

Chapter 3 of 3: Connecting to growth in Latin America; investment flows

Silvia Pavoni	So we mentioned a few projects and the fact that various markets are different nowadays across the region. What are the key challenges in making sure that the right investors, both locally and internationally, are drawn to these projects?
Stuart Lea	I think it comes down to pipeline and transactions and stability, and I think that stability is something that's hard-won and easily lost. In some respects a regulatory environment that's predictable and understandable, a government process that sets out and does what it says, and a process which is transparent. And whilst investors are happy to take competition, they will win, they will lose, but they need 2 key factors. They need to know that there's a pipeline so that they can win over a portfolio, and they need to know the rules of the game and that the rules are actually implemented. And I think we're seeing that stability that we perhaps historically haven't seen 5, 10, 15 years ago in Latin America. So I think the position is there to really attract this capital and I think that with this wall of money that's looking to invest in infrastructure, particularly on the equity side, which is not fulfilled by the transactions that are coming about in the core markets. And the core markets are very much Australia, the European Union and North America, and to a lesser extent perhaps in the Middle East. So these economic infrastructure in particular, but also the project financing greenfield's side. We're seeing opportunities in the regions I mentioned but the capital is greater than the opportunities that are apparent.
S.P	So there is...
S.L	And that is driving the interest in Latin America.
S.P	Yeah so there is lots of capital waiting and wishing to be deployed and we're talking about equities yet it isn't always easy to invest in equity in an emerging market but other ways that investors can use.
Arturo Recio	Well I think it's clearly, you know, one of the key questions is actually if you are sitting in an investment committee in a, you know, traditional country, you clearly...you want all these safeguards, and it's very important, you know, for the country to listen. And I think, you know, cases such as Brazil, you know, they have been listening, you know, to investors, you know, in terms of trying to modify certain requirements within the concession, concession biddings and other opportunities that they actually have done, and I think it's quite important. They have made a lot of progress. So investment committees need to be convinced about obviously the macro, especially the macro. I think we have seen that many of our clients are actually...before they were actually pretty...let's say not very enthusiastic about investing in these types of markets...
S.P	Okay. What were their concerns?

A.R	Well actually I think it's more of a...because obviously they have now opportunities on the, let's say, traditional markets, but they see that actually there are more and more opportunities on the emerging markets. So what they are actually doing is a very simple exercise; is actually try to look at the macro, you know, see in terms of economic growth, you know, development of the country. Also look at, you know, in terms of what type of returns they need to actually have in order to make those investments and really look at... very important, look at local partners that actually can work with in order to achieve those goals and investments. It's very much aswitch in mentality that we have seen but obviously as well on of the important things we have seen is...is starting to look at Latin American companies and investors taking advantage of transactions or situations in developed markets.And, you know, we have seen the prime examples have been the privatisation of airports in Portugal where we have seen Brazilian companies playing a very key role. Also BNDES from Brazil playing some roles...[inaudible]
S.P	The Development Bank of Brazil. That's a very interesting development.
A.R	It's a very interesting development and also Mexican companies, Mexican entrepreneurs looking at companies in Europe, you know, and also some other geographies. So I think it's a very important development as well that actually shows you that Latin America, and certain countries in Latin America, are already a major force in infrastructure.
S.P	And perhaps something else that may be interesting to point out is that as capital markets, in particular equity markets, are growing in these countries investing directly in some companies may be of interest, although there are obviously many other opportunities to look at when looking at equity. So is there any particular country from a capital market's point of view that excite you?
A.R	Well, I mean, first of all I mean, obviously, Brazil and Mexico clearly are, you know, taking the lead on that. But you can see developments on the debt capital markets for example; project bonds in particular, that has been the development of these type of products in Brazil for example and the start of...we're actually starting to see this in Mexico. I think these are very major developments because, you know, it compares very favourably with other developed economies in terms of development of capital markets, the willingness of investors to take infrastructure risks in projects, you know. So I think it's actually quite a more developed, you know, market that, you know, many people might think, and I think you see as a potential ground of education for other investors to actually do things on other geographies, on other emerging markets.
S.L	And it's typically a genesis in an emerging market in looking at the forms of capital. It's typically driven by either governments or development banks almost as an initiator of finance. You then typically migrate into a bank debt market, where it's a combination, perhaps, of development capital, BNDES for example in Brazil, with the banking market, be it local or international, and the third genesis of that is the development of local capital markets, so bond format investors taking a view on a non-recourse basis against the project cash-flows of that particular asset. And that development of that local capital markets is an incredibly important factor for making an internalised market, developing liquidity and making it an attractive asset class both for domestic institutions but also potentially off-shore institutions investing in the local currency, more likely US dollars, for that country. And it's that genesis I think we're seeing now which is a very positive development.
S.P	So Latin America is entering in another phase of its development and it seems like it's a really promising one. So thank you both very much for your comments.

A.R	Thank you very much.
S.L	Thank you very much.