

Contingent Recovery Technical Cooperation

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Contingent Recovery Public-Private Partnership Preparation Program
▪ TC Number:	RG-T3222
▪ Team Leader/Members:	Gastón Astesiano (VPC/PPP) (Team Leader); Maria Fernanda Garcia (ORP/PTR); Michelle Viegas (LEG/CLA); Toshitaka Takeuchi (VPC/PPP) Carolina Lembo (VPC/PPP); Daniel Cabrera (VPC/PPP); Betina Hennig (LEG/SGO); and Claudia Ogliaro (ORP/GCM)
▪ Beneficiary	Latin America and Caribbean IDB member countries
▪ Executing Agency and contact	Inter-American Development Bank – VPC/PPP
▪ Donors providing funding:	Government of Japan through a transfer from the Japan Special Fund (JSF)
▪ Funding Requested	US\$5 million ¹
▪ Disbursement period:	48 months
▪ Required start date:	March 14, 2018
▪ Types of consultants:	Individuals and Firms
▪ Prepared by Unit:	VPC/PPP
▪ Unit of Disbursement Responsibility:	VPC/PPP
▪ TC Included in Country Strategy:	No
▪ TC included in CPD:	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	(i) Productivity and Innovation (ii) Institutional Capacity and Rule of Law (iii) Social Inclusion and Equality

II. Objectives and Justification

- 2.1. The objective of this TC is to promote in the Bank's borrowing countries the preparation and implementation of Public-Private Partnerships (PPPs) in infrastructure, through supporting identification, selection, and preparation activities for infrastructure projects to be implemented through a PPP scheme².
- 2.2. Enhancing financing for infrastructure is a priority. The infrastructure gap in Latin America and the Caribbean Region (LAC) is estimated to be around five percent of the region's Gross Domestic Product. PPP is a tool of public policy and a delivery of public infrastructure model that can help overcome some traditional problems associated with public provision and reduce the existing gap in infrastructure. It is also

¹ These funds will be administered by the IDB through a non-reimbursable Project-Specific Grant (PSG). Japan will transfer resources from the JSF to the PSG in the amount of US\$ 5 million. This PSG will be administered by the IDB pursuant to document SC-114. In accordance with that document, the commitment of Japan for the PSG will be established through a separate administrative arrangement.

² This TC adopts the definition agreed by the MDBs for infrastructure projects: "Underlying physical foundation of civil works (including integral and/or dedicated equipment) that support economic and social development, including energy, water and waste management, transport, telecommunications, IT within infrastructure, social infrastructure (investments in physical facilities e.g. school, hospitals), excluding infrastructure reserved for the private use of a firm". G20- International Financial Architecture Working Group "Principles of MDBs' Strategy for Crowding-in Private Sector Finance for Growth and Sustainable Development", April 2017.

an important mechanism to attract private sector participation, in “a long-term contract between a private party and a government entity for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance” (PPP Reference Guide Version 3 2017).

- 2.3. As set out by the 2030 Sustainable Development Agenda, sustainable, inclusive, and high-quality infrastructure is of cross-cutting importance to increasing economic growth, attaining the Sustainable Development Goals (SDGs). The 2015 Addis Ababa Action Agenda also called on the Multilateral Development Banks (MDBs) to increase financing and improve alignment and coordination among infrastructure initiatives while bringing together a full range of stakeholders. The 2017 Global Infrastructure Forum also recommended focusing on the following priorities: (i) strengthening of investment capacity, policy and governance frameworks of public authorities and Governments to address infrastructure challenges; and (ii) promoting private sector involvement and finance by creating an enabling environment.
- 2.4. The IDB Group (IDBG) supports infrastructure financing needs, both in the public and private sector. The IDB's Sustainable Infrastructure Strategy has identified the importance of fostering financing and management mechanisms to leverage the participation of the private sector in the development of public infrastructure projects, highlighting the need for closer collaboration between the public and private sectors to improve the quality of infrastructure through PPPs. The IDB Invest, the private sector arm of the IDBG, also considers infrastructure a strategic priority.
- 2.5. There are several lessons that emerge from PPP developments in the region and IDBG's experience. These include: (i) the need for a clearer and focused PPP strategy; (ii) the need for a critical mass of PPP skills and expertise; (iii) the need for a coordinated and collaborative approach, with an appropriate incentive framework; (iv) the need for an adequate set of PPP-related instruments; (v) the importance of the political climate and identifying a political champion; and (vi) challenges with procurement that are critical to PPP projects.
- 2.6. The IDBG administration, with the objective to implement the organizational recommendations of the Office of Evaluation and Oversight (OVE) evaluation, has created the PPP Focal Point, and is endowing it with resources to support the strengthening of legal, regulatory and institutional frameworks, technical institutional capacities and the generation and dissemination of PPPs best practices for the preparation, structuring and implementation of successful PPP projects in LAC.
- 2.7. The Government of Japan is interested in transferring resources from the Japan Special Fund (JSF) to this Program through a Project-Specific Grant (PSG) to support the IDB (in coordination with IDB Invest) identify, select, prepare, structure and implement PPP projects. This PSG is aligned with Japan's Quality Infrastructure Initiative (JQI), as the later focuses on providing non-reimbursable support to complement IDB efforts on quality infrastructure projects in the region. Therefore, the JQI and PSG resources will be used in a complementary manner, with Ordinary Capital (OC) resources and other donor resources, to achieve the goals of promoting quality infrastructure investment and reducing the infrastructure gap with more public and private funding mobilized in LAC.

- 2.8. In addition, the PPP Focal Point, along with the Office of Outreach and Partnerships (ORP), is working to raise additional donor funds and making progress with some potential donors interested in their contribution to promote PPPs development in LAC. Other donor resources eventually raised in support to this operation will be incorporated in accordance with the corresponding agreements and channeled towards the components, thus increasing their reach and impact. To that end, a separate approval process may be required.
- 2.9. The PPP Focal Point is organized as a team (PPP Team) in the Vice-Presidency for Countries (VPC), led by a team leader. The team is formed by specialists in legal, regulatory and institutional framework, project evaluation, particularly in Value for Money analysis also known as Public-Sector Comparator (PSC), and structuring of PPP contracts. Likewise, the PPP Team will oversee the knowledge coordination with the different sector departments of the Vice-Presidency for Sectors (VPS) and regional departments of VPC, lessons learned from the IDBG interventions, the dissemination of knowledge and best practices on PPPs, and will act as a focal point for the IDBG PPP Practice and Knowledge Community. The PPP Team will coordinate with VPS sector departments, through the designated PPP focal points in each sector, and with the VPC regional departments, through the Sovereign Guarantee (SG)-Non-Sovereign Guarantee (NSG) front offices coordinators and country economists.
- 2.10. The PPP Focal Point receives support requests through Country Representatives and manages with the Non-Financial Products Team of the IDB Invest, through a coordination mechanism, the PPP single window. The projects are selected according to the prioritization made by Country Representatives, alignment with the Institutional Strategy (UIS) 2010-2020 (AB-3008), and with the IDB Strategy with the corresponding country. Efforts are made to maintain representativeness both in terms of countries and sectors in the support that the PPP Focal Point provides. The IDB and the IDB Invest developed a PPP coordination mechanism to harmonize the PPP assistance work of the IDBG to maximize its competitive advantages to support the entire life cycle of PPP projects. The life cycle of PPPs ranges from enabling environment, through early project identification and preparation to PPP project financing. One challenge highlighted is related to the consolidation of planning PPP project preparation and structuring capacities at the national and sub-national levels, including through scaling up project preparation funds to build pipelines of PPP projects that are bankable and sustainable. Practitioners agree that one of the main obstacles for increasing private participation in infrastructure is the lack of well-structured and prepared PPP projects to be offered in the market.
- 2.11. This TC will complement program RG-T2998, approved last year by the Board of Executive Directors, in the amount of US\$7 million (OC resources), to be used in the promotion of PPPs under the non-reimbursable and contingent recovery modalities for upstreaming, knowledge products and project preparation activities. The purpose of this Program is to support countries only on project preparation, through a contingent recovery mechanism, as used by the Global Infrastructure Facility (GIF) and the European Bank for Reconstruction and Development (EBRD) (as explained in paragraphs 2.13 - 2.20).
- 2.12. The funding strategy of the PPP Team providing technical assistance activities is to maximize development impact of OC Resources and Donors contribution, with other sources like the Global Infrastructure Facility (GIF) combined. The PPP Team with the

strategic goal of maximizing development impact will search for leveraging OC resources from OC Strategic Programs and Donor resources. The resources from the RG-T2998 are foreseen to be used mostly in enabling environment, knowledge generation and dissemination, and the early stages of the PPP project preparation and the RG-T3222, will be focused on transactional support, given that the contingent recovery modality is the only option available in this case.

- 2.13. **Use of resources.** The contingent recovery modality has been used by MDBs in their PPP project preparation facilities, as it allows them to encourage countries to prioritize the projects that are more likely to be successfully offered to the private sector, while recovering, in certain cases, the expenses incurred in the preparation of PPP projects, which upon returning to this Program may be used to fund new PPP projects. Thus, the contingent recovery mechanism is the way that MDBs have found to sustainably finance the preparation of good projects that can attract private investment and help close the infrastructure gap. Most of the PPP preparation facilities/funds which are currently operating, such as the GIF and the EBRD, have been operating under this modality.
- 2.14. The GIF, a World Bank Group Facility created in 2015, in which the IDB participates as a technical partner, establishes: (i) at the moment that a PPP project successfully reaches financial closure, the agreed level of reimbursement, capped at 100 per cent, of the relevant GIF activity costs, will be reimbursed to GIF; the mechanism of such reimbursements will be agreed between the relevant government counterparts and the technical partner, and may include requiring payment from the successful project sponsor, requirement which will be built into the transaction documentation; (ii) if the GIF Activity is terminated at any stage by mutual agreement between the implementation team and the government counterpart because the project is found to be non-viable, based on project preparation, appraisal, and structuring work; at transaction stage because the tender of the PPP project declared void due to not receiving, the contracting entity a viable bid; or after commercial closing because a winning bidder is unable to secure financing ("Project Failure"), no reimbursement is required; and (iii) if the GIF Activity is terminated by the government counterpart prior to reaching financial closing for reasons other than those outlined above, and/or is terminated by the technical partner(s) due to failure of the government counterpart to comply with the terms of the activity engagement, 100 per cent of incurred costs shall be reimbursed by the recipient government counterpart³.
- 2.15. The Infrastructure Project Preparation Facility (IPPF) was created in 2014 by the EBRD, and establishes, in their Contribution Agreements (ICA) with the government counterparts, the following contingent reimbursable criteria: (i) payment of a Transaction Support Fee (TSF) of 10 per cent of the final value of the services funded directly by IPPF, 100 per cent being paid upon the awarding of the PPP procurement; and (ii) payment of a reimbursement fee payable within 30 calendar days of Financial Closing. The Client may arrange, at its discretion, for the private investor to repay such costs of the Client at the financial closing. In addition, the ICA may be terminated if the Client, at any time, decides not to award or proceed with the PPP project after the services have been completed; or otherwise, suspends, terminates or decides not to proceed with the PPP project; or the PPP transaction slows down or ceases because the Client is de-prioritizing or delaying the project. In these cases, upon termination of

³ GIF. Operating Guidelines, 2017, paragraphs 50 and 51.

the ICA, the Client shall promptly pay all amounts due to the EBRD. In the case that there are no qualified bidders as a result of the PPP tender, however, all costs paid up to that point to the advisors by EBRD shall become non-reimbursable to EBRD.

- 2.16. This Program will finance PPP project preparation and structuring activities in the form of contingent recovery technical cooperation. Under this modality, there are three scenarios in which the non-reimbursable technical cooperation operation may become reimbursable. First, if the PPP project is tendered and reaches financial closure. In this case, the beneficiary country, through the contracting authority, shall include in the respective bidding documents of the PPP project such arrangements to ensure that the amounts foreseen to finance the PPP project preparation will be reimbursed by the bidding winner. The reimbursement to the IDB of the resources regarded as the PPP project must be made within 30 days, starting from the date on which the financial closure of the PPP project takes place.
- 2.17. The non-reimbursable technical cooperation may also become reimbursable if, within a timeframe to be determined by the parties, on a case by case basis, counting from the expiration of the execution period, as such period may from time to time be extended, the PPP project is not able to achieve financial closure for reasons other than: (i) the PPP project being found non-viable, based on prefeasibility studies, appraisal, and structuring work; (ii) a competitive process being organized in good faith and ending without having a Private Investor selected (winning bidder); (iii) a winning bidder not being able to secure financing. In these cases, 100 per cent of the incurred costs must be reimbursed by the recipient government counterpart to the IDB within 30 calendar days.
- 2.18. Finally, the project may become reimbursable if the government beneficiary: (i) fails to comply with the terms of the agreement entered into with the IDB; or (ii) unilaterally terminates the PPP project activities for reasons other than the ones listed in 2.17. In this case, 100 per cent of incurred costs must be reimbursed by the recipient government counterpart to the IDB within 30 calendar days counting from the IDB's notification to the government counterpart of its non-compliance with the terms of the agreement or the government notification on the termination.
- 2.19. In the case of a reimbursement, additional financial charges may also be due, to the extent that these charges have been anticipated and agreed between the IDB and the beneficiary country. All reimbursements must be made in US dollars.
- 2.20. All reflows will return to the Program account and may be reused during the program execution period to finance new eligible sub-projects.
- 2.21. **Strategic alignment.** The TC is consistent with the IDB's Updated Institutional Strategy (UIS) 2016-2020 (AB-3008) through the following pillars: (i) productivity and innovation, by supporting well-designed PPPs interventions; (ii) institutional capacity and rule of law, by strengthening the legal and institutional environment to structure projects with the participation of the private sector; and (iii) social inclusion and equality, by promoting the provision of social infrastructure and economic infrastructure that gives the population access to services and better living conditions. In addition, the TC is consistent with the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (GN-2710-5), with the objective of supporting the construction and maintenance of a socially and environmentally sustainable

infrastructure, to contribute increasing the quality of life, through the selection of a project portfolio that innovatively channels private financing. The TC is also aligned with most of the IDBG strategies with countries in the region, that propose IDB support to foster the development of PPPs and institutional strengthening. Finally, the TC is consistent with the objectives of the Japan Quality Infrastructure Initiative as its resources will be used to: (i) strengthen governance structures and the capacity of institutions that promote PPPs which are focus on procuring infrastructure services measures by the quality of the private operator performance and allow to finance, operate and maintain the full life cycle of project; and (ii) strengthen the capacity to originate and prepare projects effectively with the private sector.

III. Description of activities/components and budget

- 3.1. To achieve the proposed objectives, one component will be developed:
- 3.2. **Component 1. Support to PPP project preparation.** This component will finance studies required for the preparation of individual PPP projects (Sub-projects), including project design, document preparation and review for funding and/or tendering, and studies related to project pre-feasibility and feasibility (technical, financial, environmental, social, institutional and legal).
- 3.3. **Eligibility and Prioritization of Sub-projects.** National and sub-national project proposals from all borrowing member countries will be eligible for funding. Priority will be given to proposals that:
 - a) Support activities that are highly likely to achieve financial closure of a PPP project.
 - b) Have a catalytic effect on the mobilization of private financing for sustainable infrastructure.
 - c) Support the formation and structuring of PPPs in new sectors for the beneficiary.
 - d) Support the preparation in countries that are at greater risk or where preparation is more difficult, as well as in countries with small economies where transaction costs are high.
- 3.4. **Approval process of Sub-projects and activities.** Those interested in accessing financing under the framework of this Program should submit a proposal of the technical assistance to the PPP team. The PPP Team Leader, in consultation with the IDB Country Representative and the IDB Invest/NFP Team Leader, will decide on the eligibility of the application, considering the alignment of the proposal with the IDB Strategy in the country and the priorities of the operational program. The PPP team will further consult with the Office of the Executive Director for Japan before agreeing to finance the activity. Detailed information about the submission and decision process can be found in the Annex I (PSG Rules Regarding Submission of Project Preparation Proposals).
- 3.5. Japan will contribute US\$5,000,000 to this Program. The resources will be transferred from the JSF and managed through a PSG. A PSG is administered by the IDB according to the "Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)" (Document SC-114). As contemplated in

these procedures, the contribution from Japan will be established through a separate administrative arrangement.

Indicative Budget (in US\$)

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Support to PPP project preparation	Studies, design, document preparation/review required for the preparation of specific PPP projects	4,965,000	0	4,965,000
Administrative costs		35,000	0	35,000
Total		5,000,000	0	5,000,000

IV. Executing agency and execution structure

- 4.1. The IDB, through VPC/PPP, will be the executing agency of this TC and will carry out, among others, the following activities: (i) identify the necessary studies and technical work; (ii) select and hire consultants to provide the necessary services; (iii) manage the implementation and delivery of consulting services; and (iv) ensure Donor's visibility for each sub-project. The Program execution by the IDB is justified given the regional nature of the operation, experience and knowledge of the IDB on best practices and methodologies in PPPs. Before starting technical cooperation activities in each of the participating countries, the IDB will obtain the corresponding letter of request and no objection from the respective authorities in each of the countries.
- 4.2. **Procurement.** The IDB will undertake the contracting of consultants or consulting firms in accordance with the IDB's Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1), the Complementary Workforce Policy (AM-650), and the Corporate Procurement Policy (GN-2303-20) for additional services, if required.
- 4.3. **Execution period.** The execution and disbursement period of the TC is estimated at 48 months.
- 4.4. **Annual report.** The Bank will deliver to the Donor a progress report on the Program (the Progress Report) based on information from the technical cooperation monitoring and reporting system of the Bank (TCM).

V. Major issues

- 5.1. The main risk of this TC is related to the support for the selection and preparation of PPP projects that are not submitted to tender. When selecting countries with demonstrated political will to undertake PPPs, this risk is considered manageable and adequate for supporting the development of quality PPP projects.

VI. Environmental and Social Strategy

- 6.1 The proposed TC will have no environmental or social impacts as it will not finance direct investments in infrastructure, it will only fund project preparation. Taking into

account the Environment and Safeguards Compliance Policy of the IDB (OP-703) and due to the nature and objectives of the TC, the classification of this operation is Category "C" (please see [Safeguard Policy Filter](#) and [Safeguard Screening Form](#)).

Annexes:

Annex I: [PSG Rules Regarding Submission of Project Preparation Proposals](#)

Annex II: [Results Matrix](#).

Annex III: [Terms of Reference for activities/components to be procured](#).

Annex IV: [Procurement Plan](#).