



Pontal Project

September 2007

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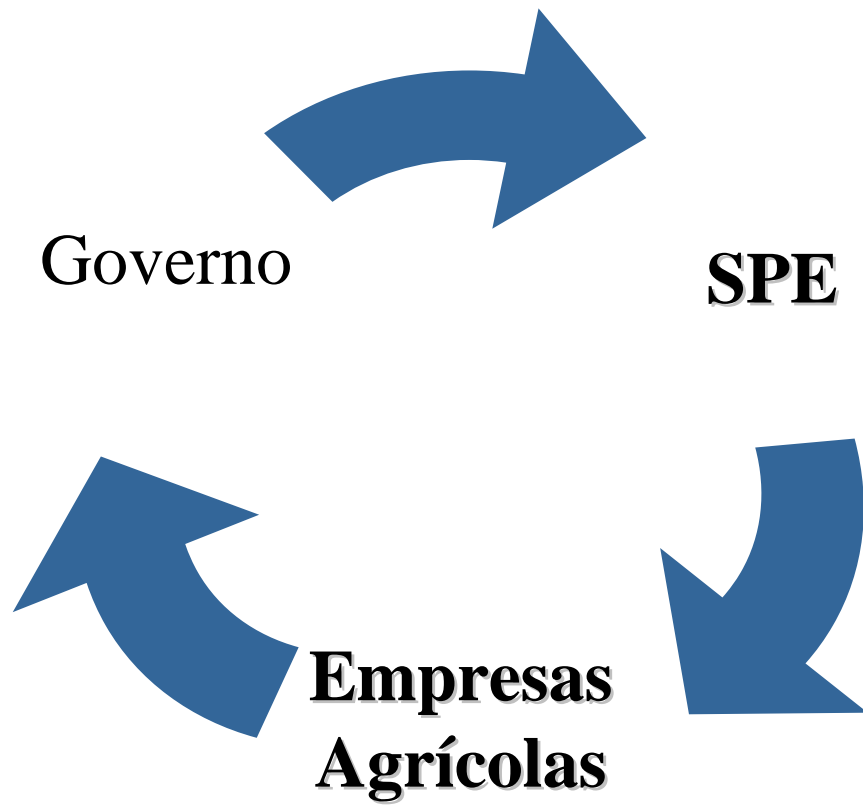


- Irrigation perimeter **located** in Petrolina/PE – Vale do Rio São Francisco/Northeast of Brazil
- Petrolina is a pole of irrigated fruit production (exports)
- **Total area 33,526 hectares**
 - **7,897 hectares of irrigable land** – Pontal Sul and Pontal Norte
 - Legal Reserve: already defined
 - Balance is dry farm landing (*sequeiro*)
- Common infrastructure: Government has already built a significant portion (70%)
- **Water rights: 7,8 m³/second** (main canal's capacity)
- Implementation can be phased
- Separate contracts:
 - Common infrastructure (PPP concession)
 - Agribusiness



- Does not maximize opportunities to generate economic development
 - Codevasf builds 100% of common infrastructure
 - Land goes to small producers
 - High delinquency
 - Lack of proper maintenance
 - Unreliable water supply
 - Idle land
- To break this vicious cycle, Government decided to structure a PPP in Pontal.

The Proposed PPP Structure



Private Sector attributions will be:

- Finish construction, operate and maintain common infrastructure
- Allocate land to private agribusiness

- Run crops on the land

Financial Strength:

- Capex for common infrastructure around US\$ 50 MM in 1-3 years;
- Investment in Agribusiness is 3 to 5 times infrastructure capex

Experience in Agribusiness:

- As owner/user of agricultural land;
- As agribusiness industry;
- Trader (organizes, provides input and buys production)

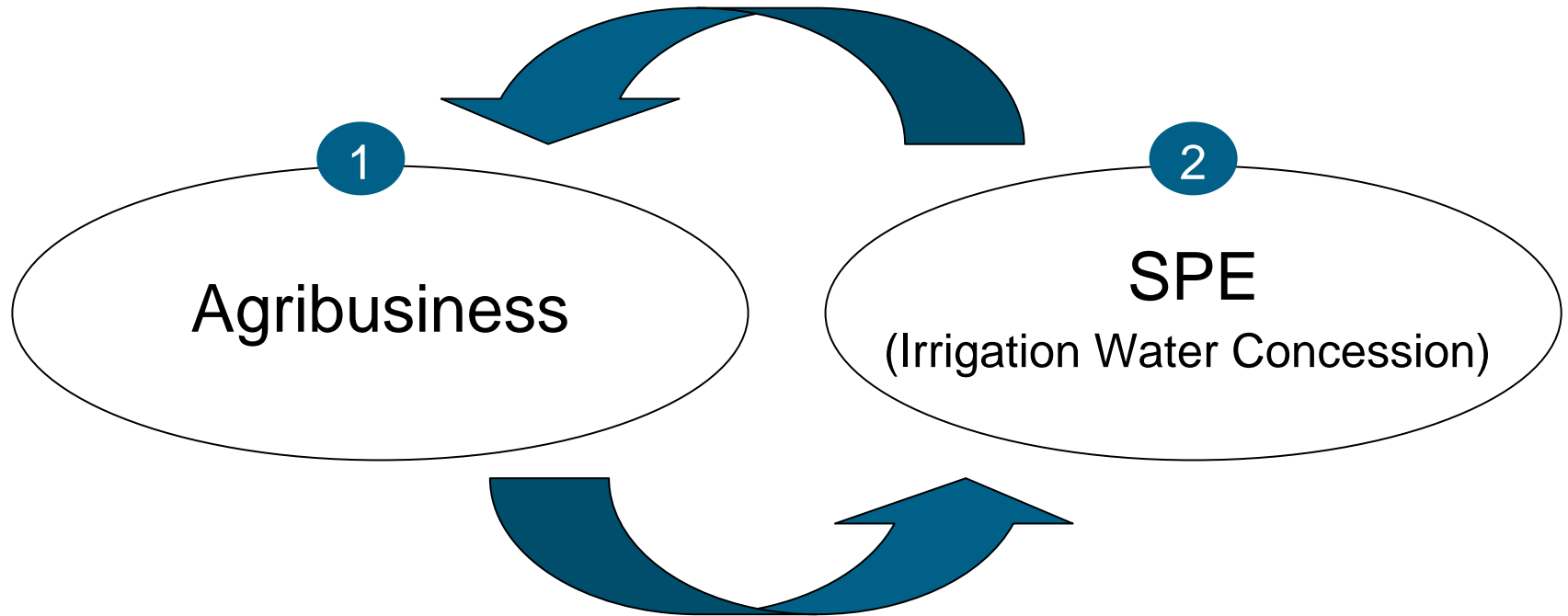
Willingness to integrate Small Farms into Productive Chain

- Minimum requirement of 25% of irrigable land with small farmers integration
- At bidding: extra points attributed to integration beyond min of 25%

Experience in Construction / Operations of Infrastructure Project:

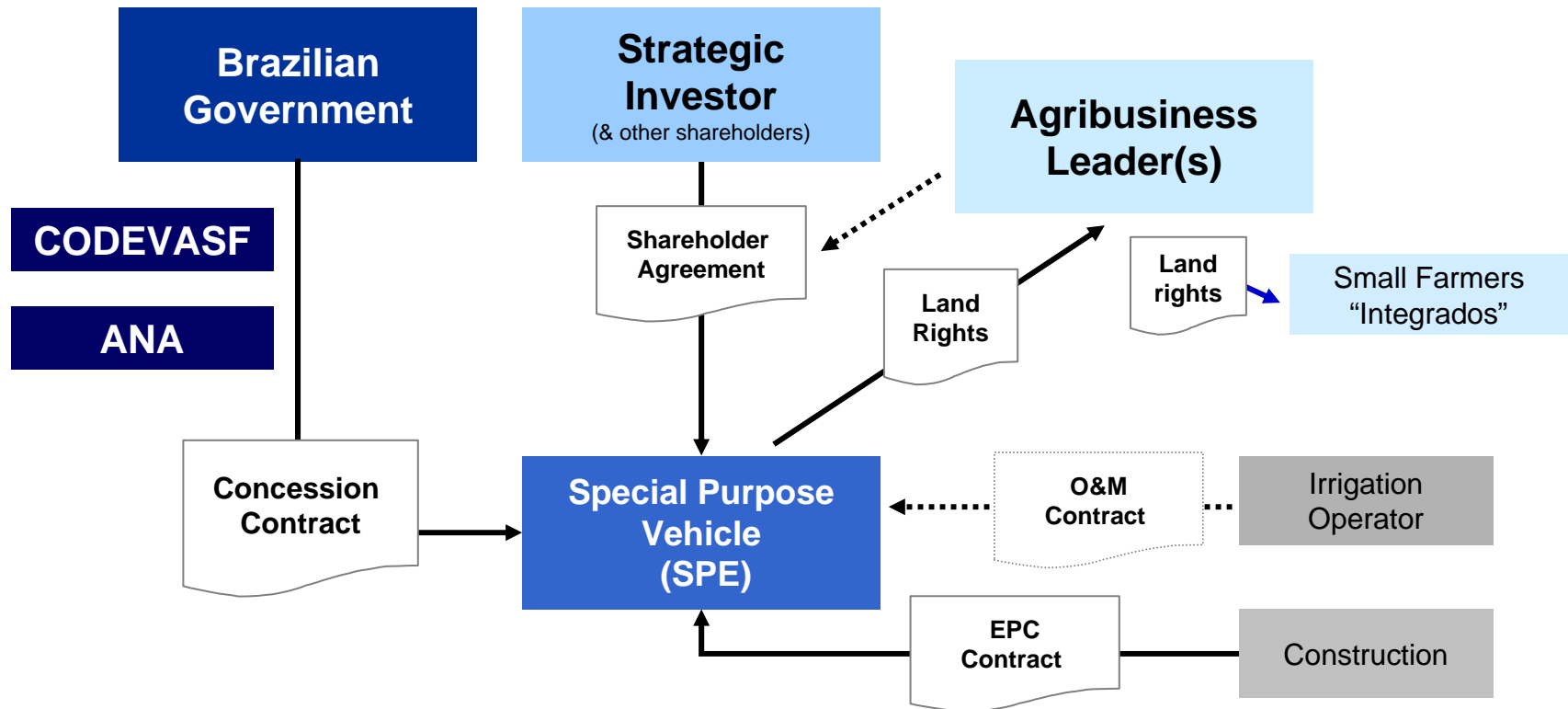
- Not necessarily related to irrigation or water;

Two Business Opportunities



SPE selects, on behalf of Government, the land users.
Main Agribusiness User can operate the concession, and
vice-versa

Pontal – Project Structure



- **Responsibilities** of the Private Sector will include (i) construction, operations and maintenance of irrigation works, and (ii) development of agribusiness activity;
- **PPP Subsidy** to be disbursed upon Concessionnaire reaching significant project milestones (completion of works and land development);
- Financial investors and agribusiness leaders to be identified at **Bidding**.

Agribusiness

Revenues

- Sale/Processing of agribusiness production

Costs

- Agribusiness Production
- Water tariffs (fixed and variable)

Freedom on crop selection

Small Farmers Integration

SPE

Revenues

- Water tariffs
- Government Contribution - **Contraprestação**

Costs

- Inherent to service rendering
 - Finish the construction
 - O&M

Common Infrastructure

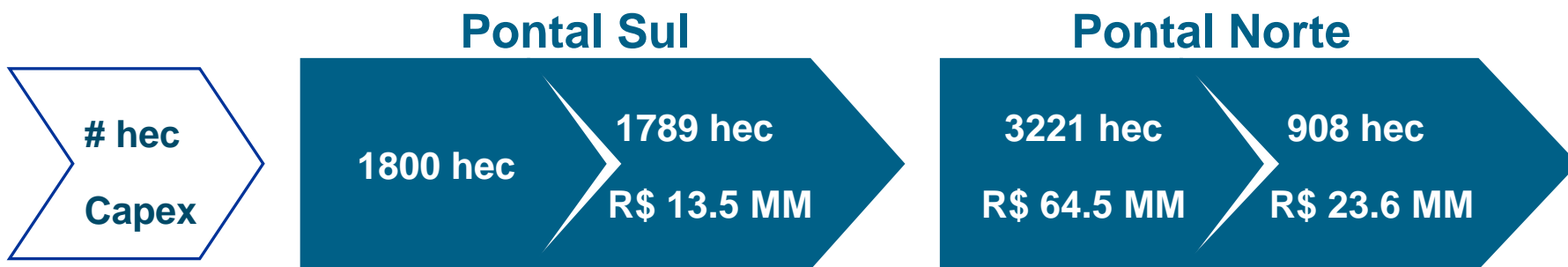
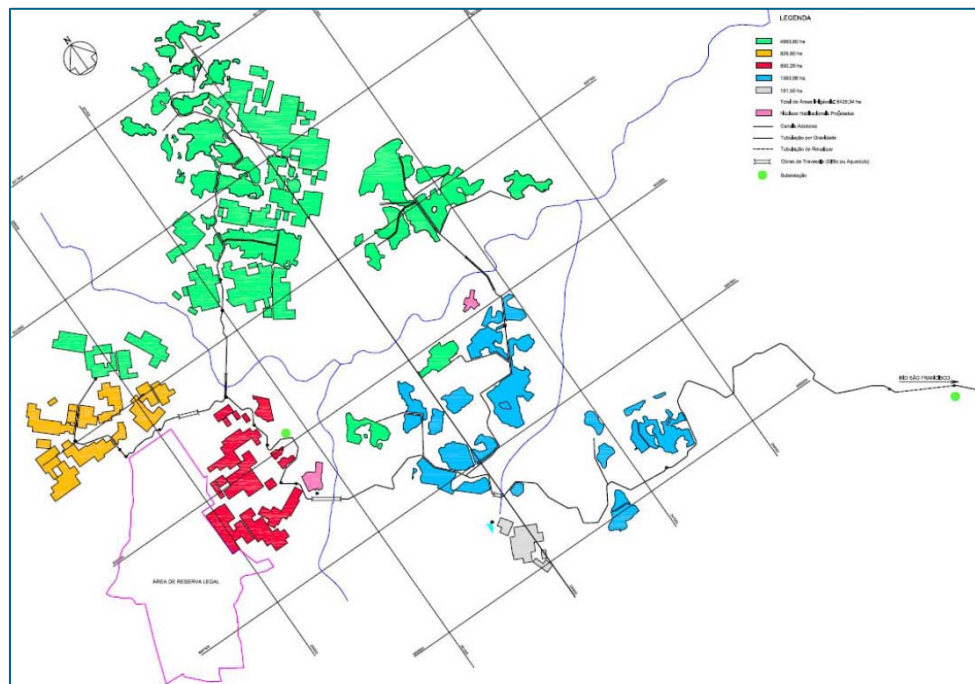


A lot has been built...



Implementation can be phased

- **Main Canal** partially built by CODEVASF
 - Good quality on the civil construction
- Some pumping stations tested and working
- **Capex** to complete common infrastructure: **R\$101,6MM (US\$ 50MM)**



Finalization of Feasibility Studies & Government Approval
(Now to January 2008)



Marketing, Investors Feedback & Public Consultation
(October 2007 to February 2008)



2 Step Bidding
(May 2008)

- **Qualification** of bidder (financial criteria and agribusiness experience)
- **Final bidding** based on a scoring method (**lowest subsidy** requirement + **highest integration** commitment)



Execution of Project Agreements

Water Tariff

- Initial tariff defined by Government and published in the bidding document
- Yearly annual increase according to pre-defined rules
- Set by government to, **at least**, cover O& M costs

Government Contraprestação paid to SPE

- Bidding Criteria
- Amount per hectare

Tool to screen investors able to meet Government needs:



HABILITAÇÃO – Technical Qualification

Tool to maximize integration and minimize *contraprestação*



SCORING SYSTEM/Weighted Average

Lowest *contraprestação* = highest number of points

Higher *integração* = highest number of points

Government determines:

- Minimum integration
- Maximum *contraprestação*
- Weight for each item

Further Information



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Integração Ministério da Integração Nacional **SEBRAE** **CODEVASF**

<http://www.pontal.org>

ENGLISH PORTUGUESE

Pontal Irrigation Project

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