

## TC Abstract

### I. Basic Project Data

• Country/Region:	ECUADOR/CAN - Andean Group
• TC Name:	Support to the Identification and Development of Sub-national Public-Private Partnership Projects
• TC Number:	EC-T1358
• Team Leader/Members:	Gomez Reino, Juan Luis; Calahorrano Tirado, Karina Alexandra; Medina-Bolivar, Rocio; Juarez Lopez, Sergio Fernando; Reyes-Tagle, Gerardo; Larios, Jose I; Radics, Gustavo Axel; Canillas Gomez, Mariana Belen; Champi Ticona, Diana Carla
• Taxonomy:	Client Support
• Date of TC Abstract:	30 Mar 2017
• Beneficiary:	Banco de Desarrollo y Gobiernos sub-nacionales de Ecuador
• Executing Agency:	IDB
• IDB Funding Requested:	\$375,000.00
• Local counterpart funding, if any:	\$0.00
• Disbursement period:	24 months
• Required start date:	
• Types of consultants:	Individuals, Firms
• Prepared by Unit:	Fiscal Management
• Unit of Disbursement Responsibility:	Country Office Ecuador
• Included in Country Strategy (y/n):	No
• TC included in CPD (y/n):	No
• Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

### II. Objective and Justification

- 2.1. The objective of this Technical Cooperation is to develop the institutional capacities of the selected executing agencies for the identification, development and execution of investment proposals, by sub-national governments, under the Public Private Partnership (PPP) modality in Ecuador. By fostering the development of sub-national PPP projects, this Technical Cooperation will stimulate private sector participation in sub-national public investment. The latter is critical to assist improved efficiency of public investment and to maintain a solid pattern of economic growth.
- 2.2. In the implementation of this financing program for PPPs, the BDE will benefit from the on-going IADB technical cooperation being provided to the Government of Ecuador for the completion of the regulatory and analytical framework for PPP projects. This technical assistance is being provided under the “Programa de Apoyo para el Fortalecimiento Institucional y la Implementación de Asociaciones Público Privadas en Ecuador Facilidad Regional APP (RG-M1214)” and the more recent EC-T1332. In particular, the technical cooperation currently underway with national government agencies will develop: a) a technical guide for the identification of APP projects; b) standard forms for the presentation of technical, economic and financial aspects of PPP projects to the approval committees; c) a manual to assist pre-feasibility analysis of PPP project proposals; d) a financial manual for the assessment of PPP projects; e) a manual to guide value for money analysis; f) a manual to guide the preparation of risk matrices; g) a multi-criteria analysis manual, and h) a model for a standard PPP contract. These analytical tools will aim to be part of the assessment of PPP project proposals by the Inter-Ministerial Committee for PPPs in Ecuador at the pre-feasibility stage. The BDE will therefore apply the rich set of methodological tools being developed (and expected to be approved as norms by the inter-ministerial Committee on PPPs), to the identification and development of sub-national PPP projects.

- 2.3. In October 2016, following conversations with IADB, the Development Bank of Ecuador (Banco de Desarrollo de Ecuador or BDE) approved a new pilot financing program to promote sub-national PPPs. The program has the following specific objectives: a) develop institutional capacities for the application of PPP-specific assessment methodologies to sub-national governments' investment proposals; b) identify a pipeline of bankable sub-national PPP projects; c) assist inter-institutional dialogue and with the private sector; and d) development of PPP specific lending products to sub-national governments.
- 2.4. The following technical assistance gaps are identified under this program:
  - (i) Institutional and capacity development at the BDE and sub-national governments: The implementation of the program underlines the need to establish a specialized PPP unit within the BDE. As regulatory and methodological matters fall within the scope of the Inter-Ministerial Committee, the unit will focus on the following tasks: a) capacity development of BDE key personnel and that of selected sub-national administrations on PPP concepts and methodologies; b) development of sub-national government specific PPP manuals and other analytical tools, competitive tendering, standard contracts, etc. based on the methodologies approved by the Inter-Ministerial Committee; c) advisory assistance to sub-national governments on all stages of PPP implementation; and d) establishment of a rolling, consolidated pipeline of projects to assist dialogue with private sector;
  - (ii) PPP-specific financing modalities for sub-national governments. In order to assist the identification, development and execution of PPP projects by sub-national governments, institutional and capacity development must be coupled with financial support. The financial support offered under the BDE's PPP program will extend (but will not be limited) to: a) financing of the studies required to evaluate the viability of the project as a PPP at the pre-feasibility stage in order to obtain approval by the Inter-Ministerial Committee on PPPs; b) financing of transaction advisory services (legal, technical and financial) leading to the competitive procurement of the project and concluding with the negotiations and financial closure; c) financing of availability payments required by sub-national governments; d) financing/extension of guarantees to private investors from winning consortia. For each of these stages, there is a need to assist the development of specific financial products and processes for sub-national governments' access to these products;
  - (iii) Policy dissemination, communication to the public and dialogue with the private sector. Currently, there is a lack of dialogue between government institutions, the private sector, and financial institutions on the investment opportunities created by a PPP program. The identification of a healthy pipeline of projects by sub-national administrations can assist such dialogue, as well as regular discussions with these stakeholders on the issuance of government regulations and methodological guidelines. In addition, wide dissemination of the PPP program goals and objectives to the public at large is needed not only to dispel misconceptions about this investment modality, but also to assist improved accountability of sub-national governments to their constituents.

### III. Description of activities and outputs

- 3.1. The activities this TC will finance include:
- 3.2. **Component 1. Institutional and capacity development at the BDE and sub-national governments.** The TC will develop PPP manuals and guidelines for sub-national governments to guide the identification and development of projects. Aligned with the national PPP Manual, the TC will develop a manual and implementation guidelines that address the specific needs of sub-national governments. These tools will include a technical guide that: a) introduces PPP concepts and framework; b) provides an overview about the PPP process in the country including development phase (identification, preparation and due diligence analysis), the approval phase, and

the competition phase; and c) develops templates and bid documents (including technical forms, financial model, risk matrices, bidding documents, standard contracts, etc.) for the use of sub-national governments. The second activity under this component will include the preparation of an institutional plan for the BDE that assists the creation of a specialized PPP Unit, and helps draw the operational procedures required for the implementation of the BDE's PPP Program. The third main activity under this component will include the organization of training courses and on-the-job training for the staff of BDE and sub-national governments in various aspects of PPP policies and methodologies. The fourth main activity under this component will include the preparation of a project database and pipeline of prospective APPs. The pipeline will specify which projects are in the conceptualization stage, preparation of business case, under evaluation by concerned agencies, approval stage, bidding, contract award, contract signing, pre-construction, etc.

- 3.3. **Component 2. PPP-specific financing products for sub-national governments.** The TC will provide technical assistance to the development of specialized financial products to be used by the BDE to identify, develop and execute PPP projects. These will include financial products to support project financing (including financing of availability payments, financial guarantees, equity financing, project bond issuance, etc.); and project preparation and development (financing of pre-feasibility PPP viability assessments, transaction advisory services including tendering and contract negotiations, etc.). The TC will also assist the delivery of training workshops to disseminate the newly developed financial products (and application procedures) to sub-national governments.

#### IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Institutional and capacity development	\$ 250,000.00	\$ 0.00	\$ 250,000.00
Financing products for PPPs	\$ 125,000.00	\$ 0.00	\$ 125,000.00

#### V. Executing agency and execution structure

- 5.1. The Fiscal and Municipal Management Division (IFD/FMM) will be responsible, from the Representation in Ecuador, for the direction, supervision and coordination of this Technical Cooperation. FMM already has a leading role in the development of the regulatory and methodological framework for PPPs in the country and it is working to establish systems for the assessment of contingent liabilities derived from these projects so as to allow adequate budgeting and assist efficient risk mitigation strategies to be implemented. FMM will be responsible for the procurement and supervision of the products included in this TC. Procurement: For the hiring of individual consultants, the project team will observe Human Resources selection procedures (AM-650). For consulting firms, as well as in the case of non-consulting services contracts, the project team will observe the Corporate Procurement Policy and Procedures (GN-2303-20).
- 5.2. The Fiscal and Municipal Management Division is a leading and trusted adviser of governments across the region on the implementation of effective PPP programs, contributing to the development of fiscal, regulatory and institutional frameworks. In Ecuador, the division co-leads EC-T1332 with TSP in support of these objectives, and it has worked closely with the Banco de Desarrollo in the design of its PPP support program and the identification of the first subnational PPP project, a logistical platform by a provincial government. Banco de Desarrollo is the main lender of subnational governments in Ecuador, and a regular executing agency for a variety of IADB programs. As such, it is familiar with the IADBs processes, limiting implementation risks.

## **VI. Project Risks and Issues**

- 6.1. As the on-going fiscal adjustment, the country is experiencing is likely to deepen over the medium term, pressures to enhance the private contributions to public investment will continue to mount. The over dependence of sub-national governments from declining central government's fiscal transfers further points to the need to identify new sources of financing for investment. Already a large number of sub-national governments are showing interest in the PPP modality, as well as their key lending outlet, the BDE, which allows a good level of comfort as to the institutional commitment to this initiative. Arguably, an intense capacity development effort will be required to elevate the government's understanding of these concept and implementation approach, which is certainly alien to the large majority of them.
- 6.2. Additionally, the lack of expertise within the private sector to offer transaction advisory services, or pre-feasibility assessment for projects as PPPs will be a limiting factor, but it is to be expected that, as the market for these projects open, domestic consulting forms will slowly develop such capacities. With regard to the institutional framework for the PPP program in Ecuador, even if the national PPP program were to be relocated under a different agency, the BDE will remain for the time being the main lender of sub-national governments in the country. As a result, its potential to assist the development of a healthy sub-national PPP pipeline will remain strong over the proposed period of implementation, of 24 months.

## **VII. Environmental and Social Classification**

- 7.1. The ESG classification for this operation is undefined.