

System Initiative

System Initiative on Long-Term Investing, Infrastructure and Development Accelerating Infrastructure Investment in Argentina

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Initiative Overview

Modern and efficient infrastructure is a prerequisite for sustainable and inclusive growth. As governments are no longer able to provide the necessary infrastructure funding, securing the remaining capital requires greater involvement from multiple international stakeholders, including private investors, while competing with other countries and regions. In this regard, the World Economic Forum's *Global System on Long-Term Investing, Infrastructure and Development* initiative aims to provide a platform where long-term investors, governments, multilateral banks and development finance institutions can build new ideas and partnerships that will unlock the necessary capital to bridge the enduring infrastructure financing gap. The Regional Acceleration workstream deploys a significant body of knowledge created by the Forum and its partners over the past five years to help governments streamline or accelerate their project pipeline by formulating country-specific recommendations.

Infrastructure Landscape in Argentina

The World Economic Forum's *Global Competitiveness Report 2015-2016* ranks Argentina 122nd out of 140 countries in quality of overall infrastructure. President Mauricio Macri's government has positioned infrastructure development as a key factor to boost Argentina's economy, achieve sustainable growth and ultimately, eliminate poverty. To meet its long-term goals and reach its optimal infrastructure provision, Argentina will need to invest around \$300 billion by 2024¹ – this amount will largely rely on foreign investments.

The economic reforms taken by the government over the past months are considered as steps in the right direction. One of these was to reach an agreement with the so-called "holdout creditors" and regain access to international capital markets. By doing so, Argentina reopened the door to external financing, which is essential to unlock the necessary investments in infrastructure. Pursuing its efforts, the new government has recently eliminated some export taxes, cut subsidies, lifted capital controls and allowed access to foreign currency in a process to make the peso float more freely.

The country has also made progress in reforming the enabling environment for private-public partnerships (PPPs). To speed-up financing and reduce regulatory risk, a new public-private partnership bill has been presented to the Congress, which will likely be accepted. In addition, the country is closer to regaining its status as an emerging market by MSCI classification.² In parallel, the Argentine administration is preparing to launch ambitious sector-specific programmes during the second half of 2016; among those the electric generation plan, which aims to attract billions of dollars in investment and vastly increase the amount of electricity from renewable sources including wind and solar energy.

Even though the new administration benefits from a more business-friendly image, many of the opportunities are offset by equally troubling challenges. While Argentina has huge investment and infrastructure requirements, some issues such as macroeconomic instability (including an inflation rate of about 40%³), reputation of political unpredictability and weak regulatory framework remain the biggest impediments for doing business in Argentina. Restoring investor confidence in a sector such as infrastructure, which requires a long-term vision and stable returns on investment, will be key in transforming the country's economic potential and contributing to significantly reduce poverty.

¹ According to a recent publication from KPMG, an estimated \$290 billion of investment will be needed by 2024 to finance projects in oil and gas exploration, electric generation and highway and rail construction.

² Argentina is currently ranked as a frontier market.

³ The inflation rate in Argentina was recorded at 40.50% in April of 2016 (<http://www.tradingeconomics.com/argentina/inflation-cpi>).

Accelerating Infrastructure Investment in Argentina Roundtable Summary

Key Points

- To meet its long-term goals and reach its optimal infrastructure provision, Argentina will need to invest around \$300 billion by 2024, an amount that will largely rely on foreign investments.
- Although the new administration benefits from a more business-friendly image, the country is transitioning through a challenging period of macroeconomic instability.
- To overcome infrastructure development impediments, Argentina has to continue its macroeconomic reforms, rebuild international trust, strengthen its regulatory framework and develop its local capital markets.

To initiate a multistakeholder dialogue, the World Economic Forum organized an initial roundtable on 8 June 2016 in Buenos Aires, Argentina, within the CG/LA Infrastructure Leadership Forum. The roundtable brought together policy-makers, industry experts, and business leaders from key economic sectors and regional development banks. Guillermo Dietrich, Minister of Transport of Argentina, participated in the event.

Participants were invited to identify the main opportunities and challenges for infrastructure development in Argentina and to formulate a set of recommendations to further unblock Argentina's infrastructure investment potential. Argentina offers a large potential for investments in sectors such as oil and gas, transport and electric generation. Investments in alternative power resources are particularly needed as the country depends largely on imports and has a rapidly growing demand for electricity. Participants welcomed the recent political changes and reforms, but despite those positive signals, certain challenges influencing investors' decisions have been raised. To overcome some of the biggest impediments to infrastructure development in Argentina, participants offered the following recommendations:

Continue the normalization process of the country's economy

Argentina's economy is experiencing a period of macroeconomic adjustment as a result of the structural reforms undertaken by the new administration. Record-high inflation rates of almost 40%, low productivity, and a legal conflict between Argentina and a group of US hedge funds that locked the country out of global credit markets for almost 15 years make the business environment challenging and investment in infrastructure projects more difficult. Today, the country has the opportunity to re-enter the global financial system and build a more stable and prosperous future. A successful (re)integration to international capital markets and global trade is key and will require wise strategy in terms of reform design and risks allocation, but also time.

Restore Argentina's international reputation, rebuild trust

The country's massive sovereign debt default in 2001, foreign companies' expropriations, systematically unfulfilled contracts and political unpredictability gave Argentina a reputation for being a risky investment. Building and restoring trust with the international community will be crucial in the upcoming years. This process will require the need to:

- Demonstrate strong support of politicians, both at the federal and provincial level
- Mitigate political risk with additional sovereign guarantees
- Build a proven track of fair dispute settlements
- Strengthen public institutions with more transparency and independence
- Build a culture of long-term, strategic planning within public agencies
- Strengthen laws and regulations
- Provide a fair risk allocation, including access to mitigation instruments (guarantees, insurance, etc.)

01: Norman Anderson, President and CEO, CG/LA Infrastructure

02: Alejandra Caballero, Coordinator General, BNA Group and President of Nacion AFJP





Strengthen regulatory and legal framework

Modernizing the regulatory framework in Argentina will be crucial to improve the terms of financing and investment in infrastructure. Generating the right regulatory environment by creating clear rules and predictable frameworks for local and global business seems to be a priority for the new government, illustrated by the submission of a new PPP bill that aims to provide better risk allocation and increased protection of political risks. However, to get the PPP model right, the new regulatory framework also needs to ensure:

- Creation of a central PPP agency in charge of coordination
- Absence of any political ideology
- Functionality and competitive dialogue process
- Right balance between flexibility and predictability
- Provide real and affordable guarantees
- Transparency (including the bidding process)

To deliver infrastructure, other factors also need to be considered into the equation, including mitigating other risks (i.e. community risk, labour unions, etc.), developing a strong pipeline of well-structured projects, ensuring legal certainty and developing strategic planning and vision.



Deepen local capital markets

Development of local capital markets will be critical for funding Argentina's infrastructure programme. Argentina's financial markets severely lack depth compared to emerging market peers, and the country desperately needs to increase local participation (including pension funds) and create mechanisms to capture domestic savings. Therefore, deepening its local capital markets by strengthening execution mechanisms, enforcing enabling regulations and developing basic infrastructure will help Argentina to make this transition a success story.



01: Jorge Kogan, Senior Advisor to the Vice President of Infrastructure and Head of the Transport Group, CAF - Development Bank of Latin America

02: Guillermo Dietrich, Minister of Transport of Argentina

03: Daniel Gustavo Ciaffone, Director, Business Development, Bidas Energy Corporation

04: Lucia Dragonetti, Director, Panedile Argentina

Conclusion and Next Steps

Following recent political changes, Argentina attracted huge interest from investors at the World Economic Forum Annual Meeting 2016 in Davos-Klosters, Switzerland. The new government is aware that the country will need to rely on the domestic and international business community to bring the right amount of financial resources and expertise to the different infrastructure projects that are aimed to be implemented. However, private investors are cautious when it comes to large and long-term infrastructure investment. Consequently, to find financial backing for its ambitious infrastructure projects, an ongoing and close collaboration with the private sector seems crucial.

To integrate private sector input on concrete initiatives that can contribute to improving Argentina's investment climate, deepen its capital markets and ultimately accelerate the development of its infrastructure plan, the Forum proposes to facilitate the establishment of the Argentina Business Working Group (BWG).

The BWG – recognized and endorsed by the Argentinean government – will aim to be a platform for global and local business leaders to provide critical input and actionable recommendations and therefore create an enabling environment for private-sector involvement in infrastructure development. This group will bring together government agencies, including state-owned enterprises, the private sector – both national and international – academic institutions, donors and international financial institutions to accelerate the implementation of the country's infrastructure plan.

The launch of the BWG is planned for Q3 2016.

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