# “Infrastructure Financing in Argentina: Lessons from the PPP Experience”

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**Workshop on Domestic Resource Mobilisation**

**OECD Development Centre**

**Paris, October 11th 2010**

# Road Map

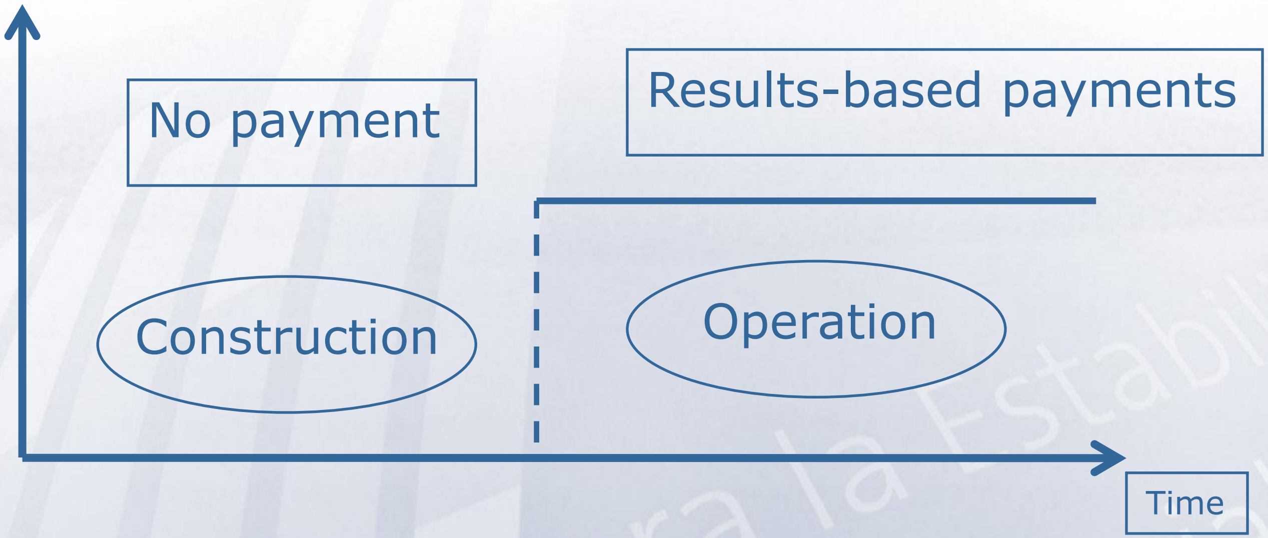
- PPPs in a Nutshell
- Investment in Argentina
- The Argentinean Experience
- Conclusions

# PPPs in a Nutshell

- PPPs shall be seen as an intermediate alternative between traditional public investment and privatization
- There exist several PPPs mechanisms
  - BLT (build, lease and transfer)
  - BOT (build, operate and transfer)
  - BOO (build, operate and own)
  - DBFO (design, build, finance and operate)
  - Concesion
- Getting value for money and the efficient distribution of risks between the private and public sector are at the heart of the PPPs schemes

# PPPs in a Nutshell

- In most cases of PPPs, the public sector pays only during the operation period, and based on output delivered by the private party




- Attractive from a short-sight fiscal perspective
  - Construction expenditures are distributed in future fiscal periods (different from direct public investment financed either by current revenues or debt)
  - The liability is not registered as it is in the case of debt

# PPPs in a Nutshell

- Necesary (but not sufficient) conditions for an efficient functioning of PPPs
  - Correct identification and priorization of investment needs
  - Proper evaluation of projects in terms of their suitability for a PPP scheme
  - Institutional and political commitment to implement PPPs
  - Efficient mechanism of state supervision of the quality of the services provided
  - Availability of long-term financing (particularly, in local currency)
- PPPs have extensive implementation in the UK
- In Latin America, Brazil, Chile, Mexico and Peru are leading the way

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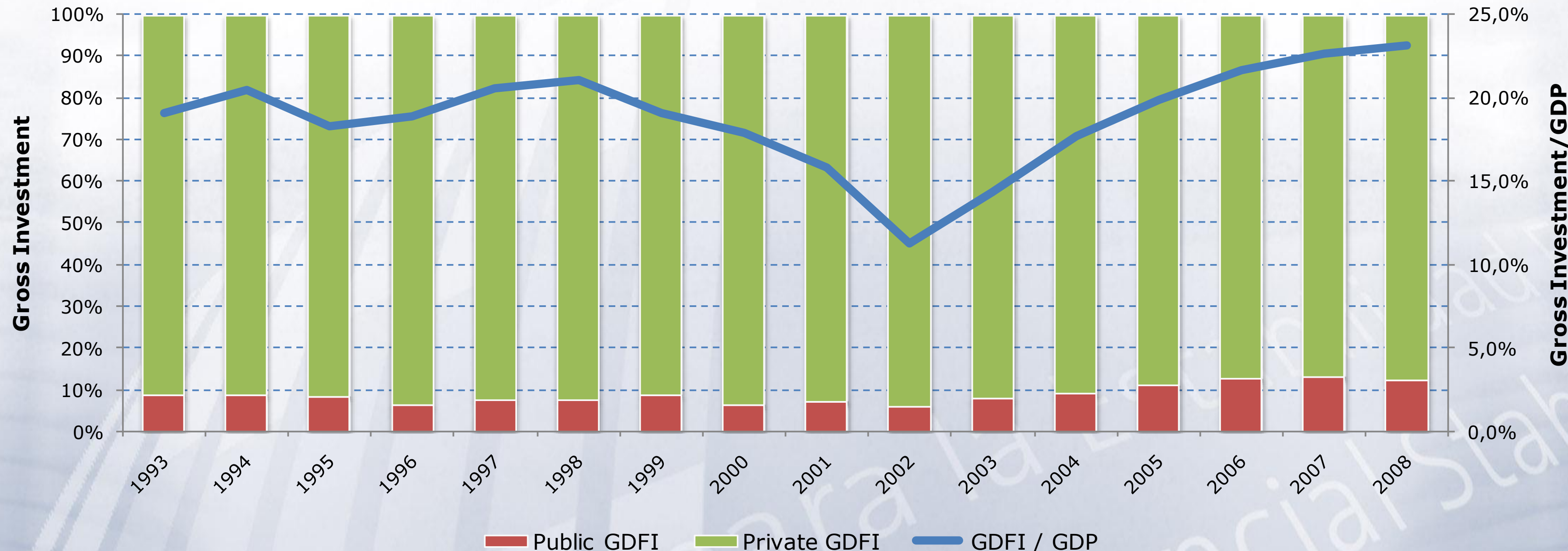
# Investment in Argentina

- As expected, Gross Domestic Fixed Investment (GDFI) subject to economic cycles

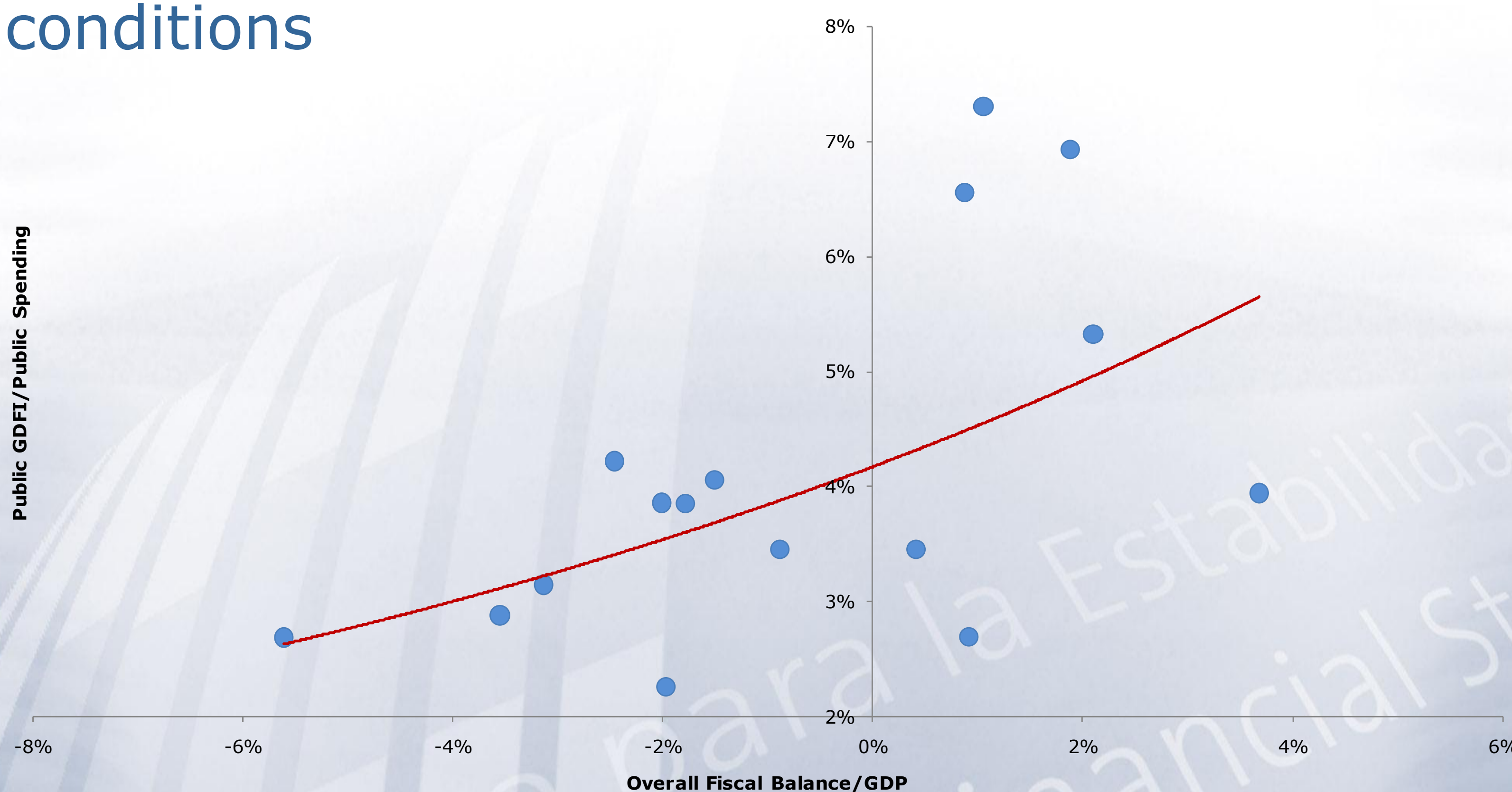



Source: own elaboration based on Minister of Economy

- After the crisis, public investment gained participation in the total GDFI

# Investment in Argentina

- But public GDFI still dependent on overall fiscal conditions




Source: own elaboration based on Minister of Economy and Budget Argentinean Association (ASAAP)

- Alternative mechanisms for providing public services shall be explored

# The Argentinean Experience

- In 2000, the “Promoting Private Participation in the Infrastructure Development Scheme” was the first formal attempt to include PPPs-like mechanism in Argentina (Decree 1299, later ratified by law 25414 in 2001)
  - Was of the DBFO type
  - A guarantee fund was constituted (in the form of a financial trust) using oil-related revenues and the proceeds of the sale of state-owned assets
  - An Administrative Council was established (within the Infrastructure Ministry)
  - Biased towards infrastructure projects (roads)
- Six months later, the first tender for participating was initiated……
- ……but then the full-blown economic crisis erupted

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# The Argentinean Experience

- In 2005, two new regimes were established at the federal level, the Private Initiative Regime (PIR) and the Public-Private Initiative Regime (PPIR)

| ***Salient features*** | ***PIR*** | ***PPIR*** |
|---|---|---|
| Initiator | Private | Public |
| Authority in charge | Minister of Planning | Minister of Planning and Minister of Economy |
| Evaluation Committee | Yes | Yes |
| Declaration of Public Interest | Yes | Yes |
| Financing | 100% private | Mixed |
| Tender | Yes (the initiator has a 5% advantage) | Yes |
| Public Offer Regime | No | Yes |

# The Argentinean Experience

- Since then, 7 projects were declared of public interest within the PIR. Of them, 2 are in the process of public tender
- In 2007, a new regulation was established to assure participation of institutional investors (private pension funds) in the financing of PPIR
- There are basically three options for financing PPIR projects within the Public Offer Regime: stocks, bonds, and financial trusts
- However, after five years of experience, there are no concrete examples of succesful implementation of PPPs projects

# The Argentinean Experience

- Moreover, other instruments gained notoriety for financing infrastructure: public trust funds
  - They distort and discredit trust funds, since this sui-generis type does not separate the settlor from the trustee
  - They are opaque in nature, and out-of-budget in some cases
- After the nationalization of private pension funds, the public pension fund started to invest heavily on infrastructure projects (doubling its participation in the portfolio, now in the order of 9%)
  - But some of the projects are financed “privately”, i.e. there is no adherence to the public offer regime

# Conclusions

- What can be learnt from a “non-experience“? Well, several things
- There is a need for broad political consensus on acceptance of PPPs as an alternative for financing public services
- Building capacity of policy-makers is essential for a proper understanding of how PPPs work
  - Public perception of PPPs as a another form of privatization (the “bad press” issue)
- When in charge of the Planning or Infrastructure Minister, then APPs are seen as mechanism for financing public investment, and not as a mechanism for providing public services

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# Conclusions

- From the regulatory side, more transparency should be required to avoid misuse of the instrument based on "budgetary-related" advantages
- Participation of institutional investors with a long-term investment profile is required
  - In addition, participation of multilateral institutions (IADB, World Bank) either through direct financing or providing guarantees have proven successful in certain countries in the region (Chile and Peru)
- If the state is to participate in the financing part of a PPP (through SWF or PPF as it is the case in Argentina), greater transparency is required and costs of financing shall be established at arm's length conditions