

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	BRAZIL/CSC - Southern Cone
▪ TC Name:	Support BNDES in the preparation of Public-Private Partnership Projects for Sustainable Forest Management in Brazil
▪ TC Number:	BR-T1469
▪ Team Leader/Members:	BRAKARZ, BARBARA (CSD/CCS) Team Leader; SIQUEIRA, MARCOS Alternate Team Leader; ALVAREZ, CLAUDIA PATRICIA; CELESTE, CRISTINA (LEG/SGO); CASTROSIN, PILAR; GOMEZ, JUAN (CSD/CCS); VALENTE, PAULA (CSC/CBR); PUIG, JAVIER (CSD/CCS); CALLAU, VANESSA (CSD/CCS); REISINGER, UTE (VPS/ESG); COLLINS, STEVEN (VPS/ESG)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	13 Oct 2020
▪ Beneficiary:	BNDES
▪ Executing Agency:	BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO E SOCIAL
▪ IDB funding requested:	US\$300,000.00
▪ Local counterpart funding:	US\$300,000.00 (Cash)
▪ Disbursement period:	24 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	CSD/CCS - Climate Change
▪ Unit of Disbursement Responsibility:	CSC/CBR - Country Office Brazil
▪ TC included in Country Strategy:	Yes
▪ TC included in CPD:	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Economic integration; Environmental sustainability

II. Objective and Justification

- 2.1 The objective of this TC is to promote a sustainable model of private participation in the management of national forests in Brazil, introducing higher standards of social and environmental protection and greater value for money and fiscal efficiency. This TC will finance: (i) technical, legal, financial and environmental feasibility studies; and (ii) the structuring of sustainable forest concession projects.
- 2.2 Forest concessions in Brazil are a form of public forest management for sustainable production, which are activities are regulated by the Federal Law 11.284 / 2006 (Public Forest Management Law). Accordingly, a forest concession is a permission issued by the government to a private legal entity (a company, consortium, community association or cooperative) to carry out sustainable forest management and explore forest products and/or services, in compliance to restrictive rules, in an established public area, at its own risk, and for a pre-determined period of time (usually around 40 years). The concession process is carried out by means of a competitive bidding process and the winning entity must meet all the requirements of the bidding

documents and demonstrate performance capacity, according to the Federal Law 8.666/93. 6. The private participation in the sustainable management of national forests has been recognized by the government as one of the key tools to implement its conservation policy, including the need to mitigate climate change through actions that lead towards meeting the goals set in the country's Nationally Determined Contribution to the Paris Agreement. The concessions for sustainable forest management allow for development of the timber industry, in an environmentally sustainable manner, as a means to combat illegal deforestation, as properly bid and regulated forest concessions enable reductions in land grabbing, decrease illegitimate possessions and predatory exploitation of public areas, combat illegal deforestation, illegal mining, illegal timber extraction, and overharvesting. Other environmental benefits are the maintenance of biodiversity and of environmental services, such as clean water and air. These benefits can also enable better fiduciary capacity and revenue generation by government, a highly complex issue in Brazil.

III. Description of Activities and Outputs

- 3.1 **Component 1. Design and Structuring of improved PPPs for private participation in Sustainable Forest Management: Technical, Financial, Legal, and Environmental Elements.** (i) Assessment of necessary improvements in the PPP model, in particular elements of social and environmental criteria, rules, and standards, legal due diligence, commercial and financial viability; (ii) definition of scope of the project, value for money (VFM) assessment, and final technical design; (iii) structuring of the contract and market soundings, support to tender and award.
- 3.2 **Component 2. Best practices and Regulatory Framework.** (i) assessment of environmental and financial best practices, optimization of governmental fiscal efficiency; benefits for local communities and local commerce, and recommendations for institutional and regulatory framework improvements.

IV. Budget

Indicative Budget (US\$)

Activity/Component	IDB/Fund	Counterpart	Total
Design and Structuring of improved PPPs for private participation in Sustainable Forest Management: Technical, Financial, Legal, and Environmental Elements	200,000	200,000	400,000
Best practices and Regulatory Framework	100,000	100,000	200,000
Total	300,000	300,000	600,000

V. Executing Agency and Execution Structure

- 5.1 BNDES (*Banco Nacional de Desenvolvimento Econômico e Social*). BNDES will implement the project through a Project Execution Team composed of members 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 final Terms of Reference; (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.
- 5.2 IDB will provide technical support to the final terms of reference, as well as provide recommendations to the main aspects of the advisor's products

through a team which will include CCS/CSD, ESG/VPS, IDB Invest and the PPP Team,

- 5.3 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, energy and social services and infrastructure 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. In addition, the IDB has a relevant track record with BNDES, having carried out several technical cooperation and loans.

VI. Project Risks and Issues

- 6.1 The weakening of economic conditions of the country might have a direct effect on the availability of long-term finance for Forest Concessions, a type of PPP structure. This may have a negative impact on the availability of capital for private investment, and the willingness of potential bidders to invest in the project. Given the commitments undertaken by the government and the advances in reforms, as well as a long cycle of low interest rates, coupled with a general market liquidity, it is likely that this risk can be managed at the level of the project preparation (e.g. guaranteeing a balanced risk allocation structure). In other words, provided that the objectives of the Technical Cooperation are to improve the contractual model for forest concessions, the risk can be mitigated. The risk of projects failing because of unavailability of long-term finance is low to medium.
- 6.2 Reputational risk to IDB in the case the forest concessions, specifically linked to the current appraisal and structuring of projects (objectives of this TC) do not properly consider and address the social and environmental aspects of these projects. Risk can be mitigated by: (i) close participation and leadership of Climate and Sustainability Division as Responsible for the TC, to ensure the Forest Concession PPP model is environmentally sound, brings positive environmental results and ensures minimal negative impact, improving on current models; and (ii) participation of a member of the ESG team, since project design, to ensure IDB's social and environmental safeguards policies are properly observed and followed throughout the projects and its outputs.
- 6.3 Environmental Impacts. Risk of the need to expand the road network, in the northern region, for the flow of forest products or the exploitation of services such as tourism. The creation of roads in the Amazon rainforest region has been linked to environmental and governance impacts, such as the increase in land grabbing areas, illegal land tenure and illegal activities such as deforestation and mining. Such risks will be monitored very closely to strictly mitigate any negative impact by assigning areas for sustainable forest management that do not require expansion of road transport infrastructure to areas that are not currently served by this modal, including specific information in Terms of Reference and PPP packages.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "C".