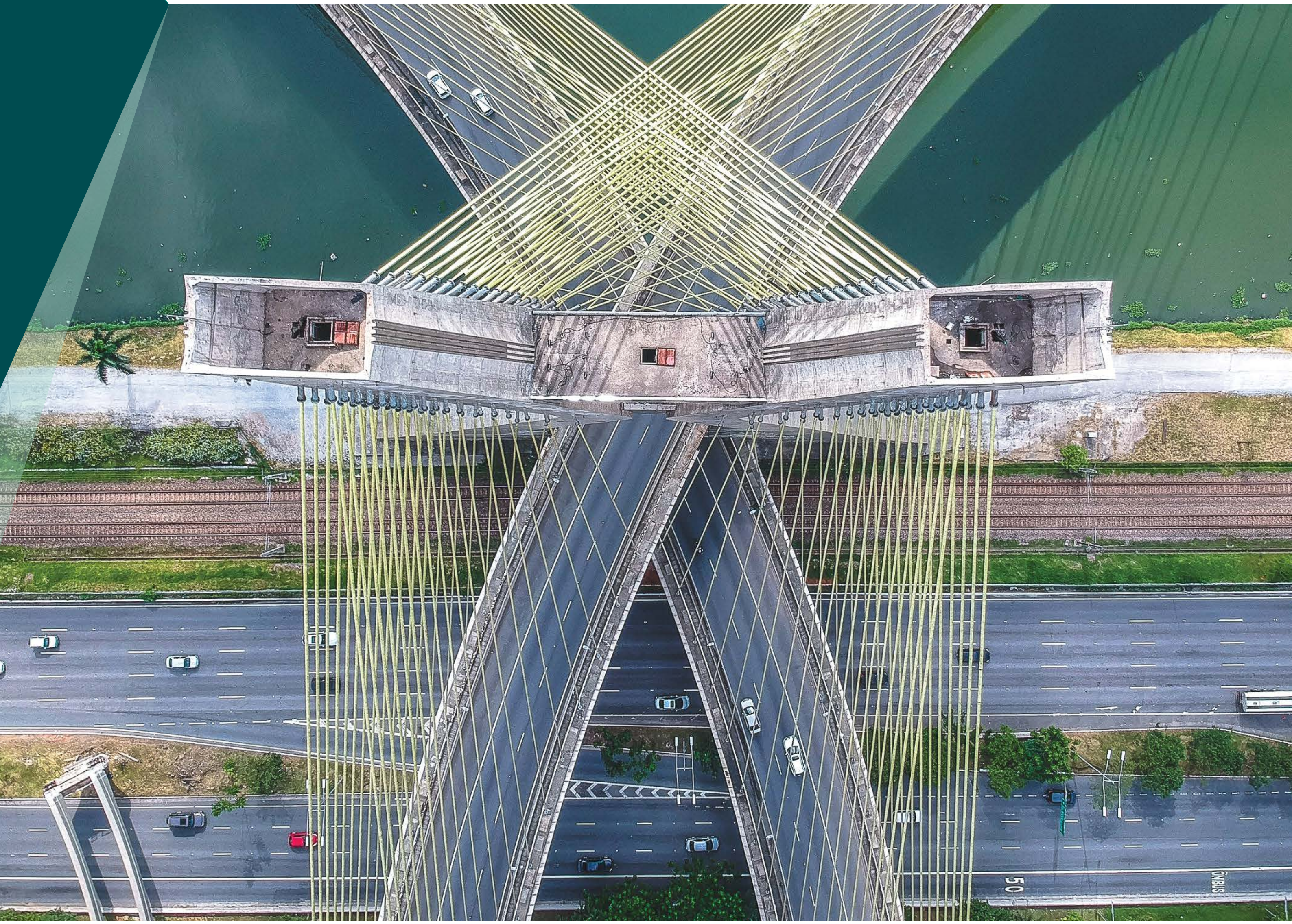
BANKABILITY THROUGH THE LENS OF TRANSPARENCY

INCREASING PRIVATE INVESTMENT IN LATIN AMERICAN INFRASTRUCTURE



MARSH GUY CARPENTER MERCER OLIVER WYMAN

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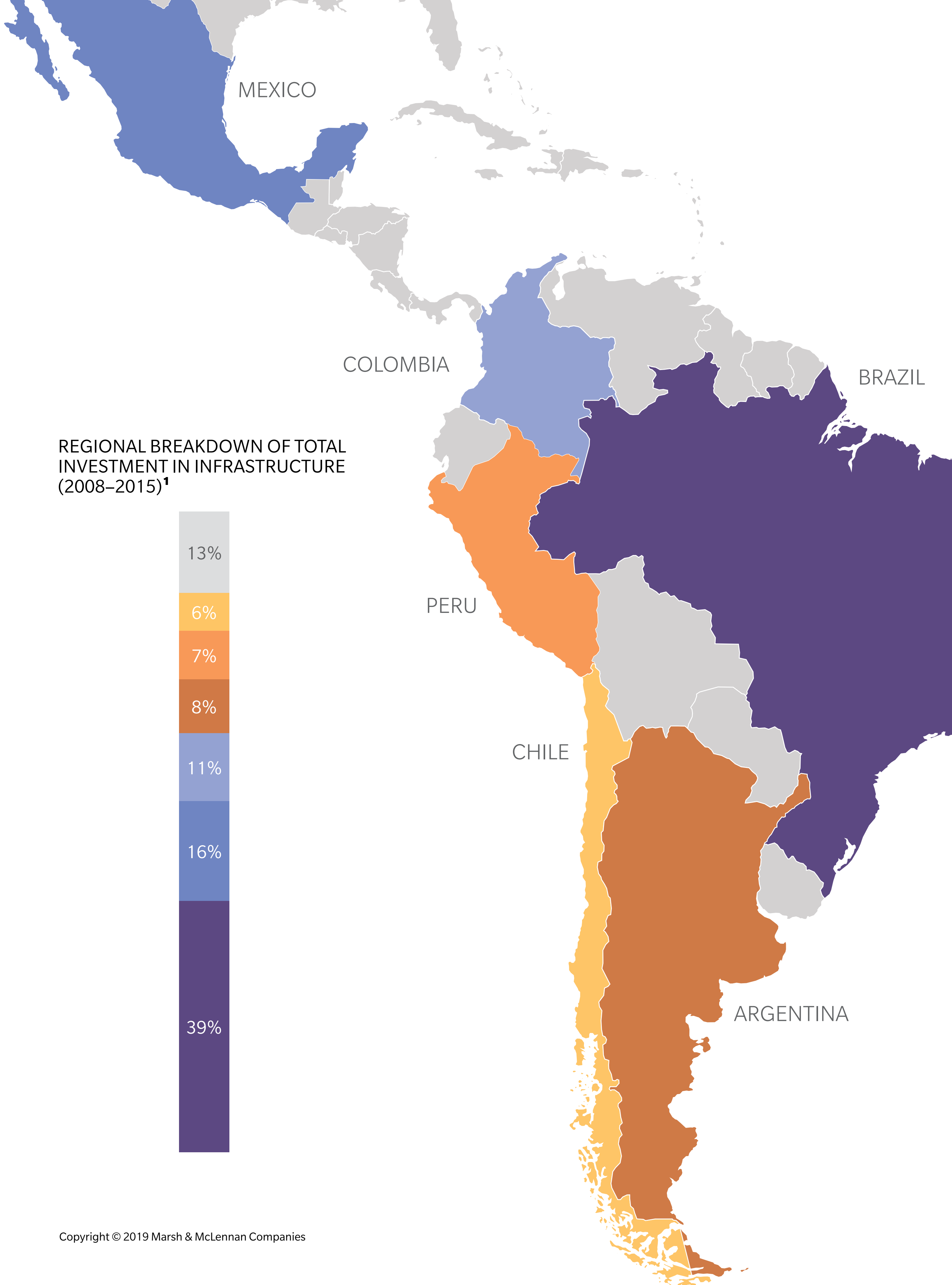
REGIONAL BREAKDOWN OF TOTAL INVESTMENT IN INFRASTRUCTURE (2008–2015)[1]



INTRODUCTION

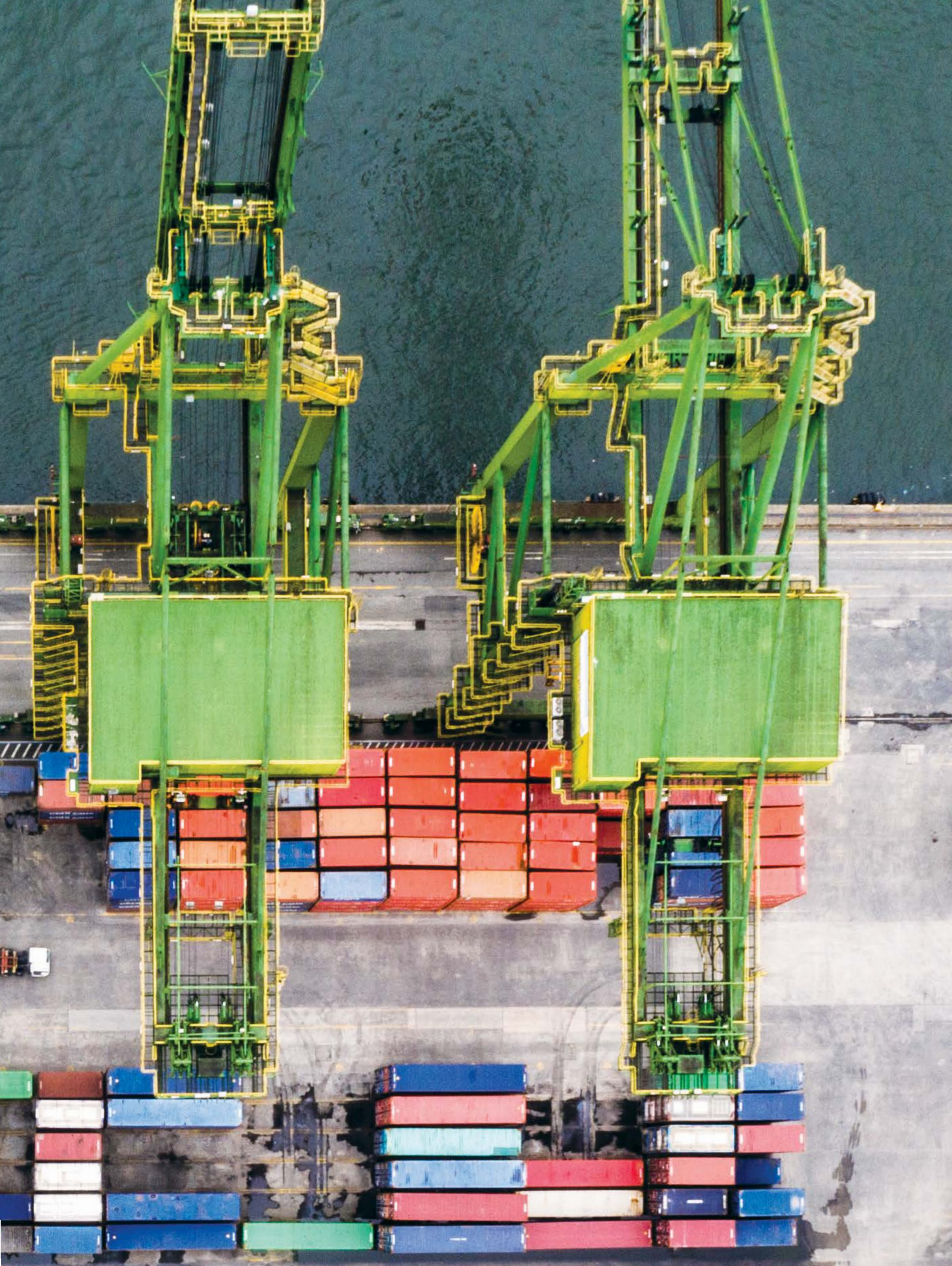
The decade following the Global Financial Crisis (GFC) was a volatile one for Latin America. After several prosperous years of riding the global commodities boom, the Latin American region experienced a serious economic slowdown. The region was deeply affected by the decline in international trade, the end of the commodity super-cycle, and unstable global financial conditions. This macroeconomic environment was made worse by the emergence of a series of corruption investigations in 2014, creating political and social instability and disrupting economic growth. Getting back to a growth trajectory will require strong commitments from Latin American governments to improve their productivity and ease of doing business – goals that will be best enabled by taking transparent approaches to developing the region's infrastructure.

Latin American countries' lack of quality infrastructure significantly increases the costs of doing business in the region, and research from the Inter-American Development Bank (IDB) shows that it is hindering economic growth. Spending on infrastructure as a percentage of GDP in Latin America currently trails behind other regions, such as East Asia and the Pacific. In the face of new troubles around fiscal deficits and public debt, Latin American governments are now restricted in their ability to cover the cost of infrastructure development – meaning that private entities must step in. Attracting private capital by establishing a strong pipeline of bankable projects has now become a key goal in aid of closing the infrastructure financing gap in Latin America and reviving economic growth.

This imperative has been complicated by the rise of governance-related disruptions in recent years. "The Lava Jato", or "Car Wash" investigation, which began in Brazil and eventually uncovered over US$780 million in bribes paid by Brazilian construction company Odebrecht, resulted in the paralysis of tens of millions of dollars' worth of projects around the region. The Lava Jato investigation has also sparked additional investigations across Latin America, implicating government officials and businesspeople alike, and impeding business works.

However, five years on from the year the Lava Jato investigators made their first official arrest, Latin America has started to look rather different. Governments have changed hands after a series of important elections, concerted anti-corruption efforts have been made to prevent graft and increase transparency in business, and prospects for private investment in Latin America are beginning to look positive once again.

In this report, Marsh & McLennan Insights, the Inter-American Development Bank and IDB Invest review the progress of the six largest infrastructure investment markets in the Latin American and the Caribbean region (the LAC6) in the recovery period following the Lava Jato investigation – the period from 2016 until the present. This report will evaluate private investment prospects in infrastructure based on transparency reforms and project pipeline initiatives offered by the region's governments. The report will additionally outline a selection of key financing and risk solutions available to private investors to ensure project bankability in the region.

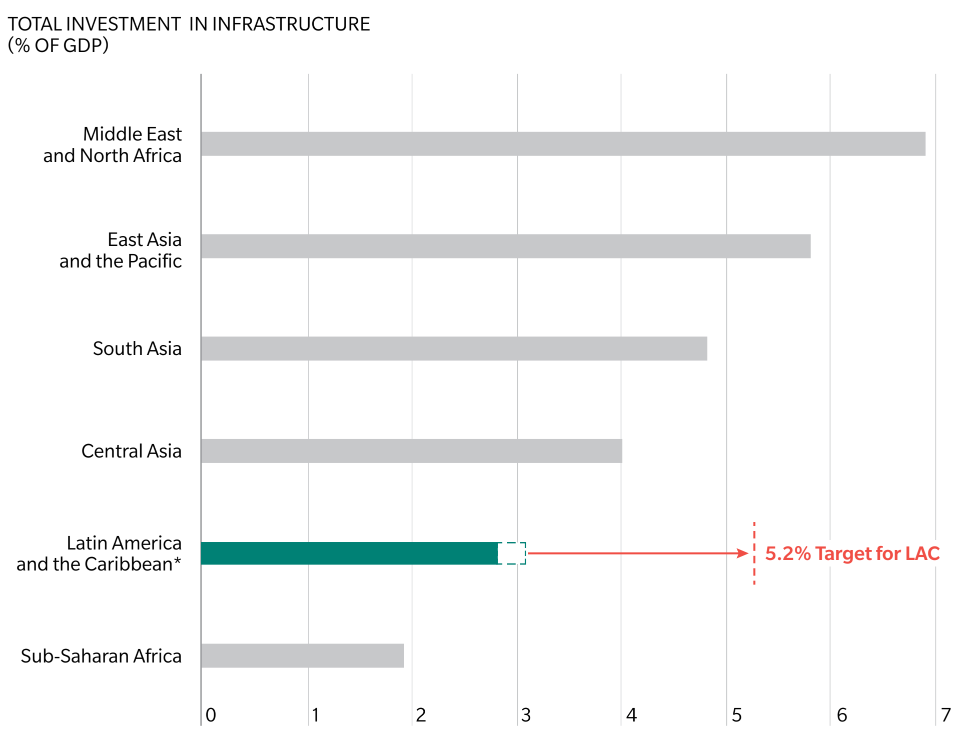


THE LATIN AMERICAN INFRASTRUCTURE INVESTMENT LANDSCAPE

THE CURRENT INFRASTRUCTURE GAP

Investment in infrastructure amongst Latin American and Caribbean (LAC) nations lags considerably behind that seen in other regions. LAC's investment in infrastructure constitutes only 2.8 percent of the region's GDP, as compared to East Asia and the Pacific's (EAP's) 5.8 percent (**see Exhibit 1**). The lack of investment in infrastructure in LAC is reflected in the quality of infrastructure across the region: Brazil, Colombia, and Peru's infrastructure quality compares unfavorably[2] against that seen in a number of nations that are far less developed – such as India, Vietnam, and Egypt. The UN's Economic Commission for Latin America and the Caribbean (ECLAC) has estimated that the required investment to close the infrastructure gap in LAC is approximately 5.2 percent of GDP.

Exhibit 1: Total investment in infrastructure around the world



* The green dotted bar reflects the IDB estimate for the total investment in infrastructure in LAC in 2015, as per Infralatam. There are a number of different methodologies measuring regional infrastructure investments. However, these largely reflect the fact that there is a significant gap in Latin America compared with other regions

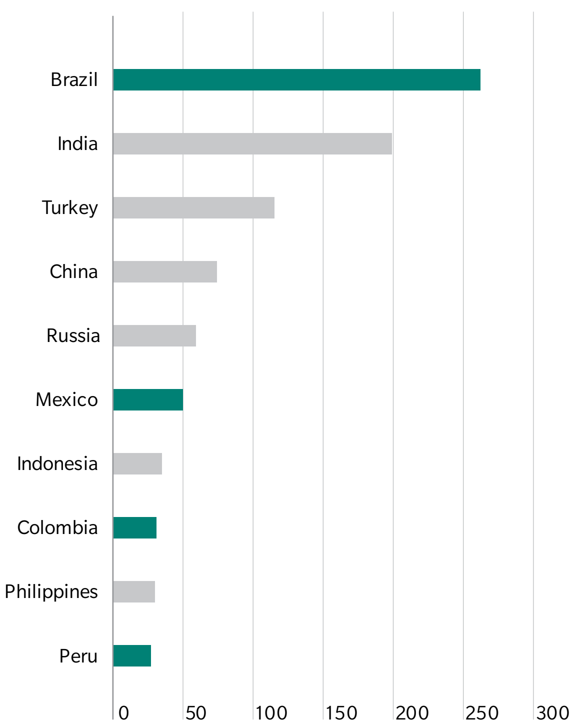
Sources: World Bank, ECLAC, latest years available

To close the infrastructure gap, governments of LAC countries will need the continued support of the private sector – support that private investors have readily given in past years. In Asia, Private Participation in Infrastructure (PPI) has been minimal and constitutes only 8 percent[3] of total investment. By contrast, PPI has been much more prevalent in LAC, with private capital consistently contributing over 40 percent[4] of total investment in infrastructure in the region over the years 2008–2015.

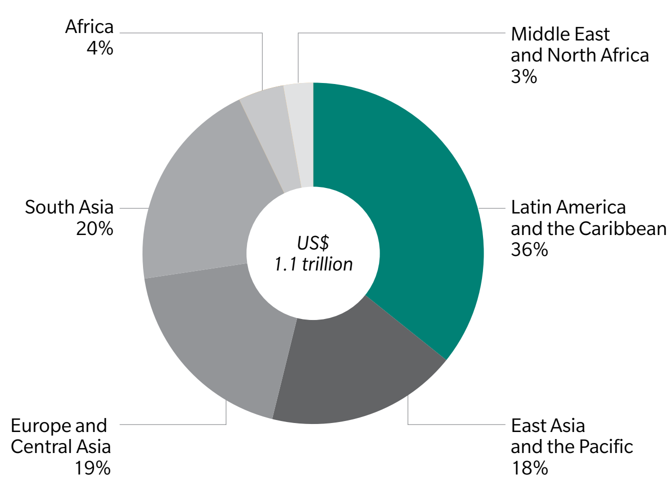
In fact, data from the World Bank's PPI database for developing nations shows that the private sector has largely been more active in Latin America than in other developing-nation regions over the last decade, particularly in Brazil, Mexico, Colombia and Peru (**see Exhibit 2**).

Exhibit 2: Private investment in infrastructure by region and country (2007–2017)

TOP 10 DEVELOPING COUNTRIES BY PRIVATE INVESTMENT IN INFRASTRUCTURE (US$ BILLION)



REGIONAL BREAKDOWN OF PRIVATE INVESTMENT IN INFRASTRUCTURE IN DEVELOPING COUNTRIES (US$ BILLION)



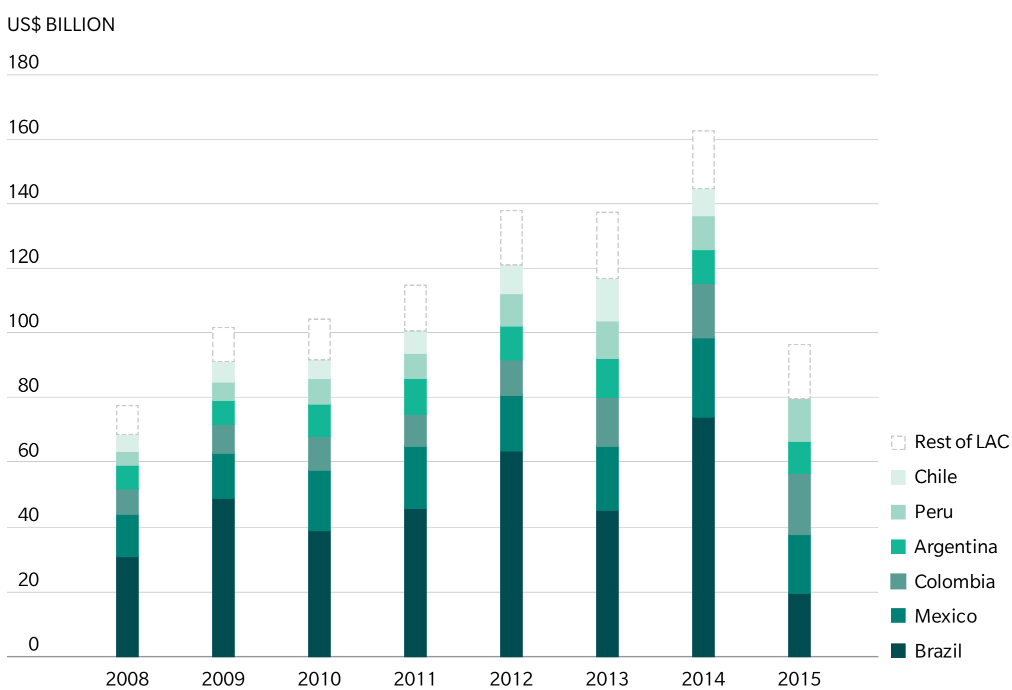
Sources: World Bank PPI Database

INVESTOR TYPES, TARGETS, AND TROUBLES

Unfortunately, private investment in Latin American infrastructure has faltered in recent years. After 2014, investment levels in infrastructure from both private and public sources in Latin America declined (**see Exhibit 3a and Exhibit 4**). This can be attributed in part to the economic slowdown experienced across the region, but can also be attributed to fallouts relating to corruption. The ensuing arrests and confusion from corruption investigations jeopardized many high-value infrastructure projects and increased political risk and uncertainty for investors. Reviving investment in infrastructure in the region will therefore require a commitment to addressing the issues raised by corruption and reducing the associated uncertainties in the investment process.

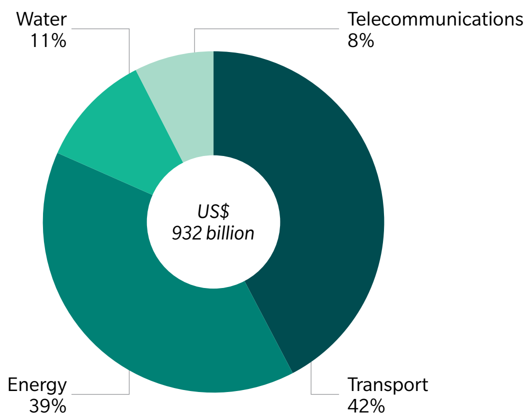
Brazil, which currently sits at the center of many of the region's corruption investigations, leads the region in total investment in infrastructure and accounts for much of the recent decline. Brazil comprised 45 percent of Latin American infrastructure investment over the 2008–2015 period, followed by Mexico, Colombia, Argentina, Peru and Chile. The total investment from these six countries constituted 87 percent of all infrastructure investment in the region in the 2008–2015 period.

Exhibit 3a: Total infrastructure investment in LAC by country



Note: Data unavailable for Chile in 2015
Source: Infralatam

Exhibit 3b: Total infrastructure investment in LAC by sector (2008–2015)

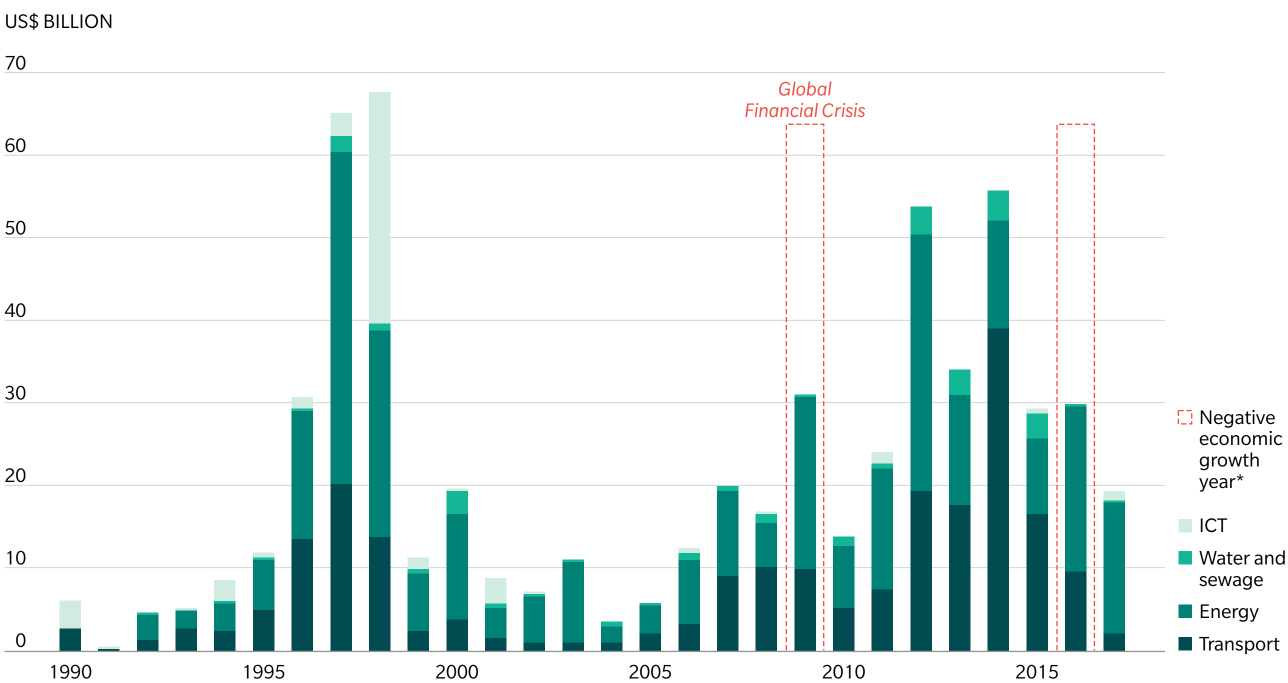


Source: Infralatam

As with total investment, private investment has focused on transport and energy over the last decade (**see Exhibit 3b and Exhibit 4**), with private investment transport picking up particularly quickly in the mid-2000s.

Transport has in fact been cited widely by governments and international organizations as a crucial sector for the region for improving business operations and boosting economic growth. This momentum took a serious hit in the aftermath of the region's corruption investigations and economic crises: transport comprised 70 percent of total private infrastructure investment in the region in 2014, but only 12 percent in 2017. Attracting private capital to the transport infrastructure sector has, as a result, become a major political ambition in many Latin American nations (**see section "Getting Back to a Growth Trajectory: Countries in-focus"**).

Exhibit 4: Private infrastructure investment in LAC



Note: As per the PPI database, only developing countries are included here. Chile is therefore not included. The years reflect the year of financial close of each project, and only Active and Concluded projects are reflected

* Negative Latin America & Caribbean GDP growth rates as per World Bank data

Source: World Bank PPI Database, World Bank

Most private capital going into LAC has come from banks, with total capital from banks constituting 76 percent of all private capital to infrastructure projects in LAC for the period 2005–2014 (**see Exhibit 5**). This number is significantly greater than corporate capital, which constitutes 18 percent of total capital. Other institutional investors such as infrastructure funds, pension funds, and insurance companies only contribute a comparatively small 6 percent.

The lack of pension fund allocations to infrastructure investment is a particularly salient problem for Latin America[5].

Easing regulations and investing limits would help address this issue – allowing pension funds to hedge against the region's inflation risks, as well as diversify their portfolios and invest in long-term assets to match their long-term liabilities. Local pension funds can provide an attractive source of funding for infrastructure investors, particularly as the volatility of the region's currencies increases the need for local currency funding for projects.

Exhibit 5: Private suppliers of capital to LAC infrastructure projects (2005–2014)

PRIVATE SUPPLIERS OF CAPITAL TO INFRASTRUCTURE PROJECTS IN LAC (2005–2014)	PERCENT
Commercial bank	50.55
National/State bank	13.65
Developer/engineering procurement/construction firm	9.12
Private company	8.83
Multilateral development bank	7.34
Investment bank	3.28
Export credit agency	2.05
Investment or infrastructure fund	1.90
Government agency/public authority	1.88
Pension fund	1.11
Sovereign fund	0.24
Insurance company	0.04

Source: Financing Infrastructure in Latin America and the Caribbean: How, How Much and by Whom?, IDB 2015

INVESTOR IN FOCUS: CHINESE INVESTMENT IN THE REGION

Chinese outward foreign direct investment has risen dramatically over the last decade globally. With high savings rates and weakening investment opportunities at home, Chinese capital has been directed towards international alternatives – alternatives that are increasingly being found in Latin America. In 2017, China was the third largest source of FDI worldwide, and approximately 7 percent[6] of this FDI was directed towards the region. In 2018, this rose to 11.8 percent.

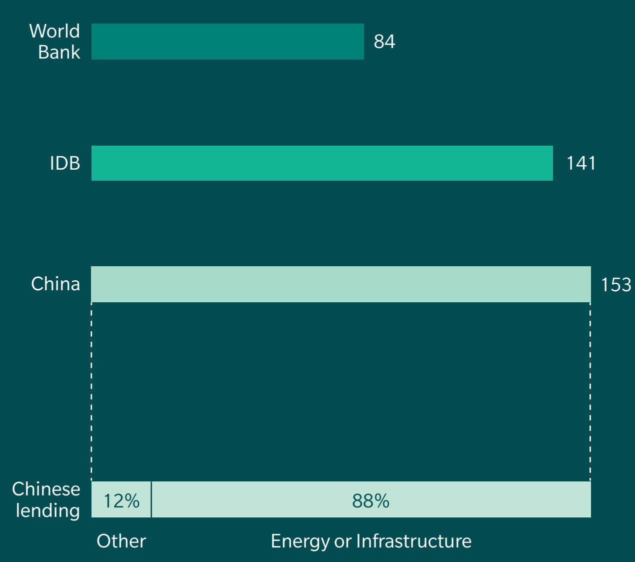
Crucially, the vast proportion of Chinese investment in Latin America has gone toward infrastructure projects. Between 2007 and 2017, 88 percent of all Chinese financing in the LAC region was directed toward the infrastructure and energy sectors (**see Exhibit 6**) – investments that are likely to increase further now that China has formally extended an invitation to the LAC region to join the Belt and Road Initiative (BRI). Chile became the first of the LAC6 nations to sign a formal Memorandum of Understanding with China to participate in the BRI, joining a growing number of countries in the broader Latin American and Caribbean region in doing so. Research out of the Inter-American Dialogue in fact shows that lending from China over the last decade has already outpaced[7] that of the IDB, and of the World Bank, amounting to more than US$130 billion in energy, infrastructure and mining loan commitments from 2005–2017. These activities have been concentrated in Venezuela, Brazil, Ecuador and Argentina, which comprise over 90 percent of loan commitments from China in this period.

The recent rise of corruption investigations in the region has given additional impetus for Chinese investment in Latin American infrastructure. As companies across the region remove themselves from projects in response to corruption investigations, space has been created for Chinese companies to take their place.

A good example of this is the sale of Peru's third largest hydropower facility and one of the largest concrete-faced rockfill dams in the world: the 456-megawatt Chaglla hydroelectric plant. Three Gorges Corp, a state-owned Chinese consortium, has agreed to purchase the plant from Odebrecht in the wake of the investigations, bans and fines levelled against the Odebrecht Group. Chinese financing has also similarly stepped in to the major 'Comperj' refinery project in Rio de Janeiro as well as to the Santo Antonio hydroelectric power plant for similar reasons.

Although concerns[8] have been raised around the nature and risks of Chinese infrastructure projects, it is worth noting that Chinese investors' collaborations with various MDBs in the region, such as the IDB, will aid in ensuring these opportunities are aligned with the region's push for good governance and sustainability. The IDB has worked with the China International Contractors Association (CHINCA), for example, to build a set of principles[9] for sustainable infrastructure in LAC[10].

Exhibit 6: Selected major lenders to Latin America (2008–2018, in billions)



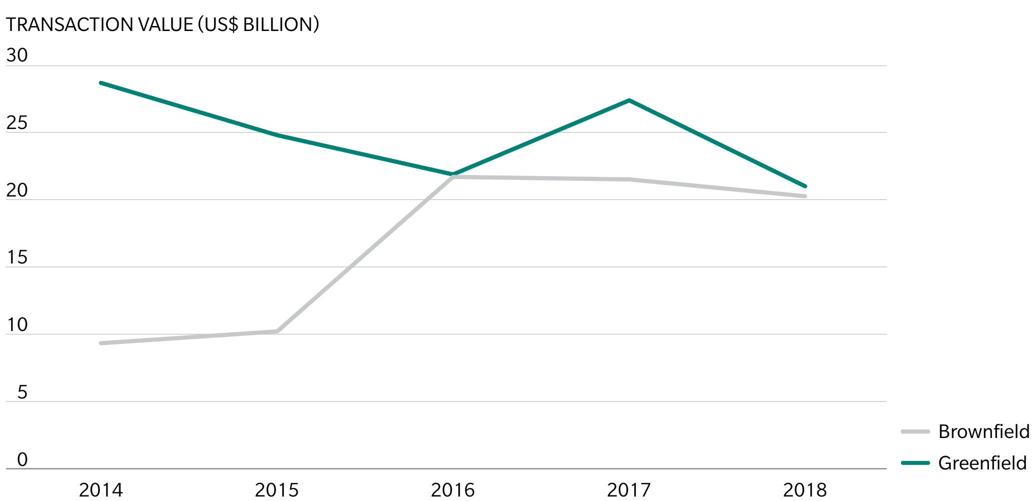
Note: Major lending organizations under the 'China' category include the China Development Bank and China Export-Import Bank
Source: Marsh & McLennan Insights analysis, IDB Annual Reports (Loans and Guarantees Approved), World Bank Annual Reports (New Commitments), China-Latin America Finance Database, based on Gallagher 2013

BUILDING ON THE MOMENTUM IN BROWNFIELD FINANCING

Investment in brownfield projects (the sale of a part or a whole of an existing asset) in Latin American infrastructure has been increasing for several years. Due to the outsized risks associated with the construction phase of infrastructure projects, brownfield projects historically have been considered less risky compared with greenfield projects (the construction of a new piece of infrastructure). As a result, investors (particularly large or institutional investors) are generally more willing to invest in brownfield assets.

In 2014 and 2015, construction risks did not seem to perturb investors as they continued to invest in greenfield assets. However, as uncertainty and risk has grown in the region, greenfield activity in the region has declined overall between 2014 and 2018, while brownfield activity has increased (**see Exhibit 7**).

Exhibit 7: Greenfield and brownfield infrastructure transactions in Latin America

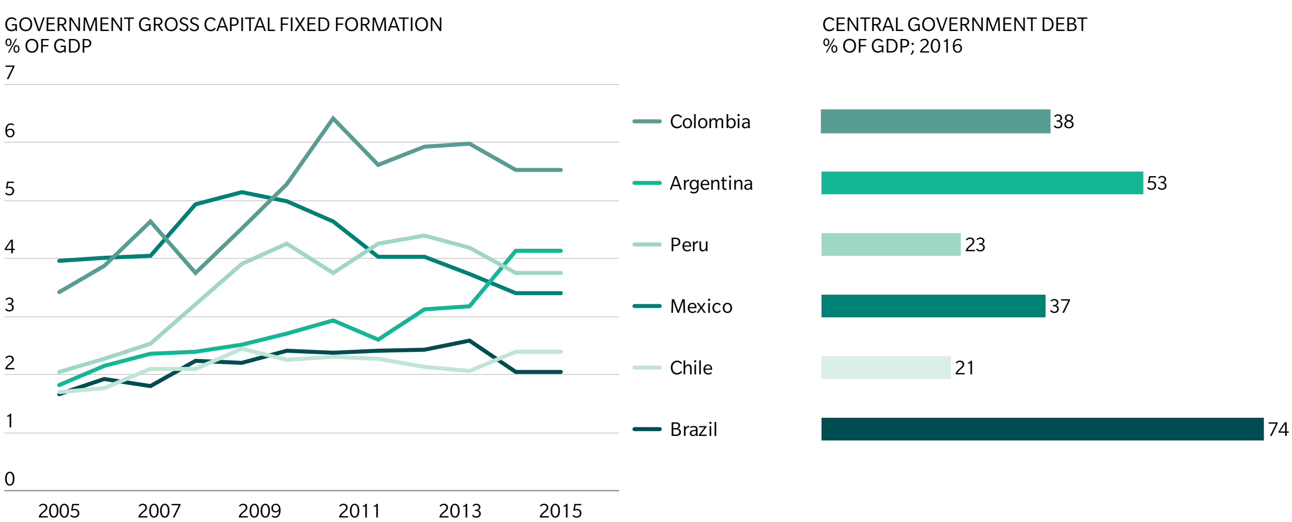


Source: Inframation

Brazil has led the region in this regard, having initiated the nation's largest privatization drive in twenty years in the aftermath of the Lava Jato investigation. Other Latin American nations that have also paved the way for this trend include Peru and Argentina – both nations have released large privatization plans to boost infrastructure growth and address their fiscal deficits. However, there is significant room for additional government asset privatization, as governments across the region continue to hold considerable value in fixed assets and seek to address both the rising problem of government debt (**see Exhibit 8**) and close the infrastructure financing gap.

This growth in brownfield financing must be complemented, however, by greenfield transactions – as brownfield infrastructure activity will not on its own close the infrastructure gap in Latin America. Governments and investors can take note of the Asset Recycling Initiative seen in Australia as a means of building on the momentum in brownfield activity to generate fresh infrastructure assets for the region (**see section "Policy-In-Focus: Asset Recycling Initiatives"**).

Exhibit 8: Latin American governments' gross fixed capital formation and debt levels



Source: International Monetary Fund

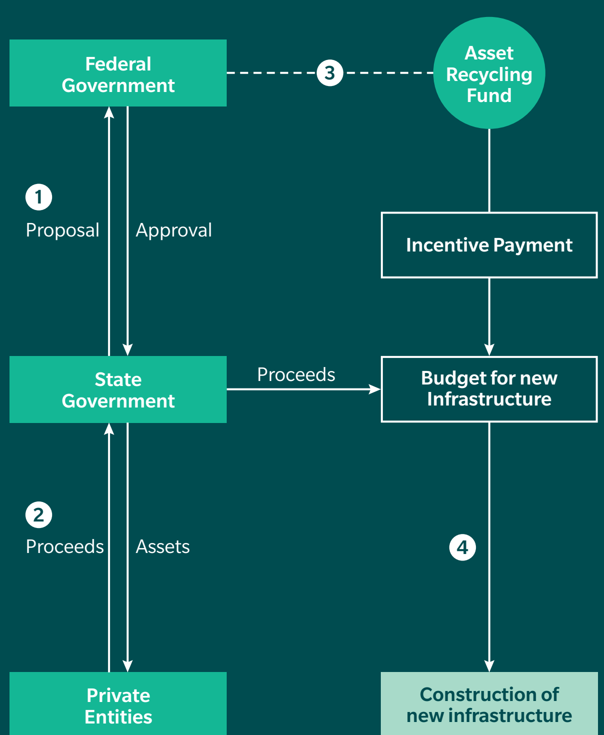
POLICY IN-FOCUS: ASSET RECYCLING INITIATIVES

Latin American governments would benefit from building on the momentum in brownfield financing by considering Australia's recent experience with asset recycling. Asset recycling occurs when existing state assets are sold or leased to the private sector, and when proceeds from that sale are then fully re-invested in new infrastructure. The Australian government launched its Asset Recycling Initiative (ARI) in 2014, with the intention of boosting infrastructure development nationally in the period 2014–2019 by incentivizing states to engage in asset recycling.

When a state monetizes an asset under the ARI, it receives an additional 15 percent of the estimated proceeds from the central government which must also be invested in new infrastructure (**see Exhibit 9**).

As of May 2018, the central government was able to incentivize AU$23 billion in infrastructure investment through this scheme.

Exhibit 9: Australia's Asset Recycling Initiative



1. State government sends proposal of existing infrastructure asset sale/lease and the intended new infrastructure to be funded by the transaction's proceeds to the Federal government for approval
2. State government and private entities negotiate price for sale/lease of asset after the proposal is approved by the federal government
3. Through the Asset Recycling Fund, the federal government gives the state government an additional incentive payment totalling 15% of the proceeds the state has received from the sale/lease – this must be used to fund new the agreed new infrastructure
4. New infrastructure is built, funded by the combined proceeds from the asset transaction and the incentive provided by the federal government

Source: Infrastructure Asset Recycling: Insights for Governments and Investors, Marsh & McLennan Insights

This type of program would be beneficial and well suited for Latin American governments, as the program:

- Provides an effective mechanism for obtaining buy-in from state governments into infrastructure programs promulgated by central governments. This is a particularly important consideration for more decentralized government structures such as those seen in Brazil, Peru and Mexico, where Public-Private Partnerships can often form materially at the state level

- Has received interest in Australia from major investors that already have a presence in Latin America. Investors in the ARI include the Abu Dhabi Investment Authority, IFM Investors and Global Infrastructure Partners.

Each of these financial institutions already have sizable presences in the Latin American region (**see Exhibit 10**)

- Already has a history in parts of the region. In 2006, the Mexican government began the Asset Utilization Program ("Aprovechamiento de Activos Carreteros"): a program to open existing highways to concession to raise funds for constructing thousands of additional kilometers of new highways. More recently, the Argentinian government announced at the end of 2017 that it would sell its stakes in various electricity generation and distribution companies to raise financing for additional infrastructure projects. Latin American governments may choose to build on this momentum and formalize government programs around this concept.

Exhibit 10: Selected examples of investor crossover between Australia's Asset Recycling Initiative (ARI) and infrastructure assets in Latin America (non-exhaustive)

INVESTOR	**INVESTOR TOTAL GLOBAL ASSETS UNDER MANAGEMENT** (AUM)	**ARI INVESTMENT** (TOTAL DEAL VALUE)	**LATIN AMERICAN INVESTMENTS*** (TOTAL DEAL VALUE, DEAL TYPE)	
Abu Dhabi Investment Authority	US$740 billion**	**NSW Transgrid Sale** US$7378 million	**Abertis Motorway Assets (Chile)** US$550 million Private-to-Private (20% stake)	**Fenix Power Plant (Peru)** US$171 million Private-to-Private (100% stake)
IFM Investors	AU$113 billion	**NSW Ausgrid Sale** US$11994 million	**OHL Mexico (Mexico)** US$738 million Private-to-Private (28.34% stake)	**Impala Terminals Assets (Mexico)** N/A Private-to-Private (100% stake)
Global Infrastructure Partners	US$51 billion	**Port of Melbourne** US$7384 million	**Guacolda Coal-Fired Power Plant (Chile)** US$728 million Private-to-Private (49.99% stake)	**Panamá International Terminal (Panamá)** Details Pending Private-to-Private

* Both direct and indirect investments are included here
** This is a Sovereign Wealth Fund Institute estimate
Source: Investor websites, Inframation

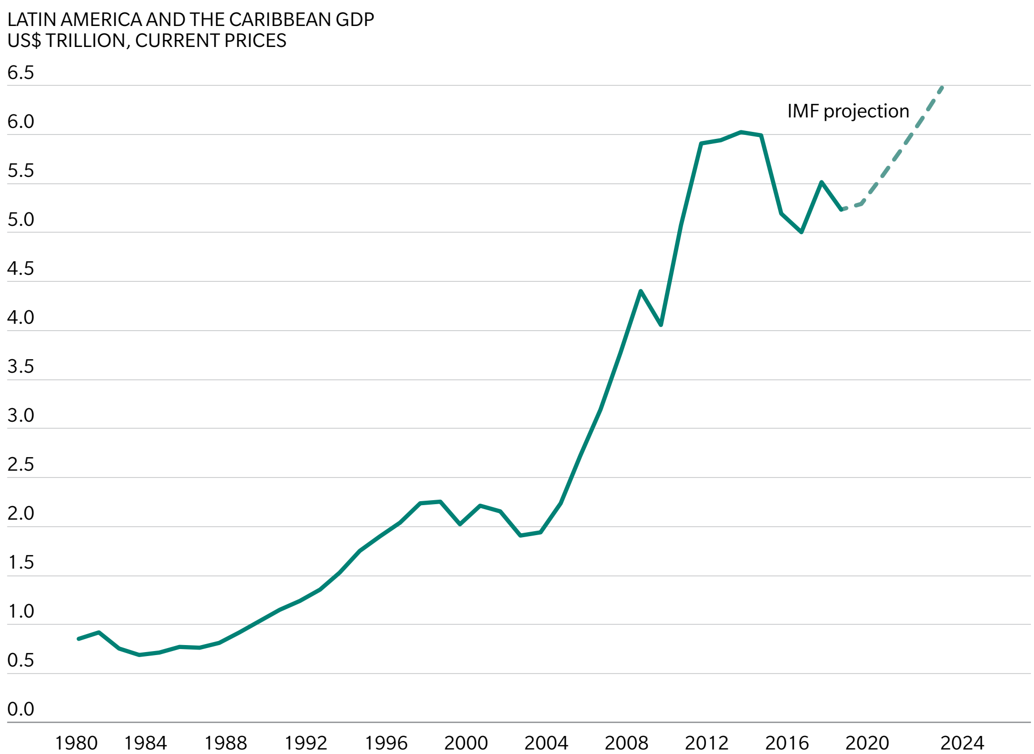
LOOKING AHEAD

The active participation of private entities in infrastructure in Latin America provides the region with a robust ecosystem to close the gap. Indeed, private investment has steadily increased in Latin America since 2005; this growth endured even through the Global Financial Crisis of 2008–2009. However, the recent decline in the volume and private infrastructure investment is a cause for worry (**Exhibit 3a and 4**). Governments in the region face significant fiscal deficits and high public debt levels (as a percent of GDP), which restricts their ability to invest in infrastructure. The emergence of corruption-related investigations in the region will restrict this ability even further.

However, after a noticeable period of economic decline between 2014 and 2016, the region is poised for a revival (**see Exhibit 11**).

It is therefore imperative that the region encourage added participation from the private sector in the infrastructure investment market. Further participation from a range of private investor types, including institutional investors such as pension funds and insurance companies which have so far played a relatively limited role in infrastructure investing, will aid in achieving this goal.

Exhibit 11: The ups and downs of LAC's GDP

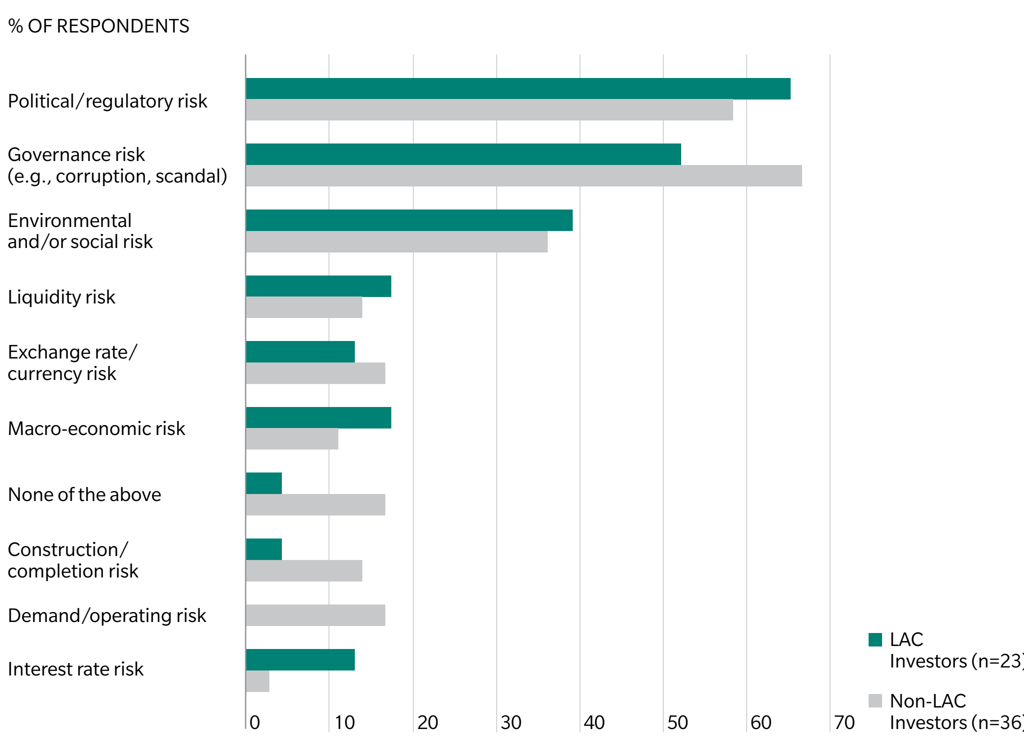


Source: International Monetary Fund

Encouraging this investment will revive the momentum the region's investment landscape has lost, and push the region toward the 5.2 percent of GDP goal that is estimated to be necessary to be invested to close the region's wide infrastructure gap. The most crucial factor in enabling this participation will be the establishment of a robust pipeline of bankable projects, supported by anti-corruption and transparency efforts. Indeed, in a Mercer-IDB Group survey of institutional investors on investing in LAC infrastructure, the two most prominent 'Deal-Breaker Risks' identified by respondents were Governance Risks and Political/Regulatory risks (**see Exhibit 12**). Although a variety of factors will need to be addressed to boost private investment, effective governance and transparency measures would go a long way in encouraging this investment.

The following sections will serve as a guide for investors considering the LAC infrastructure market through an analysis of the region's six major infrastructure investment countries and their respective responses to a variety of governance related challenges. These pages will provide a clear view of the region and the measures that have been taken to support project bankability through transparency. Understanding these developments will be crucial for any private investor seeking reliable returns in infrastructure in the region.

Exhibit 12: "Deal-Breaker Risks" as identified by respondents (n = 59)



Note: Survey respondents answered the question "For infrastructure investments in LAC, which risks would cause you to walk away from a deal if not mitigated? Select up to three"
Source: Mercer-IDB Group, Sustainable Infrastructure Investments in LAC, Institutional Investors Survey. Forthcoming 2019

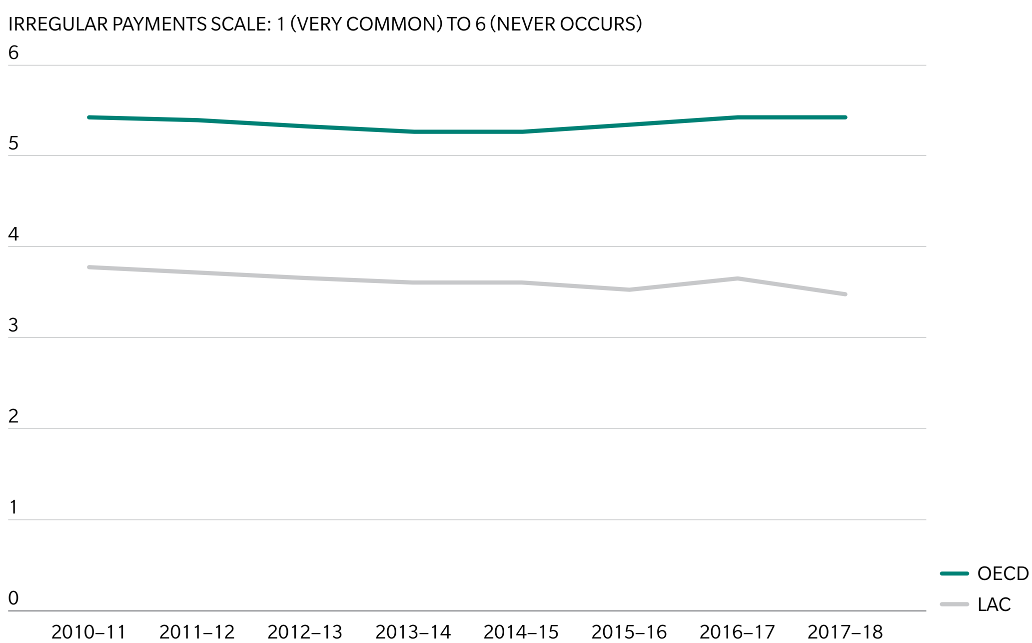
ENABLING INVESTMENT THROUGH GOOD GOVERNANCE

THE STATE OF TRANSPARENCY IN LATIN AMERICA

Governance issues in Latin America have received global attention in recent years. In Transparency International's 2017 Global Corruption Barometer, more than half of the respondents from Latin America said they felt their governments were failing to address corruption - and almost two thirds of respondents felt that corruption had risen in the last twelve months. In the World Bank's Control of Corruption scores, which measure perceptions of corruption, scores have declined noticeably in the past ten years in Chile, Brazil, Mexico and Peru (that is, perceptions of corruption have worsened).

Over and above perception surveys, indicators that measure tangible corruption activity also show that Latin American nations lag behind other regions in combating corruption. In a comparison of the frequency of irregular payments and bribes between regions, Latin America has been shown to significantly underperform OECD nations (**see Exhibit 13**). In the World Economic Forum's (WEF) 2017–2018 Global Competitiveness Report, more than 50 percent of Latin American countries fall below the top 100 positions on key corruption indicators such as the "Ethics and Corruption" indicator and the "Corporate Ethics" indicator.

Exhibit 13: Comparison of irregular payments and bribes between LAC and OECD countries



Source: Public-Private Partnerships to Promote Transparency, IDB

The prominence of these issues has raised concerns for business executives, who noted in the '2018 WEF Executive Opinion Survey' that National Governance Failure was perceived to be their top risk for doing business in the region compared to being the second top risk globally (**see Exhibit 14**). Research has indeed shown that corruption decreases investment by 5 percent and increases the cost of doing business by 10 percent on average[11].

These fallouts also have significant implications for growth and welfare more generally: some authors suggest that reducing the level of corruption in the region could raise per capita income by about US$3,000 in Latin America over the medium term. For governments seeking increased levels of foreign investment and economic development, improved corruption scores and the exposure of new instances of corruption can be a significant hindrance to achieving their aim[12].

Exhibit 14: Executives' top risks for doing business in Latin America

TOP 5 GLOBAL RISKS	TOP 5 RISKS FOR LATIN AMERICA
1 High unemployment	**1 National governance failures**
2 National governance failures	2 Social instability
3 Energy price shock	3 High unemployment
4 Fiscal crises	4 Fiscal crises
5 Cyber-attacks	5 State collapse

Note: WEF Executive Opinion Survey (~12,500 responses worldwide). Results are based on 1,904 responses across the region. Respondents could choose up to five risks which they viewed as being most important for doing business in their country. Top regional risks are calculated as the average across all countries of the proportion of respondents in each country identifying each risk as one of their five choices
Source: World Economic Forum, Global Risks Report 2019

It is worth noting, however, that while several surveys have noted a worsening in public perceptions toward corruption in Latin America, and although corruption scandals and indictments have occupied Latin American headlines for the last three years, some surveys that reflect tangible corruption activity seem to indicate improvements in corruption in several key nations. Research out of the Inter-American Dialogue has analyzed Latinobarometro and AmericasBarometer surveys, which reflect Corruption Incidence rather than Corruption Perceptions. This research shows, for example, optimistic trends in Argentina, Brazil, and Mexico, uncertain trends in Peru and Chile, and a marginally negative trend in Colombia (**see Exhibit 15**).

This paper, titled 'Beyond The Scandals: The Changing Context of Corruption in Latin America'[13], highlights that it is impossible to find systematic evidence pointing towards a substantial region-wide deterioration in corruption victimization levels over the past decade, and reminds us that perception surveys may reflect increased news coverage and prosecution of corruption activity rather than corruption activity itself. The research done here highlights the potential for optimism for the future of transparency in Latin America.

Exhibit 15: The varied picture of corruption in Latin America

	OVERALL 2005–2014 TREND: CORRUPTION PERCEPTION INDICES*	OVERALL 2005–2014 TREND: CORRUPTION INCIDENCE INDICES**
Brazil	?	
Mexico	?	
Colombia		
Argentina	?	
Peru	?	?
Chile	?	?

? Unclear  Worsening  Improving

* Transparency International's Corruption Perception Index, and the World Bank's Control of Corruption scores
** Latinobarómetro and AmericasBarometer surveys (percent of population that have heard of a corruption act)
Source: Beyond The Scandals: The Changing Context of Corruption in Latin America, The Dialogue

ADDRESSING RECENT ROADBLOCKS

One of the most well-documented challenges of governance that the region has encountered in recent years can be seen in the Lava Jato investigation that began in Brazil. In 2014 federal police in Curitiba, Brazil began to investigate suspicious activity amongst politicians and industrialists, eventually discovering an expansive network of bribery across the region centered around the Brazilian construction giant, Odebrecht. Odebrecht ultimately admitted[14] in 2016 to paying a total of more than US$780 million in bribes to government officials around the world, and these numbers are still evolving.

The investigation has implicated hundreds of Latin American politicians and unseated several heads of state (**see Exhibit 16**). This includes Brazil's Dilma Rousseff, who was impeached as a result of the investigation in 2016, and Peru's President Pedro Pablo Kuczynski who resigned ahead of his impeachment vote in 2018. Former Argentinian President Cristina Fernández de Kirchner was also indicted on charges related to corruption, and former President of Brazil Luiz Inácio Lula da Silva was jailed for corruption charges as well. These revelations led to widespread strikes and protests, exacerbating the already unfavorable economic outlook in the region. Centered around companies with expansive investments in infrastructure, the Lava Jato investigation has inevitably had a large impact on the infrastructure sector. The IDB's recent report on The Effect of Corruption on Public-Private Partnership[15] Contracts highlights that Brazil's recent Lava Jato investigation had resulted in the paralysis of over US$27 million of infrastructure works in Brazil alone by 2017. The Lava Jato investigation sparked additional investigations across the region: In Peru over 550 suppliers to projects were affected, with around 60,000 workers being made redundant since February 2017 as a result of the US$260 million of debt that suppliers were owed following project cancellations and delays. Similarly, costs from an expected five-year delay to a highway project in Colombia were cited to be US$279 million per year[16].

These developments highlight that regardless of whether the incidence of corruption is currently improving, simply the perception of the risk of corruption as well as the fallouts and instability that can occur from past corrupt acts can have a significantly negative impact on the levels of private investment in infrastructure. A recent IDB technical note titled 'The Use of Corruption Indicators in Sovereign Ratings'[17] shows for example that there is strong evidence that corruption perception indicators are closely correlated with sovereign ratings: the worse the perceptions of corruption in a nation, the lower the sovereign ratings. As we have shown in the previous section, investment in infrastructure has fallen precipitously in Latin America since the emergence of the Lava Jato investigation and its associated investigations.

However, things are looking up for Latin America in 2019. A wave of new elections and anti-corruption efforts in recent months now present important opportunities for investors. Indeed, many of the region's new leaders have made commitments to fighting graft and reviving business confidence in their respective countries and are keenly looking for private investment to create jobs and develop the region's infrastructure. These new governments have announced a variety of new investment and anti-corruption programs and reforms to attract this private investment. These measures will be discussed in the following section for each of the six major infrastructure investment destinations in the region, the LAC6: Brazil, Mexico, Colombia, Argentina, Peru, and Chile (ordered by volume of investment in infrastructure over the period 2008–2015).

Exhibit 16: Lava Jato investigation timeline and associated infrastructure and political developments

- Lava Jato investigation milestones
- Political developments
- Infrastructure pipeline events

2014 | 2015 | 2016

MARCH 2014
The Lava Jato investigation begins

AUGUST 2014
A senior ex-Petrobras employee arrested for black market dealings signs a plea bargain, agreeing to divulge information for a lighter sentence. Plea bargains become a key vehicle in the investigation

MARCH 2015
Brazil's Supreme Court announces that it will be investigating 32 sitting politicians for corruption

JULY 2015
Charges are brought against Odebrecht for laundering more than 1 billion reals between 2006 and 2014

MARCH 2016
Odebrecht CEO Marcelo Odebrecht is sentenced to 19 years in jail

AUGUST 2016
Brazilian President Dilma Rousseff is impeached by the Senate

OCTOBER 2016
BNDES bank announces it is suspending US$4.7 billion in financing to companies investigated in Lava Jato for 25 projects around Latin America

DECEMBER 2016
Odebrecht pleads guilty in a US federal court to paying approximately US$788 million in bribes across 12 countries from 2001 to 2016

2017

JULY 2017
Odebrecht sells its stake in the world's largest PPP project of 2014 – the Galeão International Airport in Rio de Janeiro

DECEMBER 2017
The Mexican government bans an Odebrecht unit from public contracts for four years

2018

MARCH 2018
Peru's president Pedro Pablo Kuczynski resigns

APRIL 2018
Brazil's former President Luiz Inácio "Lula" da Silva turns himself in to the police for a 12-year sentence for corruption

SEPTEMBER 2018
Argentina's ex-president Cristina Fernández is charged for bribery

2019

GETTING BACK TO A GROWTH TRAJECTORY
COUNTRIES IN-FOCUS*

BRAZIL

Brazil sits at the center of Latin America's recent wave of corruption investigations. The Lava Jato investigation began in Curitiba in 2014, eventually resulting in the impeachment of the incumbent President in 2016 and the jailing of her predecessor. Latin America's largest economy is today emerging from one of the worst periods in its economic history after two years of negative GDP growth (2015–2016), stubbornly high unemployment rates, and a government debt-to-GDP ratio of over 88 percent, far higher than the South American average. Investment in infrastructure as a percentage of GDP in Brazil has also fallen over the last 40 years. Brazil's newly elected right-wing President Jair Bolsonaro is expected to address these issues head on, accelerate infrastructure concessions, and facilitate further private investment in the sector.

SYSTEMIC AND LEGAL RESPONSES TO CORRUPTION

Significant strides have been made in Brazil's anti-corruption space. Several of Brazil's key anti-corruption institutions have been systematically strengthened, such as the Public Expenditure Observatory which has been improved and expanded, and the General Comptroller's Office of the Union (CGU) whose internal management practices and tools have been modernized.

In late 2017 the state of Rio de Janeiro, home to Brazil's second-most populous city, also passed a new and impactful anti-corruption law mandating companies entering into contracts with the public administration of the state to have an 'Integrity Program' or 'Compliance Program', and a new whistleblower law authorizing States to create free telephone hotlines and rewards for whistleblowers was introduced at the federal level. Experts have noted that there has already been a noticeable improvement in the environment of anti-corruption in Brazil: law firm Gibson Dunn noted that in 2017, thirty-four companies disclosed information regarding new or ongoing corruption inquiries involving Brazil, while these numbers for companies regarding other Latin American countries were in the single digits.

Jair Bolsonaro's campaign platform depended heavily on commitments to cleaning up corruption in Brazilian government. He has committed, for example, to pushing the Attorney General's "10 measures against corruption" through the Brazilian Congress. Bolsonaro's primary approach to addressing corruption, however, rests on reducing the size of government. This will include cutting the number of ministries, reducing the government's stake in State-Owned-Enterprises, and downsizing the role of federal public banks in the nation's economy. Bolsonaro believes that limiting the size of Brazil's bureaucracy will not only hold promise for anti-corruption, but also will make space for renewed investment interest in Brazil more broadly.

* See detailed references for each country profile listed in the References pages at the end of this publication. Note that the information represented here was last updated in March 2019.

Exhibit 17: Key Developments – Brazil

- Anti-corruption measures
- Political shift
- Infrastructure pipelines and opportunities

TODAY

JANUARY 2019

The new Bolsonaro administration announces plans to privatize or liquidate around 100 state-run companies

JANUARY 2019

Bolsonaro issues a Decree to continue the PPI

DECEMBER 2018

New government announces plans to auction all Infraero airports in three years

DECEMBER 2018

The paving of key agricultural highway BR-163 is announced
The new government commits to completing the highway by early 2021

NOVEMBER 2018

Bolsonaro announces intentions to restart the halted Transnordestina Railway project

OCTOBER 2018

Right-wing Jair Bolsonaro wins Brazil's Presidential election

JANUARY 2018

A federal whistle-blower law is introduced
The law authorizes States to create both public hotlines and to provide rewards for whistle-blowers

JANUARY 2018

A new long-term interest rate comes into force for loans from the state development bank, BNDES
This measure aims to encourage more private sector participation in loan markets

DECEMBER 2017

Rio de Janeiro passes a new anti-corruption law
The law requires companies to institute an Integrity Program for employees to detect and prevent misconduct

SEPTEMBER 2016

The Programme for Partnerships and Investments (PPI) is inaugurated
President Temer launches the new government body to oversee the tendering of concessions and accelerate infrastructure investment

AUGUST 2016

Dilma Rousseff, Brazil's left-wing Workers' Party President, is officially impeached
The Vice-President, Michel Temer of the centrist Brazilian Democratic Movement Party, takes her place

RE-ALIGNING INTEREST RATES

The Brazilian banking system has battled a punishing environment of high inflation and high interest rates for years, a situation that has long been blamed for the nation's lagging investment in infrastructure. With inflation finally beginning to decline, Brazil's newly appointed Central Bank President Ilan Goldfajn began to cut the Brazilian SELIC basic interest rate in October 2016 – from a high of 14.25 percent at the beginning of 2016 to 6.50 percent by mid-2018, a rate that has persisted into early 2019.

This has also created an opportunity for the government to revisit the long-standing position of BNDES bank, Brazil's government-owned development bank, as the country's lender of first resort. Under the previous Workers' Party regime, interest rates on BNDES bank loans were kept artificially low, effectively acting as a government subsidy for BNDES-financed projects. BNDES bank therefore quickly became the leading source for infrastructure project financing in Brazil. With a rising public debt problem and corruption investigations causing increased scrutiny of the bank's lending policies, policymakers voted to replace BNDES's historically lower interest rate with a new higher rate, which came into force in 2018. Additionally, an agreement was signed in 2018 committing BNDES to returning billions in reais every year to the National Treasury by 2040. Members of the administration have expressed hope that these measures will reduce the market's reliance on BNDES for infrastructure funding, encourage more private sector participation in loan markets, and boost infrastructure investment. BNDES' prominence in Brazil's financial markets has already begun to wane as a result (**see Exhibit 18**).

Meanwhile, BNDES's focus is increasingly turning instead to encouraging and mobilizing resources through more innovative forms of finance. In 2017 BNDES completed the raising of US$1 billion in green bonds to support renewable energy generation initiatives, for example. In 2018, BNDES and the IDB announced the creation of a credit rights investment fund focused on projects with US$1.5 billion in capital and with the potential for great economic and social impact.

A NEW WAVE OF PRIVATIZATION AND PPPs

Within a month of Dilma Rousseff's impeachment, the new Michel Temer government launched the Investment Partnership Program (PPI) to encourage privatization and public-private partnerships in infrastructure investments. Under the auspices of this program, a total of 105 state-owned assets were privatized by the end of 2018, making the program Brazil's biggest privatization push in two decades. The PPI also allows for increased transparency and sustainability in the infrastructure sector by providing an online pipeline, as well as a clear 10-point list of principles to guide tenders and project allocation. These principles include a "100 day rule" for the period between tender publication and proposal submission, as well as a requirement for a preliminary environmental license before a tender. Jair Bolsonaro's new government has signed into law commitments to continuing this PPI program.

Bolsonaro sent mixed messages on the campaign trail regarding privatizing larger state-owned companies such as Eletrobras and Petrobras.

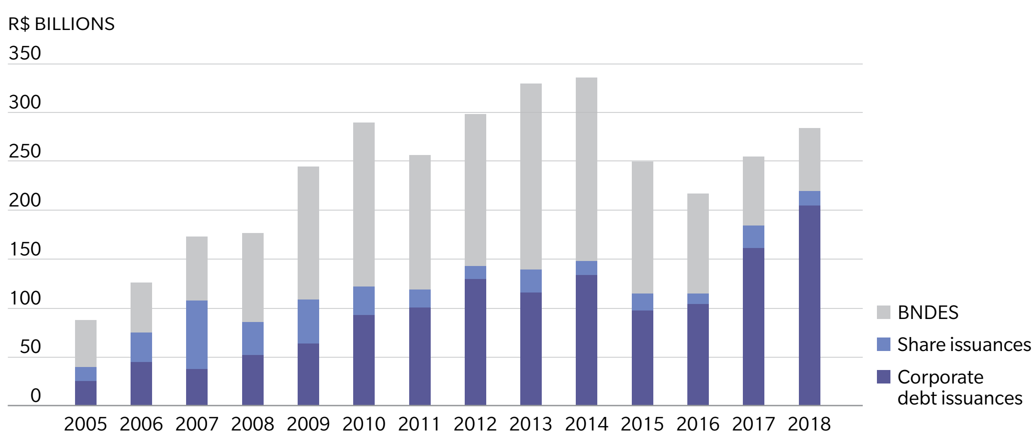
However, till date Eletrobras has privatized six distribution subsidiaries in northern and northeastern Brazil, and the Bolsonaro administration has indicated its intent to pursue a capitalization plan which would dilute the stake the Brazilian government currently holds in the company. The government has also begun a bold divestment program for the fuel distribution unit of the Petrobras-owned oil company Petroleo Brasileiro SA, and the São Paulo state government is also expected to privatize the major sanitation company SABESEP in 2019. The administration has in fact promised to privatize or liquidate some 100 state-run companies as part of the PPI.

Three particularly notable infrastructure projects have been announced for the long-term by the new Bolsonaro government as part of the new phase of the PPI program. The first is that of the Transnordestina railway, a 1,700km mega-project that still lies incomplete after being halted for almost two years and almost a decade of construction.

Another is the paving of the remaining 90 kilometers of the key agricultural highway BR-163 by early 2021, after which the road's operations and maintenance will be privatized. Finally, the government has indicated that it may auction off all airports managed by the state-run Brazilian Airport Infrastructure Company, Infraero, within three and a half years.

For the nearer-term, Bolsonaro has announced that his government hopes to attract R$7 billion in infrastructure auctions, with concessions from the North-South Railway (a major railway for transporting agricultural exports), 12 regional airport operating licenses and four port terminals in total. Bolsonaro's government has also created a new Secretariat of Coordination of Strategic Works and Development to assist subnational entities in enabling these projects – a crucial step given Brazil's highly decentralized government structure.

Exhibit 18: Capital market issuances and BNDES disbursements



Source: Terraco Economico

MEXICO

The left-leaning President Andrés Manuel López Obrador (or "AMLO") took office on December 1st 2018, with a promise to combat corruption and stimulate the economy. As a new contender belonging to neither of Mexico's two mainstream political parties, President AMLO represents a significant change in Mexico's political landscape. However, he takes the reigns over an economy that is uniquely stable in the region. This, coupled with the country's rigorous PPP legal framework (one of the region's first passed in 2012), will guard against some of Mexico's political risks.

COMBATING CORRUPTION

After Odebrecht admitted in 2016 to paying millions in bribes to Mexican officials between 2010 and 2014, the Mexican government conducted several formal investigations into the corruption allegations. Also in 2016, Mexico passed the most radical anti-corruption reform that the country has ever implemented, modifying 14 constitutional articles, adding 2 new general laws and amending five others. The new laws expanded the scope of the country's existing anti-corruption laws and created a new anti-corruption regime encompassing all three levels of government (federal, state, and municipal). The reform also led to the establishment of the National Anti-Corruption System: a framework for bringing together anti-corruption institutions that previously were impeded by a lack of coordination and autonomy, laying the ground-work for a renewed anti-corruption drive.

The law establishing the System came into full effect in July 2017. As of April 2018, the necessary legislation required for such an anti-corruption system has been approved by 18 out of 31 states in Mexico. The major General Law of Administrative Responsibility ("GLAR") also took effect in July 2017, reinforcing the reforms made in 2016. Notably, this law introduces administrative liability for corporations, and creates incentives for companies to implement compliance programs to protect against liability. The new NAFTA agreement, successfully renegotiated and signed by Canada, the United States and Mexico in November 2018, also includes important anti-corruption provisions.

Mexico's new President has pledged to adhere to a 50-point list of guidelines for both austerity and anti-corruption in government. The plan includes slashing budgets for officials' compensation, advertising and travel, and banning the remodeling of offices and the use of private planes and helicopters. The plan also cancels all public trusts and other mechanisms used to conceal public funds, and bans the giving of gifts to public officials priced over five thousand pesos. AMLO expects to recover over US$24 billion through this program, which will be allocated to social programs and infrastructure works. Anti-corruption campaigners are likely to push AMLO for more rigorous institutional change over and above these promises, such as implementing many of the provisions in the National Anti-Corruption System.

Exhibit 19: Key Developments – Mexico

Anti-corruption measures
Political shift
Infrastructure pipelines and opportunities

TODAY

February 2019

Mexico announces the financial model for the Tren Maya rail project

DECEMBER 2018

Congress approves funding for AMLO’s Development Plan for the Isthmus of Tehuantepec
Over US$ 402.4 million of federal funding is earmarked for the project

OCTOBER 2018

The NAIM project is scrapped

SEPTEMBER 2018

AMLO announces two key spending construction plans
Amlo pledges US$ 532 million in funding in 2019 to a National Reconstruction Plan and an additional US$ 532 million in an Urban Improvement Programme

AUGUST 2018

AMLO releases Santa Lucía airport plans
The AMLO team suggests this airport plan will be more viable than the New International Airport for Mexico City (NAIM) plan

JULY 2018

A new President is elected
Left-wing AMLO is elected to be President

NOVEMBER 2017

Presidential frontrunner makes infrastructure pledge
Election frontrunner (“AMLO”) pledges to invest 4.1% of GDP worth of public spending in infrastructure

SEPTEMBER 2017

Odebrecht investigation
Several formal investigations are conducted into the Odebrecht allegations

JULY 2017

Modifications in anti-corruption law come into force
These modifications include a major anti-corruption law (the “GLAR”) expanding on anti-corruption reforms made in 2016, and a law establishing the National Anti-Corruption System

JANUARY 2017

DECEMBER 2016

Odebrecht bribery disclosure
Odebrecht admits to paying tens of millions of US dollars in bribes to Mexican officials from 2010 to 2014

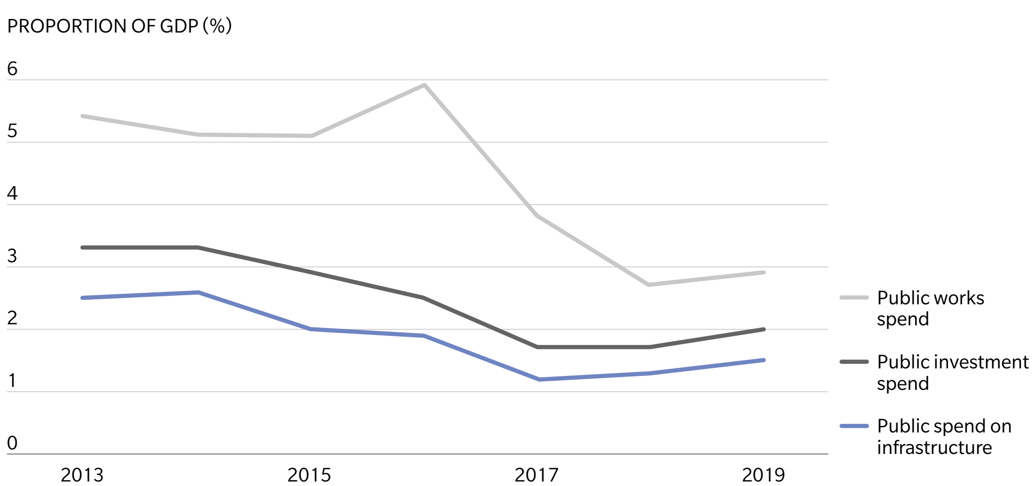
RECENT PPP DEVELOPMENTS

President AMLO has now launched the 'Fourth Transformation' – a national plan proposing 25 strategic projects framed across three axes: Economy and Field, Social Welfare, and Energy and Infrastructure, in order to achieve equity and sustainable social development.

Several announcements committing government spending to supporting this agenda have emerged: AMLO has pledged US$532 million in funding in 2019 to a National Reconstruction Plan, and an additional US$532 million in an Urban Improvement Programme for the same period. Indeed AMLO promised on the campaign trail that his government would spend 4.1 percent of Mexico's GDP on infrastructure and social projects. The new administration's focus on increasing government spending on infrastructure represents a break from the past after years of government investment declining (**see Exhibit 20**).

President AMLO has announced several key infrastructure projects as part of his plans for the future of Mexico's economy. A particularly notable announcement emerged from Obrador's campaign in August 2018, when he announced the 'Tren Maya' project. The project aims to connect southeast Mexico through 1,525km of rail and is budgeted to receive investments of up to US$8 billion. In early 2019, the administration announced that it would use public funds to finance 10 percent of the project and seek private financing for the rest, including mobilization from capital markets and institutional investors (via, for example, Fibra E certificates). The new President also has far-reaching plans for the southern region of Mexico more broadly, which currently lags behind the rest of the nation in terms of growth and development.

Exhibit 20: Public Sector Investment as a Percentage of GDP (2013–2019)



Source: Centro de Investigación Económica y Presupuestaria (CIEP, 2019)

The flagship project for President AMLO's plans for southern Mexico is the Development Plan for the Isthmus of Tehuantepec: an initiative to develop interoceanic transportation options to open up Southern Mexico as an industrial and trade hub, potentially as a rival to the Panama Canal. Over US$402.4 million of federal funding has been earmarked in the 2019 budget for this project. To further support this plan, the administration also plans to launch the Transístmico Corridor project in 2019: a construction project including new roads, an improved railroad, and the remodelling of ports in and between the southern states of Oaxaca and Veracruz. The new administration hopes to therefore create a new industrial hub centered in Southern Mexico as a result.

Although the new administration is eager to engage private investment to enable these works, some limits remain. AMLO has said, for example, that foreign private investment wouldn't be welcome for the Isthmus of Tehuantepec project for "strategic and sovereign" reasons. President AMLO has also expressed concerns around the value of privatizing infrastructure assets. The potential for shifts in government regulations, project support, and reforms under the new administration could also pose limits for investors.

THE AIRPORT AND ITS LESSONS

Following a "people's poll" in October 2018, where nearly 70 percent of votes emerged in favour of terminating the long-awaited US$14.5 billion-worth Mexico City New International Airport (NAIM) project, President López Obrador announced that he would abandon the project.

A third of the project had already been built at the time of the vote and nearly 70 percent had been financed, and estimates have said that its cancellation will cost US$6.6 billion – half its initial budget. Although this move rattled markets, Obrador has alleged that the integrity of the NAIM project had been marred by graft, and has committed to a clean pipeline of alternative projects. For example, Obrador has indicated that he would like for NAIM-related contracts to be reallocated to a new project: the expansion of the Santa Lucía military air base into a commercial airport, a project that has been highlighted as a significant focus for the new administration's six year term. The administration also received approval from NAIM project bondholders for a US$1.8 billion buyback offer from the federal government, marking the easing of tensions between investors and the administration, and paving the way for the Santa Lucía airport project to move forward.

Given his promise to lead "by the people and with the people", President AMLO's direct-democracy style of governance is likely to guide much of Mexico's infrastructure policy in the coming years. Following the NAIM airport referendum, public consultations were held to decide the fate of 10 other infrastructure projects – including the Tren Maya project. The offerings in this second consultation received broad support. Investors would do well to guard against political risks in Mexico by ensuring alignment between investment projects and the administration's priorities, by paying special attention to the institutional sustainability of projects (both in a governance and an environmental sense), and being rigorous about applying transparency and anti-corruption principles to each project.

COLOMBIA

Since the emergence of the Lava Jato investigation, the Colombian government has launched several of its own investigations into politicians and business executives. This has led to the conviction of several ex-senators, a former anti-corruption chief, and a former minister. The head of the government's infrastructure agency, as well as other prominent individuals in the private sector, are also under investigation. The fallout from these investigations has left a wave of unfinished, stalled or delayed infrastructure projects in Colombia, including a major highway worth over US$1 billion that was originally slated to be built by Odebrecht named the Ruta del Sol II. In June 2018, Colombia selected the business-friendly Iván Duque Márquez as the country's next President, who has committed to work to bring back investor confidence to Colombia's infrastructure sector.

LEGISLATIVE CHANGES AROUND PPPs AND CORRUPTION

Colombia has taken several measures to win back investor confidence and enhance transparency. In 2016, Colombia's Transnational Corruption Act (or "TCA") of 2016 was passed into law, aimed at combatting foreign bribery and aligning with the OECD's Anti-Bribery Convention. In 2018, enforcement of this law increased noticeably: a company was sanctioned for the first time under the law in 2018, and the government has said that it is now pursuing more than ten investigations under the auspices of this law. The Colombian government has additionally signed two important Memoranda of Understanding ("MoU") with Peru and Spain, encouraging the bilateral exchange of evidence between each of these countries in cross-border corruption investigations.

Popular movements in favor of anti-corruption reform could continue to drive this momentum. A recent referendum in fact showed that 99 percent of respondents supported several strong anti-corruption measures such as banning house arrests for corruption sentences and forcing elected officials to publish tax returns.

Furthermore, legislative changes around PPPs have improved protections for infrastructure investors. Amendments to the infrastructure regime regarding the procurement of public contracts were enacted in January 2018. These amendments give clearer guidelines on, among others, the settlement of PPP contracts in case of project annulment, the structure of public tenders as well as the responsibilities of consultants, auditors and advisors. The new procurement law also redefines the liquidation value of a project in the event of cancelation and simplifies land rights for new infrastructure development. Newly enacted legislation for public procurement and the involvement of the national development bank in infrastructure projects, the Financiera de Desarrollo Nacional (FDN), well as the bank's expression of commitment to projects that require compliance with international standards in environmental safety, social responsibility and corporate integrity, will also ensure greater protections for creditors.

Exhibit 21: Key Developments – Colombia

- Anti-corruption measures
- Political shift
- Infrastructure pipelines and opportunities

TODAY

FEBRUARY 2019

Colombia announces a long-awaited decision to auction the country's 700MHz spectrum

JANUARY 2019

Iván Duque commits to completing the La Línea tunnel project by 2020

NOVEMBER 2018

Bogotá city government announces that it is preparing to launch a US$1.6 billion portfolio of PPP projects

OCTOBER 2018

The National Territorial Entities Pension Fund (Fonpet) is allowed to diversify its investment portfolio

AUGUST 2018

Conservative President Iván Duque is sworn into office

AUGUST 2018

Bogotá Metro Line project secures funding and begins prequalifying bidders

The metro line is to be the capital city's first, and is slated to be completed in 2024

AUGUST 2018

JULY 2018

The Ruta del Soll II project opens for retender

MARCH 2018

Additional investigations announced

Government agency Superintendencia de Sociedades announces that it is investigating at least 10 companies under the new foreign bribery law

JANUARY 2018

New amendments to public procurement regime enacted

New amendments establish clearer guidelines for lenders in case of project cancellation

Odebrecht investigation

Nearly three dozen people are indicted. It emerges that the total bribes paid by Odebrecht were almost three times the initially admitted value

MAY 2017

National bank FDN establishes a peso-denominated credit line

The line is dedicated to infrastructure projects

JANUARY 2017

DECEMBER 2016

Odebrecht bribery disclosure

Odebrecht officers admit to giving Colombian officials tens of millions US dollars in bribes

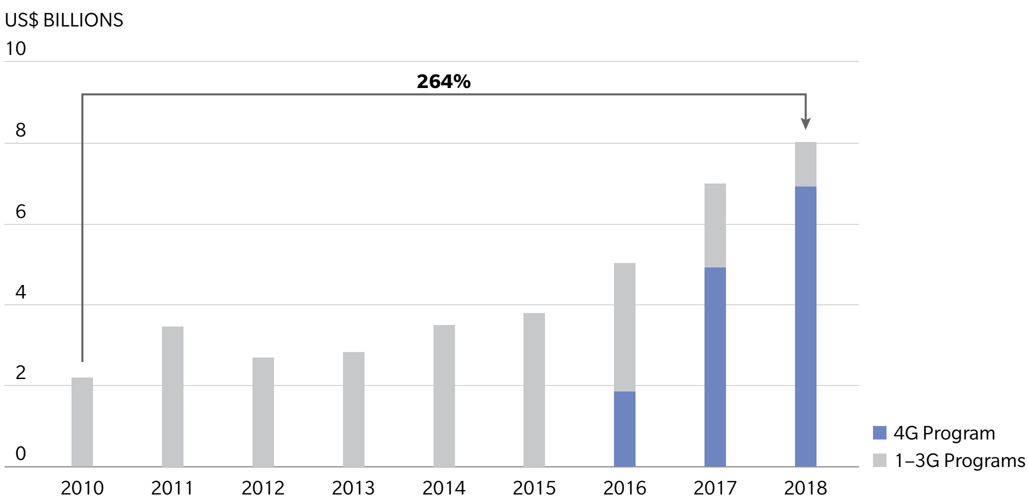
PPP OUTLOOK: UNCERTAINTIES AND OPPORTUNITIES

Colombia's '4G' or 'Fourth Generation' program is a US$70 billion initiative launched by the Colombian government in 2013 focusing on road infrastructure development to 2035. Project momentum under the 4G program has picked up decisively in the last three years (**see Exhibit 22**) despite the annulment of Odebrecht's concession contract for the Ruta del Sol II toll road causing momentary jitters for investors. The Ruta del Soll II concession, amongst other unfinished works, is set to be continued as public works by the National Roads Institute (INVÍAS).

The retendering of Ruta del Sol II in July 2018 resulted in the award of a total investment of US$112 million to five contractors in September 2018, reinforcing investors' confidence. By the end of 2018 fifteen 4G program projects had obtained financial closure.

In a bid to hedge against foreign currency risks and attract further foreign investment, the Colombian government is also actively working to increase Colombia's reliance on local capital markets. As a result of active central bank encouragement, foreign investor participation in the Colombian peso-denominated bond market increased from 3 percent to 26 percent between 2012 and 2018 alone.

Exhibit 22: Private investment in Colombia's infrastructure programs



Source: National Infrastructure Agency

Several major institutions are offering products to this further this goal: the FDN, for example, recently established a peso-denominated credit line in May 2017 dedicated to infrastructure projects, and has signed several agreements with the IDB to facilitate further peso-denominated loans for the 4G program. In an additional move that will unlock an even larger pool of local currency, the Colombian government has released a decree allowing the country's National Territorial Entities Pension Fund (Fonpet) to allocate funds to infrastructure PPPs. This will build on the momentum from Colombia's 2014 Decree which allowed pension funds to invest up to 5 percent of their AUM in private equity funds that invest at least two-thirds of their portfolio in PPPs. Colombian capital markets have also seen a marked rise in green bond issuance: in July 2018 a flurry of this activity resulted in Colombian green bonds comprising over 20% of the total value of issues in the country's stock exchange in 2018. The deepening of local capital markets will offer important opportunities for infrastructure investors.

The Colombian government also continues adding to the list of potential PPPs across a variety of projects. In the realm of transportation, Colombia has made significant strides in building its capital city's very first metro system: in August 2018, the Inter-American Development Bank, World Bank and European Invest Bank agreed to provide US$1.68 billion in financing for Colombia's US$4.4 billion Bogotá Metro Line 1 project. Proceedings for the concession for the metro project will begin in 2019. The Bogotá government in fact announced in November 2018 that it intends to launch a US$1.6 billion portfolio of PPP projects, and began revealing some of these projects in a presentation in February 2019. President Duque has also committed to completing the La Línea Tunnel megaproject by December 2020 – a major tunnel spanning Colombia's Central Mountain Range. The government has secured 6.2 billion pesos in funding for the project, and has begun the tender process.

Aeronáutica Civil, the government's aviation agency under the Colombian Ministry of Transport, has also announced that it plans to invest more than COL$3.8 billion in airport infrastructure in the next four years and double Colombian airports' load of passengers by 2030. A major project in Colombia's airport development pipeline will be the El Dorado airport expansion project in Bogotá.

Opportunities are also emerging for investors seeking to diversify their portfolio beyond transportation: these include a tender for the nation's first renewable energy project of 1GW power in 2019, as well as opportunities in telecommunication. The Colombian ICT ministry (Mintic) has recently announced a long-awaited decision to auction the country's 700MHz spectrum in 2019.

ARGENTINA

In response to two major corruption allegations – the Odebrecht investigation which reached Argentinian shores in December 2016, and the "Cuadernos" (Notebook) case that emerged in August 2018 – as well as economic volatility, Argentina has enacted a number of reforms and investor-friendly infrastructure programs. The government hopes that the recent introduction of business-friendly PPP regulations, supported by the announcement of a diverse list of projects, will help drive private investment in infrastructure despite recent economic struggles. Uncertainties around Argentina's 2019 election and precarious economic position, however, will pose concerns for investors around continuity and stability in the coming year.

ECONOMIC CHALLENGES

After years of President Cristina Fernández de Kirchner's heavy subsidies and foreign exchange controls, the new Macri government inherited an economy beset by inflation, a weak peso, and rising twin deficits (current account and fiscal) in 2015. Although Macri's 'gradualist' policy measures boosted investor confidence in his first two years of office, his decision to finance the country's deficits by taking on large amounts of foreign currency debt had serious consequences in 2018. Argentina's unexpected request in August 2018 for the early release of its US$50 billion IMF loan (now US$56.3 billion) as an additional means to finance its deficits triggered a freefall in the already sliding peso, escalating concerns over the country's growing foreign debt and the stability of the government moving forward.

Investor confidence was also shaken by the emergence of widespread corruption charges in 2018 affecting a large number of public officials and high-ranking businessmen.

In response, the Macri government broke away from its gradualist approach toward the end of 2018 and made substantive changes. It halted its expansionary monetary policy, cut spending on transfers and subsidies, maintained its high interest rates and further eased its foreign exchange controls. In May of 2018, the lower house of Argentina's parliament also passed the Law of Productive Financing: a sweeping piece of legislation that is expected to boost the strength of capital markets and allow for smoother financial closing for infrastructure projects. Argentina has also accepted substantive transparency-related Policy Based Loans (PBLs) from the IDB, and has passed a new law imposing criminal and administrative liability on corporations for domestic and transnational bribery (as well as other corrupt acts). At the G20 Leaders' Summit in Buenos Aires, Macri also signed an important agreement with the United States called the Framework to Strengthen Infrastructure Investment and Energy Cooperation, as well as more than 30 cooperation agreements with China.

NEW PPP LAWS AND COMPENSATION SCHEMES

In a bid to stimulate long-term private investment in public works and rejuvenate the economy, President Macri passed a watershed 'PPP Law' in December 2016.

Exhibit 23: Key Developments – Argentina

- Anti-corruption measures
- Political shift
- Infrastructure pipelines and opportunities

TODAY

FEBRUARY 2019
Interested parties meet with potential lenders for a US$900 million trust to finance Argentina's six major road construction PPP projects

SEPTEMBER 2018
Argentina secures an IMF loan package of US$57.1 billion
The loan is the biggest in the IMF's history

MAY 2018
A new capital markets law comes into effect
The Law of Productive Financing is passed

JANUARY 2018
A new anti-corruption law comes into effect
Criminal and administrative liability is now imposed on corporations involved in a variety of corrupt acts

Ongoing corruption investigation

NOVEMBER 2017
RenovAr 2.0 program projects are announced
Argentina's renewable energy program is renewed

NOVEMBER 2017
The government announces plans to sell stakes in electricity generation and distribution companies
The move aims to raise US$1 billion for infrastructure finance

APRIL 2017

DECEMBER 2016
Odebrecht bribery disclosure
Odebrecht executives confess that the company paid tens of millions of US dollars in bribes to Argentine officials

NOVEMBER 2016
Macri's new PPP framework is passed by the Argentine government

NOVEMBER 2015
Right-wing Mauricio Macri defeats incumbent left-wing party in the General Election
Cristina Fernández de Kirchner's eight-year term comes to an end. Corruption allegations hang over her presidency

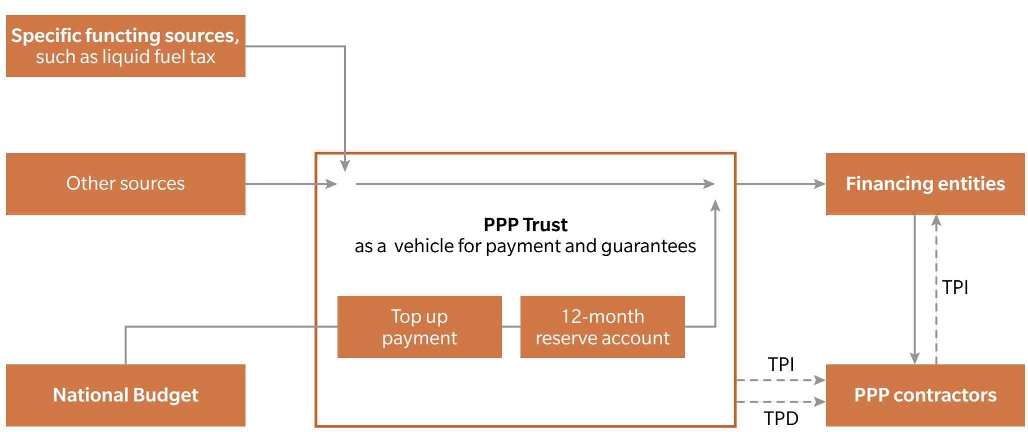
This law established a PPP framework built on four pillars of best practise from around the world: efficiently allocating risk between the private and public sectors, improving project preparation and documentation, collecting effective feedback from the market on project optimization and feasibility, and setting clear goals. The law therefore includes significant provisions that can strengthen the credit risk profile of Argentinian PPP projects, such as the firming up of creditor rights and guidelines, the formalization of access to international arbitration for the resolution of disputes, and risk mitigation mechanisms for the early termination of PPP contracts.

A key structure underlying Argentina's 2016 PPP law is the establishment of a PPP Trust for the payment of certificates of compensation for PPP contracts: Titulos de Pagos por Inversion (TPIs) and Titulos de Pagos por Disponibilidad (TPDs). The PPP Trust will issue these payment certificates to PPP contractors quarterly, based on the degree of progress of a project. This structure is modelled on a similar successfully implemented framework in Peru called the RPI-CAO certificate framework, but improves upon it by making its certificates not just irrevocable but also transferable. In this way, PPP contractors can collateralize and/or securitize cash flows in connection with the financing of a project. The PPP Trust is funded by a variety of sources, including revenue from petrol taxes, tolls, and the national budget. This framework is currently being used to enable the first phase of Macri's PPP program comprising of six road projects valued at an estimated US$8 billion (**see Exhibit 24**).

PPP PROJECTS IN THE PIPELINE

Argentina has put forward an extensive list of PPP projects that it hopes, with the help of its new PPP framework, will attract a total investment of US$26.5 billion through 2022.

Exhibit 24: Compensation Structure for PPPs under the PPP Trust in Argentina



Source: Ministry of Finance, Argentina

PPP road concessions lead the way with a portfolio of 13 highways and two bridges. The first major tender as part of Macri's PPP program, titled the "Safe Highways and Roads Network", comprises six road projects with an estimated value at US$8 billion and was awarded in June 2018 to five different consortia. In March 2018, Argentina's Ministry of Transport also launched a US$2.3 billion tender for the first phase of the Regional Express Network (RER) PPP – a major initiative to improve connectivity between major hubs in Buenos Aires through rail and tunnels. As part of state policy Argentina also launched the RenovAr project on renewable energies in 2016, aiming to have 20 percent of the country's power sourced by renewable energy by 2025. The program had awarded a combined 1.7 GW of renewables capacity by the end of 2018 after three rounds of RenovAr tenders. Toward the end of 2017, Argentina also announced an ambitious initiative to sell its stakes in electricity generation and distribution companies, in a bid to raise US$1 billion for infrastructure finance.

However, Argentina's macroeconomic issues and corruption allegations have of course hampered investment prospects. Sharp increases in Argentina's country risk levels, the Argentine peso's nosedive against the dollar, and the country's rising inflation rate all severely impacted the landscape for investors in the second half of 2018. In August 2018, for example, it was announced that the fourth round of RenovAr tenders would be delayed until 2019 due to grid constraints and difficult financing conditions. After several calls for tenders for the construction of the RER, this project was also eventually left on standby at the end of 2018, and its construction completion date has been extended beyond 2023 due to a lack of investor interest. Of the six road PPPs announced in 2018, two received substantial financing in 2018 while investor interest in the rest lagged. At the end of 2018, President Macri ordered a temporary freeze on new projects being announced under the PPP program.

Several windows of opportunity do remain, however, for Argentina's embattled infrastructure investment landscape. The Argentinian government is working with multilateral development banks to raise approximately US$900 million in funds for a trust to finance the construction of the six PPP road projects, and to protect potential lenders from reputational concerns in light of the country's recent corruption allegations and investigations. In February this year, interested parties (including potential commercial lenders) met in New York to discuss prospects for the trust, and the organizers confirmed that the terms of the trust would be finalized by June, subject to the necessary approvals and authorizations. The government also launched the first non-road project tendered under the PPP law at the beginning of 2019: a 490km, 500kV transmission project. Argentina's commitment to reform, to building a steady PPP program, and its increased cooperation with international multilateral organizations in anti-corruption and infrastructure development, will be instrumental in guiding the nation through its macroeconomic instability.

PERU

Lava Jato-related corruption charges reached Peru in December 2016. The ensuing investigations have since implicated three previous Peruvian presidents, and hampered GDP growth – analysts say that it was the combination of the Odebrecht fallouts along with the 2017 El Niño storm that decreased the country's GDP growth from 3.6 percent in 2016 to 2.5 percent in 2017. The Peruvian government responded quickly, banning Odebrecht from taking part in public bids and cancelling the US$7.3 billion Gasoducto Sur Peruano Pipeline (GSP) natural-gas pipeline contract with the Brazilian construction company in early 2017, officially ending the company's 4 decades long presence in Peru and halting one of the biggest public-private partnerships in Latin America.

The government has since taken a proactive approach to combating corruption. In an effort to reinforce anti-corruption measures, the Peruvian government has put in place a series of amendments to the country's existing regulations, which tighten its anti-corruption practices and provide legislative clarity to businesses. Moving into 2019, ProInversión – the Private Investment Promotion Agency of Peru – continues to play an important role in attracting private investment to Peru and has outlined a pipeline of 58 potential PPP projects to be awarded between 2019 and 2021.

LEGAL PROCEEDINGS AND LEGISLATIVE CHANGES

A series of legislative and emergency decrees was immediately issued following the corruption charges raised in the Lava Jato investigation at the beginning of 2017, such as Legislative Decree Nos. 1341 and 1352, and Urgency Decree No. 003-2017. These new measures placed administrative sanctions against companies involved in corrupt practices and money laundering, limited the sale of assets of such convicted companies and prevented the convicted entities of such crimes, whether foreign or domestic, from contracting with the government. The new regulations also went a step further to sanction companies whose representatives acknowledged the commission of corruption crimes under any leniency agreement.

Over the course of subsequent years, these decrees came into force in a number of ways – in some cases they expanded other laws, while in others they were amended or replaced by additional laws. These measures sought to prevent extreme fallouts for the infrastructure sector while continuing to guard against and punish corporate corruption. For example, Legislative Decree No. 1352 came into force in January 2018 and expanded on the major 2016 Law No. 30424 on foreign bribery. Corporations may now be investigated, prosecuted, and penalized for engaging in transnational or domestic bribery of public officials or servants under these laws – as well as for money laundering and financing of terrorism.

Exhibit 25: Key Developments – Peru

Anti-corruption measures
Political shift
Infrastructure pipelines and opportunities

TODAY

JANUARY 2019

ProInversión awards contract to a major international law firm to standardize Peruvian PPP procurement

NOVEMBER 2018

Three quarters of the Ministry of Transportation and Communication's budget is allocated to transport infrastructure

NOVEMBER 2018

Peru's Bicentennial Agenda is announced for 2018–2021 in honour of Peru's 200 years of independence
The government commits to investing in and encouraging private investment in over 100 infrastructure works

JULY 2018

ProInversión completes global roadshow for 50 PPP projects
Government agency for promoting private investment announces that a total investment of more than US$11 billion is to be awarded from 2018 to 2020

MARCH 2018

President Pedro Pablo Kuczynski resigns
The former president offers his resignation ahead of an impeachment vote. The Vice President, the independent Martín Vizcarra, takes office

Legislative changes
Several decrees and laws are issued to prevent the scandal from stalling the economy and build a stronger anti-corruption PPP framework

JANUARY 2017

DECEMBER 2016

Odebrecht bribery disclosure
Odebrecht officers admit to paying tens of million in bribes to Peruvian officials between 2005 and 2014

However, these laws also include a provision that says that firms could mitigate their exposure to penalties by showing that an adequate Corporate Compliance Program was instituted to attempt to prevent these crimes.

Another notable legal change in Peru relates to anti-corruption considerations in PPP contracting. As per Supreme Decree 068-2017 released in 2017 and a set of PPP project guidelines released by the Ministry of Economy and Finance in 2018, PPP contracts are now mandated to include an anti-corruption clause. These guidelines warn that in cases where losses or damages arise in a project that benefited from corruption, concessionaires will not be able to claim compensation.

However, industry members have noted that the new measures have left many Odebrecht's local partners unable to secure bank financing, and has hampered job opportunities for many in the construction sector. Bankers remain uncertain in Peru due to confusion around the future status of projects implicated in the Lava Jato investigation and the profound implication of newly-established and upcoming changes in legislation.

PROJECT PIPELINES AND PROGRAMS

Peru has a solid track record of funding infrastructure through PPPs, having awarded more than 100 projects in the past 10 years.

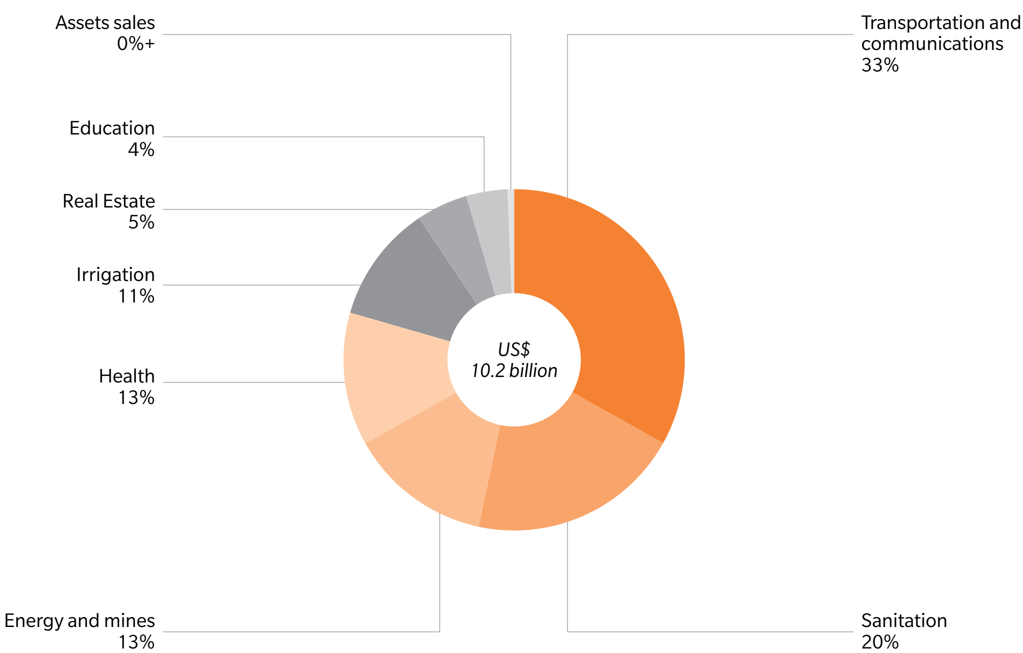
Peru is in fact known to have one of the most investment-friendly legal frameworks for foreign companies in the region, sitting at the very top of Infrascope's rankings for 'Conducive regulatory environments' in Latin America. Peru is committed to maintaining this status: in order to smoothen and accelerate the pace of PPPs, ProInversión awarded a contract to a major international law firm to standardize PPP procurement in the country in January 2019. Peru's new government additionally passed a law deeming PPPs to be 'matters of national interest' at the end of 2018, further strengthening the legal backing for private investment in the nation's infrastructure. The in-depth knowledge provided by ProInversión coupled with the nation's resilient legal framework is likely to support continued private investment in the coming years.

Exhibit 26 shows the sector breakdown of 58 PPP projects to be awarded in 2019–2021 with an estimated investment of US$10.2 billion. A strong emphasis has been placed on transportation development – accounting for 40 percent of the total project values. Many transport, healthcare and water initiatives are co-financed by the government, meaning the full construction cost and risk are shared between the public and private sectors. The Ministry of Transportation and Communication in fact has announced that about three quarters of its total budget will be invested in road, port and airport infrastructure in 2019.

ProInversión's agenda will be even further supported by Peru's 'Bicentennial Agenda': a program of investments between 2018 and 2021 to celebrate Peru's 200 years of independence in 2021 launched by the Vizcarra government. Part of this agenda includes the Peruvian government's commitment to both investing public money and encouraging private investment in over 100 infrastructure works valued at over US$10 billion until 2021.

The major projects open in 2019 in Peru will be for the development of eight regional airports and the Lima-Ica railway project. Private proposals relating to this railway project and to the 'Third Tranche' of the eight regional airports project opened in January 2019.

Exhibit 26: PPP projects to be awarded in 2019–2021



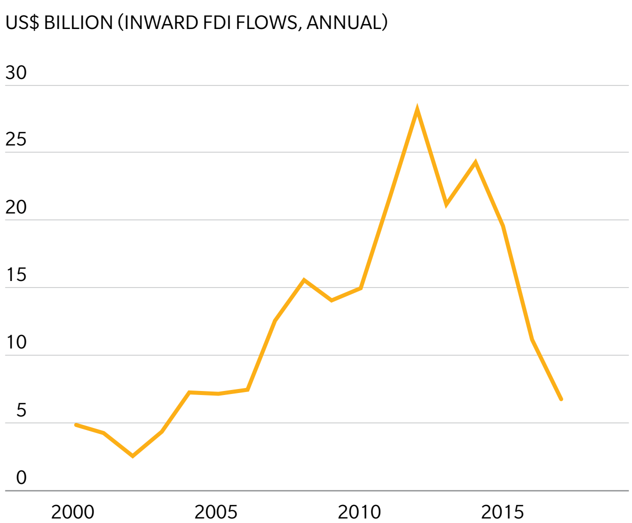
Source: ProInversión

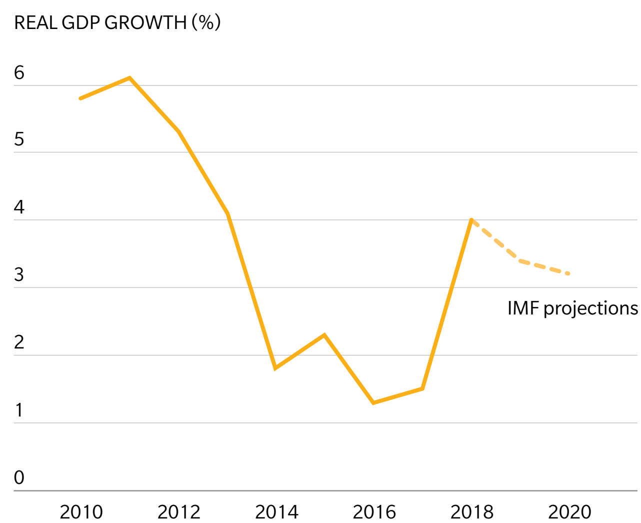
CHILE

With largely stable growth and sophisticated financial and regulatory systems, Chile has long been the most mature market for infrastructure investors in Latin America. Chile, however, has not escaped the region's cases of corruption of late: as the region's corruption investigations unfolded, corruption allegations emerged against several Chilean politicians regarding wrongful financing of campaign expenses. Facing a series of these corruption allegations against her administration, Michelle Bachelet's approval ratings had fallen to 26 percent by the end of her term, paving the way for her loss at the December 2017 elections.

Right-wing Sebastián Piñera has taken office with a mandate to tame the country's rising unemployment rate, revive foreign investment, and boost growth after years of deceleration. With the IMF projecting growth of 3–4 percent for 2019–2020, prospects for Piñera's agenda look optimistic. Chile has strong PPP frameworks in place but serious inadequacies in Chilean infrastructure remain – particularly in transport, water, and health and education services. Piñera is therefore placing considerable focus on increasing infrastructure investment to revive the economy, and hopes to court significant private involvement to achieve this aim.

Exhibit 27: Chile's Foreign Direct Investment (FDI) and Gross Domestic Product (GDP)





Source: UNCTADstat, IMF

Exhibit 28: Key Developments – Chile

- Anti-corruption measures
- Political shift
- Infrastructure pipelines and opportunities

TODAY

JANUARY 2019
Reforms to Chile's General Banking Law ("GLB") come into force

JANUARY 2019
The Chilean government releases a US$13.3 billion portfolio of projects for the next five years

NOVEMBER 2018
Chile passes a new Anti-Corruption law to meet OECD standards

AUGUST 2018
The government announces a 2018–2022 National Health Investment Plan, seeking to invest US$10 billion over the next four years and construct 57 new hospitals by 2026

AUGUST 2018
The government announces the launch of a US$9 billion infrastructure fund for 2019
The Fondo de Infraestructura will be designed to grant loans, invest in new projects and provide guarantees to concessionaires

JULY 2018
A Bill on Public Integrity is signed into law
The law includes rules about nepotism, lobbying, and business interests of public servants after they leave public life

MAY 2018
Piñera announces that the government will create a new office called GPS (Gestión de Proyectos Sustentables) aimed at speeding up bureaucratic procedures to boost large investment projects

Ongoing corruption investigation

MAY 2018
President Piñera pledges investments of least US$2 billion a year in concessions
This plan involves retendering concessions of highways, toll systems, and airports among others

DECEMBER 2017
Conservative billionaire and former president, Sebastian Piñera, wins a highly contested and fraught ection
Chilean markets are uncharacteristically shaken up, and stabilize once Pinera emerges the winner

OCTOBER 2017
The Chilean government publishes norms allowing pension funds to invest in infrastructure

DECEMBER 2016
Odebrecht bribery disclosure
Odebrecht officers admit to paying millions of dollars worth of bribes around the world. Chile's final bribery numbers are left undetermined

DECEMBER 2016

RESTORING A CLEAN BUSINESS ENVIRONMENT

Chile has developed a reputation as a relatively corruption-free place to do business. However in 2018, for the fifth year in a row, Chile's ranking on Transparency International's Corruption Perception Index fell. In 2017, the OECD released a statement urging Chile to address the remaining weaknesses in its frameworks to combat foreign bribery, after having noted deficiencies.

Several key legislative actions have been taken to address this issue, and to preserve Chile's reputation for clean business practices. The IDB has taken an active role in promoting Chile's anti-corruption drive by providing US$230 million in Policy Based Loans (PBLs) to the nation, loans earmarked specifically for aiding Chile's Integrity and Transparency Agenda. In November 2018, the Chile published a new law amending the Criminal Code and providing a more complete Anti-Corruption Statute. The new law increases penalties for certain corruption-related offenses and broadens criminal liability for legal entities. The legislation is also intended to help Chile comply with OECD standards.

In July 2018, President Piñera also signed into law a widely-hailed Bill on Public Integrity: a bill to regulate the hiring of relatives, the nature of lobbying and interest management, and conflicts of interest between state officials and their ownership in entities that might be subject to audits by the state. A service was also recently established on the Chilean government's procurement agency website (Chilecompra) for anonymously reporting irregularities in government procurement.

Chile has also taken steps to enact financial reform. In January 2019 Chile's General Banking Law (the "GLB") came into force: The Law incorporates new banking capital and reserves requirements, in accordance with the Basel III guidelines. The Law also modernizes the corporate governance and the powers of Chile's banking regulator and the country's bank resolution mechanisms. These measures will be impactful in righting the ship and will pave the way for Chile to move back up on global corruption rankings.

NEW VISIONS FOR PPPs

At the beginning of her term in 2014, President Bachelet announced an infrastructure plan that sought to raise US$28 billion in public and private investment in infrastructure projects over the next eight years. In 2017, Chile's Infrastructure Policy Council (IPC) reported that total investment in infrastructure had reached around 2.25 percent of GDP – 1.25 percent short of the goal President Bachelet had set for 2022. The IPC additionally reported that if President Bachelet's 2014 concession plan were to be completed in 2018, 3.5 percent of GDP investment in infrastructure would be within reach by 2019 or 2020 under the new Piñera government.

After taking office in March of 2018, President Piñera announced a wide range of programs to fulfil this goal.

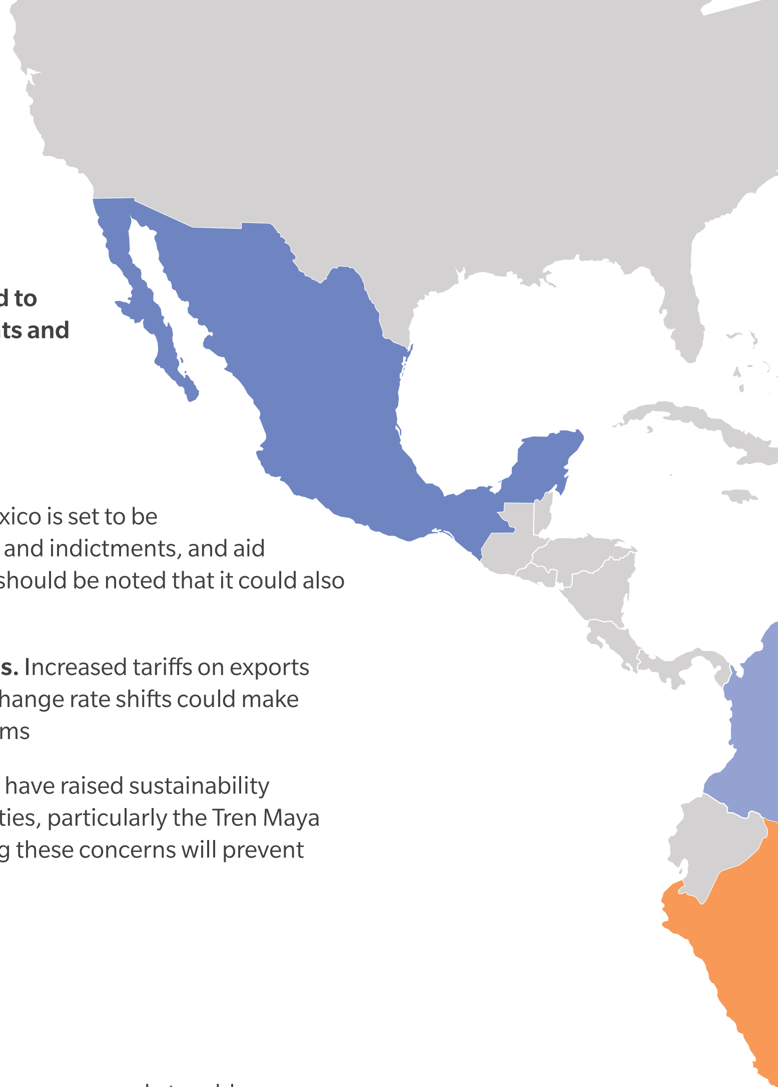
Pointing out that more than 200 projects involving over US$65 billion were stalled due to regulatory delays, Piñera launched a new government office called GPS (Gestión de Proyectos Sustentables) aimed at speeding up bureaucratic procedures relating to large investment projects. Then, within two months of taking office, he pledged investments of at least US$2 billion a year in concessions, and stated that his administration was working on a 40-year plan to develop the country's infrastructure. Piñera has also announced a US$9 billion government fund for early 2019 to further this 40-year plan, which, if disbursed responsibly, will boost loans, projects and opportunities for concessionaires. The funds will be disbursed by the newly created state-owned enterprise Fondo de Infraestructura, which will also be able to issue debts and guarantees for projects. The government is confident this will accelerate investment and job creation in public works.

President Piñera has also indicated that he may seek pension reforms in 2019 that could unlock additional capital for infrastructure investing. Chile took its first step toward this back in October 2017, when the government published norms to allow pensions funds (known as Administradoras de Fondos de Pensiones, or AFPs) to invest in 'alternative assets', including infrastructure. Additional reforms will allow Chile to build on these norms and accelerate fund allocations to the administration's lengthy pipeline of new projects. However, investors should take note that Piñera's ambitious agenda items face a divided congress. Political gridlock may slow down Piñera's ability to enact key reforms.

A STRONG FOCUS ON TRANSPORT AND HEALTH

Roads and transportation infrastructure are particularly important sectors in the new government's plan. Piñera has indeed announced intentions of overhauling Chile's manual toll roads and instituting electronic tolls, as well as building new routes and improving urban, rural, and interurban roads. He has also announced the retendering of concessions for eight major highways accounting for 1,500km, as well as additional concessions for extending Santiago's metro system by at least 130km of line. By January 2019, the Chilean government had released a year-by-year pipeline of projects up until the year 2023. The total value of projects for each year is over US$2 billion, as promised, and the total value of the 5-year pipeline amounts to US$13.3 billion. By the end of 2019, the MOP intends to open up 11 road concessions worth a total of US$2.7 billion.

Another important strand of Piñera's infrastructure vision involves public health infrastructure. In August 2018, his government announced a 2018–2022 National Health Investment Plan, seeking to invest US$10 billion and to complete the construction of 57 new hospitals by 2026. The government has emphasized that they hope much of this will be completed through PPPs, charting a new frontier for public-private cooperation in the healthcare space for Chile. By January 2019, Chile's MOP had already begun the prequalification process for a US$2.5 billion program to build 18 hospitals under a PPP model, as part of the 2018–2022 National Health Investment Plan.



INVESTOR WATCHLIST

Looking ahead into 2019 and early 2020, investors will need to monitor several evolving themes to protect their investments and make informed decisions about new opportunities.

MEXICO

Lasting corruption investigations. The Odebrecht case in Mexico is set to be reopened. This new investigation could lead to further charges and indictments, and aid in identifying remaining corruption related issues. However, it should be noted that it could also lead to the disruption or withdrawal of more projects

Shifts in trade policy and exchange rates in the United States. Increased tariffs on exports into America could bite into profit margins. This along with exchange rate shifts could make dollar-denominated debt more difficult to repay for Mexican firms

Sustainability concerns. Several of President AMLO’s projects have raised sustainability concerns for environmentalists and local indigenous communities, particularly the Tren Maya project. Developing strategies for engaging with and mitigating these concerns will prevent disruptions and delays in the future

PERU

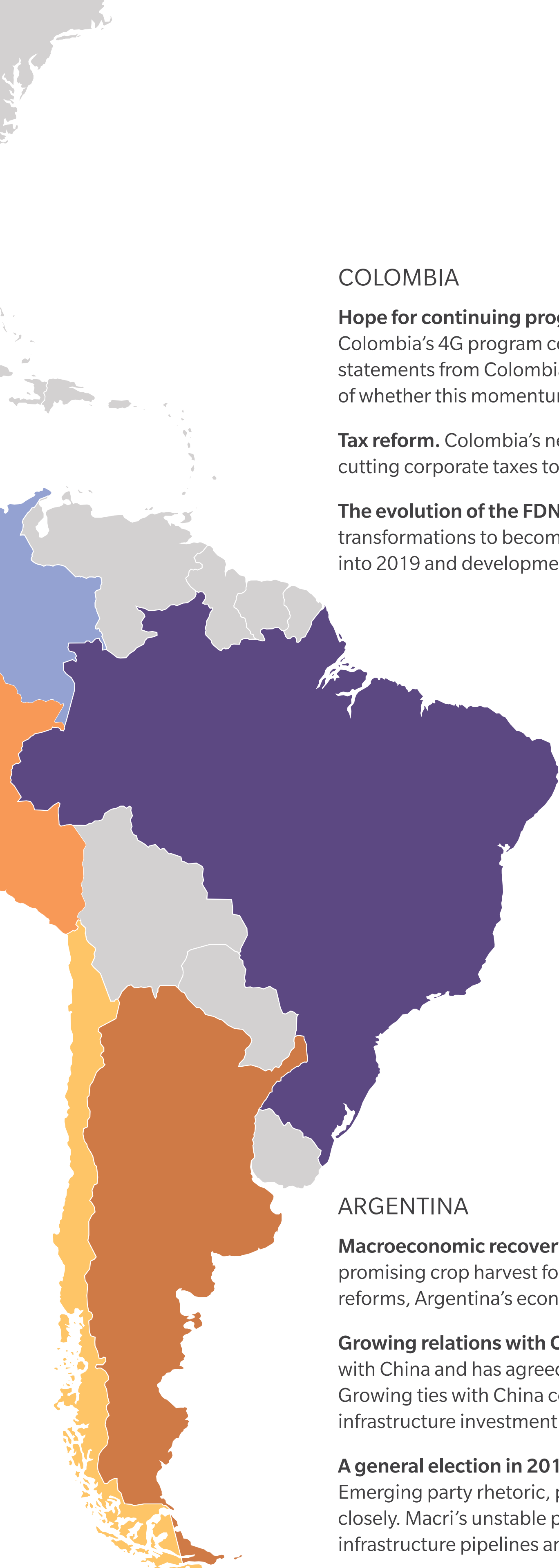
Evolving enforcement of regulations. Several legislative changes were made to address corruption over the last two years, but clarity around implementation and enforcement is still evolving. These regulatory developments, and how they might be affected by the ongoing corruption investigation into Odebrecht, should be monitored closely

Ongoing political and civil society instability. With three former heads of state under investigation and the opposition leader currently in jail (as of March 2019), as well as sweeping shifts and reforms being made in the judiciary, uncertainty around Peruvian governance and instability will remain a key concern for investors in 2019

CHILE

Growing relations with China. Following in Bachelet’s footsteps, Piñera too seeks to strengthen ties with China. Chile may soon finalize talks to become the first South American country to enter the AIIB as a full member. This will have important implications for Chinese investment in Chilean infrastructure

Heightened focus on sustainable infrastructure. Over 90 percent of the freshly added power to Chile’s electricity system in 2018 came from renewable sources. President Piñera is likely to push on with this trend, having announced that he intends to push Chile to a 100 percent clean and renewable electricity grid by 2040. The administration is also keen to develop additional sustainable transport infrastructure



COLOMBIA

Hope for continuing progress in Colombia's 4G program. More and more projects in Colombia's 4G program continue to reach financial close as the months pass. Decisions and statements from Colombia's new government must be watched closely to measure the likelihood of whether this momentum will endure

Tax reform. Colombia's new President has indicated an interest in reducing public spending and cutting corporate taxes to support increased investment, particularly in infrastructure

The evolution of the FDN. Colombia's key development bank, FDN, is undergoing a series of transformations to become more efficient and facilitate more investment. This could continue into 2019 and developments should be watched closely

BRAZIL

Pension reform. Facing high rates of public debt and large fiscal deficits, there are challenges to overcome for Brazil's ambitious fundraising plans for infrastructure. Pension reform has been suggested as a way for the government to raise funding, and the new President is keen to make this reform a key focus

Building railways for exports. Several major railway project concessions are on the horizon for the coming years to better support Brazil's agricultural exports, such as the Ferrogrâo (Grain Rail) and FIOL (Railway for the Integration of the Center-West) projects, and opportunities in the area of rail are likely to expand. The new head of the PPI program, Adalberto Vasconcelos, has said that the administration aims to double the share of cargo moved by rail to 31 percent from 15 percent by 2025

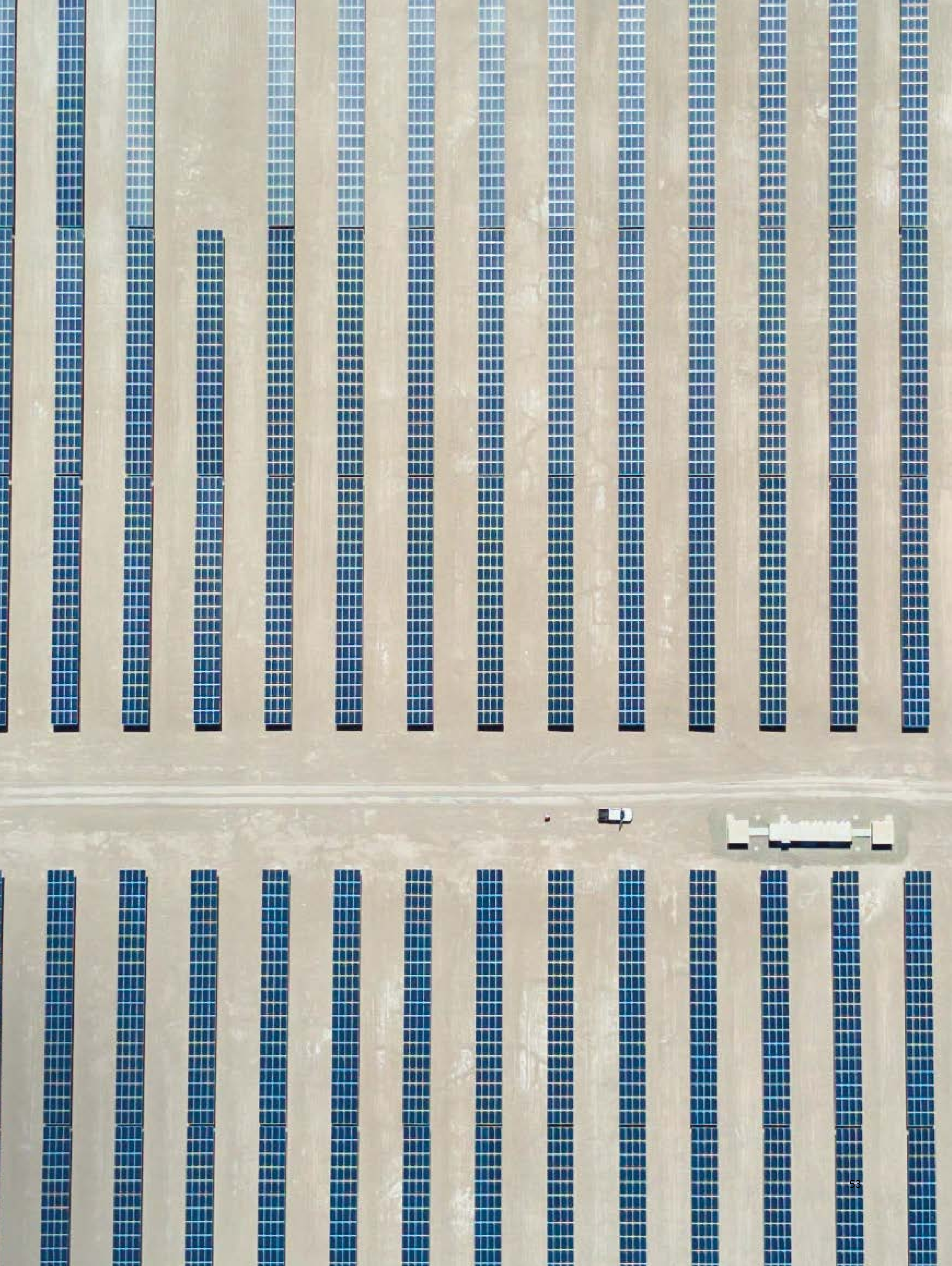
ARGENTINA

Macroeconomic recovery. With the largest IMF loan in history under its belt, as well as promising crop harvest forecasts from the country's Agriculture Secretariat and prudent fiscal reforms, Argentina's economy is projected to rebound. The IMF has forecasted growth in 2020

Growing relations with China. Argentina recently signed its second currency swap deal with China and has agreed to building tangible ties to China's Belt and Road Initiative (the BRI). Growing ties with China could indicate increasing lines of credit and opportunities for infrastructure investment

A general election in 2019. The pro-business Mauricio Macri is up for re-election in 2019. Emerging party rhetoric, press support and candidate momentum will need to be followed closely. Macri's unstable popularity ratings pose concerns for continuity around the country's infrastructure pipelines and its macroeconomic recovery

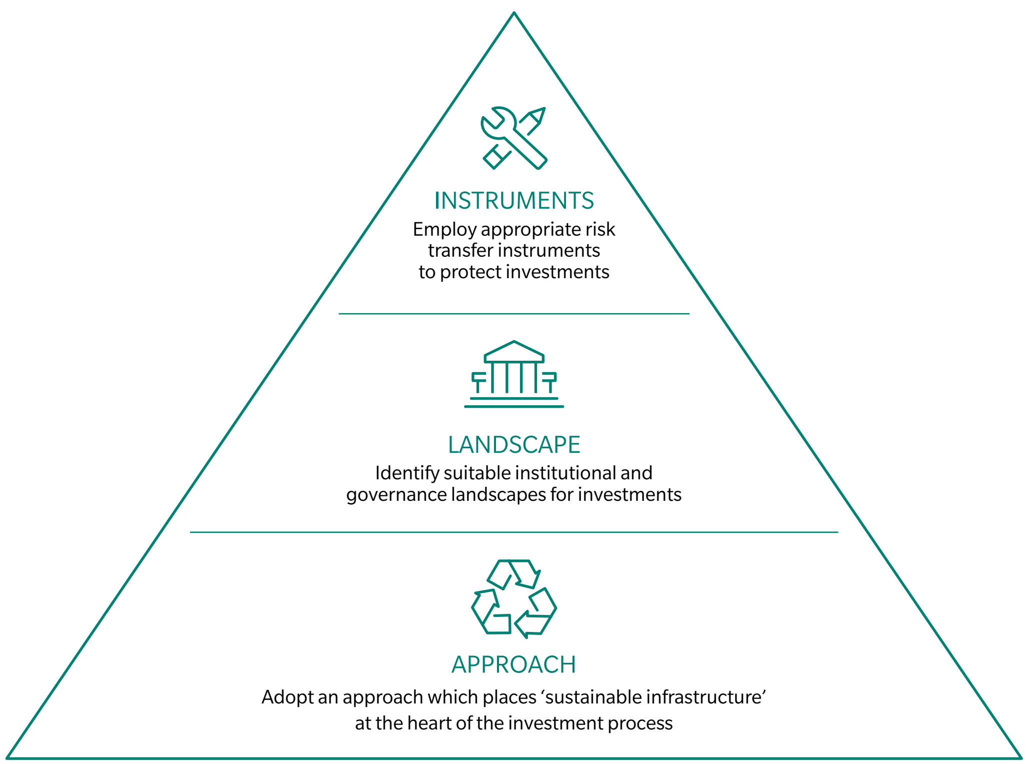
CLOSING THE GAP: MOVING FROM INTEREST TO ACTION



Global institutional investors currently manage up to US$84 trillion in assets in OECD countries alone[18]. If infrastructure project investment was therefore made sufficiently attractive in Latin America, there would be more than enough private capital available to close the financing gap in the region, particularly when the even larger universe of private investors beyond institutional investors is considered. However, bankability concerns – particularly around governance, political, regulatory, environmental, climate and social risks – continue to restrict the further distribution of capital into infrastructure projects across the region (**see Exhibit 12 on page 20**).

The efforts of national governments outlined in our Countries-in-Focus Section will be significant in reducing these risks. To ensure that the opportunities the region's new governments and reforms have to offer are maximized, investors should consider three key elements with respect to their portfolios: their individual approach to infrastructure investments, the country-specific investment landscape into which they are investing, and the individual instruments that are available to enable financing and de-risking of projects or investments (**see Exhibit 29**). This section looks in more detail at each of these elements and considering the implications for investors arising from each.

Exhibit 29: Three key elements for infrastructure investing in Latin America



Source: Marsh & McLennan Insights

SELECTING THE RIGHT INVESTMENT APPROACH

It is possible for investors to reduce the risk level of an individual investment or portfolio by pursuing an investment approach that can truly be classified as sustainable. To do this successfully, 'sustainability' must refer not just to environmental sustainability, but to a much broader set of considerations. As the IDB has defined, sustainable infrastructure (SI) projects are those which are planned, designed, constructed, operated, and decommissioned in a manner to ensure economic and financial, social, environmental, and institutional sustainability over the entire life cycle of the project (**see Exhibit 30**).

Private investors, sponsors and developers that plan and deliver truly sustainable infrastructure will experience reductions in governance risk, environmental risk, social risk, demand/operating risk and construction/completion risk for their projects. This will in turn provide an element of mitigation against political and regulatory risk, because there would be limited justification for a new political administration to reverse the policies of its predecessor where all the criteria of sustainable infrastructure had been met.

A previous report from Mercer and the IDB, "Crossing the Bridge to Sustainable Infrastructure Investing", identifies key steps that investors should take to address barriers that would prevent the prioritisation of sustainable infrastructure.

These steps include:

- **Breaking down internal silos.**
  For example, ensuring that sustainability considerations are considered from the start of an investment decision making process

- **Aligning organizational strategy with global agreements on sustainability.**
  For example, adopting disclosure and transparency practices (such as recommendations from the Task Force on Climate-related Financial Disclosures, or TCFD) to empower an SI approach

- **Aligning incentives and support.**
  For example, incorporating SI considerations into investment and measurement processes (from portfolio alignment with energy transition, to bottom up risk assessment)

- **Demonstrating commitment.**
  For example, supporting The UN's Investor Agenda for Climate Change initiative and publicly committing to future Global Investors Statements to governments on climate change

Exhibit 30: Key elements of IDB's definition of a sustainable infrastructure project

SUSTAINABLE INFRASTRUCTURE

Economic and Financial Sustainability	**Social Sustainability**	**Environmental Sustainability including Climate Resilience**	**Institutional Sustainability**
• Economic and social returns • Financial sustainability • Policy attributes	• Poverty, social impact, and community engagement • Human and labor rights • Cultural preservation	• Climate and natural disasters • Pollution • Preservation of the natural environment • Efficient use of resources	• Global and National strategies • Governance and systemic change • Management systems and accountability • Capacity building

Source: Inter-American Development Bank

IDENTIFYING APPROPRIATE INVESTMENT LANDSCAPES

Increased volumes of private investment in infrastructure are being sought by the majority of the LAC6 governments. Given this competition for a large but finite pool of capital, different governments have taken a variety of steps to attract investments (as outlined in Section 2.3). Private investors need to be well-educated in the resulting different institutional strengths across the region in order to minimize the otherwise deal-breaker risks that may emerge.

New investors to the region might benefit from reviewing existing indices which assess the institutional capacity of individual countries. One example is Infrascope, a benchmarking tool commissioned by the IDB that evaluates the capacity of countries to implement sustainable and efficient public-private partnerships (PPPs).

The LAC region average score of 58 is slightly higher than the global average of 56, however investors need to investigate the sub-criteria to build a true picture on a country-by-country basis (**see Exhibit 31**)[19]. Another example would be the Global Infrastructure Hub's Project Preparation resources.
The Global Infrastructure Hub's report on Project Preparation around the world, complete with country-by-country case studies, can provide investors with important insights into the institutional strengths and weaknesses of different countries' PPP and infrastructure investment frameworks.

Exhibit 31: Infrascope Index summary for LAC6 in 2017

	OVERALL	ENABLING LAWS AND REGULATIONS	THE INSTITUTIONAL FRAMEWORK	OPERATIONAL MATURITY	INVESTMENT AND BUSINESS CLIMATE	FINANCING FACILITIES FOR INFRASTRUCTURE
Argentina	**43**	60	42	28	48	43
Brazil	**70**	73	88	68	51	73
Chile	**75**	91	68	81	72	62
Colombia	**76**	91	75	82	68	63
Mexico	**68**	85	61	73	68	50
Peru	**73**	71	66	81	66	77

Mature Developed Emerging Nascent

Source: Infrascope, Economist Intelligence Unit

ENSURING PROJECT VALUE WITH PPPs

Many of the LAC6 have made clear their intention to close the infrastructure funding gap by using public-private partnerships (PPPs). Indices can provide a helpful, if relatively static, view of the various strengths of the PPP environment in each country. However, investors should take note that recent research has made clear that not all projects are suitable to be delivered as PPPs, and that a thorough analysis is required on a case-by-case basis to determine suitability.

History shows that many PPPs will fail to achieve stated objectives when applied without a clear scope of use and a supporting framework of government capabilities. These failures not only negatively impact the government hosting the infrastructure, but also have long-term consequences for private investors – particularly from a reputational risk perspective. It is therefore crucial that private investors study the ingredients for success in PPPs and ensure a true win-win outcome for both parties. Appropriate due diligence can significantly reduce governance risks, political risks and economic challenges that an equivalent project in another country might otherwise face.

A recent IDB report titled[20] 'Bringing PPPs into the Sunlight: Synergies Now and Pitfalls Later?' concludes that "the only economically and fiscally justified reasoning for pursuing PPPs is to achieve better value for money than a purely public investment option".

The report provides ten policy recommendations which, by nature, are all directly relevant to governments (**see Exhibit 32**). Investors would do well to note these points as a robust evaluation framework for the kinds of governments and institutions they should be looking to partner with and invest in.

Some governments already act in accordance with parts of these recommendations. Examples include Mexico and Brazil where there are centrally run and publicly shared repositories of information about current projects and the longer-term pipeline of expected projects in each country (see Proyecto Mexico and Projeto Crescer respectively). Whilst these efforts benefit each government, private investors also welcome the availability of important project information which increases transparency in the sector and facilitates increased competition by encouraging new entrants.

Exhibit 32: Policy recommendations for governments promoting PPPs for infrastructure

1. PPPs should not be used to hide fiscal consequences
2. PPPs should only be considered for circumstances where they would unquestionably provide value for money
3. PPPs should be treated as public debt regardless of their source of financing
4. Develop appropriate accounting standards for budgeting
5. Transparency is critical, particularly with respect to risk sharing
6. All PPPs should be registered in a centralized registry of projects, even if subnational governments are responsible for the contracts
7. Governments should consider a centralized PPP unit to coordinate, analyze, and provide advice
8. Put in place clear, consistent policy frameworks and institutional arrangements
9. Utilise a consistent and dynamic process to assess whether PPPs deliver value for money
10. Close loopholes that may allow fiscal evasion by politically motivated public-sector actors or opportunistic behavior by private-sector actors

Source: Bringing PPPs into the Sunlight: Synergies now and Pitfalls Later?, Inter-American Development Bank

ADDITIONAL TRANSPARENCY ENHANCING INITIATIVES

Although the initiatives and policies of national governments are crucial in creating an attractive landscape for investments, there are many examples of support from multilateral development banks (MDBs) and other global institutions which can create this environment as well. MDBs provide a mixture of financial and non-financial support to governments, and also bring global best practices to sub-national institutions and infrastructure transactions. The presence of MDBs in a country, combined with their indirect role as 'transparency enhancers', can result in increased private investor confidence. See **"In focus: Role of the IDB in creating a transparent investment environment"** for further information.

Beyond the work of national governments and multilateral development banks, investors can benefit from the work of other major transparency initiatives such as the Infrastructure Transparency Initiative[21] (CoST) and the Open Contracting Partnership[22] in countries into which they are looking to invest.

CoST is a worldwide multistakeholder initiative which focuses on improving transparency and accountability in the development of public infrastructure. CoST discloses, validates and uses infrastructure data to empower citizens. The initiative is gaining traction globally with members disclosing infrastructure data on over 11,000 projects in 2018. To date in the LAC region, CoST's main projects have operated at both the National and Subnational level in six countries in the region, including Panama, Honduras, Guatemala, and more recently Argentina.

The **Open Contracting Partnership** has the ambition of using "the power of open data to save governments money and time, deliver better goods and services for citizens, prevent corruption, and to create a better business environment for all". In 2017 the Open Contracting Partnership began a partnership with the Latin American Open Data Initiative (ILDA) where they jointly established a facility to help Latin American governments, businesses and civil society organizations implement the Open Contracting Data Standard (OCDS). To date the joint effort has worked with national and sub-national partners across ten countries in the region, including Argentina, Chile, Colombia, México and Peru.

Private investors in infrastructure should at minimum be aware of the relevant pro-transparency initiatives in the countries in which they are looking to do business. More progressive investors may even seek to support the process of change and partner with relevant stakeholders in their efforts.

IN FOCUS: ROLE OF THE IDB IN CREATING A TRANSPARENT INVESTMENT ENVIRONMENT

The IDB group's mandate with respect to infrastructure investment is broad ranging. In addition to traditional loans, the IDB Group offers technical assistance, policy guidance, and financial instruments as means of raising standards and increasing levels of investment in infrastructure across both the public and private sector.

The Inter-American Development Bank works with governments to identify where PPPs could be effective, to address technical, institutional and legal challenges, and to create a proper regulatory environment. The IDB PPP Unit has created a Single Window tool which breaks down the IDB's offerings into the areas of Knowledge Exchange, Consulting Services and Financial Products (**see Exhibit 33**). Additionally, the IDB has been working on a compliance tool-kit that investors, companies and developers can apply to increase transparency in infrastructure projects.

IDB Invest utilises its expertise in the private sector to support the structuring of bankable PPP contracts, design of tender documentation and help guide tender processes. IDB Invest provides guidance to government agencies on how to structure arrangements that will attract private investment and spur healthy competition. IDB Invest helps governments analyze risks, design solid PPP contracts, set up fair and transparent tendering processes and determine how to make projects more inclusive and sustainable – with a greater impact on development. The cost of such services is covered through reimbursable grants, paid back over time by the winning bidder under terms built into the contract itself.

The high standards that the IDB group applies to all its offerings means that investors benefit from the presence of the bank in countries and transactions. One key benefit is the increased transparency measures the bank insists on, which breeds investor confidence.

Exhibit 33: IDB PPP Unit Single Window Capabilities and Offerings*

KNOWLEDGE EXCHANGE	CONSULTING SERVICES	FINANCIAL PRODUCTS
Creation and strengthening of technical capacities	Institutional capacity and development of the regulatory framework	Mobilization of public and private resources for projects
Design of trainings for technical and institutional strengthening	Preparation, structuring, management and evaluation of PPP projects	Non-sovereign loans and guarantees
Lessons learned and knowledge products	PPP pipeline projects, market surveys, bankability and bid support	Mixed financing
PPP Country profiles	Development of sustainable PPP projects and programs	Design of personalized financial services and advice products for public and private clients

* Not exhaustive
Source: Inter-American Development Bank

INSTRUMENTS TO ENABLE AND DE-RISK INVESTMENTS

When it comes to making projects as bankable as possible, selecting the right financial and risk transfer instruments for projects in the region is as important a decision for investors as choosing the right approach or identifying enabling investment. There are a range of instruments that can transfer or share investment risks and increase investor confidence - including co-investment vehicles (such as B-bonds), risk mitigation schemes (such as guarantees) and insurance products (such as political risk insurance). Some of these are delivered by governments or MDBs (and can be available both directly and indirectly to investors), whilst others are delivered through the private insurance sector. A non-exhaustive series of examples of instruments are outlined in this section.

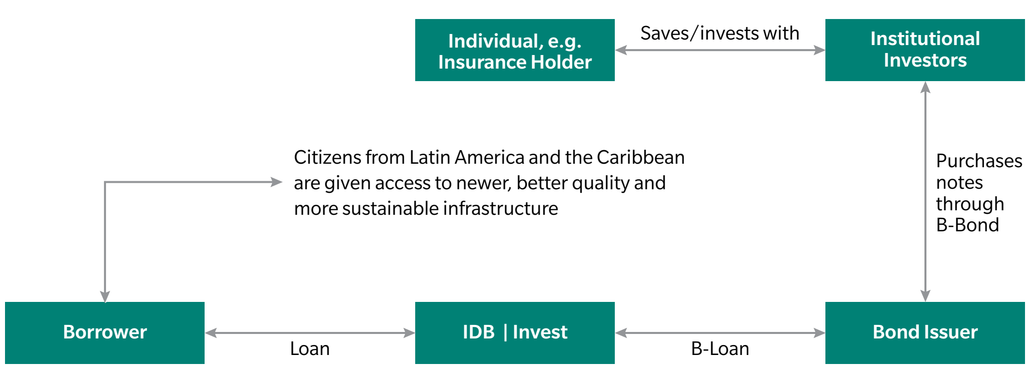
GOVERNMENT AND MDB-ENABLED INSTRUMENTS

B-BONDS

B-bonds are increasingly being used by development banks in the Latin American region as a way of providing the financing needed for infrastructure development. B-Bonds are financial instruments issued by infrastructure project companies (SPVs) arranged by IDB Invest following its best practices. These instruments are typically designed to attract long-term institutional investors who wish to get exposure to infrastructure projects across Latin America and the Caribbean. Through this mechanism, IDB Invest can act as lead arranger, lender of record and as anchor investor, bringing comfort to investors.

A recent example of a project financed by a B-bond is a recent project by IDB Invest with project sponsor Invenergy. Instead of fully financing the $68 million loan to build the $102 million La Jacinta plant in Salto, Uruguay, IDB Invest arranged a $65 million B-bond. The B-bond was sold to a special purpose vehicle and then privately placed to an institutional investor.

Exhibit 34: How does a B-bond work?



Source: Inter-American Development Bank

IDB Invest provided the remaining $3.6 million A-loan (**see Exhibit 34**).

The B-bond structure provides the following benefits:

- B-bonds enable participants to share IDB Invest's Preferred Creditor Status and benefits from leading environmental and social practices
- B-bonds provides Borrowers with longer tenors and tax benefits while giving them access to a broader base of investors
- B-bonds enhances debt maturity profiles for transactions in Latin America and the Caribbean, pushing tenors for project finance structures up to 25 years

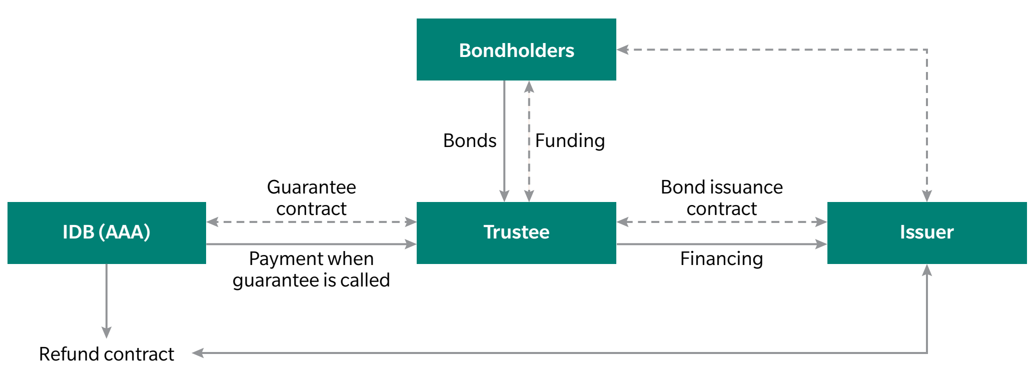
TOTAL CREDIT GUARANTEE

IDB Invest has designed a new instrument called a Total Credit Guarantee (TCG) to reduce the risk of bond issuances that are made to finance infrastructure and energy projects (**see Exhibit 35**).

Through this instrument, IDB Invest guarantees the principal and interest payment to the bondholder. The first TCG has already been successfully issued in Brazil, and has given full coverage to the issuance of bonds to finance the Santa Vitoria do Palmar wind farm, built by the British fund ACTIS and located in the Rio Grande do Sul region, as well as the Pirapora solar project located in the Minas Gerais region in Brazil. Both issuances wrapped by IDB Invest's total credit guarantees were rated AAA by Fitch.

In this way, the IDB is able to absorb project risk and protect investors. Indeed, with an Invest Guarantee issued under New York law, the IDB's guarantee payment is independent of any political or macroeconomic situation that occurs in the country where the project is located – and the IDB has an AAA international rating. Investors would do well to take note that when an investor buys a bond of a project covered by IDB Invest's TCG program, that investor buys the favourably-rated risk of the IDB group rather than the individual project's risk.

Exhibit 35: How does a Total Credit Guarantee work?



Source: Inter-American Development Bank

INVESTMENT GUARANTEE SCHEMES

Another way that the IDB has been acting as a catalyst for increased levels of private investments is in providing guarantee facilities to a central government, which can then be used by that government to issue political risk guarantees to financiers and investors taking part in PPPs that meet the facility's requirements. The instruments can be designed as flexible mechanisms to support the financial obligations from the given government, so as to reduce the credit risk of projects. This is a mechanism whereby the IDB, indirectly, drives increased levels of private investment.

A recent example of this can be seen in Argentina. In March 2018, the IDB announced a $500 million investment guarantee facility to mobilize private sector financing for infrastructure in the country. In developing the guarantee facility, IDB consulted with funds that would invest in these types of projects and asked for their input on the need and structure of this type of guarantee. The program consists of a Flexible Risk Mitigation Facility under which the IDB issues partial risk guarantees and political risk guarantees to financiers and investors taking part in public-private partnership projects in Argentina who meet the program's requirements. The current facility consists of $490 million for the guarantees and $10 million for use by the Argentine government for pre-tender processes (e.g. technical, financial and environmental impact assessments).

The IDB Guarantee facility for Argentina can be made available for the range of PPP sectors (roads, energy, water, health, etc.) and a screening of projects will trigger the eligibility of the guarantees. It is not available for projects with high environmental or social risks (e.g. it is not available for jails). It is primarily focused on political risk, and it can be a full or partial warranty. The projects or type of sub-industry under each PPP are selected by the government but are subject to IDB due diligence and final sign off. The guarantee will be priced according to the risk of the project, but the objective is to de-risk projects so that the overall financing costs are lower.

PRIVATE INSURANCE INSTRUMENTS

COMPLETION SURETY BONDS

Many lenders request guarantees as a mechanism to mitigate pre and post-completion risks with respect to the financing of infrastructure projects. In most markets in Latin America, bank letter guarantees are the most commonly used solution for this purpose. However, a competitive alternative is growing in prominence: Completion Surety Bonds are alternatives to bank letter guarantees and ensure that a given project will be completed. If the Obliged (the party which hires the completion bond) fails to fulfill its obligations, the insurance company may choose to
(a) complete the work or
(b) pay the due amount to the lenders,
in accordance with the provisions established by the conditions of the agreed insurance policies.

These bonds are tailor-made, often confidential, solutions for each project and the coverages are defined for each individual application following negotiations between Sponsors, Lenders and Sureties Companies, all under the coordination of the chosen insurance broker.

A version of these bonds has been notably applied in the 4G highway program in Colombia, but are also under active discussions in Brazil. In Colombia, one of the most complex challenges for the viability and successful completion of the Cartagena to Barranquilla highway concession was to obtain capacity from global Surety markets to accredit the financial closure and to achieve effective credits of around US$1.5 billion. Marsh identified the challenges and needs of the client in this matter and worked with all parties to negotiate the issuance of a specific solution, inspired by completion bonds, to guarantee the execution and completion of the work. These subsequently formed part of the package of guarantees offered to generate greater appetite in financial markets. According to a report by Fitch, the risk rating agency, these solutions constituted one of the outstanding factors for the mitigation of construction risks.

NON-PAYMENT INSURANCE (NPI)

NPI is a solution offered by leading global insurers providing capital relief under the Basel Accord. Bilateral insurance contracts are offered by a single insurer or a syndicate of insurers. The coverage provides an indemnity in the event that a scheduled loan payment is not made. The trigger for coverage is non-payment for any reason. Losses related to the bankruptcy of the borrower, political risks, and natural disasters are all covered under the policy. The policies are offered on a silent basis as their presence must, in fact, remain confidential. The borrower is not permitted to know that the policy is in place.

Unlike funded/unfunded risk participations, NPI significantly reduces refinancing risks as insurers, unlike competitor banks, will not be in a position to offer better financing terms in the future.

Additionally, the NPI product is a bespoke contract manuscripted around a loan agreement. Unlike a Credit Default Swap which is only triggered by certain perils (i.e. a parent default) the NPI policy is triggered based on a non-payment and not tied to the performance of a parent that may not be directly involved in the transaction.

Commercial banks can obtain valuable capital relief as a result of obtaining Non-Payment Insurance. This is due to the fact that NPI is treated as an eligible guarantee in many jurisdictions. This can increase the exposure that private financial institutions can offer to support IDB led financings throughout Latin America, as well as grant them valuable capital relief under Basel 3 (and soon under Basel 4).

Separately, non-payment insurance can be provided to MDBs in order to provide credit mitigation enabling them to take larger participations than their credit risk management would normally permit. Multilaterals often cannot obtain capital relief, as they are not regulated like commercial banks.

POLITICAL RISK INSURANCE (PRI)

PRI is used widely by both banks and corporations in Latin America. Corporations can insure against actions or inactions of a foreign government which prohibit them from accessing or removing their assets from a foreign country. Typical perils which are covered include, confiscation, expropriation, nationalization, political violence, and exchange transfer. Banks also use a type of PRI called Lenders Coverage. This policy indemnifies the bank for perils such as expropriation of funds or the inability of the borrower to repay the loan due to a government action (i.e. a moratorium on repatriating dollars).

Private financial institutions can obtain Lenders Coverage to protect the repayment of loans which may be hindered by political risks. This protection can often appease credit committee concerns, permitting financial institutions to lend greater amounts in a particular country.

It should be noted that a key benefit of working with a Multilateral Development Bank is the preferred creditor status which is inherit in loans in which they participate on.

For this reason, most private financial institutions do not see the need to consider Lenders Form cover; however, some institutions still consider this extra layer of protection and their credit committees will grant larger lending limits with the insurance in place (**see Exhibit 36**).

Exhibit 36: Understanding political risk insurance

WHAT IS POLITICAL RISK?

"An act of or inaction by a foreign government or macro-economic problems that interfere with an investment or contracts which can result in financial loss for companies."

WHAT DOES POLITICAL RISK INSURANCE COVER?

- Confiscation/expropriation/nationalization
- Political violence
- Currency inconvertibility/non-transfer
- Deprivation and embargo
- Forced abandonment and divesture
- Breach of contract/arbitration award default
- Denial or obstruction of justice/obstruction

WHY DO CORPORATIONS BUY POLITICAL RISK INSURANCE?

- Broad ranging balance sheet protection
- Protection of physical assets in emerging markets
- Risk transfer of catastrophic events
- Stabilize emerging risk especially during a change in Host government
- Can provide cover across a single country of portfolio of countries
- Improve lending arrangements for parent company

Source: Marsh & McLennan Insights

WEATHER-RELATED RISK TRANSFER INSTRUMENTS

Climate related environmental risks rank highly in the deal-breaker risks identified by investors (see Exhibit 12 on page 20). Whilst these risks can refer to a broad range of individual risks, climate-related weather risks are particularly pertinent for infrastructure investors considering the physical exposure of their assets and the long maturity of their investments. Latin America's diverse climate means that the region is just as exposed to climate change and associated weather fluctuations as many others around the world. The Lloyds City Risk Index 2018 finds that Latin America stands to lose $44.73 billion each year to risk, with 35 percent of its exposure coming from natural causes (see Exhibit 37).

In this climate, infrastructure investors need to be aware of the range of instruments and tools for risk mitigation and/or risk transfer available to protect their investments. The most powerful way of managing exposure to these risks is planning, designing and building infrastructure as resilient to climate-related risks; therefore, investors must assess such exposure during their due-diligence. As climate change is increasing the volatility of weather patterns and, in some geographies, the frequency and intensity of extreme weather events (such as droughts or hurricanes), insurance-based instruments for the transfer of portion of such extreme risks could also prove very useful to investors - such as the two outlined below.

Exhibit 37: GDP at risk from climate threats (US$; global city rank)

FLOOD	DROUGHT	HEATWAVE	TROPICAL WINDSTORM
São Paulo $593 million (13)	Mexico City $114 million (22)	Mexico City $13 million (34)	Mexico City $1229 million (16)
Mexico City $420 million (22)	Buenos Aires $105 million (36)	Lima $5 million (80)	Santo Domingo $733 million (21)
Buenos Aires $320 million (36)	São Paulo $63 million (13)	Guadalajara $2 million (112)	Guadalajara $508 million (30)
Rio de Janeiro $198 million (59)	Bogota $33 million (70)	Puebla $0.8 million (134)	Havana $303 million (34)
Santiago $198 million (60)	Rio de Janeiro $27 million (82)	Tijuana $0.7 million (135)	Puebla $81 million (39)

Note: The Lloyd's City Risk Index measures the GDP@Risk of 279 cities globally arising from 22 threats. The index shows how much economic output (GDP) a city would lose annually as a consequence of various types of risk events, and the global city rank shows where each city sits on the global Index.

Source: Lloyd's City Risk Index 2018

Waiting-on-Weather (WoW) Protection

WoW is a type of parametric solution designed to protect investors, project owners and contractors from losses from unexpected weather delays. It provides index-based coverage designed to cover the costs of construction delays caused by any measurable weather perils with reliable data history.

A period of prolonged adverse weather conditions may cause delays in the completion of a construction project, leading to weather delay penalties/liquidated damages, additional equipment rental costs and increased labor costs. The impact can be compounded as the project is delayed into a more adverse weather season.

Index-based solutions involve contracts where the pay-out is a function of a quantitative index designed to replicate actual losses. For example, a coverage might pay-out for any day during a construction period of an offshore asset where the average wave height is above 3 meters, subject to a pre-agreed deductible in terms of number of high wave height days.

No claims adjuster is needed and therefore there is a fast settlement based on pre-determined weather index and pay-out formula.

The solution enables investors, contractors and project owners to optimize their bidding strategies, understand contractual ramifications and changes in risks for their projects, and receive quick settlement at time of need if adverse weather conditions arise.

Asset Specific Revenue Protection

Some specific asset types have options for additional risk transfer solutions. Wind and solar farms are a good example of this. Both have highly variable cash flows due to production fluctuations. The fluctuations arise from the wind/irradiance variability – if the wind does not blow, a wind farm project cannot generate electricity and consequently revenue from power sales. Likewise, park efficiency and availability risks can lead to shortfalls in revenue. These risks include, but are not limited to, equipment degradation, turbine/panel availability and electrical losses.

The need for renewable energy sources is rapidly growing in the Latin America region, as it is in the rest of the world. However, the uncertainty in the project cash flow stream, due to weather and other risks, can lead to a challenging environment when it comes to making a project bankable and securing attractive lending terms.

The solution to making projects bankable comes in the form of revenue protection products, which range from pure weather coverage, to comprehensive revenue or energy yield solutions. The latter are designed to insure a high percentage of the expected project revenue, and cover the revenue/yield shortfall below a pre-agreed level. The protection level is set such that it provides additional assurance to the lender, possibly also resulting in better landing terms, and at the same time ensures that the project's revenue meets the investment return requirements.

CONCLUSION

Outlooks for private investment in Latin American infrastructure assets are positive for 2019. Fitch Ratings has projected the region's infrastructure landscape to be 'stable' for the coming year, and the IMF is optimistic that private investment in the region will grow. This report has shown that across the LAC6, this recovery will be buoyed by the decisive action taken by the region's new governments and leaders. After a series of political shakeups, the region's new regimes are taking active steps to address their problems of corruption, win back confidence and restore promising pipelines of infrastructure projects for investors.

This action is seen particularly in the anti-corruption space. Between 2016–2018, every single LAC6 country passed either a whistle-blower law, or a significant anti-corruption law at the federal level to combat graft. Over and above these, measures have been taken across the region to strengthen the transparency and independence of both political and financial institutions. Some LAC6 countries have passed laws mandating anti-corruption training or compliance programs for corporates (such as Brazil and Peru), and others have entered into international agreements that include provisions for anti-corruption (see Mexico and Colombia).

Some of these measures will not only address corruption but will actively enable infrastructure investment as well.

Brazil and Mexico's newly elected governments have committed to trimming the size of their bureaucracies to address corruption, an endeavor that businesses hope will translate into reduced red tape and easier environments for doing business. In Colombia, Argentina, and Peru, significant anti-corruption provisions have also been introduced into each nations' legal framework governing PPPs, which will enable the development of more sustainable and bankable projects in the coming years.

To ensure their anti-corruption measures translate into investment, the region's leaders are working to establish a robust pipeline of projects and an attractive investment environment with active capital markets. Brazil, for example, has taken the impressive step of allowing its national development bank BNDES to reduce its prominence in the country's loan markets, opening up opportunities for more private sector participation. Colombia and Argentina have also passed significant reforms to unlock access to certain kinds of capital previously barred from the infrastructure space by regulation.

Across the LAC6, impressive pipelines of infrastructure projects have also been put forth. Transport-related projects lead the way in these pipelines – the sector is indeed critical due to the shortfall in private investment the sector has seen in recent years.

Several high-profile transportation projects in the region that are set to become live include Brazil's Transnordestina railway, Mexico's broad Development Plan for the Isthmus of Tehuantepec as a trade hub, and Colombia's 4G program.

In keeping with historical targets of private investment, energy projects are also prominent in these pipelines: Argentina's new wave of RenovAr projects stands out, as does both the Argentinian and Brazilian government's intentions to sell several state-owned energy assets to the private sector. LAC6 country leaders have expressed emphatically that they seek the partnership of the private sector to see these projects through to realization.

As investors look to move from interest to action and enter the Latin American infrastructure market, it will be crucial that they do so by first considering their approach, then the regulatory landscape of their target market, and the instruments that can best enable and de-risk their investments. Sustainability will be a crucial lens for investors to use as an approach to investing in the region – sustainable projects are less likely to invoke public ire, run into issues related to corruption and are more likely to produce reliable returns in the long term.

In evaluating the target landscape of an investment, analyzing the regulatory environment, the legal frameworks governing PPPs, and the transparency initiatives and programs the market in question is involved with, would go a long way in guarding against governance risks.

Selecting the appropriate instruments to enable and de-risk investments remains significant in ensuring bankability for projects across the region. Development finance institutions and the private sector both play large roles in offering such solutions.

Much of the hard work has been done to ensure a period of increased investment in infrastructure in the region. The foundations laid by various LAC6 governments have created a renewed interest from investors in the region and globally. There is no room for complacency, however – a period of political, legal and regulatory stability still needs to follow the recent changes to ensure that the corner has truly been turned. Now is the time for private investors to review their regional strategies and to double down on building their local capabilities to ensure that they benefit from the opportunities the region has to offer.

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