

The government auditing of infrastructure in Brazil

The importance of infrastructure as a driving force for the development of a country is a fact publicly known. Any nation wishing to grow sustainably, to ensure access to basic services to its population, and to rise in competitiveness in globalized markets cannot lose sight of how crucial infrastructure is to enable its economy to expand.

The lack of good roads, for example, does not only hamper the movement of people from one place to another, but also leads to an increase in costs of transportation of goods, hinders the access of consumers to products, and renders impossible for regions to invest in the development of their natural economic activities (agriculture, industry, tourism, services, etc.). As a result, as there are no means for people and goods to be transported efficiently, the whole economy loses competitiveness and quality. For the same reason, already in the 1920s, the then-president of Brazil, Washington Luís (1926-1930), came up with the slogan “to govern is to build roads”, to stress the importance of infrastructure for the development of economy.

Obviously, the term “infrastructure” should not be exclusively associated with roads. Water power plants and transmission lines increase the offer of electric power in the country, enabling sectors of industrial production to enhance their activities. Irrigation systems promote the expansion of agriculture into areas previously deemed as unproductive. Efficient railroads and ports allow for mass transportation of goods, and reduce export costs, with gains for national companies and increase of job offer in the country. Modern airports, doors to foreign eyes, attract tourists and investors, increasing the flow of foreign capital into local economy. Efficient and accessible communication networks enable small businesses to develop at low operational costs, allow for research on new raw materials and suppliers, enhance conditions for sale negotiations, and expand the horizon of entrepreneurs.

Besides all benefits related to economic development, investments in infrastructure also play an important role in the offer of public services, in poverty reduction, and in the betterment of life quality of the population. Besides the direct effect of creating job posts and higher salaries because of business growth, policies on urban mobility and universal digital services drive up the level of access to education for the low-income population; the installation of water supply and sewage networks improve health conditions and reduce the proliferation of endemic diseases, especially in highly populated regions; the building of schools, day care centers, health care centers and hospitals enables those most needed to access services that are basic and essential to any citizen.

Although past efforts for establishing a sustainable economic model, the clearly visible infrastructure gaps in our country have served as a proof that there is no sustainable growth without

an infrastructure system that is well-planned, well-functioning and in constant conservation. Both in the category of social infrastructures (sanitation, education, health, housing, etc.) and in the so-called economic infrastructures (transportation, energy, communications, etc.), Brazil still has an immense liability that is reflected on the ill-fated “Brazil cost”.

For public investments in infrastructure to fulfill their complete beneficial potential on the population, it is vital the government be able to plan and monitor investments. It is equally vital that the government have competent institutions to efficiently oversee the quality and legitimacy of such investments. In a scenario of strong economic downturn, with frequent reports of tax adjustments, falling job offer, restriction of public policies and pullback of government spending, it is important to reflect on the envisaged strategies for national infrastructure. The reason for that is that all advantages stemming from good investments in infrastructure may wither completely if planning is badly devised, if costs are overpriced, if constructions are of poor quality, and if a cycle of regular maintenance is not implemented.

Going against that understanding, unfortunately in Brazil when we talk about infrastructure, the picture that naturally comes to mind is of overpriced constructions, unfinished undertakings, misappropriation of public funds all over and the offer of inefficient and low-quality structures to users. According to the National Institute for Corporate Recovery, currently there are around 5.2 thousand halted constructions. The much-heralded Growth Acceleration Program (PAC) by the federal government recorded the building of over 60,000 undertakings between 2007 and 2015; according to the NGO Contas Abertas [Open Budgets], only 37% of the undertakings were finished, other 34% are delayed, and the remaining others are yet to be started. Of all constructions for urban mobility promised for the 2014 FIFA World Cup, to this day, less than 30% of the improvements in the host cities have been delivered to the population.

Those figures clearly show the way Brazil relates to its infrastructure is the real Brazilian tragedy: badly allocated and high public spending, halted and low-quality works; lack of access for the population to basic services, and uninterrupted historical deficits between offer and demand for infrastructure, which hamper growth. As if that were not enough, the plots unveiled by the Car Wash Operation proved it was precisely the investments in the segments of infrastructure the ones responsible for feeding the misappropriation and corruption scheme.

Pursuant to its constitutional mission of ensuring good and proper management of federal public funding, the Federal Court of Accounts (TCU) has devoted special attention to monitoring government actions and policies in the area of infrastructure. Overtime, TCU has specialized in assessing the correct application of public resources in public works (direct federal investments) and in privatizations and granting of services and economic activities by the government (procurements in the areas of transportation, electric power, oil and natural gas, communications, etc.).

Regarding public works, the oversight of undertakings with full or partial participation by the Federal Government is performed within an annual audit plan named Fiscobras, started in 1997, and which has overtime made a considerable name for itself and succeeded in investigating the process of contracting and executing federal works. Aware that remediating damages is more difficult and inefficient than avoiding them, TCU places increasing priority on preventive and concurrent control, focusing efforts so that works and services are executed as set by quality technical standards, and with reasonable costs.

Concerning the concession of public services and economic activities, the control exercised by the TCU is committed to monitoring decentralization and privatization undertaken by the federal government. As of the National Privatization Plan, started in the 1990s, the Court of Accounts examines regulatory and competition-related aspects of the public granting, aiming to offer efficient, plentiful, quality services, at fair levels of compensation.

Along with the success it has achieved in its areas of oversight, as a way to adapt to future perspectives, it is imperative the TCU see how important it is for the infrastructure sector to be constantly in line with the dynamism of the economy. In the current scenario of economic downturn, in which direct investments are partly limited, the Brazilian government will have to create means for the private sector to start developing national infrastructure again. It is in this reasoning that recent announcements by the federal government have announced the Investment Partnership Program (PPI), realizing the strategy they are pursuing will be that of expanding the relationship between the government and the private sector, so as to make the concession model more solid and attract investments in new projects.

One thing the most competitive countries in the world have in common is a friendly environment to entrepreneurship. In this regard, there is a lot to be done to enhance government action in Brazil. Reducing the regulatory risk is distressing. Myriad and pulverized rules adopted overtime without consolidation or reviewing gives rise to a climate of suspicion, and drives away serious investors willing to seize the business opportunities in the country. Unifying and remodeling outdated and pointless work processes, sometimes established with the aim to “sell difficulties to harvest benefits”, will allow for better transparency, promptness and legal certainty to government acts, showing to the public sector the Brazilian government is in fact committed to following international excellence standards.

Thus, in the light of the current events in the country, it is unavoidable to induce a real credibility shock in the institutions involved in carrying out infrastructure projects. Just good intention and promises from our leaders will not attract new investments. The times of lobbying and veiled interests must give in to a feeling of public, technical, ethical and moral spirit, which will ground the decisions of the agents involved in the effective functioning of society. In this area, some actions must be immediately supported by the government: i) devise a solid, credible and integrated

planning for the different infrastructure segments; ii) create mechanisms to foster competitiveness among entrepreneurs; iii) properly assess priorities and technically question proposed solutions; iv) review and consolidate procedures among the different concerned government entities; v) ensure proper and clear sharing of contractual risks; e vi) monitor the effective compliance with rules agreed upon by the parties.

As the Federal Government plans are aimed to a greater role of the private sector, the work of the TCU will place priority on assessing these new infrastructure projects, in a taskforce monitoring simultaneously the modelling of solutions and the technical motivation of decisions, in a constant dialogue with the concerned public institutions.

As a custodian of the public purse and collective interest, the Court is in charge of both ensuring lawfulness and law-abiding of the procedures adopted by the government, and further improvements in regulatory mechanisms which confer legal certainty and quality to the offer of infrastructure to the country. All of this work is joined together as to curb any forms of misappropriation, overpricing or unduly favoring bidders in procurement proceedings, as we understand that fighting corruption, in all its forms and levels, must be a goal constantly pursued by any government institution.

In sum, the availability of plentiful infrastructure is undeniably a driving force for the growth of any country. Regarding Brazil, the history of government action in developing infrastructure is not marked by a narrative of success and accomplishment; quite the contrary, it is marked by misappropriation, inefficiency, and lack of offer. The delay in making new investments and loopholes which provide favorable conditions for the work of hidden interests lag the recovery of the so-desired economic upturn.

The primacy of transparency and technical qualification will doubtlessly infuse confidence in investors who see in Brazil fertile grounds for advancements in the area of infrastructure; the betterment of the income of the population and the recovery of offer of job posts will be immediate consequences. If on the one hand, the government will be responsible for organizing itself to pave the way towards growth; on the other hand, the work of the TCU will be dignified, firm and watchful, safeguarding the faultless allocation of public funds, and especially catalyzing improvements, which ensure a cycle of long-lasting and sustainable development.

The country of the future we all hold on to is possible; the development of infrastructure is the vital means for attaining that; and TCU is side by side with the society to ensure that this is accomplished.

Saulo Benigno Puttini
Coordinator-General for Government Audit – Infrastructure Sector
Phone +55 (61) 3316.7439
saulobp@tcu.gov.br