

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**INFRASTRUCTURE PROJECT PREPARATION FUND**

**INFRAFUND**

**BNDES INFRASTRUCTURE PROJECT PREPARATION FUND**

**(BR-T1046)**

This document was prepared by the project team consisting of: Juan Ketterer (RE1/FI1), Gastón Astesiano (RE1/FI1) Project Team Leaders; Juliana Parahyba (RE1/FI1), Jean Marc Aboussouan (PRI) and Annabella Gaggero (RE1/FI1). The Project Team thanks Federico Basaños (PRE/PSC), Esteban Piedrahita (PRE/PSC) and Gerónimo Frigerio (LEG) for their helpful participation and comments.



## PLAN OF OPERATIONS

### BNDES INFRASTRUCTURE PROJECT PREPARATION FUND (BR-T1046)

#### BRAZIL

#### INFRASTRUCTURE PROJECT PREPARATION FUND INFRAFUND

<b>Project Number:</b>	BR-T1046		
<b>Beneficiary:</b>	Ministry of Planning, Budget and Management of Brazil and Infrastructure State and Local Agencies.		
<b>Executing Agency:</b>	Brazilian National Development Bank Infrastructure Project Preparation Fund (The Fund).		
<b>Financing:</b>	InfraFund:	US\$	1,000,000
	IFC:	US\$	1,000,000
	BNDES:	US\$	1,900,000
	<b>Total :</b>	<b>US\$</b>	<b>3,900,000</b>
<b>Objectives:</b>	The goal of this Technical Cooperation is to finance, jointly with the International Finance Corporation of the World Bank (IFC) and the Brazilian National Development Bank (BNDES) the creation of the BNDES Infrastructure Project Preparation (The Fund).		
<b>Execution Timetable:</b>	Execution Period: 24 months Disbursement Period: 24 months		
<b>Special Contractual Conditions:</b>	The BNDES Infrastructure Project Preparation Fund shall be legally established as a condition prior to first disbursement.		
<b>Exceptions to Bank Policies and Procedures:</b>	None		
<b>Coordination with other Official Development Finance Institutions:</b>	The International Finance Corporation (IFC), private sector branch of the World Bank, and the Brazilian National Development Bank (BNDES), national development agency of Brazil, participate in this operation as co-founders of the Fund.		

## I. BACKGROUND AND JUSTIFICATION

### A. General Context

- 1.1 In the 1990s, Brazil undertook an ambitious program of privatizations and concessions. Underlying such a program were the fiscal constraints faced by the

country. The program succeeded in increasing private sector participation in infrastructure financing. However, such increase in private investment was not enough to make up for the decline in public investment. Accordingly, overall levels of investment in infrastructure dropped well below their previous highs. In the 1970s, Brazil invested 5.4% of GDP in infrastructure. In recent years, this figure fell significantly, down to 2% in 2005.

- 1.2 There are a number of explanations for the decrease in overall investment. The most relevant is the low number of projects that have been offered to the private sector. After an initial boom of privatizations and concessions in the late 1990s, the pace of the program was reduced and fewer projects were tendered. This resulted mainly from Federal Government spending cuts, which weakened the capacity of the public sector to structure and implement new projects. The alternative of outsourcing the work to private consultancy still faces such difficulties as limited budgets for project development (studies and consulting services required for concession and Public-Private Partnership (PPP) projects are quite expensive). As a result, it takes a long time to hire consulting services for the development of a single project.
- 1.3 In this context, Brazilian concessions and PPPs are not progressing as fast as they could because processes do not seem to be geared toward responding to infrastructure needs in a timely fashion. Also, the lack of resources and technical capacity is holding back the development of new projects.
- 1.4 The creation of a Fund to assist Brazilian authorities with the development of concessions and PPP projects is a possible way to address this problem. BNDES and IFC have invited the IDB to join them in the creation of a “Trust Fund”, which will pay for 100% of the costs of the consulting services and studies necessary for the complete development of selected projects. Project preparation costs shall be paid back to the Fund by the project, if and when the relevant PPP or concession contracts are executed.

## **B. Eligibility and Additionality**

- 1.5 In line with the document of the Infrastructure Project Preparation Fund – InfraFund (AB-2453), the BNDES Infrastructure Project Preparation Fund will finance preparatory activities and studies for infrastructure projects, including project identification tasks not related to specific projects, under refundable and non-refundable basis pursuing paragraph 4.2 of document AB-2453. One of the most attractive features of the Fund stems from the large leverage effect that Bank participation will generate. For each dollar of Bank funding, almost three additional dollars will be brought into the financing of preparation of new infrastructure projects. The proposed operation is not eligible for any other fund managed by the Bank.

**C. Consistency with the Bank's Country Strategy**

- 1.6 The Bank's Country Strategy (2004-2007) seeks to support Brazil in achieving sustainable and more equitable growth through actions in four priority areas: (i) productivity growth and promotion of infrastructure investment, specially through PPP models; (ii) improvement in poverty, equality and human capital indexes; (iii) improvement in living conditions and efficiency in cities; and (iv) institutional strengthening and modernization of the State. This operation is consistent with the first area of the Bank's Country Strategy, as it focuses on promoting infrastructure investment and supporting Bank interventions to enhance the business climate and foster the development of PPPs in the sector.

**D. Coordination with other Development Agencies**

- 1.7 This is a coordinated effort among three relevant private sector development institutions active in Brazil: the International Finance Corporation (IFC), private sector development arm of the World Bank Group; the Brazilian National Development Bank (BNDES), Brazil's Federal development agency; and the Inter-American Development Bank (IDB). Through the BNDES Infrastructure Project Preparation Fund, these three organizations will pool their resources for preparing and enabling private sector participation in infrastructure projects. The team is also coordinated with the PPP Unit of the Ministry of Planning, Budget and Management, the federal agency in charge of structuring PPP projects at the federal level.

## **II. PROGRAM DESCRIPTION**

**A. Objective**

- 2.1 The goal of this facility is to finance, jointly with IFC and BNDES, the creation of the BNDES Infrastructure Project Preparation Fund (the Fund) to finance pre-feasibility, technical, economic, environmental and legal studies and consulting services for the development and implementation of long-term contractual relationships between government and private parties, such as PPPs, concessions, Build Operate and Transfer (BOTs), operation and maintenance contracts and other similar mechanisms in Brazil.

**B. Fund Description**

- 2.2 **The Fund's purpose** is to finance pre-feasibility, technical, economic, environmental and legal studies and consulting services for the development and implementation of long-term contractual relationships between government and private parties, such as PPPs, concessions, Build Operate and Transfer (BOTs), operation and maintenance contracts and other similar mechanisms in Brazil (all such mechanisms referred to herein as "private sector participation" or PSP). The Fund will focus on transaction implementation rather than broad sector studies.

The projects may be in traditional infrastructure sectors (e.g., roads, railroads, ports, mass transit, airports, water and sanitation, electricity distribution, generation and transmission, etc.) and in social infrastructure (e.g., schools and health care facilities).

- 2.3 The Fund will: (i) select eligible projects, following a methodology to be agreed upon with Brazilian authorities, (ii) identify the studies and technical work required to structure the projects so that they can be offered to the private sector for investment; (iii) select and hire consultants to provide the required services; (iv) manage the delivery of consulting services; and (v) pay for the cost of such services.
- 2.4 **Fund Governance.** The Fund will be governed by a Board of Donors (the Board) consisting of 1 member from each Donor (BNDES, IFC and IDB), which will approve by simple majority: (i) each project to be considered by the Fund; (ii) a budget ceiling for the hiring of consultants for each project; (iii) the Project Execution Advisor for each PSP project; and (iv) the annual financial statements of the Fund. At the end of the stipulated time period, any of these matters will be considered approved by a member of the Board if there is no response from that Board member. BNDES will have veto rights over points (i) and (ii). The InfraFund Coordinator will represent the IDB in the Fund. The IDB will consider every request on a project-by-project basis.
- 2.5 The day-to-day business of the Fund will be managed by a **Trustee**. The Trustee will act as Secretary of the Board of Donors for the purposes of coordinating the approval process and issuing the final eligibility notice for the projects. Also, the Trustee will be responsible for: (i) aiding the Brazilian government in project selection; (ii) submitting to the Board the list of projects to be considered; (iii) preparing selected projects in their initial phase; (iv) submitting to the Board requests for financing for projects to be funded by the Fund. As part of such requests, the Trustee will make its best efforts to identify any major environmental issues associated with the projects; (v) recommending to the Board whether the IFC, the IDB or a third party should be the Lead Project Execution Advisor<sup>1</sup>; and (vi) reporting to the Board on the progress of the services and studies, as well as on their results.
- 2.6 Projects to be financed by the Fund will be executed by a **Lead Project Execution Advisor** (LPEA). The LPEA will be in charge of: (i) assisting the relevant government entity oversee the work of the Project Executor; (ii) procuring consulting services and studies, (iii) supervising the work of consultants; and (iv) taking all steps required to lead the transaction to closing.

---

<sup>1</sup> Where IFC or IDB are not the Lead Project Execution advisor: a) procure the Project Execution Advisor, b) help the relevant government entity oversee the work of the Project Execution Advisor. And where IFC or IDB are the Lead Project Execution Advisor: a) procure consulting services and studies, b) supervise the work of consultants, once the studies are procured and c) generally take all steps required to lead the transaction to closing.

IFC's advisory services or the IDB may be hired by the Fund and be appointed as LPEA by the Board of Donors. The Board will determine a policy for when to use IFC or the IDB as LPEA and when to use third parties. Where IFC or the IDB proposes to serve as LPEA, it may only do so based on a fee proposal previously approved by the Board on a project-by-project basis.

- 2.7 **Identification of Services and Studies.** The Fund will identify the studies and consulting services required to structure each project so that they become marketable to the private sector for investment. The structuring of the projects will include technical and economic aspects, as well as relevant environmental, social and legal issues.

### C. Fund Scope and Process

- 2.8 This Fund is meant to perform upstream deal selection (Project Selection) and downstream project execution (Project Execution).
- 2.9 **Project Selection.** Project Selection consists of selecting the best projects to be offered to the private sector, considering each project's prospective economic, social and environmental externalities and development impacts in Brazil, and the feasibility of attracting private investors. Brazilian authorities will be invited to present requests for support, and the Fund will then filter those requests and select the best projects according to criteria set forth by the Donors. The project selection process and project eligibility will be agreed upon between the Fund and the Brazilian authorities. Also, a procedure for project presentation will be established.
- 2.10 **Project Execution.** Project Execution consists of structuring PSP projects, and bidding them out on a transparent basis to the private sector. Once a project has been selected, the Fund will oversee the design of the PSP process, attract potential investors, and assist the Government in managing the bidding process. Project Execution ends when the PSP contract has been signed by both the Government Authorities and the private party. In any selected case, the Board of Donors may choose to employ the IDB, IFC or a third party as LPEA. In such case, the Trustee will lead the procurement of such an advisor based on both quality and cost of services (including both retainer and success fees).
- 2.11 **Hiring and Managing Consulting Services.** Finally, the Fund will select, hire and manage the consultancy services to assure that they are delivered on time and meet the established quality requirements. The Fund will guarantee that the projects are ready to be offered to the private sector for investment soliciting. The selection process of consultants, advisors, technical experts, lawyers, etc. should be transparent, simple and expedite. It will comply with Bank policies regarding procurement of goods and services and selection and contracting of consultants (GN-2349-7, GN-2350-7).

- 2.12 **Requests for Support.** The Fund will only accept requests for support from the Brazilian Federal Government, entities controlled by the Brazilian Federal Government, Brazilian State Governments or entities controlled by Brazilian State Governments. When there is a request from a state government, the Trustee will consult with BNDES at an early stage to see whether the request is consistent with the federal government's priorities.
- 2.13 **Condition for Support.** As a condition for receiving support from this Fund, the requesting entity must agree to include, in the bidding documents of the project, that the winner of the PSP contract must repay to the Fund and/or the Project Execution advisor (either IFC, IDB or a third party): (i) the total cost of the studies and consulting services hired by the Facility; and (ii) all expenses incurred by the Fund in connection with the respective PSP project. The Board of Donors will determine the proportion to be paid to the Fund and the Project Execution advisor respectively based on the financial arrangements previously agreed with the Project Execution advisor.
- 2.14 No Donor will be granted any preference or limitation, in financing either the winning bidder for any project executed under this facility or the government of Brazil or any state or local government in conjunction with a project approved under this facility. The private sector company or consortium that wins a bid shall have complete discretion to decide on its sources of financing. For any associated public sector financing, the relevant government of Brazil (national, state or local) shall be free to choose the financing it prefers.
- 2.15 **Project Financing.** The Fund will pay for 100% of the costs of the consulting services and studies necessary for the complete development of the selected projects. The cost of the preparation shall be reimbursed to the Fund by the project, whenever the relevant PPP or concession contracts are executed.<sup>2</sup>

### III. COST AND FINANCING

- 3.1 The total initial committed funding is US\$ 3.9 million, with IFC and IDB contributing US\$ 1 million each and BNDES US\$ 1.9 million. IFC and IDB will make their best efforts to contribute additional funding of at least US\$ 2 million each during the next two years and once at least 75% of the initial funding has been spent or committed by the Board of Donors. Such funding will preferably be

---

<sup>2</sup> The Fund will also pay for: (i) the fully loaded cost (including salary and benefits, office space, overhead, etc.) to the Trustee staff dedicated to the Fund (amount to be approved upfront by the Board of Donors upon delivery of budget by the Trustee). The Trustee could appoint IFC, IDB or newly appointed staff to work for the Fund, subject to the approval of the Board of Donors; and (ii) 3.5% of each disbursement to the Trustee as an administration fee, which will be used by the Trustee to cover its administrative costs in connection with the Fund. It was agreed that the Bank's contributions will not be allocated to pay for those items. In order to maintain equality (*pari passu*) among the donors, the first eligible studies will be financed by IDB contributions to compensate for its share of the amount paid under administrative costs mentioned above.

through the facility but could be through direct grants for consulting studies. BNDES will make its best efforts to match on a one to one basis any grants to the Facility, up to a limit of 49% of the total funds provided to the Facility.

<b>Donor</b>	<b>Contribution</b>
IDB	US\$ 1 Million
IFC	US\$ 1 Million
BNDES	US\$ 1.9 Million
Total	US\$ 3.9 Million

- 3.2 The disbursement of the funds will be done on a project-by-project basis with a limit of US\$ 1.5 million per project financed. The funding commitment of the Bank will expire after two years. The Fund will have a life span of seven years, and it can be renewed by decision of the Board of Donors by unanimity. Also, the Fund may be liquidated at anytime upon unanimous decision of the Board. Upon liquidation, each Donor will be entitled to receive an amount proportional to its contributions to the Fund.

#### **IV. EXECUTION**

- 4.1 Management of the Fund will be delegated to the Private Sector Advisory Services Department of the IFC, which will be entitled to and responsible for the Trustee's rights and duties detailed in this proposal.
- 4.2 The governing by-laws of the Fund will include provisions to assure Donors that key decisions made by the management of the Fund will be subject to previous approval by the Donors. The Fund shall be legally established as a condition previous to the first disbursement.
- 4.3 Each, the BNDES, the IFC and the IDB will have one person serving as director of the Board of Donors of the Fund. The IFC will be the sole institutional trustee of the Fund for the first tranche. After that period, and once the initial contribution of US\$ 3.9 million has been fully spent, the IDB may join as institutional co-trustee. During the initial tranche, the trustee (IFC), with the no objection of the Board of Donors of the Fund, may appoint IDB personnel (as well as IFC and external personnel) to work for the Fund.
- 4.4 The Fund's accounting will be independent from the Trustee. The Trustee shall submit on an annual basis to each Donor the following documents and

information, among others: (i) list of projects and the corresponding studies hired by the Fund, with detailed description of the disbursements made; (ii) detailed description of the total administrative fees paid during the fiscal year; (iii) list of expenses of the Fund, if any, that are not directly related to its activity (e.g. auditors fees, taxes, extraordinary charges, etc.); and (iv) list of repayments. In addition, all participants will have access to reports produced by the Fund or to consultant reports received by the Fund. The Fund will be audited yearly pursuant to Bank's policies.

- 4.5 The Trustee will initially select: (i) one Investment Officer who will be dedicated to the Fund (the Facility Manager); and (ii) one or two additional investment officer(s) or analyst(s) to be dedicated to the facility. These staff will be based in IFC's office in Sao Paulo, Brazil. Over time, additional staff may be hired if required with the approval of the Board of Donors.
- 4.6 The Facility Manager will lead a working group for Project Selection and Project Execution, which will include members designated by the Ministry of Planning, Budget and Management, and BNDES. The Ministry and BNDES will also cooperate with the Trustee in Project Execution.

## **V. MONITORING AND EVALUATION**

- 5.1 In coordination with IFC and BNDES, IDB will be in charge of the monitoring and evaluation of this project, as well as responsible for providing technical supervision for the studies financed under this operation. The consulting firms will submit progress reports in accordance with the schedule for presentation of such reports provided in the relevant terms of reference. The project team will prepare the project completion report and submit a copy to the Bank no later than 45 days after the last disbursement.

## **VI. PROGRAM BENEFITS AND RISKS**

- 6.1 The Fund will assist Brazilian authorities in promoting PPPs in its infrastructure sector, through financing the preparation of attractive and relevant projects to be offered to the private sector. To this end, the Fund will contribute to facilitate the outsourcing of project preparation work to private consultancies, and it will help enhance the ability of the public sector to get its pipeline streamlined down.

## **VII. ENVIRONMENTAL AND SOCIAL ASPECTS**

- 7.1 The proposed Technical Cooperation will have no environmental or social impacts as it will not finance direct investments in infrastructure, but instead it will finance feasibility studies in the sector, which will include technical, economic, legal, and environmental and social studies. In general, the projects to be supported by this operation may be for a traditional infrastructure sector, such

as roads, railroads, airports, mass transit, etc., and also for a social infrastructure sector, such as schools and health care units. The terms of reference of the studies to be financed by the Fund will include environmental and social aspects of the projects in accordance with Bank policies.

- 7.2 In this context, all the studies carried out by this operation will follow the guidelines and specifications of the current Brazilian Environmental and Social Legislation and Bank environmental and social policies.

## **VIII. RESPONSIBILITIES**

- 8.1 Technical Responsibility: The Finance and Basic Infrastructure Division 1 (RE1/FI1) will be responsible for this Technical Cooperation. The Officials in charge are: Juan Ketterer (RE1/FI1), Gastón Astesiano (RE1/FI1) and Jean-Marc Aboussouan (PRI).
- 8.2 Disbursements Responsibility: The Finance and Basic Infrastructure Division 1 will be responsible for the disbursements.

## **IX. STATUS**

- 9.1 In September 2006, the eligibility profile of this Technical Cooperation was approved by the Chief of Finance and Basic Infrastructure Division 1 (RE1/FI1), Mrs. Silvia Sagari, and by the InfraFund Coordinator, Mr. Federico Basañes (PRE/PSC).