**TC ABSTRACT**

**I. Basic Project Data**

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| ▪ Country/Region: | BRAZIL/CSC - Southern Cone |
| ▪ TC Name: | PPP project preparation facility in water, sanitation, and solid waste in Minas Gerais |
| ▪ TC Number: | BR-T1452 |
| ▪ Team Leader/Members: | Team Leader, GARCIA MERINO, LUCIO JAVIER (INE/WSA); Alternate Team Leader, SIQUEIRA MORAES, MARCOS (VPC/VPC); ESCHOYEZ, GUILLERMO ANTONIO (LEG/SGO); MENDEZ TORRICO, E. GUSTAVO (INE/WSA); GUERRERO RIVERA, MARILYN IVETTE (INE/WSA); ROJAS LARA, JULIO ANDRES (VPS/ESG); GOUVEA BERTO, MARIA EDUARDA (INE/WSA); MEIROVICH, HILEN GABRIELA (INO/NFP). |
| ▪ Taxonomy: | Client Support |
| ▪ Number and name of operation supported by the TC: | N/A |
| ▪ Date of TC Abstract: | 24 Apr 2020 |
| ▪ Beneficiary: | BDMG |
| ▪ Executing Agency: | Banco de Desenvolvimento de Minas Gerais |
| ▪ IDB funding requested: | US$300,000.00 |
| ▪ Local counterpart funding: | US$0.00 |
| ▪ Disbursement period: | 42 months |
| ▪ Types of consultants: | Individuals; Firms |
| ▪ Prepared by Unit: | INE/WSA - Water & Sanitation |
| ▪ Unit of Disbursement Responsibility: | INE - Infrastructure and Energy Sector |
| ▪ TC included in Country Strategy (y/n):▪ TC included in CPD (y/n): | NoNo |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Social inclusion and equality; Productivity and innovation; Institutional capacity and rule of law |

**II. Objective and Justification**

2.1 The northernmost state of Brazil’s richest Southeast region, Minas Gerais is the fourth largest by area in the country (586.525 km2). According to the National Sanitation Information System (2018), in Brazil, 83,6% of the population have access to water supply network, 53,2% are connected to sewage network, and 46,3% of the sewage produced is treated. The same report presents that, in Minas Gerais, 17 million have access to water supply network (82.1%), 15 million are connected to sewage network (72.1%) and only 39% of the sewage produced is treated. Minas Gerais is planning to increase these coverage levels and improve the services by using PPP projects. In addition, it is important to register and promote lessons and good practices of PPPs projects in the water, sanitation and solid waste sector to create a body of established knowledge that will be made available to other entities in Brazil and in the region.

2.2 Since the early 1990s, Public Partner Partnerships (PPP)s has been an important instrument for the development of the water, sanitation, and solid waste sector in Latin America, particularly in some of the larger countries of Latin America. PPPs can a play an important role improving the expansion and quality levels of these services.

2.3 The objective of this TC is mobilizing private investment in public infrastructure to deliver better services of water, sanitation and solid waste provision in the State of Minas Gerais (Brazil), when and if the private participation, in any specific investment project, demonstrate a capacity to add value to users, governments and investors, and the assessment if the PPP is the most adequate procurement route.

2.4 This TC meets a clear demand of the Brazilian context of Private Participation in Infrastructure: The need of professional and comprehensive project preparation exercise to guarantee that projects taken to market:

• Reduce the mortality rate, that is, the number of projects that enter the pipeline and never reach financial close.

• Enforce users’ requirements as key objectives of project development.

• Meet quality standards required to promote environmentally and socially responsible projects able to promote a competitive tender as well as fiscally efficient contracts.
Thus, this TC can help the government of Minas Gerais to close the infrastructure and service gap in water, sanitation and solid waste from 2 different directions:

• It will contribute to mobilize investment form the private sector in higher levels.

• It will contribute to improve the outcomes of investment directing the efficiencies generated by PPPs to users, governments, and investors.

**III. Description of Activities and Outputs**

3.1 **Component I: Preparation of PPP Projects in water, sanitation, and solid waste.** Studies required for the preparation of specific PPP projects in water, sanitation, and solid waste sector, containing project appraisal exercises, including the assessment if the PPP is the most adequate procurement route, and document preparation for tendering. These products will enable beneficiary public entities (municipalities and regional entities) to implement PPP initiatives and attract private investment in infrastructure.

3.2 **Component II: Identification and promotion of PPP good practices.** Knowledge products including manuals, technical notes, and publications to register and promote lessons and good practices of PPPs projects in water, sanitation, and solid waste sector in Brazil, including dissemination activities (workshops, among others).

3.3 **Component III: Audit.** As the TC will be executed by an external institution (BDMG), an external financial audit of the TC will be needed.

**IV. Budget**

**Indicative Budget**

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| --- | --- | --- | --- |
| **Activity/Component** | **IDB/Fund Funding** | **Counterpart Funding** | **Total Funding** |
| Preparation of PPP Projects in water, sanitation, and solid waste | US$265,000.00 | US$0.00 | US$265,000.00 |
| Identification and promotion of PPP good practices | US$20,000.00 | US$0.00 | US$20,000.00 |
| Audit | US$15,000.00 | US$0.00 | US$15,000.00 |
| **Total** | **US$300,000.00** | **US$0.00** | **US$300,000.00** |

**V. Executing Agency and Execution Structure**

5.1 Banco de Desenvolvimento de Minas Gerais - BDMG (Minas Gerais Development Bank) will be the executing agency of this TC. BDMG is a financial institution established in 1962 and controlled by the State of Minas Gerais, with the purpose of promoting the state's economic, financial, and social development. For more than 58 years BDMG has actively participated in the development of Minas Gerais. In its history, it has focused on generating opportunities and sustainable regional growth. Its actions are distributed throughout the territory of the state and it supports various sectors of the economy: industry, agriculture, agribusiness, commerce, and services. In addition to these sectors, BDMG finances infrastructure and urbanization projects in the cities of Minas Gerais. It operates with its own resources and also utilizes credit lines from the Banco Nacional de Desenvolvimento Economico e Social (BNDES), as well as other sources of capital. Furthermore, it is also the financial agent of the Development Funds of the State of Minas Gerais.

5.2 In this context, BDMG stablished within its structure a Project Preparation Unit (Superintendência de Preparação de Projetos – SEP) composed of fulltime staff, responding directly to the vice presidency of the BDMG. This Unit will be responsible for the execution of the TC.

5.3 Monitoring and supervision will be carried out by INE/WSA (UDR will be in headquarters) in coordination with VPC/PPP and IDB Invest who will provide additional financing for other activities related to this TC (other non-reimbursable resources from VPC/PPP and IDB Invest will be committed to support the BDMG in the preparation of PPP Projects in water, sanitation and solid waste in Minas Gerais). The project team will make sure that the scope of the studies to be conducted are in line with the best practices for project preparation as well as the risk structure proposed leads to a bankable project. This assessment will consider IDB invest’s knowledge and expertise.

**VI. Project Risks and Issues**

6.1 Some of the key risks of the project are:

• Demand Risk: As projects will be proposed by final beneficiary public entities such as municipalities, there might be a lack of interest from contracting agencies. A communication strategy will be implemented to promote widespread success to information regarding the fund and mitigate this risk.

• Policy Continuity Risks. Brazil will hold municipal elections in October 2020. Thus, projects that start in the current political cycle might face the challenge of continuity, particularly if there is a governing party change in the beneficiary entities. This risk will be mitigated by starting project screening and selection during the first 4 months of the TC implementation and begin project preparation once the following electoral cycle begins.

6.2 Impact of COVID-19. The sanitary crisis could diverge the political attention of the beneficiary public entities to more immediate public health policy goals, from long term investments in water, sanitation, and solid waste projects. However, as investments in water, sanitation and solid waste sector are directly related to positive health outcomes, the increased attention to public health issues, due to COVID-19 might increase the political priority of long-term water, sanitation and solid waste initiatives, aligning local authorities’ priorities to the objectives of this operation. To mitigate the potential negative impact of the COVID-19 pandemic, the project will design specific communication strategy with beneficiary entities that link long term investments in water, sanitation, and solid waste treatment to positive public health outcomes.

**VII. Environmental and Social Classification**

7.1 Given that the scope of this technical cooperation is exclusively the hiring of specialized consultants, this operation will not have negative social and environmental impact. The ESG classification for this operation is "C".