BRAZILIAN FOREIGN DIRECT INVESTMENT IN LUSOPHONE AFRICA: Q2 2008

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Brazil and Lusophone Africa: Natural Partners?

Q2 2008: Reinvigoration of historical ties between Brazil and Lusophone Africa has been earmarked as a priority of the Lula administration’s international agenda

Historic connection
- Brazil, Angola, Cape Verde, Guinea-Bissau, Mozambique and São Tomé and Príncipe are all former colonies of the Portuguese Empire
- African presence in Brazil since 1538
- 2000 Brazil census: 44.7% of population self-identified as of African descent

Active Reengagement under Lula administration
- Diplomatic exchange: Presidential visits to 17 African countries in 1st 4-year term
- Technical Assistance: ABC, EMBRAPA, SENAI
- Economic Trade: Brazilian imports to and exports from Lusophone Africa grew 5x and 80x, respectively, during 1st term

But will the institutional push for strengthened relations translate into increased foreign direct investment by the Brazilian private sector?
The New African Frontier

Q2 2008: After decades of economic decline, the sub-Saharan region is now experiencing unprecedented, robust GDP growth and has captured the attention of investors worldwide.

Within Lusophone Africa, three industries present particularly attractive opportunities for Brazilian operators:

**Extractive Industries**
- Angola: vast mineral resources, largely undeveloped; petroleum and diamonds are leading exports
- Guinea-Bissau and São Tomé and Príncipe: offshore oil discoveries have been made, though proven reserves are yet to be confirmed
- Mozambique: significant reserves of coal and natural gas, largely undeveloped

**Energy**
- Angola, Cape Verde and Mozambique have significantly underdeveloped electricity grids, with electrification rates ranging from 8% to 20%
- In Cape Verde and São Tomé and Príncipe, the majority of households have access to electricity but systems are highly inefficient and tariffs remain some of the highest within the African continent

**Construction**
- Notwithstanding incremental needs for residential, commercial and industrial construction, the Lusophone African countries suffer from a legacy of poor public infrastructure, left behind by decades of war-related destruction and sustained underdevelopment by the respective governments

Are the opportunities in Lusophone Africa sufficiently compelling to attract Brazilian investment to what remains a challenging operating environment?
The Brazilian Opportunity Cost

Q2 2008: Meanwhile, Brazil has also been experiencing robust GDP growth and significantly improved macroeconomic conditions, leading to Brazil’s elevation to investment grade status for the first time.

Within the three highlighted industries, Brazil similarly presents attractive opportunities:

<table>
<thead>
<tr>
<th>Extractive Industries</th>
<th>Energy</th>
<th>Construction</th>
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<tbody>
<tr>
<td>▪ November 2007: discovery of what might turn out to be the largest deepwater oilfield</td>
<td>▪ Brazil is the world’s 2nd largest producer of hydropower, yet just 25% of the country’s</td>
<td>▪ January 2007: infrastructure named as 1st of five main initiatives of Growth Acceleration Program</td>
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<td>off the coast of Rio de Janeiro, with up to 50 billion barrels of offshore reserves</td>
<td>production potential has been captured</td>
<td>▪ October 2007: Brazil named as host nation of 2014 World Cup; Brazilian government has set</td>
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<td>▪ Petrobras, Brazil’s national oil and gas operator, is an undisputed world leader in</td>
<td>aside R$6 billion (US$3.4 billion) to promote development of renewable energy sources</td>
<td>aside R$24 billion (US$13.5 billion) to cover future investments related to stadium building,</td>
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<td>deep offshore exploration and production and is well-positioned to capitalize on this</td>
<td></td>
<td>urban transport and airport and port infrastructure</td>
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<td>milestone discovery</td>
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Are Brazil’s private sector resources better invested in Lusophone Africa or do Brazil’s organic opportunities present a stronger investment thesis?