Who would want to partner with the government?

AFTER BRAZIL'S RAILWAYS WERE privatized in 1996-1999, freight transportation increased by 117% between 1997 and 2011; the federal government not only eliminated a source of public deficit it also raised R$15 billion in taxes and concessions; and the private sector invested almost R$30 billion.

This year when the federal government tried to auction off the BR 262 road concession, which it considered an excellent investment opportunity, not one firm showed up. It was a total lose-lose proposition. Why the lack of enthusiasm?

For one thing, no one —last of all savvy business people—wants an unwilling partner. It's clear that the president and her administration have opted for concessions more out of necessity than conviction. The government is not really conceding control; it's giving revenue guarantees and low-interest National Development Bank loans and even planning to do part of the construction—something it has proved unable to do on its own, which is why it turned to concession arrangements again in the first place. In some concessions, government agencies like the Brazilian Airport Agency actually have rights to veto a partner's plans.

In other words, federal government hands are everywhere in the way these concessions are structured, and there are plenty of other hands as well. As one participant in the recent IBRE seminar on infrastructure pointed out, there are conflicts of jurisdiction between the federal government and the states, and regulations that allow all sorts of agencies to intervene at will in projects.

Rates of return to private partners on infrastructure projects are also a major issue. Between 1994 and 2000 rates of return on road concessions were 18%-20%; in the 1997 auction return had plunged to 9%. And now there's the possibility that the government will cap private sector road profits by restricting tolls.

There are other reasons for the private sector skepticism regarding government's concessions. For one thing, it keeps changing the rules of the game. So why would private investors expect that the rules governing concessions today will still be in place 30 years from now? The ones governing energy concessions didn't last out their terms.

The government keeps changing the rules of the game. So why would private investors expect that the rules governing concessions today will still be in place 30 years from now?

In talking about the problems of ports, one seminar participants said, "We live in a scenario of low investment and institutional mess." The comment applies no matter what the mode of transportation. It's estimated that Brazil has an infrastructure gap of US$1 billion. Where will the money come from? And if it were somehow found, how would projects get done any faster when there's no one-stop shop for getting all aspects of a project approved? Private investment depends on at least some degree of certainty. It's estimated that institutional and regulatory risk in Brazil reduces returns by 2.0 – 2.7 percentage points.

No wonder private investors are reluctant to partner with the government.