

## United States – Brazil

### *Annual Meeting on Infrastructure Development*



# Innovative Financing for Transportation Infrastructure

Goldman, Sachs & Co.

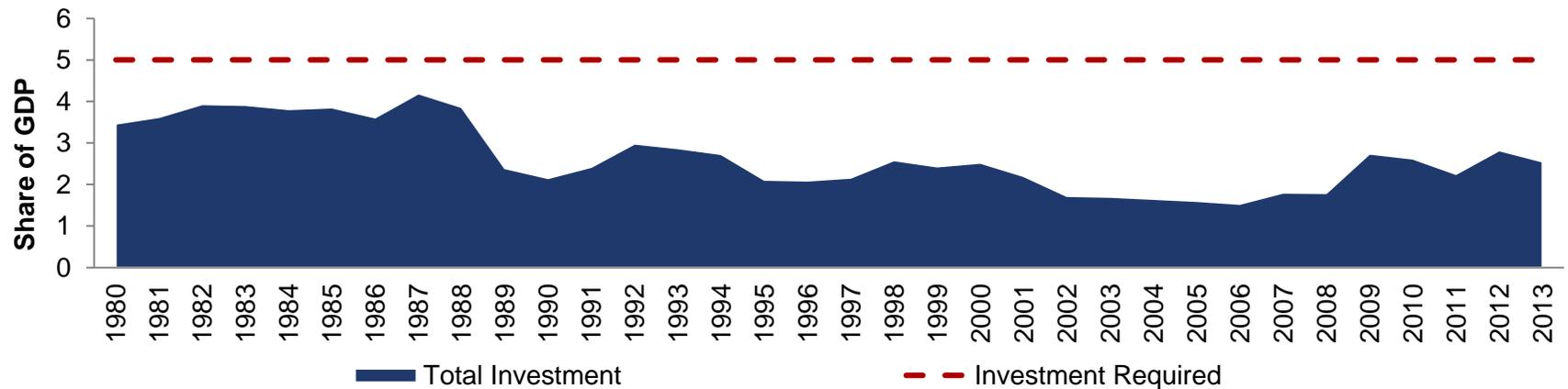
December 8<sup>th</sup>, 2016

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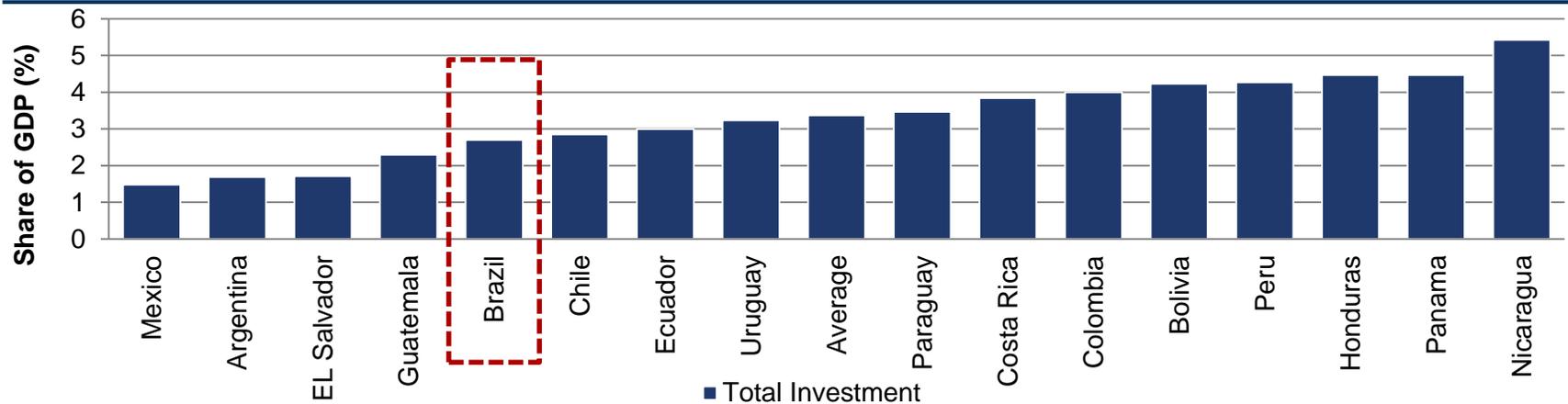
# Latin America Has Historically Lagged in Infrastructure Investments....

## ...And Brazil Is Notoriously Behind Regional Peers

Annual Investment in Infrastructure in Latin America and the Caribbean, 1980–2013<sup>1</sup>



Annual Average Investment in Infrastructure in Selected Countries in Latin America and the Caribbean, 2008–13<sup>2</sup>



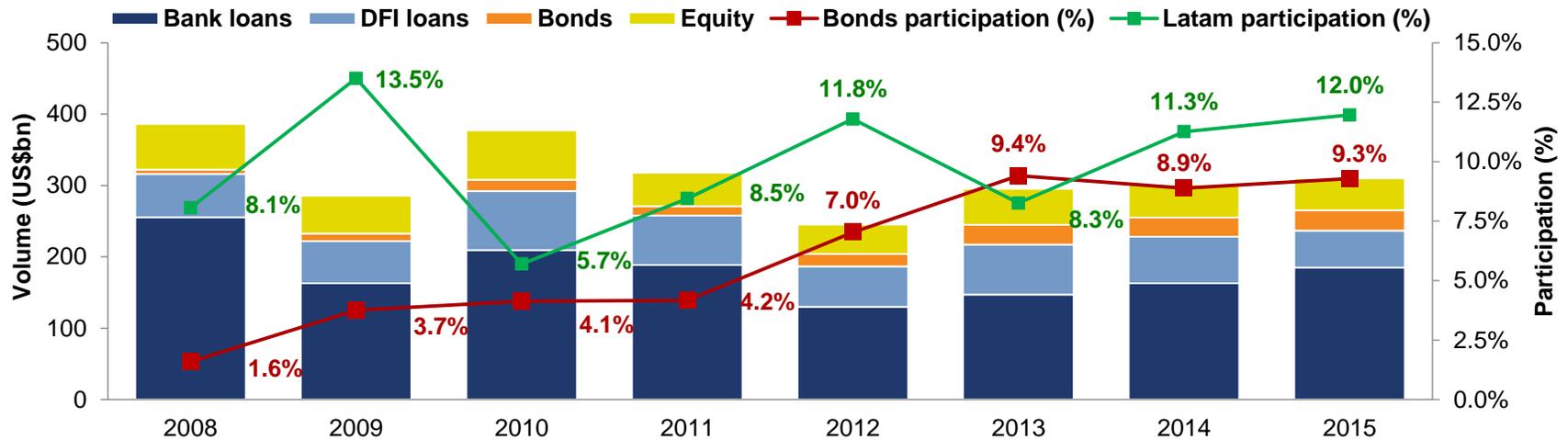
<sup>1</sup> Figure includes data for Brazil, Chile, Colombia, Mexico, and Peru, the countries for which data are available from the 1980s. Source: Data from CAF 2013, Calderón and Servén 2010, and ECLAC 2014.

<sup>2</sup> Source: Data from CAF 2013 and ECLAC 2014.

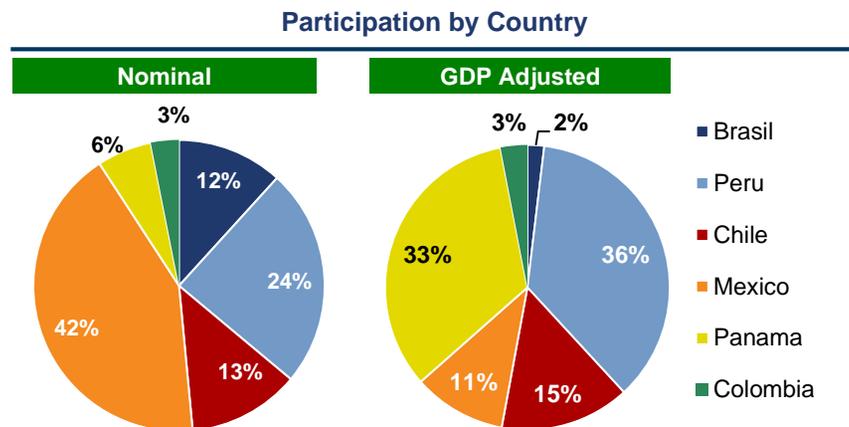
# Globally, the share of Capital Markets Financing for Infrastructure Project is on the Rise...

...But Brazil is Still Behind Regional Peers

Global Project Finance Market Breakdown by Source of Funding (2008 – 2015)<sup>1</sup>



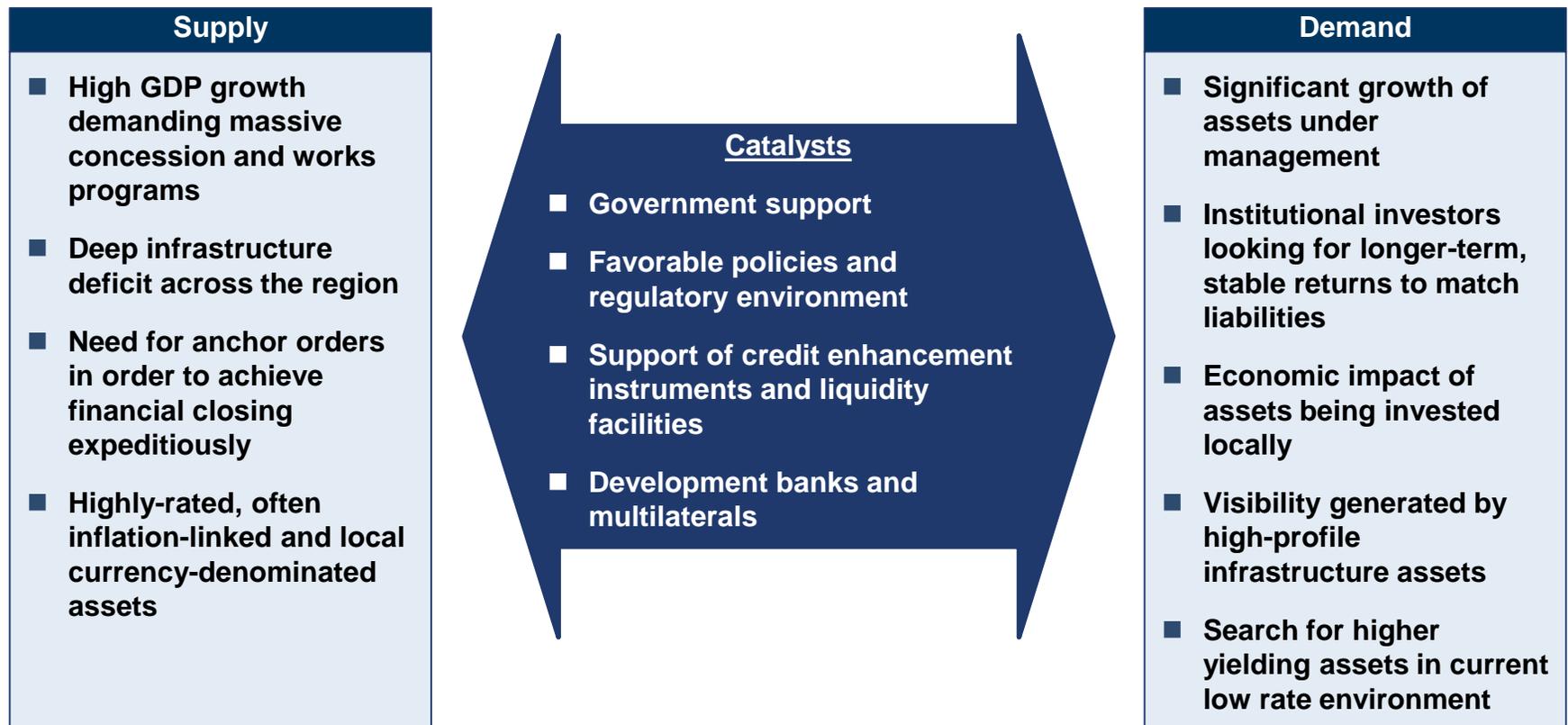
Latin American Project Bonds in the Global Capital Markets<sup>2</sup>



<sup>1</sup> Source: Infrastructure Journal  
<sup>2</sup> Source: Bloomberg, GS Internal

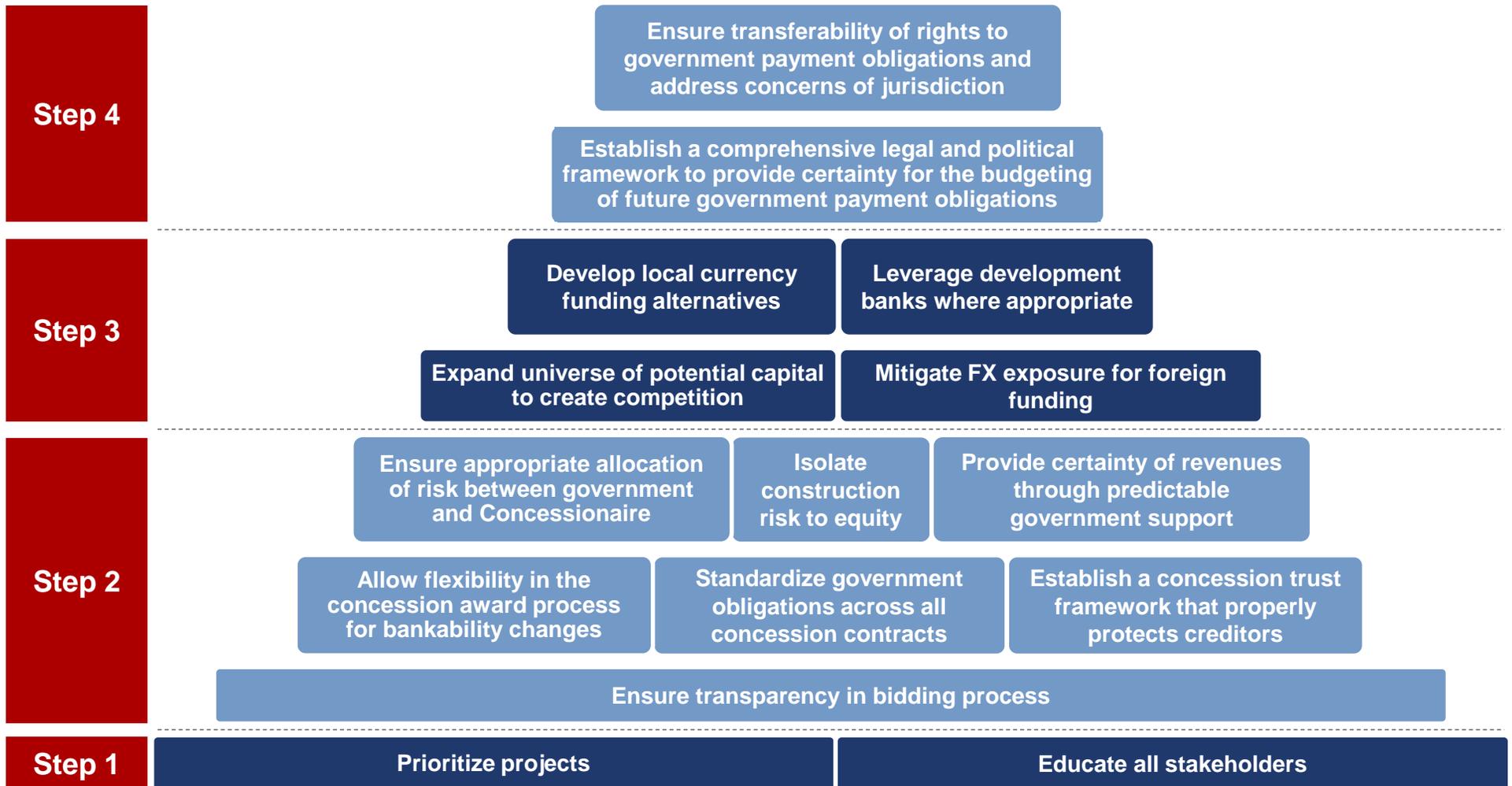
# Yet, Infrastructure Bonds are a Natural Fit for Institutional Investors...

- The cash flows generated by infrastructure assets are an ideal match for institutional investors looking for long-dated, stable, incremental returns to match their liabilities



# ...As Long as a Favorable Institutional Framework is in Place

## Best Practices for Attracting Foreign Capital to Infrastructure Projects



# What do International Investors Care About?

## Considerations on Infrastructure Projects

✓ **Strong track record of EM institutional investor interest for infrastructure assets in Latin America that are structured as quasi-sovereign credits**

### Credit

- ✓ Simplified investment thesis
  - Isolation of construction and operating risks through government support and structural liquidity

### Currency

- ✓ Vast majority of EM allocation for bespoke long-dated infra assets is in USD / hard currency
  - Bespoke opportunities for local currency investment with size limitations (particularly for non-IG countries like Brazil)

### Liquidity

- ✓ Traditional EM portfolio managers place significant value on secondary market liquidity
  - Issuances under ~\$300-500mm likely to pay a liquidity premium

### Enforcement

- ✓ Market has evolved and tends to accept sovereign payment obligations under local law (particularly for IG countries)
  - However, most funds will expect to see international arbitration provisions / venue in the context of recovery

# Potential Steps to Incentivize International Financing of Brazilian Infrastructure

- With the right framework and institutional reforms, we believe the global capital markets can be a robust source of financing for Brazil's infrastructure needs

## Potential Regulatory Reforms to Incentivize Infrastructure Financing out of Brazil

Credit	<ul style="list-style-type: none"> <li>■ Development Finance Institutions to provide construction wraps / first loss tranches</li> <li>■ Institute clean termination payment mechanics for unfinished works</li> </ul>
Currency	<ul style="list-style-type: none"> <li>■ Incentivize global financing of projects with native USD cash flows (e.g. airports, natural resources)</li> <li>■ Government and Development Finance Institutions to provide guarantees / collars for currency hedge providers in the context of BRL-denominated projects</li> </ul>
Fiscal	<ul style="list-style-type: none"> <li>■ Expand Infrastructure Withholding Tax exception to the refinancing of construction loans in order to issue bonds in the capital markets for operating projects               <ul style="list-style-type: none"> <li>— Widen scope of 12.431 law from local debentures to global deals</li> <li>— Increase 24-month "lookback" period in 12.431 law</li> </ul> </li> </ul>
Regulatory	<ul style="list-style-type: none"> <li>■ Expedited framework and processes to obtain rights of way and environmental licenses for strategic projects</li> </ul>

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