How to accelerate infrastructure projects

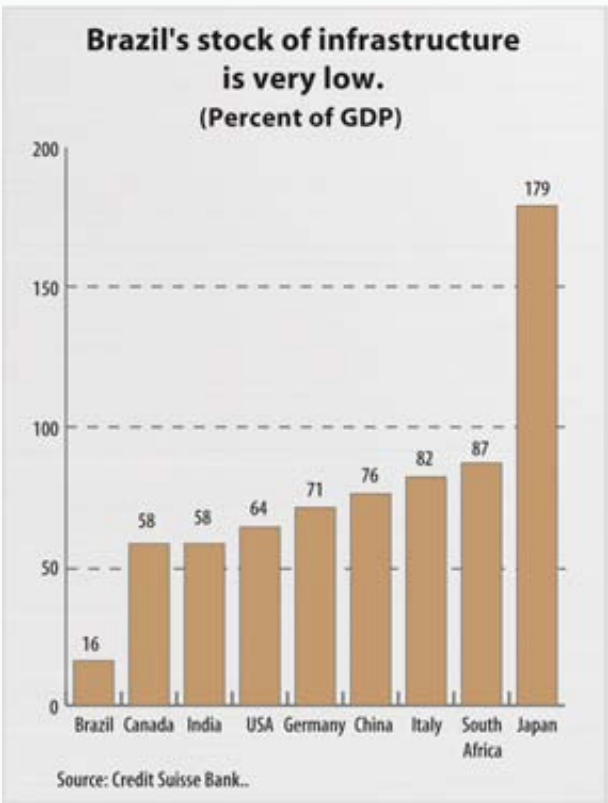
Experts discuss how to speed up completion of logistics and infrastructure projects in Brazil.

Solange Monteiro , *Rio de Janeiro*

ALTHOUGH BRAZILIAN INFRASTRUCTURE has captured attention in recent years, with several regulatory revisions and policies to stimulate investment, the country still faces serious difficulties in turning around its precarious infrastructure. How to unlock and accelerate construction projects was the theme of the 3rd IBRE Seminar of Infrastructure: Bottlenecks and Solutions in Brazilian Transport Infrastructure in September.

Luiz Guilherme Schymura, IBRE director, illustrated the current situation with a study by Credit Suisse bank, which found that the average stock of capital in infrastructure in the most dynamic countries is 70% of GDP. "In Brazil," he said, "the stock of infrastructure is only 16% of GDP. To reach 70%, Brazil would have to eliminate a gap of US$1 trillion in investments."

Several experts presented detailed studies of transportation modes and analysis of regulatory, environmental, and financing issues (which will be collected in a book). In general, Schymura evaluated how the difficulties the public sector has in carrying out projects affects what the private sector does, mainly because of the unpredictability of macroeconomic rules and excessive bureaucracy and deficient coordination among government agencies



that must approve projects. For example, Ronaldo Seroa da Motta, lecturer at the University of the State of Rio de Janeiro (UERJ), pointed out that "We have conflicts of jurisdiction between the federal government and the states, and sector regulations that allow many institutions, as well as the Attorney General, to interfere at any stage of licensing process." Da Motta emphasized that these conflicts lead interested parties to seek individual negotiations and insure against possible damage, which makes project costs uncertain—and usually higher than initially foreseen.

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The regulatory problem was also underlined by other experts. "When regulatory quality improves, investors are willing to pay more for the same amount of profit," noted João Manoel Pinho de Mello, economist, Catholic University of Rio de Janeiro (PUC). A study Mello conducted with Vinicius Carrasco, PUC-Rio, showed that Brazilian regulation is of poor quality. The study analyzed 2009–11 data from 1,474 regulated firms in 62 countries; Brazil was positioned below the average for the countries studied. "For regulated firms in Brazil, institutional and regulatory risk exacts a premium [expressed as a higher return on investment] between 2 and 2.7 percentage points, which are fairly large," Mello said.

High freight costs make exports less competitive

One of the most common strategies of governments to stimulate exports is negotiating trade agreements that reduce or eliminate import tariffs. A study by the Inter-American Development Bank (IDB) points out however, that Latin American countries have much to gain by incorporating as a trade objective reducing the costs of bringing products from factory to port. "Currently, the cost of freight is much higher than the tariffs," said Mauricio Mesquita Moreira, economist, IDB Department of Integration and Trade. "In Brazil, for example, each percentage point reduction in domestic logistics costs could mean an increase of 4% in exports."

According to Moreira, who attended the seminar on infrastructure, one of the motivations for the study was to assess whether logistics costs could influence the regional concentration of exports. "Only 19% of Brazilian municipalities, representing 27% of the territory, export, and the top 10 account for 55% of total exports," he said. Moreira noted that there have been good plans and diagnostics for improving logistics infrastructure in the region, but the lack of political independence, technical expertise, and project coordination compromises execution.

Different modes, similar problems

Joísa Campanher Dutra, coordinator, FGV Center for Studies in Regulation and Infrastructure, has analyzed the financial viability of road concessions. She pointed out that discussion of the rates of return has been central to current negotiations. "Road concessions between 1994 and 2000 resulted in rates of return between 18% and 20%, whereas in the 2007 auction, the return declined to 9%. Now, participants are looking for ways to improve the return," she said. Dutra reminded the audience that road concessions require a large number of renegotiations because of withdrawals or failure to execute, which indicates a need to reconsider the criteria for granting concessions. She noted that "New concession contracts are beginning to emerge that incorporate temporal incentives to concession agents, who are penalized by delays, and give them a premium if they finish before the agreed deadlines."

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Armando Castelar, IBRE coordinator of applied economics, pointed out that, since railways were privatized, the sector has grown in volumes transported, revenues, and investment, while reducing the number of accidents. "Between 1997 and 2012, railways increased their share in total volumes transported from 15% to 25%," he said, but he was not impressed by government's intention to improve the railway system. He noted that the reforms of 2011 and 2012 added a more intrusive and higher dependence on subsidized credit and tax exemptions.

As for airports, Claudio Frischtak, president, consultants Inter.B, said that Brazil lost an entire decade for expansion, "since most countries that have increased their airport infrastructure took advantage of the jump in demand to invest more." Frischtak pointed out that, of 59 countries surveyed by the World Economic Forum between 2001 and 2011, Brazil had the lowest ranking of perceived quality of air traffic. He said that airport concessions can be successful, though he recalled that an IBRE study conducted by Frederico Araújo Turolla found that the current concession contracts raise a serious competition problem because they require the Brazilian Airport Agency (Infraero) to participate in concessions with rights of veto and of access to all information.

Problems in sea and air

In the port sector, the problems are the same. "The Ports Law of June 2013 unlocks the investment process , although at a much less favorable time than if it had happened in the second half of the 1990s , when there were more resources," said consultant Eduardo Augusto Guimarães. "The law promotes adjustments to the regulatory

framework, but it does not make labor contracts more flexible," he said.

The situation is even more critical in the waterways sector. "We live in a scenario of low investment and institutional mess, "according to Carlos Campos, economist, Institute of Applied Economic Research (IPEA)." The Growth Acceleration Plan [PAC] and the National Plan for Logistics and Transport [PNLT] include 57 projects requiring US$9.3 billion in investments, but they rely almost exclusively on fiscal resources and are not being executed," he said, noting that the budgets for 2012 and 2013 authorized spending of US$540 million for transport, but through the first half of 2013 only US$10 million had been used.

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IPEA's Mansueto Almeida also underscored the government's lack of capacity to carry out public works. "The federal government of the 21st century has lost the ability to perform investments quickly. The only thing government does well is grant subsidies," he criticized. "Every year a budget is approved above what will be executed: from 2004 through 2011 budget execution averaged 26% to 48%. By law, budget execution should only be lower if there is a drop in revenue, but we have become used to authorizing more than can be executed."

Mansueto and Frischtak questioned the excessive dependence on the National Bank for Economic and Social Development (BNDES) to finance infrastructure projects." How can countries that do not have a BNDES invest 5%, 6%, 7% of GDP in infrastructure?" asked Frischtak, pointing out that Brazil's capital markets and stock exchange are underdeveloped. "Tools like project finance are virtually nonexistent in Brazil, but are important if we look at the international experience," he said, citing the need to strengthen the role of insurance in risk sharing. He concluded, "Today, we have much government activism with the Treasury providing funds and the government absorbing risks—but honestly, innovating very little."

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