

Infrastructure Governance Review of Argentina

This review discusses infrastructure governance in Argentina in relation to the OECD Framework for the Governance of Infrastructure. This report highlights recent improvements in the institutional framework, as well as the main reforms aiming to improve transparency and oversight of infrastructure investment, strengthening the role of the Chief of Cabinet of Ministers in defining infrastructure investment objectives, and ensuring better articulation between the budget formulation process and the National Public Investment System. However, it also underlines the weak planning capacities at the national and subnational level and the need to develop a long-term strategic vision based on assessed infrastructure needs, shifting from a sector-oriented approach to a place-based approach for infrastructure investment. This report also stresses that Argentina can have a more robust project prioritisation process, and the need to strengthen the multi-annual investment system to ensure value for money throughout the lifecycle of the project. This review was conducted in parallel with an OECD Budget Review of Argentina.

Foreword

This review examines the infrastructure governance framework in Argentina against OECD best practices. It provides the Argentine authorities with assessments and recommendations to improve resource allocation and increase spending efficiency in infrastructure investment.

In Argentina, as in most countries, the real obstacle to effective delivery of crucial infrastructure is not the availability of finance, but rather problems of governance. This review identifies the main bottlenecks in developing infrastructure projects and proposes tailored policy recommendations.

Argentina has recently improved its institutional framework and undertaken reforms to increase transparency and oversight of infrastructure investment, strengthen the role of the Chief of Cabinet of Ministers in defining infrastructure investment objectives, and create closer links between the budget formulation process and the National Public Investment System. However, planning capacities at the national and subnational level are weak. There is a need to develop a long-term strategic vision based on assessed infrastructure needs, shifting from a sector-oriented approach to a place-based approach for infrastructure investment. Argentina could also strengthen its project prioritisation process, as well as the multiannual investment system to ensure value for money throughout the lifecycle of projects.

Important efforts have also been made to improve infrastructure management within the annual budget cycle. These efforts should continue with a stronger emphasis on the multiannual dimension of infrastructure planning and delivery.

To help Argentina improve its management of infrastructure policy from strategic planning all the way to project delivery, this report draws on several OECD frameworks and standards. First, *Getting Infrastructure Right: a Framework for Better Governance*, addresses the key success factors for an effective infrastructure policy system ranging from planning and strategy to delivery mode choice and managing public-private partnerships. Second, the *OECD Council Recommendation on Effective Public Investment Across Levels of Government* provides guidance to governments in assessing the strengths and weaknesses of their public investment capacity across levels of government and setting priorities for improvement. Third, the *2012 Recommendation of the OECD Council on the Principles for Public Governance of Public-Private Partnerships* provides concrete guidance to policy makers on how to make sure that public-private partnerships represent value for money for the public sector.

The review was conducted in parallel with an OECD Budget Review. The two reviews are complementary, as capital budgeting on infrastructure is an integral component of the Argentine Government's annual budget. Likewise, improving resource allocation and increasing spending efficiency is crucial for ensuring that the country has sufficient resources to invest in infrastructure.

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Acronyms

Acronym	English	Spanish
ANSES	Argentine Government Social Insurance Agency	Administración Nacional de la Seguridad Social
BAPIN	Bank of Public Investment Projects	Banco de Proyectos de Inversión Pública
BICE	National Development Bank	Banco de Inversión y Comercio Exterior
CABA	Autonomous City of Buenos Aires.	Ciudad Autónoma de Buenos Aires
CEPAL	Economic Commission for Latin America and the Caribbean	Comisión Económica para América Latina y el Caribe
CBA	Central budget authority	Autoridad central de presupuesto
COFEPLAN	Federal Council for Planning	Consejo Federal de Planificación
COFEMOD	Federal Council on Modernisation and Innovation for the Public Administration	Consejo Federal de Modernización e Innovación en la Gestión Pública
COMICIVYT	Inter-ministerial Committee for City, Housing and Territory	Comisión Interministerial de Ciudad, Vivienda y Territorio
FDI	Foreign Direct Investment	Inversión Extranjera Directa
GCI	Global Competitiveness Index	Índice Global de Competitividad
GDP	Gross Domestic Product	Producto Interno Bruto
GRW	Germany's Joint Task for the Improvement of Regional Economic Structure	Grupo de Trabajo para el Mejoramiento de la Estructura Económica Regional de Alemania
ICT	Information and communications technology	Tecnologías de la Información y las Comunicaciones
IMF	International Monetary Fund	Fondo Monetario Internacional
INDEC	National Institute of Statistics and Censuses	Instituto Nacional de Estadística y Censos de la República Argentina
IPA	UK's Infrastructure and Projects Authority	Autoridad de Infraestructura y Proyectos del Reino Unido
JGM	Chief of the Cabinet of Ministers	Jefatura del Gabinete de Ministros
LPI	Logistics Performance Index	Índice de Desempeño en Logística
LEBAC	Treasury Bills	Letras del Banco Central
LELIQ	Central Bank Bills	Letra de Liquidez del Banco Central
PNIP	National Public Investment Plan	Plan Nacional de Inversión Pública
SNIP	National Public Investment System	Sistema Nacional de Inversión Pública
DNIP	National Directorate of Public Investment	Dirección Nacional de Inversión Pública
MIRT	Multi-year Programme for Infrastructure, Spatial Planning and Transport	Programa Plurianual para Infraestructura, Planeación Espacial y Transporte
MPRG	United Kingdom Major Projects Review Group	Grupo de Evaluación de Grandes Proyectos del Reino Unido
NWP	National Water Plan	Plan Nacional de Aguas
OD	Decentralised Organisations	Organismos Descentralizados
OPC	Congressional Budget Office	Oficina de Presupuesto del Congreso
ONP	National Budget Office	Oficina Nacional de Presupuesto
PET	Strategic Territorial Plan	Plan Estratégico Territorial
PFRAM	PPP Fiscal Risk Assessment Model	Modelo de Evaluación de Riesgos de PPP
PPPs	Public-Private Partnerships	Asociaciones Público-Privadas
RDA	Regional Development Agencies	Agencias de Desarrollo Regional
RGS	Regional Growth Strategy	Estrategia de Desarrollo Regional
SBA	Stand-By Arrangement	Acuerdos de Derecho de Giro
SOE	State-owned enterprises	Empresas Públicas
TPI	Investment bonds	Títulos de Pagos por Inversión

Executive summary

Argentina's public investment system has had to contend with volatile macroeconomic conditions and complex federated responsibility arrangements between national and subnational governments. At the time of the review, Argentina's economy was in recession, inflation was at a 25-year high and the exchange rate had depreciated sharply. The government had requested a Stand-By Arrangement from the International Monetary Fund, and undertaken policy commitments, including achieving a zero primary fiscal balance by 31 December 2019 and a 1% primary fiscal surplus from 2020. Despite a rapid increase in public expenditure between 2004 and 2015, public investment in Argentina did not keep pace. Government investment as a share of GDP has remained below the OECD average and other comparable economies in the Latin American region. Consequently, infrastructure is ageing and no longer adequate for current needs. This review, along with a parallel review of budgetary governance, examines Argentina's infrastructure governance framework against the OECD "Getting Infrastructure Right" framework and the *OECD Recommendation on Effective Public Investment across Levels of Government*. This report focuses on four priority areas: developing a strategic vision for infrastructure, prioritising public investment, ensuring affordability and value for money, and co-ordinating infrastructure policy across levels of government.

Strategic vision for infrastructure

Investing in public infrastructure is a priority of the government in office at the time of writing, but, given macroeconomic conditions, fiscal space is scarce. Important efforts have been made to modernise public governance institutions, improve transparency and oversight of infrastructure investment, strengthen the role of the Chief of Cabinet of Ministers in defining objectives, and ensure better articulation between the budget and the National Public Investment System. Despite the improvements, Argentina does not have yet an overall strategic vision that addresses infrastructure needs. Infrastructure plans are generally sector-based, and tend to list and describe potential projects in a sector without linking to a national strategic infrastructure vision. There are great disparities between sectoral planning capacities at the national and subnational level. It will be important for Argentina to establish a long-term and whole-of-government investment strategy that considers cross-sector synergies as well as the territorial impacts of investment.

Prioritising public investment

Argentina has made important efforts to strengthen the Bank of Public Investment Projects (BAPIN) and use it efficiently and consistently. The BAPIN has become a more effective tool for improving transparency and increasing government accountability. However, it does not ensure that the analysis and underlying information is prepared on a consistent basis and is comparable across projects. Due to fiscal constraints and a lack of a systematic approach to infrastructure management and asset performance, there is a long pipeline of urgent projects. Argentina could consider developing a prioritisation process linked to a strategic vision for infrastructure, including steps that can be implemented in the budget and forecast periods. Work is under way to quantify infrastructure gaps, but this will not be sufficient without an overarching strategic vision to inform the prioritisation of projects.

Individual agencies have significant scope to prioritise and reprioritise projects within public investment programmes. There is little cross-government prioritisation and limited risk management. Ensuring that project budgets make appropriate allowances for risk, and then managing those allowances under robust governance arrangements, would improve project management during the execution phase.

Affordability and value for money

Some government agencies are following good practices in preparing investment proposals and assessing value for money and affordability. Nevertheless, in the absence of co-ordinated guidance, agencies may

prepare investment proposals using different methodologies which prevents consistent, comparable and comprehensive analysis. Argentina has recently started producing guidance for evaluating project proposals, promoting value for money as a criterion in prioritising infrastructure projects. For the preparation of the 2020 budget bill, the National Directorate of Public Investment (DNIP) published guidelines for project formulation and evaluation. Although economic evaluation indicators are now required for projects above a certain value, there are no formal mechanisms to ensure these evaluations are used for project prioritisation. There are only limited quality assurance and control processes for public investment. Argentina would benefit from guidance on procedures and methodologies to ensure feasibility, affordability and cost efficiency.

Argentina has made important efforts to strengthen the institutional and legal framework for public-private partnerships (PPPs). The PPP Law contains many elements regarded as international good practice, without constraining the government's ability to choose the optimal structure and process for each project. A "PPP Trust" structure and special financing mechanism was adopted for the financing of road infrastructure PPPs, both of which are found in Latin America but are not standard in OECD countries. The structure reduces the risk transfer to the private sector and may reduce the value for money delivered by a PPP. It also introduces public sector risks that may affect the probability and magnitude of government's future contingent liabilities. Further work is planned to develop a fiscal risk management methodology, including adopting the PPP Fiscal Risk Assessment Model.

Co-ordinating infrastructure policy across levels of government

Argentina's subnational governments carry out two-thirds of total public investment, mainly led by provincial governments, which enjoy a high level of autonomy and responsibility in public service delivery. Municipal governments also play an important role in infrastructure investment and management (especially for urban development), but their responsibilities, organisational structures and financial arrangements often vary across provinces. In order to unlock the growth potential of regions and cities through effective infrastructure investments, Argentina should adopt a place-based approach in planning and managing infrastructure investments at all levels. Ideally, the strategic vision for infrastructure could be articulated and anchored in a national strategy for regional development that clearly identifies long-term regional development goals. While Argentina has put in place some initiatives to promote a place-based approach in infrastructure investment and territorial planning, these efforts remain fragmented and sometimes informal. Weak incentives for inter-government co-ordination – both across levels of government and across jurisdictions – are an obstacle to promoting partnerships across levels of governments in investment planning and implementation. Inter-government co-operation is particularly challenging when subnational governments lack capacities. There is room to exploit the potential of existing platforms, especially the Federal Councils, to encourage formal and regular co-ordination across governments, build the capacities of subnational bodies, and explore robust monitoring and evaluation tools for infrastructure investments across the country.

Table 3. Summary of OECD Recommendations on Infrastructure Governance in Argentina

Recommendations	Comments
Strategic planning and co-ordination	
1. Develop a whole-of-government strategic vision for infrastructure	Develop a whole-of-government strategic planning framework that identifies the appropriate long-term planning body, sets parameters to develop strategy, and develops the rules and processes that link the public investment process and project prioritisation to the long-term strategy. The framework should be anchored in a national strategy for regional development.
Prioritising public investment	
2. Identify a target for infra-structure investment based on a strategic plan, and include it in medium-term expenditure framework	A strategic vision will provide an understanding of the level of infrastructure investment required over the long-term. It should be used to develop a target for the annual public investment budget, rather than determining public investment by identifying the proportion of the total budget that remains after other needs are met.
3. Clarify and develop the role of the DNIP to prioritise investment proposals	Update Resolution 125/2012 to provide for DNIP to advise on the overall supply of “ready to go” projects, in the aggregate and for each agency.
4. Introduce an additional stage in the public investment budget process	Consider introducing an additional stage in the public investment budget process, in which information on projects valued above a certain threshold must be submitted in the BAPIN to enable a detailed analysis of those projects.
Ensuring affordability and value for money	
5. Provide a consistent approach to project evaluation and assessment	Develop guidance on technical evaluation to provide a consistent approach to project evaluation and enable consistent assessment of value for money, affordability, and project prioritisation.
6. Improve risk management in infrastructure projects, including natural and manmade risks	Develop guidance on project risk management, including the inclusion of risk and contingency allowances in budgets and management of these allowances during project execution. Include guidance on the assessment of evolving natural and manmade risks, and future proofing new infrastructure in the recommended guidance on project risk management.
7. Implement quality assurance and project governance	Project governance processes could include requirements for large projects to establish steering committees or other groups with representation from central agencies.
8. Investigate the use of financing structures for traditional infrastructure	If there is a clear argument in favour of using financing structures to bring forward public investment that cannot be accommodated within the current budget, investigate the use of such structures for traditional infrastructure
9. Develop a whole-of-government asset management framework	Develop a whole-of-government asset management framework to drive accountability for the management of assets which enables the public investment budget process to focus on large new projects. .
10. Conduct an audit of existing government assets and use it to investigate options to incentivise asset management	Conduct an audit of existing government assets and asset data. This will inform the extent of past underinvestment in asset maintenance, the stock of surplus government assets, and nature of any related information gaps. Audit findings can be used to develop incentives for efficient maintenance and the redeployment or disposal of surplus assets.
11. Consider applying the integrity measures for PPPs in non-PPP projects	Once there has been more experience with the integrity measures for PPPs, consider applying similar measures in traditionally delivered projects to the extent applicable
Co-ordinating infrastructure policy across levels of government	
12. Develop a place-based approach to infrastructure investment	Develop bottom-up practices where provinces and municipalities are considered key partners for defining priorities and implementing infrastructure. These practices need to be combined with existing top-down approaches. Both practices are needed regardless of the agency responsible for developing the strategic vision
13. Improve co-ordination between the national and subnational governments	A Council or committee within an existing Council to co-ordinate specifically infrastructure investment could be envisaged. These Councils can act as the major co-ordination instrument leaving small space for informal co-ordination. It is also important to make provincial participation mandatory, and even for municipalities in some cases. To avoid overlap of structures and instruments, the existing Federal Councils can act as the main co-ordination platform, particularly the Consejo Federal de Planificación y Ordenamiento Territorial.
14. Encourage horizontal co-ordination at the provincial and municipal levels	The central level plays a key role and should (i) consider incentives in the budgeting process for provinces to co-operate; and (ii) increase the awareness of the positive impact of collaboration.
15. Build capacities at the provincial and municipal levels	To avoid overlaps and a proliferation of initiatives, a central infrastructure advisory body could take on this task, as provinces are key levers to articulate capacity building and technical support. The Federal Government should strengthen the role of the COFEMOD and facilitate cooperation between the INDEC and provincial data offices.

1. Economic and institutional context for infrastructure investment

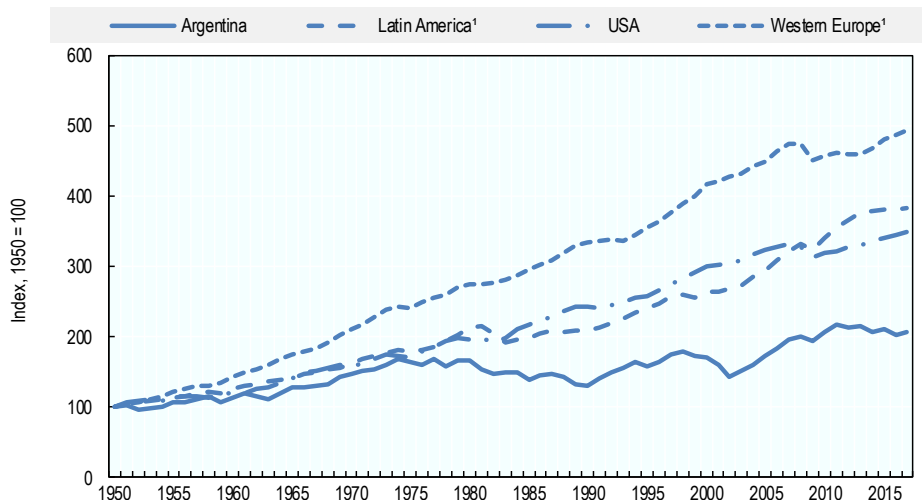
1.1. A challenging economic and fiscal context

A volatile macroeconomy

Low productivity growth, high inflation rates and large fiscal deficits have characterised Argentina's economy since the middle of the last century. In comparison to other Latin American and OECD countries, incomes have fallen behind over time (Figure 1). Despite a significant decline in poverty rates since the default crisis of the early 2000s, currently around 27% of Argentinians remain in poverty, 5% in extreme poverty. Persistent pockets of poverty are unevenly distributed across the country, with concentrations in the Greater Buenos Aires area and the Northern provinces. In late 2015, the government faced an economy on the brink of collapse in with a primary fiscal deficit of almost 4% of GDP and significant unpaid arrears and contingencies (OECD, 2019^[1]).

Figure 1. Argentina has lost ground relative to other economies

GDP per Capita



Source: OECD calculations based on Bolt and Van Zanden (2014) (www.ggdcc.net/maddison/maddison-project/data.htm) in (OECD, 2019^[2]) <https://doi.org/10.1787/888933942315>.

An ongoing economic crisis with high inflation

Following from the economic conditions in late 2015, a severe economic crisis hit the country in April 2018. The economy was pushed into recession, with a falling currency, and high inflation, interest and unemployment rates. Several potential factors contributed to the crisis, including the rise of US interest rates and the resulting decline in appetite for emerging market assets. The deterioration of the fiscal deficit, reduced demand for Argentinian pesos stemming from an exceptional drought which collapsed agricultural exports, and reduced confidence in the independence of the Central Bank of Argentina through the conduct of monetary policy (OECD, 2019^[2]).

Threatened by losing access to foreign financing and a serious shortage of liquidity, the Argentine authorities sought a financing arrangement from the International Monetary Fund (IMF). On 20 June 2018,

the IMF approved a 36-month Stand-By Arrangement (SBA) with Argentina which augmented Argentina's credit line to USD 56.3 billion and made USD 5.7 billion immediately available. Since 20 June 2018, Argentina has drawn around USD 38.9 billion from the SBA (IMF, 2019^[46])(Box 27).

Box 27. Argentina's IMF programme

Between late April and September 2018, Argentina's currency depreciated by 50% as investors shunned domestic currency for dollar assets. This reflected loss of confidence due to the gradual economic adjustment plan, especially the slow reduction of the headline fiscal deficit, which implied large external financing needs, and the fact that inflation had surged again following a relaxation of monetary policy.

In July 2018, the government agreed a USD 50 billion financing arrangement with the International Monetary Fund (IMF), which was renegotiated and expanded to a total of USD 56.3 billion in September to reduce dependence on market financing during 2019 and 2020. The programme is based on four pillars.

The first pillar of the programme is to restore market confidence through lower federal financing needs, ensured by new primary fiscal targets of 0% of GDP in 2019 and 1% in 2020 as part of a budget approved by Congress in November 2018. Providing sufficient resources to the newly created Congress Budgetary Office and a strengthening of tax authorities are further structural benchmarks under this pillar.

The second pillar is to protect society's most vulnerable by strengthening the social safety net, including through a redesign of assistance programmes and a protection of social spending, with the possibility of accommodating additional spending on pre-identified, means-tested social assistance projects under certain conditions.

The third pillar aims to strengthen the credibility of the Central Bank by providing it with more institutional and operational independence and autonomy, through a new Central Bank charter to be submitted to Congress. These efforts also include improvements in the Central Bank balance sheet and the extinction of short-term peso-denominated Central Bank debt in the hands of the general public (LEBACs). A new type of Central Bank debt (LELIQ) will only be sold to domestic banks. Non-transferable and non-interest bearing legacy government securities will be repurchased over time to reduce the Central Bank's net claim on the government and strengthen its balance sheet.

The fourth pillar is to lessen the strains on the balance of payments by rebuilding international reserves and reducing the current account deficit.

Source: (OECD, 2019^[2]) OECD Economic Surveys: Argentina 2019, OECD Publishing, Paris.

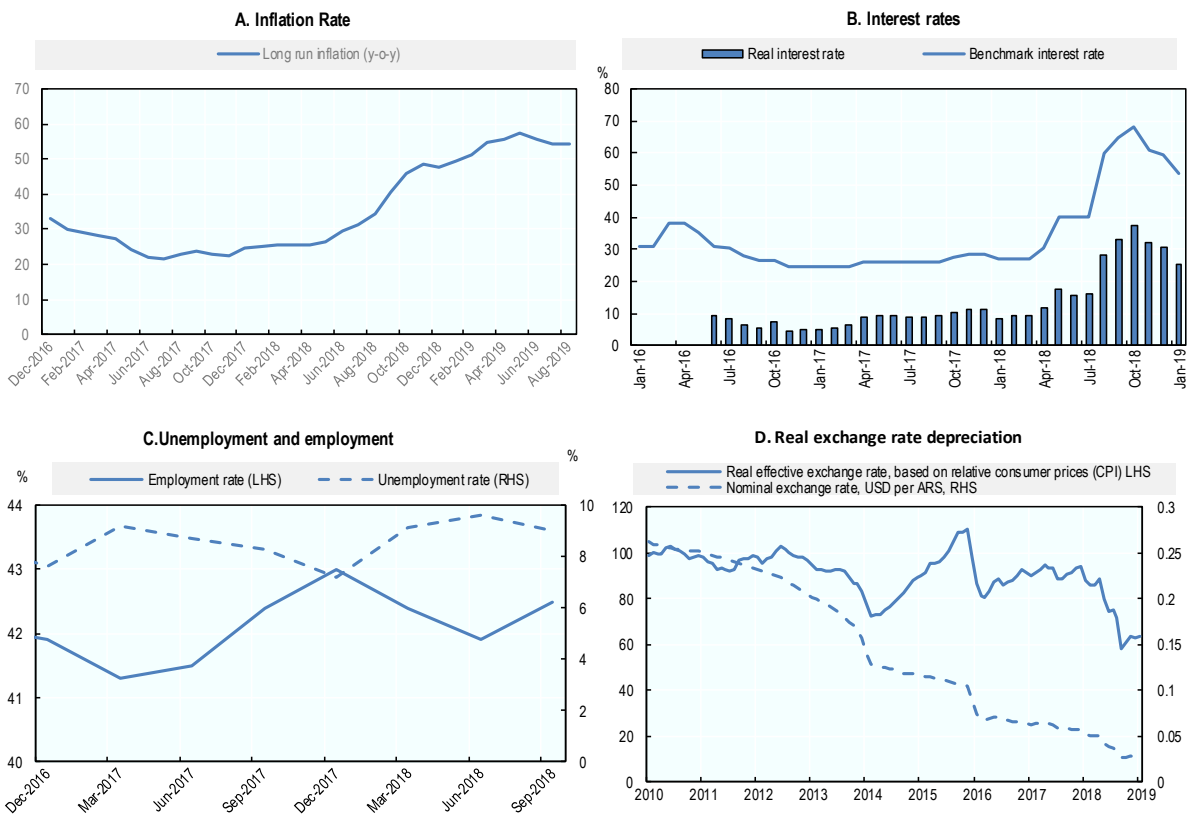
Bringing down inflation has proven challenging, adding to the economic instability, curbing household consumption and particularly affecting low-income earners. After an initial spike in 2016 related to the removal of energy subsidies, inflation had initially declined until early 2018 (OECD, 2019^[2]). Following the crisis in April 2018, inflation soared (Figure 2, Panel A), leading to a second revision of the inflation targets in September 2018.

Recognising the weak transmission of inflation-targeting, based on changes in interest rates, in 2018 the Central Bank replaced its inflation-targeting regime with direct controls on the volume of money in circulation. Monetary policy authorities decelerated the growth of the monetary base from 44% year-on-year in late September 2018 to a monthly growth of 0% as of October 2018 (OECD, 2019^[2]) and committed to keep the monetary base constant until December 2019. The (BCRA, n.d.^[47]) government envisages a

return to inflation-targeting once inflation has come down visibly. The improved stability from January to July 2019 showed that the impacts of the new monetary regime were just starting to be felt as the measurement of inflation includes a lag. However, due to a potential change of the political environment, inflation started to rise at the time of writing of this report, up to 54.5% year-on-year (August 2019).

Over the following six months after the April 2018 crisis, the value of the peso lost almost 50% of its value (Figure 2, Panel B). The more competitive real exchange rate will likely spur exports as it is at the most competitive level Argentina has had in 10-years (IERAL, 2018^[5]). The current account deficit is projected to fall in 2019, with a further decline projected for 2020. A new framework for currency interventions allows the exchange rate to float freely within a moving corridor, while allowing limited interventions if the exchange rate leaves the corridor (OECD, 2019^[2])

Figure 2. Short-term macro-economic indicators



Note: D. Decrease in the real exchange rate signals that that the USD prices of Argentinian products decreased relative to prices of foreign products (left hand scale), implying that the Argentinian economy has gained competitiveness in international markets. The right hand scale shows the value of the nominal exchange rate in USD per ARG Peso.

Source: Panel A) Central Bank of Argentina; Panel B) INDEC, CEIC, in (OECD, 2019^[2]) <https://doi.org/10.1787/888933942353>; Panel C) INDEC; Panel D) OECD Economic Outlook database (OECD, 2019^[2]), <https://doi.org/10.1787/888933943360>

Unemployment has risen since the April 2018 crisis and it is at 10%, considerably higher than the OECD average of 5.3%. Average real wages declined by 12% during the first 11 months of 2018, which has been particularly pronounced in the two northern and relatively poorer regions of the country. Unemployment is likely to further rise until 2020 in response to the contraction of investment. Due to the macroeconomic and political instability, Argentina has already attracted far less foreign direct investment inflows than other

Latin American countries, such as Mexico or Brazil, despite Argentina's low restrictions on foreign direct investment (FDI)¹ (OECD, 2019^[2]).

Box 28. A glance at Argentina's economic history

Argentina's per capita income was among the highest in the world a century ago, when they were 92% of the average of the 16 wealthiest economies (Bolt and van Zanden, 2014). Today, per capita incomes are 43% of those same 16 wealthy economies. Food exports were initially the basis for Argentina's high incomes, but foreign demand plummeted during the Great Depression and the associated fall in customs revenues was at the root of the first in a long row of fiscal crises. The economy became more inward-focused as of 1930 when the country suffered the first of six military coups during the 20th century.

This inward focus continued after World War II, as policies featured import substitution to develop industry at the expense of agriculture, nationalisations and large state enterprises, the rising power of unions and tight regulation of the economy. The combination of trade protection and a significant state-owned sector lessened somewhat in the mid-1950s, in a succession of brief military and civilian governments.

However, the weakness of both the external and fiscal balances continued into the 1960s and early 70s, leading to an unstable growth performance and bouts of inflation, including a first hyperinflation in 1975. The military dictatorship of the 1970s and the democratic government of the 1980s continued to struggle with fiscal crises, resulting from spending ambitions exceeding revenues and exacerbated by the Latin American debt crisis starting in 1982, and the lack of a competitive export sector after decades of import-substituting industrialisation. The country fell into a fully-fledged hyperinflation in 1989-90. Between 1970 and 1990, real per capita incomes fell by over 20%.

While the economy returned to growth after 1990 in the context of lower import tariffs, foreign investment, a currency pegged to the US dollar and falling inflation, volatility did not recede. Export competitiveness faltered following the Asian crisis and the devaluation of the Brazilian Real and by the late 1990s the economy was facing a severe recession. Rising fiscal imbalances led to the 2001 debt default and the end of the currency peg. The impoverishing effect of the crisis was exacerbated by the subsequent devaluation of the currency, which wiped out a significant value of household savings. Despite the recurrent crises, the growth performance of Argentina between 1990 and 2010 allowed it to begin a process of convergence with the developed world.

Source: (OECD, 2019^[2]) *OECD Economic Surveys: Argentina 2019*, OECD Publishing, Paris.

1.2. Recent fiscal consolidation efforts

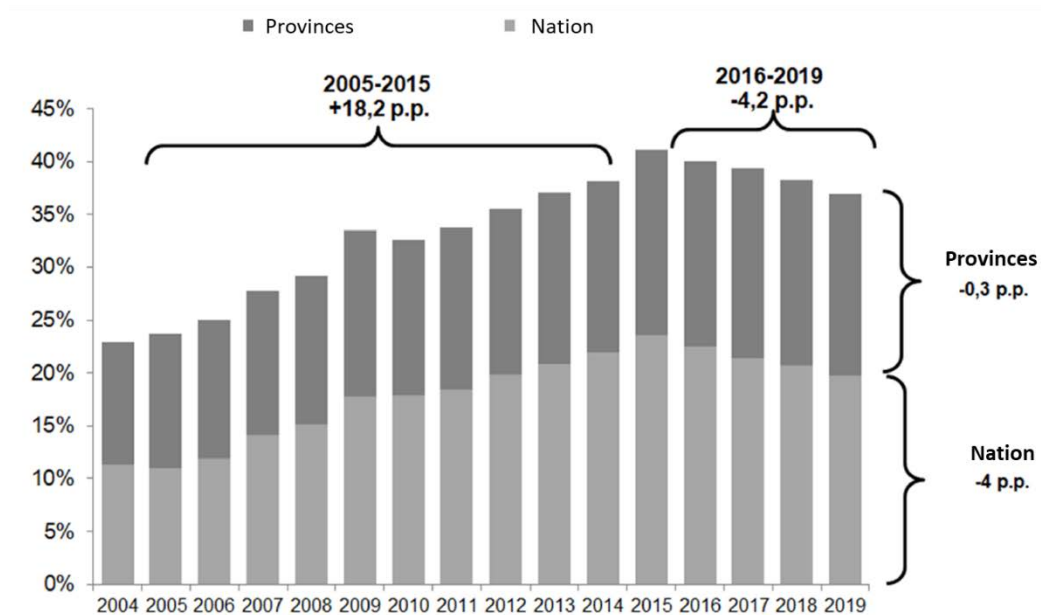
After a rapid increase, government spending has decreased in recent years

Including provincial expenditures, general government primary spending almost doubled between 2004 and 2015 from 23% of GDP to 41% of GDP (Figure 3), close to the OECD average of 42.4%. Part of this extra spending led to improvements in social protection, including on pensions and social benefits (OECD, 2019^[2]). However, it also included over 3.5% of GDP in subsidies for energy and transport, with a regressive social impact as the main beneficiaries were middle-class households in the CABA (OECD, 2019^[2]). Furthermore, rising public payroll expenditures also accounted for large parts of this additional spending. Public employment and pension expenditures for example rose visibly, the latter as a result of an expansion

of non-contributory pensions. Public employment increased by 70% between 2001 and 2014, particularly at the provincial level, and at 11.7% of GDP, public sector payroll was above the OECD average in 2016.

Figure 3. Primary consolidated general government spending

National Public Sector and Provinces % of GDP



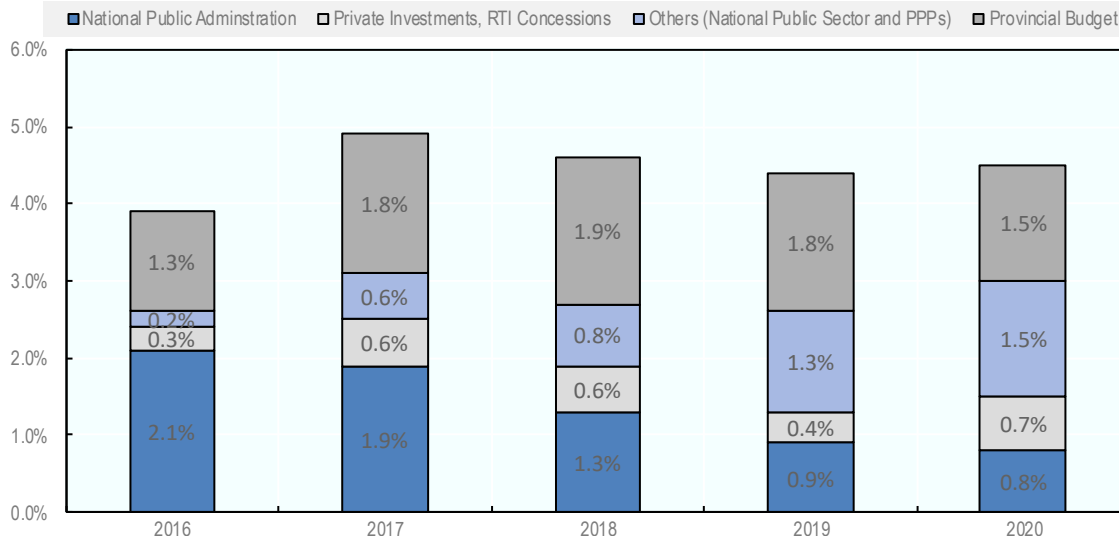
Note: Includes the provincial social security benefits, not registered national debt (2015) and priority investment programmes (2018). The consolidated budget presents the transfers and transactions between the National Public Sector and the rest of the economy. It does not incorporate the operations corresponding to the financial institutions of the National Government (Official Banks) nor includes, unless otherwise stated, the resources destined to provinces under the federal co-participation nor transfers to provinces coming from automatically distributed national taxes. Previous provincial pension funds transferred to the national system, whose budgets are integrated into the administration's scope, have been attained with the consolidation.

Source: (ONP, 2019^[48])

In late 2015, Argentina faced a primary fiscal deficit of almost 4% of GDP and significant unpaid arrears and contingencies (OECD, 2019^[1]). To adjust the fiscal situation, the Argentine administration reduced general government expenditures by 4.2 percentage points, from 42.4% of GDP in 2015 to a planned 38.2% of GDP in 2019. In addition to savings stemming from reductions in subsidies (0.7% of GDP) and a real wage and hiring freeze for civil servants (0.2% of GDP), reductions particularly affected capital expenditures.

Considered relatively easy to reduce, already low levels of public infrastructure investment on national and subnational level was cut by 0.7% of GDP to meet the fiscal adjustments (OECD (forthcoming)). For 2019, the share of public investment on national level is foreseen to be further reduced, while authorities intend to finance much of the ambitious previous infrastructure plans through private-public partnerships (PPPs) (Figure 4). A more detailed explanation on infrastructure investment trends will be provided in the next chapter.

Figure 4. Infrastructure Investment 2016-2020 as a percentage GDP



Note: Data sources: Ministry of Treasury and JGM

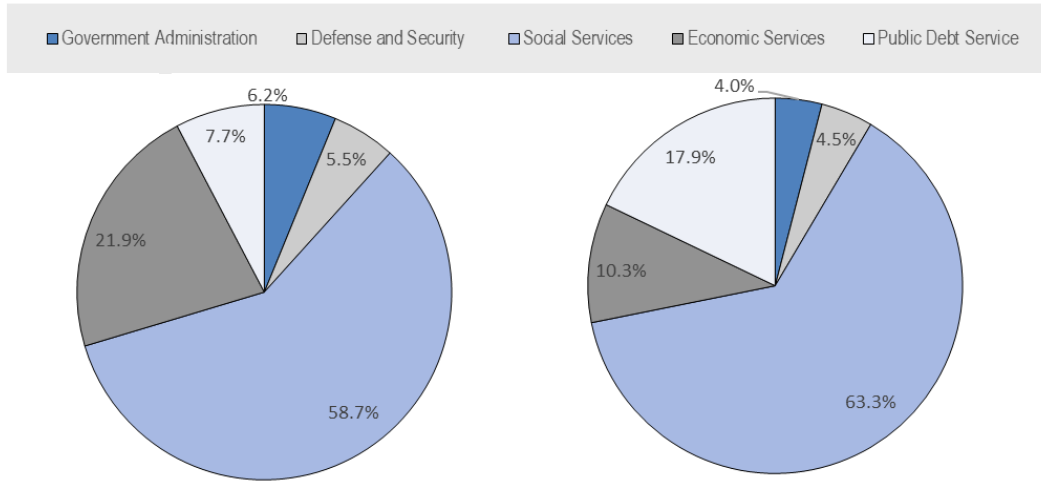
Source: (Ministerio de Hacienda, 2019⁽⁷⁾)

An increasing share of expenditure is dedicated to social services, and is the largest sector of the National Public Administration². Spending increased from 60.8% of expenditure in 2018 to 63.3% in 2019³ (Figure 5). In the context of fiscal consolidation, the increase aims to reduce income inequalities, achieve more inclusive growth and cushion the current recession. Under the IMF agreement, social spending is deliberately protected to mitigate effect of the consolidation measures in other areas of public expenditure, and to provide society's most vulnerable with a social safety net. The SBA provides 0.2% of GDP to raise spending on well-targeted social benefits in case real-time measures of poverty deteriorate, and encourages the Argentinean government to use this space as much as necessary.

While primary expenditures fell gradually, rising interest payments held back the visible reduction of overall fiscal deficit. From 2018 to 2019 the share of public debt service rose from 16.1% of national expenditure to 17.9% in 2019.

Figure 5. National Expenditure in 2015 and 2019

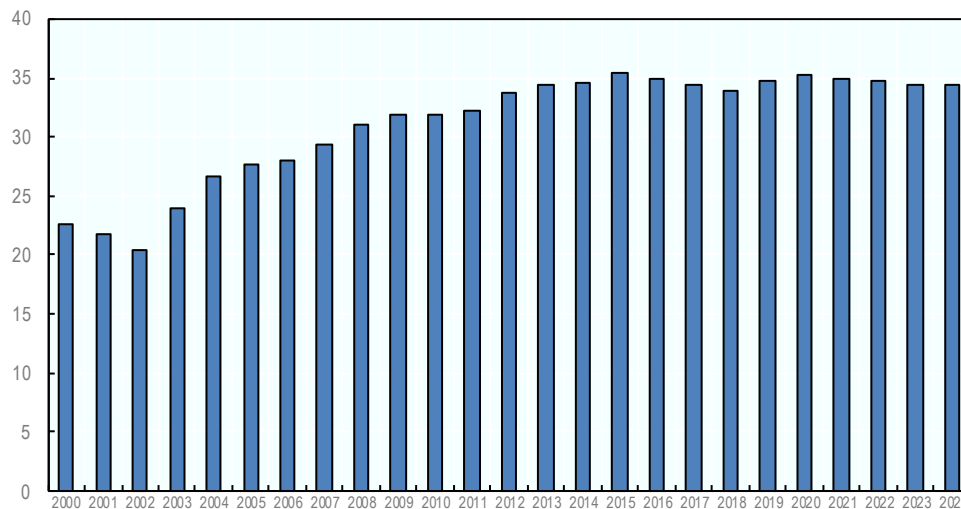
Allocation of expenditure by purpose as a percentage of total expenditure (2015-L, 2019-R)



Source: ONP (2019^[8]), Presupuesto 2019, www.minhacienda.gob.ar/onp/presupuestos/2019

While public expenditure played a key role in fiscal consolidation, tax revenues have decreased in recent years (Figure 6). In particular, a tax reform in 2017 reduced revenues by 2% of GDP (OECD, 2019^[2]). For 2019, estimated tax revenues are expected to increase by 1.2 percentage points to 20.2 % of GDP. The main additional resources are planned to come from an increase in income taxes, property income and in particular revenues from the sale of capital shares.

Figure 6. General Government Revenues



Note: Estimates start after 2018

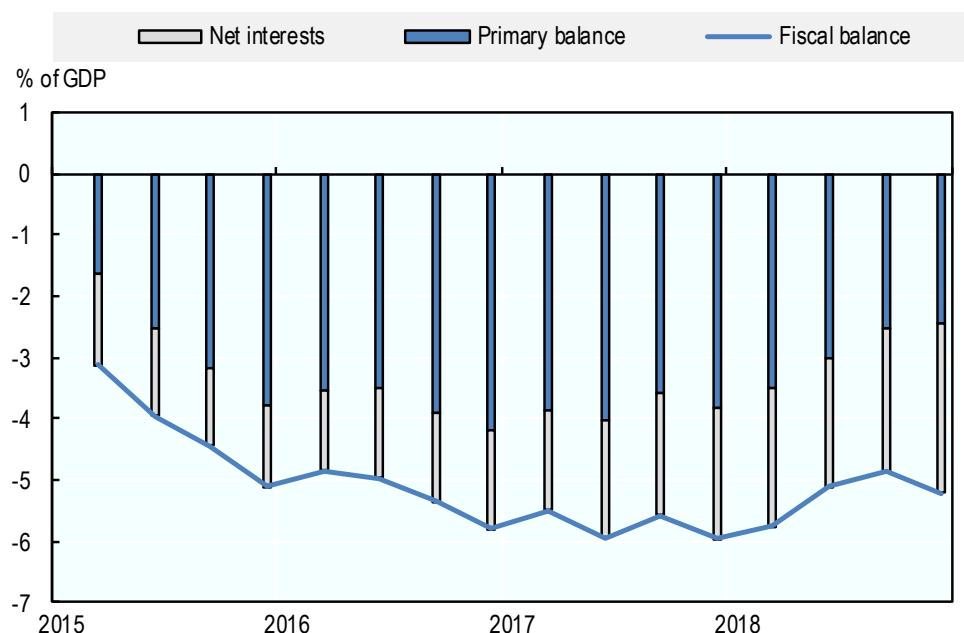
Source: (IMF, 2019^[9]), World Economic Outlook Database April 2019

Primary deficit has decreased but debt remains high

Argentina has incurred a fiscal deficit since 2009. Facing a primary fiscal deficit of almost 4% of GDP in 2015, the government tried to break with the history of adjustment through sharp contractions in expenditure and opted for a gradual reduction of the fiscal deficit combined with efforts to improve infrastructure to ensure political support for reform (OECD, 2019^[2]). However, as the 2018 economic crisis hit, the gradual approach to fiscal adjustment was abandoned. Fiscal targets aim to eliminate the primary deficit in 2019, followed by a primary surplus of 1% of GDP from 2020. These new targets imply a fiscal effort of almost 6% of GDP during the period of 2018-2020, which require large consolidation efforts by historical and international comparisons (OECD, 2019^[2]).

Since 2015, the composition of fiscal results has changed (Figure 7). While expenditure reductions have improved primary balance, interest payments amount to 2.8% of GDP, above the OECD average of almost 2% of GDP, which has dampened efforts to improve the fiscal position.

Figure 7. Fiscal and internal balance

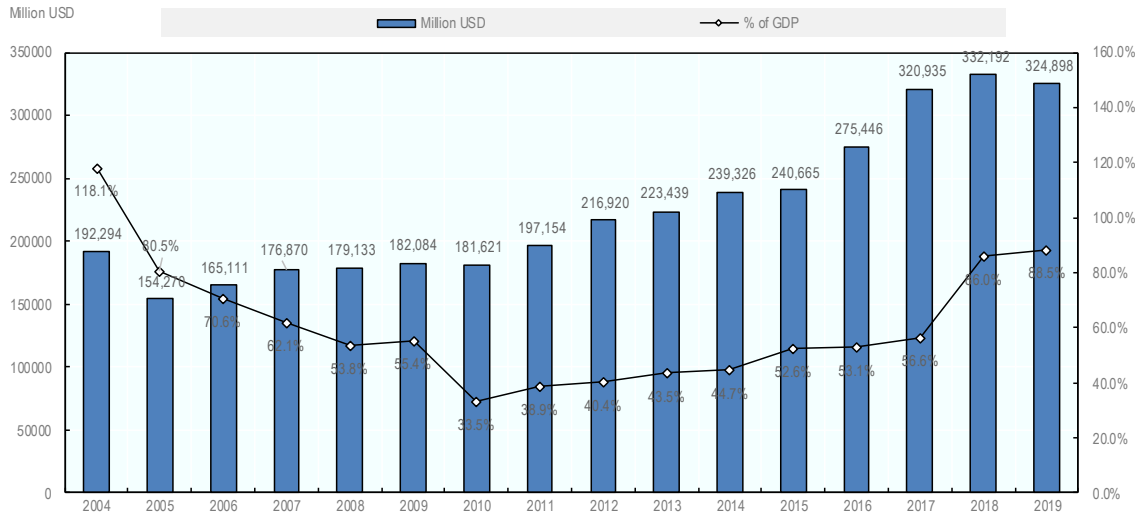


Source: Ministry of Economy, CEIC, OECD calculations, in (OECD, 2019^[2]), <https://doi.org/10.1787/888933942334>

Due to the persistent deficit in the last decade and after rising over 30 percentage points due to the depreciation, gross public debt reach 86% of GDP at the end of 2018 (Figure 8), which is among the highest in emerging economies. According to the recent OECD Economic Survey of Argentina (2019^[2]), the current fiscal plans are sufficient for debt to decline relative to GDP as of 2020, to reach 62% of GDP in 2023. However, the survey highlights that the declining trajectory of gross public debt is subject to risk. For example, failing to adhere to the current ambitious fiscal targets and maintaining the 2018 primary deficit would imply a continuously rising debt. Also, with over 75% of debt denominated in foreign currency, faster depreciation would raise the risk profile of public debt. At the same time, over 40% of gross public debt is held by other public sector entities including the social security fund and faces no roll-over risks.

Figure 8. Gross Debt

Evaluation of the gross debt of the central government



Source: (Ministerio de Hacienda, n.d.^[10]), Presentación Gráfica de la Deuda, www.argentina.gob.ar/hacienda/finanzas/presentaciongraficadeudapublica

Shifts in government policy can contribute to economic instability

Since the first peaceful transfer of power between democratically elected presidents in 1989, Argentina’s democracy has experienced several changes of government. After 1989 the country was governed for 10-years by a Peronist party, that initially implemented a far-reaching programme of economic stabilisation but could nevertheless not avoid an economic recession. Against the backdrop of massive foreign debt and continuing economic turmoil, a new government took office in 1999, but power returned to the Peronist party in 2003 for the next 12-years. In October 2015, the current government took office. In October 2019, presidential elections (Box 29) will be held again between the two parties.

While all of the above governments experienced economic turmoil, each of them stood for significantly different policy responses and priorities, which contributed to destabilising macroeconomic effects in some cases. For example, following the presidential primary elections in August 2019, rating agencies downgraded Argentina’s debt as the agencies were expecting the discontinuity of announced economic policy, growing political uncertainty and default risk⁴.

The strong shifts of policy agendas present significant challenges for infrastructure investment and planning, in particular, the role of the private sector in infrastructure provision and operation. Frequent significant policy changes do not allow for long-term planning and affect investors’ confidence.

Box 29. Argentina's political system

Argentina is a presidential republic based on the separation of power represented by the three branches of state. The legislative branch is composed of the bicameral National Congress (Congreso Nacional); the executive branch by the government lead by the President, and the judiciary by the Supreme Court (Corte Suprema).

Executive power is held by the President of the Republic and the government. The President is the chief of state and head of government. The president and Vice President are directly elected on the same ballot by qualified majority popular vote for a 4-year term. His/her executive powers include the appointment of Cabinet, and the nomination of the Supreme Court justices, which need to be approved by the Senate.

The Argentine legislative power lies with the bicameral parliament, which consists of the Senate and the Chamber of Deputies. The 72 seats of the Senate are filled by direct elections in multi-seat constituencies by simple majority vote. Members are elected to serve 6-year terms with one-third of the membership elected every 2 years. The Chamber of Deputies has 257 seats, and members are directly elected in multi-seat constituencies by proportional representation vote. A granted minimum of five seats per province assigns smaller and less populated provinces with a disproportionately large representation. Deputies serve 4-year terms with one-half of the membership renewed every 2 years.

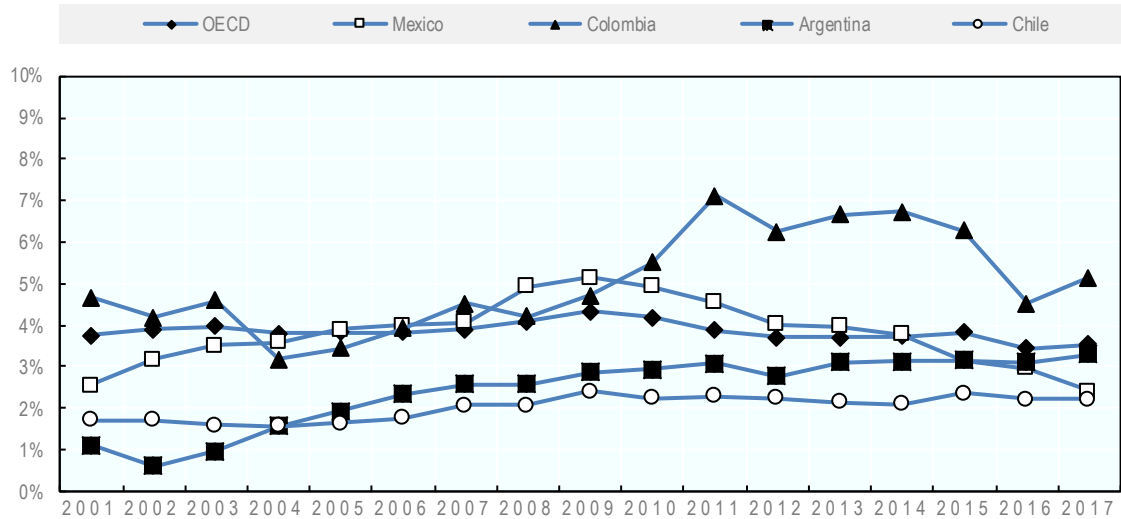
Source: (CIA, n.d.^[11])

1.3. Trends in infrastructure investment

Argentina's complex macroeconomic and fiscal environment has largely affected government's effort to improve infrastructure planning and investment. Since 2001, government investment has remained below the OECD average. During a period of economic recovery after the default in 2001, Argentina experienced a rapidly growing rate from 2002 to 2009, which narrowed the gap in government investment between Argentina and the OECD average. However, investment trends mostly remained stagnant after 2009, displaying just a slight increase after the marked primary fiscal deficit in 2015. The country exhibits low levels of investment if compared to the patterns observed by other Latin American countries (Figure 9). The gap widened significantly after 2007, when government investment soared in emerging economies in the region. Low levels of government investment in Chile, however, should not be mistaken for underinvestment in infrastructure. In fact, Chile adopted a concessions programme for delivering infrastructure in 1992. Since then, the country has successfully mobilised private financing for more than 80 projects worth around USD 19 billion (OECD, 2017^[12])

Figure 9. Government Investment

As % of GDP



Note: Data not available for Australia.

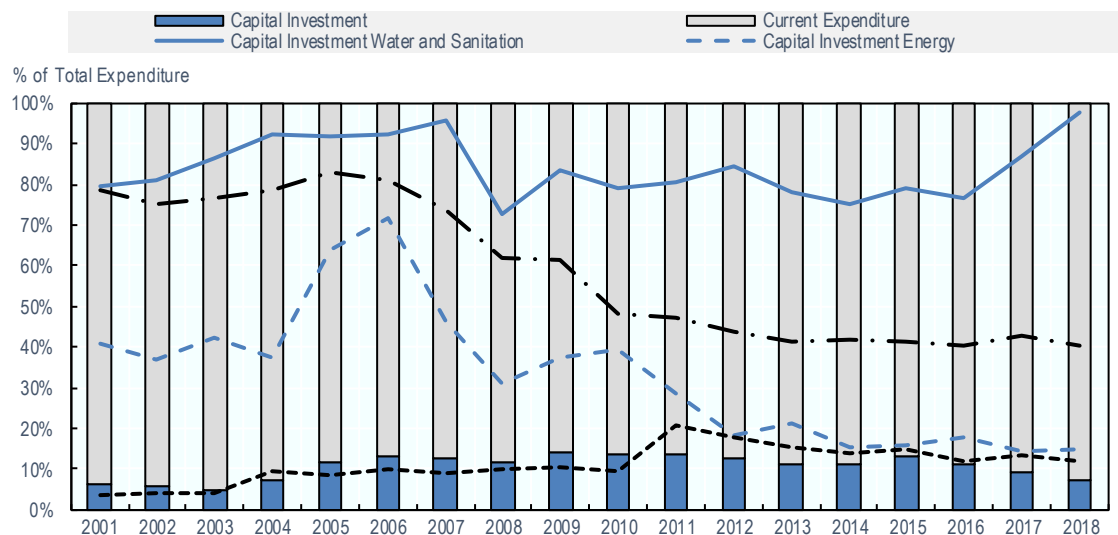
Source: (IMF, 2019_[13]), Investment and Capital Stock Dataset, 1960-2017

The share of capital investment in total expenditure has also fallen in the last decade, reaching 7% in 2018 (Figure 10). The relative decrease of capital investments could be a symptom of the increasingly high inflationary trends and the crisis that has hit the country in recent years. As highlighted in the previous section, the Government adopted measures to bring down general government expenditures from 42.4% of GDP in 2015 to planned 38% of GDP in 2019 (OECD, 2019_[1]), which particularly affected the budget for capital expenditures and left very limited resources available for public investment.

The relative decrease of capital expenditure is particularly relevant for the energy and transport sectors (Figure 10). In 2018, only 15% of expenditure in the energy sector was capital expenditure, in contrast to 70% in 2006. Likewise, only 40% of expenditure in the transport sector was capital expenditure, down from 83% in 2005. A similar trend can be observed for the water and sanitation sector between 2007 and 2014. However, this trend has been reverted in the past three years. The relative share of capital investment in the education sector increased between 2001 and 2011. Since then it has slightly decreased reaching 12% in 2018.

Figure 10. Share of Capital Investment in Argentina

As a % of Total Expenditure

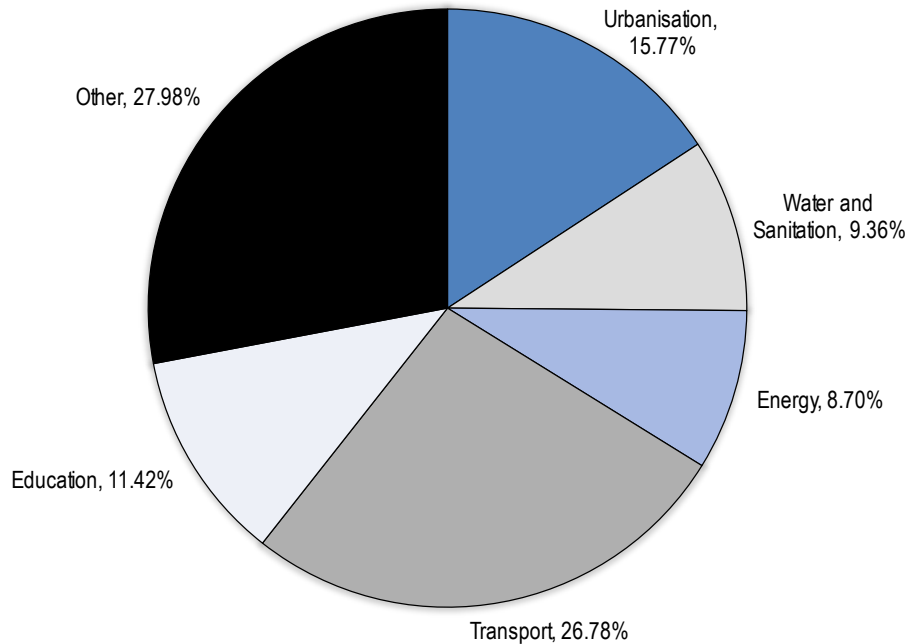


Source: ONP 2001-2018 and Composición del gasto por Finalidad-Función y Carácter Económico 2001 -2018.

Addressing the low performing quality of infrastructure has been one of the eight pillars of the Government's national plan. More specifically, the scarce road infrastructure density and poor maintenance, the lack of proper water and sanitation services and the insufficient generation and provision of electricity were identified as priorities in the Government's agenda in infrastructure investment. Transport infrastructure investments take up most of the share of capital investment, followed by housing and urbanisation, education, water and sanitation, and energy (Figure 11). Investment observed in these sectors goes in line with the gaps identified in the Government's national development plan.

Figure 11. Capital investment by sector in 2018

As % of Total capital investment

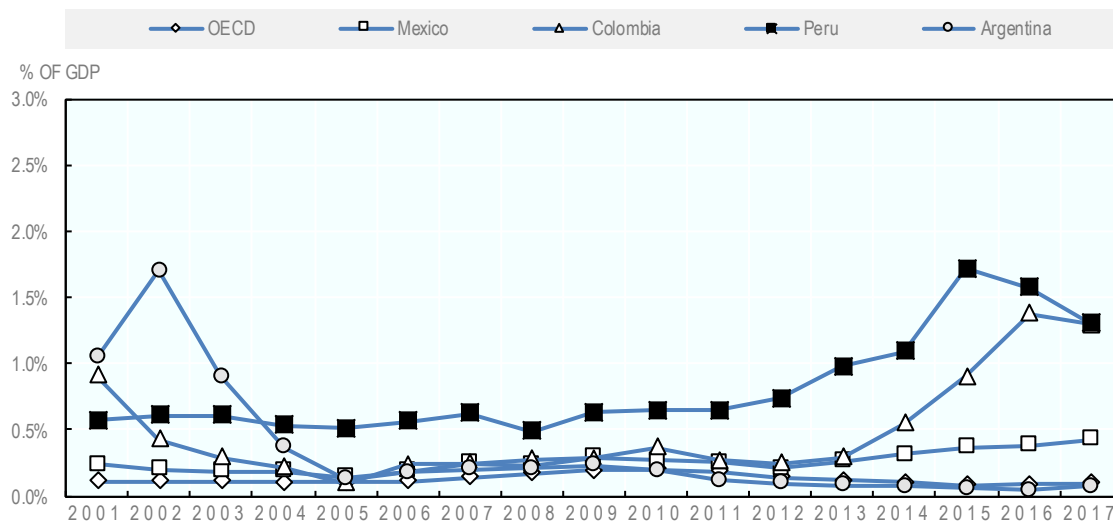
Source: (ONP, 2018^[14]), Composición del gasto por Finalidad-Función y Carácter Económico 2018

Note: Other sectors include government administration, defence and security services, health and social security, science and technology, employment, communications, ecology and environment, agriculture, manufacture, tourism, insurance and financial services.

As mentioned in the previous section, the strong shifts of policy agendas present significant challenges for infrastructure investment and planning in Argentina. In particular, shifts in policy agendas had an impact in mobilising private financing through PPPs for the development of infrastructure. The upward trend in PPP investments displayed by Latin American countries from 2011 onwards far outweighs the performance observed in Argentina in the same period, especially Colombia, Peru (Figure 12) and Chile (OECD, 2017^[12]). Although PPP projects have increasingly attracted private investment towards emerging economies in the region, the Argentinian government did not implement a PPP programme until 2018 when it awarded the first infrastructure projects under this scheme. One of the main objectives of the Government's national development plan in terms of infrastructure is to raise the participation of the private sector through the award of PPP projects. Nonetheless, the deterioration of the economic environment in the country hindered the participation of private investors in PPP projects, and thus the investments initially planned by the government for 2019 did not take place (Ministerio de Hacienda, 2019^[7]). As estimated by the Ministry of Treasury, private sector investments via PPPs are expected to substitute national infrastructure investment by 0.4% of GDP in 2020, in addition to the current private sector investments estimated in 1.5% of GDP (Ministerio de Hacienda, 2019^[7])

Figure 12. PPP Investments in OECD and selected Latin American countries

As % of GDP

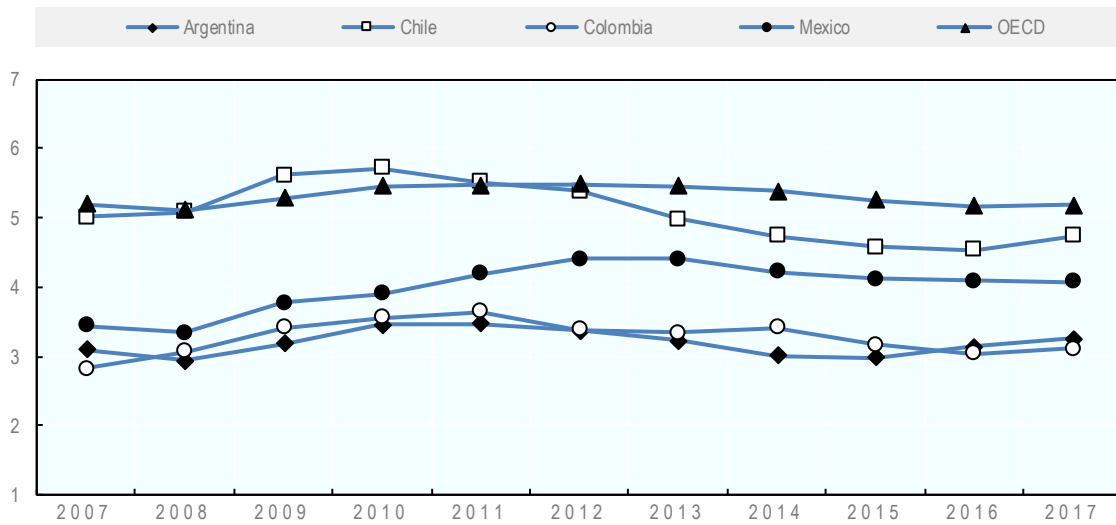


Note: Data not available for Australia, Canada, Chile, Iceland, Israel, Japan, Korea, Lithuania, New Zealand, Norway, Switzerland and United States. Data available for Argentina prior to 2018 display investments made under concession schemes.

Source: (IMF, 2019^[13]), Investment and Capital Stock Dataset, 1960-2017

The observed underinvestment in public infrastructure has also taken a toll in the quality of infrastructure in Argentina. The infrastructure is ageing and the development of infrastructure has not responded to population growth and current needs. The World Economic Forum's Global Competitiveness Index (GCI) shows that Argentina's overall infrastructure quality score has been systematically lower than its OECD Latin American peers (Chile and Mexico) over the last decade and it is far below the OECD average (Figure 13). According to the GCI, in 2017 the quality of railroad infrastructure, the quality of electricity supply and the quality of roads presented the biggest shortcomings. The World Bank's Logistics Performance Index (LPI) for 2018 also shows that infrastructure quality in Argentina scores the second lowest performance, after border control and customs, in the efficiency of the national logistics industry.

Figure 13. Quality of Overall Infrastructure in OECD and selected Latin American countries



Note: Score measures how would general infrastructure (e.g. transport, telephony, energy) would be assessed in each country, 1 = extremely underdeveloped, amongst the worst in the world, 7 = extensive and efficient, amongst the best in the world.
 Source: (World Economic Forum, 2017^[15]), The Global Competitiveness Index Historical Dataset (2007-2017).

1.4. Institutional reforms to support infrastructure planning and investment

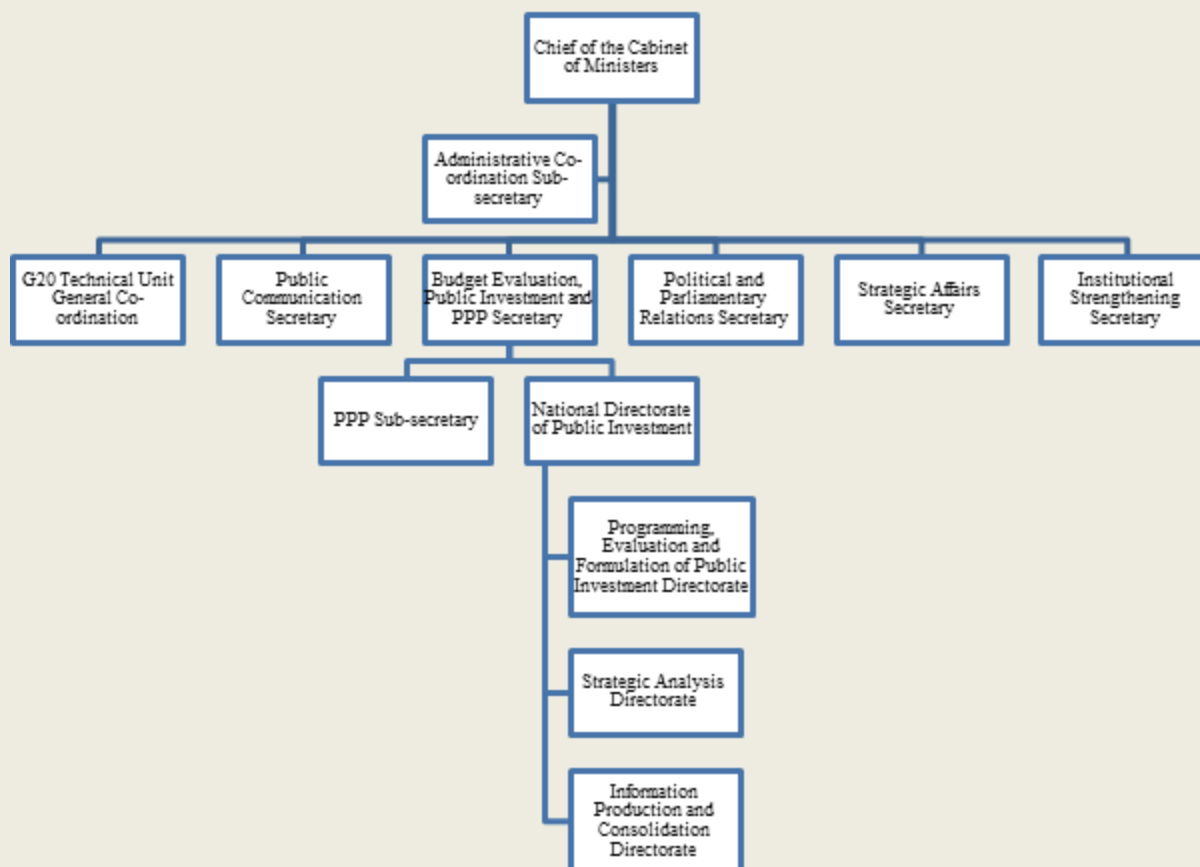
In recent years, the Argentinian Government has undertaken a series of reforms of its ministerial structure. One crucial reform in 2015 transformed the former Ministry of Economy into the Ministry of Finance and transferred to different ministries a number of responsibilities previously exercised by the former Ministry of Economy (Presidencia de la Nación, 2015^[16]). Nowadays, the co-ordination of the national budget process and the definition of national infrastructure investments, which were once under the former Ministry of Economy, were to be performed by two separate public entities: the former Ministry of Treasury and Finance and the Chief of the Cabinet of Ministers, respectively. The Argentinian government briefly split the Ministry of Treasury from the Ministry of Finance from late 2016 until mid-2018. Nonetheless, the latest reform in 2018 regrouped both ministries under one Ministry of Treasury and further attributed to the Chief of the Cabinet of Ministers and the Ministry of Treasury new functions related to planning, capital budgeting and oversight of infrastructure projects delivered via PPP agreements (Presidencia de la Nación, 2018^[17]).

Chief of Cabinet of Ministers (JGM)

The Argentinian Government invested upon the Chief of Cabinet of Ministers (*Jefatura de Gabinete de Ministros*, JGM) the responsibility to ensure a rational use of national public resources and incorporate a stronger governance component in public investment. In order to comply with this new mandate, an extensive organisational reform of the JGM took place between the years 2017 and 2018 (Box 30).

Box 30. Chief of Cabinet of Ministers

Institutional structure of the JGM after the reforms introduced by the Argentinian Government between 2017 and 2018.



Source: (Jefatura Gabinete de Ministros, 2019^[18]), Administración Centralizada – Desconcentrada.

Key changes in the organisational structure of the JGM took place in two different points in time. In 2017, the JGM was entrusted with the oversight of the execution of the National Public Investment System (SNIP) and dictating rules and regulations that govern its implementation. As a result, the National Directorate of Public Investment (DNIP), the main body responsible for the SNIP, was transferred from the Ministry of Treasury to the former Budget Evaluation and Public Investment Secretariat of the JGM. In 2018, the Sub-secretariat of PPP, formerly under the Ministry of Treasury, was also transferred to the JGM. Following this reform, the Budget Evaluation and Public Investment Secretariat was renamed as the Secretariat of Budget Evaluation, Public Investment and PPP. The reform efforts to bring together both units within the orbit of the JGM are well aligned with the goal to improve inter-ministerial co-ordination.

Nowadays, the Secretariat of Budget Evaluation, Public Investment and PPP assists the JGM in the overall infrastructure investment policy making and is authorised to intervene in the evaluation and investment execution. The Sub-secretariat of PPP is a unit dedicated to the strategic policy and decision making of projects delivered via PPPs. The Sub-secretariat of PPP is also responsible for providing support to public entities during the process of formulation, public tender and execution of PPP contracts. Furthermore, it provides assistance to the National Government in the preparation of PPP programmes and initiatives and it is in charge of the design of the regulatory framework and standardisation of PPP contracts.

National Directorate of Public Investment

The DNIP sets general guidelines for planning, prioritisation, evaluation, and assessment of infrastructure projects. Since its creation in 1995, the DNIP has been responsible for the preparation of the National Public Investment Plan (PNIP), a document that includes the planned infrastructure investment projects for the following three years. The DNIP also establishes the methodologies, pricing guidelines, decision-making criteria and indicators taken into account during the formulation and evaluation of public investment programmes and projects.

The DNIP is also in charge of administrating and maintaining the Bank of Public Investment Projects (BAPIN). The information collected in the BAPIN is then used by the DNIP and the ONP to formulate the annual capital budget. DNIP also evaluates the information entered into the BAPIN for projects costing in excess of ARS 200 million and issues a non-binding technical report and draft opinion.

Ministry of Treasury

The recently created Ministry of Treasury is another key stakeholder that intervenes in the lifecycle of public infrastructure projects. The Ministry of Treasury, through the Sub-secretariat of Budget and the ONP, is responsible for the budget cycle in Argentina. The ONP annually prepares a draft of the budget law for the National Congress' approval.

The ONP is the entity responsible for defining overall investment ceilings and linking budget allocations to the infrastructure investment projects included in the PNIP. This entity works hand in hand with the DNIP in the process of preparing the PNIP. The ONP is also responsible for overseeing the physical and financial performance of the infrastructure projects. It also compiles the reports provided by each entity and prepares a quarterly report that details the progress and delivery of these projects.

National Public Sector Entities

Line ministries, national level bodies and state-owned enterprises (SOEs) are directly responsible for the identification and proposal of infrastructure projects, as well as execution and monitoring. These organisations are in charge of assessing infrastructure needs, and proposing, prioritising, formulating, executing, operating and evaluating infrastructure projects. Each public entity must have a division that leads the process of identification, formulation and evaluation of projects to be considered for the PNIP. Additionally, these divisions are responsible for monitoring the performance and compliance of investment projects and reporting to the DNIP and the ONP.

Line ministries can also propose infrastructure projects that entail the transfer of national resources to province or municipal levels of government. In this case, proposals must still be submitted in accordance with the methodologies previously established by the DNIP. However, the DNIP does not co-ordinate with the national sector or the different levels of government in order to incorporate these projects into the PNIP.

Provinces

Each province has its own investment system and carries out public investment projects that are financed with own resources based on the provinces' own infrastructure policy. A more detailed description of the multi-level governance framework in Argentina is provided in the following section.

1.5. Argentina's multi-level governance framework

As a federal country, **provincial governments in Argentina enjoy a high level of autonomy and responsibility** in providing public service, undertaking public investment, and supporting regional and local development more generally. Meanwhile, the degree of municipal institutional, economic and financial autonomy varies across – and even within – provinces. Depending on the province, municipalities have different responsibilities, organisational structures, financial arrangements, etc.

Key features of the Argentinian federal system

Argentina is a federal country with three tiers of government: 1) the national level with a democratically elected executive and bicameral legislature; 2) 23 provinces (*provincias*) plus the autonomous capital city of Buenos Aires (CABA); and 3) more than 2 200 autonomous local governments at the municipal level. In addition to these decentralised political structures, there are also deconcentrated units of the federal government in all areas of public policy which are responsible for the direct co-ordination and co-operation with the provincial governments (OECD/UCLG, 2019^[19]). For statistical purposes, Argentina is also divided into six regional areas: *Metropolitana, Cuyana, Noroeste, Noreste, Pampeana and Patagónica*. The provinces are further divided into 529 department (*departamentos*, also called *partidos* in the Province of Buenos Aires), which cover the entire Argentinian territory.

At the provincial level, most provinces pre-date the nation's founding and enjoy a strong degree of autonomy. Provincial governments each have their own executive, legislative and judicial powers. The executive branch is led by the governor who is elected according to each province's electoral system, which can be representative, proportional, or majority. Provincial legislative power is vested in a bicameral provincial congress in eight provinces, comprising an upper chamber and a lower chamber, and a unicameral congress in the remaining 15 provinces as well as in the Capital City of Buenos Aires. Each province has its own constitution, as stated in the Federal Constitution of 1853 (OECD/UCLG, 2019^[19]). Within this long-existing system, provinces enjoy a high degree of autonomy and tend to focus their policy-making in their own territory.

The City of Buenos Aires (CABA) also has an autonomous system of government with its own legislative and jurisdictional powers, and a directly elected mayor. However, unlike the provinces, which enact and legally structure their constituent municipalities, federal law has restricted the power of Buenos Aires over its jurisdictions and limits its involvement in a number of sectors, including security and police, urban transport and service provision (OECD/UCLG, 2019^[19]).

The scope of local government autonomy, their organisational structures, financial arrangements and other features differ across provinces. Executive power at the local level is generally exercised by an intendant, elected by direct suffrage for two or four years, and legislative power is vested in a council whose total number of members is set by the province. In some provinces, small local governments are governed by a single body, which holds both the executive and legislative functions. There are also deconcentrated bodies of federal ministries at the municipal level. There are six types of local governments with different degrees of autonomy and no hierarchical relationship – most of them are municipalities (*municipios*)⁵. Provinces divide the administrative boundaries of their municipalities in two different ways, namely the integrated system or the fragmented system, which entail different public administration challenges (Box 31). Moreover, each provincial constitution establishes differentiated attributions and organisational structures for local governments, as well as financial arrangements. In general, while with a certain degree

of autonomy, the governance frameworks, resources and power for local governments are largely determined by the provincial government.

Box 31. Territorial administrative models of provinces in Argentina

Argentina's provinces follow one of two main territorial administrative models, namely the integrated system and the fragmented system.

Under the integrated administrative system, the entire provincial territory is divided into municipalities that cover and control both urban and rural areas. Thus, municipalities can control the growth of their cities by periodically expanding the boundaries of the urban areas within their territories.

However, this model is challenged when urban development crosses municipal boundaries, thus involving more than one local government with different planning systems in the administration of one contiguous urban area. To keep the territorial administrative system functioning effectively, provincial governments need to periodically adjust municipal boundaries. Nevertheless, the boundaries of province and the municipalities do not necessarily coincide. That means in the some of these provinces, municipalities and communal governments span across several departments.

In those provinces organised according to the fragmented administrative system, the boundaries of the municipalities are defined by the boundaries of the urban areas, and rural areas are administered by the provinces. As such, the province has the advantage of overseeing the territorial dynamics and co-ordinating rural land uses for integrated regional planning.

However, municipalities are limited to controlling only urban areas, so for the provision of services (e.g. garbage collection or flood prevention), and often face challenges in co-ordinating with urban and rural territories that are adjacent but belonging to separate municipalities. This type of territorial administration is typical of, but not limited to, the Patagonian provinces, where localities arise as isolated nodes in a territory.

Source: (Muzzini et al., 2016^[20]).

Main responsibilities of the federal, provincial and municipal levels

The Argentine provinces have a number of exclusive and shared responsibilities in different investment-related sectors. The delineation of powers between Argentina's central government and its provincial governments is based on the general principle that all provinces have the power not delegated by the National Constitution to the federal state. Each of the 23 provinces and the CABA have a wide range of competencies in policy areas affecting infrastructure policy such as transport, education, health or regional development. Electricity, primary, secondary education and vocational training⁶ and interprovincial roads are the exclusive responsibilities of provincial governments. Other competences are shared with the federal government and sometimes the municipalities, such as health and social assistance, activities in the area of economic promotion and public transport, housing, energy and environmental matters. In some instances, the competencies are also shared with the private sector (e.g. public transport, internet services and secondary and tertiary level hospitals) (Table 4). Provincial governments also own and manage the natural resources within their jurisdiction. Regarding land-use policies, provinces preserve all political power, meaning that provinces have the power to create regions for socio-economic development or specific bodies to exercise provincial responsibilities, upon approval by the National Congress. Within this structure of exclusive and shared competences, provincial governments play a pivotal role in public spending and investment. Their strategies, policies, resources and capacity in delivering these services

and investments exert significant impact on the development of the country and the well-being of all citizens.

Table 4. Attribution of infrastructure-related competences across levels of government

Area	Area detail	Institutional level with competence			
		Federal	Provincial	Municipal	Private sector
Transport	Public transport	X	X	X	X
	Motorways	X	X		
	Trunk roads	X			
	Local roads		X		
	Traffic control		X		
	Airports	X			
Industrial land	Logistical areas		X	X	X
	Industrial parks		X	X	X
	Enterprise zones		X	X	X
Energy	Electricity		X	X	X
	Gas	X			
	Petrol	X			
Communication	Post	X			
	Telephones	X			X
	Internet services	X	X		X
Public utilities	Water		X	X	X
	Sewage			X	
Education	Public libraries	X	X	X	X
Health	Hospitals		X	X	X
	Cemeteries			X	X
Housing	Social housing		X		
Justice	Jails, prisons		X		
Urban development planning	Regional/territorial planning		X		
	Metropolitan planning		X	X	
	Local planning			X	
Drainage	Construction		X	X	
	Operation and maintenance		X	X	
Public spaces	Construction and maintenance of public squares			X	
	Recreation and sports facilities		X	X	X
	Public lighting		X	X	

Note: Some competences may vary across provinces and municipalities.

Source: (OECD, 2016^[21]).

Municipalities also have exclusive and shared competences in infrastructure-related sectors, but their degree of autonomy varies from province to province. Exclusive powers at the local authority level include waste management, road construction, sewage, markets and cemeteries, public transportation and public road regulation. Provincial governments share the responsibilities for primary education, primary healthcare, water and sanitation, regional road construction and maintenance and fire protection. The provincial governments also share certain responsibilities with the federal government, specifically in economic development, tourism and healthcare (OECD, 2016^[21]; OECD/UCLG, 2019^[19]). Nevertheless, municipal competences and responsibilities – as well as their level of autonomy – vary from province to province, since the powers are granted by the provincial constitutions. Municipal size is one of the determinants, as municipalities with high population density can be assigned significant budgetary and financial responsibility for public service delivery. As such, some municipalities provide school

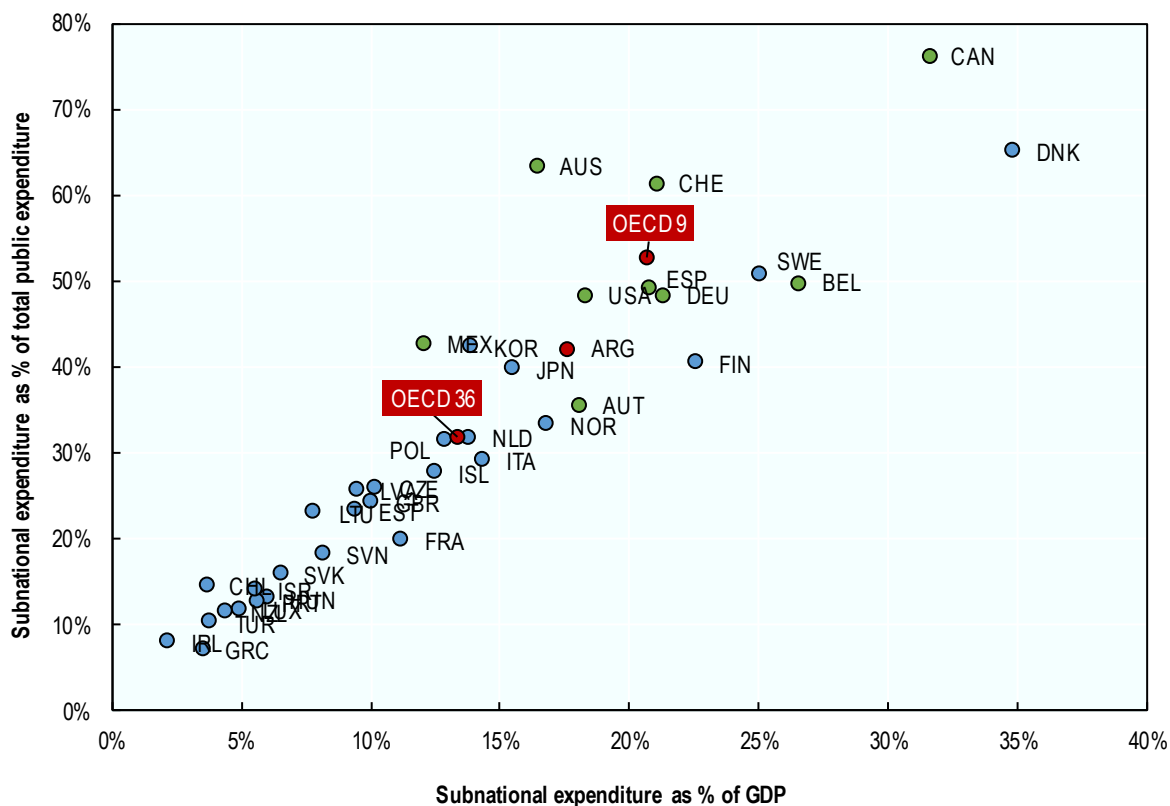
maintenance and healthcare services on a *de facto* basis (OECD/UCLG, 2019^[19]). In general, most municipalities have little or no power regarding major infrastructure work undertaken in their jurisdictions by national agencies.

Constitutionally, responsibility for territorial management falls on provincial and local governments, while the Federal government's role is to harmonise development conditions (Aguilar, 2010^[22]). Most planning decisions are made at the provincial and municipal levels (Reese, 2006^[23]). Provincial governments in Argentina decide whether a particular large-scale urban project can be developed in their jurisdictions (occupying land or changing land-use regulations in rural or peri-urban areas or ports or railways which have fallen into disuse, for example). Nevertheless, at the provincial level, only two provinces (Buenos Aires and Mendoza) have laws regulating spatial development. Municipal governments, meanwhile, are responsible for determining land use, plot sizes, urban densities, building heights, infrastructure standards, the percentage of land designated as public space, the obligations of real estate developers and other issues related to the territorial development of cities in general and of large projects in particular (Cuenya, 2012^[24]; 2011^[25]; 2019^[26]).

Provinces hold main responsibility for subnational spending and investment

Expenditure decentralisation in Argentina is relatively high, even if it remains below the OECD average for federal countries. In 2016, subnational government expenditures in Argentina reached 17.6% of GDP and 42.2% of total public expenditure, below the OECD average for federal countries, which in 2016 was 19.2% and 50% respectively (Figure 24). The majority of this expenditure finances provincial and municipal staff, representing more than 81% of staff expenditure and 53.8% of total subnational government expenditure. Among other current expenditure lines, subsidies and transfers come in second, reaching 21.1% of total subnational government expenditure (OECD/UCLG, 2019^[19]). High levels of subnational expenditure reflect their relevance in the decision-making process.

Figure 14. Subnational government expenditure as % of GDP and of total public expenditure, 2016



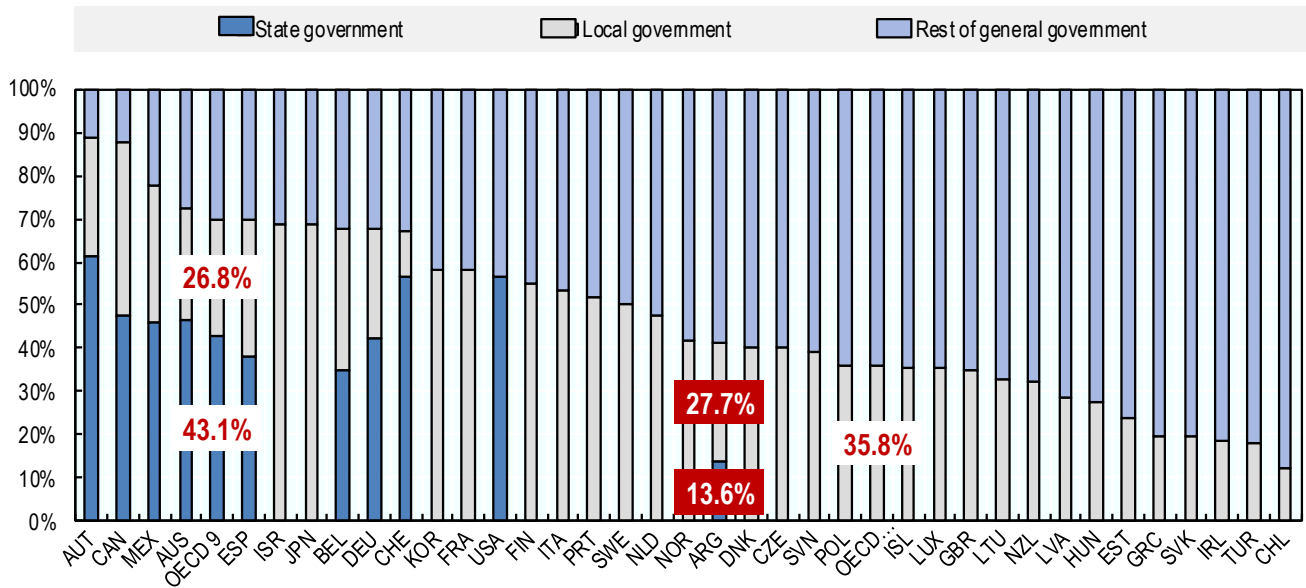
Note: Countries in green are federal countries; OECD 9 is the average of federal countries.

Source: OECD (2019), OECD-UCLG World Observatory on Subnational Government Finance and Investment (SNG-WOFI) Database, https://stats.oecd.org/viewhtml.aspx?datasetcode=SNGF_WO&vh=0000&vf=00&i=blank&lang=en&vcq=1111

Subnational spending is mainly led by provinces. In 2016, Argentine provinces were responsible for 89.2% of subnational government expenditure overall. Provincial government expenditure accounted for 37.6% of public expenditure and 15.7% of GDP, while municipal-related spending only stood at 4.5% of public expenditure and 1.9% of GDP. The weight of current expenditure in the subnational budget is very high, leaving a small window for capital expenditure (13%) and more specifically investment (9.3%) (OECD/UCLG, 2019^[19]).

Subnational public investment is also mostly led by provinces. In 2016, subnational public investment in Argentina represented 67.26% of total public investment and 1.64% of GDP, compared with 69.91% and 1.87% of OECD average in federal countries respectively (Figure 25). More than 80% of total subnational investment is managed at the provincial level: provincial governments carry out, altogether, 84.5% of subnational government investment and 56.8% of total public investment.

Figure 15. Public investment by level of government, %, 2016



Note: OECD 9 is the average of OECD federal countries

Source: OECD (2019), OECD-UCLG World Observatory on Subnational Government Finance and Investment (SNG-WOFI) Database, https://stats.oecd.org/viewhtml.aspx?datasetcode=SNGF_WO&vh=0000&vf=00&i&il=blank&iang=en&vcq=1111

Education, health and social assistance represent the majority of provincial expenditure and investments. Economic infrastructure, social insurance/poverty-related spending are jointly borne by the federal and provincial governments, and provinces and the CABA are primarily responsible for financing road construction and maintenance, as well as the purchase of equipment for investments in railway and other infrastructure projects. Since Argentina’s financial crisis in 2001, municipalities in several provinces have undertaken spending related to environmental conservation, economic and social programmes, as well as implementing policies in favour of minority groups (OECD/UCLG, 2019_[19]).

2. Strategic planning and co-ordination

Getting infrastructure decisions right is crucial to ensuring investments enhance people’s welfare and contribute to productivity growth and competitiveness. A necessary condition for a successful infrastructure programme is appropriate strategic planning. The key role of infrastructure planning is ensuring that decisions relating to infrastructure investments take into account needs, trade-offs, political priorities and long-term development goals, and do so in a transparent and consultative way.

This section examines Argentina’s planning framework for infrastructure investment as well as the mechanisms to ensure horizontal co-ordination. It contains an overview of practices in OECD countries relative to those in Argentina. The section concludes with recommendations on how to develop a strategic planning framework for infrastructure.

2.1. The need for a strategic vision

Strategic long-term planning is a key element for successful infrastructure development. Unfortunately, the long-term nature of infrastructure investment sits awkwardly with the nature of modern politics. This is particularly the case where political cycles are short and political priorities are often driven by the urgent short-term needs of the population.

The highly visible nature of large infrastructure projects creates a further disconnect between politics and infrastructure investment. On the one hand, politicians have a strong incentive to prioritise infrastructure investments that are highly visible, and thus leave a “legacy”. On the other hand, infrastructure’s contribution to economic development and wellbeing depends on far more than just the physical asset and, in particular, the construction of the asset. What ultimately generates an economic or social return is the service that is provided through infrastructure - which requires that physical assets be operated and maintained - alongside soft assets such as human capital, processes, and organisational structures. When the incentives are skewed toward leaving a “legacy”, these other dimensions can be neglected, resulting in inefficient investments that fail to respond adequately to the needs of the population.

In spite of the awkward relationship between politics and infrastructure investment, infrastructure cannot be de-politicised. Since infrastructure needs almost always exceed available resources, trade-offs inevitably exist between different priorities. Navigating these trade-offs often requires making difficult choices that weigh the interests of social groups and values (e.g. current versus future generations; urban versus rural; growth versus environment). These choices cannot be reduced to a simple technocratic exercise. Consequently, politics has a critical role to play in infrastructure decisions. The question is how to ensure that politics plays a constructive role given the misalignment between political cycles and infrastructure lifecycles.

Part of the role of infrastructure planning is to align investment decisions with the country’s needs and long-term development goals. It should also serve to frame and guide political choices so that infrastructure investments respond to important needs while ensuring value for money over the lifetime of an asset.

Argentina does not have a long-term strategic vision for infrastructure

Argentina’s ability to meet its infrastructure needs is constrained by its limited capacity for medium- to long-term planning. While political cycles create incentives for focusing on short- to medium-term measures, in Argentina the challenge is particularly acute because of the electoral cycle and the extreme shifts in government policy (Section 1). The impact of political cycles on infrastructure investment in Argentina is illustrated by the impact of government intervention in utility sectors (Box 32).

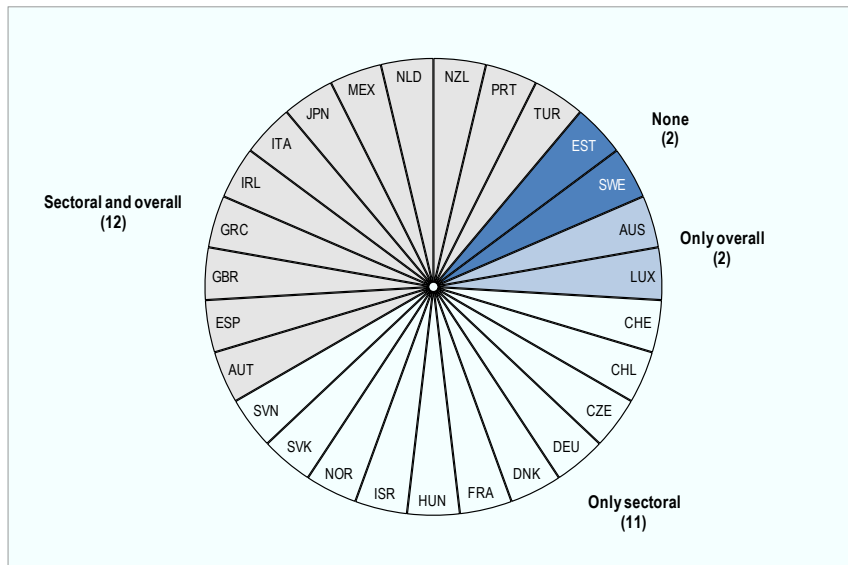
Box 32. The impact of changing government policies on Argentina’s utility sectors

Argentina’s electricity, gas and water sectors are largely operated by private sector entities under regulated utility models. Prior to 2016, the government intervened extensively in these markets, freezing tariffs and paying subsidies. This has led to low levels of cost recovery. For example, in the electricity sector tariffs covered less than 10% of the true cost. A consequence of the low level of cost recovery has been under-investment by the private operators in these markets. In some cases, the government has funded investment, contrary to the intention of the regulated utility model. This reduces the funding available to other sectors.

The government is reducing utility subsidies and increasing tariffs over time to move towards full cost recovery. If this reform is successfully completed, it has the potential to restore the regulatory framework for investment, although it is likely to take some time to fill the investment gap.

Unlike many OECD countries (Figure 16), the government of Argentina currently has no overall strategic plan that addresses infrastructure service needs. Furthermore, Argentina could improve its institutional framework to promote long-term thinking and evidence-based policy-making, two key competences required for developing the infrastructure that will prepare the country for the future.

Figure 16. Existence of long-term strategic infrastructure plans (2018)



Notes: Data for Belgium, Canada, Finland, Iceland, Korea, Latvia, Poland and the United States are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: (OECD, 2018^[27]), OECD Survey of Capital Budgeting and Infrastructure Governance, Questions 8 and 9, OECD, Paris.

The choice of what to build should be framed within a vision for the future of the country that is articulated through an explicit statement of long-term development goals. Some centralised guidance relating to the objectives and priorities that infrastructure policies and investment prioritisation should pursue is essential to ensuring the overall coherence of investments across sectors. Thus, infrastructure strategies should not only take into account the specific needs of a sector, but also ensure that investment plans contribute to achieving broader long-term development goals.

In the case of Australia, for example, the infrastructure plan identifies how infrastructure is financed, delivered and used, and the plan is guided by a set of Australia’s main long-term ambitions. This holistic approach considers all infrastructure sectors within a single plan, which encourages greater alignment across sectors and investments and creates more spaces for generating synergies.

Currently, infrastructure plans in Argentina are sector-based. These sector-based plans guide line ministries’ investment decisions, within the investment ceilings set by the Ministry of Treasury. However, the plans tend to list and describe potential projects in a sector, without linkages to a national strategic infrastructure vision, identification of complementarities across sectors or prioritisation criteria. For example, in 2016 the Argentine government launched the National Water Plan (NWP) (Box 33).

Box 33. The 2016 National Water Plan (NWP)

The government acknowledged the importance of setting a nation-wide plan to deal with water-related risks of droughts and floods as part of a long-term vision. In 2016, the Argentinian government launched the National Water Plan (NWP). The Plan sets ambitious objectives to face some of the above-mentioned water risks and place water at the core of economic and social development. By 2023, the national government aims to reach universal access for drinking water supply and 75% for sewage connections. The NWP aims to increase the protection against floods and droughts through strategic actions that combine both hard infrastructures, such as building flood protection infrastructure in cities or increasing the number of dams, along with better early warning and information systems. The NWP

also seeks to support the irrigation needs of the agricultural sector by expanding the cultivated area by 300 000 Ha by 2022 (total increase of 17%). Finally, the NWP is a key contribution to achieve the SDG Agenda 2030, in particular SDG 6 “Clean water and sanitation”, to which Argentina committed in 2030.

Source: (OECD, Forthcoming^[28])

While these initiatives are laudable, they do not have the benefit of drawing on centralised guidance for the country and a connection to long-term development goals. Such a vision would provide a framework to make strategic choices, balancing trade-offs and choosing priorities from among different needs. A greater level of institutional and long-term thinking will generate more coherence across sectoral plans, ensure that sectoral investments contribute to a common set of long-term goals and reduce the potential for overlap and duplication.

Moreover, a long-term vision needs to take major future risks and uncertainties into account. This will contribute to future-proofing investment plans and improving the resilience of the nation’s infrastructure. The concepts of vulnerability and resilience for both the infrastructure project itself and the services that it will provide need to be addressed from the early planning stages.

Currently there are no central mechanisms to co-ordinate sectoral infrastructure plans in Argentina. Some agencies engage in extensive consultation with interfacing agencies in other sectors during their planning processes. This is done through a mix of formal and informal mechanisms. There are no whole of government guidance or standards for this important stakeholder consultation process, and hence no assurance that it will take place in the key planning stages.

Fiscal constraints, together with a lack of a systematic approach to infrastructure performance and asset management, result in a large focus on rehabilitation and maintenance of existing infrastructure and limited capacity to fund new infrastructure. A large proportion of the capital budget, at both national and subnational levels, is devoted to rehabilitation and maintenance of existing assets. There is an apparent lack of frameworks or incentives for efficient asset management and hence no strategic optimisation of the performance of existing infrastructure.

The government has set 100 priorities grouped into eight objectives as guiding principles for ministries, however public investment in infrastructure is not strongly linked to these objectives. When ministries enter project proposals in the public investment system, there is a field in which they can identify which of these priorities and objectives the project is linked to, but answering this question is not mandatory and the answers are not reviewed.

A short-term National Public Investment Plan

Argentina’s PNIP includes the infrastructure projects that are financed with the National Public Sector Budget. The projects in the PNIP can be executed directly by the national level or by means of transfers to SOEs or subnational governments. Since its creation in 1995, the DNIP has been responsible for the preparation of the PNIP.

The PNIP is not a long-term strategic infrastructure plan nor does it articulate a long-term strategic vision into a project shortlist. Typically, a short-term plan translates a strategic vision into timeframes that align to operational settings across government, for example the medium-term expenditure framework. However, instead of aligning investment decisions with long-term development goals, a new PNIP is prepared every year as an annex of the budget bill, and it incorporates a list of infrastructure investment projects for the next year and a plan for the following two years. The PNIP is revised annually to adjust to any changes in the budgeting and macroeconomic conditions of the national public sector, as opposed to long-term plans that account for future trends and country’s infrastructure needs.

A number of actors are key in the construction of the PNIP. The formulation and evaluation of infrastructure projects is guided by the public investment priorities and macroeconomic objectives set by the National Government. Likewise, the national public entities and SOEs play a crucial role in the definition of the PNIP, as they are responsible for submitting project proposals to the Bank of Public Investment Projects (BAPIN). The projects submitted by these entities will constitute the body of the PNIP, prior control of the formulation and evaluation, performed by the DNIP, and the budget allocation approval from the Ministry of Treasury.

The definition of a PNIP contemplates a co-ordination mechanism across levels of government. Under decree N° 720 of 1995 the DNIP must send a draft of the PNIP to the provinces, who will be entitled to submit observations regarding the projects to be executed in their own jurisdictions. However, the consultation is not binding according to the current legal framework. The Ministry of Treasury, through the ONP, is in charge of the harmonisation of PNIP with the allocation of public resources. In order to be considered for the following year's budget law, projects must be submitted to the BAPIN.

Recent efforts to quantify infrastructure gaps

A process is under way to better understand current infrastructure gaps. This will provide data on sectoral demands and benchmarks for infrastructure access and service levels. The gaps will provide the basis on which the investment committee of Cabinet will determine the allocation of the available public investment budget capacity between individual agencies. This project is still at an early stage of the development. Currently there is not information sufficient available to inform on infrastructure gaps. These efforts are well aligned with OECD best practices (Box 34), however they alone will not be sufficient to provide a strategic vision or ensure future asset performance.

Use of the BAPIN is now being enforced to provide a consolidated view of the public investment programme and drive good practice by agencies. However, the BAPIN does not in itself have the capability to drive a strategic vision for infrastructure.

Box 34. OECD best practices to assess future infrastructure needs

“Strategic foresight” is a process of creative evaluation that applies available knowledge and forecasting analysis to potential futures. It uses available knowledge and forecasting tools to understand plausible future events and, based on a balanced view of the different futures that may occur, enable robust decision-making and investment. OECD countries are increasingly adopting “strategic foresight” planning methods that move beyond simply identifying current gaps and extrapolating past trends to forecast future needs. For example, the government of Finland has adopted foresight techniques to sketch out future development paths and better inform government decision-making.

Applications of strategic foresight techniques to infrastructure planning include the following:

- The United Kingdom government’s Intelligent Infrastructure Futures project explored how, over a 50 year period, science and technology can be applied to the design and implementation of intelligent infrastructure for robust, sustainable and safe transport, and its alternatives. The project engaged nearly 300 people at national, regional and local level and commissioned leading researchers to examine the United Kingdom’s transport challenges.
- The Australian Infrastructure Audit 2019 applied a three-stage methodology, informed by strategic foresight methods, to understand Australia’s infrastructure needs in the next 15 years. Stage 1 consisted of horizon scanning to understand the national and global forces that are likely shape Australia over the coming years and decades. These trends focus on shifts that are likely to transform how Australians live, and consequently what they will need from

infrastructure. Stage 2 applied these trends to the sectors of transport, water, energy, telecommunications and social infrastructure, to understand the likely future impacts and needs of these sectors. Based on this analysis, Stage 3 of the Audit identified a set of sector-based and cross-sectoral challenges and opportunities, which are issues, gaps, problems and untapped potential where infrastructure can play a role in improving Australians' lives and growing Australia's economy.

- To address infrastructure needs for the next 20 years, the Colombian Ministry of Transport adopted in 2015 an Intermodal Transport Master Plan, which was the product of a joint effort across different national level entities and agencies. The PMTI was based on data on density and quality of existing transport infrastructure, cities' and regions' growth trends and current traffic flows. Using these data, the Colombian Government forecasted local and regional economic growth that will drive the future demand for transport infrastructure in the country over the period of 20 years. Results from the strategic foresight analysis undertaken informed the pipelines included in the PMTI and served as input for the design of transport policies such as the 4G toll-road concessions programme.

Sources: (Infrastructure Australia, 2019^[67]), (Center for Public Impact, 2017^[30]), (Office of Science and Technology, 2006^[31]) (Prime Minister's Office, n.d.^[32]) (Ministry of Transport, Colombia, 2015^[33])

2.2. What kind of planning framework could apply to Argentina

Infrastructure has long-term impacts and requires analysis and predictability, but infrastructure is sensitive to political and economic/business cycles that vary markedly over time (OECD, 2017^[34]). Analysis tends to be in silos, reflecting the various stakeholder interests. Some OECD countries have introduced strategic infrastructure planning bodies to address the tension between the long-term strategic perspective and the shorter-term cycles, and present a coherent picture drawing on the views institutions, jurisdictions, levels of government, policy areas and professional disciplines (Box 35). In some cases, these bodies have a degree of independence from both the legislative and executive arms of government.

Box 35. Long-Term Strategic Infrastructure Planning Bodies in OECD Countries

A number of OECD countries have opted for a discreet body exclusively responsible for the development of long-term strategic plans. By way of illustration, some of these infrastructure planning bodies and their key features are set out below:

- Infrastructure Australia is an independent statutory body set up in 2008. It is responsible for strategically auditing Australia's nationally significant infrastructure, and developing 15-year rolling Infrastructure Plans that specify national and state level priorities. Infrastructure Australia is led by a board of 12 members, including members with private sector experience and local government experience. The latest plan is the Australian Infrastructure Plan 2016 and more recently an updated Australian Infrastructure Audit was released in 2019, which will inform the next Australian Infrastructure Plan due for release in 2021.
- Infrastructure Canada is a department of the Federal Government established in 2002. Infrastructure Canada's Policy Branch identifies and assesses broad infrastructure issues, priorities, and needs for potential federal action, and contributes to federal policy development. It also reviews and assesses strategic infrastructure investments. Investing in Canada – Canada's Long-Term Infrastructure Plan 2016 is the latest plan, with a planning horizon of 12 years.

- Dirección Nacional de Planeamiento is a directorate under the Ministry of Public Works, set up in 1953 in Chile. The objectives of the Dirección Nacional de Planeamiento include providing studies, policies, plans and programmes for the development and recovery of infrastructure services and water resources management, which contribute to the economic, social, cultural, sustainable and equitable development of the country. The latest plan is Plan Chile 30/30: The Future is not Expected, it is Built (2018), with a planning horizon of 12 years.

Source: (Infrastructure Australia, n.d.^[35]) (Infrastructure Canada, n.d.^[36]) (Dirección Nacional de Planeamiento, n.d.^[37])

The strategic vision for infrastructure should be aligned to spatial planning policies (OECD, 2017^[34]). The Government of Ireland's Project Ireland 2040 is an example of a strategy that integrates spatial and land use planning with a strategic vision for infrastructure (Box 36). If applicable, strategic planning for infrastructure projects should occur through the mechanisms that exist in the spatial planning system. Special procedures designed to circumvent the spatial and land use planning system should be avoided.

Box 36. Integrating spatial and land use planning with a strategic vision for infrastructure: Project Ireland 2040

Project Ireland 2040 is the Government of Ireland's long-term overarching strategy to make Ireland a better country for all of its people. The plan changes how investment is made in public infrastructure in Ireland, linking investment decisions with a well thought out and defined strategy. Alongside the development of physical infrastructure, Project Ireland 2040 supports business and communities across all of Ireland in realising their potential.

The key policy documents underpinning Project Ireland 2040 include the National Planning Framework and the National Development Plan. The National Planning Framework is the Government's high-level strategic plan for shaping Ireland's future growth and development out to the year 2040. It is a framework to guide public and private investment, to create and promote opportunities for citizens, and to protect and enhance the environment. The Framework provides for the development of a set of regional spatial and economic strategies and five co-ordinated metropolitan area strategic plans to ensure better co-ordination in planning and development policy matters across boundaries.

The National Development Plan sets out the investment priorities that will underpin the successful implementation of the National Planning Framework. This will guide national, regional and local planning and investment decisions in Ireland over the next two decades. New innovations in the National Development Plan include:

- A long-term (10-year) strategic approach to public capital investment, to support achievement of the 10 National Strategic Outcomes in the National Planning Framework.
- A sustained increase in investment share of national income to meet infrastructure needs.
- All departments' capital programmes are fully funded for a 5-year period.
- Longer-term strategic investment priorities are funded to completion.
- A new National Regeneration and Development Agency has been established to maximise the potential use of underutilised land banks in cities and towns.
- Four new funds have been established, with a combined allocation of EUR 4 billion, to be allocated on a competitive basis for projects, which meet the criteria of the funds.

Through these innovations, the National Development Plan provides clarity and certainty regarding the scale of infrastructure investment over the Plan's 10 years. It underpins the National Development Plan

through the strict alignment and clear consistency between public capital investment plans over the next decade and the Ten National Strategic Outcomes detailed in the National Planning Framework.

Sources: (Government of Ireland, n.d.^[38])

Updates of long-term infrastructure plans should occur at fixed time intervals. The long-term impact and gestation of infrastructure requires strategic planning that is predictable and based on analysis of long-term needs. However, infrastructure planning can be extremely sensitive to changing circumstances. Political and economic fluctuations can impede the design and implementation of a clear and coherent strategic plan (OECD, 2017^[34]) Technology is changing the demand- and supply-side considerations more rapidly than ever before (International Transport Forum, 2017^[39]).

Infrastructure serves multiple objectives, leading to different drivers of the strategic plan (OECD, 2017^[34]). Policy goals may include economic growth, increased productivity, affordability, inclusive development, and environmental objectives, depending on the structural, political and social conditions of the countries. Motivations for long-term strategies are heterogeneous across OECD countries and heavily depend on the development aims and economic conditions. The most common drivers are transport bottlenecks, regional development imbalances, demographical needs, or fiscal pressure, whereas social imbalances and climate change are less central (OECD, 2017^[34]).

A strategic vision to address infrastructure gaps and bottlenecks should be accompanied by systematic monitoring and evaluation of infrastructure performance, and a whole-of-life approach to asset management. Asset management is the co-ordinated activities of an organisation, carried out over an asset's whole lifecycle, to realise full value from assets in delivering their service delivery objectives (State of Victoria, 2016^[40]). In the context of infrastructure, asset management includes not only the planning and acquisition of new infrastructure, but also effective operation and maintenance of the most appropriate assets to meet current and likely future demands, and disposal of assets that are no longer required.

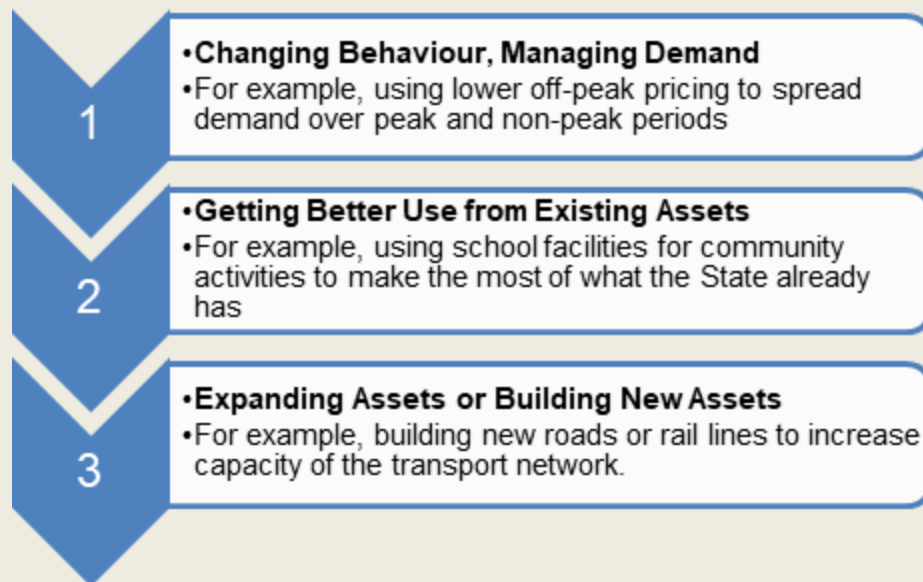
In the absence of effective asset management practices, implementation of the strategic vision for infrastructure can be disrupted by unanticipated needs to invest effort and funding in maintaining or rehabilitating existing infrastructure. The strategic vision itself should consider management of existing infrastructure in addition to new investment. The vision should recognise that both non-build and build solutions are both important and are deeply interrelated. See Box 37 for an example of a strategic vision taking into account the use of existing assets.

Box 37. Taking into account existing assets in developing a strategic vision

In developing its 30-year infrastructure strategy for the State of Victoria, Australia, the State's independent advisory body, Infrastructure Victoria, used an analytical framework that recognised the value that can be gained from existing assets, in addition to requirements for new assets.

When examining solutions to identified needs, Infrastructure Victoria first considered opportunities to manage demand for existing infrastructure, particularly by changing user behaviour, then considered the scope for better use of existing assets, before finally turning to options for expanding existing assets or building new assets. This process is illustrated in the Figure below.

Possible solutions to identified infrastructure-based service needs



Source: (Infrastructure New South Wales, 2016^[41])

2.3. Conclusions and recommendations

A necessary condition for a successful infrastructure programme is appropriate strategic planning that sets a long-term vision (OECD, 2017^[34]). It will take the Government of Argentina some time to enhance its strategic planning framework to the level seen in leading OECD economies. It would be sensible to develop a longer-term vision for the preferred prioritisation process, and then plan the pathway to achieve that vision, including the steps that can be implemented in the coming budget period. This will require an assessment of needs at the sectoral level and a co-ordinated strategy to exploit synergies and co-ordinate investment across sectors and between levels of government.

Develop a whole-of-government strategic vision for infrastructure

Argentina would benefit from developing a whole-of-government strategic planning framework for infrastructure that sets the vision and provides the context within which projects are prioritised during the public investment process. The vision should be the product of a broad-base political consensus, based on clear assumptions, properly co-ordinated across levels of government, and takes necessary

complementarities across sectors into account. Key steps in developing the framework would include the following:

1. Identify, establish, and adequately resource an agency that will develop the strategy. This could be an existing government agency (DNIP in collaboration with ONP), a new agency created within the executive arm of government, or an independent advisory body like those in some OECD countries. There are risks and benefits of each option:
 - An existing government agency, such as DNIP in collaboration with ONP, will have an understanding of the existing context and may require less time and resources to develop the strategy, compared to a new agency created within the executive arm of government or an independent advisory body. However, unless clear direction and sufficient resources are provided to the agency for this task, there is a risk that the long-term strategic planning function becomes less of a priority than the agency's traditional and more immediate roles.
 - Setting up a new agency within the executive arm of government for the strategic planning function will take longer than allocating this role to existing agencies. Once it has been established, the new agency would have a specific focus on strategic planning and would not be at risk of prioritising other work.
 - Tasking an independent advisory body to develop the strategy can provide benefits by depoliticising the process and sitting outside the electoral cycle, but the process to establish such an agency may require more time and resources than giving this task to a government agency. There is also a risk that a strategy developed by an independent advisory body is ignored, and the strategy therefore does not result in better project prioritisation.
2. Set the parameters for the development of the strategy, these might include:
 - The time horizon of the strategy (20 years, 30 years or 40 years).
 - Definition of the scope of the strategy (Does it include social infrastructure and economic infrastructure? Does it include land-use planning or rely on existing land use frameworks? Does it include funding and financing options for infrastructure?).
 - Public consultation processes to be undertaken in the development of the strategy.
 - The process for approving the strategy.
 - Publication of the strategy and transparency requirements in relation to its development.
3. Requirements for updating of the strategy.
 - Establish the rules and processes that link public investment and project prioritisation to long-term infrastructure strategy. These should include transparency requirements to ensure that the relationship between the long-term strategy and the near-term list of prioritised projects can be clearly understood.
 - Include a technical assessment of infrastructure needs and stocktake of existing infrastructure.

3. Prioritising public investment in infrastructure

Given the limited resources available for infrastructure investment, prioritisation is an essential tool to ensure these resources are invested in the right projects (OECD, 2017^[42]). Having a clear and transparent prioritisation process aligned to the fiscal planning framework is essential to ensure that investment in infrastructure delivers the expected social and economic benefits, while contributing to long-term policy objectives.

This section examines the prioritisation process for public investment in Argentina, providing references to OECD best practices. The section concludes with recommendations on processes and criteria for selecting a priority list of projects for the coming budget period.

3.1. The Argentinian National Public Investment System

Argentina's current framework for public investment was implemented in the mid-1990s. The framework has remained much the same since that time. There have been no significant amendments to the 1995 Public Investment Law (Law No. 24,354). The SNIP has among its objectives, the initiation and permanent updating of the inventory of investment projects financed with resources from the national government, and the annual formulation and management of such public investments. However, the SNIP was never fully operationalised as proposed under the 1990s framework.

Recent efforts to strengthen the National Public Investment System

In mid-2017, the National Directorate of Public Investment (DNIP) was transferred from the Ministry of the Economy to the *Jefatura de Gabinete de Ministros*, and steps were taken to improve the public investment process.

The Government has made important efforts to strengthen and use of the BAPIN in an efficient and consistent matter. The Bank has existed for almost three decades, however in the past it was not used as a tool to monitor, plan and oversee public investment. There was a disconnect between the projects included in the bank and the projects with budget allocations. The system was perceived as complex and a heavy bureaucratic requirement.

The BAPIN is now being enforced to provide a consolidated view of the public investment programme and drive good practices by agencies. Likewise, a co-ordinated approach between the National Directorate of Public Investment (DNIP) and the National Budget Office (OPN) has improved the link between the BAPIN and the formulation of the capital budget. All projects must be registered in the BAPIN in order to receive allocations from the National Budget Office. The expected financial flows from PPPs are also entered into the BAPIN. Thus the expected future commitments for PPPs are visible to decision makers when the budget is formulated. As such, the BAPIN has become an effective tool to improve transparency and increase government accountability. Modifications to the Resolution 125/12 are being discussed to include an additional step prior to the public tender process by which the DNIP will verify that the works to be contracted out are coherent with the initial information submitted to the BAPIN (i.e. location, costs, purpose).

3.2. Prioritising infrastructure within the budget process

As there are generally more infrastructure projects than can be accommodated within budget constraints, governments must prioritise those projects (OECD, 2017^[42]). A common approach is to develop a short-list of priority projects.

Argentina's current fiscal context exacerbates the challenge of prioritising projects. There is little space for new expenditures and most of the prioritisation process focuses on ensuring funding for existing projects. In addition, Argentina's current public investment needs are significantly affected by past under-investment in both new infrastructure and maintenance of existing infrastructure. Past under-investment in new infrastructure has created infrastructure gaps and it has resulted in the need for rehabilitation and maintenance.

Project prioritisation in Argentina occurs during the tight time constraints of the budget process. BAPIN has reduced the extent to which the value of projects exceed the available budget. This indicates that agencies are better aligning project planning with the available budget. The BAPIN will, in future, provide transparency on the public investment proposals and the financial outcomes, thus identifying agencies that do not deliver within the proposed project budget.

The BAPIN in itself is not intended to be a project prioritisation tool. The system does not have the capability to be used for project prioritisation. However, it provides a full overview of national government investments and informs the budget allocation process.

A two stage prioritisation process

The prioritisation process has two stages. It starts with an initial prioritisation, which is performed by each agency. The selected projects are entered in the BAPIN. Then DNIP reviews the entries. The review includes identifying incomplete information and potential inefficiencies in a project proposal. DNIP provides feedback from its review to the relevant agency.

The DNIP prepares a report to the Investment Committee of the Cabinet. This Committee does not have a fixed structure or mandate. Its main task is to define a quota per sector taking into account the fiscal space and the size of the investment, effectively providing a spending cap for each agency. A process is under way to better understand current infrastructure gaps, which will provide data on sectoral demands and benchmarks for infrastructure access and service levels. The gaps will provide the basis on which the Investment Committee of Cabinet will determine the allocation of the available public investment budget between individual agencies. This project is still at an early stage, as there is insufficient information to inform on infrastructure gaps.

The decision of the Cabinet is communicated by the DNIP to spending agencies. Based on these parameters the agencies reprioritise projects in consultation with Ministers, taking into account the budget constraints. In this instance, negotiation takes place between the executing agencies and the Ministry of Treasury. In as much, the agencies can request an addition to the ceiling (“*sobrotecho*”), after having explained the impact in the policies, objectives, public production or results that they are trying to reach. This negotiation process is not free of difficulties, since demands tend to exceed the supply of resources and each request must be analysed, always with a global view of the results (primary and financial). The resulting listing of the prioritised projects is submitted to the BAPIN.

The formulation process finishes with the presentation of the Budget Bill to the National Congress. After the budget has been approved, agencies can reprioritise projects and reallocate funds between the projects.

Argentina’s two-stage prioritisation process has the following consequences:

- Consistent with OECD recommendations (OECD, 2012^[43]), prioritisation occurs at the senior political level.
- However, the practice of agencies separately prioritising projects within each agency’s funding cap conflicts with the principle that the decision to invest should be based on a whole of government perspective (OECD, 2017^[42]).

Prioritisation implicitly requires that the infrastructure needs of all sectors must be considered in a single process. To address this issue, some OECD countries have introduced a whole of government strategic assessment of major projects as an additional step prior to the more detailed development of proposals for the public investment budgeting or funding process. See Box 38 for an example of such a strategic assessment process.

Box 38. Strategic Prioritisation of Proposals for Major Projects

Some OECD countries conduct a whole of government strategic assessment of major projects as an additional step prior to the more detailed development of proposals for the public investment budgeting or funding process.

In the State of Victoria, Australia, projects that are assessed as high value or high risk are subject to more rigorous assessment than other projects. The responsible department must prepare a preliminary business case, which is assessed by central agencies and submitted to cabinet at an early stage of the budget cycle. Cabinet decides whether the department should progress to full business case development and submit the full business case as part of an investment proposal in the later stages of the budget process.

Norway conducts a similar process (Box 19).

Sources: (Department of Treasury and Finance (Victoria), 2017)

Main criteria used to prioritise projects within sectors

Under the current system, each agency is fully responsible for prioritising projects within the given envelope. Some agencies such as the Ministry of Transport have well-developed processes for their prioritisation (Box 39), but these processes are not institutionalised or documented, and may vary significantly from one agency to another.

Box 39. Project prioritisation in the Ministry of Transport

Argentina's Ministry of Transport consists of three Secretariats: Planning, Works and Transportation Management. The three Secretariats work closely together during the project prioritisation process.

To determine which projects are entered into the BAPIN, the Planning Secretariat advises which projects are priority projects from a planning perspective, the Transportation Management Secretariat advises which projects are urgent from an operational perspective, and the Works Secretariat provides input on technical matters.

Once the Ministry's funding cap for the year has been determined by the Investment Committee, the Ministry then prioritises its BAPIN projects within that cap, identifying which projects will be included in the budget, and which will be left for the following year. The criteria used in this prioritisation process reflect the roles of the three Secretariats:

- The first criterion is the importance of the project for the planning vision developed by the Planning Secretariat.
- The second criterion is the size of the project and the ability to implement it from a construction perspective, as determined by the Works Secretariat.
- The third criterion is the ability to implement the project from an operational perspective, as determined by the Transportation Management Secretariat.

Source: OECD.

Project prioritisation should be clearly linked to the strategic vision. As highlighted in Section 2, Argentina does not yet have a strategic vision to inform the prioritisation of projects. The government has set 100 government priorities grouped into eight objectives as guiding principles for ministries. Agencies are asked to list the government objective most related to a project when entering the project in the BAPIN, however this is not mandatory and does not have a significant effect upon project prioritisation.

In OECD countries with a strategic vision for infrastructure, that vision is a key input to the prioritisation of projects. See Box 40 for an example of linking the identification of priority projects to the strategic vision.

Box 40. Linking project prioritisation to the strategic plan

In the State of Victoria, Australia, the independent advisory body Infrastructure Victoria, prepares a 30-year infrastructure strategy that is presented to the State Parliament. Infrastructure Victoria must review and update the strategy every three to five years.

The government must prepare and regularly update a five-year infrastructure plan, having regard to the 30-year strategy and the State's infrastructure needs and priorities. The plan must identify specific major infrastructure projects that should be undertaken as a priority in the next 5 years, and contain the rationale for selection of the priority projects, including an explanation of how they will achieve the objectives stated in the 30-year infrastructure strategy.

Source: (Infrastructure Victoria, 2015^[44])

In Argentina's context of past under-investment, there is a strong pipeline of urgently needed projects that can all be seen as high priority projects. However in the current fiscal situation there is limited space for new investment. In this environment, financing sources have a significant influence upon project prioritisation. For example, if finance for a project is available from a multilateral development bank, or the project can be delivered as a PPP, the project will be prioritised in preference to projects that must compete for the limited capital budget.

Good practice in OECD countries separates the decision to invest in a project from the decision as to how a project will be financed. The decision as to how a project will be financed should be made after the investment decision and should be based on the relative value for money of different delivery methods. See Section 4 for a discussion of value for money assessment.

Spending agencies have great autonomy to reprioritise projects

Individual agencies have significant scope to prioritise and reprioritise projects within public investment programmes. Hence there is little cross-government prioritisation, and previously agreed priorities can change outside the budget process. Reprioritising projects and reallocating funds between projects can be used to meet cost increases as risks materialise. In the case of projects funded by the national government but to be delivered by provincial governments, negotiations with the provinces after budget approval can also result in changes to project funding through reallocations.

3.3. The need for well-developed projects and robust project pipelines

The tendency for projects in Argentina to experience cost overruns and delays in the delivery stage suggests that projects are often not well prepared at the time of budget approval. Causes of this may include insufficient time being available for proper project preparation, a lack of capacity or capability within the relevant agency, a failure to focus sufficient attention on large and complex projects, and a mismatch between the supply of "ready to go" projects and the demand in terms of infrastructure gaps. Addressing

these issues would result in a more robust project pipeline, leading to better prioritisation decisions and more success in project delivery.

Project preparation depends upon strategic planning

Argentina's lack of a long-term strategic vision for infrastructure has consequences for project preparation. In the absence of a strategic vision, the focus tends to be on the projects that are perceived to be the most urgent rather than the most strategically important projects. Urgency results in insufficient time for proper project preparation and poorly informed prioritisation decisions.

Improvements in strategic planning would enable agencies to identify the most strategically important projects for their future investment pipeline with sufficient time to do proper project preparation before a funding approval through the budget is needed.

Project preparation capacity and capability

Strategic planning also enables agencies to identify how they need to increase project preparation and delivery capacity and capability to meet future needs.

Successful project development requires strong institutional capacity (OECD, 2017^[42]). As part of the prioritisation of projects and then detailed project preparation, a number of studies are carried out with increasing degrees of accuracy. The studies include investigations of the demand for the infrastructure service, the cost of the asset and environmental impact assessments as well as cost/benefit analysis. This then serves as the basis for the project development. These studies have proven difficult to do well in a number of cases. This can be because of a lack of organisational, technical, commercial skills, co-ordination and experience, and the process can at times be forced due to political pressures, which leads to scope changes. In the end, this may result in an expensive contract, a failed bidding or (if relevant) a project unable to attract private financing.

OECD governments consider an agency's capability and capacity, including organisational, technical, and commercial skills and experience, when prioritising projects. Infrastructure gaps in a sector may be large, but if the responsible agency only has limited project management capability, it should only undertake as many projects as it can manage within that capability. In some cases, it may be necessary to increase the project management capability within an agency before they can take on the pipeline of projects needed to fill the infrastructure gap.

In some OECD countries, central government agencies assist line agencies in the early stages of project preparation. For example, the United Kingdom's Infrastructure and Projects Authority supports government departments in delivering the country's most complex and high-risk projects, paying particular attention to the early stages of development.

Focussing on large and complex projects

Resolution 125/2012 provides for DNIP to review and issue an opinion on BAPIN projects costing in excess of ARS 200 million. A large number of projects exceed this threshold. DNIP's limited resources may be more effective if they focus on a smaller number of larger and more complex projects. DNIP is considering appropriate thresholds, above which requirements for more detailed and consistent analysis will be required. Furthermore, Resolution 125/2012 is being revised to have different levels of intervention depending on the amount of resources invested in the project (See Box 46).

As discussed in Box 38, some OECD governments have introduced an additional step for large and complex projects to assess the projects' strategic merit before a full investment proposal is prepared for the budget process. This increases the likelihood that the projects approved to proceed into the budget process will be well prepared. It also provides central agencies with more time to review those proposals.

Assessing the infrastructure market

The Investment Committee's determination of the spending caps for each sector should take into account not only the infrastructure gaps in each sector, but also an assessment of how the supply of "Ready to Go" projects in each sector matches up with the ability of the relevant public and private sector entities to successfully deliver those projects.

DNIP's review of investment proposals in the BAPIN is likely to partially fulfil the need for an assessment of the ability of the relevant public sector entities to successfully deliver their proposed projects. There may also be scope for the Secretariat of Modernisation of the JGM to review and support the development of project delivery skills in public sector entities.

An assessment of the capability and capacity of the relevant private sector markets includes consideration of the adequacy of skills in the labour market, the availability of raw materials, and the capacity of private sector organisations to bid for and deliver projects. In a country the size of Argentina, the country cannot be considered as a single construction market, so regional constraints on supply and demand must be taken into account. The development of a place-based approach for infrastructure investment, as recommended in Section 5, can enable consideration of whether the private sector's capability and capacity in a region is sufficient to deliver the infrastructure investment proposed across all sectors in that region.

OECD governments monitor the capability and capacity of the private sector market to deliver the future project pipeline. When necessary, governments take action to enhance the capability and capacity of the private sector. The State Government of Victoria, Australia provides good examples on the way government can ensure that the necessary skills will be available to the private sector for the future project pipeline (Box 41).

Box 41. Developing skills for the infrastructure pipeline

The State Government of Victoria, Australia is delivering a pipeline of major tunnelling projects stretching over more than a decade. By 2014, no tunnels had been built in Melbourne, the state capital. In 2019, tunnelling was underway on a major road project and a major rail project. By the time construction of these projects is completed, work will have started on an additional road tunnel project and two rail tunnel projects.

To train and skill local workers in underground construction and tunnelling, the State Government funded the establishment of the Victorian Tunnelling Centre. The Centre is modelled on the successful Tunnelling and Underground Construction Academy established as part of London's Crossrail Project. The Centre will offer courses leading to Certificate and Diploma qualifications, as well as safety-based training for working underground. By 2021, it is estimated that up to 5 000 students will participate in training courses at the centre each year.

Source: (Premier of Victoria, 2018)

3.4. Conclusions and recommendations

Argentina's public investment framework was developed almost three decades ago without major updates. A more disciplined application and enforcement of the framework is now providing a foundation for evidenced-based project prioritisation in the budget process. The effectiveness of the improvements can be compromised by the uncertain level of funding available for infrastructure investment, the limited checks and balances in the process, and the ability of agencies to reprioritise funding after the budget has been

approved by Congress. In addition to reforms on affordability and value for money, discussed in Section 4, the prioritisation process could be improved by providing a target level of investment, clarifying and further developing the role of the DNIP, and introducing an additional stage in the public investment budget process to allow for the scrutiny of large projects.

Identify a target level of annual infrastructure investment based on a strategic plan, and incorporate it into the medium-term expenditure framework

A strategic vision will provide an understanding of the level of infrastructure investment required over the long-term to achieve the vision. This understanding should be used to develop a target for the annual public investment budget, rather than determining public investment by how much of the total budget remains after other needs are met.

The work to identify a target level of annual infrastructure investment should be undertaken by the body appointed to develop the strategy in consultation with the Ministry of Treasury. The Ministry of Treasury should then incorporate the target into its medium-term expenditure framework. The parallel OECD Review on Budget Governance provides related recommendations for improvements to medium-term fiscal planning and development of a long-term fiscal sustainability report.

Clarify and develop the role of DNIP in the prioritisation of investment proposals

In particular, resolution 125 of 2012 could be updated to:

- Provide for DNIP to advise on the overall supply of “ready to go” projects for each agency.

The thresholds currently under DNIP’s consideration, must be set at a level such that DNIP is able to concentrate its attention on those projects that are either high value or may involve significant fiscal risks. Recent reform efforts to have different levels of intervention depending on the amount of resources invested in the project are well aligned with this objective (Box 46).

Introduce an additional stage in the public investment budget process, in which information on projects valued above a certain value must be submitted in the BAPIN at an earlier date to enable a detailed analysis of those projects.

To assess the practicality of introducing such an additional stage, DNIP should:

- Review the annual public investment calendar to identify how the timing for such an additional stage could be incorporated into the public investment budget process
- Investigate the most common causes of delay and cost overruns during the delivery of large projects in Argentina and use this to analyse investment proposals to help identify and mitigate those risks.
- Review the value of projects submitted in the public investment process in recent years to identify a threshold above which a relatively small number of projects represent a significant proportion of the total value proposals.

4. Ensuring affordability and value for money

Given the fiscal constraints Argentina faces, it is crucial to ensure that infrastructure projects are affordable, and that the overall investment envelope is sustainable. This section focuses on instruments and procedures to ensure that the projects implemented are affordable and represent value for money. It considers the instruments and processes concerning value for money and affordability within the current public investment process and compares them with OECD best practices. This section concludes with

recommendations on improvements to instruments and procedures to ensure that projects are affordable and represent value for money.

4.1. Instruments and procedures to ensure value for money

Procedures used to ensure feasibility, affordability and cost efficiency that underpin the allocation of funding to specific investments

The Government of Argentina does not currently have detailed guidance on the recommended procedures to ensure feasibility, affordability and cost efficiency of proposals being prepared for the public investment process.

Governments must ensure that infrastructure projects are affordable and the overall investment envelope is sustainable (OECD, 2017^[42]). The OECD publication *Getting Infrastructure Right: A framework for better governance* provides detail on the concepts of affordability and value for money.

The BAPIN, if used consistently, has the potential to capture information on the feasibility, affordability and cost efficiency of investment proposals; However, the BAPIN does not, in itself, ensure that analysis underlying this information is conducted on a consistent basis and comparable across projects. Resolution 125/2012 defines the information that must be entered into the BAPIN and the role of DNIP in reviewing investment proposals. However, the information requirements are high level and there is no detailed guidance on the recommended procedures and methodologies to ensure feasibility, affordability and cost efficiency.

Some agencies utilise elements of good practice when preparing investment proposals. For example, the Ministry of Transport has sophisticated demand models for the urban transport and cargo sectors, cost models for the cargo railway and road sectors, and uses data from the Buenos Aires public transport system's SUBE travel card to calibrate its urban transport model. Nevertheless, in the absence of detailed guidance on the preparation of investment proposals, different agencies (or even different project teams within a single agency) may prepare their investment proposals using different methodologies and with different levels of rigour. Consequently, it may not be possible to compare the feasibility, affordability and cost efficiency of specific investments on a like-for-like basis.

Resolution 125/2012 is under review, and DNIP is considering appropriate thresholds above which requirements for more detailed and consistent analysis will be mandated. This review provides an opportunity to introduce more detailed methodologies to promote consistency in the preparation of public investment proposals across government.

OECD countries typically have well-developed procedures to ensure feasibility, affordability and cost efficiency of projects. Governments in these countries provide detailed guidance on the analysis that must be conducted for investment proposals entering the public investment budget process (Box 42).

Box 42. Guidance on investment analysis in Norway

In line with best international practice, most transport projects in Norway undergo a thorough assessment of the positive and negative impacts, both directly on transport users but also on the economy and society. The requirements in terms of analytical work are set out in the government's Instructions for Official Studies of Central Government Measures, which apply to all public spending proposals.

The Instructions require that central government bodies conduct impact assessments during the development of investment proposals, and economic analyses for measures that are expected to give rise to major benefits or costs.

As in most OECD countries, cost-benefit analysis (CBA) is used to rank alternative projects and alternative versions of the same project. In Norway, the CBA guidelines are embodied in a very comprehensive document, "Circular R-109". The guidelines include requirements to account for the wider ramifications of transport projects using supplementary estimates and analysis, including environmental impacts.

Source: (OECD, 2017^[45])

Consideration of risk in the value for money assessments

Public investments involve risk, which should be considered when developing proposals for the public investment budgets (Box 43). Resolution 125/2012 requires that the socio-economic evaluation entered into the BAPIN includes considerations on the sensitivity of the results to changes in the main variables and the risks and uncertainties implicit in the values adopted. There are no manuals or standardised processes for such risk analysis, but some Ministries use sophisticated tools similar to those seen in OECD countries. The Ministry of Transport's transport planning models are an example.

Box 43. Risk and uncertainty in public investment projects

All projects involve risk. Large infrastructure projects have a poor reputation for coping with risk, often resulting in time and cost overruns. However, this is not an inevitable result of public investment in infrastructure.

It is poor practice for risk to be either ignored or dealt with in an arbitrary way, for example, by simply adding a 10% 'contingency' onto the base cost estimate to create the project budget. Rather, a good practice is that all significant project risks are identified and then each is analysed in terms of likelihood and potential consequence.

A further level of analysis is the concept of uncertainty. Uncertainty is the level of confidence that can be put on the identification and cost estimation of the potential risk consequence. Good planning can reduce the level of uncertainty, and the level of uncertainty can reduce as the project progresses and the risks are better known and understood, but uncertainty can never be eliminated from budgeting, procurement or project delivery.

Source: (Department of Treasury and Finance (Victoria), 2012)

Without proper consideration of risk, assessments of feasibility, affordability and cost efficiency are unlikely to be accurate. A consistent and appropriate approach to the inclusion of allowances for risk in project budgets is essential to provide complete information to decision makers on the likely costs of projects. The approach adopted should take into account the likelihood of optimism bias, which is the demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, project duration and benefits delivery (HM Treasury, 2018^[46]).

Project budgets should include sufficient allowances for risk so that the budget reflects the most likely outcome, rather than “everything going as planned” (Flyvbjerg, Bruzelius and Rothengatter, 2003^[47]). This will not ensure every project can be completed within the allocated budget, but it does provide a high likelihood that the public investment portfolio as a whole can be delivered within the overall budget.

Governments in some OECD countries have developed sophisticated approaches to allowing for risk and optimism bias in project budgets. These approaches can include:

- Requirements that project budgets include both an allowance for the most likely outcome taking into account known risks, and a separate allowance for optimism bias or uncertainty (which, by definition relates to “unknowns”)
- Allocation of funding for known risks to the agency’s unit responsible for delivering the project
- Governance requirements regulating access to allowances for optimism bias or uncertainty.

The benefits of these approaches can include the following:

- Project teams have funding to meet the likely costs resulting from known risks.
- Additional funding is available (subject to appropriate governance processes) if this becomes necessary because actual costs exceed the expected costs – there is generally no need to defer other projects so that their funding can be reallocated to meet cost pressures
- If the allowances for risk and optimism biases are robust, a balanced outcome can be expected across the public investment programme, such that the total public investment budget is sufficient to meet the total costs of the projects in the programme, even if the actual costs for individual projects differ from the costs that were estimated when the budget was prepared.

Denmark’s budgeting regime for infrastructure projects illustrates one approach (Box 44). Approaches such as this that allow remaining funds to be assigned to other projects face a risk that those other projects lack merit or are insufficiently prepared and would not receive funding if it was requested through the budget process. In these circumstances, strong governance arrangements should be put in place to ensure that the surplus funds are only allocated to worthwhile and well-prepared projects.

Box 44. Budgeting to limit cost overruns in Denmark

In 2007, to address a history of cost overruns on transport projects, Denmark introduced a new budgeting regime. The estimate for a project’s cost is supplemented with a 50% reserve at the earliest stages of planning and 30% once the environmental impact assessment has been performed. This total sum is budgeted up front and appropriated by Parliament in the annual budget act. If a project comes in under-budget, the remaining funds can be assigned to other projects. To avoid the risk of overpriced tenders and price-fixing under this approach, a high level of competition has to be ensured.

The reduction in the reserve from 50% at the earliest stages to 30% after the environmental impact assessment is performed reflects the reduction in uncertainty that occurs as additional preparation work is undertaken.

Source: (OECD, 2017^[12])

The impact of future price changes due to inflation, market conditions, peaks and troughs in demand, and legislative impacts must also be incorporated in project cost estimates (Department of Treasury and Finance, 2012^[48]). There is always a degree of risk and uncertainty in assessing these impacts. In conditions of high price volatility, the risk associated with such price changes should be brought to the fore in the presentation of the project budget.

Assurance and quality control in the public investment process

There are limited assurance and quality control processes in Argentina's public investment process. The system does not have central checks and balances beyond DNIP's non-binding feedback, and there is no apparent point in the public investment process at which a project can be rejected due to inadequacies in the submitted information. Modifications to the Resolution 125/12 currently under analysis contemplate including an additional step prior to the public tender process by which the DNIP will verify that the works to be contracted out are coherent with the information submitted through the BAPIN (i.e. location, costs, purpose).

DNIP evaluates the information entered into the BAPIN, issuing a technical report and a draft opinion as to whether the project qualifies to be included in the budget. DNIP's options in providing its opinion are limited to either approving the project, or approving it with observations. If DNIP approves a project with observations, its feedback is not binding on the proposing agency.

To provide more effective feedback to agencies during the budget formulation process, DNIP needs to build its knowledge of each sector. DNIP acknowledges this need, but its ability to conduct in-depth analysis and provide detailed feedback will continue to be limited by the need to review all existing and new projects costing more than ARS 200 million in the limited timeframe afforded by the budget process.

Conventional evaluation techniques consistently under-estimate costs and over-estimate benefits, even when the project team considers risk during the evaluation process (Flyvbjerg, 2009^[49]). Recommended methods to address this optimism bias include obtaining an "outside view" of the estimates of costs, benefits and risks, and improving project governance (Flyvbjerg, 2009^[49]).

An external perspective can be obtained through independent peer review processes such as project assurance reviews and techniques such as reference class forecasting, which uses the actual cost and benefit outcomes of past projects to develop a statistical model of the likely outcomes of a proposed project (Flyvbjerg, 2009^[49]). These techniques should be considered for inclusion in the guidance for agencies preparing investment proposals.

Governments in some OECD countries, including Norway, the United Kingdom, Australia and New Zealand, have introduced assurance processes for their public investment programmes that include independent assurance reviews of projects at key points in the project lifecycle (Box 45).

Box 45. The two-stage quality assurance process for large projects in Norway

In Norway, transport projects with estimated costs in excess of NOK 750 million (approximately USD 80 million) are subject to additional scrutiny, prior to inclusion in the budget. The process includes input from two independent reviews:

1. The first review (QA1) focuses on quality assurance of the choice of concept. It is conducted prior to the government cabinet's selection of projects for inclusion in the National Transport Plan. The central purpose of QA1 is to check, at a relatively early stage, that the project has undergone a process of "fair and rational" choice. The external reviewer's role includes analysis as well as review of documents. For instance, the external reviewer is required to undertake a cost-benefit analysis of impacts that incorporates risks.

2. The second review (QA2) focuses on quality assurance of the management base and cost. It applies to projects that are included in the National Transport Plan but have yet to be submitted to parliament for approval and funding. The purpose of QA2 is to check the quality of the inputs to decisions, including the cost estimates and uncertainties associated with the project, before it is submitted to parliament to decide on funding allocation. It includes assessment of cost estimates derived from basic engineering work and assessment of at least two alternative contracting strategies. In addition, QA2 focuses on project management in the implementation phase.

Source: (OECD, 2017^[45])

The role of cost-benefit analysis in investment prioritisation and selection

Argentina's public investment needs are affected by past under-investment in both new infrastructure and maintenance of existing infrastructure. Past under-investment in new infrastructure has created infrastructure gaps. Past under-investment in maintenance of existing infrastructure has resulted in the need for rehabilitation, which is likely to be inefficient from a whole-of-life value for money perspective.

It is not clear that the best value for money projects are being prioritised. Each ministry adopts its own prioritisation guidelines, but there are neither standardised manuals for technical evaluation of project proposals nor formal mechanisms to ensure that the results of these analyses are used as input for project prioritisation.

Box 46. Guidelines for projects submitted to the BAPIN

In 2019, the BAPIN released a new feature for the preparation of the 2020-22 investment budget. To ensure the transparency of the budget formulation process, it generated publicly available data sheets for every project submitted. For the BAPIN to be able to deliver this feature, the DNIP had to ensure homogenous information across all projects submitted by public entities, adopting a number of guidelines for the formulation and evaluation of investment projects. Besides providing instructions to upload the projects to the system, these guidelines establish a criteria for project evaluation (i.e. type of evaluation, methodology and indicators), as follows:



- Qualitative or quantitative indicators: needs assessment and analysis of the issue to be addressed by the project using qualitative or quantitative indicators that can be used as proxy for traditional economic evaluation methodologies;
- Economic indicators: correlation between the expected outcome and the amount of the investment for the specific project;
- Economic evaluation methodologies and techniques: evaluation techniques commonly used, including but not limited to cost-benefit analysis, minimum cost flow, equivalent annual cost and cost-efficiency.

Source: (Dirección Nacional de Inversión Pública, 2019^[50])

Formal processes for ensuring value for money are common in OECD countries (OECD, 2017^[42]). In some countries the processes only apply to projects above a certain value. The Central Budget Authority usually has a formal gatekeeping role in approving infrastructure projects (OECD, 2017^[42]). If approval by the Central Budget Authority is not obtained, the project cannot proceed.

OECD countries typically use cost-benefit analysis to determine value for money and thus inform the project selection process (OECD, 2017^[42]). CBA is not considered to be able to stand alone but should complement other types of assessment, such as environmental impact assessment. The most important role is to provide justification for project selection and financing. For many governments it is also considered as an accounting, transparency and monitoring tool. In most countries CBA is prepared in the pre-feasibility stage when several project alternatives should be assessed or in the feasibility phase.

Affordability analysis

Public investment in Argentina has been affected by a lack of borrowing capacity and by the public investment being calculated as the remaining budget after other funding needs have been met. This explains the low investment levels reported in the past decades. If affordability is threatened by cost overruns during budget execution, funds are reprioritised within the currently available budget. This practice limits predictability and government's capacity to plan multiyear investments in a coherent manner.

OECD countries typically have in place an assessment of affordability for the public budget (OECD, 2017^[42]). In many cases, responsible institutions for the assessments are the Ministry of Treasury or the corresponding line ministry.

Affordability for government is intrinsically linked to the government's fiscal strategy, particularly the objectives or rules concerning the budget balance and the level of government debt (Box 47). The fiscal strategy and related regulations determine the available public investment budget, and hence the total sum of projects that are affordable. The investment prioritisation and selection process then determines which specific projects will be funded within this affordability cap.

Box 47. Affordability and the Fiscal Strategy

When an infrastructure project is approved in the government budget, the financing typically comes from one of two sources:

1. The surplus (if any) arising from a positive fiscal balance, due to revenues exceeding operating costs and interest payments; or
2. An increase in net debt.

Thus, in assessing the affordability of public investments, the government should consider projections of the budget balance and net debt over the period in which the investment costs will be incurred. This determines the government's public investment budget in terms of cash flow to finance projects. The fiscal strategy is a key input to the projections of the budget balance and net debt, and hence is a driver of the public investment budget.

Depending on the regulatory framework and the government's fiscal position and objectives, the public investment budget over the medium term may largely be an output determined by other fiscal objectives, or the desired level of public investment budget may in itself be an objective that influences the other parameters of the fiscal strategy.

The State Government of Victoria, Australia, provides an example of a government adjusting its medium-term fiscal strategy to achieve a desired level of public investment budget so that a specific public investment programme is affordable within the constraints of the strategy. From 2014 to 2018, the government's fiscal strategy included objectives of delivering operating surpluses, restricting net debt to no more than 6% of gross state product, and maintaining a AAA credit rating. In November 2018 the government was re-elected on a platform that included increasing the cap on net debt to 12% of gross state product to fund an infrastructure programme designed to meet the challenge of a growing population and increase productivity (Department of Treasury and Finance (Victoria), 2019). Two major credit ratings agencies advised that, with this increase in debt, Victoria's economic fundamentals and financial management would continue to justify a AAA rating (Towell & Carey, 2019).

Source: OECD.

An assessment of affordability should take into account all direct and contingent liabilities that may arise from the proposed investments. Robust project costings, including risk adjustments, are therefore essential to the integrity of the affordability assessment. Governments in OECD countries seek consistent and robust costings and risk adjustments through procedures such as those described in Box 44 and assurance processes such as those described in Box 45.

Protecting affordability and value for money during the procurement process

Once the budget has been approved, project governance, assurance and quality control processes should play an important role in ensuring the delivery of the value for money outcome that was projected at the time the budget was approved for a project.

In Argentina, after the budget has been approved, agencies can reprioritise projects and reallocate funds between their projects. These reallocations can be used to meet cost increases due to the materialisation of risks. In the case of projects funded by the national government but to be delivered by provincial governments, negotiations with the provinces after budget approval can also result in changes to project funding through reallocations.

Cost overruns on projects are common in Argentina. If affordability is threatened by cost overruns, funds are reprioritised within the currently available budget. This protects affordability of the overall programme, but has the potential to compromise value for money by reducing or deferring project benefits or allowing cost increases.

Ensuring that project budgets include appropriate allowances for risk and contingencies, and then managing those allowances under robust governance arrangements, would potentially mitigate the adverse impacts of reprioritising funds between projects during project execution.

There is a system in place through which the Ministry of Treasury monitors the progress of works and capital expenditure, but there are only limited governance arrangements for the delivery process. Article 7

of Law 24,354 places responsibility for control of delivery of the works with the relevant sector agency. For projects above a certain cost, DNIP's approval is required before work can commence. There may be significant interaction between the agency and DNIP in relation to that approval.

For certain types of projects, specific governance, assurance and quality control processes are applied during the delivery process. For projects with external financing, the Ministry of Treasury and the JGM are involved in the loan negotiations. For PPPs, the Ministries of Finance is involved in the feasibility analysis that contributes to the opinion required under Article 13 of the PPP Law before the project can be tendered.

Governance structures should reward accurate estimates of costs and benefits and punish inaccurate ones (Flyvbjerg, 2009^[49]). The project governance structure should ensure that projects can be stopped or appropriately re-scoped if it becomes evident after the budget decision that costs have been materially under-estimated or benefits have been materially over-estimated.

Good assurance independently assesses whether the elements required to deliver projects successfully are in place and are operating effectively (National Audit Office, 2012^[51]). It can identify and help mitigate any risks to successful delivery.

OECD governments commonly apply comprehensive and integrated monitoring, governance arrangements and assurance processes throughout the project lifecycle. These elements provide linkages between the budget process and the procurement process. They play an important role in increasing the likelihood that the project scope and benefits presented in the budget process will be delivered within the expected cost and timelines.

Strong project governance arrangements mean strong project delivery (Department for Infrastructure and Transport, 2010^[52]). Strong project governance includes appropriate checks and balances to ensure there is an ongoing assessment of whether a project remains value for money as it evolves through its lifecycle. Large projects can entail fiscal risks that are material to the overall public investment programme. For this reason, governance of large projects should not be left in the hands of the responsible sector ministries: Central agencies responsible for oversight of the public investment programme should be part of the governance structure. Central agency involvement in governance of large projects is common in OECD countries (Box 48).

Box 48. Central agency involvement in governance of major projects in the United Kingdom

The United Kingdom's Infrastructure and Projects Authority has established a Major Projects Review Group (MPRG). The MPRG is a pool of experts, from which panels are put together to scrutinise the largest and most complex major government projects. It is co-chaired by the Chief Executive of the Civil Service and the Second Permanent Secretary to the Treasury. MPRG Panels challenge projects on deliverability, affordability and value for money at key points in the project lifecycle.

Projects are selected for MPRG review according to the following criteria:

- Projects with a whole life cost over GBP 1 billion.
- Projects that are high risk and complex in their procurement and delivery of benefits.
- Projects that set a precedent, or are highly innovative.
- Other projects 'of concern' (as agreed by the MPRG Chair, may be recommended by HM Treasury or the Infrastructure and Projects Authority).

Source: (Infrastructure and Projects Authority, 2016)

Ensuring public infrastructure is adaptable and resilient

Public infrastructure needs to adapt over time to changing circumstances and needs to be resilient. Disruptions to these critical systems affect the delivery of basic services and can produce large economic impacts by preventing the mobility of labour and inventory. In June 2019 the importance of infrastructure resilience was highlighted by the widespread failure of the electricity grid in Argentina and neighbouring countries.

It can be difficult to factor uncertainty into the public investment process. A strategic planning process that incorporates the use of foresight techniques (discussed in Box 8), is a valuable tool to provide an understanding of future challenges and their implications for public investment. The role of strategic planning in supporting resilience is illustrated by the Netherlands, a country that has dealt with geographic challenges for many years (Box 49).

Box 49. The relationship between long-term infrastructure planning and resilience in the Netherlands

In the Netherlands, infrastructure plays a critical role for the physical survival of the nation. Due to its topography, the country is in a constant battle with the North Sea. Thus, flood protection and water management infrastructure have long been priorities of Dutch government planning. Climate change is adding a further layer of challenges to a country with historic vulnerability to environmental forces. In addition, the Netherlands is a highly urbanised country with an elevated population density where land is scarce, further increasing its vulnerability.

This particular set of geographic and demographic circumstances and challenges has strongly influenced the nature of infrastructure planning in the Netherlands. Dutch infrastructure planning is characterised by its long-term perspective, its cross-sectoral integrated approach, and its close ties with spatial planning.

Source: (OECD, 2017^[12])

Resilience planning for existing infrastructure can be incorporated into an asset management framework. Resilience of new infrastructure is significantly more cost-effective if it is built into the project from the start, rather than seeking to mitigate risks later. One approach to dealing with uncertainty and introducing resilience is to try to future proof projects by introducing flexibility in the form of real options. A “real option” is an alternative or choice that becomes available through an investment opportunity or action. For example, designing a project based on current climatic patterns with the flexibility in the future to upgrade to take account of different climatic patterns provides an option to deal with more (or less) severe climate change.

Real options analysis is an investment evaluation and decision-making framework that builds on the traditional cost benefit framework (Department of Treasury and Finance, 2018^[53]). It guides agencies to embed flexibility into an investment strategy to better structure and manage projects impacted by uncertainty. Some OECD governments recommend that real options analysis be considered during project evaluation to provide flexibility during procurement and subsequent phases of the project lifecycle (Box 50).

Box 50. Use of real options analysis to provide flexibility to respond to evolving risks

The United Kingdom's suite of guidance on appraisal and evaluation includes specific guidance on accounting for climate change. The initial project risk assessment should examine the suitability of a real options approach, which can be developed using a decision tree to identify future points at which flexibility can be introduced to respond to evolving risks. For example, the flexibility may be in the form of future-proofing the project by master-planning for an upgrade that may be required if climate change impacts exceed certain levels.

The State Government of Victoria, Australia, recommends that a "triage approach" be taken in the initial evaluation of a public investment to assess whether a real options approach will be beneficial. The triage approach involves three steps:

1. Identify and assess the nature and extent of any uncertainties that may impact the investment
2. Assess the scope for flexibility within the investment
3. Determine any actions that can be incorporated into the investment strategy to better manage uncertainty.

Sources: (Department of Treasury and Finance (Victoria), 2018) (HM Treasury and Department for Environment, Food and Rural Affairs, 2009)

4.2. Meeting the infrastructure challenge by harnessing PPPs

In Argentina, PPPs are distinguished from concessions. This distinction is common in Latin American countries, although the precise differences vary from country to country. The legal framework for concessions is regarded as lacking risk allocation and mitigation mechanisms. The PPP Law, passed in 2016, provides for more robust risk allocation and proactive risk mitigation, hence the PPP law is the preferred framework for private investment in public infrastructure.

A clear framework supported by competent authorities

The PPP Law and the institutions and practices put in place to support it contain many elements regarded as international good practice, without overly constraining the government's ability to choose the optimal structure and process for each project. The strengths of the framework and the institutions include the following:

- The PPP Sub-secretariat in JGM and Banco de Inversión y Comercio Exterior (BICE, the National Development Bank) together provide the central policy expertise and PPP technical capability to support procuring agencies and provide a consistent whole of government approach to PPPs.
- The PPP Law allows the Government significant flexibility in providing financial support and contributions. Such support mechanisms can be matched to the preferred risk allocation for the project. This overcomes a key disadvantage experienced with the concessions law, which offers less flexibility.
- Extensive marketing of projects is undertaken prior to commencing the tender process to ensure there is sufficient competition in the market. Competition helps ensure the effective transfer of risk, that optimal solutions are developed by the private sector, and that the most competitive bid is tendered (OECD, 2012^[43]).

- Dialogue can occur between the procuring authority and pre-qualified bidders. OECD governments have found that extensive dialogue and interaction with the private sector results in better alignment between government and the private sector and higher quality bids.
- The framework provides flexibility in the criteria used to select the preferred partner during the tender evaluation. OECD governments adopt a range of strategies to maximise value during the tender process, including selection processes that focus competition on scope, quality, or benefits, rather than price (Box 51).
- The procuring authority has broad inspection and control powers to assist it in effectively managing the PPP contract.
- The General National Auditing Office can audit PPP contracts and their outcomes.
- Vialidad Nacional, the procuring authority for the initial road PPPs, is well prepared for the construction and operational phases of these projects.

These strengths of the framework and the institutions provide a degree of certainty for investors, but macroeconomic conditions may continue to create challenges for the PPP market.

Box 51. PPP tender strategies to maximise value

Some OECD governments have adopted tender processes that seek to maximise value rather than minimise cost.

In British Columbia, Canada, a firm “affordability ceiling” is announced in bid documents for each PPP. A “scope ladder” is also defined, defining how and in what order of priority a bidder should remove or reduce certain specifications, if this is necessary to bring the price of their bid below the affordability ceiling.

The New Zealand PPP model adopts a ‘more for the same’ approach to value for money. This seeks to maximise the quantum and quality of outcomes that can be achieved for an expected cost, and contrasts with the ‘same for less’ approach adopted in some other jurisdictions where the tender process focusses on choosing the lowest cost bid. This reinforces that PPP procurement is intended to improve the delivery of asset and service outcomes and act as a catalyst for change in the public sector.

Sources: (World Bank Institute and Public-Private Infrastructure Advisory Facility, 2013);and (The Treasury (New Zealand), 2015)

The role of value for money in the selection of PPPs

Governments should ground the selection of PPPs in value for money. To understand the role of value for money in the selection of PPPs in Argentina, it is necessary to understand the particular PPP structure that is being used, and the consequences of that choice.

The structure adopted for the road PPPs has two features that are permitted under the PPP Law and authorised by the Budget Law for 2018 (Law 27,431):

1. A “PPP Trust” structure
2. A “*Títulos de Pagos por Inversión* (TPI)” financing mechanism.

These features have precedents in Latin America, but are not standard in similar PPPs in OEDC countries.

The “PPP Trust” Structure

The PPP Trust structure creates a stand-alone trust as the government party to the PPP contract (Box 52). This contrasts with the more common practice worldwide in which the government party to the PPP contract is a Ministry or other government authority

The precise reasons for using the PPP Trust structure are not explicitly documented in the legislation, but several reasons can be inferred:

- From the government’s perspective, the PPP Trust structure changes the form of the government’s financial obligations, but not their net impact. Under a standard PPP approach, the government would collect taxes and user fees and make payments to the private partner. Under the PPP Trust approach, certain tax revenues and user fees are assigned by government to the PPP Trust and used to make the payments to the private partner, with the government guaranteeing any shortfall. Thus, the PPP Trust structure reduces both the government’s revenue and its direct liabilities, but creates a contingent liability for any shortfall. The net financial outcome for government is the same under either approach; However, the budgeting and financial reporting outcomes may be different. If so, the budgeting and financial reporting frameworks may be creating a bias in favour of (or against) use of the PPP Trust structure.
- From the private sector’s perspective, the PPP Trust structure provides a government party to the PPP contract that is structurally separated from government. It may therefore be perceived as having greater institutional longevity and to be insulated from specific risks associated with governments such as the risk that funds for payments are not appropriated when required. An entity that is structurally separate from the government might ordinarily be expected to have a lower credit rating than the government; However, due to the government guarantee and other structural features, the TPI certificates issued by the PPP Trust may have creditworthiness equal to the sovereign rating of Argentina (de la Torre et al., 2018^[54]).

Box 52. “PPP Trust” structure in Argentina

In 2016, with the issuance of the PPP law, the Argentine government incorporated the use of trust structures for the payment of obligations originating from PPP contracts executed by public sector entities. The PPP trust is authorised to make and guarantee payments of PPP contracts, provide loans or any other type of financing mechanisms and issue securities or bonds. Furthermore, any commitments or obligations undertaken by the PPP Trust with respect to PPP contracts are not considered public debt nor are subject to public procurement rules.

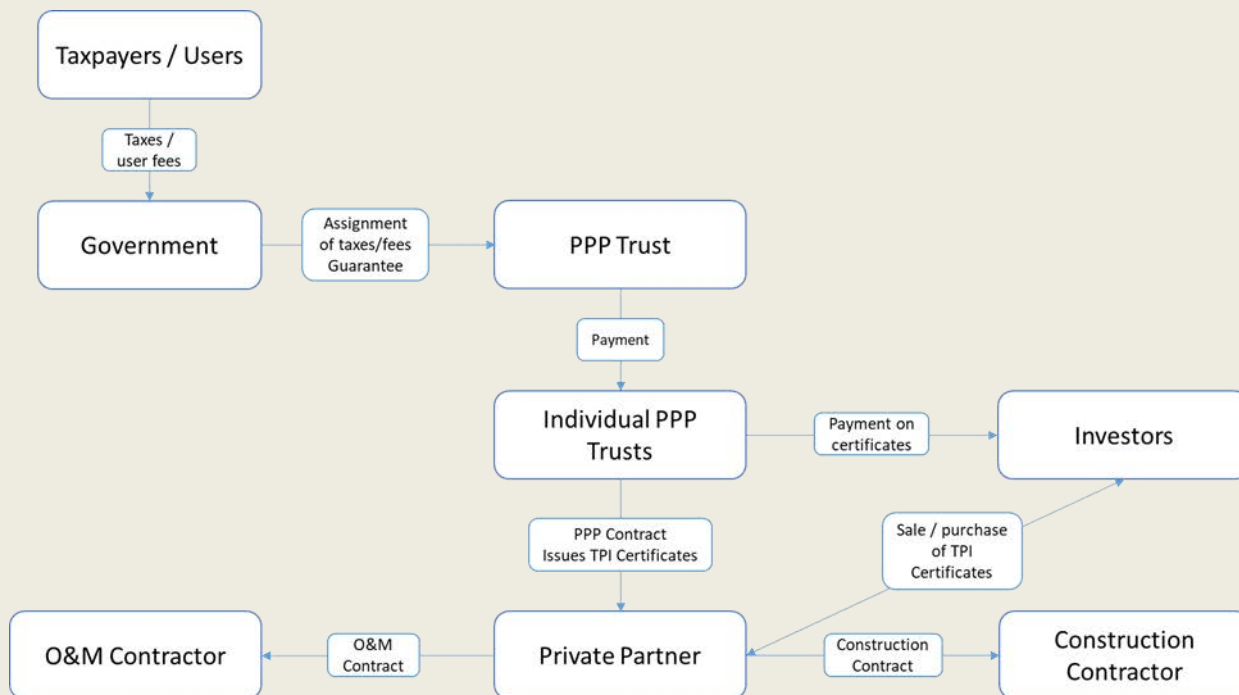
The structure contemplates the creation of a PPP Trust and the possibility to set up additional individual PPP Trusts that stem from the first one or, alternatively, the creation of independent sub accounts within the PPP Trust per each PPP programme or project. Under this scheme, the government assigns certain revenue streams to the PPP Trust, which the PPP Trust uses to meet its payment obligations under the PPP arrangement. The government provides a guarantee, agreeing to make up for any shortfall if the revenue of the PPP Trust is insufficient to meet its payment obligations (de la Torre et al., 2018^[54]). In the case of the initial road PPPs, the revenue streams consist of excise on fuel and road user charges.

During the construction phase of the project, the PPP Trust issues a TPI certificate representing the construction progress made by the private partner. This certificate grants the private partner an irrevocable and unconditional right to receive semi-annual US Dollar denominated payments over 15 years. Provided certain requirements have been met by the private partner, these payments will not be subject to any performance related deductions (de la Torre et al., 2018^[54]). The sale of the TPI certificates in international

capital markets can provide the private partner with cash as construction progresses. This cash can be used by the private partner to make progress payments to its construction contractor.

Once the infrastructure is operational, the assigned taxes and user fees are paid to the PPP Trust. Under the terms of the TPI certificates, the PPP Trust is obliged to make semi-annual US Dollar denominated payments over 15 years. As the investors are now the owners of the TPI certificates, the PPP Trust makes these payments to the investors, not to the private partner. A separate stream of payments is made to the private partner for operating and maintaining the infrastructure. This payment is likely to largely be passed through to the O&M contractor. If the revenue of the PPP Trust is insufficient to meet its payment obligations, the government makes a payment under the guarantee.

PPP Cash Flows once infrastructure is operational



Source: (de la Torre et al., 2018^[54]), (Ministerio de Transporte, 2018^[55])

The TPI financing mechanism

The TPI financing mechanism separates the private partner's revenue related to construction from its revenue related to operation and maintenance of the project (de la Torre et al., 2018^[54]).

A generally accepted principle applied to PPPs that involve construction as well as operations and maintenance, is that the private partner is only paid (by government or by users) for the delivery of services after construction has been completed. There are no payments during construction. There is a variety of circumstances in which governments depart from this principle, including the following:

- If the project is not commercially viable (user charges will not meet all of the costs of the project), the government may decide to make payments during construction to fill the "viability gap"
- If liquidity constraints affect the project, payments by government during construction may be required to overcome these constraints

- If project costs can be reduced as a result of reducing the level of private capital at risk during the operations period, then payments by government during or at the completion of construction may enhance value for money.

It is important to maintain sufficient private sector capital at risk to absorb the risk the private sector is taking and to incentivise performance. Thus, even in circumstances justifying government payments during the construction phase, it is common practice to require a material level of private investment in the project that is exposed to performance risks during the operations phase of the project.

The TPI financing mechanism unwinds this key principle of private capital being at risk of performance. Every three months during the construction phase of the project, the PPP Trust issues a TPI certificate representing the construction progress made by the private partner. The certificate grants the private contractor an irrevocable and unconditional right to receive semi-annual US Dollar denominated payments over 15 years. Provided certain requirements have been met by the contractor, the payments will not be subject to any performance related deductions (de la Torre et al., 2018^[54]).

It is likely that the private partner will sell the TPI certificates in international capital markets, as has occurred in similar transactions in Peru and Panama (de la Torre et al., 2018^[54]). This will provide the private partner with cash as construction progresses.

The TPI financing mechanism reduces the extent of risk transfer to the private sector. In respect of construction risk, the private partner can effectively earn revenue progressively as construction advances, much like the case in traditional infrastructure procurement. Hence, the incentive for the private partner to complete construction may not be much greater than in traditional infrastructure procurement. In respect of performance risk during the operating phase of the PPP, there is no significant capital at risk of performance. The financiers (purchasers of the TPI certificates) will have no reason to provide any oversight of performance or to step-in if the project encounters difficulties. Hence, the incentive for the private partner to perform in accordance with the contractual requirements may be no greater than in a stand-alone performance-based operations and maintenance contract with no private finance.

The reduction in risk transfer due to the TPI mechanism may reduce the value for money delivered by the PPP option. The relevant government agencies appear aware of this and understand that it would be desirable to move to a standard PPP financial structure.

Use of trust funds for traditional infrastructure procurement

Conceptually, a trust structure and deferred payment securities similar in form to TPIs could also be used as a vehicle for traditional infrastructure procurement. In Argentina, the fact that PPPs can free up budget is a driver for consideration of a project as a potential PPP. This is true in the sense that, under the PPP model, the government does not need to budget for construction costs in the short term. Conceptually, the same result in terms of budget capacity could be achieved through traditional procurement using a similar trust structure and deferred payment securities.

There may also be other structuring approaches, such as infrastructure funds in forms other than trusts, or a stand-alone infrastructure bank, that could be used to achieve the same result in terms of budget capacity for traditional procurement. The possible structures depend upon the legal, budgeting, fiscal and accounting frameworks. The Government of Denmark has used a “State Guarantee Model” to achieve similar outcomes for traditional infrastructure projects under the applicable EU and Danish frameworks (Kaj V. Holm and Thomas Horstmann Nielsen, 2018^[56]).

If there is no structure currently used for traditional procurement in Argentina to free up budget in the same way as a PPP frees up budget, then this creates an institutional bias in favour of PPPs and may lead to projects being delivered as PPPs even when traditional infrastructure procurement would offer better value for money.

Process and criteria used to determine the delivery mode

In Argentina, it is the responsibility of the line agency to identify the appropriate delivery mode for the project. The process to choose a PPP delivery option commences when either the line agency or the PPP Sub-secretariat initiates consideration of PPP delivery of a project. The PPP Sub-secretariat assists line agencies in assessing the PPP suitability of projects. The Finance and Environment Ministries are also involved if required.

Following listing of a potential PPP project in the budget, a detailed assessment of the project is conducted as required by Article 13 of the PPP Law. Listing the project in the budget does not confirm the project will be a PPP, as the Article 13 assessment may conclude that PPP delivery is not appropriate. The Article 13 assessment must be completed before the tender process can commence. The PPP Sub-secretariat and Banco de Inversión y Comercio Exterior (BICE, the National Development Bank) are collaborating on detailed guidelines for this assessment.

The Article 13 assessment must include a cost-benefit assessment regarding resort to the PPP contractual modality, which implies a relative value for money analysis. This assessment currently includes a quantitative comparison of a shadow PPP bid against a public sector comparator, as well as qualitative value for money analysis.

A key driver for PPPs in Argentina is the belief that PPPs free up budget. This implies that a choice is being made between:

- the PPP model that does not require budget funding.
- a traditional delivery model in which there is a call on the budget.

In such circumstances, a question arises as to how the quantitative value for money analysis should be conducted (if at all):

- If budget is not available to deliver the project without a trust structure (or another mechanism that produces a similar outcome) and traditional delivery within such a structure is not permissible, quantitative comparison of the projected PPP costs against a public sector comparator is of little relevance, but qualitative value for money analysis should still take place (Box 53).
- If budget is not available to deliver the project without a trust structure and deferred payments (or similar mechanisms) and traditional delivery within a similar structure is permissible, then traditional delivery within a similar structure should form the basis of a public sector comparator.

Box 53 Value for Money Analysis where there is no valid comparator

Quantitative value for money analysis involves the comparison of a PPP solution against a public sector comparator that reflects the costs of traditional delivery of the same project outputs.

If budget is not available to deliver the project without a trust structure and deferred payments (or another mechanism that produces a similar outcome) and traditional delivery within a similar structure is not permissible, then there is no implementable traditional delivery model that can form the basis of a public sector comparator. Quantitative comparison of the projected PPP costs against a public sector comparator is of little relevance in these circumstances, as it is comparing an achievable delivery solution against a solution that is not implementable and therefore would be wholly ineffective. In this situation, delivery of the project as a PPP may offer an overall net benefit to society even if the cost of the project as a PPP will be higher than the cost would be using a traditional delivery approach if such an approach was possible. The PPP route will at least ensure that the project is delivered, even though it might not be efficient (World Bank Group et al., n.d.^[57])

If there is no implementable traditional delivery model, it is still necessary to conduct qualitative value for money analysis. Qualitative value for money analysis in these circumstances will test whether the project has the appropriate characteristics for successful delivery through the proposed PPP model. If the project does not have the appropriate characteristics, alternative PPP models should be considered and subjected to the same analysis, or a decision can be made to defer the project until budget is available for traditional delivery.

Regardless of the drivers for considering a PPP approach and the outcome of the quantitative analysis, it is considered good practice to also conduct qualitative value for money analysis. Such analysis can test whether the project has the appropriate characteristics to enable the private sector to deliver a value for money outcome through a PPP solution.

An essential question for qualitative value for money analysis is whether the risks of the project can be defined, identified and measured (OECD, 2012^[43]). The less this is the case, the more room there is for conflict over a contract, particularly if the risk eventuates. Potential private partners might also be unwilling, for an acceptable price, to take on risks that are not clearly defined, identified and measured. There should be clear methods in the contract by which risks can be apportioned should they materialise. This is particularly important in cases where risk is difficult to measure. The qualitative value for money analysis conducted as part of the Article 13 assessment for PPPs in Argentina includes consideration of whether the risks of the project can be adequately identified and allocated between the public entity and the private sector. This is consistent with good practice in OECD countries.

Some OECD countries choose between different modes of traditional delivery using a similar qualitative value for money approach as is used to choose between PPP and traditional delivery options (for example, (Department of Treasury and Finance, 2013^[58])). Thus, value for money drives the choice of delivery modes for all projects, whether a PPP option is under consideration or not. In Argentina, the use of different forms of non-PPP road maintenance contracts in different circumstances is consistent with this principle.

Use of the budget process to minimise fiscal risks and ensure integrity in the procurement process

If a PPP contract calls for resources from the public budgets, an authorisation to commit payments from future budgets must be obtained prior to the call for tenders (Article 16 of the PPP Law). Potential PPP projects and the projected costs are included in the BAPIN. Recent Budget Laws have included an Annex detailing projected future payments for PPPs, but not contingent liabilities.

The present value of the net stock of PPP commitments, net of income, must not exceed 7% of GDP (Article 16 of the PPP Law). This limit can be reviewed each year. The approval requirement and the limit on PPP commitments functions as a specific affordability ceiling for PPPs.

The financial structure being used for the initial PPP projects introduces a number of risks that will affect the likelihood and magnitude of government's future contingent liabilities in relation to these projects. Further work is planned to develop the fiscal risk management methodology and associated guidance. This includes adopting the PPP Fiscal Risk Assessment Model (Box 54).

Box 54. The PPP Fiscal Risk Assessment Model (PFRAM)

The PPP Fiscal Risk Assessment Model is a tool that assesses potential fiscal costs and risks arising from PPP projects. The assessment entails gathering specific project information and determining a government's role at key stages in the project cycle. This tool is mostly designed to help PPP units in ministries of finance make informed fiscal decisions on PPP projects based on impacts and risks.

PFRAM generates standardised outcomes based on project specific and macroeconomic data, including fiscal impact projections and a summary risk matrix for the project.

Source: (International Monetary Fund and World Bank Group, 2016)

The contingent liabilities created by the financial structure used for the initial PPP projects is not the only budget impact of the projects. The financial structure requires the government to assign future revenues (such as fuel excise and user charges) to the PPP Trust, thus reducing the future revenue available to the government to meet operating expenses or to invest in infrastructure. A qualitative description of contingent liabilities and fiscal risk associated with PPPs is included in future budget documents. A detailed assessment, quantification and mitigation mechanisms are needed.

The parallel OECD Review on Budget Governance provides recommendations for improvements to medium-term fiscal planning and development of a long-term fiscal sustainability report. In implementing those recommendations, the government should take into account all of the potential PPP-related impacts, including:

1. The commitment of future government revenue streams, such as fuel excise and user charges, to PPP trusts
2. The transaction costs and contract management costs associated with PPP projects
3. Contingent liabilities associated with PPPs.

Recent anticorruption measures

In 2017 Argentina adopted a new anti-corruption criminal responsibility regime, under which legal entities or companies can be held responsible for the corrupt activities committed by shareholders, directors or employees. The Anti-Corruption Office, under the Ministry of Justice, is the entity in charge of overseeing the compliance of the new anti-corruption criminal responsibility regime and establish relevant regulation in the matter.

Under this new regime, private entities interested in entering into public contracts must design and implement an integrity or compliance programme including a code of ethics and measures to prevent, identify and sanction corrupt and criminal activities taking place within each company. Failure to comply with the anti-corruption law or the compliance programme can lead to substantial fines, partial suspension of the company's business, inability to execute public contracts or the dissolution of the private entity. Companies can avoid indictment if they voluntarily report corrupt acts resulting from a successful implementation of the compliance programme.

In co-operation with the Anti-Corruption Office, the Sub-Secretariat of PPP has adopted measures to ensure the compliance with anti-corruption laws in PPP projects, like the Guide for Transparency in the Management of Public Procurement in the Framework of PPPs. The Guide establishes principles to be followed by each public entity interested in awarding PPP contracts, particularly related to ensure the transparency of the bidding process, the disclosure of each stage of the process to the general public and the use of objective criteria to choose the best bid.

Each entity is responsible for determining the procedures and mechanisms to ensure that the principles are observed in the tendering process and the execution of the contract. For instance, recent PPP contract models include representation and warranty clauses regarding the adoption of a compliance programme by the PPP contractor and appoint the Anti-Corruption Office as the entity responsible for overseeing the compliance of the programme by the PPP contractor.

4.3. Conclusions and recommendations

Provide a consistent approach to project evaluation and assessment of value for money, affordability, and project prioritisation

Argentina could consider developing guidance to provide a consistent approach to project evaluation. The guidance should include:

- When different forms of evaluation (cost-benefit analysis, cost-effectiveness analysis, valuation of benefits or multi-criteria analysis) should be used
- Project budgets
- Standard assumptions and parameters to be used in the analysis (such as inflation assumptions and discount rates).

Development of this guidance should be led by DNIP, as it has responsibility for central management of the public investment process.

Improve risk management in infrastructure projects, including natural and manmade risks

The identification, assessment, and valuation of risk is an essential input to calculations of value for money and affordability. Valuation of risk enables governments to include appropriate risk and contingency allowances in budgets. Argentina could consider developing guidance on project risk management. The guidance should include:

- Good practice processes for the identification, assessment and evaluation of risk when preparing investment proposals
- A standard methodology for allowing for risk in project budgets
- Processes for the management of risk during project execution, including the governance arrangements that should be applied to risk allowances included in project budgets
- Processes for risk monitoring and review.

The ISO 31000 family of standards relating to risk management provide principles and guidelines on generic risk management processes. Several OECD governments have published detailed guidance on risk management in the government and infrastructure contexts. See, for example, the United Kingdom Government's "Orange Book" in relation to risk management principles and concepts in the government context (HM Treasury, 2004^[59]).

Development of guidance on project risk management and assessment of evolving risks should be led by DNIP, in close consultation with the Ministerio de Hacienda in relation to financial management aspects. The OECD review *Good Governance for Critical Infrastructure Resilience* recommends a coherent system-based approach for tackling the complexity and interdependency of infrastructure to improve resilience. It proposes a Policy Toolkit for the Governance of Critical Infrastructure Resilience, which can guide governments in taking a more coherent, preventive approach to protecting and sustaining essential services (OECD, 2019^[60]).

Implement quality assurance and project governance processes for large projects during project development and execution to protect value for money

Such processes could include requirements for large projects to establish steering committees or other groups with representation from central agencies such as DNIP and ONP together with other stakeholders outside of a line ministry.

The development of the processes should be led by DNIP, which should also oversee the implementation and monitor their use on an on-going basis. To assess the options for establishing steering committees or other groups, DNIP should consider:

- What is the appropriate role for such a group? What functions should it perform? Will it be a decision-making body?
- What projects should be required to have such a group? All projects above a certain value, or only projects determined through some other criteria?
- How should membership of such groups be determined? Should DNIP and ONP always be represented on the groups? Do these agencies have sufficient staff with the skills necessary to make a productive contribution?

To assess the practicality and benefits of introducing reviews by independent experts at key points in the execution process, DNIP should consider:

- What are the key decision points or milestones in a project at which an independent review should take place? What should the reviews examine?
- What projects should be required to have such reviews? Are the criteria the same as the criteria for projects requiring a steering committee or similar group?
- Who are the experts who will carry out the reviews? Independent experts from outside government can often provide insights, but there is usually a cost to engage these experts. Experts from other government ministries who are independent of the project being reviewed are an alternative source of reviewers.
- Who will be responsible for organising reviews and bear the costs of reviews? It may be most efficient to centralise the organisation of reviews in DNIP, although it is likely to require additional staff and budget for this work. The alternative is to require agencies managing projects to organise their own reviews.

Ensure that existing financing structures for traditional infrastructure projects deliver the benefits of trust structures and deferred payment securities used for PPPs

The PPP Trust and TPI payment mechanisms for PPP projects are used to bring forward public investment that cannot be accommodated within the current budget. Infrastructure funds currently being used to finance traditional infrastructure projects must provide the same budgetary benefits to avoid a potential bias in favour of PPPs and enable the government to choose the best value for money delivery option. The development of a medium-term fiscal strategy with an associated target level of infrastructure investment, as recommended in Section 5, is important to ensure that this use of PPPs does not constrain future public investment capacity.

Whether there is a clear argument in favour of using financing structures to bring forward public investment, in the context of the medium-term fiscal strategy and the associated target level of infrastructure investment, should be determined by DNIP and the Ministerio de Hacienda. This recommendation should go hand-in-hand with the improvements to medium-term fiscal planning and development of a long-term fiscal sustainability report recommended in the parallel OECD Review on Budget Governance.

Develop a whole-of-government asset management framework to strengthen accountability for the management of assets over the lifecycle of those assets.

If the government funds an infrastructure project on the basis of an investment proposal that assumes the infrastructure will have a specific life, the budget decision should provide for the infrastructure to be maintained for that period. There should be an expectation that agencies will properly manage assets and

maintain the performance of the assets. Agencies should be transparently accountable for asset management responsibilities.

Development of a whole-of-government asset management framework, together with additional quality assurance and project governance processes for large projects, will enable the public investment budget process to focus on those large new projects, which offer the greatest benefits but also entail the greatest risks.

Conduct an audit of existing government assets to investigate options to incentivise better asset management

To effectively manage its assets, the government should have comprehensive information on its existing asset base. The government can collate the information through an audit of existing government assets and asset data. This will provide an understanding of the extent of past underinvestment in asset maintenance, the stock of surplus government assets, and the nature of any related information gaps. Financial mechanisms within government can provide incentives for efficient maintenance and use of existing assets and redeployment or disposal of surplus assets. These incentives include funding depreciation to enable line ministries to access asset rehabilitation funding through a streamlined process, capital charges to encourage the efficient use of assets and the greater use of non-asset solutions to service needs, and allowing line ministries to fund the acquisition of new assets with the proceeds of disposal of surplus assets.

The audit findings can be used to investigate which (if any) of these financial mechanisms is likely to result in the greatest improvement in asset management within the government:

- If the audit finds that the government holds few surplus or inefficiently used assets, but significant additional investment is required to extend the life of existing assets, a depreciation funding mechanism may be an efficient way of providing the necessary rehabilitation funding.
- If the audit finds that the government holds significant amounts of surplus or inefficiently used assets, a capital charge and/or allowing line ministries to fund the acquisition of new assets with the proceeds of disposal of surplus assets may promote more efficient use of the capital base.

Developing and introducing such mechanisms requires consideration of how they fit into the broader budget and financial management framework of the government. In particular, any such incentives should be structured so that they do not undermine the respective roles of the executive and the legislature in the public investment process.

Investigations of these options should be jointly led by DNIP and the Office of Budget Management to ensure that both the public investment perspective and the financial management and current budget implications are fully considered.

Consider applying the integrity measures in place for PPPs to traditionally delivered projects to the extent that they are applicable

The integrity framework for PPPs in Argentina is evolving and some of the integrity measures developed for PPPs may be applicable to traditionally delivered infrastructure projects. This work should be led by DNIP in close consultation with the PPP Sub-Secretariat.

5. Co-ordinating infrastructure policy across levels of government

Argentina needs significant infrastructure investment to drive its economic growth, boost its competitiveness, and move to a higher-income cluster of countries (Izquierdo et al., 2016^[61]). However, based on the country's current investment trend, an investment gap of USD 20 billion is expected by 2040

(Global Infrastructure Hub, 2018^[62]). Meanwhile, according to the World Economic Forum, Argentina is lagging behind in global rankings of infrastructure competitiveness (68th among 140 countries), as the efficiency and reliability of transport, electricity and water infrastructure services underperform (World Economic Forum, 2018^[63]). In this context, in addition to increasing the sheer volume of investment spending, a pressing issue is how different levels of government can undertake infrastructure investment to sustainably support the economic growth and development of their cities, regions and the country.

This chapter provides an analysis and recommendations on the multi-level governance for infrastructure investment practices in Argentina. It illustrates the territorial diversities and inequalities of Argentina's regions with a particular focus on urban areas. This section identifies the major challenges concerning infrastructure investment, linked in particular with the development of a place-based approach to infrastructure investments and the implementation of potential multi-level governance tools to address these issues, coupled with international experiences and examples. Conclusion and recommendations are provided at the end of the section.

5.1. Territorial diversity in a highly urbanised country

Argentina's economic and geographic diversity and disparities create major challenges when deciding the type and location of necessary infrastructure projects. Argentina's population and economic activity is concentrated in a few places, especially the central and coastal areas, which locate large agglomerations that are in great need of infrastructure and public services (Muzzini et al., 2016^[20]). However, infrastructure investments are equally important in lagging regions to improve connectivity and boost economic growth. Development objectives and strategies, and the infrastructure investment needs that can support these, can vary significantly across the country. This is coupled with rapid urbanisation that accelerates the need for public service and infrastructure, which should be well planned, properly co-ordinated and governed to ensure inclusiveness and balanced territorial growth. With important urban hubs and vast rural areas, governance structures that enhance the linkages between these areas are key to maximising the territorial potentials for development.

Argentina's heterogeneity calls for differentiated investment strategies tailored to local needs and regional competitive advantages. Infrastructure investment that responds to specific and diverse territorial needs are crucial to enhance the economic performance in all of Argentina's regions. In Argentina, infrastructure choice, independent of its size, should be linked to a development strategy based on assessments of the potential opportunities for and impediments to growth in each locality, as recommended by the [OECD Recommendation on Effective Public Investment across levels of Government](#)⁷. Investment in infrastructure can facilitate development and help to diminish regional disadvantages; however, it needs to be implemented along with parallel measures such as innovation or educational improvements to ensure that a region, especially a lagging one, can take full advantage of the opportunities that improved infrastructure creates.

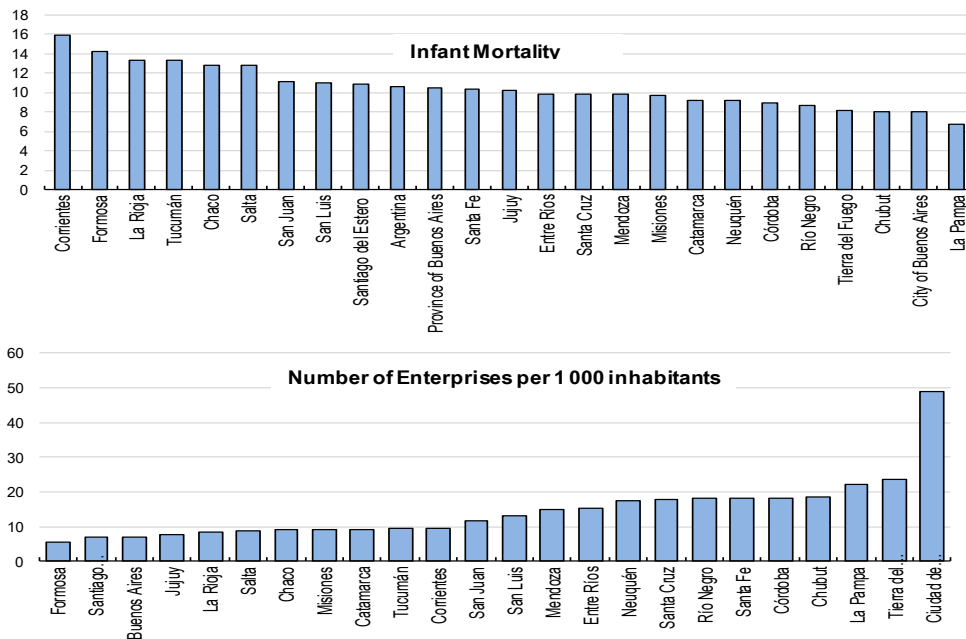
Concentration of population and economic activities

Argentina is characterised by a large concentration of population and economic activity in certain areas. Argentina has among the highest demographic concentration of population in the world - Metropolitan Buenos Aires accounts for 37% of the urban population (Muzzini et al., 2016^[20]). Population is mostly concentrated in the Pampeana region, which includes Buenos Aires City and Buenos Aires Province, as well as Cordoba, Entre Rios, La Pampa and Santa Fe. According to the 2010 National Census data, provinces including Buenos Aires, Córdoba and Santa Fe, as well as CABA, account for more than 60% of the country's population, while others like Catamarca, La Rioja and Santa Cruz all group less than 1% of total population. In line with the demographic pattern, economic activity is highly concentrated in the central and coastal areas. Two-thirds of national GDP is produced in the Pampeana region, especially metropolitan Buenos Aires. This is compared to Formosa, La Rioja and Santiago del Estero – provinces

also with a small populations – each of which contribute less than 0.75% to total GDP (Cuadrado-Roura and Aroca, 2013^[102]). This heterogeneity calls for differentiated infrastructure investment strategies tailored to the place that investments aim to serve in order to boost productivity while also promoting inclusiveness.

Argentine provinces have unequal performance in economic and social development. Heterogeneity across provinces in terms of income is very large. The standard deviation of GDP per capita across subnational governments (64) is more than the double of the OECD average (27.3) in 2014. For example, CABA, the richest district of the country, has a GDP per capita of USD 28 358, nearly eight times of the GDP per capita in Formosa, the poorest province (World Bank Group, 2018^[65]). Central provinces, like Buenos Aires and La Pampa, display significantly higher economic dynamism –as reflected by the number of enterprises by inhabitant - than Northern ones like Formosa and Santiago del Estero (Figure 17). Akin to its economic performance, CABA is far above the national average in the Human Development Index, while provinces like San Juan, Catamarca, Chaco, Corrientes, Santiago del Estero and Formosa perform much less well (UNDP, 2013^[66]). The convergence in living standards between provinces has also been reported very low over the past decades (Tommasi, 2002^[67]; Besfamille et al., 2017^[68]). Other measures of development, such as infant mortality, highlight other large disparities across the country (Figure 17). Access to public services is uneven across the country. In the Northern provinces of Misiones and Chaco, only 19% and 26% of households, respectively, have access to improved sanitation facilities, compared to 98% in the city of Buenos Aires (INDEC, 2016^[69]).

Figure 17. Disparities in economic and health indicators in Argentina



Source: (OECD, 2017^[34])

Argentina’s economic activity has the potential for further diversification. Argentina’s abundant natural resources are a main contributor to the country’s economy, together with manufacturing and agriculture. Some provinces have a strong natural resource base (e.g. prime land in the humid pampas, or shale gas and oil in the south). However, economic activity is concentrated in a few territories. In 2017, Argentina ranked 26 out of 29 Latin America countries in levels of export diversification (OECD/WTO, 2019^[108]). These various dimensions reflect a homogenous productive base and the under-exploitation of certain key territorial assets, which might constrain the country’s growth potential in the long term.

Urban agglomerations also lack economic diversification. There are large and intermediate agglomerations that are highly dependent on the export of resource-based manufacturing products. This leads to a concentration of employment growth in resource-based sectors, in construction or in public administration, limiting the possibility of growth through a balanced distribution of human and capital resources. Intermediate agglomerations depend the most on agro-processing and extractive industries. The dependence on export-oriented, resource-based industries makes Argentina's urban economies vulnerable to changes in global demand and commodity prices (Muzzini et al., 2016^[20]).

The significant geographic heterogeneity and disparities across the country require a discussion on the kind of country, cities, provinces and localities that Argentina wants to develop and the infrastructure investment needed for that. This has two direct implications: (1) the need to start thinking strategically and long-term (see Section 2 on Strategic Planning and Co-ordination); and (2) the need to further develop a place-based approach to planning infrastructure investments that consider differing territorial needs and adopt investment mixes that respond differently to challenges in urban and rural areas. Infrastructure investments can be key enablers for a more inclusive and balanced growth across the country. For this to happen, as Argentina has experienced, bottom-up decision-making is crucial to match investment priorities with local needs. The Plan Estratégico Territorial, the Plan Belgrano and the Proyecto Patagonia are good experiences for Argentina to fully embedding strategic territorial planning with territorial lenses. Challenges in a rapid and diverse urbanisation

Argentina is one of the most urbanised countries in the world with 92% of its population living in urban areas, compared to the 80% of Latin American average (CEPAL, 2016^[71]). The sizes and structures of Argentine cities are extremely diverse across regions. The Cuyo region has the most polarised urban structure, with around 60% of inhabitants living in the big cities. Urban settlements in the Patagonia region, on the other hand, are small and dispersed, with 18% of population living in the only large agglomeration (Neuquén), and 15% population scattered in intermediate cities (Muzzini et al., 2016^[20]). Overall, more than 300 Argentine cities have a population between 100 000 and 10 000 inhabitants and there are 675 smaller agglomerations, whereas the five largest cities – Buenos Aires, Córdoba, Rosario, Mendoza and Tucumán – account for over half of the country's population.

Argentina has experienced a fast and un-coordinated urban growth. The urbanisation process - one of the most accelerated in the Latin American region- is characterised by high dispersion and discontinuous urban fabric. The largest population growth has been experienced in intermediate and large cities, i.e. urban centres with more than 100 000 inhabitants (OECD, 2016^[21]). According to one analysis developed by the Ministry of the Interior, Public Works and Housing, the main agglomerations of the country have a growth rate of urban built-up areas that generally exceeds, by several orders of magnitude, the rate of population growth. For example, in Córdoba between 2001 and 2010, the growth rate of built-up areas was 44% vis-à-vis 13% of population growth, in Rosario, 40% vis-à-vis 13%, in Mendoza 133% vis-à-vis 21%, in Corrientes 81% against 34%, in Posadas 147% compared to 62%, etc., with between 10 000 and 2 000 inhabitants.. In addition, the existing legal foundations and urban planning tools are dated in the face of new urban phenomena, such as the proliferation of gated communities. Several municipal governments have begun to reform local norms and urban management tools (Cuenya, 2019^[26]).

The fast and highly heterogeneous urbanisation has led to inequality in economic growth and disparities in the access to basic services across cities and regions. Agglomerations in the Northeast region rank the lowest in prosperity and living standards – it experienced the fastest urbanisation but the lowest economic growth (Muzzini et al., 2016^[2]). In the resource-rich Patagonia region, citizens are in need of urban services and housing, as well as environmental protection, given that the agglomerations in the region experienced explosive growth driven by the extractive industries, which gives the region a sharp but vulnerable economic growth (Muzzini et al., 2016^[2]). There is also a significant difference in economic density and basic infrastructure provision between the city of Buenos Aires and its peri-urban areas, illustrated by the informal settlements and weak transport connectivity in the latter (World Bank Group, 2018^[8]). To address

these disparities and reap the benefits of urbanisation in all regions and cities, additional resources and well-designed public services strategy and policies with a territorial perspective is needed (OECD, 2016^[4]).

The Argentine economic crises have particularly affected the country's cities. Argentina's economic crises have turned into urban crises. The recession associated with the financial crisis of 2001/02 has had long-term effects on cities, with most Argentine cities experiencing high unemployment, deteriorating urban infrastructure, and increasing social exclusion. Whereas the distant south has succeeded in turning its resource-based advantages into economic successes, the northern regions have not been able to close the economic gap with the rest of the country despite rapid urbanisation (Muzzini et al., 2016^[20]).

To address urban challenges, Argentina adopted in October 2018 the National Urban Policy (*Política Nacional Urbana-PNU*). The National Urban Policy (NUP) is a reference framework that guides the urbanisation process. It provides a clear and co-ordinated view of the directions that should take public policies for the territorial development of cities, enabling greater and better vertical and horizontal co-ordination. For Argentina, this Policy presents an opportunity to lay the foundation for an urban development plan co-ordinated at the national level, including contributions from the provincial and municipal levels and from various entities from the public and private sectors. The NUP is the result of a collaborative effort among Secretariats of the Ministry of Interior, Public Works and Housing led by the Secretariat of Urban Infrastructure, and an advisory board formed by representatives of other Ministries, sectoral representatives, international organisms and development banks. The NUP establishes the urban vision of Argentina for the next 20 years and defines the context to design long-term public policies, independently of management cycles.

5.2. Towards a place-based approach for infrastructure investments

Argentina's diverse geographic characteristics and territorial inequalities make it particularly important for the country to look at infrastructure investments through a territorial lens. Argentina lacks a comprehensive and long-term approach to infrastructure investment (Section 2). A comprehensive long-term investment strategy would benefit from a place-based perspective where sectoral policies meet and interact in each place, generating multiplier effects. Place-based policies would enable Argentina to address territorial disparities and develop infrastructure projects that can improve connectivity and access to services and communication by maximising the potential of urban and rural areas as well as capitalising on urban-rural linkages. Place-based policies also help to ensure that investment benefits reach different groups and areas (Box 55).

Box 55. The OECD Recommendation on Effective Public Investment

Place-based infrastructure investment is one way to enhance economic performance. Infrastructure choice, independent of its size, should be linked to a development strategy based on assessments of the potential opportunities for and impediments to growth in each locality as recommended by the *OECD Recommendation on Effective Public Investment*. Investment in infrastructure can facilitate development and help to diminish regional disadvantages; however it needs to be implemented together with parallel measures such as innovation, or the improvement of education to ensure that a region, especially a lagging one, can take full advantage of the opportunities that improved infrastructure creates

Principle 1. Invest using an integrated strategy tailored to different places

1. Design and implement investment strategies tailored to the place the investments aim to serve. Public investment choices should be linked to a development strategy based on assessment of regional (or local) characteristics, competitive advantages, growth, innovation, and job creation

potential, and considerations of equity and environmental sustainability. Investment strategies should be results-oriented (with clearly defined policy goals), realistic and well-informed (based on evidence that points to the region's or locality's ability to make fruitful use of investments), and forward-looking (with investments that can position regions and localities for competitiveness and sustainable development in the context of global trends).

2. Seek complementarities and reduce conflicts among sectoral strategies. Mutually reinforcing impacts in the form of policy complementarities are often required to make the most of public investment. At higher levels of government, such complementarities can be facilitated by: a) using strategic frameworks for public investment to align objectives across ministries and levels of government; and b) minimising administrative barriers through co-ordination mechanisms such as, but not limited to, inter-ministerial committees and programmes, and harmonisation of programme rules. Governments can also establish joint investment funds that pool monies across public agencies/ministries to encourage consideration of a broader set of priorities.
3. Encourage the production of data at the relevant subnational scale to inform investment strategies and produce evidence for decision-making. Such data may be collected by statistical agencies but also from administrative records, other data sources, and citizens themselves.

Source: (OECD, 2013^[72])

The objective of a modern and effective place-based approach to infrastructure investment is to help regions to utilise economic potential by developing tailored strategies and policies. It is not aimed to be achieved through permanent transfers from productive to unproductive regions (Iammarino, Rodriguez-Pose and Storper, 2018^[73]). Rather than having regions trying to undercut each other, for example at the expense of tax revenues or environmental and labour standards, place-based policies offer regions a way to compete while lifting the economic performance of the entire country (OECD, 2019^[74]).

A place-based approach to investment – compared to spatially blind policies, implies changing the objectives, the intervention scale, and the tools and actors involved in the policy-making process. This is why adequate governance arrangements are critical for the implementation of effective place-based policies (OECD, 2016a). Place-based infrastructure investments require governance arrangements to facilitate co-ordination and integration of sectorial policies, provide them on the relevant scale and bring together relevant public, private and civil society actors. Multi-level governance mechanisms play a key role as, among other roles, they align objectives across different levels of government. Good governance is indeed associated with higher levels of productivity and catching-up dynamics (OECD, 2016^[75]) and can help promote strategies for inclusive growth (OECD, 2018^[76]).

A siloed approach dominates infrastructure investment planning and funding

As in many OECD countries, infrastructure investments lack a whole-of-government perspective (see Section 2). A sectoral approach can be helpful for infrastructure planning and delivery when sectors consult each other and co-ordinate to ensure investments contribute to regional and national development in a complementary manner. However, while some improvements have been made during the last years, Argentinian line ministries tend to work in silos. This can significantly undermine the potential of identifying and capitalising on cross-sector synergies and strengthen strategic impact of infrastructure investment.

In Argentina, national, regional and local strategies and infrastructure plans are not binding, and links to financing and budgetary instruments are limited. Budget for infrastructure projects is allocated on a sectoral basis, which discourages collaboration among sectors, the sectoral allocation of resources may encourage them to compete for funding. To address this issue, for example, Brazil created the Chamber of National Integration Policy of Regional Development. The Chamber is led by the Executive Secretariat of the Ministry of Integration in the Ministry of Regional Development and Chamber brings together the various

line ministries. The role of that Chamber is to articulate specific regional development policies with sectoral policies (CEPAL, 2015^[77]).

Subnational governments, in particular the provinces, tend to replicate the siloed approaches to infrastructure investment that occur at the national level. Without an integrated and territorial approach at the national level, subnational governments, especially the provincial ones, tend to reproduce the fragmented approach. Moreover, the federal framework does not require subnational governments to design or implement formal territorial development strategies that can provide an umbrella for infrastructure investments. In the case of Córdoba's line ministries, for example, individual secretariats establish their own priorities in addition to those established by the minister, and collaborate on an *ad hoc* basis when doing so will move forward their thematic agendas. Whether ministries take an integrated approach – establishing ministry-wide priorities relevant to multiple secretariats and ensuring that they are executed in a holistic manner – is a ministerial choice, but may not be widely practiced (OECD, 2016^[21]). Such complementarities need to be constructed through appropriate governance arrangements (OECD, 2014^[78]).

Several studies have shown that municipalities often lack basic planning instruments and have limited incentives and capacities to generate or update their urban development or infrastructure investment plans. For example, a recent study shows that in some cases, planning tools and instruments are outdated. This can lead to local governments failing to consider the effects of zoning on the structure of built environments, land use and land value, or regional competitiveness and development in general (Cuenya, 2019^[26]). Local planning initiatives lack sectoral integration and co-ordination, and institutional fragmentation is a constraint for metropolitan planning. Although a few initiatives promote horizontal co-ordination, the lack of institutional instruments for metropolitan planning prevents scaling up those efforts (Muzzini et al., 2016^[20]).

Argentina has taken steps to develop a place-based approach for infrastructure investment

Argentina has advanced in strategic territorial planning but there is consensus that its potential has not been fully exploited. Argentinian territorial planning is underdeveloped for different reasons. The territorial approach to planning is recent and the institutions responsible for its development have continuously changed. In 2003, the government created the Under Secretariat of Territorial Planning of Public Investment within the Ministry of Federal Planning, Public Investment and Services, which no longer exists. Within this institutional structure, Argentina introduced the first National Policy of Territorial Development and Land Use Planning (*Política Nacional de Desarrollo y Ordenamiento Territorial*) and the first Strategic Territorial Plan (*Plan Estratégico Territorial – PET*) in 2005 which defined a portfolio of strategic infrastructure projects for the transformation of certain territories. The last version of the PET dates from 2018 and was formulated by the Secretary of Territorial Planning and Co-ordination of Public Works of the Ministry of the Interior, Public Works and Housing (Box 56). In a constantly changing institutional environment, territorial planning strategy also change, and this has prevented them from acquiring the maturity needed to be a successful guiding instrument that ensures the collaboration and guide the planning of different sectors and levels of government. Furthermore, the plan is not directly translated into a set of projects as there is no obligation to implement infrastructure projects as part of the framework of the PET. A comprehensive, effective and efficient long-term planning framework effectively co-ordinated with the Strategic Territorial Plan at all levels is not yet in place.

Box 56. The Territorial Strategic Plan (PET)

The Territorial Strategic Plan (*Plan Estratégico Territorial, PET*) is one of the instruments that Argentina has developed since 2008 to implement the National Policy of Development and Territorial Planning. The Secretariat for Territorial Planning and Co-ordination of Public Works of the Ministry of Interior,

Public Works and Housing is responsible for its elaboration. The PET aims at being a guide for public investments to be undertaken across the country with the objective of facilitating an integrated, balanced and sustainable territorial development in Argentina.

The 2018 PET was developed through the co-ordination of various national entities whose investment decisions impact territorial and provincial actors. The co-ordination also involved other South American countries.

The 2018 PET considers international goals and commitments by incorporating:

- links with the Sustainable Development Goals (SDGs), including medium to long-term actions that can be measured and monitored
- the commitments assumed in the Sendai Framework for Disaster Risk Reduction
- the objectives of the New Urban Agenda, considering also the municipalities in its multi-level approach

Although the PET was first developed in order to have a federal infrastructure investment plan, this goal was diversified and the PET today includes a large number of actions that are constantly updated. This is done in order to provide flexibility to the strategic planning to be able to consider and articulate short-term and urgent demands with a long-term perspective. The 2018 PET includes an update of indicators as well as new indicators on specific issues linked to disaster risk management and growth constraints.

Source: www.argentina.gob.ar/interior/secretaria-de-planificacion-territorial-y-coordinacion-de-obra-publica/plan-estrategico-territorial

There is space to strengthen the role of the Federal Council for Planning put in place to implement the PET. Over the past decade, the federal government has taken steps to support territorial planning at the provincial level with the creation of the Federal Council for Planning (*Consejo Federal de Planificación, or COFEPLAN*) (Box 57). This Council, which comprises the federal government, all provinces, and the city of Buenos Aires, was given a mandate to issue guidelines that would address planning bottlenecks in the specific legal framework of each province. Since its creation, COFEPLAN has promoted initiatives to address current institutional bottlenecks for territorial planning, including the development of a preliminary bill on land use and land management in 2012 (*Anteproyecto de Ley Nacional de Ordenamiento Territorial*) together with the Ministry of the Interior, Public Works, and Housing. This preliminary bill however, met with strong resistance and was not approved, as some provinces argued that it would limit their constitutional rights to plan their own territories (Muzzini et al., 2016_[20]). In 2018, some provincial governments asked COFEPLAN to elaborate a new preliminary bill. However, as of today, COFEPLAN has not yet elaborated any initiative on this direction.

Box 57. The Argentinian Federal Council for Planning

In 2008, Argentina created the Federal Council of Territorial and land use planning (*Consejo Federal de Planificación y Ordenamiento Territorial, COFEPLAN*). The main objective of this Council is to ensure the effective implementation of the National Policy of Territorial Development and land use planning (*Política Nacional de Desarrollo y Ordenamiento Territorial*). The main tasks of the Council are:

- Articulate and harmonise territorial policies for the different jurisdictional levels.
- Ensure continuity of planning and territorial planning policies.
- Collaborate in the institutional strengthening of the planning areas of the different jurisdictions.
- Promote national, provincial and municipal legislation on territorial planning.

- Co-ordinate and promote the dissemination of relevant territorial planning issues. For this purposes, it facilitates knowledge and social participation, by sponsoring the organisation of conferences, congresses and regional, national and international meetings.

Source: www.argentina.gob.ar/interior/cofeplan

Even if Argentina does not have a strong territorial planning tradition, it has recently launched initiatives in the right direction with different degree of institutionalisation. The current government has developed two initiatives to plan and implement projects with a territorial approach: the *Plan Belgrano* and the *Proyecto Patagonia* (Box 32):

- The Plan Belgrano officially created at the end of 2015, was developed to boost social development, productivity and infrastructure in 10 Northern provinces. For its implementation, the government created a special unit, the Unidad Plan Belgrano, dependent upon the Office of the Cabinet of Ministers (Jefatura de Gabinete de Ministros), which works with federal line ministries through four different “dialogue tables” (*mesas de diálogo*). The Unit does not implement projects and does not have direct budget. The main objective is to promote dialogue and co-ordination of project implemented within the 10 provinces involved. The Unit has a delegation in each of the provinces to ensure co-ordination directly in the territory and monitor the project’s progress.
- The Proyecto Patagonia aims to boost economic development and wellbeing in the south of the country. This project differs from the Plan Belgrano in two aspects. First, the Patagonia project is oriented towards place-based planning having at its core the inter-jurisdictional and inter-sectoral co-ordination to promote co-ordinated public investment within a more sustainable and inclusive development model for the region. While the Plan Belgrano is focused on the co-ordination of investment projects, the Proyecto Patagonia represents a change to the way of thinking about public policy to take advantage of the assets and to develop opportunities of the territory. Second, Proyecto Patagonia has not reached the level of formality of the Plan Belgrano: it does not have a specific unit for its implementation and has fewer than 5 people working on it (in contrast with more than 50 in the other case). As a result, co-ordination at the federal level with line ministries, as well as with provinces and municipalities remains relatively informal.

Box 58. The Belgrano Plan and the Patagonia Project

Plan Belgrano is the government’s social, productive and infrastructure commitment to reduce inequality and encourage industrial development in Argentina’s northern provinces, which have historically lagged behind the rest of the country. These provinces have a number of disadvantages compared to other regions in the country, including high levels of poverty and unemployment, and high logistics costs.

To address the identified disadvantages, the plan includes infrastructure projects in a wide range of economic and social infrastructure sectors, including:

- Drinking water, sewage and sanitation
- Childcare
- Schools
- Internet
- Urban Infrastructure
- Housing

- Parks and recreation
- Health
- Gas

Source: (Jefatura Gabinete de Ministros, 2019^[79]), Plan Belgrano Unit

The federal government has no legal framework to promote a territorial, place-based planning at the subnational level. The federal government has no legal framework to influence regional and urban development and planning, and the provincial governments have weak regulatory frameworks to guide municipal land use planning (Muzzini et al., 2016^[20]). However, neither the provinces, nor the municipalities have the explicit attribution of responsibility for territorial development (OECD, 2016^[21]). These shortcomings in territorial planning are, for example, a major barrier to Argentina's tapping the benefits of agglomeration economies. At the same time, provinces, in general, lack a coherent regulatory framework to guide local planning efforts. In certain cases the provinces have taken development and a place-based approach into their own hands.

Enhancing the territorial approach for infrastructure investment

Argentina should shift from a sector-oriented approach to a place-based approach for infrastructure investment at both national and subnational levels. To a large extent, the current siloed approach is associated with the absence of a national infrastructure strategy incorporated with regional development objectives, leaving national ministries and subnational governments without an anchor for investment choices. As discussed in Section 2, Argentina should establish a comprehensive long-term planning framework at all levels to address issues of federal management, and factor in both short-term considerations (economic, social and environmental performance) and long-term projected impacts (e.g. climate change). The framework should provide for different priorities in different regions, should be aligned with sectoral planning as well as regional needs and development priorities.

A place-based approach to infrastructure investment can be realised in two ways. The first is to ensure that infrastructure investment priorities are set in accordance with national regional development objectives but also resonate with the regional and local needs and capacities. This can help flag weaknesses or insufficient infrastructure planning and implementation capacity at the provincial and local levels. The second is to reinforce the concept of regional development among levels of governments, which is particularly weak across Argentine provinces, as interviewees during the study mission have highlighted. This is essential in developing a place-based approach in which subnational actors need to "buy-into" or "own" the objectives of the national infrastructure investment strategies. They are expected to contribute to broader and long-term territorial development. All levels of government need to change the paradigm: provinces need to understand that it is not a matter of receiving more resources from the centre, but becoming actors of their own development. For this, national and subnational governments need to engage in a continuous fruitful dialogue, like Germany with the Joint Task for the Improvement of Regional Economic Structure (Box 60). To develop place-based infrastructure investment strategies, it is also crucial to improve data availability at the provincial and municipal levels.

Successful place-based infrastructure investment needs to ascribe to a long-term planning process with continuous improvement and efforts (Tomaney, 2010^[80]). Place-based thinking requires strengthened provincial and local institutions that are able to assess and make the most of local economic assets. The active role of provincial and local stakeholders is critical to the success of this approach. It also requires effective and sufficient co-ordination as well as the capacity and adaptability of regional and local institutions.

The institutionalisation of initiatives such as the Plan Belgrano or Proyecto Patagonia is necessary in order to ensure an effective place-based approach to infrastructure investments. As it is today, both the *Plan Belgrano* and the *Proyecto Patagonia* depend strongly on informal relationships and the political will and priorities of the presidency, depending directly on the *Jefatura de Gabinete de Ministros* of the country. Fostering the place-based approach in infrastructure investment through these initiatives needs to be led by the federal government, providing a common set of long-term goals as well as budget for their functioning. While these initiatives are valuable, the benefits can be better capitalised upon if they are further socialised and institutionalised to depend less on the political will of the authorities in power. For this, centralised guidance in the form of a strategic vision for the country and a connection to long-term regional development goals is crucial. Such a vision would provide a framework for making strategic choices, balancing trade-offs and choosing priorities from among different needs in different regions and cities.

Enhancing co-ordination and anchoring sectoral investments to a territorial development objective and strategy can help reduce transaction costs occurred across the line ministries. This applies to both national and subnational level and it can be done, for example, through incentives for co-operation to avoid competition for funds among ministries. While an increasing number of OECD countries are implementing place-based investment strategies – since 2014, 19 out of 27 OECD countries⁸ have adopted a place-based national investment strategy (Box 59), they develop different mechanisms to minimise policy fragmentation. OECD countries have put in place, for example, co-ordinating structures such as inter-ministerial committees and commissions to help foster horizontal governance. OECD experience shows that the higher the leadership within these types of commissions, the stronger the incentive to participate and the greater the engagement of the different actors. Examples of this type of co-ordination include the Ministerial Committee for Regional Policy in Denmark or the Presidential Committee on Regional Development in Korea (OECD, 2016^[21]). Other examples of cross-sectoral co-ordination mechanisms can be found in the Netherlands or Portugal, among others:

- The Netherlands has implemented the Dutch Multi-Year Programme for Infrastructure, Spatial Planning and Transport (MIRT) Consultation Committee, which makes agreements on MIRT tracks: the collective perspective of the national and regional governments regarding the development of an area or major body of water, and the ensuing ambitions and projects.
- The Territorial Co-ordination Council in Portugal is the political body that promotes consultation and concertation between the Government and the different political institutions, at regional and local levels. Portugal has also recreated the High Council for Public works as a technical advisory body for the Central Government on infrastructure investments in which are represented, among other entities, the Metropolitan Areas, the Territorial Co-ordination Council, and the Municipalities National Associations.

Box 59. Place-based approach to investment in OECD countries

Canada

The Canadian Regional Development Agencies (RDA) are working to strengthen the level of co-ordination across levels of government and with other stakeholders in their respective regions, with each RDA developing a Regional Growth Strategy (RGS). The agencies and strategies leverage an all-of-government approach (federal/provincial/territorial) towards achieving long-term prosperity by collaborating on targeted, evidence-based actions around a common vision.

The development and ongoing delivery of the RGSs has involved a high level of engagement with stakeholders. For example in May 2018, Canada Economic Development for Quebec Regions conducted a series of roundtables to validate the priorities and targeted actions of the Federal Strategy

on Innovation and Growth for the Quebec Regions, and in September 2018, Western Economic Diversification Canada launched a broad consultation process to support the development of a Western Canada Growth Strategy. This consultation will involve businesses, academia, Indigenous peoples, communities and other organisations as well as different levels of government.

Italy

Italy's Strategy for Inner Areas is an integrated strategy tailored to different places with the aim of reducing demographic decline and land abandonment in many rural areas, by improving the quality of essential services – education, health and mobility – and promoting the opportunities for economic activity and jobs. The Strategy has been pursued by the national government through the following main actions:

- Identifying in each project-area an alliance of municipalities willing and capable of working together towards a long-term strategy, also by unifying the management of functions relevant to the common strategy.
- Promoting in each project area a result-oriented strategy concerning both essential services and economic activity, through a participatory approach based on an informed and open debate among citizens and relevant competent actors, and the production of data and indicators.
- Defining a set of integrated projects and their expected outcomes, through enhanced co-ordination across sectoral administrations (the Inter-Ministerial Committee with representatives of the Ministry of Education, Health, Agriculture and the Department for Cohesion Policy) and subnational levels of government, so as to align objectives, adapt sectoral policies to territorially specific needs and match different sources of financing.

Source: (OECD, 2019^[81])

Provinces and municipalities need to be considered key partners in the planning process. At present, planning is mostly led by the national government with little engagement of provincial or municipal actors when defining priorities. Engaging subnational governments in strategic planning is to ensure that the plans are tailored, result-oriented, realistic, forward-looking and coherent with development objectives at different levels (OECD, 2013^[72]).

Box 60. Multi-level engagement in Germany

The Joint Task for the Improvement of Regional Economic Structure (GRW) was created in 1969. The basic aim of the GRW is to reduce the regional disadvantages faced by structurally weak regions and thus to facilitate their participation in broader economic development processes and to reduce overall developmental disparities. Further, regional policy is seen to contribute to Germany's growth and employment policy and to enhance its effectiveness, particularly by enhancing aggregate economic growth in structurally weak regions as well as by facilitating structural change through the creation of permanent jobs. The GRW Framework also emphasises that German regional policy has medium- to long-term aims and focuses on the supply side of the economy.

The GRW is a joint federal-Land co-ordination framework, which is used mainly to set a commonly agreed framework for regional economic development policy and to finance direct aid to business and business-oriented infrastructure. Key attributes of the GRW are: a transparent indicator-based system for assessing regional problems; a consensus-based co-ordination framework which allows equal problems to be treated equally; a systematic rules-based approach to awarding or granting aid; facility for co-ordinating EU and national regional policy interests; and the ability to provide a co-ordinating

framework for other policy fields with spatial effects. The GRW is jointly financed by federal and Land authorities

Source: (OECD, 2019^[82])

5.3. Multi-level governance tools for more efficient infrastructure investments

Strengthening the territorial approach to infrastructure investment is demanding from a governance point of view. It requires well-developed vertical and horizontal co-ordination mechanisms, to ensure co-financing, reduce asymmetries of information and align priorities. Co-ordination across sectors, different levels of governments or jurisdictions do not occur spontaneously. Institutions involved are often reluctant, if not unable, to co-ordinate their interventions to meet the specific needs of certain territories. Even highly decentralised federations, as it the case in Argentina, often have policy processes where vertical interactions are deeply sectoral. In a context of shared responsibilities on infrastructure investments, effective multi-level governance arrangements should contribute to smoother and regular communication and collaboration across the national government, provinces, and municipalities but also across sectors and jurisdictions to achieve complementarities or invest at the relevant scale.

Like in all countries, improving co-ordination and moving towards a bottom-up approach for infrastructure decision-making requires building capacity at the subnational level. The low level of capacities of certain provinces, and in particular, of certain municipalities, was highlighted as one of the main bottlenecks for infrastructure investment during the OECD study mission.

Capacity building for subnational public investment goes beyond a narrow approach restricted to human resources management or workforce improvement activities. Capacities refer to the institutional arrangements, technical capabilities, economic resources and policy practices that affect public investment. They should be an enabler to achieve important goals at different stages of the investment cycle. Capacity building is also a “learning-by-doing” process in which national and subnational entities can acquire the needed capacities on a daily basis through practice (OECD, 2018^[83]).

Improving the co-ordination between the federal and provincial levels

Infrastructure is a shared responsibility across levels of government in Argentina where, depending on the infrastructure type, the province has construction and/or operation and maintenance competences. Bridging the infrastructure gap, therefore, cannot be done in isolation; it requires co-ordination across federal, provincial, and local authorities. Argentina has some opportunities to co-ordinate investments across the federal, provincial and municipal levels.

During the last years, Argentinian national and subnational authorities show increasing willingness to co-operate. Since Argentina’s financial crisis in 2001, municipal functions have expanded, and authorities have shown an increasing effort to co-ordinate with higher levels of government and participation of local authorities in service delivery. In fact, although most municipalities have little or no power regarding major infrastructure work undertaken by national agencies in their jurisdictions, most of the infrastructure investments involve all levels of government. For example, although the Ministry of the Interior promotes housing and urban infrastructure plans, cities and municipalities need to agree on housing location to ensure access to services, including nursery facilities, public transport, water and gas, health, etc. Inter-urban transport is another policy area that requires joint efforts between provinces and municipalities. The federal government is responsible for the highways that travel across the administrative boundaries of several provinces. In addition, there are some highways that fall under the competency of provinces and municipalities. Thus, it is key to agree with provinces and municipalities on national projects, both for the development of new infrastructure and renovation.

The co-ordination role of the Ministry of Interior, Public Works and Housing is still in its early stages. Since December 2015, the Ministry of Interior, Public Works and Housing is responsible for vertical co-ordination between the Federal government, provinces and municipalities mainly through two Secretariats:

- Secretariat of Provinces and Municipalities in charge of co-ordinating the budgeting and fiscal relations with provinces. It also works directly with municipalities to improve and modernise administrative process and strengthen local management
- Secretariat of Territorial Planning and Co-ordination of Public Works responsible for (i) the design of the PET and (ii) implementing the Institutional Strengthening Programme (Programa de Fortalecimiento Institucional)

However, the above institutional structure within the Ministry of Interior is very recent. The institutional structure was settled in December 2015 and building a sense of belonging to one and only institution has been challenging. As interviewees highlighted, while the management processes have been standardised and the organisational climate has improved some areas within the Ministry have yet different organisational cultures and follow different procedures. The different Secretariats are organised across different buildings, which can make co-ordination across the Ministry challenging.

During the investment cycle, some instances ensure, at least partially, the co-ordination of infrastructure investment across levels of government. Infrastructure projects go through different steps that seek co-ordination (or at least avoid overlaps) between national and provincial projects and priorities:

- The BAPIN system partially ensures that infrastructure projects that are financed by national resources are aligned and part of national priorities. All provincial projects that are financed with (at least a part of) the national budget go through the DNIP and are part of the BAPIN. However, projects that are financed entirely with provincial resources – an increasing share of projects now fall in this category – are not necessarily co-ordinated with national authorities and priorities.
- For provincial projects that are financed from external resources, the central government ensures some degree of co-ordination: the sectoral ministry at the federal level gives its approval to ensure the project does not duplicate other projects.

However, while some co-ordination across levels of government takes place in territorial strategic planning, this is not necessarily translated into co-ordination in infrastructure project's design and implementation.

Multi-level relations between the federal and provincial governments by sectors or policy areas are facilitated through Federal Councils (Box 61) in several sectors (Federal Investments Council, Federal Taxes Council, Federal Councils on Education, etc.). Federal Councils seek to promote active participation of the provinces for the design, implementation and monitoring of national policies. These bodies generally focus on a specific policy area and are formed by representatives from provincial sectoral ministries / authorities and the corresponding federal ministry / authority. As for municipal governments, there is no appropriate recognition of them in these intergovernmental arrangements so far. Even though there is collaboration duty between the different levels of government, this is not duly established in the norms – i.e. not institutionalised or socialised (Hernández, 2010^[84]). The adhesion to a federal council on behalf of the provinces is voluntary. Consequently, CABA and the provinces may choose not to participate in these co-ordination platforms.

Argentina has also put in place co-financing mechanisms in order to co-ordinate investments with subnational levels. Provinces or Municipalities must share a percentage of the total budget of certain investment projects. The provincial or municipal share in this co-financing arrangements has increased from very low levels before 2016 to near 30% after 2016.

Box 61. Federal Councils in Argentina

The Argentinian Federal Councils are a formal institutional tool to co-ordinate vertically, with provinces, and in few cases with local governments, specific sectoral public policies.

The first Federal Councils were created at the end of the 1950s and, in spite of the heterogeneity in their scope and organisation, they can be considered the main mechanisms developed to formalise the relationship between the national level and provinces for the formulation and implementation of sectoral public policies. Currently, Argentina has 36 Councils with different levels of activity. Some examples of Federal Councils with infrastructure investment implications are: *Consejo Federal del Catastro* (1958); *Consejo Vial Federal* (1958); *Consejo Federal de Vivienda* (1962); *Consejo Federal de Medio Ambiente* (1990); *Consejo Hídrico Federal* (2003); *Consejo Federal de Responsabilidad Fiscal* (2004); or the *Consejo Federal de Planificación y Ordenamiento Territorial* (2008).

The lack of a normative framework that defines, in general terms, the characteristics and attributions of these institutions allows the coexistence of different mechanisms to create and organise the Federal Councils. These have arisen from federal agreements, laws, decrees, or through resolutions. However, as expected, the analysis of the cases shows that the higher the level of institutionalisation and original formalisation, the greater their persistence and level of activity.

The majority of Councils comprise a national authority and a representative of the policy area in each provincial government. Some Councils also integrate more than one official from the same department of the central administration, or officials from different sectors. In order to ensure vertical and horizontal co-ordination. Finally, a few cases also include municipal representatives, although their involvement is voluntary.

All Councils, even if not assigned formal functions, carry out advice, which is generally provided from the national state to provincial states. A large number of Councils have functions linked to the dissemination of sectoral policies. A few of them also conduct evaluations of the implementation of public policies. For the most part, the Councils disseminate information.

While councils have been present in Argentina for a long time, the creation of a council depends on the political will of the authorities involved. It has been observed that, when the political party of the president differs from those of the majority of provincial governors, authorities tend to not promote the creation of Councils. It has also been observed that Federal Councils are more successful when the undersecretaries— i.e. high political representative sits in it. When officials of lower levels are the ones who are part of the Councils, the councils tend to have less relevance.

Moreover, the Councils do not have permanent funding and the availability of human resources depends on the national political leader since, in general, the Councils do not have their own resources.

Source: (Serafinoff, n.d.^[85])

Co-ordination between provinces and municipalities is, in general, informal and depends on the authorities' willingness to co-operate. Córdoba, for example, put in place a negotiating table gathering provinces and municipalities called "*Mesa de la Provincia y Municipios*". It is a co-ordinating body in charge of addressing the lack of incentives of municipalities to implement provincial policies and programmes. The metropolitan area of Córdoba (Gran Córdoba) is going through dispersed urban sprawl. It occurs because of the fragmentation of land use policies and regulations (which fall within the exclusive competence of municipalities). As a consequence, urban development happens in places where infrastructure is lacking (e.g. water networks, sewers, and electricity). *Mesa de la Provincia y Municipios* is the main mechanism

to discuss these issues although some questions have been raised about its effectiveness (OECD, 2016^[21]).

As a result, co-ordination across the three levels of government is fragmented and tends to occur in an *ad hoc* basis. There is no formal federal inter-ministerial and multi-level co-ordination mechanism to align infrastructure-related policies. Interviewees highlighted that in the absence of an institutionalised co-ordination mechanisms, informal co-ordination based on political will and interpersonal relations is often the most effective way of co-ordinating decisions. In Córdoba for example, ministerial secretaries rely on personal connections with peers or others to move an agenda forward, just as civil servants might rely on personal connections for obtaining crucial data from peers in other government entities (OECD, 2016^[21]). Different OECD studies reveal that vertical co-ordination across levels of government is a weakness of governance in Argentina, especially the collaboration between the federal and provincial level. The OECD regulatory review found that co-ordination between the national and subnational levels of government are generally carried out on an *ad hoc* basis (OECD, 2019^[124]). During the peer review mission for digital government development in Argentina, complexity of co-ordinating with subnational government organisations was one of the challenges most frequently raised by interviewees. These challenges allow for both gaps and inconsistent overlaps in various policies and programmes (OECD, 2019^[87]).

OECD countries have resorted to different instruments to address the multi-level co-ordination challenge. These mechanisms can range from “binding” to “soft” instruments. They include, for example, financial incentives to support co-operation among levels of governments, co-financing mechanisms, joint investment strategies, the use of conditions when assigning funds, platforms of dialogue, or specific instruments such as contractual arrangements (Box 62). No matter what kind of platform is created for policy co-ordination, it is essential to ensure the effectiveness of co-ordination by defining clear objectives, agendas and follow-up actions associated with those mechanisms. In Austria, for example, the policy platform, “*Bundesländerdialog*”, set up by the Federal Ministry of Science, Research and Economy, has a clear objective to identify important policy instruments for the National Strategy for Research, Technology and Innovation, and seek for projects and programmes that can be co-financed by the federal government and the *Länder* (OECD, 2019^[81]).

Box 62. Instruments and platforms to build partnerships across levels of government

Australia

Australia has an Intergovernmental Council (COAG) that brings together representatives of subnational entities and equivalent ministries at the level of the federal government. The Council includes the leaders of the Commonwealth and State and Territory governments and the Australian Local Government Association. By convening key stakeholders, the COAG drove national microeconomic reforms in the mid-1990s, which has been credited with improving the flexibility and efficiency of the national economy. The COAG agreed economic stimulus measures in an attempt to make the economy more resilient in the face of the crisis. One key to its success has been the frequency of engagement, which has generated trust between parties. The COAG is also good example of a vertical co-operation forum to build consensus for major reforms – for example, the introduction of a value-added tax (VAT) between the Commonwealth and the states.

There is also a federal-level statutory body, Infrastructure Australia, which was created to support nationwide infrastructure investment and to advise governments and other investment stakeholders. Infrastructure Australia works with states, territories, local governments, and the private sector on the basis of rigorous cost-benefit analysis to identify investment priorities and the policy and regulatory reforms necessary to enable timely and co-ordinated delivery of national infrastructure investment. It also advises Australian subnational governments on how to manage infrastructure gaps and bottlenecks that hinder economic growth.

Italy

The main institutional mechanisms to promote dialogue across the different levels of government in Italy are the so-called "conferences"; the 1) the Conference of State – Regions; 2) the Conference of State – Municipalities and other Local Authorities; and 3) the Unified Conference of State – Regions – Municipalities and Local Authorities. The three conferences are held in the prime minister's office and constitute the most important co-operation instrument between the different levels of government:

1. The Conference of State-Regions was instituted in 1988 by Law No. 400. It comprises the prime minister (or the Minister of Regional Affairs) as president of the conference, the presidents of the regions and other ministers whenever matters related to areas of their competence are discussed. The central government consults the conference regarding all legislative initiatives related to areas of regional interest. Regional governments play a key role on this platform and in the process of institutional innovation, especially relating to the transfer of functions from the centre to the regions and local authorities.
2. The Conference of State-Municipalities and other local authorities, which was created by the decree of the President of the Council of Ministers in July 1996, brings together the: Prime Minister, as President of the Conference; the Minister of Interior; the Minister of Regional Affairs; the Minister of Treasury; the Minister of Finance; the Minister of Public Works; the Minister of Health; the President of the Association of Italian Municipalities (ANCI); the President of the Association of the Italian Provinces (UPI); and the President of the Association of Italian Mountain Communities (UNCCEM); and includes 14 mayors and 6 presidents of provinces. The conference carries out the following functions: 1) co-ordination of the relations between state and local authorities; and 2) study, information and discussion on issues pertaining to local authorities.
3. The Unified Conference of State-Regions-Municipalities and other local authorities, in place since 1997, is the institutional place for relations among the central government, regions and local authorities. It includes all the members of the two conferences (state-regions and state-

regions- municipalities and other local authorities). It is to be consulted on any act in fields of shared competence. In particular, the Unified Conference is consulted by the central government on the financial law and on the decrees concerning the allocation of personnel and financial resources to regions and local authorities.

Spain

In Spain, the “Collaboration contracts” (*Convenios de colaboración*) are co-operative agreements between the central government and the Autonomous Communities (ACs). They are negotiated on a sectoral basis, distributed between the different Spanish ministries. In addition, the Conference of Presidents also serves for vertical co-ordination between the central government and regions. This conference is chaired by the Prime Minister and regroups the presidents of the 17 regional governments and 2 autonomous cities, complemented with various sectoral conferences. There is also National Commission for Local Administration as another platform for dialogue.

Source: (OECD, 2017^[88]; OECD, 2018^[83]). (Ter-Minassian and de Mello, 2016^[89])

Argentina could expand the scope and formalise the creation and organisation of Federal Councils to help tackle sectoral silos. Taking advantage of the experiences of Federal Councils, the scope for action could be expanded to ensure a cross-sectoral and multi-level perspective when deciding on infrastructure investments. Indeed, multi-sectorial dialogue platforms where actors from different levels of government and sectors can formally dialogue have proven effective in several OECD countries. Beyond co-ordination, platforms to promote collaboration among its members and serve to strengthen capacity through information exchange, training, and showcasing best practices (Mizell and Allain-Dupré, 2013^[90]). When involving the different levels of government, a dialogue platform can help to clarify the capacity challenges and bottlenecks impeding the effective management of subnational policies and/or investments; at the same time they can ensure – or at least promote - that national policies include subnational inputs. Dialogue platforms are predominantly set at the national level, involving several sectors for specific purposes.

Encouraging horizontal co-ordination at the provincial and municipal levels

Co-ordinating infrastructure investments projects across municipalities is a challenge for Argentina as well as for the majority of OECD countries. The 2015 OECD Committee of the Regions Survey shows that horizontal co-ordination is challenging, particularly for large subnational governments. More than three quarters of surveyed subnational governments report horizontal co-ordination challenges with other jurisdictions. For 34%, the lack of incentives to co-operate across jurisdictions is a major challenge. Seventy-five percent of subnational governments also report a lack of joint investment strategy with neighbouring cities/regions (OECD-CoR, 2015^[91]).

Strengthening co-operation across Argentine provinces and municipalities is necessary to support investment and the delivery of services at the relevant scale. Efficient co-ordination mechanisms between local authorities can help reduce the duplication of investments, facilitate greater investment efficiency and effectiveness through economies of scale, and enhance synergies among policies of neighbouring (or otherwise linked) subnational governments. This is typically the case for physical infrastructure investment where the most efficient scale often exceeds the administrative boundaries of individual regions or localities (OECD, forthcoming^[92]). Co-ordination of investment and development policies is particularly relevant at the metropolitan scale where less fragmented governance structure can favour growth and productivity.

Despite some initiatives, co-ordination between provinces is weak

Argentina, as many OECD countries, has a weak culture of collaboration between provinces, influenced by the fund allocations system in which they are often called to compete. Collaboration between provinces in Argentina is more the exception than the norm. This lack of collaboration is mainly explained by (i) competition between provinces over federal funds, and (ii) lack of awareness among provinces of the positive impacts that collaboration may have. Another factor could be the lack of incentives for political actors to strike co-operative agreements (Artana et al., 2012^[93]). During the implementation of the *Plan Belgrano* and *Proyecto Patagonia*, which by definition seek co-ordination between provinces, collaboration among provincial authorities has been reported as one of the main bottlenecks. Low culture of collaboration also results from a short-term perspective in the planning process: provinces compete for funding in the short run and are not called to think about their planning in the long term.

Still, some national and provincial authorities acknowledge that horizontal co-operation across jurisdictions is key to support strategic investments. An example that illustrates the willingness to co-operate was the creation of the competitiveness dialogues (*mesas de competitividad*) led by the Ministry of Agriculture, Livestock and Fisheries. These dialogues seek to improve regional competitiveness by locating national and provincial ministries and private actors together to develop particular economic sectors. The dialogues embed a territorial approach and seek to leverage territorial competitiveness. While these dialogues are an interesting initiative, they are limited to certain specific policy areas and the impact on investments has yet to be assessed. The *Organismos de Cuencas Interprovinciales* are also a good example of co-ordination between provinces. These bodies are responsible for the execution of inter-jurisdictional agreements reached in the Basin Committees, when their size or complexity exceeds the capacities of the existing provincial or national agencies and / or poses difficulties in achieving co-ordination among them.

Strengthening co-ordination between municipalities, especially in urban areas

Inter-municipal co-operation arrangements depend on each province's constitution, which include varying degrees of incentives for horizontal and vertical co-ordination. In some cases, public service delivery (mainly electricity, gas and water) is managed through service co-operatives (*cooperativas*), which provide a community-based response in sparsely populated remote areas. "Urban agreements" (*convenios urbanísticos*) can also be promoted to support inter-municipal co-operation in service delivery along urban corridors near metropolitan areas. However, these forms of collaboration are more frequent for service delivery than for planning and implementing infrastructure investments.

In some provinces, municipalities have adopted mechanisms to co-ordinate infrastructure investments, for example, the *Consortio para el Desarrollo del Noroeste de Buenos Aires* (CODENOBA). CODENOBA was created in 1994 and integrated by 12 municipalities in the Buenos Aires province. The Consortium was the result of an effort by the province of Buenos Aires to promote local development initiatives and (2) flooding in the region in 1992 and 1994. The CODENOBA has survived political changes and is now a platform for mayors from different political parties. One of the achievements of the consortium is the investment in the Paraná aqueduct. In the province of Mendoza, there are examples of collaboration between municipalities to invest in different projects, notably for the creation of the *Parque o'higgins* and the *Museo Gabriela Mistral*. However, this form of collaboration is based on the willingness of provincial and municipal authorities.

Stronger co-operation between Argentine municipalities can help local authorities investing in infrastructure projects more efficiently. Inter-municipal co-operation is an appealing policy option mainly because co-operative arrangements offer a simple and flexible way to utilise economies of scale in and to internalise externalities of public investments. This is why an increasing number of OECD countries have adopted some form of inter-municipal co-operation. A recently conducted survey to monitor the implementation of the *OECD Recommendation of the Council on Effective Public Investment across Levels of Government*

(OECD, 2014^[78]) shows that many countries have adopted incentives, legal frameworks and other mechanisms to encourage cross-jurisdiction co-operation (OECD, forthcoming^[92]).

Organising co-operation between subnational governments has also been a relatively common method used by OECD countries to solve capacity issues, especially at the municipal level. The arrangements have been popular among the Nordic countries (Finland, Sweden, Norway and Denmark), and have been practiced in Italy, France, Spain and Poland (OECD, 2017^[94]) (OECD, 2019^[95]). In Chile municipal associations have had positive impacts on investment and capacity-building. Municipalities that are part of an association in Chile present better investment projects to get financing; increase the capacities of smaller municipalities; and have more bargaining power than municipalities acting on their own to get financing from regional and central levels (OECD, 2017^[88]).

Some OECD countries have opted to encourage collaboration by providing consulting and technical assistance, promoting information sharing or providing specific guidelines on how to manage such collaboration. The federal or provincial governments can also create incentives whereby municipalities can access funding for joint projects or shared services. Financial incentives can help overcome the administrative costs that can be associated with the creation of networks or contracts (Box 63)

Many OECD countries have passed regulations to encourage inter-municipal co-operation on a voluntary basis. For instance, France offers special grants and a special tax regime in some cases and other countries like Estonia and Norway provide funds for joint public investments. Slovenia introduced a financial incentive in 2005 to encourage inter-municipal co-operation by reimbursing 50% of staff costs of joint management bodies – leading to a notable rise in the number of such entities. In Switzerland, one-third of funds for regional development policy are reserved for projects involving inter-cantonal co-operation (Mizell and Allain-Dupré, 2013^[90]). Federal government can encourage inter-municipal associations for different sectors or specific policy goals. This is the case of Austria, where there are more than 700 municipal associations, including 49% in the education sector (school community associations), 25 % for administrative purpose (citizenship and registry offices), 9% in the cultural sector (Music school associations) and the rest in the social assistance and local transport sectors, among others. Similarly, in Germany, syndicates (*Zweckverbände*) – a type of special-purpose association – are created among municipalities to deliver standard local services such as waste management, water and waste-water or transport (OECD/UCLG, 2019^[19]).

Box 63. Incentives for cross-jurisdictional co-operation

Most of the time, inter-municipal co-operation is promoted on a voluntary basis. Incentives are created to enhance inter-municipal dialogue and networking, information sharing, and sometimes to help in the creation of entities. The incentives can be financial or can also have a practical nature (consulting and technical assistance, production of guidelines, measures promoting information sharing such as in Canada, United States, and Norway). Several countries also implemented contracts and partnership agreements to encourage inter-municipal co-operation, for example, in Poland (with the introduction of territorial contracts) and in Portugal (with multi-level contracts introduced in the 75/2013 law), among others.

In 2005, in Slovenia amendments to the Financing of Municipalities Act provided financial incentives for joint municipal administration by offering national co-financing arrangements: 50% of the joint management bodies' staff costs are reimbursed by the central government to the municipality during the next fiscal period. The result has been an increase in municipal participation in such entities from nine joint management bodies in 2005 to 42, exploding to 177 municipalities today. The most frequently

performed tasks are inspection (waste management, roads, space, etc.), municipal warden service, physical planning and internal audit.

At the sub-regional level in Italy, there is a long tradition of horizontal co-operation among municipalities, which takes the form of *Unione di Comuni*, intermediary institutions grouping adjoining municipalities to reach critical mass, reduce expenditure and improve the provision of public services. A 2014 law established financial incentives for municipal mergers and unions of municipalities. Functions to be carried out in co-operation include all the basic functions of municipalities. All municipalities up to 5 000 inhabitants are obliged to participate in the associated exercise of fundamental functions.

The region of Galicia in Spain has many small municipalities. Many have limited institutional capacity and are spread out geographically, which increases the cost of providing public services. The regional government took steps to encourage economies of scale. First, it improved the flexibility of financial incentives for voluntary inter-municipal co-ordination arrangements. Investment projects that involved several municipalities received priority for regional funds. Voluntary inter-municipal agreements were popular in the water sector. Local co-operation was encouraged in the urban mobility plan for public transport, involving the seven largest cities in the region. The regional government also imposed a mandatory co-ordination arrangement. Specifically, it created the Metropolitan Area of Vigo, an association of 14 municipalities. Although the metropolitan area was defined by the regional government, it was based on a history of co-operation among 12 municipalities (out of 14).

Source: (OECD, 2017^[94]) ; (OECD, 2019^[81])

Addressing the metropolitan governance gap

At the metropolitan level, the lack of horizontal co-ordination is particularly challenging for Argentina and has resulted in poor investments that do not necessarily respond to the needs of the population. In the Metropolitan area of Buenos Aires it is possible to find different examples of the lack of co-ordination of investments. In the Matanza-Riachuelo river basin industrial activity, for example, uncontrolled settlements in the urban area and lack of water and sanitation services have caused contamination with consequences on human health. Another example is the Suquia River (City of Córdoba) where economic and urban development together with the lack of sanitation infrastructure have also caused environmental damage to the river (UNC, 2015) (OECD, forthcoming). In this regard, some advances have been pursued by Argentina, notably through the Ministry of Interior, Public Works and Housing, which has deployed a series of actions to improve inter-jurisdictional co-ordination, provide basic infrastructure in human settlements and enhance environmental indicators.

Strengthening co-ordination at the metropolitan level supports a whole-of-city approach to investments. Urban sprawl and institutional fragmentation is significant in urban agglomerations in Argentina. Only 5 of the 26 agglomerations are completely contained in the same administrative area. The remaining 21 consist of multiple administrative units. Among the 21 agglomerations, four span several local governments and two provinces, such as Neuquén (Muzzini et al., 2016^[20]). For instance, the agglomeration of San Miguel de Tucumán is a metropolitan area that comprises nine jurisdictions with different levels of local autonomy (Muzzini et al., 2016^[20]). Such diversity in administrative structures within the same territory in the absence of mechanism for co-operation creates difficulties for effective infrastructure investments and governance. The challenge is twofold:

1. municipalities do not have the incentives to co-operate, and
2. differences in administrative and financial capacity can accentuate inequalities within a metropolitan areas, including socio-spatial segregation.

It is therefore important to manage such fragmentation through a territorially appropriate framework that helps to reconcile possible differences in development objectives, capacity and capability, and socio-economic disparities.

Metropolitan governance arrangements can address administrative fragmentation and enhance the effectiveness of infrastructure investments. OECD empirical research has shown that for a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity. This effect is mitigated by almost half when there is a metropolitan level governance body established (Ahrend, Gamper and Schumann, 2014^[96]). Indeed, in most cases metropolitan areas have created joint institutions (including jointly owned enterprises in some cases) to manage public transport, water and sanitation, and other major utilities. In New Zealand, for example, the nine municipalities in the Auckland area have formed a joint council that decides on all matters of common interest and is a powerful intermediary with the central government (Ter-Minassian and de Mello, 2016^[89]). Metropolitan governance mechanisms may also help to address segregation, improving well-being, especially among vulnerable groups (Kamal-Chaoui and Sanchez-Reaza, 2012^[97]). Metropolitan governance bodies might provide incentives and reduce barriers for co-ordination between municipalities, across policy sectors, and with upper levels of government and supranational institutions.

Building capacities at the provincial and municipal levels

In Argentina, provincial and municipal governments sometimes have limited capacities in strategic planning, implementing and monitoring infrastructure investment. Another challenge is the monitoring and evaluation frameworks and mechanisms available for data collection.

In the absence of adequate capacities, investment projects may fail or engender significant waste. This is particularly true for infrastructure investment for which the adequate capacities may help in ensuring value-for-money, mobilising private sector resources, and improving the operation and maintenance of infrastructure in the long-term (OECD, forthcoming^[92]; Mizell and Allain-Dupré, 2013^[90]).

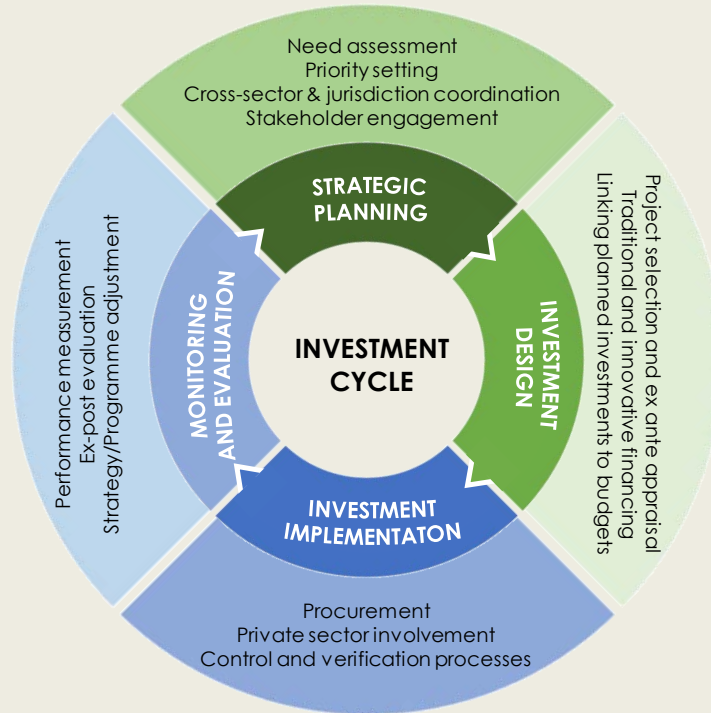
Strengthening administrative capacities of provinces and municipalities

The limitations of administrative capacity are often identified as a bottleneck for municipal governments, in virtually all dimensions of local government performance (Alm, 2015^[98]) (Box 64). In Argentina, provincial and municipal governments are not exempt from this challenge: they often have low technical and implementation capacity, scarce fiscal resources, and a restricted span of intervention (mainly for municipalities), weak institutional arrangements for underwriting and funding risks. As a result, local governments have difficulty transforming investment plans into bankable infrastructure projects.

Box 64. Defining capacity for effective public investment throughout the investment cycle

Capacity for public investment refers to the institutional arrangements, technical capabilities, human, economic and financial resources, and policy practices that affect public investment. Capacity building for subnational public investment should go beyond a narrow approach restricted to human resources management or workforce improvement activities. Strong investment capacities are an enabler to achieve important goals at different stages of the investment cycle (Figure below). Drawing on related literature, OECD research shows that capacities for effective public investment – both at the national and subnational level – are those that: 1) facilitate design and implementation of an investment portfolio that promotes regional development; 2) reflect the multi-level governance context of subnational public investment; and 3) are generally applicable, but allow for setting priorities in regions with differing characteristics.

Stages and activities throughout the investment cycle



Source: adapted from (Mizell and Allain-Dupré, 2013^[90]).

In many ways, national and subnational government should be equipped with the capacities associated with all the activities and stages in the investment cycle. In practice, governments experience challenges in various areas. In an OECD survey on multi-level governance of public investment, national governments tended to consider the top capacity challenges for subnational governments as the weaknesses in implementing a cross-sectoral approach (i.e. sectoral priorities dominate over integrated approach) and long-term strategic planning (i.e. focus on short term priorities).

Source: Adapted from (Mizell and Allain-Dupré, 2013^[90]).

In Argentina like in all countries, the capacity to design and implement infrastructure projects varies across provinces and municipalities. Provinces, in general, are better prepared than municipalities to design and implement effective infrastructure investments. However, some provinces are better prepared than others, in particular when projects need to access external financing. This is a common challenge in many countries – In a 2015 OECD/Committee of Regions survey, two-thirds of subnational governments reported that they failed to take into account the full life cycle of infrastructure investment when designing projects.

Other gaps include difficulties in carrying out robust cost-benefit analysis for project appraisals, navigating public procurement requirements. The lack of capacities in Argentina is translated, most of the time, in delays in the implementation and execution of infrastructure projects as the pre-investments process does not meet basic requirements.

Argentina has undertaken important initiatives to build capacities at both the provincial and municipal levels. The National Directorate of Strategic Territorial Planning of the Ministry of Interior is the main national entity responsible for supporting subnational governments in their planning processes, and in particular, in linking the planning process with the formulation of concrete projects and their execution. Efforts to support planning processes from this Directorate have increased in recent years, in particular at the municipal level.

Capacity building initiatives are fragmented across different national institutions. Beyond the National Directorate of Strategic Territorial Planning that concentrates its efforts in building capacities for the planning process, the Secretariat for Modernisation is in charge of building digital capacities at the subnational level. The National Institute of Public Administration (*Instituto Nacional de la Administración Pública*, INAP) also stands as a long-term government ally in terms of building public sector capability (OECD, 2019^[87]). In parallel, in a more informal manner, the central level also accompanies provinces and municipalities in the design of projects that will be financed by external resources and need to go through the BAPIN. This also happens when the provinces are the ones that undertake debt by their own and the central level supports them informally through teleconferences. For municipalities, the Undersecretariat of Municipal Relations has also different programmes to build capacities focused on public management.

The different programmes and tools offered by the central level to build subnational capacities could benefit from greater articulation and co-ordination. The multiplicity of tools and methodologies proposed by the federal level, which are often not articulated, can act to constrain local governments instead of easing their tasks. The various technical assistance programmes need to be better articulated to avoid overlaps and a proliferation of different roadmaps. For this to happen, the role played by provinces in capacity building could also be strengthened. Some provinces can play a key role in building capacities and articulating the offer made by the central level as they can provide more targeted capacity-building activities thanks to their closer proximity to local governments.

Indeed, building subnational capacity to plan and deliver infrastructure often requires a differentiated approach targeting specific needs in different types of regions and localities (OECD, 2019^[81]). This is what has done the Friuli Venezia Giulia Region in Italy, for example, through the Region Competence Centre, developing an *ad hoc* learning programme for the region and the municipalities. In collaboration with *CompaFVG*, about 100 regional and local civil servants have the opportunity to create a "community of innovators" with mastery in the analysis and design capacity of public services, management of innovative projects and monitoring of their effects, aptitude for problem solving and construction and management culture of the data, etc. (OECD, forthcoming). Another interesting example of capacity building programme can be found in Colombia (Box 65). For this, it is important to conduct an assessment of the capacities and competences of subnational governments.

Box 65. Capacity building for subnational governments and leaders in Colombia

In Colombia, the National Directorate for Planning (DNP) actively supported municipalities in the design of the 2016-19 territorial development plans (PDTs). Ahead of the elections of November 2015 and anticipating possible knowledge gaps of the new public servants, the DNP put in place a Strategy for New Territorial Leaders (*Estrategia para el Fortalecimiento de Nuevos Mandatarios*). The strategy comprised a training programme for mayoral and gubernatorial candidates, and technical assistance to formulate Territorial Development Plans through a toolkit called *KiTerritorial*. The programme prioritised

municipalities with particular gaps in social development indicators or affected by conflict. This assistance targeted 462 subnational governments, whilst the other municipalities were assisted via international co-operation (183) or by the Higher School of Public Administration (300). Other technical assistance tools included specific assistance from the DNP for the municipal collegial bodies for administration and decision (*órganos colegiados de administración y decisión*, OCADs), which served as planning secretaries.

KiTerritorial is a toolkit that offers support to local leaders to formulate territorial development plans. The toolkit is organised around four axes that local governments should follow when developing a PDT: 1) diagnosis; 2) strategy; 3) investment plan; 4) monitoring and evaluation. For each axis, the DNP offers a handbook to explain how to formulate the diagnosis, the strategy; the investment plan; the steps local governments should follow; a timeline; the objectives pursued; the main participants and responsible authorities; and the main inputs.

1. **Diagnosis:** Compiles information and analysis of the main enablers and barriers for the development of the territory. At this stage subnational governments should identify the indicators to prioritise in order to close the socio-economic gap.
2. **Strategy:** Consists of identifying and formulating objectives, indicators and targets that the territorial entity expects to achieve during its administration term.
3. **Investment plan:** Identifies financial resources available to carry out programmes defined in the strategy. The first step is to analyse the financial situation of the municipality and the efforts needed to generate own resources and articulate effectively all the existing financing sources.
4. **Monitoring and evaluation:** Consists of reviewing whether a PDT is suitable for monitoring and evaluation. Here the municipality should define responsibilities, outputs and outcomes, and the tools that will be used to achieve them.

Source: OECD.

In its efforts to encourage and support the use of PPPs, Argentina would benefit from a more systematic approach to building capacities for PPP projects at the subnational level. While an increasing number of provinces adhere to the national 2017 PPP framework— in 2018 Buenos Aires and 14 provinces had adhered to it (Forbes, 2018^[99]) – PPPs to subnational level require sustained efforts to build capacities due to the complexity of PPP projects. This capacity-building effort needs to go beyond information exchange and the formal adoption by subnational governments of the national legal framework. Addressing the capacity issue faced by the subnational governments is not only necessary for them to carry out infrastructure investment more effectively, but also for building their capacity in identifying projects that have potential for private resource mobilisation, in order to contribute to the national plan based on their “on the ground” knowledge. Assistance targeted to subnational PPP capacity can help boost the design and results from PPPs. The United Kingdom, for example, established the “Public Private Partnership Programme” (4ps) in the mid-1990s to support PPP development at the local level in England and Wales (see the United Kingdom case study). It subsequently evolved into Local Partnerships, a joint venture between the Local Government Association and HM Treasury, which continues to support local authorities (OECD, 2018^[100]). Similarly, in Germany, federal states may call upon the services of Partnerships Germany, an independent PPP unit. Connecting the units at the federal state level, a federal expertise network (*Föderales PPP Netzwerk*) exists between the federal government, federal states and municipalities. It helped facilitate reciprocal vertical and horizontal knowledge transfers on PPP investment (OECD, 2019^[81]).

Ensuring efficient investment through monitoring and evaluation

Effective place-based investment strategies should be evidence-based and results-oriented. This means having a robust monitoring and evaluation frameworks throughout the entire investment cycle. Establishing monitoring and evaluation processes helps country's to link policy objectives and outcomes while revealing information throughout the investment cycle that should feed into decisions regarding investment in subsequent stages of the investment.

Putting such frameworks in place is not always easy for subnational governments, as it implies additional costs that need to be balanced against competing needs for the expenditure (OECD, 2018_[83]). Establishing evaluation and monitoring criteria is challenging as it should not be limited to budget execution. This requires policy makers understand the policy objectives the relationship between indicators and outcomes (OECD, 2018_[83]).

Argentina's national government is taking active measures to build monitoring and evaluation capacities at the provincial level, led by the Federal Council on Modernisation and Innovation for the Public Administration (COFEMOD). In 2018, planning and monitoring and evaluation training sessions were carried out by COFEMOD's Results-Based and Quality Management Commission (Comisión de Gestión por Resultados y Calidad), with the participation of more than 50 officials from provincial governments. COFEMOD has initiated various subcommittees to facilitate co-ordination between the national and subnational governments. Nevertheless, despite the progress made in fostering co-operation with several provinces, to date COFEMOD and its Open Government Commission still lack the tools to monitor the agreed commitments. The Federal Council works as a forum to reach political agreement on high-level issues, but faces human resources and financial challenges to promote multi-level governance and horizontal co-operation from a technical point of view (OECD, 2019_[1]). Moreover, the recommendations and decisions of COFEMOD are non-binding, and officials in some provincial governments are often unaware of the COFEMOD (OECD, 2019_[1]). Further institutional and financial support to COFEMOD could help expand the activities and maximise the potential of the Council in building subnational government capacity for monitoring and data tracking. Eventually, better quality of subnational government data can feed in national strategies and policy-making for infrastructure investment.

In Argentina data collection at the subnational level is a challenge as national statistics have been unreliable (OECD, 2016_[21]). The National Institute of Statistics and Censuses of the Argentine Republic (INDEC) so far has not reached agreements with all provinces to access data, which limits the capacity of the three levels of government to plan, monitor and evaluate their projects. In Córdoba for example, national statistics generated in the past are considered unreliable, opaque and misleading. The most prominent examples include national data on poverty and inflation, which are considered unreliable from 2008 to 2015 and are fragmented at subnational level; contain data gaps on labour productivity at the provincial and national levels; lack housing indicators at the provincial level; contain outdated urban services data; and contain poor indicators at municipal level, mostly restricted to education and demography (OECD, 2016_[21]).

Argentina has taken initiatives to facilitate data collection and reporting with a focus at the subnational level, yet obstacles remain. Argentina, as it is the case of many countries, uses the Open Government Partnership (OGP) initiative as an opportunity to foster collaboration and co-ordination between national and subnational governments' co-ordination for improving data availability and enhancing transparency of all levels of government. The third Argentinian OGP Action Plan –in contrast with the first two- includes commitments from 11 provinces. The 22nd commitment “Training in Open Government Practices” for example, considers the dissemination of Open Government practices at the municipal level through training in different topics. Some of these trainings aim at introducing Open Government, developing tools for the design of Local Action Plans, introducing participatory budget practices, among others. (Government of Argentina, 2017_[101]). The Ministry of Interior is also currently developing some initiatives such as the Information System for Provincial Development (Sistema de Información para el Desarrollo

Provincial) or the Provincial Fiscal (Information Información Fiscal Provincial) to improve data collection. Some provinces had already taken steps to improve the availability of data on infrastructure investments. For example, the provincial government of Mendoza has developed a quality management system with an online platform to facilitate free information access for citizen, including government budget, infrastructure projects and other public work.

The existing interventions can also be tailored to infrastructure investment monitoring and evaluation, with the support of national authorities. There is a potential for COFEMOD to partner with INDEC to organise a technical team to provide assistance to provinces to generate data and build indicators to monitor infrastructure investment.

An interesting example of data collection and accessibility has been developed by Norway through the KOSTRA system – an electronic system for municipalities and counties. Input and output indicators on local public finances, as well as the investment priorities, productivity and needs of municipalities are published on the system. KOSTRA integrates information from local government accounts, service statistics and population statistics. The data is frequently used by the local government themselves and by the media and researchers. This system has helped facilitate comparisons of municipalities thereby promoting “bench-learning” (OECD, forthcoming^[92]). Similarly, Switzerland has developed a database that provides an overview of the projects of the New Regional Policy (NPR), including cantonal and supra-cantonal implementation programmes, etc. Since 2016, all NPR projects have gradually been posted online; a large selection of projects dating from previous periods is also available (OECD, 2019^[81]). The use of alternative data sources would also help bridge some of the abovementioned gaps and align the provincial statistical infrastructure with those of OECD countries.

Data collected needs to be harmonised across provinces and municipalities. Different organisations across provincial governments may use different and potentially incompatible technologies and approaches, which significantly increase the difficulties in data collection and harmonisation. In Córdoba, for example, several ministries started building their own datasets and indicators, which has resulted in a proliferation of parallel initiatives (OECD, 2016^[21]). This thus limits the potential for information sharing, collaboration and the achievement of a whole-of-government approach in infrastructure planning, investment and governance. It is thus crucial to foster an integrated and holistic national government approach, including by involving municipalities and provincial governments while deciding which data will be collected and how. This allows a better understanding of the constraints that subnational governments may have in the data collection process. For this Argentina can create some co-ordination instance – be it a task force, working group, or a committee, among others, that bring together all relevant actors from subnational governments, local civil society leaders, the private sector and academia, as well as the other branches of power and independent public institution, could be a step to start addressing this issue.

5.4. Conclusion and recommendations

Develop a place-based approach to infrastructure investment

Argentina should develop a place-based approach to infrastructure investment at the national and subnational levels to tackle territorial inequalities and enhance productivity in regions. For this to happen Argentina should:

- Develop a long-term and whole-of-government investment strategy (see Section 2) that considers the impact of investment in a territory. It should be articulated and anchored in a national strategy for regional development that clearly identifies long-term regional development goals.
- Develop bottom-up practices where provinces and municipalities are considered key partners for defining priorities and implementing infrastructure investment. These practices need to be combined with existing top-down approaches.

- Strengthen the role of the Federal Council for Planning. This can happen, for example, by better defining its role, and assigning human and financial resources to its operation.
- Argentina should strengthen the Plan Belgrano and Plan Patagonia and provide institutional support. This should be led by the federal government and can be developed for other regions, capitalising on the experiences of these two projects.

Improve co-ordination between the national and subnational governments

Argentina could review the scope of existing Federal Councils and formalise the organisation of Federal Councils to tackle sectoral silos, in particular for the *Consejo Federal de Planificación y Ordenamiento Territorial*. A Council or a committee within the *Consejo Federal de Planificación y Ordenamiento Territorial* could be responsible for co-ordinating infrastructure investment.

Argentina's federal government could also encourage the development and use of provincial banks of projects that are aligned with the BAPIN. This would ensure that all projects, not only the ones that are financed at least partially with national resources, are aligned with and reflect national priorities.

Encourage horizontal co-ordination at the provincial and municipal levels

Argentina should further encourage co-ordination among provinces learning from the successes and failures of the Plan Belgrano and Proyecto Patagonia. For this, the central government plays a key role and should (i) consider explicit incentives in the budgeting process for provinces to co-operate; and (ii) take concrete steps to increase the awareness among provinces of the positive impact of collaboration. This type of co-operation for infrastructure investments could be further encouraged, for example, by extending the role and scope of the *mesas de competitividad*.

Provincial authorities can introduce specific incentives, either financial or non-financial, to encourage voluntary co-operation among municipalities. The federal or provincial governments can also create financial incentives whereby municipalities can access higher funding amounts for joint projects or shared services

Strengthening co-ordination at the metropolitan level is fundamental for Argentina in order to ensure a whole-of-city approach to investment. For this, Argentina could for example, create joint institutions (including jointly owned enterprises in some cases) to manage public transport, water and sanitation, and other major utilities.

Build capacities at the provincial and municipal levels

Argentina should streamline and articulate training programmes for investment capacities to avoid a proliferation of different initiatives. With regard to infrastructure projects, a central infrastructure advisory body could take on this task. Provinces are also key levers to articulate capacity building and technical support. To better articulate capacity building some important steps would be to:

- Strengthen the capacity-building practices and role of the National Directorate of Strategic Territorial Planning of the Ministry of Interior.
- Make a rigorous competences and performance assessment to address the capacity gaps at the provincial and municipal levels.
- Develop a systematic approach to building capacities for PPP projects at the subnational level that goes beyond information exchange.

Argentina should develop monitoring and evaluation tools for infrastructure investments at all levels of government. For this, the federal government should scale up and co-ordinate data collection efforts, as well as invest in technical support for regional and provincial governments. Some key steps for this are:

- Strengthen the role of the Federal Council on Modernisation and Innovation for the Public Administration (COFEMOD) by providing it with human and financial resources for its functioning.
- Ensure the implementation of the commitments made by the COFEMOD's Results-Based and Quality Management Commission
- Establish agreements between the National Institute of Statistics and Censuses of the Argentine Republic (INDEC) and provincial data offices in order for INDEC to have official and harmonised records for subnational governments.

Notes

1. According to the OECD FDI regulatory restrictiveness index.
2. In total, National Public Administration expenditures make up 23.5% of GDP, slightly lower than 24.6% in 2018.
3. 72.5% in 2018 to 77.1% in 2019 for primary expenditure.
4. www.reuters.com/article/us-argentina-ratings/fitch-sp-downgrade-argentina-debt-as-default-risk-grows-idUSKCN1V61Y9
5. The other five forms are communes (*comunas*), development commissions (*comisiones de fomento*), municipal commissions (*comisiones municipales*), rural communes (*comunas rurales*), neighbourhood councils (*juntas vecinales*) and autonomous government councils (*juntas de gobierno autonomas*). Provinces may be composed of a combination of these six types of local government without a hierarchical relationship.
6. Education was devolved from the federal government to provinces and to the CABA in 1993 (except for tertiary education), under the co-ordination of the Federal Council for Education established by law in 2006.
7. The Recommendation and a complementary Toolkit with a self-assessment section can be accessed through: www.oecd.org/effective-public-investment-toolkit/
8. In 2018, the OECD conducted a survey to monitor the implementation of the OECD Recommendation on Effective Public Investment across Levels of Government. The questionnaire was sent to 37 Adherents in June 2018. Twenty seven responses were received by January 2019.

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