

LARGE STALLED CONSTRUCTION PROJECTS: HOW CAN THIS PROBLEM BE DEALT WITH?

- *Investment in infrastructure in Brazil is insufficient and should not be wasted on stalled construction projects.*
- *Project interruptions are caused by failures of the public sector in hiring companies and implementing such projects.*
- *Projects worth completing should be assessed on a case-by-case basis, as well as those that should be reevaluated with the aim of minimizing losses.*
- *To reduce such interruptions, the planning and the capacity of the teams in charge of implementing the projects and their control systems must be improved.*

Brazil invests little in infrastructure and part of what it invests ends up stuck in stalled projects that consume precious funds without yielding benefits. Project interruptions are not a consequence of their complexity, but rather of basic shortcomings in how the public sector carries out its infrastructure projects. Data from the Ministry of Planning for 2,796 stalled projects point out the main factors that led to their interruption, as well as to the interruption of small infrastructure projects:

- **technical reasons;**
- **projects abandoned by companies; and**
- **budget/financial problems.**

Taking a close look at the cost of interrupting three large projects, one sees that these interruptions can be mainly blamed on lack of planning and of sound internal controls. This explains the discontinuity of funding, the poor quality of the engineering projects, the complicated execution of expropriations, difficulties to obtain environmental licenses, and repeated re-contracting. The costs resulting from failure to ensure the benefits expected from these projects and the cost of immobilizing scant funds amount to dozens of billions of reals.

The high cost of delays reinforces the urgency of deciding what to do with these projects. For this purpose, a methodology is proposed here to evaluate the extent to which it would be worthwhile to complete these projects. Applied to the projects studied here, the above-mentioned methodology leads to different results.

The most favorable case is that of the transposition of the São Francisco river, the completion of which is recommended: the benefits expected from the project are high and the cost for completing it is low. The completion of the West-East Integration Railway is also recommended, but for the time being only for the Caetité-Ilhéus section - and only if the project is completed by a private concessionaire. As for the Transnordestina Railway, it is recommended that the project be reevaluated, although it is advisable to postpone a final evaluation until analyses being carried out by the ANTT and a Working Group set up for this purpose are completed.

Despite the urgency of deciding what to do with stalled projects, steps must be taken to avoid interruptions and delays.

NUMBER OF STALLED PROJECTS ACCORDING TO THEIR DEGREE OF IMPLEMENTATION

	0-25%	>25%-50%	>50%-75%	>75%-100%	Total
Airports	5	2	6	3	16
Railroads	1	2	1	1	5
Waterways	1	3	1	0	5
Urban mobility	6	1	0	1	8
Ports	3	1	1	1	6
Highways	8	6	11	5	30
Sanitation	168	119	89	71	447
Total Infrastructure	192	134	109	82	517
Day-care centers, preschools and sports courts in schools	330	366	453	213	1362
UBSs (Basic Health Care Centers) and UPAs (Emergency Care Units)	23	39	35	59	156
Other projects	289	173	165	135	762
Grand Total	834	712	762	489	2797

Source: Ministry of Planning, Development and Management, 2017.

Main recommendations

1 Macro-planning, especially with multi-year sectoral plans exploring synergies and suggesting concrete approaches, should be improved.

2 The most appropriate implementation modality for the projects (public works, concession, etc.) should be assessed.

3 An efficient micro-planning should be carried out for engineering projects, schedules, budgets, funding sources, risk assessment and allocation, detailing and planning of expropriations, applications for environmental licenses, and coordination with other public agencies involved.

4 The teams in charge of the projects should be better equipped to implement them.

5 More balanced contracts should be designed.

6 Internal controls should be strengthened.

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