

PUBLIC STREET LIGHTING PPP

PROJECT STRUCTURE PRACTICAL GUIDE

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EXECUTIVE SUMMARY



MINISTÉRIO DA
ECONOMIA



The World Bank Group provides financial advice and products resulting in sustainable solutions that reduce poverty and create shared prosperity in developing countries.

The World Bank Group team is currently assisting governments in several countries, including Brazil, to develop and bring to market public-private partnerships (PPPs) in infrastructure sectors, supporting business model development, project structuring and implementation activities. Infrastructure via long-term partnerships between the public and private sector. The World Bank Group collaborates with its partners and clients in structuring projects that are economically and financially sound, aligned with the best international environmental and social practices and the public policy goals established by each client, seeking to increase agents' confidence in the process.

One of the priority infrastructure sectors for this work is public street lighting (PSL). Recently the public service of public lighting has been undergoing major institutional, regulatory and technological transformations. The advancement of technologies such as LED luminaires are being used on a large scale in several cities around the world, and allow great energy savings, improved performance and durability, with reduced maintenance costs. The sector has stood out as one of the most attractive for the implementation of PPP projects. Public lighting projects promote not only the improvement of lighting levels in cities, but also the valorization with better use of public space, contributing to the efficient use of energy and reducing the emission of greenhouse gases and light pollution. In addition, IP projects improve the citizen's perception of security - which mainly benefits vulnerable population groups including women - and promote the inclusion of smart city elements in urban dynamics.

Structurally, public lighting PPPs are one of the most solid in Brazil, as the costing and expansion of this public service relies on the establishment of an exclusive source of funds, charged directly from electricity consumers - the Contribution to the Cost of Public Lighting, the so-called CIP or COSIP. There is a growing private market interested in establishing partnerships with the public sector in the IP segment, as long as the projects are properly structured, with balanced risks, and financially attractive and with positive externalities.

In order for the modernization of the IP sector to benefit multiple cities, it is important to support municipal public managers in the identification and structuring of public-private partnership projects, to reduce transaction costs and ensure that the private sector has an interest in carrying out the investments. Structured projects based on good reference practices result in better service provided and lower fees charged to citizens.

The development of this work was made possible by the realization of a lasting strategy of institutional cooperation between the World Bank Group and the Brazilian government. This partnership involves the Special Secretariat of the Investment Partnership Program (SEMPI), of the Ministry of Economy, the Ministry of Regional Development (MDR) and Caixa Econômica Federal (CAIXA). The Federal Government has adopted several initiatives to implement the policy to promote the federated entities, mainly with the creation, in 2017, with the support of the National Confederation of Municipalities (CNM) and the National Front of Mayors (FNP), of the

Support Fund for Structuring Concession Projects and Public-Private Partnership of the Union, States, Federal District and Municipalities (FEP), which has CAIXA as the managing agent.

In the context of the Public Street Lighting PPP Program, the FEP and the Global Infrastructure Facility (GIF), a global collaboration platform initiated by the World Bank and the G20 that integrates efforts to drive private investment in sustainable, quality infrastructure projects in developing countries and emerging markets, have joined forces to support the development of a standardized and replicable Program aligned with the Federal Government objectives.

With resources available from the Fund and GIF to finance project structuring studies, the support and expertise of the World Bank Group's technical teams, the established proposal was to develop a new "project factory" in the federal government, focused on meeting and support to subnational entities in their PPP structuring efforts in the street lighting with potential replication to various sectors, but mainly in social infrastructure. In this way, it was possible to offer federated entities the best in terms of international best practices for modeling partnership projects, with the structuring risks borne by the Fund and the GIF and the experience of the World Bank Group's team of consultants. This knowledge, internalized in CAIXA's teams, will make it possible, in a short period of time, for partnerships to become tools for expanding the quality public services available to public managers throughout the country.

Under the coordination of SEPPI, the Federal Government implemented instruments and regulatory measures to improve the business environment in the Public Lighting sector. In particular with ANEEL's initiative in Resolution No. 888/2020, which improved the provisions related to the supply of electric energy for the public service of public lighting, INMETRO's initiative for the standardization of systems or instruments for measuring electric energy consumption of public lighting equipment, contained in Public Consultation No. 21/2021 and the MDR initiative in the regulation of debentures incentivized for public lighting contained in Ordinance No. 265/21, all in the sense of improving the sector.

At the forefront of this agenda is the support that the World Bank Group established in the Project Structuring Support Program, which was initially divided into phases, the first of which foresees the structuring of up to 15 IP projects in selected municipalities divided into two lots. As of the publication of this report, the most of the first batch of municipalities (five) reached the contractual closing of PPPs, and the structuring of the second batch of IP projects had already begun. The second phase of the Program will be based on the lessons learned in the first phase and is anchored in two basic activities: (i) the independent structuring of projects by CAIXA and (ii) the dissemination of the knowledge acquired throughout the Program which will serve as a basis for the structuring of new projects by the municipalities and interested actors.

This Practical Guide for Structuring Public Lighting PPP Projects ("Guide") aims to disseminate the lessons learned in the structuring achieved during the first phase of the Program, in addition to international experiences, to support the structuring of IP PPP projects in the Brazil. The Guide presents in a clear and didactic way the step-by-step process for structuring PPP projects for the modernization of the Public Lighting sector in order to disseminate knowledge, sharing good practices in the sector and thus allowing the implementation of partnership projects in a sustainable. It is a detailed script to guide public managers and their teams, as well as private agents involved in project structuring, in the search for quality projects. These are valuable actions that should help improve PPP projects and promote adequate structures that contribute to the efficient allocation of resources.

This Guide describes a standardized approach to structuring Public-Private Partnerships, to serve as a reference tool usable by CAIXA and other public and private institutions throughout Brazil. To this end, this Practical Guide to Structuring Projects offers standardized documents for contracting and bidding, tools and methodologies for the different phases of the Project, such as: (i) Preparation; (ii) Structuring the PPP; and (iii) Public Consultation and Bidding. The Guide provides detailed information for each of the stages, including relevant data regarding technical and operational, legal-institutional and fiscal-economic diagnoses. It also deals in detail with the necessary technical and legal studies, with an emphasis on points of attention for a good practice of managing a PPP contract, including risk analysis, ways of mitigation and problems associated with the structure of the transaction. Finally, the Guide delves into issues related to public consultation and hearing, bidding and contracting.

This document does not intend to exhaust the debate on the structuring of IP PPP projects, since the process is constantly evolving. However, from the compilation of good practices developed by independent national and international structurers, such as the World Bank Group and the Federal Government, through CAIXA, it will be possible to develop a common language and standardize processes and activities, based on implemented projects. This should significantly improve the quality of projects, especially serving as a technical reference for municipalities that need specialized technical advice on the matter.

We wish you all a great experience and lots of learning!

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The production of the report was led by Megan Meyer and Julia Conter (World Bank), with support from CAIXA teams, especially the Government Vice-Presidency. with significant contributions from Manoel Renato Machado Filho and Bartira Tardelli Nunes (Secretary Special of the Investment Partnerships Program - SPPI of the Ministry of Economy), Rob Pilkington (World Bank), João Reye Sabino (World Bank, GIF), Bernardo Almeida, Maria Virginia Mesquita Nasser and Otavio Fernandes (IFC) and Luis Maurer (Consultant, World Bank).

The report was developed within the scope of the promotion policy for federated entities by the SEPPI of the Ministry of Economy. Funding for this study was generously provided by GIF as part of the World Bank's Brazil Infrastructure Policy Assessment Program (P174544). GIF enables collective action among a wide range of partners - including donors, development finance institutions, country governments, with contributions from private sector investors and funders - to leverage resources and expertise and find solutions to build bankable pipelines of infrastructure that attract private funding.

With GIF resources, SEPPI/FEP and IFC implemented a PPP structuring program in the public lighting sector for 15 Brazilian municipalities, selected competitively through a public call. The first phase of the Program in the municipalities of Aracaju (SE), Belém (PA), Camaçari (BA), Campinas (SP), Feira de Santana (BA), Franco da Rocha (SP) and Sapucaia do Sul (RS), included with the participation of consultants Accenture, Radar PPP, Moysés & Pires, Madrona and Tetra+, who provided the necessary material for each municipality, as indicated in this Guide, such as the Technical and Legal Diagnosis; Technical-Economic-Financial and Legal-Institutional Reports and Contract Minutes. Also supported by GIF resources, the World Bank followed this program with the objective of training the main actors of the program, capturing lessons learned in the structuring process and disseminating these lessons to the target audience in Brazil. This report is one of the main products of World Bank support to the overall program.

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1. COMPONENTS OF THE GUIDE

This guide reflects our recommendation on how to structure a Public Lighting PPP modeling project,

A public lighting PPP modeling project can be divided into 3 Main Stages, as illustrated below:

