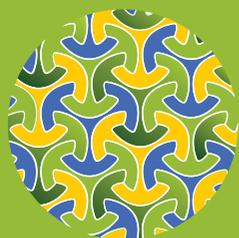




# Sector Contributions

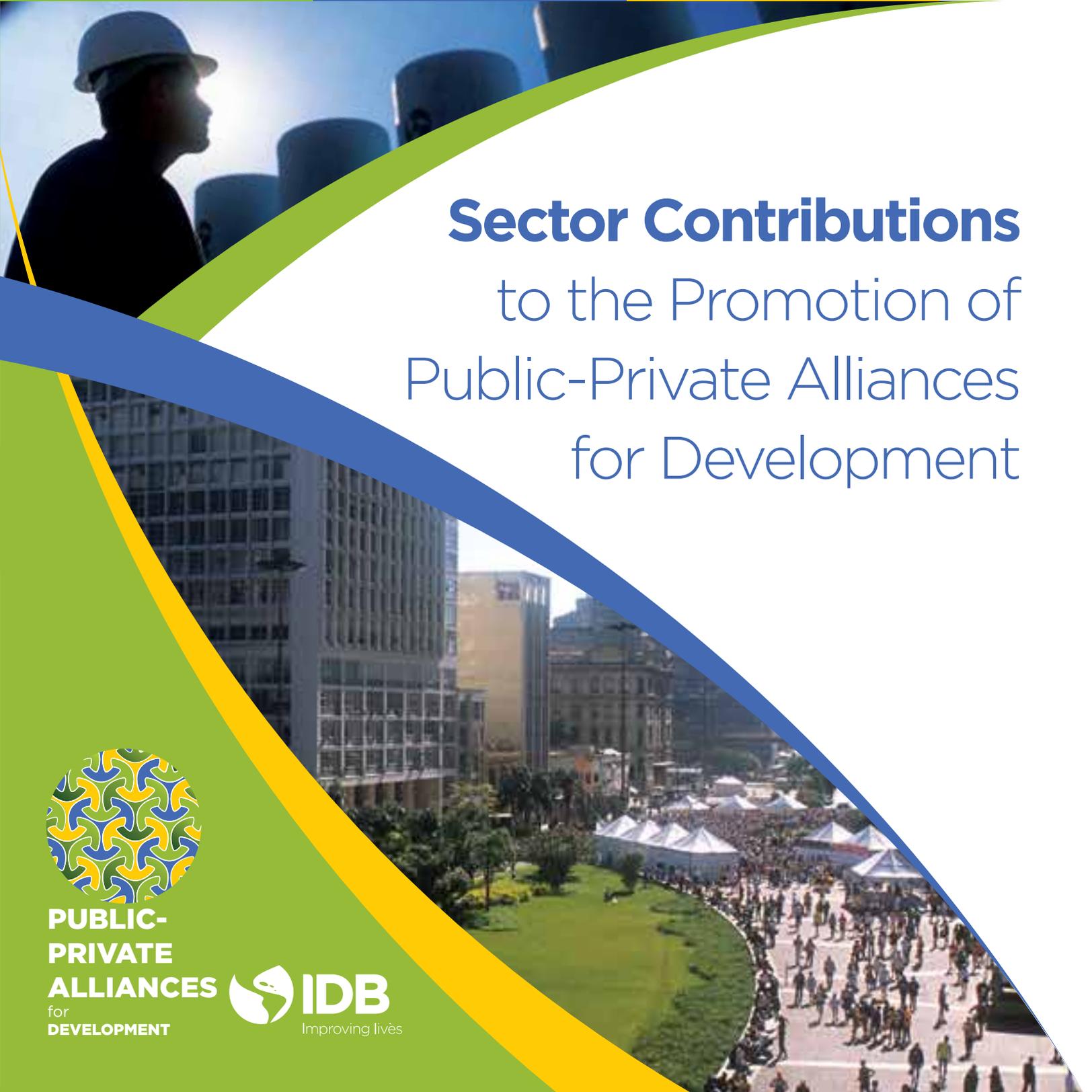
to the Promotion of  
Public-Private Alliances  
for Development



**PUBLIC-  
PRIVATE  
ALLIANCES**  
for  
DEVELOPMENT



**IDB**  
Improving lives



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# Introduction

**SECTOR CONTRIBUTIONS TO THE  
PROMOTION OF PUBLIC-PRIVATE  
ALLIANCES FOR DEVELOPMENT**

The increase of investments in infrastructure and modernization of government performance in the provision of services are strategic factors for overcoming the challenges of development throughout Latin America. However, tax restrictions, which impose a need for careful prioritization of investments funded by governments, and the difficulties associated with the rules to which the public sector is submitted, lead governments to seek alternative ways of implementing public policies and making investments for the provision of services, with great focus on the alliance between the public and private sectors.

During the last ten years, Brazil has presented an average investment rate of 18% of its GDP. In the same period, the rate of investment in infrastructure was only 2.13%, one of the lowest when compared with other countries in the region, and below the 5% rate that experts consider that is a minimum required investment rate for the country to achieve adequate standards of global competitiveness<sup>1</sup>. This demand has led governments to seek new ways of implementing projects, among which are instruments that promote Public-Private Alliances for Development (PPADs).

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1. McKinsey&Company. 2014. Connecting Brazil to the world: A path to inclusive growth.

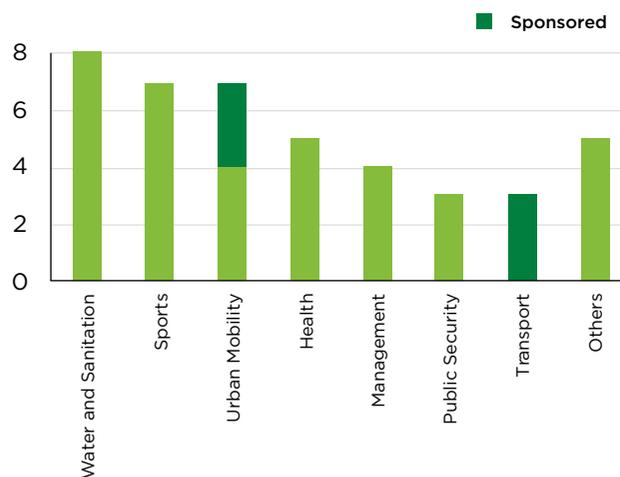
In 1995, the enactment of Law 8987 instituted the so-called public service concessions in Brazil, which allowed the implementation of public projects by private companies authorized to collect fees from users of the services. This model has been widely used in the sectors of telecommunications and roads.

In 2004, the enactment of Law 11079 created the legal framework for a new concession model called Public-Private Partnerships (PPPs), in which there is a direct financial support of the government, that is, part or all of the revenue of the private investor derives from public payments throughout the contract. This change boosted the implementation of partnerships

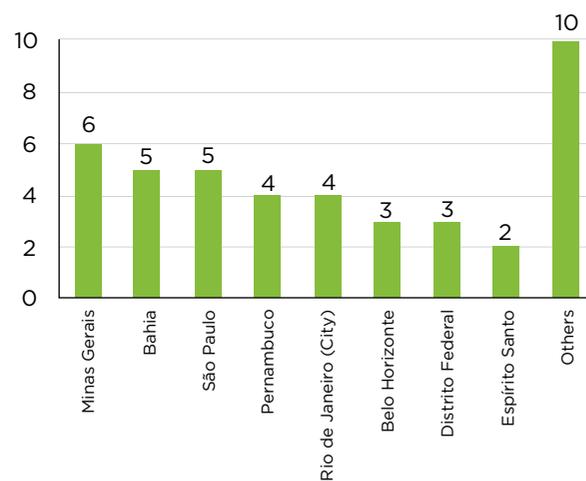
across the country and their use is in clear rise, as evidenced by the numerous contracts signed by government entities in different sectors.

Beside the models of common concession and PPP, other institutional arrangements that allow the alliance between the public and private sectors/ are taking shape and multiplying in the country.

**Contracts by Mode and Sector**

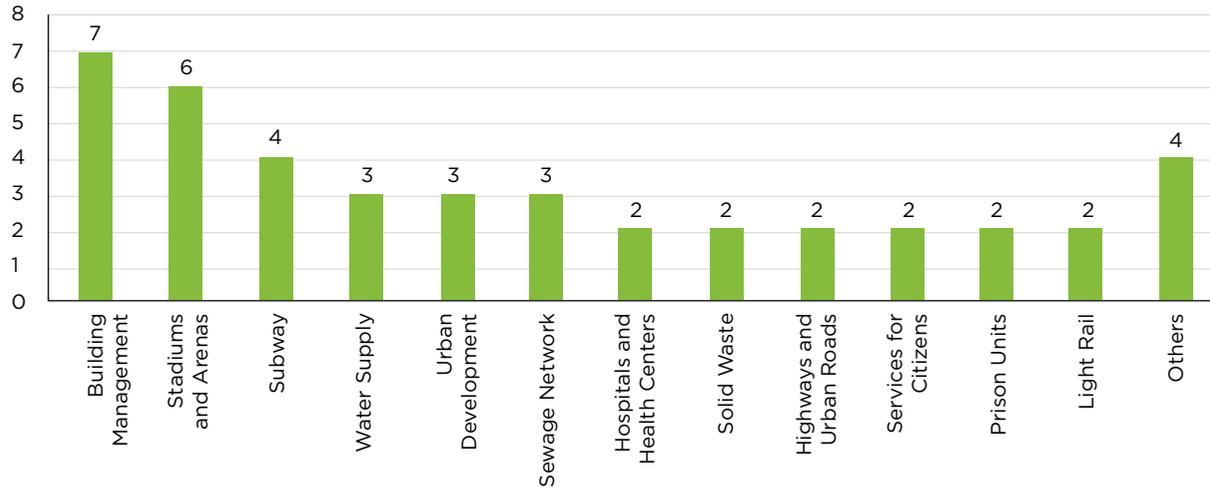


**Contracts by Contracting Entity**



Source: Economic Advisory of the Ministry of Planning, Budget and Management, 2014.

## Form of Public Intervention



Source: Economic Advisory of Ministry of Planning Link: [http://www.planejamento.gov.br/ministerio.asp\\_index=114](http://www.planejamento.gov.br/ministerio.asp_index=114).

Among these are the concessions of right to use public property, and alliances with Civil Society Organizations for the provision of public services.

Common characteristics among these arrangements that allow alliances between the public and private sectors include:

- Contractual instrument that align incentives between the public and private sectors;

- Risk sharing of projects between the public and private entities;
- Long-term alliances that add several activities under the responsibility of the private sector.

These institutional arrangements can be jointly defined as Public-Private Alliances for Development and, if implemented in the right conditions, can contribute to overcome the challenges of development.

## BENEFITS OF PUBLIC-PRIVATE ALLIANCES FOR DEVELOPMENT (PPADS)

Brazil faces major challenges to the establishment of sustainable policies able to increase investment in infrastructure and modernize the provision of public services. However, the context of fiscal constraints imposes limitations for the allocation of budgetary resources over the long term. In other words, infrastructure projects require constant investment flows that almost always exceed the annual horizons of public budgets and often depend on resources that go beyond the quadrennial cycle of budget planning. In an environment of budgetary constraint, assuring stable resource flows in face of the commitments becomes an obstacle to be overcome. Additionally, there are difficulties in

the access to private financing in the form of bank loans or even through the capital market.

Modernizing the institutional environment, more used to the traditional method of infrastructure works and associated services procurement, demands legal and regulatory reform initiatives that are able to speed processes and the use of resources for the provision of quality services, with a focus on results.

Thus, the various forms of PPADs can have a central role in helping governments to face challenges of providing infrastructure and associated services. As the private sector may be able to access funding sources unavailable



to the public sector, in addition to being able to guarantee a commitment of investment required for the lifetime of the assets, the PPADs can assist governments in the financing of priority projects.

Public-Private Alliances allow governments to overcome development bottlenecks related to the management of services, since they mobilize the expertise of the private sector for the provision of public services. In addition, private companies operate in an environment more flexible, which, under the correct incentives, can add efficiency in the provision of these services and contribute to the innovation of the methods and associated technologies.

Given the existing infrastructure demand in Brazil, the investment in projects in the PPADs scheme can achieve three main goals that interrelate:

- To increase national competitiveness, inducing economic growth through the development of strategic sectors of the national economy;



- To improve the provision and efficiency of state-controlled services, increasing their diversity, the quality of their delivery and reducing their weight in public expenditure;
- To expand the social development, improving public health and quality of life of the population, by fighting poverty and supplying basic needs to the population.

The participation of the private sector allows not only to enable the financing of infrastructure works, but also speeds up the execution of the projects, and still provides better Value for Money in its implementation, since it takes advantage of the greater flexibility, know-how, responsibility and risk management capacity of the private sector, which increases the quantity and quality of services provided and reduces the cost of their provision.

The Brazilian Public Administration requires more efficient, effective and economical solutions, as options that allow the release of financial resources to other purposes and meet the expectations and demands of the society, including of businesses. Interventions through PPADs can, for example, accomplish administrative and technological modernization programs.

The abilities of PPADs models on providing and improving the delivery of public services to the population increase the efficiency of the State apparatus, collaborate to modernize State institutions, and contribute to a long-term planning which considers the costs throughout the life of the assets. Such models still allow flexibility at the operational level, since they do not rely on the restrictions imposed by the institutional environment of public organizations.

## CHALLENGES TO THE IMPLEMENTATION OF PPADS

Until the early of 90s, the deployment model of infrastructure and services of generation, transmission and distribution of electricity in Brazil was essentially public. Such a structure began to be changed from the late 90 's, when the Brazilian Government decided to follow the international trend of restructuring the electricity sector in search of competitiveness in all segments.

The energy sector was one of the first sectors that incorporated PPADs models for investments and infrastructure operation. This process was marked by the adoption of Law 8987/95, establishing the regime of public concessions and permissions for the provision of public services. The Inter-American Development Bank (IDB) extensively participated in the financing of various concessions in this sector.

More recently, with the adoption of the legal framework establishing the PPPs, another set of initiatives has been developed in the country in sectors previously unattractive to

private investment. This is the case of sectors such as transportation, sanitation, solid waste, and non-conventional sectors such as security, health and education.

These recent experiences demonstrate that there is broad space for innovation in institutional arrangements that make possible the increase of investments and improve the efficiency in the provision of services.

The PPADs are processes far more complex than the traditional infrastructure deployment and services delivery mechanisms operated directly by governments.

These processes require challenges, of which is worth quoting:

- The adoption of a new culture of relations between the different sectors of society;
- The ability of governments to prepare more complex studies of economic feasibility, legal and technical, as well as to administer the processes of bidding and contract management;
- The presence of an institutional and regulatory environment favorable to the

development of long-term financing market and to the new hiring model.

PPADs projects demand governments to develop practices and performance standards that imply “horizontal” negotiations with the private counterparts. This means that teams need to acquire skills not so usual, to be able to negotiate and draw PPADs contracts that meet the public interest and are attractive to the private sector.

Public-Private Alliances for Development appear to be an effective and efficient manner



to increase investments and provide quality public services. However, their improvement goes through management and regulatory challenges that must be faced.

The technical structuring of these projects is very complex, which demands varied expertise to the consolidation of PPADs projects that effectively meet their results. This implies the development of technical capabilities of the teams involved in the process so that they have the proper training to handle the preparation and multidisciplinary evaluation of each project or initiative to be developed.

Preparing, negotiating, bidding and managing PPADs contracts require specific rules and procedures that need to be designed, deployed and updated by the technical teams of the governments. The existence of formalized principles, rules and manuals has a central role to guide the decisions and reduce the associated transaction costs. Notwithstanding the efforts promoted by the Public Administration and the merits arising from it, the implementation

of PPADs projects in Brazil has shown some problems.

The use of PPADs for the implementation of public policies should always observe the sustainability of the model, notably regarding:

- The balance and budget projection of public accounts;
- The attractiveness for investors;
- The conflict of interests between the parties;
- And the level of satisfaction of the users of the services provided.

Many of the projects of interest are not implemented due to factors that interfere in the relationships with the private agents, such as political instability, incipient institutional arrangements, lack of knowledge and absence of adequacy of the regulatory and legal

framework. These factors directly affect the investor confidence. For example, in many sectors covered by PPADs, the legal framework and the institutional arrangements are unclear, and it can be often observed inconsistencies and overlaps between the legislation established by the levels of government and administrative instructions, as well as ambiguities in the monitoring and evaluation of the services provided.

Furthermore, there needs to be a long-term view of investments and ensure that the projects portfolio reflects this planning, because influence of political cycles in the portfolio of PPADs projects in pipeline can commonly be observed.

The financing and implementation of infrastructures should be selected and prioritized according to strategic public policies for the development of the



country. However, the investment needs can encourage the use of the PPAD model in areas more attractive to the private partners and not necessarily those that present the greatest merit in terms of demand for quality public services to the population.

Imbalances in the risk matrix can occur in PPADs contracts, when the risks of the operations are not properly identified. This process results in the need for multiple economic-financial rebalancing and, consequently, in contingent liabilities not explicit and not recorded, which encumber the Public Administration. PPADs projects must clearly present a matrix with all the risks involved (identification, quantification, analysis, evaluation and management), that considers the various types of risks associated with different contractual terms. Although they can vary according to the project, risk sharing with the private sector should be standardized for different sectors, facilitating the assessment of the Value for Money.

The success of the PPADs requires the administrative authorities to be duly empowered



for decision-making with respect to coordination, project design and contract management throughout its life cycle, involving aspects of its modeling, with the analysis of preliminary studies and appropriate allocation of risks.

### Long-Term Financing

One of the main challenges to achieve the volume of investment required is the availability of long-term financing suited to this type of project, either through financial or capital markets. The increase in private sector participation in infrastructure financing is recent, especially in some sectors such as energy and roads, where Project Finances

funded in a syndicated way by bonds issuing have been structured. The need for developing private financing instruments and mechanisms for mitigation of risks demand solutions of the public sector to make it possible to provide the answers on the required scale, considering the alternatives of private banks for access to long-term financing to such projects.

In turn, bank regulations from Basel III<sup>2</sup> has created some additional challenges for private and public banks in the infrastructure financing. The new regulatory harmonization implemented in Brazil from 2013<sup>3</sup> will require larger provision requirements for long-term projects, and will impact the costs of financing.

The high volumes of infrastructure investments required in Brazil impose a great challenge for the coming years on the availability of long-term financing on terms that make feasible the realization of investments.

2. BIS - Bank for International Settlements. 2010. Basel III: A global regulatory framework for more resilient banks and banking systems. Basel - Switzerland : s.n., 2010. p. 77.

3. BACEN. 2011. COMUNICADO N. 020615: Orientações e cronograma relativos à implementação das recomendações do Comitê de Basileia para Supervisão Bancária acerca da estrutura de capital e derequerimentos de liquidez (Basileia III). Brasília : Banco Central do Brasil, 2011.

PPADs model for infrastructure deployment innovated in this theme, in two main aspects:

- It facilitated the establishment of the Project Finance model applied to governmental projects, through mechanisms and Special Purpose Entities (SPE), which directly finance themselves;
- It established the private financing mechanism of the projects, in which the borrower of funds becomes the private partner and not the government.

Still, the challenge of obtaining long-term funding remains, to the extent that private SPEs have yet to obtain long-term financing with adequate costs..

In this context, the role of the National Bank for Economic and Social Development (BNDES as in Portuguese) has been evident in recent decades<sup>4</sup>. The BNDES has been the main source of long-term financing of PPADs with a focus on infrastructure, offering conditions

4 At the state level some state banks (e.g. BDMG) and State agencies (e.g. Desenbahia) also played a relevant role.

and more favorable prices than private banks. Given the demands for investment and fiscal constraints of the Federal Government that limit the expansion of the lending capacity by BNDES to meet all the demand for infrastructure in the country, the completion of this space can be potentially met by financial institutions, such as states development banks and funding agencies.

In this way, the search for diversification of the capital structure of SPEs that enable the contracting of financing through the capital market is an essential step to the PPADs infrastructure programs reach the proportions needed to fill the country's infrastructure gap.

The maturation of the capital market is, from this point of view, one of the biggest challenges to the advancement of the PPADs infrastructure model in Brazil, and would lead to:

- Consolidation of a secondary market of debt, which would allow the reduction of risks associated with the loans of the Project Finance modality;

- Consolidation of a secondary equity market that would allow the increase of liquidity of the investments in PPADs;
- Modernization of the institutions that enables direct involvement of institutional investors, such as pension funds, in PPADs projects through the capital market.

One of the most important progresses in the Brazilian market was the institution of the infrastructure debentures, through the enactment of Law 12431/2015. The law created tax benefits for investments in simple debentures whose resources are aimed at funding infrastructure projects considered a priority by relevant Ministries. The income tax rates for individuals and foreign investors have been reduced to zero, while that for legal entities was set at 15%. The issuance of infrastructure debentures depends on an order of the Ministries related to the

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5. Debentures are securities that represent business debts of medium or long term. They can be issued by joint-stock companies with capital closed or open, but only those of open capital can make public offerings.

subject in question, in addition to the specific requirements described in Brazilian legislation. Since its creation, debentures has already been issued in the order of R\$ 13 billion. Most of this value was obtained by companies with PPADS contracts. This result is still shy, considering the numbers of required infrastructure investment in Brazil.

The values obtained by means of this mechanism are still small on the PPADS market. Despite this, the infrastructure debenture instrument fills an important gap since it offers a market instrument for long-term financing for infrastructure projects.

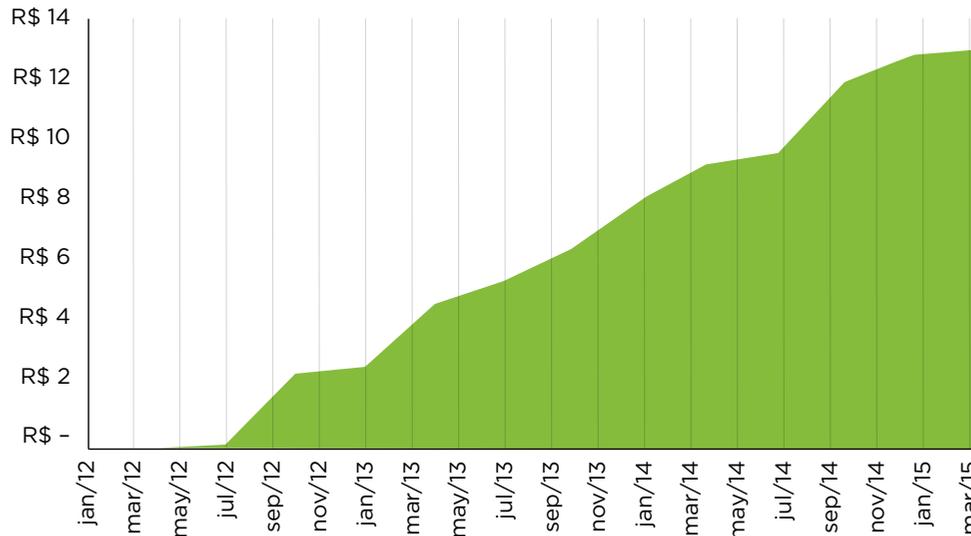
Another challenge of the Brazilian market is the structuring of guarantees and funds as a key tool to facilitate the bankability of infrastructure projects. Such structuring should allow access to long-term financing, with compatible costs and in a context of Project Finance, in which the main source of payment is the cash flow independently generated by the projects. The ability to develop such instruments and to ensure that this financial structure is able to

pay the debt commitments of the project, even in stress scenarios, is an important challenge to be overcome.

In the face of these challenges, the Federal Government has released, in recent years, various initiatives to foster the development of PPADS models, through the promotion of new financial instruments and of the capital market to allow the co-financing and risk sharing with the private sector.

Some of the recent initiatives for the promotion of PPADS models are worth quoting:

- The Law 11079/04, which was one of the first experiments to develop a normative framework to promote private investment in infrastructure projects without a guarantee of return to investors through fare collection;
- The creation of the Brazilian Guarantees and Fund Managements Agency (ABGF as in Portuguese), which seeks to stimulate the consolidation and creation of guarantee funds at the federal and state level that may cover a combination

**Accumulated Issuances of Infrastructure Debentures in Brazil**

Source: [www.ANBIMA.com.br](http://www.ANBIMA.com.br), accessed 9/1/2015.

of manageable and not manageable risks, especially related to PPADs;

- The creation of the Infrastructure Guarantee Fund (FGIE as in Portuguese)<sup>6</sup>, whose role should be to provide guarantees to cover risks that are not covered by the private sector and are not manageable by key programs of the Federal Government

(Logistics Investment Program, regional airports, etc);

- The creation of sub-national guarantee funds that have been spreading as an alternative to enable the implementation of PPADs projects by state and local governments.

Despite these initiatives, the market of long-term private financing in Brazil is not yet

6. Law 12712 from 8/30/2012

able to sustain the high volumes of required infrastructure investments. In this sense, the PPADs can optimize the capture of long-term financing for investments in economic and social infrastructure, to the extent that they direct funding for specific projects, improving the risk profile of projects and ensuring the resources needed to complete them.

### Guarantees to Project Financing

Another challenge for the promotion of PPADs is the structuring of guarantee mechanisms. The IDB Board of Executive Directors approved the new Guarantees Policy (GN-2729-2) that allows granting guarantees to credit risk and political risk, covering projects that consider private investment in public infrastructure.



In Brazil, both the Federal Government and the subnational entities, can be benefited by the implementation of this new policy, which can serve as credit enhancement, in order to ensure a more efficient use of fiscal resources and facilitate the leveraging of public and private resources in financing infrastructure and the entrepreneurial private sector.

Considering the limited volume in face of required investments in infrastructure projects, the guarantee instrument has a mobilizing and multiplier<sup>7</sup> effect on enabling private investment, optimizing the allocation of Bank's resources.

The Bank may act on the application of resources and guarantees, with sovereign counter-guarantee to the guarantee funds to improve their rating, and offer from structures covering credit and political risks to structures covering 100% of the risk (full wrap).

Additionally, the Bank has the expertise to assist in the structuring of guarantee mechanisms to increase the attractiveness of capital market instruments (e.g. liquidity guarantees of infrastructure debentures).

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7. For example: The FGIE provides a leverage of 5 times for each Real contributed to the Fund. Considering that it will be granted in 30 to 40% of guarantees on the CAPEX (capital expenditure or investment in capital goods) of the projects, each Real contributed at the bottom will be enabling of 12,5x to 16x on private investment.



It is noted the IDB's role in promoting greater coordination between the agencies and the national guarantee system, through the promotion of good practices, management and transparency systems, development of risk management proposals and promotion of greater access to financing from national and regional funds.

### **Control and Management**

The growing use of alliances between the public and private sectors to the development of public enterprises in Brazil has challenged the standards of national fiduciary systems.

However, favorable results are remarkable in the development of fiduciary systems, especially regarding the Public Expenditure and Financial Accountability (PEFA, 2009), moving Brazil from a good to great rating.

Despite the maturation of these systems in recent decades, the PPADs model, especially the Public-Private Partnership arrangement established by Law 11079/04, introduces new

aspects that need to be worked out with regard to national fiduciary mechanisms.

This is because some characteristics of the Brazilian fiduciary system, such as administrative and financial processes of procurement and contracting, and the instruments of control of administrative regularity, are designed for traditional models of government performance and may find implementation difficulties in PPADs models.

The procedures of the Public Administration for selecting and contracting suppliers in Brazil are also applied to PPADs biddings. Despite important innovations, such as the possibility of the inversion of authorization and judgment of proposals phases, the bidding procedures for PPADs are almost identical to those of traditional contracts.

This means that, in accordance to Law 8666/1993, the private partner recruitment process is open, in a single stage and not negotiated. This occurs despite the great complexity of contractual arrangements,

including sophisticated risk allocation schemes.

Some of the more advanced jurisdictions in the world in applying PPADs, such as Canada, Australia and England, adopt specific bidding models for PPADs that, in some measure, include aspects of:

- Limitation on the number of participants, usually incorporated into the bidding for PPADs to reduce the costs and time associated

with the analysis of proposals by governments. In addition, the preparation of proposals in bidding for PPADs has considerable costs to the participants. Thus, the limitation of participants decreases the perception of risk and, therefore, tends to allow more resources to be



applied by the participants, generating better proposals. Therefore, biddings unconditionally open can generate high costs for governments and for the private sector, in terms of staff and time, and can even reduce the quality of the proposals.

- Dialogue and negotiation during the bidding. PPADs contracts include sophisticated mechanisms for risk allocation that will be operated over several years of the contract. Several jurisdictions argue that the best outcome of the bidding depends on the ability of the government to enter into negotiations with the participants of the bidding so that an allocation



of risks that generate greater efficiency can be reached, considering the competitive advantages of each contestant. In this sense, rigid bidding models can contribute to less efficient contracts.

These two characteristics, however, confer a discretion to managers and introduce difficulties for good governance. This is the context in which the Brazilian legislation forbids the possibility of using these bidding model characteristics.

The Brazilian Government recently approved the Decree 8428 from April 2nd 2015, which provides for the procedure of Expression of Interest (Eoi), whereby the private sector presents its proposals for PPADs project to the public sector. Subsequently, the government assumes the development, selection, and approval of proposals received from the private sector<sup>8</sup>.

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8 It is allowed to the same company that developed the project to be awarded to its execution. In the case of winning the selection processes a company other than the one who designed it, the costs of the preparation of the studies will be offset by the winning company.

The risk of the preparation mode of PPADs projects to the government through a Eoi is that operations are carried separately from the public investment planning process, and that, despite of presenting the most innovative ideas, the project benefits remain outside the strategic priorities or are not well integrated to the plans and priorities. Assuring that there are incentives for efficiency gains, and that the public and users of the services are beneficiated, will depend on the performance of the government in efficiently structuring, obtaining and managing PPADs projects in the long term.

In 2014, the IDB held a diagnosis of governmental Audit Practices of 13 control organizations and, as a result of this assessment, it was concluded that the external control activities are in a medium and high level of development. However, the focus of PPADs contracts on results, the absence of specific engineering instructions and long-term contracts impose difficulties to exercise traditional practices of accounting and legal control exercised by the external control institutions.

In many jurisdictions, for example, the focus of control processes migrated to the assessment of the Value for Money of the contracts in place of controlling unit costs and inputs of the projects. The thorough evaluation of prices gives place to broader assessments of results and effectiveness of the projects.

Another common change in several countries of the world was the introduction of checkpoints in the life cycle of the projects to assess the effectiveness of initiatives and not their elements of work or services.

Thus, practices and methodologies for exercising control in PPADs need to adapt in order to effectively contribute to the good governance of these initiatives. In this subject, the Federal Court of Accounts and Courts of Accounts of states have accumulated extensive experience in the monitoring process of common, administrative and sponsored concession contracts, including the adoption of specific regulations that create differentiated control procedures for this issue.

### Fiscal Sustainability

One of the major obstacles to the sustainability of private investment in infrastructure in Brazil is the proper management of fiscal impacts, both in terms of individual projects as of the aggregate exposure of the budgets.

Public-Private Alliances for Development, especially the PPPs model created by Federal Law 11079/04, may introduce fiscal commitments for governments that are economically very similar to the commitments created by the traditional public investment model. In several PPADs projects, financing is private, but the payment is public, with or without the contribution of users. The pecuniary consideration of government to the private partner covers the investment and the costs (such as interests and insurances) in a way economically similar to that of traditional loans.



Thus, the final cost of a PPAD contract will be exactly the same as in other forms of financing when the government captures market resources through, for example, the issuance of securities. This means that the capital expenditures related to public infrastructure are supported by the taxpayer in one way or another, and that regarding the availability of economic resources, the mechanisms of PPADs do not introduce any significant change.

It occurs, however, that the PPADs contracts tend to generate fiscal commitments whose identification, monitoring, management and communication are more difficult for several reasons, among which stand out:

- Fiscal commitments extend throughout the duration of the contract, which in Brazil can be up to 35 years. This makes the traditional parts of budgeting and planning in Brazil (Budget Guidelines Law, Annual Budget Law, and Multi-Year Plan of Government Action) inefficient to assess the availability of fiscal resources in relation to the costs assumed in contracts.

- Contracts incur risks to the public authorities that are supported by the budget. In other words, the possible realization of risks allocated to the government generates, in most cases, additional public payments to the private partner, through a calculation engine previously established in PPADs contracts.

Given this context, the international experience shows that the management of fiscal commitments is essential to the long-term sustainability of programs, given the payment capacity of governments. The potential fiscal imbalances, results of PPADs, should be avoided so that infrastructure programs can be stably implemented over the long term.

The proper management of fiscal commitments involves at least the implementation of three complementary strategies:

- The identification and quantification of fiscal commitments, especially fiscal risks or contingent liabilities, during the entire duration of the contract and in preliminary stages of the project cycle;

- The maturation of governance mechanisms that allow the extension of the fiscal impact to be considered as a factor in decisions to implement PPADs projects;
- The consolidation of instructions and rules, which include standards of transparency, for the permanent monitoring of impacts and risks generated by the project in the whole life of the contract, as well as the added value of expected budget exposure.
- Increased awareness of stakeholders on fiscal impacts through the dissemination of experiences and lessons learned;
- Increased transparency of fiscal commitments currently undertaken by the national

Thus, the advancement of the fiscal responsibility agenda in these contracts, through the implementation of these strategies, is an important contribution to the modernization of PPADs programs in Brazil, which would be composed of:



government and sub-national governments in Brazil;

- Development of a parametric methodology to assess fiscal impacts in the early stages of project preparation and thereby ensure that this factor is considered in the decision-making process by governments in relation to the bidding or not of specific initiatives;
- Improvement of practices and competencies of the government teams needed to technically assess direct and contingent liabilities, as a result of PPADs contracts.

### Urban Planning and Financing Instruments

A large portion of the Brazilian municipalities have as challenges, on the one hand, infrastructure bottlenecks generated by a rapid growth process and, on the other, the lack of resources for investments. So, one of the most pressing challenges faced by cities nowadays is the funding for the infrastructure needed to provide basic services to a growing urban population. How successful the management of a city will be, will depend, in a large part, to its ability to attract private investment and to channel a part of that gain to infrastructure financing.



In response, several Brazilian municipalities began to explore opportunities to increase investment in infrastructure through sale instruments of additional construction potential, like created soil, joint operations and urban operations. Some of these initiatives have suffered legal disputes, but in 2001, the approval of the City Statute (the national law that regulates the chapters of urban policy on the Federal Constitution) brought legal certainty for the municipalities to implement several of these instruments, among them the Consortial Urban Operation (OUC as in Portuguese).

The OUC is an urban instrument to enable urban projects in partnership with the private sector. Its regulation by the City Statute, has origin on an experience in São Paulo in the early 90s. The first urban operation approved in the city is from 1991, the Anhangabaú Urban Operation which, in 1997, was reviewed and covered by Centro Urban Operation. In 1995 two Operations were approved: Água Branca and Faria Lima. Both have been updated in line

with the City Statute, the first in 2003 and the second in 2004. Finally, the first OUC approved in the country after the national legislation was the Água Espraiada, in December 2001.

In financial terms, the most significant experiences to date occurred in the city of São Paulo, where only two operations (Faria Lima and Água Espraiada) raised more than US\$ 2,9 billion from private sources for investments in urban infrastructure and services, including, improving streets, drainage, planning of public space, construction of social housing, public transportation, among others. Other relevant experience was the OUC Porto Maravilha, conducted by the municipality of Rio de Janeiro and responsible for the revitalization of the historic center of this city.

All these experiences are examples of efforts between the public and private sector to urban reorganization and deployment of equipment in the cities that re-qualify the urban space. These alliances were characterized by a new payment model for infrastructure that removes the pressure on fiscal resources.



Even with such expressive results in major cities around the country, surprisingly, few information is recorded and reported on different management models and financial instruments that have been designed and that have progressed over the past two decades.

As more Brazilian municipalities are beginning to adopt and implement their own Consortial Urban Operations (over 228 cities have specific legislation on urban operations), the Ministry of Cities understands that there is a significant potential to use this form of alliance for the provision of infrastructure on a much larger scale, and that there is an urgent need to adequately document the technology associated with the Consortial Urban Operations so that municipalities can take advantage of this tool.

Another issue of great importance to urban quality of life and social stability is related to security, which has been recognized as the second most important concern of Brazilian

citizens  
after  
health.

Governments have faced severe challenges to the implementation of public policies that can meet the growing expectation.

In this sense, the sector demands more investments, as well as more efficiency and effectiveness on governmental actions. There are a number of PPADs initiatives being developed, whose performance and results need to be mapped in order to allow their replicability.



The challenge in this type of investment is to ensure skills and continuity of the technical team responsible for managing the fiscal commitments that arise as a consequence of contracts, especially when incentives to results are contemplated with remuneration payments variable to service performance targets.

Usually, alliances between the public and private sectors are defined more by dividing that by sharing responsibilities, on which government entities deploy works, services and activities that could be more efficiently performed in partnership with the private sector. Recurring examples include the design and construction of convention centers, cultural centers, theaters, museums and tourist facilities in conservation areas; restoration of historic buildings at risk of ruining; improvements of air, land or maritime access to points of interest; urban rehabilitation with a view to a future, or increment of, tourist use; and design and construction of spaces for food and craft enterprises in seafront areas.

Two key challenges of this dynamic are the operation and maintenance of facilities deployed by the public sector and the appropriate coordination, both in substance and in schedule, among tourist developments of private sector and implementation of public projects. On the one hand, spaces created without a business perspective are often, for various reasons, little able to generate lucrative economic activities. A common management model are concessions, which does not always offer opportunities or incentives to business creativity. Depending on the context, a concession can be appropriate or may result in unattractive services for tourism, as well as generate administration, allowances, maintenance and opportunity costs for the public sector. On the other hand, the lack of public-private coordination in tourist development has resulted in luxury resorts areas without adequate sanitation, tourist roads whose destinies lack of attractive products and services, and other disagreements between the tourist demand, the private offer and the public offer.

## Productivity and Competitiveness for Sustainable Development

The PPADs allow innovation policies to capture the changes in the economic environment, in the nature of innovation and social and global challenges. For companies, these alliances allow the solution of real problems, through the development of new markets and new ideas through cooperation in both the production and the diffusion of innovation in society.

Internationally, the main measures adopted by the public sector on Public-Private Alliances in the promotion of policies that enhance the levels of competitiveness and innovative effort are:

- Allocation of resources in those sectors with greater opportunity to technological development, more technology-intensive and which have higher-income elasticity of demand and growth in world trade;
- Funding of Research and Development, and of innovative activities conducted by the private sector;
- Adoption of policies of technological orders in economic activities that are demanded by society;
- Access to credit to companies, particularly to those smaller and that carry out investments in fields not yet tested by the market;
- Financing of researches conducted in partnerships between companies, universities and research centers that are able to lead to technological solutions to real demands and that affect the public budget;
- Promotion and funding of the capital market;
- Incentives to fund basic and applied research in companies which integrate production and innovation networks to global value chains;
- Financing of the development and implementation of clean technologies in the recovery of degraded or new urban spaces;

- Funding and promotion of intelligent plants through the adoption of information and communication technologies (ICT), robotics, automation, planning and simulation, in addition to digital factories that reduce the need for physical prototyping;
- Financing of mechanisms that reduce entry barriers in access to health services and education.

PPADs mechanisms may combine concrete projects, such as joint creation of research and training centers, or have specific goals, such as developing vaccines for certain diseases or new renewable energies sources.

Meanwhile new investment decisions reflect a dynamic symbiosis between enterprises strategies and the market structures, among the more developed economies, the PPADs are becoming increasingly more widespread and incorporated into industrial and innovation policies, since they are more adaptable to the goals and targets than the traditional

instruments, such as tax incentives or subsidies.

One of the advantages of the PPADs is to be set up as a political tool more adaptable than traditional subsidies allocated in order to achieve specific goals under an environment in which the disciplines and knowledge that generate innovations are constantly changing.

The PPADs in the science and technology sector are motivated by the possibility of expanding the economic and social benefits of public investment through:

- Improving the induction capacity of public sector in stimulating Research and Development (R&D) conducted by the private sector when assuming costs and sharing risks;
- Capturing the real economic world changes, increasing the opportunities for commercial spillovers to be originated by public research;
- Accelerating the commercialization of the results of research conducted by the public sector;

- Increasing knowledge and updating technological infrastructures currently in use.

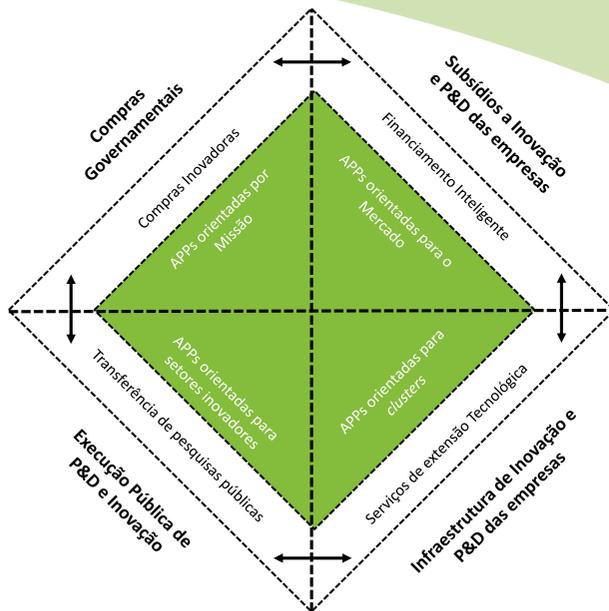
The figure above depicts a possible typology of PPADs in Science, Technology and Innovation (STI). The quadrants bring four traditional instruments of innovation policy: public procurement, public performance in R&D, direct and indirect subsidies to the R&D carried out by the private sector (tax incentives or non-refundable resources), public infrastructure (human resource training) and supply of technological and innovation services to the private sector. When moving to the center of the quadrant, four large areas for PPADs establishment arise: driven by mission, driven by market, driven by science and technology and driven by collaboration networks. These are not mutually exclusive, but their efficiency is related to the level of governance established in the different levels of the public sector, as well as to the instruments to prevent market failures and coordination.

The various forms of alliance between the government and the private sector to implement the STI policies constitute an essential mechanism for reducing the uncertainty in economic transactions and allow gains of scale and of technical expertise. In aggregate terms, it creates an intrinsic ability in capitalizing and disseminating new knowledge, by the placing on the market of new technologies through the rapid allocation of resources, capturing the economic and social gains of the diffusion of technology and creation of new markets.

The sustainability of Brazil's economic prosperity depends on attracting investment, export promotion and logistics integration, implementation of trade agreements, and support to trade facilitation.

With regard to attracting investments, PPADs innovate in order to allow the application of capital and private saving, national and international, as investment in public assets. Infrastructure-related PPADs stimulate and promote the attraction of direct investment.

### Typology of PPADs in the Field of Science and Technology



Source: OCDE, 2005

Regarding export promotion, PPADs have an important role to play, since they contribute to modernize the stock of infrastructure and increase the efficiency of services associated with logistics in the country. These modernization and increased efficiency produce a reduction in costs of production chains, directly contributing to increase

competitiveness and export. Thus, to the extent that PPADs contribute to fill the infrastructure gap, they promote country's export.

### Environment and Development

While environmental management is based on a strong relationship between the public and the private, this has historically been more of antagonism than of partnership: the public sector regulates activities with (potential) negative environmental impacts caused by the private sector. Nevertheless, along with a growing awareness of the importance of natural areas, biodiversity, ecosystem services and sustainable management of natural resources for the socioeconomic well-being of local and global communities, a range of instruments aimed at collaboration and management shared between the public and private sectors, especially for protected areas, water resources and forests, has been developed.

Different countries and regions have shown different cultural and legal openings to these instruments. The application of PPADs for

the purposes of environmental management in Brazil is still limited and focuses on several models of concessions and the creation of Private Natural Heritage Reserves (RPPN as in Portuguese), similar to land trusts in the United States and Europe.

The implementation of Payments Schemes for Environmental Services (PSA as in Portuguese) and Ecosystems (PSE as in Portuguese) in Brazil is at an early stage and although such schemes offer potential for PPADs, they are almost always based on public or international non-private funds (e.g. resources from the Global Environment Facility -GEF). There are important environmental reserve management initiatives to be explored and it is also

recommended to promote the sale of certified carbon credits.

The Brazilian agricultural production base depends entirely from private producers, be they farmers with varying degrees of self-consumption, or agro-industrial and agro-export companies, which are among the largest in the world. The link between producers and private investments in public goods is present and fundamental, which provides ample opportunities for various types of PPADs.

Infrastructure projects can generate large environmental impacts, which are divided into two groups:



- Direct impacts related to carbon emissions and other environmental impacts derived from the implementation of works and direct operation of the equipment;
- Indirect impacts derived from the use of the infrastructure, such as, for example, more vehicles in transit, if the project is a new road, or more sewage generation, if the project is related to water distribution.

In this way, it is imperative that the search for filling the infrastructure gap focus on the development of projects and services that neutralize, minimize or compensate

generated environmental impacts, especially with regard to the emission of carbon into the atmosphere.

The use of PPADs for carrying out these projects creates a lot of opportunities to mitigate the environmental impact of infrastructure projects, including:

- The environmental impact reduction variable can compose the mechanisms that regulate the provision of services, including direct incentives to guide private resources in this direction;
- The involvement of the private sector can stimulate technological innovation;



- Private financing of projects is commonly subject to the conditions imposed by the Equator Principles.

In addition to the opportunities above, the PPADs model can be instrumental in making investments and infrastructure deployment whose primary objective is the reduction of the carbon footprint of economic activity. Investments in physical infrastructure in the aspect of transport infrastructure, such as deployment and reform of the municipal road system; implementation and reform of municipal rail system (subway and light rail); deployment of bicycle tracks; construction or revitalization of borders and ports; construction and expansion of parking areas to facilitate the integration of non-motorized modes; and construction of intermodal terminals could generate significant reductions in Greenhouse Gases (GHG). Similarly, public forests management initiatives through Public-Private Alliances for Development can be an option for enhancing

GHG mitigation strategies from sustainable forest management practices or reforestation to support productive chains related to forestry and GHG emissions.

The mitigation mechanisms could also contribute to the process of reducing the level of exposure to risk of the enterprise through sanitation infrastructure improvement actions, such as: improved garbage collection; recovery, expansion and deployment of rainwater restraint and drainage systems; recovery, expansion and deployment of new networks for the collection and disposal of sewage; and recovery, expansion and deployment of new networks of water treatment and supply. Because they are long-term projects with broad exposure to the risks associated with the adverse effects of climate change, PPADs strongly need to incorporate technical criteria to avoid losses and damage. The global models, for example, point to a process of intensification of climatic extremes.

### **Social Development in Public-Private Alliances for Development**

Health is among the main concerns of the citizens, along with security and education issues. The sector demand significant investments in infrastructure deployment and modernization of services, requiring an increase in the efficiency of the resources applied to this sector.

In Brazil, there are PPADs experiences related to management contracts, with the purchase of integrated services, partnerships with Health

Social Organizations (OSS as in Portuguese) and Public-Private Partnerships contracts.

The contracts with the OSS may include a variety of services ranging from the provision of specific services, to the management of hospitals and other health units (such as emergency units, basic health units, etc.). The OSS model is widely used and allow increased efficiency in the provision of services to beneficiaries of the Brazilian Unified Health System (SUS as in Portuguese). In these contracts, the State can pay for clinical services,



management, or both, but typically they do not include the capital costs associated with the investment. Projects of this kind have been used in the health sector to provide infrastructure services, medical equipment or other non-clinical care services, and to provide health and support services such as lab, radiology diagnosis, etc.

In the field of Social Assistance, the OSS are a form of PPAD used in Brazil, mainly to the management of services and programs for vulnerable populations. To a lesser extent, they are used for the production and distribution of other types of services such as training, mentoring, and services related to cultural and sports activities, among others.



Although it does not have a structure defined by law, the Social Enterprise Scheme is also growing in Brazil. This model refers to companies that seek to solve a problem of public interest and that can generate profit, which is often reinvested in the business or distributed to the shareholders. This model is still incipient in Brazil, but offers opportunities to improve the efficiency of services in the area of Social Assistance.

This diversification of the use of PPADs models in Brazil, both in Health Care and Social Assistance, is related to the contribution that these models can offer regarding price reduction,

efficiency and quality increase, in addition to innovation promotion.

It is also acknowledged the trajectory of alliances between the public and private sectors in the field of education as a mechanism for improving quality in the Brazilian education system, an important vector for equitable growth, development and productivity.

There are several private and third sector organizations working in the Education sector. Some are originated from business (Bradesco Foundation, Natura Institute, Social Itaú Foundation, Unibanco Institute); other from personal fortunes (Lemann Foundation, Peninsula Institute, Victor Civita Foundation, Inspirare); mixed between private wealth and fundraising (Institute Ayrton Senna); and, still, mixed among corporate foundations and provision of consultancy services for the public sector (Roberto Marinho Foundation). They all have in progress a lot of PPADs initiatives in public education networks at state and municipal levels.



Another example of the alliance between the public and private sector in the country is the University for All Program (PROUNI as in Portuguese). With almost zero costs of implementation and operation for the government, the program has witnessed a steady growth both in number of institutions and students benefited.

It is worth noting that the IDB has promoted along with State and Municipal Education Secretariats a broad debate on the launch of Social Impact Bonds (SIBs), an innovative way of PPADs. The SIBs were originated in the United Kingdom in 2010, and since then have been massively adopted by countries like United States, Canada, Israel, in addition to the United Kingdom itself, among others. The SIBs are actually a way of bringing the private sector to develop solutions to social problems more efficiently and cheaply, and at the same time financing them. The SIB mechanism works as a contract conditioned to the achievement of results. The SIBs are characterized by their thematic heterogeneity. Until today

over 100 SIBs have been structured around the world encompassing the most diverse topics (prevention of diabetes, reducing criminal recidivism, decreasing loneliness of the elderly, improvement of school performance, performance improvement of children with special needs, etc).

The SIBs allow the public sector to access a huge range of innovative solutions to improve the management and results of social programs. The SIB model should not be confused with a PPP. While a PPP should necessarily build infrastructure, a SIB aims to achieve results through behavior change. Another advantage of the SIB is that the public sector incurs no risk if the intervention does not work, since the risk is





assumed by the private sector. The private sector only gets its investment added to the return if the intervention generates positive results, which are independently evaluated and measured. The SIBs can also assist philanthropic institutions and social organizations on managing payments by results. Whereas payments are made through this way, SIBs open up more room for innovations and freedom on experimenting with alternative solutions.

Thus, the Education sector in Brazil has seen the expansion and diversification of institutional arrangements that enable the alliance between the public and private sectors for the provision of services. In this sense, once more, the search for identifying learnings, registering and disseminating good practice experiences is a key factor for accelerating learning curves of governments and promoting the sustainability of PPADs in the Education sector.

In vocational education, the proportion of Brazilians who reaches the University is still low when compared to the proportion of developed countries and a high proportion of young people who are about to enter or who have already entered the labor market present difficulties to perform basic calculations and to read simple texts. In turn, training





courses present problems of relevance regarding labor market needs.

The difficulties faced by Brazilian businessmen to hire qualified labor and the low productivity of workers highlight the shortcomings a worker training process. Since technical education before the first job, undergoing training at work, and until the transition between jobs during the working life, they all represent major challenges that can be overcome with PPADs projects.

In the workplace, the turnover is high, which can decrease the investment in training by employees and employers, and, consequently, reduce labor productivity. With regard to training in the workplace, the Apprenticeship Law is an example of what is already in place in the country. The company promotes technical training and it is up to the government to fund theoretical courses to the apprentices. However, only 23% of the vacancies are filled.

During the transition from one job to another, many workers cannot easily find jobs. About 50% of workers who lost formal employment do not find a job a year later. The unemployed in search of registered job placement rate at the National Employment System (SINE as in Portuguese), the manpower intermediation system that

connects employees and employers, is low when compared to other countries: 12% in Brazil compared to 36% in Mexico. In 2012, only 23% of vacancies registered at SINE were filled and less than 11% of workers routed by the system were included in the labor market.

In this context, PPADs aimed at increasing the employability of the workforce and ensuring the transition of workers from less productive jobs to other more productive can help to overcome these challenges.

An example of a PPAD initiative with direct impact on the labor market is the S System . This system represents an approach between government and the productive sector, as it is managed by the leaders of the private sector and operates with public resources for provision of quality training courses.

There is evidence that vocational courses produce higher wage returns, but their results directly depend on the content and type of provider. Therefore, the active participation of the productive sector on defining the content of the training courses is essential to assure that the public sector resources allocation priorities are aligned with the demand for manpower.

Similarly, a better understanding of the apprentices needs in business, as much as better definition of candidates' profiles could help on the establishment of more realistic and differentiated requirements



by sector and by company. This process would provide better training performance at work. The Apprentice Law establishes that the training of workers must be carried out inside and outside the company and that the costs must be shared between the public and private sectors.

The PPADs can also be adopted to increase the effectiveness of the systems of labor intermediation. In such cases, for example, the public sector would be responsible for the physical infrastructure required for the implementation of a unit of the National Employment

System and the private sector for its management. In this type of alliance, the remuneration of the private sector can be aligned to performance indicators that stimulate greater effectiveness of the service provided.

The conditions of public services provision, as well as the forms of access and quality of economic and social infrastructure, have a direct impact on reducing the selectivity that perpetuates gender differences in Brazil. In other words, the quality and focus of infrastructure-based services can intensify or reduce social conditions of gender inequalities.





In this sense, PPADs that consider gender equality as an essential requirement of services or have social inclusion and gender equality as a goal to be attained, may represent a fundamental tool for achieving representative social outcomes.

The focus on results, the viability of investments and management innovations, as a result of the mobilization of private resources for public projects, are factors that allow the PPADs to be consolidated as instruments of gender equality and social inclusion.

However, this result is not inherent in the PPADs model. The contracts must be clear on the inclusion of a component related to gender

equality in the regulatory scope, which might consider::

- Gender equality in the teams to be hired for the provision of services;
- Inclusive policies for service delivery, with a focus on quality offered to excluded groups.

With the transfer of resources and competencies of the Federal Government to sub-national levels of government (States, Federal District and Municipalities), especially since the 1988 Constitution, the emergence locus of more innovative public policies passed to the local level, from a broad process of civil



society  
participation.

The sustainable local development environment brought the need for inclusion of new actors in the public policy construction processes. In this context, the concept of social governance arises, which are organizational arrangements involving state and non-state, public and private agents, with or without profit, focused on co-management of public affairs (defense of public interests, co-production of goods and services for promotion of social welfare).

On this new perspective, it must be understood that a model of public action based on a design solely and exclusively centered in the State no longer stands. In term of the Public-Private Alliances for Development, the government approach to Civil Society Organizations (CSOs) meets two strategic roles.

The first is the inclusion of Civil Society Organizations in these alliances that can be

characterized as a win-win relationship. Among the reciprocal benefits, it is possible to mention::

- The creation of positive impacts on local development, which build a positive legacy for the community;
- The improvement in the relationship with the stakeholders, which can be translated to community empowerment and reduction in their social and economic dependence, as well as the establishment of trust between the actors;
- Citizen participation, which strengthens the basis of legitimacy of projects and policies, and can significantly contribute to their sustainability..

The participation of Civil Society Organizations during the preparation, implementation and evaluation of projects can help to ensure that all the benefits really arrive to the usually excluded groups and to strengthen the capacities of those involved, reduce costs, increase the sense of ownership of citizens and

establish better foundations for assessment and feedback for future IDB activities and projects.

The second role of Civil Society Organizations in the context of the PPADs is to participate in the relationship between the government and the productive sector, as an instrument of control and supervision of the results and goals required in contracts or other institu-

tional arrangements. In this case, it refers to a function that aims to enhance accountability mechanisms of the PPADs model, especially in terms of management in compliance with the agreed targets. This role is crucial in front of information asymmetry issues and therefore contributes on enabling PPADs models to meet the objectives proposed in each initiative.



# The PPADs and the Inter-American Development Bank: Contributions and Intervention Strategies

**SECTOR CONTRIBUTIONS TO THE  
PROMOTION OF PUBLIC-PRIVATE  
ALLIANCES FOR DEVELOPMENT**

The Inter-American Development Bank, recognizing the importance of the role of the PPADs to promote the development of Latin America and the Caribbean, particularly in Brazil, is structured to support the management of government units by means of specific advice and use of its financial instruments.

Specifically, in the Brazilian context, there is a need to support the efforts of the Federal Government, States, Federal District and Municipalities, by strengthening the capacities for planning and project selection, preparation and evaluation of projects, and design and administration of contracts.

The IDB assists customers and partners in the development of projects and provides financing, technical assistance and knowledge to support interventions that aim the development of Latin America and Caribbean. These mechanisms are combined so that the Bank can effectively contribute to the improvement of PPADs models in Brazil.

Technical assistance to governments can materialize through various forms of agreements in which the Bank provides resources for capacity-building in various

#### IDB Intervention Strategies Aimed at Public and Private Sectors



initiatives, such as process improvement and reengineering, project preparation, training, etc. Technical assistance may occur in association with a loan or as a specific project in which the Bank brings non-reimbursable funds for procurement of services aimed at the modernization of the sector or the

implementation of pilot projects, among others, or when the IDB mobilizes internal teams to, for example, improve the analysis of fiscal impacts, review contracting and payment processes, and standardize rules for civil society inclusion.

Loan operations represent direct support to specific components, focused on the various themes of the Bank's activities, as listed in Sector Contributions.

The IDB can also provide guarantees (both for its work with government entities and with the private sector) with flexibility to cover a combination of risks that contribute to the reduction of transactional costs, making PPADs projects more attractive for private investment and ensuring the financial structuring with long-term return.

In the construction of knowledge regarding the subject, stand out studies development, dissemination and sharing of experiences, due to its presence in the region and its networking capacity. Thus, by carrying out specific sector

studies, the Bank can contribute to the stock of knowledge available to governments that allow them to develop better projects.

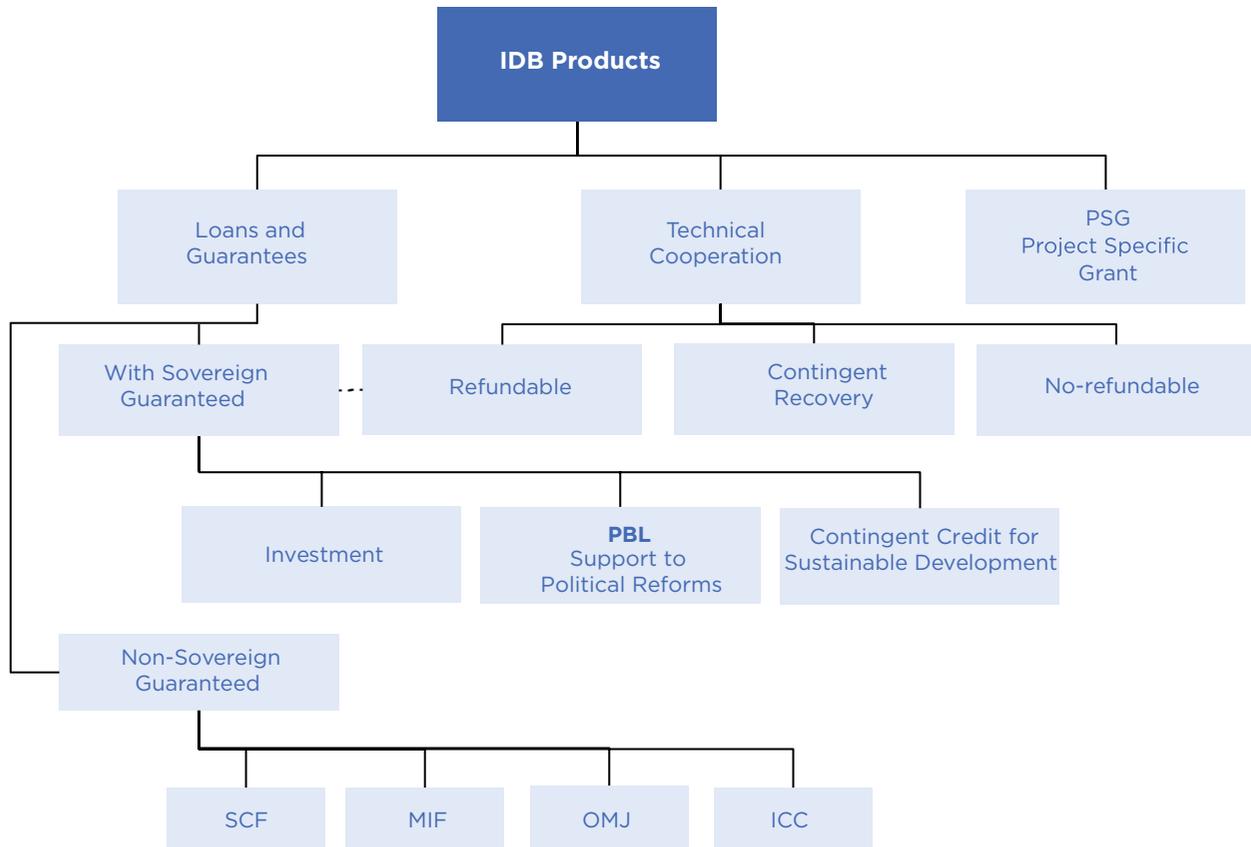
Through these strategies, the Bank intends to operate in the broad sector spectrum that characterizes its approach to the challenges of development in the region.

The products of the Bank were selected according to a series of parameters suitable for the expansion of the PPADs in Brazil. The guiding parameters are:



- Characteristics of the product;
- Procedures and deadlines necessary for feasibility and first disbursement;
- Minimum and maximum values for the operation;
- Costs and fees involved.

In general, the products are typified in two large groups: loans (with or without sovereign guarantee) and technical cooperation (refundable or non-refundable). Another method identified for feasibility of PPADs is called Project Specific Grant (PSG). Next, these options are detailed.



## LOANS WITH SOVEREIGN GUARANTEES

These are loans or guarantees granted to governments and institutions under government control to support social and development projects. They have the Federal Government as a sovereign guarantee. Usually they do not have restrictions to a minimum or maximum limit value, but are conditioned to the national foreign debt policy and the ability to use the Bank's Ordinary Capital. In general, this is a product used for values above US\$ 50 million.

- **Loans for Specific Projects:** are intended for the financing of projects that are fully defined at the time of approval of the loan. They are focused on the development of a sector, for example, a fiscal modernization program, an educational reform, a program of distribution and transmission of electricity, or a public safety program.
- **Loans for Multiple Works Programs:** are designed to finance groups of similar works which are physically independent of each other and whose feasibility does not depend on the execution of any given number of the works projects. The design and estimated costs of the program are based on a representative sample of sub-projects (approximately 30% of the total program).



- **Global Credit Loans:** are granted to intermediary financial institutions (IFIs) or similar agencies in the borrowing countries to enable them to onlend to end-borrowers (subborrowers) for the financing of multisector projects. They are usually used for the financing of multisector projects. In Brazil, for example, this was the loan given to BNDES to finance long-term productive credit for Micro, Small and Medium Enterprises (MSMEs).
- **Multiphase Loans (MLs):** provides continued support to programs that require more time to achieve results. They are intended for large programs, involving more than one project cycle (4 to 5 years). These are loans that requires fulfilment of the goals determined in the previous phases. The approval procedures are simplified to the following stages.
  - **Flexible Guarantee Instrument (FGI):** promotes private investment for development. The FGI is a single platform that enables the structuring of Partial Credit Guarantees (PCG) and Political Risk Guarantees (PRG), both for investment projects and support programs for institutional and political reforms (PBLs). It may cover up to 100% of the risks (full wrap).
    - » PCGs partially or fully protect creditors from defaults of a financing granted to public sector customers. The PCGs can cover loan amortization, bonds or any other debt instrument, and can be designed to cover any risk category that causes defaults to financiers. These risks include: financial risk, construction risk, operational risk, risk of demand, hydrological risk, among others.
    - » PRGs cover the risk of default by public sector borrowers of certain contractual obligations



under an agreement with a private entity that could trigger a default with creditors. These risks include: currency convertibility and transfer, and contractual interruption.

- **Project Preparation and Execution Facility:** is used to provide a more continuous transition from preparation

to execution by financing additional activities at the beginning of the project.

- **Reimbursable Technical Cooperation:** is designed to strengthen the technical capacity of organizations by financing (refundable) technical cooperation activities and knowledge generation.

## NON-SOVEREIGN GUARANTEED LOANS

The IDB understands that to promote economic development and poverty reduction it is necessary to have a healthy private sector, since it accounts for about 90% of employment in the region and has direct influence on innovation and sustainability.

The IDB actions regarding the private sector<sup>9</sup> occurs through the Structured and Corporate Finance Department (SCF), the Multilateral Investment Fund (MIF), the Opportunity for the Majority Initiative (OMJ) and the Inter-American Investment Corporation (IIC).

|                       | SCF                  | MIF                  | OMJ                  | IIC                   |
|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| <b>Products</b>       | Loans                | Loans                | Loans                | Loans                 |
|                       | Guarantees           | Guarantees           | Guarantees           | Guarantees            |
|                       | Technical Assistance | Technical Assistance | Technical Assistance | Technical Assistance  |
|                       | Capital investments  | Capital investments  |                      | Capital investments   |
| <b>Limites (US\$)</b> | 10 to 200 million    | 100.000 to 5 million | Up to 10 million     | 100.000 to 40 million |

9. From January 1, 2016, the Bank's activities with the private sector, except for the Multilateral Investment Fund (MIF), will focus on the Inter-American Investment Corporation (IIC), which will offer a full range of products and services to this sector. The IIC's mission is to promote the economic development of its regional member countries by encouraging the expansion and modernization of private enterprises.

The Bank provides to private companies up to 10% of their loans without requiring government guarantees. The IDB also seeks to attract banks and institutional investors as co-financiers through the subscription of loans, when part of the loan consists of exclusively private funding.

Potential private sector clients are large companies, medium and small enterprises, or micro and small enterprises. In the financial sector (public and private), the IDB provides solutions to large banks, medium and small banks, and microfinance institutions. The Structured and Corporate Finance Department (SCF) cooperates with commercial banks, institutional investors and financial intermediaries to provide financing and risk management solutions. The SCF funds are refundable or non-refundable

and the supported projects must be able to generate high impact on the development of local economies.

The IDB offers medium and long term credit lines to large financial institutions that invest in sectors with high social impact, such as housing, industries, MSMEs, foreign trade, capital markets, among others. There are specific funding lines for energy efficiency projects, waste treatment, water, etc.

It is a necessary condition that the project contributes to the development of the country. It is not enough to be a financially sustainable project; it must have a purpose. Generally, they are oriented to infrastructure expansion (energy, transportation, sanitation and communications) and for projects for development of the capital market and export financing.



## TECHNICAL COOPERATION

Non-Reimbursable Technical Cooperation are donations, in other words, non-reimbursable resources provided to programs of usually less substantive value. Donations can be financed by the IDB financial resources or by third-party resources. Depending on the source of funding, each donation has its own terms and conditions. Some donations can return to the IDB, if the program eventually results in a loan operation, either from the Bank or from another source. They are used for capacity building, knowledge transfer and studies, including diagnostics, pre-investments and sector studies, which support the design and preparation of projects.

Another modality, Technical Cooperation with Contingent-Recovery Resources, finances technical cooperation activities where exists a reasonable possibility of a loan either from the Bank or another lending institution. If the beneficiary obtains a loan from any source for the project for which the technical cooperation was provided, the borrower is obligated to

reimburse the funding received from the Bank.

Technical Cooperation with Reimbursable Resources is intended to strengthen the technical capacity of the entities by financing (refundable with fees and similar procedures to those of a loan), and is only available to activities focused on strengthening the technical capacity and knowledge generation.



## PROJECT SPECIFIC GRANT (PSG)

Project Specific Grants are non-reimbursable contributions administered by the IDB on behalf of a partner (public or private) to fund specific projects, programs or other activities that benefit the member countries of the Bank. The PSGs can provide guarantees and/or financing or co-financing of Technical Cooperation.

The contributions to the PSGs can be made by public or private donors, considering the guidelines of the Bank to accept donations. They can be in any currency, but in this case, the Bank will convert it immediately to the US dollar. Processing periods for approval vary between three months and one year. The management fee is approximately 5% of the project cost.



# Sector Contributions

**SECTOR CONTRIBUTIONS TO THE  
PROMOTION OF PUBLIC-PRIVATE  
ALLIANCES FOR DEVELOPMENT**

Among the several support initiatives of the Bank in developing PPADs, specific issues of sector contributions are as follows.

## FIDUCIARY (FMP/CBR)

The Fiduciary Sector the Bank acts on strengthening national systems and, in particular, for the promotion of PPADs, emphasizes:

- The improvement of the institutional and legal framework of procurements and contracts, with a view to international best practices and evaluating specific changes in the processes of procurement which could contribute to the effectiveness of PPADs projects, including with regard to the dialogue between the public and private sector.
- The review of national and international experiences aimed at reducing costs associated with participation in bidding for infrastructure projects.
- The identification, analysis, and replication of good practices in Latin America and Brazil on external control of Public-Private Alliances for Development projects.
- The analysis and proposal of sub-national regulations enhancements on the external control of PPADs, considering effective experiences in Latin America and in Brazil, including the impact of new methodologies of control and audit in large investment projects.



## **MODERNIZATION OF THE STATE AND CITIZEN SECURITY (IFD/ICS)**

The priority actions in this sector include::

- Identification and reproduction of factors that determine efficiency gains in PPADs projects.
- Increase of stakeholders' awareness regarding the role of PPADs projects in the offer of the best Value for Money for taxpayers and users, primary justification for the adoption of the PPADs model.
- Strengthening institutional capacities for selecting, preparing, designing and managing contracts.
- Identification of success factors of PPADs initiatives in the security area that can be replicated among different governments and different projects.
- Assessment of maturation opportunities of institutional environment from successful experiences in Brazil and in the region.

## **CAPITAL MARKETS AND FINANCIAL INSTITUTIONS (IFD/CMF)**

In this sector the actions planned or in progress on PPADs and are divided in:

- Modernization of PPADs contracts, reducing barriers to establishment of secondary equity markets for SPEs in Brazil.
- Strengthening of the capital market as a means of obtaining long-term financing.
- Reorganization and strengthening of the National System of Development for the improvement of financial instruments, capital market, and institutional capacities of governments aimed at the correct use of the capital market in the context of the PPADs.

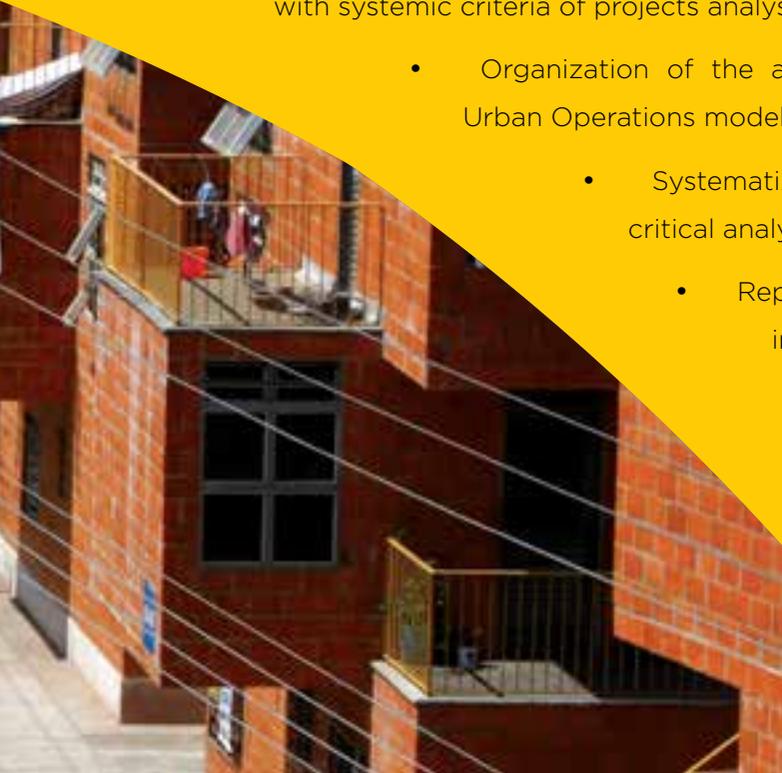
- Maturation of the Brazilian market of infrastructure debentures, through the use of financial structuring aimed at improving the securities liquidity and reduction of external risk to projects, including through guarantee mechanisms.
- Financial structuring in the federal and state levels in order to achieve economies of scale in the financial viability of the operations in the state and municipal levels.
- Enhancement of climatic, environmental and social finance instruments to leverage PPADs.



## FISCAL AND MUNICIPAL MANAGEMENT (IFD/FMM)

The performance of this sector focuses on:

- Modernization of procedures for budgeting, accounting and publication of PPADs projects, considering their fiscal impacts.
- Replication of good international practices concerning fiscal risks mitigation, including through contingency funds and counter-guarantees.
- Consolidation of contractual risk allocation models that limit the fiscal impacts of PPADs.
- Improvement of governance mechanisms that allow the correct characterization and understanding by decision makers of direct and contingent commitments in the preliminary development stages of PPADs projects.
- Proposition of methodologies, considering international best practices, to integrated assessment of PPADs project that takes into account Value for Money and affordability, with systemic criteria of projects analysis.
  - Organization of the accumulated knowledge regarding Consortial Urban Operations model, focusing on successful experiences in Brazil.
    - Systematization and replication of experiments, including critical analysis and recording of best practices.
      - Replication of OUCs success factors focusing on infrastructure financing instruments.



## **COMPETITIVENESS, TECHNOLOGY AND INNOVATION (IFD/CTI)**

The action is centered on:

- Development of initiatives that enable the effective support of the government in the promotion and encouragement of technological development and innovation.
- Attraction of private financing to increase the availability of resources applied to innovation.
- Search for alignment between private and public efforts in the field of innovation and competitiveness, catalyzing the effects of applied public resources..

## **TRANSPORT (INE/TSP)**

Among the activities are the following:

- Promotion of PPADs projects prioritization through incentives to a selection of projects with high impact on development, from the alignment with strategic needs outlined in National Plan of Transport Logistics and National Plan of Integrated Logistics.
- Encouragement of an integrated analysis of public investment projects and PPADs, allowing the identification of the best deployment mechanisms, in each case.
- Identification of best practices of institutional organization that allow governments to develop complex activities associated with the preparation and management of projects, even considering centralized and articulated creation models of PPADs Units.
- Development of documents and procedures standards that reduce transactional costs.



- Training and improvement of communication tools, in the various projects phases with the involvement of all interested actors (including the affected communities), mitigating risks and reducing political problems and social and environmental costs related to transport projects.

## ENERGY (INE/ENE)

The performance emphasizes:

- The identification of new institutional arrangements that make possible an organic approach between public and private sector, attracting more private sector investment in public energy infrastructure.
- The incentive to convergence forms of public and private resources for the development and adoption of technologies related to green energy in Brazil.
- The creation of conditions to enhance the quality of services and energy security to consumers and businesses in the country, through more modern and effective contracts.



## **WATER AND SANITATION (INE/WSA)**

The activities are focused on:

- Direct financing for the construction of infrastructure, through financial and technical support to the design and development of PPADs, which usually includes structuring, technical, and overall feasibility studies, as well as activities arising out of the bidding processes of PPADs.
- Financial incentives and institutional support for the development of institutional and regulatory reforms, governance improvement, and the development of PPADs projects in intermunicipal scale (metropolitan).
- Technical and financial support to strengthen regulatory agencies, including training activities, mainly in the structuring and drafting of technical and feasibility studies, preparation of bidding processes, and design and management of PPADs contracts applied to the sanitation sector.
- Establishment of a strategic plan to promote PPADs in the sector, in line with the achievement of goals derived from the National Plan for Sanitation and Water Resources, which includes, among other things, an assessment of the socio-political conditions for PPADs, development of an investment prioritization methodology, identification of applicable financing funds and creation of incentive mechanisms, financial and institutional support.
- Technical and financial support to strengthen the dialogue between public institutions and the community about the benefits, challenges and threats in the relationship between public and private entities under the PPADs, promoting community participation in the specific processes at different stages.

## ENVIRONMENT, TOURISM, RURAL DEVELOPMENT AND DISASTER RISK MANAGEMENT (INE/RND)

The contributions include:

- Identification and promotion of strategies for private sector involvement in the management of environmental assets, under government regulation, which increases the efficiency in the operation of this equipment and maximizes the preservation efforts.
- Alignment between investment policies in the urban development of communities near significant environmental assets and environmental preservation goals, promoting community participation and strengthening the potential economic development derived from these assets.
- Articulation between prioritization and selection of investments in infrastructure made possible through PPADs and bottlenecks in agricultural production chains.
- Attention to externalities on initiatives carried out by companies in the agricultural sector which justify the alliance between the government and executing private companies,



such as the preservation of ecosystems, technological development or other, enabling the participation of the Bank.

- Identification and multiplication of innovative management models of equipments of high-impact on tourism, taking advantage of lessons learned from running programs, international and national experiences with PPADs.
- Strengthening of the work on tourist production chains with a view to replication opportunities, for example, in the context of Emerging and Sustainable Cities Initiative.
- Collaboration in PPADs pilots focused on access infrastructure, sanitation and management of protected areas linked, directly or indirectly, to the tourist activity.

## CLIMATE CHANGE (INE/CCS)

The IDB has six financial mechanisms distributed in the areas of mitigation of greenhouse gas (GHG) emissions and adaptation to climate change: Results based finance, Guarantee Mechanisms and Securitization of Receivables, backed by GHG emission



reductions, Comprehensive Risk Management, Parametric Insurance Schemes and Contingency Loans. With these mechanisms, it is possible to offer support in the analysis and preparation of PPADs projects, with the ability to reduce the interest rate of the total investment, including through non-reimbursable funds from priorities linked to the results generated in relation to mitigation of greenhouse gases and reducing vulnerability to climate change impacts.

- Introduction of decision-making tools for managing climate risk in PPADs models, increasing the resilience of infrastructure in Brazil with regard to extreme climate events and climate change;
- Development of guarantee mechanisms to reduce the risk of deploying low-carbon technologies and resilience strategies in PPADs;
- Encouragement and strengthening of receivables securitization strategies backed by the reduction of greenhouse gas emissions (GHG) to operate low carbon PPADs;
- Exploiting the potential of the PPA model in producing incentives to developers of projects that meet international standards of sustainability certification and environmental efficiency, taking into account the Sustainable Development Goals and other international commitments made by Brazil on climate change area;



- Consideration of financing mechanisms associated with the mitigation of GHG emissions and adaptation strategies to the adverse effects of climate change as instruments that make up the SPEs capital structures, including through the introduction of carbon emission reduction components in the contracts of the Federal Government and subnational entities that consider private investment in public infrastructure.

## TRADE AND INVESTMENT UNIT (INT/TIU)

Stand out among the activities:

- Encouragement of articulation models between the public and private sectors that contribute to the reduction of barriers to international trade<sup>10</sup>.
- Promotion of PPADs models that enhance the deployment and operation of logistics infrastructure to reduce costs of production chains.

## SOCIAL PROTECTION AND HEALTH (SCL/SPH)

The contributions are focused on:

- Recording and replication of successful experiences of partnerships between Social Organizations and governments for the provision of hospital services.
- Identification of efficiency sources of PPADs projects for social infrastructure implementation in healthcare and social assistance, including aspects associated with the design of

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10. ConnectAmericas is a clear example of PPAs seeking a common goal. The IDB is leading this initiative with four partners (Google, DHL, VISA and Alibaba.com) and promoted this platform in the 26 member countries supported by local partners including public organizations (ministries, export promotion agencies, subnational governments, and other) and private organizations (chambers of commerce, federations, business associations, business federations). In addition, ConnectAmericas, which is a public initiative, is constantly updated in line with the recommendations of entrepreneurs who use the platform. In turn, behavior indicators of users/developers within the platform are analyzed and these data are used for the development of targeted programs and policies to promote exports and FDI.



incentives for performance improvement, permanent improvement of quality of service, network management and gains of scale.

- Optimization of PPADs financing sources for healthcare and social assistance, reducing the capital costs associated with the projects in these sectors.
- Modernization of the institutional environment in order to reduce the costs of project preparation and consequently accelerate the use of PPADs for the Health and Social Assistance sector.

## **EDUCATION (SCL/EDU)**

The performance emphasizes:

- Mapping of successful experiences in national and international level and record of learning points to be disseminated.
- Mapping of high-quality companies and organizations that contribute to the education sector to create opportunities for collaboration with the public sector.

- Development of management methods that enable private investment, increasing the efficiency of infrastructure maintenance and management activities, in addition to technological innovation to improve teaching quality.
- Technical assistance for the development and launch of PPADs operations in several modalities, including the construction and maintenance of schools, the provision of services in schools, among others.
- In the context of loan contracts, the financing of PPADs projects for the educational sector.

## LABOR MARKET (SCL/LMK)

The work is focused on:

- Encouraging more active participation of the private sector in the definition of technical and vocational courses contents within the National Program for Access to Technical Education and Employment (PRONATEC as in Portuguese).
- Alignment of the Apprentice Law to the needs of the productive sector and greater flexibility to the requirements of the law.
- Promoting the establishment of private management in the services units of the National Employment System, with the establishment of payment for performance; and increased incentives for the operation of the System in difficult access places.
- Promotion of integration between units of the System and the network of vocational training.



## GENDER AND DIVERSITY OF SOCIAL SECTOR (SCL/GDI)

Contributions emphasize:

- Increased awareness of government officials about the importance of inclusive infrastructure-based services that are able to reduce gender inequalities.
- Identification and replication of best practices on consideration of components specifically related to gender equality and social inclusion in PPADs contracts, with the consolidation of minimum requirements models and performance indicators, by institutional arrangement category.

## CIVIL SOCIETY ADVISORY COUNCIL (CONSOC)

The actions are aimed at:

- Promoting strategies that strengthen the autonomy of Civil Society Organizations in established alliances with public authorities for service provision.
- Identification and replication of best experiences of Civil Society control over results and indicators of PPADs initiatives.

- Dissemination of knowledge about the benefits derived from the involvement of Civil Society in PPADs business, to government, users and private companies.
- Event production on dialogue with Civil Society in PPADs projects.

## **MIF**

The contributions are directed to:

- Promotion of access to basic services essential for underserved and vulnerable populations, such as water, health, education, sanitation, energy, among others. The goal is to develop business models driven by the markets, with the ability to increase the provision of basic services, through the promotion of PPADs, always guided by technical, economic and financial viability. In this case, the PPADs would be dedicated to small-scale solutions and innovative social business models, involving the local public sector, the business sector and social organizations.
- Infrastructure development as a mechanism to improve access to basic essential services. The goal is to expand and integrate the concept of PPADs, at the three levels of government, as the primary and most effective mechanism to support the public sector on achieving the structuring of public-private projects with greater transparency and efficiency.
- Continuity on the generation and dissemination of knowledge, through the production of studies and events.

## Conclusion

The development of good PPADs projects requires adequate preparation and evaluation. It is essential to have a justified cost-effectiveness, provide a better Value for Money than traditional public procurement, and have fiscal sustainability.

The IDB recognizes that the complexity of the subject of PPADs demand a multisector and interdisciplinary approach so that its contributions can effectively help governments to deploy more and better projects and programs.

In this sense, the various thematic axes and intervention strategies must converge for integrated programs that allow the implementation of public policies through a new way of acting, through the establishment of alliances with the private sector.

The IDB is prepared to draw these programs, which combine technical assistance, loans and non-financial products, such as studies, research and evaluations, to support the modernization of management in the three levels of government, fostering economic dynamics and improving the quality of life of the population.



# Additional Resources

## INSTITUTIONAL REFERENCES OF IDB

- Nono Aumento Geral de Capital (GCI-9)  
[www.iadb.org/document.cfm?id=35291148](http://www.iadb.org/document.cfm?id=35291148)
- Country Strategy and update (2013)  
[www.iadb.org/pt/sobre-o-bid/estrategia-de-paises,7809.html](http://www.iadb.org/pt/sobre-o-bid/estrategia-de-paises,7809.html)
- Sector Strategies  
[www.iadb.org/es/acerca-del-bid/estrategias-sectoriales,1326.html](http://www.iadb.org/es/acerca-del-bid/estrategias-sectoriales,1326.html)
- Institutions for Growth and Social Welfare (March 2011)  
[www.iadb.org/document.cfm?id=36399191](http://www.iadb.org/document.cfm?id=36399191)
- Regional Integration (March 2011)  
[www.iadb.org/document.cfm?id=35825015](http://www.iadb.org/document.cfm?id=35825015)
- Social Policy for Equity and Productivity (March 2011)  
[www.iadb.org/document.cfm?id=35825939](http://www.iadb.org/document.cfm?id=35825939)
- Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (March 2011)  
[www.iadb.org/document.cfm?id=35802873](http://www.iadb.org/document.cfm?id=35802873)
- Sustainable Infrastructure for Competitiveness and Inclusive Growth (December 2013)  
[www.iadb.org/document.cfm?id=38198348](http://www.iadb.org/document.cfm?id=38198348)



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**Cabinet Office of Prime Minister of United Kingdom. 2013.** *Guidance on the template contract for social impact bonds and payment by results.* 2013.

**McKinsey&Company. 2014.** *Connecting Brazil to the world: A path to inclusive growth.* Rio de Janeiro: s.n., 2014.

**PEFA. 2009.** *Brazil. Federal Public Financial Management Performance.* s.l. : Public Expenditure and Financial Accountability (PEFA), 2009.

**Word Bank. 2015.** *Sustentando melhorias no emprego e nos salários no Brasil: Uma agenda de competências e empregos. Diretrizes em Desenvolvimento, Desenvolvimento humano.* Washington, DC : s.n., 2015.

## SUMMARY OF OPERATION MODES AND CHARACTERISTICS (SELECTED PRODUCTS)

|                                    | Loans with Sovereign Guarantee   | Non-Sovereign Guaranteed Loans  | Guarantees with Sovereign Counter-Guaranteed   | Technical Cooperation  | Project Specific Grant  |
|------------------------------------|--|---|--|--|---|
| <b>Purpose</b>                     | <ul style="list-style-type: none"> <li>• Creation/rehabilitation of economic and social infrastructure.</li> <li>• Institutional development.</li> </ul> | <ul style="list-style-type: none"> <li>• Expansion of infrastructure (energy, transportation, sanitation and communications).</li> <li>• Projects of development of the capital market.</li> <li>• Export Financing.</li> </ul> | <ul style="list-style-type: none"> <li>• Risk mitigation projects or portfolios of projects (infrastructure, small and medium-sized enterprises, environmental and climatic hazards, etc.).</li> <li>• Projects of development of the capital market.</li> <li>• Export financing</li> </ul> | <ul style="list-style-type: none"> <li>• Institutional strengthening.</li> <li>• Transfer of knowledge and studies, including diagnosis.</li> <li>• Investment and sector studies supporting the design and preparation of the project.</li> </ul> | <ul style="list-style-type: none"> <li>• Receive and perform other donor funds for technical cooperation activities.</li> </ul> |
| <b>Eligibility Requirements</b>    | Countries that have solid macroeconomic framework <sup>1</sup>   | Follow the policies of the Bank   | Follow the policies of the Bank  | Follow the policies of the Bank  | Follow the policies of the Bank   |
| <b>Financing Dimension</b>         | Cost of the project  | Cost of the project   | Cost of the project  | Cost of the project  | Cost of the project   |
| <b>Conditions for disbursement</b> | Specific eligible expenses   | Specific eligible expenses  | Defined in each operation in the guarantee contract.   | Specific eligible expenses   | Specific eligible expenses  |

|                                     | Loans with Sovereign Guarantee  | Non-Sovereign Guaranteed Loans  | Guarantees with Sovereign Counter-Guaranteed   | Technical Cooperation  | Project Specific Grant  |
|-------------------------------------|---|---|--|--|---|
| <b>Financial Conditions</b>         | <ul style="list-style-type: none"> <li>• Grace period: original disbursement period.</li> <li>• Currency: US \$</li> <li>• Amortization: 25 years.</li> <li>• Interest: cost of financing (Libor 3 months ± financing spread) + spread (85 bp in 2014).</li> <li>• Commission of appointment: 0.25% of the balance to be paid.</li> </ul> | <ul style="list-style-type: none"> <li>• LIBOR fee: LIBOR + 50-350 bps + credit spread (Libor 12 m: 0.565% in Dec/2014).</li> </ul> | <ul style="list-style-type: none"> <li>• Period of coverage: set in the contract</li> <li>• Currency: US \$ or R\$</li> <li>• Guarantee Commission: 85 pb in 2014.</li> <li>• Commission: 0.25% commitment on the difference between the maximum approved amount of the guarantee and the actionable amount of the guarantee.</li> </ul> | <ul style="list-style-type: none"> <li>• Only TC Reimbursable</li> <li>• Same conditions of loans with SG</li> </ul> | <ul style="list-style-type: none"> <li>• 5% of project cost</li> </ul>  |
| <b>Conditions of implementation</b> | Follow the policies of the Bank   | Follow the policies of the Bank   | Follow the policies of the Bank  | Follow the policies and guidelines of the donor fund   | Follow the policies and guidelines of the agreement between the parties |



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