

Crunch time for Brazilian infra

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Dilma Rousseff has just been re-elected to presidency in one of the narrowest polls in Brazil's political history: with 51.6% of the vote against her challenger's 48.4%. Boosting private sector investment into infrastructure projects was one of the common goals in Rousseff's and pro-business rival Aécio Neves' campaigns, but the task is a complex one.

Modest victory

Rousseff's margin of victory was modest, while she ultimately secured another four years of Workers' Party (PT) dominance, counting on loyal supporters in the poverty-stricken north; she was categorically unpopular in the urbanised and wealthy states, such as Minas Gerais and São Paulo. While Rousseff has been commended for her commitment to social welfare in her first four years of office, her administration has been criticised for shying away from the use of PPPs and interfering in concession profits. This, coupled with plummeting economic growth, allegations of bribery within state-run oil company *Petróleo Brasileiro* (Petrobras) and widespread public protest sparked in June 2013 over public spending on world cup infrastructure has tainted Rousseff's mandate.

Brazil has been successful in introducing private sector participation to the energy and telecommunication sectors, but infrastructure has proven a struggle. There has been a perceived reluctance towards relinquishing federal control in the sector, with many of the federal concession models offered to date still obligating partnerships with public entities which are considered inefficient.

PAC disappointment

Addressing Brazil's infrastructure bottlenecks has been an important focus of the PT party's mandate, but results of a proposed concession overhaul programme have been disappointing. As Rousseff is poised to launch the third Growth Acceleration Programme (PAC), many projects announced under the first programme (PAC 1) – which was introduced in 2007 under former President Lula Ignacio Silva and called for more than R\$500 billion worth of investment – remain unfinished, or even unstarted.

Rousseff's first term saw a federal airport concession package – which included the Viracopos and Guarulhos (SP), Brasília (DF), Confins (MG) and Galeão (RJ) projects – attract significant private sector interest, but government-owned airport operator *Infraero* continues to hold a large stake in the concessions. Industry observers have suggested this model might be revised in the future.

Brazil's federal highway concessions evoked a mixed response from investors. For example, the BR-050 project, one of the first highways to be awarded which connects the capital Brasília, with the state of São Paulo, received eight bids from different groups, while the BR- 262 highway project between Minas Gerais and Espírito Santo states received no bids at all. Bidders were thought to be unwilling to accept the risk of the project, as it included a vast stretch of works to be carried out by Brazil's federal highway department (DNIT).

Major challenges, though, were faced in the auctioning of ports and railways. In June 2013 the federal government sanctioned the MP 595 new port law, which would enable a \$12 billion revamp of a tired and gridlocked port system. The government proposed to retender expired concession contracts and unlock new private sector investment into 50 new private port concessions in a bid to re-establish competitiveness in the sector. However, a string of lawsuits and a subsequent formal investigation led by audit court Tribunal da Contas de Uniao (TCU) has led to significant delays in the tendering of the first blocks at the Pará and Santos ports.

Brazil's greenfield railway projects have also failed to materialise. The federal government has been criticised for intervening to regulate the rate of returns of the projects, which put investors off.

"Different projects have different rates of return and different risks" says Tomás Bruginski de Paula a director at Companhia Paulista de Parcerias - CPP in Sao Paulo state. "The (Federal Government) needs to be less worried about regulating the rate of return on these projects and focus on its part of the deal which is defining adequate business models, establishing proper regulatory and institutional frameworks and assuring financial models are based on the best possible capex and demand forecasts."

Reviving the pipeline

Brazil has recently reached agreements with China to help revive the railway programme. Studies are already underway and partnerships could be signed as early as next year, according to the government. Waterways are also expected to feature heavily in the infrastructure pipeline. In November 2013, Hidrovias do Brasil closed a \$238 million debt-financing for an inland waterway project located between the Brazilian state of Paraná and Paraguay. There are understood to be several other similar projects under analysis. Some have suggested that waterways have more potential than rail in Brazil.

Another major challenge is urban transportation. There are a large number of capital-intensive urban massive transit projects which will require significant federal subsidies if launched as state-level PPPs, particularly in less-wealthy states such as Curitiba and Porto Alegre where it will be more difficult to attract the private sector. If Brazil is going to provide the financial support necessary to make these state-level projects a reality and improve the quality of public services for everyday Brazilians, it may need to let the private sector take the lead at the federal-level.

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