

# Pontal Project



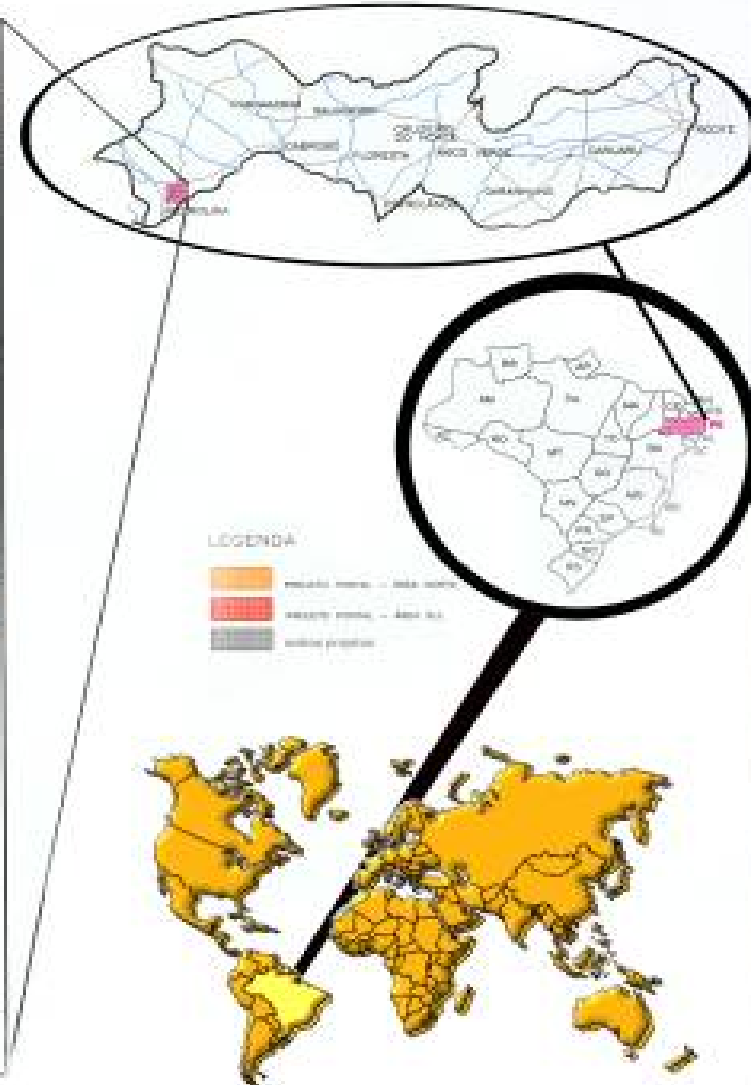
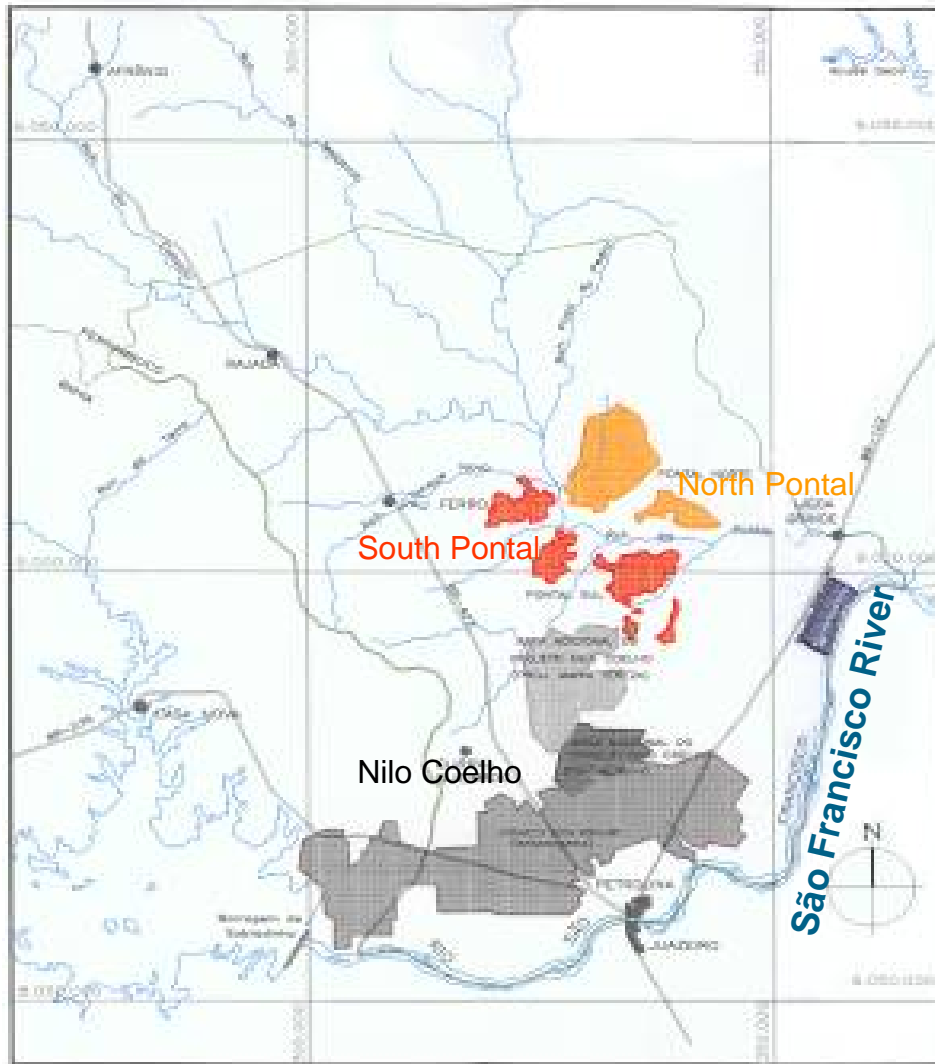
**Presentation to Potential Investors**  
**Feb 07**

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# Location



- Irrigation Project located in Petrolina/PE –São Francisco River Valley
- Total area – 33,526 hectares
  - 7,716 hectares can be irrigated – South Pontal and North Pontal
  - Legal reserve: 2 common areas to the project have already been identified
- Infrastructure: CODEVASF already built much of the common irrigation infrastructure for Pontal
- Water supply: 7.8 cubic meters per second (capacity of the main canal)
- Expropriation decree for the entire area
  - Some land has already been acquired
- Possibility of phased implementation
- Separate contracts:
  - Operation of common infrastructure
  - Agribusiness



- The region already exports US\$100 million in fruit annually
- Tradition of Fruit production
- Logistics chain already in place for exports

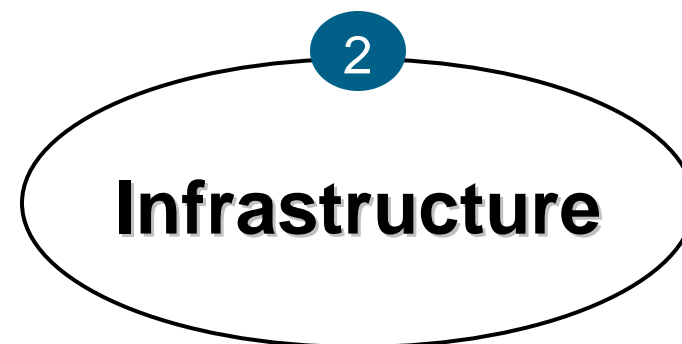
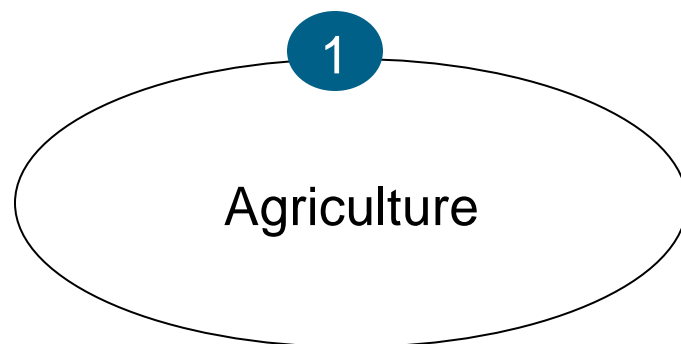
# PPP for the Pontal Project

Overall structure

The main objective of the Brazilian Government is to accelerate land usage of Pontal through private sector operation

Method: transfer the Pontal project to the private sector through a Public-Private Partnership

# Two business opportunities



PPP applicable to Infrastructure

# Agricultural Opportunity



## Agriculture

### Revenue

- Sale of agricultural products

### Costs

- Agricultural investments and costs
- Cost of Water
- Use Land

## Infrastructure - SPE

### Revenue

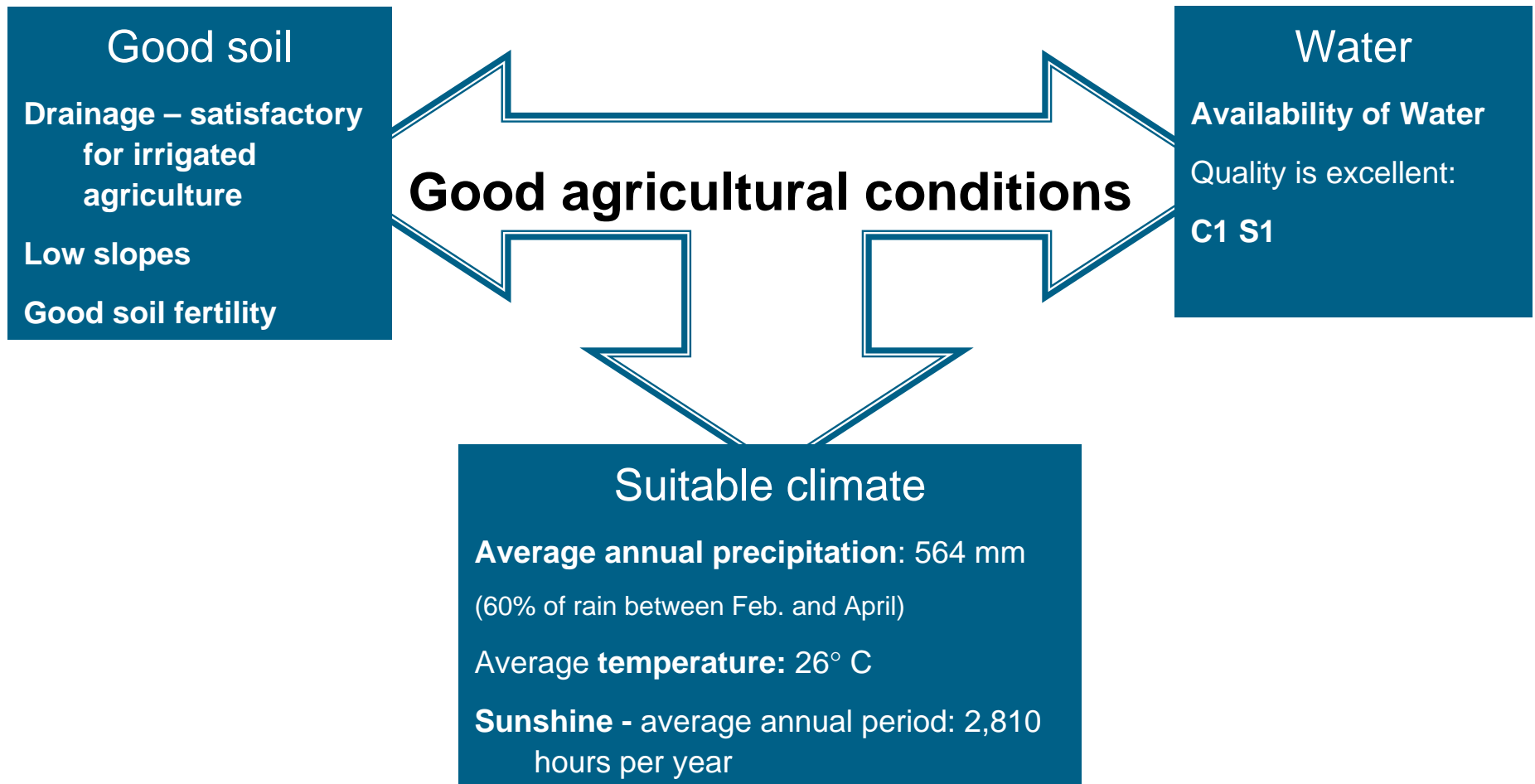
- Sale of Water
- Government contribution
  - Existing irrigation infrastructure
  - Land
  - Annual payments

### Costs

- Investments and operation of common irrigation infrastructure
- expropriation of part of the land

## Description

- Crop selection
  - **Farmer decides what wants to plant**
  - Few agricultural restrictions
  - No government intervention
- Examples of fruits: bananas, grapes, pineapples, melons, papayas, and mangoes
  - Attractive internal rate of return under the base case
  - Investments compatible with crops and markets selected



- Logistics infrastructure for exports already in place:

- Port options:

- Aratu and Salvador/BA,
- Suape-Recife/PE
- Pecem-Fortaleza/CE



- Existence of federal highways. Access to Pontal via the following highways: BR-407, BR-122, BR-428, BR-232 and BR-116



- Airport



## Integration of Small Farmers

- Desirable factor – not mandatory
  - Tender process could assign additional points for integration
  - Financing terms **could** be more attractive when small producers are included (financing expected from Banco do Nordeste)

# Infrastructure Opportunity



## Agriculture

### Revenue

- Sale of agricultural products

### Costs

- Agricultural investments and costs
- Cost of Water

## Infrastructure - SPE

### Revenue

- Sale of Water
- Government contribution
  - Existing irrigation infrastructure
  - Land
  - Government payments

### Costs

- Investments and operation of common irrigation infrastructure, expropriation of part of the land



- **Main canal** partially built by CODEVASF
  - Quality of civil works is good
- A number of pumping stations are already operational
- **Capex** total for completion of common infrastructure: **R\$101 MM**
- The project could be implemented **in 3 phases**
  - Pontal Sul requires capex less than proportionate to area and can be fully operational in less than one year.





- Government subsidy based on hectares for which water supply is available
- Once irrigation becomes available, water must be supplied in accordance with preestablished technical standards
- SPE-Infra must find users for the land/water
- Operator is responsible for collection and receipt of water charges
- Private contract with farmers for service provision
- Evaluation based on service technical standards

# General Structure

## Public Private Partnership – “Patrocinada” and Integrated .....

- Public Private Partnership:
  - **Private sector has full freedom** on agriculture operation
- “Patrocinada” :
  - The infrastructure SPE **is responsible for collection of water charges**
  - Service revenue supplemented by Government **cash payment**
- Integrated process:
  - One **single tender** - infrastructure + land
  - Infrastructure operator is obligated to find users for the land
  - The infrastructure operator is obligated to provide all farmers with water, charging a daily rate, in accordance with the technical specifications identified at the time of the tender process.

## Water charges

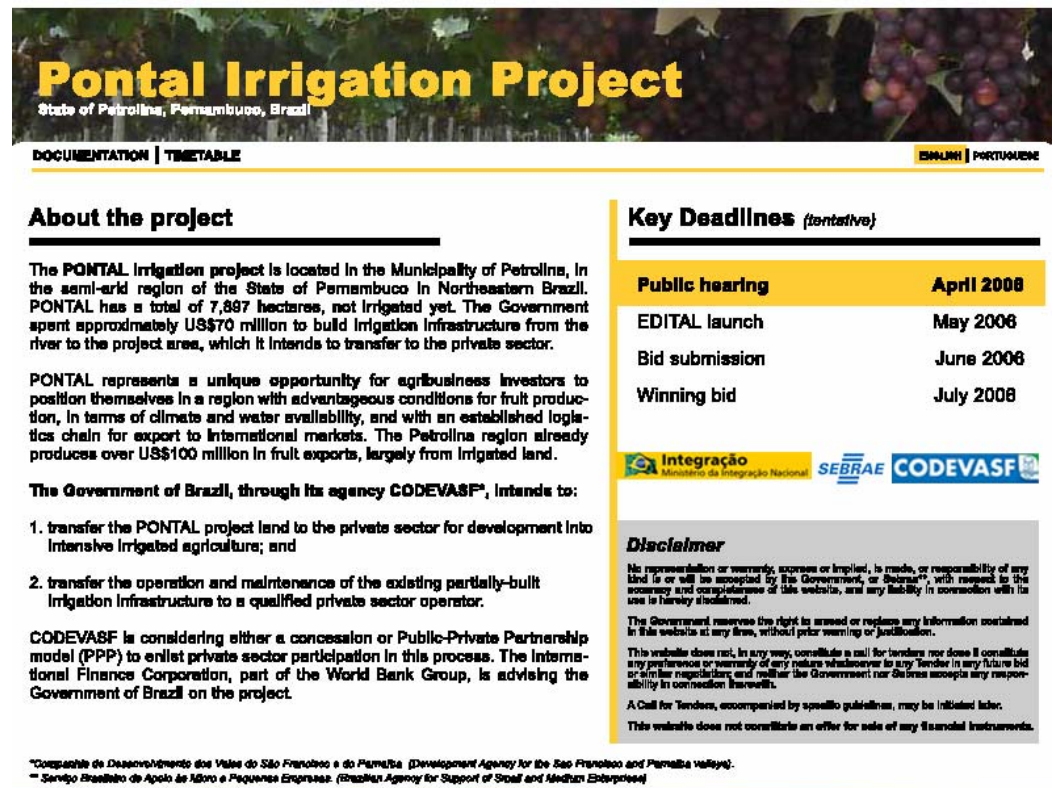
- Initial price set by the Government in Edital (Terms of Reference of PPP)
- Annual adjustments to be governed by clear rules
- There will be no government subsidy on tariffs
- One fixed component (calculated per hec) in exchange for access to irrigable land with water available
- One variable component per usage

## Cash subsidy given by the Government to the infrastructure operator - **Contraprestação**

- Criteria to determine winning bidder
- Fixed value per hectare in real terms

- IFC wants to hear from potential investors
- Information on the project and updates can be obtained from the following website:

<http://www.pontal.org>



**Pontal Irrigation Project**  
State of Pernambuco, Brazil

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### About the project

The PONTAL irrigation project is located in the Municipality of Petrolina, in the semi-arid region of the State of Pernambuco in Northeastern Brazil. PONTAL has a total of 7,887 hectares, not irrigated yet. The Government spent approximately US\$70 million to build irrigation infrastructure from the river to the project area, which it intends to transfer to the private sector.

PONTAL represents a unique opportunity for agribusiness investors to position themselves in a region with advantageous conditions for fruit production, in terms of climate and water availability, and with an established logistics chain for export to international markets. The Petrolina region already produces over US\$100 million in fruit exports, largely from irrigated land.


The Government of Brazil, through its agency CODEVASF<sup>2</sup>, intends to:

1. transfer the PONTAL project land to the private sector for development into intensive irrigated agriculture; and
2. transfer the operation and maintenance of the existing partially-built irrigation infrastructure to a qualified private sector operator.

CODEVASF is considering either a concession or Public-Private Partnership model (PPP) to enlist private sector participation in this process. The International Finance Corporation, part of the World Bank Group, is advising the Government of Brazil on the project.

### Key Deadlines (tentative)

Public hearing	April 2008
EDITAL launch	May 2008
Bid submission	June 2008
Winning bid	July 2008



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This website does not constitute an offer for sale of any financial instruments.

<sup>1</sup> Companhia de Desenvolvimento dos Vales do São Francisco e do Parnaíba (Development Agency for the São Francisco and Parnaíba Valleys).  
<sup>2</sup> Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (Brazilian Agency for Support of Small and Medium Enterprises)

# Competitiveness factors



- Area tested for agriculture
- Major portion of agriculture already constructed
- Price of water+land lower than the worldwide average
- Eligible for reduction in taxes on main activity (ADENE)
- Financing under tailor-made conditions: BNB, BNDES, ADENE (expected)
- IFC will consider financing on a case-by-case basis

# Thank You.

**Comments and suggestions are welcome.  
Presentation can be viewed on the  
following website: <http://www.pontal.org>**