Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 10-Apr-2018 | Report No: PIDISDSC23223

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Argentina	P165178		Capital Market, Infrastructure Bond Liquidity Facility (P165178)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	Apr 25, 2018	Jun 26, 2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Argentine Republic	Ministry of Finance	

Proposed Development Objective(s)

To generate the use of private sector financial instruments for the funding of public/private infrastructure projects.

Financing (in USD Million)

SUMMARY

Total Project Cost	26,000.00
Total Financing	26,000.00
Financing Gap	0.00

DETAILS

Total World Bank Group Financing	450.00
World Bank Lending	450.00
Total Non-World Bank Group and Non-Client Government Financing	25,550.00
Multilateral and Bilateral Financing (Concessional)	500.00
Private Capital and Commercial Financing	25,050.00

of which Private Capital	25,050.00

Environmental Assessment Category	Concept Review Decision
F-Financial Intermediary Assessment	Track II-The review did not authorize the preparation to continue

Other Decision (as needed)

Agreement on the guarantee instrument (IPF or Guarantee), structure and coverage (partial credit; first loss, and pari passu bases).

B. Introduction and Context

Country Context

The Government of Argentina has introduced a number of reforms since taking office in December 2015. The Government unified the exchange rate, ended the dispute with holdouts creditor, abandoned the system of discretionary import licenses, resumed the publication of credible official statistics, significantly lowered export taxes, cut the personal income tax by increasing minimum threshold and reduced energy and transport subsidies. The Government expanded several social benefits such as child allowances and increased unemployment insurance significantly. A comprehensive plan to settle social security lawsuits and to adjust pensions upwards was also introduced. The recent mid-term election primaries results were interpreted as a display of support for the current administration. These results are expected to empower the government to move forward with its reform agenda, which would likely include a tax and labor reform, among others.

Sectoral and Institutional Context

To address its infrastructure deficit, the Government announced an ambitious USD 83 billion medium term investment program which includes an estimated 20 to 25 percent of private capital. The infrastructure plan includes investments in: (i) expanding capacity and road safety of the national highway network; (ii) upgrading the electricity transmission network, promoting renewable energy generation and updating urban street lightening to make it sustainable; (iii) upgrading of existing airports and ports; (iv) constructing and expanding the rail network, including cargo lines; as well as (v) investing in water, sewerage and health and education facilities. Furthermore, the Ministry of Energy and Mines (MEM) launched a USD 36 billion power generation program with the aim of increasing the country's power generation capacity, including renewable energy, by about 20 gigawatts (GW) by 2025.

The Government is working actively to recreate an enabling framework favorable to private investors. The new public-private partnership (PPP) law was approved by the Congress in 2016 and the regulatory decree during the first quarter of 2017. The Ministry of Finance (MoF) also created a PPP Unit (SPPP - *Subsecretaría de Participación Público Privada*) that provides guidance and clearance on the gateway process and advices on the financial structuring. Beyond renewable energy, other sectors have commenced to develop a PPP program, the most advanced one being the road sector as

discussed below. The SPPP is playing an active role during the ramp up period of the overall PPP Program, for instance by leading the discussion on the financial structure and credit enhancement offered to the market. However, it is expected that the implementation/procurement entities will develop these capacities once the Program is mature.

Private financing of a large investment program remains challenging but doable. Argentina was one of the lead countries in the nineties to privatize and concession infrastructure sectors, but it was also one of the countries that have a massive setback of contract renegotiations and disputes solved through costly international arbitration. And while the legacy will require regaining sufficient confidence of sponsors and investors, it is also an important source of lessons learned to develop a robust PPP Program. The second challenge is the amount of financing and the limited capacity of the domestic capital market to supply the necessary equity and debt. Financing in foreign currency will be a short to medium term solution while the domestic market develops, but it will be confronted with the mismatch between hard currency funding versus revenue generating assets in local currency. The financial structure will need to find some risk allocation consistent with the appetite of investors even if it comes at the cost of limiting the potential benefit of the PPP scheme, at least in the first projects until more risk can be shared by sponsors and financiers.

Consistent with these challenges, the objective of this project is to support the creation of a vehicle to channel private financing into PPP infrastructure projects initially in two sectors to ensure such projects succeed. It is likely that the vehicle, an infrastructure contingent liquidity facility to assure the debt servicing of bond investors in these projects, will be supporting PPP projects to be defined initially within the road and energy sector programs. The innovation would be the wholesale provision of credit enhancement to encourage private sector funding of infrastructure projects. A key objective of this approach, besides maximizing private financing of infrastructure, will be to expand capital market instruments (i.e., specialized infrastructure bonds) in the financial system and the capital markets.

Relationship to CPF

The 2015-18 Country Partnership Strategy emphasized among its pillars, increasing the private investment environment and private job creation, areas that are supported by the financial sector. This project is directly linked to CPF Objective 1 “Fostering Private Investment and Strengthening its Enabling Environment” under Pillar I, “Unblocking long-term productivity growth and job creation”. However, Argentina has for some time suffered volatile macro-economic conditions, which the current Administration is now stabilizing. Inflation remains high and monetary policy measures put in place to control it, by raising central bank interest rates, continue to affect the cost of credit and capital market securities. Both the liberalization of energy prices and slower than anticipated fiscal adjustment have also contributed to inflation, thus increasing the burden of monetary policy to slow such inflation.

C. Proposed Development Objective(s)

To create a new bond asset class in the capital markets by increasing private sector participation in infrastructure.

Key Results (From PCN)

The key results aimed for by the project have the following three main pillars that will contribute to sustainable economic development in Argentina:

a. Creation of a market recognized credit enhancement facility that reduces the credit risk profile of Government obligations to bondholders.

b. Securing of a critical mass of private financial investors to fill the financing gaps in Government's program.

c. Successful issuance of private infrastructure bonds under sectoral PPP programs.

D. Concept Description

The project entails the establishment of a credit enhancement liquidity facility, funded via an IPF loan, to provide funding to a PPP Trust that collects revenues to pay for project obligations in form of certificates, which are used to fund the bond debt service of private investors participating in infrastructure financing. The facility may use its back up funding to cover shortfalls in PPP Trust monies needed to pay bonds issued by projects under construction. As per above, for these projects, pledges of Government "milestone" payments have been made to concessionaires, who can sell the rights to such milestone payment pledges, named as certificates, to third parties such as international investment banks, who can use them to structure and issue bonds to pre-fund the projects. The Bank project also includes a technical assistance (TA) component to fund the operating and financial expenses of the coordinating institutions, including TA for project management, safeguards capacity, bond structuring and other functions, including administrative facilities and support. The project will finance contracting of high-capacity staff specialized in investment, financial management, procurement and environmental and social risk management.

The project will provide credit enhancement to potentially protect creditors to ensure timely receipt of debt service flows. Projects will be eligible for the Liquidity Facility prior to their financial closing, if evidence of satisfactory environmental and social management has been reviewed and accepted by the Bank as compliant with its standards. The project operational manual and ESMFs will detail the roles of PPP sponsors, line Ministries, and the financial intermediary PPP Unit within the MoF in terms of procedures and documentary requirements to meet safeguard requirements and standards.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The initial focus of the facility is on the road and energy sectors. The energy sector projects will be located across the country. The roads projects that potentially benefit of this Project would be located in five provinces in the central and Cuyo regions of Argentina (Buenos Aires, Santa Fe, Córdoba, La Pampa, and Mendoza). These projects would include works on upgrading existing roads to highways and investing in safe roads for a total of about 6,000 km. Further, the projects would finance concession of an existing network of more than 8,700 km of toll roads through management contracts at the federal level. OCCOVI (Órgano de Control de Concesiones Viales), the agency responsible for road concessions at federal level under the DNV will provide contract oversight and regulatory functions for the toll roads. Eligible projects may require land easement and/or acquisition that might entail resettlement, and could be implemented in areas with presence of indigenous peoples. In terms of environmental and social risk, the project will exclude support to any potential Category A project.

Bank safeguards would be required to apply to any project(s) in this portfolio that wished to avail themselves of the Bank contingent loan as a creditor protection mechanism. The projects would be required to provide the needed safeguard documents ex ante, and evidence of compliance before they become eligible to be covered by the Bank Liquidity Facility. The different line Ministries and the National Institute of Indigenous Affairs (INAI) will review documents to ensure they comply with the applicable safeguards, and the MoF will keep the records to verify the status of compliance. Projects that

don't comply with applicable Bank safeguards would not be eligible for Bank support. In this sense, although Bank safeguards do not necessarily apply to the entire portfolio of the PPP projects, the design of the Bank Liquidity Facility provides a strong incentive for projects to comply to become eligible. This is expected to contribute to the enhancement of the environmental and social standards of the entire PPP portfolio. PPP/private sector participants would be responsible for preparing safeguards plans, but the details would be assessed in more detail and determined during project preparation with clear guidance provided in the Environmental and Social Management Frameworks (ESMFs) and other relevant project documents.

B. Borrower's Institutional Capacity for Safeguard Policies

The Ministry of Finance will be the borrower and the coordinating implementing agency for the proposed project which will include an FI for operating the credit enhancement facility. MoF has recently established and is consolidating a new SPPP, which is establishing standards and documentation requirements for the PPP Program/projects.

MoF will collaborate and coordinate the preparation and supervision of environmental and social aspects initially with DNV for road sector projects and with MEM for energy sector projects. Both agencies have experience working under World Bank policies. DNV manages implementation of the Norte Grande Roads Sector Infrastructure Project (P120198) and the Northwestern Corridor Development Project (P163115). MEM is implementing the Renewable Energy Enhancement in Rural Markets Project (P133288) and the Argentina Renewable Energy Guarantee and AF (P159901).

During project preparation, the Bank will assess and define with the Government the organizational structure for the infrastructure facility, including how the necessary safeguards frameworks will be implemented.

The approach will require that a pre-screened project eligibility framework (technical, financial, safeguards, and fiduciary) meet pre-specified World Bank (the Bank) standards and that the environmental and social safeguard policies be met via implementing a pre-approved framework grounded in an assessment of the participating agencies, including MEM and the National Directorate of Roads (DNV). This would be to ensure these agencies have the requisite capacity and screening controls for this purpose, under the supervision of the Project Implementation Unit at the MoF. In the event that projects/programs come on board for liquidity support by the Bank, they will need to document that they have been implemented in compliance with the applicable Bank safeguard policies.

C. Environmental and Social Safeguards Specialists on the Team

Santiago Scialabba, Social Safeguards Specialist
Tuuli Johanna Bernardini, Environmental Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The project is categorized as FI due to its institutional structure. In terms of environmental and social risk, it is considered Category B due to the type of works eligible for Bank support under the infrastructure facility. The specific projects that might benefit of

contingency funding by the Bank will not be known until after project approval and a couple of years thereafter, until the first certificate payments are due by the Government. The initial focus of the facility is on the road and energy sectors. During project preparation, the criteria for eligible projects in selected sectors will be defined and agreed upon with the Government.

Based upon the currently available information, the potential environmental impacts associated with the likely type of infrastructure investment to be financed are anticipated to be relatively moderate, and potential negative impacts and risks should be manageable with respective consideration during the final design of the road works and energy sector investments, standard mitigation measures and good construction practice and monitoring programs. From the social perspective, the preliminary risk for the project is substantial, since eligible projects may require land easement and/or acquisition that might entail resettlement as defined by OP 4.12. The project could also be implemented in areas with presence of indigenous peoples, as defined by OP 4.10. In some cases, projects may also imply some level of labor influx.

The Government's umbrella PPP Trust will most propably include some Category A projects, and the Government has full capacity to undertake respective assessments and prepare management plans. However, they won't be eligible for Bank support, as the Bank is not able to cover Design-Build-Operate-Transfer (DBOT) projects where concessionaires prepare safeguards plans after bid award and while they are closing financing. As such, the timeline for compliance with Bank safeguards for Category A projects is not compatible with the timelines required for joining the Bank supported facility ex ante; before financial creditor terms are secured (which are linked to whether or not the project is partaking of the facility). Further, the IADB parallel facility, which together with the Bank's facility makes up the funding needed for the umbrella Facility, also excludes Category A projects, and the facilities need to fund the same portfolios given their function of covering

aggregate debt service flows, in a pro rata way, for projects that qualified to participate.

The Government will prepare an Environmental and Social Management Framework (ESMF) for each participating sector with Bank support, since the specific projects and activities will not be defined until project implementation stage. The ESMFs will present the eligibility criteria, types of potential impacts, the necessary prevention and mitigation measures, good practices, and monitoring systems that meet the requirements of the World Bank.

The ESMFs will establish the applicable requirements for environmental and social management to be implemented and the associated roles and institutional responsibilities for the Government and PPP/private sector participants. The PPP/private sector participants will be responsible for preparing at least most of the environmental safeguards plans, whereas the responsible line Ministries will most propably be responsible for any type of resettlement plans. The final operational responsibilities will be assessed and agreed upon with the Government during project preparation, including specific arrangements for implementing Indigenous People's Plans (IPP). The agreed upon arrangements will be reflected in the draft instruments before they are disclosed for consultation.

A screening process and exclusion criteria will be included in the ESMF to ensure that no Category A projects are covered by World Bank support. Standard checklists for screening, due-diligence, supervision, and reporting will be included in the ESMFs, commensurate with the inherent level of risk related to type of project. During project preparation, the World Bank will assess the staffing and capacity building needs at MoF, DNV, MEM and other key stakeholders, and, as needed, institutional strengthening will be included in the ESMFs/project design. An objective is to establish adequate capacity to reduce and properly manage the potential environmental and social risks of eligible projects.

Natural Habitats OP/BP 4.04	Yes	No significant impacts on natural habitats are anticipated. OP 4.04 is triggered since the project may finance projects located in proximity to a natural habitat. The screening criteria in the ESMFs will exclude any projects that could potentially cause significant negative impact on critical habitats, natural habitats, protected or sensitive areas, or forest resources or their management. The ESMFs will include a process for evaluation of potential direct, indirect and induced impacts on natural habitats and methods to manage such impacts.
Forests OP/BP 4.36	Yes	OP 4.36 is triggered in case any Category B greenfield or rehabilitation investment might have an impact on forests. In general, right-of-way projects such as those in the energy and road sectors must consider direct, indirect and induced impacts on forests. The project does not consider any changes to forest management
Pest Management OP 4.09	Yes	The project will not involve direct purchase of pesticide; however, the policy is triggered since some of the eligible projects may require pesticide use as part of right-of-way vegetation control/maintenance. These potential impacts and necessary mitigation measures will be included in the ESMFs (under OP 4.01).
Physical Cultural Resources OP/BP 4.11	Yes	This operation does not anticipate any direct impact on physical cultural resources. However, the policy is triggered since some projects are likely to include excavations that could imply chance finds. These potential impacts will be managed by the ESMFs (under OP 4.01) and will include screening for physical cultural resources issues, and as needed, development of appropriate mitigation or monitoring measures on impacts for inclusion in projects.
Indigenous Peoples OP/BP 4.10	Yes	This policy is triggered since the project might be implemented in areas with presence of indigenous peoples. The roads projects that potentially benefit of this project would be located in five provinces in the central and Cuyo regions of Argentina (Buenos Aires, Santa Fe, Córdoba, La Pampa, and Mendoza). The potential locations of the energy sector projects are across the country. An Indigenous People's Planning Framework (IPPF) will be prepared by the Government with Bank support and consulted with the Indigenous People's representatives at the national level before project

		appraisal. The IPPF will be incorporated as part of the ESMF and the Operational Manual of the project to ensure that, as appropriate, subprojects comply with the applicable World Bank procedures, including with Free, Prior and Informed Consultations with Indigenous Communities gaining the broad community support and prepare an Indigenous Peoples Plan or a Community Development Plan in accordance to what is stablished in the IPPF. The IPPF will be consulted with Indigenous representatives to ensure broad community support before project appraisal and IPPs, as required, will also be consulted with Indigenous representatives and indigenous communities (FPIC) before the beginning of the corresponding infrastructure works. Works that would negatively affect IPs will not be eligible and IPPs will be only focused on ensuring that IPs present in projects' implementation area can share the respective benefits. The concessionaries will have to carry out consultation and prepare an IPP before starting the works, and the National Institute of Indigenous Affairs (INAI) will provide technical assistance to this process if required. The Bank would make it a condition for using the facility that such projects follow Bank standards and consultations required, otherwise such projects are not permitted to partake in the facility.
Involuntary Resettlement OP/BP 4.12	Yes	OP/BP 412 is triggered. Eligible projects would require land easement and/or acquisition that might entail resettlement as defined by OP 4.12 (loss of assets, physical displacement, or livelihood losses and/or restriction on land use). For that reason, the project will prepare a Resettlement Policy Framework (RPF) to guide the preparation of site specific Resettlement Action Plans (RAPs) to ensure that, as required, analysis of alternatives and appropriate compensation and support to potentially affected people are incorporated into the sub-projects' design to ensure that they will comply with World Bank procedures. It is important to highlight that eligibility for Bank support will be restricted to displacement that could be covered by the national laws (Expropriation and Administrative Easement for Electroduct). In this sense, compliance with Bank policies would require

		the preparation of a RAP or an abbreviated RAP (ARAP), and this will be done by the respective line Ministry before the start of infrastructure works. The RPF will be consulted with relevant stakeholders before project appraisal and RAPs, as required, will also be consulted with Project Affected People (PAPs) before the beginning of the corresponding infrastructure works. Project-related land taking in areas with land disputes or where the ownership of land is not clear or there are unresolved claims by IPs or other groups will be excluded. The project's screening process will also avoid taking of land in areas of recognized IP communities and/or complex urban land taking scenarios resulting in high number of Project Affected People that might need to be physically resettled.
Safety of Dams OP/BP 4.37	No	This policy is not triggered. The project will neither support the construction or rehabilitation of dams nor will it support other investments which rely on the performance of an existing dam.
Projects on International Waterways OP/BP 7.50	No	This policy is not triggered. The project will not finance activities involving the use or potential pollution of international waterways.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not triggered. The project will not finance activities in disputed areas as defined in the policy.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Apr 06, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The ESMF will be developed and consulted prior to appraisal.

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APPROVAL

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