INSIGHTS

9 Takeaways From Inframation's Infrastructure Investors Forum Latin America 2018

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On November 1, 2018 Inframation held its first-ever gathering in New York City of some of the main investors, advisors and funders active in Latin American infrastructure. We commend Inframation for creating a convivial atmosphere, as well as a forum where top-quality the panelists debated a series of interesting topics, including a review of the current state of the main infrastructure markets, the challenges to attracting foreign capital investment, and developing and accepting new financing structures and vehicles.

For those who were unable to attend, we've identified nine key takeways from the conference.

- 1. There are plenty of hungry investors chasing transactions in Latin America. Yet, the pipeline has been weaker than hoped for a variety of reasons, some political and some economic, including continuing ripples from Lava Jato.
- 2. Peru's Proinversion is in the process of selecting an international law firm to draft a form of concession contract that reflects best practices, both regionally and internationally. The goal of the new form of contract is in part to ensure that Peruvian public private partnership (PPP) contracts are bankable. This is a welcome development that Fernando Rodríguez Marin identified as a requirement for the correct application of the new law and regulations in an article published by PFI in October 2017 (subscription required). In addition, Proinversión has decided that it needs to hire the best advisors available for their projects, including, when required, international advisors, in addition to the best local teams. One of the key changes introduced into the new legal regime was the prohibition amendments to each concession contract for a period of three years following execution. If this is implemented, we expect the new contract to require bidders to have a much "firmer" financing plan in place at time of award. This looks like the American or Canadian model, and it remains to be seen if this plan will work in Peru: A similar approach has not been so successful in Colombia.
- 3. New renewable energy projects in Colombia will likely be procured with relatively short (10-year) PPAs payable in pesos. The semi-merchant structure plus local currency payment structure will surely present challenges to foreign investors and to obtaining financing extending beyond construction plus 10 years (or less).

- 4. There is an increasing number of projects to be procured in local currency, including both energy and infrastructure assets. These projects need to be structured so as to maximize the interest of investors with appetite for local currency assets. Currency hedging by dollar investors where potential returns are constrained is costly and may make such investments uneconomical. Natural hedging by creating a local currency asset base is a good alternative, but it will take time.
- 5. Chilean projects will include a new wave of hospitals and roads. In the case of roads, the combination of long concession terms with long construction periods will require careful structuring: Assumptions were hybrid financings with construction facilities (bank debt) and long term take-out funding. It seems this may be an opportunity for private placements with those institutional investors who have shown appetite and risk tolerance for similar assets recently, as well as their competitors who will follow their lead.
- 6. Argentina remains a big question mark both politically and in terms of project quality. The recent economic crisis and bailout will likely rule out the use of capital markets financing solutions for the country's road program.
- 7. Regardless of whether investors concentrate on OECD countries or have a broader appetite, respect for the rule of law remains key for investors. First, with respect to the procurement and structuring of projects, to foster expeditious commercial and financial closing; second, and as importantly, a jurisdiction must allow private parties to require the grantor to perform its contractual obligations and concession contracts must provide protection against changes in law in accordance with international market practice.
- 8. Allianz has introduced private placement investment as an alternative source of long-term financing, but the product is not for everyone. Projects need to be investment grade in OECD countries. The sectors of interest include power transmission, oil/gas pipelines, power generation and some discrete RPI/CAO-type transportation infrastructure projects. Allianz, however, also has committed a sizeable amount to a new co-lending fund with the IFC to invest in emerging countries for which the IFC is taking a first-loss position.
- Local institutional investors in Colombia, Peru and Mexico will continue to be significant
 players in their infrastructure markets. Increasingly, we should expect to see more crossborder investments as opportunities in each of the countries ebb and flow, such as
 Peruvian funds investing in Colombia.

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