



GARRIGUES

**Infrastructure and project
finance in Latin America:
prospects for 2021**

Latin America Projects Group

April 2021

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Infrastructure and project finance in Latin America: growth in projects forecast for 2021

The effects of the pandemic have prompted Latin American governments to adopt measures to promote public-private partnerships (PPPs), public works and privatizations. Garrigues provides an analysis of the situation and trends in the infrastructure and project finance markets in Latin America, where these types of projects are clearly on the rise.

COVID-19 Pandemic

The COVID-19 pandemic initially caused a slowdown in the infrastructure and projects market in Latin America, particularly in terms of the planned timelines for awarding government contracts.

Situation up to Q1 2020

Up until the first quarter of 2020, Latin American governments had a broad portfolio of projects to be awarded and carried out. In addition, in early 2020, new opportunities had arisen for securing infrastructure project contracts, such as through PPPs and public works arrangements.

COVID-19 outbreak

After COVID-19 hit and the ensuing business shutdown, which in some cases included mandatory stay-at-home orders, many of the projects underway in the first quarter of 2020 came to a standstill or experienced other interruptions. In addition, the bidding and award timelines for concessions and projects were delayed, particularly during the first half of 2020. As economic activity ground to a halt around the world, the main market players took a step back to adjust their forecasts and prepare for the financial boomerang to swing back around after COVID-19.

2021 boomerang effect

The pandemic is already having a boomerang effect: the public health crisis further laid bare the infrastructure shortfalls in Latin America, the need for better essential public infrastructure and for economic stimulus, which has in turn prompted governments to add new projects to their portfolios and to allocate higher budgets to these undertakings. In this context, the main market operators agree that the coming years will see a greater emphasis on projects related with public health, social welfare projects, regional connectivity and digitalization.

On one side of the equation, companies interested in participating in public tenders processes should boost the sophistication of their protocols, readjust their resources as needed and modernize their processes to adapt to the “new normal”. On the other, governments will surely diversify their project portfolios and will tend to seek heavier involvement from private initiatives in the development of social and health care infrastructure, so as to leverage the efficiencies of the private sector. Furthermore, as the money behind these projects, financial institutions will aim to dole out their funds in socially responsible investments that meet environmental, social and governance (ESG) standards.

A look ahead

Entonces, ¿qué tendencias principales pueden verse ya en los principales mercados? What, then, are the key trends we can already make out in the main markets in Latin America? Which investments will continue to be made in these countries and under what conditions? As stated above, there is a clear shift in focus toward developing infrastructure through the award of social, public health and connectivity projects, increasing the private sector’s participation in these efforts.

Garrigues is pleased to share our summary of the main trends in this market, from both a legal and a technical standpoint, drawing from our on-the-ground network of offices in Brazil, Chile, Colombia, Mexico and Peru, as well as from G-advisory, the Garrigues Group consultancy arm specialized in technical and strategic advice in areas including Energy and ESG.

A light green silhouette map of Brazil is positioned in the upper right quadrant of the page, partially overlapping a dark green horizontal band that spans the width of the page.

Brazil*

* contents created by Brazilian law firm NBF|A

Market update

In Brazil, the pandemic affected the planned timeline for awarding concessions in 2020, which impacted infrastructure investments during the year.

Only in late 2020 did awards get back on schedule, allowing the pace of investments to gradually return to normal.

In December 2020, the government auctioned off 12 electricity transmission projects thought to generate investments of approximately R\$7.3 billion, and other major projects are expected to come up for grabs in 2021, such as the internet and communications technology project to allow for the expansion of 5G in Brazil.

Key trends

Although the pandemic temporarily affected investments, the development of projects to improve and enlarge Brazil's infrastructure is not only a necessity, but also a reality.

Some auctions are planned for 2021, including those slated in the cellular network arena to implement 5G technology, plus electricity generation and transmission projects and ports and roads undertakings.

With the newly published General Sanitation Law (Law No. 14,026/2020), new auctions and investments are expected for the near future, as certain key cities privatize some services. In fact, near the end of April 2021, Rio de Janeiro plans to auction off four blocks for operation of the public water distribution and sewage service currently operated by CEDAE.

In the gas industry, the market expects the National Congress of Brazil to approve the bill for the new General Gas Law, which will spur the transition to a market economy for gas, heralding major investments forthcoming in this sector.

Future outlook for infrastructure and projects

Despite the public health crisis ravaging Latin America, some sizable projects will be up for bid in the Brazilian infrastructure market in 2021, including the following:

1.

Energy transmission

Electricity transmission auction scheduled for June 2021, with five projects in the states of Acre, Rondonia, Rio de Janeiro, Mato Grosso, Tocantins and São Paulo and an estimated investment of R\$1.3 billion.

2.

Privatization

On February 23, 2021, the Brazilian government published provisional measure no. 1,031/2021 regarding the process of privatizing Eletrobrás, one of the largest energy companies in Brazil, although there are some doubts about the government's willingness to effectively divest of the company.

3.

Connectivity and technology

Approval of the announced auction of 5G technology slated for the first half of 2021, with a total estimated investment of R\$35 billion.

4.

Ports

Auction scheduled for April 9, 2021 for five terminals in the São Luis (Itaqui) / Maranhão and Pelotas/Rio Grande do Sul ports, with a minimum investment of R\$106 million at each terminal.

5.

Gas

The sale of the natural gas distributors is one of the objectives of the federal government's privatization program and part of the New Gas Market plan.

6.

Road infrastructure

Three major roadway concessions are expected to finalize between 2021 and 2022 in the states of São Paulo, Rio de Janeiro and Minas Gerais, which will mean new calls for bids, although no date has yet been announced.

7.

Water and sewage

Auctions are expected in 2021 for water and sewage service concessions in Rio de Janeiro, currently operated by CEDAE, covering 35 cities within the state and divided into four blocks, for an estimated investment of R\$29,714 million. Other important auctions expected include Acre (estimated investment of R\$1,438 million), Alagoas (estimated investment of R\$3,120 million), Ceará (expected public private partnership with an estimated investment of R\$8,582 million) and Porto Alegre (estimated investment of R\$2,174 million).

Chile

Market update

The sluggish activity in the Chilean infrastructure market in 2020 was due to two factors: the pandemic and the process to write a new constitution. Nevertheless, the pace of the energy sector remained strong, mainly due to certain legal changes promoting specific areas and to both national and foreign investors taking a longer-term view of the Chilean economy.

Key trends

As regards public works concessions and in order to revitalize the economy and create new jobs, the Chilean government launched the plan titled [Step by Step, Chile recovers](#). Under the plan, both the Ministry of Public Works and the Ministry of Housing and Urban Development will award a number of project contracts. As part of this governmental initiative, in January 2021, the Chilean authorities published a call for bids for 501 projects, for an investment of \$1,240 million. In view of these developments, we believe that public works will regain lost ground.

In the energy industry, we envision that the trend will be to maintain the high volume of investments, as a direct result of the Chilean government's plan to phase out coal, taking all coal-fired plants offline by 2040. This would require developing renewable energy projects, mainly wind and solar, to replace the coal-based production, along with regulations encouraging investment in this field.

Future outlook for infrastructure and projects

1.

Mining

We believe that one of the best outlooks in infrastructure and projects relates to Chilean mining, particularly if the price of copper, Chile's main export, remains high. We will see great interest in developing water desalination projects in the north of the country, as well as growth in mining projects. Recently, large-scale desalination projects have taken shape to address the scarcity of water in mining regions, many of which are located in the country's deserts.

2.

Energy storage - energy efficiency

2021 and 2022 will see a large body of regulations governing energy storage, particularly in view of the growing development and operation of renewable energies and the attendant need for efficient control of their output. Chile also approved the Energy Efficiency Law and progress is expected in a reform that will introduce the role of energy traders.

3.

Public works

Under the government's recovery plan, mentioned above, we believe that 2021 will be marked by rather interesting developments in public works and surely much more activity in this area than in 2020. Hospital and highway concessions are expected to be put to tender, as well as the re-offering of the highway connecting Santiago with San Antonio, the country's main port city, with an investment of nearly \$800 million. The Santiago Metro will also call for bids for construction of a new subway line.

4.

Transmission

In view of the Chilean government's plan to become coal-free by 2040, the country will need a transmission system that can handle the new energy volume replacing production from coal-fired plants. Accordingly, we expect to see somewhat of a surge in transmission projects. The most noteworthy project will be the tender for the 1,700 km Kimal-Lo Aguirre DC power line, with an investment of roughly \$1.5 billion.

5.

Green hydrogen

One of the Chilean government's strategic objectives is to develop infrastructure that reduces the cost of producing and selling green hydrogen. In this area, we have already seen joint ventures and specific investments related to this energy alternative, and therefore expect to see several new investment opportunities arise in the short/medium term.

Colombia



Market update

The current panorama in the Colombian infrastructure sector is promising. The federal government has earmarked higher investments in order to kickstart the country's economy in 2021, including more funds for the infrastructure sector.

The government has also announced contract awards planned for the first quarter the year, related with the first wave of infrastructure projects under the so-called Fifth Generation (5G) program, and seven road concession projects under the initiative known as the Fourth Generation (4G) concession program are expected to enter operations phase in the year. In addition, in December 2020 and January 2021, concessions were awarded in Bogotá for the supply and operation of electric buses to rehaul the fleet in the Bogotá integrated transport system.

As regards renewable energies, projects awarded in the auction for energy purchase contracts carried out in previous years are now in the development stage, slated to finalize in 2022. The Colombian government also announced that it will hold a third auction in the first half of 2021 to award renewable energy projects to be brought online in 2022, in order to meet the goal of 12% of the country's energy mix coming from solar and wind power.

It is hoped that this push for the infrastructure sector will revitalize the economy and therefore offset the economic slowdown seen in 2020.

Key trends

In Colombia, as in the rest of the region, the pandemic directly hurt the development and execution of different infrastructure projects, given that, among the measures, the national government issued mandatory stay-at-home orders that temporarily shut down numerous infrastructure works. Nevertheless, as from the second half of the year, works resumed and the government implemented various measures to mitigate the losses suffered by the concession-holders. Of note, the National Infrastructures Agency (ANI) recognized a liability exemption event for the 4G road infrastructure projects in connection with the effects of COVID-19, which entailed, among other measures, granting concession holders an additional 98 days to meet their obligations under the concession agreements.

Also of note is the recognition by ANI of the effects suffered by PPP concession-holders due to lower toll collection following the government's COVID-19 contention measures and its allowing of methods for offsetting the lower value received in projects.

In addition, the government is expected to forge ahead with the award of road infrastructure projects as part of its economic stimulus package.

In connection with renewable energies and as announced by the government, renewable energies generation projects are structured as one of the main trends in the infrastructure sector.

Future outlook for infrastructure and projects

1.

Road infrastructure

The award of 27 multimodal road infrastructure projects under the Fifth Generation program, for an investment of roughly COL\$42 billion, will be one of the national government's most ambitious projects for developing and improving roadway connection in the country over the short and medium term. The first wave of this generation of projects will comprise eight public and four private initiatives.

2.

Non-conventional renewable energy projects

Una de las metas del actual Gobierno es aumentar la participación de energías renovables en la matriz energética del país. De acuerdo con esto, la perspectiva con la tercera subasta de proyectos de energía renovable que se debe desarrollar en el primer semestre de 2021 supone una mayor inversión en el sector energético y un tránsito a la generación de energía renovable no convencional.

3.

Refinancing of 4G road infrastructure projects

Bearing in mind that seven road infrastructure projects are expected to begin operation in 2021 under the 4G program, concession-holders and project developers are expected to look to refinance their debt in order to lock in better rates that factor in the current risk on these projects.

4.

Connectivity – 5G

The government's goal in 2021 is to auction off the 3,500 MHz band, through which 5G service can be offered, furthering both connectivity in the country and innovation in the technology sector. The government hopes to award this contract in the short term.

5.**Pacific Regasification Plant**

In 2021, the Colombia government intends to select the investor that will accelerate the design, construction, operation and maintenance of the Pacific Regasification Plant and the Buenaventura - Yumbo gas pipeline. Investment in this project will be roughly \$700 million, and the plant is expected to come online in 2024.

A light green map of Mexico is positioned in the upper right area of the page, partially overlapping the dark green header bar.

Mexico

Market update

Even though Mexico's infrastructure sector was deemed an essential activity and was able to continue operating as usual, the sector was nonetheless one of those hit by the COVID-19 pandemic. This mainly took the shape of delays in timelines for concluding tenders processes to award infrastructure sector contracts.

Nevertheless, since it was one of the sectors, along with healthcare, that was able to operate normally, it is under sizable pressure, prompting the Mexican government to roll out new projects.

There is, however, uncertainty in the electricity industry caused by the reform of the Electricity Industry Law, which could discourage private companies from investing in new renewable energies plants, which were so successful during the long-term auctions held in 2015, 2016 and 2017.

In 2020, more contracts were awarded in the main macroprojects, primarily the Tren Maya project. Tenders and works for this project continued, of note the award of contracts for five of the seven sections of the Tren Maya, materials supply, the provision of administration services and the train "shadow operator".

Key trends

As part of the COVID-19 economic recovery agreement, the National Infrastructure Plan published in November 2019 was expanded to include more than 30 new infrastructure projects worth approximately \$14.2 billion.

In view of the difficulty of securing public funding, one of the main alternatives being sought is to create PPPs, the same structure that was used for an important block of these projects already underway.

In addition, the Federal Energy Commission (CFE) will develop the main new energy projects through different Mexican project finance arrangements: i) the Pidiregas arrangement for long-term productive infrastructure projects with a deferred financing schedule; ii) the Financed Public Works (OPF) fixed price lump-sum scheme; and iii) the Master Investment Trust (FMI) arrangement. However, the change in energy policy could

give rise, inter alia, to refinancing of renewable energy projects already under construction or in operation. This could also lead to the appearance in the electricity industry of investors with a different risk profile.

Another trend in Mexico are the projects in the country's southeast region, where at least 36 new projects are planned (25 of which relate to telecommunications and transport), in order to boost economic development in this part of the country.

Future outlook for infrastructure and projects

Despite the pandemic, the regulatory changes in the energy sector, and the political changes and impending elections, Mexico continues to be an attractive country for investors, who backed the proposed modifications to the Infrastructure Plan presented in the agreement for economic recovery following COVID-19.

The new projects and opportunities in Mexico fall mainly in the following sectors.

1.

Energy generation projects

In late 2020, the Federal Electricity Commission (CFE) presented its business plan, which includes a net capacity add of 24.8 GW, mainly in combined cycle (estimated at 10.2 GW), followed by photovoltaic (7.5 GW) and wind (5.7 GW) power.

At least 14 projects are expected, namely for 12 combined cycle technology plants and two gas turbine plants. In addition, investments will continue in energy distribution, galvanized by the global move toward clean energies and energy self-sufficiency.

Contracts for CFE combined cycle projects will be offered under the Pidiregas, OPF and FMI arrangements, including the Tuxpan CC Phase I (CC PALM I), North IV, CC Riviera Maya - Valladolid plants, among others, which will come online between 2023 and 2027.

2.

Port and airport expansion

Among the 22 ports projects are macroprojects to expand the Progreso port in the state of Yucatán, for an estimated investment of \$194.5 million, and the design, construction and maintenance of a new port in Veracruz, with an estimated investment of \$1.4 million.

Other key projects include the remodeling of 17 airports around the country.

3.

Railway infrastructure

In addition to the Tren Maya macroproject, for which section operation, public works and service provision contracts continue to be awarded, eight railway projects are in the works, the most recent of which is the Monterrey rail corridor (estimated investment of \$896.5 million), included as part of the measures to be taken in the expansion of the infrastructure program.

4.

Development of the Tehuantepec Isthmus

One of the main social infrastructure projects is the Tehuantepec Isthmus macroproject, at the center of which is the multimodal corridor that includes the isthmus railway to the Salina Cruz and Coatzacoalcas ports.

5.

Highway, roadway and bridges infrastructure

Several projects relate to the construction, enlargement, maintenance, operation and supervision of the roadway sector. This includes the Interserrana highway, the connection of the Matehuala-Salttillo roadway with the Ciudad Victoria-Monterrey roadway, for an investment of \$859.7 million, and the modernization, operation, maintenance and upkeep of the so-called Northwest Package, with an investment of \$111.6 million.

6.

Green hydrogen

With the recent launch of the Mexican Hydrogen Association (AMH), a new push will be given from private initiatives for the development of green hydrogen projects and the related production chains. The increase in the country's energy storage capacity is also an important strategic aspect of this project.

7.

Water infrastructure

Some very important water infrastructure projects are underway in Mexico, although their construction has been delayed for various reasons. These projects include the aqueducts in Milpillas (state of Zacatecas), El Purgatorio and El Zapotillo (both in the state of Jalisco).



Peru

Market update

In Peru, the pandemic primarily affected the procurement processes for the awarding of projects. During the first half of 2020, priority was shifted to the healthcare emergency, and this had a direct impact on the award timelines, particularly for PPPs.

However, the situation looks more promising for 2021. In the framework of the economic stimulus, ProInversión (Peru's private investment promotion agency) will place greater emphasis on private initiatives and PPPs and will attempt to dole out all the works contracts that were not awarded during 2020, plus the projects in the pipeline for 2021.

Key trends

Although in early 2020 ProInversión had a diversified project portfolio, the pandemic laid bare the gap in terms of social infrastructure. The authorities have therefore made an effort to adjust the project portfolio to place greater emphasis on projects aiming to cover basic needs. This has allowed ProInversión to more quickly and efficiently structure and put into motion the social infrastructure projects it had in the pipeline.

Efficiencies unlocked in 2020 are expected to continue in 2021, promoting the private sector's participation in public services and infrastructure projects through PPPs and self-sustainable or co-financed private initiatives, thereby remedying the shortfall in the existing basic services and public infrastructure.

Future outlook for infrastructure and projects

Despite the public health crisis, the recent political events and election uncertainty, Peru's infrastructure project market continues to be attractive for investors. The outlook for 2021 as regards both the projects market and infrastructure financing is as follows:

1.

Social infrastructure

Concentration of water, sewage and social infrastructure projects, including the construction of hospitals and educational institutions to gain greater capacity to handle the pandemic and social issues. Examples of these projects include the new

“High Complexity” projects in certain regions, as well as the improvement and construction of infrastructure in educational institutions at risk.

2.

Specific regulation covering breach of contract, “acts of God” and force majeure

More sophisticated treatment in project and financing contracts for allowable causes and effects of acts of God and force majeure, as well as expedited mechanisms for supervision, monitoring and replacement of contractors/suppliers when obligations cannot be met, in particular due to effects derived from pandemics.

3.

Greater connectivity

Greater emphasis on broadband and telecommunications infrastructure projects, including satellite technology and radio spectrum bands, as well as electricity generation and transmission projects, in order to boost connectivity in the country in the context of the digitalization process, which was accelerated by the healthcare crisis. Examples include AWS-3 and 2.3 GHz radio spectrum bands projects aiming to give all citizens access to 4G technology and to launch the process toward development of 5G technology.

4.

Greater lender concern for public health

In their future due diligence reviews, lenders are expected to look closer at health-related issues, including outbreaks, lockdowns, epidemics and pandemics. For example, lenders could evaluate companies’ internal healthcare protocols as regards personnel and facilities.

5.

G2G contracts

Increase in government-to-government (G2G) contracts in infrastructure, public health and technology transfer projects, among others. G2G contracts can cover project management, knowledge transfer, technical assistance and procurement. Notable G2G contracts include Lines 3 and 4 of the Lima Metro, which, according to the Urban Transport Authority, will be carried out under this type of arrangement for greater speed, effectiveness and transparency.

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