

TC ABSTRACT

I. BASIC PROJECT DATA

Region:	Latin America and the Caribbean Countries (Regional)		
TC Name:	Financing Solutions for Fiscal Space and Investment Projects: The Role of Public-Private Partnerships		
TC Number:	RG-T2191		
Team members:	Gerardo Reyes-Tagle (IFD/FMM), Project Team Leader; Sophia Whyte-Givans (FMM/CJA); Seongbak Wi (IFD/FMM); and Susana Román-Sánchez (IFD/FMM).		
Operation type	Research and Dissemination		
Date of TC Abstract:	February, 2013		
Beneficiary:	Latin America and the Caribbean countries		
Executing agency:	Bank Executed		
IDB Funding Requested:	US\$920,000		
Counterpart funding: Korean Development Institute (KDI)	US\$100,000		
Disbursement period:	Disbursement period	36 months	
	Execution period	36 months	
Types of consultants;	Individual		
Prepared by Unit:	IFD/FMM		
TC included in CS or CPD	No [X]	GCI-9 priority:	Yes [X]

II. OBJECTIVE AND JUSTIFICATION

- 2.1 Infrastructure in Latin America is characterized by low public investment levels, poor coverage and quality of services. In the last decade, public investment represented 2% of GDP, leaving a gap with respect to the requirements of investment of about 4.4% of GDP.¹ Since the early nineties, governments in the LAC region have been increasingly using Public-Private Partnerships (PPPs),² as a means to close this investment gap, mainly in the transport and energy sectors.³
- 2.2 Implementing PPPs has been of great challenge to some countries, especially in: (i) strengthening the legal and institutional framework for PPPs; (ii) developing capacity building to identify, evaluate, implement and monitor PPPs and their risks; (iii) mitigating high transaction costs; (iv) strengthening and standardizing the mechanisms to close loopholes that enable PPPs to be used to bypass expenditure controls, and to move public investment off budget and debt off the government balance sheet; and (v) properly accounting for budget contingent liabilities associated with PPPs.
- 2.3 The objective of this Technical Cooperation (TC) is to support the PPP programs that countries in Latin America are implementing, by facilitating knowledge exchange

¹ For more information see: Lora, E. Public Investment in Infrastructure in Latin America: Is Debt the Culprit?, IDB, 2007 and Carranza L, etc. Al. Public Infrastructure Investment and Fiscal Sustainability in Latin America: Incompatible Goals? OECD, 2011.

² 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.

³ In the period 1990-09, LAC PPP projects totaled US\$310 billion (30% of the total amount invested in PPPs in developing countries). Brazil accounted for half of that investment.

between countries in the Region, think tanks, and multilateral institutions. In doing so, the TC will focus on:

- a. Identifying opportunities for institutional framework and capacity building for PPPs. A critical issue of the institutional framework is to establish whether the institutional arrangements (e.g. procurement schemes, termination conditions, etc.) are adequate for the PPP scheme. In addition, it is important to assess the institutional capacity of the PPP units to design, evaluate, process and monitor PPP projects.
- b. Management of PPPs in the context of Public Investment Management (PIM). PPP programs are closely linked to public investment programs, while, so far, less addressed in the budget process. In order for the successful implementation of PPP projects and for the sound fiscal management, there is a need to find new rules to monitor the scale of PPP projects and establish whether PPPs are a good alternative to public investment.
- c. Institutional coordination between the federal and state level. It is important to assess the initiatives that have been undertaken to ensure good governance and efficient oversight at state/provincial and local government levels.
- d. Value for Money (VFM) at an ex-post basis. 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.
- e. Fiscal advantages and risks. It is critical to assess how governments measure, evaluate and mitigate risks associated to the PPPs and how these risks and its correspondent provisions are introduced in the budget (Hemming and Chalk, 2000; Baldacci and Fletcher, 2003). The above requires estimation of government's fiscal burdens and commitments from implemented and planned PPP projects as well as identifying the contingent liabilities that may arise.
- f. Case studies. The TC will finance comparative evaluations of PPPs in key sectors between countries of Latin America and other countries worldwide. The comparative studies will consider geopolitical similarities, size and engagement with PPPs between countries. Lessons will then be identified regarding barriers and enablers which determine the success of partnerships, and the kind of support that could be provided.

- 2.4 The TC will benefit from the Korean experience in the establishment of its PPP program. The Korean Development Institute (KDI), through the Public and Private Infrastructure Investment Management Centre (PIMAC) will contribute US\$100,000 to fund activities under the TC and will provide analytical inputs and peer reviews.

III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 The TC will finance: (i) three seminars in the Region that will focus in lessons learned on the efficient use of PPP programs; (ii) training courses in evaluation and quantification of fiscal and budgetary risks; procurement practices; contract management strategies, policies, projects and support for PPPs; and (iii) four sector studies that will be based on the areas and issues described in ¶2.3.

IV. BUDGET

Description and type of the procurement contract	Source of financing		
	IDB	KDI	Total
<u>Component I: Development institutions for efficient use of PPPs</u>			
Consulting services: One seminar to be conducted in Brazil, that will focus on lessons learned and best practices of the use of PPPs for the Brazilian government officials.	80,000	0	80,000
Service 2: A seminar for South Cone countries that will focus on lessons learned and international best practices of the use of PPPs.	80,000	0	80,000
Service 3: A seminar in Barbados for the Caribbean Region, that will focus on lessons learned and international best practices of the use of PPPs.	80,000	0	80,000
Service 3: Training courses in the areas of contract, design, management, auditing, procurement, fiscal risks management and procedures.	90,000	0	90,000
Service 4: One trip to Seoul, Korea for the participants to learn from government officials of Korea about their strategy, policies, projects and support for PPPs.	90,000	0	90,000
<u>Component II: Studies</u>			
Consulting services: Technical studies, in the areas described in 2.3. seminars and presentations and technical support	500,000	100,000	600,000
TOTAL	920,000	100,000	1,020,000

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The Bank will be responsible for the contracting of consultancies and will carry out the selection and hiring of the consulting services in accordance with Bank procedures established in document GN-2350-7.5. Technical and disbursement responsibility at the Bank will be under Gerardo Reyes-Tagle (IFD/FMM).

VI. PROJECT RISKS AND ISSUES

- 6.1 One possible risk would be the lack of interest on the PPP topics from the participating governments. To mitigate this risk, the Bank is targeting countries that have long experience working with PPPs and want to share their experience as well as those countries that are starting to work with the PPPs scheme and are interested in international best practices and lessons learned.

VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

- 7.1 According to the environmental policy and the safeguards this TC is under Directive B.13. Given its objective (¶2.3), this TC will not carry negative environmental nor social impacts, and that it is why it is not considered necessary to prepare an Environmental and Social Strategy.