



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
NORTHWESTERN ROAD DEVELOPMENT CORRIDOR PROJECT
APPROVED ON DECEMBER 14, 2017
TO
THE ARGENTINE REPUBLIC

TRANSPORT

LATIN AMERICA AND CARIBBEAN

Regional Vice President:	Carlos Felipe Jaramillo
Country Director:	Jordan Z. Schwartz
Regional Director:	Franz R. Drees-Gross
Practice Manager/Manager:	Eric R. Lancelot
Task Team Leader(s):	Veronica Ines Raffo, Liljana Sekerinska



ABBREVIATIONS AND ACRONYMS

DNV	National Roads Directorate (<i>Dirección Nacional de Vialidad</i>)
NR	National Route
PDO	Project Development Objective
US\$	United States dollar



BASIC DATA

Product Information

Project ID P163115	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 14-Dec-2017	Current Closing Date 30-Jun-2023

Organizations

Borrower The Argentine Republic	Responsible Agency
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Project Development Objective (PDO)

Original PDO

The Proposed Project Development Objectives (PDO) are to improve connectivity and road safety along targeted road sections of the Northwestern Corridor and to support corridor development in the Northwest of Argentina.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-88100	14-Dec-2017	23-Jul-2018	09-Oct-2018	30-Jun-2023	300.00	89.75	210.25

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. **The Northwestern Road Development Corridor Project (“the Project”) aims to improve connectivity and support corridor development in Northwestern Argentina (the Project Development Objective, “the PDO”) and is considered a priority for Argentina’s territorial development.** This region lags economically, socially and in terms of connectivity, and its poverty rates and gaps in living standards above the national average. The region’s weak connectivity limits opportunities and economic integration for its inhabitants. The Project seeks an integration that allows for inclusive territorial development and reduces persistent spatial inequalities in the Northwest of Argentina. The Northwest of Argentina records the highest logistics costs in the country.

2. **The PDO is achievable, but the Project cannot achieve its objectives by the current closing date due to continuous delays in implementation.** The progress towards achieving the PDO has been downgraded to Moderately Unsatisfactory (MU). Critical activities to achieve PDO 1 (improved connectivity and safety along NW corridor) cannot be completed before the current Project closing date. Implementation progress (IP) is also rated MU given the slow overall progress and continuous delays in the implementation of the action plan agreed with the Bank. Thus far, two out of four of the road construction and rehabilitation contracts have been signed, although only one is currently in execution as the second one was terminated in 2021. In addition, no consultancy contracts under Component 2 (Infrastructure for Development Corridor Management) have been signed. As of June 2022, the Project has disbursed only US\$82.75 million, representing 27.6 percent of the total US\$300 million loan and much below the original projections. Despite the delays, the Project has made progress on increasing climate resilience through the construction and rehabilitation of 180 culverts and bridges that are being constructed or rehabilitated, surpassing the 127 end-target. This will improve the capacity to respond to disasters and reduce disruption of services in the future due to natural disasters.

3. **Component 1: Road Infrastructure (US\$300 million).** Implementation has been very slow over the last three years, as a result of contract management challenges within the National Roads Directorate (*Dirección Nacional de Vialidad* or “DNV”), as well as the macroeconomic problems since 2018 and the COVID lockdown. Soon after this first road contract was awarded in 2018, Argentina suffered a major economic downturn, accompanied by high inflation and interest rates that reached 73 percent. The price adjustments clauses were not able to mitigate the impacts as the price adjustment formula included a fixed component (i.e., 10 percent of the contract value remained constant) and did not include financial costs as an item, which substantially increased following the 2018 economic crisis. Later, a very strict and prolonged COVID lockdown further delayed implementation, and DNV lacked the capacity to manage procurement processes and contract issues effectively, especially during the lockdown. To address the capacity constraints, the Bank has conducted targeted training on civil work contract bidding and management, and additional capacity building will be included as part of the restructuring. The status of all foreseen road infrastructure contracts by groups is as follows:

- a) Group 1, Lot 1 (NR 34, section: border with Salta – junction NR 66, 25.2 kilometers). The contract for this lot was procured in July 2017, but since the start of works in April 2018, the implementation has been slow and suffered delays. Currently, physical progress stands at 64.6 percent, with asphalt paving as the main component of the remaining works. The total contract value for this lot is US\$ 66.1 million. The contract is estimated to be completed by June 2023.
- b) Group 1, Lot 2 (NR 1V66, section: junction NR 66 – junction NR 34 and NR 66, section: junction NR 1V66 – junction NR 34, 22.2 kilometers). The contract for this lot was procured in July 2017, but the contractor stopped works in August 2019 due to challenging financial conditions caused by the macroeconomic downturn and the contract was terminated in September 2021. The design for the remaining works under this lot has been approved by the



Bank and DNV plans to start procurement in August 2022, expecting works to begin by February 2023 and completed by January 2025. The value of the executed works under this lot is US\$5.8 million, while the remaining works have a budget of US\$56.5 million.

- c) Group 2 (NR 34, section: junction NR66 – North Access to San Pedro, 22.6 kilometers). The procurement for this group is underway, with eleven bids received. DNV expects to award the contract in July 2022, with works expected to begin by September 2022 and completed by April 2025. The budget for this group is US\$ 81.3 million.
- d) Group 3 (NR 66, section: junction NR 1V66 – junction NR 9, 23 kilometers). The design for this group has been approved by the Bank and DNV plans to start procurement in July 2022, expecting works to begin by December 2022 and estimated to be completed by December 2024. The budget for this group is US\$57.7 million.

4. **Fluctuations in the inflation and foreign exchange rate have reduced the estimated cost of infrastructure works.**

The total contract/budget value for the above civil works under Component 1 is US\$267.4 million, below the US\$300 million allocated for this component (including Bank and Borrower financing). Due to the overall volatility and possibility that inflation and foreign exchange rate fluctuations will continue, the remaining US\$32.6 million under Component 1 has been kept as contingency funds.

5. **Component 2: Infrastructure for Development Corridor Management (US\$7.25 million).**

Activities under this Component have improved the highway patrol post, weigh and inspection stations, and completed the preparation works for the multimodal freight transport node at General Güemes. The new patrol post and weigh and inspection stations are key to improve corridor management and to ensure resilience of the infrastructure. The multimodal freight transport node at General Güemes in the Province of Salta, whose construction is being carried out by the Ministry of Transport, is one of the proposed nodes that will lower transport costs and foster territorial development. Further progress under this Component is needed to support corridor development (PDO 2).

6. **Component 3: Project Management (US\$3 million).**

Activities under this component include the drafting of environmental management plans, and activities under the Indigenous Peoples Plan to reduce the gender gap. Progress in the number of indigenous women trained in road safety, gender, and gender-based violence will accelerate with the implementation of Indigenous Peoples Plan for Group 2 works (the current value of this indicator is 25, with an end target of 400).

7. **Fiduciary performance.**

Procurement performance has been unsatisfactory due to the challenges and compounding delays faced by DNV in its contract management. The Bank team responded to this situation with civil work contract bidding and management training. Additionally, the new works contracts will include a revised price-adjustment formula which should allow more agile contract changes. The Project has financial management arrangements that have performed satisfactorily. As of June 22, 2022, there are no overdue audits for the Project nor are there audits which are not satisfactory to the World Bank.

8. **Environmental and social safeguards performance.**

Overall safeguards rating is moderately satisfactory, with the Project resulting in 17 physical and 97 economic displacements. The Resettlement Plan for Group 1 is being implemented as planned and, as soon as Group 2 works begin, DNV will start implementing the Resettlement Plan and the Indigenous Peoples Plan for this section. There are currently three Grievance Redress Mechanism cases open for this Project. In response damages suffered by landowners and users because of floods occurred in March 2021, the Project is executing compensation works in affected areas and one of the tenants will be financially compensated for losses incurred. The Project also caused economic losses to a petrol station that, as a result of the interventions under Group 1, lost direct access to NR 34 and now is paying an informal rent to the neighbors for the right of way to access the side road. The Project will prepare an abbreviated resettlement action plan to grant the gas station access to the NR 34's auxiliary road.



B. Rationale for Restructuring

9. **The activities proposed under the restructuring proposal will improve and expand access to the Northwestern Corridor and strengthen capacity of DNV.** The proposed restructuring includes the preparation of executive designs under Component 2 for the rehabilitation of access roads to the Corridor, which will improve regional integration to the corridor. Improved access will further reduce overall transport costs for users and increase inclusion and accessibility of the Corridor for communities in the area of influence. Upgraded access roads will also improve connectivity between farms and production centers to urban clusters and international gateways. This activity will foster economic diversification in the region as sectors such as agri-food, industry and tourism depend on good access to the Northwestern Corridor, but also to remote locations.

10. **The restructuring will further strengthen the capacity of DNV to supervise civil works and manage contracts.** DNV procurement challenges and contract management issues have been one of the main obstacles for the implementation of the civil works under Component 1, so for the remaining sections (Lot 2 of Group 1, Group 2 and Group 3) the Project will hire additional technical capacity in the form of external inspection of road works under Component 3, for which DNV and the Bank team are already preparing the Terms of Reference. And, under Component 3, the Project will include consultancy services to support DNV in administrative, operational and project management activities.

11. **The Results Framework will be adjusted to capture all expected results.** The Theory of Change will be modified to reflect the changes in activities and their impact to the achievement of the PDO in supporting the development of the Northwest Corridor and long-term outcomes. Besides, the Theory of Change will indicate the dropped activities under Components 2 and 3 and better reflect the links between activities, outputs, and outcomes.

12. **The restructuring will not include an extension of the Project's closing date.** Even though the activities needed to achieve the PDO cannot be completed within the current Project closing date (June 30, 2023), an extension will only be considered once agreed milestones are reached: (i) reached agreement with the contractor for Lot 1 of Group 1 to complete the works (full execution of asphaltting); (ii) completed procurement process for the civil works of the remaining sections (Lot 2 of Group 1, Group 2 and Group 3); (iii) completed procurement process to hire consultancy services for works supervision for the remaining sections (included in this restructuring under Component 3); (iv) advanced procurement processes for the activities under Component 2. This restructuring will support DNV in achieving these milestones, which may allow for a closing date extension in the future.

13. **The current overall risk rating remains Substantial.** This continues to be the case due to the quite volatile macroeconomic situation in Argentina and inflationary pressures that could affect current and new contracts. The risks are being mitigated by improving the cost-adjustment formula in the new works contracts and leaving funds under Component 1 as contingency funds for potential costs escalation. In addition, the fiduciary risk remains Substantial, especially related to the capacity of DNV with contract bidding and management. The task team has started providing more systematic training and the Project will finance consultancy services to support DNV with contract supervision. Finally, the environment and social risks remain substantial and close and in-person supervision, including by the consultancy team, should reduce risks and close follow up on mitigation and compensation measures.



II. DESCRIPTION OF PROPOSED CHANGES

A. Results framework

14. **The results framework will be revised to reflect the expected outcomes and outputs of the restructured Project more accurately.** PDO indicators will not be modified with this restructuring. Intermediate indicators for Components 2 and 3 will be modified to reflect the changes in activities under the proposed restructuring. The indicator “Regional development and logistics initiatives prioritized and formulated” will be substituted by specific indicators for each multimodal logistics initiative: “Demand study for the Dry Port of General Güemes, Salta” and “Prepared detailed climate- and road safety-informed designs for future road improvements in the Northwestern Corridor access roads”. To measure the outputs of the new inspection/supervision consultancies under Component 3, the new intermediate indicator “Civil works inspection/supervision of civil works carried” will be introduced.

B. Components and Costs

15. **The proposed restructuring will reallocate loan proceeds among components and disbursement categories.** Funds under Component 1 exceeding committed, and allocated amounts will be kept as contingency funds to mitigate risks of inflation and foreign exchange rate fluctuations. Component 2 will include the preparation of engineering designs for interventions along the Northwestern Corridor and its access roads, with an estimated cost of US\$8 million. Component 3 will include civil works supervision for the remaining civil works (US\$700,000) and consultancy services for operational and project management within DNV (external consultancies for US\$500,000 and administrative and operational support for US\$100,000).

16. US\$750,000 million will be reallocated from Component 1 to Component 2 to finance the activities included under Component 2. The detail on Bank-financed proposed component costs is shown in Table 1. Table 2 shows changes in Borrower-financed component costs: US\$ 1.6 million will be reallocated from Component 3 to Component 1 as the original US\$ 8 million of Borrower financing for Component 1 was not sufficient.

Table 1. Change in Component Costs (Bank financed)

Component	Original cost (US\$)	Proposed cost (US\$)	Percent change	Expenditures to date (US\$) ¹	Available Budget (US\$)
Component 1: Road Infrastructure	292,000,000	291,250,000	- 0.26 %	45,146,861	246,103,139
Component 2: Infrastructure for Development Corridor Management	7,250,000	8,000,000	10.34 %	0	8,000,000
Component 3: Project Management	0	0	0%	0	0
Front-end fee	750,000	750,000	0%	750,000	0
TOTAL	300,000,000	300,000,000	0%	45,896,861	254,103,139

Table 2. Change in Component Costs (Borrower financed)

¹ Data from PIU, as of May 11, 2022.



Component	Original cost (US\$)	Proposed cost (US\$)	Percent change	Expenditures to date (US\$) ²	Available Budget (US\$)
Component 1: Road Infrastructure	8,000,000	9,406,143	17.58 %	9,406,143	0
Component 2: Infrastructure for Development Corridor Management	0	0	0%	0	0
Component 3: Project Management	3,000,000	1,593,857	- 48.67 %	0	1,593,857
Front-end fee	0	0	0%	0	0
TOTAL	11,000,000	11,000,000	0%	9,406,143	1,593,857

C. Reallocation between Disbursement Categories

Table 3. Changes in the Amounts of the Loan Allocated by Disbursement Category

Category	Original Amount (in US\$)	Proposed New Amount (in US\$)	Percentage of Expenditures to be financed (incl. Taxes)
(1) Works under Parts 1 and 2 (b), (c) and (d) of the Project	297,050,000	291,250,000	100%
(2) Goods, non-consulting services, consulting services, Operating Costs and Training under Part 2 of the Project	2,200,000	8,000,000	100%
(3) Front-end Fee ¹	750,000	750,000	1
(4) Interest Rate Cap or Interest Rate Collar premium ²	0	0	2
TOTAL AMOUNT	300,000,000	300,000,000	-

¹ Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General

² Conditions Amount due pursuant to Section 4.05 (c) of the General Conditions

D. Disbursement Estimates

17. The Disbursement Schedule has been updated in accordance with the PIU's most recent implementation plan.

Table 3. Disbursement estimates by Quarter (USD)

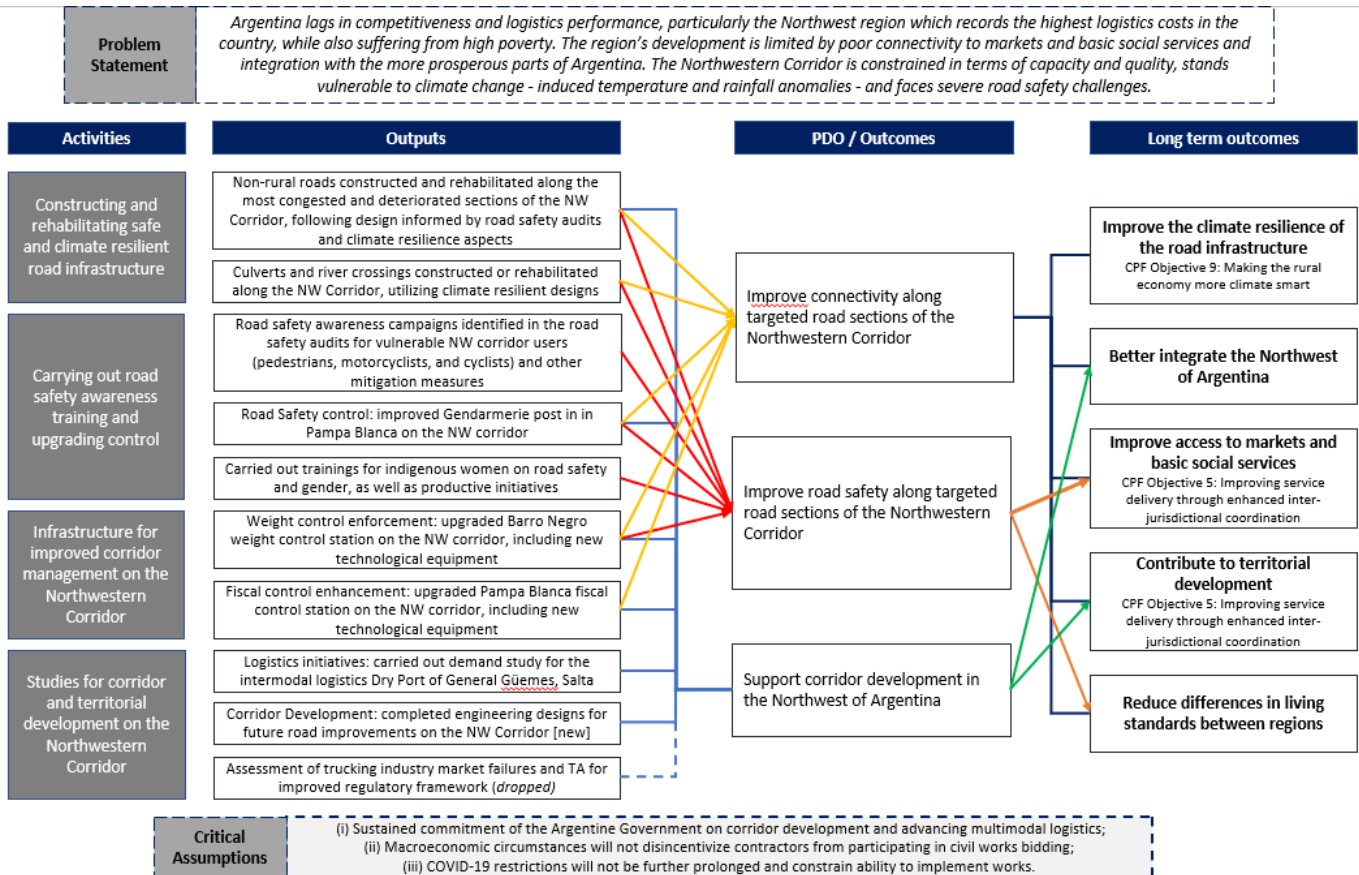
² Data from PIU, as of May 11, 2022.



Fiscal Year	Q1	Q2	Q3	Q4	Total
FY22	0	0	0	7,000,000	7,000,000
FY23	0	5,000,000	13,500,000	0	18,500,000

E. Theory of Change

18. The new Theory of Change for the Project is presented below.





III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Overall Risk Rating	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)



COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Road Infrastructure	300.00	Revised	Road Infrastructure	300.66
Infrastructure for Development Corridor Management	7.25	Revised	Infrastructure for Development Corridor Management	8.00
Project management	3.00	Revised	Project management	1.59
TOTAL	310.25			310.25

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
IBRD-88100-001 Currency: USD					
iLap Category Sequence No: 1		Current Expenditure Category: CW Parts 1 and 2b,c,d			
	297,050,000.00	44,968,845.11	291,250,000.00	100.00	100.00
iLap Category Sequence No: 2		Current Expenditure Category: GO.NCS,CS,OP,TRN Part 2			
	2,200,000.00	558.00	8,000,000.00	100.00	100.00
iLap Category Sequence No: 4		Current Expenditure Category: Interest Rate Cap or Collar Premium			
	0.00	0.00	0.00		
iLap Category Sequence No: FEF		Current Expenditure Category: FRONT END FEE			
	750,000.00	750,000.00	750,000.00		
Total	300,000,000.00	45,719,403.11	300,000,000.00		



DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2018	0.00	0.00
2019	27,000,000.00	0.00
2020	10,000,000.00	0.00
2021	101,600,000.00	0.00
2022	91,200,000.00	7,000,000.00
2023	70,200,000.00	18,500,000.00

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating at Approval	Current Rating
Political and Governance	● Moderate	● Moderate
Macroeconomic	● Moderate	● Substantial
Sector Strategies and Policies	● Moderate	● Moderate
Technical Design of Project or Program	● Moderate	● Moderate
Institutional Capacity for Implementation and Sustainability	● Moderate	● Moderate
Fiduciary	● Moderate	● Substantial
Environment and Social	● Substantial	● Substantial
Stakeholders	● Moderate	● Moderate
Other		● Moderate
Overall	● Moderate	● Substantial



Results framework

COUNTRY: Argentina

Northwestern Road Development Corridor Project

Project Development Objectives(s)

The Proposed Project Development Objectives (PDO) are to improve connectivity and road safety along targeted road sections of the Northwestern Corridor and to support corridor development in the Northwest of Argentina.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Improve connectivity and road safety, and support corridor development in the Northwest of Argentina								
Travel time savings (percentage) (Percentage)		0.00	0.00	0.00	10.00	20.00	20.00	20.00
Travel time savings (cars) (Percentage)		0.00	0.00	0.00	12.00	25.00	25.00	25.00
Travel time savings (trucks) (Percentage)		0.00	0.00	0.00	8.00	17.00	17.00	17.00
Flow of passenger vehicles (vehicles per day) (Number)		8,745.00	8,919.00	9,180.00	9,449.00	9,726.00	10,011.00	10,011.00
Flow of passenger vehicles (cars) (Number)		8,268.00	8,434.00	8,687.00	8,947.00	9,216.00	9,492.00	9,492.00
Flow of passenger vehicles (buses) (Number)		477.00	485.00	493.00	502.00	510.00	519.00	519.00
Freight volume transported along targeted road sections of the Northwestern Development		6.63	6.74	6.86	6.97	7.74	7.87	7.87



Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Corridor (millions of tons per year) (Number)								
Number of traffic-related deaths per hundred million vehicle-kilometers travelled (vkt) along targeted road sections of the Northwestern Development Corridor (Number)		7.10	7.10	7.10	7.10	5.00	5.00	5.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Road Infrastructure								
Roads constructed (CRI, Kilometers)		0.00	0.00	11.00	47.00	70.00	70.00	70.00
Roads rehabilitated (CRI, Kilometers)		0.00	0.00	10.00	23.10	23.10	23.10	23.10
Number of culverts and river crossings rehabilitated/constructed with climate resilience design (Number)		0.00	20.00	80.00	127.00	127.00	127.00	127.00
Infrastructure for Development Corridor Management								



The World Bank

Northwestern Road Development Corridor Project (P163115)
