

# Argentina P3 Market Snapshot

Argentina is the second largest economy in South America, after Brazil, with a GDP of more than USD 545 billion in 2016. Historically, Argentina's investment case has rested on its abundant natural resources, talented and educated labor force, strong infrastructure, large middle class and its position as a regional gateway.

Since it took office in December 2015, the current administration has introduced several macro-economic policies to enhance the competitiveness of the economy, but also to rebuild trust and confidence after 15-20 years of poor business environment. Some of these measures include: lifting currency restrictions, reaching an agreement with holdout creditors, lifting restrictions to capital inflow/outflow, returning to the international capital markets, removing or reducing export duties, gradually removing import restrictions, correcting exchange rates and subsidies, and re-establishing relations with countries that have traditionally been Argentina's business and political partners.

Although companies still face challenges –such as high inflation, significant bureaucracy and complex labour laws -, the business climate has significantly improved in the last year and a half. Economic activity has started to show signs of recovery in the second quarter of 2017, and higher rates of growth in the medium term are expected as investment picks up.

## Environment for P3

Argentina recently amended its institutional framework for P3s in an attempt to attract

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

The recently created P3 Unit under the Ministry of Finance will implement and design the structure of the projects. It has four divisions: 1) Energy and Mining; 2) Transportation; 3) Water, Sanitation and Housing; 4) Health, Justice and Education.

The P3 Unit is working in coordination with each contracting authority to build a pipeline of projects, to standardize agreements, bidding documents and guidance manuals, and to define prioritization schemes. The Unit plans to launch four tenders before the end of 2017, one from each division area, in order to receive offers by February 2018.

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

## Infrastructure Sector Highlights

Over the last decade, and despite a history of strong infrastructure, Argentina dropped 13

positions in the infrastructure pillar of the Global Competitive Report published by the World Economic Forum (WEF) to 85th. This context allows for numerous investment opportunities, particularly given the country's renewed access to international capital markets.

Reviving infrastructure projects is a key part of Argentina's efforts to boost its economy. The Government has put together a very ambitious infrastructure program in transport, energy and utilities, construction and social infrastructure of over USD 100 billion over the next three years to be financed by a mix of public investment, multilateral funding and P3s.

In terms of existing transport infrastructure, the national road & railroad systems extend over 35,000 km, maritime connections operate through 43 ports while air traffic connects to 54 airports. The announced National Plan for Transport comprises USD 33.3 billion in public and private investments for the period 2016–2019. It includes significant cargo and passenger rail upgrades; the addition of over 2,700 kilometers to the national highway system; and significant subway, tunnel, and port upgrade in the city and Province of Buenos Aires. According to the Ministry of Transport, public sector is expected to provide about 75% of investment for the plan and the remainder, or the equivalent of USD 8.5 billion, is expected to come from private sector.

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

## Main Opportunities

Depending on the size of the projects, the Argentine government believes that the country is in a position to attract USD 30-40 billion, channelled through P3 projects within the next six years.

Although a pipeline of projects has not yet been made public, the government is considering the following projects in the near term:

- Hospitals in the Province of Buenos Aires
- Several road corridors (up to USD 2,2 billion)
- Waste water treatment plant in the Province of Buenos Aires (USD 250 million)
- Underground aqueduct for water supply (USD 800 million)

## Challenges

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

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

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