Fiscal Space and Public Investment.
The case of Public-Private Partnerships (PPPs) in Brazil

I. BASIC PROJECT DATA

Country:	Brazil		
TC Name:	Fiscal Space and Public Investment. The case of Public-Private Partnerships (PPPs) in Brazil.		
TC Number:	BR-T1271		
Team members:	Gerardo Reyes-Tagle (IFD/FMM), Project Team Leader; Sophia Whyte-Givans (FMM/CJA); David Bloomgarden (MIF/MIF); Seongbak Wi and Susana Román-Sánchez (IFD/FMM).		
Operation type	Knowledge Generation and Dissemination		
Date of TC Abstract:			
Beneficiary:	Public-Private Partnership Units of the States in Brazil		
Executing agency:	Bank Executed		
IDB Funding Requested:	US$95,000		
Counterpart funds:	US$10,000		
Disbursement period:	Disbursement period	24 months	
	Execution period	30 months	
Types of consultants;	Individual		
Prepared by Unit:	IFD/FMM		
TC included in CS or CPD	Yes [ ]	**GCI-9 priority:**	Yes [X]
	No [X]		No [ ]

II. OBJECTIVE AND JUSTIFICATION

2.1 Infrastructure in Brazil is characterized by low public investment levels, poor coverage and low quality. In addition, the trade in infrastructure is decreasing. While in the period 1969-1984, gross capital formation averaged 4%, in the period 1985-2000 was 1.8% and in 2001-2010 was 0.7%.[1] As a consequence, there has been a general decrease in the quality of infrastructure services and a relative scarcity of quantities supplied.[2]

2.2 To improve its public infrastructure the country implemented, in the early nineties, a Public-Private Partnership Program (PPP)[3] as a means of financing large-scale infrastructure projects, mainly in transportation and energy sectors.[4] In the period 1990-09, LAC PPP projects totaled US$310 billion that represent

[1] Literature suggests investment levels for sustaining high economic growth rates in the range of 5-7% of GDP. For more information see: Lora, E. Public Investment in Infrastructure in Latin America: Is Debt the Culprit? IDB, 2007 and Carranza L, et Al. Public Infrastructure Investment and Fiscal Sustainability in Latin America: Incompatible Goals? OECD, 2011.

[2] For example, between 1960 and 1980, power-generating capacity grew at an annual average rate of 10%. Between 1980 and 2010 it only did at a rate of 3%. For more information see: IMF "Investing in Growth", March 2011

[3] PPPs are long term agreements between the government and the private sector whereby the latter delivers and funds public services using a capital asset, sharing the associated risks.

[4] In 2004, the government passed a new PPP Act, creating new modalities of concessions which allow for government disbursements to the concessionaire and eliminated the need of legislative authorization for government financial commitments to private partners.

30% of the total amount invested in PPPs in developing countries.[5] Brazil accounted for half of that investment amount.

2.3 The objective of this Technical Cooperation (TC) is to analyze the Brazilian experience under the PPP program and draw lessons learned on three sectors of the economy that have used PPP to finance projects. The TC will enhance FMM´s knowledge regarding the role of PPPs in financing solutions for fiscal space at the national and subnational level; the institutional capacity to design, evaluate, process and monitor PPPs; and a better understanding of the fiscal risks embedded to this type of instrument. In assessing the role of the PPPs, the TC will focus on the following issues at the national and subnational level: (i) PPP in the framework of PIM (Public Investment Management). The TC will study the PPP Brazilian framework and the rules used to monitor the scale of PPP projects in comparison to public investment; (ii) transparency and governance of PPP arrangements. This includes analyzing the legal framework for PPPs, procurement schemes, concessions, termination conditions, oversight and capacity building; (iii) fiscal risks that will answer whether governments maintain fiscal adequacy and stability through the use of PPPs. That requires estimation of government's fiscal burdens and commitments from implemented and planned PPP projects; and (iv) Value for Money (VFM) at an ex-post basis. Explores issues about the efficiency of project management and contract renegotiation. The main task of ex-post management hinges upon VFM at an ex-post basis; whether the PPP projects have delivered VFM to the economy or not. Based on ex-post VFM analysis, fair evaluation of PPP implementation along with lessons will be addressed.

III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

3.1 The TC will finance the following activities: (i) a seminar in Brazil that will focus in lessons learned for developing institutions for efficient use of PPP programs. The sessions in the seminars will address three crucial areas: (a) identification and prioritization of PPP projects, past and current practices in different countries, institutional issues and training needs; (b) governance of PPP procurement, including the process adaptation, procurement, contract management and the role of PPP units; and (c) evaluation and quantification of fiscal risks including legal, technical, financial, political, social, environmental and economic, and the introduction of risk allocation and mitigation measures; and (ii) analytical studies. The TC will finance three sector studies that will be based on the areas and issues described in par. 2.3.

IV. BUDGET

[5] Source: PPP in Infrastructure Resource Center. World Bank 2012.

4.1 Table 1 describes an indicative budget for the TC in the amount of US$105,000.

Table 4.1: Indicative budget

Description and type of the procurement contract	Source of financing		
	IDB	**Local**	**Total**
Component I: Development institutions for efficient use of PPPs **Consulting services:** One seminar to be conducted in Brazil, that will focus on lessons learned and international best practices of the use of PPPs at the national and subnational level.	35,000	5,000	40,000
Component II: Studies **Consulting services:** Technical studies, in the areas described in 2.3. seminars and presentations and technical support	60,000	5,000	65,000
TOTAL	**95,000**	**10,000**	**105,000**

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

5.1 The Bank will be responsible for the contracting of consultancies. The Bank will carry out the selection and hiring of the consulting services necessary for this TC in accordance with the applicable Bank's procedures and policies set forth in document GN-2350-9. The technical and disbursement responsibility at the Bank will be under the responsibility of Gerardo Reyes-Tagle (IFD/FMM).

VI. PROJECT RISKS AND ISSUES

6.1 No significant risks are foreseen since this is a TC that will be executed by the Bank. However, one possible risk would be the lack of interest on the PPP topics from the participating state governments. To mitigate this risk, the Bank is targeting states in Brazil that has long experience working with PPPs and wants to share their experience as well as those countries that are starting to work with the PPPs scheme and are interested in best practices and lessons learned.

VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

7.1 Given the nature of the proposed TC, adverse environmental impacts are not expected. The program is expected to indirectly have a positive social impact by helping to create employment opportunities in Brazil.