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Article Compendium

China eases funding restrictions for project finance

Local governments will be able to use proceeds from special-purpose bonds as project capital, as the country tries to stimulate economic growth.

By Eduard Fernandez | 18 June 2019

China has eased restrictions on funding sources from local and regional governments, in a bid to attract private capital to finance key infrastructure projects in the country.

The government announced last week that local and regional authorities will be able to use the proceeds of special-purpose bonds as project capital for infrastructure projects, financial media outlet *Caixin* reported.

"Compared to general bonds of local governments, special-purpose bonds typically attract more investors from non-policy […] financial institutions, such as brokerage firms and commercial banks," Gloria Lu, an analyst at S&P Global Ratings, told *Infrastructure Investor*.

Previously, local governments were banned from using any borrowed money as project capital, in an effort to curb their growing indebtedness, *Caixin* said.

A report from S&P predicted that the effects of the change will be limited due to the strict set of conditions that projects must meet to be funded through the bonds. The assets financed need to be commercially viable, serve important national or regional development initiatives and be focused on the railway, highway, electricity or gas production sectors, the report said.

S&P estimated that between seven to 10 percent of the special-purpose bond issuance from the rest of 2019 will be used as project capital. The percentage amounts to investment ranging between 90 billion yuan ($12.9 billion; €11.5 billion) and 130 billion yuan, the ratings agency said.

"Together with bank funding, the additional capital would support our forecast of 8-10 percent infrastructure growth for 2019," Lu said in the report.

According to Lu, the rules will guarantee that the proceeds from bonds are focused on projects able to repay the debt by themselves, thanks to stable cashflows, rather than through government funds.

Furthermore, the new policy might achieve "a leveraging effect", attracting financial institutions to provide debt finance for these projects, she said.

Debt finance for major infrastructure projects can reach up to 80 percent of total funding "due to low equity requirements" in China. While financial institutions are needed to provide funding, they only do so based on their assessment of the project's bankability, the S&P report said.

"Securing infrastructure funding is always a challenge since most projects have a low return profile, long maturity, and inherent construction and operating risks," Lu said in the report.

"The same difficulty also applies to special-purpose bonds, given repayments can only come from cashflows from designated projects," she added.

According to state-owned *Xinhua* news agency, the 'One Belt, One Road' initiative, the development of the Yangtze River Economic Belt, and the Greater Bay Area integration project are some of the projects governments and financial institutions are "encouraged" to support under the new regulation.

In its report, S&P said the measure is part of China's efforts "to shore up the economy" due to the trade war with the US, and provides new funding avenues to local governments facing shrinking fiscal revenues and restrictions on the use of off-the-balance-sheet financing vehicles to fund infrastructure. However, it noted that it could also add to leverage risks.

"The stimulus […] is part of counter-cyclical measures to support the economy. If there were a resolution to the US-China trade dispute, China may weigh more on consumption and technology upgrades, et cetera," Lu said.

Putting aside current market turbulences, Lu explained that China's central government hopes to attract more private investors to its infrastructure market in the long term, as part of its efforts to reduce the debt burden of regional authorities.

"The central government is looking for PPPs to become a real risk-sharing mechanism, opening the door for private capital to invest based on the merits of the projects, rather than local governments taking on large financial undertakings that may potentially increase their future obligations and increase their 'hidden debt'," she said. ■

PPAs are exploding. But are they safe?

In 2018, the volume of corporate PPAs more than doubled compared with 2017. With strong demand and many investors chasing the same buyers, we look at the risks involved for all parties.

By Daniel Kemp | 12 March 2019

Last year, the corporate power-purchase agreement really came of age. Data published by Bloomberg New Energy Finance show that 121 corporations in 21 countries signed PPAs in 2018, accounting for 13.4GW of clean energy. The figure for 2017 was just 6.1GW – less than half the figure for the year before.

The number of PPAs being signed has been rising steadily for years, but this was an unprecedented leap and a sign that demand has taken off in a big way. More than 60 percent of this activity occurred in the US, with some 34 new companies signing PPAs for the first time. This particular trend is being replicated around the globe, as corporations with little-to-no experience of buying their energy from anywhere other than traditional retailers enter the market.

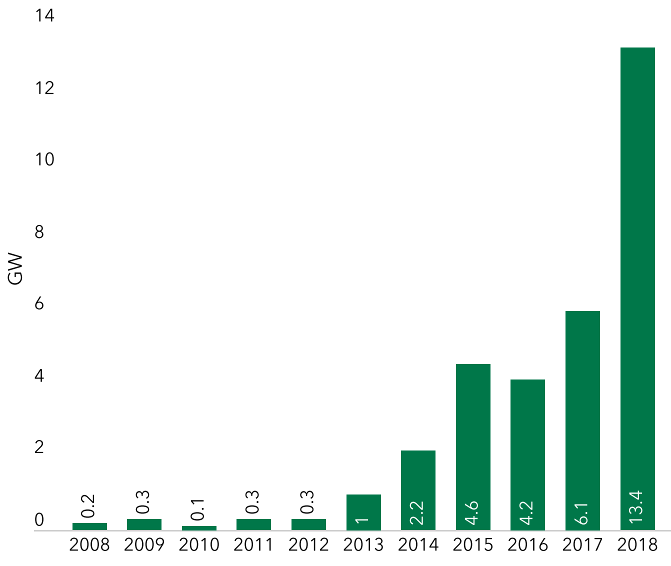
Signing PPAs suits buyers, who get to burnish their green credentials, reduce their exposure to energy price volatility and lock in lower prices. It also suits sellers, who are able to secure a reliable long-term revenue stream for their generation asset at a fixed price. Yet there are risks involved.

Standardisation is improving, but the lack of it to date has put some corporations off. The credit risk for investors associated with contracting directly with purchasers is also real, especially when dealing with a buying group.

PPAs are obviously highly attractive to infrastructure investors focusing on renewable energy assets. However, it is vital for these investors to be aware of all the complexities that such agreements bring.

BIG BANG

Last year saw corporate PPAs truly take off, more than doubling the capacity signed in 2017



Source: Bloomberg New Energy Finance

The factors underpinning the rapid growth in PPAs are simple: companies want to secure lower-cost energy for long periods; and if that can come from renewable sources to help meet emissions reduction targets, so much the better.

"All of the large energy users are having a good look at how they manage forward risk on energy price volatility and how they manage meeting their sustainability objectives," says Andrew Tipping, general manager, clients and business development, at Sydney-based consultancy Energetics. "Those two drivers have come together quite nicely in the last couple of years, which is why you're seeing a lot of transactions.

"There has always been a sustainability driver [for PPAs], but not much happened until the costs came into alignment with what people are willing to pay. The rubber doesn't hit the road until the CFO says 'yes'."

Ivan Varughese, Macquarie Capital's head of infrastructure, utilities and renewables for Australia and New Zealand, says that a deal signed recently for one of his assets had resulted in significant cost savings for the buyer: "We've seen examples where the end cost to the consumer was 20-30 percent lower than what they were getting from their existing contract with a retailer. The savings we are seeing are material and that will continue to drive this."

In other regions where the difference might not be so stark, such as the UK and the Nordic countries, hedging against volatility has proved a good reason to sign PPAs.

"There is a side that is driven very much by sustainability and green targets," says Natasha Luther-Jones, partner and global co-chair of energy and natural resources at law firm DLA Piper. "But then you've got the industrial players, particularly in the Nordic market, who are doing it for price certainty and security in a long-term hedge for their costs."

No standardisation

This explosion in the number of deals has not come without problems. One of the main challenges is that, with the market still relatively immature, each PPA is different and there is little standardisation in contracts.

Luther-Jones says that while this might be expected in a less mature market, such as Australia's, it is also true of Europe, where PPAs are more established. Her team at DLA Piper is currently working with the European Federation of Energy Traders to develop pro-forma contracts, but it is a process that is taking some time.

"No two deals are the same and there has been a lot of criticism about how different they all are," she says. "There's just such a variety around what you can do with PPAs at the moment, whether physical or synthetic or a hybrid."

Tipping echoes this, saying that one recent transaction in which Energetics was involved took several years because it had to start with a "blank piece of paper".

"The market's evolving very rapidly, and it may not standardise until that evolution slows down a little bit," he adds. "Things can definitely improve more, but I think they already have."

Matt Hammond, partner at Foresight Group, says the need to educate corporate counterparties is a "material limitation" to the current PPA market. "As more deals are done and contracts and products become increasingly standardised, corporate PPAs are likely to scale significantly," he says. "Experience and standardisation will likely allow corporates and generators to better understand each other's requirements. This process is more advanced in Europe and the benefits are starting to be seen."

A buyer's market

With all these new entrants to the market, and a lack of experience on the corporate side, are all the risks being properly considered?

"The corporates have got to better understand market volatility because essentially they were shielded from that by the retailers before," Tipping says. "And on the developer/investor side, they've got complexity in understanding how to navigate corporate buying behaviour."

Assessing corporates' behaviour is a key consideration. To take Australia as an example again, Business Renewables Centre Australia in March launched an online marketplace to connect renewable energy projects with corporate buyers.

Upon its launch, the platform had 7,000MW of projects seeking buyers potentially looking for PPAs. Figures published by the Clean Energy Council, Australia's industry body for clean energy, in November 2018 showed that 14.6GW of new renewable energy generation projects were under construction, with more in the pipeline.

Not all of that pipeline will necessarily be built and not all of it will require PPAs to be financially viable, but a significant proportion of it likely will. Although it is clear that energy consumption generally is on an upward trend, views differ on whether that will translate into enough demand for PPAs to ensure that all of these renewables projects are viable.

Tipping says Australia has a "very high volume of transactions relative to our market size. So the importance of the corporate PPA market to renewables is higher than in other markets. There are probably more projects than there is demand. A lot of the early corporate movers have already moved and executed a PPA contract for the proportion of the load they want."

However, Macquarie Capital's Varughese believes there is enough demand to satisfy the project pipeline. He points out that a range of companies – including toll road operator Transurban, supermarket chain Woolworths and Amazon – are all currently tendering for renewable power in the Australian market.

"Notwithstanding the policy uncertainty that we've had in Australia, industry and businesses are actually getting on with it and they have decided that this is what is needed," he says. "There's no doubt that a pro-renewable policy environment would help, but even as we sit here today deals are still getting done."

For now, though, many renewables schemes are chasing the same pool of potential buyers for PPAs. This could lead to less savvy developers and energy buyers taking on unexpected risks.

"Some developers don't really know what's best to offer," says Luther-Jones. "This is because other developers are also chasing the same corporate deals, meaning the corporate can dictate what they want."

The problem with this, as was previously mentioned, is that the corporates themselves are often inexperienced in energy buying and do not properly understand what they want or how to best to manage risk.

Nothing is sacred

There is another intriguing possibility to consider with these deals, which is what happens if energy prices drop significantly below whatever the PPA price has been set at.

"The bottom line is that this is still a developing market," says Jeffrey Altman, senior advisor at Finadvice. "People believe in the sanctity of PPAs and think they have a locked-in price for the full term of the agreement. But there are instances that allow or require these agreements to be renegotiated. Most PPAs can't be broken, but they can be renegotiated."

In a simplified example, he hypothesises a macro-level event whereby a government would be unlikely to stand idly by if power prices fell in a given country or region to the point where a critical industry might be on the receiving end of a particularly bad deal.

"Investors understand the credit risk associated with PPAs," he says. "But I suspect they don't fully understand the nuances of what can change and the impact ."

It is not necessarily a likely scenario, or even one entertained by many of the investors we spoke to. But with increasingly populist governments popping up in many countries, and showing a willingness to intervene in private markets, it is a risk worth considering.

Yet in spite of the complexities surrounding PPAs, this is a trend that does not appear to be going away any time soon. The fundamentals driving the growth in PPAs – rising or increasingly volatile energy costs, coupled with a need to lower emissions – will not change and make the agreements attractive for buyers. The need to secure long-term revenues makes them equally attractive for investors.

"PPAs are not the only answer to a non-subsidy environment, but they'll always be part of the solution," Luther-Jones says. "Certain regions may slow down as the corporates reach capacity, but PPAs are here to stay." ■

Is natural gas the next big Asian opportunity?

Countries such as India, China, Japan and South Korea are aiming to attract private capital to the midstream and downstream space. But, challenges remain in some markets.

By Eduard Fernandez | 27 May 2019

Can Asia become the next big market for midstream and downstream gas assets? With rising energy consumption across the region and a continuous push to move away from coal, investors have started to hunt for opportunities in the space.

Conversations with experts from the region, however, paint a mixed picture, with glowing opportunities in key geographies and hurdles that might prove difficult to overcome for investors in others.

In April, New York-based I Squared Capital announced its interest in the region's rising consumption of natural gas. "The Asian energy story has largely been dominated by coal," Gautam Bhandari, co-founder of I Squared, told Infrastructure Investor at the time. "For instance, China and India primarily used coal to generate [power]. As coal has been rapidly replaced by renewable energy, I think the right intermittent power source you now need will be gas-based."

The comments followed I Squared's sale of Singapore-based solar company Amplus Energy Solutions. Bhandari said the firm decided to shift towards a "slightly different, but complementary investment thesis" for deploying its $7 billion ISQ Global Infrastructure Fund II, as Asian renewables markets became "more competitive".

A month earlier, Brookfield had indicated its interest in Asian transmission assets. The Canadian manager completed its largest ever deal in India, with the $1.9 billion acquisition of the East West Pipeline. The pipeline, previously owned by Indian conglomerate Reliance Industries, connects the natural gas reserves of the Krishna Godavari Basin, off India's east coast, with several urban centres in the western part of the country.

According to a final placement memorandum by the India Infrastructure Trust – through which Brookfield acquired the asset – the pipeline "acts as a vital link in India's developing natural gas grid". The trust says the asset is well-positioned for growth thanks to its "ability to access future gas production from new exploration in the KG Basin" and its connection with other gas terminals.

"We believe that it also has potential connectivity to other major gas pipeline networks in India," the trust added.

Environmental concerns

Interest in transmission and distribution assets is driven by political and macroeconomic trends that can be found across the region.

Firstly, Asian countries are increasing their natural gas consumption as their economies grow. According to a 2018 International Energy Agency report, China will become the world's leading importer next year, and reach 171 billion cubic metres by 2023, most of which will comprise liquefied natural gas. India is expected to expand its consumption by 25.7 billion cubic metres between 2017 and 2023. According to IEA estimates, the region, led by China, will account for more than half of the growth in global natural gas consumption until 2023.

"There is a rising energy demand in countries like China, Indonesia and Myanmar, where you see a combination of rapid economic growth, rapid industrialisation and intensive urbanisation," says Norman Bissett, a foreign legal consultant in the finance and projects group of HHP Law Firm, a member firm of Baker McKenzie in Indonesia.

This growing demand has been met with falling prices in the natural gas market, thanks to the US shale gas revolution.

"Shale gas has been a global phenomenon that, combined with the emergence of LNG, has revolutionised the global natural gas market," Steve Bickerton, senior managing director at energy infrastructure-focused Prostar Capital, explains. "The rapid increase in gas production and export capacity in the US, Qatar, Australia, Russia and other producing markets has driven down gas prices for importers, particularly in Asia."

Concerns regarding the environmental impact of coal burning are also pushing countries to look for alternative energy sources. China in recent years has cracked down on polluting industries and coal-based energy plants, and thus improved the air quality of some of its biggest cities. India is expected to take similar steps soon, as toxic smog has become an endemic problem in cities such as Delhi.

Bissett expects Asian countries to turn to natural gas in order to curb pollution and achieve their commitments under the 2016 Paris Agreement on climate change: "All the countries in the region are aware of their obligation to reduce their carbon footprint, and everyone understands that natural gas is the readiest alternative to coal at the moment."

Partner for renewables

The energy source is also a perfect complement to the growth of renewables. "Natural gas is a critical part of the Asian demand story, particularly as grid stability becomes increasingly important, as renewables account for an increasing share of power supply," Bickerton adds.

So, where does the opportunity lie? Bickerton says Prostar is focused on "major global trading and logistic hubs", including the greater Singapore area and key ports in North Asia: "[They] represent the gateways, and often chokepoints, through which the vast majority of the world's energy trade passes. As such, they offer robust demand with low correlation to global or regional macroeconomics and stable regulatory and geopolitical frameworks."

In 2017, the fund manager invested in Kyungnam Energy, a South Korean city gas distribution company with a pipeline network spanning 1,995 kilometres. The GP also stresses that there are opportunities coming from "oil traders" and "strategic investors" that are divesting from operational assets in the space, as well as from yet-to-be-built projects. "Large numbers of greenfield projects, particularly in the APAC region, are looking for experienced and patient capital from private equity sponsors such as Prostar," says Dave Noakes, senior managing director at the firm.

Bickerton says Japan and South Korea are opening up the sector. "As deregulation gathers pace, operating and cost efficiency will become increasingly critical, and we see significant opportunities to create diversified portfolios around common asset classes, such as a Pan-Asian gas distribution platform."

China is also in the midst of a turnaround of its oil and gas industry, traditionally dominated by three oil giants: PetroChina, Sinopec and CNOOC. Last March, the National Development and Reform Commission announced plans to transfer gas and oil midstream assets currently held by the three state-owned firms to a newly created operator. According to Bloomberg, the carve-out could involve assets valued at around 500 billion yuan ($72.4 billion; €64.7 billion).

Xiao Yong, a partner at law firm Dechert, focused on cross-border transactions of Chinese energy companies, says: "The set-up of the company will involve three stages: the injection of existing assets into the firm, the issuing of shares to private investors and, finally, a possible IPO."

Xiao believes the firm may be of interest to private equity funds with a focus on stable assets with long-term returns. He stresses that initial information does not distinguish between foreign and domestic investors when talking about attracting capital, adding: "I believe that foreign firms will be able to participate."

He says that the government moved to further liberalise the downstream sector at the end of last year, unlocking access to "quite profitable" assets. "[It] allowed foreign investors to hold 100 percent ownership of downstream assets," he explains, up from a previous 30 percent limit. The lawyer says the sector has attracted interest from private equity firms and Middle East companies.

India, which has become one of the major infrastructure markets in the region, is also keen to attract private capital to transmission and distribution assets. "The government has been looking at ways to increase participation of international players in the oil and gas value chain," says Pranav Master, director of CRISIL Infrastructure Advisory. He points out that opportunities have come in the last couple of years, with developers divesting from city gas distribution projects, and international players and private equity-backed firms bidding for CGD assets: "New players – both strategic and financial – have shown interest in investing in greenfield as well as established [CGD] assets."

K Ravichandran, senior vice-president and group head of corporate ratings for India's ICRA credit rating agency, says investors might be "encouraged" by the regulated nature of midstream assets. This includes a 12 percent post-tax return on capital employed for transmission pipeline operators granted by the Petroleum and Natural Gas Regulatory Board.

Despite this, he warns that "the tariff philosophy" followed by the regulator has resulted in "sub-optimal returns", triggering litigations by incumbent operators: "While the regulator has tried to make amends by changing the regulations, a lot needs to be done before the operators can breathe easy."

Availability issues

Ravichandran believes gas availability might be another concern, as "depleting domestic gas fields and price-sensitive consumers" have affected LNG demand in the country.

"Consequently, many gas pipelines are operating at much below the normative capacity utilisation, which negatively impacts their regulated returns," he says.

Master believes India's efforts to build new pipelines will provide access to consumers eager to start using LNG. "Offtake is not likely to be an issue in the near term, as potential gas consumers are currently using more expensive alternative fuels," he says.

Overall, both analysts agree that the market will attract international attention as it becomes more transparent and the regulatory framework approaches "some maturity".

"The regulations provide a level playing field for both domestic and international investors," Ravichandran says. "However, when international players enter the Indian gas market, tie-ups with domestic companies with deeper local knowledge could be helpful in navigating the approval processes."

A promising landscape across the region, then. ■

Japan's offshore wind sector faces challenges

A lengthy approval process needs to be halved if the country is to meet its goal of installing 10GW of wind capacity by 2030, law firm White & Case says.

By Eduard Fernandez | 20 May 2019

Wind power generation capacity in Japan increased 61.1 percent – or 261MW – but none of it was from offshore wind, according to the Japan Wind Power Association.

The association cited a lengthy environmental impact assessment process as the cause. Law firm White & Case highlighted that process, along with upfront decommissioning plans and opposition from local fishing communities, as the obstacles facing offshore wind developers in the country.

Japan's offshore wind sector is expected to become one of the biggest opportunities in the renewables sector in Asia-Pacific, as the country aims to install approximately 10GW of onshore and offshore wind capacity by 2030. But a lead time of four to five years for the mandated environmental impact assessment required for large-scale projects is a challenge. "It is predicted that the government's 2030 goal will only be achieved if, among other factors, the average lead time is halved," the law firm stated in its report *Offshore wind projects: Assessing the environmental impact*.

The Japanese government has been working towards speeding up the process by adopting a new front-loading procedure that allows project sponsors to start the survey, forecast and evaluation procedures required under the Environmental Impact Assessment Act before public consultation with stakeholders has finished.

"The EIA process can take between three to five years, depending on the cases," Ayako Kawano, a partner at White & Case's Tokyo office and co-author of the report, told *Infrastructure Investor*. "[But] a study conducted by [public research and development agency] NEDO showed that there were successful cases where the review process was reduced by around 40 percent, averaging two years and three months, through the introduction of a front-loading procedure."

This would bring Japan's EIA processing time "to a level similar to that of other countries", Tim Power, a partner at the firm specialising in environmental, planning and land acquisition issues, explained.

Navigating other challenges

Other challenges that remain include the requirement that project developers make appropriate decommissioning plans for a project when they submit an application for certification of the business plan to the Ministry of Economy, Trade and Industry. "These plans must include decommissioning costs (to be determined based on estimates by waste disposal companies)," according to the White & Case report.

"Decommissioning plans are generally prepared at a later point in time, maybe when the project is being commissioned, or during the lifespan of the wind farm," Power explained.

According to the report, if it is difficult to obtain an estimate of decommissioning costs from waste disposal companies, these should be estimated as at least 5 percent of the total construction cost.

"That cost will have to be factored in the feed-in-tariff, and the developers will have to figure out how to make money given that extra cost," White & Case senior counsellor Arthur Mitchell said.

He also argued that developers will need to keep the rights of the "important" fishing industry in mind when designing a new project. "Location of the farm can have a huge impact on fishing."

Power added local governments can feel uncomfortable with a development if it "affects people's livelihood," even if compensation has been agreed. To mitigate this risk, he recommends developers engage early with local communities. "Stakeholder consultation is absolutely fundamental: making sure that communities understand the project, the effect of the project on their fishing activities and, if so, how they will be compensated," he explained.

Developers should also be mindful of the project's location and whether it allows fishing vessels to operate within the wind farm area. "The impact on a community that is reliant on fishing will be greater if the project prevents fishing vessels from entering parts of the farm," Power said.

Other challenges that are regularly cited by offshore wind developers include poor grid connectivity in remote areas of the country, the depth of Japan's seabed close to the shore and frequent natural disasters.

"Prospective investors and developers need to carefully examine each proposed project site to account for this," White & Case stated. ■

Seoul Summit: 'Avoid shoddy copy-paste e-mails,' South Korean LPs tell fund managers

Country's institutions expect GPs to customise their communications when seeking investors' business and capital.

By Eduard Fernandez| 8 May 2019

South Korean institutional investors have asked fund managers to do research on LPs before contacting them and to "tailor" their pitches rather than sending generic e-mails.

"When we get an e-mail, the impression is that the text is not really specific," Jake Lee, head of infrastructure at Hyundai Marine & Fire Insurance, explained during a panel discussion at *Infrastructure Investor's* Seoul Summit on 7 May.

"In some cases, there are really shoddy copy-paste e-mails, with the text still in blue colour," he added, referring to the font that some e-mail providers use for forwarded messages.

Jason Hyunjae Kim, head of one of the infrastructure teams at Samsung Fire & Marine Insurance, echoed Lee's remarks, and said some GPs do not seem to know enough about their potential investors: "Before the actual meeting, it is necessary to gather information about us."

Despite this, both panellists stressed they were open to new proposals, provided GPs had done their homework. "We don't mind a phone call or an e-mail, if you can tailor it to the recipient," Lee said.

Co-investment opportunities key

Korean LPs also expressed their interest in investing with fund managers that are able to offer co-investment opportunities in the future.

"In Korea, local investors have access to syndicated loans for the market's 'megadeals'," said Kim. "But in foreign markets it is difficult to know the details of these deals. We decided to gain information through commingled funds.

"What is important for us is to have more opportunities for co-investment, and more information."

Similarly, Hyungon Kim, senior manager at the Korean Teachers' Credit Union, said his organisation would be looking for mid-size funds that are able to provide co-investment opportunities during 2019 and 2020, in order to further "diversify its portfolio".

"Our investment ticket stands between $50 and $100 million," he said. "But we can have a higher ticket under exceptional circumstances, when we are building a special relationship with a GP." ■

What the Belt and Road can learn from the AIIB

As criticism against the initiative grows around the globe, the Beijing-based multilateral offers clues on how to move forward.

By Eduard Fernandez | 27 February 2019

Try to speak with private investors about China's 'Belt and Road Initiative' (also known as 'One Belt, One Road'), and you will be greeted with a blank stare, and maybe a quick glance at their watches.

On paper, Beijing's signature initiative, announced in 2013, should be an attractive proposition for infrastructure-focused private capital. The plan initially aimed to improve infrastructure links across 65 countries that account for 44 percent of the world's population. According to some estimates, it will encompass investments of up to $1.3 trillion by 2027.

But despite its gargantuan scale, international investors have found little room to participate in it, often describing it as a "Chinese-captive" project, led by Chinese contractors and financed by state-owned financial institutions.

"BRI remains predominantly debt-financed, with Chinese entities, particularly policy banks and state-owned enterprises, the largest source of funding," Moody's said in a recent report.

Similarly, accusations of lack of transparency on lending conditions and money squandered on unsustainable projects abound. "Some of these projects are choosing Chinese lending because that kind of financing is not available elsewhere, and there might be a reason for that," Christian de Guzman, vice-president and senior credit officer, sovereign risk Group, Moody's, tells us.

The cracks are starting to show, with countries like Malaysia and Pakistan, home to some big-ticket projects under the initiative, starting to reconsider their involvement in BRI – or cancelling their projects altogether.

Mistrust against the BRI contrasts with views on the Beijing-based Asian Infrastructure Investment Bank. The multilateral institution was announced in 2013 and was initially seen as another tool to advance China's signature Belt and Road initiative. But it soon distanced itself from the Belt and Road framework, a development investors did not miss.

"When you look at the projects approved by the AIIB, it almost seems they have been bending over backwards to pursue projects that are not [tied to the] Belt and Road," de Guzman says.

As a result, the AIIB is now perceived as a healthy competitor to similar multilaterals, like the Asian Development Bank. Since its official establishment in January 2016, the AIIB has invested $7.5 billion in 35 projects, more than half of them jointly with other multilaterals.

Part of that success probably comes from the early participation of Western countries in setting up the bank. The UK, Australia, France and Germany, among others, became founding members and actively participated in the process of drafting up the bank's rules, setting it apart from projects led by China's state-owned financial institutions. That's not to say opportunities might not still emerge from the Belt and Road initiative. Some Chinese engineering, procurement and construction contractors might decide to divest some of the assets they built in the future, bringing new opportunities to the market, an industry insider told us recently.

And the initiative has also stimulated a raft of competing plans from Japan, the US and the EU to boost much-needed infrastructure spending in emerging markets.

But if China wants the Belt and Road to truly prevail, the AIIB experience offers a valuable lesson to Beijing: long-term, sustainable projects are best achieved through international co-operation and high financing standards.■

Higher returns and secondary opportunities keep infra investors committed to Asia-Pacific

However, political risk, regulatory instability and lack of support for PPP projects are among the main concerns for those investing in region's emerging markets.

By Eduard Fernandez | 1 April 2019

An overwhelming majority of infrastructure investors with a presence in Asia-Pacific are planning to grow their regional teams, a new poll from law firm White & Case has found.

The study, based on interviews with 100 equity investors that invested in at least one project of $100 million or more in the region during 2018, found that 88 percent of those surveyed were planning to increase the headcounts of their Asia-Pacific teams. Half of the respondents were not based in Asia-Pacific.

The polled investors have, on average, spent 50 percent of their total infrastructure investment in the region, thus providing further evidence that Asia-Pacific is not a one-off bet.

Nearly two-thirds of respondents – 59 percent – pointed to the strength of long-term investment returns as one of the main benefits of acquiring assets in the region.

"Competition for assets in OECD markets is high," Paul Harrison, partner at White & Case, told Infrastructure Investor. "From that perspective, there may be fewer opportunities in those markets. Investors are therefore turning to emerging Asia-Pacific markets, as it is expected that these could offer strong, long-term returns."

Despite this, not all countries in the region are perceived in the same way. Australia was the top destination for those surveyed, with more than half planning to invest there in 2019. India was the second hottest destination for infrastructure spending.

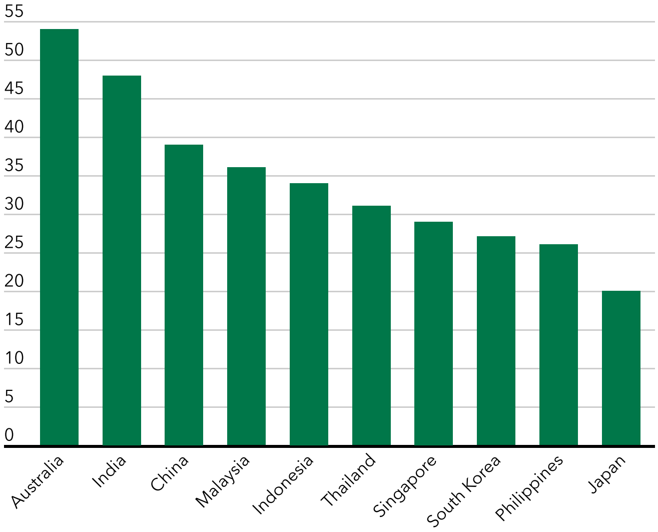
Countries perceived as less stable or without track records in PPP – such as Cambodia, Sri Lanka and Laos – barely registered any interest among investors.

It is no surprise that political risk remained the greatest concern for investors looking into emerging Asian economies. This was followed by inadequate regulatory regimes and lack of government support for PPP projects.

"Governments that provide a level of political and legal stability will generally attract more international investment," Harrison said. "Projects which have compensation clauses have a greater chance of occurring. This may mean stabilisation clauses in their contracts or

RISING INTEREST

Australia is the top Asia-Pacific destination for infra investors, with India and China following closely behind



Source: White & Case

some form of governmental assurance against adverse changes in the laws applicable to them."

Asked specifically about where attractive deals were coming from, more than a third of respondents pointed to "secondary opportunities."

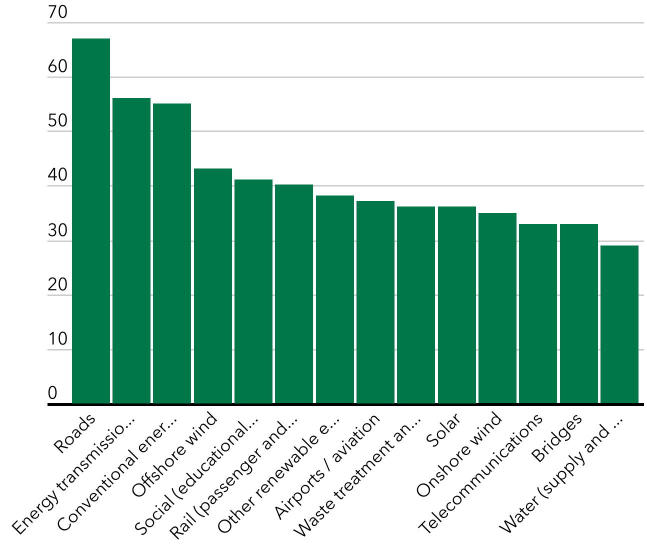
"Developers are looking to release funds from projects or portfolios of projects so they can redeploy their capital," Harrison said.

In terms of sectors, two thirds of those polled were planning to invest in roads this year. More than half were looking at opportunities in energy transmission, distribution and generation, including coal, gas and nuclear projects. ■

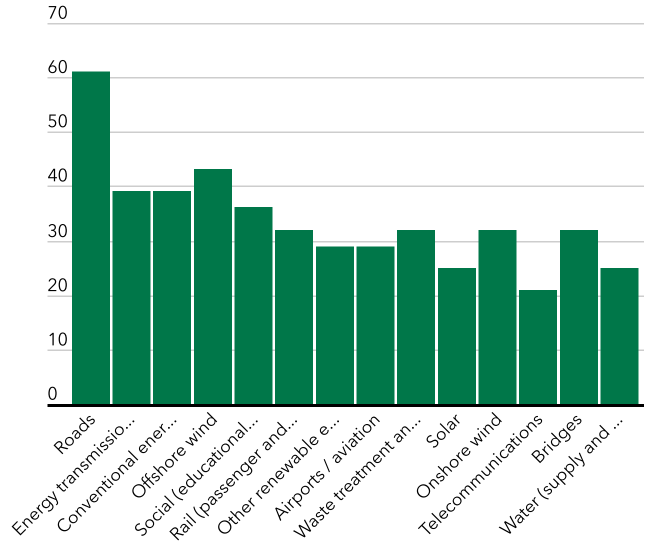
ROADS AND ENERGY

Roads are the most targeted sector in Asia-Pacific followed by energy transmission. But in developing countries, energy transmission cedes second place to offshore wind.

Region-wide



Excluding developed markets*



*Japan, Australia and Singapore

Source: White & Case

Infrastructure Investor

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