

## **Report: New Legal Framework for Water and Sanitation Approved in Brazil, Creating Opportunities for Canadian Investors**

**Summary:** President Jair Bolsonaro has sanctioned the much awaited new legal framework for Brazil's water and sanitation sector, further opening up the water and sanitation sector to private investment, traditionally controlled by state-owned companies. This development makes the universalization of water and sanitation services, for the first time, a seemingly achievable goal. A recent Invest in Brazil Infrastructure event highlighted the investment opportunities in the water and sanitation sector in the upcoming months and years, including concessions and sub-national PPPs. However, the federal government's focus on COVID and recent departures from the Economy Ministry may delay these infrastructure plans. Still, opportunities remain on the horizon for investors, engineering and infrastructure companies, municipal landfill closure and waste-to-energy solutions, and cleantech solutions for water and sanitation. Canadian investments in this sector are significant and Canadian portfolio investors have shown they are open to growing their presence in this sector, which should be facilitated by the new regulatory framework. An example worth noting is Brookfield-owned BRK's initiative in the Recife Metropolitan Region, planned to bring sanitation services to over 4 million people, the largest PPP in Brazil supported by the Inter-American Development Bank and other important partners.

**Report:** President Jair Bolsonaro sanctioned the much awaited new legal framework for Brazil's water and sanitation sector in July 2020. The new framework further opens up the water and sanitation sector to private investment, traditionally controlled by state-owned companies. The lack of competition and investment in the sector has held the country back from advancing their goal of universal coverage for water and sewage treatment.

Currently, around 83% of Brazilians have access to potable water, leaving 35 million without this service – a population close to that of Canada. Sewage collection and treatment is more severely lacking, with 53% of the population with access to sewage collection, leaving 100 million without this service. Of the sewage collected, only 46% is treated. The federal government's goal is to guarantee that 99% of the population has access to potable water and 90% to sewage collection and treatment by 2033.

### **Invest in Brazil Infrastructure Event - Water and Sanitation Highlights**

APEX-Brasil, the Brazilian Trade and Investment Promotion Agency, organized a high-level 3-hour virtual event, Invest in Brasil Infrastructure, on July 28, 2020. The event featured the participation of three Ministers – Minister of Foreign Affairs Ernesto Araújo, Minister of Infrastructure Tarcísio Freitas, and Minister of Regional Development Rogério Marinho – all of whom emphasized Brazil's stable and secure investment environment even during the COVID-induced recession and their welcoming of foreign investment to bolster a post-COVID recovery.

The event also featured the Special Secretary of the Investment Partnership Program (PPI) in the Ministry of the Economy) Marta Seiller, who emphasized Brazil's trajectory towards a more business-friendly environment with an ambitious reform agenda underway, notably targeting the pension system, infrastructure modernization, tax system and public service reform. The Secretary highlighted the importance of the new water and sanitation legal framework in opening the doors to private investment, making the universalization of water and sanitation services a challenging, yet, for the first time, seemingly achievable goal.

Brazil's National Economic and Social Development Bank (BNDES) is responsible for structuring a series of water and sanitation projects with the PPI. During the virtual event, Cleverson Aroeira, head of the Project Structuring Division at BNDES, highlighted two concessions for water distribution and sewage treatment to be auctioned by the end of this year in the states of Alagoas and Rio de Janeiro.

### **Water and Sanitation Projects for Auction in Q3 and Q4 of 2020**

The dates projected below are according to PPI and BNDES, but are subject to change as the federal government's primary focus is the COVID-19 crisis.

#### **State of Alagoas (northeast Brazil):**

Type	Water supply and sewage concession
Auction Date	September 30, 2020
Term	35 years
Population	13 municipalities in the region surrounding the capital, Maceió, serving 1.4 million people, 42% of the state's population
Goals	Bring water coverage from 86% to 99% of the population in six years and sewage treatment from 18% to 90% within 16 years
Expected Investment	Total expected investment is around US\$500 million, with US\$270 million by the fifth year

#### **City of Cariacica, state of Espírito Santo (southeast Brazil):**

Type	Sewage PPP
Date	Q3 2020
Term	30 years
Population	1 municipality, serving 423,000 people, 10% of the state's population
Goals	Bring sewage collection from 35.5% to 95% of the population and sewage treatment from 84.3% to 100% within 10 years
Expected Investment	Total expected investment is around US\$133 million

#### **State of Rio de Janeiro (southeast Brazil):**

Type	Water supply and sewage concession
Auction Date	Q4 2020
Term	35 years
Population	64 municipalities, serving 13.7 million people, 85% of the state's population
Goals	Bring water coverage from 87% to 99% of the population in 14 years and sewage treatment from 44% to 90% within 15-20 years
Expected Investment	Total expected investment is around US\$6.5 billion, with US\$2.3 billion by the fifth year

The new legal framework also includes solid waste treatment under the umbrella of sanitation. Brazil has over 3,000 landfills (unlined, open dumpsites) that will be required to close over the next four years. Brazil is interested in generating energy from waste-to-energy solutions. Two solid waste PPPs are scheduled for auction by the end of 2020 in the states of Piauí and Minas Gerais.

## Pipeline for 2021

The following subnational projects have been identified by Brazil's Investment Partnership Program (PPI):

- Two concessions for urban solid waste (states of São Paulo and Ceará)
- One concession for urban solid waste, water and sewage services (state of Goiás)
- Three concessions for water and sewage services (states of Acre, Amapá and Rio Grande do Sul)
- Four concessions for sewage services (states of Rio de Janeiro, Rio Grande do Sul and 2 in Ceará)

Water and sanitation projects planned for auction with BNDES in 2020-2021 will require a total projected investment of US\$12.2 billion, benefitting an estimated 36 million people by the end of the projects.

The following link can be used to download the Investment Partnership Program slide deck (in English) for detailed information on upcoming projects:

[https://www.ppi.gov.br/html/objects/\\_downloadblob.php?cod\\_blob=8009](https://www.ppi.gov.br/html/objects/_downloadblob.php?cod_blob=8009)

## Environmental and Social Impacts of Investments in Brazil

International Financial Institutions play an important role in partnering with Canadian companies to structure investments and projects, including in this sector. The Inter-American Development Bank and IDB Invest, its private sector arm, have a strong presence in Brazil, as do the International Finance Corporation and World Bank. Local institutions such as BNDES and Caixa Econômica Federal, a federal bank linked to the Economy Ministry, are also strong local partners with a keen interest in structuring projects with significant and quantifiable environmental and social impacts.

Private sector portfolio investors have a growing interest for sanitation projects given their environmental, social and governance commitments and the quickly rising pressures from their own investors and boards to push for more impact investment that is ethical and sustainable. Canadian investments in this sector are significant and Canadian portfolio investors have shown they are open to growing such investments, which should be facilitated by the new regulatory framework.

In 2018, Alberta Investment Management Corporation (AIMCo) became a minority shareholder of one of the newest private sanitation companies, Iguá Saneamento. Iguá is present in 37 municipalities in five states, bringing basic sanitation services to 6 million people and has a strong commitment to sustainability. For the first time in the sanitation sector in Brazil, Iguá has recently issued US\$157 million worth of sustainable bonds (green and social), guaranteeing investments to expand water and sewage infrastructure, reduce pollution and water losses, and positively impact the population's health.

Another example worth noting is Brookfield-owned BRK Ambiental, Brazil's largest private sanitation company. BRK formed the largest PPP in Brazil by partnering with public sanitation company Compesa to bring improved sanitation services to the Recife Metropolitan Region in Brazil's northeast, an area of high economic vulnerability. The US\$1.7 billion project will benefit over 4 million people, and was supported by financing from IDB Invest, Caixa Econômica Federal and regional development bank, Banco do Nordeste. In addition to reaching 90 percent sanitation service coverage by 2037, the project is expected to create over 1,000 jobs, 20 percent to be destined to women. A component of this project also pursues the objective of integration of refugees and displaced individuals, another important social objective that aligns with Canadian priorities.

## Political Scenario

With the federal government's focus on COVID-19, the projected dates for these public auctions could be delayed. The PPI only recently obtained authorization to conduct virtual public consultations, after a period in which projects were halted. In addition to this, the Economy Ministry, led by Paulo Guedes, has recently seen the departure of two secretaries, including the secretary in charge of privatizations. Minister Guedes is considering making changes to the PPI, maybe even merging it with the Privatizations secretariat.

COVID-19 and the current power dynamics in Brasília are leading to privatizations being put on the back burner while tax reform becomes the protagonist. Minister Guedes believes tax reform will be indispensable in kickstarting the post-pandemic economy.

## Opportunities

These major projects present immediate opportunities for Canadian investors, engineering and infrastructure companies for water and sanitation infrastructure and services in Brazil.

There are immediate and medium-term opportunities for Canadian companies offering solutions for landfill closure and municipal-scale waste-to-energy solutions.

There are ongoing opportunities for Canadian cleantech companies of all sizes offering technologies and solutions for the water/wastewater sector as public and private companies prepare for expansion in this sector.

## Upcoming events

**September 17, 2020** – TCS Webinar on Opportunities for Canadian Cleantech Companies in Water/Wastewater Sector in Brazil

**September 18, 2020** – Brazil-Canada Investment Forum: Opportunities in the Brazilian Sanitation Sector, organized by TCS with Brazil-Canada Chamber of Commerce, APEX-Brasil and The Brazilian Association for Infrastructure and Base Industry (ABDIB)

**November 9-10, 2020** (tentative) – Brazil Investment Forum will occur physically in São Paulo, with an option to attend virtually

**November 16-19, 2020** – TCS Brazil Virtual Water/Wastewater Trade Mission for Canadian Cleantech Companies

Please consult TC for more details on events.

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