

## BDMG: financial and non-financial support to municipalities in the implementation of infrastructure linked to Agenda 2030



For decades BDMG has been a key provider of financial support to municipalities for the implementation of local infrastructure. Located in the Southeast region of Brazil, the State of Minas Gerais is composed by 853 municipalities in a wide geographical area comparable in size to France. The majority (80%) of the municipalities have less than 20,000 inhabitants. Most of them lack administrative capabilities to structure, implement and regulate more complex infrastructure projects.

But the State's population of 21 million people rely on municipal level infrastructure to access public services such as paving, water / sewage, waste treatment, basic education, primary health attention, others. On the fiscal perspective, municipalities depend on federal and state resources to cope with their regular financial needs. For many of those municipalities, financial resources are the solution to make viable investments in long maturity projects in times of fiscal restrictions such as the one of recent years.

portfolio of over  
**US\$111**  
million



BDMG offers financing to municipalities based mainly on a biannual public application process to all 853 municipalities. Most credit operations are limited to R\$ 5 million (about US\$ 900,000) in order to allow access to the largest number of eligible candidates that comply with federal requirements for additional indebtedness. Resources can only be used for investments in new vehicles and machinery or in public infrastructure. Currently, 421 municipalities have active credit operations with BDMG, the most diversified portfolio of all banks. Loan portfolio sums R\$ 620 million (about US\$ 111 million).



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In order to improve service quality to mayors and public servants, a new project - BDMG Digital - started in 2019 with the objective of creating a digital platform for all information and document flows between BDMG and municipalities. In the 1<sup>st</sup> semester of 2020, under the effects of Covid-19 social restrictions, all new contracts of 197 municipalities were registered at BDMG Digital allowing a new digital experience for clients that otherwise would have delivered "in hand" their several folders of engineering projects after multiple hours of travel time.

## Beyond credit support to municipalities for infrastructure development

Notwithstanding, the development of local infrastructure requires additional solutions, considering that fiscal restrictions imply insufficient influx of investments when based only on public budget.

As a result, BDMG is building a partnership with IDB to set the first subnational project structuring facility - BDMG Facility - aiming to increase the level of infrastructure development via private investments and to enhance the quality of infrastructure of state or municipal responsibility.

Its primary goal is to provide technical and financial assistance in support of the economic, legal and technical advisory services required for the identification, selection and structuring of bankable infrastructure projects. In addition, the Facility will promote policy dialogue frameworks to build effective regulatory practices and replicable project structures, with focus on regulatory preparedness and institutional strengthening.

The Facility is being structured by BDMG with the support of the Inter-American Development Bank (IDB), that indicated a firm commitment from 3 different sources:

- PPP Unit of the IDB Group;
- IDB Invest; and
- Aqua Fund, a trust fund capitalized with IDB funds along with donor's contributions such as the Swiss Cooperation through Swiss State Secretariat for Economic Affairs (SECO), Swiss Agency for Development and Cooperation (SDC), the Austrian Ministry of Finance and the Spanish Agency for International Cooperation and Development (AECID).

In order to ensure the development of a robust pipeline of bankable projects with appropriate risk allocation and identified revenue sources, BDMG Facility will be structured around 2 main components:

- strengthening the institutional environment at the local level to structure projects with the participation of the private sector (e.g. improving regulatory structures and standardising PPP contracts); and
- the mobilization of specialized technical advisors to offer advisory services concerning technical, financial and legal issues for the implementation of the PPP project cycle in the sectors of water, wastewater and solid waste management.

Furthermore, the Facility promotes the application of internationally recognized good practices in the appraisal of PPP initiatives proposed by municipalities or regional institutions in the state of Minas Gerais, so that commercially, fiscally and environmentally feasible projects in the sector of water, sanitation and solid waste are taken to market.

To ensure the sustainability of the initiative, it will function as a revolving mechanism so that when a project reaches financial close, the successful bidder will reimburse the Facility for all costs incurred with the project preparation services. Therefore, BDMG Facility is a permanent tool to scale up the structuring of public-private partnership projects, fostering private investments and sustainable operation of infrastructure assets.

