

Argentina's Highways and Safe Routes Network

Road to ruin?

Argentina's Highways and Safe Routes Network (Red de Autopistas y Rutas Seguras, in Spanish) was a public-private partnership (PPP) infrastructure project implemented in 2018 to attract private investment. It was presented as a project that will pave the way for other large infrastructure projects.

However, it has several limitations:

- The Argentinian government structured public funds to facilitate the de-risking of private investment, which means that it has reallocated taxpayers' money away from public infrastructure and towards domestic and foreign private investment.
- Due to the Argentinian economic crisis, which led to devaluation and inflation, capital markets were only prepared to offer financing at high interest rates. To save the project, the government worked with international financing institutions to mobilise funds, and provided guarantees and loans using public funds.
- The project ultimately increased its investment costs, which contributed towards Argentina's indebtedness.

Project details

The Highways and Safe Routes Network – Phase 1 (RARS-1, to use its Spanish acronym) included the construction of highways and lanes, and the paving of six road corridors across five Argentinian provinces. The corridors were awarded to different private consortiums, and the contracts were signed in July 2018 for a period of 60 months. However, the start of construction work was repeatedly delayed due to the difficulties faced by the consortiums when it came to obtaining financing.

RARS-1 was the first large PPP project in Argentina, under the 2016 law on Public-Private Participation Contracts. It was part of plan to complete 60 PPP projects between 2017 and 2022, to the value of US\$ 26 billion.¹ For the national authorities, RARS-1 would open the door to the rest of the large infrastructure projects planned in Argentina. Although the national administration mobilised public resources to sustain these projects, this was not enough to guarantee their success.

The promotion of PPPs in Argentina

Between 2016 and 2019, the PPP scheme was heavily promoted in Argentina. In order to carry out an ambitious infrastructure plan, named by government officials as "the most important in the history of Argentina",² the government of former President Mauricio Macri (2015-2019) promoted the implementation of the PPP model. It was seen as an instrument to carry out the works without affecting public funds in the short term, through the involvement of private finance in the provision of traditional public services. In order to promote PPPs, Argentina gained the support of the World Bank and the Inter-American Development Bank (IDB), which trained officials, provided guides and materials. The IDB also supported PPP projects when these ran into financing difficulties.

At the end of 2016, Law N°27.328 on Public-Private Participation Contracts was enacted, and months later its respective regulations came into force. The new PPP legislation aimed to create a regulatory environment that would incentivise private investment. It limited the traditional principles, clauses and formalities that usually benefit the public sector when it comes to tenders and contracting procedures. This limitation of the public administration prerogatives was not replicated when it came to private contractual opportunism, as it did not establish clear conditions for potential contractual renegotiations. The regulation also established the methodology to identify the convenience of the PPP model compared to traditional public works. The Value for Money (VfM) analysis was the methodology adopted, which has been criticised for its limitations, and bias in favour of PPPs.³

In addition, in 2018 Argentina received a large loan from the International Monetary Fund (IMF), which included a condition stating that the country must reduce its fiscal deficit. This helped to incentivise the use of PPPs for infrastructure projects, as the government had to redouble its efforts to reduce public investment. Nevertheless, funds provided by the private sector need to be repaid with a profit margin, and these repayments are covered by end users and/or tax payers.⁴

Although PPPs were expected to replace public investment and help to strengthen local economic activity in the context of a slowdown, the authorities themselves confirmed that financial conditions made it difficult to carry out the projects:

“more restrictive international financial conditions limited financing to emerging economies and, more intensively, to the Argentine economy, factors that had a negative impact on PPP projects.”⁵

The national administration projected 12 large economic infrastructure projects with the aim of attracting private capital interest through a portfolio approach. As a disciplined follower of the mainstream narrative, the authorities maintained that the PPP projects would leverage private investment and generate a multiplier effect on the aggregate demand for goods and services, through the stimulation of the local production. However, only the project Network of Highways and Safe Routes – Phase 1 was able to begin. Although the tender process for two other large projects began, both had to be suspended. The rest of the large PPP projects were also suspended or converted to the public works model due to financing difficulties.

The financing of the RARS-1 project

The RARS-1 project was implemented as a PPP project. According to the contract, the government implemented availability payments – based on the services provided – and investment payments – based on the works advance. Availability payments were made in the local currency (Argentine pesos), and the investment payments were in US dollars. This means that the state assumed the exchange rate risk in a local context of economic crisis and devaluation processes. Since the contract was signed, the local currency has devalued by 70 per cent, which will have a significant impact on public resources.

The RARS-1 financial structure was based on a trust structure that was created exclusively for this project as a vehicle for payments and guarantees. The PPP RARS Trust was intended to help private consortiums to obtain the necessary financial resources. This trust would gather funds from the state and a trust called Integrated Road System (Sistema Vial Integrado or SISVIAL, to use its Spanish acronym). It was created by the government to support infrastructure road works, by collecting funds through taxes on diesel oil. Moreover, the PPP RARS Trust would also raise funds through the payment of tolls by users of two highway corridors.⁶

The government made efforts to mobilise other funds to support the project, in this case from international financial institutions, such as the IDB Group and the Overseas Private Investment Corporation (OPIC). The IDB Invest, the private sector arm of the IDB, sought to mobilise private funds to provide financial support through the constitution of a trust to the tune of US\$ 900 million, but it could not be established.⁷ Meanwhile, OPIC approved a loan for US\$ 400 million in support of part of the project.

In a context of growing public indebtedness, private partners had problems accessing financial loans in the international capital market. For this reason, in order to support the works already awarded, the government opened a line of exclusive bridge loans for PPP projects for US\$ 100 million through the Argentinian public development bank, Bank for Investment and Foreign Trade. Three loans for US\$ 15 million were granted to companies involved in the RARS-1 project.

Limited transparency, poor governance

The Argentinian model of PPPs presents important limitations in terms of transparency and democratic oversight. The renegotiation mechanism was opaque, the control of the Anticorruption Office was limited, and the VfM analysis also lacked robust controls.

It should be pointed out that three of the local and international companies involved in the RARS-1 project are linked to corruption cases: Vial Agro SA, José Cartellone Construcciones Civiles SA and Helport. The fact that the consortiums created by these companies have won the tenders and have been able to access public bridge loans indicates the lack of control and limited governance of the model.

Diversion of funds from public to private purses

The VfM assessment of the RARS-1 project assumed that the private sector would obtain the necessary financing without inconvenience, and that the traditional public work would imply a higher cost and delay due to difficulties in financing. However, the private consortiums could not obtain the necessary financing and the project had to be cancelled.

Importantly, the transfer of funds from the SISVIAL Trust to the PPP RARS Trust did not imply a change in the object of use of the funds in terms of road infrastructure, but it represented a change in the destination of the funds. It was diverted from public service projects to the repayment of the private consortiums' investment.

With regard to inflation, a relevant risk in the context of an economic crisis: although the project did not provide special protection for private investment, it ensured significant increases in service costs for users. In addition, availability payments and service price payments would be updated according to the official inflation rate. Thus, the additional cost that could be caused by potential inflation would be divided between the government and users of the corridors. Additionally, if the value of transit for users was not updated as planned, the national government would compensate the losses through availability payments. These compensations had to be implemented at the beginning of the Covid-19 pandemic, when the government ordered a freeze on prices as a relief measure to help face the economic impacts of the pandemic. Therefore, the risk allocation followed a strategy of de-risking in favour of the private sector and to the detriment of the public sector and end users.

The local crisis reflected high levels of public debt, increased country risk, currency devaluation and inflation, and affected the capacity of the consortiums to obtain international financing at acceptable rates. Due to the perception of risk, the capital market did not offer financing except at high rates, which increased the costs of the project, affecting its profitability and viability.

Although the PPP model had been promoted by the government as a strategy to implement works with private funds, in the context of national economic crisis, the national administration tried to save the projects that had already been tendered by granting guarantees for short-term loans, providing loans with public funds and collaborating on mobilising funds with international financing institutions. However, the efforts of the public sector were not sufficient to obtain the necessary financing. Two years after starting the RARS-1 project (in July 2018), it had only achieved 1.18 per cent of the planned works. In this scenario all the contracts were terminated by mutual agreement between the national authorities and the private actors.

This case highlights not only the difficulties that the PPPs have to overcome in crisis situations, but also how PPP projects tend to fall on the shoulders of the public sector when it comes to facing these difficulties. For the 1.18 per cent of works completed, the government will have to make investment payments worth US\$ 112 million, until 2030. The termination of the contracts also represents, for the government, an additional payment of US\$ 19 million in favour of the companies.

Although the project did not have a direct impact on local communities, the use of extensive public resources for unfinished works has an indirect impact on all the country's taxpayers. The incurred debt represents less than 0.05 per cent of the Gross Domestic Product (GDP). However, the use of these resources to attract private investors and to repay its services and investment, in a context of economic crisis and growing debt as well as a global pandemic scenario, means that these resources cannot be used for social, economic, environmental and health policies to support social groups in need.

Lessons learned and the way forward

The experience of the RARS-1 project indicates that the PPP model presents significant difficulties when it comes to being financed in a context of a financial crisis, especially in developing countries, due to the limitations of bond issuance and bank lending to private infrastructure.⁸

Based on the points mentioned above, a series of recommendations are suggested:

- International financial institutions that promote the use of PPPs should warn governments about the weakness of PPPs in the face of economic and/or financial crisis, as well as their potential effects for the public sector and taxpayers. This would help public authorities to evaluate the convenience of implementing PPPs, and also to carry out a risk assessment that is more appropriate to the crisis situation. This should consider those risks that the public is willing to assume, and not aimed to fill the coffers of private and financial entities.
- The VfM assessment should be complemented with the consideration of qualitative aspects.
- Social and environmental impacts, gender issues and safety concerns, among others, are not able to be included in a limited cost-benefit analysis. It is necessary to implement a more complete, objective and transparent analysis methodology.
- The implementation of PPPs needs to strengthen the public sector and reinforce its governance. The public agencies develop projects, provide and mobilise funds, have to regulate and deal with private consortiums and consequently the government needs to have institutional, administrative, legislation, economic and human capacities to control and govern all the stages of the process.
- The participation of control entities, technical bodies and interested third parties should be increased, in all the stages of the project, including its elaboration, the assessment of convenience of the PPP model, tenders and renegotiation of the contracts among others, in order to develop a more transparent process.
- PPP projects should be one option, an instrument for the development of needed infrastructure, and should not be an end in themselves. Before designing projects based on bankability, accepting unfair risk allocations and excessive costs, public authorities should maintain their focus on providing social services for their population. They should evaluate other alternatives for the development of infrastructure, such as measures to increase fiscal capacity and other works instruments.

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Endnotes

- 1 Presidency of the Nation (2017): https://www.argentina.gob.ar/sites/default/files/lanzamiento_ppp_2017-11-01_completa.pdf
- 2 Telam. 24 Dec 2018: "Frigerio: "Continuará el plan de infraestructura más ambicioso de la historia argentina": <https://www.telam.com.ar/notas/201812/317241-frigerio-dice-que-continuara-el-plan-de-infraestructura-mas-ambicioso-de-la-historia-argentina.html>
- 3 See: Tosoni y Valdivia (2019). Riesgos Público-Privados. Latindadd.
- 4 For more on the financing of infrastructure, see Fine, B. and Bayliss, K. (2016). Theoretical Framework for Assessing the Impact of Finance on Public Provision, FESSUD Working Paper Series N°192.
- 5 Secretary of Budget Evaluation, Public Investment and PPP (2018) 39: https://www.argentina.gob.ar/sites/default/files/pnip_2019-21.pdf
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- 7 Agreement and regulation of the PPP Framework Trust. Law n° 27,431: https://www.argentina.gob.ar/sites/default/files/acuerdo_y_reglamento_del_fideicomiso_marco_0.pdf Ministry of Finance (2017).
- 8 La Nación, 2019: <https://www.lanacion.com.ar/economia/infraestructura-el-bice-prestara-us100-millones-avancen-nid2254520>
- 8 World Bank (2010). Global Monitoring Report 2010: The MDGs after the Crisis. Washington DC: World Bank.