



Board of Executive Directors

Short Procedure

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To: The Executive Directors

From: The Secretary

Subject: Argentina. Risk Mitigation Flexible Facility of the “Program to Support Productive Infrastructure Financing in Argentina”, approved pursuant to Resolution DE-4/18. Proposed Modification

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Remarks: The attached proposal is submitted in accordance with document CS-3953-4 (paragraph 6) “List of matters to be considered by the Board via Short Procedure. Update”.

The Executive Directors are requested to inform the Secretary, in writing, not later than **23 May 2019**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered approved by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Reference: GN-1838-3(6/18), DR-398-18(8/18), CS-3953-4(8/18), PR-4565(2/18), DE-4/18

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

FLEXIBLE RISK MITIGATION FACILITY (AR-O0009) FOR THE PROGRAM TO SUPPORT PRODUCTIVE INFRASTRUCTURE FINANCING IN ARGENTINA (AR-L1281)

PROPOSED AMENDMENT

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This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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ABBREVIATIONS

BICE	Banco de Inversión y Comercio Exterior
DPPEESA	Dirección de Programas y Proyectos Especiales con Enfoque Sectorial Amplio [Office of Special Sector-wide Approach Programs and Projects]
ESMR	Environmental and social management report
ESRMS	Environmental and social risk management system
FONPLATA	Fondo Financiero para el Desarrollo de la Cuenca del Plata
FRMF	Flexible Risk Mitigation Facility
ICAS	Institutional Capacity Assessment System
IMF	International Monetary Fund
LPI	Logistics performance index
PCU	Unidad de Coordinación de Programas y Proyectos con Enfoque Sectorial Amplio de la Entidad Coordinadora [Coordination Unit for Sector-wide Approach Programs and Projects]
PPP	Public-private partnership
RARS	Red de Autopistas y Rutas Seguras [Safe Highways and Roads Network]

PROGRAM SUMMARY

ARGENTINA FLEXIBLE RISK MITIGATION FACILITY (AR-O0009) FOR THE PROGRAM TO SUPPORT PRODUCTIVE INFRASTRUCTURE FINANCING IN ARGENTINA (AR-L1281)

Flexible Risk Mitigation Facility – Financial Terms and Conditions		
Partial Credit Guarantees and Political Risk Guarantees for Investment Projects		
Guarantor: Inter-American Development Bank Secured debtors: Productive infrastructure project developers in Argentina (or, if applicable, in the Autonomous City of Buenos Aires, or in one or more Argentine provinces or municipios), or issuers of negotiable instruments to finance such projects, or the Argentine Republic Secured creditors: Investors or financiers, or any specific purpose institution, vehicle, or entity (including companies, public or private trusts, or other types of vehicles or partnering arrangements) that finances productive infrastructure projects in Argentina, and/or holds any credit, payment, guarantee, endorsement, or surety claim, and/or that contributes in any way to such projects Counter-guarantor: Argentine Republic Coordinating agency: Banco de Inversión y Comercio Exterior (BICE)	Flexible Guarantee Instrument ^(a)	
	Maximum guarantee period:	Up to 25 years
	Original weighted average life:	Up to 15.25 years
	Credit fee:	(b)
	Standby fee:	(b),(c)
	Inspection and supervision fee:	(b)
	Approval currency:	U.S. dollar
	Period for issuing individual guarantees:	8 years
Source ^(d)	Amount (US\$)	Percentage
IDB (Ordinary Capital)	490,000,000	100% ^(e)
Program at a Glance		
Objective: 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.		
Special contractual condition precedent to issuing the first guarantee under the Flexible Risk Mitigation Facility (FRMF): The following will be special contractual conditions precedent to issuing the first guarantee under the FRMF: (i) the entry into effect of the program Operating Regulations , in accordance with the terms previously agreed upon between the BICE and the Bank; and (ii) the Argentine Republic, acting through the Ministry of Production and Labor, as well as through the BICE as the coordinating agency, will have signed an agreement, under the terms previously agreed upon with the Bank, through which the coordinating agency will be required to perform the functions and fulfill the duties assigned to in accordance with the amended agreement and the program Operating Regulations (paragraph 2.26).		
Special condition precedent to signing each guarantee and counter-guarantee contract: Before signing any guarantee or counter-guarantee contract under the FRMF, the Bank will have received proof that an integrity supervisor, required by the integrity framework, has been hired, under the terms previously agreed upon with the Bank. Any change to the terms of reference or replacement of the integrity supervisor will require the Bank's prior consent in writing (paragraph 2.27).		
Special environmental and social contractual conditions of the FRMF: See the environmental and social contractual conditions included in Annex B of the program's environmental and social management report .		
Exceptions to Bank policies: None.		
Strategic Alignment		
Challenges:^(f)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/> EI <input type="checkbox"/>
Crosscutting themes:^(g)	GD <input type="checkbox"/>	CC <input checked="" type="checkbox"/> IC <input type="checkbox"/>

^(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 FRMF, 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 sight 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 guarantee contract. It is calculated on the difference between the amount of the guarantee issued and its callable amount at any time.

^(d) Indirect private FRMF mobilization will be estimated and included in each individual guarantee proposal financed under the Facility.

^(e) The Bank will finance 100% of the guarantees issued under the FRMF.

^(f) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(g) 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

- 1.1 The purpose of this document is to request approval from the Bank's Board of Executive Directors to amend the FRMF (AR-O0009) of the Program to Support Productive Infrastructure Financing in Argentina (AR-L1281), which was originally approved by the Board of Executive Directors on 12 March 2018 (document PR-4565, Resolution DE-4/18).
- 1.2 Following the Board's approval, on 21 August 2018, the Bank and the Argentine Republic signed the agreement establishing a Flexible Risk Mitigation Facility (FRMF Agreement). In the event that the Board of Executive Directors approves the proposal contained in this document, the Bank and the Argentine Republic will sign an amended version of the FRMF Agreement, to include the changes proposed herein.
- 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.
- 1.4 In the program framework, the FRMF is structured as a facility that will issue guarantees for productive infrastructure projects included in Argentina's public-private partnership (PPP) program, for an aggregate total of up to US\$490 million over an eight-year period.
- 1.5 As part of the program, the Board of Executive Directors simultaneously approved a US\$10 million-dollar investment loan for program management and coordination, to be disbursed over a period of five years. This document does not propose any changes to that loan.

B. Program progress

- 1.6 Over the past year, material events have occurred in Argentina that have made it difficult to implement the country's PPP program. Accordingly, the FRMF needs to be amended to ensure that its execution contributes to addressing new challenges confronting Argentina.
- 1.7 First, macroeconomic risks in the country have been exacerbated by the current account deficit, inflationary and exchange rate volatility, and major public financing needs.¹ As a result, the Argentine government has decided to adopt significant measures to contain the effects of these risks, including entering into a US\$57.1-billion-dollar stand-by arrangement with the International Monetary Fund (IMF).² This will be complemented by US\$5.65 billion in funding from multilateral organizations, of which the Bank will provide US\$2.5 billion.

¹ IMF, Economic Outlook, Argentina, April 2019.

² IMF, Country Report 19/99, April 2019.

- 1.8 The main pillars of the stand-by arrangement include a commitment to fiscal consolidation, price stability, and social protection. The stand-by arrangement requires the government to adopt a series of measures to continue its policy of reducing the fiscal deficit, for which the government is moving swiftly on two fronts: (i) reducing operating expenses, subsidies and public investment in infrastructure by a combined total of 1.4% of GDP; and (ii) increasing revenues by roughly 1.2% of GDP, mainly through temporary taxes on exports of goods and services. In this context, the Bank's support is focused on protecting the most vulnerable sectors, supporting reforms to enhance transparency, equity, and growth, and promoting investments that help reduce the fiscal deficit. The total of US\$2.5 billion consists of policy-based loans for US\$1 billion and loans to protect social spending with income transfer mechanisms totaling US\$1.5 billion.
- 1.9 In addressing this economic situation, the government has also sought to improve its operational efficiency by enacting significant institutional reforms, including merging the Finance Ministry (Ministerio de Finanzas), the program's original executing agency, with the Treasury Ministry (Ministerio de Hacienda). In addition, the Coordination Unit for Sector-wide Approach Programs and Projects, which was responsible for verifying compliance with the requirements established for program execution, was moved to the Finance Ministry, and will henceforth be known as the Office of Special Sector-wide Approach Programs and Projects (DPPEESA). The two nonsubstantive changes were approved and reflected in the FRMF Agreement, which the parties signed on 21 August 2018. After the agreement was signed, the functions of the Office of the Undersecretary for Public-private Partnerships in the Ministry of Finance related to structuring PPP projects were transferred to BICE and those related to PPP project priority-setting and authorization were transferred to the Cabinet Office [Jefatura de Gabinete].
- 1.10 Second, legal proceedings were launched in August 2018 to investigate potential crimes related to prohibited practices in the awarding of public works contracts, involving former senior public officials from previous administrations and several of the country's construction companies. These investigations have triggered a systemic reputational event for Argentina's construction sector.
- 1.11 The government has launched just one PPP tender to date, for the first stage of the Safe Highways and Roads Network (RARS), comprising six road corridors that together represent a total investment of US\$6 billion. The concessions were awarded under international competitive bidding to five concession-holders in April 2018. While it is possible that individuals with ties to firms participating in the consortia that were awarded concessions for the six corridors may be implicated in the aforementioned legal proceedings, the investigations under way do not suggest that prohibited practices were committed in connection with the contracts awarded under the first stage of the RARS program.
- 1.12 As a result of this situation, most of the concession-holders have found it difficult to obtain financing, which has meant substantial delays to the start of the first stage of the RARS works. With a view to understanding the difficulties they face, it should be noted that: (i) financiers and investors have little appetite for country risk in the current volatile macroeconomic context; (ii) Argentina is in an election year, which means political uncertainty; and (iii) if concession-holders are implicated in

alleged prohibited practices, financiers and investors will not be able to maintain ties with them, owing to compliance issues.

- 1.13 In response, the government has sought to safeguard the viability of the PPP program, by: (i) creating a public financial assistance trust fund to strengthen the projects' integrity framework, by intermediating between financiers and the concession-holders to facilitate financing; (ii) prioritizing a financial solution for the first stage of the RARS program, which was tendered before the current situation arose; and (iii) postponing implementation of the other projects in the PPP program that have not yet been tendered.
- 1.14 The amendment of the FRMF includes measures to manage the integrity risk and its potential adverse impact on the Bank's reputation associated with the aforementioned legal proceedings, referred to as the Notebooks Scandal [Causa de los Cuadernos], and/or others that may arise in the future. The scandal erupted in August 2018 when the Argentine authorities launched legal proceedings to investigate potential crimes of corruption, collusion, and other misconduct in the awarding of government contracts between 2003 and 2015. The behaviors investigated involve prominent public officials in previous administrations and multiple construction companies across the country. The Notebooks Scandal revealed the risk that any firm awarded a public works concession between 2003 and 2015 could have been involved in corruption, collusion, or similar behaviors. To mitigate the integrity risk of a recurrence of similar misconduct in the future, and the possibility that the outcome of the criminal and administrative proceedings described above could tarnish the IDB Group's reputation, the Bank and IDB Invest have been working with the Argentine government to develop an integrity framework for concessions that are guaranteed under the FRMF.

C. Borrower's request

- 1.15 Through note NO-2019-2154034/-APN-DNFOIC#MHA dated 9 April 2019, the Argentine government, acting through the Ministry of Treasury and Finance, asked the Bank to amend the FRMF in order to incorporate a scenario in which the Bank could underwrite a public financial assistance trust fund on behalf of the Argentine Republic, which could intermediate between the concession-holders and financier and the investors of PPP projects. This request also envisages the possibility that any guarantees approved by the Bank under the FRMF would benefit a group of PPP projects already tendered and awarded; and that the trust fund could be financed through loans from multilateral development banks, specifically through A/B loans, provided that the end beneficiaries of the guarantee are private financiers participating in B loans and not multilateral development banks.
- 1.16 The Argentine government has also indicated that, due to recent changes in its institutional structure, the FRMF coordinating entity should now be the BICE, which will coordinate with the corresponding contracting authority under the sector ministry responsible for implementing and overseeing PPP projects. In addition to its responsibilities related to structuring PPP projects, the BICE is likely to assume, in the near future, the responsibilities of the Cabinet Office with respect to the

prioritization and authorization of PPP projects. The BICE has ample experience executing multilateral projects, and has performed satisfactorily in that regard.³

D. Rationale for the amendment

- 1.17 The amendment aims to enable a scenario that was not expressly foreseen in the original FRMF, which includes the government's power to create a public financing vehicle to intermediate between the financiers and investors and the concession-holders of projects already awarded under Argentina's PPP program.
- 1.18 This intermediation structure is necessary in the current context of the PPP program, owing to a confluence of factors that could make financiers and investors reluctant to directly fund PPP project concession-holders (as had been envisaged in the FRMF as originally formulated). Apart from intermediation at a particular macroeconomic and political moment, the public financing vehicle, supported by the BICE in its fiduciary function, will play a key role in developing and implementing an integrity framework to monitor the concession-holders and follow up on any plans of action should the need for corrective measures arise. It will also include measures to make compliance enforceable and binding on concession holders, which will be reflected in appropriate contractual arrangements. This instrument will also include the contractual remedies needed to take definitive action to force the concession-holders to comply with the integrity rules.

E. Strategic alignment

- 1.19 While the amendments being proposed here do not entail changes to the program's original strategic alignment, going forward demand for resources under the FRMF is expected to be greater from the transportation sector than the renewable energy sector.⁴ Accordingly, the FRMF continues to be 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, and it will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) as regards the results indicators for installed power generation from renewable energy sources, electricity transmission, and distribution lines installed or upgraded, and roads built or upgraded. Bearing in mind that the FRMF will not be used exclusively to support highway projects, it is estimated that 9.8% of the operation's resources could be used for climate change mitigation activities, according to the multilateral

³ The Bank recently evaluated the BICE's institutional capacity as the executing agency for the project "Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments" (4565/GN-AR), approved in 2018. Based on that evaluation, it was determined that the BICE, which has a low fiduciary risk, has the requisite institutional capacity to serve as the FRMF's coordinating agency. Although the BICE has no other recent experience managing Bank-financed sovereign-guaranteed operations, it is participating in the execution of the IDB loan "Competitiveness Program for Regional Economies" (loan contract 3174/OC-AR), whose executing agency is the Ministry of Production. It is also executing a loan for the Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA) (31/2016), which is currently in the initial execution stage. The BICE is also managing projects financed by the World Bank in initial execution, managing projects financed by the World Bank ("Access to Long-Term Financing for Micro, Small and Medium-Sized Enterprises Project" (RD-8659)) and by the European Investment Bank (FI-86706, Private Sector Credit).

⁴ The Argentine government has expressed interest in issuing a guarantee of up to US\$490 million to Support the first stage of the RARS project.

development banks' joint methodology for estimating climate finance.⁵ These resources contribute to the IDB Group's goal of increasing financing for climate change projects to 30% of all approved operations by the end of 2020. In addition, all projects to be supported through the FRMF are aligned with the IDB Group Country Strategy with Argentina 2016-2019 (document GN-2870-1) in the priority area of business climate improvement through the strategic objective of improving infrastructure for investment and inclusion.

- 1.20 The FRMF also remains aligned with the objectives of the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document GN-2710-5) of: (i) promoting access to infrastructure services in Argentina, through the projects to be supported by the program; and (ii) fostering innovative mechanisms to finance infrastructure and leverage private-sector participation through the use of PPPs, which will make it possible to mitigate risks that could hinder the participation of international financiers. Lastly, the FRMF is consistent with: (i) the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), by promoting productive sector access to financing and the resulting productivity gains; (ii) the Transportation Sector Framework Document (document GN-2740-7), by promoting better infrastructure coverage, quality, capacity, and efficient connectivity, through expansion and upgrading of road corridors; and (iii) the Energy Sector Framework Document (document GN-2830-8), by promoting better access to energy in terms of coverage, reliability, and affordability through an expansion of transmission lines, as well as energy sustainability by promoting renewable energy generation projects.

II. DESCRIPTION OF THE PROPOSED CHANGES

A. Program objective and components

- 2.1 The program objective remains unchanged as described in paragraph 1.3. Similarly, the nature of the FRMF remains the same, as indicated in paragraph 1.4. The proposed amendments essentially affect the FRMF's eligibility criteria, with a view to making the Argentine Republic explicitly eligible as a secured debtor, and the Financial Assistance Trust Funds eligible as secured creditors. It also makes clear that an already awarded project, or group of projects, can be guaranteed; and that multilateral development banks can participate in the financing of FRMF-guaranteed projects, provided that they themselves do not benefit directly from the Bank guarantee. Lastly, the coordinating agency will change since, owing to institutional changes within the Argentine government, the BICE is to play a larger role in the structuring and execution of projects under the country's PPP program, and has the necessary institutional capacity to do so (paragraph 1.9).

⁵ Pursuant to the multilateral development banks' joint methodology for estimating climate finance, the Bank counts the portion of the guarantee that could be channeled to renewable energy projects, estimated on the basis of potential demand.

B. Costs and financing sources

- 2.2 This amendment does not alter the cost structure of the FRMF, which is shown in Table 1. In accordance with the Guidelines to Register and Report Co-financing (document SC-486/GN-2911), the FRMF mobilization target will be specified in the documents approving each guarantee issued under the FRMF, to provide certainty and ensure accuracy in fulfilling the calculation.

Table 1. FRMF: Original and current costs (US\$)

Categories	Amount	Percentage
FRMF	US\$490,000,000	100
Total	US\$490,000,000	100

C. Results matrix

- 2.3 The proposed amendments to the structure do not involve specific changes to the results matrix.

D. Environmental and social risks

- 2.4 The changes proposed to the FRMF are minor in terms of the treatment of environmental and social risks, updating the environmental and social management report (ESMR) to reflect changes in Argentina's institutional framework, particularly the BICE's new role, and clarifying the restriction on projects for which the designs have not been finalized when a guarantee request is submitted. As noted in the original proposal, under 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.
- 2.5 As noted in the original approval document, the potential socioenvironmental impacts of the projects will be diverse, and their levels will depend on the specific features of each (e.g. sector, location, and size); but will primarily be localized, occurring in the short and medium term; effective mitigation measures for these are already in place. Category "A" projects continue to be excluded.
- 2.6 The potential environmental, social, health, and safety risks and impacts of projects to be guaranteed with FRMF resources will be identified, evaluated, and managed through the environmental and social risk management system (ESRMS), designed in accordance with the Bank's safeguards, including a list of excluded project types. The ESRMS will form part of the [program Operating Regulations](#) (special contractual condition precedent to issuing the first guarantee under the FRMF, paragraph 2.26); and, during the life of the FRMF, it will be executed with support from external and independent consulting services. Further information on this can be found in the program's [environmental and social management report](#). The program Operating Regulations will provide for the trust fund's participation in fulfillment of environmental and social requirements.

E. Other risks and key issues

- 2.7 Based on the changes proposed in this document and the events that have occurred since the program was approved, some medium-level risks have been reclassified to high; so the corresponding mitigation measures have also been adjusted. The most significant risks and their mitigation measures are described below.
- 2.8 **Development risk.** The risk that there may be not be enough concessionaires, builders, and sponsors to carry out the PPP infrastructure projects in Argentina is considered high—in particular, owing to the financing constraints caused by macroeconomic volatility and the implications of the sector's systemic integrity event. To mitigate this risk, the program will be restricted to meeting the current needs of PPP projects that are already under way, by setting up a trust fund that imposes an integrity framework on the concession-holders and prioritizes the use of guarantees under the FRMF to facilitate financing for works execution.
- 2.9 Another elevated development risk is the possibility that demand among private-sector financiers and investors to finance PPP infrastructure projects in Argentina may be insufficient, or that the FRMF may not produce the catalytic effect desired for investors, owing to the limited country-risk appetite and a decoupling of direct financing from projects owing to the systemic integrity event. The project team, together with the IDB Invest teams, has held informal consultations with investors, with a view to incorporating the design elements needed for the FRMF to be effective, and therefore attract greater potential demand for project financing. Thus, the inclusion of a structure such as proposed in the amendments could have a differentiating effect making it possible to obtain financing that is currently not forthcoming. The emergence of this demand will be verified during FRMF execution, by monitoring requests for guarantees processed by the BICE.
- 2.10 There is also a medium-level development risk relating to the proper preliminary identification, analysis, and prioritization of PPP projects. The traditional risks associated with project performance under PPP arrangements—e.g. meeting the expectations of asset demand—can be mitigated using the BICE's or the contracting authorities' cost/benefit evaluation and resulting estimates of initial demand, with a view to ensuring the projects' socioeconomic viability.
- 2.11 **Integrity risk.** Considering the context in which the firms participating in PPP project concession-holder consortia operate, there is a heightened integrity risk. To mitigate that risk as well as the potential reputational risk to the Bank and to the program of legal proceedings currently under way, the integrity framework agreed upon with the Argentine government in relation to the FRMF will be applied. The obligations specified by the integrity framework for consortia interested in receiving funding include the following: (i) compliance with integrity standards aligned with international best practices, such as having a compliance program that has to be evaluated and monitored by an independent supervisor, chosen to the satisfaction of the Argentine government and the IDB Group; (ii) semiannual reporting on the application and implementation of the compliance program; (iii) adopting corrective measures if any of its shareholders, senior executives, or key employees are formally linked to the legal proceedings associated with prohibited practices, and informing the Bank immediately of this integrity event; and (iv) maintaining records

and accounts in accordance with the applicable regulations, and keeping them accessible to the competent authorities. All of these requirements will be maintained while the entity in question participates in the concessions financed and guaranteed by the IDB Group, and any breach thereof will have consequences for the partial guarantee. Firms that have directors, key staff, or shareholders who have been formally indicted for, or who have confessed to participating in, prohibited practices as described in the integrity framework will not be eligible. The integrity framework will form an integral part of the program Operating Regulations; the independent supervisor must be hired in accordance with the terms previously agreed upon with the Bank, as a condition precedent to the signing of the guarantee and counter-guarantee contracts; and the IDB Group must give its approval to any change in their terms of reference or replacement (paragraph 2.27). The IDB Group expects that adoption of the integrity framework will not only help mitigate the integrity risk and the potential associated impact on the FRMF's reputation, but also encourage international good practices and foster favorable conditions to attract the participation of national and international bidders.

- 2.12 **Public management and governance risk.** There is a medium-level risk of coordination difficulties between the BICE, as coordinator of the FRMF, the contracting authorities, and especially the Ministry of Transportation and the Ministry of Energy and Mining, in their capacity as sector managers of the infrastructure projects. To mitigate this risk, the FRMF program Operating Regulations require a formal framework of coordination between the ministries involved; and compliance therewith will be monitored during the execution period. The fact that Argentina is in an election cycle represents another medium-level risk, since political uncertainty can adversely impact or delay guarantees under the FRMF. Although this risk cannot be completely mitigated, the Argentine government has conveyed to the Bank, on numerous occasions, that the FRMF is an essential tool for the country's PPP program. The Bank, in turn, will be engaging in ongoing dialogue with the authorities and other key actors regarding the FRMF's importance.
- 2.13 **Financial risk.** There is a high risk that an exogenous macroeconomic shock could impact demand in the domestic and international private sector for investment in infrastructure projects in Argentina. Although this risk cannot be mitigated, the Bank has specific demand for the financing of PPP projects.

F. Implementation arrangements

- 2.14 In addition to the change in the coordinating agency (from the Ministry of Finance to the BICE), the following changes and/or additions to the FRMF implementation arrangements are proposed: (i) explicitly including the Argentine Republic as an eligible secured debtor; (ii) explicitly including the specific purpose vehicle or entity (including companies, public or private trusts, or other types of vehicles or partnering arrangements) as an eligible secured creditor; (iii) allowing the secured obligation to be a guarantee issued to a specific purpose vehicle or entity (including companies, public or private trusts, or other types of vehicles or partnering arrangements); (iv) making it possible for the guarantees to support a PPP project that has already been awarded, or group of such projects, as part of the eligibility criteria; and (v) make it possible to issue guarantees that form part of

- financial structuring involving multilateral development institutions, provided that the latter are not themselves the beneficiaries of the Bank's guarantee.⁶
- 2.15 Although the original FRMF proposal envisages the structuring of guarantees using specific purpose companies, trusts, or other types of vehicles or partnering arrangements for one or more eligible projects (document PR-4565, paragraph 3.12), the group of changes described in the foregoing paragraph will make it possible to provide specific contractual support to Argentina's PPP program at a time when a financial assistance trust, intermediating between the financiers and investors and the PPP project concession-holders, is essential to enabling the latter to obtain financing by mitigating the integrity risk.
- 2.16 The FRMF implementation arrangements specified below, amended according to paragraph 2.14 of this document, are described below.⁷
- 2.17 **FRMF eligibility criteria.** The Bank may issue guarantees to support productive infrastructure projects through PPPs in Argentina, provided that 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, treated both individually and as a group of projects;⁸ (ii) viable socioeconomic projects with an appropriate economic and social rate of return; (iii) projects selected through a transparent and competitive selection process, whether before or after the coordinating agency has submitted a guarantee request to the Bank; (iv) projects with a sponsor, builder, financier, fiduciary, and/or operator with relevant experience in the sector that also has the requisite financial standing to receive credit, act as trustee of a trust, and/or fulfill the applicable financial requirements in each case; (v) those that do not involve entities that: (a) are included on the IDB Group's List of Sanctioned Firms and Individuals because they have been involved in prohibited practices; and/or (b) are implicated in legal proceedings in the terms set out in the integrity framework; and (vi) those that can be classified as Category "B" or "C" under the Bank's environmental and social policies. The guarantees will cover up to 70% of the total cost of each eligible project, or group of eligible projects, as the case may be. The proposed amendment does not change this maximum coverage percentage. With respect to procurement, projects that benefit from a Bank guarantee under the FRMF will be subject to the provisions of the Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations (document GN-2729-2, paragraph 3.11). In any event, the Bank will undertake to review and select projects, or groups of projects, with high standards of preparation and tendering as PPPs, that have been submitted for a value-for-money analysis, and that have a significant development impact for the country.

⁶ As permitted by the Proposed Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations (document GN-2729-2, paragraph 3.8) as a special case for the purposes of Article III(4)(iii) of the Agreement Establishing the Inter-American Development Bank. As appropriate, efforts will be made to avoid or mitigate to the extent possible any type of discordant interest between the multilateral development institution and the IDB.

⁷ Paragraphs 2.17 and 2.18 partially modify paragraphs 3.20 and 3.21 of the original FRMF proposal (document PR-4565).

⁸ Although the current expectation is to support the first stage of the RARS program with a guarantee of up to US\$490 million, the Argentine government has preferred to maintain the eligibility of electricity transmission, generation, and renewable energy projects, to keep its options open going forward.

- 2.18 The beneficiary creditors of Bank-issued guarantees under the FRMF will be investors, financiers, or any specific purpose entity, vehicle, or body (including companies, public or private trusts, or other types of vehicles or partnering arrangements) that finance productive infrastructure projects in Argentina, and/or hold any credit, payment, guarantee, endorsement, or surety claim, and/or contribution of any kind related to said projects, 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) project financiers 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 a structuring entity with recognized experience in similar instruments for infrastructure projects; (iii) comply with all the requirements stipulated in the integrity framework to be included in the program Operating Regulations, and not be included on the IDB Group's List of Sanctioned Firms and Individuals for having been involved in prohibited practices; and (iv) in the case of a specific purpose entity, vehicle, or body (including companies, public or private trusts, other types of vehicles or partnering arrangements), the Bank will consider its characteristics on a case-by-case basis, taking the aforementioned criteria into account, as applicable. The requirements for secured debtors will be similar, with specifications based on their specific circumstances. However, when the secured debtor is directly the Argentine Republic (or the Autonomous City of Buenos Aires, or one or more Argentine provinces or municipios) the aforementioned specifications will not apply, since their public entity status is sufficient. The guaranteed obligation may be in the form of a loan, bond issue, or other similar debt instruments (negotiable or non-negotiable, with scheduled payments, or with a bullet payment at maturity), guarantees, endorsements and/or sureties, or analogous payment obligations, or any other type of reimbursable financing that covers the basic funding needs for one or more eligible projects.
- 2.19 Eligible projects may be financed by multilateral development institutions, in the case of A/B loans, provided that the end beneficiary of the Bank's guarantee is a creditor that has a share in the B loan, and not one or more of the multilateral development institutions involved in financing the A loan.
- 2.20 **Coordination and management.** The BICE, or its successor with similar duties and responsibilities in the applicable regulatory framework, will be responsible for fulfilling the requirements established for the coordination of the FRMF, being responsible for processing—together with the Bank—the request for issuing guarantees, and for safeguarding compliance with terms and conditions to be set forth in the amended FRMF Agreement and the program Operating Regulations.
- 2.21 **Other implementation arrangements.** All other implementation arrangements described in the original FRMF proposal approved by the Board of Executive Directors (see Section III of document PR-4565 on the implementation arrangements), dealing with issues such as the approval of individual guarantees, and noncompliance with agreements, will remain valid and applicable as originally approved.

- 2.22 Nonetheless, to relax the requirements to be fulfilled when the guarantee(s) issued under the FRMF supports projects that have already been tendered or awarded, the Bank may discretionally: (i) waive one or more of the requirements envisaged for new projects when it considers that it has, or could have, sufficient and timely information to analyze and/or approve the request; and/or (ii) require that any study or information related to any of the aforementioned requirements must be completed prior to the approval of the guarantee, or else be completed, to the Bank's satisfaction, as a condition precedent to the entry into force of the guarantee contract. Bank approval of the request will be sufficient evidence of a waiver and/or specific requirement, as the case may be.
- 2.23 The Bank and the Argentine government may agree on other technical adjustments to the FRMF Agreement as needed to implement the foregoing. These include: the strengthening of interagency coordination requirements in terms of environmental, social, and/or integrity requirements; and inclusion, as a secured creditor, of the BICE, acting in its role as fiduciary in trusts constituted under PPP legislation.
- 2.24 The FRMF program Operating Regulations will reflect the aforementioned adjustments. Accordingly, the conditions precedent to issuance of the first guarantee under the FRMF Agreement must be fulfilled no later than 180 days after the signing of the amended agreement containing the changes to the FRMF.
- 2.25 To maintain the flexibility needed to respond to the challenges giving rise to the changes proposed in this document, it is recommended that the procedure and requirements applicable to any guarantee request presented to the Bank by the BICE before the amended version of the FRMF Agreement is signed, be processed and completed as if the request in question had been submitted pursuant to the amended version of that agreement.
- 2.26 **Special contractual condition precedent to issuing the first guarantee under the Flexible Risk Mitigation Facility (FRMF):** The following will be special contractual conditions precedent to issuing the first guarantee under the FRMF: (i) the entry into effect of the [program Operating Regulations](#), in accordance with the terms previously agreed upon between the BICE and the Bank; and (ii) the Argentine Republic, acting through the Ministry of Production and Labor, as well as through the BICE as the coordinating agency, will have signed an agreement, under the terms previously agreed upon with the Bank, through which the coordinating agency will be required to perform the functions and fulfill the duties assigned to in accordance with the amended agreement and the program Operating Regulations. Both conditions are justified for the purpose of providing more detailed operating guidelines for the facility than those contained in the contract.
- 2.27 **Special condition precedent to signing each guarantee and counter-guarantee contract:** Before signing any guarantee or counter-guarantee contract under the FRMF, the Bank will have received proof that an integrity supervisor, required by the integrity framework, has been hired, under the terms previously agreed upon with the Bank. Any change to the terms of reference or replacement of the integrity supervisor will require the Bank's prior consent in writing. This condition is justified to mitigate the integrity risk for the facility's operation (paragraph 2.11 **Error! Reference source not found.**).

III. RECOMMENDATION

- 3.1 Based on the amendments proposed by the Argentine government with a view to making the use of the guarantee more flexible in the country's current situation, the Bank's Management recommends that the Board of Executive Directors approve the amendments proposed in Section II of this document, by adopting the attached Draft Resolution.

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.

ARGENTINA. Flexible Risk Mitigation Facility (AR-O0009) of the Program to Support Productive Infrastructure Financing in Argentina (AR-L1281). Proposed Amendment

Summary

SPD has reviewed the proposal and has concluded that the loan under the proposed modification has not undergone substantial changes. Therefore, the original DEM matrix of the operation as its score remains valid.

The objective of the program is not modified, nor is the amount of the program altered. The proposed changes do not alter in substance the design of the originally approved project, and the nature of the Flexible Risk Mitigation Facility (FFMR) is not modified.

The proposed amendments only affect the eligibility criteria of the FFMR for purposes of characterizing explicitly as eligible the Argentine Republic, acting as a secured debtor, and Financial Assistance Trusts, acting as secured creditors. Additionally, criteria for the eligibility of already awarded projects are clarified, and the role of the multilateral development banks (which under no circumstances can benefit directly from the guarantee provided by the IDB).

The original diagnosis, despite changes in the macroeconomic conditions and judicial events, is still valid, and the vertical logic of the project remains adequate. In addition, the economic analysis and the Monitoring and Evaluation Plan remain valid. The results matrix has not been modified.

RESULTS MATRIX

Program objective:	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.
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EXPECTED IMPACT										
Indicators	Unit of measure	2017 baseline	2018	2019	2020	2021	2022	End 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\$ millions	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

Indicators	Unit of measure	2017 baseline	2018	2019	2020	2021	2022	End target	Means of verification	Comments
OUTCOME 1: LEVERAGING OF RESOURCES TO FINANCE PRODUCTIVE INFRASTRUCTURE PROJECTS										
Indicator 1. Investment for infrastructure projects leveraged with the program	US\$ millions	0	200	600	400	400	400	2,000	Reports of the executing agency (BICE), reports of the Trust, and IDB internal 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	Reports of the executing agency, the Trust, and IDB internal 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	Reports of the executing agency, the Trust, and IDB internal 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	Reports of the executing agency, the Trust, and IDB internal reports	Ibid
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	Reports of the executing agency, the Trust, and IDB internal 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	Reports of the executing agency, the Trust, and IDB internal 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	Reports of the executing agency, the Trust, and IDB internal reports	Ibid

OUTPUTS

Outputs	Unit of measure	Baseline 2017	2018	2019	2020	2021	2022	End target	Means of verification	Comments
SOLE COMPONENT: GUARANTEES ISSUED UNDER THE FRMF (US\$490 MILLION)										
OUTPUT 1: Amounts guaranteed under the program	US\$ millions	0	50	150	100	100	90	490	Reports of the executing agency, the Trust, and IDB internal reports	
Milestone 1: Increase (kilometers) in roads upgraded	Kilometer								Reports of the executing agency, reports of the Highway Authority of the Argentine government, and IDB internal reports	Kilometers of roads upgraded through projects supported by this operation
Milestone 2: Increase (kilometers) in roads built	Kilometer								Reports of the executing agency, reports of the Highway Authority of the Argentine government, and IDB internal reports	Kilometers of roads upgraded through projects supported by this operation
Milestone 3: Increase (kilometers) in transmission lines installed	Kilometer								Reports of the executing agency, and 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								Reports of the executing agency, and IDB internal reports	Measures installed capacity available at the beginning of operations each year

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Argentina
Project number:	AR-O0009
Name:	Flexible Risk Mitigation Facility for the Program to Support Productive Infrastructure Financing in Argentina
Executing agency:	Banco de Inversión y Comercio Exterior S.A. (BICE)
Fiduciary team:	Roberto Laguado and Teodoro Noel (FMP/CAR)

I. EXECUTIVE SUMMARY

- 1.1 The Program to Support Productive Infrastructure Financing in Argentina (AR-L1281) (“the program”) was originally approved by the Bank’s Board of Executive Directors on 12 March 2018. The program included a Flexible Risk Mitigation Facility (FRMF) (loan AR-O0009) for up to US\$490 million, for the purpose of issuing guarantees to underwrite productive infrastructure projects in Argentina’s public-private partnerships (PPP) program; and a US\$10 million investment loan for program management and coordination, and to facilitate compliance with the Bank’s regulatory requirements.
- 1.2 Events in Argentina subsequent to program approval have made it difficult to implement PPPs in the country and, hence, to execute the program. Among measures adopted to safeguard the PPP model in the country, the Argentine government asked the Bank to amend the FRMF to incorporate a scenario in which the Bank could underwrite a public financial assistance trust fund on behalf of the Argentine Republic, which could intermediate between the concession-holders and financiers and the investors of PPP projects. Such an intermediation structure is necessary in the current context of the PPP program, since there is a mix of factors that could prevent financiers and investors from directly financing the PPP project concession-holders (as laid out under the original formulation of the FRMF).
- 1.3 In addition to the changes in the menu of financial structuring options, the government has sought to also boost its operating efficiency by significantly reforming its institutional framework, including merging the Ministry of Finance, the original program coordinating entity, with the Ministry of Treasury. Moreover, the Coordination Unit for Sector-wide Approach Programs and Projects (PCU), which was responsible for fulfilling the program execution requirements, was transferred to the Ministry of Treasury and is now called the Office of Sector-wide Approach Programs and Projects (DPPEESA). These two nonsubstantive changes were approved and reflected in the FRMF agreement signed by the parties on 21 August 2018. After the agreement was signed, the functions of the Office of the Undersecretary for Public-private Partnerships in the Ministry of Finance related to

- structuring PPP projects were transferred to BICE and those related to PPP project priority-setting and authorization were transferred to the Cabinet Office.
- 1.4 Accordingly, the Argentine government has also indicated that, due to recent changes in its institutional structure, the FRMF coordinating entity should now be the BICE, which will coordinate with the corresponding contracting authority under the sector ministry responsible for implementing and overseeing PPP projects.
 - 1.5 The BICE is a public bank, created in 1992, that grants medium- and long-term credit aimed at productive investment and foreign trade, whose sole shareholder is the Argentine State. In accordance with Article 1 of its Statute, BICE is constituted as a stock corporation. It is governed by private law and is subject to Law 21,526 of the Central Bank of the Argentine Republic and the banking regulations of the country. BICE promotes economic development and job creation, supports investment and foreign trade through financing of exports and imports, and for more than 25 years has been a source of long-term financing for the financial system of the country.
 - 1.6 The IDB recently assessed¹ the capabilities of BICE, as an executing agency for the project “Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments” (4565/GN-AR), approved in 2018, in order to plan, execute, and implement control measures of the resources through the application of the Institutional Capacity Assessment (ICAS) and found that it has adequate operational, technical, and human capacity to carry out satisfactorily the execution of the project. The risk related to trust management, considering various factors, is low. The ICAS also concluded that BICE can carry out the trust management activities of the loan operation. The trust risk therefore has been determined to be low because BICE has the necessary organizational structure, regulations, systems, and human talent. The risks identified are as follows:

Table 1. Institutional capacity and fiduciary risk of the BICE

Institutional capacity and fiduciary risk			
Institutional capacity	Satisfactory	Tool:	ICAS
Fiduciary risk	Low	Tool:	ICAS

- 1.7 BICE is participating in the execution of an IDB loan, “Competitiveness Program for Regional Economies” (3174/OC-AR), whose executing agency is the Ministry of Production, and is executing a FONPLATA loan (31/2016), in initial execution, managing projects financed by the World Bank (“Access to Long-Term Financing for Micro, Small and Medium-Sized Enterprises Project” (RD-8659)) and by the European Investment Bank (FI-86706, Private Sector Credit).

¹ January 2018.

- 1.8 BICE is a decentralized agency that reports to the Ministry of Production. It is a stock corporation governed under private law and is not included in the national Administration Budget approved by the National Congress. BICE, as a stock corporation, has and manages its own resources. However, by being under the Ministry of Production, it has certain obligations derived from Article 8 of Law 24,156, such as presenting its budgets and following the regulations established by the ministry to public banks. BICE's policies, procedures, processes, and information systems are clearly defined. It has qualified professional staff, functional and reliable information systems, as well as clearly defined working procedures for the performance of their functions. Accordingly, BICE is understood to have the institutional capacity to satisfactorily exercise, with low fiduciary risk, the function of coordinating entity for the FRMF.
- 1.9 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.
- 1.10 The fiduciary aspects related to execution of the FRMF will adhere to the provisions of paragraphs 3.11 and 3.12 of document GN-2729-2.² Specifically, in the case of projects that benefit from a guarantee, these require procurement procedures that pay due attention to economy and efficiency principles, and cause the project to be carried out diligently and efficiently. They also state that procurement processes must satisfy three requirements: (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 impair the economic and financial viability of the project. In addition, projects benefiting from the FRMF must fulfill the requirements set out in the program Operating Regulations.
- 1.11 In view of this proposed amendment, the fiduciary agreements established in the program originally approved by the Board of Executive Directors are considered adequate to guide implementation of the FRMF, regardless of the change in coordinating entity.

² GN-2729-2: Policy for a Flexible Guarantee Instrument Applicable to Sovereign Guaranteed Operations.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Argentina. Flexible Risk Mitigation Facility (AR-O0009) of the Program to Support Productive Infrastructure Financing in Argentina (AR-L1281). Proposed Amendment.

The Board of Executive Directors

RESOLVES:

1. Approve the amendments of the Flexible Risk Mitigation Facility (AR-O0009) of the Program to Support Productive Infrastructure Financing in Argentina (AR-L1281), as described in Section II ("Description of the Proposed Amendments") of the document PR-_____.

2. 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 implement the amendments referred to in paragraph 1 of this Resolution.

(Adopted on ____ 2019)