



Public-Private Partnership Stories

Brazil: Bahia Federal Highways



IFC and BNDES, the Brazilian development bank, served as lead advisors to the Brazilian Ministry of Planning and the National Transport Agency (ANTT) for an innovative concession to expand, rehabilitate, operate, and maintain 667 km of federal roads in the state of Bahia in northeast Brazil. The concession was signed in October 2009.

The project was awarded to the Rodobahia consortium, a partnership of Spain's Isolux Corsan and Brazil's Engevix and Encalco. The 25-year concession will improve a 554km section of BR116 that runs from Bahia's border with the Minas Gerais state in the south to BR324, and a 113km section of BR324 that connects BR116 at its intersection in Feira de Santana to Salvador and the Port of Aratu. In addition, the project will rehabilitate sections of two state roads, BA526 and BA528, which provide access to Aratu. The project is expected to generate an estimated \$615 million in investments.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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This is the first joint IFC—BNDES project under a cooperation agreement signed in 2005. The partnership with BNDES enables IFC to leverage local expertise in infrastructure project financing.



BACKGROUND

Since the 1980s, Brazil has seen a decline in the level of public investments in infrastructure, resulting in a significant deterioration of public assets. The Brazilian government recognized that modern, well-maintained roads are key to sustained economic growth and made a commitment to accelerate the development of infrastructure to improve the country's competitiveness. Annually, over 1.2 billion people travel on Brazil's highways.

In the road sector, this led to the launching of two concession programs by ANTT. The BR116/BR324 concession introduces a new contractual structure that is expected to become a model for future federal and state road transactions.

The project is also the first road concession developed by the federal government in the Northeast region, Brazil's poorest area. Both roads are heavily traveled—on average, 20,000 vehicles a day travel on BR324 and 5,000 a day on BR116. In 2009, more than 100 people died in accidents on the roads.

IFC'S ROLE

Initially, the government engaged IFC and BNDES to work with the Ministry of Planning to structure and implement the project as a public-private partnership. As market conditions in Brazil improved and international and national companies expressed strong interest in competing, the project was structured as a pure concession financed by toll revenues.

IFC's mandate included carrying out technical, legal, environmental, and financial due diligence for the project; analyzing its financial feasibility; recommending an appropriate structure; preparing bidding documents; and identifying potential investors and operators.

TRANSACTION STRUCTURE

The transaction structure consisted of a 25-year concession to expand, rehabilitate, maintain, and operate a sections of BR116 and BR324, with financing from revenues collected from seven new toll stations (five on BR116 and two on BR324). The project was structured as a performance-based contract with the concessionaire responsible for meeting various road-condition and operational performance standards at different stages of the project. This approach favors users whose main interests are safety, comfort, reduced travel time, and lower vehicle operating costs.

The auction model developed for this project was used by the government to auction seven other federal road concessions. The model's bidding process promoted international participation in Brazilian road concessions, resulting in strong international interest.

BIDDING

Two bidders were prequalified and Rodobahia consortium, a partnership of Spain's Isolux Corsan and Brazil's Engevix and Encalco, won the 25-year concession.

The Rodobahia consortium requested a toll rate of R\$2.21 (\$1.24) for a two-axis vehicle, 21 percent lower than the maximum asking price of R\$2.80 (\$1.57).

Toll collections will begin after the concessionaire makes the initial priority rehabilitation investments and will be indexed annually for inflation. Certain sections of the roads will be expanded to two lanes if specific traffic thresholds are reached.

The concession will benefit thousands of people who use the roads for long distance travel as well as for local commutes to jobs, schools, hospitals, and other services.

The project will also improve access to the Port of Aratu and contribute to greater social, economic, and regional cohesion by integrating the northeast and southern regions.

EXPECTED POST-TENDER RESULTS

- Increased economic resilience and broader development throughout the region, including expanded trade.
- Reliable access to long distance traffic markets, hospitals, schools, and other services.
- New links between geographically isolated areas, resulting in stronger regional cohesion.
- An estimated \$615 million in investments to significantly improve road conditions in the state.
- Improved road safety as a result of better traffic signals, reconstructed side lanes, and other safety measures.
- Performance-based concession model for future federal and state road transactions.

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