

TC Document

I. Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Support for the Structuring of Railway Projects in Brazil
▪ TC Number:	BR-T1434
▪ Team Leader/Members:	Figueiredo De Castro M, Ana Beatriz (INE/TSP) Team Leader; Munoz Garcia, Paloma (INE/TSP) Alternate Team Leader; Baladi Rodriguez, Aziz (INE/TSP); Barrantes Quiros, Silvia (INE/TSP); Celeste Marzo, Cristina (LEG/SGO); De Freitas Severino, Ligia (CSC/GBR); Echeverri Vargas, Juan Fernando (INO/IEN); Maia Ribeiro, Karisa (INE/TSP); Rosa Da Silva Cruvinel, Rodrigo (INE/TSP); Schweizer, Luciano (IFD/CMF); Valente Lins, Paula (CSC/GBR) Marzo, Cristina (LEG/SGO); De Freitas Severino, Ligia (CSC/GBR); Echeverri Vargas, Juan Fernando (INO/IEN); Rosa Da Silva Cruvinel, Rodrigo (INE/TSP); Schweizer, Luciano (IFD/CMF); Valente Lins, Paula (CSC/GBR)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	27 Feb 2020.
▪ Beneficiary:	Federative Republic of Brazil, through its Ministry of infrastructure
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Infrastructure(INF)
▪ IDB Funding Requested:	US\$450,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	August 3rd 2020
▪ Types of consultants:	Individual consultants
▪ Prepared by Unit:	INE/TSP-Transport
▪ Unit of Disbursement Responsibility:	CSC/GBR-Country Office Brazil
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law; Environmental sustainability; Gender equality

II. Objectives and Justification of the TC

- II.1 The main objective of this Technical Cooperation (TC) is to develop instruments for the preliminary analysis of railway projects, the result of which will determine the viability that they could eventually become Public Private Partnership (PPP) projects. The specific objectives are: (i) to support the Brazilian Federal Government to develop instruments to structure rail projects; (ii) to structure alternative financial instruments to support the development of greenfield and brownfield infrastructure rail projects; and (iii) to develop mechanisms to stimulate the improvement of the rail transport system (passenger and cargo).
- II.2 The rail sector is a capital-intensive sector, requesting large investments for the maintenance, operation, and improvement of the infrastructure. The Global Infrastructure Hub (GIHUB) estimate that, until 2037, the total investment needed in the sector in the Americas is approximately US\$946 billion, and the investment gap is

around US\$339 billion. For its characteristics, the rail transport mode contributes to: (i) a high capacity transport for cargo and passengers; (ii) strengthen a land use and a territorial management by governments in reason of the controlled access by the infrastructure use; and (iii) efforts to mitigate the climate change effects, for their efficiency of fuel consumption and transport capacity when compared with other transport modes, specially road transport.

- II.3 There is a challenge improving the investments needed for brownfield and greenfield lines. Brazil, as other countries in Latin America and the Caribbean (LAC) region, is facing a fiscal constrain, which limits the capacity to improve the rail sector using public investments. Since 1990, instruments as privatizations were largely used to leverage private investment in the rail sector, with the aim to improve the quality of the infrastructure and operation for users, under a vertical integrated railway model, where the same company is responsible for the infrastructure maintenance and for the rail operation. As a result, in 2017 the Rail Transport National Association (ANTF) estimated a private investment of approximately US\$23 billion since the privatization of the rail network.
- II.4 However, the expansion of the rail service and the improvement of the rail quality (both infrastructure and services) is a necessity, and discussions are in process to make it a reality. Brazil is evaluating the possibility to extend most of the current freight rail concessions, whose currently contracts will expire in a seven to ten years horizon, under the requirement of new investments by the concessionaires in brownfield and greenfield projects. Part of this evaluation the Federal Government is doing concerns existing railway segments in the concessions contracts that are currently without economic function and the concessionaires are willing to return these segments to the Federal Government. In addition, the Government is also evaluating strategies to develop rail infrastructure to some of the main agriculture production areas located at brazilian middle-west region, which has a logistic deficiency for their excessive dependency on road transport and the long distance to ports (especially in northern region). Also, it is imperative to develop alternative financing mechanisms that could support the leverage of investments in the rail transportation in Brazil, to improve the service offered by the rail network and to add capacity to the system refurbishing brownfield and/or building greenfield infrastructures.
- II.5 To support these investments, a range of alternative financing instruments, like debentures, loans, PPP, infrastructure grants, and others, could be used to offer to investors, both private and public, to structure and to execute their infrastructure projects. Improvements in the planning process to prepare and execute rail projects by the government is also one of the challenges to be faced. In the previous years, the Brazilian Federal Government used the solicited proposal instrument (PMI – Proposta de Manifestação de Interesse, in Portuguese) to prepare greenfield projects, and asked to private partners to prepare and submit to the Government studies for a specific project to be reimbursed during a bid process.
- II.6 The Bank has been working on supporting the development and improvement of the logistic network in several states in Brazil. The development of logistic plans, identification of investment opportunities and logistic network infrastructure are some of the areas of work that INE/TSP has focus on. Some examples of that are the Logistics Efficiency Program of Espírito Santo (4933/OC-BR) and the Sao Paulo State Road Investment Program II (3276/OC-BR), and there are others. Also, as a learned lesson from the BR-T1382 is to consider the matter of the socio-economic stretches

of the country and to develop an evaluation mechanism for the experience in railway projects of the consultant firms.

- II.7 **Strategic alignment.** The TC is Alignment to the Second Update to the Institutional Strategy (UIS) 2020-2023 (AB-3190-2) in the challenge of: (i) institutional capacity and the rule of law, by seeking to develop instruments that assist government entities in the planning and development process of infrastructure projects; and (ii) Productivity and Innovation, due to its support for the improvement to the rail infrastructure and services (including alternatives with social distance and sanitary aspects included). The TC is strategically aligned with the cross-cutting area of: (i) Climate Change and Environmental Sustainability, by fostering activities to increase climate resilience during the preparation process of railway projects; and (ii) Gender and Diversity, by including the gender perspective in the studies and gender as a topic during the workshops to be developed during this TC. The TC is also aligned with the IDB Country Strategy with Brazil 2019-2022 (GN-2973), to perfect the business climate and reduce infrastructure gaps to improve competitiveness.
- II.8 Likewise, the TC is consistent with: (i) the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document GN-2710-5), under the objective of supporting the construction and maintenance of a sustainable social and environmental infrastructure that contribute to increasing the quality of life, through the prioritization of projects that channel public and private financing in an innovative way; (ii) the Sector Strategy to Support Regional and Global Competitive Incorporation (document GN-2565-4), by promoting regional capacity for the management of transport infrastructure; (iii) the Corporate Results Framework (document GN-2727-12), by aligning with at least one challenge or cross-cutting theme of AB-3190-2; (iv) the Transport Sector Framework (document GN-2740-7), by contributing to increased competitiveness and promoting regional integration for the benefit of inclusive economic growth, through financing, technical assistance and the dissemination of new knowledge to its member countries; and (v) the Strategic Program for the Development of Infrastructure Financed with Ordinary Capital (GN-2819-1), by contributing to the carrying out of studies and structuring of processes to make possible the execution of specifications for government projects.

III. Description of activities/components and budget

- III.1 **Component I: Structure of rail projects (US\$275,000).** The activities financed by this component would be: (i) structuring and/or review of economic, financial and legal prefeasibility studies; (ii) support in the review and complementation of socioenvironmental and technical studies; (iii) review of demand and risk studies of socioeconomic sustainability of the existing rail systems; (iv) impact studies of passenger or cargo rail projects, with a gender perspective¹ and their interconnection with the current Brazilian rail network; and (v) discussions with investors and lenders about the profile of requirements and limitations to finance railways (especially topics related to ESG), as well as recommendations regarding distribution and mitigation of risks and bankability of the projects. These discussions will include national, international and multilaterals potential investors and lenders.

¹ For example, studies to improve safety for women users and/or reduce sexual harassment in public transport, as well as studies on women mobility patterns, for the case of passenger trains. In case of cargo trains, diagnosis and propose actions to evaluate the impact on gender of the area of influence of the projects, specifically the surroundings of the stations.

- III.2 **Component II: Alternative finance instruments for rail projects (US\$125,000).** The activities that would be financed include: (i) review of the federal regulatory framework, to develop strategies to stimulate participation of public and private actors to develop the project and to stimulate the improvement of the passenger or cargo rail transport system; and (ii) support the Brazilian federal government to foster dialogue with public and private actors to develop rail projects, including the development of public consultations, making sure to include both, men and women during the consultations, market sounding and innovative approaches.
- III.3 **Component III: Dissemination and knowledge (US\$50,000).** It will support the dissemination of knowledge through publications, workshops or events, and a final evaluation report of the TC. The objective is to allow a broader discussion and dissemination of experiences obtained from the IDB about supporting the structuring of railway projects through the development of knowledge products such as: technical notes, publications and others, based on the results of the proposed activities. Also, it will be included as part of these products and workshops the gender perspective, to sensitize the public in this matter.

Indicative Budget (US\$)

Activity/Component	Description	IDB/INF	Total Funding
Component 1. Structure of rail projects	Structuring and/or review of economic, financial and legal prefeasibility studies	60,000.00	60,000.00
	Support in the review and complementation of socioenvironmental and technical studies	55,000.00	55,000.00
	Review of demand and risk studies of socioeconomic sustainability of the existing rail systems	65,000.00	65,000.00
	Impact studies of passenger or cargo rail projects and their interconnection with the current Brazilian rail network. discussions with investors about the profile of requirements and limitations to finance railways	75,000.00	75,000.00
	Analysis of the impact and identify the opportunities of improvement on safety and gender, in the projects to be developed.	20,000.00	20,000.00
Component 2. Alternative finance instruments for rail projects	Review of the federal regulatory framework	55,000.00	55,000.00
	Dialogue with public and private actors to develop rail projects	70,000.00	70,000.00
Component 3. Dissemination and knowledge	Publications, final report, events (online or in site) and workshops	5,000.00	5,000.00
	Final report	10,000.00	10,000.00

	Events/Workshops	35,000.00	35,000.00
Total		450,000.00	450,000.00

IV. Executing agency and execution structure

- IV.1 By request of the beneficiary, the TC will be executed by the Bank. It justifies thought IDB experience in the sector to execute similar studies, and the possibility of adding lessons learned from other similar projects implemented by the Bank in LAC. However, the CT will be executed close in coordination with the Brazilian federal government, who is the beneficiary of the TC.
- IV.2 In this sense, the Bank will be responsible for: (i) identifying the studies and technical work² necessary to structure the project; (ii) select and hire consultants to provide the necessary services; and (iii) manage the execution and delivery of consulting services. The activities will be coordinated by TSP/CBR, and they will be carried out in coordination with the Beneficiary. Important to note that TC resources will not complement TSP division budget for ordinary or routine activities.
- IV.3 The activities to be executed will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-28 for logistics and other related services. INE will act as the Basic Responsibility Unit (URB) of these contracts.
- IV.4 Bank staff are expected to provide technical expertise in the activities to be implemented in the components, and missions are planned to support the execution of the proposed activities³. It should be noted that the beneficiaries will be able to provide technical inputs to the terms of reference and reports of the consultants, but the Bank will have the autonomy to approve these documents and act as the executing agency for the TC. This dynamic would be contemplated under the execution of this operation for a better articulation between the various actors in the framework of the technical dialogue of this TC.
- IV.5 The TC does not present fiduciary management risks since it will be executed by the Bank⁴. For this same reason, no financial audit is required. For more information on planned acquisitions, see the procurement plan.
- IV.6 The disbursements and execution period of the TC are estimated in 36 months.

V. Major issues

- V.1 The main risk identifies for this TC is the possibility of government change of priorities, that could generate some delays in the execution. However, this risk will be mitigated by a close accompaniment of the project during the execution, by frequent meetings with the beneficiary and other way to anticipate any possible delay.

² The Bank will own the rights of the intellectual property of the products developed in this TC.

³ IDB staff trips will be made on an administrative budget for regular supervisory trips.

⁴ The supervision activities will be the responsibility of the Team Leader. There are not expected additional supervision costs.

VI. Exceptions to Bank policy

VI.1 There are no requests for exceptions to Bank policies.

VII. Environmental and Social Strategy

VII.1 The proposed TC will not have environmental or social impacts since it will not finance direct investments in infrastructure, it will only finance the carrying out of studies for the prioritization and preparation of projects. Considering the Bank's Environment and Safeguards Compliance Policy (OP - 703) and due to the nature, objectives, its impacts and socio-environmental risks, the classification of this operation is Category "C". See [Safeguards Screening Form](#) and [Safeguards Policy Filter](#).

Required Annexes:

[Request from the Client_46128.pdf](#)

[Results Matrix_75490.pdf](#)

[Terms of Reference_53383.pdf](#)

[Procurement Plan_43056.pdf](#)