

INFRASTRUCTURE

National Confederation of Industry
Brazil
CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY

INFRASTRUCTURE PRIVATIZATION: WHAT REMAINS TO BE DONE?

- *Improving infrastructure is essential for the competitiveness of Brazilian industry.*
- *Underinvestment in infrastructure is due to the State's low execution capacity and lack of funds associated with the current fiscal constraints.*
- *The path to investment growth requires greater private sector participation.*
- *For this purpose, promoting institutional improvements to reduce regulatory risks and ensure legal certainty to contracts is necessary.*

Brazil underinvests in infrastructure. Resources invested in infrastructure account on average for 2% of GDP a year, but they should account for at least 4,15% to actually overcome existing bottlenecks. For the infrastructure sector to be modernized, it is estimated that a two-decade effort is required. More investment, mobilization of public funds - and especially of private funds - are necessary. These investments should be accompanied by stronger project execution capacity.

Brazil's record of low-impact investment in infrastructure is directly associated with the State's limited execution capacity – in terms of planning, designing and selecting projects with the best cost-benefit ratio, contracting their execution, inspecting them and ensuring their integrity.

It is essential for the country to counteract the shortcomings of the State by promoting greater private sector participation. Public funding should be provided on a selective basis and targeted to projects with potential for greater gains in terms of well-being in areas such as sanitation and mobility.

The availability of a legal framework capable of ensuring legal certainty and a business environment that builds trust in the stability of the rules of the game are essential. Ensuring attractiveness to private agents and returns that covers investors' capital costs requires mitigating legal, contractual, regulatory, and business-related risks.

Regulatory risks in the country can be reduced by giving regulatory agencies decision-making and financial autonomy with the aim of reducing political interference. Because they are government agencies, it is essential that they have transparent rules and predictable conducts.

Private sector participation can be promoted in several ways: by selling state enterprises, transferring assets, granting full concessions, and promoting public-private partnerships, according to the specificities and "boundary conditions" of each infrastructure sector.

GENERAL SATISFACTION INDEX FOR BRAZILIAN AIRPORTS (1-5 SCALE)

PRIVATIZED AIRPORTS	1 ST Q 2013	2 ST Q 2017	Δ (%)
GUARULHOS	3.7	4.41	19.2
VIRACOPOS	3.8	4.90	28.9
BRASÍLIA	3.6	4.58	27.2
GALEÃO	3.5	4.34	24.0
CONFINS	3.5	4.47	27.8
AVERAGE OF THE FIVE AIRPORTS	3.62	4.54	25.4
GENERAL AVERAGE*	3.86	4.39	13.8

* Fifteen airports account for 80% of total passenger traffic in the country's airports.
Source: Prepared by CNI based on ANAC data.

Main recommendations

1 The decision-making and financial autonomy of regulatory agencies should be ensured by passing the Bill on Agencies currently under consideration in the House of Representatives.

2 Public enterprises that are not privatized should be adjusted to the provisions of the Law on State-Owned Enterprises by June 30, 2018.

3 The privatization process should be conducted with a sense of urgency and leadership, considering the best technical information available on privatized sectors and companies and on those to which concessions were granted.

4 The National Bank for Economic and Social Development (BNDES) should be given a mandate to expedite the privatization and concession process.

5 Port authorities should be privatized and auctions of new areas in organized ports should be expedited.

6 Airports managed by the Brazilian Airport Infrastructure Company (INFRAERO) should be auctioned in blocks that combine profitable projects with regional operations, which are typically loss-making. **The role to be played by INFRAERO after this process is completed should be redefined.**

7 The road concession program of the Federal Government should be preserved and implemented at a faster pace and stretches requiring only recovery and maintenance services should be transferred to private operators.

8 New investments in railways should be associated with early renewal of concessions with the guarantee of effective right of way and network sharing and **VALEC should be liquidated.**

9 The governance and management of urban mobility systems should be improved by investing more in them. CBTU and Trensurb should be liquidated.

10 Bill 9,463/2018 on the privatization of ELETROBRAS should be passed. Initially, priority should be given to the privatization of distribution companies and to their interests in special purpose companies.

11 The privatization of state sanitation companies should be expanded in coordination with the BNDES and based on dialogue with governors-elect. Regulatory guidelines for a national agency should be created and access to Union funds should be conditional on adjusting municipalities and states to the new regulatory model.

12 The process of privatizing telecommunications services should be completed with the privatization of TELEBRAS.

The full version of the document can be accessed through the QR code on the side or at: <http://www.cni.com.br/eleicoes2018/downloads/> This summary is part of the series Proposals of Industry for the 2018 Elections comprising 43 documents. The series, which is based on the *2018-2022 Strategy Map for Industry* is a CNI contribution to the new federal administration and presents analyses and proposals of priorities to increase Brazil's competitiveness. Any part of this publication may be copied, provided that the source is acknowledged. Brasília-DF, July 2018.

