

Infrastructure Investments In Brazil Potential, Opportunities and Risks



**University of
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Bachelor Thesis

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Abstract

Brazil is an emerging country with enormous needs for improving and establishing further its infrastructure. Investing in an emerging country's infrastructure poses numerous challenges as well as opportunities for stakeholders. This bachelor thesis analyses the potentials, opportunities and risks of this setting and offers an introductory overview. The thesis is divided into a theoretical and a practical part. The concluding results are that the lack of quality and level of Brazilian infrastructure might be solved through private sector participation, political temperance and a healthy level of social pressure. Consequently, significant economic as well as social benefits would result.

1. Executive Summary

With almost 200 million inhabitants and an area that covers extensive parts of Latin America, Brazil is an emerging country with a tremendous need to improve and grow its infrastructure (Exame (2012/2013)). Investing in a BRIC country's infrastructure poses numerous challenges as well as opportunities and risks for many stakeholders. The Brazilian infrastructure market, with all its particularities, is still somewhat of a mystery to academics, investors, and the general public in Europe, North America or Asia. Therefore, this thesis aims at providing an introductory source of information that should not only be useful for potential investors, economists or experts, but also for the general interested reader.

Thus, any kind of knowledge on Brazil should not be a prerequisite but may be of advantage. The same applies to general economic knowledge as well. Furthermore, the thesis is limited in its scope by the fact that it aims to serve only as an introduction into the subject and, therefore, shall examine closely only the details that are relevant for such an introduction. For the purpose of this thesis, the following key questions have been identified:

- How important is the level of infrastructure for a country's development in general?
- Why and to which extent does Brazil need a general and large-scale enhancement of its infrastructure?
- Which specific projects have been successful, especially from an investor's point of view but also from the "man-in-the-street's" viewpoint?
- What is the Brazilian government's framework for providing basic infrastructure for the population?
- What are the incentives for Brazilian as well as foreign investors?
- How are such typically capital intense projects financed and what alternatives are existing, respectively?
- What lessons can be learnt from previous investment experiences?

As to the structure of the thesis, it is divided into a theoretical and a rather practical part. The theory-oriented part first briefly reviews Brazil's history and important facts on current infrastructure investments in chapter 2. It then continues with an examination of the general economic impacts of infrastructure investments in

chapter 3. Finally, the theoretical part ends with chapter 4, where the Brazilian framework for infrastructure investments is presented and analyzed. The practical part, by contrast, follows more of a hands-on approach. In chapter 5, a case study of São Paulo's Yellow Metro Line and its operator, ViaQuatro, is presented and studied into detail. This case is particularly interesting because of its success and innovation oriented characteristic. Furthermore, it gives an insight of the current issues regarding urban mobility infrastructure. Lastly, the practical part concludes with some important line of thoughts in chapter 6, that resulted from three selected interviews with field experts and professionals. The interviews are an important value adding part of this thesis since they support the main findings and results from this thesis.

The main findings and results from this thesis are that infrastructure investments in Brazil are overdue because they have been neglected for a long period of time. Furthermore, there are a number economic, political and social issues which can be attributed to the fact that the level and quality of Brazil's infrastructure assets are insufficient. Nevertheless, important frameworks that allow private sector participation have been introduced, which have formed the initial basis for a solution to Brazil's infrastructure issue. As examined in chapter 3, infrastructure plays a central role in a country's competitiveness, economic growth and welfare. After illustrating some of the issues and possible solutions in the practical part, the thesis concludes that the level and quality of infrastructure will most probably improve in the short- and long run. Less governmental intervention, more market liberation, private sector participation and a healthy level of societal pressure are prerequisites required for this to occur. Given this scenario, investments in Brazilian infrastructure projects may well be interesting for foreign as well as local investors and add value for the Brazilian population.