



## **CASE STUDY**

### **Brazil Water PPPs: Concession Risks Overview**

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## Summary

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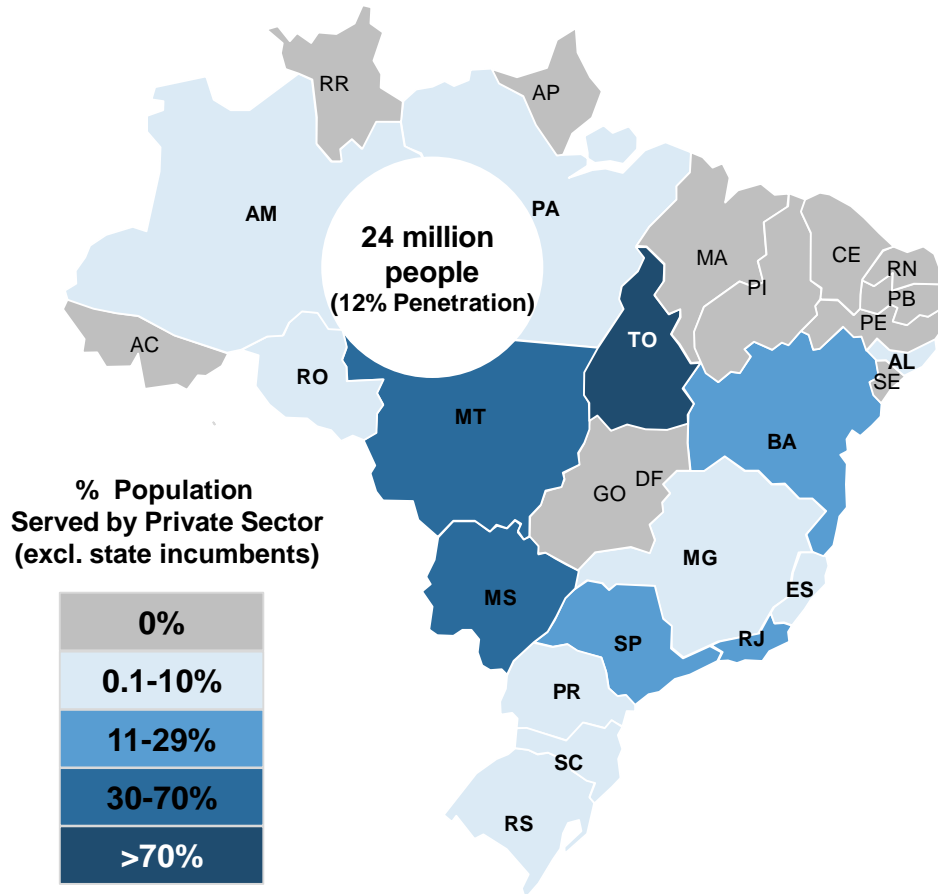
- **Larger markets like Brazil with significant water PPP experience require greater focus on municipal-level reform/monitoring.**
- **Contract challenges during the operational phase of concessions can be mitigated by up-front policy and planning. But legal disputes are part and parcel of water PPPs in many cases due to factors beyond the control of project planners.**
- **Aligning cost recovery objectives, tariff-setting mechanisms, and investment timelines are fundamental to operational success. This alignment is under constant pressure.**

# Private Investor Concerns – Brazil WSS Concessions

Aspect of Concession	Key Concerns
State-level concession experience	<ul style="list-style-type: none"> <li>Water demand (growth), legal framework and level of privatization by state</li> </ul>
Regulatory framework	<ul style="list-style-type: none"> <li>Federal vs. Municipal Regulatory Consistency</li> </ul>
Contract Re-negotiation	<ul style="list-style-type: none"> <li>Risk of unilateral changes to contract</li> </ul>
Collection rate	<ul style="list-style-type: none"> <li>Relative rate of uncollectibles</li> </ul>
Lending mechanisms	<ul style="list-style-type: none"> <li>Special national/regional credit lines for WSS</li> </ul>
Asset transfer contract start/end	<ul style="list-style-type: none"> <li>Transaction arrangements, residual value</li> </ul>
Tariff-setting and adjustment	<ul style="list-style-type: none"> <li>Tariff formula, calculation method</li> </ul>

# State-level Concession Experience

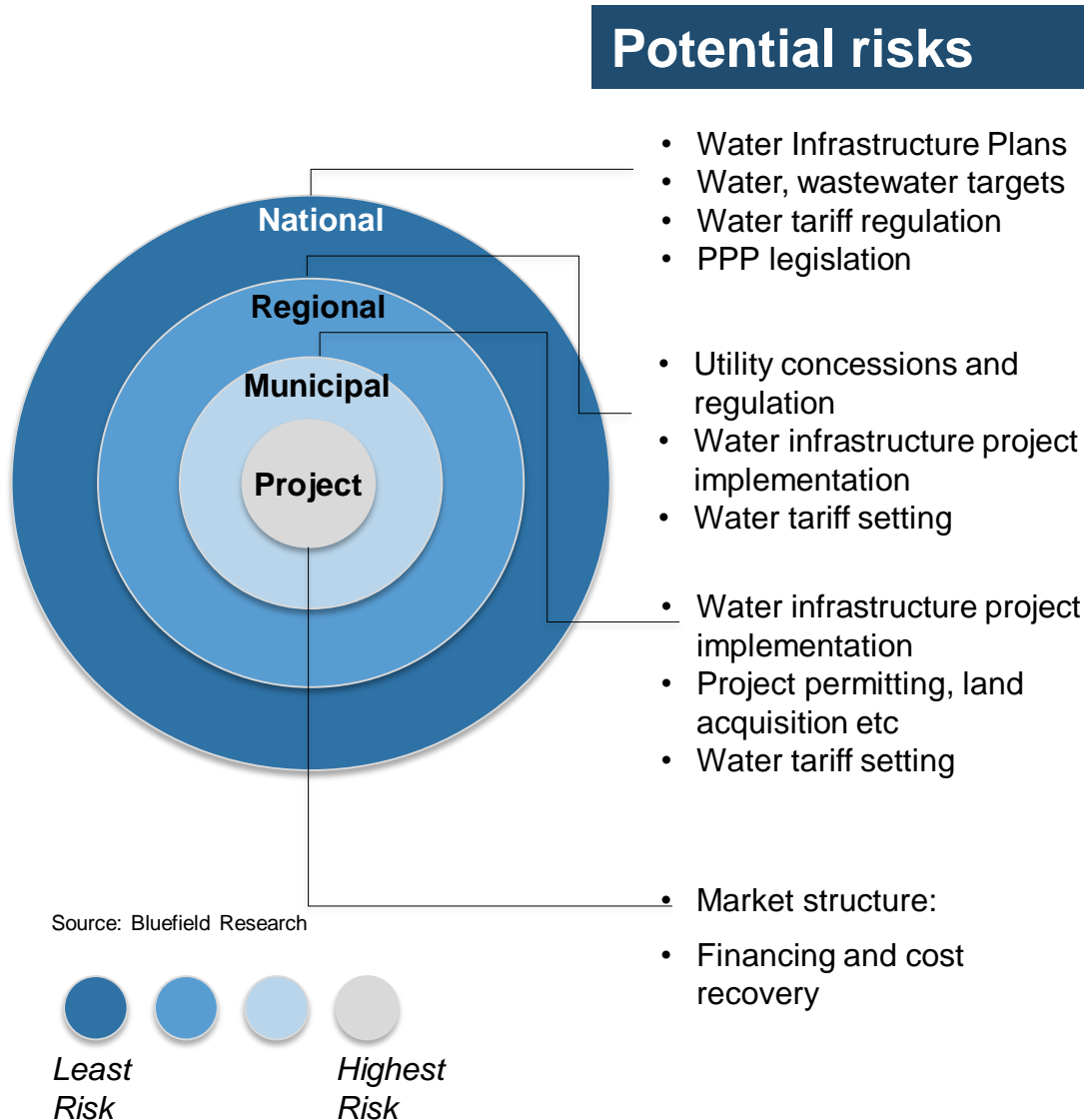
## Private Water Concessionaires by State



- **16 of Brazil's 27 states have introduced private participation outside of state utilities**
- **This represents less than 5% of total municipalities serving 12% of the population**
- **Concession opportunities have been concentrated in São Paulo, Rio de Janeiro, Bahía, Mato Grosso, Tocantins and Pernambuco**

Sources: Instituto Brasileiro de Geografia e Estatística, Associação Brasileira das Concessionárias, municipal concession holders, Bluefield Research.

# Regulatory Framework



## Potential risks

- Water Infrastructure Plans
- Water, wastewater targets
- Water tariff regulation
- PPP legislation
- Utility concessions and regulation
- Water infrastructure project implementation
- Water tariff setting
- Water infrastructure project implementation
- Project permitting, land acquisition etc
- Water tariff setting
- Market structure:
- Financing and cost recovery

## Policy Mitigators

### **General Federal Sanitation Law – 11.445/2007**

- Formalizes contracts between utilities and regional/local governments
- Requires investment upgrade plans
- Institutionalizes regulators, watchdogs that set performance requirements– including financial targets that enable cost recovery

### **Concession law – 8.987/1995**

- Provides legal framework for awarding concession licenses (competitive bidding, key clauses related to award conditions)

### **PPP Law – 11.079/2004**

- Defines structure of public-private partnerships
- Requires payment guarantees
- Sets concession period from 5–35 years

### **PLANSAB**

- Targets universal access to water supply and wastewater treatment by 2033
- Targets R\$208.5 billion total investments– around R\$12 billion invested in 2013.

### **Municipal Sanitation Plans**

- All municipalities required to submit 20-year plans by YE 2014

# Contract Re-Negotiation

Municipality	Year/ Duration	Segment(s)	Re-negotiation Issue
Cuiabá (MT)	2012 30 years	Water & Wastewater	Universal access target timeline
Guarulhos (SP)	2014 30 years	Wastewater	State vs. Municipal tender authorization
Pará de Minas (MG)	2015 30 years	Water & Wastewater	Tender process transparency

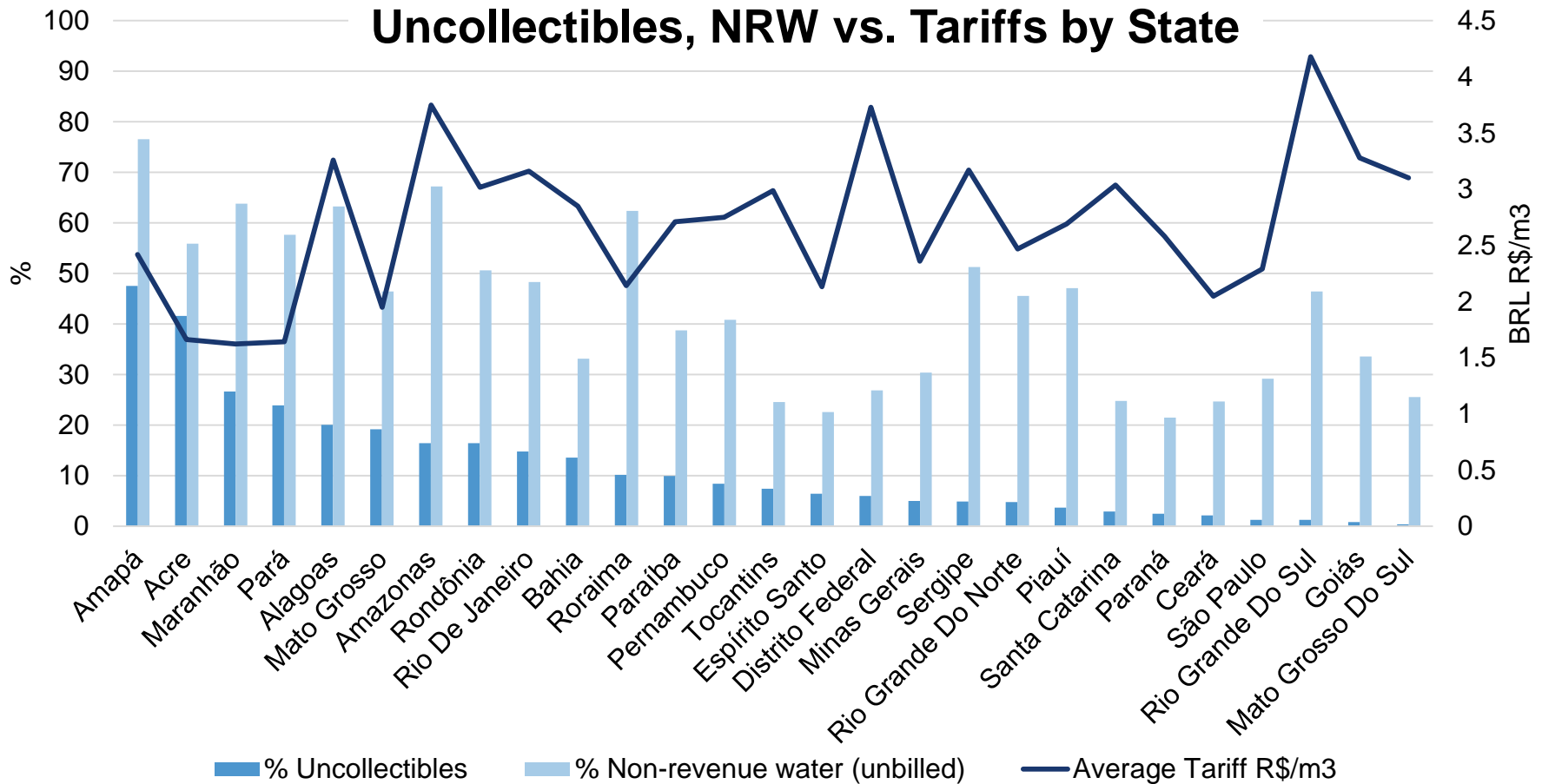
Source: Bluefield Research

## Future Considerations:

- **Deteriorating macroeconomic environment**
- **2016 – Municipal election year**
- **Delayed 20 year municipal sanitation plans (>60% no plan)**

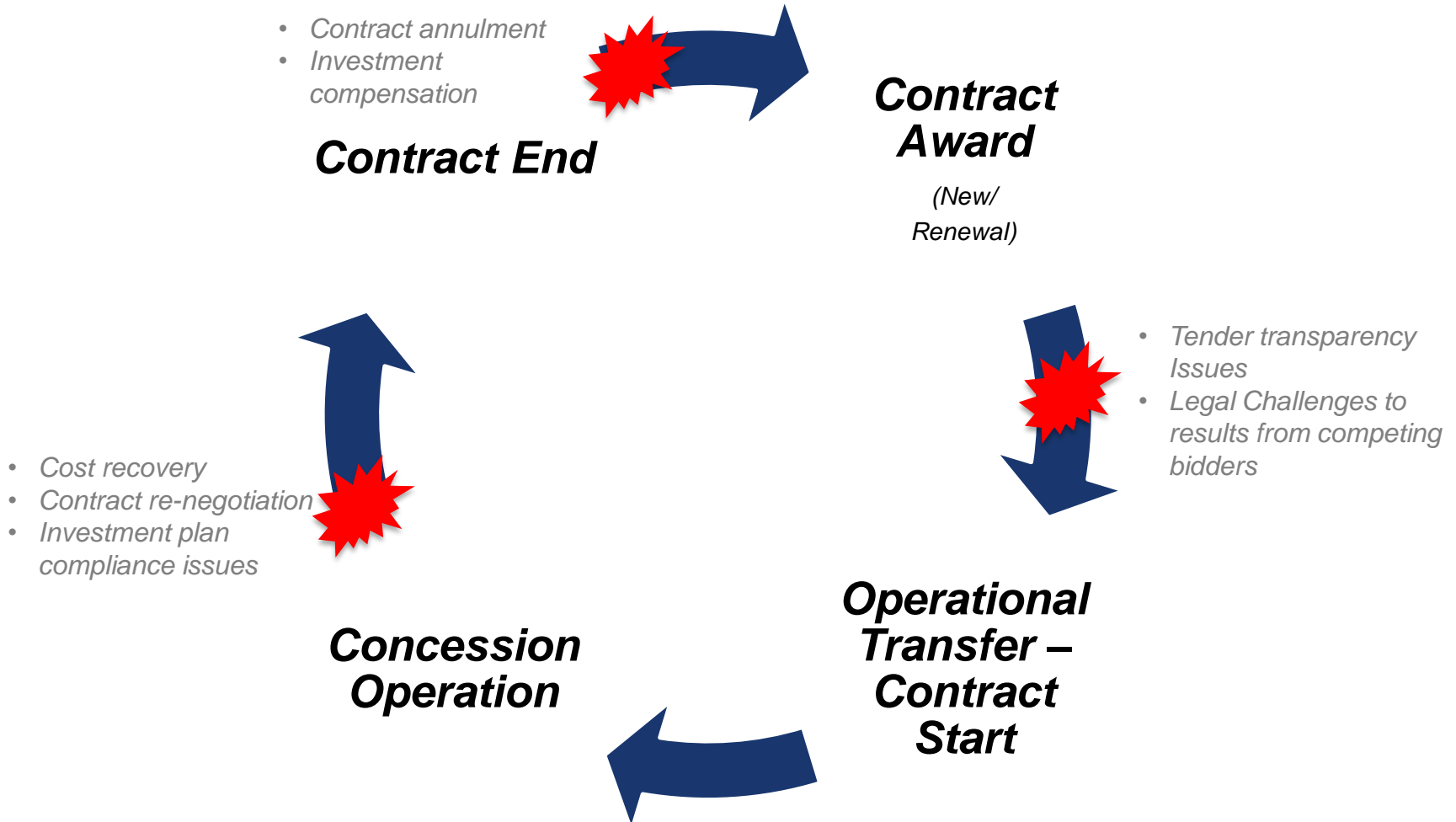
# Collection Rate

- High uncollectibles a symptom of high non-revenue water rate
- Wide variance by state
- Higher tariffs not necessarily correlated to state affluence



Source: SNIS 2015.

# Contract Lifecycle Summary / Key Risks







Global companies across the value chain are developing strategies to capitalize on greenfield opportunities in water -- new build, new business models, and private investment. Bluefield Research supports a growing roster of companies across key technology segments and industry verticals addressing risks and opportunities in the new water landscape.

Companies are turning to Bluefield for in-depth, actionable intelligence into the water sector and the sector's impacts on key industries. The insights draw on primary research from the water, energy, power, mining, agriculture, financial sectors and their respective supply chains.

Bluefield works with key decision-makers at utilities, project development companies, independent water and power providers, EPC companies, technology suppliers, manufacturers, and investment firms, giving them tools to define and execute strategies.

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