

The new BNDES, a one-stop-shop

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Brazilian development bank BNDES has been trying to reposition itself over the last 12 months, the timeframe of its new administration. Traditionally seen as a major competitor by commercial national and international debt providers, the institution is making an effort to be more than just a lender. It aims to become a one-stop-shop for developing Brazil's infrastructure, a sector seen as critical for economic recovery as it emerges from the Covid-19 pandemic.

Leading the infrastructure sector are sanitation projects, including the largest concession ever made in the country. The flagship project structured by BNDES is the privatization of water and sewage distribution services in the metropolitan region of Rio de Janeiro, currently run by state-owned Cedae. The project, which will be split into 4 assets, will be auctioned in December (2020).

This is just one example of how the development bank plans to ramp up its role.

At the center of this new concept is the steep increase in project origination and structuring, something that the bank was not used to doing at large-scale. For that, the bank works closely with federal, state and city governments that are looking into structuring concessions, PPPs or privatizations.

The next step after origination and structuring are the auctions. BNDES helps governments on the procurement process itself and afterwards, even providing legal advice in case of any litigation.

Only after all of that comes the traditional role as a lender, where the bank remains active. However, BNDES's leadership aims to change this function by acting more like other DFIs that focus on attracting other sources of financing to the country instead of being the sole lenders on large projects... something BNDES has been criticized for over the years.

Transition

The bank's new administration was spearheaded with the appointment last June (2019) of the president Gustavo Montezano [by the Ministry of Economy](#). Fábio Abrahão, managing director of infrastructure, concessions and PPPs at BNDES, joined shortly after having been working as special adviser to the minister of Economy.

Abrahão spoke with *IJGlobal* about the bank's expanded role in Brazil's infrastructure development, in which sanitation is seen as a key sector.

From a strategic point of view, the bank splits its projects between logistics, which includes toll roads and ports; social infrastructure, comprising mostly sanitation projects but also smaller designs to be replicated such as day-care centers and prisons; and environmental assets.

Projects portfolio

The new profile of the bank has already started to translate into numbers. BNDES used to publicize how much it had committed as lender, whereas now it emphasizes the amount of investments will be required for the projects it is

currently structuring – even though the bank is not necessarily the one that will finance them.

BNDES's infrastructure portfolio has a requirement of around of \$50 billion of investment, out of which some \$10 billion is in the sanitation sector – the primary means of attracting investments into the country in the medium-term, after recent approval of the [new regulatory framework](#).

The bank is currently structuring 9 public lighting projects, 8 sanitation concessions and PPPs, 7 highways, 2 ports and 7 projects from other sectors. Most are expected to be procured in the next 2.5 years.

For toll roads, for example, the development institution is structuring the concession of around 20,000km, which will almost double the assets awarded to the private sector. Brazil currently has around 23,000km under private concession.

On the lending side, however, BNDES reached the peak of its credit operations in December 2015, when Brazil was heading to the bottom of its largest economic crisis. Since then, the credit portfolio passed from almost R700.1 billion to R458 billion in March 2020, a reduction of 34.5%.

Sanitation

“In our modeling for sanitation projects, no one is left behind. All municipalities are included,” says Abrahão, referring to the structure chosen for awarding sanitation projects. BNDES will bundle cities together, where larger and richer ones will be paired with smaller / poorer localities. This is to avoid less attractive regions failing to attract bidders and to ensure the projects will be financially sustainable.

However, the key to financial health, according to the director, is the increase in efficiency in services provided. In water distribution, for example, the average losses in Brazil are around 40% due to theft of water, leaks, lack of charges and overall operational inefficiency. With 40% as an average, it means that some locations had losses reaching up to 70%. “Imagine if a vehicle manufacturing group separated 40% of its production and threw it in the trash,” he compared.

“There is a level of efficiency to be extracted from these projects that is enormous. This is the answer [to the financial stability]. Once you increase efficiency, a lot of counts that did not add up begin to add up,” the managing director told *IJGlobal*.

BNDES currently has 8 sanitation projects being structured. The projects are:

| Location | Alagoas | Cariacica (ES) | Rio de Janeiro | Acre | Amapa | Rio Grande do Sul | Porto Alegre (RS) | Ceara |
|------------------------------|---------------------------------------------|----------------|---------------------------------------------|-----------------------------|-----------------------------|-------------------|--------------------------------|------------|
| Business model | Concession of water and sewage distribution | Sewage PPP | Concession of water and sewage distribution | Water and sewage concession | Water and sewage concession | Sewage PPP | Water and/or sewage concession | Sewage PPP |
| Population (millions) | 1,4 | 0.4 | 13.7 | 0.6 | 0.7 | 1.9 | 1.5 | 4.1 |
| Capex (\$m) | 1,097 | 111 | 6,252 | 255 | 801 | 289 | 192 | 1,540 |
| Auction | Q3 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q1 2021 | Q2 2021 | Q2 2021 | Q3 2021 |

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