THE BRAZILIAN ECONOMY

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Politics
In need of presidential leadership

Roundtable
Infrastructure needs a strategy

Interview
Sérgio Besserman
Sustainability is priceless

Wanted: Educated Workers



Brazil can only be competitive with an educated and productive labor force

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60 IBRE

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THE BRAZILIAN ECONOMY







NEWS BRIEFS

4 Marina Silva leaves the Greens … Transport Minister resigns … Brazil and Colombia cooperate … industrial production falls … US and Brazil cooperate on corruption … president launches scholarship program.

POLITICS

8 In need of presidential leadership

Three cabinet ministers gone in two months — is the president cleaning house or just riding a tide? João Augusto de Castro Neves analyzes the reasons for the departures and what they portend for how President Rousseff will be managing her presidential coalition.

COVER STORY

12 Wanted: Educated workers

Although Brazilians are entitled to more education than previously, they are still not getting the education they need to be productive contributors to economic growth. Spelling out the across-the-board shortages, from unskilled labor to the most skilled professionals, Claudio Accioli and Solange Monteiro describe what employers and the government are doing, and explain how urgent it is that the government make long-term policy decisions to solve the problems.

INTERVIEW

28 Sustainability is priceless

Sergio Besserman, Chairman of the Rio de Janeiro Chamber of Sustainable Development and Metropolitan Governance, explains to Claudio Accioli why it is vital to promote synergies in urban areas, prevent ecosystem deterioration, and correctly price the quality of life.

34 Insurance rules

Although for 16 years the insurance market has expanded faster than GDP has grown, regulatory constraints and frequent changes in the law are major obstacles to its further development. Solange Monteiro and Kalinka Iaquinto summarize what they learned at a recent roundtable organized by The Brazilian Economy.

38 Infrastructure needs a strategy

Deep sea oil exploitation, the World Cup in 2014, and the Olympics in 2016 are driving tremendous building activity, yet infrastructure investment still fall far short of what Brazil needs for lasting economic growth. Solange Monteiro reports on what experts had to say at a recent seminar put on by the Brazilian Institute of Economics of Getulio Vargas Foundation (IBRE / FGV).

POLITICS

Marina Silva leaves the Green Party



Photo: Jose Cruz/Agencia Brasil

Former Senator Marina Silva

The ground continues shifting for opposition parties. Former Senator Marina Silva, who last year gave an impressive performance as a presidential candidate (20% of the votes), has left the Green Party. Although she avoided harsh criticism of the party, she left because, among other reasons, she failed to convince José Luiz Penna, party president for 12 years, to call a convention to choose a new direction. Silva said, "We can achieve the democracy we want if we are willing to continue the walk, which is why I and many others are leaving." (July 8)

Transport minister resigns



Photo: Renato Araujo/Agencia Brasil



Photo: Macello Casal Jr/Agencia Brasil

Transport Minister Alfredo Nascimento (left) steps down, and new minister Paulo Sergio Passos (right) takes over the task of overhauling transport infrastructure.

Brazil's transport minister has resigned over a corruption scandal. Alfredo Nascimento stepped down over allegations that staff at his ministry were skimming off money from federal infrastructure contracts. So far 20 staff members have left the ministry. President Rousseff named Paulo Sergio Passos as Nascimento's replacement. Passos has the daunting task of overhauling Brazil's transport infrastructure to support Brazil's economic growth and prepare the country for the 2014 World Cup. Nascimento was the second senior official to resign since Rousseff took office in January. Her chief of staff, Antonio Palocci, left on June 6 amid charges of corruption. (July 12)

NATIONAL SECURITY

Brazil and Colombia work together to combat crime

Brazil and Colombia are preparing a joint operation to combat trafficking in drugs, people, and weapons in the Amazon, where Mexican drug cartels trying to take advantage of the weakening of the Revolutionary Armed Forces of Colombia (FARC) to control the sale of drugs have settled near Brazil's northwestern border. It is expected that operations will begin in August as soon as a border security agreement is signed. (July 14)

ECONOMY

Industrial production falls in June

In June industrial production declined 1.6% compared to May, reported the Brazilian Institute of Geography and Statistics, and registered a second-quarter decline of 0.7% compared with the first quarter. The Monthly Industrial Survey shows that there was decreased production in 20 of 27 companies surveyed in June compared to the previous month. (August 1)

FOREIGN POLICY

Brazil and Argentina celebrate 20 years of nuclear agreement

Foreign Minister Antonio Patriota said the Brazil-Argentina nuclear treaty is considered an example for the world and can serve as a model for other regions like the Middle East, the Korean Peninsula, and South Asia. Rivals in the 1970s, Brazil and Argentina in 1991 created a single binational safeguard agency, the Brazilian-Argentine Agency for Accounting and Control of Nuclear Materials (ABACC), to ensure that all nuclear material is used for peaceful purposes. Also in 1991, Brazil, Argentina, the ABACC, and the International Atomic Energy Agency signed an agreement for reciprocal inspections. (July 8)

Brazil and U.S. launch international anti-corruption initiative

On July 12 in Washington U.S. Secretary of State Hillary Clinton and Brazilian foreign minister Antonio Patriota presented an international initiative to share experiences on government transparency and fighting corruption. The Open Government Partnership (OGP) is to be "a support network for those leaders and citizens working to build greater transparency," Clinton said at an event held at the State Department. Patriota added, "The idea is to reconcile a commitment to transparency and good governance with innovative methods and the full use of new technologies for an open government that gives guarantees that democracy is being shared by everyone." For the first year the OGP will be co-chaired by Brazil and the United States; other members are Mexico, the United Kingdom, Norway, the Philippines, Indonesia, and South Africa. (July 12)

EDUCATION

President Rousseff launches 100,000-scholarship program

"Science Without Borders" by 2014 will provide 100,000 scholarships for Brazilian students abroad. The government will fund 75,000 scholarships, and the private sector is expected to fund another 25,000. The president pointed out that grants are directed to sciences and engineering because these are areas where highly trained people are needed. The scholarships will be offered primarily for engineering, basic sciences (mathematics, physics, and chemistry), computer science, agriculture, aerospace, and oil, gas, and other technology areas. (July 26)



Photo: Antonio Cruz/Agencia Brasil

President Rousseff at the meeting of the Council of Economic and Social Development.

ECONOMIC POLICY

Higher interest rate, but perhaps less tightening

Confirming market expectations, the central bank monetary policy committee (COPOM) unanimously raised the benchmark interest rate by 25 basis points to 12.50%, the fifth consecutive hike. However, the COPOM statement no longer cited the need to adjust monetary conditions for a "sufficiently prolonged period," suggesting that the central bank may pause the tightening cycle in view of recent price softening, particularly in food prices. (July 20)

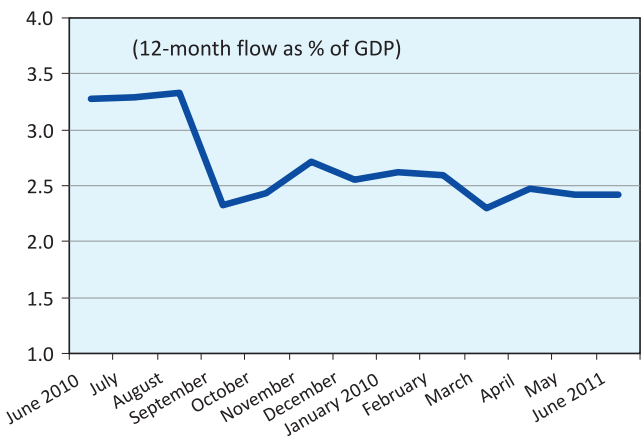
Higher taxes on dollar short positions in financial derivatives

In yet another government attempt to curb appreciation of the exchange rate, Brazil imposed an additional financial transaction tax (IOF) of 1.0% on increases in dollar short positions in derivatives. The announcement initially resulted in a steep plunge in the volume of operations in the dollar futures market and the over-the-counter market because of uncertainties about how the new tax would be implemented. The market expectation is that the increase in the IOFwill affect the exchange rate in the short term but will not eliminate appreciation due to the international outlook. (July 27)

Fiscal outturn in June

The June public sector deficit (federal, state, and municipal governments and social security) was R$5.6 billion. As accumulated so far this year, the nominal deficit reached R$42 billion (2.1% of GDP), which is 0.75 percentage points of GDP less than in the same period of 2010. The result is partly due to a slowdown in public investment and deferral of a large increase in the minimum wage to 2012. Debt in the entire public sector reached R$2.2 trillion (56% of GDP) in June, rising 0.2 percentage points of GDP compared to May. (July 29)

Consolidated public sector deficit



Source: Central Bank of Brazil.

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Basic education is essential

Month after month in these pages experts lament the failures of the Brazilian educational system. Although Brazilians have more schooling than a decade ago, that does not mean they're learning what they need to know to be productive contributors to economic growth.

This issue turns the spotlight on the failures of the Brazilian educational system as well as on the shortcomings in government policy. The delays in Congress are absurd. The legislature has been talking about giving rebates to employers for training workers since 1989. Babies born that year would be adults now, and because the quality of their education is so bad, their employers will have to spend money to train them that could be used more productively. Renato da Fonseca, who manages research for the National Confederation of Industry (CNI), understands the problem as well as anyone. "Failures in basic education are a serious issue," he says. "A person who has difficulty with logical reasoning has problems adapting to any activity."

Unless Brazilians get a sound basic education, they can never even qualify for higher education or vocational training.

The government has been trying to address the shortage of technical professionals and has recently launched the "Science Without Borders" program aiming by 2014 to provide 100,000 scholarships for Brazilian students abroad. The government will fund 75,000 scholarships, and the private sector is expected to fund another 25,000. But the scholarships will undoubtedly go to students who have had the quality of primary education — probably in private schools — that will get them into universities, so the new program will just exacerbate the differences in education opportunities that have already made Brazil one of the most unequal countries in the world.

The new program also seems to assume that all the economy needs is more technical training. Yet in a recent CNI survey more than half the companies reported that a major problem for them was the poor quality of basic education. Fonseca cites OECD data that show that Brazil invests six times as much in higher education as it does in basic education — although simple logic should make it clear that unless Brazilians get a sound basic education, they can never even qualify for higher education or vocational training.

Worse, they can't qualify for jobs, even ones they've been specifically trained for. And once they do get a job, they're less productive than their peers in other emerging countries. The government and employers are indeed spending large sums to train undereducated employees for the jobs they need done. But what an unproductive waste of money!

This is a public policy problem as well as a practical one. Professor José Pastore points out that "I've seen more bills for creating benefits and allowances than for creating skills so we can stay in the race." Fonseca puts the challenge for Brazil bluntly: "At some point public policy on education and vocational training will have to reflect the new reality. … Think about the country you want in 10 years."

The country we'd like to see is one that has a realistic understanding of what its educational investments need to accomplish if Brazil is to remain competitive and increases educational opportunities for the poor. The prospects are not encouraging as other emerging nations surge past us.

In need of presidential leadership

Political and media circles have praised President Rousseff's handling of the political crisis and replacement of problematic ministers and staff. However, the president's corruption cleanup and independence have clear limits given the political realities. The governing coalition constrains widespread corruption cleanup and Lula's influence continues to weigh on the president.

João Augusto de Castro Neves

In less than two months the Rousseff administration lost three cabinet ministers: chief of staff Antonio Palocci, transportation minister Alfredo Nascimento, and defense minister Nelson Jobim. Although each of the departures was for a different reason — in order: alleged influence peddling, corruption, and unnecessary friendly fire — there is a growing perception in political and media circles that how the president is handling them marks a new phase for her government.

Although the reactions have generally been positive, the main ideas pertaining to the current political landscape suggest trends that could become problematic for the Rousseff administration down the road. The first is the idea that the dismissals marked the beginning of a corruption cleanup at the top echelons of government. It is certainly true that there is enough pressure from the media and public opinion that Rousseff's actions to fight corruption could transcend what has been happening in the transportation ministry.

The problem with this idea, if it becomes a true trend, is that it will test the president's ability to deal with the political model that sustains her government. The coalition-president model dictates that parties in the congressional coalition have corresponding shares of power in the executive. To maintain the balance, then, the president would have to compensate a party for the dismissal of one of its ministers. This was not what has happened in the transportation and defense ministries, and the likelihood that scandals will reach other ministries may further undermine political stability.

Obviously, a corruption cleanup operation is risky to the administration because, if it is not done with astute political leadership, it will weaken the congressional coalition, paving the way for more political blackmail and legislative deadlock. So far, the strategy may resonate well with public opinion, but there is always the risk that Rousseff will at some point have to deal with problems in ministries led by her own party, the PT. Considering how reluctant she was to fire Palocci, it is as yet uncertain how she would proceed in such a case, and how that would affect her popularity.

Another idea being floated has to do with political emancipation. Her decision to structure the government's political coordination around two newcomers — Gleisi Hoffmann, the new chief of staff, and Ideli Salvati, the political coordinator — was read by many not only as an ingenious move but also as an indication of Rousseff's increasing independence from former president Lula. The departed Palocci, Nascimento, and Jobim were political remnants of the Lula administration.

The possibility of emancipation, however, is challenged by some facts. First, although it is probably true that the Hoffmann-Salvati solution was of Rousseff's own making, it is too soon to tell whether this new political coordination model will work. Change may be a sign of independence, but for true independence changes must be sustainable. Second, the emancipation strategy could generate an undesirable byproduct: If it seems to be based solely on replacement of Lula's ministers, independence is likely to be interpreted as an indirect attack on Lula's legacy. (Although in fact Brazil's recent history shows that the bond between political creator and creature tends to be short-lived.) Third, the appointment of former foreign minister Celso Amorim as the new defense minister certainly suggests that Lula still has the president's ear. It was just seven months ago that Rousseff vetoed the extension of Amorim's tenure as foreign minister (against his will, some say). Moreover, Amorim's return may neutralize what has been considered Rousseff's most positive innovation: a more responsible foreign policy with regard to human rights and a renewed approach to the United States.

Despite the difficulties, it is not impossible that both corruption cleanup and political

Change may be a sign of independence, but for true independence changes must be sustainable.

emancipation will become realities. But for that to happen, President Rousseff will have to deal with some of her own limitations, particularly her unwillingness to project political leadership. Otherwise she will never be able to truly alter the pattern of relations between the administration and Congress and launch her own governing agenda. If she does not exercise leadership, the president will just be managing the so-far partially positive legacy from the previous administration.

In Brazil's political system, prone to scandals and crises, what might shield the president from these problems is somewhat elusive. Economic expansion, control of inflation, and social policies certainly matter. But ultimately it is the exercise of political leadership that insures a president against the unpredictable ebb and flow of public opinion. As the saying goes, power abhors a vacuum. If Rousseff does not step in, someone will.

Ultimately it is the exercise of political leadership that insures a president against the unpredictable ebb and flow of public opinion.



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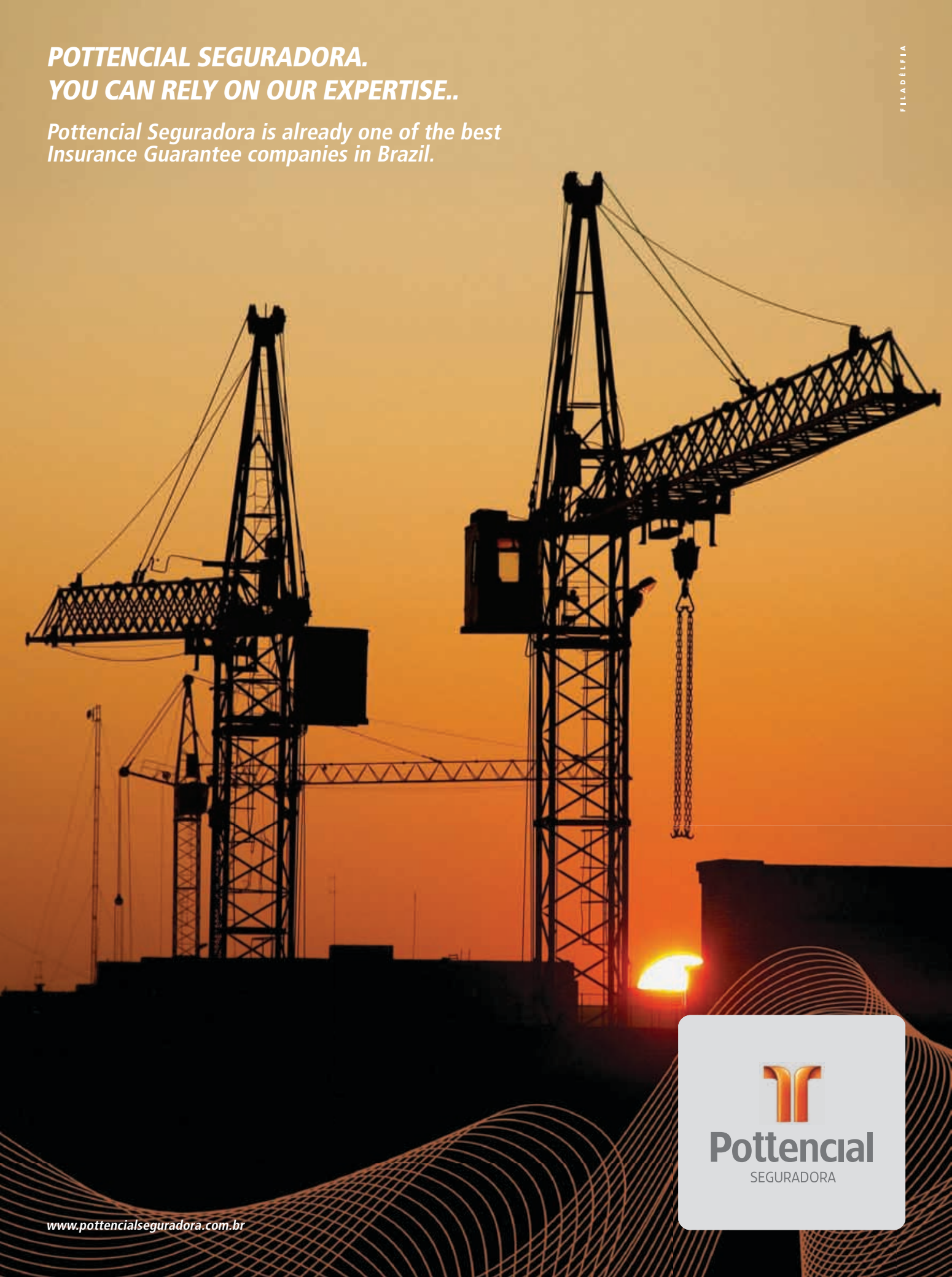
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Wanted: Educated Workers

Brazil can only be competitive with an educated and productive labor force.



Claudio Accioli and Solange Monteiro, Rio de Janeiro

The unemployment rate may be low, but that is not the main problem with the Brazilian labor market. The shortage of labor may actually be a mismatch between the demand for skilled labor and the supply. And given the inadequacies of Brazilian education, even someone supposedly trained for a particular function cannot be very productive, so companies have to provide costly training for their workers or import labor.

Fabio Pina, economic adviser to Fecomercio, identified that supply-demand mismatch and finds it especially troublesome "now that the confidence indices of industry and the services sector show strong intentions to hire and invest."

José Márcio Camargo, economist, Opus Asset Management, has an economic history perspective on what is happening in the labor market: "Early in 1990, with the opening of the economy, there was a great transformation in the productive structure of the country. Some areas were completely destroyed, but others grew rapidly, which created unemployment and difficulties in hiring professionals." In the early 2000s, he says, to adjust, the economy raised wages where the supply of labor was limited and lowered them where workers were being displaced by new technologies. Camargo cites as an example the metalworker profession, where the use of computer programs has created a revolution in production. Throughout this period, he says, there was a major rise in structural unemployment caused by inadequate labor supply for the vacancies available. However, as supply is becoming more consistent with demand, unemployment rates have fallen to today's levels.

A second structural issue Camargo has identified has to do with the increase in formal employment as taxes have been reduced and simplified. Between 2003 and 2010 the number of formal workers in Brazil grew 39%, increasing the number of those formally employed to 10 million people and bringing the formally employed to a record 46% of workers in the six largest metropolitan areas. "These actions have generated increased demand for labor and therefore localized shortages in some sectors," Camargo says.

The paradox

But today as some sectors compete heavily for the few skilled professionals available — Brazilians are still not well educated — those who have enough education to rise to the middle class show less interest in lower-skilled jobs.

Heavy construction illustrates this reality. After decades of suffering from lack of investment, construction and related industries are having to escalate their activities to deal with a soaring number of infrastructure projects. "Today, engineering firms are knocking on university doors to hire graduates as trainees," says José Alberto Salum, president, Union of Heavy Construction Industry of Minas Gerais (Sicepot_MG). But the sector is also having difficulties finding unskilled workers; Sicepot_MG members even seek them in other states, and "In partnership with National Service of Industrial Learning (Senai), we have developed training DVDs for the operation of machinery such as bulldozers to teach workers on building sites in rural areas who could not attend school," Salum says.

Similarly, the Brazilian Association of Infrastructure and Basic Industries (ABDIB) in February signed an agreement with the Ministry of Labor to develop professional training to qualify 100,000 workers over the next four years. ABDIB Corporate Director of Education Fábio Aidar points out that "A survey done by the IBGE in 2010 shows that 70% of Brazilian workers have never spent a single day in a training program."

Problems everywhere

In the oil sector, companies in the Program for Mobilization of National Oil and Natural Gas (Prominp), coordinated by the Ministry of Mines and Energy, list 185 categories of professionals they need; and demand is escalating. "Investments of [the state oil company] Petrobras have shot up from US$5.8 billion in 2003 to the current US$42.5 billion," says José Renato Ferreira Almeida, Prominp executive coordinator.

"With the improvements in education, the productivity of Brazilian workers should be much better than it is."

Rodrigo Leandro de Moura

Prominp's budget to assist workers jumped from R$22 million to train 78,000 people over the past four years to R$55 million to train 212,000 professionals by 2014. Its courses range from basic training for welders and fitters to MBAs for engineers to specialize in such areas as safety, environment, and quality. But, Ferreira Almeida

"Today, engineering firms are knocking on university doors to hire graduates as trainees."

Jose Alberto Salum

says, "We still need to find a role for companies to participate in training, since the necessary experience can only be acquired by working."

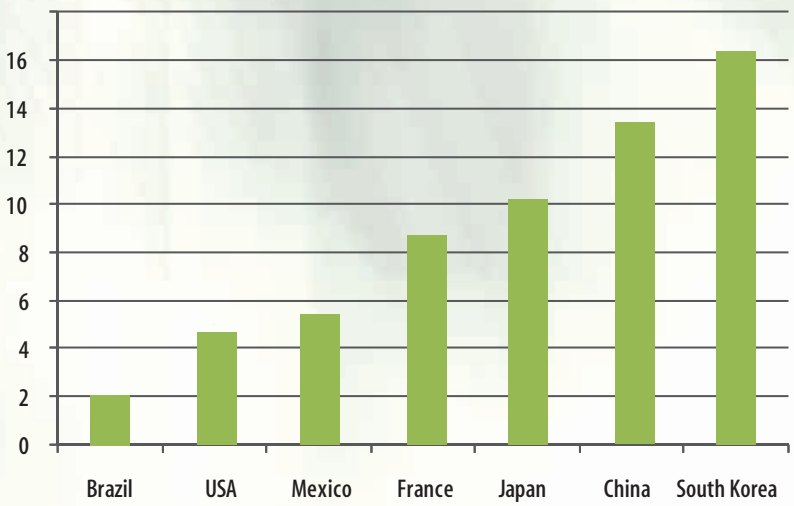
The overheating labor market means that some companies and sectors now have to deal with more selective workers. "Some people today prefer to make pastry rather than work in building," says Sicepot president Salum. His organization is launching an advertising campaign on popular radio stations (among other media) to attract workers. "In five years, the salary of better-qualified workers has more than doubled," Salum says. "Collective agreements and the value of the minimum wage have been a factor, but it still is a remarkable evolution."

Lessons not yet learned

The gap between the quantity and the quality of education in Brazil raises a fundamental issue for any developed economy: productivity. "With the improvements in education, the productivity of Brazilian workers should be much better than it is. But ... what we are seeing is that the payroll cost per hour worked is growing far faster than productivity," says IBRE/FGV economist Rodrigo Leandro de Moura. Camargo adds, "This is the consequence of an inequitable education system that generates less qualified professionals with lower

Brazil graduates fewer engineers than other emerging and developed countries.

(Engineering graduates per 10,000 inhabitants, 2007)



Sources: Institute for Studies in Industrial Development and OECD.



productivity even than in other emerging countries. The combination of high nominal wages, high employment rates, and low productivity generates inflationary pressure, which implies higher interest rates, reduced economic growth, and ultimately a fall in employment." To illustrate this reality, Fecomercio data show that, although they represent 95% of all businesses and employ 60% of the industry workforce, small retail businesses contribute only 30% to GDP.

"The only possible way to resolve this issue safely and permanently is education," Camargo says. "All other attempts have failed. And I refer to elementary schools, not technical or trade training courses, which usually have a high cost and a low return. Because public resources are limited, if we invest in training adults, necessarily we end up investing less in educating children, which is much more important." He compares Brazil with South Korea: "In the 1960s, Brazil had twice the per capita income of Korea, but Korea invested heavily in primary, secondary, and higher education, while we invested in physical capital. Today, our per capita income is one-third of Korea's. We created an auto industry, but their cars are better and more competitive."

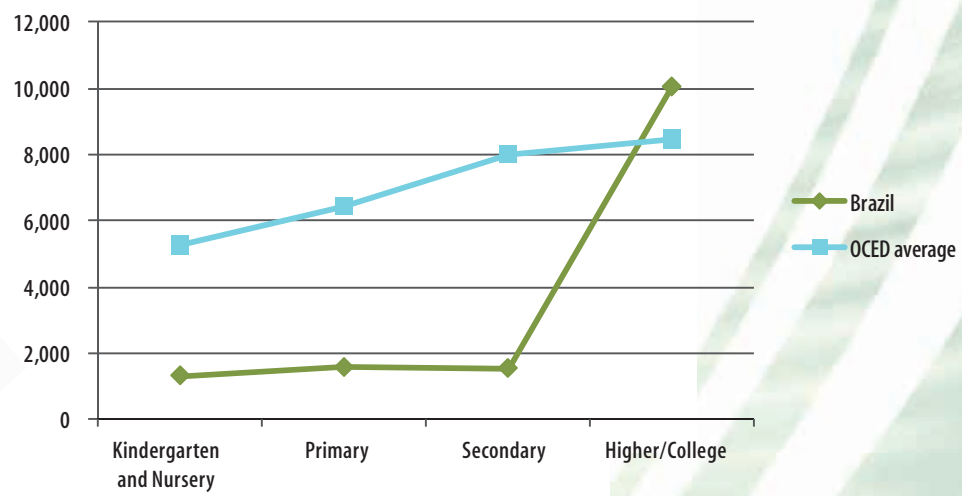
"Brazilian public investment per student is six times greater in higher education than in basic education."

Renato da Fonseca

A National Confederation of Industry (CNI) survey of 1,616 companies earlier this year reinforces Camargo's argument. It found that although most

Brazil spends more in higher education than basic education, leading to greater inequality of education opportunities for the poor.

(Annual spending in education per student in U.S. dollars, 2006)



Sources: CNI and OECD.



companies address shortages of skilled workers through internal training, 52% reported that the poor quality of basic education is a major problem for their training programs. A 2010 CNI study showed that although the percentage of children in primary schools rose from 87% to 98% between 1996 and 2008, only 50% were attending high school in 2008. It also found that 30 million young and adult Brazilians have not completed primary education.

"Failures in basic education are a serious issue. A person who has difficulty with logical reasoning has problems adapting to any activity," says Renato da Fonseca, executive manager of the CNI research unit. For Prominp's Almeida, this was also a major training problem, so "three years ago, we began to coordinate with state governments and local schools for tutoring workers in Portuguese, mathematics, and logical reasoning."

For CNI one reason basic education is failing is a distortion in how public resources are allocated. "Data from the Organization for Cooperation and Development (OECD) show that Brazilian public investment per student is six times greater in higher education than in basic education," Fonseca says. CNI sees this as sustaining inequality in education because it benefits those who can afford to pay for quality primary education.

Fonseca would also like to see a better match in the technical education curriculum. "In 1980, we wanted all middle schools to become vocational schools and ended up creating a useless degree," he says. "Today education is too general," he goes on. "We have a cultural problem of valuing a college degree too much, yet we now have high demand for technical professionals who may even earn more than an engineer." In the CNI survey, 94% of companies identified a shortage of operators in the production area and 82% complained about a shortage of tech-

The building industry reports a shortage of technical professionals and skilled workers.

(% of responses)

Management	56
Administration	63
Professionals (engineers, architects, etc.)	81
Technical workers (supervisors, foremen, etc.)	92
Workers (masons, carpenters, etc.)	94
Sales	48
Research and development (R&D)	46

Source: Survey of building industry, CNI, April 2010.

nicians; only 61% needed more engineers.

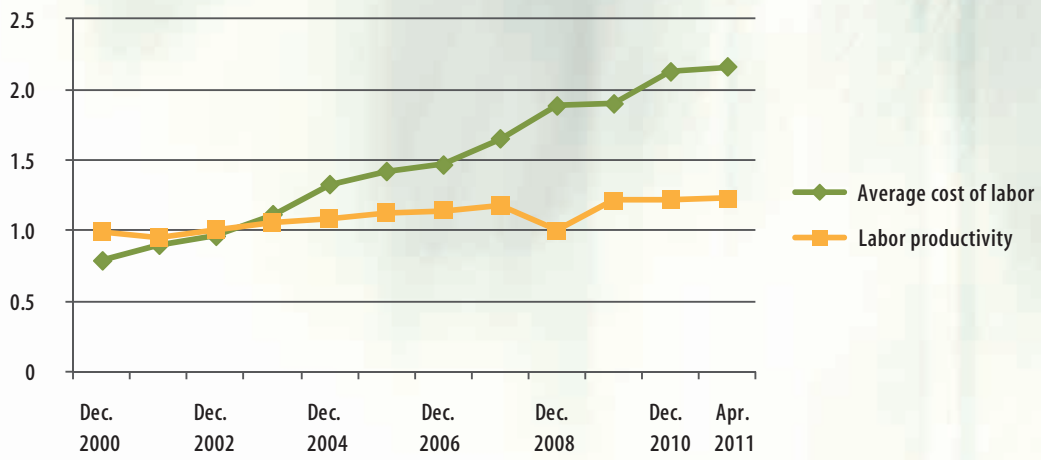
For this reason, Fecomercio's Pina says outright that educational policies must undergo a transformation as profound as the one occurring in the labor market: "We live in a time of transition comparable to what happened in 1930 with the change of the economic hub from coffee production to industry. Currently, the service sector dominates industry, representing about two-thirds of the economy. At some point public policy on education and vocational training will have to reflect this new reality. ... Think about the country you want in 10 years."

The good news is that the discussion on new directions in the labor market is already involving both employers and workers; it is not limited to interminable parliamentary initiatives. The Institute for Studies in Industrial Development (IEDI) has brought together companies that operate in the most critical sectors to discuss solutions. Rogério César de Souza, IEDI chief economist, explains that "We are living in a historic moment in the labor market that demands revision in sensitive points, [particularly] education. That means more than solving a short-term problem. Clearly, this is not a question of supply and demand in the traditional sense but rather the basic education that ensures qualified human resources."

From the workers' point of view, Sergio Mendonça, Department of Statistics and Economic Studies economist, points out, "Never before have we had in Brazil, for example, roundtables like the ones the national sugar and alcohol industries and construction are organizing, bringing together companies, unions, and government to discuss challenges, including training of manpower and basic education. In the last decade, we celebrated the reduction of illiteracy but failed to discuss the quality of education." That discussion is now on the agenda.

Brazil's gap between labor cost and labor productivity is widening.

(Labor cost and productivity indexes in the industry)



Source: IBRE-FGV.







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Solange Monteiro

When it set up shop in six Latin American countries, NEC, the Japanese information technology and communication company, had a strategy. Each subsidiary specializes in one segment so that it can support the others when necessary. "When there's a problem, we send an SOS to another country asking for a technician with specific training," says Heriberto Yamamuro, NEC president in Brazil.

Lately, with the marked growth of the Brazilian subsidiary, there have been more specialists coming here than Brazilians heading elsewhere on the continent because of the difficulty of finding qualified professionals here. Yamamuro's company, which has 750 employees, currently has 20 foreign nationals with temporary visas providing technical services. "To grow 30%, as we expect this year given the need for public and private infrastructure for the World Cup and the Olympics, we need 50% more staff," Yamamuro says.

NEC is not the only company that needs agility to respond to rising demand. Some are bringing home Brazilians who have gone abroad to enhance their careers. According to the General Coordination of Immigration of the Ministry of Labor and Employment, in the first half of 2011, compared to the same period in 2010, Brazil recorded an increase of 35% in visas of up to 90 days for technical service providers and specialists and 18% in visas for employment of foreigners. For administrators, directors, and other executives with management responsibilities, visas increased 7%. Labor Minister Carlos Lupi pointed out that attracting these executives is a sign of foreign capital entering the country, but added that foreign labor still represents "a small share of the working population" and that employment generally has risen.

Yamamuro only comments that "In the last decade we have seen many Brazilians migrating abroad, and we still graduate few engineers and technicians." But "the Rousseff

administration has shown that it wants to prioritize science and technology."

Why Return? For Brazilians who are returning, economic growth and favorable exchange rates, reflecting opportunities and higher wages in general, are auspicious — and not just for executives. Since the 2008 global economic crisis, Governador Valadares in Minas Gerais state has seen the return of many citizens who had tried their luck in the U.S. AeC, an R$274 million company that offers integrated contact center, consulting and project management, and software licensing, plans to open a call center in the city in September that will employ 900. "This new operation is aimed at serving national clients, but there is the possibility that it may become our first attempt to structure a bilingual operation," says Alexandre Moreira, AeC president. He explained that the company chose Governador Valadares because of existing infrastructure for its operations and a young population with high school diplomas and advanced knowledge of English.

The city's inhabitants have been immigrating to the United States since 1960. According to Sueli Siqueira, the Center for Interdisciplinary Research on Regional Development at the University Vale do Rio Doce, 51% of city households have at least one migratory experience. The city Development Office said, however, that it is difficult to give numbers on how many people have returned because most were undocumented in the U.S. and thus prefer anonymity.



Companies are bringing in more foreign workers and specialists.

(Working permits for foreign workers and professionals)

	2008	2009	2010	1st half 2010	1st half 2011
Total	43,993	42,914	56,006	22,188	26,454
Temporary workers	41,271	40,460	53,441	20,760	24,684
Permanent workers	2,722	2,454	2,565	1,428	1,861
Investors	1,357	921	848	431	434
CEOs, directors, managers	957	933	1,218	711	762
Technical assistance for 90 days	6,293	5,806	8,028	3,724	5,026
Professionals and experts	2,301	2,460	3,521	1,714	2,024

Source: General Coordination of Immigration of the Ministry of Labor and Employment.





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Can Brazil fix its education patchwork?

Kalinka Iaquinto, Rio de Janeiro

Plenty of education and skills training proposals have been brought to Congress, but few survive, Granting rebates to employers for training workers, for example, has been discussed since 1989.

"I've seen more bills for creating benefits and allowances than for creating skills," says José Pastore, professor of labor relations, University of São Paulo (USP). "And when we do move a year on training, our competitors have already moved two steps ahead." Senator Paulo Paim (PT) adds, "It is unacceptable that in a democratic state we have thousands of bills subject to lengthy delays in Congress. We have also many others that are approved unanimously, vetoed by government, and we could not override the veto."

Too many agendas

Partly, the problem is that "Most legislators have other priorities. In Brazil, everyone wants to get benefits for themselves," says Senator Cristovam Buarque (PDT). He points out another difficulty: Congress lacks power. "I have had about 15 bills shelved. Spending is considered a prerogative of the executive," he says. His solution? "I pick up the bill, go to the administration, and try to convince them



to adopt it. I did it with teachers' base salaries, which was approved only because Minister of Education Fernando Haddad agreed to it." Buarque also recently brought to President Rousseff a proposal, based on a bill he presented in 2008, to create the Federal Program of Integral Quality Education for All and the National Teachers Primary Education Careers (PLS 320).

Buarque would also like to see model schools established in small towns that already have initiatives to improve educational quality. "Brazil would have for a time two systems, the traditional and one that I propose," he explains. "Within 15 years, when all schools offer decent wages for teachers and there are full-time schools and other improvements, the country would increase spending on education from 3.2% of GDP to 6.6%. We cannot say that this is impossible."

Senator Paim has also turned to the executive, but he has been discussing with the government a bill establishing the Fund for the Development of Vocational Education (Fundep) since 2005. Resources would come primarily from the Worker Support Fund (FAT) and the PI/Pasep. "The expected investment would be about R$9 billion a year, which would ensure improvement in vocational schools," he says.

Paim has also sought support beyond Congress from labor organizations for a bill to reduce working hours from 44 to 40 weekly without reducing salaries. He and Senator Inácio Arruda presented it 16 years ago. "Besides facilitating the entry of new professionals into the labor market, [the bill] would give workers more time to study and improve their skills," says Arthur Henrique da Silva Santos, president of the Union Central of Workers (CUT).

"We advocate the allocation of 10% of GDP, not 7%, to education over the next decade."

Arthur Henrique da Silva Santos

The CUT itself has been engaged with Congress on the National Education Plan (PNE) for 2011–2020. The CUT considers public funding of education to be crucial. "There must be much more investment in the sector," says Silva Santos. "We argue for allocating 10% of GDP, not 7%, to education over the next decade."

Professionalization

During the Lula administration, among other education initiatives federal vocational schools rose from 140 in 2003 to 403 in 2010, boosting vacancies from 76,000 to 420,000. "The goal in the federal system is to reach 600 by 2014. When all the new schools are fully operational, there will be 600,000 school vacancies," says Patricia Barcelos, director of integration of Vocational Education and Technology Network of the Ministry of Education (MEC).

"In recent times, despite a lot of publicity, federal investment in training has declined."

José Pastore

This year the Rousseff administration submitted a bill to Congress to create the National Program for Access to Technical Education and Employment (Pronatec). "It brings together and organizes various activities of the Ministry in coordination with other ministries, states, municipalities, and public and private educational institutions," Barcelos says.

Pronatec would serve public high school students, workers, and beneficiaries of federal income transfers. There are two proposals: training grants for students and employees and loans for technical education through the Student Financing Fund (FIES), which already lends for higher education.

When employees are laid off Pronatec would allow the federal government to make unemployment insurance conditional on proof of enrollment and attendance in continuing education or professional training for a minimum of 160 hours.

Since 2007, there has also been Brazil Professionalized, a program to expand offerings of free technical and technological courses, and the Open Technical School of Brazil (E-Tec), a distance education program.

Is More Needed?

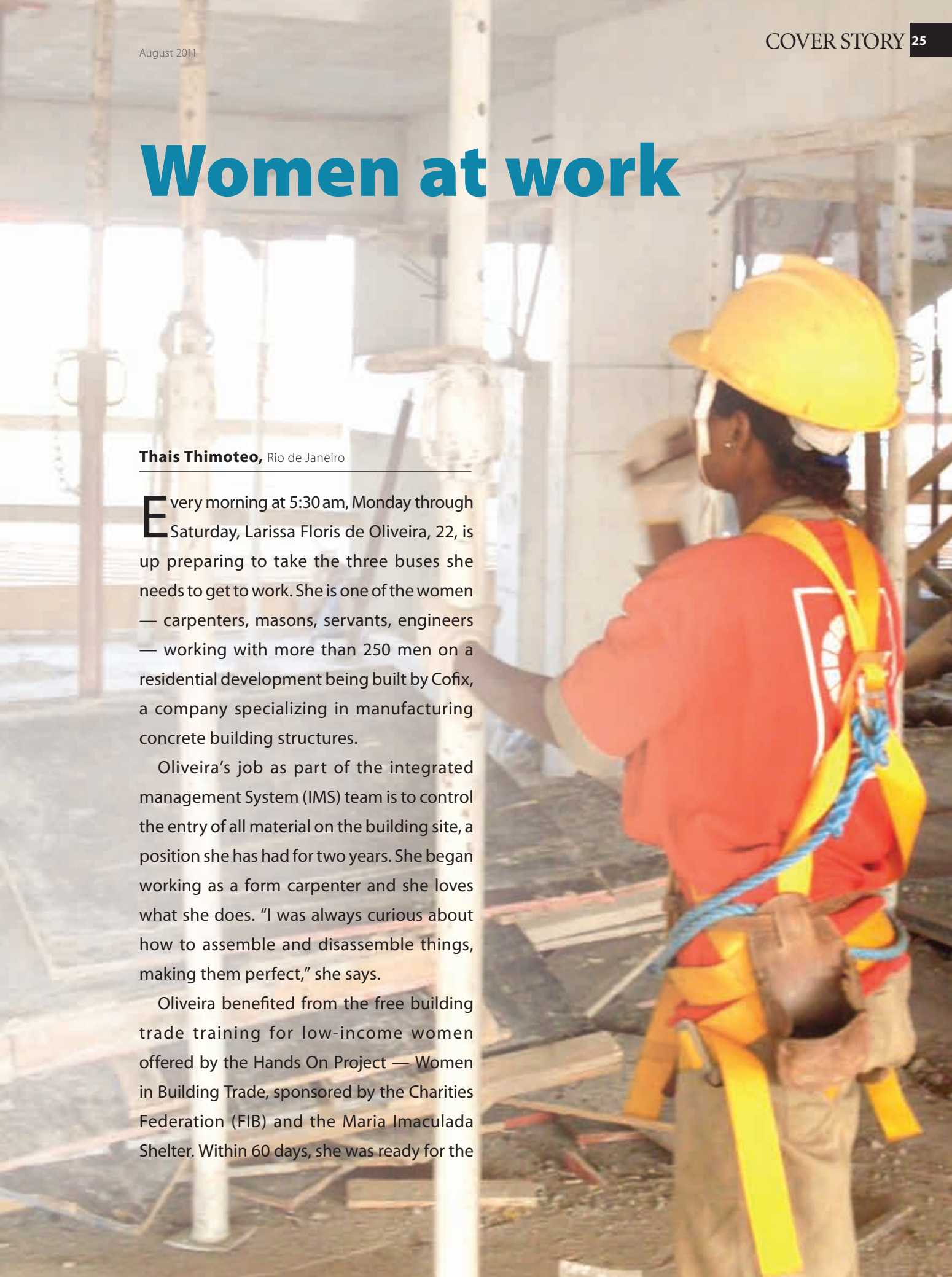
Yes, many say. Pastore is one of them: "In recent times, despite a lot of publicity, [federal] investment in training has declined," he says, adding that the average annual expenditure on vocational education during the Lula administration was 73% lower (R$80 million) than under the administration of Fernando Henrique Cardoso (R$300 million). Furthermore, he says, "vocational training requires competent teachers, workshops and up-to-date laboratories, discipline, diligence, dedication and commitment — all missing in public education."

According to Senator Buarque, the federal government's mistake is in setting priorities: "The government is looking to train father or mother to be a bricklayer, but most workers who are over 25 years and have only primary education will no longer have the productivity to earn a living wage. The solution is basic education for children, but that does not bring votes or lobby. Education is a patchwork. We're always doing it the Brazilian way."

"Most legislators have other priorities. In Brazil, everyone wants to get benefits for themselves."

Cristovam Buarque

Women at work



Thais Thimoteo, Rio de Janeiro

Every morning at 5:30 am, Monday through Saturday, Larissa Floris de Oliveira, 22, is up preparing to take the three buses she needs to get to work. She is one of the women — carpenters, masons, servants, engineers — working with more than 250 men on a residential development being built by Cofix, a company specializing in manufacturing concrete building structures.

Oliveira's job as part of the integrated management System (IMS) team is to control the entry of all material on the building site, a position she has had for two years. She began working as a form carpenter and she loves what she does. "I was always curious about how to assemble and disassemble things, making them perfect," she says.

Oliveira benefited from the free building trade training for low-income women offered by the Hands On Project — Women in Building Trade, sponsored by the Charities Federation (FIB) and the Maria Imaculada Shelter. Within 60 days, she was ready for the

From January 2010 to February 2011, the building industry hired 2,540,091 workers, of which 197,209 were women — an increase of almost 100% over 2006.

labor market, and within six months, she was manufacturing beams and columns for large wooden structures. The project is sponsored by the state-oil company, Petrobras, and the Inter-American Foundation (IAF) in partnership with the National Service of Industrial Learning (SENAI), which does the training.

Many other women have also turned to hands-on work on building sites. The Annual Social Information Report of the Ministry of Labor and Employment shows that from January 2010 to February 2011 the building industry hired 2,540,091 workers, of which 197,209 were women — almost 100% more than in 2006.

Antonio Carlos Gomes, executive director of Sinduscon-Rio, points out that "The sector's bottleneck is labor. Before people in the North East were attracted to work in big cities; today they can find work in their own region. The shortage of workers led businesses to see that the other half of the economically active population, women, could help resolve the labor shortage."

Separation

Daniel de Camargo, for 10 years a building technician of Cofix Technical, sees no problem in sharing the work space with women but says, "There is still some resistance, especially among older male workers. They just do not like working with women. But most accept them."

"15 years ago, when I started working in the sector as an engineer, male workers were ruder," explains Luciana Parente, commercial manager, Carioca Engenharia, but "I have got used to them, and they to me. Now, we are one big team. When I don't come to work, they miss me," she jokes.

The work environment has changed. There is more interaction generally. Nevertheless, the comparison between the genders is inevitable. "Many employers say that men are more productive, while women are more careful handling materials and more concerned with avoiding waste and working safety," says Norma Sá, Hands On Project coordinator.

Also, the building sector is now more mechanized. "For an outsider, it is hard to imagine a woman working as a bricklayer or carpenter. One thinks, how will she be



Women are already present in most jobs, such as carpentry, in building sites.

able to load a sack of cement on the back? But today, physical strength is less and less necessary," says Camargo. Roberto Cunha, technical supervisor of building training of Senai Rio, agrees, but adds: "Building work still is less attractive to women, because they're generally more educated than men. It is necessary to modernize further and improve wages. "

If the stereotype is that a woman's place is taking care of household chores and children, that was overcome decades ago, and today with the great changes in the labor market, it sounds more anachronistic than ever. But "Many women seeking work in the building sector come from the lower classes. Where to leave their children has become a problem," says Gomes. He thinks the increasing participation of women can bring about legislative change as well: "It is appropriate to be thinking about issues such as changes in day-care assistance, maternity leave, working hours etc., as women's participation in the sector increases."

Sustainability is priceless



Sergio Besserman

Chairman of the Rio de Janeiro Chamber of Sustainable Development and Metropolitan Governance

Claudio Accioli, Rio de Janeiro

Cities are like people: they have their own personalities, histories, peculiarities. And just like people, they tend to live with problems and postpone solutions until postponement carries a financial cost. Therefore, says the economist Sergio Besserman, president of the Rio de Janeiro Chamber of Sustainable Development and Metropolitan Governance, the sustainability crisis that cities are experiencing will only be addressed when we properly value space and natural assets, making clear the cost of degradation for the planet. "Water, climate, biodiversity, and landscape are regarded as public goods today, but tomorrow they will have a price," he says. Former director of planning of the National Bank for Economic and Social Development (BNDES) and former president of the Brazilian Institute of Geography and Statistics (IBGE), he argues that his profession is an indispensable tool for promoting synergies in urban areas, preventing ecosystem deterioration, and correctly pricing the quality of life: "The sooner we face the issues, the lower the cost will be."

***The Brazilian Economy* — One result of the stabilization and growth of the Brazilian economy is higher demand for housing and infrastructure, especially in large cities. Is Brazil prepared, from the standpoint of urban planning, to meet this challenge?**

Sergio Besserman — All over the world those who work in urban planning are facing unprecedented challenges. In emerging countries the main problem is the large-scale growth of demand for housing and infrastructure. But in developed economies as well as emerging and poor ones, we are all confronted with the urgent challenge of finding ways to grow that are consistent with the limits of the planet's capacity for renewal. How do you provide decent living conditions for a world population now approaching 7 billion, more than half of them in cities? The model of the last century is not sustainable; old patterns of energy

consumption, especially in large cities, are incompatible with the planetary realities. We need to make the transition to a low carbon economy.

Has the concept of urbanism changed?

There are two types of urban planners: those who believe that plans can be predefined from a diagnosis of urban and social realities, and those who think of cities as uncontrollable and living entities. Cities are like people — they have different personalities, different stories. There is a transition ahead, mainly related to energy demand, which one day will become more expensive. And energy from fossil fuels specifically, besides becoming more expensive, has a burden not just relating to reserves but to what emission of greenhouse gases costs when it is incorporated into market economy prices. This is a very drastic transition. It will have profound impact on the lives of cities that consume various forms of energy and have to adapt to the new price reality.

What are these limits?

It is risky to say that the limit is reached when warming exceeds 2° Celsius, which the Copenhagen Climate Conference defined as the upper acceptable limit. That will be a problem for every city in the world, particularly coastal ones, because the rise in sea level is one of the main effects of climate change. But there are other challenges, such as the scarcity of water. After energy, water is the major resource for which a new valuation is needed. Unlike greenhouse gas emissions, water is not a commodity, and though it is a global phenomenon, the impact of scarcity is closely linked to local conditions. Water, climate, biodiversity, and landscape all become part of a city's life, not only because citizens and consumers must become more conscious, but mainly for its effect on prices. Today, they are regarded as public goods, but tomorrow they will have a price. Cities that are demographically stable, such as Rio de Janeiro, will have to find their way by retrofitting buildings. In medium-sized cities that are becoming larger, more efficient planning on the use of these resources will determine whether they will be competitive decades ahead.

What economic, environmental, and social parameters should a city consider to reach sustainability?

For public policies and economic transformations, I would cite three areas: energy, water, and local impacts. Pragmatically, recognizing that the concept

In developed, emerging, and poor economies, we are all confronted with the urgent challenge of finding ways to grow that are consistent with the limits of the planet's capacity for renewal of nature.

of "sustainable city" is still being constructed and there are no specific indicators to measure it, these are the parameters that provide a metric, allowing for management, planning, and action in both the public and private sectors. Water and energy are universal themes, with the understanding that energy must transition to lower carbon, gradually reducing the use of fossil fuels. Here three areas stand out: transport, especially public; municipal waste — the methane generated in landfills and dumps accounts for 3% of total emissions of greenhouse gases; and public and private equipment, which must be retrofitted to enhance energy efficiency.

Cities are like people — they have different personalities, different stories.

In Brazil there is no lack of examples of municipalities that are economically unfeasible. In your view, should the criteria for creation of new municipalities be reviewed?

Once the brilliant architect Oscar Niemeyer was asked whether the Copacabana neighborhood could be fixed and he replied, "Only by pulling it down." I do not agree, but I do think the structure for municipal government in Brazil is a complete mistake. The municipality in Brazil is a federal entity, and every municipality, large or small, must have an executive and a legislature. That is absurd. Whenever the number of municipalities is increased, we all should be terrified by the inefficient use of public resources and taxpayer money. As it happens, Brazil has fewer municipalities than France, although our territory is 14 times bigger. The difference is that in France municipalities are organized quite differently. In a small town, city councilors are elected and secretaries are chosen from among them, and they are paid no salaries. Governing is voluntary cooperation.

Is it possible to measure the losses due to inefficiency in urban management or the gains from an administration committed to sustainability?

Brazil has complex issues. Rio de Janeiro, for example, has scenery and green vegetation everywhere, however unevenly distributed. In the Baixada Fluminense region, major municipalities have a dramatic lack of vegetation. Economists can work out this shortage and define costs in terms of years of productive life and health.

In Brazilian cities, the main problem is sanitation. This is a major failure, even in a country that has made progress in its social indicators. It is an important issue for its enormous impact on health and human productivity. It is therefore a major Brazilian urban issue, but there is no business model that sets minimally acceptable goals to aspire to in terms of

Foto: crédito das fotos

such aspects of economic, social, and urban life in Brazilian society.

In the rest of the world, which cities can be regarded as benchmarks in sustainability?

European cities have been experimenting heavily, especially on the transition to low carbon. Germany, Denmark, and the U.K. have interesting urban experiences, to the point that some cities can call themselves green because they have an almost balanced use of resources. But they have to make a great effort to achieve what Brazilian cities already have: Our energy is cleaner; they have to offset fossil energy. Every big city in the developed world now has the question of sustainability and climate change at the core of its strategic planning. It is no longer a marginal issue. Yet sustainable cities with ambitious goals are still few and restricted to Europe.

There is much talk about "land management" as an essential tool for integrated environmental decision making. Has this culture come to Brazil?

In the past there was on one side databases, statistics, and administrative records and on the other outdated maps. In the past decade, with amazing speed we have created tools to integrate statistics and records with information about the territories. This is called georeferencing. It is a godsend.

My insight is that cities of the future will have the world "close by." This will require major cultural changes in logistics. Today's large product distribution centers make sense; they supply large regional networks, which in turn feed local networks, which deliver to supermarkets, where we have to fill a shopping cart with goods ... All this can be done with much less effort and cost through the Internet than we do today. These features will change the nature of business and the use of urban space. For example, I drive a car an hour or two, warming the planet, to go to work and sit at the computer. This makes no sense. I can be equally productive at my home computer. Maybe this is too much of a cultural change — but when the price issue turns up, the market will take care of making me work from home.

The structure of municipal government in Brazil is a complete mistake. The municipality in Brazil is a federal entity; every municipality, large or small, must have an executive and a legislature. That is absurd.

What precautions should be taken to ensure that the opportunities for growth and improvement of infrastructure represented by the World Cup and the Olympic Games are not wasted?

My view is that we should focus our attention on an intangible asset, which is the Rio de Janeiro brand. There will be a big urban transformation, especially in the transport system, with the expanded subways, revitalized ports, and a better waste treatment system. All this is very important. But the principal benefit of this kind of event is not in finance or infrastructure. The Rio de Janeiro brand requires that the games take place in an efficient and spectacular way — this is our business — but also in a way that values the concept of sustainability that is associated with the city. Our natural assets are very impressive: three urban forests, two of them the world's largest; two ocean bays; a lagoon system; and an ocean shoreline admired throughout the world. These assets are embedded in a metropolitan region with more than 12 million people.

What are the main objectives of the Chamber of Sustainable Development and Metropolitan Governance of Rio de Janeiro?

With the mayor of Rio, Eduardo Paes, we created the chamber, in which representatives from various departments meet to discuss issues related to sustainability. The chamber coordinates a network of sustainability that seeks to work flexibly, according to modern management practice, leaving government agencies to carry out their programs in a transparent way that benefits the citizens. Now that the UN has decided to hold the Rio+20 Conference, we will have an important moment for the world, Brazil, and Rio de Janeiro. For the host city, the conference clearly provides opportunities for promoting the Rio brand, and the chamber has been extensively mobilized.

In Brazilian cities, the main problem is sanitation. This is a major failure, even in a country that has made progress in its social indicators. It is an important issue for its enormous impact on the health and human productivity.

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Insurance rules

As a recent seminar, experts agree: Regulatory constraints and frequent changes in the law are major obstacles to development of the insurance sector.

Solange Monteiro and Kalinka Iaquinto, Rio de Janeiro

Construction of major public works in Brazil in recent years has been warming up two insurance markets: the reinsurance that an insurer buys from another company (reinsurer) to cover large risks beyond its financial capacity, and the surety bonds that protect against losses from failure to meet contractual obligations, public or private.

For 16 years, the insurance market has been expanding faster than GDP has been growing. Surety bonds, for example, have sold 40% more in recent years. Although the demand is stimulating creation of new businesses and attracting international investment, experts say there are regulatory issues that need to be resolved to allow businesses to exploit the full potential of the market with legal guarantees, fair competition, and competitive pricing.

That was the theme of a roundtable organized by Conjuntura Econômica magazine in late June in Rio de Janeiro. Speakers recognized that today the sector is able to insure planned projects in Brazil — such as the Belo Monte hydroelectric project, the bullet train, and projects related to deep sea oil, the World Cup, and the Olympics. However, they were concerned about disparities in the rules. For instance, by law surety bonds can cover only 5% to 10% of the total cost of contracts for highly complex public works. And at least 40% of reinsurance contracts must go to a domestic reinsurer, and only 20% of a risk can be reinsured abroad.

Ricardo Pena, advisor to the Ministry


Neival Rodrigues de Freitas


Ricardo Pena


Luciano Portal Santanna

Photos: André Telles

of Finance, regards current regulation as prudential. He said that the reinsurance regulation is intended to stimulate consolidation of the domestic market. Luciano Portal Santanna, president of the Superintendence of Private Insurance (Susep), argued that there is room for improvement, adding, "We must be careful that regulatory requirements do not reduce competition."

Neival Rodrigues de Freitas, executive director of the National Federation of General Insurance (FenSeg), also stressed the importance of ensuring that the market is competitive and prices attractive.

Surety bonds: Limits a hindrance

All participants stressed the importance of expanding the insurance market to carry out major public works. A surety bond "brings benefits to society as a whole and for the industry, as it streamlines the bidding process and improves control of public spending," Pena said. The government is paying attention. It has increased surety bond coverage limits for public works contracts for the World Cup and the Olympics. Pena said that the proposal is to reach 30% and up to 45% for highly complex projects works.

Alexandre Malucelli, vice president of

> "We must be careful that regulatory requirements do not reduce competition."
>
> Luciano Portal Santanna

JMalucelli, a leading surety bond company, said that with current regulations the surety bond business is unattractive: "Today, contracts protect against 5% of losses only, when the fine is 10%. Coverage of 30% — as practiced in Canada, for example — is adequate to cover fines and extra costs."

Liliana Marquez, superintendent of surety bonds of the Mapfre and Banco do Brasil insurance group, said that Brazil should learn from the experience of other markets: "There's potential, many projects under way, but we must be careful, because we are building the future."

Malucelli stressed that there is no lack of capacity to insure public works. A survey his company conducted of the 14 largest companies showed that customers use less than one-third of their capacity. But, he added, the surety bond market is not for amateurs. Most insurers that went bankrupt had done surety bond business dangerously, offering broader warranties but asking for less collateral. To Malucelli, then, a major



Fábio Carvalho | Antônio Penteado Mendonça | Rogério Vergara | Alexandre Malucelli | Rossana Costa | Liliana Marquez

> A surety bond "brings benefits to society as a whole and for the industry, as it streamlines the bidding process and improves control of public spending."
>
> Ricardo Pena

market risk is lack of insurer knowledge: "It's a different product, because our customer buys a policy to give to another party; our clients are not concerned with the quality of the paper, unlike car insurance, for example, that protects their own car."

"It's an adolescent market; it began to work systematically about 15 years ago. In the United States, the surety bond market is over 100 years old," explained Rogério Vergara, chairman of the credit risk and assurance committee of FenSeg. But it offers "an important development opportunity for companies working with creativity and intelligence," said Fábio Carvalho, technical director of Pottencial Insurer, a Brazilian company serving the retail industry that has been in the market for a year and a half.

Antonio Penteado Mendonça, partner at Penteado Mendonça Advocacy, said that one of the features of surety bonds is that it is impossible to create contract models. "There aren't two identical contracts," he said. "When a contract is shoddy, what remains is to learn from the mistakes."

Reinsurance: Long-term rules needed

Mitigating insecurity was also the theme of the reinsurance debate. Pena admitted that the sector has undergone major changes since it was opened to private companies in 2008. "The government believes it is necessary to prepare the sector for competition in a more organized, slow, and gradual way," he said, defending temporary protection of domestic insurers. He also said a regulatory agency is being created for the sector that will not have the characteristics of insurance but will work in a complementary way, obeying the rules of Susep.

For Carlos Frederico Ferreira, CEO of Austral Insurance, a 100% Brazilian company, preferring domestic reinsurers is positive but he is not sure they have the capacity to cover 40% of large risks. "If domestic insurers cannot meet 40% of a reinsurance contract, how do we reinsure the rest of the contract?" he asked.


Angelo Quercy Filho


Carlos Alberto Caputo


Antonio de Souza Beltrão


Carlos Frederico Ferreira


Alessandra Monteiro

According to Antonio de Souza Beltrão, Susep general authorization coordinator, the growth of foreign reinsurers in the Brazilian market justifies the government's precautions. In 2009, 90% of reinsurance was with domestic insurers and 10% with foreign insurers. In 2010, reinsurance was already equally divided. "The way things were going, we would end up with 10% of reinsurance for domestic insurers and 90% for foreign insurers," he said.

Caputo believes that the decrease of local insurers' share and the increase of foreign insurers' share were to be expected. "The tax burden for domestic reinsurers is higher than for foreign ones. Costs in Brazil are higher than in other countries, which have less paperwork and where it is easier to start businesses. It takes between 90 and 300 days to open a company here," he said, "while in countries like Bermuda a company can start operating in less than a month."

Currently, there are six Brazilian reinsurance companies and six more are expected to be in business by the end of 2011. "Despite criticisms of the regulations, one of their goals was to establish a larger market and more competitive reinsurance in the country, and that is being accomplished. So you have much more competition," says Alessandra Monteiro, commercial manager of state-owned reinsurance company IRB-Brasil Re.

"If local insurers cannot meet 40% of a reinsurance contract, how do we reinsure the rest of the contract?"

Carlos Frederico Ferreira

"There's potential, many projects under way, but we must be careful, because we are building the future."

Liliana Marquez

Monteiro believes that once regulations on underwriting, credit, and other risks are in effect, some insurers will review their business plans. "The growth of the insurance market pulls the reinsurance market; with the expectation of public works ... and planned growth through 2016, the trend is to have more reinsurance," he said.

Participants warned, however, that the legal insecurity caused by constant changes in law breeds uncertainty, especially among foreign companies. "The rules have to work for the long term. We are willing, like any player, to adapt to them, but there is a need for stable rules," said Angelo Colombo Quercy Filho, executive director for large risks for the insurer Allianz.

Brazil is among the Latin American countries with the lowest volume of reinsurance. It reinsures only 7% of insurance premiums, while Mexico, for example, reinsures 19%, Venezuela 15%, and Argentina 15%. "I think we will have growth based not only on the insurance market, which will end up raising reinsurance premiums, but insurers will end up increasing reinsurance as they develop new products," Monteiro said.

Infrastructure needs a strategy

Experts discuss at an IBRE/FGV seminar how to boost investment in infrastructure

Solange Monteiro, Rio de Janeiro

The Growth Acceleration Program (PAC) was the banner project of the Lula administration. Deep sea oil exploitation, the World Cup in 2014, and the Olympics in 2016 are promising to drive tremendous building activity. Yet infrastructure investment still falls far short of what Brazil needs to grow. That is what experts concluded on July 18 in Rio de Janeiro at a seminar on "Opportunities and Challenges for Infrastructure in Brazil," sponsored by the Brazilian Institute of Economics of Getulio Vargas Foundation (IBRE-FGV).

The concern of the participants was based on straightforward facts: While the minimum investment just to prevent deterioration of the country's existing infrastructure is estimated at about 3% of GDP, from 2008 to 2010 Brazil's investment in infrastructure averaged only 2.6% of GDP a year. Meanwhile, as Claudio Frischtak, president of the Inter B Consultoria Internacional de Negócios, pointed out, "China invested 13.4% of GDP in 2010 alone, and India invested on average 4.8% a year in 2009 and 2010."

Prospects for the coming year are not encouraging, either. Armando Castelar, IBRE coordinator of applied economic research, reminded the group that the National Bank for Economic and Social Development (BNDES) estimates that for 2011–14 Brazil's infrastructure investments will be US$381 billion, which is only 2.3% of GDP. And of this, the bullet train between São Paulo and Rio de Janeiro cities represents 0.2% of GDP.

"The current state of infrastructure largely reflects high investment between 1950 and 1980. Since then Brazil has invested little to meet demand or replace deteriorated infrastructure," Castelar said. Pedro Cavalcanti, an economist at the FGV Graduate School in Economics, added that "Since 1980, Brazil has become less efficient, and one reason is the lack of infrastructure." Infrastructure thus has a heavy impact on productivity, and Cavalcanti stressed that the investment gap in Brazil suppressed GDP growth in previous decades. He believes that "The investment gap could explain 35% of the difference in growth

between Brazil and East Asian countries between 1980 and 2000."

The result is that products and services cost more. For example, a World Economic Forum study ranks Brazil 57th in per capita income, but 84th for infrastructure in general. Worse, the country placed 123rd for port infrastructure and 97th for airports. Castelar added that, as for the cost of services, "while in 2008 the monthly fee for access to broadband internet in Brazil was US$47, in Latin America and the Caribbean it was US$34, and in high-income countries it was US$26."

Planning and efficiency

The experts presenting at the seminar concluded that what is missing more than money is government commitment to address infrastructure problems. "Often we talk about lack of fiscal capacity," Cavalcanti said, "but the tax burden has risen in recent years and we chose not to invest in infrastructure." Moreover, he said, raising tax revenues would not be the most effective way to increase investment. He estimated that if the tax burden increased to 40% of GDP, the negative impact on growth would more than offset the positive impact of expanded investment. On the other hand, raising public investment to 5% of GDP by cutting current spending would stimulate growth. In that case, he said, "GDP per capita would be 8% higher in the long term and 3% higher in ten years."

Cavalcanti thinks the investment gap that is causing bottlenecks is itself partly caused by lack of effective long-term planning. "I have little illusion that the government will solve this problem with the PAC alone. We have to return to the path we were on a decade ago and speed up privatization and public-private partnerships [PPPs]," he said. Frischtak also argued that greater private sector involvement is crucial because the volume of investment needed transcends the fiscal constraints on the government. "In 2010, private companies invested 1% of GDP in infrastructure," he pointed out, while government investment accounted for 1.5%. "Ideally, we could reach the levels of Chile: private investment of 4.1% of GDP and government investment of 2.1%."

Frischtak pointed out, however, that to attract investment Brazil must remove



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Armando Castelar

obstacles, such as regulation uncertainties and distortions. He said the quality of regulation is low because of a "conceptual confusion" that thinks "regulatory agencies should make public policy." Helcio Tokeshi, director of the Estruturadora Brasileira de Projetos (EBP), a PPP of eight banks and the National Bank for Economic and Social Development, cited another problem: infrastructure decisions are often linked to the financing of political campaigns, which ignores the project studies that are essential for PPP projects. "We have to find a smarter and transparent way to finance political campaigns that leaves room for planning," he said. He also emphasized the importance of properly structuring the bidding on a project, citing a study that found that "In India, the costs of preparing the bidding represented 2% of project cost, but the deviations represented 24%; in the UK, the costs were higher for the bidding, 5%, but the result was far fewer deviations, representing 6% of the total cost."

Tokeshi pointed out that one of the obstacles to PPPs is the cost of capital, which he considers high. Castelar noted that PPPs use public resources more efficiently and argued for more appropriate mechanisms for capitalization: "Foreign companies would be interested in investing. However, the Brazilian capital market is still missing institutions. This should be part of broad strategic thinking for the infrastructure sector, but that does not yet exist."