

CONSOLIDATION OF THE TRANSPORTATION CONCESSION PROGRAM  
OF THE STATE OF SÃO PAULO

(TC-96-07-07-1-BR)

EXECUTIVE SUMMARY

**BENEFICIARY:** São Paulo State

**EXECUTING AGENCY:** São Paulo State Transportation Business Department [Secretaria de Estado dos Negócios dos Transportes] (SET), through its Transportation Concession Commission [Comissão de Concessões de Transportes] (CCT).

**OBJECTIVES:** The objective of the program is to consolidate the institutional and regulatory framework for concessions in the transportation sector and strengthen the unit responsible for implementing and monitoring the program. The project's broader objective is to encourage private-sector participation in building and operating the transportation infrastructure in the state of São Paulo. It is also hoped that the implementation of the project will spur the development of similar mechanisms in other Brazilian states.

**DESCRIPTION:** The SET will utilize MIF funds for the following components: (i) consolidation of the institutional and regulatory framework for the concession program and strengthening of the Transportation Concession Commission, which is the body responsible for managing concessions in the highway sector; (ii) preparation of targeted studies relating to the concession program; (iii) support for the implementation of the SET concession program; and (iv) exchange of experiences with other agencies which also are implementing concession programs.

**FINANCING:**

Modality:	Grant
Beneficiary:	US\$1,140,000
MIF:	<u>US\$1,140,000</u>
Total:	US\$2,280,000

**ENVIRONMENTAL CLASSIFICATION:** The Environment Committee, at its meeting of November 12, 1996, classified this as a Category III operation and approved the environmental brief without comment, since the project memorandum and the terms of reference for the environmental components of the proposed technical-cooperation project were to be submitted to the TRG for processing by the short procedure. This took place at the TRG meeting of February 11, 1997, at which it was suggested that the

terms of reference include an item on involuntary resettlement, which has been incorporated.

**BENEFITS:**

Users of state roads will benefit from a better maintained road network than is possible without the concession program, given the financial crisis confronting the state and the increasing difficulty it has maintaining its principal roadways. The state will benefit because its maintenance and operation costs for the transportation infrastructure will decrease, and it will also be able to generate revenue from the fees it will receive.

Accordingly, the outsourcing of services in São Paulo is a priority for the following reasons: (i) the transportation infrastructure is an extensive, important system; (ii) the volume of traffic and shipping is high enough to attract private-sector operation of the facilities, which will be financed by user charges; (iii) the state needs to decrease its expenditures on works and services for the transportation infrastructure; (iv) the prominent position of the transportation network in São Paulo may spur the institution of similar mechanisms in other states in Brazil and draw the attention of experts from other Latin American countries; and (v) the network's expansion is of key importance to private investors and for the PRI window, given the fact that their efforts to support outsourcing for the São Paulo road system have been frustrated thus far by institutional and legal problems that have become clear.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

The US\$20,000 in expenses incurred by the SET in hiring consultants to help draft the terms of reference for the consulting services and studies required for the proposed operation will be recognized as part of the local counterpart contribution. (See paragraph 3.5)

**THE BANK AND  
THE MIF'S  
COUNTRY STRATEGY:**

a. The Bank's strategy and program of operations for Brazil for the 1995-1997 period, which are described in the February 1996 country paper, focus on reducing poverty and promoting the modernization of the economy. The proposed program supports the two objectives directly and by virtue of its impact in the following areas:

- (i) **Modernization of the State:** Priority has been accorded to improving planning and management capacity and reorganizing public sector activities, and to fiscal

reform. The proposed operation will contribute to that objective by establishing the prerequisites for greater participation by the private sector in building and operating the state's transportation infrastructure.

(ii) **Productive infrastructure:** Support is being provided to the opening up of the economy, regional integration and reduction of the "Brazil cost" by according priority to investments in the transportation and energy sectors. The proposed operation will contribute to that objective by developing a more efficient system for financing and managing the transportation infrastructure, thereby fostering proper service and high-quality maintenance.

(iii) **Social sectors, basic sanitation, and the environment:** The environmental and traffic safety components of each concession project will have a direct impact on those areas. They include the identification of environmental protection measures, the restoration of areas disfigured by earlier works projects (environmental liabilities) and the improvement of accident and fatality statistics. The firms awarded expressway concessions will be required to cooperate with respect to traffic control and to provide emergency mechanical and medical services to users. Indirectly, to the extent that a greater measure of financial responsibility for operation and maintenance can be shifted to the private sector, increased state resources will be available for social needs. The proposed operation will help achieve that objective by funding environmental studies and consulting services to define the responsibilities of the State and concessionaires with respect to the environment and traffic safety.

b. MIF funding in support of this operation is entirely consistent with the MIF's general goal of promoting private investment and increasing private-sector participation in the economy in order to accelerate economic and social development. The proposal also is in compliance with

the project eligibility requirements for technical-cooperation funding under Article III, Section 2(d), of the Agreement Establishing the MIF, which stipulates that technical-cooperation funds may be provided to finance advisory services for the design and implementation of privatization programs.

- c. The proposal also is in compliance with the MIF priority guidelines for the Technical-Cooperation Facility, which accord priority in the allocation of MIF funds to projects supporting the expansion of private investment for infrastructure purposes. Similar projects already have been approved for Chile and Ecuador.

**RISKS:**

The executive branch of the State of São Paulo is firmly committed to continuing the concession program. Nevertheless, there are certain limitations implicit in the process that are not fully understood at this stage. These include, on the institutional side, the possibility of unfounded protests and the loss of political support and, on the economic side, the possibility that the private sector might not be able to afford roads that do not yield a sufficiently high return to enable them to recover the opportunity costs of the concession, as well as the difficulties involved in extending toll collection beyond certain stretches of roads within an urban road network. The proposed operation will assist the executing agency to more clearly identify the benefits and limitations inherent in the roadway infrastructure concession system as well as alternative ways to involve the private sector, such as through operation and maintenance contracts.

## I. COUNTRY ELIGIBILITY

- 1.1 Brazil was declared eligible by the Donors Committee of the MIF for all forms of financing on February 9, 1995.

## II. BACKGROUND

- 2.1 The state of São Paulo has a population of 34 million and produces nearly 40% of Brazil's gross domestic product (GDP). It has a vast multimodal transportation network comprising 29,000 km of paved roads (of which 20,500 km are under state jurisdiction), 5,500 km of railroads, 1,000 km of waterways, 1,754 km of oil pipelines, and two international airports. This infrastructure is a major component of Brazil's transportation network, accounts for the majority of the country's highways, and transports high volumes of vehicles and freight.
- 2.2 The State of São Paulo is heavily indebted, owing, in part, to the substantial commitments it has undertaken over the past two decades whereby services have been provided by state enterprises, including those in the transportation sector. A number of the enterprises have proved to be inefficient and become dependent on funding from the state treasury.
- 2.3 Accordingly, the outsourcing of services in São Paulo is a priority for the following reasons: (i) the transportation infrastructure is an extensive, important system; (ii) the volume of traffic and shipping is high enough to attract private-sector operation of the facilities, which will be financed by user charges; (iii) the state needs to decrease its expenditures on works and services for the transportation infrastructure; (iv) the prominent position of the transportation network in São Paulo may spur the institution of similar mechanisms in other states in Brazil and draw the attention of experts from other Latin American countries; and (v) the network's expansion is of key importance to private investors and for the PRI window, given the fact that their efforts to support outsourcing for the São Paulo road system have been frustrated thus far by institutional and legal problems that have become clear.
- 2.4 Concessions and licenses for public services and works are governed by Article 175 of the Federal Constitution and by Federal Law 8987 of February 13, 1995. By Decree 40000 of May 15, 1995, the Government of the State of São Paulo established its program to encourage private-sector participation in the provision of public services and the execution of infrastructure works (PED). The purpose of the program is to promote and undertake activities in the energy, housing, telecommunications and transportation sectors. The program is coordinated by an executive committee headed by the vice-governor of the state. Law 9361 of July 5, 1996 established

the PED Executive Council and Decree 41150 of September 13, 1996, paved the way for the creation of technical working groups within state government administrations which participate in the PED.

- 2.5 The São Paulo State Transportation Department [Secretaria de Estado dos Transportes] (SET), the entity responsible for formulating and implementing public policy on state transportation issues, participates in PED through the Transportation Concession Commission [Comissão de Concessões de Transportes] (CCT) established by Resolution 003 of January 30, 1997, as decided at the PED Technical Council meeting of January 28, 1997 and pursuant to Resolution ST-06 of March 11, 1997, whereby the members of the Commission were appointed. The CCT will be responsible for implementing the SET Transportation Concession Program (PCC) and administering the proposed MIF technical cooperation. The PCC calls for transferring responsibility for road operation and maintenance to the private sector. The SET also is examining the possibility of awarding concessions for facilities of the Port of São Sebastião, the Ferrovia Paulista S.A. [São Paulo Railways] (FEPASA), and freight operations at São Paulo state airports.
- 2.6 The roadway program is the key component of the PED. Responsibility is being transferred to private companies for the operation of 4,800 km of the 20,500 km of roads under state jurisdiction, including all 2,900 km of expressways under its jurisdiction (all other expressways are under the jurisdiction of the federal government and either are already covered by concessions, as in the case of the Via Dutra, or will be so covered, as in the case of the Via Regis Bittencourt).
- 2.7 Concessionaires will be required to maintain the roads (using the tolls collected) and, in some instances, to increase road capacity by adding lanes to highways or transforming segments of highways into expressways by building a road parallel to an existing one. The 4,800 km will be divided into 22 concession packages, ranging from 105 km to 370 km each. Some packages will comprise a combination of very profitable two-lane roads along with single-lane roads which would not on their own be financially attractive to prospective concessionaires. The roads covered by the concession program form the primary road network serving all the state's major regions, excluding only its network of feeder and tertiary roads.
- 2.8 The SET launched the Transportation Concession Program in 1995 by inviting the private sector to submit competitive bids for the operation and maintenance of the Anhanguera and Bandeirantes expressways (the São Paulo-Limeira section). The future concessionaire will finance its activities by charging tolls and will be required to build a second lane along a short section to link up with the city of Limeira. Although the private sector expressed considerable interest (the Bank's Private Sector Department took initial steps to support the project with proposed operation

BR-0259), the contract was not implemented because of challenges to the bidding procedures.

- 2.9 The SET is confronted with the problem that there is no tradition, in either Brazil or São Paulo, of private-sector involvement in the operation and maintenance of the transportation sector. This has given rise to uncertainties concerning legal issues and a lack of experts in that area, as well as a lack of standards, procedures and studies. The SET also has been affected by budget cuts and staff reductions resulting from the state's efforts to resolve its financial crisis. The SET has had difficulty conducting studies and hiring consultants with expertise in concessions. Given this situation, until the end of 1996 PCC's initial operations were being managed by an ad hoc group of SET advisers.
- 2.10 The difficulties involved in having an ad hoc group implement the transportation concession program without the support of studies and consulting services prompted the SET to request technical-cooperation funding from the MIF and formally establish the Transportation Concession Commission (see paragraph 2.5) with the mandate to carry out the concession program and administer MIF-funded activities. The commission also will serve as the nucleus of the future body responsible for concessions. This will make it possible to define the legal and institutional mechanisms which will enable the State of São Paulo successfully to confront problems that may arise with respect to the following:
  - a. **Long-term continuity of the program.** The establishment of the Transportation Concession Commission will make it possible to continue program execution within SET and to transfer the lessons learned in that process to future managers.
  - b. **Regulation and monitoring of concession contracts.** The public sector's involvement in the transportation sector privatization program will not end when the contract is signed; it also requires the establishment of rules and regulations for bidding documents, contracts, technical, operational and environmental parameters and requirements, and transparent mechanisms for rate increases. Furthermore, compliance with contract terms and with rules and regulations requires that the public sector engage in ongoing monitoring and dialogue with the concessionaires, which are activities that an ad hoc group cannot perform.
- 2.11 For these reasons, the SET decided to promote the consolidation of the concession program by establishing and strengthening the Transportation Concession Commission (see paragraphs 2.5 and 2.10). Among other tasks, the commission will be responsible for devising procedures to increase the participation of the private sector in building, operating and maintaining transportation infrastructure.

It will specify what steps should be taken under existing legislation and, where deemed necessary, propose institutional changes for adoption by the state's executive branch and, if applicable, the state or national legislative assemblies.

- 2.12 The Transportation Concession Commission will consist of four representatives of the SET, a representative of the São Paulo State Aviation Department, one from DERSA, the government-owned Highway Development Authority, one from FEPASA, and two from the board of the São Paulo State Divestiture Program. Although emphasis is being placed on a subset of State roads for which concessions are considered possible, the Commission and the SET authorities may agree to modify the roads to be considered and how they would be outsourced. Furthermore, most of the state roads will continue to be administered by the DER, since they do not have enough traffic to warrant consideration of a toll system.
- 2.13 The proposed MIF technical-cooperation funding will support the Transportation Concession Commission activities for one year and will enable it to develop and implement the necessary framework for expanding private-sector participation in the transportation infrastructure.

A. Compatibility with the strategy of the Bank and the MIF

- 2.14 The Bank's strategy and program of operations for Brazil for the 1995-1997 period, which are described in the February 1996 country paper, focus on reducing poverty and promoting the modernization of the economy. The proposed program supports the two objectives directly and by virtue of its relationship to the following areas:

1. Modernization of the State

- 2.15 Priority has been accorded to improving planning and management capacity and reorganizing public sector activities, and to fiscal reform. The proposed operation will contribute to that objective by establishing the prerequisites for greater participation by the private sector in building and operating the state's transportation infrastructure. In addition, the state's expenditure in these areas will be reduced, thereby helping it to achieve an acceptable financial position and freeing public funds for the government to use in other areas, such as education and health.

2. Productive infrastructure

- 2.16 Support is being provided to the opening up of the economy, regional integration and reduction of the "Brazil cost" by according priority to investments in the transportation and energy sectors. The proposed operation will contribute to that objective by developing a more efficient system for financing and managing the transportation infrastructure, thereby fostering proper service and high-quality maintenance.



### 3. Social sectors, basic sanitation, and the environment

- 2.17 The environmental and traffic safety components of each concession project will have a direct impact on those areas. They include the identification of environmental protection measures, the restoration of areas disfigured by earlier works projects (environmental liabilities) and the improvement of accident and fatality statistics. The firms awarded expressway concessions will be required to cooperate with respect to traffic control and to provide emergency mechanical and medical services to users. Indirectly, to the extent that a greater measure of financial responsibility for operation and maintenance can be shifted to the private sector, increased state resources will be available for social needs. The proposed operation will help achieve that objective by funding environmental studies and consulting services to define the responsibilities of the State and concessionaires with respect to the environment and traffic safety.
- 2.18 The social impact referred to in the preceding paragraph is indirect and difficult to quantify. Consequently, according to the Eighth Replenishment document (AB-1704), the proposed technical-cooperation project does not qualify as poverty-targeted, with regard to either geography or the beneficiaries. Neither does it specifically target women.

### III. DESCRIPTION OF THE PROGRAM

#### A. The proposed project

- 3.1 The State of São Paulo has requested the support of the MIF, through its Technical-Cooperation Facility, to implement a one-year program to consolidate the institutional and regulatory framework for concessions in the transportation sector and strengthen the unit responsible for implementing and monitoring the program. The attainment of these two objectives is a prerequisite for achieving the general goal of increasing private-sector participation in building and operating transportation infrastructure in the state of São Paulo. Because the process of preparing and awarding concession contracts through competitive bidding normally takes more than a year, the proposed operation does not include the launching of any specific concessions during its 12-month execution period.
- 3.2 Specifically, the proposed project will enable the SET to (i) refine the procedures for bidding currently under way and to be undertaken in the future; (ii) prepare the plans and institutional framework for the regulation and subsequent monitoring of concessions, including an institutional structure that will foster the stability and financial self-sustainability of activities for the

management and regulation of transportation concessions and administration contracts; and (iii) train the CCT staff responsible for the process, which will include the exchange of experiences with representatives from other Brazilian states and Latin American countries.

B. Components

- 3.3 The SET will utilize MIF funds for the following components (Annex I): (i) consolidation of the institutional and regulatory framework for the concession program and strengthening of the CCT, which is the body responsible for managing concessions in the highway sector; (ii) targeted studies on the concession program; (iii) support for the implementation of the SET concession program; and (iv) workshop for the exchange of experiences with other agencies which also are implementing concession programs.

1. Consolidation of the institutional framework for the concession program and strengthening of the CCT (US\$1,120,000)

- 3.4 This component will include the following activities (the costs by component are presented in Annex II):

a. Individual consultant to prepare terms of reference and provide general support (US\$20,000)

- 3.5 Using counterpart funds, the SET hired a consultant to help finalize the terms of reference for the studies and consulting services. The IDB consultant, who is a member of the project team, is supporting that effort. The US\$20,000 paid for these services will be recognized as part of the local counterpart contribution. The terms of reference for all the activities listed in Annex II and described below were agreed upon with the Bank and have been completed.

b. Individual computer consultants for computer systems (US\$110,000) and supervision (US\$170,000)

- 3.6 Two consultants will be hired to provide the CCT with computer and supervisory support. The consultants will help the CCT to design and establish the computer system for the supervision and monitoring of concessions. Once the body responsible for supervision and monitoring has been established, the system will be turned over to it. These activities include on-site inspection and financial oversight of each operation, as well as monitoring the quality of the services provided, maintenance and rehabilitation activities, traffic safety conditions, environmental management, data on vehicle traffic and accounting matters.

c. Design of the institutional and regulatory framework  
(US\$650,000)

- 3.7 A consulting firm with staff with international experience will be hired to assist the CCT with the design of the institutional and regulatory framework and systems and parameters for supervision and follow-up. The firm will conduct studies on four subjects: (i) regulatory systems; (ii) requirements for establishing the body responsible for concessions and the regulatory body; (iii) criteria and mechanisms for setting rates; and (iv) the legal framework for the concessions, including measures needed to adapt the future regulatory system and regulatory body to existing legislation and/or the desirability of recommending changes in such legislation.
- 3.8 The firm will consider national and international experiences when reviewing the current institutional framework for the establishment of concessions in the state of São Paulo. It will then recommend any measures needed to ensure continuity in the process of granting concessions and awarding contracts for the management of the transportation infrastructure. These will include: (i) suggestions for changes which can be made by the state's executive branch with respect to regulatory and monitoring activities; and (ii) a proposal to establish, within the formal structure of the São Paulo State Transportation department, a body responsible for implementing, supervising and coordinating the concession program over the long term. The firm will examine the advantages and disadvantages of the various options for structuring an independent regulatory entity and ensuring the stability and financial self-sustainability of state functions for the regulation and granting of concessions. The consultants also will help the CCT to design systems for the supervision, regulation and monitoring of the concession projects, including the establishment of technical parameters and supervision procedures.
- 3.9 Consultants specializing in legal matters will review the existing legal framework for concessions and will study the problems that arose with the initial concessions; they will make recommendations and prepare initial drafts of any legal and regulatory documents that are needed and, if appropriate, will recommend new decrees or laws to support the concession program. The consultants also will prepare a study on the criteria and procedures for setting rates and will examine, among other things, the criteria for selecting firms to which concessions should be awarded, the rates to be charged and the mechanisms for future adjustments thereto, cost recovery, the existence of cross-subsidies, the obligations of concessionaires and the state government information services for users and emergency mechanical and medical services, user satisfaction, and the financial impact on concessionaires and São Paulo State.

d. Training consultants (US\$170,000)

- 3.10 Consultants will be hired to give short courses on transportation concessions, and internships will be financed in countries in the region to train CCT officials, inform agents interested in the concession process of the opportunities and mechanisms available, and promote the training of the parties involved.

2. Specific studies (US\$350,000)

- 3.11 Consultants will be hired to conduct three targeted studies on: (i) alternative toll collection systems; (ii) environmental standards for concessions; and (iii) economic scenarios and transportation demand projections. The studies are expected to result in the following:

a. Simulation of alternative toll collection systems  
(US\$100,000)

- 3.12 Field tests will be conducted to assess various electronic toll collection technologies and evaluate their impact on users. The best manual, mechanical, and electronic toll collection methods will be discussed, highlighting the necessary hardware, software, and regulatory and institutional arrangements.

b. Environmental standards for concessions (US\$120,000)

- 3.13 This study will examine laws and regulations on the environment and cases of involuntary resettlement and will propose regulations, procedures, parameters, and regulatory frameworks for environmental protection under concession projects, including the respective responsibilities of the State and of concessionaires for environmental liabilities at the time the concession begins, for its duration, and at its conclusion.

c. Development of models for economic scenarios and transportation demand projections (US\$130,000)

- 3.14 Simulation models will be developed to enable the body managing the concession program to calculate demand and identify projects most suitable for private-sector concessions. The main negotiation and regulatory variables for each project will be identified. The study also will determine what information should be disclosed to bidders and to the public.

3. Support for the implementation of the concession program  
(US\$740,000)

- 3.15 While the procedures are being developed, specialists with expertise in legal, project financing and environmental matters will be hired to help the CCT elaborate the concession program for 1997 and 1998, initiate the respective formalities, handle pending matters

relating to the bidding for the Anhanguera and Bandeirantes concessions (linking the state capital with the major cities in its interior) and examine the possibility of incorporating other types of projects into the concession program. These include the Imigrantes and Anchieta expressways project (linking the capital with the port city of Santos and providing access to the state's major tourist areas) and the Castelo Branco and Raposo Tavares project, covering the capital and the densely populated region of Sorocaba.

4. Workshop for the exchange of experiences (US\$70,000)

- 3.16 A workshop will be organized to enable the agencies establishing similar programs in Brazil and those of other countries in the region that are receiving MIF support for transportation concessions to share their experiences. The National Highway Department [Departamento Nacional de Estradas de Rodagem] (DNER) has successfully launched a concession program for federal highways involving the restoration and maintenance of the Rio-Niterói bridge and of a number of expressways under a private-sector concession program, the costs of which are covered by tolls. The highway authorities of other Brazilian states also are considering the possibility of establishing various types of concessions. Other countries in the region, including Argentina, Chile and Mexico, also have experiences to share, and the MIF is supporting transportation concession programs in Bolivia, Chile, Ecuador, Uruguay and Venezuela, which should be particularly interesting to study and compare.
- 3.17 The workshop will provide a forum for an exchange of lessons learned from examples that have been reviewed, and will enable participants to assess the institutional and geographic factors affecting the design of each model and their respective advantages and disadvantages. Besides benefiting the São Paulo concession program, the exchange will provide valuable information for other states in Brazil (some of which are considering their own concession programs) and the participating countries.

C. Budget

- 3.18 The total cost of the project is US\$2.28 million. The state government will contribute 50% of the funds, which will be used to finance studies, promote investments, hire the required local personnel and provide office space. A summary of the proposed operation's budget follows:

Project budget (in thousands of US\$)			
Activities	MIF	São Paulo	TOTAL
<b>Consolidation of the institutional framework for the concession program</b>	<b>550</b>	<b>570</b>	<b>1,120</b>
Local consultant to prepare terms of reference for consulting services and studies		20	20
Consultants for computer systems, supervision and monitoring	100	180	280
Firm employing consultants with international experience to design the institutional framework and supervision and monitoring systems, on the basis of studies on regulatory systems, criteria for the unit responsible for concessions and the regulatory body, methods for setting rates, and the legal framework for concessions.	350	300	650
Training consultants; internships	100	70	170
<b>Specific studies:</b>	<b>180</b>	<b>170</b>	<b>350</b>
• Alternative toll collection systems	50	50	100
• Environmental standards for concessions	80	40	120
• Economic scenarios and transportation demand projections	50	80	130
<b>Support for the implementation of the concession program</b>	<b>360</b>	<b>380</b>	<b>740</b>
• Legal expert	240	100	340
• Project financing expert	60	140	200
• Environment expert	60	140	200
<b>Workshop for the exchange of experiences with other Brazilian states and other Latin American countries</b>	<b>50</b>	<b>20</b>	<b>70</b>
<b>TOTAL</b>	<b>1,140</b>	<b>1,140</b>	<b>2,280</b>

D. Executing agency

- 3.19 The executing agency for the project will be the São Paulo State Transportation Department [Secretaria de Estado dos Transportes] (SET), through the Transportation Concession Commission [Comissão de Concessões de Transportes] (CCT). The CCT is responsible for planning, supervising and coordinating the activities of the various bodies involved in the formulation, establishment and implementation of private sector transportation concessions. The CCT also will be responsible for all matters relating to project planning, organization and monitoring. These include: (i) calls for bids; (ii) review and modification of terms of reference; (iii) monitoring of progress; (iv) authorization of payments; (v) preparation of all documentation which the executing agency is required to submit to the Bank under the agreement for this project; (vi) coordination of consultants, government officials and other entities directly or indirectly involved in the project; and

(vii) liaison between the executing agency and the Bank for the duration of the project.

E. Disbursements, procurement of goods, and awarding of contracts for consulting services

- 3.20 The executing agency has already demonstrated that it has: (a) established the CCT (which it had done previously); and (b) submitted an initial project execution timetable, broken down by components, including a six-month schedule of activities as well as the final terms of reference for all the consultants to be hired, the studies to be carried out with project funds, and the personnel to be hired with local counterpart funds. MIF funds will be disbursed in accordance with the Bank's procedures.
- 3.21 The project execution timetable will be for 12 months and the disbursement period will be 18 months, both beginning on the effective date of the agreement. The procurement of goods and the awarding of consulting services, as outlined in Annex II, will be carried out in accordance with the Bank's procedures. Bank funds are to be utilized solely to finance the items indicated in the operation's cost table. International competitive bidding procedures will be followed for amounts equal to or greater than US\$200,000; for amounts below this threshold, the procedures prescribed by Brazilian law, which are acceptable to the Bank, will be followed.

F. Supervision

- 3.22 Supervision by the Bank will be assured through periodic meetings between the Bank's Country Office in Brazil and the executing agency, and through semiannual reports, which the CCT must prepare and submit to the Bank within 30 days following the end of each six-month period. The reports must include the following information: (i) a summary of the activities carried out during the six months just elapsed; (ii) the extent to which project objectives have been met; (iii) the difficulties encountered in the course of project implementation and the steps taken to resolve them; (iv) recommendations for the reallocation of resources among the various budget categories, with no change in terms or increase in resources, and possible reprogramming of activities owing to problems encountered; and (v) a plan of action for the next six-month period. In addition, the consultants' reports and the preliminary and final versions of the specific studies must be submitted to the Bank for review upon their completion.
- 3.23 Within six months after program completion, the executing agency will submit a final report containing the following: a summary of the activities carried out; a breakdown of expenditures covered by MIF funds and counterpart funds; the results achieved; the decisions adopted as a result of the program; and the results expected from those decisions. In addition, the technical-cooperation

agreement will stipulate that the executing agency must submit a financial statement for the program, audited by independent auditors acceptable to the Bank according to generally accepted auditing standards.

G. Feasibility and risks

- 3.24 The purpose of the operation is to support the infrastructure concession program of the Government of the State of São Paulo by strengthening the CCT under the SET, supplementing the work already carried out by the SET and allowing it to examine problem areas that have already been identified. Furthermore, IDB collaboration will fund the consulting services needed to that end as well as the training requested. The operation will supply the additional support needed to resolve pending technical problems and will provide a more solid foundation for the political debates which have been prompted by the changes proposed to existing legislation for the purpose of improving the concession program.
- 3.25 The executive branch of São Paulo State is firmly committed to continuing the concession program. Nevertheless, there are certain limitations implicit in the process that are not fully understood at this stage. These include, on the institutional side, the possibility of unfounded protests and the loss of political support and, on the economic side, the possibility that the private sector might not be able to afford works that do not yield a sufficiently high return to enable them to recover the opportunity costs of the concession, as well as the difficulties involved in extending toll collection beyond certain stretches of roads within an urban road network. The proposed operation will assist the executing agency to more clearly identify the benefits and limitations inherent in the roadway infrastructure concession system as well as alternative ways to involve the private sector, such as through operation and maintenance contracts.

H. Environmental aspects of the proposed cooperation

- 3.26 As the agency awarding the concessions, the State of São Paulo is responsible for securing environmental permits for the works specified in the bidding documents for the respective facilities. Accordingly, before issuing calls for bids for any works, the SET must prepare environmental studies covering the respective project area and the transportation operation's features; the findings will then be used in the bidding process to establish the environmental measures to be required of concessionaires, as part of the basic conditions for each transaction.
- 3.27 The proposed project will provide two types of environmental support to the CCT and SET, namely, consulting services and a specific study.



- 3.28 The consulting services will support the CCT by ensuring overall supervision of the environmental aspects of each package awarded for a transportation concession, providing guidance and establishing parameters, criteria and mechanisms to monitor its environmental impact.
- 3.29 The environmental management study for concessions will establish environmental measures for transportation infrastructure concessions. The environmental legislation in force in São Paulo is based on the federal and state constitutions, other applicable laws and regulations, and basic municipal laws, in their respective spheres of jurisdiction.
- 3.30 All studies, programs and projects implemented in the state must be consistent with that legislation as a requirement for securing environmental permits issued by the São Paulo State Department of Environmental Protection, which is the government body with supervisory and regulatory authority over environmental resources, and by the São Paulo State Environment Council (CONSEMA), a deliberative body, with equal numbers of representatives of the state and civil society, with authority in environmental matters.
- 3.31 The purpose of the study is to identify the principal types of environmental impact which concession projects might occasion, covering the establishment and expansion of each type of infrastructure project as well as the transportation operation itself, and devise an environmental management plan that avoids or minimizes any potential adverse impact on the natural or urban environment. The study will achieve the following:
- a. Ascertain which federal and state environmental laws and regulations apply to the transportation infrastructure and its operation;
  - b. Identify the principal types of environmental impact, categorizing them according to the nature of the impact and the environmental resource affected;
  - c. Propose measures to prevent, mitigate and compensate for expected environmental impact, including the methods and techniques best suited to infrastructure construction and expansion and transportation operation.
  - d. Define parameters, criteria and methodologies to monitor environmental impact during the various project stages, including construction and the actual operation of the transportation concession;
  - e. Where appropriate, recommend the introduction of new rules and/or amendments to the existing legal framework governing the environment; and

- f. Recommend appropriate mechanisms for entrusting responsibility for the protection of the environment to concessionaires.

3.32 The Environment Committee, at its meeting of November 12, 1996, classified this as a Category III operation and approved the environmental brief without comment, since this project memorandum was to be submitted to the CESI for processing by the short procedure. This took place on January 17, 1997, at which time the terms of reference for the environmental studies and environmental consulting services were attached as well.

#### IV. COMPLIANCE WITH ELIGIBILITY CONDITIONS

##### A. General eligibility conditions of the program

- 4.1 MIF funding in support of this operation is entirely consistent with the MIF's general goal of promoting private investment and increasing private-sector participation in the economy in order to accelerate economic and social development. The proposal also is in compliance with the project eligibility requirements for technical-cooperation funding under Article III, Section 2(d), of the Agreement Establishing the MIF, which stipulates that technical-cooperation funds may be provided to finance advisory services for the design and implementation of privatization programs.
- 4.2 The proposal also is in compliance with the MIF priority guidelines for the Technical-Cooperation Facility, which accord priority in the allocation of MIF funds to projects supporting the expansion of private investment for infrastructure purposes. Similar projects already have been approved for Chile and Ecuador.

**COMPONENTS, ACTIVITIES, AND EXPECTED RESULTS**  
**MIF – FACILITY I – BRAZIL – São Paulo**  
**Consolidation of the Transportation Concession Program**

**General objective of the program:** To establish the conditions necessary to encourage private-sector participation in building and operating the transportation infrastructure.

**Specific objectives of the program:** To consolidate the institutional and regulatory framework for concessions in the state of São Paulo; to strengthen the Transportation Concession Commission (CCT) responsible for the program; and to foster the exchange of experiences with other Brazilian states and other countries in the region.

Component	Activities	Expected results
Consolidation of the institutional framework of the concession program	<ul style="list-style-type: none"> <li>• Hire (using counterpart funds) a consultant to prepare detailed terms of reference for the studies</li> <li>• Hire consultants to support the CCT in: <ul style="list-style-type: none"> <li>• computer systems</li> <li>• systems and parameters for supervision and monitoring</li> </ul> </li> <li>• Hire international consultants to support the CCT in designing the institutional and regulatory frameworks. The firm will conduct studies on four topics: <ul style="list-style-type: none"> <li>• regulatory systems</li> <li>• requirements for the establishment of a concession unit and regulatory body</li> <li>• criteria and mechanisms for rate-setting</li> <li>• legal framework of the concessions</li> </ul> </li> <li>• Hire consultants on short-term contracts to give short courses and finance internships to train CCT technical staff</li> </ul>	<p>Terms of reference for specific studies (December 1996)</p> <p>Information, supervision, and monitoring systems implemented (month 4)</p> <p>Proposal for new institutional and regulatory framework completed (month 4)</p> <p>Courses and internships completed (month 10)</p>
Specific studies	<p>Hire consultants to conduct 3 studies:</p> <ul style="list-style-type: none"> <li>• environmental standards for concessions</li> <li>• alternative toll systems</li> <li>• economic scenarios and projected transportation demand</li> </ul>	Studies completed in months 9, 12, and 8, respectively
Support for ongoing activities	<p>Hire consultants specializing in the following areas:</p> <ul style="list-style-type: none"> <li>• legal</li> <li>• project financing</li> <li>• environment</li> </ul>	Bidding documents prepared: month 4
Exchange of experiences	Workshop: exchange of experiences with other Brazilian states and other Latin American countries	Workshop conducted: month 10

Note: Months are counted from signature of the contract.

<p style="text-align: center;"><b>COMPONENTS AND COSTS</b>  <b>MIF - FACILITY I - BRAZIL - São Paulo</b>  <b>Consolidation of the Transportation Concession Program</b></p>				
<p><b>General objective of the program:</b> To encourage private-sector participation in building and operating the transportation infrastructure.</p>				
<p><b>Specific objectives of the program:</b> To consolidate the institutional and regulatory framework for concessions in the state of São Paulo; to strengthen the Transportation Concession Commission (CCT) responsible for the program; and to foster the exchange of experiences with other Brazilian states and other countries in the region.</p>				
Component	Activities	Budget (in US\$ thousands)		
		MIF	São Paulo	TOTAL
Consolidation of the institutional framework of the concession program	Hire a consultant to prepare detailed terms of reference for the consulting services and studies		20	20
	Hire consultants to support the CCT in:			
	• computer systems	40	70	110
	• systems and parameters for supervision and monitoring	60	110	170
	Hire a consulting firm with international consultants to support the CCT in designing the institutional and regulatory frameworks. The firm will conduct studies on four topics:	350	300	650
	• regulatory systems • requirements for the establishment of a concession unit and regulatory body • criteria and mechanisms for rate-setting • legal framework of the concessions			
	Hire consultants on short-term contracts to provide training to and finance internships for CCT technical staff	100	70	170
	<b>Subtotal</b>	<b>550</b>	<b>570</b>	<b>1,120</b>
Specific studies	Hire consultants to conduct 3 studies:			
	• alternative toll systems	50	50	100
	• environmental standards for concessions	80	40	120
	• economic scenarios and projected transportation demand	50	80	130
	<b>Subtotal</b>	<b>180</b>	<b>170</b>	<b>350</b>
Support for implementation of the concession program	Hire consultants specializing in the following areas:			
	• legal	240	100	340
	• project financing	60	140	200
	• environment	60	140	200
	<b>Subtotal</b>	<b>360</b>	<b>380</b>	<b>740</b>
Exchange of experiences	Workshop: exchange of experiences with other Brazilian states and other Latin American countries	50	20	70
	<b>Subtotal</b>	<b>50</b>	<b>20</b>	<b>70</b>
<b>Grand Total</b>		<b>1,140</b>	<b>1,140</b>	<b>2,280</b>

**PROPOSED RESOLUTION**

**BRASIL. TECHNICAL COOPERATION FOR THE CONSOLIDATION OF THE  
TRANSPORT CONCESSIONS PROGRAM OF  
THE STATE OF SAO PAULO**

**The Donors Committee of the Multilateral Investment Fund**

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the State of São Paulo and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-\_\_\_\_\_with respect to a technical cooperation, the purpose of which is the consolidation of the transport concessions program of the State of São Paulo.

2. That up to the amount of US\$1.140.000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.