How Will Latin America Pay for its Infrastructure?

Latin America has a significant need for infrastructure investment, though more diversity in financing options is needed, Moody’s Investors Service said last month. Construction of the Mario Covas Beltway in São Paulo is pictured above. // File Photo: Odebrecht.

The CPP Investment Board, Canada’s largest pension fund with $207 billion in assets, recently told Bloomberg News that it is sticking with plans to expand in Brazil, despite the South American country’s current economic downturn, and will focus on investing heavily in infrastructure. Will more institutional investors follow suit? What are the benefits and drawbacks of having foreign pension funds investing in Latin American infrastructure projects? What has held these institutions back from financing infrastructure in the region to date? What best practices and scenarios would yield the most favorable outcomes for all involved?

Norman F. Anderson, president and CEO of CG/LA Infrastructure: “This is a classic win-win. The Canadians are right to invest, and to advertise that investment. Brazil needs long-term friends to step up and support the country now, and the long-term patient capital of the Canadian pension funds is a perfect match for the long-term promise of Brazil and Brazilian infrastructure. Sadly, more institutional investors are not likely to follow suit, since—aside from the Canadians—very few global pension funds have invested in the kind of sophisticated and creative infrastructure teams required to confidently make intelligent investments. This is a big problem; pension funds need to build out their teams and build their capacity, so that they can make substantial—and strategically intelligent—investments in emerging markets infrastructure. The other big issue not highlighted in the question is that CPP and others have no intention of investing in greenfield projects,
Rousseff Names Lula Her Chief of Staff

Brazilian President Dilma Rousseff on Wednesday named her mentor and predecessor, Luiz Inácio Lula da Silva, her chief of staff, a move that will shield him from prosecution in courts other than the Supreme Court for his alleged role in the massive corruption scandal at state-run oil company Petrobras. The move sparked protests in Brasília and at least three other cities in Brazil as demonstrators took to the streets to denounce corruption, BBC News reported. Some 2,000 protesters gathered, waving flags and banners reading, “All Lies” outside the presidential palace. In naming Lula to the post, Rousseff called the former president a “skillful political negotiator” who would help jump start an economic recovery. Hours after Lula’s appointment, the federal judge heading the investigation of Lula released telephone recordings suggesting that Rousseff named Lula to the position to spare him arrest in the Petrobras scandal. The release of the recordings also led to an uproar in Brazil’s Congress where opposition leaders took to a microphone to chant, “Resign, resign,” directed at Rousseff. Lula has repeatedly denied wrongdoing and says the charges are politically motivated.

E.U., Mercosur Plan Revival of Free-Trade Talks

The European Union and South American trade bloc Mercosur want to revive stalled free-trade talks in April, with formal offers on how willing they are to open up their economies to foreign goods, Argentine Trade Minister Miguel Braun said Wednesday, Reuters reported. Past efforts at reviving trade talks, most recently at the E.U.-Latin American summit in Santiago in 2013, stalled because of Argentine protectionist policies, diplomats say. The new government of President Mauricio Macri hopes to give the trade bloc the chance to finally complete the deal. Argentina’s Mercosur partners, Brazil, Paraguay and Uruguay, were unwilling to make a trade deal without the inclusion of Argentina. “Argentina is ready to move forward,” Braun told Reuters during a visit to Brussels to discuss trade talks with E.U. trade officials. “For Mercosur, this is a priority.” E.U. foreign policy chief Federica Mogherini visited Argentina earlier this month and met with Macri, pledging support for a free-trade deal. Uruguay’s foreign minister, who currently holds the rotating Mercosur presidency, will travel to Brussels on a “skillful political negotiator” who would help jump start an economic recovery. Hours after Lula’s appointment, the federal judge heading the investigation of Lula released telephone recordings suggesting that Rousseff named Lula to the position to spare him arrest in the Petrobras scandal. The release of the recordings also led to an uproar in Brazil’s Congress where opposition leaders took to a microphone to chant, “Resign, resign,” directed at Rousseff. Lula has repeatedly denied wrongdoing and says the charges are politically motivated.

Obama Hopes to Make Cuba Thaw ‘Irreversible’: White House

President Barack Obama wants to make the U.S. thaw with Cuba “irreversible,” the White House said Wednesday, Reuters reported. Obama, who is to arrive Sunday in Cuba before talks Monday with Cuban President Raúl Castro, will be the first U.S. president to visit the island in 88 years. Obama plans to detail his vision for the future of U.S.-Cuban relations in a major speech during his visit to Havana.

Peña Nieto Urges Actions to Fight Air Pollution

Mexican President Enrique Peña Nieto on Wednesday urged state and federal authorities to take steps to control air pollution after the government declared an environmental emergency earlier this week, due to air contamination, Reuters reported. Mexico City had experienced three consecutive days of extreme air pollution, with the concentration of ozone in the air reaching its highest level in 13 years, the government said. Ozone can cause breathing difficulties and worsen heart disease; children and the elderly are especially at risk.

Guatemalan Court Opens New Proceeding Against Ex-Dictator Ríos Montt

A Guatemalan court on Wednesday convened for a fourth attempt to try former dictator Efraín Ríos Montt on charges of genocide and crimes against humanity during the country’s civil war. Ríos Montt is accused of ordering the killing of nearly 2,000 indigenous Ixil Guatemalans during his de facto presidency from 1982-1983. Immediately after the tribunal was called to order, defense lawyers sought to block the proceedings, and attorneys for the victims argued the tribunal should be split into two separate trials.
April 8 and exchange offers over how much duty-free access each side is willing to consider. The European Union is looking for more than 90 percent of goods and sectors to be opened up, E.U. officials have said.

**Maduro Extends Holiday to Cope With Power Crisis**

Venezuelan President Nicolás Maduro on Tuesday said he would extend the official Easter holiday from two to five days next week, according to a statement in the Official Gazette, effectively shutting down Venezuela for a week amid a deepening electricity crisis, Bloomberg News reported. Over the weekend, Maduro had originally said that the extended holiday would only apply to government employees. The government has already been rationing electricity and water supplies for months as the country has endured a prolonged drought that has cut power generation at hydroelectric dams. The government has cited the El Niño weather phenomenon and “sabotage” by its political foes. Critics, however, say a lack of maintenance and poor planning are to blame.

Last week, Energy Minister Rafael Ramírez warned that water levels at the Guri dam, which is one of Venezuela’s main sources of power, had fallen below the turbines. “We're hoping, God willing, rains will come,” Maduro said in a national address Saturday. “Look, the savings is more than 40 percent when these measures are taken. We’re reaching a difficult place that we’re trying to manage.”

**Santander Brasil Considering Bid for Citi’s Local Unit**

Banco Santander Brasil is considering a bid for the Brazilian subsidiary of Citigroup as it makes an effort to boost its base of wealthy clients, Reuters reported Wednesday, citing Conrado Engel, a senior vice president at Santander Brasil. “Citi has a small share of Brazil’s banking market, but we have special interest in their high net worth segment, which we will eye carefully,” Engel told investors at an event in Rio de Janeiro. His comments came less than a month after Citi said it would exit its retail banking and credit-card operations in Brazil, Argentina and Colombia. At the end of 2015, Brazil made up just 8 percent of Citi’s consumer loan portfolio in the region, as compared to 80 percent from Mexico. Last year, HSBC Holdings exited Brazil, a move that allowed Santander Brasil to boost its base of wealthy clients. The local unit of Spain-based Santander is the foreign-owned bank among Brazil’s top five financial institutions, Reuters reported. Santander Brasil shares have gained 4.3 percent so far this year on São Paulo’s stock exchange.
regulatory and market conditions in Brazil. The ongoing Petrobras scandal has knocked the wind out of Odebrecht on its home turf, opening the way for new players to compete in a much-improved regulatory climate. The government is seeking private investors in a total of $65 billion of infrastructure projects, including fresh build-outs of new ports, highways, railways and airports. To help reduce corruption, low-interest loans from the much-maligned BNDES must be backed by privately sourced infrastructure debentures, which ensures market-based supervision of project financing. The entry of a deep-pocketed and experienced investor like CPP will put to test the claim by Brazil’s regulators and judiciary that the country’s investment climate has truly changed for the better. If CPP likes what it sees, others will quickly follow—giving the pension fund enormous leverage to navigate a traditionally cumbersome asset class in Brazil. In 1912, a Canadian firm named Brascan (Brazilian Traction, Light and Power Co.), now known as Brookfield, cut its teeth investing in Brazil’s nascent hydroelectricity industry. Over the last century, Canada’s infrastructure and financial sector has learned to combine patience and contrarian boldness when investing in Brazilian infrastructure. 2016 is just another notch on a well-worn belt.”

**Infrastructure is a clever focus, given the rapidly changing regulatory and market conditions in Brazil.” — John Price**

A Márcio Lutterbach, corporate finance partner at PwC Brazil: “Brazil is facing a political and economic crisis. Even though we cannot say that we have hit rock bottom, we can state that it is quite serious. We have seen different reactions from foreign investors: those with a greater knowledge of the country and deep understanding of the growth potential of Brazil, in the medium and long terms, are planning to acquire companies of various segments, either because the companies involved or affected by the corruption investigations need to sell their assets, or due to the need for working capital and financing of the companies affected by the economic crisis. However, investors who are not as familiar with the country are contrary to the risk that Brazil presents at the moment, and are waiting to see how the crisis will unfold. The presence of foreign pension funds (as well as the development of the local capital market) will be fundamental in assisting the country in its infrastructure investments, which are so necessary for the return of growth, mainly because the federal government will have budgetary restrictions and the Brazilian Development Bank will not be able to finance these projects on its own.”

**LATIN AMERICA ADVISOR** is published every business day by the Inter-American Dialogue, Copyright © 2016

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
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Phone: 202-822-9002
Fax: 202-822-9553
www.thedialogue.org
ISSN 2163-7962
Subscription Inquiries are welcomed at freetriall@thedialogue.org

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