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**PUBLIC-PRIVATE PARTNERSHIP (PPP) PROGRAM FOR THE
STATE OF MINAS GERAIS**

(BR-M1001)

DONORS MEMORANDUM

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Preparation:

1. Law 14868 (PPP Law) and Law 14869 (PPP Fund Law) (<http://www.ppp.mg.gov.br>)
2. Comparative Table: the PPP Law of Minas Gerais and the Proposed Federal PPP Law
3. Economic Development Strategies for Minas Gerais
4. Letter from the Economic Development Department of the State of Minas Gerais, confirming availability of resources for covering the local counterpart commitment
5. Report on the Public-Private Partnership Program for the State of Minas Gerais, Francisco Annuati, Consultant, RE1/FI1
6. Project for Rehabilitation of Highway MG-50. Technical Note
7. "Public-Private Partnerships: a New Concept for Infrastructure Development," Economic Commission for Europe, United Nations, 1999
8. "Toolkit for Public and Private Partnership in Highways," Public-Private Infrastructure Advisory Facility (PPIAF), World Bank, 2004.
(<http://rru.worldbank.org/Toolkits/highways/documents>)
9. Web site: Partnership UK (<http://www.partnershipsuk.org.uk>)

Execution:

1. Matrix for Selection of PPP Projects (IDBDOCS No. 295490)
2. Draft: "Organizational Structure of the PPP Fund" (IDBDOCS No. 295515)
3. Terms of reference for a standard highways concession contract in Minas Gerais, using the PPP approach (IDBDOCS No. 295516)
4. Schedule of activities
5. Guidelines for the Operating Manual (IDBDOCS No. 295517)

ABBREVIATIONS

BDMG	Banco de Desenvolvimento de Minas Gerais [MG Development Bank]
CEMIG	Companhia Energética de Minas Gerais [State energy company]
CESI	Committee on Environment and Social Impact
CGAPP	Public-Private Partnership Management Council
COF/CBR	Country Office of the Bank in Brazil
COPASA	Companhia de Saneamento de Minas Gerais [State sanitation company]
FIEMG	Federation of Industries of the State of Minas Gerais
GDP	Gross domestic product
MG	[State of] Minas Gerais
MIF	Multilateral Investment Fund
PPP	Public-Private Partnership
RE1/FI1	Finance and Basic Infrastructure Division 1
SEDE	Economic Development Department of Minas Gerais

PUBLIC-PRIVATE PARTNERSHIP (PPP) PROGRAM FOR THE STATE OF MINAS GERAIS

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I. EXECUTIVE SUMMARY

Beneficiary:	State of Minas Gerais.	
Executing agency:	Economic Development Department of the State of Minas Gerais (SEDE).	
Beneficiaries:	Project beneficiaries will be: (i) the State government of Minas Gerais, which will improve its capacity to optimize the use of public funds; (ii) private enterprises, which will have greater opportunity to participate in bidding for public services; and (iii) the general population, which will benefit from a greater supply of public services and infrastructure.	
Financing:	MIF - Facility I	US\$ US\$675,000
	Local counterpart:	US\$ <u>US\$675,000</u>
	Total:	US\$ US\$1,350,000
Objectives:	The general objective of the program is to expand the supply of public services and infrastructure through private initiative, ensuring greater quality and efficiency and making optimum use of public resources available for the sustainable development of the State of Minas Gerais (MG). Its specific objective is to institutionalize the system of public-private partnerships by creating and implementing a new contracting model to encourage private sector participation in the provision of public services and infrastructure.	
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Special contractual clauses:	As a condition precedent to the first disbursement, the State of Minas Gerais, through the SEDE, will present, to the Bank's satisfaction, the selection of the Administrative Coordinator.	
Environmental and social review:	At its meeting 15-04 on 16 April 2004, the CESI verified that the project team had properly incorporated the CESI recommendations made at meeting 45-03 on 12 December 2003 into this document.	

**Exceptions to
Bank policy:**

None.

**Coordination
with other
financial
institutions:**

The executing agency, jointly with the Bank's Country Office in Brazil (COF/CBR), will coordinate with the federal government and with other international agencies, including the World Bank, to ensure that this project is complementary to federal initiatives for incorporating the PPP system (footnote 6).

II. BACKGROUND

A. **Optimizing development financing: the challenge facing the State of Minas Gerais and public-private partnership (PPP)**

- 2.1 The State of Minas Gerais (MG) achieved a gross domestic product (GDP) in 2000 amounting to 9.95% of the national figure, and the state represents the third-largest economy in the country. Yet it stands in eleventh place in terms of human development, among the 26 federal units. Reducing this enormous disparity between the dynamism of its economy and the low living standards of its people is one of the great challenges facing the state government. Nevertheless, traditional approaches to financing, where the public sector assumes most of the costs of public investment, will not allow the government to respond effectively to the growing need for public services. Recognizing the problem, the State has decided to adopt a new financing approach—“public-private partnership”—in order to make optimal use of available resources and improve the efficiency of public services.
- 2.2 **Public-Private Partnership (PPP)**¹ refers to **contracts** between the government and private sector entities for the purpose of the joint execution or provision of a project or a service traditionally handled by the public sector. The PPP approach implies a division of responsibilities and risks between the private sector and the public sector. Under this system, generally speaking, responsibilities and risks associated with the financing, design, construction and operation of the project are assumed by the private sector, while other responsibilities and risks remain with the public sector, such as provision of basic assets (land, etc.), subsidies, political risk guarantees, and (if it is not a user-pay project), a guaranteed income flow.
- 2.3 There are various options for providing public services, ranging from direct supply by a public entity to full privatization, where the government transfers all responsibilities, risks and rewards to the private sector. Within this broad spectrum, PPP projects represent operations in which the public sector transfers a significant portion of risks and responsibilities to the private sector with a view to optimizing the use of available resources and improving the efficiency of public services. In practice, a PPP system is usually used to finance public projects that involve some level of user payment for the services, but that are not profitable from a private sector perspective. For these projects, the public sector offers a partial subsidy and other contractual incentives for a PPP contract to be attractive enough for a private firm. The challenge for the public sector in formulating a PPP contract is to devise a formula of financial and contractual incentives that will force the private contractors to fulfill all their contractual obligations and yield a return.

¹ This acronym is the same in English and Portuguese (where it stands for *parceria público-privada*), while the Spanish equivalent is APP (*asociación público-privada*). Care must be taken not to confuse this PPP with the initials for the Bank-sponsored Puebla-Panama Plan.

- 2.4 In recent years, PPP approaches have proliferated in various parts of the world,² appearing first in European countries, and spreading to the countries of Eastern Europe and other emerging market economies. The PPP approach, if properly executed, offers great advantages to the countries that adopt it. The most obvious benefit is "value for money": sharing risks with the private sector obliges contractors to make maximum use of their specialized know-how and skills in order to achieve greater efficiency in the services they offer, using private managerial techniques. At the same time, the approach allows governments to mobilize private capital for financing projects, in this way expanding investment in public infrastructure and services.
- 2.5 In Latin America and the Caribbean there are number of public projects with a degree of private participation.³ Yet the PPP approach has not been systematically exploited in the region as a whole, including Brazil, primarily because of the lack of an adequate legal and institutional framework. Pursuing the PPP approach imposes a number of new factors and conditions that previously did not exist, or that have not been considered in most countries of the region. Moreover, greater private sector participation in the execution and financing of public services requires that more attention be paid to reducing uncertainty and mitigating risks, which in turn implies the introduction of mechanisms and instruments different from those traditionally used in the financing of public services. Under the PPP approach, the government assumes the role of instigator, facilitator, regulator and overseer for the provision of services, and this implies structural changes in the apparatus of government as well as in the nature of its relationship with the private sector.

B. The MG initiative for implementing PPP

- 2.6 For implementing the PPP approach in the State of Minas Gerais, the state government has undertaken a reorganization and modernization of public systems, as well as reform of the legal framework and internal administrative procedures. During the conceptual phase, the MG studied a number of international experiments in applying PPP, and incorporated the lessons learned⁴ into the basic design of the

² PPP concepts and methods have been systematically tried and applied by Great Britain under the UK Private Finance Initiative (PFI). That experiment was promptly replicated in other countries, including Ireland, Portugal, Canada, and South Africa.

³ For example, in the 1990s a total of 123 highway projects were financed with some degree of private participation in Latin America and the Caribbean.

⁴ Those lessons can be summarized under the following points: (i) a reliable legal framework; (ii) clear legal authority to award concessions to the private sector; (iii) a transparent, fair and orderly procedures for bidding and awarding contracts; (iv) investment of financial and human resources by the public sector for the preparation and implementation of projects; (v) public consensus in favor of the PPP approach; and (vi) political commitment. For further detail, see "Public-Private Partnerships: a New Concept for Infrastructure Development," Economic Commission for Europe, United Nations, 1999.

program. In December 2003, the government enacted Law 14868 (the PPP Law) and Law 14869 (PPP Fund Law).

- 2.7 The objective of the PPP Law is to establish and clarify, on the basis of existing federal legal provisions, the position of the state with respect to new rules for contracting that will provide greater legal security to the private sector. The service areas covered by the PPP program include: (i) education, health and welfare; (ii) public transportation; (iii) basic sanitation; (iv) science, research and technology; and (v) agribusiness, especially irrigation and agroindustry.
- 2.8 In operational terms, the law created the PPP Unit under the Department of Economic Development (SEDE), which is responsible for coordinating public-private partnerships. The PPP Fund Law created a guarantee fund for PPP projects. The Fund provides financial backing for long-term service contracts with the state, an essential element for attracting greater participation by private firms in PPP projects. The Fund is established as an accounting entity, without any separate legal status, for the purpose of providing financial support to the PPP program. Its resources will come from various sources and will be administered by the SEDE, while the Development Bank of Minas Gerais (BDMG) will serve as its financial agent. As initial capitalization for the Fund, the MG Governor has earmarked 1,540,576,460 preferred shares in the state energy utility (CEMIG), which belongs to the MG Development Corporation (CODEMIG). The approximate value of those shares is R\$70 million (equivalent to US\$23.3 million).

C. Project rationale

- 2.9 The PPP program for the State of Minas Gerais is a highly innovative initiative, in that it will generate the conditions of credibility necessary for an effective relationship between the state and the private sector in providing public services and infrastructure. Successful implementation of the program will serve as a benchmark for similar initiatives by other states and the federal government. To achieve this outcome, the involvement of the MIF/Bank will ensure the use of best practices and state-of-the-art know-how in the technical, financial, institutional and legal aspects of preparing PPP projects. In return, the program will allow the MIF to be part of a pilot project that will serve as a basis for disseminating the practices and processes resulting from this initiative.
- 2.10 This is the first MIF and Bank operation involving PPP projects at the state level in Brazil. At the federal level, the Bank approved a US\$120,000 technical cooperation operation (TC-02-02-01-3) in 2002 to help the Ministry of Planning establish a PPP conceptual framework for the federal government.⁵ As well, the Bank is currently preparing two loans, one by the Regional Operations Department (BR-L1010) and

⁵ The Federal PPP Law (2546/2003) and the MG State Law are compatible. See the comparative table of the two laws.

the other by the Private Sector Department (BR-L1011) to support basic infrastructure development in Brazil through the Infrastructure Investment Fund.⁶

III. PROJECT OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1 The general objective of the project is to expand the supply of public services and infrastructure through private initiative, thereby ensuring greater quality and efficiency and making optimum use of public resources available for the sustainable development of the State of Minas Gerais (MG). Its specific objective is to institutionalize a permanent system of public-private partnerships by creating and implementing a new contracting model to promote private sector participation in the provision of public services and infrastructure.

B. Components

1. Component I: consensus-building on the legal framework and PPP program (MIF: US\$10,000; local contribution: US\$42,750)

- 3.2 The objective of this component is to build a broad consensus in support of implementing the PPP program in MG. The component activities to this end will be: (i) coordination with representatives of the private sector and civil society for preparing and implementing the program; (ii) coordination with officials from line departments in the state and federal governments; and (iii) an outreach campaign on the contents of the PPP laws to raise awareness of the benefits of the PPP program, working through private sector and civil society organizations. In order to publicize the scope and benefits of the program widely, a conference will be held at the time of its launching.

2. Component II: developing the capacity of the PPP Unit (MIF: US\$137,000; local contribution: US\$61,280)

- 3.3 The objective of this component is to support the State of MG in developing the institutional, technical and operational capacity of the PPP Unit so that it can continue to pursue PPP projects after the MIF project is completed. The main activities include: (i) selecting and hiring the technical staff of the PPP Unit; (ii) establishing the PPP network (paragraph 5.2); (iii) updating the operations manual; (iv) identifying and analyzing potential PPP projects; (v) training courses for staff of the PPP Unit and the PPP network; (vi) visits to countries with

⁶ The World Bank is preparing a loan that includes support for the federal government for establishing PPP Units in line ministries. The SEDE, together with the Bank's Country Office in Brazil, will coordinate with the federal government and with other international agencies, including the World Bank, to ensure that this project is complementary with federal initiatives for PPP development.

significant experience in PPP implementation; and (vii) consolidating the PPP methodology in its technical, environmental, social, and legal aspects.

3. Component III: structuring the PPP guarantee fund (MIF: US\$30,000; local contribution: US\$36,200)

- 3.4 The objective of this component is to round out the existing legal, institutional and financial measures with detailed design of the operating and technical structure needed for the guarantee fund to function. Activities will include: (i) defining regulations and operational procedures for the Fund; and (ii) additional steps to identify new state assets and negotiating the Fund's capitalization with bilateral and multilateral agencies, and with public and private financial institutions.

4. Component IV: developing financial, contractual and tendering models for PPP projects (MIF: US\$323,000; local contribution: US\$384,200)

- 3.5 The objective of this component is to develop a financial, contractual and tendering model through the preparation of three pilot projects. The activities to be financed are: (i) structuring the three projects for initial analysis; (ii) identifying public resources for financing the pilot projects; (iii) technical, economic and financial, and environmental and social analysis of the risks and other aspects of concessioning for the PPP pilot projects; (iv) analysis of financial and investment options; (v) public consultation on the projects; (vi) legal analysis for preparing contracts and bidding documentation for the pilot projects; (vii) selection of winning bidders and awarding of contracts; and (viii) evaluation of the legal and technical aspects of the bidding process to provide feedback for the process of identifying and preparing new projects.

5. Component V: PPP knowledge management and program monitoring and dissemination (MIF: US\$90,000; local contribution: US\$70,200)

- 3.6 The objective of this component is to support systematic assessment of the experience generated by the project, which in turn will allow the acquired knowledge to be shared with other players at the national and international levels interested in experimenting with PPP programs. To this end, consulting services will be financed for: (i) development and implementation of a system for compiling information for monitoring indicators that can be used for comparison with similar projects, including baseline data and detailed indicators for internal, environmental and socioeconomic performance of the pilot projects; (ii) preparation and implementation of plans for disseminating the PPP methodology at the state level and to civil society; and (iii) surveys of PPP experience. Project results will be widely publicized through conferences, seminars, workshops and the media, in particular the Internet. The project will have an interactive web page to encourage the online exchange of PPP experience and new knowledge. This component will pay for the purchase of servers and auxiliary equipment.

IV. COST, FINANCING AND SUSTAINABILITY

- 4.1 The total estimated cost of the project is US\$1.35 million, of which US\$675,000 will come from the MIF and US\$675,000 from the local counterpart contribution, 50% of which will be in cash (see itemized budget in Annex II). The state's financial commitment, in cash and in kind, was confirmed by the Secretary of State in a letter dated 11 March 2004.

Table I Itemized budget (in US\$)			
Budget Item	MIF	Local	Total
Component I: Consensus-building on the legal framework and PPP program	10,000	42,750	52,750
Component II: Developing the capacity of the PPP Unit	137,000	61,280	198,280
Component III: Structuring the PPP Guarantee Fund	30,000	36,200	66,200
Component IV: Developing financial, contractual and tendering models for PPP projects	323,000	384,200	707,200
Component V: Managing PPP knowledge and program monitoring and dissemination	90,000	70,200	160,200
Administrative costs	45,000	49,800	94,800
Evaluation and auditing	25,000	0	25,000
Contingencies	15,000	30,570	45,570
TOTAL	675,000	675,000	1,350,000

- 4.2 **Sustainability.** The increased efficiency and quality of public services that will come about through implementation of the pilot projects, and the increase in investments in public projects through the mobilization of private capital, will help expand the use of PPP methods in various areas of the state's economic and social development plan.

V. EXECUTING AGENCY AND PROJECT EXECUTION

A. Executing agency

- 5.1 The beneficiary of the proposed technical-cooperation funding will be the State of Minas Gerais. The Economic Development Department of the State of Minas Gerais (SEDE) will be the executing agency. The government, for which the PPP program is central to achieving the objectives of its economic development strategy, recently completed an organizational and legal restructuring to accommodate a new institutional arrangement for coordinating PPP implementation with various government agencies.

B. Execution mechanism

- 5.2 For implementing the PPP program, the state government, by means of law 14868, established the Public-Private Partnership Management Council (CGAPP)⁷ and the PPP Unit.⁸ The CGAPP is responsible for preparing the state's PPP plan and approving bidding documents and PPP project contracts. The PPP Unit will: (i) execute and coordinate PPP operations, (ii) advise the CGAPP and publicize PPP concepts and methodologies; and (iii) provide technical support to the state in preparing projects and contracts. The unit is also responsible for coordinating activities with representatives of the private sector and civil society. To facilitate multisector coordination, a PPP network is being established to facilitate collaboration between technical groups in various government agencies involved in implementing PPP projects.⁹ As to the financial aspects of the PPP program, the state has appointed the BDMG as the financial agent for administering the guarantee fund, and for covering a portion of the external technical assistance costs representing the local counterpart contribution to the proposed project.
- 5.3 For the selection of the pilot projects, the project selection matrix will be used.¹⁰ The basic criteria for project selection according to the matrix are: (i) economic and social impact; (ii) technical and financial viability; and (iii) replicability.
- 5.4 Through the PPP Unit, the SEDE will be responsible for project management and will maintain permanent contact with the Bank, which will include channeling nonobjection requests for the hiring of technical staff, experts, services and procurement of goods for the project. In order to strengthen the unit's administrative and managerial capacity to comply with Bank requirements, an administrative coordinator will be hired. That coordinator will report to the PPP Unit's General Manager, and will be the liaison with the Bank. With the exception of the consultants to carry out the project evaluations (paragraph 6.2), the beneficiary, through the executing agency, will procure all the other consulting services and goods necessary for project execution.

⁷ The CGAPP is chaired by the MG Governor. Other members of the CGAPP include: State Prosecutor General, State Secretary for Economic Development, State Secretary for Planning and Management, State Secretary of Finance, State Secretary for Transportation and Public Works, State Secretary for Regional Development and Urban Policy, and State Secretary for Environment and Sustainable Development. The Council is already in operation.

⁸ The PPP Unit currently consists of the General Manager and five technical staff. In order to maintain direct communication with state authorities, the Undersecretary of the SEDE holds the position of General Manager of the unit.

⁹ Currently, 15 government officials are involved, representing the Department of Social Protection, Department of Planning and Management, Department of Highways, and the BDMG.

¹⁰ This matrix is available in IDBDOCS (No. 295490).

C. Execution period

- 5.5 The project execution period will be 36 months, and the disbursement period, 42 months. A revolving fund of up to 10% of the contribution will be established for the procurement of goods and services, to be carried out in accordance with Bank and MIF procedures.

D. Degree of readiness

- 5.6 The project is ready to begin execution. With the support of the Bank team, the SEDE has prepared the following documents that will be part of the project operating regulations: draft terms of reference for the main consultants; schedule of activities; matrix for preselection of pilot projects; and the operational structure of the guarantee arrangements and the PPP fund. With respect to selection of the pilot projects, the SEDE has initiated preparation of two projects: (i) rehabilitation of the MG-50 Highway;¹¹ and (ii) basic sanitation in areas with low human development indices.¹² To help ensure prompt execution of the project, the state government has financed, with its own funds, the costs associated with: preparing the PPP legal framework; developing a model contract for the MG-50 Highway; and establishing the PPP Unit, all of which were originally covered in the abstract for the proposed project. Up to US\$110,000 in such expenses, which are included in the itemized budget for the project, will be recognized as part of the local contribution, since they were incurred after 9 December 2003, when the project was declared eligible for MIF financing.

VI. MONITORING AND EVALUATION

- 6.1 The SEDE will be responsible for preparing semiannual and final progress reports, documenting the activities conducted during the previous six months. It will also prepare the work plan and the disbursement schedule for the following period, in accordance with the indicators in the project's logical framework. The progress reports will be submitted to the Bank's Country Office for approval within 60 days after the end of each six-month period. The project provides for monitoring the results achieved, so as to determine the degree to which the project's specific objective has been reached, and adjusting activities as necessary. Within three months before the last disbursement, the Country Office will prepare a Project Completion Report (PCR), following established guidelines and placing particular emphasis on lessons learned.

¹¹ Rehabilitation, improvement and maintenance of 370 km of highway between Itauna and São Sebastião do Paraíso. The technical note from the SEDE estimates the total cost of the project at R\$835.9 million (the equivalent of US\$278.6 million), over the 25-year life of the contract.

¹² In February 2004, the SEDE, together with the state sanitation company (COPASA), began work on formulating a basic sanitation project under a PPP program.

- 6.2 The Bank will hire external consultants to conduct two evaluations: (i) midterm evaluation, to be conducted 18 months after the first disbursement (or at a time agreed by the Bank and the executing agency); and (ii) a final evaluation, three months after the end of the execution period. The midterm evaluation will assess project progress and general performance, with particular emphasis on: (i) the performance of the PPP Unit; (ii) the process of preparing and tendering the pilot projects; and (iii) coordination with various public and private entities for supporting the PPP program's implementation and results. For the final evaluation, the external consultants will assess the extent to which the PPP program has become a permanent feature in the state's economic and social development activities, and will evaluate the overall results of the project's components and the achievement of objectives. The consultants will use the logical framework (Annex I), with any amendments that may be agreed upon by the Bank and the executing agency.

VII. PROJECT BENEFITS AND RISKS

- 7.1 **Benefits.** The proposed project is expected to produce the following benefits: (i) establish a suitable organizational structure, a consolidated legal framework, and a financing mechanism for implementing the PPP program in the State of Minas Gerais, thereby providing the general public with services and infrastructure of greater quality and efficiency; (ii) the positive impact of the pilot projects will help promote the use of PPP methodology as a new approach to financing development in all states of Brazil; and (iii) the PPP program will encourage greater participation and competition by firms in bidding for public works.
- 7.2 **Risks.** It has been reported that, in the case of certain PPP projects in other countries, contracts could not be awarded because the private sector did not respond as expected to the proposed risk-sharing arrangements.¹³ In the proposed project, the legal framework, the institutional arrangements, the existence of the guarantee fund, and the hiring of experts to analyze risk-sharing should all help to minimize the uncertainties associated with the contract award process. In addition, the PPP Unit will maintain constant contact with private sector representatives to ensure that the contracting rules and the risks and benefits of PPP contracts are clearly understood.¹⁴

¹³ On this point, see: "Toolkit for Public and Private Partnership in Highways", World Bank.

¹⁴ In fact, the SEDE is in constant communication with the Federation of Industries of the State of Minas Gerais (FIEMG) and the Construction Industry Association of the State of Minas Gerais (SICEPOT-MG), the most important business organizations in the state. During the project analysis mission, both associations agreed that the PPP program should have a positive impact on reviving the private sector in the State of MG, and expressed a willingness to cooperate closely with the state in implementing the program.

VIII. SOCIAL AND ENVIRONMENTAL FEASIBILITY

- 8.1 The project calls for a series of measures and actions to mitigate environmental and social risks under the PPP program. At its meeting (15-04) on 16 April 2004, the CESI confirmed that the project team has properly incorporated the CESI recommendations made at meeting 45-03 on 12 December 2003 into this document.

IX. SPECIAL CONTRACTUAL CLAUSES

- 9.1 As a condition precedent to the first disbursement, the State of MF, through the SEDE, will submit, to the Bank's satisfaction, the selection of the Administrative Coordinator.

LOGICAL FRAMEWORK
PUBLIC-PRIVATE PARTNERSHIP (PPP) PROGRAM FOR THE STATE OF MINAS GERAIS
(BR-M1001)

Narrative summary of objectives	Indicators	Means of verification	Assumptions
Goal			
Expand the supply of public services and infrastructure through private initiative, ensuring greater quality and efficiency and making optimum use of public resources available for the sustainable development of the State of Minas Gerais (MG).	<ul style="list-style-type: none"> ▪ The State undertakes more public service and infrastructure projects. ▪ Private participation in bidding for state public services increases. ▪ The general public perceive an improvement in quality and efficiency of state public services. 	<ul style="list-style-type: none"> ▪ Minutes of the Public-Private Partnership Management Council (CGAPP) ▪ Records of bidding by private firms ▪ Constant monitoring of PPP project performance indicators by the PPP Unit ▪ Public surveys conducted by the PPP Unit 	<ul style="list-style-type: none"> ▪ Improved efficiency and quality of public services through implementation of pilot projects and greater infrastructure investment by private capital will serve to expand use of PPP methods in various areas of the State's economic and social development plan.
Purpose			
Develop and effectively implement a permanent system for public-private partnership, through creation and implementation of a new contracting model to promote private sector participation in provision of public services and infrastructure	<ul style="list-style-type: none"> ▪ Upon project completion, CGAPP has approved at least 5 projects (3 pilot projects and 2 additional projects) using PPP. ▪ Upon project completion, the financial and human resources needed to implement PPP projects have been included in annual state budgets covering the project execution period. 	<ul style="list-style-type: none"> ▪ Final evaluation ▪ Bidding documents and contracts ▪ CGAPP Minutes ▪ State budget 	<ul style="list-style-type: none"> ▪ Perceived risk mitigation through the PPP approach is sufficient to attract greater private sector participation in the PPP bidding process. ▪ The indicators for component 5 show that PPP projects are efficient. ▪ The macroeconomic situation remains stable. ▪ The private investment climate in Brazil is favorable.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> ▪ Upon project completion, the concessioned PPP projects are in the first phase of implementation. 	<ul style="list-style-type: none"> ▪ Project Performance Monitoring Report (PPMR) prepared by the Country Office ▪ Project Completion Report prepared by the Country Office ▪ Progress reports and final report by SEDE 	
Components			
<p>Component 1: Consensus-building on the legal framework and the PPP program</p> <p>Consensus reached on the legal framework and implementation of PPP in the State of Minas Gerais.</p>	<ul style="list-style-type: none"> ▪ Private sector and civil society representatives are aware of the legal framework and express support for PPP implementation. 	<ul style="list-style-type: none"> ▪ Consultants' reports ▪ Progress reports ▪ Minutes of meetings ▪ Survey results (component 5) ▪ SEDE report ▪ Project Performance Monitoring Report (PPMR) 	<ul style="list-style-type: none"> ▪ The Federal Congress makes no changes to the Federal PPP Law that would require the State to amend its PPP legislation substantially.
<p>Component 2: Developing the institutional capacity of the PPP Unit</p> <p>The PPP Unit is strengthened in its project preparation capacity</p>	<ul style="list-style-type: none"> ▪ By month 18, the PPP Unit has prepared 3 pilot project contracts for award. ▪ Upon project completion (36 months) the PPP Unit has prepared contracts for 2 additional projects. 	<ul style="list-style-type: none"> ▪ Bidding documents and contracts ▪ CGAPP Minutes ▪ Progress reports ▪ Coordinator's reports ▪ Midterm evaluation. ▪ Final evaluation ▪ SEDE report ▪ Project Performance Monitoring Report (PPMR) 	<ul style="list-style-type: none"> ▪ The State includes funds for continued operation of the PPP Unit in its annual budget.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p>Component 3: Structuring the PPP Guarantee Fund</p> <p>The PPP Fund is established and available for guaranteeing PPP contracts.</p>	<ul style="list-style-type: none"> ▪ Within six months, an operational model of the Fund is structured and adopted. ▪ The Fund is structured and capitalized for each pilot project before bidding procedures begin. 	<ul style="list-style-type: none"> ▪ Documentation on the operational model for the Fund ▪ Documentation on the Fund as structured ▪ Documentation on the Fund as capitalized ▪ Project Performance Monitoring Report (PPMR) 	<ul style="list-style-type: none"> ▪ Private contractors see the PPP Fund as a suitable mechanism to facilitate their participation in PPP project bidding.
<p>Component 4: Developing financial, contractual and tendering models for PPP projects</p> <p>Model contracts, financing plan, and form of bidding for PPP pilot projects developed and in use.</p>	<ul style="list-style-type: none"> ▪ Within 24 months, the PPP Unit and its support network have tendered and awarded 3 PPP pilot project contracts. ▪ The financial, contract and bidding models developed for the pilot projects serve as the basis for structuring other PPP projects. 	<ul style="list-style-type: none"> ▪ Progress reports and final report by SEDE ▪ Coordinator's reports ▪ Consultants' reports ▪ Bidding documents and contracts ▪ Final evaluation ▪ Project Performance Monitoring Report (PPMR) 	<ul style="list-style-type: none"> ▪ The private sector and financial entities are willing to finance PPP projects.
<p>Component 5: PPP knowledge management and monitoring, evaluation and dissemination of program</p> <p>The oversight system for monitoring performance indicators (quality, time and cost) is established, and program experience disseminated.</p>	<ul style="list-style-type: none"> ▪ In the first 12 months, the project establishes a monitoring system to provide the information needed to obtain performance indicators. ▪ Private sector and civil society representatives as well as public officials within and beyond the state request detailed information on experience with PPP projects in Minas Gerais. 	<ul style="list-style-type: none"> ▪ Progress reports ▪ Coordinator's reports ▪ Reports by consultants responsible for monitoring and supervision ▪ Reports by consultants responsible for dissemination ▪ Reports published on the web site 	<ul style="list-style-type: none"> ▪ The public entities and private contractors involved provide the information requested by the project transparently and effectively.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
		<ul style="list-style-type: none"> Documentation on the PPP Unit's contacts with other entities interested in PPP Midterm evaluation Final evaluation Project Performance Monitoring Report (PPMR) 	
Activities			
<p>Component 1: Consensus-building on the legal framework and the PPP program</p> <p>1.1 Coordination with private sector and civil society representatives for preparing and implementing the PPP program.</p> <p>1.2 Coordination with public officials of state and federal government line departments.</p> <p>1.3 Dissemination of the PPP laws and awareness campaign on PPP program benefits through private sector and civil society organizations (including a launching conference).</p>	<p>Total confirmed financing</p> <p>MIF: US\$ 675,000</p> <p>Local: <u>US\$ 675,000</u></p> <p>Total US\$1,350,000</p> <p>Component 1</p> <p>MIF: US\$ 10,000</p> <p>Local: <u>US\$ 42,750</u></p> <p>Total US\$ 52,750</p> <ul style="list-style-type: none"> Within six months, a launching conference has been held Meetings with the private sector, civil society and public officials are held periodically throughout project execution. 	<ul style="list-style-type: none"> Coordinator's reports Progress reports Accounting records for the project Minutes of coordination meetings List of conference attendees Accounting reports on the project 	<ul style="list-style-type: none"> The private sector and civil society continue to support PPP initiatives.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p>Component 2: Developing the institutional capacity of the PPP Unit</p> <p>2.1 Selection and contracting of the PPP Unit's technical staff</p> <p>2.2 Establishment of the PPP network</p> <p>2.3 Updating the PPP Unit's operations manual</p> <p>2.4 Training course for PPP Unit staff and the PPP network</p> <p>2.5 Identification and analysis of potential PPP projects</p> <p>2.6 Visits to countries with significant experience in PPP projects</p> <p>2.7 Consolidation of the PPP methodology's technical, environmental, social and legal aspects</p>	<p>Component 2</p> <p>MIF: US\$ 137,000</p> <p>Local: <u>US\$ 61,280</u></p> <p>Total US\$ 198,280</p> <ul style="list-style-type: none"> ▪ The PPP Unit is constituted (January 2004). ▪ The PPP network is created (March 2004). ▪ The training course is conducted (within 8 months). ▪ The PPP methodology is consolidated. ▪ Consultants are contracted to advise the PPP Unit (within two months). ▪ The PPP Unit continuously updates the methodology. 	<ul style="list-style-type: none"> ▪ Documentation on the hiring process for PPP Unit technical staff ▪ Membership list of the PPP network ▪ Progress reports ▪ Accounting records for the project ▪ Reports from officials who participated in the visits ▪ Consultants' reports ▪ Accounting reports for the project 	<ul style="list-style-type: none"> ▪ The working conditions offered by the PPP Unit are sufficient to attract and retain competent professionals.
<p>Component 3: Structuring the PPP Guarantee Fund</p> <p>3.1 Preparation of regulations and operating procedures for the Fund</p> <p>3.2 Identification of new state assets and negotiation with international agencies and financial institutions (public and private) for capitalizing the Fund</p>	<p>Component 3</p> <p>MIF: US\$ 30,000</p> <p>Local: <u>US\$ 36,200</u></p> <p>Total US\$ 66,200</p> <ul style="list-style-type: none"> ▪ The Fund is fully structured within five months. ▪ Funding is available within six months. 	<ul style="list-style-type: none"> ▪ Progress reports ▪ Coordinator's reports ▪ Accounting reports from BDMG ▪ Consultants' reports 	<ul style="list-style-type: none"> ▪ International organizations and financial institutions are interested in contributing to the Guarantee Fund.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p>Component 4: Developing financial, contractual and tendering models for PPP projects</p> <p>4.1 Structuring of 3 pilot projects for initial analysis</p> <p>4.2 Analysis of financing options for each project</p> <p>4.3 Contracting of consultants for technical, economic, financial, environmental, and social analysis during preparation of contracts and tendering of pilot projects</p> <p>4.4 Public consultations</p> <p>4.5 Selection of winning bidders and awarding of contracts</p> <p>4.6 Evaluation of the legal and technical aspects of bidding for feedback into the process of identifying and preparing new projects.</p>	<p>Component 4</p> <p>MIF: US\$ 323,000</p> <p>Local: <u>US\$ 384,200</u></p> <p>Total US\$ 707,200</p> <ul style="list-style-type: none"> ▪ Process of tendering the first project begins within six to 12 months. ▪ Process of tendering the second project begins within 12 to 18 months. ▪ The third pilot project is identified and analyzed within 18 months. ▪ The process of tendering the third project begins within 12 to 18 months. 	<ul style="list-style-type: none"> ▪ Proposals covering the technical, financial, economic, environmental, and social aspects of the pilot projects ▪ Coordinator's reports ▪ Progress reports ▪ Accounting records for the project ▪ Documentation on public consultations (meetings, seminars, etc.) ▪ Consultants' reports ▪ Bidding documents and contracts ▪ Legal reports 	<ul style="list-style-type: none"> ▪ The transparency of the bidding process and the public consultation mechanism is such that the private sector and civil society accept the outcomes of the PPP tendering process.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p>Component 5: Knowledge management (monitoring and supervision) and dissemination.</p> <p>5.1 Development and implementation of a system for compiling information for monitoring the indicators, including: baseline data and definition of indicators for comparison with similar projects, and other detailed indicators of internal, environmental and socioeconomic performance of the pilot projects</p> <p>5.2 Preparation and implementation of plans for disseminating the PPP methodology within the state and in civil society</p> <p>5.3 Surveys of PPP experience</p> <p>5.4 Mass dissemination (conferences, seminars, workshops, the media) on the pilot project results and PPP program methodology</p> <p>5.5 Purchase of servers and auxiliary equipment for the web site</p> <p>5.6 Development and continuous updating of the PPP Unit's web site</p>	<p>Component 5</p> <p>MIF: US\$ 90,000</p> <p>Local: <u>US\$ 70,200</u></p> <p>Total US\$180,200</p> <ul style="list-style-type: none"> ▪ The monitoring system is in operation within six months. ▪ Outreach activities begin within 18 to 24 months. ▪ The web site is updated and operating within six to 12 months. 	<ul style="list-style-type: none"> ▪ Coordinator's reports ▪ Progress reports ▪ Accounting records for the project ▪ Consultants' reports ▪ Proceedings of seminars, conferences and other events ▪ Minas Gerais PPP web site 	<ul style="list-style-type: none"> ▪ The federal government and other Brazilian states remain interested in adopting the PPP approach to structuring of financing their projects.

Budget Summary (BR-M1001)

Components / Activities	MIF	Local Counterpart		
		Cash	Kind	Total
Component 1: Consensus-building on the PPP legal framework and program				
1.1 Coordination with private sector and civil society representatives for preparing and implementing the PPP Program	0	0	2,400	2,400
1.2 Coordination with line department officials in the state and federal governments	0	0	7,200	7,200
1.3 Dissemination of PPP laws and awareness of PPP Program benefits	10,000	0	33,150	43,150
Subtotal, Component 1	10,000	0	42,750	52,750
Component 2: Developing the PPP Unit's institutional capacity				
2.1 Selection and hiring of PPP Unit's technical staff	0	0	2,080	2,080
2.2 Establishment of the PPP network	0	0	4,800	4,800
2.3 Updating the PPP Unit's operations manual	28,000	0	7,200	35,200
2.4 Identification and analysis of projects by the PPP Unit for the PPP Management Council	0	0	18,400	18,400
2.5 Training course for PPP Unit personnel and the PPP network	18,000	0	28,800	46,800
2.6 Visits to countries with significant PPP experience	25,000	0	0	25,000
2.7 Consolidation of technical, environmental, social and legal aspects of PPP methodology	66,000	0	0	66,000
Subtotal, Component 2	137,000	0	61,280	198,280
Component 3: Structuring the PPP Guarantee Fund				
3.1 Defining regulations and operating procedures of the Fund	30,000	0	12,000	42,000
3.2 Identification of new state assets and negotiation with international organizations and public and private financial institutions for capitalizing the Fund	0	9,000	15,200	24,200
Subtotal, Component 3	30,000	9,000	27,200	66,200
Component 4: Developing financial, contractual and bidding models for PPP projects				
4.1 Structuring 3 projects for initial analysis	0	0	20,800	20,800
4.2 Identifying public funding for 3 pilot projects	0	0	2,800	2,800
4.3 Technical, economic, financial, environmental and social analysis of risks associated with 3 pilot projects				
4.3.1 International consultants	9,000	9,000	0	18,000
4.3.2 National consultants				
a) Technical analysis	48,000	48,000	0	96,000
b) Financial analysis	36,000	36,000	0	72,000
c) Economic analysis	36,000	36,000	0	72,000
d) Environmental and social analysis	30,000	10,000	0	40,000
4.4 Analysis of financing options	40,000	20,000	48,000	108,000
4.5 Public consultations		20,000	0	20,000
4.6 Legal analysis for preparation of contracts and tendering of pilot projects	92,000	40,000	0	132,000
4.7 Selection of winning bidders and awarding of contracts			33,600	33,600
4.8 Evaluation of legal and technical aspects of the tendering process for feedback into the identification and preparation of new projects	32,000	16,000	44,000	92,000
Subtotal, Component 4	323,000	235,000	149,200	707,200
Component 5: Knowledge management; monitoring and supervision; and dissemination				
5.1 Develop and implement a system for compiling information for performance indicators, including: baseline data and definition of detailed indicators of internal, environmental and socioeconomic performance of pilot projects.	60,000	0	0	60,000
5.2 Preparation of plans for publicly disseminating the PPP methodology within the state	0	0	7,200	7,200
5.3 Surveys on PPP experience	0	4,500	0	4,500
5.4 Mass dissemination (conferences, seminars, workshops and the media) of pilot project results and PPP program and methodology	9,000	6,000	27,200	42,200
5.5 Purchase of servers and auxiliary equipment for the web site	0	0	1,000	1,000
5.6 Development and continuous updating the PPP Unit's web site	21,000	24,300	0	45,300
Subtotal, Component 5	90,000	34,800	35,400	160,200
Component 6: Project administration				
6.1 Physical installation of the PPP Unit	0	0	7,200	7,200
6.2 Administrative Coordinator	45,000		0	45,000
6.3 Administrative costs		39,600	0	39,600
6.4 Communications equipment	0	3,000	0	3,000
Subtotal, Component 6	45,000	42,600	7,200	94,800
Component 7: Evaluation and auditing				
7.1 Midterm evaluation	10,000	0	0	10,000
7.2 Final evaluation	10,000	0	0	10,000
7.3 Audit	5,000	0	0	5,000
Subtotal, Component 7	25,000	0	0	25,000
Contingencies	15,000	16,100	14,470	45,570
GRAND TOTAL	675,000	337,500	337,500	1,350,000
	50%	25%	25%	100%

MIF Projects for Public-Private Partnership
PUBLIC-PRIVATE PARTNERSHIP (PPP) PROGRAM FOR THE STATE OF MINAS GERAIS
(BR-M1001)

A. Similar or related MIF projects

Project number and approval date	Project title, sector, executing agency, and amount	Signature of contract and disbursement period in months	Amount disbursed	Comments
ATN/MT-5531-BR April 1997	Consolidation of the transportation concession program of the state of Sao Paulo Department of Transportation, State of Sao Paulo US\$1.14 million	--	--	Cancelled
ATN/MT-5975-BR May 1998	Regulatory framework for private investment in the irrigation sector Banco de Noreste US\$1.4 million	Sept. 1998 48 months	96%	At final stage of execution
ATN/MT-6003-BR June 1998	Sanitation regulatory framework and concession development for the State of Goias Goias Agency for Regulation, Supervision, and Oversight of Public Services (AGR) US\$1.4 million	August 1998 30 months	50%	Reformulated in October 2001, changing the original executing agency Empresa de Saneamento de Goiás (SANEAGO), to the AGR
ATN/MT-6982-BR May 2000	Program for the regulation of private health plans Health Department US\$3.1 million	23 May 2001 30 months	35%	No counterpart resources until May 2002. Implementation now proceeding normally

B. Similar or related Bank projects

Project number and approval date	Project title, executing agency, and amount	Signature of contract and disbursement period in months	Amount disbursed	Comments
ATN/IT-7852-BR April 2002	Supporting the Brazilian Government in the Establishment of the Public-Private Partnership (PPP) Brazil Initiative Ministry of Planning US\$120,000	June 2002 6 months	68%	Under way
BR-L1010	Brazilian Infrastructure Investment Fund Banco Nacional de Desenvolvimento [National Development Bank] US\$300 million	In preparation	--	Being prepared by RE1/FI1
BR-L1011	Brazilian Infrastructure Investment Fund US\$75 million	In preparation	--	Being prepared by PRI

C. Projects related to the same sector or beneficiaries (2 projects)

None