

How can the infrastructure program be speeded up?

Representatives of the heavy construction industry met to discuss how to accelerate the Brazilian infrastructure program.

Solange Monteiro

SINCE THE LAUNCH OF THE Growth Acceleration Program (PAC) to expand the public transport system in the cities that hosted the World Cup in Brazil, large infrastructure projects have come to occupy the attention of Brazilians, especially those in the private sector, more than ever. The results of these efforts, however, leave much to be desired. What brakes are preventing Brazil from accelerating investment? That was the question discussed by economists and industry representatives who gathered at the "Seminar of Infrastructure and Heavy Construction in Brazil," sponsored by the Brazilian Institute of Economics of Getulio Vargas Foundation (IBRE/FGV) on September 30 in Rio de Janeiro.

IBRE researcher Armando Castelar capsulized the problem: "The view is that the public sector is the great lever, but also the great hurdle." He believes that the lack of a comprehensive strategy has caused programs and initiatives to fail at various points, starting with institutional planning and decisions about public works.

The result is an economy that is steadily losing competitiveness. "If for decades we have identified our role as an exporter of grain and ore, why have we not taken care of the transport infrastructure?" asked Ricardo Pinto Pinheiro, president of the Brazilian Association of Highway Concessionaires (ABCR). "In the United States, which has continental dimensions like Brazil, there are 4 million km of paved highways. Here, we have just over 200,000 km."

João Manoel Pinho de Mello, professor at the Institute of Education and Research, weighed in with telling detail: "While a load shipped from Mato Grosso state in Brazil costs US$190 per metric ton to get to China, from Cordoba in Argentina it costs US$102, and from Illinois in the US it costs US$71," he said. He believes that infrastructure investment falls far short of the actual needs, noting that "From 2004 to 2011, Brazil invested only 0.03% of GDP in railways and 0.16% in highways, while in the same period a typical OECD country spent 0.29% on railways and 0.89% on highways."

Carlos Campos, researcher at the Institute of Applied Economic Research (IPEA), showed that infrastructure investment rose in recent years mainly because of more private sector participation: "The private sector accounted for 46.5% of total investments in infrastructure between 2002 and 2013, and the outlook is that private sector investment will continue to rise in 2014–16," he said. One study by Campos showed that government actions were insufficient to improve the capacity of the public sector to carry out large projects. He found that from 2003 to 2012 execution of authorized spending on road projects (R$116.8 billion) was only 53% and on ports (R$19 billion) just 47%."Among factors affecting execution are low-quality projects, difficulties in obtaining environmental permits, and delays in expropriations," he said. Álvaro Monnerat, director of operational excellence for Carioca Engenharia, highlighted the impact of these inefficiencies on construction operations. "It is estimated that in the last decade the sector registered a level of waste in these operations of about 42% and a decline in productivity of 23%," he said.

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PAC Secretary Mauricio Muniz acknowledged the impact of such bottlenecks as securing environmental permits and expropriation procedures, but insisted that "These issues have not been overlooked. They are part of a continuous process of improvements and enhancements,

Federal government investment program

(US$ billion)

Total	**99**
Roads	**17**
Railways	**37**
Ports	**23**
Airports	**8**
High-speed train	**14**

Source: National Development Bank (BNDES).
Note: Original values in national currency converted into US dollar at 2.44 Brazilian Real per US dollar.

which includes discussions with the actors involved." He claimed that the seven years of PAC have changed the level of investment and regulation of the investment environment in Brazil. "We must recognize the bottlenecks but also appreciate the advances. The PAC is an improvement in planning, and each sector today has clarity and transparency about its priority projects," he said.

"We need to make people understand how much our life improves when there is investment, and the economic and social impact when resources are invested efficiently."

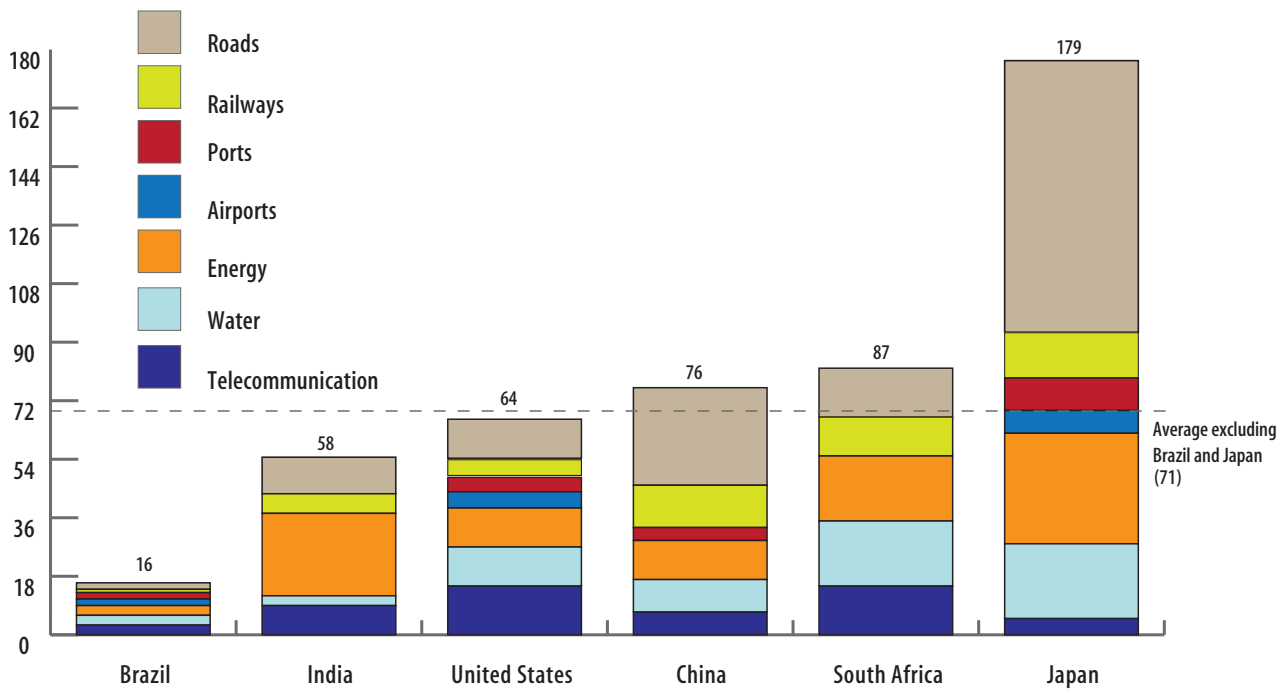
José Carlos Martins

Muniz admitted there had been cases where the government had approved works not yet designed. "Urban mobility, for example, totals R$143 billion in works and has been criticized for long delays. There were situations where … we found that states and municipalities did not have projects but we decided to support them even though at the time they had only ideas," he says. Was it a bad decision? No, says Muniz: "If we had not approved those public works, we would not have advanced in creating a culture that encourages such projects."

Funding models

Seminar participants also discussed financing alternatives for projects. Nelson Siffert, superintendent of infrastructure for the National Development Bank (BNDES), highlighted the importance of the infrastructure sector in BNDES disbursements. Currently, infrastructure accounts for 37% of its loans, which this year are expected

Infrastructure assets (% of GDP)



Source: McKinsey Global Institute, 2013.

to total R$190 billion. "The share of infrastructure in total disbursements is expected to grow in the future, given its impact on the economy," he said.

Siffert defended the BNDES project finance model as ensuring the sustainability of infrastructure projects, particularly in concessions, as well as the creation of special-purpose entities, which are widespread in the electricity sector and in highway and airport programs, saying "They are important tools for capital-intensive projects." He also highlighted efforts that have been made to boost the participation of capital markets in infrastructure debenture issues. Siffert also emphasized the importance of creating an environment to stimulate competition for infrastructure concessions. "The competition takes place in the bidding process, and that moment deserves more attention," he said.

Aluízio Guimarães Cupertino, president of the Council of the Heavy Construction Industry Association of São Paulo, stressed the importance of designing contracts "to ensure the best performance both in the execution of the public work and its management."

Regarding regulation, Nara Kohlsdorf, manager of norms and awards for the National Land Transport Agency (ANTT), argued for streamlining administration. "We need not only to reduce the amount of paper but also to have reasonable rules, check whether certain requirements are necessary, and see whether there might be market-based solutions," she said.

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Speakers at the seminar were willing to collaborate to improve the prospects for more streamlined infrastructure projects. Rodolpho Tourinho Neto, chief executive of the National Union of Construction Industry, described an initiative in which his union is working with the Brazilian Association of Infrastructure and Base Industries, the Brazilian Association of Financial and Capital Markets, and the Brazilian Federation of Banks to draw up recommendations for the sector. "It is important to focus on solutions, not just diagnoses," he said. "In the case of expropriations, for example, we work with a 1940s law, and we need to change it. As for environmental licensing, we suggest that only one agency should be responsible for the process, or there should be time limits for each agency to rule."

José Carlos Martins, president of the Brazilian Chamber of the Construction Industry, spoke to the importance of bringing together the efforts of all to improve initiatives and national competitiveness. "We live in a culture of immediacy, but our sector works over the long term. As leaders, it is up to us to convey this message to society," he said. "The elections elicit reflection and discussion, and we need to make people understand how much our life improves when there is investment, and the economic and social impact when resources are invested efficiently."