Brazil P3 Market Snapshot

The Business Case for Brazil

A country of continental size –5th largest in the world-- Brazil's logistics infrastructure has long been identified as deficient and as one of the major factors limiting domestic integration, external competitiveness and the country's economy growth. Current infrastructure is not adequate to support income levels and foster regional integration, thus hurting Brazil's competitive position against rivals in its main export products, especially relative to advanced economies of the world. Less than 15 percent of the country's roads are paved (including municipal roads) and congestion is a concern. As such, it is no surprise that the infrastructure sector is considered a priority in implementing the current Brazilian government's economic expansion project, with the country adopting of an aggressive privatization/concession program.

Infrastructure Sector Highlights

The macroeconomic challenges, political instability, fiscal crisis, corruption investigations and pessimism among economic agents were not enough to reduce the market dynamics of public-private partnerships in Brazil. More than 80 contracts were signed since Federal Government introduced changes in the laws regulating P3 contracts in 2015, and the numbers are expected to increase with the implementation of municipal projects.

Of the total of 138 projects published in 2015/16, 106 were municipal (2 of inter-municipal consortia) and 32 are state led projects. At municipal level, public lighting (31 projects), sanitation (17 projects) and solid waste (16 projects) are the sectors with most projects.

In addition to the maturity of the portfolio of municipal projects, there is also an increase in the number of projects in the states that are considered as early adopters of P3 contracts, such as São Paulo, Piauí, Mato Grosso, Mato Grosso do Sul and Goiás.

Legal Framework

In Brazil, public-private partnerships are modalities of concession contracts. Law 11,079, dated 12/30/2004, regulates public-private partnerships in Brazil and incorporates various concepts and experiences of international practice, such as the remuneration of the private partner linked to performance, the objective division of risks and the guarantor fund. According to Brazilian laws, the main characteristics of P3s are the long term commitment (contracts of 5 to 35 years), minimum value of R $ 20 million, joint contracting of works and services to be provided by Private partner and the fiscal responsibility by the public power.

The law brings the possibility of combining the tariff remuneration with the disbursement of public payments and defines P3s as administrative contracts of concession, in the sponsored or administrative modality. In the sponsored concession, the remuneration of the private partner will involve, in addition to the tariff charged by the users, the pecuniary consideration of the public partner. The administrative concession, in turn, involves only public consideration, since it applies in cases in which there is no possibility of charging users' tariffs.

Main Opportunities

The Secretary of Partnership and Investments (PPI), has introduced new laws for concessions/privatizations, with investments linked to performance based triggers, clear rules for contract re-negotiation/extension and, most important, measures eliminating government interference in the operation, making new rounds of concessions/privatization more attractive. Furthermore, the dominance of top Brazilian companies has been greatly reduced, with most of the major local companies undergoing re-structuring due corruption investigations. New players, mostly mid-sized companies, are filling the void but with a limited financial capacity and, often times, limited technical capacity and experience for larger projects.

This combination of factors offers opportunities for Canadian companies in different sub-sectors and at various levels of the infrastructure value-chain. Some of the opportunities in the market include the privatization of airports, concession of rail lines linking grains producing regions in the center of Brazil to main ports in the northeast, road concessions, P3 projects for urban transit, water and solid waste treatment, urban lighting and social infrastructure.

The moment continues to be positive to enter the market as not only local suppliers are more flexible to negotiate terms in a weaker economy and foreigner companies have the advantage of a favourable exchange rate, but Canadian expertise and know-how are recognized as world-class and in demand.

Main Challenges

Brazil is the fifth-most populous country in the world with 207.8 million people (2015), and has a growing middle class and deficient infrastructure. Brazil is a thriving, underserved market. That said, high costs combined with a continental size market result in unprecedented capital requirements. One simply cannot consider Brazil as a test market.

Doing Business in Brazil

Overall, investing in Brazil requires patience, long term planning and careful guidance in order to navigate rules which may be very different domestically. Extra care is recommended with legal and financial due diligence to identify problems and assess their impact, prior to taking investment decisions. Lack of project finance continues to be an issue.

Brazil is committed to improve its infrastructure in various areas and is willing to see more Canadian companies developing those projects. The decision is yours!

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