

Argentina's PPPs – potholes ahead

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Just a few months ago most infrastructure finance professionals watching the Argentinian PPP programme would probably have described it as promising. Six toll roads had already been awarded in this most European of the Latin American countries – requiring nothing less than \$8 billion in investments to construct – and these were just the first in a long list of road projects lined up for auction.

Now, observers are more likely to call the government's programme optimistic or even idealistic, with much of its promise perceived to have evaporated. The legal framework built by the current government was enough to attract international investors, but it has not been enough to counter a number of countervailing headwinds.

Developers, bankers and lawyers contacted by *IJGlobal* all say that it is hard to be optimistic right now.

Argentina has long been trapped in a boom-bust economic cycle, but the country was supposed to be entering a new period of growth. The election of President Mauricio Macri in 2015 led the business community to hope that political stability and market-oriented policy could break the cycle and deliver long-term economic improvement.

However, poor currency performance, rising inflation and consequent high interest rates led to a forced bailout negotiation with the International Monetary Fund (IMF).

Just before *IJGlobal* went to press, Argentina's government unveiled its budget plan and the IMF made a statement saying negotiations were progressing on the terms of a standby loan agreement. The peso rose on the news, and the risk of the country defaulting on its bonds seemed to be reducing but investor confidence has been hit hard by the crisis. The peso has lost around 6% of its value against the dollar since Macri looked to renegotiate terms with the IMF in August (2018).

Another unwelcome development has seen Argentina become the latest country in the region to be embroiled in corruption scandals, some of which involve companies awarded some of the initial PPP contracts.

The success of Argentina's planned PPPs is highly dependent on private financing, and developers have been given tight schedules to reach financial close. But banks have halted negotiations until they have some clarity that a deal with the IMF will stabilize the country, that the government's efforts to attract enough investments to launch a trust fund will work, and that the recent scandals will have a positive impact by reducing corruption in the country.

Even if construction is delayed on some projects, and others need to be auctioned again, these may be worthwhile sacrifices if a better PPP sector emerges from these troubled times. But it is difficult to gauge how much of a setback the programme is facing.

Delays

Every single person involved in the Argentinian road concessions programme that *IJGlobal* has spoken to believe that the

infrastructure plan will have to be delayed, even though the government is still announcing new efforts to try to guarantee that the construction schedule is followed as planned.

Investor confidence has plummeted, compromising negotiations between lenders and developers. Any movement towards financial close has been halted. One person involved with the matter expects the already awarded projects to be postponed for “at least one year”.

A lawyer who represents the construction companies for one of the roads said he “does not have any idea of how the roads will get financed.”

Macri’s administration took office in 2015 and since then one of its main priorities has been the implementation of a national infrastructure plan. Major energy and transport projects were main drivers of this plan.

The transport programme has a total investment requirement of \$33 billion with a total of 2,800km of new roads planned, half of which are already under construction. It also includes upgrades on over 75% of the 13,000km of existing roads and highways in the country.

Until the new PPP law, which was approved in February 2017, most financing for the transport sector has come from the public sector. In November 2017, the government launched the first round of transport PPPs, including six highways and safe routes.

On [26 July \(2018\)](#), the five winning consortia of six roads concessions signed contracts with the national road management agency (Dirección Nacional de Vialidad), after presenting guarantees of capacity to reach financial close. Many of these guarantees were signed with local and international banks.

The consortium formed by Helpport, Panedile, Eleprint and Copasa has signed the contracts for two road concessions – Corredor E and Corredor F, connecting Rosario to Buenos Aires and Rosario to Córdoba, respectively.

The consortium has formed two special project vehicles (SPVs):

- Corredor Panamericano I
- Corredor Panamericano II

These SPVs will receive \$1.9 billion from Argentinian government bonds títulos de pago por inversión (TPI) for Corredor E and \$1.3 billion for Corredor F.

In order to sign the contracts, the consortium closed guarantees of around \$178 million provided by Banco BICE, Banco Itau, UBS and Citibank.

PPP	Developers	Investment in the first four years	Investment from year five to 15
Corredor vial A	Paolini, Vial Agro, INC	\$984m	\$346m
Corredor vial B	China Construction America, Green	\$989m	\$244m
Corredor vial C	José Cartellone Construcciones Civiles	\$631m	\$455m
Corredor vial E	Helpport, Panedile, Eleprint, Copasa	\$1.3bn	\$370m
Corredor vial F	Helpport, Panedile, Eleprint, Copasa	\$1.1bn	\$372m
Corredor vial SUR	Rovella Carranza, JCR, Mota-Engil	\$975m	\$236m

Source: *IJGlobal*

The PPP financing rules

Developers will receive one type of financial compensation during the construction period, and a different one for the operation and maintenance phase. Construction will be paid for on a quarterly basis via TPI, which are dollar-denominated certificates of fixed or variable rates.

The operations and maintenance portion of the projects will be financed with the bonds títulos de pago por disponibilidad (TPD), which are issued every month. TPDs are peso-denominated. Argentina borrowed the structure from previous PPP programmes run in Peru and Panama.

Concessionaires can raise traditional project financing with debt mostly repaid through the cash flows generated by the assets. Another option is repackaged securities backed by government-issued TPIs placed in international capital markets. The government could enforce this type of performance bond to protect it against the concessionaire pulling out of the project.

Having the Argentinian government as the ultimate backstop for payments under the concession is not particularly reassuring in the current environment of economic instability, according to a person who represents one consortium which is having problems raising finance.

After the contracts signed in July (2018) the five consortia were given six months to reach financial close. The concessionaires can extend the deadline by another six months, but will be given a financial penalty as a consequence.

On [27 August](#), the Argentinian government announced that local financial institution Banco de la Nación would provide between \$200 million and \$300 million to the six toll road projects awarded in the first round of the country's PPP programme Red de Autopistas y Rutas Seguras.

The financing will be part of a larger trust fund created with the goal of guaranteeing the execution of the PPP projects. It means that, despite efforts to maintain the projects on schedule, the government still needs to figure out how it will finance the remaining of the trust fund.

PPP precedent

The roads concessions were important to Argentina's PPP ambitions because of the example they were meant to set to other sectors that are likely to be awarded – and financed – under similar structures. The government is seeking to bring private investments to bridges, railroads, transmission lines, hospitals, penitentiaries, water, sanitation, public lighting and logistics contracts.

The PPP regime is expected to require investments totaling \$26 billion, roughly. Or at least it was expected to, before the country entered its most recent economic crisis.

Argentina's peso has declined further than any other emerging market currency, due to rising interest rates in the US. With deficit in the governmental budget and in the country's international trade, Argentina has turned once again to the IMF for funding support of about \$50 billion.

Rocketing inflation made interest rates soar in a central bank effort to stabilize the currency and bring inflation under control.

Massive corruption investigations, known as the "notebooks" scandal, started earlier this year when a local newspaper published journals belonging to the driver of a senior government official in charge of negotiations with infrastructure companies. Dozens of key politicians and business people have been implicated by the investigation, in much the same way as in the recent Odebrecht scandal in Brazil.

Among those arrested or taking pleas are executives from the largest construction companies in Argentina, including Electroingenieria, Grupo Roggio, Albanesi and Iecsa.

The political situation aggravated the already complex financing situation and could lead to major project delays, with the possibility of even contract cancellations in some cases. While there is no clarity of how and when the country will recover, international investors stand on the sidelines, watching and waiting.

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