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Brazil's Infrastructure Renaissance

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After enduring a veritable infrastructure 'dark age' over the past three decades, Brazil has truly emerged as one of the hottest infrastructure markets in the world.

Most industry observers and participants are well aware of the government's plans to drag up the country's stadiums, airports and mass transit systems by the bootstraps ahead of Brazil's sports double-header: the FIFA World Cup in 2014 and the Summer Olympics in 2016.

But this month, Brazil's President, Dilma Roussef, made it crystal clear that the country also sees infrastructure development as the surest way of lifting millions out of poverty and re-energizing economic growth. Indeed, the 'Program for Investments in Logistics' is a truly massive undertaking that includes 7,500 kilometers of road concessions and 10,000 kilometers of federal railways under a USD65.8 billion investment package. What's more, equally impressive announcements are expected in the ports and airports sectors in the coming weeks.

A philosophical rebirth

Clearly, the investment is sorely needed. According to Credit Suisse, Brazil's aging and inefficient logistics infrastructure is already sapping away between 12-15 percent of annual GDP, versus an average of around five percent for other countries[1]. Soy beans, for example, now cost more to ship than to produce. And with a heavy reliance on natural resource exports, Brazil's public coffers can ill afford to leak revenues simply because of poor transportation networks.

Behind the headlines, the program reflects a significant shift in thinking within Brazil's government. Since the 1980's, the country's infrastructure investment had been steadily shrinking as a percentage of GDP. But as the economy jumped into overdrive, it quickly became apparent that the roads and rails were woefully insufficient to meet the booming demand.

> **Brazil's recent announcements in the road and rail sectors**
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> **Roads:** a total of 7,500 kilometers will be developed in nine sections with a total investment of USD20.8 billion. Agreements are expected to be signed between April and May 2013.
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> **Rail:** with an investment of USD45 billion, the government plans to see 10,000 kilometers of rail developed in a dozen sections. The build-maintain-operate-transfer agreements are slated to be signed between May and July 2013.

[1] http://www.ft.com/cms/s/0/8a8d5caa-f0ee-11e1-b7b9-00144feabdc0.html#axzz24ylsLJLB

After the financial crisis in 2008, Brazil's government first tried to kick start the economy by encouraging consumer spending. And while these measures certainly kept the economy afloat, this month's announcement clearly demonstrates a shift from short-term stimulus measures to long-term economic pragmatism. Simply put, Brazil's government has come to the realization that efficient infrastructure is the foundation of sustainable economic growth.

Building a supportive environment

Brazil watchers will note that this announcement is just one (albeit a big one) of a long list of savvy initiatives by the government to stimulate infrastructure investment. To encourage foreign investment into the sector, for example, the government recently created targeted tax breaks on infrastructure bonds for both domestic and foreign investors.

The country is also striving to rebuild its internal capacity for infrastructure planning and development within the public sector. This recent announcement is a case in point: with 21 deals to be put into the market and closed within nine months, the government is – for the most part – managing the process internally with the assistance of a handful of external consultants. This should help build strong experience in the structuring of concessions and PPPs that can later be leveraged into other sectors and projects.

"The country is also striving to rebuild its internal capacity for infrastructure planning and development within the public sector."

Advantage Brazil

Infrastructure players should be positively salivating. The announcement – and the overall trend – represents a massive opportunity for investors and developers, both foreign and domestic.

For investors, the sheer scale and diversity of the upcoming investments offers a remarkable opportunity to invest in a diversified portfolio of assets in a growing and stable market. Financing conditions on this recent announcement allow for leverage between 65 and 80 percent and interest rates based on the long-term interest rate plus a spread of up to 1.5 percent (for rails) and 1 percent for roads projects.

Developers should also find ample opportunity to participate in the coming flood of infrastructure investment. Given the accelerated investment schedule of this announcement (which envisions the majority of the funding to be placed within five years), there is little doubt that some of the work will need to be undertaken by foreign firms. In particular, those offering new technologies that can enhance project delivery will likely be welcomed with open arms.

Moreover, the list of planned projects runs much longer than the federal announcement made this month. At the state and local level, billions of dollars' worth of infrastructure projects are poised for tender with multiples of that waiting in the sidelines. Those keen on the secondary asset market will also find Brazil to be a welcome source of potential deals.

A 'good news' story

The bottom line is that Brazil's renewed passion for infrastructure is welcome news for everyone: investors will find ample opportunity to put their war-chests to work; engineers and developers will share in a virtual life-long pipeline of projects; the emerging markets will gain a new model to study and apply.

But those that will receive the richest winnings from this investment will be the people and companies that live and work in Brazil. To them will go the spoils of sustainable economic growth, foreign investment and all of the freedoms that come from being able to travel within the country quickly and easily.

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