

IMPACT PAPER

Country Engagement Program: Brazil

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A G20 INITIATIVE

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To increase its global competitiveness, Brazil created an ambitious strategy to attract more private investment in its infrastructure. A partnership with the Global Infrastructure Hub helped Brazil implement and realise this strategy.

Between 2020 and 2022, Brazil will auction a pipeline of more than US\$44 billion in lease and concession contracts for transportation infrastructure projects that will strengthen the nation's roads, railways, ports, and airports while creating opportunities for technological and industrial development and boosting productivity and growth. The projects are forecasted to create more than 900,000 jobs and contribute to Brazil's COVID-19 pandemic recovery.

In bringing these contracts to auction, a key priority for Brazil was attracting private investment into its infrastructure – including participation from foreign investors.

“Infrastructure development is directly linked to the socioeconomic development of a country. To close our infrastructure gap in a post-pandemic Brazil, our pipeline of projects will have to become even more attractive to international private investments. The leading strategies of emerging markets to address foreign currency exchange risks provided by the Global Infrastructure Hub are at the core of this discussion, and will certainly help us to propose more evidence-based and effective solutions to this issue.”

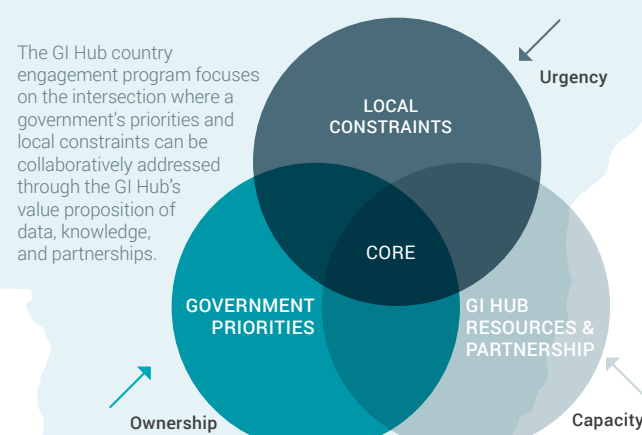


Rodolfo Benevenuto, Undersecretary of Economic Intelligence, Secretariat for Infrastructure Development, Ministry of Economy (Brazil)

To achieve its objectives, the Brazilian Government began in 2019 a partnership with the Global Infrastructure Hub (GI Hub).

Under the umbrella of the GI Hub Country Engagement Program, the GI Hub completed a comprehensive needs assessment with Brazil's Ministry of Finance and Ministry of Infrastructure, then created a program of analytical studies, market sounding consultation, and capacity-building that would meet Brazil's objectives. The program was delivered by the GI Hub collaboratively with key partners from multilateral development banks, international organisations, and the private sector.

The GI Hub country engagement program focuses on the intersection where a government's priorities and local constraints can be collaboratively addressed through the GI Hub's value proposition of data, knowledge, and partnerships.



Program outcomes

As the program with the GI Hub drew to an end in May 2021, there were positive signs that Brazil was achieving its goals. The country's privatisation agenda was more visible among stakeholders and featured in national and international media. Brazil had also begun implementing some innovative solutions to mitigate foreign currency exchange (forex) risk in concession contracts. Overall program outcomes to date are:

- **Brazil is able to benchmark its private infrastructure investment performance** against that of other economies and apply learnings from the data to increase private investment. The data and insights the GI Hub provided have given Brazil a better view of long-term sources of finance, enabling sound decisionmaking.
- **Brazil can attract private sector participation and competition in its port contracts** based on the findings of the GI Hub's comprehensive market consultation with contractors, equity investors, and port operators. Brazil can use insights from the consultation to tailor the packaging and scoping of these contracts to attract private sector participation and enhance competition.

“It has been a great experience collaborating with the GI Hub. The mobilisation of private investment in infrastructure is going to play a key role in bridging the infrastructure gap in our region.”



Gaston Astesiano, Public Private Partnership Team Leader, Inter-American Development Bank

- **Brazil can introduce effective new forex risk mitigations** to address foreign investor concerns about currency volatility and attract foreign investors to its projects. The program defined areas where Brazil could better hedge risk, and shared learnings from other markets that could be replicated by Brazil.
- **Brazil's infrastructure specialists can bring more bankable projects to market**, enabled by specialised training in project preparation. The GI Hub provided training in global best practices for project preparation, for national and subnational infrastructure specialists.

Program activities

ACTIVITY 1: Sound the market on port privatisation

Between 2020 and 2022, Brazil plans to release 25 port terminal contracts to auction, valued at about US\$1.34 billion. It is hoped that much of this new investment will come from private investors, including new foreign investors.

The GI Hub and strategic partners Maritime & Transport Business Solutions and the Inter-American Development Bank conducted a market sounding and consultation with more than 40 companies and 60 management-level public and private sector stakeholders. The market sounding and consultation:

- Created structured dialogue between the private and public sectors to encourage private sector uptake and participation when contracts are put to auction
- Provided the Brazilian Government with critical feedback on how aspects of the privatisation program should be defined, including project characteristics preferred by the private sector
- Provided the Brazilian Government with insights and recommendations for promoting private sector participation and competition

Helped build positive perceptions of the projects at an early stage among potential investors.

“Because of this market sounding, our next privatisation projects will bring a more efficient and flexible model and will expand the investment potential through private resources.”



Diogo Piloni, Brazil's Secretary of Ports

ACTIVITY 2: Analyse the status of infrastructure finance in Brazil and benchmark with other countries

It can be costly and difficult to collect and analyse data on country-level sources of investment, and even more difficult to collect comparable data that allow a country to benchmark itself against other economies and pinpoint strengths, weaknesses, threats, and opportunities. The GI Hub applied expertise in infrastructure data collection and analysis to bridge data gaps and provide Brazil with an accurate, complete, and comparable dataset. We then provided insights to make the data actionable for achieving Brazil's goals of securing long-term sources of finance and accelerating private investment.

“It is a cooperation with concrete results.”



Erivaldo Gomes, Brazil's Secretary of International Economic Affairs of the Ministry of Economy, speaking to Valor Econômico

ACTIVITY 3: Address forex risk

The amount of private investment Brazil is seeking exceeds local investment capacity, making it imperative to attract new foreign investors. This has been impeded by foreign investor concerns about currency volatility. The GI Hub modelled 10 global economies and conducted a benchmarking exercise with legal firm Machado Meyer. The benchmarking showed how other global economies use hedging instruments and mechanisms to boost foreign investment, and evaluated global approaches and innovations to determine their suitability for Brazil. The resulting recommendations provided Brazil's Ministry of Economy with options to introduce new and effective forex risk mitigations.

“Currency volatility is a risk traditionally allocated to sponsors. However, our studies revealed innovative mechanisms of risk-sharing between public and private parties when pure market alternatives, such as currency derivatives, were too expensive or not available for the required volumes and tenor. In Brazil, we identified positive experiences, but also room for improvement in the regulatory framework, potentially applying some innovations identified in our analysis.”



Jose Virgilio Lopes Enei, Partner at Machado Meyer

ACTIVITY 4: Improve the efficiency of project preparation and management

The needs assessment conducted collaboratively by the Brazilian Government and the GI Hub at the start of the program identified project preparation and management as a key issue for Brazil at both the national and subnational levels. The GI Hub helped Brazil build the capacity of more than 200 of its infrastructure specialists to ensure projects attract sufficient competitive bids and are well prepared by the standards of foreign investors. The GI Hub's capacity-building workshops and translation of key reference guides into Portuguese helped enable Brazil to align to global practices and increase the efficiency with which it brings bankable projects to auction.



The program by the numbers

The partnership between the Brazilian Government and the GI Hub is enabling Brazil's infrastructure future. Here's what has been achieved so far, by the numbers:

A program to support private investment in

\$44bn* of transportation infrastructure

Engagement with

30+ public sector stakeholders and multi-lateral development banks and

50+ private sector stakeholders

Insights from

10 emerging economies modelled for benchmarking in the Forex Initiative

15 in-depth studies developed as models of potential innovations for addressing Forex risk

200+ Brazilian infrastructure specialists increased their knowledge of global leading practices for project preparation and management

*All dollar references are in USD.

Strategic partners



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