

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/Regional
▪ TC Name:	Support for the invigoration of PPPs for water and sanitation in LAC region
▪ TC Number:	RG-T3264
▪ Team Leader/Members:	Kleber Machado, Team Leader (INE/WSA); Lucio Garcia Merino, Keisuke Sasaki, Gil Byungwoo, Seulkie Lee, Irene Cartin (INE/WSA); Yvon Mellinger (INO/IEN); Ricardo de Vecchi and Minji Kim (INO/NFP); and Monica Centeno (LEG/SGO).
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	16 July 2018
▪ Beneficiary:	LAC countries
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	\$500,000.00
▪ Local counterpart funding:	\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	Water & Sanitation
▪ Unit of Disbursement Responsibility:	Infrastructure & Energy
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objective and Justification

- 2.1 This TC aims to seek potential PPP projects for water sector based on in-depth surveys in LAC countries and to develop two pilot pre-feasibility studies (One is for water and the other is for sanitation). The potential projects will be basically based on the demand of each country and they should be attractive enough to the private sector as well. It seems difficult to meet the interests of both sector at the same time under the current PPP environment in water sector. The TC also will identify the appropriate condition or environment for successful PPP by comparing experiences of Korea, which rapidly developed infrastructures under the harsh financial circumstance and tried various PPP models and options.
- 2.2 Latin American and Caribbean (LAC) countries are actively pursuing to invest in construction, upgrade and maintenance of public infrastructure for economic and social growth and improve public services. Despite high demand for infrastructure development, governments do not have the available resources to face it, due to fiscal constraints. As a result, LAC recognizes that the participation of the private sector in the financing and management of public infrastructure projects can help governments to improve coverage, quality and operational efficiency in the provision of public services. One of the mechanisms with enables the participation of the private sector in the development of infrastructure is through Public-Private Partnership (PPP). LAC region induced second highest investment (US \$9.8 billion, 27% of global investment) from the private sector in infrastructure from 2016 second half to 2017 first half in the world . According to Eurodad (2017), over 94% of total PPP investment in LAC was concentrated in five countries; Brazil, Mexico, Colombia, Peru, Chile. Considering the

size of economy, the interest on PPP in other LAC countries seems high as well. PPP investments of Honduras was about 2% of GDP and Peru 2%, Nicaragua 1.5% and Jamaica 1.3%. Although the adoption of PPP is common in energy and transport projects, but it has not been the case for water and sanitation sector. In 2016, of the 96 PPP projects that reached financial closure in LAC, only seven were related to water supply and sanitation sector. PPI database of World Bank also shows that 68% of PPP investment from 2016 to first half of 2017 is for energy and 26% is for transport. PPP investment for water sector is only 1.3%. Generally, the relatively low participation of the private sector in water and sanitation PPP project is mainly regarded to political interference in the setting of tariffs that rarely reflects the actual costs for the provision of the service which affects the financial viability of the projects. Water PPPs can also cause serious social protests and political issues as can be seen in the failure case of water privatization in Bolivia. However, current climate change makes most LAC governments try to find out more effective solutions to deliver better and quicker water service. Thus, the PPP for water sector needs to be invigorated to take advantage of the resources and management capacities of the private sector in a more efficient way

III. Description of Activities and Outputs

- 3.1 Component 1: Identification of potential PPP projects in water and sanitation sector in Latin American and Caribbean countries; Component 2: Pilot PPP feasibility studies for water and sanitation projects; and Component 3: Administration and Dissemination
- 3.2 **Component I: Identification of potential PPP projects for water and sanitation sector.** Component 1 - Review on the PPP environment of LAC countries to identify their willingness and readiness on PPP Study projects; identify potential water and sanitation infrastructure projects for countries with high demand and enough capacity
- 3.3 **Component II: Component 2 - Pilot PPP feasibility studies on PPP projects for water and sanitation.** Select and carry out two PPP pre-feasibility studies; VFM assessment on the potential PPP projects based on surveys; derive an optimal PPP model by comparing and analyzing similar projects and their risks; and recommendation for the invigoration of PPP in WAS sector
- 3.4 **Component III: Component 3 - Administration and Dissemination.** Conduct workshops with stakeholders. Prepare final reports in English and Spanish for officials in LAC countries to share research outcomes and carry out follow-up projects

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Identification of potential PPP projects for water and sanitation sector	\$ 200,000.00	\$ 0.00	\$ 200,000.00
Component 2 - Pilot PPP feasibility studies on PPP projects for water and sanitation	\$ 240,000.00	\$ 0.00	\$ 240,000.00
Component 3 - Administration and Dissemination	\$ 60,000.00	\$ 0.00	\$ 60,000.00

V. Executing Agency and Execution Structure

- 5.1 This TC is a Bank-originated TC focused on invigorating PPP mechanism of Water and Sanitation sector at regional level. Therefore, it will be executed and monitored by the Inter-American Development Bank (IDB) through the Water and Sanitation Division

5.2 This TC is a Bank-originated TC focused on invigorating PPP mechanism of Water and Sanitation Sector at regional level. Therefore, it will be executed and monitored by the Inter-American Development Bank (IDB) through the Water and Sanitation Division. Since pilot projects and their countries will be determined through the Component 1, the focal point of COF will be designated as soon as two pilot projects and counties are selected. The supervision costs to COF will be included in the Component 3 as a part of administration costs.

VI. Project Risks and Issues

6.1 Though the risks identified for this TC are minor, the risk associated with this TC would be unnecessary disputes on the privatization of existent infrastructures, and it may make be difficult to take surveys on rehabilitation projects. Thus, the surveys on rehabilitation projects should be taken only in countries which clearly want PPPs for rehabilitation projects.

VII. Environmental and Social Classification

7.1 The ESG classification for this operation is "C".