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InfraCo Asia provides lifeline with expanded mandate

Since launch, InfraCo Asia Investments (IAI) has provided funding for projects developed by its sister company InfraCo Asia Developments (IAD).

“Now the plan is for IAI to expand its mandate to look at third party projects,” explained InfraCo Asia’s chief operating officer Claudine Lim, who is responsible for the day-to-day management of IAI.

“Other developers face similar challenges [to IAD],” said Lim. “Our experience [is that] projects manage to raise senior debt [but] not equity,” said Lim, leaving an equity financing gap to bring projects to financial close.

Developers have approached InfraCo Asia looking for funding for projects that are at a later stage than those that IAD invests in. Now IAI can also look to provide funding to those projects, she explained.

IAI launched a call for proposals last month. It has a mandate to fund two types of projects: higher risk, high development impact projects – which do not benefit from long-term revenue agreements – as well as utility-scale projects, which have structured, defined revenue streams.

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Cautious approach

But in both cases, the idea is to only back projects which have tried and failed to find private capital. Lim explains that this may be demonstrated by how long a project has been under development, whether it has been subject to delay or gone through a sale or capital raising process.

IAI will not rush to fund projects. Lim said that if it funds 1-3 projects in the coming year, then she’d be happy to go to its funders and seek funding for that number of projects a year.

IAI is funded by the development arm of the UK government while IAD is funded by the UK, Australian and Swiss governments. Both are part of the Private Infrastructure Development Group (PIDG) which was established in 2002 by the Australia, Netherlands, Norway, Sweden, Switzerland, UK and World Bank. PIDG is designed to give its members a portfolio of development companies which they can choose to fund depending on which best fits their policy mandate and geographical interest.

Even though IAD is backed by the Australian, Swiss and UK governments, its developer agreements for South-east Asia and South Asia are funded by all three governments while a separate developer agreement for Myanmar is funded by the UK government alone.

The developers which IAD backs provide development capital to bring projects to a stage where they are viable and bankable. IAI then plugs the financing gap that often remains if the project has not been able to raise private capital.

Since InfraCo Asia’s launch in 2010, IAI has backed all the projects which IAD has reached financial close for – namely two Pakistan wind and a Vietnam hydro project. IAD and IAI provided USD 51m of funding combined for these three projects, which are all now operational.

Ramping up

IAD has invested development capital in a number of other projects which have yet to reach financial close. These include hydro power projects in the Philippines and Nepal and a waste-to-energy project in Sri Lanka. The last two months of 2016 also saw it sign development agreements for hydro projects in India and four projects in Myanmar, including a gas-fired power plant as well as a rice processing, waste-to-fish feed and rural electrification projects.

InfraCo Asia's current team manages both IAI and IAD and has expanded significantly over the last year and a half. Last year, Ian McAllister and Prabaljit Sakar joined as directors of projects & operations and business development respectively following an influx of new hires in 2015. Lim said that IAI's call for proposals would test the market appetite for funding and may see new hires added.

The two companies have different boards. Keith Palmer was appointed as the first chairman of IAI's board in January 2012. The former vice chair of Rothschild was also the founder chairman of IAD as well as InfraCo Africa and the Emerging Africa Infrastructure Fund.

Macquarie Capital's executive chairman of infrastructure, utilities and renewables Asia – John Walker – has chaired IAD's board since January 2016.

IAI added two new non-executive directors to its board last September, namely Meridiam Infrastructure's chief strategy officer Julia Prescot and former chair of UK Competition Commission Roger Whitcomb.

Same mandate

Lim doesn't anticipate third party projects that IAI backs as being different from those developed by IAD. "Renewable energy will feature strongly, likewise agricultural infrastructure," she expects. "We would like to do something in water," she added observing that the sector is relatively high risk.

The power sector tends to have a more developed regulatory structure than other sectors in countries that InfraCo Asia is focused on Lim explained.

IAI's country focus will follow its sister company, namely developing South-east Asia and South Asia including the Philippines, Indonesia, Vietnam, Laos, Cambodia, Myanmar, India, Pakistan, Sri Lanka, Nepal and Bangladesh.

But high impact development projects would probably be more focused on frontier markets and less developed parts of countries like Indonesia and the Philippines. These projects do not have long-term revenue agreements and rely 100% on equity financing initially, until the project is operational and can demonstrate cash flows.

In contrast, utility-scale projects – with defined revenue streams such as power purchase agreements – lend themselves to project financing. Lim commented that it is hard to generalize about the project financing market across the region.

A lack of international commercial bank appetite for funding projects in markets like Nepal and Pakistan means that local bank financing is key in these markets, which are more reliant on development finance institutions than markets like the Philippines, which have more local capital financing available. Still, a pick up in remittances was seeing local banks' appetite to fund infrastructure projects increase, even in markets like Nepal.

She added that large multilateral development banks – like the AIIB, ADB and IFC – were more focused on larger scale projects and debt financing. Further, institutions like IFC have been essential in co-financing projects developed by InfraCo Asia, like the Pakistan wind and Nepal hydro projects.

When it comes to exit, Lim saw more commercial projects attracting investment from infrastructure funds or strategic investors while original sponsors or operators would be more likely to buy out their investment in smaller projects.