Aon Risk Solutions
Global Construction and Infrastructure

Latin American Infrastructure Market Update

Strengthening of P3 frameworks, Emerging Opportunities

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For many years, political and economic instability had been a deterrent to private capital investment in Latin America. Yet, the infrastructure landscape in the region has evolved quickly to become a hotspot for private sector investments, both in the form of private equity and project finance debt. The need for renovation and expansion of vital infrastructure continues to be a priority amongst Latin American governments. Specifically, healthcare facilities are in dire need of repair and expansion in some countries as capacity diminishes and demand continues to grow. Some markets, primarily in Central America, are making greater attempts to attract private investment to fund critical infrastructure and are beginning to utilize Public-Private Partnerships (P3s) as a means to build and expand these infrastructure assets. Other countries are procuring P3s for the first time, while more mature markets are seeking to strengthen their P3 frameworks and legislation. Though the region must still address some market challenges, including the implications of recent corruption scandals, P3 activity is expected to recover and ultimately will provide new opportunities for both local and foreign contractors.

New and Strengthened P3 Frameworks

Nicaragua is among the countries stepping up efforts to attract private capital for infrastructure projects, following the approval of a 2016 P3 law.[1] The Nicaraguan government is now seeking to launch tenders for at least six P3s – and as many as 12 – and is expecting to attract up to three billion dollars' worth of investment across various asset classes.[1] These initiatives are meant to improve trade and create access to new production centers, ports, and airports. Other countries with greater experience in the procurement of P3s are looking to improve upon existing P3 legislation and frameworks in order to spur greater project activity. Peru approved a new P3 law at the end of 2016 which created a series of new agencies to help regulate and oversee P3s. Faults in Peru's previous P3 framework have encouraged efforts to overhaul the procurement process and to improve the quality of P3 contracts. Peru has targeted specific areas to improve within the country's P3 framework including more efficient right of way acquisition, more rapid authorization for construction, and improved funding.[2] An executive director at Peru's procurement agency, Proinversion, claims many past projects were not designed properly and believes procurement processes were launched prematurely resulting in delays or suspensions of projects.[2] As a consequence, projects would require additional contract negotiation which resulted in increased project costs and provided a venue for corruption.

1 *Nicaragua to launch at least six P3 tenders in coming weeks". Infradeals. Web.2017.*

2 *"Interview: Peru's procurement chief promises positive changes for P3s". Infradeals. Web 2017.*

Mergers & Acquisition (M&A) Opportunities

Although multiple on-going alleged corruption scandals have affected the Latin American market, opportunities for both contractors and investors have emerged as some local contractors slowly retreat from the market due to financing and liquidity concerns. Some contractors facing these concerns have been prompted to sell their stakes in various assets in an effort to free capital and increase liquidity. Divestiture of assets, worth billions of dollars across several countries, is creating ripples across Latin America, resulting in an uptick of M&A opportunities regionally.

However, M&A projects in Latin America may face various issues, such as tighter regulations and increased due diligence as lenders seek to protect themselves and their investments after recent market turmoil. This could make financing projects more difficult for companies interested in an acquisition or companies pursuing greenfield projects. Also, lenders may value their relationships with long-standing clients, while newer client relationships may undergo greater scrutiny.

From the perspective of infrastructure participants, the current market situation may facilitate foreign contractors' entry into the market as local contractors seek to retreat and as a lack of financing complicates local market participants' ability to win projects. In an effort to entice foreign investors into Brazil, the government has introduced English language tender documents, longer bid windows, and foreign exchange protection. Overall, investors and developers remain confident that the Latin

American infrastructure market will continue to offer compelling-enough returns to keep foreign interest alive.

Emerging Asset Class

Though the civil infrastructure asset class once dominated Latin America's infrastructure pipeline, nascent markets across the social infrastructure asset class are now attracting local and foreign interest. In Mexico, for example, the demand for health services has outpaced the supply; thus, significant investments are needed in healthcare infrastructure in order to replace aging facilities or to construct new facilities. The increase in healthcare demand in Mexico is driven by changing demographics and epidemiology in a population that is aging rapidly, experiencing longer life expectancies, and also witnessing an increase in chronic diseases including diabetes, cardiovascular diseases, and cancer. The treatment of chronic diseases requires additional healthcare resources, yet, in 2013 Mexico had only 16 hospital beds per 10,000 people compared with 41 for Argentina and 24 for Brazil.[3]

The dire need to expand and refurbish healthcare facilities regionally, coupled with growing public debts, is drawing governmental support to procure healthcare facilities via P3s. In early 2017 Mexico's Secretariat of the Treasury and Public Credit

3 *Perspectives on healthcare in Latin America". Mckinsey & Company. Web. 2017.*

unveiled an aggressive one billion dollar block of healthcare projects for the year as well as a second block of projects for the third or fourth quarter, surprising market participants due to previous lackluster activity in this sector - to date only six healthcare P3 projects have reached financial close since 2006. These projects are expected to undergo a rapid procurement process, anticipating a financial close by end of 2017, and have already drawn widespread local and European interest. Uruguay is also looking to expand and improve its social infrastructure, particularly across healthcare facilities and schools, though the procurement timeline is expected to be slower than Mexico's healthcare projects. Uruguay recently launched its third social infrastructure P3 program offering concessions to build, finance, and maintain 23 schools. Both the second and third social infrastructure P3 programs are expected to attract local and Spanish interest as witnessed in Uruguay's first social infrastructure program at the end of 2016. Looking forward, Uruguay also plans to procure healthcare facilities via P3s by the end of 2017 or early 2018. Though contract values for Uruguay's current social infrastructure programs are small in value in comparison with projects across other asset classes, these emerging opportunities will provide contractors the opportunity to expand their global footprint throughout the region and capture market share in the nascent market.

Conclusion

As the appetites of foreign contractors grow, they will likely be drawn to opportunities outside of their home country or region as emerging markets seek to expand their infrastructure development and as mature markets seek to replace and refurbish stressed and aging assets. Latin America will likely continue to attract local and foreign contractors and lenders as market barriers ease and as local competition softens. However, in addition to the inherent risks involved in expansive international operations, global markets pose unique risk profiles that foreign contractors may be unfamiliar with. As a result, infrastructure market participants are advised to engage an adviser with extensive local knowledge and experience in the nuances of P3s from an early stage to help achieve an appropriate risk transfer and mitigation plan.

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