



Public-Private Partnership Stories

Brazil: BA-093 Highway System



On August 17, 2010, the Bahia Norte consortium, winner of the bid for the concession of the BA-093 interstate highway system, signed a contract with the Bahia State Government in Brazil to start road construction. The concession, the first to be structured for an entire highway system, will offer an integrated, efficient, and well-coordinated solution to the transportation problems of the state, increasing the productivity of its industry and attracting new players to Bahia's industrial centers, which include one of the main petrochemical hubs in South America.

Nine local and international players participated in the auction of the highway system concession contract, the most competitive one in Brazil since 2007. The Bahia Norte consortium, composed of Invepar (a subsidiary of OAS Construtora) and Odebrecht, won the bid with a tariff of R\$2.32 per axle, a discount of 31 percent from the base price of R\$3.35. Expected capital expenditures for the project are R\$805 million for the repair, rehabilitation, and expansion of the road network. The project will also mobilize R\$800 million in operational costs over 25 years, as well as create a significant number of jobs.

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

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The Brazilian Private-Sector Participation (PSP) Program—a partnership of IFC, the Brazilian Development Bank (BNDES), and the Inter-American Development Bank (IDB)—was lead advisor to the government of the State of Bahia for the structuring of the project.



BACKGROUND

Constructed in the 1950s, the BA-093 interstate highway system was in a severe state of disrepair, as it had never been properly maintained or rehabilitated since it was built. Several of the roads had large potholes, forcing drivers to lower their speed or even drive in the opposite lane, resulting in significant increases in accidents and theft. The sad state of the network was also having a severe negative impact on tourism and the local economy—30 to 40 percent of exports had to be rerouted to ports out-of-state. Moreover, parts of the system registered 170 accidents in just the first six months of 2010.

The BA-093 system is located in the state of Bahia, in Northeast Brazil, and is composed of a series of roads (BA-093, BA-512, BA-521, BA-524, BA-526, and BA-535) stretching over 126 kilometers. The system connects the entire metropolitan region of Salvador, the capital of the state of Bahia, with the main logistical and industrial hubs of the state, including the airport, the port of Aratu, and three key industrial hubs. In 2010, 60,000 vehicles used these roads each day. The area served by this system includes 17 municipalities, which together account for 56 percent of the gross domestic product (GDP) of the State of Bahia as well as 74 percent of the taxes collected on products.

IFC'S ROLE

In May 2008, the government of Bahia hired the Brazilian PSP Program to structure a concession for the operation, rehabilitation, maintenance, and expansion of the BA-093 interstate highway system. The team advised on the structuring of the concession—including the engineering, environmental, social, and viability studies—as well as developed the financial model and drafted the tender documents and concession contract. The team also advised the government on the bidding, auction, and signing of the concession contract.

TRANSACTION STRUCTURE

The project was structured as a concession, transferring the investment responsibility for rehabilitation, maintenance, and expansion of the road network to the private partner for a period of 25 years. The road network, to be operated by the winning consortium, comprises 126 kilometers of roads and will include five urban tolls.

This is also the first concession for an entire highway system, as most concessions are granted for specific road segments (point-to-point).

BIDDING

In April 2010, the bidding for the BA-093 system took place at the headquarters of BM&F Bovespa—the only securities,

commodities, and futures exchange in Brazil. This guaranteed a high level of transparency and competition for the transaction. The bidding was highly competitive, and nine bidders, including both local and international players, participated in the auction. The Bahia Norte consortium, composed of Invepar (a subsidiary of OAS Construtora) and Odebrecht, won the bid with a tariff of R\$2.32 per axle, a discount of 31 percent over the base price of R\$3.35.

The project is expected to mobilize R\$805 million in private investments. Operational costs are expected to amount to approximately R\$800 million throughout the concession period. The winning consortium pledged to undertake emergency repairs and rehabilitation of the highways within the first six months of the concession and to expand capacity after the third year. The expansion and rehabilitation of the system will be completed by 2020.

EXPECTED POST-TENDER RESULTS

- First highway concession involving urban tolls, an innovative approach with a high demonstration effect for other states in Brazil.
- The concession will substantially improve road conditions, reduce accidents and enhance security.
- The project will mobilize R\$805 million in private investments, which will create a significant number of local jobs.
- This transaction was the first road concession in the country to adhere to the Equator Principles, which guarantees that the project will be developed in an environmentally and socially sustainable manner.
- Emergency recovery work on BA-093, BA-535, BA-526, BA-512, BA-521 and BA-524, started immediately after the signing of the concession.
- A total of R\$ 1.7 billion is expected to be invested in the concession.

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