

## BRAZIL

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## Two-year balance of infrastructure in Brazil: new projects and their financing

This is the second of three articles on the legacy of the Temer years at Palácio do Planalto for infrastructure projects in Brazil and what challenges lie ahead for the Bolsonaro years. The first article focused on state owned enterprises (SOEs) – especially Petrobras and Eletrobras. The Temer government initiatives include better corporate governance and reduction of some of the dominance those two SOEs had in their markets via sales of assets. However, there are still open questions as the sale of assets are targeted with judicial decisions and political manoeuvres. This article will focus on the changes affecting the government when designing, approving and financing infrastructure projects.

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From its first days in office, the Temer administration faced several challenges – among them, economic recession. One of its most important measures to kickstart infrastructure projects again was a focus on solving government-created bottlenecks, which would encourage a better flow of projects to be developed by private companies. In this article, we will explore a few of the policy changes implemented that will likely outlive the presidential term ending in December 2018. In the next article we will look more closely at regulated sectors, and how the government is now closer to a solution to structural problems encountered in the power and logistics sectors.

The very first government legislative initiative was to create a structure dedicated to accelerating the pipeline of infrastructure

projects (PPI). The PPI, which reports directly to the presidential office, is not responsible for designing, licensing, financing or approving projects. Its goal is to follow up the development of projects within the various governmental bodies and ensure that these stick to schedule. After years of stalemate and delays in infrastructure projects, the PPI has directly taken part in the procurement/closing of 70 projects that are connected to BRL 142 billion (\$36.3 billion approximately) in investments and BRL 28 billion in signing bonuses.

Additionally, one of the most significant bottlenecks for projects is approval by the Court of Accounts, primarily when it comes to questioning engineering designs produced for public auctions, and not having a deadline for the approval or denial decision. The Court of Accounts is increasingly stringent when it comes to approving projects before procurement, and could take months discussing the premises of financial modelling and engineering design. To create a more predictable process, the Court of Accounts approved a fixed term of 180 days from the first filing of the documents to render a final decision.

On the financing side, during the Temer years, Brazil's development bank BNDES went from being the *de facto* only bank for long-term financing to a bank conscious of its systemic effects and costs to the federal budget. Different BNDES administrations followed in recent years and the outcome of the changes is still open to debate. But, while a conclusion is still pending, it is clear that the bank is taking a leading role in fostering capital market and private banks co-financing, and assisting state and municipal administrations in structuring privatisations and public-private partnerships. According to BNDES, its disbursements went from over BRL 150 billion in 2014 and 2015 to BRL 70 billion in 2017.

In order to fill the space left by BNDES, the government has promoted capital markets as a project financing tool, using infrastructure debentures (a project bond with tax incentives for the holders). Issuances of infrastructure debentures reflect this policy (as well as improvements in the economy as a whole): BRL 6.3 billion in 2015, BRL 4.5 billion in 2016, BRL 9.1 billion in 2017 and BRL 21.6 billion until October 2018, according to Brazilian Financial and Capital Markets Association,

Anbima). Although the debentures have increased their market share significantly, there is still room for improvement. Around 30% of every debenture issued is bought by underwriters with institutional investors only buying 30%. The government is adjusting regulation of investment funds to foster those specialised in infrastructure debentures, so that holders (that have significant tax benefits) can reduce their exposure to specific projects, and to allow for administrators to manage a portfolio.

Project finance in Brazil is finding new paths for investors and lenders. A country that was recently stalled in infrastructure finance has now improved procurement processes and financing instruments to meet its need of infrastructure investment of tens of billions of dollars per year.

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