

**Brazil Infrastructure Project Preparation Fund Second Contribution
(BR-T1256)**

I. Basic Information

▪ Country/Region:	Brazil
▪ TC Name:	Brazil Infrastructure Project Preparation Fund Second Contribution
▪ TC Number:	BR-T1256
▪ Associated Loan/Guarantee Name:	NA
▪ Associated Loan/Guarantee Number:	NA
▪ Team Leader/Members:	Gaston Astesiano and Jean Marc Aboussouan
▪ Date of TC Abstract authorization:	February 7, 2012
▪ Donors providing funding:	
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Ministry of Planning, Budget and Management of Brazil and Infrastructure State and Local Agencies.
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program) {If Bank: Contracting entity} {If the same as Beneficiary, please indicate}	<i>Banco Nacional de Desenvolvimento Econômico y Social (BNDES)</i>
▪ IDB Funding Requested:	<i>InfraFund</i>
▪ Local counterpart funding, if any:	\$2.9 Million (BNDESPAR)
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	March 12, 2012
▪ Types of consultants (firm or individual consultants):	Individuals and firms
▪ Prepared by Unit:	INE/INE
▪ Unit of Disbursement Responsibility:	INE/INE
▪ TC Included in Country Strategy (y/n):	Y
▪ TC included in CPD (y/n):	
▪ GCI-9 Sector Priority:	Infrastructure for competitiveness and social welfare

II. Objectives and Justification

The of this TC is to continue supporting, jointly with the International Finance Corporation of the World Bank (IFC) and the *Banco Nacional de Desenvolvimento Econômico y Social (BNDES)* through its subsidiary *BNDES Participações (BNDESPAR)* the Brazil PSP Development Program (The Fund). The Fund was created by the IFC, BNDESPAR and the Bank in October 2007 with an initial contribution of US\$ 1 million each by the IFC and the IADB and US\$ 1.9 million by the BNDS in October 2007. IFC and IADB committed to contribute up to US\$ 3 Million each, and the BNDESPAR up to US\$5.9 Million. The initial contribution of the Bank was approved by the TC titled Brazilian Project Preparation Fund (BR-T1046) [\(add link to the Plan of Operations of the BR-T1046 in IDBDOCS\)](#) approved in December 2006. This operation is the second phase of financing of the Brazil

PSP, BNDESPAR and the IFC have already completed their second financing by contributing US\$ 1 Million BNDESPAR totaling US\$2.9 Million and US\$0.912 Million totaling US\$1.912 Million.

The Brazil PSP Development Program has as main goal to contribute to the private participation on infrastructure in Brazil, through financing preparatory activities and studies for infrastructure projects therefore this operation is consistent with paragraph 1.4a.i. of the Infrastructure Project Preparation Fund, which set as eligible activities: “Preparatory activities for investment transactions in infrastructure, . . . and project identification activities not related to specific projects.” One the most attractive features of a project such as the Fund stems from the large leverage effect that the Bank participation will generate. For each dollar of Bank’s funding, almost four additional dollars will be brought into the financing of preparation of new infrastructure projects through BNDESPAR and IFC contributions.

Alignment with the GCI-9

Although the Brazil Project Preparation Fund (BR-T1046) was designed in 2006¹ before the GCI-9 (AB-2764) was in place, this proposal is aligned with the GCI-9 strategic goal of supporting the sustainable development through the private sector participation on infrastructure and consequently this proposal is also framed under the GCI-9 sector priority: “Infrastructure for competitiveness and social welfare” and it is directed to support economic development.

Consistency with the Bank’s Country Strategy

The Bank’s Country Strategy (GN-2327 up-dated by GN-2570) seeks to support Brazil in achieving sustainable and more equitable growth through actions in four priority areas: (i) productivity growth and promotion of infrastructure investment, specially through PPP models; (ii) improvement in poverty, equality and human capital indexes; (iii) improvement in living conditions and efficiency in cities; and (iv) institutional strengthening and modernization of the State. This operation is consistent with the first area of the Bank’s Country Strategy, as it focuses on promoting infrastructure investment and supporting Bank interventions to enhance the business climate and foster the development of PPPs in the sector.

Coordination with other Development Agencies

This is a coordinated effort among three relevant private sector development institutions active in Brazil: the International Finance Corporation (IFC), private sector development arm of the World Bank Group; the *Banco Nacional de Desenvolvimento Econômico y Social* (BNDESPAR), Brazil’s Federal development agency; and the Inter-American Development Bank (IDB). Through the Brazil Infrastructure Project Preparation Fund, these three organizations will pool their resources for preparing and enabling private sector participation in infrastructure projects. The team is also coordinated with the PPP Unit of the Ministry of Planning, Budget and Management, the federal agency in charge of structuring PPP projects at the federal level.

III. Description of activities

¹ The first TC approved under the InfraFund was the Brazil Infrastructure Project Preparation Fund BR-T1046 on December 6, 2006, under which the Bank pledged to contribute up to \$3Million to the Brazil PSP Development Program.

This subheading should describe major activities/components, responsible parties and timing for completion, procurement plan, as well as expected outputs and expected results of the TC. Expected results should include concrete statements of expected and recognizable development results in order to avoid objectives like “improving the living conditions of vulnerable communities”.

A. Brazil PSP Development Program (The Fund)

The Brazil PSP Development Program, was created by the IFC, BNDESPAR and IADB in October 2007 (see annex Administration Agreement of Brazil PSP Development Program). The Fund’s purpose “is to identify and implement PSP Selection Services and PSP Execution Services with view to implementing PSP Projects.” The overarching objective of The Fund is to finance pre-feasibility, technical, economic, environmental and legal studies and consulting services for the development and implementation of long-term contractual relationships between government, national and sub-national, and private parties, such as PPPs, concessions, Build Operate and Transfer (BOTs), operation and maintenance contracts and other similar mechanisms in Brazil (all such mechanisms referred to herein as “private sector participation” or PSP). The Fund focus on transaction implementation rather than broad sector studies.

The projects may be in traditional infrastructure sectors (e.g., roads, railroads, ports, mass transit, airports, water and sanitation, electricity distribution, generation and transmission, etc.) and in social infrastructure (e.g., the Bahia primary care center).The Fund: (i) selects eligible projects, following a methodology to be agreed upon with Brazilian authorities, (ii) identifies the studies and technical work required to structure the projects so that they can be offered to the private sector for investment; (iii) selects and hire consultants to provide the required services; (iv) manages the delivery of consulting services; and (v) pays for the cost of such services.

Fund Governance. The Fund is governed by a Board of Donors (the Board) consisting of 1 member from each Donor (BNDESPAR, IFC and IDB), which will approve by simple majority: (i) each project to be considered by the Fund; (ii) a budget ceiling for the hiring of consultants for each project; (iii) the Project Execution Advisor for each PSP project; and (iv) the annual financial statements of the Fund. At the end of the stipulated time period, any of these matters will be considered approved by a member of the Board if there is no response from that Board member. BNDESPAR will have veto rights over points (i) and (ii).

The day-to-day business of the Fund will be managed by a Trustee. The Trustee, the IFC Advisory Services, acts as Secretary of the Board of Donors for the purposes of coordinating the approval process and issuing the final eligibility notice for the projects. Also, the Trustee is responsible for: (i) aiding the Brazilian government in project selection; (ii) submitting to the Board the list of projects to be considered; (iii) preparing selected projects in their initial phase; (iv) submitting to the Board requests for financing for projects to be funded by the Fund. As part of such requests, the Trustee will make its best efforts to identify any major environmental issues associated with the projects; (v) recommending to the Board whether the IFC, the IDB or a third party should be the Lead Project Execution Advisor; and (vi) reporting to the Board on the progress of the services and studies, as well as on their results.

Hiring and Managing Consulting Services. Finally, the Fund will select, hire and manage the consultancy services to assure that they are delivered on time and meet the established quality

requirements. The Fund will guarantee that the projects are ready to be offered to the private sector for investment soliciting. The selection process of consultants, advisors, technical experts, lawyers, etc. should be transparent, simple and expedite. It will comply with Bank policies regarding procurement of goods and services and selection and contracting of consultants (GN-2349-9, GN-2350-9).

Requests for Support. The Fund will only accept requests for support from the Brazilian Federal Government, entities controlled by the Brazilian Federal Government, Brazilian State Governments or entities controlled by Brazilian State Governments. When there is a request from a state government, the Trustee will consult with BNDESPAR at an early stage to see whether the request is consistent with the federal government’s priorities.

Condition for Support. As a condition for receiving support from this Fund, the requesting entity must agree to include, in the bidding documents of the project, that the winner of the PSP contract must repay to the Fund and/or the Project Execution advisor (either IFC, IDB or a third party): (i) the total cost of the studies and consulting services hired by the Facility; and (ii) all expenses incurred by the Fund in connection with the respective PSP project. The Board of Donors will determine the proportion to be paid to the Fund and the Project Execution advisor respectively based on the financial arrangements previously agreed with the Project Execution advisor.

No Donor has been granted any preference or limitation, in financing either the winning bidder for any project executed under this facility or the government of Brazil or any state or local government in conjunction with a project approved under this facility. The private sector company or consortium that wins a bid shall have complete discretion to decide on its sources of financing. For any associated public sector financing, the relevant government of Brazil (national, state or local) shall be free to choose the financing it prefers.

Project Financing. The Fund will pay for 100% of the costs of the consulting services and studies necessary for the complete development of the selected projects. The cost of the preparation shall be reimbursed to the Fund by the project, whenever the relevant PPP or concession contracts are executed.

In the first four years of existence The Fund has supported 5 following projects:

Project	Year of Fin. Closure	Brief Description	Private Sector Investment Mobilized \$Million	Benefited Population People Per Year	Main Features
BR 116/324	2009	Transportation: ROT of 680 km of roads linking the NE and SE of Brazil	\$ 615	912,500	The project’s contractual structure based on performance influenced the model used for seven road concessions in Brazil (totaling over 2,600 km).
BA 093	2010	Transportation: ROT of 126 km of roads	\$ 95	2,500,000	<ul style="list-style-type: none"> ▪ 1st concession structured for a network of roads surrounding the metropolitan area of a city; ▪ 1st road concession in Brazil in

					which the contract requires the compliance of Equator Principles.
Hospital do Subúrbio	2010	Healthcare: full PPP of a 298-bed emergency hospital	\$ 50	400,000	1st Health PPP in Brazil, being the pioneer of several other health PPPs in the country.
BH Primary Care	2011	Healthcare: PFI of 147 primary care units in the municipality of Belo Horizonte	US\$ 220	1,700,000	1st PPP involving Primary Care Units in Brazil.
BH Schools	2012 (exp.)	Education: PFI of 32 kindergartens and 5 elementary schools	\$ 100	18,000	1st Education PPP in Brazil.
TOTAL			\$ 1.080	5,530,500	

The Fund pipeline of identified projects under preparation is summarized in the table below:

Project	Client	Status	Estimated Cost for The Fund
<i>Pontal Irrigation</i>	Federal Government	Preliminary due diligence	US\$ 0.00 <i>(costs fully covered by Codevasf)</i>
Amazon Forest Concessions	Brazilian Forestry Service	Preliminary due diligence	US\$ 1 million
Diagnostic center	State of Bahia	Preliminary due diligence	US\$ 1 million
Solid Waste	State of <i>Minas Gerais</i>	Preliminary due diligence	US\$ 1.8 million
Federal Airports (2)	Federal Government	Discussion in progress	US\$ 5 million

Indicative Results Matrix

Indicator	Baseline 2007-2011	Year 1	Year 2	Total
Inf. Project supported	4	2	2	8
Project supported	4	2	2	4

offered to the private sector				
Project supported reaching Financial Closure	2	1	1	4

The founder Donors of the Fund; BNDESPAR, IFC and the Bank, agreed that the capital of the Fund would be of US\$11.9 million. IFC and the Bank committed up to US\$3 million each, with an initial contribution of US\$ 1 million. The BNDESPAR committed up to US\$ 5.9 million, with an initial contribution of US\$1.9 Million. The Fund has a life span of ten years. Upon liquidation, the assets of the Fund will be prorated among donors.

This second contribution of the Bank will be of US\$ 1 Million. BNDESPAR and the IFC have already completed their second financing by contributing US\$ 1.05 Million BNDESPAR totaling US\$2.9 Million and US\$0.915 Million totaling US\$1.915 Million.

Indicative Budget

Activity	Description	IDB/Fund Funding	Counterpart Funding	IFC Funding	Total Funding
Second Contribution to the PSP Fund	Support the development of concessions and public-private partnership projects (“PPPs”) in Brazil by financing project preparation	\$1 Million	\$1.05 Million	\$0.915 Million	\$2.92 Million

In coordination with IFC and BNDESPAR, IDB will be in charge of the monitoring and evaluation of this project, as well as responsible for providing technical supervision for the studies financed under this operation. The consulting firms will submit progress reports in accordance with the schedule for presentation of such reports provided in the relevant terms of reference.

IV. Executing agency and execution structure

The Executing Agency is the BNDES. Management of the Fund has been delegated to the Private Sector Advisory Services Department of the IFC, which will be entitled to and responsible for the Trustee’s rights and duties detailed in this proposal. The governing by-laws of The Fund includes provisions to assure Donors that key decisions made by the management of the Fund will be subject to previous approval by the Donors see Administration Agreement in Annex 1. The Fund was legally established as a condition previous to the first disbursement and has been executing managing the Fund since October 2007.

V. Major issues

The Fund will assist Brazilian authorities in promoting PPPs in its infrastructure sector, through financing the preparation of attractive and relevant projects to be offered to the private sector. To this end, the Fund will contribute to facilitate the outsourcing of project preparation work to private

consultancies, and it will help enhance the ability of the public sector to get its pipeline streamed down.

Not important risk or issues are foreseen in the implementation of this project, the Fund has been created for more than 4 years and have collaborated with 5 projects and have a pipeline of another 5 projects what will consume the majority of the undisbursed balance and the second contribution of the Bank in the next 2 years. In this way, the Fund will continue assisting Brazilian authorities in promoting PPPs in its infrastructure sector, through financing the preparation of attractive and relevant projects to be offered to the private sector.

VI. Environmental and Social Strategy

The proposed Technical Cooperation will have no environmental or social impacts as it will not finance direct investments in infrastructure, but instead it will finance feasibility studies in the sector, which will include technical, economic, legal, and environmental and social studies. In general, the projects to be supported by this operation may be for a traditional infrastructure sector, such as roads, railroads, airports, mass transit, etc., and also for a social infrastructure sector, such as schools and health care units. The terms of reference of the studies to be financed by the Fund will include environmental and social aspects of the projects in accordance with Bank policies. In this context, all the studies carried out by this operation will follow the guidelines and specifications of the current Brazilian Environmental and Social Legislation and Bank environmental and social policies.

**BRAZIL INFRASTRUCTURE PROJECT PREPARATION FUND SECOND
CONTRIBUTION**

BR-T1256

CERTIFICATION

I hereby certify that this operation was approved for financing under the Infrastructure Project Preparation Fund-INFRAFUND (IPF) through a communication dated on February 13, 2012 and signed by Gerhard Lair (ORP/GCM). Also, I certify that resources from the Infrastructure Project Preparation Fund-INFRAFUND (IPF) are available for up to US\$1,000,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of three (3) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US Dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this document. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

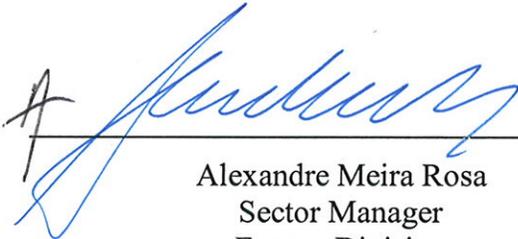


Sonia M. Rivera
Chief a.i.
Grants and Cofinancing Management Unit
ORP/GCM



Date

APPROVAL



Alexandre Meira Rosa
Sector Manager
Energy Division
INE/ENE



Date