Brazil
Opportunities and barriers to inbound construction

G20 rankings & data

<table>
<thead>
<tr>
<th>G20 heatmap rankings</th>
<th></th>
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<tbody>
<tr>
<td>Construction industry health</td>
<td>Construction industry value 11</td>
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<td>Construction industry, real growth 10</td>
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<td></td>
<td>Announced spend on construction in next 3 years 2</td>
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<td>Country financial health</td>
<td>Budget balance 7</td>
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<td></td>
<td>Overall announced fiscal stimulus 12</td>
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<td></td>
<td>GDP/Head 13</td>
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<td></td>
<td>Credit ratings rank 7</td>
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<td>Ease of doing business</td>
<td>Doing business overall rank 18</td>
<td></td>
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<td>Dealing with construction permits rank 15</td>
<td></td>
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<td></td>
<td>Business transparency rank 14</td>
<td></td>
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<td>Tax regime</td>
<td>BDO overall tax rank 15=</td>
<td></td>
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<td>World bank – paying taxes rank 17</td>
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Financial metrics

- Total fiscal stimulus announced £bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction £bn
- Construction industry value – 2009 £44bn
- Main corporate tax rate 34%

Construction sector metrics

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<th>2007</th>
<th>2008</th>
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<th>2010</th>
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<th>2012</th>
<th>2013</th>
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<tr>
<td>Construction industry value, £bn</td>
<td>36</td>
<td>40</td>
<td>44</td>
<td>48</td>
<td>51</td>
<td>56</td>
<td>61</td>
</tr>
<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>8.6</td>
<td>6.5</td>
<td>2.5</td>
<td>4.9</td>
<td>3.6</td>
<td>5.4</td>
<td>3.7</td>
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<tr>
<td>Construction industry, per cent of GDP</td>
<td>4.5</td>
<td>4.5</td>
<td>4.6</td>
<td>4.7</td>
<td>4.6</td>
<td>4.7</td>
<td>4.7</td>
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BDO review of tax

- High tax rates and a complex, multi layered corporate tax system
- Generally no thin capitalisation restrictions
- Relatively favourable tax depreciation on building costs
- Useful but restricted and burdensome tax incentives
- Several highly beneficial special tax regimes for particular sectors of the construction industry

Overall scoring 4/10
15= out of the G20

BDO ease of doing business

There are some significant barriers for inbound construction activity however it is possible to get round these

1 Very easy 2 Quite easy 3 Average 4 Quite difficult 5 Very difficult

Top construction firms

- Construtora Odebrecht
- Construcoes e Comercio Camargo Correa
- Construtora Andrade Gutierrez SA

Foreign companies are allowed to participate in the competitive bidding process under the same conditions as Brazilian companies and also in certain instances in association with Brazilian companies. However, if there is a tied bid, there will be a preference for the Brazilian company.
Opportunities and barriers

Ranked 17th overall in our G20 heat map, despite an extremely challenging regulatory environment, the scale of opportunity in Brazil is impressive.

According to FDI.net (part of the World Bank), insufficient infrastructure investment has long been a constraint to Brazil’s economic growth. In 2006, Brazil’s real construction output growth (10.3 per cent) rose faster than the overall GDP growth. 2007 was also a good year, with growth of 8.6 per cent in real construction sector output. According to the Brazilian government, Brazil’s public investments in infrastructure grew over 50 per cent in 2008 to BRL 11.3bn (£3.35bn) from BRL 7.3bn (£2.29bn) in 2007.

Tight credit markets globally have meant both the Brazilian government and private investors are finding it more difficult to fund projects. Business Monitor International estimated total investment in infrastructure in 2008 to be BRL 11.3bn (£4.9bn), a 3 per cent increase from 2007. The Brazilian Association of Infrastructure and Basic Industries (Abdib) estimates that as much as 40 per cent of this investment is needed for the country’s growing oil and gas sector.

In 2007 the government launched its ‘growth-acceleration programme’, or PAC to inject public funding in to infrastructure. The program encompasses building initiatives such as airports and ports nation-wide, the repair of highways, the development of energy projects in the north, and the provision of housing, water and sewage systems to benefit poorer Brazilian communities. In January 2007 the Brazilian national bank (Banco Nacional de Desenvolvimento Econômico e Social) approved an interest rate reduction to the segments of energy transmission and distribution, gas production and distribution, railways, ports, airports, roadways, sanitation and urban transportation. The reduction was part of the government’s Growth Acceleration Program (PAC).

The Abdib estimates there are currently £29.67bn in infrastructure contracts underway and a further BRL 20bn (£3.65bn) invested in oil and gas projects. According to a June 2008 report it is estimated that Brazil will see investments of around £1.75bn in infrastructure over the next three years.

The Abdib has also estimated that around £29.67bn will need to be spent on Brazil’s preparations for hosting the FIFA 2014 World Cup. The World Cup provides significant impetus for investment in transport, stadiums, and hotels. Possibilities include an IPO privatization, or concessions of individual or bundled airports, with contracts designed to ensure there is enough money for regional airports. These contracts include a new airport at São Paulo (£8.9-£11.86bn) and the expansion of the Guarulhos Airport (£576.3m).

Reasons Brazil is attractive for inbound construction activity

• There is growing investment into infrastructure.
• There are tax reductions for investment in infrastructure projects.
• High availability of skilled labour.
• Municipalities offer companies some attractive advantages, such as the donation of sites in industrial districts, exemption from municipal taxes and subsidies of rent expenses.


Barriers/challenges to construction activity

• Brazilian legislation is complex and constantly changes with regard to tax rates, levy, tax bases and introduction of new taxes.
• The nation’s transport infrastructure suffers from inadequate funding and lack of focus, leading to slow progress in the development of roadways and port terminals.
• Tight credit market and the economic downturn means that growth in infrastructure projects has slowed.

BDO viewpoint and advice

Pitfalls to avoid when doing business in Brazil

• The complex regulations and legislation.
• Difficulties in forming, and operating Joint Ventures with Brazilian companies.

Practical advice for inbound construction activity

• Ensure that local experts are engaged who understand the complex regulations and legislation.
• Ensure that due diligence of potential JV partners is carried out.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

• Buildings – maximum tax depreciation rate is 4 per cent per annum.
• Equipment and office furniture – maximum tax depreciation rate is 10 per cent per annum.
• Computer hardware and software – maximum tax depreciation rate is 20 per cent per annum.

Other incentives:

• A reduced rate of federal and state indirect tax applies to the import and manufacture of goods supplied for specified raw materials acquired by the construction industry.
• Further incentives for the construction industry are proposed as part of the “Programa de Aceleração do Crescimento” package of tax incentives announced to incentivise infrastructure projects.
• The Special Incentive Regime for Infrastructure Development (REDI), introduced in June 2007, allows tax breaks for companies investing in transportation, sanitation or irrigation projects. It allows eligible companies to receive suspension of the PIS, (Program for Social Integration contribution) and COFINS (Contribution for the Financing of Social Security) on local purchases and imports of new machinery, instruments, equipment, and construction materials for use in infrastructure works that will be included in their fixed assets. It also grants PIS and COFINS suspensions for local purchases and imports of services destined for use in infrastructure projects.
• In April 2008, a new presidential decree was launched that extends tax reductions for investments in infrastructure projects.
• In November 2008, the Fundo de Garantia do Tempo de Serviço (FGTS), Brazil’s employment guarantee fund announced that it plans to invest BRL 10bn (£2.96bn) in state water and sanitation utility companies. The fund is hoping to provide a boost to the utilities financial positions.