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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GUARANTEE

IN THE AMOUNT OF US\$250 MILLION

IN SUPPORT OF

THE FUND FOR THE DEVELOPMENT OF RENEWABLE ENERGY (FODER)

IN THE ARGENTINE REPUBLIC

February 22, 2018

Energy and Extractive Global Practice
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 8, 2018)

Currency Unit = Argentine Peso (AR\$)

AR\$19.68 = US\$1

FISCAL YEAR

July 1 - June 30

Regional Vice President: Jorge Familiar

Country Director: Jesko S. Hentschel

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Practice Managers: Antonio Barbalho/Pankaj Gupta

Task Team Leaders: Lucia Spinelli/Arnaud Braud

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AR\$	Argentinian peso
BICE	Investment and Foreign Trade Bank (<i>Banco de Inversión y Comercio Exterior</i>)
BP	Bank Procedures
CAMMESA	Wholesale energy market administrator (<i>Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima</i>)
CPS	Country Partnership Strategy
DFI	Development Finance Institutions
ECA	Export Credit Agencies
EDENOR	Distribution and Marketing Company of the North (<i>Empresa Distribuidora y Comercializadora Norte S.A.</i>)
EDESUR	South Distribution Company (<i>Empresa Distribuidora Sur S.A.</i>)
EIRR	Economic Internal Rate of Return
ENRE	National Regulatory Agency (<i>Ente Nacional Regulador de la Electricidad</i>)
ESMF	Environmental and Social Management Framework
ESMS	Environmental and Social Management System
E&S	Environmental and Social
FI	Financial Intermediary
FM	Financial Management
FMA	Financial Management Assessment
FODER	Fund for the Development of Renewable Energy (<i>Fondo para el Desarrollo de Energías Renovables</i>)
GENREN	Renewable Energy Generation Program
GHG	Greenhouse Gas Emissions
GoA	Government of Argentina
GRS	Grievance Redress Service
GW	Gigawatt
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
ID	Project Identification Number
IFC	International Finance Corporation
IP	Indigenous Peoples
IPF	Investment Project Financing
IPP	Independent Power Producer
IPPF	Indigenous People's Planning Framework
kV	Kilovolt
kWh	Kilowatt-hour
M&E	Monitoring & Evaluation
MEM	Ministry of Energy and Mining (<i>Ministerio de Energía y Minería</i>)
MFD	Maximizing Financing for Development
MoF	Ministry of Finance (<i>Ministerio de Finanzas</i>)
MIGA	Multilateral Investment Guarantee Agency
MtCO ₂ eq	Million tons of Carbon Dioxide equivalent

MW	Megawatt
MWh	Megawatt-hour
NDC	Nationally Determined Contribution
OM	Operations Manual
OP	Operational Policy
PDO	Project Development Objective
PPA	Power Purchase Agreement
PS	World Bank Performance Standards
PV	Solar Photovoltaic Energy
RfP	Request for Proposals
RPF	Resettlement Policy Framework
SADI	National interconnected system (<i>Sistema Argentino de Interconexión</i>)
SFLAC	Spanish Fund for Latin America and the Caribbean
SORT	Systematic Operations Risk-rating Tool
TRANSENER	Transport Company in High Voltage Electric Power (<i>Compañía de Transporte de Energía Eléctrica en Alta Tensión Transener S.A.</i>)
TWh	Terawatt hours
US\$	United States Dollars
VRE	Variable Renewable Energy
WB	World Bank
WBG	World Bank Group



BASIC INFORMATION – PARENT (FODER - Argentina Renewable Fund Guarantee, P159901)

Country	Product Line	Team Leader(s)		
Argentina	GU	Lucia Spinelli/Ada Karina Izaguirre Alvarado Bradley		
Project ID	Financing Instrument	Resp CC	Req CC	Practice Area (Lead)
P159901	Investment Project Financing	GEE04	GTPFS	Energy and Extractives

Implementing Agency:

Ministry of Energy and Mining (*Ministerio de Energía y Minería*) and Banco de Inversión y Comercio Exterior (BICE)

Is this a regionally tagged project?			
No			
<input type="checkbox"/> Situations of Urgent Need or Capacity Constraints	Bank/IFC Collaboration	Guarantee Expiration Date	
<input checked="" type="checkbox"/> Financial Intermediaries	No	Dec 12, 2037 ¹	
<input type="checkbox"/> Series of Projects			
Approval Date	Closing Date	Original Environmental Assessment Category	Current EA Category
Feb 28, 2017	Aug 01, 2020	Financial Intermediary	Financial Intermediary

Development Objective(s)

The project development objective is to increase electricity generation capacity from renewable energy sources through private investment in the energy sector.

¹ Or when Argentina reaches investment grade as described in the RenovAr Request for Proposals, if earlier.



Rating (from Parent ISR)

	Implementation	
	Aug 17, 2017 (2 nd ISR)	February 16, 2018 (3 rd ISR)
Progress towards achievement of PDO	Satisfactory	Satisfactory
Overall Implementation Progress (IP)	Satisfactory	Satisfactory
Overall Safeguards Rating	Satisfactory	Satisfactory
Overall Risk	N/A	N/A

BASIC INFORMATION – ADDITIONAL FINANCING (FODER II – Renewable Fund Guarantee, P165085)

Project ID	Project Name	Additional Financing Type	Urgent Need or Capacity Constraints
P165085	FODER II – Renewable Fund Guarantee	Scale up	No
Lending instrument	Product line	Expected Approval Date	Environment Assessment Category
Investment Project Financing	IBRD GU	March 15, 2018	Financial Intermediary
Closing Date	Bank/IFC Collaboration	Expected Guarantee Expiration Date	
Dec 1, 2021	No	Sep 1, 2038 ²	
Is this a regionally tagged project?			
No			

- Situations of Urgent Need or Capacity Constraints
- Financial Intermediaries
- Series of Projects

² Or when Argentina reaches investment grade as described in the RenovAr Request for Proposals, if earlier.



PROJECT FINANCING DATA – PARENT (FODER - Argentina Renewable Fund Guarantee, P159901)

Disbursement Summary (from Parent ISR)

N/A

Guarantee Signing Date
August 9, 2017

Guarantee Effectiveness Date
Dec 7, 2017

PROJECT FINANCING DATA – ADDITIONAL FINANCING (FODER II – Renewable Fund Guarantee, P165085)

FINANCING DATA

<input type="checkbox"/> Counterpart Funding	<input type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
		<input type="checkbox"/> Crisis Response Window	<input checked="" type="checkbox"/> Guarantees	
		<input type="checkbox"/> Regional Projects Window		

For Loans/Credits/Others (US\$, million)

		Financing Source	Amount
Total Project Cost:	592	Estimated Equity	207
Financing Gap:	0	Estimated Debt from Development Finance Institutions & Export Credit Agencies	128
Total Bank Financing:	0	Estimated commercial borrowing	257
Of Which Bank Financing (IBRD/IDA):	0	Total	592
		IBRD guarantee	250

FINANCING SUMMARY (Parent and AF) (US\$ million)

	Parent Project	Additional Financing	Total
<i>RenovAr Program</i>			
Total Project Cost	3,224	2,258	5,482
Total Financing	3,224	2,258	5,482



Estimated Private Equity @ 35 percent	1,128	790	1,919
Estimated Debt @ 65 percent	2,096	1,468	3,563
of which commercial borrowing	1,397	979	2,376
of which Development Finance Institutions & Export Credit Agencies	699	489	1,188
Security package: ³			
(i) Estimated FODER liquidity account	597	287	884
(ii) Estimated FODER termination coverage	3,717	2,918	6,635
<i>RenovAr Program - directly benefiting from the IBRD guarantee</i>			
Total Project Cost	1,374	592	1,966
Total Financing	1,374	592	1,966
Estimated Private Equity @ 35 percent	481	207	688
Estimated Debt @ 65 percent	893	385	1,278
of which commercial borrowing	595	257	852
of which Development Finance Institutions & Export Credit Agencies	298	128	426
Security package: ⁴			
(i) Estimated FODER liquidity account	254	65.5	319.5
(ii) Estimated FODER termination coverage	1,613	728	2,341
of which backed by IBRD guarantee	480	250	730

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environmental and Social	Moderate
8. Stakeholders	Substantial
Overall	Substantial

³ Preliminary estimates for Round 2 based on data for Rounds 1 and 1.5 adjusted for capacity awarded and reduction of liquidity account support (as explained in the ‘Project Description’ section). Numbers are consistent with latest GoA estimates.

⁴ Numbers are consistent with latest GoA estimates.



Policy

Does the project depart from the CAS/CPF in content or in other significant respects?

Yes No

Does the project require any other Policy waiver(s)?

Yes No

INSTITUTIONAL DATA

Practice Area (Lead)

Energy and Extractives Global Practice

Contributing Practice Areas

N/A

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

No

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

No

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

N/A



PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Lucia Spinelli	Task Team Leader (ADM Responsible)	Senior Energy Specialist	GEE04
Arnaud Braud	Task Team Leader (Structuring and Guarantee)	Senior Infrastructure Finance Specialist	GTPFS
Ximena Talero	Legal (Guarantees)	Chief Counsel	LEGSG
Fabiola Altimari Montiel	Legal	Senior Counsel	LEGLE
Martin Stalman	Legal (Guarantees)	Consultant	LEGSG
Ada Karina Izaguirre	Infrastructure Finance	Senior Infrastructure Specialist	GTPFS
Alvaro Larrea	Procurement	Lead Procurement Specialist	GGODR
Elba Lydia Gaggero	Environmental Safeguards	Senior Environmental Specialist	GEN04
Santiago Scialabba	Social Safeguards	Social Specialist	GSU04
Luz Maria Meyer	Financial Management	Financial Management Specialist	GGO22
Patricia Marcos Huidobro	Team Member	Energy Specialist	GEE04
Roberto Luis Estevez	Team Member	Consultant	GEE04
Silvia Martinez	Team Member	Senior Renewable Energy Specialist	GEE04



ARGENTINA

ADDITIONAL FINANCING FOR FODER - ARGENTINA RENEWABLE FUND GUARANTEE

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I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

A. Introduction

1. This Project Paper seeks the Executive Directors' approval for an additional guarantee in the amount of US\$250 million to the Argentine Republic for the Additional Financing (AF) of the FODER Renewable Energy Fund Guarantee. The purpose for the proposed additional guarantee is to scale up the development impact of the parent Project in support of the RenovAr Program, an initiative designed to substantially increase the country's renewable generation capacity by bringing private expertise and financing via competitive and transparent renewable energy tenders. The parent Project supports Round 1 and Round 1.5 of the RenovAr Program and the proposed AF guarantee will support RenovAr Round 2. The AF guarantee is expected to increase the generation capacity of renewable energy (other than hydropower) constructed under the parent Project from 1,033 MW to 1,638 MW.

2. **The proposed AF is consistent with WBG corporate requirements.** The support of the RenovAr Program is in line with the Maximizing Financing for Development (MFD) approach as it aims to catalyze local and international private sector financing and expertise into renewable energy by mitigating key government risks. The proposed AF would continue increasing investors' confidence in the Argentine renewable energy market: under Round 2 of the RenovAr Program, bidders offered more than 7.8 times the amount of megawatt tendered (compared to 6.3 times under Round 1); the guarantee leveraged an estimated amount of US\$2.2 billion (nine times the amount of the guarantee itself) in financing for renewables and increased the participation of international investors. At the same time, the average generation price has constantly decreased under the three successive rounds, from 6.1 USc/kWh in Round 1 to 5 USc/kWh in Round 2. The proposed AF also builds on a strong World Bank Group (WBG) collaboration, with IBRD providing the guarantee and assisting in the design of the Program; IFC having reached financial closing for one subproject and evaluating options to provide debt financing to other subprojects; and MIGA assessing requests from some subproject sponsors for its political risk insurance cover. The proposed AF also has significant climate co-benefits, i.e. 100 percent of the proposed guarantee amount (i.e. US\$250 million). Finally, it supports the move towards the sector's financial sustainability and helps improve the overall environmental and social requirements applied under RenovAr Program.

B. Background

3. **Argentina is one of the largest and most developed power markets in Latin America.** With total electricity demand of approximately 126 Terawatt hours (TWh) per year, Argentina is the third largest power market in the region after Brazil and Mexico. Roughly 41 percent of demand is driven by the 40 million residential customers (98 percent of Argentinians have access to electricity), 30 percent by industrial users and 28 percent by commercial consumers. Fairly well-developed policies, regulations, and institutions govern the sector⁵, which has been opened to private investment and competition since 1992. Private companies are the main operators in all subsectors. However, progress toward adopting clean

⁵ Argentina followed Chile (in 1982) as one of the first countries in Latin America to initiate power sector reforms in 1992. Subsequently, Peru (1993), Colombia (1994), and Brazil (1995) carried out various power sector reforms.



sources of energy has so far been limited. Installed capacity as of October 2017 is 35.97GW,⁶ of which 62 percent is thermal,⁷ 31 percent hydro, 5 percent nuclear, 1 percent mini hydro and 1 percent wind. Solar represents only 8 MW (0.02 percent).

4. **Argentina’s power sector is vertically separated into generation, transmission, and distribution businesses and dominated by private sector providers.** Generation companies, dominated by private operators, but with public or mixed operators also participating, operate through licenses in a competitive environment and are subject to the scheduling and dispatch rules set out in the respective regulations and managed by *Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima* (CAMMESA). As the wholesale energy market administrator, CAMMESA coordinates dispatch operations, determines wholesale prices, administers the economic transactions in the national interconnected system (*Sistema Argentino de Interconexión, SADI*), and acts as Governmental off-taker in certain power purchase agreements (PPAs).⁸ Transmission and distribution businesses, also dominated by private providers, operate under public concessions.

5. **Investments in generation have been significantly constrained as the power sector became dependent on government transfers.** Set up in 1992, the wholesale power market was expected to function as a competitive market, fully indexed to the US dollar. However, macroeconomic and market conditions in the aftermath of the 2001 economic crisis made full indexation to the US dollar unsustainable. Tariffs for residential consumers were practically frozen from 2002 to 2015 despite high inflation, exchange rate variations, and investment needs.⁹ Investment in generation became limited and at times forced by the government (e.g. through the requirement for power generators to reinvest profits). Also, government contributions and ad hoc arrangements became key to manage the cost increases in generation and mitigate their impact on end users. By 2015, Government transfers covered 70 percent of the average cost of energy supply (users covered the remaining 30 percent) and Argentina’s energy subsidies were the third highest in the region. In addition to their large fiscal impact (3.9 percent of Gross Domestic Product (GDP)) (IMF, 2015), they were unevenly distributed.

6. **The current administration has implemented measures to ensure that tariffs reflect generation, transmission and distribution costs.** In January 2016, the GoA restored the pass-through mechanisms established in 1992 in the wholesale power market and increased the wholesale electricity prices. It also mandated comprehensive tariff reviews for transmission and distribution service charges to move electricity tariffs towards cost-reflecting levels.¹⁰ The reduction of subsidies for residential customers has

⁶ CAMMESA, Monthly Report - <http://portalweb.cammesa.com/memnet1/Pages/descargas.aspx>

⁷ Thermal technologies’ breakdown is 47 percent combined cycle, 20 percent steam turbines, 25 percent gas turbines, and 8 percent diesel.

⁸ In early 2,000, the mechanism applied for remunerating the electricity generation led CAMMESA to accrue debt with power generators. In some cases, debt was collected through the pledging of funds for the construction of new generation plants; approximately 1,700 MW were installed under this mechanism.

⁹ For example, in the case of the Greater Buenos Aires area (one-third of the country’s population) tariffs were frozen (in Argentine peso terms) between 2002 and 2008, only minor increases were allowed for medium and large residential clients. In the Metropolitan Areas of Buenos Aires, tariffs remain unchanged for over ten years.

¹⁰ Resolution 6/2016 of Ministry of Energy and Mining (MEM) increased tariffs starting February 1, 2016 with wholesale market prices instantly increased to roughly 140 percent while some industrial, commercial or industrial tariffs increased as much as 673 percent. Resolutions 7/2016 and 196/2016 of MEM authorized the National



been significant, decreasing from 70 percent in 2015 to 49 percent in 2016 and 18 percent in 2017. From 2019 onwards, subsidies for residential customers are expected to cover only 10 percent of the costs. For industrial and large commercial consumers, tariff subsidies were reduced by 50 percent in both 2016 and 2017, and costs of electricity are expected to be fully passed onto the consumers in 2018. To offset the impacts of tariff increases on the poor, the GoA created a new reduced “social tariff” which has benefitted approximately 4.2 million customers, and launched new energy efficiency incentives for residential customers aimed to induce energy saving.¹¹

7. The current administration has also prioritized the development of renewable energy sources by implementing a new renewable energy law enacted in 2015.¹² This law overhauls the previous regulatory framework and seeks to: (a) create competitive and transparent market rules and contract mechanisms; (b) diversify the energy matrix by requiring the use of different clean energy technologies; (c) incentivize local and regional development; (d) establish mandatory pass-through of Power Purchase Agreement (PPA) costs to consumers; and (e) create fiscal incentives for independent power producers (IPPs) and local supply chains, among others. The 2015 renewable energy law sets mandatory targets of 8 percent and 20 percent of renewable energy in the overall electricity consumption by the end of 2017,¹³ and 2025, respectively.¹⁴

8. The 2015 renewable energy law created the Fund for the Development of Renewable Energy (Fondo para el Desarrollo de Energías Renovables or FODER) to facilitate the financing for renewable projects, and mitigate liquidity and country risks. FODER is set up to provide guarantees as well as direct financing (debt or equity) and other financial instruments as required. FODER is funded mainly by: (a) resources from the national budget, equal or higher to 50 percent of the savings achieved by switching from fossil fuels to renewables; (b) specific taxes to energy demand; and (c) revenues from the issuance of trust securities by the Fund’s trustee. Ministry of Energy and Mining (MEM) defines FODER’s financial instruments and funding needs. The “*Banco de Inversión y Comercio Exterior*” (Investment and Foreign Trade Bank - BICE) was appointed trustee of FODER (“Trustee”), and carries-out day-to-day fiduciary activities in accordance with FODER Trust Agreement signed with MEM.

9. MEM, as the public entity responsible for implementing the renewable energy law, established the RenovAr Program to achieve GoA’s clean energy goals. The Program seeks to increase the amount of renewable generation capacity developed by private investment through auctions to purchase renewable energy generation from private sector led IPPs. Under the RenovAr Program, CAMMESA is the off-taker and signatory of the corresponding PPAs when awarded to the proposed IPPs while BICE, in its role as trustee of FODER, is signatory of trust adhesion agreements which provide the awarded IPPs the benefits granted by FODER.

Regulatory Agency (ENRE), the national electricity regulator, to undertake an integral tariff revision of distribution and transmission charges. In November 2017, ENRE approved averaged tariff increases for the Distribution and Marketing Company of the North (EDENOR) and the South Distribution Company (EDESUR) of 43 percent in December 2017 and 24 percent in February 2018.

¹¹ Source: Ministry of Energy and Mining (MEM)

¹² Law No. 27191/2015.

¹³ The renewable energy 2017 target was met thanks to RenovAr and other ongoing initiatives

¹⁴ Argentina would need to construct roughly 10,400 MW in the next nine years – about 1,200 MW per year – to achieve the 2025 target.



10. **For the first rounds of RenovAr, MEM has focused FODER on providing guarantees to investors to attract them to the Argentina renewable market.** FODER is providing payment guarantees through escrow accounts (the Cuenta de Garantía and its sub-accounts) designed to cover: (a) ongoing PPA payments (i.e. liquidity support); and (b) payment obligations emerging from the rights held by the IPPs to sell their sub-project to FODER if specific macroeconomic or sector risks materialize – a classic termination coverage sought by the private sector in emerging markets (“the Put Option”).

11. **To help attract the financing required to achieve the objectives of the RenovAr Program, the Bank approved the FODER - Argentina Renewable Fund Guarantee Project (P159901) in support of RenovAr Rounds 1 and 1.5 (the “parent Project”) on February 28, 2017.** While the risk mitigation instruments provided by FODER were welcomed by potential financiers, market sounding exercises indicated that they would not be sufficient to attract the required investments. Financiers expressed cautious interest in undertaking renewable projects given their (i) concerns with Argentina’s track record in the last 15 years of significant policy reversal and non-compliance with contractual undertakings (i.e. political risk), and (ii) lack of experience financing renewable energy projects in Argentina. To mitigate risks perceived by financiers, the parent Project is supporting the GoA with an IBRD guarantee of US\$480 million that is benefiting renewable energy IPPs that opted for the IBRD guarantee within Rounds 1 and 1.5 of the RenovAr Program.

12. **The proposed Additional Financing (AF) would support the GoA in the implementation of RenovAr Round 2 with an IBRD payment guarantee of up to US\$250 million.** The proposed AF responds to a formal request from the Government of Argentina (GoA) received on August 11, 2017, to scale up the activities currently being implemented under RenovAr Rounds 1 and 1.5. The proposed AF builds on the structure and capacity created under RenovAr Rounds 1 and 1.5, and is needed to: (i) provide an optional IBRD guarantee in Round 2 consistent with the one offered in Rounds 1 and 1.5; and (ii) keep building RenovAr’s track record.

C. RenovAr Program Status

13. **The first RenovAr auctions have been extremely successful, and other emerging markets are looking at ways to incorporate lessons learned.** Since its inception in 2016, the RenovAr Program has awarded more than 4.4GW of renewable energy projects so far at very competitive prices.¹⁵ The RenovAr Program is providing useful lessons for other emerging markets willing to launch renewable auctions. In particular, RenovAr shows that countries facing high risk perception can attract private investment into renewable energy when the appropriate risk mitigations mechanism are put in place. Moreover, the capacity built within the government and the national energy sector is expected to be expanded to other infrastructure sectors in Argentina.

14. **RenovAr Round 1 had a strong investor response and better than expected results.** The first round of the RenovAr bidding process received 123 offers, with an aggregate installed capacity of 6,343 MW of clean energy capacity under 20-year PPAs (more than six times the amount requested of 1,000 MW), covering 20 out of 23 provinces. On October 7 and 14, 2016 a total of 29 sub-projects were awarded with

¹⁵ The worldwide decline in renewable energy costs has also partly contributed to the low energy prices achieved by the RenovAr Program.



an average price of 6.14 US¢/kWh and a total of 1,142 MW (which accounts for 3 percent of the installed capacity). The average offer price was lower than the 2015 average generation price of 7.05 US¢/kWh.

15. **Building on the success of RenovAr Round 1, the GoA engaged in an additional Round 1.5, which was also successful.** In October 2016, to take advantage of strong investor interest in RenovAr Round 1, CAMMESA issued Round 1.5 for 600 MW of wind and solar energy capacity under 20-year PPAs for the unsuccessful bidders under Round 1. This new round was also oversubscribed. In November 2016, a total of 30 sub-projects (10 wind and 20 solar) were awarded with an installed capacity of 1,281 MW. The average awarded prices (5.33 US¢/kWh for wind and 5.49 US¢/kWh for solar) were lower than those for Round 1 (5.93 US¢/kWh for wind and 5.97 US¢/kWh for solar).

16. **The 59 sub-projects awarded under Rounds 1 and 1.5 are progressing toward implementation.** As of January 2018, all 59 subprojects had signed their PPA contracts with CAMMESA and Trust Adhesion Agreements with BICE. Subprojects are progressing towards financial closing as follows (Table 1): of the 59 sub-projects (2.4GW in total), 20 representing 513MW have reached financial closing; 33 sub-projects (representing 1.7GW) are working to meet their contractual deadlines and reach financial closure;¹⁶ none of the sub-projects have requested an extension; and six sub-projects (representing 204MW) have missed their deadlines. In summary, 90 percent of the subprojects, representing 92 percent of the capacity, are complying with their contractual deadlines, while 10 percent of sub-projects have missed a contractual milestone.

Table 1. Rounds 1 and 1.5 Status

	Number of projects		Total capacity	
	Number	% of total	MW	% of total
Reached financial closure	20	34%	513	21%
Within contractual deadline	33	56%	1,707	71%
Extension obtained	0	0%	0	0%
Missed contractual milestone	6	10%	204	8%
Total	59	100%	2,424	100%

¹⁶ Deadlines for sub-projects that requested the IBRD guarantee only started counting from the day they received notice that the Guarantee Agreement had been signed (August 9, 2017).



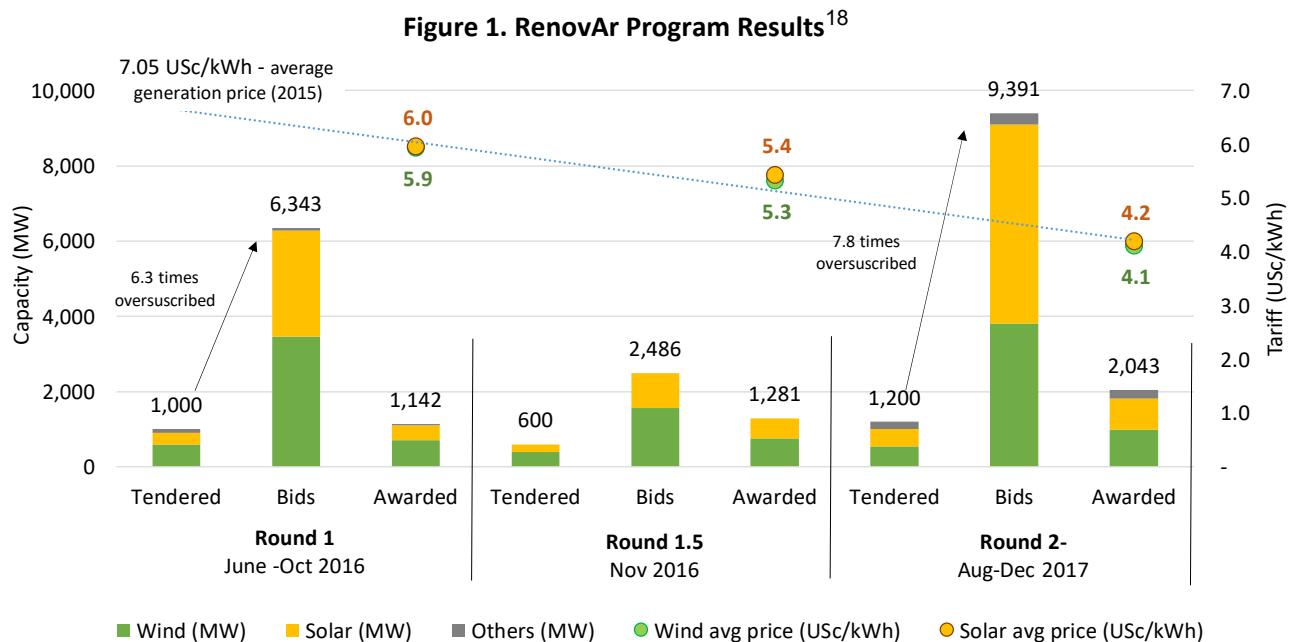
17. **MEM has set up and started funding the FODER liquidity facility.** As of November 2017, the Cuenta de Garantía had US\$550 million to backstop ongoing PPA payments. GoA expects that the additional US\$270 million required to fully cover the 12 months of payments under the PPAs signed under Rounds 1 and 1.5, and another previous program¹⁷, will be transferred to the Cuenta de Garantía as part of the 2018 budgetary process.

18. **RenovAr Round 2 bidding process, has also been successful in attracting investor interest.** The RenovAr Round 2 bidding process was launched in August 2017 and received 228 offers, with an aggregate installed capacity of 9,391 MW of clean energy capacity under 20-year PPAs, covering 21 out of 23 provinces. This represents more than seven times the requested capacity of 1,200 MW, a demonstration of the confidence Argentina is building with investors. Under Round 2, Cammesa awarded 88 subprojects that amounted for 2,043 MW. Table 2 below provides the breakdown.

Table 1. Round 2 Results

Technology	Number of offers awarded	Amount awarded (MW)	Average price (USc/kWh)
Wind	12	993	4.1
Solar	17	816	4.2
Biomass/biogas	50	213	12.2
Small hydro	9	21	9.9
Total Round 2	88	2,043	5.0

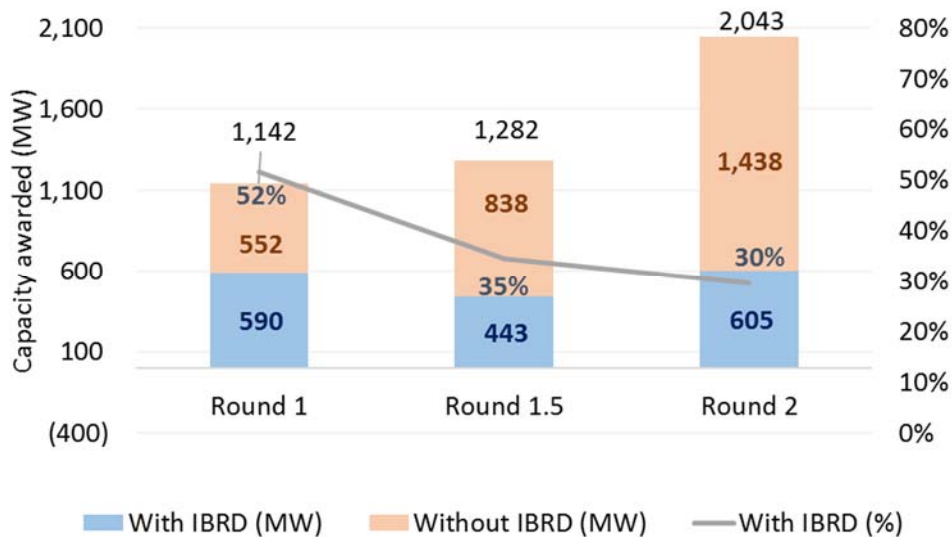
19. Figure 1 below shows the main RenovAr Program results over time. In particular, it shows the growing interest from bidders and the decreasing prices.





20. As bidders showed an increasing confidence in investing in the Argentinian renewable energy market, the percentage of bidders requesting the IBRD guarantee has decreased. It went from 52 percent in Round 1, to 35 percent in Round 1.5, and 19 percent in Round 2.¹⁹ This shows that investors’ perceived risk has declined over time. By technology, wind and solar developers have shown more interest in the IBRD guarantee (37 to 39 percent of the solar and wind capacity awarded has an IBRD guarantee) than biomass, biogas and mini hydro developers (19 percent of the capacity awarded has it). Such difference is consistent with the bigger size, financing needs and international profile of wind and solar sub-projects.

Figure 2. RenovAr Program – Awarded Capacity with or without IBRD Guarantee



21. The IBRD guarantee helped attract international investors. As for the overall RenovAr Program, 48 percent of bidders that requested the IBRD guarantee included foreign investors (compared to 23 percent without the IBRD guarantee).²⁰ The percentage of international investors that requested the IBRD guarantee increased from 56 percent in Rounds 1 ad 1.5 to 67 percent in Round 2.

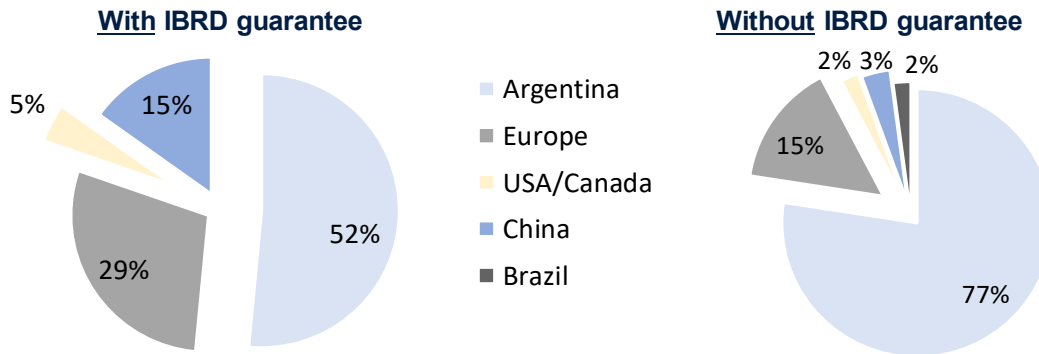
¹⁸ Data source: CAMMESA - <http://portalweb.cammesa.com/Pages/RenovArInt.aspx>

¹⁹ In Round 2, the amount of IBRD allocated got fully used and some projects did not have the possibility to take the IBRD guarantee.

²⁰ Wind and solar projects only. Biomass/biogas/small hydro are smaller and better tailored for local investors.



Figure 3. RenovAr Program – Awarded bidders’ Origin with or without IBRD Guarantee



22. **Sub-projects with IBRD guarantee were US\$4/MWh lower than without** (on weighted average basis). This represents substantial savings for Argentina over the 20 years of the PPAs. In addition, IBRD’s involvement had other benefits such as: (i) the potential halo effect and reduction in costs for projects that did not take the IBRD guarantee but still valued IBRD’s involvement, and (ii) the development of institutional capacity in the sector, for instance via the use of WBG Performance Standards.

23. **The sources of financing currently used by developers are likely insufficient for the overall RenovAr Program to deliver on its ambitious goals.** Sponsors mostly have access to loans from domestic banks (with a relatively short tenor of five to seven years), development finance institutions (DFIs)²¹, and export credit agencies (ECAs – often tied to a national contractor). Some sponsors also issue bonds - for instance, the province of Jujuy issued a US\$210 million green bond to partly co-finance a 300 MW solar project.²² International banks are increasingly interested but have not yet fully re-entered. Consequently, sponsors apparently have to use more equity than in other markets.

24. **In close collaboration with IBRD, IFC is actively supporting some projects under RenovAr while MIGA is assessing its reengagement in the energy sector of Argentina.** On November 22, 2017, IFC led the financial closing of the 100MW La Castellana wind project with local sponsor Central Puerto S.A. This marks the return of long-term international project finance to the power sector in Argentina, where it has not been available since the early 2000s. This project is therefore expected to set a benchmark for future projects.²³ IFC is evaluating options to provide debt financing to other IPPs. Some project sponsors are also consulting MIGA for political risk insurance cover and MIGA is reviewing internally such requests.

D. Parent Project Status

25. **As of the date of this project paper, the parent Project is rated Satisfactory in all its aspects.** The parent Project has one component: an IBRD guarantee in an aggregate amount of up to US\$480 million to backstop Government’s failure to fund FODER when it has to pay a Put Price. The parent Project **overall**

²³ Similarly, on December 19, 2017, Total Eren announced the successful financing of the 97,2 MW “Vientos Los Hercules” wind project. Non-recourse senior debt was structured by KfW IPEX-Bank and included the German development finance institution (DEG) and the Dutch development bank (FMO).



risk rating is substantial and has no overdue audit reports.

26. The Indemnity and Guarantee Agreements were signed on August 9, 2017 and the Guarantee became effective on December 7, 2017. The Bank confirmed that 20 of the 27 sub-projects that requested the IBRD guarantee in Rounds 1 and 1.5 met the eligibility criteria set by the Bank and is analyzing the eligibility reports of the remaining seven sub-projects.²⁴ Each eligible sub-project will sign an Acknowledgement and Consent Agreement with IBRD as soon as GoA has approved its Environmental and Social Management System (ESMS).

27. The MEM has reinforced the team of the Environmental and Social Unit (UAYs by its acronym in Spanish) of the Under Secretariat of Renewable Energy. The UAYs is responsible to carry out the Environmental and Social (E&S) aspects of the Project in accordance with the WB Safeguards Policies and ensuring that sub-projects follow Performance Standards. To date, the UAYs counts with three environmental specialists, three social specialists and the support of a lawyer as required, and has the necessary capacity to develop its duties. The performance of the UAYs has been satisfactory during the implementation of the Project. It has been proactive in supporting subprojects to meet E&S requirements; for example: i) UAYs organized and implemented two workshops for awardees of Round 1 and Round 1.5 that opted to benefit from the IBRD's guarantee (the workshops aimed at introducing in detail FODER's safeguards instruments and the socio-environmental requirements for the sub-projects); and ii) UAYs has been available to respond to private companies' questions and even open to provide orientation and guidance as required. The Unit has been sound in applying the procedures established in the World Bank Environmental and Social Management Framework (ESMF) for the E&S eligibility process and has demonstrated its capacities by identifying weaknesses, gaps and corresponding actions to be taken during the ongoing E&S subproject-specific assessments, also in accordance with the ESMF.

E. Rationale for Additional Financing

28. Even though overall sub-projects interest in the IBRD guarantee has decreased, the proposed AF guarantee is needed to scale-up the development impact of a successful project, as the Government expands the RenovAr Program to increase the generation capacity of renewable energy. The IBRD guarantee under the parent Project has been instrumental to help improving the credibility and attractiveness of the RenovAr Program. Out of the 59 sub-projects awarded in Round 1 and Round 1.5, 27 requested the IBRD guarantee, accounting for 1,033 MW of the 2,424 MW awarded in both rounds. Considering the achievements so far, the GoA has recognized: (i) the need to continue providing risk mitigation mechanisms to private investors; (ii) the value added an expansion of the scope of the parent Project would have on the renewable energy market in Argentina; and (iii) the significant co-benefits (both climate and economic) of scaling up the parent Project's activities.

29. The risk mitigation instruments provided under RenovAr Rounds 1 and 1.5 have been successful in attracting private investors and spur renewable energy in the country. Despite the cautious interest initially showed by financiers when the RenovAr Program was launched in 2016, results from Rounds 1 and 1.5 proved that the mechanisms put in place by GoA helped address private sector concerns, such

²⁴ i.e.: (a) be a private entity; (b) demonstrate capacity to handle environmental and social aspects compliant with World Bank Performance Standards; (c) not be sanctioned or debarred by the World Bank; and (d) meet industry standards for technical, economic viability, financial management and procurement



as the lack of Argentina’s track record with supporting financial obligations and financing energy sector sub-projects. RenovAr Rounds 1 and 1.5 were oversubscribed, respectively receiving about six times and four times as much capacity as originally tendered.

30. WBG support continues to be critical to rebuild the sector’ financial sustainability and the trust and track record with international financiers. Raising international financing in Argentina is still challenging and some investors would not participate without an IBRD involvement and guarantee. Some of the subprojects awarded under RenovAr 1 and 1.5 have still to reach financial closure and the catalyzing effect of the guarantee and WBG support is important to increase confidence. Many international lenders are still considering the risks and benefits of re-entering Argentina, and the local developers’ lack of experience with project finance is also slowing down some projects. International lenders are notably concerned about sovereign credit rating that remains below investment grade, long term regulatory stability, or certain contractual clauses (such as the lengthy arbitration process).

31. Further support is needed to ensure the development of a sustained renewable energy market, meet GoA’s 2025 renewable energy goals. The RenovAr Program, through a set of guarantees (including the IBRD guarantee), has been successful in kicking off the development of a renewable energy industry in the country as well as in recovering investors’ confidence. However, the renewable energy market is still incipient, and the support provided by RenovAr needs to be maintained to ensure the development of a sustainable and solid renewable energy market.

II. DESCRIPTION OF ADDITIONAL FINANCING

A. Summary

32. No changes are proposed to the existing Project Development Objective (PDO). The PDO remains to increase electricity generation capacity from renewable energy sources through private investment in the energy sector.

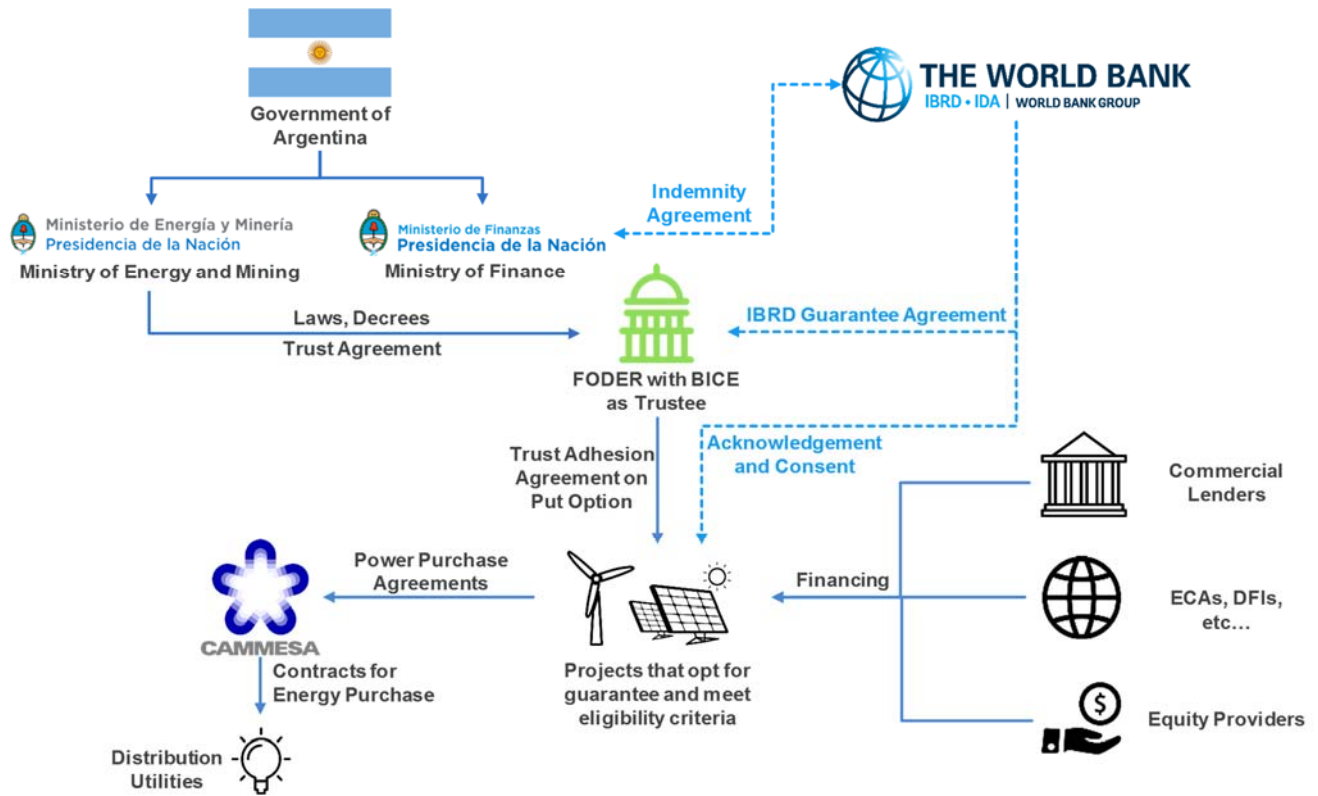
33. No changes are proposed to the existing results indicators. The Intermediate Results Indicator and PDO Indicators remain the same as shown in Annex 1 but with updated targets.

34. An extension of the closing date from August 1, 2020 until December 1, 2021 is needed to complete the implementation of the proposed AF. The PDO indicators target dates and intermediate indicator would be extended until the proposed new closing date. The extension of the closing date does not affect the tenor of the guarantees for each of the sub-projects under Rounds 1 and 1.5. The proposed AF would add a new component (i.e. Component 2, an IBRD guarantee). The proposed AF would have no impact on the fiduciary, safeguards or implementation arrangements currently in place.

35. The IBRD guarantee structure remains the same in Round 2 as shown in the figure below:



Figure 4: IBRD Guarantee Structure for Round 2



B. Higher-Level Objectives to which the Project Contributes

36. **The proposed AF is a key contributor to the Government’s objective of increasing renewable energy capacity, by boosting confidence of private investors in the sector and, hence, leveraging private investments.** The proposed AF, through its guarantee approach, will help leverage about US\$2.2 billion in total renewable energy financing, under RenovAr Round 2, which is 9 times the amount of the guarantee itself. Private developers, equity providers, and lenders repeatedly stated that the World Bank’s involvement was important for them to consider (re)entering the Argentine market.

37. **The proposed AF is an integral part of Argentina’s transition to a cleaner energy matrix and its contribution to climate change mitigation co-benefits is 100 percent of the proposed guarantee amount (i.e. US\$250 million).** The proposed AF would help Argentina meet its Nationally Determined Contribution (NDC) unconditional mitigation goal of reducing GHG emissions. The RenovAr Program Round 2 is expected to reduce GHG emissions by a total of 59 million tCO₂e over 20 years or three million tCO₂ per year²⁵, which corresponds to approximately three percent of the NDC target (109 million tCO₂e per year) by 2030. The proposed AF will reduce tCO₂ by 16 million over the life of the IBRD Guarantee, i.e. almost a million tCO₂ per year. Ultimately, the RenovAr Program will contribute several environmental co-benefits such as reduced air-pollution through a reduction in fossil fuel burning, safer and more secure energy

²⁵ Calculations conducted as per the World Bank “GHG Accounting for Energy Investment Operations Guidance Manual”, version 2.0, January 2015. GoA GHG reductions estimations under RenovAr Round 1 are higher since their CO₂ emission factor is slightly higher than the emission factor used by the Bank.



supply through technological innovation both generating *health and well-being benefits*. The total climate change mitigation co-benefits of the proposed AF amount to US\$250 million (equivalent to 100 percent of proposed guarantee).

38. The proposed AF is a key element of the World Bank Group support to Argentina’s energy sector and supports MFD. The proposed AF is aligned with the Bank’s MFD Strategy and complemented by other operations, such as the ongoing Renewable Energy for Rural Areas Project (PERMER II, P133288), which seeks to enhance access to modern energy services in isolated rural areas through renewable energy technologies. The Project represents a practical application of the infrastructure “cascade” or MFD approach as it leads to increased sustainable private sector solutions through the creation of an enabling environment for private sector projects and international financing, in close cooperation with other WBG entities. The proposed AF is therefore a MFD-enabling project as it addresses binding constraints (i.e. existing bottlenecks in the investment climate of the country) to enable sustainable private sector solutions (i.e. renewable energy sub-projects) within three years of the project’s closing date. IBRD collaborated closely with IFC and MIGA to ensure the success of these initial auctions.

39. The proposed AF contributes to the World Bank Group’s (WBG) Twin Goals, and is aligned with the Country Partnership Strategy for Argentina (CPS) FY2015-2018 (Report No. 81361-AR), discussed by the WBG Executive Directors on September 9, 2014. The CPS focuses on promoting shared prosperity and reducing poverty through its Pillar 1 “unlocking long-term productivity growth and job creation” and Pillar 2 “Reducing Environmental Risks and Safeguarding Natural Resources”. The AF will contribute to the first theme by expanding energy availability to firms and households in an efficient and sustainable manner, fostering private investment and strengthening its enabling environment, improving financing for firms, and upscaling the country’s clean energy industry. It will contribute to Pillar 2 by reducing the use of fossil fuels.

40. The proposed AF is fully aligned with the Energy Sector Directions Paper²⁶ that was designed to help client countries: (i) secure affordable, reliable, sustainable energy supply; (ii) seek market solutions to leverage financial resources; and (iii) help governments to foster private sector participation and investments needed to meet the World Bank Group’s twin goals of poverty reduction and shared prosperity. It also contributes to the WBG Climate Change Action Plan (CCAP)²⁷ by helping meet CCAP’s cumulative target of adding 20 GW in renewable energy generation (RenovAr Round 2 will add a total of 2 GW) and mobilize US\$25 billion of commercial funding for clean energy over the next five years (RenovAr Round 2 will mobilize a total renewable energy financing of US\$2.2 billion).

C. Project Description

41. The proposed AF would support GoA in the implementation of the RenovAr Program Round 2 with an IBRD payment guarantee of up to US\$250 million. This guarantee would backstop Government’s failure to fund FODER when it has to pay a Put Price to eligible renewable energy sub-projects as a result of IPPs exercising a Put Option under their FODER Trust Adhesion Agreement. Specifically, the proposed AF would benefit renewable energy IPPs that opted for the IBRD guarantee within Round 2. Similar to Rounds 1 and 1.5, a complimentary GoA and IBRD package of guarantees to mitigate key risks was formally

²⁶ World Bank (2013); Toward a Sustainable Energy Future for All: Directions for the WBG’s Energy Sector

²⁷ WBG Climate Change Action Plan, April 2016 -

<http://pubdocs.worldbank.org/en/677331460056382875/WBGClimate-Change-Action-Plan-public-version.pdf>



offered to the market September 2017 as part of the bidding package. At the sub-project level, the guarantee remains optional and up to US\$500,000 per MW.

42. **The proposed AF would be implemented as a new component to the parent Project:** “Component 2: an IBRD guarantee of up to US\$250 million for Round 2”. The proposed AF beneficiaries continue to be both private and public entities and ultimately the consumers. The IBRD guarantee would benefit FODER and eligible renewable energy sub-projects that opted for the IBRD guarantee. Of the 88 sub-projects awarded in Round 2, 15 have requested the IBRD guarantee, accounting for 605 MW of the 2,043 MW awarded. The share of awarded MW requesting the IBRD guarantee has remained significant in Round 2 (30 percent), although it has declined from 42 percent in Rounds 1 and 1.5. This is positive as more investors are willing to assume the risks linked to such projects in Argentina.

43. **This proposed AF would be implemented under the same modalities and approach of the parent Project.** Therefore, the proposed AF would continue to involve a Financial Intermediary structure composed by the Investment and Foreign Trade Bank (BICE by its acronym in Spanish), in its capacity as trustee of FODER, and MEM, as implementing authority of FODER.

44. **GoA only introduced limited changes in Round 2.** Among the most relevant ones is GoA’s decision to reduce the FODER liquidity reserve from 12 months to 6 months of revenues for each winning bidder.²⁸ This reflects the lower risks for investors coming in Round 2 and is more in line with international practices (often 3 to 6 months of revenues for renewable projects). Also, GoA has incorporated a take-or-pay clause to mitigate risks due to potential transmission congestion in some transmission lines. Of the 2,043MW awarded under Round 2, around 940MW (13 sub-projects) have take-or-pay clause related to transmission in their PPA contracts.

45. **Safeguards.** Given that this proposed AF would be implemented under the same scheme of the parent Project, the proposed AF would have no impact on the environmental and social safeguards approach. All environmental safeguards policies (i.e. OP 4.01/BP; OP/BP 4.04; OP/BP 4.09; OP/BP 4.11; OP/BP 4.36; and OP/BP 4.37)²⁹ and social safeguards policies (i.e. OP/BP 4.10 and OP/BP 4.12),³⁰ have been triggered for the proposed AF as it was the case for the parent Project. Regarding legal safeguards policies, and similar to the parent Project, they have not been triggered for the proposed AF: the international waterways policy, OP/BP 7.50, was not triggered since there has not been small-hydro electricity generation facilities located on rivers that are tributaries of rivers that flow into international waterways, as defined by OP/BP 7.50, awarded under Round 2; also, the policy on projects in disputed areas, OP/BP 7.60, has not been triggered. The parent Project was classified Category FI as per OP/BP 4.01 with no sub-project deemed as Category A to be eligible to benefit from WB guarantee; this would remain

²⁸ For the proposed AF guarantee, GoA decided to reduce FODER liquidity reserve from 12 to 6 months of payments under the PPA based on a performance assessment of CAMMESA’s payment history. Since the set-up of Argentina’s wholesale market in 1992, CAMMESA has never stopped meeting its payment obligations. From 2012 to 2015, the average payment time by CAMMESA increased from 16 days to 64 days. However, since taking office, the new Government has taken actions to enhance flow of payment in the electricity sector, resulting in a decrease in CAMMESA average payment period to pre-2012 levels. This reduction in liquidity did not prevent a strong market response to RenovAr Round 2.

²⁹ OP/BP 4.01 Environmental Assessment; OP/BP 4.04 Natural Habitats; OP/BP 4.09 Pest Management; OP/BP 4.11 Physical Cultural Resources; OP/BP 4.36 Forests; OP/BP 4.37 Safety of Dams

³⁰ OP/BP 4.10 Indigenous Peoples; OP/BP 4.12 Involuntary Resettlement.



unchanged for the AF. The ESMF, the Resettlement Policy Framework (RPF) and the Indigenous People Planning Framework (IPPF) developed by MEM for the parent Project would also apply to the AF. They would be amended to incorporate Round 2, and are expected to be disclosed before Board Approval.

III. KEY RISKS

46. **The overall risk rating to achieving the development objective of the proposed AF is assessed as Substantial.** As for the original project, this risk is assessed for the overall duration of the guarantee (about 20 years). Over the three years' implementation period (construction of the renewable power plants), risks are moderate only. The main risks and associated risk management measures are as follows:

(i) **Political and governance risk** is rated as Substantial since political events and administration cycles over the life of the guarantee and the PPAs could impact the achievement of the Project's objective. The current administration, with World Bank technical support, is conducting several Doing Business reforms to improve the private sector operating environment. At the same time, deeper institutional reforms are taking place to strengthen the overall governance and transparency in public-private interactions, including a reform of the PPP framework as well as of the public procurement system. In 2017, Argentina passed an Access to Information law to substantially strengthen accountability relationships within the country.

(ii) **Macroeconomic risk** is rated as Substantial given the potential for macroeconomic cycles that could affect the viability of the sub-projects in the longer-run, including a change in the cost in pesos of PPA's denominated in dollars. Additionally, a severe fiscal constraint – as Argentina has experienced in the past – could undermine the support for keeping resources within FODER at required levels. The current administration has embarked on several institutional reforms which will impact on both monetary and fiscal policy formulation and which are geared to establish (and demonstrate) the functioning of sustainable macro-economic policy making.

(iii) **Sector strategies and policies risk** is rated as Substantial. The on-going and planned renewable energy developments in the country may pose challenges on the transmission infrastructure in the long term. Even if RenovAr Round 2 is not expected to create significant grid integration issues, the country renewable energy targets indicated a continued increment of variable renewable energy (VRE) capacity in the medium term, which will require both careful policy design and infrastructure planning. To eliminate any potential perception of curtailment risk by investors and minimize potential congestions in the transmission system, RenovAr Round 2 has: (i) established quotas per geographical region and technology; (ii) incorporated a "take-or-pay" clause³¹ in the supply contracts that would favor those sub-projects whose construction was awarded foreseeing the expansion of the transmission system;³² (iii) included additional information on the transmission capacity based on

³¹ Of the 2,043MW awarded under Round 2, around 940MW (46 percent of the total capacity) are covered by a take-or-pay clause related to transmission in their PPA contracts.

³² As per this clause, CAMMESA (the off-taker) agrees to pay the sub-projects for the energy supplied plus the energy that could not be dispatched due to transmission congestion in case the Expanded Transmission System has not become operational before the commercial of the power plants (excluding delays due to major force events). The payment for the non-dispatched energy will only cover those hours in which a transmission limitation has been verified, until the Expanded Transmission System becomes operational, or the transmission limitation has been resolved.



planned transmission in Annex 3 of Round 2 RfP.

In addition, to mitigate long-term grid integration risks linked to the future expansion of VRE beyond RenovAr Round 2, the Government requested parallel technical assistance and capacity building on VRE grid integration³³ to improve the power sector planning and governance, as well as the security of energy supply. The Technical Assistance (TA) will include two components: (i) Component 1 will focus on the evaluation of transmission planning practices and dispatching options to enable current and future renewable energy projects in Argentina; (ii) Component 2 will analyze the need for regulatory changes to enable investments in the modernization of the distribution sector, linked to the integration of VRE distributed generation.

(iv) **The Stakeholders risk** is rated as substantial. While the different actors involved in RenovAr Round 2 (public institutions, NGOs, local communities, unions, private investors, etc.) will benefit from the experience and lessons learned from Rounds 1 and 1.5, although it might be too early, there is still a multitude of different actors who may be working/investing for the first time in renewables in Argentina. In addition, those investors that requested the IBRD guarantee will need to get familiar and comply with IBRD standards. For other stakeholders in the RenovAr Program (provinces, NGOs, local communities, unions, etc.), the increased role of private investment in the sector will require establishing new and lasting relationships.

47. **The proposed AF has been screened for climate and disaster risks using the WB in depth energy screening tool.** Exposure of the sub-projects to climate (i.e. flooding, extreme precipitation, droughts, strong winds, etc.) and geophysical hazards (earthquake, tsunami, volcanic eruption and landslides) has been rated as moderate, while the current and future impacts of identified climate and geophysical hazards have been rated as low. Moreover, the level of risk to the energy delivery that the proposed AF is aiming to is considered low.

IV. APPRAISAL SUMMARY

A. Economic and Financial Analysis

48. **RenovAr Round 2 is economically viable.** RenovAr Round 2 will generate economic benefits from the beginning as the average energy price (i.e. 50 US\$/MWh³⁴) is 20.5 US\$/MWh lower than the average generation price of 70.5 US\$/MWh of the electricity system in 2015. As previous tariffs were insufficient to fully cover costs, lower generation costs achieved through RenovAr Program will help sector's sustainability. RenovAr Round 2 will also generate positive externalities, notably regarding GHG emission reductions. The economic analysis has incorporated the reduction in GHG that RenovAr Round 2 will achieve, which have been valued as per the *“World Bank Guidance Note on Social Value of Carbon in Project Appraisal”* of July 2014, that establishes a social value of carbon that increases overtime.³⁵ The Economic Internal Rate of Return (EIRR) is 21.4 percent for RenovAr Round 2 and 21.3 percent for the proposed AF. Sensitivity analysis shows it is robust to strong variations in key assumptions, including the amount generated and carbon benefits estimate.

³³ This TA is funded by WB Spanish Fund for Latin America and the Caribbean (SFLAC) with USD300,000.

³⁴ Electricity prices reflect the actual electricity generation costs of the renewable energy projects awarded under RenovAr Round 2.

³⁵ From 30 US\$/tCO₂ for the period 2015-2020 to 35 and 50 US\$/tCO₂ for the periods 2020-3030 and 2030-2040 respectively.



Table 3. Economic Analysis: Key Assumptions and Results³⁶

Assumption	Unit	Total Round 2	Round 2 with IBRD guarantees
Installed Capacity	MW	2,043	605
O&M *	USD/MW/yr	42,095	33,921
Capacity factor - Round 2 *	%	40%	35%
Average investment cost *	USD million/MW	1.1	1.0
Benefit of displaced energy	US\$/MWh	71	
Grid emission factor	tCO2/MWh	0.493	
Social Value of carbon 2015-2020**	USD/tCO2	30	
Social Value of carbon 2020-2030**	USD/tCO2	35	
Social Value of carbon 2030-2040**	USD/tCO2	50	
Discount rate	%	7%	
NPV	million USD	2,763	715
Economic IRR	%	21.4%	21.3%
EIRR - 20% generation decrease	%	16.0%	15.9%
EIRR - 20% carbon benefits decrease	%	20.3%	20.1%
* Weighted average between technologies awarded in Round 2			
** As per the WB Guidance note on social value of carbon in project appraisal			

49. **The financial analysis confirms the financial viability of the solar and wind sub-projects likely to receive risk coverage under the Project.** The analysis is based on elements including the average plant factor, awarded price (i.e. 42 and 41 US\$/MWh for solar and wind respectively in Round 2), and estimated cost. Results show that both solar and wind sub-projects are financially viable. In the case of wind sub-projects, the project Financial Internal Rate of Return (FIRR) before financing of about 6.5 percent on average is slightly below the FIRR average of similar projects in the region, with a payback period of about 12 years. For solar sub-projects, the FIRR of 7.5 percent and a payback period of 11 years confirm their viability, with slightly lower figures than similar projects in the region.

50. **The financial risk of the overall dispatch system should be decreasing over time.** Given the small impact RenovAr Round 2 (only up to 5.7 percent of the overall installed capacity as of October 2017) has on the overall cost of energy supply in Argentina, this second round will not have a systemic impact on the system, and thus will barely alleviate the initial risk. However, this initial financial risk has and should continue to decrease over time due mainly to GoA’s actions to bridge the gap between end user prices and real energy costs. RenovAr Round 2 is expected to have a small, but positive impact on the financial situation of the wholesale electricity system by reducing its overall volatility, adding new generation capacity at lower prices, and eventually replacing expensive thermal generation. In summary, the financial situation of the wholesale electricity market should not be negatively affected.

51. **The proposed AF guarantee will help leverage private financing of about US\$1.7 billion in clean**

³⁶ The EIRRs for ‘Total Round 2’ or for ‘Round 2 with IBRD guarantees’ are similar (EIRR does not depend on the size of the investment) but the NPV for ‘Total Round 2’ is logically superior.



energy financing (7 times more than the guarantee itself) and save 59 million tCO₂ over 20 years (three million tCO₂ per year),³⁷ approximately three percent of the NDC target (109 million tCO₂e per year) by 2030.

52. **WBG support provides strong value added.** In particular, it helps to: (i) enhance the credibility and reduce the risks of GoA's new RenovAr Program, (ii) attract potential bidders and lenders, especially international ones, and (iii) bring international experience from other similar programs.

B. Technical

53. **The RenovAr Program relies on the utilization of known and proven technologies.** Sub-projects will be implemented in accordance with local laws and internationally accepted technical standards. Experienced private sector firms that have passed the technical criteria will design and implement the technical parameters. CAMMESA and MEM, already acquainted with the deployment of similar technologies in Argentina, will monitor the implementation of the sub-projects. The evaluation of Request for Proposals (RfPs), contractual negotiations, and supervision will be conducted by CAMMESA, MEM and provinces when relevant, and supported as needed by the Bank.

54. **Transmission.** The GoA expects that most of the generation capacity added through RenovAr Round 2 will not require dedicated grid expansions additional to those already planned in the upcoming years to increase the current quality of supply. As part of the latest Transmission Plan, and to meet transmission requirements from new energy developments, the MEM has announced its intention to advance in adding additional 500kV lines between priority nodes, to strengthen the system and increase transport capacity. In addition, in order to mitigate potential risks due to relatively limited transmission capacity margin, RenovAr Round 2 has: (i) established quotas per geographical region and technology; (ii) incorporated in its bidding document an Annex that indicates the available transmission capacity for Round 2 plus the transmission lines that are already planned and will be constructed; and (iii) added a "take-or-pay" clause in the supply contracts that would favor those sub-projects whose construction was awarded foreseeing the expansion of the transmission system. As per this clause, CAMMESA (the off-taker) agrees to pay the sub-projects for the energy supplied plus the energy that could not be dispatched due to transmission congestion in case the Expanded Transmission System has not become operational before the commercial of the power plants (excluding delays due to major force events). The payment for the non-dispatched energy will only cover those hours in which a transmission limitation has been verified, until the Expanded Transmission System becomes operational, or the transmission limitation has been resolved.

55. The GoA has informed the Bank that results from an in-house model, that uses statistical information about hydrology and weather patterns to produce mid-term dispatch (6 months) and scheduling (daily hour by hour dispatch), showed that renewables would not experience significant curtailment due to transmission congestion, potential low demand or must-run plants. In any case, based on the current energy demand for the country, and the relatively small capacity size of RenovAr 2 projects, the impact of the potential activation of the "take-or-pay" clause on CAMMESA's payment commitments will be almost negligible even in the worst-case scenario of total curtailment due to dispatching restrictions.

³⁷ Calculations conducted as per the World Bank "GHG Accounting for Energy Investment Operations Guidance Manual", version 2.0, January 2015. GoA GHG reductions estimations under RenovAr Round 1 are higher since their CO₂ emission factor is slightly higher than the emission factor used by the Bank.



C. Financial Management

56. **A Financial Management Assessment (FMA)³⁸ was carried out to assess the adequacy of financial management (FM) arrangements in place at BICE.** The assessment conclusion was that overall FM arrangements are acceptable to the Bank, and BICE can provide reliable and timely financial reporting to monitor project implementation. BICE will continue to be responsible for the FM functions of the proposed AF. The existing FM arrangements will continue unchanged for the scaled-up activities under the AF including the following: i) BICE will maintain a FM system and prepare financial statements in accordance with accounting standards acceptable to the Bank; and ii) BICE will have its financial statements for each calendar year audited in accordance with audit standards and by external auditors both acceptable to the Bank. Audited financial statements will be submitted to the Bank not later than six (6) months after the end of the Trustee’s calendar year, together with an opinion of the Trustee’s external auditors on the financial statements. In sum, the FM arrangements under the parent Project are commensurate with the needs of the proposed scaled-up activities. FM monitoring of this AF will continue through implementation support missions, review of external audit reports and ad-hoc support as needed.

D. Procurement

57. **The World Bank “Procurement Regulations for Investment Project Financing (IPF) Borrowers” govern the procurement of goods, works, non-consulting services, and consulting services financed by the Bank (in whole or in part) through IPF operations.** As per the Section I.1 of the Procurement Policy, procurement under Bank guarantees are excluded from these Regulations.

E. Social (including Safeguards)

58. **The RenovAr Round 2 sub-projects that requested the IBRD guarantee are located mainly in rural or peri-urban areas.** A preliminary screening process carried out by MEM³⁹ showed that some of these sub-projects are in areas where Indigenous Peoples (IPs) are likely to be present.⁴⁰ In this context, OP/BP 4.10 Indigenous Peoples is triggered and this AF will apply an Indigenous People’s Planning Framework (IPPF), which has been prepared for the parent Project and consulted with the IPs representatives at the national level. The document has also been incorporated as part of the ESMF and the Project’s Operations

³⁸ The Financial Management Assessment (FMA) was conducted in accordance with OP/BP 10.00 and in line with specific Bank Guidelines Manual for World Bank-Financed Investment Operations; document issued by Operations Policy and Country Services OPCFM on March 1, 2010.

³⁹ This preliminary screening was intended to determine the environmental and social category for each sub-project to identify risks related to each sub-project and determine the environmental and social category for each sub-project. This information was used by MEM to, inter alia, exclude the use of the IBRD guarantee for sub-projects which would be defined as Category A under Bank policies.

⁴⁰ The Indigenous Peoples Planning Framework includes a second screening process mandatory for all awardees that have requested the IBRD Guarantee. This process consists of a formal inquiry to the National Institute of Indigenous Affairs (Instituto Nacional de Asuntos Indígenas - INAI) and the Indigenous Peoples Participation Councils (Consejos de Participación Indígena – CPIs) about the presence of Indigenous Peoples in the sub-project area of influence. For those cases where Indigenous Peoples are present in the sub-project area, awardees will need to make consultations with Indigenous Communities and prepare an Indigenous Peoples Plan or a Community Development Plan in accordance to what is established in the IPPF.



Manual, to ensure that, as appropriate, sub-projects comply with the applicable World Bank Performance Standard (Indigenous People; PS7), including with Free, Prior and Informed Consent, when required.

59. **In addition, it is also likely that in some cases sub-projects would require land easement and/or acquisition that might entail resettlement as defined by OP/BP 4.12 Involuntary Resettlement (loss of assets, physical displacement, or livelihood losses and/or restriction on land use), which is also triggered.** In accordance with the procedures included in the ESMF of the parent Project and the AF, MEM prepared a Resettlement Policy Framework (RPF), to ensure that, as appropriate, analysis of alternatives and appropriate compensation and support to potentially affected people are incorporated into the sub-projects' design to ensure that they will comply with the applicable World Bank's Performance Standard (Land Acquisition and Involuntary Resettlement; PS5). Project-related land acquisition in areas with land disputes or where the ownership of land is not clear or there are unresolved claims by IPs or other groups will be opportunely excluded.

60. **The IPPF and the RPF have been published on the Borrower's website⁴¹ and on the World Bank external site as part of the dissemination and consultation process.** Since both documents have been included as an annex of the ESMF, they were also reviewed as part of the public consultations held as preparation of the Project (see Environmental section below). In the case of the IPPF, the document was additionally consulted with the indigenous authorities at the national level, from December 22, 2016 to January 5, 2017. Relevant feedback received during such consultations has been used accordingly to inform project design and incorporated, as appropriate, into a revised version of the instruments that were published on January 13, 2017 on the Borrower's website and on January 16, 2017 on the Bank's external website. In addition, further consultations with representatives from the National Indigenous Peoples Participation Council and the National Institute of Indigenous Affairs took place on February and May 2017, respectively. A revised version of the IPPF, together with the final versions of the ESMF and the RPF was published on August 17, 2017 on the Borrowers Website and on August 18, 2017 on the Bank's external Website.

F. Environment (including Safeguards)

61. **OP/BP 4.01 Environmental Assessment is triggered and the AF is classified as FI since it involves a guarantee structure via a financial intermediary (FI).** MEM is the implementing agency of the guarantee project, together with BICE, the fiduciary agency. All technical decisions related with the renewable energy sub-projects as well as the environmental and social screening and monitoring will be done by MEM. The Environmental and Social Management Framework (ESMF) that was developed by MEM for the parent Project will also be applied to the AF. The ESMF defines the environmental and social management procedures to be implemented by MEM and the individual renewable energy sub-projects covered by the guarantee. The ESMF includes screening by MEM of proposed sub-projects developed by private companies. The ESMF excludes the use of the IBRD guarantee for sub-projects that would be defined as Category A under Bank policies. The ESMF also defines supervision and reporting requirements.

62. **World Bank Performance Standards (PS) will apply to sub-projects developed by private companies.** Given that sub-projects will be developed by private companies (which will be in charge of sub-projects' design, construction/installation, and operation & maintenance, including environmental and social assessments, assurance of legal compliance and risk management), and considering OP/BP 4.01

⁴¹ <https://www.minem.gov.ar/www/833/25404/estudios-y-publicaciones.html>



guidelines, the instruments that better cover the type, extent, and depth of analysis and management required for these sub-projects that involve the private sector are the World Bank Performance Standards for Private Sector Activities (PS1 to PS8). Thus, the ESMF requires the private sector companies to comply with PS. In addition, the use of such standards may facilitate their access to private sector financing.

63. As per renewable energy generation inherent characteristics, rural areas are mainly targeted for sub-project locations. Therefore, it is possible for renewable energy generation related works to be located in natural habitat zones or in known or suspected physical cultural resources areas; also, they potentially could affect forests and/or forest dependent communities, could use pesticides for minor management of facilities, and could use herbicides for access roads maintenance. Thus, OP/BP 4.04 Natural Habitats, OP/BP 4.11 Physical Cultural Resources, OP/BP 4.36 Forests, and OP/BP 4.09 Pest Management are triggered. Also, the AF could support small-scale hydro run-of-river electricity generation facilities (ranging from 0.5 to 50 MW), some of which may require a small weir or pondage to provide water for the penstock; thus OP/BP 4.37 Safety of Dams is also triggered. The ESMF developed by MEM includes provisions to ensure that renewable energy sub-projects comply with the applicable World Bank's Performance Standards (mandatory: Assessment and Management of Environmental and Social Risks and Impacts, PS1 & Labor and Working Conditions, PS2; and, as appropriate, Biodiversity Conservation and Sustainable Management of Living Natural Resources, PS6; Cultural Heritage, PS8; Resource Efficiency and Pollution Prevention, PS3; and Community Health, Safety and Security, PS4).

64. In terms of citizen engagement, an advanced draft version of the ESMF⁴² developed for the parent Project, that will also apply to the proposed AF, was disclosed in the MEM Website and in the World Bank's external Website on December 14, 2016. These draft documents were consulted by MEM from December 15, 2016 to January 5, 2017 involving an ample sample of institutions -state bodies, academia, private associations, and nation-wide & local-presence NGOs-, identified by MEM as key stakeholders. Feedback received during consultations was incorporated, as appropriate, into the Project design and a revised version of the ESMF, which was published on the Borrower's Website and on the World Bank's external Website on January 16, 2017. In addition, MEM organized and implemented two workshops aimed at awardees of Round 1 and Round 1.5 that opted to benefit from the WB's guarantee on April 20, 2017 and on July 11, 2017. These workshops were focused on introducing in detail the safeguards instruments and the socio-environmental requirements to be accomplished by sub-projects. Valuable feedback received in these meetings, mainly wording improvements and clarifications, were incorporated in final versions of the ESMF, the IPPF and the RPF. These final versions were published in the MEM Website on August 15, 2017 and in the WB's external Website on August 18, 2017.

65. World Bank's supervision and monitoring of safeguard issues. As an FI operation, Bank's review for the sub-project-specific assessments carried out by the UAYs will be done for a sample of projects, at least one of each technology. The Bank will reserve the right to review any sub-projects that it might deem to be higher risk or present particularly challenging safeguards issues. The Bank will review the information GoA reports to it, but will also reserve the right to visit a sample of projects to evaluate UAYs and sub-projects' performance.

⁴² Including the IPPF and the RPF as annexes.



V. WORLD BANK GRIEVANCE REDRESS

66. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

VI. SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Change in Implementing Agency		✓
Change in Project's Development Objectives		✓
Change in Results Framework	✓	
Change in Components and Cost	✓	
Change in Closing Date(s)	✓	
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Change in Disbursements Arrangements		✓
Change in Systematic Operations Risk-Rating Tool (SORT)		✓
Change in Safeguard Policies/Performance Standards Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓



Change in Procurement		✓
Change in Implementation Schedule	✓	
Other Change(s): Additional Guarantee Expiration Date	✓	

VII. DETAILED CHANGE(S)

Change in Components and Cost

This AF is adding a Component 2, an IBRD guarantee for Round 2 sub-projects that requested it. Costs are revised to account the scope of the AF activities.

Change in Closing Date(s)

Given Round 2 timeline, the closing date will be extended from Aug 01, 2020 to Dec 1, 2021.

Change in Results Framework.

The target dates os most indicators will be changed to take into account the new closing date.

Change in Implementation Schedule

The implementation schedule is similar to the parent Project but the closing date is extended as mentioned above.

Other Change(s): Additional Guarantee Expiration Date

The additional guarantee expiration date is September 1st 2038.

RESULTS FRAMEWORK

Project Development Objective Indicators

Progress toward achieving the PDO would be assessed by the following indicators, which remain the same as for the parent Project. However, indicators’ values have been updated so as to reflect the new generation capacity under RenovAr Round 2:

- (a) Generation capacity of renewable energy (other than hydropower) constructed under the Project (MW) – Core
- (b) Generation capacity of renewable energy constructed – Wind (MW)
- (c) Generation capacity of renewable energy constructed – Solar (MW)
- (d) Generation capacity of renewable energy constructed – Mini-hydro (MW)
- (e) Generation capacity of renewable energy constructed – Biogas and biomass (MW)
- (f) Private capital mobilized (million US\$) – (Number)



FINANCING PLAN

Summary (US\$, million)

	Original Amount	Proposed Amount
Total Project Cost		592
Total Financing		592
Private equity		207
Commercial borrowing & debt from DFIs and ECAs		385
Counterpart Funding		0
International Bank for Reconstruction and Development (IBRD)		0
International Development Association (IDA)		0
Guaranteed loan (IBRD/IDA)		0
Payment guarantee (IBRD/IDA)		250
Trust Funds		0
Parallel Financing		0
Financing Gap		0

LEGAL COVENANTS – Additional Financing Project (Additional Financing Project ID)

Sections and Description

Usual and customary conditions for guarantee operations of this nature (as reflected in the Guarantee Term Sheet included in Annex 6) will be included.



VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: ARGENTINA
FODER II Renewable Fund Guarantee (P165085)

Project Development Objectives

Status	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	Generation capacity of renewable energy (other than hydropower) constructed under the Project	Yes	MW	0	1,638	Biannual	Project owner/developer	MEM
<i>Unchanged</i>	- Round 1/1.5			0	1,033			
<i>New</i>	- Round 2			0	605			
Revised	Generation capacity of renewable energy constructed – Wind	Yes	MW	0	881	Biannual	Project owner/developer	MEM
<i>Unchanged</i>	- Round 1/1.5			0	721			
<i>New</i>	- Round 2			0	160			
Revised	Generation capacity of renewable energy constructed – Solar	Yes	MW	0	706	Biannual	Project owner/developer	MEM
<i>Unchanged</i>	- Round 1/1.5			0	306			



<i>New</i>	- Round 2			0	400			
Revised	Generation capacity of renewable energy constructed – Mini-hydro	Yes	MW	0	15	Biannual	Project owner/developer	MEM
<i>Unchanged</i>	- Round 1/1.5			0	4			
<i>New</i>	- Round 2			0	11			
Revised	Generation capacity of renewable energy constructed – Biogas and Biomass	Yes	MW	0	20.2	Biannual	Project owner/developer	MEM
<i>Unchanged</i>	- Round 1/1.5			0	1.2			
<i>New</i>	- Round 2			0	19			
Revised	Private capital mobilized	Yes	Million US\$	0	4,294	Biannual	Project owner/developer	MEM
<i>Unchanged</i>	- Round 1/1.5			0	2,525			
<i>New</i>	- Round 2			0	1,769			



Intermediate Results Indicators								
Status	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	GHG emissions avoided	No	million tCO ₂	0	2.02	Annual	CAMMESA	MEM
<i>Unchanged</i>	- Round 1/1.5			0	1.37			
<i>New</i>	- Round 2			0	0.65			



IX. INDICATIVE TERMS AND CONDITIONS FOR THE PROPOSED ADDITIONAL GUARANTEE

The World Bank intends to support FODER through a guarantee from the International Bank for Reconstruction and Development (“IBRD”) of up to⁴³ US\$ 250 million in support of renewable energy projects under the RenovAr Round 2 auction. This summary of indicative terms and conditions of the proposed guarantee by the IBRD is for discussion purposes only and does not constitute an offer to provide a guarantee. The provision of the guarantee is subject, inter alia, to satisfactory appraisal of the project by the IBRD, compliance with all applicable policies of the World Bank, review and acceptance of the structure and project/transaction documentation by the IBRD, and approval by the management and Executive Directors of the IBRD in their sole discretion.

Parties and Agreements	
Argentina:	Republic of Argentina represented by the Ministerio de Finanzas (“ MoF ”) and the Ministerio de Energía y Minería (“ MEM ”).
Electricity Off-taker:	Compañía Administradora del Mercado Mayorista Eléctrico S.A. (“ CAMMESA ”).
FODER:	“Fondo para el Desarrollo de Energías Renovables” (“ FODER ”) a trust fund created by law 27.191 of September 23, 2015, and established by the FODER Trust Agreement.
Project Companies:	Eligible companies having been selected by the MEM to supply energy from renewable sources to CAMMESA through the RenovAr Round 2 competitive auction and with the right to sign and/or having signed a Power Purchase Agreement (“ PPA ”), and a FODER Trust Adhesion Agreement (each a “ Project Company ”, and collectively the “ Project Companies ”). Eligibility criteria for such eligible companies are defined in the RenovAr Pliego de Bases y Condiciones (“ Request for Proposals ”) issued by MEM for Round 2, the Guarantee Agreement and/or Operations Manual, and in the FODER Trust Adhesion Agreements and include: <ul style="list-style-type: none"> a) Being a private entity⁴⁴; b) Having the ability to manage environmental and social aspects of the project compliant with World Bank Performance Standards. Projects with potentially significant adverse social and/or environmental impacts that are sensitive, irreversible, diverse, or unprecedented (World

⁴³ Final amount to be determined based on the aggregate amount of IBRD guarantee coverage requested by all winning bidders.

⁴⁴ For IBRD guarantee purposes, a “private entity” is one that is wholly or predominantly privately owned or that is publicly owned but is an autonomous entity established and operating under commercial law for the purpose of pursuing profit.



	<p>Bank’s Category A) are not eligible to benefit from IBRD guarantee cover;</p> <p>c) Neither it, nor its affiliates or direct or indirect shareholders, nor any Person acting on its behalf, being debarred by the World Bank for a Sanctionable Practice⁴⁵ in accordance with World Bank Sanctions Procedures; and</p> <p>d) Meeting industry standards for technical and economic viability, financial management and procurement.</p>
Guarantor:	International Bank for Reconstruction and Development (“ IBRD ”).
PPA:	The Power Purchase Agreement (“ <i>Contrato de Abastecimiento de Energia Electrica Renovable</i> ”) signed or to be signed between CAMMESA and each Project Company pursuant to which, among other things, CAMMESA agrees to purchase from the Project Company power from its renewable energy power plant.
FODER Trust Adhesion Agreement:	<p>The Acuerdo de Adhesión e Incorporación al Fideicomiso <i>FODER</i> among the FODER Trustee, the MEM as settlor of FODER and as implementing agency (Autoridad de Aplicación) and a Project Company whereby, among other things, the Project Company has the right (the “Put Option”) in certain events to require that the FODER Trustee purchase the assets of its renewable energy power plant for the Put Price.</p> <p>The events triggering the Put Option shall be specifically included in the RenovAr Request for Proposals and in the FODER Trust Adhesion Agreement. The Put Option can only be exercised by the Project Companies at or after financial close (Cierre Financiero), as defined under the PPA (“Financial Close”).</p>
FODER Trust Agreement:	Contrato de Fideicomiso (“ FODER Trust Agreement ”) between the MEM as trust settlor (Fiduciante) and as implementing agency (Autoridad de Aplicación), and Banco de Inversión y Comercio Exterior S.A. as trustee (Fiduciario) (“ BICE ” or the “ FODER Trustee ”).
Indicative IBRD Guarantee Terms and Conditions	
Beneficiary:	BICE, acting as trustee of FODER.
Guaranteed Event:	With respect to each Project Company that has entered into an Acknowledgment and Consent (as defined below) during the Guarantee Availability Period (as defined below), the occurrence of

⁴⁵ "Sanctionable Practices" include corrupt, fraudulent, collusive, coercive, or obstructive practices, as defined in IBRD’s Anti-Corruption Guidelines.



	<p>all of the following:</p> <ul style="list-style-type: none"> a) the exercise by such Project Company of its Put Option; and b) a breach by MEM of its obligation, contemplated in Section [8.1(c)] of the respective FODER Trust Adhesion Agreement, to provide funds to the FODER Trustee to pay the Put Price; and c) a breach by MoF of its obligation to pay the <i>Letras del Tesoro en Garantia</i> as contemplated in Decreto 882/2016 and Section [8.1(d)] of the respective FODER Trust Adhesion Agreement; and d) as a result of such breach by MoF, a breach by FODER Trustee to pay to the Project Company all or any portion of the Put Price.
<p>Maximum Guaranteed Amount:</p>	<p>US\$250 million.</p> <p>In no instance, will IBRD have any liability to backstop an otherwise Eligible Payment if the aggregate of all sums paid by IBRD under the Guarantee would exceed this cap. The cap will be included in the IBRD Guarantee Agreement.</p> <p>The Maximum Guaranteed Amount may be permanently reduced upon written request to IBRD from the FODER Trustee and if the Project Company had already signed the PPA and the Trust Adhesion Agreement such request shall be countersigned by a Project Company/Project Companies in an amount not to exceed the amount of the Guarantee nominally allocated to such Project Company/Companies. Such request (i) will permanently reduce the Maximum Guaranteed Amount in increments of \$1,000,000 only, (ii) may not be delivered more often than once every 12 months, (iii) will not carry any additional fee, charge or penalty for FODER, and (iv) will not require that IBRD reimburse any Guarantee Fees received that may relate to the reduced amount.</p> <p>The Maximum Guaranteed Amount will also be permanently reduced, in an amount equivalent to the amount of guarantee nominally allocated to the relevant Project Company, upon written notice from IBRD to the FODER Trustee of a cancellation of the IBRD Guarantee at a Project Company level following the occurrence of certain acts attributable to a Project Company (see <i>IBRD Guarantee Exclusion, Limitation, Partial Cancellation, Withholding and Termination Events</i> below).</p>
<p>Committed Guaranteed</p>	<p>The portion of the Maximum Guaranteed Amount that, on a</p>



Amount:	quarterly basis, the FODER Trustee indicates to IBRD that is committed or shall become committed as a result of Project Companies having already reached, or being expected by the FODER Trustee during the following quarter to reach Financial Close.
Uncommitted Guaranteed Amount:	The Maximum Guaranteed Amount minus the Committed Guaranteed Amount. IBRD shall have no obligation to make any payment with respect to any Uncommitted Guaranteed Amount.
Guarantee Effectiveness Date:	Date on which all the conditions precedent to the effectiveness of the IBRD Guarantee have been met or waived.
Guarantee Availability Period:	Period during which the Committed Guaranteed Amount can be increased, starting on the Guarantee Effectiveness Date and ending on the third (3 rd) anniversary of the Guarantee Effectiveness Date.
Guarantee Expiry Date:	The earlier of (i) 20 years from the Guarantee Effectiveness Date, or (ii) Argentina reaching investment grade (<i>Grado de Inversión</i>) as defined in Annex 7 of the Request for Proposals.
Project Company Guarantee Expiry Date:	For each Project Company, the Project Company Guarantee Expiry Date is the earliest to occur of (a) the Guarantee Expiry Date and (b) the last day of the period of IBRD guarantee coverage (in years) indicated in the respective FODER Trust Adhesion Agreement, which period begins on the first day of the first quarter with respect to which the applicable quarterly IBRD Guarantee Fee has been paid to IBRD for the respective Project Company. Project Company Guarantee Expiry Dates may not be extended. For the avoidance of doubt, the Guaranteed Event has to occur before the Project Company Guarantee Expiry Date.
Eligible Payments:	With respect to each Project Company, the Put Price due and payable by the FODER Trustee to the Project Company pursuant to a FODER Trust Adhesion Agreement to the extent not paid and up to the Eligible IBRD Claim Amount.
Put Price:	With respect to each Project Company, the price defined in the respective FODER Trust Adhesion Agreement as the <i>Precio de Venta del Proyecto</i> .
Eligible IBRD Claim Amount:	With respect to each Project Company, the lower of (i) the amount requested by the Project Company in its offer and granted after the award as set forth in the respective FODER Adhesion Agreement which cannot be more than US\$500,000 per MW; or (ii) the Put Price due and payable by the FODER Trustee.
Claim under the IBRD	If there is a dispute between the FODER Trustee, MoF, or MEM and



<p>Guarantee:</p>	<p>the Project Company as to the FODER Trustee’s obligation to pay the Put Price or as to the amount of such Put Price, the IBRD Guarantee would be callable only in respect of amounts that the FODER Trustee is obligated to pay, and fails to pay. For the avoidance of doubt, IBRD will pay only up to the FODER Trustee’s liability that has been determined, whether through settlement agreement between the parties, expert determination, or arbitral award, so long as such determination is final and binding (i.e., an arbitral award is not necessarily required).</p> <p>Upon the occurrence of a Guaranteed Event, the FODER Trustee may submit, with copy to the respective Project Company, a demand notice to IBRD under the IBRD Guarantee Agreement for any outstanding Eligible IBRD Claim Amount. If the FODER Trustee does not submit such demand notice to IBRD within the term contemplated in [Section 9.2(b)] of the FODER Trust Adhesion Agreement, the Project Company may submit a demand notice to IBRD under the IBRD Guarantee Agreement for any outstanding Eligible IBRD Claim Amount. If requested by the Project Company or by the FODER Trustee, IBRD will pay in US\$ to the local and/or off-shore account designated by the Project Company.</p>
<p>Conditions precedent to the Effectiveness of the IBRD Guarantee:</p>	<p>Usual and customary conditions for guarantees of this type, including but not limited to the following:</p> <ul style="list-style-type: none">a) Duly executed originals of the Indemnity Agreement, relevant FODER Trust Adhesion Agreements, relevant PPAs, and <i>Letras del Tesoro en Garantía</i> (or documentary evidence of the issuance thereof) acceptable to IBRD;b) Provision of satisfactory legal opinions;c) Payment in full of outstanding fees and expenses of IBRD’s external counsel;d) Payment in full of the:<ul style="list-style-type: none">i. Front-End Fee and of the first installment of the Guarantee Fee and Standby Fee as applicable (if invoiced by IBRD to the FODER Trustee); andii. Initiation Fee and Processing Fee (if invoiced by IBRD to the FODER Trustee);e) Delivery of the Operations Manual in form and substance satisfactory to IBRD;f) Evidence satisfactory to IBRD of the adequate capitalization of the <i>Cuenta de Garantía por Pago de Energía</i> of the



	<p>FODER and adequate structuring of the FODER accounts; and</p> <p>g) Argentina being in full compliance with its obligations to the World Bank in connection with the IBRD guarantee for RenovAr rounds 1 and 1.5.</p>
<p>IBRD Guarantee Exclusion, Limitation, Partial Cancellation, Withholding and Termination Events:</p>	<p>Standard exclusion, limitation, partial cancellation, withholding and termination events for transactions of this nature, including:</p> <p>Limitation events (for acts attributable to a Project Company):⁴⁶</p> <ul style="list-style-type: none"> a) a Sanctionable Practice engaged in by a Project Company, its affiliates or direct or indirect shareholders, or any Person acting on its behalf; b) breach by a Project Company of (x) its obligations under its Acknowledgment and Consent with respect to the World Bank Performance Standards or (y) any other material obligation under its Acknowledgment and Consent, in each case that remains uncured after the expiration of any applicable cure period. <p>Partial cancellation events (for acts attributable to a Project Company):⁴⁷</p> <ul style="list-style-type: none"> a) a determination by IBRD that substantial evidence exists of a Sanctionable Practice engaged in by a Project Company, its affiliates or direct or indirect shareholders, or any Person acting on its behalf; b) a limitation event attributable to a Project Company under clause (b)(x) above, subject to an extended cure period; c) a limitation event attributable to a Project Company under clause (b)(y) above; d) the Trustee notifies IBRD that a Project Company has failed to pay its portion of the guarantee fees pursuant to Section [9.3] of the FODER Trust Adhesion Agreement after the expiry of the applicable cure period. <p>Limitation events (for acts attributable to FODER</p>

⁴⁶ Limitation events for acts attributable to a Project Company: Coverage under the IBRD Guarantee with respect to the relevant Project Company will be suspended upon notice by IBRD to the FODER Trustee with a copy to the relevant Project Company, and until IBRD issues a revocation notice.

⁴⁷ Upon partial cancellation for acts attributable to a Project Company, coverage under the IBRD Guarantee with respect to the relevant Project Company will terminate, IBRD will have no further liability with respect to claims by the relevant Project Company, and the Maximum Guaranteed Amount will be reduced accordingly.



	<p>Trustee/Argentina)⁴⁸:</p> <p>a) Material breach by FODER Trustee of its obligations under the Guarantee Agreement or by MEM or MoF under the Indemnity Agreement that is not cured within any applicable cure period.</p> <p>Withholding events (for acts attributable to FODER Trustee)⁴⁹:</p> <p>a) Substantial evidence exists, as determined by IBRD, of a Sanctionable Practice engaged in by the Trustee (withholding will cease upon acceptable substitution of the Trustee);</p> <p>b) assignment of any of FODER Trustee’s rights or obligations under the Guarantee Agreement, a relevant FODER Trust Adhesion Agreement or an arbitral award relating to an Eligible IBRD Claim Amount, other than certain permitted assignments;</p> <p>c) breach by FODER Trustee of any obligations under the Guarantee Agreement that has not been remedied to IBRD’s satisfaction within the applicable cure period;</p> <p>Termination events (for acts attributable to FODER Trustee)⁵⁰:</p> <p>a) Nonpayment of any installment of the relevant Guarantee Fee, Standby Fee, or Up-front Fee. Note: See “Fee Payment Agent” below.</p>
IBRD Guarantee Related Agreements	
IBRD Guarantee Agreement:	Agreement signed between IBRD and BICE, as trustee of FODER.
Governing law:	New York Law.
Dispute Resolution:	Arbitration in Washington DC according to UNCITRAL Arbitration Rules.
Indemnity Agreement:	Agreement signed between IBRD and Argentina (acting through MoF and MEM).

⁴⁸ Limitation events for acts attributable to FODER Trustee/ Argentina: Trust Adhesion Agreements entered into by FODER after notice of limitation event will not benefit from IBRD guarantee coverage. Limitation does not affect IBRD coverage for existing Trust Adhesion Agreements.

⁴⁹ Withholding events for acts attributable to FODER Trustee: IBRD may withhold amounts otherwise due and payable to FODER. Withholding for an extended period of time will entitle Project Company to request that withheld amounts be paid directly to it.

⁵⁰ Termination events (for acts attributable to FODER Trustee): upon termination, World Bank will have no further liability under the Guarantee Agreement.



	<p>Argentina (acting through MoF) commits to reimburse and indemnify IBRD on demand, or as IBRD may otherwise direct, for all payments under the Guarantee.</p> <p>Argentina (acting through MEM) commits to, among other things:</p> <ul style="list-style-type: none"> a) (i) Comply with a framework agreed with IBRD to screen, evaluate and supervise the sub-projects, including an Operations Manual and an Environmental and Social Management Framework (which includes the environmental and social management procedures to be implemented by MEM and the individual sub-projects covered by the guarantee. Project Companies will be in charge of such sub-projects’ design, construction, installation, and operation & maintenance, including the environmental and social assessments, assurance of legal compliance, and risk management); and (ii) ensure CAMMESA complies with all its obligations under the PPAs (and any other transaction document); b) Cause CAMMESA to obtain IBRD’s consent prior to agreeing to any change to a PPA and any other relevant transaction document which would materially affect the rights or obligations of IBRD under the IBRD Guarantee Agreement or any other transaction document; c) Provide certain notices to IBRD; and d) Cooperate with IBRD and furnish to IBRD, or ensure other public entities provide, all such information related to such matters as IBRD shall reasonably request; and promptly inform IBRD of any condition which interferes with, or threatens to interfere with, such matters. <p>If Argentina breaches any of its obligations under the Indemnity Agreement, IBRD may suspend or cancel, in whole or in part, the rights of Argentina to make withdrawals under any other loan agreement with IBRD, or any IBRD loan to a third party guaranteed by Argentina, and may declare the outstanding principal and interest of any such loan to be due and payable immediately. A breach by Argentina under the Indemnity Agreement will not, however, forgive any guarantee obligations of IBRD under the Guarantee.</p> <p>The Indemnity Agreement will follow the usual legal regime and include dispute settlement provisions customary for agreements between member countries and IBRD.</p>
Acknowledgment and	Agreement signed between IBRD and each eligible Project



<p>Consent (A&C) Agreement:</p>	<p>Company.</p> <p>The Project Company will acknowledge that it has received a copy of, and has read and understands, the Guarantee Agreement and the Environmental and Social Management Framework.</p> <p>The Project Company will make certain representations and warranties, including but not limited to the following:</p> <ul style="list-style-type: none">(a) Neither it nor any Affiliate has been listed as ineligible to be awarded an IBRD or IDA-financed contract on the World Bank Group Listing of Ineligible Firms and Individuals;(b) Neither it (nor its direct or indirect shareholders, or any Person acting on its behalf), nor any of its affiliates nor any Person acting on its behalf, has engaged in any Sanctionable Practice in connection with the RenovAr auctions or its renewable energy project. (Note: This representation will be deemed repeated each time the Project Company submits a demand notice under the IBRD Guarantee Agreement following a failure of the FODER Trustee to do so); and(c) Customary corporate housekeeping representations and warranties (e.g., power and authority, binding obligation, requisite authorizations and consents in place, true copies of respective PPA, FODER Trust Adhesion Agreement). <p>The Project Company will covenant, among other things, that it will:</p> <ul style="list-style-type: none">(a) Comply with applicable laws, including environmental and social laws, and the applicable World Bank environmental and social safeguards requirements under the World Bank Performance Standards;(b) Provide required information, reports and notices;(c) Provide access to its renewable energy project, relevant staff, and its records;(d) (i) Not engage in (or authorize or permit any affiliate, direct or indirect shareholder, or any other Person acting on its behalf to engage in) any Sanctionable Practice in connection with any renewable energy project or Project Company, any RenovAr auction, or any transaction contemplated by the Guarantee Agreement;(e) Comply with World Bank requirements relating to Sanctionable Practice regarding individuals or firms included
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	<p>in the World Bank Group list of firms debarred from World Bank Group-financed contracts;</p> <p>Same governing law and dispute resolution provisions as the IBRD Guarantee Agreement (<i>i.e.</i>, New York Law and arbitration in Washington DC according to UNCITRAL Arbitration Rules).</p>
IBRD Guarantee Fees⁵¹	
Guarantee Fee (recurring):	[50-100] ⁵² bps per annum of the Committed Guaranteed Amount, payable quarterly in advance by the FODER Trustee/Fee Payment Agent one month prior to the next quarter guarantee period. Guarantee fees will be calculated based on the reported amount corresponding to Project Companies that have reached Financial Close and that are expected to reach Financial Close during the following quarter.
Stand-by Fee (recurring):	25 bps per annum of the Uncommitted Guaranteed Amount, payable quarterly in advance by the FODER Trustee/ Fee Payment Agent one month prior to the next quarter guarantee period. This fee starts accruing at the earlier of (i) sixty days after the signing of the guarantee agreement or (ii) the Guarantee Effectiveness Date. Standby Fee also applies if IBRD limits coverage of the Guarantee pursuant to any limitation event.
Up-front Fees: (one time only)	<p>Payable by the FODER Trustee/ Fee Payment Agent:</p> <ul style="list-style-type: none"> a) A Front-End Fee of 25 bps of the Maximum Guaranteed Amount; b) An Initiation Fee of 15 bps of the Maximum Guaranteed Amount; and c) A Processing Fee of 50 bps of the Maximum Guaranteed Amount.
Legal Counsel Expenses:	FODER Trustee will pay the reasonable and documented fees and expenses of IBRD’s external legal counsel in connection with the negotiation, production, execution, registration, implementation, amendment, modification or waiver of the Guarantee Agreement, the Indemnity Agreement and each Acknowledgment and Consent up to US\$ [300,000]. IBRD shall inform the Trustee in advance before hiring legal counsel.

⁵¹ FY18 pricing. All fees will be updated based on the pricing applicable at the time of approval by IBRD’s Board of Directors.

⁵² Depending on the tenors of the guarantees requested by the Project Companies. The guarantee fee level is determined by the maturity of the guarantee: 50bps up to 8 years, 60bps from 8 to 10 years, 70bps from 10 to 12 years, 80bps from 12 to 15 years, 90bps from 15 to 18 years and 100bps from 18 to 20 years.



Fee Payment Agent:	A private sector, commercial agent could be designated as a fee payment agent to collect from Beneficiaries and pay all fees to IBRD before the due date for the payment of fees in order to avoid termination of the Guarantee.
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