Investment in infrastructure: kick-starting a return to economic growth in Brazil

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Authors

Ana Cândida de Mello Carvalho

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The Covid-19 pandemic has had a powerful impact on and the Brazilian and global economies: the world's population is facing one of the four worst recessions in the last 150 years, comparable only to the Great Depression in the US and to the post-war crises: in Brazil, the recession is expected to be the deepest in the last 120 years[1].

Pre-pandemic, Brazil needed average annual investment of 3% of its GDP in order to meet depreciation of its stock of infrastructure, but for decades investment has fallen short even of that goal.

The multiplying effect that investment infrastructure has on the economy and on productivity is undeniable, and there can be no doubt that one of the ways to restart economic growth will be to promote investment in the sector[2].

Given that Brazil's financial situation showed a deficit before the pandemic, partnerships between government and the private sector will be needed to make investment in infrastructure possible at the present juncture. Attracting investment at such a critical time depends on firm signals from the government that it will give appropriate treatment to existing contracts affected by the pandemic. In that respect, the opinion issued by the Office of the Federal Attorney-General, acknowledging that the pandemic is an event of force majeure for the purposes of revising the economic and financial balance of contracts with the government[3] was certainly a positive sign.

Another legacy of this period of crisis are debates over legal certainty: better contracts, more balanced risk matrices, and improvements in regulations. Some sector reforms have already been approved (basic sanitation and natural gas); other legislative changes are still under discussion, such as debentures, competitive contracting procedures and government contracts, and the general legislation on concessions.

As for future projects, the Special Secretariat for Investment Partnerships Program (SPPI) has been working since 2016[4] on creating a project pipeline and offering a medium- to long-term view to investors.

The government has been making efforts to keep the pipeline going and to minimize the pandemic's effects on timelines. The pipeline contains concessions for transportation services (airports, ports, highways, and railways), power (transmission and sale of new and existing power), telecommunications (5G), parks and forests, oil and gas, and mining. There are also privatization projects (ABGF – the Brazilian Securities and Guarantee Funds Management Agency, Emgea – the Federal Assets Management Company, Correios – the postal service, Telebrás – the federal telecommunications company, Dataprev – the federal agency responsible for managing the social security database, Nuclep

– the government-owned heavy equipment manufacturer, Casa da Moeda – the Brazilian mint, Codesa – the Espírito Santo Docks Company, Codesp – the São Paulo Docks Company, the Port of Itajaí, CBTU and Trensurb – urban rail transit companies, Ceagesp – the São Paulo warehouses and trading hub, and Ceasa Minas – the Minas Gerais produce distribution center, among others), along with projects that

involve federally-supported state or municipal initiatives, such as Line 2 of the metro in Belo Horizonte, the capital of Minas Gerais.

Brazil's development banks, BNDES and Caixa Econômica Federal, and multilateral banks have been important partners in structuring these projects.

The better government manages the impacts of the pandemic on current contracts, maintains the pipeline for new projects (and structures those projects appropriately), and implements the legal reforms that have been approved, the greater will be Brazil's capacity to attract private investment for infrastructure projects.

NOTES:

[1] Data extracted from the report Global Economic Prospects, published by the World Bank and available at: https://www.worldbank.org/en/publication/globaleconomic-prospects. Comments on the report can be found at: da-covid-19-na-economia.shtml>.

[2] See .

[3] Opinion (Parecer) CONJUR-MINFRA/CGU/AG no. 261/2020.

[4] Cf. Federal Law 13.334/2016, resulting from the conversion of Provisional Measure 727/2016 into ordinary legislation.

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Ana Cândida de Mello Carvalho