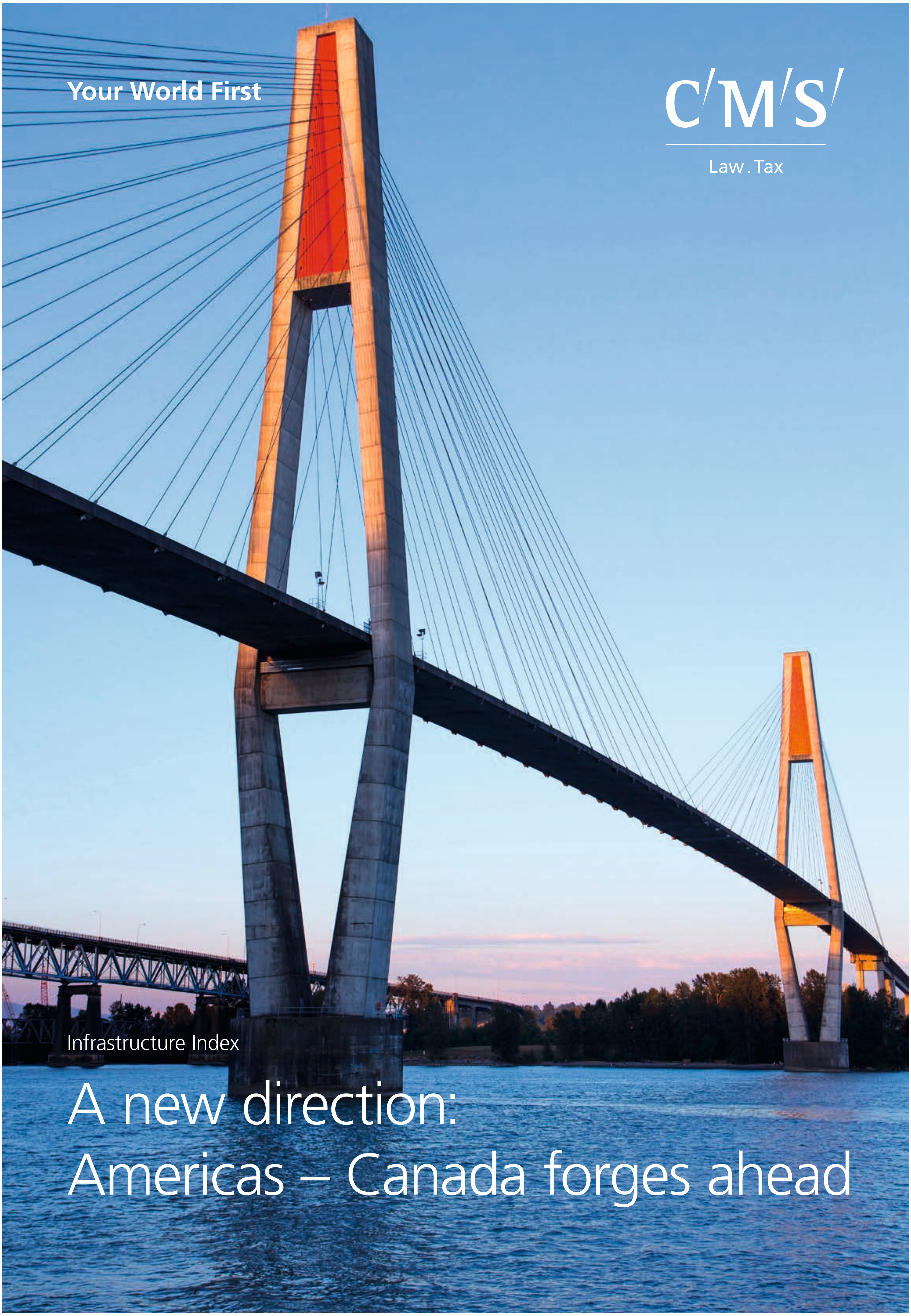

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Infrastructure Index

A new direction: Americas – Canada forges ahead

The Infrastructure Index results

The CMS Infrastructure Index analyses data across 40 jurisdictions against six key criteria to create a guide to the most attractive destinations for infrastructure investment.

Canada benefits from top-notch procurement procedures, a vigorous PPP pipeline and a robust infrastructure community.

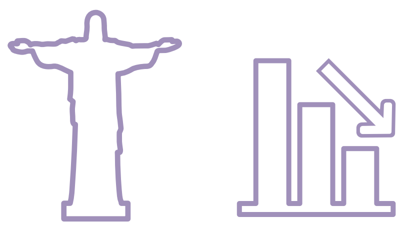
Top regional influences

Canadian Prime Minister Justin Trudeau has pledged **CAN$187bn** investment **over the next 12 years**.

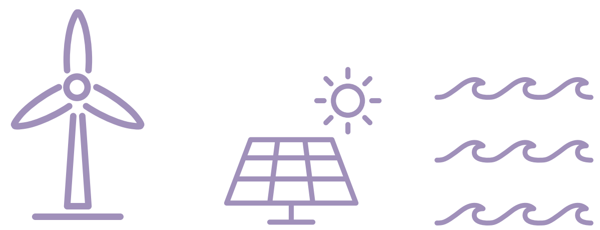
$187bn

over 12 years

The **Odebrecht scandal** has impacted Brazil and other Latin American countries, **slowing investment**.



Renewables are a priority.



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Foreword

Creating an attractive environment for investors in infrastructure is no easy task. Politics and policy can make or break private participation and the flow of investment. Something that has never been clearer than in this year's CMS Infrastructure Index which ranks 40 jurisdictions in order of infrastructure investment attractiveness.

This supplement focuses on the Americas.

Canada is reaping the benefits of its government's focus on infrastructure and ranks second in the Index. It wins its position thanks to clear procurement procedures, a large PPP pipeline and an established investment community. Prime Minister Justin Trudeau will launch the Canada Infrastructure Bank (CIB) by the end of 2017 and has promised to spend CAN$187bn on infrastructure over the next 12 years. Political support of the CIB is mixed and this may impact the project pipeline, but Canada is undoubtedly a hot spot for private capital.

The United States ranks seventh in the Index. It has a decentralised approach to infrastructure and PPP and much of its existing infrastructure is in desperate need of an upgrade. President Trump has promised a US$1tn infrastructure plan but until the details are released, the opportunities for investment are uncertain.

Chile is the highest ranking South American country and ranks 11th in the Index. It is a global pioneer of PPAs and has benefitted from its strong governance and stability and a favourable tax environment. The pipeline of projects across other Latin American countries also presents opportunities for investors: Mexico has just announced 12 new projects, Colombia has an ambitious roads initiative and Brazil has embarked upon a major privatisation programme.

The South American countries included in the Index are focusing much of their attention on energy and transportation. Recent natural disasters, such as the recent earthquake in Mexico in September 2017, have also created a new and urgent need for basic infrastructure to be repaired and replaced. Private capital will be an important component in meeting this need.

The Index presents a positive outlook for the Americas. There are huge opportunities across the whole region, but some will require more appetite for risk than others.

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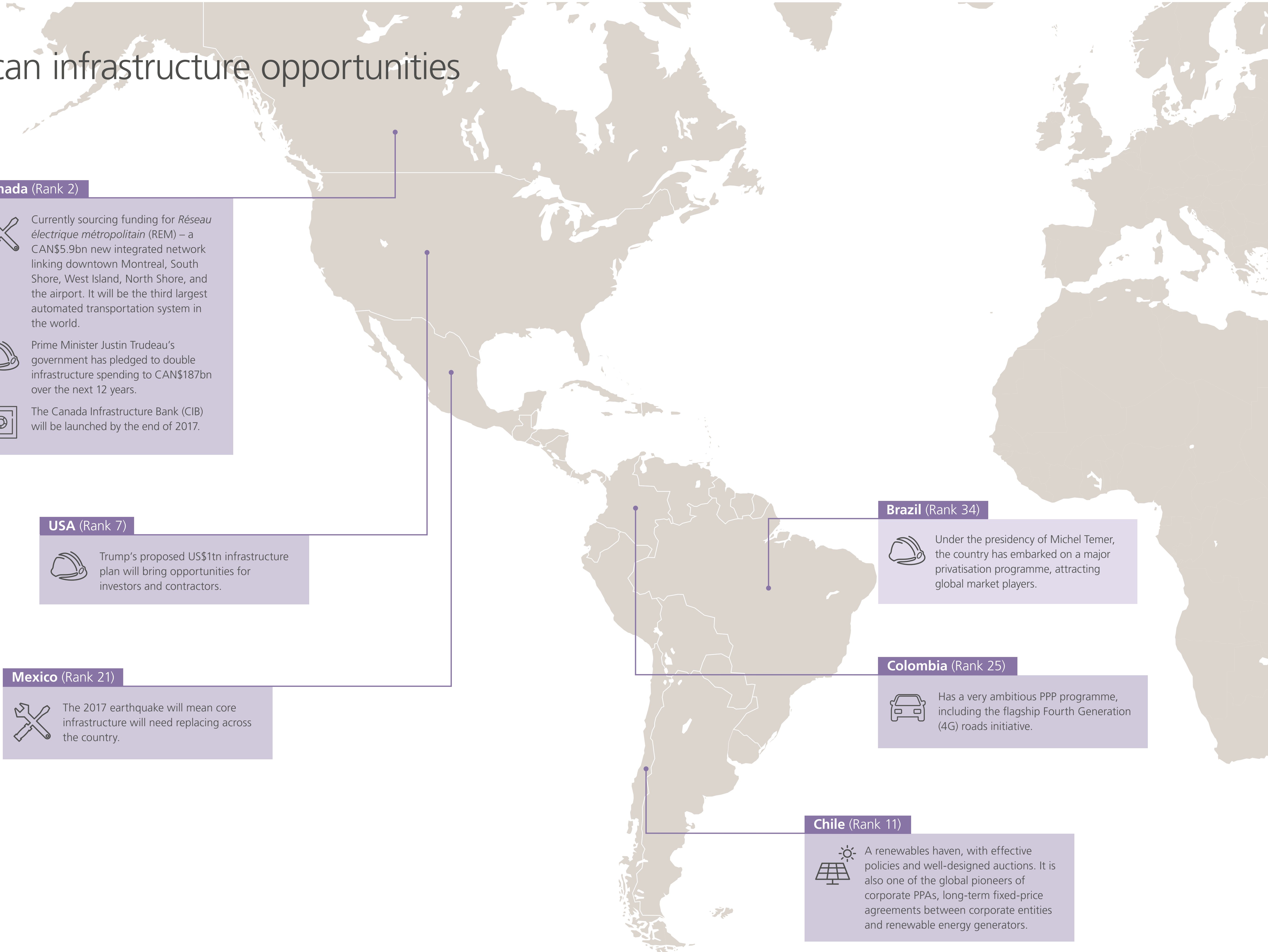
American infrastructure opportunities



Canada (Rank 2)

- Currently sourcing funding for *Réseau électrique métropolitain* (REM) – a CAN$5.9bn new integrated network linking downtown Montreal, South Shore, West Island, North Shore, and the airport. It will be the third largest automated transportation system in the world.
- Prime Minister Justin Trudeau's government has pledged to double infrastructure spending to CAN$187bn over the next 12 years.
- The Canada Infrastructure Bank (CIB) will be launched by the end of 2017.

USA (Rank 7)

Trump's proposed US$1tn infrastructure plan will bring opportunities for investors and contractors.

Mexico (Rank 21)

The 2017 earthquake will mean core infrastructure will need replacing across the country.

Brazil (Rank 34)

Under the presidency of Michel Temer, the country has embarked on a major privatisation programme, attracting global market players.

Colombia (Rank 25)

Has a very ambitious PPP programme, including the flagship Fourth Generation (4G) roads initiative.

Chile (Rank 11)

A renewables haven, with effective policies and well-designed auctions. It is also one of the global pioneers of corporate PPAs, long-term fixed-price agreements between corporate entities and renewable energy generators.

Canada forges ahead in the Americas

The Americas present a highly diverse investment landscape. Canada is a global hotspot of infrastructure activity, while the USA is anxiously awaiting more details regarding President Donald Trump's proposed US$1tn infrastructure plan. Whilst Latin America is home to some active markets, including Colombia and Chile, other countries are suffering the consequences of a commodities slowdown and widespread corruption scandals.

Rank	Country	2017 Score
2	Canada	88
7	USA	85
11	Chile	75
21	Mexico	57
24	Peru	56
25	Colombia	56
34	Brazil	45

Canada confirms its reputation as the region's most reliable infrastructure market. Despite huge potential, the USA still lags behind its northern neighbour in terms of the state of its infrastructure and plans to finance upgrades.

Meanwhile, President Trump's proposed renegotiation of the North American Free Trade Agreement (NAFTA) is a concern for the Mexican economy.

Canada – 2nd

Canada lives on its reputation as one of the world's most fertile grounds for infrastructure investment, with top-notch procurement procedures, a vigorous PPP pipeline and a robust community of sponsors and investors. Among the Canadian provinces, Ontario is the leading market, with a strong track-record of recently financed projects in healthcare, transport, waste, solar and wind.

Prime Minister Justin Trudeau's government has pledged to double infrastructure spending to CAN$187bn over the next 12 years (see: Trudeau banks on infrastructure).

The Canadian government is also poised to launch the Canada Infrastructure Bank (CIB) by the end of 2017. As part of this plan, the new infrastructure bank would be endowed with CAN$35bn in capital to invest in revenue-generating economic infrastructure, including transport, social infrastructure, electricity grids, water and broadband.

USA – 7th

President Trump's US$1tn infrastructure initiative triggered a huge amount of interest when it was announced, but the lack of detail in recent months has dampened enthusiasm. Meanwhile, infrastructure across the country is suffering from decades of underinvestment, with capital now urgently needed to revamp airports, bridges, dams, ports, railways, roads, waste management and wastewater facilities. The government intends to fund US$200bn of the plan's headline figure, with the rest coming from private capital. In anticipation of this, Saudi Arabia's sovereign wealth fund recently committed US$20bn to a new platform raised by Blackstone aimed at infrastructure projects primarily in the USA. The USA-based investor plans to match the amount with commitments from other partners.

In the meantime, while the USA PPP market differs greatly from state to state, there are pockets of opportunities. Noteworthy projects of late have included the LaGuardia and LAX airport PPPs, Maryland's Purple Line LRT project and Detroit's street lighting PPP.

Chile – 11th

Chile is the most attractive infrastructure market in Latin America and the eleventh globally, benefiting from a highly favourable tax environment, strong governance and stability. One notable project in the country's pipeline is the Americo Vespucio Oriente Tramo Pricipe de Gales-Los Presidentes (AVO 11) highway. Chile is also a renewables haven, with effective policies and well-designed auctions that have successfully attracted international developers in recent years. The country is also one of the global pioneers of corporate PPAs, long-term fixed-price agreements between corporate entities and renewable energy generators.

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Mexico – 21st

In 2013, Mexican President Enrique Peña Nieto introduced the National Infrastructure Program (PNI), outlining the government's priority projects until 2018. But the programme has experienced delays as the government was forced to cut public sector capital expenditure after a steep drop in oil revenue. Much of the market's attention is currently focused on energy and transportation, with the likes of CDPQ, Morgan Stanley, First Reserve and Partners Group all investing in Mexican infrastructure in recent years. Renewables has been particularly busy, with more than 5.5GW of wind and solar projects awarded in two supply auctions in 2016 and a third auction scheduled to take place in November 2017.

While Mexico's PPP market is not particularly active, infrastructure opportunities do crop up. In March 2017, the government announced a PPP pipeline comprising 12 road and hospital projects. Two of the country's biggest infrastructure projects are the US$3bn Mexico City Airport expansion and the US$3bn Port of Vera Cruz expansion. This year's most high-profile infrastructure deal was the Red Compartida national broadband roll-out, worth close to US$1bn. As a result of the 19 September 2017 earthquake, which hit Mexico City as well as the states of Puebla and Morelos, there is an urgent need to reconstruct damaged infrastructure.

> Much of the market's attention is currently focused on energy and transportation.

Peru – 24th

Peru is one of Latin America's most developed infrastructure markets. Notable projects have included the US$6bn Lima Metro Line 2, which utilised the country's signature RPI-CAO financing instruments. Peru has been among the region's fastest growing economies over the past decade, with an average growth rate of 5.9%, although this slumped to 3.9% in 2016. There is a large infrastructure gap, especially within the energy, transport and telecommunications sectors and, like its neighbours, Peru's economy has suffered due to low global commodity prices. Moreover, the country is also caught up in the Odebrecht scandal; the ordeal has called into question a slew of infrastructure projects awarded to Latin America's largest contractor. Significantly, Odebrecht is transferring back its US$5bn contract to build Peru's Gasoducto Sur Peruano natural gas pipeline, which the government intends to put back on the market by the end of 2017.

Colombia – 25th

Colombia boasts one of the most ambitious PPP programmes in the world, the flagship Fourth Generation (4G) roads initiative, which has attracted the likes of InfraRed and Partners Group. In 2016 alone, the 4G initiative brought in over US$10bn of investment to greenfield PPPs, eclipsing both the USA and Canada. In February 2017, the government terminated the US$1bn Ruta Sol 2 motorway project as Brazil's Odebrecht, a company central to the scandal, was stripped of the concession. As a result, the president of Colombia's National Infrastructure Agency (ANI), which runs the 4G programme, was implicated for his role in awarding the road project to Odebrecht. This, in turn, could lead to delays in the roll-out of future waves of the 4G programme, as well as decreasing public trust in the private sector. Despite its strong track-record, Colombia is weighed down by its low sovereign credit rating. The country's GDP growth rate slowed from an average of 4% over the past few years down to 2% in 2016.

Brazil – 34th

Brazil is currently experiencing a timid economic recovery. However, the Operation Lava Jato corruption scandal has widely discredited the country's political leadership. The overall outlook for Latin America has been tarnished by the ramifications of the investigation, which centres around state-owned oil company Petrobras and the Brazilian construction giant Odebrecht. With roots in Brazil, the scandal has spread to several other countries, leading to the cancellation of projects and asset disposals, such as the Rio de Janeiro airport. Under the presidency of Michel Temer, the country has embarked on a major privatisation programme, attracting global market players.

> Colombia boasts one of the most ambitious PPP programmes in the world, the flagship Fourth Generation (4G) roads initiative, which has attracted the likes of InfraRed and Partners Group.

Case study:

Trudeau banks on infrastructure

After receiving parliamentary approval in June, the Canadian government is poised to launch the Canada Infrastructure Bank (CIB) by the end of 2017. Already a global infrastructure leader on several counts, Canada is embarking on a grand new experiment, with many questions still unanswered.

Prime Minister Justin Trudeau's government came to power in November 2015, having campaigned on a pledge to double infrastructure spending to CAN$187bn over the next 12 years.

As part of this plan, the new infrastructure bank would be endowed with CAN$35bn in capital to invest in revenue-generating economic infrastructure, including transport, social infrastructure, electricity grids, water and broadband. Under the government's plans, the bank could provide debt, equity and guarantees, as well as having an advisory role.

Wielding a AAA sovereign credit rating, the bank would also aim to leverage five times as much capital from private investors, with the government courting the country's institutional giants – CPPIB, OMERS, OTPP and CDPQ.

The Toronto-based bank has hired former RBC CFO Janice Fukakusa as its first chair, and the government is currently seeking a CEO and a board of directors.

Yet for all its promises, the CIB has political opponents both on the left and the right and the jury is still out on how effective the bank will be. In the current market environment, perhaps the first thing that comes to mind whenever a state-owned bank participates in deals in developed markets is that there is no shortage of capital; indeed investors of various shapes and sizes are hungry for infrastructure assets. Investors are more interested in knowing what is in the pipeline, but details of this remain scarce.

PPP pipeline

Bank or no bank, Canada's infrastructure market, particularly Ontario's PPP market, is in many regards the gold standard. This in terms of pipeline and efficiency but perhaps less so for returns, given the highly commoditised and competitive environment.

So far this year, there have been seven financial closes for greenfield PPP projects across Canada, according to inspiratia's dataLive. In 2016 there were 10 financial closes, coming down from a spike of close to 20 deals in 2015 and 2014 respectively. Of course, these are just the greenfield statistics.

Having financed around 50 hospital PPPs since 2008, authorities have increasingly turned their attention to transport. Ontario's Metrolinx Regional Express Rail (RER) Capital Delivery Programme is one major undertaking.

While the pipeline is clearly there, and procurement processes are generally much speedier even than those in the UK, Ontario's large equity-diluting milestone payments have long been a sore spot for investors. In addition to making it more difficult to deploy large amounts of capital, critics say leaving too little long-term equity in projects can lead to insolvency.

Yet for all its promises, the CIB has political opponents both on the left and the right and the jury is still out on how effective the bank will be.

The federal government currently makes a 50% milestone payment to provincially owned highway projects at construction completion, and the public contributions can go up even higher, to 75%. To take one example, the CAN$5.5bn Eglinton Crosstown LRT only utilised CAN$100-$120m of private equity.

Aside from capital contributions, investors also take issue with restrictions on selling stakes in P3 projects and right of first refusal, which discourage secondary market competition. Currently, shareholdings sold at a profit within three years of the substantial completion require a 50% transfer of proceeds to the government.

Methodology

The Index indices are based on the following six main indicators and further sub-indicators, as shown below:

— Economic status

— Sustainability and innovation

— Tax environment

— Political stability

— Ease of doing business

— Private participation

All of these are weighted as shown in this graph:

Annual trade (% of GDP)	5%	**Economic status 30%**
Credit rating	20%	
Interest rates	5%	
Environmental performance	5%	**Sustainability & innovation 12.5%**
Innovation	2.5%	
Quality and condition of infrastructure	5%	
Corporate tax rate	3%	**Tax environment 5%**
Resource drain	1%	
Complexity	1%	
Governance and stability	10%	**Political stability 22.5%**
Rule of law	5%	
Regulatory stability	7.5%	
Transparency/corruption	5%	**Ease of doing business 10%**
Ease of doing business	5%	
Government support	5%	**Private participation 20%**
Gross fixed capital formation	5%	
Private investment	10%	

This Infrastructure Index provides an effective tool to measure the overall attractiveness of each country for infrastructure investment, also allowing a more sophisticated analysis based on the comparison of specific parameters, such as political stability and private investment in infrastructure, among different jurisdictions. The commentary provided in this report provides a regional context for our findings, also considering major themes in the industry, track-records and project pipelines.

The scores and subsequent rankings for the Americas are highlighted below.

	Score	Private participation	Ease of doing business	Political stability	Tax environment	Sustainability and innovation	Economic status
Canada	**88.53**	17.75	8.03	21.54	4.79	9.52	26.90
United States	**84.85**	18.25	7.82	20.28	3.91	9.76	24.83
Chile	**75.59**	16.13	6.78	19.53	4.38	8.10	20.67
Mexico	**57.81**	15.75	5.11	10.31	3.45	7.69	15.50
Peru	**56.32**	13.48	5.26	10.05	4.17	7.36	16.00
Colombia	**55.66**	15.25	5.40	11.70	2.53	7.28	13.50
Brazil	**44.79**	16.88	4.83	9.83	1.94	7.86	3.45

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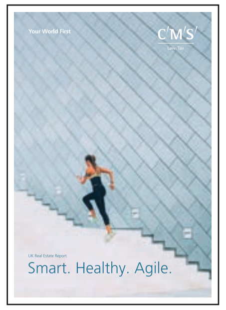
CMS is a top six global law firm, with 70+ offices in 40+ countries. With over 2,500 lawyers in the UK and a global team of over 4,500 lawyers, we have world-class bench-strength.
CMS boasts one of the leading Infrastructure and Project Finance groups, advising on some of the largest and most complex projects across the globe. Our sector expertise means we have the ability to work with clients at all stages of their project lifecycle.



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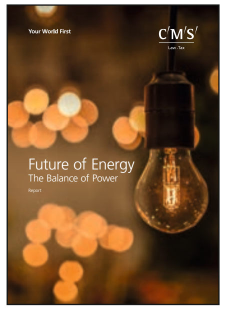

Future of energy: the balance of power

What has 2017 meant for Transport?

About inspiratia

inspiratia pushes the boundaries of analytics in the global infrastructure and renewables sectors, producing the most accurate and insightful analysis, uncovering new financial information and making robust sector predictions.

inspiratia provides clients with the tools to anticipate and analyse market trends in a way that helps grow their pipeline of deals and assists with business development. Based in London and Washington DC, inspiratia has an international team of industry experts and analysts all with in-depth sector expertise and extensive professional networks. **www.inspiratia.com**

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