

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Promoting Innovative Public Private Partnerships in Latin America and the Caribbean
▪ TC Number:	RG-T4004
▪ Team Leader/Members:	Astesiano, Gaston Team Leader; Lembo, Carolina Maria Alternate Team Leader; Almeida Oleas, Natalia (LEG/SGO); Corrales Rodriguez, Denis (VPS/ESG); Debaeke, Pauline (VPC/002); Do, Byung Hun (VPC/VPC); Marcelino Reboucas, Lidia (VPS/ESG); Siqueira Moraes, Marcos (VPC/002); Suarez Aleman, Ancor (VPC/002); Vieitez Martinez, Daniel (VPC/002); Alvarez Pagliuca, Claudia Patricia; Astesiano, Gaston; Castrosin, Maria Pilar; Leduc, Denis; Lembo, Carolina Maria Team Leader; Lembo, Carolina Maria Alternate Team Leader; Almeida Oleas, Natalia (LEG/SGO); Corrales Rodriguez, Denis (VPS/ESG); Debaeke, Pauline (VPC/002); Do, Byung Hun (VPC/VPC); Marcelino Reboucas, Lidia (VPS/ESG); Siqueira Moraes, Marcos (VPC/002); Suarez Aleman, Ancor (VPC/002); Vieitez Martinez, Daniel (VPC/002); Alvarez Pagliuca, Claudia Patricia; Castrosin, Maria Pilar; Leduc, Denis
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	30 Aug 2021.
▪ Beneficiary:	Regional
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Korea Private Sector Development and Innovation Fund(KPS)
▪ IDB Funding Requested:	US\$3,000,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	48 months
▪ Required start date:	February 2022
▪ Types of consultants:	Firms and/or individuals
▪ Prepared by Unit:	VPC/PPP-Private-Public Partnership Unit
▪ Unit of Disbursement Responsibility:	VPC/PPP-Private-Public Partnership Unit
▪ TC included in Country Strategy (y/n):	N
▪ TC included in CPD (y/n):	N
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Institutional capacity and rule of law; Productivity and innovation; Social inclusion and equality

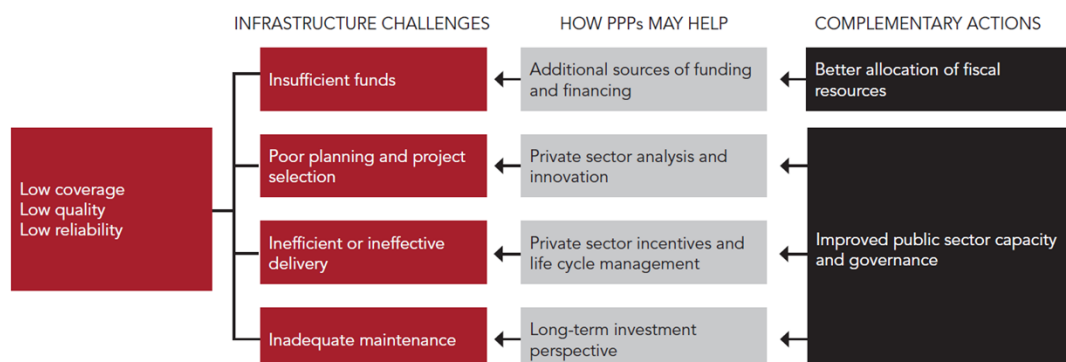
II. Objectives and Justification

- 2.1 The objective of this TC is to promote in the Bank's borrowing countries the preparation and implementation of Public-Private Partnerships (PPPs) in infrastructure, through supporting identification, selection, and preparation activities for infrastructure projects to be implemented through a PPP scheme.¹

¹ This TC adopts the definition agreed by the MDBs for infrastructure projects: "Underlying physical foundation of civil works (including integral and/or dedicated equipment) that support economic and social development, including energy, water and waste management, transport, telecommunications, IT within infrastructure, social infrastructure (investments in physical facilities e.g. school, hospitals), excluding

- 2.2 Enhancing financing for infrastructure is a priority. The infrastructure gap in Latin America and the Caribbean Region (LAC) is estimated to be around five percent of the region's Gross Domestic Product (GDP). Shortage and poor quality of infrastructure hinder economic development, poverty and inequality reduction, job creation, and environmental sustainability. When infrastructure services fail to meet the demand, the service quality deteriorates, and large populations become under or not served. Thus, insufficient and inadequate infrastructure constrains economic growth and directly impacts the quality of life.
- 2.3 PPP is a tool of public policy and a delivery of public infrastructure model that can help overcome some traditional problems associated with public provision and reduce the existing gap in infrastructure. It is also an important mechanism to attract private sector participation, in "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." PPPs can mobilize additional sources of financing; enhance planning and project selection by subjecting potential projects to the competition for private sector finance; and improve the delivery of infrastructure projects and management of capital and services by aligning the private party's incentives with the interests of the contracting government. Thus, under the right circumstances, PPPs can help governments overcome some of the challenges they face in investing in infrastructure (see figure below) (PPP Reference Guide Version 3 2017).

Infrastructure challenges and role of PPPs²



- 2.4 As set out by the 2030 Sustainable Development Agenda, sustainable, inclusive, and high-quality infrastructure is of cross-cutting importance to increasing economic growth, attaining the Sustainable Development Goals (SDGs). The 2015 Addis Abeba Action Agenda³ also called on the Multilateral Development Banks (MDBs) to increase

infrastructure reserved for the private use of a firm". G20- International Financial Architecture Working Group " Principles of MDBs' Strategy for Crowding-in Private Sector Finance for Growth and Sustainable Development", April 2017.

² PPP Reference Guide Version 3 (2017: 19)

³ Addis Abeba Action Agenda of the Third International Conference on Financing for Development (Addis Abeba Action Agenda) was adopted at the UN's Third International Conference on Financing for Development (Addis Abeba, Ethiopia, 13–16 July 2015) and endorsed by the General Assembly

financing and improve alignment and coordination among infrastructure initiatives while bringing together a full range of stakeholders. The 2017 Global Infrastructure Forum⁴ also recommended focusing on the following priorities: (i) strengthening of investment capacity, policy and governance frameworks of public authorities and Governments to address infrastructure challenges; and (ii) promoting private sector involvement and finance by creating an enabling environment.

- 2.5 The IDB Group (IDBG) supports infrastructure financing needs, both in the public and private sector. The IDB's Sustainable Infrastructure Strategy has identified the importance of fostering financing and management mechanisms to leverage the participation of the private sector in the development of public infrastructure projects, highlighting the need for closer collaboration between the public and private sectors to improve the quality of infrastructure through PPPs. The IDB Invest, the private sector arm of the IDBG, also considers infrastructure a strategic priority
- 2.6 There are several lessons that emerge from PPP developments in the region and IDBG's experience. These include: (i) the need for a clearer and focused PPP strategy; (ii) the need for a critical mass of PPP skills and expertise; (iii) the need for a coordinated and collaborative approach, with an appropriate incentive framework; (iv) the need for an adequate set of PPP-related instruments; (v) the importance of the political climate and identifying a political champion for programs and projects; and (vi) the importance of competitive procurement.
- 2.7 In 2017, The IDBG administration, with the objective to implement the organizational recommendations of the Office of Evaluation and Oversight (OVE) evaluation⁵, has created the PPP Team (VPC/PPP) and has endowed it with resources to support the strengthening of legal, regulatory, and institutional frameworks, technical institutional capacities and the generation and dissemination of PPPs best practices for the preparation, structuring and implementation of successful PPP projects in LAC.
- 2.8 To date, VPC/PPP has responded to a demand for 38 projects under preparation in sectors such as transportation, health, energy, education, water or sanitation, in addition to supporting the strengthening of regulatory and institutional frameworks, and the development of knowledge to identify and promote best practices. However, the demand for support has far exceeded available resources, as VPC/PPP has received

in its resolution 69/313 of 27 July 2015. The Agenda establishes a strong foundation to support the implementation of the UN's 2030 Agenda for Sustainable Development. It provides a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities.

4 The 2017 session of the Global Infrastructure Forum took place during the 2017 Spring Meetings of the World Bank and International Monetary Fund (IMF), with its organization led jointly by the IDB and the European Investment Bank (EIB). The Forum aimed to enhance coordination among multilateral development banks and their development partners to better develop sustainable, accessible, resilient, and quality infrastructure for developing countries, and focused on how governments and their working partners can attract more resources for infrastructure.

5 For more information about the recommendations of the Office of Evaluation and Oversight (OVE) see: <https://publications.iadb.org/publications/english/document/Evaluation-of-Public-Private-Partnerships-in-Infrastructure.pdf>, Active Action Plan PPP Infrastructure (RE-504-4) and Implementation of OVE Recommendations by the Administration: IDB Group Evaluation Recommendations Follow-up System 2020 (RE-562).

specific requests for more than twenty additional projects that have not been able to be attended to. due to lack of resources.

- 2.9 The Government of Korea is interested in transferring resources from the Korea Private Sector Development and Innovation Fund (KPS) to this Program to support the IDB (in coordination with IDB Invest) identify, select, prepare and structure. This Technical Cooperation (TC) is aligned with the KPS objectives, such as (i) development and implementation of new financing mechanisms; (ii) project structuring, appraisals, and impact assessments; and (iii) operational, accounting, legal and environmental consulting services. Therefore, the TC resources will be used in a complementary manner, with Ordinary Capital (OC) resources and other donor resources, to achieve the goals of promoting quality infrastructure investment and reducing the infrastructure gap with more public and private funding mobilized in LAC.
- 2.10 In addition, the PPP Focal Point, along with the Office of Outreach and Partnerships (ORP), is working to raise additional donor funds and making progress with some potential donors interested in their contribution to promote PPPs development in LAC. Other donor resources eventually raised in support to this operation will be incorporated in accordance with the corresponding agreements and channeled towards the components, thus increasing their reach and impact. To that end, the Bank policies will be applied.
- 2.11 The PPP Focal Point is organized as a team (PPP Team) in the Vice-Presidency for Countries (VPC), led by a team leader. The team is formed by specialists in legal, regulatory, and institutional framework, project evaluation, particularly in Value for Money analysis also known as Public-Sector Comparator (PSC) and structuring of PPP contracts. Likewise, the PPP Team will oversee the knowledge coordination with the different sector departments of the Vice-Presidency for Sectors (VPS) and regional departments of VPC, lessons learned from the IDBG interventions, the dissemination of knowledge and best practices on PPPs, and will act as a focal point for the IDBG PPP Practice and Knowledge Community. The PPP Team will coordinate with VPS sector departments, through the designated PPP focal points in each sector, and with the VPC regional departments, through the Sovereign Guarantee (SG)-Non-Sovereign Guarantee (NSG) front offices coordinators and country economists.
- 2.12 The PPP Focal Point receives countries' support requests through Country Representatives and manages with the Advisory Services Division of the IDB Invest, through a coordination mechanism, the PPP single window. The projects are selected according to the prioritization made by Country Representatives, alignment with the Update to the Institutional Strategy 2020-2023 (AB-3190-2), and with the IDB Strategy with the corresponding country. Efforts are made to maintain representativeness both in terms of countries and sectors in the support that the PPP Focal Point provides. The IDB and the IDB Invest developed a PPP coordination mechanism to harmonize the PPP assistance work of the IDBG to maximize its competitive advantages to support the entire life cycle of PPP projects.⁶

⁶ The PPP Team as the IDBG PPP Focal Point and the PPP Single Window as the coordination mechanism, were created pursuing the implementation of OVE's recommendations contained in its evaluation of PPP (RE-504-4) in 2017. OVE RETs Report (RE-562), after four years since its implementation found that all the recommendations were implemented satisfactorily, consequently removing all of them.

- 2.13 The purpose of this TC is to support countries specifically on project preparation, through a contingent recovery mechanism, as used by the Global Infrastructure Facility (GIF) and the European Bank for Reconstruction and Development (EBRD) (as explained in paragraphs 2.16 - 2.17).
- 2.14 The funding strategy of the PPP Team providing technical assistance activities is to maximize development impact of OC Resources and Donors contribution, with other sources like the Global Infrastructure Facility (GIF) combined. The PPP Team with the strategic goal of maximizing development impact will search for leveraging OC resources from OC Strategic Programs and Donor resources.
- 2.15 **Use of resources.** The contingent recovery modality has been used by MDBs in their PPP project preparation facilities, as it allows them to encourage countries to prioritize the projects that are more likely to be successfully offered to the private sector, while recovering, in certain cases, the expenses incurred in the preparation of PPP projects, which upon returning to this Program may be used to fund new PPP projects.
- 2.16 The IADB has been a global pioneer of this methodology through the establishment, in 2007, of the Brazilian Private Sector Participation program (PSP). The PSP is a Project Preparation Facility which received funds from IDB (through the operations BR-T1046 (ATN/OC-10143-BR) and BR-T1256 (ATN/OC-13255-BR)), BNDES and IFC. This facility has been operating under the contingency recovery model for over 14 years structuring 15 projects, of which 10 has achieved financial closure, mobilizing US\$5 billion in CAPEX, while being financially sustainable through the recovery of the resources applied for project preparation.⁷
- 2.17 Building upon this successful experience, the contingent recovery mechanism has become the standard for MDBs sustainably finance the preparation of good projects that can attract private investment and help close the infrastructure gap. Most of the PPP preparation facilities/funds which are currently operating, such as the GIF⁸ and the EBRD,⁹ have been operating under this modality. Following this best practice, the PPP Team has only used the contingent recovery modality for transactional support since its creation, having signed 9 agreements with countries since 2018 with the expectation of receiving the first reimbursements in 2022, which is aligned with the maturity time for project preparation to financial closure of 4 to 5 years.
- 2.18 **Contingent recovery modality under this TC.** This operation has been designed as a contingent recovery TC, under which the reimbursement to the Bank will be as follows:
- i. If the PPP project successfully reaches commercial close,¹⁰ the reimbursement will be 100% of the costs incurred by the Bank in consultancies for the execution of

⁷ This intervention has been signaled out by OVE as a best practice on project preparation calling management for its replication (OVE Evaluation of OC Special Programs, RE-476-5, and OVE Evaluation of PPPs, RE-504-4).

⁸ The GIF, a World Bank Group Facility created in 2015, in which the IDB participates as a technical partner, establishes in its operating guidelines, contingent reimbursable criteria.

⁹ The Infrastructure Project Preparation Facility (IPPF) was created in 2014 by the EBRD, and establishes, in their Contribution Agreements (ICA) with the government counterparts, contingent reimbursable criteria.

¹⁰ Commercial close, for the purposes of this operation, is understood the signature of the concession or PPP contract between the Beneficiary and the respective winning bidder.

the technical cooperation. In this case, the Beneficiary will include in the respective bidding documents of the PPP project such arrangements to ensure that the amounts foreseen to finance the PPP project structuring and transaction will be reimbursed by the bidding winner.

- ii. If the technical cooperation is terminated at any stage by mutual agreement between the IDB and the Beneficiary because: (a) the PPP project is found to be non-viable, based on project preparation, appraisal, and structuring work; or (b) at transaction stage the project does not receive a viable bid: no reimbursement will be required.
- iii. If the technical cooperation is terminated by the Beneficiary prior to reaching commercial close for reasons other than those outlined in paragraph ii above, and/or is terminated by the IDB due to failure of the Beneficiary to comply with the terms of the technical cooperation agreement: 100% of incurred costs shall be reimbursed by the recipient Beneficiary.

2.19 **Strategic alignment.** The TC is consistent with the IDB's Update to the Institutional Strategy 2020-2023 (AB-3190-2) through the following pillars: (i) productivity and innovation, by supporting well-designed PPPs interventions; (ii) institutional capacity and rule of law, by strengthening the legal and institutional environment to structure projects with the participation of the private sector; and (iii) social inclusion and equality, by promoting the provision of social infrastructure and economic infrastructure that gives the population access to services and better living conditions. Also, it is aligned with the Corporate Result Framework (GN-2727-12) as its final sub-category, leverage and partnerships, aims to provide insight into the extent to which the IDB Group is having an impact beyond the amount of financial resources it brings to individual projects by mobilizing additional resources and/or supporting effective public-private synergies. In addition, the TC is consistent with the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (GN-2710-5), specifically with the objective of supporting the construction and maintenance of a socially and environmentally sustainable infrastructure, to contribute increasing the quality of life, through the selection of a project portfolio that innovatively channels private financing. The TC is also aligned with most of the IDBG strategies with countries in the region, that propose IDB support to foster the development of PPPs and institutional strengthening. In addition, the TC is aligned with Vision 2025 Reinvest in the Americas: a decade of opportunity, using TC resources to foster pre-investment activities and opportunities for public-private partnerships (PPP) and private sector projects that will mobilize private financing, especially for infrastructure and the pursue of public private synergy. Finally, the TC is consistent with the overall objective of the KPS, of financing and supporting activities to promote private sector development in the regional developing member countries of the IDB and IDB Invest.

III. Description of activities/components and budget

3.1 To achieve the proposed objectives, one component will be developed:

Component 1. Support to PPP project preparation. This component will finance activities or studies required for the preparation of individual PPP projects (Sub-projects). This component will foremost be used to finance the structuring phase¹¹. Nonetheless, in case it is necessary for this component to finance the prefeasibility

¹¹ It includes elaboration of the design of the transaction model and preparation of bidding documents and may even provide accompaniment during the bidding process.

phase¹², the preferred activities are: (i) payment mechanism, (ii) fiscal impact and VFM, (iii) financial model, and (iv) risk matrix, among others. Those resources can also be used, if agreed with the Korean government, to support project preparation facilities¹³ in the region. See the document Indicative Pipeline of PPP projects for more information.

3.2 Eligibility and Prioritization of Sub-projects. National and sub-national project proposals¹⁴ from all IDB borrowing member countries will be eligible for funding. Priority will be given to proposals that:

- a) Support activities that are highly likely to achieve financial closure of a PPP project.
- b) Have a catalytic effect on the mobilization of private financing for sustainable infrastructure.
- c) Support the formation and structuring of PPPs in new sectors for the beneficiary.
- d) Support the preparation in countries that are at greater risk or where preparation is more difficult, as well as in countries with small economies where transaction costs are high.

3.3 Approval process of Sub-projects and activities. Those interested in accessing financing under the framework of this Program should submit a proposal of technical assistance to the PPP team. This support will be formalized with letters of request and no objection from the respective country liaison offices identified as beneficiaries, which will be obtained upon request by the Bank prior to the start of activities in the corresponding country. The PPP Team Leader, in consultation with the IDB Country Representative and the IDB Invest will decide on the eligibility of the application, considering the alignment of the proposal with the IDB Strategy in the country and the priorities of the operational program. The PPP team will further consult with the KPS fund coordinator¹⁵ before agreeing to finance the activity. Once the PPP project has been deemed eligible, and prior to the initiation of the activities to be executed by the Bank, a Contingent Recovery Technical Cooperation agreement will be signed between the Bank and the corresponding beneficiary specifying, among other relevant provisions, the amount of the Bank's contribution and the rules for the recovery of funds indicated in Section 2.18, in accordance with the Bank's applicable policies. In case that a team at IDB Invest wishes to apply for these funds, they may consult directly with the KPS fund coordinator having completed all necessary requirements according to the document [Rules Regarding Submission of Project Preparation Proposals](#). As a highlight of the aforementioned document:

¹² It includes engineering and pre-project studies, demand studies, socio-economic evaluation and selection of the technical alternative and, in some cases, PPP feasibility analysis.

¹³ Project preparation facilities are vehicles created with local authorities and other multilateral organizations to promote structuring of projects, where the other institution also mobilize resources.

¹⁴ As an indicative estimate, considering the average structuring price, up to 4 projects can be structured using these resources.

¹⁵ In the event that Korea has direct representation in the Board of Executive Directors, the Korean executive director will assume this role.

- a) The KPS fund coordinator must give his opinion about the proposal within three weeks. After this period, the proposal will be decided by taking into consideration solely the internal selection process.
- b) PPP project proposals will be given special funding consideration, if they are designed to: (i) include collaboration with South Korean professional agencies at any appropriate stage and (ii) utilize or transfer Korean knowledge, best practices, or expertise to the beneficiaries, and/or will enhance the economic relationship between South Korea and LAC countries.

3.4 Indicative Budget. The total cost of this TC is US\$ 3,000,000 to be financed by the Korea Private Sector Development and Innovation Fund (KPS), as explained in the indicative budget below:

Indicative Budget (in US\$)

Activity/Component	Description	IDB (KPS)	Counterpart Funding	Total Funding
Support to PPP project preparation	Mainly studies, design, document preparation/review required for the preparation of specific PPP projects in structuring phase	3,000,000.00	0	3,000,000.00
Total		3,000,000.00	0	3,000,000.00

IV. Executing agency and execution structure

- 4.1. The IDB, through VPC/PPP, will be the executing agency of this TC and will carry out, among others, the following activities: (i) identify the necessary studies and technical work; (ii) select and hire consultants to provide the necessary services; (iii) manage the implementation and delivery of consulting services; and (iv) ensure Donor's visibility for each sub-project (For additional details please refer to Annex 1). The Program execution by the IDB is justified given the regional nature of the operation, experience and knowledge of the IDB on best practices and methodologies in PPPs. Before starting technical cooperation activities in each of the participating countries, the IDB will obtain the corresponding letter of request and no objection from the respective authorities in each of the countries.
- 4.2. **Procurement.** The IDB will undertake the contracting of consultants or consulting firms in accordance with the IDB's Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4), the Complementary Workforce Policy (AM-650), and the Corporate Procurement Policy (GN-2303-28) for additional services, if required.
- 4.3. **Execution period.** The execution and disbursement period of the TC is estimated at 48 months.

- 4.4. **Annual report.** The Bank will deliver to the Donor a progress report on the Program (the Progress Report) based on information from the technical cooperation monitoring and reporting system of the Bank (TCM).

V. Major issues

- 5.1. The main risk of this TC is related to the support for the selection and preparation of PPP projects that are not submitted to tender. When selecting countries with demonstrated political will to undertake PPPs, this risk is considered manageable and adequate for supporting the development of quality PPP projects.

VI. Exceptions to the Bank policies

- 6.1. No exception to the Bank policies have been requested.

VII. Environmental and Social Strategy

- 7.1. The proposed TC will have no environmental or social impacts, as it will not finance direct investments in infrastructure, it will only fund project preparation. Taking into account the new Environmental and Social Policy Framework of IDB and due to the nature and objectives of the TC, the classification of this operation is Category "C" (please see [Safeguard Policy Filter](#) and [Safeguard Screening Form](#)).

Required Annexes:

[Results Matrix - RG-T4004](#)

[Terms of Reference - RG-T4004](#)

[Procurement Plan - RG-T4004](#)