LATINLAWYER

The Guide to Infrastructure and Energy Investment

Editor

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Introduction

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This practice guide is intended to be a tool for lawyers and businesspeople operating in the field of project finance in Latin America. In pursuit of this goal we have filled the chapters with advice and insight from leading lawyers and law firms of Latin America and abroad, as well as from professionals from banks and other finance institutions operating on the cutting edge of project finance in the region.

Our approach is premised on three topics of relevance to both sponsors and lender/investor groups: current deal structure, problem-solving after the bargain has been struck and future trends in project finance in Latin America.

Even as global oil prices in 2016 hit lows not seen in over a decade[2] and continue at less than half of the August 2015 prices,[3] appetite for investment in Latin America from the international oil community remains strong, and a number of Latin American economies continue to rely on production of oil to fund much of their governments' operations. Statoil, Norway's state-owned oil company, recently purchased Petrobras' interest in one of Brazil's most lucrative offshore fields for US$2.5 billion,[4] and the new expansion of the Panama Canal will allow it to accommodate an expected 550 liquefied natural gas (LNG)

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2 Timothy Puko and Georgi Kantchev, 'Oil Prices Tumble Below $30 a Barrel.' *Wall Street Journal* (15 January 2016), available at www.wsj.com/articles/oil-prices-fall-below-30-a-barrel-1452853918.

3 'Crude Oil & Natural Gas.' Bloomberg Markets: Energy (accessed on 28 August 2016), available at www.bloomberg.com/energy.

4 'Statoil acquires operated interest in Brazilian offshore licence containing a substantial part of the Carcará pre-salt oil discovery.' Statoil (29 July 2016), available at www.statoil.com/en/NewsAndMedia/News/2016/Pages/29jul-brazil.aspx.

tankers per year by 2021, carrying Latin American and North American LNG to Asia.[5] The private sector remains active, investing heavily in new exploration and development of oil and gas fields in Bolivia, Guyana, Ecuador, and elsewhere in the region.

Despite low global oil prices and some country-specific economic slowdowns, regional oil and gas production and exploration remain strong. Brazil's state-owned oil company, Petrobras, increased its extraction output by 6 per cent between June 2015 and June 2016,[6] to almost 3 million barrels per day,[7] and production is only expected to increase as more of Brazil's offshore reserves are tapped. Despite recent production issues, Mexico[8] and Venezuela continue to extract over 2.1 million barrels per day.[9] Mexico's new natural resources exploration regime allows, for the first time in Mexican history, for private concessions for exploration, and the Mexican government and industry experts expect this opening to increase output of extractable commodities. This new regime is explored further in Chapter 12 (Mexico).

Even the prospects of Argentina's state-owned oil and gas company, YPF, are looking up after years of domestic political turmoil during which YPF's oil and gas production dropped dramatically following privatisation and subsequent expropriation: the Vaca Muerta shale gas field has increased its production and drawn billions of dollars of development commitments from major international oil and gas companies.[10] We examine what trends we can predict and how those will affect project finance transactions and oil and gas sector investments in the years to come in Chapter 11 (The Future of the Oil and Gas Sector in Latin America).

Latin America has embraced renewable energy. Renewable energy investment in the region has increased dramatically: 1.1GW of solar energy capacity came online in 2015, doubling the region's output,[11] and 4.4GW of wind energy capacity was added in 2015.[12] Overall, Latin American governments invested US$19.9 billion in renewable energy projects in 2015.[13]

Renewable energy project finance deals in Latin America present unique challenges for sponsors and lenders/investors. Latin American governments have been leaders in using

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5 Naureen S Malik, 'Panama Canal to see 550 US LNG Tankers a Year Following Expansion.' *World Oil Magazine* (1 July 2016), available at www.worldoil.com/news/2016/7/1/panama-canal-to-see-550-us-lng-tankers-a-year-following-expansion.

6 Jude Clemente, 'Brazil's Oil Production Expected To Continually Increase.' *Forbes* (12 July 2016), available at www.forbes.com/sites/judeclemente/2016/07/12/brazils-oil-production-expected-to-continually-increase/#57a3b6b4434c.

7 Idem.

8 'Mexico Crude Oil Production.' *Trading Economics*, available at www.tradingeconomics.com/mexico/crude-oil-production. Accessed on 28 August 2016.

9 Angelina Rascouet., 'Venezuela's Oil Production Fell to 13-Year Low in June, IEA Says.' Bloomberg (13 July 2016), available at www.bloomberg.com/news/articles/2016-07-13/venezuela-s-oil-production-fell-to-13-year-low-in-june-iea-says.

10 Charles Kennedy, 'Argentina's Prized Vaca Muerta Shale Could See $10B Exxon Investment.' OilPrice.com (3 June 2016), available at http://oilprice.com/Latest-Energy-News/World-News/Argentinas-Prized-Vaca-Muerta-Shale-Could-See-10B-Exxon-Investment.html.

11 'Renewables 2016 Global Status Report.' Ren21 (2016), p. 64.

12 Idem at p. 76.

13 Idem at p. 102.

the competitive bidding structures implemented for traditional development concessions in renewable energy concession auctions. This has driven project bid prices down, thinning margins for sponsors in an industry that is more dependent than most on good fortune and favourable weather conditions. Furthermore, with rare exceptions, the hardware needed for renewable energy development is produced outside of Latin America (principally in the United States, Europe and China), so involving an export finance agency is often necessary to achieve bankability. Despite these challenges, Latin American governments across the region remain committed to developing their countries' wind, solar and hydroelectric power potential.

Transportation infrastructure – or the lack thereof – remains the great opportunity and the great stumbling block of Latin America. The region's transportation infrastructure needs are well documented: some indices show that Latin America as a whole has under-invested in transportation infrastructure every year since at least 1980.[14] This 'infrastructure bottleneck' has contributed to Latin America's stagnation in the global export market, holding steady at about 6 per cent of global exports since 2001.[15] Bridging this infrastructure gap could require as much as US$150 billion in investments across the region, in roads, railroads, ports and airports.[16]

This problem is too large for the public sector to solve on its own, which is why Latin America's governments are taking steps to aid private-sector investment. In general, incentivising the private sector means loosening the public purse strings, and the region is doing that through programmes like the South American Council of Infrastructure and Planning (IIRSA)'s guarantee initiative, through which 12 of the region's countries are offering over US$21 billion in guarantees for transportation infrastructure projects of all kinds.[17] Peru has allocated more than US$30 billion for future projects to address infrastructure shortfalls throughout the country[18] using a variety of strategies, as outlined in Chapter 14 (Regulatory Framework of Transport Infrastructure in Peru). Mexico has turned to the problem of its infrastructure gap with financial enthusiasm previously unheard of in the region, allocating just under 2 trillion pesos (just over US$100 billion) for transportation infrastructure projects, discussed in detail in Chapter 13 (Developing Transport Infrastructure to Support Industry: Mexico).[19]

Public-private partnerships are a popular structure for governments across Latin America looking to spur development, grow local industry or invite international players into the local market by offering a structured mode of access that allocates risk between public and private participants.[20] Latin America has been the leading region for public-private

14 Tomás Serebrisky, Ancor Suárez-Alemán, Diego Margot, Maria Cecilia Ramirez, 'Financing Infrastructure in Latin America and the Caribbean: How, How Much and By Whom?' Inter-American Development Bank (2015), p. 8.

15 Idem at p. 76.

16 Idem.

17 'Financing Mechanisms and Guarantees.' Available at www.IIRSA.org.

18 'Agilizando la Ruta del Crecimiento: Parte del Plan Nacional de Infraestructura 2016–2025.' Asociación para el Fomento de la Infrastructura Nacional – AFIN (2016), p.21 fig. 'Tabla 2'.

19 'National Infrastructure Program 2014–2018.' PWC Mexico (2014), p.2 fig.1.

20 Cesar Queiroz, Gaston Astesiano, Tomas Serebrisky, 'An Overview of the Brazilian PPP Experience from a Stakeholders' Viewpoint.' Inter-American Development Bank, (2014), pp. 12-13.

partnership project finance deals for over 30 years, with over 500 individual projects.[21] Perhaps no country has embraced public-private partnerships as a method for bringing infrastructure projects to fruition more than Brazil, where 23 public-private partnerships for projects of over US$1 billion each have been formed in the 10 years[22] since Brazil reformed its legal framework for public-private partnership investments. Chapter 1 (Brazilian Public-Private Partnerships: Retrospect of Past Decades and New Trends Ahead) examines the successes and failures of Brazil's decade using public-private partnerships.

Public-private partnerships (commonly known as PPPs or P3s) are especially popular in infrastructure finance, where the local government can contribute security, authorisations, manpower and know-how in addition to funding. The smaller economies of the region are also embracing public-private partnerships as a way to attract funding that otherwise goes to bigger economies that can provide more upside and more stability for traditional private investment. Ecuador enacted legislation providing a framework for public-private partnership investments in 2015, and its progress is examined in Chapter 2 (Ecuadorian Public-Private Partnerships in a Nutshell: What We Can Tell So Far). A substantial majority of public-private partnerships are for road projects, where the private sponsors build the road and collect tolls for a concession period, and the local government provides safety infrastructure and retains control over the road after the concession expires.

Dispute resolution is and has historically been an area of project finance law and business that evolves quickly. Lenders and investors need constant vigilance from their lawyers to ensure the integrity of their security packages. Sponsors and borrowers need that same vigilance to confine risks to project companies and specific deals to the greatest extent possible, with as little exposure as possible to the parent companies and shareholders. Arbitration with the seat in New York or London or submission to the jurisdiction of the courts of New York or England and Wales is still considered the *de facto* approach,[23] but even when that approach is followed, local law governs several aspects of the lender/investor's security package in project finance deals.[24] In addition, disputes with state-owned entities – so often crucial partners in Latin American project finance transactions – bring their own specialised local legal regimes into play. For the current state of play and context for the region's fraught history of applying foreign legal systems to local projects, we provide Chapter 5 (Two Key Considerations on Infrastructure and Energy Disputes with the Arbitral Seat in Latin America) and Chapter 6 (Investment Treaty Arbitration).

'Compliance' is generally understood to be shorthand for 'compliance with laws and anti-corruption regimes.' Corruption costs – including cartel bidding where only local, politically connected firms have access to concession auctions, overbilling by local suppliers and service providers, and outright bribery demands by local officials – were long-treated as an operational cost required to be built into any business model for projects in Latin

21 José Luis Guasch, Daniel Benitez, Irene Portabales, Lincoln Flor, 'The Renegotiation of PPP Contracts: An Overview of its Recent Evolution in Latin America.' OECD (2014), p. 8.

22 'The State of PPPs.' World Bank Group (2016), p.13.

23 Michael Nolan, Julian Stait and Erin Culbertson, 'Dispute Resolution in Project Finance Transactions.' *International Project Finance* Chapter 14: Oxford University Press (2011), pp. 425-426.

24 Stefano Gatti, *Project Finance in Theory and Practice: Designing, Structuring, and Financing Private and Public Projects* Academic Press (2012), p. 277.

America.[25] However, the past few years have seen governments from Argentina[26] to Mexico[27] wake up to the economic and political toll that corruption takes on a country's ability to attract foreign investment and develop local industries and champions. Chapter 8 (A New Environment) provides a nuanced look at the major international players and regimes shaping current compliance practice. This realisation, combined with large-scale popular protests against corruption across the region, have led to investigations into business and political elites previously considered untouchable, and the passage of legislation that created new anti-corruption regimes and authorities or enhanced existing ones.[28]

These changing legal regimes and, in some cases, a newfound enthusiasm for enforcement by local authorities, have created an environment that is at the same time optimistic and fraught with potential for breaking (or failing to enforce) newly minted rules. Never has it been so important to have top-quality international and local counsel to help clients navigate these regimes, nor has it been so important for lawyers to remain on the cutting edge of this field. The most famous examples of the need for effective and dynamic compliance advice are the ongoing anti-corruption operations in Brazil, studied in detail in Chapter 10 (When Corporate Prevention Fails: Crisis Management in the Brazilian Anti-Corruption Context).

This practice guide provides a primer for dealing with these issues before and during the life of a project finance deal in today's market, that can be used as a launching point for businesspeople and lawyers when considering and navigating project finance deals in Latin America.

In the first section, we examine the use of public-private partnerships. The second section looks at some other traditional and innovative financing structures being put to use in the region, including project bonds, bringing in private equity investments and seeking financing from China, which has brought its financial diplomacy to bear on the region to an unprecedented extent in the past decade.[29] The third and fourth sections focus on two of the thorniest areas of legal development in Latin American project finance: dispute resolution and local and international compliance regimes. And the final three sections of this practice guide discuss the future of project finance in Latin America and, in particular, the three pillars of Latin American project finance: the oil and gas industry, renewable energy and transportation infrastructure.

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25 '*Custo econômico da corrupção*.' Federação das Indústrias do Estado de São Paulo – FIESP (2012), available at www.fiesp.com.br/indices-pesquis as-e-publicacoes/relatorio-corrupcao-custos-economico s-e-propostas-de-combate/.

26 Benedict Mander, 'Anti-Corruption Tide Reaches Argentina.' *Financial Times* (19 May 2016), available at https://www.ft.com/content/e0de4f00-1daf-11e6-b286-cddde55ca122.

27 Viridiana Rios, 'Mexico Wins: Anti-Corruption Reform Approved.' Mexico Institute at the Wilson Center (12 July 2016), available at https://www.wilsoncenter.org/article/mexico-wins-anti-corruptio n-reform-approved.

28 Andrew M Levine, Bruce E Yannett, 'Anti-Corruption 2016: Introduction.' *Latin Lawyer* (2016), available at http://latinlawyer.com/reference/article/48826/introduction.

29 'China's Financial Diplomacy: Rich but Rash.' *The Economist* (31 January 2015), available at www.economist.com/news/finance-and-economics/21641259-challenge-world-bank-and-imf-china-will-h ave-imitate-them-rich.

Latin America is ripe for project finance investment, and sponsors and lenders/investors that moved into the region sooner are already enjoying the fruits of their investments. As touched on above and described in detail in the chapters that follow, Latin American project finance currently presents a compelling opportunity for legal practitioners and businesspeople: there are many opportunities for private-sector actors, with new oil and gas and renewable energy investment opportunities discovered monthly; there are complex legal landscapes to be carefully navigated with the assistance of experienced counsel, especially in the areas of dispute resolution and compliance; and there is great demand in the governments of the region for investment of every type, especially transportation finance. This means that there are strong incentive systems in place and being planned to further foster investment, and local governments are ready and willing to work with international sponsors and lenders/investors to generate deal work.

This practice guide provides information about current trends in Latin American project finance, and gives a look at the future of the industry and the law. It will also serve as a starting point for conversations between lawyers and their clients, giving each a solid and nuanced base from which to move forward. We hope it leaves the reader as enthusiastic about the business and practice of project finance as we are.

3

The Role of Project Finance in Developing a Region: Trends and Considerations

Daniel D Bartfeld, Roland Estevez, Jaime E Ramirez and Andrés Arnaldos Montaner[1]

Project finance is a key driver in the growth of a country's infrastructure and industry. Recent trends in project development and finance in Latin America, however, illustrate the importance of project finance not only in the literal build-up of projects in the region, but also in the growth of the region as an attractive centre for foreign investment, even in the face of challenging market conditions.

Prior to the financial crisis of 2007–2008, project development and finance in the region were driven primarily by soaring commodity prices, largely the result of a fast-growing Chinese (and Asian) economy. As a result, investments in mining and other natural resource projects across Latin America, particularly in Brazil, Mexico and Chile, were actively pursued and represented a majority of investment activity in the region. Following the financial crisis, natural resource and export-oriented projects experienced a significant slowdown as commodity prices collapsed. However, the boom created prior to the financial crisis by high commodity prices and strong foreign demand for exports led to a historical growth in the middle class across the region, which in turn provided a basis for domestic-driven growth, leaving the region less vulnerable to decreases in foreign demand and international market conditions. In order to sustain the growth of this rising middle class, countries recognised the need to invest in transportation and social infrastructure and began to focus on developing plans to build and fund these projects (with a strong focus on renewable energies and transportation infrastructure). The transition from an export-focused model of project development to a more balanced model that focuses on domestic growth and long-term stability helped many countries in Latin America weather what would otherwise have been a turbulent period for project development.

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Project development and finance in Latin America continues to reflect this trend. For example, Colombia is embarking on an ambitious development of its road infrastructure system, Chile is leading the region in the development of renewable energy and Mexico is finally implementing its much-anticipated energy reforms, opening up its energy market to foreign investment.

While the region continues its efforts to build up the infrastructure required to supply its middle class with the basic resources necessary to support growth and consumption, this is only part of the current project development and finance story in Latin America. The region has also grown into an attractive investment centre for new forms of capital to take advantage of both the unexpected availability of projects and asset portfolios resulting from the fallout of corruption scandals in Brazil and the economic difficulties facing large, international developers like Abengoa, Isolux, SunEdison and others looking to divest energy assets in the region. As a result, increased M&A activity and increased financing of ongoing operations and expansions of brownfield assets are also driving project development.

This chapter examines these trends, as well as how more recent developments have changed the landscape for project development and finance in Latin America. We will also look forward to 2017 and beyond to identify key drivers as Latin America continues its efforts to stabilise growth and promote future sustainability through the development of attractive projects and core infrastructure.

The year in review

The year 2016 began with a strong pipeline of projects and a largely liquid finance market hungry for deal flow. However, by the beginning of the second half of the year, several factors contributed to a slowdown in project development and a tightening of financing terms.

Corruption scandals

The corruption scandals in Brazil have had far-reaching consequences both inside and outside of the country. Investigations have revealed bribes of approximately 6.2 billion reais and counting and alleged losses to the government of more than 30 billion reais, with dozens of people currently charged with alleged crimes. Many of Brazil's largest and most active project development companies have been implicated in these investigations, including Odebrecht, OAS and Invepar. These companies own assets and projects across a vast range of industries in Latin America, many of which are now the subject of sale processes as these companies seek to exit amid tightening balance sheets and growing scrutiny not only from bankers but also concession authorities. Odebrecht, for example, has embarked on sales processes for its interests in Rutas de Lima, a 115km toll road project in Peru, and its stake in the GSP pipeline in Peru, as well as a wide range of other projects throughout the region – including (as has been widely reported) the Chaglla hydroelectric plant in Peru, Odebrecht Transport in Brazil, and Odebrecht's stake in the Metro Line No. 4 in São Paulo.

Reorganisations

Key international project developers have experienced financial difficulties in 2016 that have had knock-on effects in Latin America. Examples of this unfortunate trend include:

- Spanish energy developer Abengoa, an active participant in the Latin American market, which is currently undergoing a global restructuring and asset divestiture;
- Isolux, a Spanish engineering and construction firm, seeking to avoid a similar fate through the sale of assets in Brazil and other countries in order to raise much-needed capital;
- Ferrovial, a Spanish infrastructure firm, undergoing asset sales in an effort to raise capital;
- SunEdison, an active US developer that recently filed for bankruptcy protection, which among other things resulted in the termination of the planned acquisition of Latin America Power, a developer of alternative power projects in Chile and Peru (as well as mid-construction problems in multiple assets throughout the region);
- Empresas ICA, a large Mexican infrastructure, construction and development company that is expected to soon file for bankruptcy protection; and
- Pacific Exploration & Production Corp, a Canadian oil and gas company largely operating in Colombia, who is also seeking to restructure its debts.

The consequence of these and various other restructurings and bankruptcies, particularly in Brazil, has been a delay in the development of greenfield projects as owners either seek to sell assets or to hold on to them for future development pending an improvement in financial conditions.

Commodity prices

Commodity prices have continued to lag in 2016. Oil prices in particular have significantly delayed the development of assets subject to Mexico's highly anticipated energy reforms and, consequently, Pemex's pursuit of foreign investment. State-owned oil companies in Venezuela, Colombia and Brazil have also suffered to differing degrees and have delayed exploration projects and deferred capital investments until oil prices recover.

Metal prices have been similarly sluggish, which has delayed mining projects across the region, while shifting the focus by some mining companies on debt restructuring and refinancing as they await an uptick in commodity prices. However, this trend may change as a result of rising metal prices in the second half of the year.

Brexit

Britain's decision to leave the European Union was expected to cause severe aftershocks in the economic markets. Thus far, the market reaction has been more muted than expected and specific consequences for the Latin American region remain to be seen. However, the fall in global oil prices and the strengthening of the US dollar as an immediate consequence of the referendum certainly put additional pressure on an already stressed oil and gas industry. In addition, capital costs for European banks in particular may still increase as the specific mechanics for Britain's formal withdrawal from the European Union and their potential effects become more clear.

Trends in 2016

Surprisingly, rather than shut down the project development market, the factors noted above have forced private and public investors and lenders to be more open to less traditional opportunities and have attracted a range of relatively new market participants. Active areas in the region include the following:

M&A

One notable theme in 2016 is the increased M&A activity that has resulted from the reorganisations and corruption scandals noted above. In some cases, large portfolios of projects are becoming available that, in turn, will require financing to complete development or continue operations. In other instances, minority stakes have been marketed (successfully). Non-traditional project finance participants, such as private equity and hedge funds looking for higher yielding investments, are increasingly active in this space. US and internationally based private equity firms have been active investors in the region and we expect that activity to continue as additional and more desirable assets come to market. In fact, one of the notable trends is that private equity firms have raised billions of dollars of capital that is earmarked for Latin America, thereby raising the visibility of investment opportunities throughout the region.

Infrastructure

In the face of difficult economic and political conditions, infrastructure finance has continued to be active in 2016, particularly in Colombia, Chile and Mexico:

- Colombia: This year was a very active one for toll road financings in Colombia, led by the country's 'fourth generation' (or '4G') infrastructure initiative, which can be compared in philosophy and scope to the Eisenhower Interstate programme in the United States. The overall 4G programme contemplates an expansion of the country's road network, including bridges and tunnels, with a total investment of approximately US$10.7 billion. Local and international banks have been eager and active participants in these projects, with many more expected to come to market as the first wave of projects complete their financings. However, this market will face challenges in the near future as local and international banks begin to face risk concentration limits, which will hamper market liquidity. We do expect new sources of capital to step in to try and bridge some if not all of the gap with international institutions seeking to form funds aimed at lending to 4G projects. Blackrock's recently announced Colombian infrastructure fund is an example.
- Chile: Chile also remains active in the energy and infrastructure space with continued development of renewable and gas-to-power projects. The capital costs required for these projects total in the billions of dollars, with a majority of the funds expected to be raised on a limited recourse project finance basis. There is also a push towards major transportation projects, such as the recently closed US$900 million expansion of the Santiago airport.
- Mexico: Mexico had the misfortune of passing its much-needed energy reforms right before a precipitous drop in oil and gas prices. As a result, while initial interest in the Mexican market was and remains strong, the levels of investment have not increased to the desired levels in light of current market conditions. Nevertheless, gas pipeline financing has been active in 2015 and 2016 with many projects coming to market following the award of concessions and oversubscribed energy tenders by the well-known

Comisión Federal de Electricidad. This is an example of a market that is developing, based in large part upon the cheap US gas reserves.

Bank terms

On the lending side, the year started as a 'borrower's market', but the factors noted above have started to result in a noticeable tightening of the project finance bank market. Lenders are seeking to reassess their risk appetite in the face of exposure to many projects sponsored by companies in financial distress and losses incurred as a result of the sale of distressed oil and gas assets in Brazilian foreclosure proceedings. One increasingly clear result of these developments has been the gradual shortening of available financing tenors in the market, with long-term financing available to a very select few projects (based on asset class, country and sponsor) by the second half of the year. Borrowers have responded by voluntarily foregoing longer tenors and generally opting to provide lenders with further structured mitigants in an attempt to reduce execution risk.

Summary

In summary, this year has been marked by a mixture of traditional greenfield project finance and largely brownfield M&A activity that is expected, in turn, to drive financing activity in connection with the acquisition, development, expansion and operation of these assets. Where in the past the region may have experienced a general decline in project development and finance post-financial crisis, the present is actually witness to a maturing market that is resilient to international and even local slowdowns due to the long-term potential of the region as a whole.

Future development

The future looks to largely continue recent trends; additionally the expected re-emergence of once active markets in the region will present several opportunities to further drive growth. As discussed below, we expect project development to continue to be driven by renewable energy, an expected rise in the development of natural resource projects timed to come online when commodity prices are projected to have recovered, an expected increase in activity in Peru following the recent elections and the expected return and rise of Argentina in the international market.

Renewables

Chile, lacking in domestic oil and gas resources, has emerged as a regional leader in solar and wind development. Chile recently conducted the largest electricity supply auction in its history, with indications of ongoing future auctions. As it finds itself with more projects in the pipeline than it needs, we expect lenders to become more selective and to focus on well-structured projects with experienced sponsors. Recent pessimism regarding the tightening of credit seems premature and deal flow should continue on the back of the Chilean government's stated goal to have 70 per cent of the country's energy come from renewable sources by 2050. In addition, the continually decreasing technology cost curve creates an opportunity for those developers willing to make investments based on continued cost reductions in the next five years. It is safe to say that those best able to accurately technically predict such cost savings will find themselves at a competitive advantage.

Mexico is also pushing for the development of solar and other clean energies. The country conducted its first clean energy supply auction in 2016, and awarded 11 photovoltaic projects for a total of 4 million MWh per year. Sponsors involved in those auctions include Enel, SunPower, EDF and Jinko Solar, among others, and we expect these projects to come to market in the near future. Sponsors in this space also are expected to benefit greatly from the combination of experience gained by lenders (and their internal credit committees) in financing the Chilean PPAs and the familiarity of those lenders in Mexico and with the well-known Comisión Federal de Electricidad.

Peru also recently conducted electricity supply auctions as well, awarding a total of 162MW to wind energy projects and 184.5MW to solar projects. Meanwhile, while Colombia's focus remains on transportation infrastructure, some renewable energy projects (mainly hydrological) continue to move forward.

Natural resource projects

Commodity prices have shown a small rebound in the second half of 2016 and, while we are still far from the peak levels of the market, we do expect some well-positioned mining companies to begin focusing on bringing projects to market that can be online in a few years, when many long-term projections anticipate a healthy recovery of copper and other metal prices and demand. The year 2017 should see the first of these projects come to market from some of the larger industry players.

Re-emerging markets

Peru

Prior to the conclusion of the recent elections in Peru, activity in the country slowed down dramatically in anticipation of a change in government. Following the transition to the new administration, we expect the backlog in infrastructure and other projects to reinitiate development, with investors and lenders attracted to the relatively stable regime and comparatively healthy economy. The consummation of the sale of Odebrecht's interest in the Gasoducto Sur Peruano project should reignite the construction of the pipelines and kickstart numerous ancillary projects and we expect there to continue to be an active M&A market for a wide range of energy-related assets there. Peru will also be an active market for transportation and social infrastructure projects.

Argentina

While still very much in the early stages of its international re-emergence, Argentina presents a broad and exciting array of opportunities for project development. Many regulatory issues remain to be resolved, but we expect thermal and renewable projects to lead the way in the international project finance market. International banks may initially enter the market with caution, but the sheer volume of projects expected to come from the underdeveloped infrastructure and energy market presents an opportunity that in the long-term will be too attractive for local and international financial institutions to forgo. As of now, the country only has approximately 150MW of installed wind-generated energy, and 7MW of solar capacity, and the government has prioritised renewable energy development in some of its recent reforms. There is a widespread view that Argentina will develop into an active market for project development and M&A, but that it will take longer than the current 'excitement' would otherwise indicate.

Others

Brazil is still going through a difficult period and is not expected to fully recover for a few years. While greenfield project development may face challenges, we do expect interesting brownfield assets to become available, which will further drive M&A activity.

Ecuador, on the other hand, remains largely a mystery to the international bank market. While the country returned to the sovereign bond market in recent years, project development activity has remained relatively quiet in the face of the country's difficult past with international projects. Kinross sold its interest in the Fruta del Norte gold project to Lundin Gold Inc in 2014, after years of protracted discussions with the government over the terms of the exploitation agreement. The project itself is a world class gold asset, but has faced challenges attracting long-term financing sources. In the face of Kinross' exit, the Ecuadorian government sought to reform some of the more challenging components of its mining law and it remains to be seen whether Lundin will be able to succeed where others failed or abandoned attempts. If Lundin and Ecuador are able to convince the international markets that Ecuador is generally open for business, other mining assets may also follow suit in what has largely been an untapped market.

Infrastructure

Despite the strength of recent development in the region, it is clear that many opportunities remain to further develop infrastructure in the region. Colombia has already expanded its 4G programme to the development of river transport infrastructure with the broad Magdalena River project. There are airport projects planned throughout the region – with expansions and upgrades that are viewed as very attractive, particularly to non-local companies that are looking to expand outside their home regions. We are also seeing a renewed interest in many port-related projects, which may be surprising based upon the low commodity market, but nonetheless remains a focus for many infrastructure-related participants. Finally, there are several metro-related transactions planned in the region, which will inevitably keep local and international players active.

Asset sales

Due to ongoing reorganisations and shifts in corporate strategy, we expect sales of project-related assets in the region to continue and in some instances increase. Duke Energy is expected to complete its sale of Latin American energy assets by year end. Latin American Power recently announced its sale of energy assets in Chile and Peru. In addition, there are multiple 'private transactions' throughout the region, sometimes for an entire asset and other times for minority interests. This activity will continue and prices should remain attractive to sellers for the short-medium term. Furthermore, in most cases these transactions will involve financing and we expect the project-related acquisition finance in the region to be an active sector in the market.

Conclusion

The project development space in Latin America has experienced challenges in recent years but has demonstrated resilience based on opportunities coming out of distressed situations and a focus on infrastructure and energy development as a path to long-term sustainable growth. The shift to energy and infrastructure projects is a positive sign that the region is recognising the importance of infrastructure development as a means to support economic growth and a rising middle class. It is also encouraging to see that asset turnover in the region is active in the face of restructurings and reorganisations, and is a recognition of the viability of project development and the underlying strength of economic and social fundamentals in the region. Accordingly, project-related acquisition finance, infrastructure and energy investment and an expected recovery in commodity prices will continue to be active drivers in the project development market in Latin America.

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