borrower will be the Argentine Republic, acting through the Ministry of Finance as the executing agency.
- 3.3 **Coordination and administration.** The Coordination Unit for Sector-wide Approach Programs and Projects (UPC), or any of its successors with similar roles and responsibilities in the applicable regulatory framework, will be responsible for fulfilling the requirements established for program execution. Together with the Bank, the UPC will be responsible for managing and processing requests for guarantees under the RMFF, and for monitoring compliance with the terms and conditions stipulated in both the agreement establishing the facility and the program Operating Regulations, as they relate to requests and each guaranteed project. The UPC will also be responsible for coordinating supervision of the program's monitoring and evaluation requirements. For the investment loan, the UPC will be responsible for the selection and contracting of consultants to ensure the appropriate operational, administrative, and financial management of the program, as well as for implementing the RMFF.
- 3.4 The UPC will work with the Ministry of Finance's Office of the Deputy Secretary for PPPs—an independent, separate agency from the UPC—to prepare projects for bidding that could potentially secure guarantees under the program. The proceeds from the investment loan allocated for program management and coordination will be used to support the technical and financial aspects of project preparation, ensuring that bidding processes for eligible projects follow good market practices and comply ex ante with program requirements (as established in the RMFF agreement and in the program Operating Regulations) and incorporate them in financial proposals. Under the Law on Public-Private Partnership Contracts and its

implementing regulations,¹⁴ the Office of the Deputy Secretary for PPPs acts as the coordinating agency appointed by the government to plan, design, structure, and implement PPP projects for the national public sector. It will therefore be responsible for coordinating the awarding of eligible projects that benefit from a guarantee with each contracting ministry—i.e. the Ministry of Transport, for the technical preparation of road corridor projects; the Ministry of Energy and Mining, for the technical preparation of electric power transmission and renewable energy generation projects; and any other ministry required to identify eligible projects.

- 3.5 Once the coordinating agency is satisfied that eligible projects have met the criteria and requirements established in the RMFF agreement and program Operating Regulations, it will be responsible for coordinating, together with the relevant parties (e.g. concession holders, investors, and financiers), the information required to document compliance. To that end, it will send the IDB a formal request for a guarantee with all the relevant information for processing. The coordinating agency will be available to respond to any Bank query on each request and, through the UPC, will serve as the liaison between the Bank and the relevant parties, to ensure that the Bank has all the necessary information to complete its analysis before approving and subsequently issuing the guarantee.
- 3.6 With regard to the investment loan, in addition to the selection and hiring of consultants, the UPC will be responsible for coordinating all program execution arrangements, including: (i) preparation, implementation, and coordination of annual work plans; (ii) budget preparation, program accounting, financial management, reports, and disbursement requests; (iii) preparation of technical, execution, and financial reports; (iv) program monitoring and evaluation; (v) program evaluation at the end of the execution period; and (vi) hiring of an external audit firm and implementation of its recommendations.
- 3.7 **Approval of individual guarantees.** The Bank will analyze requests for guarantees received by the UPC, the content of which will be recorded in the program Operating Regulations. Requests will include: (i) a description of the project, including its name, identification of the sponsor and other key project actors, geographical location, description of the works to be performed, total cost, amount of financing required for the project, amount to be guaranteed, and financial plan; (ii) proof of compliance with the project's eligibility criteria, including criteria applicable to guaranteed debtors and creditors, as well as other beneficiaries or stakeholders; (iii) proof of compliance with integrity requirements; (iv) proof of compliance with project environmental and social safeguard requirements, including environmental licenses and permits, and environmental impact studies; (v) summary(ies) of any public consultation(s), resettlement plan, and/or other plans required under the program Operating Regulations; (vi) proof of project compliance with procurement processes and/or measures to ensure such compliance; (vii) financial terms and conditions, including term, coverage, currency, and payment of fees associated with the financing and guarantees; (viii) description and justification of events triggering the guarantee; (ix) analysis of the project's structure and value for money; (x) project socioeconomic analysis; (xi) project monitoring and supervision plan; and (xii) analysis of the project's legal viability and proposed contractual arrangements. The request will include the consent and authorization of the guaranteed debtor (or any other party

¹⁴ Law 27,328 of 2016 and Decree 118/2017.

involved in developing or executing the project), under terms acceptable to the Bank, enabling it to: (a) perform the due diligence required to issue the guarantee; and (b) receive all the necessary cooperation to complete this work. The consent and authorization of the guaranteed debtor (or any other party involved in developing or executing the project, as applicable) will include a commitment to sign, at the Bank's request, agreements with attorneys, consultants, or experts required by the Bank to complete the required due diligence review and prepare the corresponding legal documentation to close the operation. The Bank will rigorously review and select projects for guarantees that comply with the high standards for the preparation of PPPs and that have a significant development impact for Argentina. Before approving each request for a guarantee, the Bank will verify and must be satisfied that it has: (i) received a request that is complete and correct in all aspects, as well as all additional clarification or information it may reasonably request; (ii) successfully verified and documented compliance with the applicable policies, as well as the requirements set out in the agreement to establish the RMFF and in the program Operating Regulations; (iii) received or agreed upon the arrangements for the receipt of payment for any costs incurred in issuing the guarantee; (iv) satisfactorily negotiated the legal agreements necessary to issue the guarantee; and (v) obtained the authorizations necessary to close the required legal documentation. The Bank is not required to issue guarantees if it has not been able to verify compliance with these requirements to its satisfaction. Consequently, it will have no responsibility in the event it is unable to issue a guarantee.

- 3.8 **Request to approve delegation of authority.** Beginning with the second individual operation under the RMFF, the Board of Executive Directors is requested to delegate approval authority to the President for issuing individual guarantees, each for up to US\$100 million.¹⁵ The first individual guarantees to be issued under the RMFF will be submitted to the Board of Executive Directors for consideration. All individual guarantees issued under the RMFF will be subject to the criteria established in the proposal and comply with Bank policies.
- 3.9 Management will process each individual guarantee as follows: (i) the project team will prepare a guarantee proposal consisting of a detailed checklist documenting compliance with each element of the eligibility criteria approved by the Board of Executive Directors under the RMFF, and with the additional criteria set out in the program Operating Regulations. The team will prepare this proposal with the information supplied by the executing agency (described in paragraph 3.7) and will incorporate an evaluation of the PPP structure as well as the value-for-money considerations prepared by the Bank's Public-Private Partnerships Unit; (ii) once the proposal has been completed, the office of the sector manager will distribute the document and coordinate a formal quality risk review meeting. The meeting will take place five days after the document has been circulated and include representatives of the Country Department Southern Cone, the Environmental and Social Safeguards Unit, the Office of Institutional Integrity, the Operations Financial Management and Procurement Services Office, the Legal Department, the Public-Private Partnerships Unit, the Finance Department, the Risk Management Office, and the relevant sector divisions; (iii) in the event agreement is reached on

¹⁵ Consistent with the threshold for approval of operations with Argentina under the simplified procedure by the Board of Executive Directors.

the guarantee proposal, each participant of the divisions will sign the document recommending, in the technical scope of their duties (which could include advisory duties), their favorable consideration as members of the Operations Policy Committee (OPC); (iv) the office of the sector manager will then distribute the proposal signed by the OPC for a two-day no objection period; the OPC will invite the Finance Department and the Office of Institutional Integrity to participate in its review; (v) once this two-day period has lapsed and absent any pending business, the heads of the Office of the Executive Vice President, the Vice Presidencies for Countries, for Sectors and Knowledge, and for Finance and Administration, the Office of Strategic Planning and Development Effectiveness, the Legal Department, the Risk Management Office, the Finance Department, and the Office of Institutional Integrity will sign the memorandum recommending that the President approve the individual guarantee proposal;¹⁶ (vi) the office of the sector manager will distribute the proposal and memorandum of recommendation to the Office of the Executive Vice President for transmittal to the Office of the President and subsequent approval by the President; (vii) once issued, Management will send all approved guarantee proposals to the Board of Executive Directors for information. The OPC will may review the details of the procedures described in items (i) through (iv).

- 3.10 Unlike other Bank-prepared projects, this program will receive projects that have already been prepared by the Ministry of Finance, in accordance with the bidding requirements applicable to PPPs established by the Argentine government. For each request for a guarantee, the Bank's due diligence review will enable it to validate compliance with the eligibility criteria, other program requirements, and Bank policies. Although the delegation of authority involves making adjustments to the Bank's existing processes, it is nevertheless necessary in order to address the particular needs of the intervention.
- 3.11 Delegating authority is essential for the program's successful execution, since the RMFF must transmit certainty, security, and expediency to the private sector to respond to its PPP financing needs in Argentina (see paragraph 1.15). The delegation of authority, together with the procedure for issuing individual guarantees under the RMFF, will effectively address market needs, thus maintaining the Bank's review standards for compliance with technical aspects, including the socioeconomic analysis, the social and environmental review, the integrity review, and the legal analysis for projects receiving guarantees under the program that are consistent with the Bank's joint operations. The multisector composition of the project team will be retained during program execution, and each guarantee proposal will be sent to Management's formal approval comities.
- 3.12 The RMFF will facilitate first-loss partial credit and political risk guarantees for investors and/or financiers of productive infrastructure PPP projects in Argentina. These guarantees can be issued directly to support project financing and to investors in financing vehicles and negotiable instruments, provided they are used to finance one or more eligible projects. They can also be issued to support projects promoted

¹⁶ To reflect the joint vision of the Bank's senior Management, the signers will execute the memorandum in their capacity as Bank executives as confirmation that, from their respective areas of responsibility, they have analyzed the proposal and consider that it can be approved based on its substantial merits (for executives with operational roles) or because there are no pending concerns (for executives with advisory roles).

by government agencies at the national, subnational, and local levels, as long as the Bank has a sovereign counter-guarantee from the Argentine Republic. Guaranteed creditors can be from anywhere, whether or not an IDB member country. Loans or investments made by MDBs involved in project financing or investment vehicles that finance considered projects cannot be guaranteed.¹⁷ In structuring guarantees, the project's structure will be considered for purposes of establishing special-purpose vehicles, trusts, other types of vehicles, or partnership associations. The laws and jurisdiction applicable to contracts for each project will be considered on a case-by-case basis.

- 3.13 Trigger events for the guarantees will be identified in each guarantee request and stipulated in the respective guarantee contract. In any case, they would only be triggered in the event of nonpayment of an obligation associated with the guaranteed debt or negotiable instrument. Political risk guarantees are associated with public management-related risks, i.e. those affecting project cash flows due to public action or noncompliance, and to support any negotiable instrument of a public nature.¹⁸ Partial credit guarantees will cover any type of risk, including financial, construction, and operational risks, based on considerations related to public management risks.¹⁹
- 3.14 Bank-issued guarantees can cover the principal, interest, and/or lending fees on loans for eligible projects. Guarantees will be denominated in U.S. dollars. They will be issued to ensure the repayment of loans to guaranteed debtors and/or holders of negotiable instruments issued to finance these projects.
- 3.15 Each guarantee issued under the RMFF will be backed by a sovereign counter-guarantee of the Argentine Republic. The Bank and the counter-guarantor can agree at any time that, in lieu of reimbursing a claim immediately, it can be converted into a loan with a sovereign guarantee and a flexible amortization profile, within the parameters established by the Bank.²⁰ In such cases, repayment periods will be limited by the original weighted average life of the guarantee, with full repayment required within the remaining weighted average life. In any case, the total reimbursed amount will include the amount of the paid claim, as well as additional costs incurred by the Bank in paying the claim, if any.

¹⁷ Although the Guarantee Instrument Policy permits the issue of guarantees to cover loans by development finance institutions, to avoid any potential conflicts of interest, the issue of guarantees to other MDBs that participate in the financing of a considered project is excluded. This restriction does not apply to IDB-guaranteed negotiable instruments on the market that are acquired by another MDB.

¹⁸ Cash flows associated with public management include committed public amounts established in contracts or other legal obligations applicable to corresponding projects and may include the following: (i) payments due to unavailability in the case of transport projects; (ii) payments due to low electricity generation (power purchase agreement); (iii) payments due to unavailability in terms of capacity and supply for electricity supply projects; (iv) public obligations in negotiable instruments, including all associated risks in the case of those issued by the Argentine Republic or any entity within the National Public Administration; and (v) changes to the legal and regulatory framework that adversely affect project cash flows (including convertibility and monetary transferability).

¹⁹ In this sense, partial credit guarantees are tied to an underlying public asset, e.g. a bond is issued to finance a PPP, backed by negotiable instruments issued by the Republic of Argentina or any government agency, or financing tied to the payment obligations of the Argentine Republic or any government agency thereof, among others.

²⁰ Flexible Financing Facility (document FN-655-1).

- 3.16 The program Operating Regulations will establish the applicable terms and conditions for program implementation, including: for the UPC: (i) responsibilities; (ii) organizational structure; and (iii) core program staff. For the RMFF: (i) specific eligibility characteristics (e.g. list of project exclusion criteria) and due diligence requirements applicable to projects, guaranteed debtors, guaranteed creditors, and other key actors; (ii) integrity and procurement requirements; (iii) environmental and social management requirements; (iv) fiduciary obligations and monitoring, supervision, and project evaluation requirements; (v) requirements and procedures for the preparation, processing, and analysis of guarantee requests; and (vi) procedures for claims and the payment of guarantees. For the investment loan: (i) specific requirements for eligible activities and expenses; and (ii) the use of proceeds to support program implementation. The program Operating Regulations will include the detailed ESMS manual. Any modification of the program Operating Regulations will require the Bank's prior written consent.
- 3.17 **The entry into effect of the program Operating Regulations will be a special contractual condition precedent to issuing the first guarantee under the RMFF, in accordance with the terms previously agreed upon between the Ministry of Finance and the Bank.** This condition is justified since the program Operating Regulations will establish the applicable terms and conditions for the program's implementation.
- 3.18 In accordance with the Guarantee Instrument Policy, the same social and environmental safeguard requirements for loans with sovereign guarantees will apply to guarantees with sovereign counter-guarantees (document GN-2729-2, paragraph 3.10). However, as the instrument is irrevocable by nature, the timing of evaluations, as well as the reimbursement options available to the Bank in the event of noncompliance will be tailored to each specific operation. The Bank will work with the UPC to avoid possible noncompliance with safeguard and integrity policies, and to examine corrective measures and their implementation. The agreement establishing the RMFF and the legal documentation for guarantees will include contractual provisions on prohibited practices and facilitate the application of the Bank's corresponding sanction procedures.
- 3.19 **Noncompliance.** With a view to establishing incentives to prevent noncompliance, the agreement establishing the RMFF will stipulate that: (i) the Bank reserves the right to suspend processing of any new requests or the issue of any new guarantees until the Bank is satisfied with the measures set out in a corrective plan approved by the Bank and/or its implementation to correct any noncompliance with the terms of the agreement establishing the RMFF, the program Operating Regulations, and/or the legal documentation related to the issuance of any guarantee;²¹ and (ii) notwithstanding the foregoing, at any time the Bank has determined that a situation of noncompliance has occurred concerning requirements for environmental and social safeguards and/or integrity (including the existence of prohibited practices) in a project that has benefitted from a guarantee issued under the RMFF, the Bank may opt to make an early disbursement, depositing the guarantee amount with a third party, which will in turn trigger the sovereign counter-guarantee for

²¹ The Bank has discretion to limit this suspension to the issuance of new specific guarantees, taking into account the circumstances of the noncompliance event in question or, as applicable, the circumstances of any determination that a prohibited practice has been committed.

reimbursing the Bank for the deposited guarantee amount and any related expenses. These solutions apply without prejudice to others that may be established on a case-by-case basis in the legal documentation relating to the issuance of each guarantee. In the event of noncompliance, measures will be applied proportionally and in stages, with the aim of promoting those that make it possible to return to compliance in each project for which a guarantee has been issued.

- 3.20 **RMFF eligibility criteria.** The Bank may issue guarantees to support productive infrastructure PPP projects in Argentina, provided they satisfy the following eligibility requirements and those contained in the program Operating Regulations: (i) road corridor, transmission line, and/or renewable energy generation projects; (ii) viable socioeconomic projects with an economic and social rate of return greater than or equal to the ones established in Bank policies; (iii) projects selected through a transparent and competitive selection process conducted by or with the participation of the Ministry of Finance; (iv) projects with a sponsor, builder, and/or operator with relevant experience in the sector and that has the requisite financial standing to receive credit; (v) projects that do not involve entities sanctioned according to the Bank's sanction procedures; and (vi) projects that can be classified as category "B" or "C" according to the Bank's environmental and social policies. With respect to procurement, in executing projects that benefit from a Bank-issued guarantee under the RMFF, the provisions of the Guarantee Instrument Policy (document GN-2729-2, paragraph 3.11) will apply. In any event, the Bank will undertake to review and select projects with high standards of preparation as PPPs and that have a significant development impact for the country.
- 3.21 The beneficiary creditors of Bank-issued guarantees under the RMFF will be investors or financiers of productive infrastructure projects in Argentina, including investors in financing vehicles and negotiable instruments, who will fulfill the following eligibility criteria: (i) legally constituted company in a jurisdiction acceptable to the Bank, or an investor with a negotiable instrument guaranteed by the program; (ii) direct financiers of projects will have proven experience in the structuring and financing of infrastructure projects, and in the case of investors in financing vehicles and negotiable instruments, the project to be guaranteed will have been prepared by an entity with recognized experience in similar instruments for infrastructure projects; and (iii) compliance with an IDB-recognized integrity filter, including the requirements to know the client, prevent money laundering and terrorism finance, and cannot appear on any international or Argentine negative list.²² The requirements for guaranteed debtors will be similar, with specifications based on their particular circumstances. The guaranteed financing may be in the form of a loan, a bond issue, or other similar debt instruments (negotiable or non-negotiable, scheduled payments, or with a bullet payment upon maturity), or any other type of reimbursable financing that covers the basic funding needs for one or more eligible projects.
- 3.22 The use of investment loan proceeds will comply with the Bank's procurement policies. In addition to those listed in the program Operating Regulations, the following activities and expenses will be eligible for financing under the loan: (i) strengthening of UPC financial and fiduciary management capacity to comply with

²² In the case of investors in a negotiable instrument guaranteed by the program, this requirement will be limited owing to the inherent dynamics of capital markets.

- the Bank's requirements vis-à-vis for the program; (ii) payment of consulting services associated with strengthening technical preparation management for structuring PPP project financing within the Ministry of Finance; (iii) payment of consulting services associated with strengthening management for the financial structuring of PPP projects within the Ministry of Finance; (iv) payment of consulting services associated with strengthening management of the program's environmental, social, and integrity risks; and (v) payment of consulting services associated with monitoring impact indicators and program evaluation.
- 3.23 **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance from the proceeds of the investment loan, up to US\$2 million (20% of the loan amount) in eligible expenditures incurred by the borrower prior to the approval date of the operation for consulting services, training, and/or procurement of equipment, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after 9 November 2017 (the project profile approval date), but under no circumstances will include expenditures incurred more than 18 months prior to the date the IDB approved the operation.
- B. Summary of results monitoring arrangements**
- 3.24 **Monitoring.** The program will be monitored through annual reports prepared by the UPC and presented to the IDB no later than 60 days after the close of each year. These reports measure the progress made on results indicators and compliance with eligibility criteria at the project and program level. Program resources will be used to monitor the investments.
- 3.25 **Evaluation.** The UPC will provide the Bank with the necessary information, indicators, and parameters to prepare a project completion report, which will be completed no later than six months after the end of the program. Periodic monitoring meetings will also be scheduled. The [monitoring and evaluation plan](#) includes an ex post economic analysis to evaluate the program, using descriptive statistics to illustrate its results, as well as specific information on individual projects provided by the UPC. This exercise will be accompanied by a case study summarizing the lessons learned in this new type of operation, and will serve as input for similar operations going forward.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	Productivity and Innovation - Climate Change	
Country Development Results Indicators	-Installed power generation from renewable energy sources (%)* -Roads built or upgraded (km)* -Electricity transmission and distribution lines installed or upgraded (km)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2870-1	(2) Improvement of infrastructure for investment and inclusion.
Country Program Results Matrix	The operation is scheduled for CPD 2018 (AR-O0002)	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	7.8	
3.1 Program Diagnosis	2.4	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	7.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	0.0	
4.3 Identified and Quantified Costs	0.0	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	6.1	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	3.6	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Accounting and Reporting.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note: The purpose of this note is to provide an overall assessment of the project's evaluability based on the standards described in the Evaluability Guidelines, as well as to ensure that the Board understands why scores were or were not given to the project.

This is US\$ 500 million operation, with two parts connected together: a Flexible Risk Mitigation Facility (FMRF), and a US\$ 10 million investment loan, which finances the coordination and management of the guarantee program granted to through the FMRF.

This is an innovative operation since the FMRF seeks to mobilize resources from the private sector to finance investment in infrastructure (road corridors, power transmission lines and renewable energy generation) in Argentina. The logic of the program is clear: in Argentina the infrastructure financing needs exceed the capacity of public investment (the public sector could cover less than 60% of financing needs until 2025), which implies the need to attract the private sector. However, with a poorly developed domestic capital market, and oriented to short-term financing, it is difficult to attract the necessary investments. The FMRF (and complementary programs under design by other multilateral organizations) will allow, through the granting of guarantees, to help eliminate the barrier high-country risk perception, which discourages foreign private investment. As this is a relatively new type of solution, the evidence regarding the effectiveness of this type of intervention in mobilizing private resources is encouraging, but still limited. This program will contribute to a better understanding of the effectiveness of the granting of guarantees in mobilizing private resources for long-term investment.

Due to the nature of the FMRF, its cost-benefit evaluation was carried out using a financial approach. Using the standard discount rate of 12% for the Bank's investment projects, the program not only shows a positive net present value of US\$53.6 million, but it also shows that the returns remain positive even under scenarios with high percentage claim of the guaranteed amounts.

The project proposes an evaluation plan based on a financial analysis with and without a project that is well presented and developed. Additionally, the project proposes the realization of a case study analyzing the operation and result of the establishment of the FMRF. This study can be an input for future operations of this type, not only providing information on the results but on the challenges of implementation, operation and articulation of the program and opportunities for improvement. Given that it is a type of program that has not been previously carried out by the Bank, this study should be highly relevant.

RESULTS MATRIX

Program objective	The program's objective is to promote private-sector participation in productive investment and thereby help spur economic growth in Argentina. The program will help mitigate risks that hinder private financing for productive development by: (i) attracting a significant volume of private investment (institutional investors, international investors, as well as other national or multilateral institutions); and (ii) promoting efficient financing of a privately-funded portfolio of productive infrastructure projects that matches investors' performance, risk, and term requirements with the long-term needs of the projects.
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EXPECTED IMPACT

Indicator	Unit of measure	2017 baseline	2018	2019	2020	2021	2022	Final target	Means of verification	Comments
IMPACT 1: NARROWING OF ARGENTINA'S INFRASTRUCTURE GAP										
Indicator 1: Logistics Performance Index (LPI) score	Score (scale from 1 (min) to 5 (max))	2.86	2.86	2.86	2.94	3.02	3.10	3.10	World Bank's LPI	The LPI combines quantitative and qualitative information, based on global surveys of expert operators, and measures performance along logistical supply chains in each country.
Indicator 2: Quality of overall infrastructure (index)	Score (scale from 1 (min) to 7 (max))	3.13	3.13	3.13	3.29	3.47	3.65	3.65	World Economic Forum's Quality of Overall Infrastructure (index)	This index measures the overall state of transport, communications, and energy infrastructure (scale from 1 (extremely undeveloped) to 7 (extensive and efficient)).
IMPACT 2: INCREASED PRIVATE INVESTMENT IN INFRASTRUCTURE										
Indicator 1: Private participation in infrastructure in Argentina	US\$ million	96,739	98,939	101,139	103,339	105,539	107,739	107,739	World Bank's Private Participation in Infrastructure Database	This indicator reflects private investment in infrastructure in Argentina since 1990. Annual and final targets correspond to the current infrastructure investment priorities recently presented by the Argentine government (see main document and annexes).

EXPECTED OUTCOMES

Indicator	Unit of measure	2017 baseline	2018	2019	2020	2021	2022	End target	Means of verification	Comments
OUTCOME 1: LEVERAGING OF RESOURCES TO FINANCING PRODUCTIVE INFRASTRUCTURE PROJECTS										
Indicator 1. Investment for infrastructure projects leveraged with the program	US\$ million	0	200	600	400	400	400	2,000	UCP and Ministry of Finance reports	Measures investment leveraged for integration projects based on the guarantees issued under the program
OUTCOME 2: IMPROVED FINANCING TERMS FOR THE PROGRAM'S BENEFICIARY PROJECTS										
Indicator 1. Average savings in financing terms for the program's beneficiary road corridor projects	Basis points (1 basis point = 0.01%)	0	25	25	25	25	25	25	UCP and Ministry of Finance reports	For projects issued a guarantee under the program for up to 35% of the total investment amount, measures the difference between the financing rate on the secured portion of each project and the financing rate on the unsecured portion.
Indicator 2. Average savings in financing terms for the program's beneficiary transmission line projects	Basis points (1 basis point = 0.01%)	0	25	25	25	25	25	25	UCP and Ministry of Finance reports	Ibid
Indicator 3. Average savings in financing terms for the program's beneficiary renewable energy generation projects	Basis points (1 basis point = 0.01%)	0	25	25	25	25	25	25	UCP and Ministry of Finance reports	Ibid

Indicator	Unit of measure	2017 baseline	2018	2019	2020	2021	2022	Final target	Means of verification	Comments
Indicator 4. Difference between the average financing rate for the program's beneficiary road corridor projects and the financing rate for similar unsecured projects	Basis points (1 basis point = 0.01%)	0	150	150	150	150	150	150	UCP and Ministry of Finance reports	Measures the difference between financing rates for projects with guarantees under the program compared with financing rates for similar projects
Indicator 5. Difference between the average financing rate for the program's transmission line projects and the financing rate for similar unsecured projects	Basis points (1 basis point = 0.01%)	0	150	150	150	150	150	150	UCP and Ministry of Finance reports	Ibid
Indicator 6. Difference between the average financing rate for program beneficiary renewable energy generation projects and the financing rate for similar unsecured projects	Basis points (1 basis point = 0.01%)	0	150	150	150	150	150	150	UCP and Ministry of Finance reports	Ibid

OUTPUTS

Output	Unit of measure	2017 baseline	2018	2019	2020	2021	2022	End target	Means of verification	Comments
GUARANTEES ISSUED UNDER THE RISK MITIGATION FLEXIBLE FACILITY (US\$490 MILLION)										
OUTPUT 1: Amounts guaranteed under the program	US\$ million	0	50	150	100	100	90	490	UCP and Ministry of Finance reports; IDB internal reports	
Milestone 1: Increase (kilometers) in roads upgraded	Kilometer								UCP and Ministry of Finance reports; IDB internal reports	Kilometers of roads upgraded through projects supported by this operation
Milestone 2: Increase (kilometers) in roads built	Kilometer								UCP and Ministry of Finance reports; IDB internal reports	Kilometers of roads upgraded through projects supported by this operation
Milestone 3: Increase (kilometers) in transmission lines installed	Kilometer								UCP and Ministry of Finance reports; IDB internal reports	Kilometers of transmission lines installed through projects supported by this operation
Milestone 4: Increase in installed renewable energy generation capacity financed by the program	Megawatt								UCP and Ministry of Finance reports; IDB internal reports	Measures installed capacity available at the beginning of operations each year

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country	Argentina
Project number:	AR-L1281
Name:	Program to Support Productive Infrastructure Financing in Argentina
Executing agency:	Ministry of Finance, through the Coordination Unit for Sector-wide Approach Programs and Projects
Fiduciary Team:	Marisol Pinto Bernal and Teodoro Noel (FMP/CAR)

I. EXECUTIVE SUMMARY

- 1.1 The fiduciary capacity of the executing agency (procurement and financial) was assessed in August 2016, using the methodology of the Institutional Capacity Assessment System (ICAS), which was applied to the Coordination Unit for Sector-wide Approach Programs and Projects (UCP), in the context of designing operation 3759/OC-AR.¹ In addition to executing that operation and the one described here, the unit will also be responsible for implementing loan 4411/OC-AR.²
- 1.2 The assessment covered the following systems: programming of activities and components, administrative organization, personnel administration, administration of goods and services, financial administration, and internal and external control. It found that the UPC possesses the institutional capacity and a satisfactory degree of development, and a low level of risk for program execution.
- 1.3 The program's objective is to promote private-sector participation in productive investment and thereby spur economic growth in Argentina. The program will help mitigate risks that hinder private financing for productive development by: (i) attracting a significant volume of private investment (institutional investors, international investors, as well as other national or multilateral institutions); and (ii) promoting efficient financing of a privately-funded portfolio of productive infrastructure projects that matches investors' performance, risk, and term requirements with the long-term needs of the projects. It also includes a US\$10 million investment loan to support program management and coordination, the executing agency, and to ensure compliance with the regulatory requirements of IDB policies.
- 1.4 The fiduciary aspects related to the execution of the Risk Mitigation Flexible Facility (RMFF) will follow the provisions of paragraphs 3.11 and 3.12 of document GN-2729-2.³ Specifically, these concern procurement for projects that benefit from

¹ 3759/OC-AR: Program for Institutional Strengthening of the Ministry of Finance.

² AR-L1249: Program for the Implementation of the National Financial Inclusion Strategy of Argentina.

³ Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations (document GN-2729-2).

a guarantee, and will take into account compliance with attention to economy and efficiency principles, and that such procedures cause the project to be carried out diligently and efficiently. Procurement processes must comply with three aspects: (i) be of a satisfactory quality and compatible with the balance of the project objectives; (ii) be delivered and completed in a timely fashion; and (iii) be priced so as not to affect adversely the economic and financial viability of the project. Projects that benefit from the RMFF must also comply with the requirements agreed by the project team in the program Operating Regulations. The procurement aspects related to the execution of the investment loan to be used in managing and coordinating the program will be carried out in accordance with the Bank's procurement policies (document GN-2349-9 and GN-2350-9).

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 All aspects of the Program to Support Productive Infrastructure Financing in Argentina will be coordinated and directed by the Ministry of Finance through the UPC, or any of its successors with similar roles and responsibilities in the applicable regulatory framework. The UPC will be responsible for executing the investment loan.
- 2.2 The UPC will work in coordination with the Office of the Deputy Secretary for Private-Sector Partnerships and other agencies involved in the program (e.g. Ministry of Transport and Ministry of Energy and Mining) to identify productive infrastructure projects for public-private partnerships (PPPs), provided they meet the criteria set out in the agreement establishing the RMFF and in the program Operating Regulations. The UPC will also be responsible for forwarding to the Bank requests for guarantees, which must fulfill the requirements established in the program Operating Regulations.
- 2.3 Under the RMFF, the UPC will be responsible for negotiating any agreements and ensuring that they include the IDB's obligations and requirements in terms of procurement, procurement principles, prohibited practices, integrity, and environmental and social safeguards. It must also ensure that these requirements are incorporated into the corresponding regulations and that they are regularly monitored. Depending on the structure of each guarantee, the Bank can also include these requirements in the contract documents of each guarantee.
- 2.4 The fiduciary systems used for executing the program will be the budget system, through the Integrated Financial Information System (SIDIF) and the Information and Accounting System (UEPEX).

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The UPC possesses an administrative and technical operating structure with sufficient experience and capacity to administer this operation. The organic structure of the secretariat was approved by resolution of the Ministry of the Economy in 2009; it has permanent staff as well as personnel seconded from the Ministry of Finance, for whom the turnover rate is low.
- 3.2 To analyze the risk to the operation, the Project Risk Management (PRM) methodology was applied, updating the matrix prepared in 2016 for program

3759/OC-AR, and found that risk in terms of the fiduciary aspects of procurement was low.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACTS

- 4.1 **Procurement.** The policies for the procurement of works and goods financed by the IDB (document GN-2349-9) and the policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9) will be applied for all procurement by the executing agency, through the UPC, to execute the investment loan.
- 4.2 The fiduciary aspects associated with RMFF execution will follow the provisions of paragraph 3.11 of document GN-2729-2. Specifically, these concern procurement for projects that benefit from a guarantee, and will take into account compliance with attention to economy and efficiency principles, and that such procedures cause the project to be carried out diligently and efficiently. Procurement processes must comply with three aspects: (i) be of a satisfactory quality and compatible with the balance of the project objectives; (ii) be delivered and completed in a timely fashion; and (iii) be priced so as not to affect adversely the economic and financial viability of the project.
- 4.3 In addition, the selection criteria for projects and requirements that must be met for projects that benefit from the guarantee will be set out in the agreement establishing the RMFF and in the program Operating Regulations.
- 4.4 **Financial supervision.** The IDB will disburse the loan resources using the advance of funds modality. However, another payment method may be used if agreed upon with the executing agency.
- 4.5 **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance, as a charge against the proceeds of the investment loan, up to US\$2 million (20% of the investment loan amount) in eligible expenditures incurred by the borrower prior to the approval date of the operation for consulting services, training, and/or procurement of equipment, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after 9 November 2017 (the project profile approval date), but under no circumstances include expenditures incurred more than 18 months prior to the date the IDB approved the operation.
- 4.6 The executing agency will present a financial plan for the program according to the guidelines agreed upon between the Bank and the country. It will differentiate between disbursements of proceeds and the issuance of guarantees. To qualify for a new advance of investment loan proceeds, at least 80% of the previous advances will have to be accounted for.
- 4.7 Audited annual financial statements will be required for the investment loan. To maintain flexibility and be able to adjust the portfolio to the audit capacity of the Office of the Auditor General (AGN), it is recommended that both the AGN and independent audit firms should be contractually eligible to perform the audits of the program.
- 4.8 **Exchange rate.** For the purposes of Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate will be the rate indicated in section

(b)(i) of that article. To determine the equivalency of expenditures in local currency from the local contribution, the agreed exchange rate will be the one in effect on the first working day of the month in which the borrower, the executing agency, or any other individual or legal entity with spending authority makes the respective payment to a contractor, supplier, or beneficiary. To determine the equivalency of expenditure reimbursements from the loan proceeds, the agreed exchange rate will be the one in effect on the first working day of the month in which the reimbursement request is submitted. Furthermore, owing to the limitations of the UEPEX system, to determine the equivalency of expenditures incurred in local currency from the loan proceeds and the local contribution, the exchange rate indicated in Article 4.10 (b) (i) of the General Conditions will be used. Guarantees will be issued and denominated in dollars.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurement establish the applicable provisions for all planned procurement processes to be carried out by the executing agency in executing the investment loan for program management and coordination.

A. Procurement execution for the investment loan

- 5.2 The procurement of goods, nonconsulting services, and consulting services by the UPC for the investment loan will be carried out in accordance with policies GN-2349-9 and GN-2350-9, respectively. The selection and contracting processes will be supervised ex ante and ex post, as defined in the respective procurement plan, which will be managed through the Procurement Plan Execution System (SEPA) and will be reviewed and adjusted by the executing agency in accordance with project needs. Changes to the procurement plan must obtain the Bank's no objection prior to its implementation. The Project Team Leader is responsible for approving the procurement plan and keeping it up to date during program execution.
- 5.3 **Procurement of works, goods and nonconsulting services.** Contracts for goods and nonconsulting services⁴ generated under the project that are subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Bid processes subject to national competitive bidding will be executed using the national bidding documents agreed upon with the Bank. The project's sector specialist will be responsible for reviewing the technical specifications during bid preparation. No direct contracting is anticipated, but any such contracts decided upon during the program will be identified beforehand in a timely manner in the procurement plan, including their justification, and selection processes that require the prequalification of bidders will be identified.
- 5.4 **Selection and contracting of consultants.** Contracts for consulting services will be executed using the standard request for proposals issued by or agreed upon with the Bank. The project's sector specialist will be responsible for reviewing the terms of reference for consulting services. No direct contracting is anticipated, but any such contracts decided upon during the program will be identified beforehand in a timely manner in the procurement plan, including their justification.

⁴ Document [GN-2349-9](#), paragraph 1.1: Nonconsulting services are treated as goods.

- 5.5 **Selection of individual consultants.** In the cases identified in the procurement plan, the contracting of individual consultants will be governed by the provisions of document GN-2350-9, Section V (paragraphs 5.1 through 5.4). For operation of the UPC, direct selection may be used for consultants who are currently working under contracts financed by other programs being executed by these units.⁵
- 5.6 **Use of country procurement systems.** Any system or subsystem approved subsequently will be applicable to this operation. The procurement plan and its updates will indicate which contracts will be executed through approved country systems.
- 5.7 **Recurrent costs.** Recurrent costs or operating and maintenance costs required during the project will include: travel, per diems, transportation, leasing of equipment and services, office maintenance, expenses, stationery, training, graphics production, printing, publications and copies, messenger and postal services, cleaning services, computer supplies, insurance, telephone, and petty cash required by the UPC for program operation. These costs will be financed by the project using counterpart resources and will be incurred following the executing agency's administrative procedures, provided they do not violate the fundamental principles of the Bank's policies on competition, efficiency, and economy. Operating costs do not include civil servants' salaries.
- 5.8 **Relevance of expenditures.** Determining the relevance of expenditures, the terms of reference, the technical specifications, and the budget for program procurement will be the responsibility of the Project Team Leader and the Bank's prior no objection will be required.

B. Thresholds for ICB and international shortlists

Table 1. Thresholds (US\$)

Method	ICB works	ICB goods and nonconsulting services	International shortlists of consulting services
Threshold	≥ 25,000,000	≥ 1,500,000	≥ 1,000,000

Note: Consulting services valued at more than the equivalent of US\$200,000 will be announced on the websites of United Nations Development Business and the Bank.

⁵ As an exception, financing will be provided for the incremental personnel costs incurred by the executing agency linked specifically to project execution (document [GN-2331-5](#), Annex I 1.7. and C.c.1.22).

C. Major procurement processes

Table 2. Major procurement processes (US\$)

Activity	Selection method	Estimated date of bid/invitation	Estimated amount
Firms			
Consulting firm to support technical preparation of projects	QCBS	2018	4,250,000
Consulting firm to support financial preparation of projects	QCBS	2018	4,250,000
Individuals			
Consulting for technical assistance for management	3 CVs	2018	1,500,000

D. Procurement supervision

- 5.9 UPC procurement will be supervised ex ante, with the exception of shopping processes (goods and nonconsulting services under US\$100,000) and individual consultants' services, which will be supervised ex post. Ex post review visits will be conducted every 12 months. Ex post review reports will include at least one physical inspection visit, selected from among the procurement processes subject to ex post review. At least 10% of the contracts reviewed will be physically inspected during the program.

Table 3. Threshold for ex post reviews (US\$)

Shopping (goods and nonconsulting services)	Individual consultations
<100,000	<50,000

Note: The thresholds for ex post review are applied on the basis of the fiduciary capacity of the executing agency and may be amended by the Bank as that capacity evolves.

E. Special provisions

- 5.10 **Measures to reduce the likelihood of corruption.** The provisions of the policies set forth in documents GN-2349-9 and GN-2350-9 relating to prohibited practices will apply. The executing agency will also review the list of firms and individuals prohibited from participating in processes financed by multilateral banks.
- 5.11 **Other special procedures.** The procurement plan will be kept up to date to reflect project needs and integrated into project planning.
- 5.12 **Records and files.** The UPC will be responsible for maintaining the program's procurement files. For the preparation and filing of project reports, the formats or procedures agreed upon and described in the program Operating Regulations will be used.

VI. RECORDS AND FILES

- 6.1 The documentation of the executing agency's procurement processes will be kept in the offices of the UPC, and that secretariat will be responsible for keeping records and files duly organized, classified, and updated with all the documentation generated during the procurement and contracting processes. For the preparation and filing of project reports, the formats or procedures agreed upon and described in the program Operating Regulations will be used.

VII. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

A. Programming and budget

- 7.1 This country system will only apply to the US\$10 million investment loan for program management and coordination.
- 7.2 The UPC will be responsible for formulating and programming the annual budget, and will take all the necessary steps to consolidate the annual budget for approval.
- 7.3 As the need arises to increase or reassign budget items, the UPC will request such modifications and obtain approval for them. Budget allocations will be executed through accrued quarterly and monthly commitments, which are assigned by the National Budget Office.
- 7.4 No budget management difficulties are anticipated that would affect execution.

B. Treasury and disbursement management

- 7.5 Disbursements of the investment loan and the guarantees will be based on an itemized financial plan, the model for which has been agreed upon with the authorities of the Ministry of Finance and the Head of the Cabinet of Ministers. It will clearly distinguish between the disbursement of proceeds and the issuance of guarantees.

C. Accounting, information systems, and reporting

- 7.6 The UPC will use UEPEX as its financial management system. Cash-basis accounting will be used and International Financial Reporting Standards will be followed as applicable, in accordance with established national criteria. The following financial reports will be required for the investment loan: (i) financial plan with projections up to 180 days following a request for advance of funds; (ii) audited annual financial statements, as stipulated in Article 7.03(a) of the General Conditions of the Loan Contract; and (iii) other reports required by the fiduciary specialists.

D. Internal control and internal audit

- 7.7 The national internal control agency is the Office of the Comptroller General (SIGEN). The internal audit of each executing agency is performed by the Internal Audit Unit. That unit, which reports directly to the minister, is responsible for performing audits and issuing recommendations pursuant to the powers conveyed on it by Law 24,156, the Public Financial Management and Control Systems Act.

E. External control: external financial audits and project reports

- 7.8 In 2011, the Bank completed a diagnostic assessment of government audit practices by the Office of the Auditor General (AGN). This assessment, performed in

accordance with Bank guidelines to determine the degree of development of the public finance management systems, concluded by validating the AGN as an auditor for Bank projects.

- 7.9 The AGN reports to the National Congress and assists it in overseeing the status of public sector accounts. Its creation and operations are regulated by Title VII, Chapter 1, of Law 24,156 (Public Financial Management and Control Systems Act). That law specifies that the AGN is an entity with its own legal personality and functional autonomy, and consequently it also has financial autonomy: its capital comprises all the assets assigned to it by the State, those that previously belonged to the Court of Accounts of the Nation, and those transferred by judicial decision.
- 7.10 However, in October 2014, based on the record of timeliness in the submission of audited financial statements in recent years, agreement was reached with the federal government to reduce AGN's portfolio, in order to align it with its real enforcement capacity.
- 7.11 To maintain flexibility and be able to adjust the loan portfolio to the audit capacity of the AGN, it is recommended that both the AGN and independent audit firms should be contractually eligible to perform audits of the program.

F. Project financial supervision⁶

- 7.12 The initial financial supervision plan is based on the risk and fiduciary capacity evaluations performed during the onsite reviews and program documents, including the scope of operating, financial, and accounting activities, compliance and legality, frequency, and responsibility.
- 7.13 In addition to the reports required to process disbursements and the annual audits, a financial plan will be requested for financial supervision.

G. Execution mechanism

- 7.14 The details of program execution are found in the program Operating Regulations and in the main document.

⁶ See Financial Management Guidelines for IDB-financed Projects (document OP-273-6), Annex I: Application of Financial Management Principles and Requirements, Requirement 4: Financial Supervision.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/18

Argentina. Flexible Risk Mitigation Facility to the Argentine Republic
Program to Support Productive Infrastructure Financing in Argentina

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Argentine Republic to establish the Flexible Risk Mitigation Facility (FRMF), foreseen within the scope of the Program to Support Productive Infrastructure Financing in Argentina, in the amount of up to US\$490,000,000 from the resources of the Bank's Ordinary Capital. The FRMF will be a committed facility and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Proposal of Guarantees Facility to Support Investment Projects and Loan Proposal.

2. That the President of the Bank is authorized to approve the granting of partial credit guarantees and guarantees against political risk, with a sovereign counter-guarantee, to support investment projects under the FRMF, in the amount of up to US\$100,000,000 each, once the Board of Executives Directors of the Bank has approved the granting of the first of said guarantees. Such guarantees and their respective sovereign counter-guarantees will be subject to the terms and conditions to be approved in each case, according to document PR-_____.

3. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to formalize the contract or contracts as may be necessary for the granting of the guarantees referred to in the previous paragraph and their respective sovereign counter-guarantees granted in favor of the Bank by the Argentine Republic; as well as to take any other measures necessary for their administration.

4. To determine that the Bank's Administration shall send to the Board of Executive Directors of the Bank, for information, the proposals approved for the granting of each guarantee with sovereign counter-guarantee under the FRMF, once the corresponding contracts have been formalized.

(Adopted on ____ 2018)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Argentina. Loan ___/OC-AR to the Argentine Republic
Program to Support Productive Infrastructure
Financing in Argentina

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Argentine Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Support Productive Infrastructure Financing in Argentina. Such financing will be in the amount of up to US\$10,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions of the Project Summary of the Proposal of Guarantees Facility to Support Investment Projects and Loan Proposal.

(Adopted on ____ 2018)