

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PUBLIC-PRIVATE PARTNERSHIP AND
CONCESSIONS PREPARATION PROGRAM**

(BR-L1549)

PROJECT PROFILE

This document was prepared by the project team consisting of: Maria Netto (IFD/CMF), Project Team Leader; Marcos Siqueira (VPC/VPC), Alternate Team Leader; Luciano Schweizer, CMF/CBR; Isabelle Braly-Cartillier, Cecilia Bernedo, Claudia Marquez (IFD/CMF); Gaston Astesiano (VPC/VPC); Giovanna Mahfouz (IFD/ICS); Karina Briones, Mario Castañeda, (FMP/CBR; Fernando Pacheco Machado Dias (CSC/CBR); Guillermo Eschoyez (LEG/CBR)

Under the Access to Information Policy, this document is subject to Public Disclosure.

PROJECT PROFILE

BRAZIL

I. BASIC DATA

Project Name:	Public-Private Partnership and Concessions Preparation Program		
Project Number:	BR-L1549		
Project Team:	Maria Netto, (IFD/CMF), Team Leader; Marcos Siqueira, (VPC/VPC), Alternate Team Leader; Luciano Schweizer, (CMF/CBR); Isabelle Braly-Cartillier, Cecilia Bernedo, Claudia Marquez (IFD/CMF); Gaston Astesiano (VPC/VPC); Giovanna Mahfouz (IFD/ICS); Karina Briones, Mario Castañeda, (FMP/CBR); Fernando Pacheco Machado Dias (CSC/CBR); Guillermo Eschoyez (LEG/CBR)		
Borrower:	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)		
Executing Agency:	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)		
Guarantor:	Federative Republic of Brazil		
Financial Plan:	BID (OC):	US\$	20.000.000
	Local:	US\$	10.000.000
	Total:	US\$	30.000.000
Safeguards:	Policies Triggered:	OP-102, OP-703, B.1, B.2, B.3, B.7, B.17	
	Classification:	"C"	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and justification

- 2.1 **Macro-economic context and the COVID-19 crisis.** The COVID-19 pandemic crisis has encountered the Brazilian economy at a time when it was just recovering from a period of strong recession, which led to the sharpest fall of Gross Domestic Product (GDP) on record in its history. Projections¹ show a 6.10% drop in GDP in 2020. Economic policy has responded to the prospect of rising unemployment and falling incomes with monetary and fiscal measures.² Interest rates have been reduced and measures were taken to expand credit and increase liquidity via a temporary relaxation of prudential policy. Regarding fiscal measures, more than 10% of GDP has been already mobilized. As the phase of containment and stabilization advances, the government will have to deal with the uncertainty about the breath of the rebound and set the stage for the recovery phase.
- 2.2 It is widely recognized that more accelerated economic growth can only be achieved in Brazil if the country addresses its low productivity performance. During

¹ Central Bank of Brazil, Relatorio de Mercado, July 2020.

² Central Bank of Brazil, [Measures to face COVID-19 crisis](#), 2020.

- the 1990's, growth in productivity and in GDP per capita in Brazil behaved similarly. But in the first decade of the 2000's these two indicators started to diverge, with GDP growth significantly outpacing advances in productivity. High numbers of labor added to the economy during that time and the consequent reduction in unemployment rates, largely explain GDP per capita growth.³ Following this, and especially after the recession that started in 2014, the decline in unemployment has been slow, making it the more imperative to strengthen efforts to increase productivity to stimulate and sustain economic growth.
- 2.3 The long-term impact of the current crisis is still uncertain. There is, however, consensus that one of the key strategies needed as part of the medium- and long-term economic recovery plan is the improvement of infrastructure-based services in the country. Infrastructure investment can play a major role in promoting productivity and addressing long-term fragilities of the Brazilian Economy. It also impacts short-term aggregated demand, addressing the need to promote economic recovery promptly.⁴ Ultimately, facilities and basic services –such as roads, water supply, and electrical grids– are essential to provide connectivity and create networks that facilitate business and increase access to jobs, markets and information.
- 2.4 **Infrastructure investment in Brazil.** Long-lasting low levels of public investment have resulted in Brazil maintaining low levels of public capital stock and quality of infrastructure, compared to its peers in the region and the world. The *Custo Brasil* that is, the set of structural, bureaucratic and economic factors that obstruct and increase the cost of new investment in Brazil, is estimated in the range of R\$1.4 and R\$1.5 trillion (≈US\$280 billion) per year. This is equivalent to some 22% of GDP,⁵ 24% of which is explained by the infrastructure gap and other factors assumed to be directly impacted by the lack of infrastructure, such as access to public services and integration to global productive chains. Furthermore, in the World Economic Forum's Global Competitive Index 2019, Brazil ranks 78th in the infrastructure pillar, compared to 42nd and 54th in the case of Chile and Mexico, respectively.⁶
- 2.5 According to the IMF, Brazil's public investment over the last two decades was, on average, less than 2% of GDP, compared to 5.4% in Latin America and 6.2% in other emerging markets.⁷ In the years following the 2015-2016 crisis, Brazil has invested only 1.8% of GDP in infrastructure, far below what is required to meet the country's development needs, estimated in the range between 3.2% of GDP annually between 2019 and 2024 and 4.3% of GDP annually for at least ten continued years.⁸⁻⁹

³ De Negri, F., Cavalcante, L., "Report 1: Productivity and Economic Growth", 2016.

⁴ Feal-Zubimendi, S., et al., Country Infrastructure Briefs: Southern Cone, IDB, Department of Research and Chief Economist, April 2019; Medeiros, V. and Ribeiro, R., *Investimento em infraestrutura: uma estrada para o desenvolvimento*, 2019.

⁵ Ministry of Economy, [Launching of the Programa de Melhoria Contínua da Competitividade](#), 2019.

⁶ WEF, The Global Competitiveness Report 2019, 2019.

⁷ IMF, Brazil: 2019 Article IV Consultation, 2019.

⁸ WEF and IDB, Improving Infrastructure Financing in Brazil, 2019.

⁹ Associação Brasileira da Infraestrutura e Indústrias de Base (ABDIB) and Ernst & Young, *Barômetro da Infraestrutura Brasileira*, 2nd Edition, 2019.

- 2.6 As substantial additional resources are needed, private investment can help optimize the use of public finances, especially in the context of fiscal constraints that will follow the COVID-19 crisis, providing more efficiency to the development of projects that can fill infrastructure gaps and expand access to basic services.¹⁰
- 2.7 **Public-Private Partnerships (PPP)¹¹ in Brazil.** It is argued that PPPs can improve traditional methods for procuring infrastructure-based services and under the right circumstances, can help: (i) improve risk management; (ii) optimize the investment/level of service relationships; (iii) improve the lifecycle management of assets and reduce the total lifecycle costs of infrastructure; (iv) increase reliability and effectiveness of services; (v) introduce flexibility to the management of operational costs; and (vi) create the conditions to promote operational innovation and technological update.¹² Successful implementation of PPPs depend on an adequate implementation of the PPP project cycle, its phases, task-flows, decisions, and active players.¹³
- 2.8 According to the [Procuring Infrastructure PPPs 2018 report](#)¹⁴, preparation is the area of PPP policy with the most room for improvement in Brazil. More specifically, of a score from 1 to 100, Brazil's PPP preparation processes are given a 47, in contrast to the higher scores achieved in procurement (80) and contract management (76). Moreover, Brazil's preparation practices score significantly below its peers in the region, including 67 in Chile, 90 in Colombia, and 81 in both Mexico and Peru.
- 2.9 Available data on PPP projects also suggests that project preparation has been so far narrowly efficient in Brazil. First, most projects that initiate the project cycle fail to reach financial closure after three years. Only 16.12% of projects structured by the public sector generate signed PPP contracts. Second, projects that do reach commercial closure in three years, consume a considerable amount of resources. The average length of time required to close PPP deals –from the beginning of the project cycle to the signing of the contract– exceeds two years (810 days), posing significant delays to the overall implementation of priority projects.¹⁵
- 2.10 Thus, improving the country's capacity to efficiently prepare projects through a dedicated vehicle that can transform into tangible investments is key to untap the potential of the PPP model. Such program needs to guarantee that the appropriate amount of resources are available for project preparation, though the entire project cycle and be endowed with the possibility to flexibly mobilize external

¹⁰ Fostering Investment in Infrastructure. OECD. 2015; Garcia-Escribano, M. et al, Filling the Gap: Infrastructure Investment in Brazil. IMF Working Paper, 2015.

¹¹ The IDB and other Multilateral Institutions define a PPP as “a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance”(PPP reference Guide 2.0 -).

¹² Prats, J., The Governance of PPPs, IDB, 2019; Verougstraete, M., PPPs in infrastructure development, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), 2014.

¹³ The PPP preparation process can be summarized in phases as: (i) identification and prioritization; (ii) project appraisal; (iii) structuring of the contract; and (iv) tender and award.

¹⁴ This report assesses the regulatory frameworks and recognized good practices that govern PPP procurement across 135 economies.

¹⁵ Data from Radar PPP as of December 2019. Data on average time to close PPP deals includes only the PMI structuring modality.

consultancies, with a clear focus on quality and previous experiences. Furthermore, the program needs to be aware of international and regional best practices, to promote effective mechanism of risk allocation.

- 2.11 **The role of *Banco Nacional de Desenvolvimento Econômico e Social (BNDES)*.** 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. BNDES has been a major supporter to private participation in public infrastructure projects in Brazil, advising project preparation, appraising risk, and providing finance. While BNDES will remain essential to financing high risk sectors, it will now strengthen its practice in project preparation for the design of bankable projects. This involves the provision of advisory services for public sector contracting agencies throughout the entire project preparation cycle. Although BNDES has played the role of coordinator of PPP preparation in support of national and sub-national authorities, it currently lacks the adequate resources, to meet the growing demand for project preparation efforts.¹⁶

B. Intervention proposed and program objectives

- 2.12 The general objective of the program is to promote effective private participation in infrastructure investments in Brazil, to support growth and productivity in the long term and economic recovery in the short-term. The specific objective is to increase the quality of the preparation of PPP projects and therefore increase their attractiveness for private sponsors.
- 2.13 This program is a project-specific investment loan operation to be financed with US\$20 million from IDB's Ordinary Capital, and local counterpart contribution of US\$10 million from BNDES. In its role of structurer of PPPs, BNDES will use program resources exclusively to finance consultancy services for the preparation of PPP projects.
- 2.14 **Single component.** BNDES will use IDB's loan resources along with its own resources to fund private independent advisory services for the preparation of infrastructure PPP projects. More specifically, resources from the program will be used to hire expert consultants, such as technical, legal and financial advisory firms, to assist public beneficiary entities in preparing PPP projects, including preliminary analysis and the entire PPP project preparation cycle. These may include: (i) technical studies; (ii) legal advisory; (iii) financial and transaction consultancy; (iv) communication advisory; (v) other technical services directly required to implement all tasks included in the PPP project cycle; and (vi) knowledge dissemination.
- 2.15 **Beneficiaries.** Direct beneficiaries of the program will be federal and subnational governments, and their controlled entities. An agreement between BNDES and each eligible public beneficiary entity will provide the precise terms and conditions of the services to be provided¹⁷, which will depend on the characteristics of the

¹⁶ National and subnational entities in Brazil have increasingly opted for PPPs as procurement route to address long term productivity issues as well as promote short-term economic recovery – see Data from Radar PPP as of December 2019.

¹⁷ The direct costs of BNDES' involvement in the project preparation (e.g. staff, travel costs, etc.) will not be

PPP project and the specific technical requirements. Details on eligibility and selection criteria for the program's beneficiaries, specific mechanisms for them to access the program, as well as specific procedures and requirements for the use of funds, including disbursement mechanisms and monitoring requirements, will be described in detail in the program's Operating Regulations.

- 2.16 **Eligibility Criteria.** The PPP projects supported will be selected through an open window of application, considering two sets of criteria that identifies: (1) early indication of project feasibility (e.g. the project is included in the Beneficiary sectoral Plans); and (2) impact (e.g. the project addresses a clearly identified social demand).
- 2.17 **Expected Results.** Expected results and impacts of the program will be measured in terms of volume of projects that reach financial closure, time required for completing the project cycle and volume of investment produced, among others. The operation has been sized to enable the structuring of approximately 15 ~ 20 new PPP initiative, considering the median project preparation cost of recent BNDES involvement of US\$1.75 million. This will increase in 50% the current BNDES capacity to offer advice to beneficiary governments in Brazil.¹⁸ Furthermore, it is expected that the high standards for project preparation enabled by IDB's involvement will result in good practices and contractual mechanisms that can be replicated to other initiatives by BNDES as well as final beneficiary public entities.
- 2.18 **Strategic Alignment.** The program is consistent with the Second IDB's Updated Institutional Strategy (UIS) 2020-2023 (AB-3190-2) in the development challenge of productivity and innovation, because it explicitly addresses the quality and quantity of infrastructure investment, with direct impacts on the country productivity; the institutional capacity and rule of law, because of the institutional capacity strengthening to local government in structuring PPPs and concessions, and with the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (GN-2710-5) as better infrastructure services addresses several problems of inclusive economic growth. Additionally, it will contribute to the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12) in the performance indicators of: (i) government agencies benefited by projects that strengthen technological and managerial tools to improve public sector service; and (ii) amount of FDI promoted. The program is aligned with the Country Program with Brazil and the IDB Group Country Strategy with Brazil 2019-2022 (GN-2973), specifically in its first priority issue to "improve the business climate and narrow gaps in sustainable infrastructure to enhance competitiveness" and "increase role of private sector by improving the quality of the business environment" by contributing to its expected result of developing "stronger framework for PPPs".
- 2.19 The Program is expected to disburse resources over 5 years execution. It will not require retroactive disbursement.

included in the program and might be funded by the Beneficiaries or included in the reimbursement of costs by the winning bidder, according to BNDES's operational policies).

¹⁸ Currently BNDES has the mandate to structure 40 PPP initiatives in Brazil.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1. **Sector Knowledge.** The Program preparation will benefit from IDB Group's ongoing activities and experience in supporting PPP structuring in the region. According to the report "Evaluation on Public-Private Partnerships in Infrastructure"¹⁹, between 2007 and 2015 approved 145 PPP operations for US\$5.8 billion. As a response to the evaluation, the Bank instituted a PPP focal area which has been implementing, with resources from ATN/OC-16388-RG, ATN/OC-17711-RG, ATC/OC-16389-RG, ATC/JP-16666-RG, ATC/OC-17971-RG, ATN/AC-17969-RG, ATN/OC-17970-RG and the Global Infrastructure Facility, a wide variety of initiatives to support project preparation, which in the case of Brazil includes support to *Caixa Economica Federal* for PPP structuring at municipality level, direct support to several subnational entities for specific PPPs (e.g. a road concession program in Minas Gerais, a PPP for a hospital complex in Santa Catarina and a passage rail project from São Paulo to Campinas).
- 3.2. Recently IDB invest has approved an operation of US\$150 million to create a debt fund for infrastructure (12640-01 – B2F Infrastructure Debt Fund). the program will benefit from the lessons learned during the preparation of IDB invest operation as well as will consider during project execution the key bankability criteria developed by the B2F for its operation.
- 3.3. The work of the Bank in strengthening the PPP project preparation capabilities of borrower countries have been registered in several reports of PPP Country Profiles²⁰ which consolidate the experience and reveals key lessons learned that will be considered in the preparation of the present operation, including the need to financial sustainability, internalizing the project preparation costs to the investors; the relevance of financial autonomy of the vehicle that leads the structuring tasks, not subjecting the project preparation funding to the annual fiscal budgetary cycles and the need to intense technical supervision of the consultants to permanently align the project objectives with the long term goals of the contracting authorities.
- 3.4. Further in structuring the Program execution oversight, the Project team will assess opportunities to promote synergies coordination and synergies with the IDB invest, particularly as the program would implement PPP project appraisal and structuring that could result in recommended risk allocation structures and contribute to competitive procurement of PPP projects²¹.

¹⁹ <https://www.iadb.org/en/ove/feature/public-private-partnerships-idb>.

²⁰ https://idbg.sharepoint.com/sites/VPC_PPP/SitePages/Country.aspx.

²¹ The design of efficient risk allocation schemes for pilot projects can contribute to establish loose standards for feasibility of private participation in infrastructure in the Region, creating the conditions for the development of a common framework of risk allocation in PPPs in Latin America, benefiting project appraisal by BID invest and private financial institutions.

IV. ENVIRONMENTAL SAFEGUARDS SCREENING AND FIDUCIARY ASPECTS

- 4.1 **Environment Safeguards.** According to directive B.3 of the Bank's Environment and Safeguards Compliance Policy (OP-703/GN-2208-20), Category "C" was confirmed for this operation. Resources from the program will be used to hire specialist external services, such as technical, legal and financial consultants, to assist public agencies in structuring PPP tenders. No negative Environmental, Social, Health and Safety risks or impacts have been identified for this operation. To promote best practices, all consultancies, when relevant, will align to international ESHS standards. BNDES institutional capacity is sufficient to manage the E&S risks and impacts of the program.
- 4.2 **Fiduciary screening.** BNDES possesses high fiduciary capacity, with adequate information systems, and proper internal and external controls. Further assessments will be conducted but fiduciary risk associated to this operation is deemed low.

V. OTHER ISSUES

- 5.1 **Development risks.** Weakening economic conditions may affect the availability of long-term finance for PPP implementation, which in turn may have an impact on the willingness of potential bidders to invest in Brazil. This risk is considered medium. Given the commitments assumed by the government and the advances in reforms, as well as a long ongoing cycle of low interest rates coupled with general market liquidity, improved project preparation enabled by the program is expected to increase the quality of infrastructure taken to the market, mitigating this risk. Further, the program eligibility criteria will consider aspects of project viability including the alignment to existing sectorial policies and the fiscal and financial feasibility of initiatives. This will promote that only projects with low risks of being cancelled are considered eligible for support.
- 5.2 **Fiscal sustainability risks.** Further, shrinking fiscal space resulting from the COVID-19 crisis could result in reduced public entities' demand. Despite of potential medium potential impact of this risk, a significant number of beneficiaries have already identified in the preparation of the program. Furthermore, BNDES has a dedicated team promoting support in the preparation of PPPs and has been working closely with potential beneficiaries. Finally, the program also benefits from high commitment of the federal government, which sees this initiative as key instrument to leverage the needed investments in infrastructure.
- 5.3 **Sustainability.** Activities promoted by the program are expected to be sustainable in the long-term as BNDES has already a fully dedicated team to execute PPP-related activities that would be scaled-up by the proposed program. Knowledge sharing and dissemination will be supported. Also, BNDES will apply recovery fees for the services provided, ensuring financial sustainability of the Program.

- 5.4 **Exceptions to Bank Policies.** As in prior loan operations with BNDES, for this project the guarantee of the Federative Republic of Brazil will be limited to BNDES' financial obligations under the loan (including repayment of principal, payment of interest and other financial charges), and will not cover the performance obligations and local counterpart contribution. Consequently, partial waiver to IDB's policy guarantees required from the borrower (document 104-2) will be sought.

VI. RESOURCES AND TIMETABLE

- 6.1 Preparation and distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review (QRR) is expected by July 31st, 2020, approval by the OPC by September 24th, 2020, and approval by the Board of Executive Directors on October 28th, 2020. An estimated budget of US\$80,750 from the Bank's administrative budget will be needed to prepare this operation and the FTEs at 1.027%, according to Annex V.

CONFIDENTIAL

¹ The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.



Safeguard Policy Filter Report

Operation Information

Operation		
BR-L1549 Public-Private Partnership and Concessions Preparation Program		
Environmental and Social Impact Category	High Risk Rating	
C		
Country	Executing Agency	
BRAZIL	BR-BNDES - BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO E SOCIAL	
Organizational Unit	IDB Sector/Subsector	
Connectivity Markets and Finance Division	RISK FINANCING	
Team Leader	ESG Primary Team Member	
MARIA E. NETTO DE A. C. SCHNEIDER		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$20,000,000	0.000 %
Assessment Date	Author	
26 Jun 2020	GMAHFOUZ Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	13 Jul 2020	
QRR (Estimated)	14 Aug 2020	
Board Approval (Estimated)	28 Oct 2020	
Safeguard Performance Rating		
Rationale		



Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

Safeguard Policy Items Identified

B.1 Bank Policies (Access to Information Policy– OP-102)

The Bank will make the relevant project documents available to the public.

B.2 Country Laws and Regulations

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

B.3 Screening and Classification

The operation (including [associated facilities](#)) is screened and classified according to its potential environmental impacts.

B.7 Supervision and Compliance

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

B.17. Procurement

Suitable safeguard provisions for the procurement of goods and services in Bank financed operations may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Additional Comments

[No additional comments]



Safeguard Screening Form

Operation Information

Operation		
BR-L1549 Public-Private Partnership and Concessions Preparation Program		
Environmental and Social Impact Category	High Risk Rating	
C		
Country	Executing Agency	
BRAZIL	BR-BNDES - BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO E SOCIAL	
Organizational Unit	IDB Sector/Subsector	
Connectivity Markets and Finance Division	RISK FINANCING	
Team Leader	ESG Primary Team Member	
MARIA E. NETTO DE A. C. SCHNEIDER		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$20,000,000	0.000 %
Assessment Date	Author	
26 Jun 2020	GMAHFOUZ Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	13 Jul 2020	
QRR (Estimated)	14 Aug 2020	
Board Approval (Estimated)	28 Oct 2020	
Safeguard Performance Rating		
Rationale		

Operation Classification Summary

Overriden Rating	Overriden Justification
Comments	



Safeguard Screening Form

Conditions / Recommendations

No environmental assessment studies or consultations are required for Category "C" operations.

Some Category "C" operations may require specific safeguard or monitoring requirements (Policy Directive B.3). Where relevant, these operations will establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.)

The Project Team must send the PP (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports.

Summary of Impacts / Risks and Potential Solutions

Disaster Risk Summary

Disaster Risk Level

Low

Disaster / Recommendations

No specific disaster risk management measures are required.

Disaster Summary

Details

The project is classified as low disaster risk because the occurrence of the hazard event does not impact in the achievement of project outcomes.

Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Environmental and Social Strategy (ESS)		
Operation Name	Public-Private Partnership and Concessions Preparation Program	
Operation Number	BR-L1549	
Prepared by	Javier Gavilanez - Isabelle Braly-Cartillier- (IFD/CMF)	
Operation Details		
IDB Sector	IFD/CMF	
Type of Operation	Loan Operation	
Environmental and Social Classification	C	
Disaster Risk Rating	Low	
Borrower	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)	
Executing Agency	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)	
IDB Loan US\$ (and total project cost)	IDB (OC):	US\$20.0 million
	Counterpart financing (BNDES):	US\$10.0 million
	TOTAL:	US\$30.0 million
Applicable Policies/Directives	OP-102, OP-703 (B.1, B.2, B.3, B.7, B.17)	
Operation Description		
<p>The general objective of the program is to promote effective private participation in infrastructure investments in Brazil, to support growth and productivity in the long term. The specific objectives are: (i) to increase the effectiveness in the preparation of PPP initiatives; and (ii) to improve the attractiveness for private sponsors of projects taken to the market.</p> <p>The program will consist of a single component under which BNDES will use IDB funding along with its own resources to finance private independent advisory services for the preparation and structuring of PPP projects, including user-pays concessions, sponsored concession (in which revenues come from user fees and government transfers), and administrative concessions (all revenues come from government transfers). More specifically, resources from the program will be used to hire specialist external services, such as technical, legal and financial consultants, to assist public agencies in structuring PPP tenders throughout the entire project cycle. Specialists who have experience in developing PPPs are expected to have better capacities to adopt best practices – or avoid the main pitfalls – when preparing PPP deals.</p>		

Beneficiary public entities will enter into an agreement with BNDES by which the latter will use program resources to hire specialized consulting services to advise the beneficiary government throughout the structuring the project. External services to be financed may include: (i) technical studies; (ii) legal advisory; (iii) financial and transaction consultancy; (iv) communication advisory; (v) other technical services directly required to implement all tasks included in the PPP project cycle.

The intended beneficiaries of the program will be federal and subnational entities intending to attract private sector investment into infrastructure projects via PPPs, in all eligible sectors, these include but are not limited to sanitation, street lighting, roads, and ports.

Key Potential ESHS¹ Risks and Impacts

No negative Environmental, Social, Health and Safety (ESHS) risks or impacts have been identified for this operation.

Program resources will be used to contract specialized external services, such as technical, legal, and financial consultants, to assist public agencies in structure PPP tenders, therefore, the activities to be developed focus on advice, training, study, and analysis of the aspects to be developed in this program. In this context, the environmental, social, health and safety (ESHS) risks or impacts are null. To promote best practices, all consultancies, when relevant, will be aligned with international ESHS standards. Likewise, the consultancies will be legally certified in accordance with national legislation. According to directive B.3 of the Bank's Environment and Safeguards Compliance Policy (OP-703 / GN-2208-20), category C was confirmed for this operation.

BNDES has an Environmental and Social Policy since 2010 and was the first bank in Brazil to analyze the socio-environmental risks and impacts of the projects it finances. From then, BNDES has been constantly working at improving its processes in this area. Since 2016, with the support of the IFC, BNDES has been improving its environmental and social risk management system (ESMS). In 2019, they reviewed their processes to identify E&S risks and classify projects in order for those to be aligned with the IFC performance standards. The new methodology is being piloted in this first half of 2020. In the meantime, they are starting to look at integrating E&S issues in their project finance structuring activities.

It should be noted that, in 2014, the Central Bank of Brazil published regulation 4.327 by which all financial institutions must have their own environmental and social risk management system (ESMS). Furthermore, Brazil is one of the few countries in which financial institutions are legally co-responsible for the environmental liabilities of their lenders.

Last but not least, the BNDES has successfully executed different operations with the Bank, proving their capacity to manage E&S issues (BR-L1442, BR-L1521).

¹ Environment, Social, Health and Safety.

For all the reasons listed above, the project team concluded that BNDES institucional capacity is strong enough to manage the risks and impacts of the program.

Information Gaps and Strategy for Analysis and Management

N/A

Opportunities for IDB Additionality on Environment and Social matters (if any)

No opportunities for additionality was identified at this stage.

Annex Table: Operation Compliance with IDB Safeguard Policies

NA

Additional Appendices (if any)

NA

INDEX OF SECTOR STUDIES

SUBJECT	DESCRIPTION	DATE	REFERENCE TO ELECTRONIC LINKS
Report	Governance in Public Private Partnerships for Infrastructure Development (by United Nations Economic Commission for Europe)	2014	https://www.unece.org/fileadmin/DAM/ie/ppp/documents/botguidegov.pdf
Working Paper	Filling the Gap: Infrastructure Investment in Brazil (by IMF)	2015	https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Filling-the-Gap-Infrastructure-Investment-in-Brazil-43139
Report	Benchmark Procuring Infrastructure through PPPs (by World Bank)	2018	https://bpp.worldbank.org/
Report	Global Competitiveness Report 2019: How to end a lost decade of productivity growth (by World Economic Forum)	2019	https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth
Operational Guide	PPP Reference Guide 2.0 (by IDB, World Bank and Asian Development Bank)	2018	https://openknowledge.worldbank.org/handle/10986/20118
Operational Guide	International Certification Guide on PPPs (by World Bank, IDB, Asian development Bank)	2017	https://ppp-certification.com/pppguide/download
Report	Improving Infrastructure Financing in Brazil (by World Economic Forum WEF and IDB)	2019	https://www.weforum.org/reports/improving-infrastructure-financing-in-brazil
Report	Barômetro da Infraestrutura Brasileira, 2ª edição (by Ernest & Young)	2019	https://www.abdib.org.br/2019/11/07/barometro-da-infraestrutura-2aedicao/
Internal report	Brazil PPP country profile (by IDB)	2019	https://idbg.sharepoint.com/sites/VPC_PPP/SitePages/Country.aspx
Technical Report	Brazil Central Bank, Focus Relatório de Mercado Expectativas de Mercado	2020	https://www.bcb.gov.br/content/focus/focus/R20200529.pdf
Technical Report	Preserving the regular operation of the financial system and the Brazilian Economy (Brazil Central Bank)	2020	https://www.bcb.gov.br/en/about/covid-19-measures
Technical Note	Analysis of PPP investment Needs	2020	To be prepared

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