

Project Management Report from Belo Horizonte



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No Projects At All

When governments decide to improve country, states or provinces or even cities' infrastructure, and companies decide to make new plants, improve their operations, implement new systems or increase their productivity, this usually happens through projects.

When banks and real estate companies realize that there are avid customers for new housing and that these customers have ways and credit to obtain mortgages for their real estate, it's time to build new homes and apartments. This is also achieved through projects.

When many people improve life and realize that they can get credit in order to change car, buy a new TV or that new fridge full of features, the companies that provide these goods may need to increase their production and will certainly have to introduce new products to win new customers and retain those who already have. Again, projects allow companies to provide expansions, new factories and new products.

These are, as everyone knows, some of the engines that make the projects market works and consequently Project Management market.

But, when governments do not have money to improve the infrastructure and the economy as a whole is stagnant, people start to lose their jobs, businesses sell less and the climate of uncertainty and lack of confidence prevails? Obviously, no new expansions, no improvements, no new systems! People do not risk exchange of property or car. In this case, the projects become scarce or disappear, or are paralyzed.

Well, that's the situation in Brazil and in Minas Gerais State.

There are, behind this phenomenon or situation, a series of cultural, structural and cyclical factors.

In Brazil, there is no predominance of a mindset to undertake and innovate. Common Brazilian doesn't want to be an entrepreneur; he just wants a job, preferably as public server. Innovation is not in the DNA of people or even organizations. Of course, there are exceptions that only confirm the rule. So, culturally Brazilians do not have dreams to undertake, and do not seem to have visionary thinking of innovations.

There are many entrepreneurs in Brazil, but a large portion just because they lost their jobs and, without option, start a new business, or people who retired and in order to stay busy start a company or hire a franchise. In addition, there is a predominant way of thinking that the government will provide a solution for everything, as well as jobs and sometimes also income. In other words, it is expected that the government solves everything and helps everybody. The initiative or social responsibility of citizens, their mobilization capacity and the desire to make volunteer work, are very low. People don't realize that the Government is us and it is maintained with the tax money of ourselves. These are some cultural factors.

Structurally, the Brazilian economy is very dependent on the power of the state as an agent of development, particularly through its companies (state owned companies like Petrobrás, Eletrobrás, Furnas, Eletronuclear, etc.) and export of commodities such as soybeans, meat and minerals (specially iron ore). Another structural feature is the low people's education and low quality of the educational system. That is, few people complete studies and, when this occurs, it is often in a bad or mediocre school.

Finally, there is inequality regarding income and social opportunities. Partly resulting from education, partly arising from the Brazilian culture, in part due to the focus that is given in the solution of the issues of the most privileged. It is in the best neighborhoods and the more developed regions that governments invest more, where the best public schools are, the most fairy-like street lighting, gathering up 100% of the sewage, streets and avenues are very well paved, the better infrastructure of public transportation and the most ostensible policing, among other things.

From the cyclical point of view, Brazil is living an odd situation. The external scenario, terrorism, wars, Shanghai stock market and Greeces apart, it is improving every day. The problems are mostly internal. The Executive has lost public confidence and popularity, only nine months after its re-election, in a contest, it is true, very hard, but won with about 52% of the votes. How does this 52% become 10% in such a short time?

In search of restoring the government finances and accounts badly shaken and with a rising inflation, it was necessary to implement a much more austere economic policy than had been adopted and also significantly raise interest rates. The new economic policy is far less benevolent than the previous for nearly all sectors of

society and business. Electric power fees, water tariffs and fuels prices were raised, in a significant increase.

Many things have changed and become more stringent, such as the rules of the unemployment insurance, taxes and fees paid by certain business sectors, among others. It turns out that these measures, all of them necessary, differ greatly from what was promised in the election campaign.

As a structural feature (constitutional and legal), public budgets are plastered and allow freedom of action in a portion of only about 10% of total tax revenue. It is this portion that leave resources for government investments (roads, hospitals, schools, etc.). The other portion will necessarily go to pay expenses. When applying austerity measures on the real economy, restricts credit and raises interest rates, the economy shrinks and tax revenue falls, which does not necessarily occur with expenses. Thus, there is less money yet to invest. Therefore, less for projects. In fact Brazil lives an economic recession, nowadays.

On the other hand, for years, just when the oil barrel was above \$100, gasoline prices in Brazil were almost frozen, causing bleeding in the Petrobrás revenues and cash. Petrobrás buys oil abroad because they do not produce enough in the country and because much of the oil extracted in Brazil is of heavy type, which cannot, for technical reasons, be rendered in Brazilian facilities. So the company bought expensive oil and received revenues from a cheap gasoline. In addition, the company was required to keep a heavy investment program. Result: high debt and poor bottom line, getting to have prejudice the last balance sheet. To make matters worse, just when it is starting to extract oil in the so called pre-salt, the price of that commodity fell significantly. The problem is that the pre-salt has a breakeven around \$70 a barrel. Not only that, the company is involved in a large corruption scandal, with billionaires deviations. Consequence: brutal cuts in investments and projects, and asset sales.

The same corruption scandal reaches Congress. Several congressmen are being investigated, including the speakers of the two houses. As a way of shifting the focus of their own problems, to show distance of a weak and unpopular government and to show independence, Congress is hindering the approval of the necessary economic measures and is still creating many other expenses, which forces the executives to exercise their veto power.

For years, China in its rapid development process, consumed millions of tons of iron ore to produce the steel it needed. Brazil, owner of vast deposits of high grade iron ore and a good and highly competitive logistics structure (specific to iron ore), took advantage of this and sold millions of tons to that country. To meet the demand, growing and seemingly inexhaustible, Brazilian iron ore mining companies invested heavily. Meanwhile, China decreased its growth and began the usage of its own ore, poorest it is true, while it increased the purchase of Australian ore, much closer to the Asian giant. Result: declining sales and excess capacity in Brazil. As a consequence, no new projects!

The Minas Gerais State economy relies too heavily on coffee beans, milk, steel, iron ore and the production of automobiles, this last primarily for domestic consumption. On the other hand, like all other Brazilian states, local government has part of its income from federal taxes. Now the federal tax revenue fell, economic activity shrank slaughtering revenue from state taxes, the domestic vehicles market is in rapid decline, a severe drought caused a reduction in milk and coffee beans production and there is a huge idle capacity in steel. Therefore, short money in government and in business and, no projects.

In Minas Gerais, PMI strives to maintain its members, holds monthly events, webinars and courses. PMI Minas Gerais Congress this year will spend just one day, instead of the traditional two days. Other institutions have had to cancel or postpone short duration open courses and the demand for *lato sensu* post grad formal courses decreased significantly. The state capital, Belo Horizonte, used to be the world's largest cluster in projects for mining. With the fall of the market and investments in the mining sector, unemployment is high (people talk of a 70% cut in jobs).

Hard days! Tough moments! It was believed that in 2016 things would improve. But the Government difficulties to raise cash and control expenses, again, in part because Congress did not help, made some analysts already bet that 2016 will be a year of recession and tightening. And, worse, no projects at all!

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Consultant. He is a seasoned professional with over 40 years of experience in Project Management, Process Management and Strategy. Manuel has managed or participated in more than three hundred huge projects across different fields including Steel, Mining, IT, Telecom, Food Processing, Government and Construction, to mention a few. He worked also in projects to implement PMO (Project Management Office) and Project Management Methodology. He has also strong skills in Leading People and Finance. He served as Minas Gerais State Undersecretary for Planning and Budget, from 2007 to 2008. Manuel is a part-time international correspondent for PM World Journal in Brazil.

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