TC Abstract

I. Basic project data

• Country/Region:	REGIONAL/IDB
• TC Name:	Development of the institutional fiscal capacity of Public Private Partnerships
• TC Number:	RG-T2902
• Team Leader/Members:	Reyes-Tagle,Gerardo, Team Leader (IFD/FMM); Garbacik,Karl Edward, Team Member (IFD/FMM); Lee,Jong Wook, Team Member (IFD/FMM); Leon Gomez, Carlos Raul, Operational Analyst (IFD/FMM); Roman-Sanchez, Susana, Project Assistant (IFD/FMM); Jimenez de Arechaga, Maria del Pilar, Attorney (LEG/SGO); Fernandez Paino, Ida Maria del Pilar, Team Member (IFD/FMM); Astudillo, Karen, Team Member (IFD/FMM).
• Indicate if: Operational Support, Client Support, or Research & Dissemination:	Client Support
• Reference to Request :(IDB docs #):	40702588
• Date of TC Abstract:	05 Apr 2017
• Beneficiary (countries or entities which are the recipient of the technical assistance):	Ministries of finance of Paraguay, Jamaica and Ecuador
• Executing Agency:	IDB
• IDB Funding Requested:	US$560,000.00
• Local counterpart funding, if any:	US$60,000.00
• Disbursement period (which includes execution period):	36 months
• Required start date:	
• Types of consultants:	Individuals
• Prepared by Unit:	Fiscal & Municipal Management
• Unit of Disbursement Responsibility:	INSTITUTIONS FOR DEVELOPMENT
• Included in Country Strategy: • TC included in CPD:	No No
• Strategic Alignment:	Institutions for growth and social welfare

II. Objective and Justification

The objective of this Technical Cooperation (TC) is to increase the participating countries' institutional capacity to effectively utilize public-private partnerships (PPPs) through improvements to their institutional frameworks, arrangements, quantitative and qualitative analysis of the risks, contingent and firm liabilities and compatibility with the country´s fiscal responsibility frameworks.

This TC will promote public investment and economic growth by improving the efficiency of PPPs through support for the Ministries of Finance in Paraguay, Jamaica and Ecuador by strengthening their technical capacity. These countries have been selected based on the following: (i) they had expressed a great interest in working with the IDB on the development of their institutional fiscal capacity of Public Private Partnerships; (ii) some are still in the nascent stage of developing their PPPs implementation programs, which is an advantageous point to receive technical assistance; (iii) the PPPs laws/regulations has, as its ultimate purpose, to boost the investment in public infrastructure with private financing. This has been accompanied by specific goals for public resources aimed at increasing public infrastructure (for instance, Paraguay set this goal in the short-term to 3.5% of the GDP; and (iv) these countries are very interested in filling the infrastructure gap they had carried for years through PPPs, to increase their productivity and hence, achieve a higher degree of development.

Under the regional and Brazilian technical cooperation (RG-T2191 and BR-T1271: Financing Solutions for Fiscal Space and Investment Projects: the Case of PPPs) financed by the Public Capacity Building Korea Fund, in 2013, the Bank was able to finance key case studies and some seminars and courses that have created the

demand for institutional strengthening programs in the LAC region, especially in the areas of Value for Money, Public-Private comparator, risk matrix, contingent and firm liabilities arising from PPPs and their impact in the budget preparation and execution, etc. The Korean experience in the above-mentioned areas, as well as the strong institutional capacity of the Korea Development Institute (KDI) and the Ministry of Strategy and Finance (MOSF) has provided good lessons learned and best practices for LAC. For example, Brazil, Jamaica, Honduras and Paraguay have been very interested in learning more about the Korean experience on PPPs. In some cases, countries have signed or are in the process of signing Memorandum of Understanding with the Korean government to learn more about their program and institutional capacity.

Given these challenges, and the comparative advantage that the Korean experience could bring to the Region, the selected governments mentioned in this TC have committed to improving their existing PPPs programs as part of a set of actions to boost public investment and achieve higher economic growth.

PPPs institutional frameworks in LAC are beginning: Paraguay approved its PPPs Law in 2013; Ecuador in 2016 and Jamaica in 2012. Three of the technical capacity gaps which some governments have identified as priority areas for further development are: (i) PPPs fiscal risk management: If fiscal risks cannot be effectively managed, value for money (VFM) of PPPs may not be achieved. The Republic of Korea has rich experience implementing PPPs projects and the strongest fiscal risk management framework in Asia. The framework for PPPs in LAC is very new, and most of the governments are pressured to grant guarantees on PPPs with the aim of attracting private investors and pushed to burden risks that are more suitably covered by the private sector. These measures contribute to increasing government contingent liabilities, limiting the space for new PPPs projects (there are ceilings for direct and contingent liabilities burden by the government in LAC legislation). The Republic of Korea has a proven transition to a PPPs program with few guarantees (MRG abolished in 2009) and sharing their experience is valuable for LAC countries; (ii) PPPs planning management: The increasing number of PPPs proposals (solicited and unsolicited) is exceeding government capacity. Few LAC governments have guidelines for evaluating them in a consistent way and the nascent PPPs units have not had the opportunity to develop technical expertise. This sometimes leads to significant delays in reviewing proposals and ultimately causing delays in investment. The Public and Private Infrastructure Investment Management Center (PIMAC/KDI) has many years of experience in advising the Government of Korea in all stages of the PPPs cycle and providing them tools that enables the speed in the evaluation of PPPs. The standardization of methods and PPPs contracts is intended to contribute to speed-up the development of PPPs projects; help to set clear rules on risk allocation, renegotiation process, among others. The PIMAC has developed a Standard Concession Agreement for Build-Transfer-Operate (BTO) and a Standard Concession Agreement for Build-Transfer-Lease (BTL) that could endow LAC governments with a strong framework for planning and management of PPPs projects; and (iii) strengthening Public and Private institutional channels: Efficient coordination between public and private sectors ensures the demands of public sector can be met by private sector. Strong institutional channels enable the identification of potential investment projects, broadening the scope of the use of PPPs to non-traditional sectors (for instance in Housing, Schools, Hospitals, Public Lighting, among others). Strengthening these channels could also enable the development of the business case, resulting in projects with better financial arrangements and returns: this will promote competitiveness through a more concurred public procurement. A strong Public-Private institutional channel also helps to deal with the information asymmetries between both actors, reducing the probability of renegotiation that undermines the

VFM of PPPs. Sharing the Korean experience is valuable for LAC countries, given the experience and strong public-private channels they have built.

III. Description of activities and outputs

The activities this TC will finance are focused on:

(i) Training courses for improved PPPs fiscal risk management. These courses will be based on a comprehensive discussion on the main topics of PPPs: (a) financial modeling and governments guarantee schemes; (b) risk identification, allocation and contingent liabilities; (c) procurement, contractual management and renegotiations. This will include the main payment structure of the PPPs (user's fee, availability payments), the identification and quantification of fiscal and budgetary risks, the procurement practices (Swiss challenge, bid bonus), contract management strategies (performance oversight), among others; the courses will be enriched with the large experience Korea has on the topic, discussing the Korean PPPs framework as well as global best practices. The aim is to learn the qualitative and quantitative tools and also to share the Korean experience and the transition they have had to a mature PPPs market. Sharing this experience with LAC governments will bridge the way from their burgeoning PPPs market to a more mature market;

(ii) Guidelines for improved PPPs planning management. These guidelines aim to enhance PPPs investment by developing a consistent and standardized means of processing information derived from PPPs projects. These guidelines will be focus on two main topics: (a) framework for the standardization of the risk matrix for LAC; (b) framework for the standardization of PPPs contracts for LAC. The standardized contract will help to discern among private proponents because: (1) it will set clear rules in the allocation of risk among parties; and (2) it will increase the response time for PPPs negotiation. This activity will rely on the experience of PIMAC-KDI on the elaboration of its own specific guidelines for conducting: Operation and Management, Allocating Investment Risk, Standardized Concession Agreement for Build-Transfer-Operate (BTO) Road Projects, among others PIMAC has already published.

(iii) Working papers on tax treatment in PPPs and the experience Asian countries has in the implementation of standardized contracts in PPPs projects. The aim is highlight the importance tax structure has in the development of PPPs projects and how tax structure could boost the investment without increase fiscal risk; also, is useful review the impact on investment that the use of standardized contract has in Korea, with the aim to show the benefits to LAC governments.

(iv) PPP's conventions for strengthening Public and Private institutional channels. These conventions will be a meeting space between the government and the private sector where they could share their perspectives on the development of public infrastructure, exploring untraditional sectors in which PPPs could be implemented and to build a channel for the free flow of information that enhances the formulation and delivery of PPPs projects. These channels will be useful to generate a higher VFM, because it will help governments to enter a dialogue with bidders about its requirements before inviting them to submit a final tender in complex projects, where they cannot adequately specify its requirements. This activity will take advantage of Korea's knowledge in this field, and specifically will be based on their Detailed Guidelines for Procedures of Competitive Dialogue, and the experience they had dealing with the private sector in the transmission of information and the delivery of projects that meet public expectations.

Outcomes / Components

Component 1. PPPs fiscal risk management. This component aims to fill the capacity gap faced by ministries of finance have when implementing their PPPs programs.

Up to two training courses (one week each) for the beneficiary countries (at least two participants by each country) held in Korea, provided by PIMAC and the Korean government including a discussion regarding the Korean PPPs framework, Asian case studies, analytical tools and visits to PPPs projects, training courses for one or more beneficiary countries focused on best practices on PPPs evaluation methods. The modules will discuss: (i) financial modelling and governments guarantees; (ii) risk identification, allocation and contingent liabilities; and (iii) procurement and contractual management. One working paper related to the tax treatment in the PPPs and the fiscal risk. With this aim, the hiring of a consultant specialized in tax and PPPs projects could be needed, preferably from an Asian country. This will bring a different perspective from what happens in LAC countries.

Component 2. PPPs planning management. This component aims to discern among the most suitable candidates for granting the PPPs contract through clear rules in risk allocation and a faster time of response for PPPs negotiation through a standard contract for PPPs: (i) one guideline containing a General Framework for the standardization of the matrix of risk for LAC countries; (ii) one guideline containing a General Framework for the standardization of PPPs contract for LAC countries; and (iii) one paper reviewing the experience Asian countries has in the implementation of standardized contract and evaluations in PPPs projects. The hiring of a consultant specialized in PPPs projects could be needed, preferably from an Asian country to bring a different perspective from what happens in LAC.

Component 3. Strengthening Public and Private institutional channels. This component aims to enhance the competitiveness of infrastructure investment through the implementation of channels to enable an efficient flow of information between the public and private sector that improve the worth of the project for users, governments, and firms. That is important for solve the asymmetry of information that could exist between public and private sector. At least one convention, held in LAC (preferably in a beneficiary country), in which public and private sector share experiences, discuss infrastructure projects, PPPs potential projects (in traditional and non-traditional sectors), built and strength institutional channels, among others support in the logistic of this component. With this aim, the hiring of a consultant specialized in PPPs projects could be needed, preferably from an Asian country, with the aim of have a better understanding with Korean institutions (PIMAC/MOSF).

Component 4. Dissemination of lessons learned of the three components. Disseminate lessons learned. Reports and promotion material for dissemination.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1	$215,000.00	$30,000.00	$245,000.00
Component 2	$215,000.00	$10,000.00	$225,000.00
Component 3	$115,000.00	$20,000.00	$135,000.00
Component 4	$15,000.00	$0.00	$15,000.00

V. Executing agency and execution structure

The Fiscal and Municipal Management Unit (IFD/FMM) will be responsible for the direction, supervision, and coordination of this Technical Cooperation. Aside from the IDB Funds, PIMAC from KDI and beneficiary countries, as the funding counterparts, will commit up to the resources listed in the Indicative Budget (60k) in kind, executed

by themselves, for the concepts aiming to the development of the activities enlisted in this TC, as conventions, training courses, among others.

Given the regional nature of this TC, and the experience of the FMM Unit in comparing PPPs policies and institutions, and identifying policy innovations and reforms across countries within and outside the region, this Unit will be responsible for the procurement and supervision of the products included in this TC with the exception made in the last paragraph. Procurement. For the contracting of individual consultants, the IDB project team will observe Human Resources selection procedures (AM-650); and for consulting firms, as well as in the case of non-consulting services contracts, the Corporate Procurement Policy and Procedures (GN-2303-20).

VI. Project Risks and issues

One possibility is that governments in Latin America do not want to receive technical assistance. The probability of this to happen is low because most of them are beginning his PPPs programs (less than ten years ago,) and some of them have passed reforms in the last three years, so they are still defining their institutional arrangements, methodologies of evaluation, etc. To reduce the risk on the lack of interest, the Bank is aiming to countries that had expressed their interest on the activities mentioned in the TC.

VII. Environmental and Social Classification

The ESG classification for this operation is [ ]