

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PUBLIC-PRIVATE PARTNERSHIP AND CONCESSIONS PREPARATION
PROGRAM**

(BR-L1549)

LOAN PROPOSAL

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| REQUIRED ELECTRONIC LINKS (REL) | |
|---------------------------------|--|
| REL#1 | Monitoring and Evaluation Arrangements |
| REL#2 | Procurement Plan |

| OPTIONAL ELECTRONIC LINKS (OEL) | |
|---------------------------------|---|
| OEL#1 | Economic Analysis |
| OEL#2 | Operating Regulations |
| OEL#3 | Analysis of Gaps and Experiences of PPP Structuring in Brazil (Radar PPP) |
| OEL#4 | BNDES Experience in Supporting the Structuring of PPP (BNDES) |
| OEL#5 | Experience from IDB in Supporting PPPs |
| OEL#6 | Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF) |

| ABBREVIATIONS | |
|---------------|--|
| BNDES | <i>Banco Nacional de Desenvolvimento Econômico e Social</i> |
| ABDIB | <i>Associação Brasileira da Infraestrutura e Indústrias de Base</i> |
| BCB | <i>Banco Central do Brasil</i> |
| BRICS | Brazil, Russia, India, China, and South Africa |
| CC | Climate Change |
| CCLIP | Conditional Credit Line for Investment Projects |
| CEF | <i>Caixa Econômica Federal</i> |
| EBP | <i>Estruturadora Brasileira de Projetos</i> |
| FFF | Flexible Financing Facility |
| GCI | Global Competitive Index |
| GDP | Gross Domestic Product |
| IBGE | <i>Instituto Brasileiro de Geografia e Estatística</i> |
| ICT | Information and Communication Technologies |
| IDB | Inter-American Development Bank |
| IEG | Independent Evaluation Group |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| IPCCAR5 | Fifth Assessment Report of the Intergovernmental Panel on Climate Change |
| IPEA | <i>Instituto de Pesquisa Econômica Aplicada</i> |
| IRR | Internal Rate of Return |
| EA | Executing Agency |
| EIU | Economic Intelligence Unit |
| ESHS | Environmental, Social, Health and Safety |
| ESMR | Environmental and Social Management Report |
| ESS | Environmental and Social Strategy |
| FP | Financial Plan |
| LAC | Latin America and the Caribbean |
| MDB | Multilateral Development Bank |
| ME | Ministry of Economy |
| MIRR | Modified Internal Rate of Return |
| M&E | Monitoring and Evaluation |
| NDC | National Determined Contribution |
| NPV | Net Present Value |
| OC | Ordinary Capital |
| OCDE | Organisation for Economic Cooperation and Development |
| OR | Operating Regulations |
| PCR | Project Completion Report |
| PEP | Pluri-annual Execution Plan |
| PMI | <i>Procedimentos de Manifestação de Interesse</i> |
| PMR | Project Monitoring Report |

| ABBREVIATIONS | |
|---------------|--|
| POA | Annual Operation Plan |
| PP | Procurement Plan |
| PPF | Project Preparation Facilities |
| PPI | <i>Programa de Parcerias de Investimentos</i> |
| PPIAF | Public-Private Infrastructure Advisory Facility |
| PPP | Public-Private Partnership |
| PSP | <i>Programa Brasileiro de Fomento à Participação Privada</i> |
| SDG | Sustainable Development Goals |
| SDI | <i>Secretaria de Desenvolvimento da Infraestrutura</i> |
| SEPEC | <i>Secretaria Especial de Produtividade, Emprego e Competitividade</i> |
| TC | Technical Cooperation |
| TFP | Total Factor Productivity |
| UNESCAP | United Nations Economic and Social Commission for Asia and the Pacific |
| UNOPS | United Nations Office for Project Services |
| VFM | Value for Money |
| WAL | Weighted Average Life |
| WB | World Bank |
| WBI | World Bank Institute |
| WEF | World Economic Forum |

PROJECT SUMMARY
BRAZIL
PUBLIC-PRIVATE PARTNERSHIP AND CONCESSIONS PREPARATION PROGRAM
(BR-L1549)

| Financial Terms and Conditions | | | | |
|--|---------------|--------------------------|-------------------------------------|---|
| Borrower | | | Flexible Financing Facility | |
| <i>Banco Nacional de Desenvolvimento Econômico e Social (BNDES)</i> | | | Amortization Period: ^(a) | 25 Years |
| Guarantor | | | Disbursement Period: | 5 Years |
| Federative Republic of Brazil | | | Grace Period: | 5.5 Years ^(b) |
| Executing Agency | | | Interest rate: | LIBOR Based |
| BNDES | | | Credit Fee: | ^(c) |
| Source | Amount (US\$) | % | Inspection and supervision fee: | ^(c) |
| IDB (Ordinary Capital): | 20,000,000 | 67 | Weighted Average Life (WAL): | 15.25 Years |
| Local: | 10,000,000 | 33 | Currency of Approval: | Dollars of the United States of America |
| Total: | 30,000,000 | 100 | | |
| Project at a Glance | | | | |
| Project objective/description: The general objective of the program is to promote effective private participation in infrastructure investments in Brazil, in order to support growth and productivity in the long term. The specific objective is to support the efficiency of the preparation process of a group of PPP projects and therefore increase their attractiveness to sponsors. | | | | |
| Special Contractual Clauses prior to the first disbursement: (i) The presentation of evidence that BNDES has approved the Operating Regulations (OR) of the program, in accordance with a draft previously agreed upon with the Bank, and that such OR has entered into effect; and (ii) the designation of a Project Execution Team (§3.5). | | | | |
| Special Contractual Clause of execution: BNDES will enter into a legal agreement with each beneficiary entity, before issuing the task order to the specialized consulting firm for the services related to the specific PPP project (§3.6). | | | | |
| Exceptions to Bank Policies: In an identical manner as in prior loan operations with BNDES, the guarantee of the Federative Republic of Brazil for this operation will be limited to BNDES' financial obligations under the loan (including repayment of principal, payment of interest and other financial charges), and will not cover contractual obligations regarding the execution of the program and the local counterpart contribution. Taking into account that according to the Brazilian legislation, the Federal Government of Brazil can only guarantee the financial obligations related to the loans assumed by decentralized and public sector development entities, such as BNDES, it is necessary that a partial waiver to IDB's policy on guarantees required from the borrower (GP-104-2) be approved by the Board of Executive Directors (§3.7). | | | | |
| Strategic Alignment | | | | |
| Challenges^(d): | SI | <input type="checkbox"/> | PI | <input checked="" type="checkbox"/> |
| Cross-Cutting Themes^(e): | GD | <input type="checkbox"/> | CC | <input checked="" type="checkbox"/> |

^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate and commodity conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

^(b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

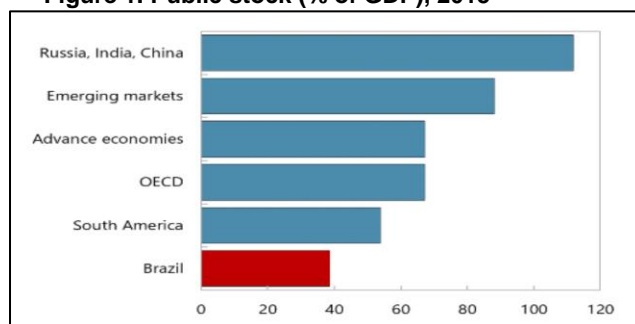
I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and justification

1.1 **Macro-economic context and the COVID-19 crisis.** The COVID-19 pandemic arrived in Brazil just when the economy was somewhat recovering from a period of strong recession. Despite experiencing slight growth since 2017, the impact of COVID-19 on economic activity is expected to result in a 5.05% drop in GDP in 2020.¹ Economic policy has responded to the prospect of rising unemployment and falling incomes with monetary and fiscal measures.² Interest rates have been reduced and measures have been taken to expand credit and increase liquidity via a temporary relaxation of prudential policy. Regarding fiscal measures, more than 10% of GDP has been mobilized. As the phase of containment and stabilization advances, the government will need to set the stage for the recovery phase.

1.2 Low levels of public investment over the past two decades have resulted in relatively poor levels of public capital stock and quality of infrastructure, compared to its peers in the region and the world (Figure 1).

Figure 1. Public stock (% of GDP), 2015



Source: International Monetary Fund (IMF), "Six Charts on Boosting Growth in Brazil", July 2019.

1.3 Looking into the future, there seems to be little room to resolve this through public funding alone. Before the crisis, fiscal space in Brazil was already at risk. Gross public debt reached 88% of GDP in 2018 and Gross Debt of the General Government was estimated to be between 77.3% and 76.6% of GDP in 2019.³ Advances have been made to reduce government expenditure, particularly via the recent pension reform. However, debt still poses important sustainability risks and critical action needs to be taken towards bringing it down. This is especially relevant after the sharp increase in fiscal expenditures produced by the COVID-19. While the long-term impact of this crisis is still uncertain, there is consensus on the notion that one of the key strategies needed to support economic recovery in the medium- and long-term is the improvement of infrastructure-based services in the country.⁴

¹ Central Bank of Brazil, [Relatório de Mercado](#), October 2020.

² Central Bank of Brazil, [Measures to face COVID-19 crisis](#), 2020.

³ Ministry of Economy of Brazil, *Relatório de Projeções da Dívida Pública. Atualização do 2º quadrimestre*, 2019.

⁴ Economic Commission for Latin America and the Caribbean, The effects of the coronavirus disease (COVID-19) pandemic on international trade and logistics, 2020.

- 1.4 **Infrastructure investment as a driver of productivity and growth.** Since 2000, average productivity growth in Latin America and the Caribbean (LAC) has declined yearly by 0.04%. In Brazil, the decline has been over 1%.⁵ Even during the economic boom (2003-2008), productivity grew less than 2% per year.⁶ Correspondingly, Total Factor Productivity (TFP) growth for the period 1970-2011 was insignificant,⁷ and labor productivity (GDP divided by working population) grew around 1.09% and 1.17% in the periods 1999-2001 and 2001-2009, respectively.
- 1.5 During the 1990's, growth in productivity and in GDP per capita in Brazil behaved similarly. However, in the beginning of the 2000's these indicators started to diverge, GDP growth significantly outpacing advances in productivity levels. This difference was mainly due to high numbers of labor added to the economy, which largely explains GDP per capita growth. Following this, especially after the 2014 recession, the decline in unemployment has been slow –12.8% in 2017, 12.5% in 2018 and 11.8% in 2019, according to the *Instituto Brasileiro de Geografia e Estatística*—, making it the more imperative to strengthen efforts to increase productivity to stimulate and sustain economic growth.⁸
- 1.6 Infrastructure investment plays a major role in promoting productivity and addressing long-term fragilities of the Brazilian Economy. It also impacts short-term aggregated demand, addressing the need to promote economic recovery promptly.⁹ Facilities and basic services –such as roads, water supply, and electrical grids– are essential to provide connectivity and create networks that facilitate business and increase access to jobs, markets, and information. Improvements in the quality of infrastructure in energy, ports and railways in Brazil could contribute to increase labor productivity in almost 10%.¹⁰
- 1.7 Low productivity is strongly engrained in the *Custo Brasil* (“Brazil Cost”), that is, the set of structural, bureaucratic, and economic factors that increase the cost of new investment in the country – such as a highly complex tax system, unpredictable legal and judiciary systems and poor infrastructure. The *Custo Brasil* is estimated in the range of R\$1.4 and R\$1.5 trillion (≈US\$370 billion) per year, equivalent to some 22% of GDP,¹¹ 24% of which is explained by the infrastructure gap and other factors directly impacted by the lack of infrastructure, such as access to public services and integration to global productive chains. Furthermore, the World Economic Forum (WEF)’s Global Competitive Index (GCI) 2019, ranks Brazil 71st out of 141 economies. This is well below other major economies in the region, such as Chile (33rd) and Mexico (48th). When looking into the pillar of

⁵ Grazi, M. et al., Firm Innovation and Productivity in Latin America and the Caribbean, The Engine of Economic Development. IDB, 2016.

⁶ De Negri, F. and Cavalcante, L., *Produtividade no Brasil: desempenho e determinantes*, Instituto de Pesquisa Econômica Aplicada (IPEA), 2014.

⁷ Ellery Jr, *Desafios para o cálculo da produtividade total dos fatores*. In: De Negri, F. and Cavalcante, L., *Produtividade no Brasil: desempenho e determinantes*, IPEA, 2014.

⁸ De Negri, F. and Cavalcante, L., Report 1: Productivity and Economic Growth, September 2016.

⁹ Feal-Zubimendi, S., et al., Country Infrastructure Briefs: Southern Cone, IDB, Department of Research and Chief Economist, April 2019; Medeiros, V. and Ribeiro, R., *Investimento em infraestrutura: uma estrada para o desenvolvimento*, 2019.

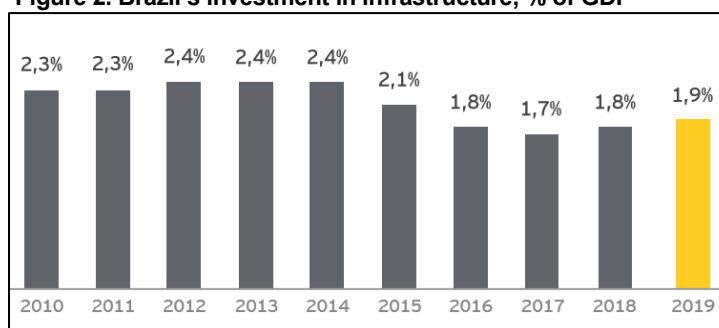
¹⁰ *Secretaria Especial de Produtividade, Emprego e Competitividade (SEPEC) and Secretaria de Desenvolvimento da Infraestrutura (SDI), “Pró-Infra, Caderno 1: Estratégia de Avanço na Infraestrutura”, ME, June 2019.*

¹¹ Ministry of Economy. [Launching of the Programa de Melhoria Contínua da Competitividade](#), November 2019. The methodology estimates the *Custo Brasil* as the differential cost of producing in Brazil relative to the average in OECD countries.

infrastructure, Brazil ranks 78th, compared to the 42nd and 54th positions of Chile and Mexico, respectively.¹² Brazil is also the least competitive among the BRICS (Brazil, Russia, India, China, and South Africa).

- 1.8 The described infrastructure gap is partly the result of long-lasting low levels of public investment. According to the IMF, Brazil's public investment over the last two decades was, on average, less than 2% of GDP, compared to 5.4% in Latin America and 6.2% in other emerging markets.¹³ In the years following the 2015-2016 crisis, Brazil has invested, on average, only 1.8% of GDP in infrastructure (Figure 2). However, the WEF estimates annual infrastructure investment of 3.2% of GDP –over R\$200 billion (≈US\$50 billion)– are required between 2019 and 2024 to meet the country's development needs.¹⁴ Other estimates indicate this figure is 4.3% of GDP –and for at least ten years– in order to remove the bottlenecks that hinder productivity gains and development.¹⁵

Figure 2. Brazil's investment in infrastructure, % of GDP



Source: ABDIB.

- 1.9 Substantial additional resources are needed to close this investment gap. Private investment can help optimize the use of public finances, especially in the above-described context of fiscal constraints following the COVID-19 crisis (¶1.3), providing more efficiency to the development of projects that can fill infrastructure gaps and expand access to basic services. Private participation also brings new skills and enables a better allocation of risks. Infrastructure not only enables development and contributes to improve competitiveness across other sectors but can also be an attractive investment opportunity in itself.¹⁶
- 1.10 Furthermore, the effects of Climate Change (CC) in Brazil will increase the demand for better and more resilient infrastructure. The Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCCAR5) highlights the country's vulnerability to extreme CC and the consequences of these events, including droughts, floods, heavy showers, and landslides, which demand more and better infrastructure. In the same direction, Brazil's National Determined Contribution (NDC) establishes the target of reducing emissions by 37% by 2025 compared to their 2005 level, and by 43% in 2030. Such goals will require substantial

¹² WEF, The Global Competitiveness Report 2019, October 2019.

¹³ IMF, Brazil: 2019 Article IV Consultation, July 2019.

¹⁴ WEF and IDB, Improving Infrastructure Financing in Brazil, January 2019.

¹⁵ Associação Brasileira da Infraestrutura e Indústrias de Base (ABDIB) and Ernst & Young, *Barômetro da Infraestrutura Brasileira*, 2nd Edition, November 2019. Sectors included comprise transport and logistics, energy, telecommunications and water and sanitation.

¹⁶ Fostering Investment in Infrastructure. OECD. 2015; Garcia-Escribano, M. et al, Filling the Gap: Infrastructure Investment in Brazil. IMF Working Paper, 2015.

investment in quality infrastructure and infrastructure-related services. The impacts of CC and the country's NDC further highlight the need to increase investment levels with efficiency, as well as the relevance of Value for Money (VFM)¹⁷ in infrastructure delivery as a key policy objective.

- 1.11 **Public-Private Partnerships (PPP).** In the early 1990s, PPPs were introduced as a mode of public service delivery that redefined the roles of public and private sectors. Since then, governments around the world started adopting PPP models for infrastructure procurement, not only because PPPs bring in private finance to public service delivery, but also because private participation can provide better VFM.¹⁸ In the developing world, PPPs are becoming increasingly popular as a means to enable accelerated implementation of infrastructure projects with private participation, as there is no realistic alternative to meet the growing demand for infrastructure spending in the face of financial or implementation capacity constraints.¹⁹ More recently, in the context of the United Nations' Sustainable Development Goals (SDG) agenda, opportunities for PPPs in quality infrastructure investment have been broadened. One of the targets of the SDGs is "to encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships".²⁰ More than 134 developing countries are now using PPPs, with contributions of some 15% to 20% of total infrastructure investment over the last ten years.²¹ Moreover, PPPs have increasingly moved from traditional sectors such as transport, energy or water and sanitation, into others including education, health, digital networks and environmental assets.
- 1.12 Literature defines a PPP as "a long-term contract between a private party and a government entity for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance".²² A PPP contract sets the grounds for a long-term relationship (usually 20 to 30 years) by which the private party agrees to design, finance, build, operate and maintain the infrastructure, and/or provide services, strictly as specified by the government entity.
- 1.13 It is generally argued that PPPs can improve traditional methods for procuring infrastructure-based services. Under the right circumstances, PPPs can: (i) improve risk management, allocating risks to parties better positioned to mitigate them; (ii) maximize utilization of assets, through adequate incentives to private operators, optimizing investment/level of service relationships; (iii) integrate

¹⁷ VFM is a measure of quality that assesses the monetary cost of a product or service against the quality and/or benefits of that product or service. VFM is based on the minimum price possible to achieve the maximum efficiency and effectiveness of a product or service.

¹⁸ OECD, PPPs: In Pursuit of Risk Sharing and Value for Money, June 2008.

¹⁹ While PPPs can create fiscal space to enable accelerated implementation of infrastructure projects, under many PPPs the full cost of the project is eventually paid by government over the long term. Yet, even in these cases upfront capital expenditure is replaced by a recurrent cost of meeting availability payments, providing flexibility to the fiscal management cycle. See World Bank Institute (WBI) and Public-Private Infrastructure Advisory Facility (PPIAF), Value-for-Money Analysis—Practices and Challenges: How Governments Choose When to Use PPP to Deliver Public Infrastructure and Services, May 2013.

²⁰ WB, Procuring Infrastructure PPPs Report 2018, 2018.

²¹ Independent Evaluation Group (IEG), WB Group Support to PPPs, WB Group, 2014.

²² There is no standard, internationally accepted definition of PPP. This document follows the definition of the PPP Reference Guide, Version 3, a joint product of several Multilateral Development Banks (MDB) and other international organizations.

different stages of project implementation and management, improving the lifecycle management of assets and reducing total lifecycle costs of infrastructure; (iv) increase reliability and effectiveness of services through conditioning the funding of infrastructure to its availability; (v) introduce flexibility to the management of operational costs, throughout the life of the asset; and (vi) refocus control mechanisms of implementing public agencies, switching from inputs to outcomes, promoting operational and technological innovation.²³

- 1.14 However, these benefits should not be taken for granted. On the contrary, the likelihood of tapping them depends on how carefully all key decisions made during the preparation of PPPs (financial, operational, legal, and technical) are carved out in the business model that will support the PPP contract –and in the contract itself. This requires institutions that can produce timely, high-quality analyses, adequate processes that align different players –within and outside government–, and adequate governance mechanisms. It also requires significant financial resources.
- 1.15 Consistently, while a robust legal framework and solid institutional basis is critical for successfully implementing PPPs, considerable efforts are needed as well in the process of designing a PPP –that is, the PPP project cycle, its phases, task-flows, decisions, and active players.
- 1.16 Although details may vary among countries, the overall PPP project cycle is fairly standard. Extensive literature exists on the basic elements of the PPP preparation process, including recognized best practices, which can be summarized as:
 - a. **Phase 1 - Identification and prioritization.** A preliminary assessment of the suitability of the PPP model (economic justification) for a particular asset. This should also include an outline of the scope of the project and the preferred technical solution.
 - b. **Phase 2 - Project appraisal.** A full assessment of the viability of the project (including key aspects and characteristics that enhance its viability) from several perspectives –users of the service, the contracting public agency, taxpayers, society, etc. Some components of this assessment include: a VFM assessment, legal due diligence, commercial and financial viability, and socio-environmental viability. This phase shall deliver the project’s financial model, risk allocation structure and the final technical design, all of which should reflect balanced decisions based on feasibility assessments conducted earlier.
 - c. **Phase 3 - Structuring of the contract.** This phase translates previous phases into formal contractual documents. This typically requires additional assessments and decision-making, such as on the payment/revenue mechanism for the private party, the final risk allocation structure and its effects on the operational rules of the PPP, the tender design, and the final regulatory requirements to carry out the tender. Phase 3 is also when market soundings are made to test if conditions for commercial viability and bankability are met.
 - d. **Phase 4 - Tender and award.** This phase includes the publishing of the request for proposal or the request for qualifications (depending on the tender

²³ Prats, J., The Governance of PPPs, IDB, April 2019; Verougstraete, M., PPPs in infrastructure development, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), March 2014.

design), interactions with potential bidders and the processing and appraisal of proposals and qualifications.

- e. At the end of each phase 1 through 3 a formal decision should be made by the relevant public entity as to whether the project should move forward to the next phase or be disregarded as a PPP. At the end of the fourth and last phase, a preferred bidder will be selected and the PPP contract will be signed.
- 1.17 The above-described project cycle (phases 1 to 4) becomes critical to ensure that only well-structured, commercially viable projects are procured as PPPs and that these are sufficiently credible and attractive to a wide range of investors. Yet, the PPP project cycle is inherently complex, owing to its multidisciplinary scope and long, technically sophisticated nature, which differs from traditional government procurement operations.
- 1.18 Concerning this issue, the PPP Reference Guide²⁴ refers to the potential benefits of using “advisory services provided by commercial firms or multilateral organizations” and outlines recommendations in this regard. The use of external services can help: (i) design projects that adequately balance private and public sector interests and guarantee long-lasting benefits for the population; (ii) introduce more transparency to the process, which translates into higher investor confidence; (iii) benefit from more relevant, direct, and broader experience from multi-skilled teams; and (iv) open up access to a more global investment community.
- 1.19 **The current state of PPPs in Brazil.** Over the past 20 years, Brazil has been very active in promoting private investment in public infrastructure. According to [Private Participation in Infrastructure](#),²⁵ between 1990 and 2019, 994 projects reached financial closure in Brazil for a total investment of US\$416,813 million.
- 1.20 PPPs in Brazil have been enabled by a comprehensive regulatory framework. In 1995, the Federal Law 8.987/95 (as amended) established the legal framework for user-pays PPPs (PPPs in which revenues are based on user payments) or *Concessões Comuns*. This Law describes basic contractual provisions, such as tariff adjustment methodologies, mechanisms to protect the private party from unilateral governmental decisions and defined procedures for the procurement of PPP contracts, such as the publicity of bidding documents. The implementation of this regulation was transformative, creating the opportunity for federal and subnational governments to experiment partnerships with the private sector under different types of contracts. It did not, however, address any aspects related to the project cycle, its components or the actors involved.
- 1.21 In 2004, Law 11,079 (as amended) expanded the use of the PPP mechanism, explicitly allowing direct financial support from the public sector (sponsored and administrative concessions), which was hitherto vetoed by previous legislation. This gave PPP contracts much more autonomy to allocate risks, inducing a more performance-driven perspective to infrastructure projects. It also broadened the type of mechanisms available to the public sector to provide infrastructure and diversified

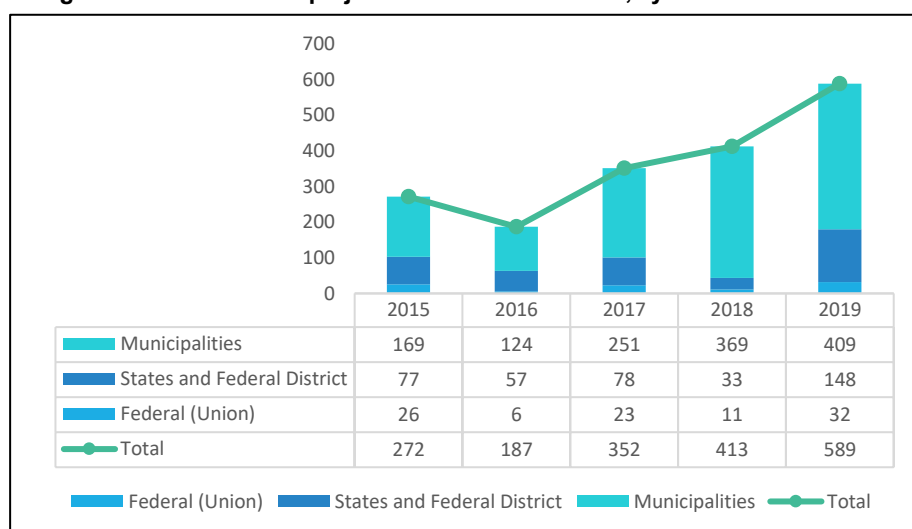
²⁴ The WB, PPP Reference Guide, Version 3, 2017.

²⁵ This database, a product of the WB's PPP Group, identifies and disseminates information on private participation in infrastructure projects in low- and middle-income countries. Data for Brazil includes airports, collection and transport, electricity, Information and Communication Technologies (ICT), integrated Municipal Solid Waste, natural gas, ports, railways, roads, treatment disposal, water, and sewerage.

contractual provisions, which since then have come to rely on more diverse revenue models and more sophisticated risk allocation schemes.

- 1.22 Whereas user-pays PPPs continued to be implemented, the regulatory change led to a new wave of projects. Differently from previous experiences, these now included social infrastructure (health and education, for instance), as well as economic infrastructure with a viability gap. In turn, the diversified assets and services delivered by PPP contracts, has been associated with an unprecedented prominence of subnational PPPs. In fact, subnational experience has been increasingly relevant in the country since constitutional responsibility for delivery of social services typically lies with subnational entities (Figure 3). One effect of this trend was the dispersion of contracting agencies throughout the country, as opposed to the highly concentrated model of previous generations of PPPs.

Figure 3. Number of PPP projects initiated in 2015-2019, by administrative division

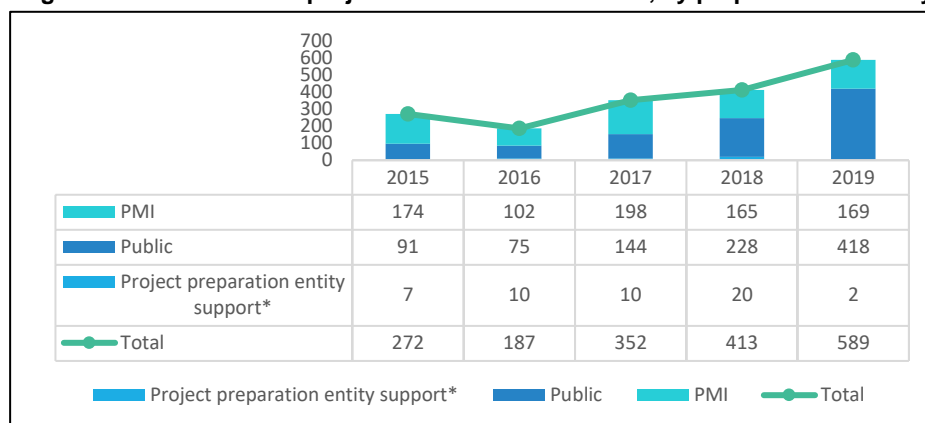


Source: RADAR PPP, 2020. *Estudo Crítico Sobre o Perfil da Estruturação de Projetos de PPP e Concessão no Brasil (2015-2019)*.

- 1.23 A second relevant trend observed more recently in PPP projects in Brazil is the increasing use of *Procedimentos de Manifestação de Interesse* (PMI),²⁶ in which the public sector invites private entities to participate in the preparation of feasibility studies and structuring of PPP projects to be procured in the future (Figure 4).

²⁶ Via the PMI, governments in Brazil issue public requests to the private sector for the appraisal and structuring of PPP projects. The PMI allows the private sector to participate in the preparation and planning of PPP projects, defining technical, financial, legal and risk aspects with no cost for the government, similar to international practice with unsolicited proposals. Companies responsible for these studies may participate in the bid. If the contract is not awarded to the company that delivered the PMI, the successful bidder reimburses all corresponding costs. The key difference between PMI and unsolicited proposals is that PMIs are carried out upon government's demand, which sets out project characteristics and key parameters to be followed. Thus, while unsolicited proposals allow the private sector to identify project opportunities outside government priorities, PMIs reduce flexibility of private sector decision-making. Competition is also key, as more than one company can respond to the government's request.

Figure 4. Number of PPP projects initiated in 2015-2019, by preparation modality



Source: RADAR PPP, 2020. *Estudo Crítico Sobre o Perfil da Estruturação de Projetos de PPP e Concessão no Brasil (2015-2019)*.

* The project preparation entity support category includes projects that received support from the *Programa Brasileiro de Fomento à Participação Privada (PSP)*, in addition to those supported by the following organizations: *Banco Nacional de Desenvolvimento Econômico e Social (BNDES)*, *Caixa Econômica Federal (CEF)*, *United Nations Office for Project Services (UNOPS)*, and the *Estruturadora Brasileira de Projetos (EBP)*.

- 1.24 Overall, the last five years have shown positive evolution in the volume of projects initiated (Figure 3 and Figure 4). These trends are expected to continue, especially in states and cities, where local governments continue to demonstrate their willingness to engage in PPPs and concessions as part of their development agenda.
- 1.25 **Challenge to be addressed by the program.** The previous sections (§1.11-§1.15) describe how PPPs have the potential to help close the infrastructure gap, by leveraging scarce public funding and introducing private sector technology and innovation to improve public service provision and operational efficiency. Existing evidence confirms that PPPs can indeed lead to improvements, including delivering projects sooner, at lower costs and with higher levels of service satisfaction than traditional procurement methods.²⁷ Subsequently, expanding and improving infrastructure contributes to productivity and growth.
- 1.26 The existence of a sound regulatory framework is a necessary condition, but not sufficient, to guarantee success and sustainability of the PPP model. Gathering sufficient competencies to carry out PPP preparation with standards required by potential private partners, is also of great significance. This includes tasks along all four phases of the project cycle to avoid misspending resources, and to increase the likelihood of moving forward only with projects that are financially and technically sound and attractive to investors (§1.16).
- 1.27 In Brazil, projects have already been procured –and basic services provided– under the PPP modality in numerous sectors, including education, health, transport, energy, water, and sanitation. But despite consistent and increasingly diversified interest of local governments for the PPP model, the capacity to transform this demand into tangible projects is still limited. This is especially problematic in the face of the described infrastructure gap landscape.

²⁷ Estache, A. and Saussier, S., PPPs, and Efficiency: A Short Assessment, July 2014; Regan, M., Public Project Procurement, and the Case for PPPs, 2013.

- 1.28 Thus, although the capacity to prepare adequate projects is a key driver of PPP success, evidence shows that the country still faces an important challenge in this regard. For example, the need for improvement in project guidance and screening to support construction of a quality pipeline is listed in gap analysis exercises performed by the IDB as one of the main problems affecting Brazil's infrastructure sector.²⁸ Furthermore, the Economic Intelligence Unit's (EIU) Infrascope Index Report and WB's Benchmarking PPP Procurement Index also suggest that the quality of project preparation in Brazil is one of the main weaknesses of its PPP program.²⁹
- 1.29 According to the Procuring Infrastructure PPPs 2018 report³⁰, preparation is the area of the country's PPP policy that has the most room for improvement, if compared to other countries assessed. The report indicates that "a sound appraisal of the project is crucial to bringing quality projects to the market" and that "the private sector often reports a lack of quality projects in the pipeline as a constraint to invest in infrastructure". More specifically, of a score from 1 to 100, Brazil's PPP preparation is given a 47, in contrast to the higher scores achieved in procurement (80) and contract management (76). Moreover, Brazil's preparation practices score significantly below its peers in the region, including 67 in Chile, 90 in Colombia, and 81 in both Mexico and Peru. Average for LAC is 50 and for OECD countries is 65.
- 1.30 Available data on actual PPP projects suggests that project preparation with private participation has been so far narrowly efficient in Brazil. First, most projects that initiate the project cycle of development fail to reach financial closure after three years. Only 16.12% of projects structured by the public sector, and only 8.22% of those structured via PMI, generate effectively signed PPP contracts (Table 1).³¹

Table 1. Conversion rate of projects, by preparation modality

| | Number of projects initiated between 01/01/15 and 31/01/17 | Number of projects converted into signed contracts until 31/12/2019 (out of total initiated between 01/01/15 and 31/01/17) | Conversion rate |
|-------------------------------------|--|--|-----------------|
| Without PMI | 337 | 54 | 16.02% |
| Project preparation entity support* | 27 | 4 | 14.81% |
| Public | 310 | 50 | 16.12% |
| PMI | 474 | 39 | 8.22% |
| Total | 811 | 93 | 11.46% |

Source: RADAR PPP, 2020. *Estudo Crítico sobre o Perfil da Estruturação de Projetos de PPP e Concessão no Brasil (2015-2019)*.

* The project preparation entity support category includes projects that received support from the PSP, in addition to those supported by the following organizations: BNDES, CEF, UNOPS, and the EBP.

²⁸ Feal-Zubimendi, S., et al., "Country Infrastructure Briefs: Southern Cone", IDB, Department of Research and Chief Economist, April 2019. This is also highlighted in the Country Strategy for Brazil 2019-2022.

²⁹ The Infrascope index is "a benchmarking tool that evaluates the capacity of countries to implement sustainable and efficient PPPs in key infrastructure sectors". Benchmarking PPP Procurement (2017) collects and presents "comparable and actionable data on PPP procurement on a large scale, by providing an assessment of the regulatory frameworks and recognized practices that govern PPP procurement across 82 economies".

³⁰ Procuring Infrastructure PPPs 2018 assesses the regulatory frameworks and recognized good practices that govern PPP procurement across 135 economies, with the aim of helping countries improve the governance and quality of PPP projects.

³¹ Based on data from Radar PPP, as of December 2019. Data on average time to close PPP deals includes only the PMI structuring modality.

- 1.31 Second, projects that do reach commercial closure in three years consume considerable resources. The average time required to close PPP deals –from the beginning of the project cycle to the signing of the contract– exceeds two years (810 days), posing significant delays to the overall implementation of priority projects (Table 2).

Table 2. Average times of project preparation, by preparation modality

| | Number of projects in sample | Kickoff until consultation | Consultation until public notice | Public notice until signing | Kickoff until signing |
|--|------------------------------|----------------------------|----------------------------------|-----------------------------|-----------------------|
| Project preparation entity support* | 22 | 268 | 367 | 215 | 850 |
| Public | 4 | 495 | 114 | 112 | 721 |
| PMI | 71 | 382 | 186 | 236 | 804 |
| Total | 97 | 360 | 224 | 226 | 810 |

Source: RADAR PPP, 2020. *Estudo Crítico Sobre o Perfil da Estruturação de Projetos de PPP e Concessão no Brasil (2015-2019)*.

* The project preparation entity support category includes projects that received support from the PSP, in addition to those supported by the following organizations: BNDES, CEF, UNOPS, and the EBP.

- 1.32 Independent, good technical assistance in project preparation can increase the prospect of achieving closure for socially desirable projects. For instance, an analysis of the International Finance Corporation (IFC) portfolio of PPPs supported via advisory services to bring transactions to contract closure, reveals that more than 50% of projects reach this stage,³² a much higher rate than that currently achieved in Brazil. Nevertheless, providing quality to the preparation of projects entails spending considerable financial resources, capacity to manage and access to international service providers, which local governments often lack. Hence, it is pertinent to perfect the model used for project preparation by providing adequate and sufficient resources, both financial and technical, to reduce the rate of unsuccessful projects, increase the attractiveness of successful projects for private investors and avoid squandering limited resources.
- 1.33 **The role of the *Banco Nacional de Desenvolvimento Econômico e Social (BNDES)*.** BNDES has been a major supporter of private participation in public infrastructure projects in Brazil, advising in strategic project preparation, appraising risk, but mostly providing finance for projects. Long term financing via National Development Banks has been one of the most extensively used government instruments for supporting infrastructure projects. However, as the country enters a new cycle of promotion of private investment in service expansion, BNDES has been adapting strategies and operational goals to reshape its business with focus on providing technical advisory to public entities wishing to structure projects with private participation. This new focus involves the provision of advisory services for public contracting agencies throughout the entire project preparation cycle, including in prior phases of project development, in order to create sufficient pipeline of quality projects that are attractive for investors. While BNDES will remain essential to financing high risk sectors, it will now further develop its practice in project preparation for the design of bankable projects, thus crowding in other financial players. This is in line with their development mandate of promoting infrastructure investment projects.

³² IEG, WB Group Support to PPPs, WB Group, 2014.

- 1.34 As a central public sector institution, BNDES is very well-positioned to channel advisory and project preparation financing to both federal and subnational governments in several lines of action, from project preparation to the deployment of financial solutions in partnership with the private sector. The institution is also committed to engage in supporting the improvement of the business environment and develop financing solutions for higher risk assets and high externalities.³³
- 1.35 BNDES is a main partner in the government's *Programa de Parcerias de Investimentos* (PPI), launched in 2016 to expand and strengthen the collaboration between the state and the private sector through partnership contracts and other means of privatization. As such, BNDES analyzes the financial viability of projects included in the PPI pipeline, offers financing lines, and manages specific initiatives around privatization processes approved by the PPI, including financing technical and specialized services for structuring PPP and concession projects.
- 1.36 **IDB value added.** IDB resources will contribute to the scaling up of funding for PPP preparation activities and increasing the efficiency in its use. As preparation of projects entails extensive outsourced technical support, the IDB will ensure that international best practices are introduced in the overall contracting process, improving access to experts in the field to integrate greater specialization –as needed to carry out the variety of technical tasks related to PPPs– with economies of scale. IDB will also ensure a PPP process cycle in line with the best practices in the region and with successful experiences with previous operations implemented in Brazil³⁴, all of which have contributed to the preparation of PPPs in the country. Furthermore, IDB's project team will promote a multidisciplinary approach during the supervision of program execution (§3.3), particularly in the preparation cycle of the PPPs, providing technical support to BNDES in the prioritization, appraisal, and structuring of each PPP project. IDB's technical supervision will add value to BNDES' implementation of the program by offering sector knowledge based on regional and international best practices regarding several aspects of the project cycle, such as the logic and scope of the intervention, products and activities described in consultants' terms of reference, technical feasibility of the proposed solution, the determining factors of fiscal, environmental and technical feasibility, as well as Value for Money, key aspects of risk allocation, considerations on project's bankability as well as other activities, as further detailed in the Operating Regulations ([OR](#) – paragraphs 10.8 and 10.9).
- 1.37 **Magnitude of resources needed.** By the beginning of 2020, the database from Radar PPP identified 743 projects active and in different stages of development in Brazil. Of these, 337 had begun or finalized the structuring process and 234 were already undergoing public consultation or a tendering process. The remaining 172 had been publicly announced but not yet initiated its development. The agency also identified hundreds of other projects at a halt in months prior to the COVID-19 crisis, which may be reactivated in 2021, although an exact figure is not available.
- 1.38 Preparation costs can vary widely depending on several characteristics of the project, including sector, size, location, type of contract and so on. Nonetheless, based on the average number of projects initiated in the last five years, equal to 362 (Figure 3 and

³³ BNDES, *Relatório Anual*, 2019.

³⁴ [ATN/OC-16388-RG / ATN/OC-17711-RG / ATC/OC-16389-RG](#), [ATC/JP-16666-RG](#), [ATC/OC-17971-RG / ATN/AC-17969-RG / ATN/OC-17970-RG](#).

Figure 4) and an average preparation cost of US\$2 million per project,³⁵ a round estimate for funding required in the next five years would be around US\$3.6 billion (US\$724 million, annually). Existing literature suggests that the share of project preparation costs in total project costs may vary between 1% and 10%.³⁶ Using Brazil's infrastructure demand of R\$284.4 billion (≈US\$70.9 billion) annually over a ten-year period,³⁷ annual project preparation costs for that same period would be at least US\$709 million.

- 1.39 **Government strategic framework.** The program is aligned with government initiatives specifically related to improving infrastructure with higher participation of the private sector and, more broadly, with its priority to increase productivity in Brazil. In particular, the program will contribute to the country's goal of expanding investment in infrastructure to 3,8% of GDP in 2022 and up to 5,3% in 2040, as set out in the government's *Pró-Infra* 2019. The *Pró-Infra* 2019 is the government's strategy that outlines specific actions in infrastructure (logistics, energy, sanitation, urban mobility, telecommunications, and social housing) to contribute to increasing productivity in industry, commerce, and services, foster competitiveness, and structural job supply. It describes how competitiveness is key to increase private participation in infrastructure, indicating that the main problem is not the availability of capital but rather the way in which projects are being designed, which generates high perception of risk and high transaction costs.³⁸ The proposed program is also in line with the *Programa de Melhoria Contínua da Competitividade*, launched by the federal government in November 2019 with the goal of prioritizing initiatives that enhance the business environment and competitiveness to reduce the *Custo Brasil* (¶1.7).
- 1.40 **Sector knowledge and experience of the IDB.** Supporting the preparation stage of PPP projects can encompass a wide range of scopes and areas of intervention. Project Preparation Facilities (PPF) created in the context of government or multilateral intervention, usually support project preparation through all its phases. Unlike project finance facilities, which in essence are created to provide funding for the projects themselves, PPFs focus on providing funding and technical assistance for the project preparation process. In Asia and LAC, many PPFs are managed by development banks, which also serve as a source of finance. While most of them are funded by national or international institutions, they are mostly oriented to working with subnational entities.³⁹
- 1.41 An evaluation on PPP intervention carried out by the Office of Oversight and Evaluation (OVE) of the IDB Group⁴⁰ states that PPPs “done poorly,” can result in “higher costs and less and worse services”, and that governments seeking to scale up infrastructure investment require the consolidation of institutional developments (including project preparation capacity) to deliver their potential. The report states that during 2006-2015, IDB Group's work (145 approved PPP operations for

³⁵ This average is based on costs of consultants hired by BNDES for PPP projects in the past for a project portfolio composed of some 50% logistics infrastructure projects (ports, highways, and urban mobility) and 50% of social infrastructure projects (health, education, sanitation, among others).

³⁶ City Climate Finance Leadership Alliance. Summary of Good Practice of Successful Project Preparation Facilities, February 2018.

³⁷ ADBIB, 2019.

³⁸ SEPEC and SDI, “*Pró-Infra, Caderno 1: Estratégia de Avanço na Infraestrutura*”, ME, June 2019.

³⁹ City Climate Finance Leadership Alliance. Summary of Good Practice of Successful PPFs. February 2018.

⁴⁰ IDB. Evaluation of PPPs in Infrastructure. March 2017.

US\$5.8 billion) focused on improving the enabling environment and on financing PPP projects, with little support for project preparation. Furthermore, financing of specific PPP projects was provided mostly by the private sector windows and concentrated in energy and transport. Following OVE's evaluation report, the IDB instituted a PPP focal area. With resources from Technical Cooperation⁴¹ and the Global Infrastructure Facility, this PPP focal area has been implementing a variety of initiatives to support project preparation, which in the case of Brazil include: (i) support to Caixa Econômica Federal for PPP structuring at the municipal level; and (ii) direct support to several subnational entities for specific PPPs (e.g. a road concession program in Minas Gerais, a PPP for a hospital complex in Santa Catarina and a passage rail project from São Paulo to Campinas).

- 1.42 **Complementarity with other IDB Group operations.** Recently IDB Invest has approved an operation of US\$150 million to subscribe quotas in a debt fund for infrastructure in Brazil (12640-01 – B2F Infrastructure Debt Fund). The proposed program will be complemented by activities from this operation, as participation of IDB Invest in roadshows as a potential anchor investor will be ensured. This will provide the program with opportunities to attract investors further and increase the scale of investment.
- 1.43 **Coordination with other MDB/Development Banks.** In partnership with other multinational development banks, the IDB has also engaged with initiatives in Brazil that offer relevant knowledge. One of them is the Private Sector Participation Program (PSP), developed in partnership with the International Finance Corporation (IFC) and BNDES, which has structured 12 projects and allowed IDB to develop internal know-how. PSP priorities will be refocused to be complementary to the scope of this loan, in close coordination with other initiatives of IFC and BNDES.
- 1.44 **Lessons learned.** Program design and preparation has benefited from IDB Group's ongoing activities and experience in supporting PPP structuring in the region. Drawing from findings of their evaluation, at the operational level OVE recommends the development of PPFs and concludes that one of the areas in which the IDB Group can add value is by providing a "recognized seal of approval" early in project preparation, as well as applying IDB's standards, which are often more rigorous than local ones.
- 1.45 Applying higher IDB standards has led in the past to changes in how local agencies, including BNDES, require more broad assessments in particular areas, such as environmental and social, including mitigation actions, related to the financing of large infrastructure projects.
- 1.46 Also, several projects have already been supported with resources from the ongoing regional Technical Cooperations (TCs) described in ¶1.41, with a main component to support countries in preparing individual PPP projects and advising specific transactions. In Brazil, the IDB is providing advisory to six subnational governments (*São Paulo, Minas Gerais, Santa Catarina, Rio Grande do Sul, Cachoeiro do Itapemerim and Teresina*) in the implementation of tasks for their PPP project cycles. These previous initiatives have offered relevant lessons for the

⁴¹ [ATN/OC-16388-RG / ATN/OC-17711-RG / ATC/OC-16389-RG](#), [ATC/JP-16666-RG](#), [ATC/OC-17971-RG / ATN/AC-17969-RG / ATN/OC-17970-RG](#).

program, such as the need for pre-determined governance schemes responsible for decision-making on topics associated with risk allocation, policy objectives in the form of output specifications and performance management systems. The program will also benefit from lessons learned during the preparation of the IDB Invest operation (¶1.42), mainly in relation to key bankability criteria developed by the B2F Debt Fund, which will be considered for execution arrangements.

1.47 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy (UIS) (AB-3190-2) in the development challenge of Productivity and Innovation, because it explicitly addresses the quality and quantity of infrastructure investment, with direct impacts on country productivity; and with the cross-cutting theme of Institutional Capacity and Rule of Law, because it will strengthen institutional capacity of local governments in structuring PPPs and concessions. The program is also aligned with the cross-cutting theme of Climate Change and Environmental Sustainability. According to [the joint MDB approach on climate finance tracking](#), 20% of total IDB funding for this operation will result in CC mitigation and adaptation activities. The project contributes to the IDBG's climate finance goal of 30% of approvals by 2020.⁴² Additionally, it will contribute to the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12) in the performance indicator of agencies with strengthened digital technology and managerial capacity. It is also aligned with the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (GN-2710-5), as better infrastructure services address several problems of inclusive economic growth. The program is aligned with the IDB Group Country Strategy with Brazil 2019-2022 (GN-2973), specifically in its first priority area to "improve the business climate and narrow gaps in sustainable infrastructure for enhanced competitiveness", through the strategic objective of "increasing the role of the private sector by improving the quality of the business environment", and ultimately contributing to the expected result of developing a "stronger framework for PPPs" as BNDES will further develop its project preparation competencies (¶1.36).

1.48 **Gender considerations.** The potential to promote equitable access to the benefits of the supported projects will be one of the criteria for prioritization of sectors and specific initiatives (¶1.16b). Furthermore, a recommendation will be made on a project-by-project basis, whenever applicable, to incorporate explicit requirements to apply best practices related to gender in contractual mechanisms and incentive schemes of PPP transactions supported (¶1.51).⁴³

B. Objective, components, and cost

1.49 **Objective.** The general objective of the program is to promote effective private participation in infrastructure investments in Brazil, in order to support growth and productivity in the long term. The specific objective is to support the efficiency of the preparation process of a group of PPP projects and therefore increase their attractiveness to sponsors.

⁴² The estimation is calculated based on the assumption of US\$2million consultancy cost per project according to the Economic Analysis and taking into account that at least two supported PPPs will incorporate explicit adaptation and/or mitigation measures in their design.

⁴³ Resources from TC [ATN/CF-17992-RG](#) are envisaged for the development and implementation of methodologies to support this.

- 1.50 **Single component – Financing for advisory services for PPP project preparation.** The program will consist of a single component under which BNDES will use IDB's loan resources along with its own resources to finance private independent⁴⁴ advisory services for the preparation of infrastructure PPP projects. These include user-pays concessions, sponsored concession (in which revenues come from user fees and government transfers), and administrative concessions (all revenues come from government transfers and ancillary revenues). More specifically, resources from the program will be used to hire expert consultants, such as technical, legal, and financial advisory firms, to assist public agencies in preparing PPP projects, including preliminary analysis and the entire PPP project preparation cycle (§1.16).
- 1.51 The service provided by external consultants to be financed may include: (i) technical studies; (ii) legal advisory; (iii) financial and transaction consultancy; (iv) communication advisory; (v) other technical services directly required to implement all tasks included in the PPP project cycle; and (vi) knowledge dissemination.⁴⁵ All these will be provided in order to promote key objectives of infrastructure projects which, besides their direct sector-related objectives, will also pursue, when possible: (i) technical feasibility; (ii) positive economic impact at the local and national levels; (iii) strong commercial and financial feasibility; (iv) fiscal viability in terms of direct and contingent liabilities; (v) adherence to best international practices regarding the management of environmental and social issues of the projects, including IDB, IFC and Equator principles standards (§2.3); (vi) infrastructure resilience to long term impacts of climate change; and (vii) explicit measures to promote equitable access to the benefits of infrastructure investment by different social groups. These objectives will be translated into concrete assessments and PPP contractual mechanisms, as stipulated in the terms of reference for the consultancy firms according to sector and individual project requirements, and in line with the PPP project cycle described in the OR.⁴⁶
- 1.52 **Beneficiaries.** Direct beneficiaries of the program will be federal and subnational governments, and their controlled entities, intending to attract private sector investment into infrastructure projects via PPPs. These projects include, but are not limited to, sanitation, street lighting, roads and ports, and digital networks. Each beneficiary will enter into an agreement with BNDES by which the latter will use program resources to hire specialized consulting services to assist the beneficiary in the preparation of the PPP project, including preliminary analysis and the entire PPP project preparation cycle. Information regarding program eligibility criteria and the application process will be publicly available in the [BNDES Website](#). BNDES will assess the PPP project based on the eligibility criteria described in the [OR](#), including: (i) merit, in terms of positive impacts to users and other stakeholders; (ii) feasibility, in terms of assessments of key viability issues; and (iii) alignment with the national strategic sectoral plans for projects led by the federal government.

⁴⁴ The term "independent" is used in this context to indicate the firms providing these services will not be allowed to later participate in the PPP tenders.

⁴⁵ Services might be contracted through integrated consultancy services or through specialized firms, depending on the sector and the requirements of specialized technical support of each individual PPP project.

⁴⁶ A series of tools and methodologies will be considered to support the incorporation of these elements to the selection and structuring process, among which are some reference frameworks developed by the IDB in the context of similar programs (see [Ficha de Sostenibilidad de los Proyectos de Inversión](#) and [Climate Resilient Public Private Partnerships: A Toolkit for Decision Makers](#)).

The assessments will follow BNDES's internal processes, as further detailed in the OR. In the longer term, once assets or services associated to the PPPs are deployed, all final users of new infrastructure developed will be indirect beneficiaries of the program, expected to increase and improve service provision.

- 1.53 It is expected that a pipeline of bankable, investment-ready PPP projects will be developed as a result of the activities of the program. The program has been sized to enable the structuring of approximately 15 new PPP initiatives, and it is expected that the effectiveness (conversion rates) for the preparation of these projects by BNDES will be increased up to 46.7% (see Annex II - Results Matrix). A track record of successful projects may in turn further encourage investors to pursue other local investment opportunities. Eventually, in the longer term, as these projects progress in the procurement and implementation stage, the program envisions to have a positive impact on infrastructure investments –and the associated service provision– by increasing the participation of the private sector in these ventures.

C. Key results indicators

- 1.54 Indicators considered for monitoring the effectiveness of the program are: (i) for the specific objective: (a) share of PPPs that reach commercial closure with support from the program, (b) average time required for completing the project cycle with support from the program, (c) average number of participants (bidders) per tender in PPP projects supported by the program, and (d) PPPs with support from the program that have explicit measures to mitigate CC and/or implement climate resilience; and (ii) for the general objective: (a) total volume of investment in PPPs supported by BNDES that reach commercial closure, and (b) share of PPPs initiated in Brazil in the years 1 to 3 of the program that reach commercial closure until end of year 5 of the program (Annex II).
- 1.55 **Economic evaluation.** A cost-benefit analysis was conducted to calculate program net benefits/costs assumed to not otherwise accrue to the economy in the absence of the program. The analysis validates the program's creation of net benefits associated to the IDB support to public agencies in the structuring of PPPs. Based on calculations of this analysis, the discounted value of the cash flows generated, in other words the Net Present Value (NPV) of the program, is US\$46.64 million. That is, the program will generate an economic value of US\$46.64 million higher than the alternative of Business-as-Usual scenario, under the base-case assumptions. In addition, due to the fact that the cashflow of this operation is abnormal, changing direction more than once, the use of the IRR as an assessment method is not appropriate. Therefore, as one of the criteria to assess the economic benefits of the program, a Modified Internal Rate of Return (MIRR) was calculated, resulting in 14.88%⁴⁷ (details in paragraph 4.2 of [OEL#1](#)). A sensitivity analysis was also carried out in order to test potential impacts on the benefits obtained in the base-case analysis. Changing conditions of conversion rates vis-à-vis economic rates of return of actual PPP projects and different times achieved to prepare projects in the program scenario were tested. This analysis suggests that the program is highly likely to deliver positive returns even under stressed circumstances.

⁴⁷ To make the analysis compatible with the guidelines of discount rate for CBAs, the team used a 12% cost of capital and a 12% reinvestment rate, as assumptions for the calculation of the MIRR.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The proposed program is a Reimbursable Technical Cooperation to be financed with a loan of US\$20 million from IDB's Ordinary Capital (OC), and local counterpart contribution of US\$10 million from BNDES. In its role of structurer of PPPs, BNDES will use program resources exclusively to finance consultancy services for the preparation of PPP projects (R\$1.50).

Table 3. Summary of program costs (US\$)

| Category | IDB | Local Counterpart BNDES | Total |
|--|-------------------|----------------------------|-------------------|
| Single component – Financing for advisory services for PPP project preparation | 20,000,000 | 10,000,000 | 30,000,000 |
| Total | 20,000,000 | 10,000,000 | 30,000,000 |
| Percentage (%) | 67 | 33 | 100 |

- 2.2 The disbursement period for the program will be five years from the date of signature of the loan contract between IDB and BNDES (Table 4).

Table 4. Disbursement plan (Millions of US\$)

| Single Component – Financing for advisory services for PPP preparation | Year I | Year II | Year III | Year IV | Year V | Total |
|--|------------|------------|-----------|------------|------------|------------|
| IDB | 0.8 | 5.2 | 8 | 5.2 | 0.8 | 20 |
| Local | 0.4 | 2.6 | 4 | 2.6 | 0.4 | 10 |
| Total | 1.2 | 7.8 | 12 | 7.8 | 1.2 | 30 |
| %/year | 4 | 26 | 40 | 26 | 4 | 100 |

B. Environmental and social safeguard risks

- 2.3 In accordance with the Environment and Safeguards Compliance Policy (OP-703), this operation has been classified as Category "C". Resources from the program will be used to hire specialist external services, such as technical, legal, and financial consultants, to assist public agencies in structuring PPP tenders. No negative Environmental, Social, Health and Safety (ESHS) risks or impacts have been identified for this operation. To promote best practices, all consultancies, when relevant, will align to international ESHS standards.⁴⁸ While these consultancy services will support BNDES to integrate best international environmental and social practices in the structuring of PPP projects, the program will not be directly responsible for the final environmental and social environment diligence to be carried out under the sole responsibility of the beneficiary public agency, outside the scope of this program.

⁴⁸ Such as the [IDB safeguards](#), the [Equator Principles](#) or the International Finance Corporation [Performance Standards](#). See also the [OR](#).

C. Fiduciary risk

- 2.4 In the last decade BNDES has successfully executed five loan operations financed by the IDB⁴⁹, including operation [3866/OC-BR](#), for which IDB carried out additional institutional assessments and confirmed BNDES' capacity for execution. Further, an update of the institutional capacity assessments from previous operations has been performed as part of the preparation of this program (Annex III). The general conclusion is that BNDES possesses high technical capacity, adequate information systems, and proper internal and external controls, and therefore the fiduciary risk associated to this operation is deemed low (§3.2).
- 2.5 The program will finance consultancy services to support BNDES to integrate best international practices in the structuring of PPP projects, including recommendations to design the individual projects, bidding documents, contractual conditions, and other aspects of the procurement process to ensure the principles of value for money, economy, efficiency, equality, transparency, and integrity in the PPPs. It is important to underscore that both the PPP procurement process as well as the implementation of each PPP project will not be financed with the resources of this program. Those activities are outside the scope of this technical cooperation and will be carried out separately under the sole responsibility of the relevant public agency responsible for the respective PPP project. These factors mitigate any fiduciary and reputational risk for the Bank and the program that might derive from the PPP procurement and/or the implementation of the individual PPP projects.

D. Key issues

- 2.6 **Fiscal sustainability.** While the program focus is on providing technical assistance for PPP structuring, it is recognized that in some cases PPP mechanisms could potentially be a source of fiscal imbalances and long-term contingent liabilities. Considering this issue, the current program considers a series of activities built in its design, including: (i) project affordability by government will be considered early on as one of the criteria for project prioritization; (ii) a detailed and complete fiscal feasibility assessment will be conducted as a part of the appraisal phase of the PPP project cycle, thus allowing for changes in the project structure prior to the design of the contract; and (iii) a direct and contingent liabilities assessment will be performed prior to the tender launch as part of the approval process of the final procurement package.
- 2.7 **Operational sustainability.** It is expected that the program will be sustainable and have a long-term effect as: (i) BNDES has already a fully dedicated team to execute similar activities that now would be scaled up by the proposed program; (ii) BNDES will provide its own resources as co-financing to the program; and (iii) an activity of knowledge sharing has been designed, so as to promote lessons learned for future similar initiatives by BNDES, central government or subnational entities.
- 2.8 Furthermore, BNDES will apply recovery fees associated to the recovery of transaction costs of contracting advisors (financed by the program), such as BNDES's overhead staff costs, to be paid by the winning bidders of PPP projects.

⁴⁹ Operations [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#), and [3866/OC-BR](#).

This practice internalizes the project preparation costs to the project overall capex, as recommended by the best international practices⁵⁰ and promotes financial sustainability of the Project Fabric Facility.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower and executing agency of the program will be BNDES, and the Federative Republic of Brazil will be the guarantor of the financial obligations under the loan. BNDES is a national development institution with ample experience in finance structuring and fiduciary management and is the main financing agent for development in Brazil. Since its foundation, in 1952, BNDES has played a fundamental role in stimulating the expansion of industry and infrastructure in the country, providing support for projects in sectors like transport and energy and helping governments in the structuring of concessions and PPPs. BNDES has extensive knowledge and technical capacity to offer several financial support mechanisms to Brazilian companies of all sizes as well as public administration entities, enabling investments in all economic sectors (¶1.33 to ¶1.35). In addition, the IDB has a relevant track record with BNDES, having carried out several global credit loan operations satisfactorily ([OEL#4](#)).
- 3.2 BNDES will implement the program through a Project Execution Team composed of its Financial and Structuring of Investment and Partnerships areas. BNDES's team will be responsible among others to: (i) prepare and submit to IDB the plans and operational documents; (ii) prepare and submit to IDB the disbursement requests and justification of use of resources; (iii) prepare and submit progress reports to IDB; and (iv) oversee the overall contracting process of expert consultancies in accordance with the [OR](#).
- 3.3 **Multidisciplinary support from IDB during implementation.** IDB's technical supervision of the program will be undertaken by the project team. In addition, given the multidisciplinary characteristics of the program, for each PPP project prioritized, IDB sector specialists will be identified to support the project team in the supervision of the PPP project, in accordance with the [OR](#), including from the Infrastructure and Energy Sector Department and/or from the Social Sector Department, as well from the cross-cutting areas of Gender and Diversity, Fiscal Management, and/or Climate Change and Sustainable Development, among others.
- 3.4 The operational details regarding the mechanism for the beneficiary entities to access the program; the eligible sectors and beneficiary entities; the criteria and selection mechanism for the PPP projects are further described in the [OR](#) (¶1.52). Furthermore, the OR includes specific procedures and requirements for the use of the funds, including: (i) disbursement mechanisms; and (ii) Monitoring and Evaluation (M&E) requirements, amongst others. PPP projects will be assessed and selected following merit, feasibility, and alignment with national plans criteria, as described in ¶1.51 and in the OR. An agreement between BNDES and each

⁵⁰ <https://pppknowledgelab.org/mdb-joint-activities>.

beneficiary public agency will provide the precise terms and conditions of the services to be provided by BNDES for the development of the PPP project, which will depend on the characteristics of the project and the specific technical requirements.

- 3.5 **Special contractual clauses prior to the first disbursement.** (i) The presentation of evidence that BNDES has approved the [OR](#) of the program, in accordance with a draft previously agreed upon with the Bank, and that such OR has entered into effect; and (ii) the designation of a **Project Execution Team**. These conditions will allow BNDES to adapt its internal processes to program requirements and will ensure the designation of the team responsible for the implementation. The OR is essential as it includes all relevant considerations needed for a successful implementation of the program.
- 3.6 **Special contractual clause of execution.** BNDES will enter into a legal agreement with each beneficiary entity, before issuing the task order to the specialized consulting firm for the services related to the specific PPP project. This condition will ensure that beneficiaries are in agreement with the program requirements, and that BNDES will only use loan resources for the payment of consultancy services once the public entity interested in the structuring of the PPP project has formally expressed its interest and assumed the obligation to collaborate with BNDES during the studies and the structuring of the PPP project.
- 3.7 **Exceptions to Bank Policies.** In an identical manner as in prior loan operations with BNDES,⁵¹ the guarantee of the Federative Republic of Brazil for this operation will be limited to BNDES' financial obligations under the loan (including repayment of principal, payment of interest and other financial charges), and will not cover contractual obligations regarding the execution of the program and the local counterpart contribution. Taking into account that according to the Brazilian legislation, the Federal Government of Brazil can only guarantee the financial obligations related to the loans assumed by decentralized and public sector development entities, such as BNDES, it is necessary that a partial waiver to IDB's policy on guarantees required from the borrower (GP-104-2) be approved by the Board of Executive Directors.
- 3.8 Financial statements of the program will be audited annually by the *Controladoria Geral da União*, or by an independent auditing firm acceptable to the IDB, which will be contracted by BNDES following the terms or reference agreed with the IDB. Annual audited reports will be presented to the IDB within 120 days following the closing of BNDES's fiscal year and a final audit will be presented to the IDB 120 days following the expiration of the Original Disbursement Period or any extensions thereof.
- 3.9 **Procurement of goods and services.** Selection and contracting of consultancy services will be carried out in accordance with the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15), the provisions of the loan contract and the PP ([REL#2](#)). Procurement may be supervised ex ante or ex post review. The consulting services contracts generated under this project will be

⁵¹ Loans [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#) [3866/OC-BR](#) and [4672/OC-BR](#).

executed through the use of the Standard Request for Proposals (SRFP) issued or agreed to by the Bank.

B. Summary of arrangements for monitoring results

- 3.10 The program will apply the standard procedures established by the IDB for M&E of investment operations. The evolution of indicators should be periodically reported by BNDES to the IDB during program execution, as established in the M&E Arrangements ([REL#1](#)) and the OR ([OEL#2](#)).
- 3.11 BNDES will compile, produce, and maintain all information, indicators, and parameters, including annual plans, midterm review and final evaluation, necessary for the preparation of the Project Completion Report (PCR) –to be prepared six months following the last disbursement– and any ex post assessment the IDB may wish to conduct.
- 3.12 The evaluation plan considers a before-and-after comparison methodology. The frequency of measurement and scope of data to be collected is limited due to the inherent characteristics of the PPP project development process, particularly the time needed from the beginning of project preparation to the commercial closure. All details of data collection are clearly stated in the Results Framework (Annex II) and the M&E Arrangements ([REL#1](#)). Also, as the intervention is considered as one of many elements that will contribute to long-term growth of productivity in Brazil, the M&E Arrangements do not include a thorough evaluation on the specific impact of the program resources on the structural indicators of productivity. This would require much more information, as well as controlling for a series of variables that are out of the scope of the program.

| Development Effectiveness Matrix | | |
|--|--|--|
| Summary | | BR-L1549 |
| I. Corporate and Country Priorities | | |
| Section 1. IDB Group Strategic Priorities and CRF Indicators | | |
| Development Challenges & Cross-cutting Issues | -Productivity and Innovation -Climate Change -Institutional Capacity and the Rule of Law | |
| CRF Level 2 Indicators: IDB Group Contributions to Development Results | -Agencies with strengthened digital technology and managerial capacity (#) | |
| 2. Country Development Objectives | | |
| Country Strategy Results Matrix | GN-2973 | Aligned to the strategic objective: "increase the role of the private sector by improving the quality of the business environment", by contributing to the expected result of developing "stronger framework for PPPs". |
| Country Program Results Matrix | | The intervention is not included in the 2020 Operational Program. |
| Relevance of this project to country development challenges (If not aligned to country strategy or country program) | | |
| II. Development Outcomes - Evaluability | | |
| | | Evaluable |
| 3. Evidence-based Assessment & Solution | | 8.1 |
| 3.1 Program Diagnosis | | 2.5 |
| 3.2 Proposed Interventions or Solutions | | 1.6 |
| 3.3 Results Matrix Quality | | 4.0 |
| 4. Ex ante Economic Analysis | | 10.0 |
| 4.1 Program has an ERR/NPV, or key outcomes identified for CEA | | 1.5 |
| 4.2 Identified and Quantified Benefits and Costs | | 3.0 |
| 4.3 Reasonable Assumptions | | 2.5 |
| 4.4 Sensitivity Analysis | | 2.0 |
| 4.5 Consistency with results matrix | | 1.0 |
| 5. Monitoring and Evaluation | | 9.5 |
| 5.1 Monitoring Mechanisms | | 4.0 |
| 5.2 Evaluation Plan | | 5.5 |
| III. Risks & Mitigation Monitoring Matrix | | |
| Overall risks rate = magnitude of risks*likelihood | | Medium Low |
| Environmental & social risk classification | | C |
| IV. IDB's Role - Additionality | | |
| The project relies on the use of country systems | | |
| Fiduciary (VPC/FMP Criteria) | Yes | Financial Management: Accounting and Reporting, External Control, Internal Audit. |
| Non-Fiduciary | | |
| The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions: | | |
| Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project | | The IDB has been collaborating with BNDES in developing its capacity to develop a dedicated PPP team and to support municipalities in structuring PPPs, as well as a series of technical support to develop good practices in PPPs in Brazil through regional TCs ATN/OC-16388-RG, ATN/OC-17711-RG, ATC/OC-16389-RG, ATC/JP-16666-RG, ATC/OC-17971-RG, ATN/AC-17969-RG, ATN/OC-17970-RG (see optional link 5). |

Brazil has low levels of capital stock and quality of infrastructure as compared to the South American average. There is little room to solve this via public investment alone, especially now; given the pressure the current pandemic crisis has placed on fiscal spending. Quality infrastructure is conducive to productivity gains given that connectivity can create networks that facilitate business and access to markets. Estimates show that improvements in the quality of ports and railways could boost labor productivity in Brazil by almost 10%. In Brazil, investors commonly refer to the *Custo Brasil* which deters investment and is estimated to amount to 22% of GDP each year. It is estimated that at least 24% of this cost stems from poor infrastructure. Under the infrastructure pillar of the competitiveness index of the World Economic Forum (WEF), Brazil ranks 78th of 140 countries; in comparison, Mexico ranks 54th. The infrastructure gap is due to long-lasting low levels of public investment, which was less than 2% in Brazil over the last two decades. The WEF estimates Brazil needs to be investing 3.2% of GDP annually in infrastructure from 2019-2024 to meet the country's development needs.

Public private partnerships (PPPs) can optimize the use of public finances for infrastructure investment especially in the context of fiscal constraints. PPPs have been shown to deliver better value for money and enable accelerated and more efficient implementation of infrastructure projects. However, the benefits of PPPs do not occur automatically and the likelihood of tapping them depends on key financial, technical, and legal decisions made during project preparation. Advisory services are critical to ensure that only well-structured and commercially viable projects are procured as PPPs. In the context of addressing the Brazilian infrastructure gap; the program's general objective is to promote effective private participation in infrastructure investments in Brazil to support growth and productivity in the long term. The specific objective is to support the efficiency of the preparation process of a group of PPP projects and therefore increase their attractiveness to sponsors. Currently in Brazil, only an estimated 15% of prepared PPPs reach commercial closure. Under the program, \$30 million dollars will be channeled through BNDES for the financing of technical and specialized advisory services to structure deals. Resources will be used to hire expert consultants in technical, financial, or legal matters for the structuring of PPPs. In line with the specific program objective, two of the main results to be measured are: (i) the share of supported PPPs that reach commercial closure; and (ii) the average number of participants per tender in PPP projects supported by the program. In the long-term, it is expected that investment will be mobilized as supported PPPs come to fruition. The economic analysis shows the project is of net benefit to society and is based on the assumption that thanks to the program more PPPs will reach contract closure and that they will do so earlier. At closure, a reflexive methodology will be used to assess results.

RESULTS MATRIX

| | |
|---------------------------|--|
| Project Objective: | The general objective of the program is to promote effective private participation in infrastructure investments in Brazil, in order to support growth and productivity in the long term. The specific objective is to support the efficiency of the preparation process of a group of PPP projects and therefore increase their attractiveness to sponsors. |
|---------------------------|--|

GENERAL DEVELOPMENT OBJECTIVE

| Indicators | Unit of Measurement | Baseline | Expected Year for Achievement | Target | Means of Verification | Comments |
|---|-----------------------------------|----------|-------------------------------|--------|--|---|
| General development objective: To promote effective private participation in infrastructure investments in Brazil, in order to support growth and productivity in the long term. | | | | | | |
| Indicator 1: Total volume of investment in PPPs supported by BNDES that reach commercial closure. | Millions of Brazilian Reais (R\$) | 0 | 2024 | 3,630 | Final report on program execution by BNDES | Includes total investment to be completed through PPPs, including capital from sponsors and bank financing, as estimated by the preparation studies financed by the program. Baseline is equal to zero, since the indicator includes only PPPs supported by the program. Target was defined based on a R\$518million average value of investment per project, obtained from previous experience with PPPs at BNDES, and a total number of projects supported of 15, of which 7 reach commercial closure by the year 2024. |
| Indicator 2: Share of PPPs initiated in Brazil in the years 1 to 3 that reach commercial closure until the end of year 5 of the program. | Percentage | 16.02 | 2024 | 17.3 | Final report on program execution by BNDES and market report from Specialized Consultancy Firm. ¹ | Universe includes all PPP projects (public structuring through private independent advisory plus unsolicited proposals) initiated at a national level in the period Y1-Y3 of execution of the program. <i>Formula = # of projects initiated in Brazil during Y1 to Y3 of execution that</i> |

¹ This specific report will be commissioned by IDB to an independent private consultancy firm, that should use a comparable methodology.

| Indicators | Unit of Measurement | Baseline | Expected Year for Achievement | Target | Means of Verification | Comments |
|------------|---------------------|----------|-------------------------------|--------|-----------------------|--|
| | | | | | | <p><i>reach commercial closure / total # of projects initiated in Brazil during Y1 to Y3.</i></p> <p>Baseline refers to projects structured without PMI in Brazil that started between 01/01/15 and 31/01/17 and convert into contracts until end of 2019.</p> <p>Please note that the target here is for the entire country (not just the program supported PPPs, hence it is lower than the target at the outcome level). Target was established by obtaining a weighted average of conversion rates in the overall portfolio of projects in Brazil during the execution period, including those supported by the program. The estimation uses the reference value of projects without PMI that started between 01/01/15 and 31/01/17 and convert into contracts until end of 2019 (16.02% of 337), assuming a no-change scenario for the portfolio of projects outside the program, and 15 projects initiated with support from the program during the period Y1–Y3, 46.7% of which reach commercial closure.</p> |

SPECIFIC DEVELOPMENT OBJECTIVES

| Indicators | Unit of Measurement | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | End of Project | Means of Verification | Comments |
|--|---------------------|----------|--------|--------|--------|--------|--------|----------------|---|--|
| Specific development objective 1: To support the efficiency of the preparation process of a group of PPP projects and therefore increase their attractiveness to sponsors | | | | | | | | | | |
| Indicator 1: Share of PPPs that reach commercial closure with support from the program. | Percentage | 14.81 | | | | | | 46.7 | Final report on program execution by BNDES. | <p>Universe includes only PPP projects in which the advisory services kickoff began in Y1 to Y3 and reached commercial close until the end of Y5 of execution of the program. The cohort of PPPs approved between Y1-Y3 was chosen because only those would allow the timeframe needed to reach commercial closure.</p> <p><i>Formula = # of projects supported by the program initiated in Y1 to Y3 that reach commercial closure / total projects supported by the program in the period Y1 to Y3 of execution</i></p> <p>Baseline is equal to the reference value for PPP projects at a national level. This share is 14.81%, according to existing market data on projects prepared with support from structuring entities such as development banks.</p> <p>Target was defined based on a revision of conversion rates achieved in other contexts, and BNDES expectations. Target is further validated by evidence from the IFC that when PPPs receive TC the conversion rate</p> |

| Indicators | Unit of Measurement | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | End of Project | Means of Verification | Comments |
|--|---------------------|----------|--------|--------|--------|--------|--------|----------------|---|--|
| | | | | | | | | | | goes up to nearly 50% (see ¶1.32 of the project document). |
| Indicator 2: Average time required for completing the project cycle with support from the program. | Days | 850 | | | | | | 720 | Final report on program execution by BNDES. | <p>Measures the time (in days) from advisory services kickoff until commercial closure. Universe includes only PPP projects in which the advisory services kickoff began in Y1 to Y3 and reached commercial close until the end of Y5 of execution of the program. The cohort of PPPs approved between Y1-Y3 was chosen because only those would allow the timeframe needed to reach commercial closure.</p> <p>Baseline is equal to the reference value for projects at a national level. Average time is 850 days, according to existing market data on projects prepared with support from structuring entities such as development banks.</p> <p>Target was defined based on a revision of average times achieved in other contexts, and BNDES expectations.</p> |
| Indicator 3: Average number of participants (bidders) per tender in PPP projects supported by the program. | Number | 1 | | | | | | 3 | Final report on program execution by BNDES. | <p>Universe includes only PPP projects supported by the program.</p> <p>Baseline is equal to the reference value for projects at a national level, for which average number of bidders is 1.5.</p> <p>Target was defined based on a revision of investor participation</p> |

| Indicators | Unit of Measurement | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | End of Project | Means of Verification | Comments |
|--|---------------------|----------|--------|--------|--------|--------|--------|----------------|---|--|
| | | | | | | | | | | achieved in successful infrastructure PPP tenders, and BNDES expectations. |
| Indicator 4: PPPs with support from the program that have explicit measures to mitigate climate change and/or implement climate resilience. | Number | 0 | | | | | | 2 | Final report on program execution by BNDES. | Although all PPP projects supported will undergo a strict environmental and social screening process to prevent and manage climate and environmental risks (including in areas such as social equality, gender, biodiversity), this indicator will consider PPPs with explicit requirements for mitigating the effects of climate change and/or explicit climate resiliency mechanisms will be implemented. Mitigation and resilience are defined as mechanisms that, in addition to having no negative impacts, also produce positive impacts for the transition to low-carbon economic growth, as well as minimize whole of-life costs of infrastructure in different scenarios of climate change. These may include: waste management, infrastructure to increase efficiency in street lighting, sanitation project focused on improve access to drinkable water, management of environmentally protected areas (such as national parks or forests) among others. |

OUTPUT

| Indicators | Unit of Measurement | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | End of Project | Means of Verification | Comments |
|---|--|----------|--------|--------|--------|--------|--------|----------------|--|---|
| Single component: Financing for advisory services for PPP project preparation (total cost = US\$30 million). | | | | | | | | | | |
| Indicator 1: Funds disbursed to specialized advisory service contracts. | Millions of US\$/year (target accumulated) | 0 | 1.2 | 7.8 | 12 | 7.8 | 1.2 | 30 | Annual report on program execution by BNDES. | <p>The accounting for this indicator will include services funded to all projects supported by the program along project cycle, fully or partially. Accounting will be made regardless of the success or failure in achieving closure of the PPP.</p> <p>The number of contracts awarded, and PPP projects supported may vary depending on the demand (type of projects, including size and sector, scope of support, etc.). These values will be tracked.</p> <p>Baseline is zero since no funds have been disbursed before the beginning of the program.</p> <p>Target is the sum of disbursements made with program resources throughout the execution period.</p> |

FIDUCIARY ARRANGEMENTS

COUNTRY: Brazil
NAME OF THE PROGRAM: Public-Private Partnership and Concessions Preparation Program
NUMBER OF THE PROGRAM: BR-L1549
EXECUTING AGENCY (EA): *Banco Nacional de Desenvolvimento Econômico e Social (BNDES)*
PREPARED BY: Karina Díaz and Mario Castaneda (FMP/CBR)

I. EXECUTIVE SUMMARY

- 1.1 The *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) is the largest development financial institution in Brazil. Its objective is to promote the country's economic and social development through the financing of major projects in areas such as infrastructure, energy, and business development, among others.
- 1.2 The general objective of the program is to promote effective participation in infrastructure investments in Brazil, in order to support growth and productivity in the long term. The specific objective is to support the efficiency of the preparation process of a group of PPP projects and therefore increase their attractiveness to sponsors.
- 1.3 This fiduciary arrangements were prepared based on an institutional evaluation of BNDES and related information, considering: (i) current fiduciary context of the country; (ii) results from the evaluation of the main fiduciary risks; (iii) experience from the previous individual lines of the operation; and (iv) working meetings with the project team and BNDES.

II. COUNTRY FIDUCIARY CONTEXT AND EXECUTING AGENCY

- 2.1 BNDES is a public federal financial institution with legal personality under private law and its own assets, linked to the Ministry of Economy, whose main objective is the promotion of economic and social development in the country as the main instrument for implementing federal policy and promoting private investment.
- 2.2 From the public governance perspective, the Bank's management comprises the Fiscal Council, composed by three members elected by the General Assembly and the Advisory Board, consists of representatives of the government and independent members. As a financial institution, it is subject to inspection by Brazil's Central Bank (BCB) and to the norms and resolutions of the National Monetary Council. In addition, its accounts are inspected by the Federal Court of Accounts (TCU), an auxiliary entity to National Congress, while its processes are audited by the Office of the Comptroller General (CGU).

III. EVALUATION OF FIDUCIARY RISK AND MITIGATION ACTIONS

- 3.1 BNDES has vast experience with operations of International Financial Bodies and has a specialized department within its structure that deals with all requirements related to these operations, the Fundraising Department. With regards to managing Bank funds, especially global credits, it has been acting as a successful borrower for 60 years.

- 3.2 In the last decade BNDES has successfully executed five loan operations financed by the IDB,¹ including operation [3866/OC-BR](#), for which IDB carried out additional institutional assessments and confirmed BNDES' capacity for execution. Furthermore, an update of the institutional capacity assessments from previous operations has been performed as part of the preparation of this program. The general conclusion is that BNDES possesses high technical capacity, with adequate information systems, and proper internal and external controls, and therefore the fiduciary risk associated to this operation is deemed low.

IV. ASPECTS OF THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 **Exchange rate.** The exchange rate for the accounting of IDB resources will be the buying rate published by BCB on the day before the presentation of the request for reimbursement to the IDB. For advances of funds, the applicable rate will be that of the conversion into Brazilian Reais of each individual advance; this conversion rate will be the same to be applied in the justification of said advances.
- 4.2 **Presentation of Annual Audited Financial Statements (AFS) of the program.** The AFS with the clearance of the CGU shall be presented within 120 days after the closing of BNDES' fiscal year according to the terms of reference previously agreed with the Bank.
- 4.3 **AFS entity.** BNDES publishes the entity's AFS on its Website; thus, this financial statement will not be required.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement execution.** Procurement activities will be carried out in accordance with the Policies for the Selection and Contracting of Consultants financed by the IDB (GN-2350-15) of January 2020, and the Loan Contract and the Procurement Plan.
- 5.2 **Procurement of consulting services.** The consulting services contracts generated under this project will be executed using the Standard Request for Proposals issued or agreed to by the Bank. It is expected to carry out a Framework Agreement according with the item 4.6 of the above-mentioned policy (GN-2350-15) for contracting expert advice in preparing PPPs initiatives.
- 5.3 **Procurement Plan (PP).** The PP will cover 18 months of project execution. It will include the selection method for the procurement consultancy services, including individual consultants for each contract or group of contracts and the estimated cost of each contract. The PP will be posted on the Bank's Website and will be updated annually or whenever necessary, or as required by the Bank.
- 5.4 **Procurement supervision.** Supervision method will be determined in the PP approved by the Bank. International Consulting Services will be reviewed ex ante according with provisions of Appendix I of GN-2350-15.

¹ Operations [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#) and [3866/OC-BR](#).

- 5.5 **Records and files.** Files must be located in the offices of the Execution Unit, duly identified by operation, in chronological order and under the corresponding safety and security conditions.

Table 1. Procurement thresholds (in US\$)

| Method | ICB Works | ICB Goods and Non-consulting services | Consulting Services International Short List |
|--------|-----------|---------------------------------------|--|
| Amount | N/A | N/A | 1 million |

Table 2. Main procurement activities

| Purpose | Selection Method | Date | Amount (US\$ millions) |
|----------------------------------|----------------------------|---------|------------------------|
| Consulting Services | | | |
| Expert advice in structuring PPP | SBQC (Framework agreement) | IV-2020 | 20 |

See: [Procurement Plan](#).

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

A. Programming and budget

- 6.1 BNDES is a public company and has legal personality and its own assets, thus it does not receive budgeting funds from the Federal Government. For each year of execution, BNDES shall submit to the Bank an Annual Operating Plan, including updated annual financial planning on the use of the loan proceeds.

B. Accounting and information system

- 6.2 BNDES has robust SAP² financial information system which will support the accounting and financial records of the BNDES operation.
- 6.3 BNDES complies with the rules established for banks in Brazil, issued by the Central Bank, and applies the Brazilian standards for reporting. It also publishes its reports using the IFRS³ international standards for information purposes.
- 6.4 BNDES Information Technology (IT) area ensures the performance and quality of all information systems, including financial management systems. IT is responsible for performing development and operation activities of these systems, data integration, and administration of IT infrastructure.
- 6.5 BNDES debt and collection systems record and control operations indexed to several currencies, which allows records in local currency and US dollars. In this sense, all IDB financing transactions will be recorded by BNDES in its own systems, using the agreed exchange rate.

C. Disbursements and flow of resources

² European multinational software corporation that makes enterprise software to manage business operations and customer relations.

³ International Public Sector Accounting Standards (IPSAS).

- 6.6 Loan disbursements will be made in US dollars in the form of reimbursement of expenses or advances of funds for up to six months. Disbursement requests of eligible expenses must be presented to the Bank in accordance with the loan contract requirements, the program's Operating Regulations, and following the financial management guidelines of the IDB. If the borrower chooses to use advances of funds, the requests should specify the necessary amount to be disbursed upfront based on a financial plan for up to 180 days. All payments made with funds advanced by the Bank must be presented through a Justification of Advance report. The following advance is conditioned to the justification of at least 80% (eighty percent) of the outstanding advances previously disbursed.
- 6.7 The IDB will process disbursements by wiring the resources in US dollars to the bank account designated by BNDES. The exchange rate to be applied for the accounting of IDB reimbursements will be the buying rate published by the Brazilian Central Bank on the day before the presentation of the request for reimbursement to the IDB. For advances of funds, the applicable exchange rate will be that of the conversion on Brazilian Reais of each individual advance; this conversion rate will be the same to applied in the justification of said advances.
- 6.8 For advances of funds, it will be required to justify a minimum of 80% of previous advance balances to process a new advance of funds.
- 6.9 The IDB will perform ex post reviews of the disbursements and program transactions.

D. Internal control and external audit

- 6.10 BNDES governance comprises management rules and standards involving the relationship between internal bodies such as the Advisory Board, Board of Directors, Fiscal Council, and other Committees; and external bodies such as CGU and TCU. BNDES Internal Control mechanisms seek to optimize the processes and to contribute to the correct management of the resources made available to the agents safeguarding the interests and assets of the company, the reliability of the reports and accounting, financial and operational statements.
- 6.11 BNDES Internal Audit (IA) Division evaluates the effectiveness of the processes, internal controls, risk management and governance. This Division is linked to the Advisory Board, whose members are elected by the General Assembly of BNDES.
- 6.12 The Integrity, Control and Risk Management Divisions are responsible for evaluating the organization's main processes and controls to identify opportunities for improvement related to internal control objectives.
- 6.13 To support the decision-making process and strengthen BNDES governance, there are departments responsible for management monitoring and control, in addition to accounting, tax, and process validation activities.

E. External control and reports

- 6.14 BNDES is periodically audited by the two national control bodies, the TCU, and the CGU. It is also supervised by the BCB and by the Securities Exchange Commission .
- 6.15 The Entity's financial statements are audited by a private external audit firm, which is contracted for five-year periods. The current external auditing firm for BNDES is

KPMG. BNDES's Financial Statements as an entity are published on its website in the month of April, thus it is not considered necessary to request their submission.

- 6.16 Each year, BNDES shall present to the Bank an AFS of the program within 120 days following the annual accounting closing. A final AFS will also be required within 120 days from disbursement expiration date. These reports will be furnished with the opinion of the CGU and shall be drafted in accordance with the terms of reference previously agreed with the IDB. Alternatively, BNDES can also hire an external audit firm, through a competitive procurement method, restricted to the list of firms already cleared by the Bank. The Bank will provide an updated version of the list for this purpose.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Brazil. Loan ___/OC-BR to Banco Nacional de Desenvolvimento Econômico e Social - BNDES. Public-Private Partnership and Concessions Preparation Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Banco Nacional de Desenvolvimento Econômico e Social - BNDES, as Borrower, and with the Federal Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Public-Private Partnership and Concessions Preparation Program. Such financing will be in the amount of up to US\$20,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2020)