Private Financing for Infrastructure in Emerging Markets – All You Need To Know

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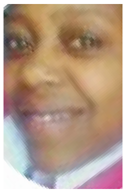

It is estimated that emerging markets will need up to $2 trillion in infrastructure investments over the coming two decades just to keep up the pace with economic growth in these countries. While governments and development finance institutions have been doing quite a lot to bridge the gap in infrastructure funding, it's still not enough.

This is where the role of private financing could be crucial. Despite this, unlocking private financing for infrastructure, especially in emerging markets where the risk profile is a huge bottleneck, is not that easy. But even with that, there are some innovative approaches that governments in emerging markets can explore to unlock private sector finance in developing their infrastructure.

The Opportunities and Challenges in Emerging Economies

So, why is infrastructure investment a hot debate in emerging countries? Well, first of all, emerging economies have seen significant economic growth over the last two decades. We have also seen a burst in population, and yet investments in infrastructure have not matched these statistics. But Governments in these countries are ramping up spending on infrastructure through partnerships with development finance organizations and foreign governments like China.

Megaprojects in transport and energy, in particular, are already underway in these nations. But despite this, there is still an acute shortage of infrastructure, and private financing can step in to fill in the gap left by public sector spending. And when you consider emerging markets have been drivers of global economic growth over the last two decades or so, the opportunity for making a good return is clearly there.

Recent stats also show that emerging nations are underspending on infrastructure. Budgetary allocations on infrastructure are relatively lower compared to the estimates required to develop robust infrastructure systems. It's very unlikely that this will change. Even with strong economic growth, emerging economies still face significant budgetary constraints. Sustaining infrastructure spending from public coffers is therefore not enough.

Despite these opportunities for private capital, there are some risks.

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First, the governance structure in many emerging economies is not as strong as it should be. There is a visible lack of strong and independent government institutions that can safeguard and protect private capital. Emerging economies are also highly susceptible to geopolitical headwinds on a global scale. There is also the small issue of political stability in these countries.

How Can Governments Stimulate Private Capital In Infrastructure?

One of the most important roles governments in emerging markets can play is to help ease the risk-return characteristics of infrastructure assets. Governments have the opportunity to help mitigate investment risks by offering liquidity backstops through fixed or negotiated guarantees. It is also important for emerging economies to institute favorable regulatory requirements that lift barriers of entry for private investors.

Such regulations can be developed in collaboration with industry experts and private investors as well. Finally, states can also incentivize domestic investors and promote FDI through favorable tax treatments in areas of infrastructure financing.

How to Get Exposure to Infrastructure Investments

In case you are looking to diversify your portfolio through infrastructure investments, the best way to do so would be through a managed portfolio. The Brookfield Infrastructure Income Fund gives you this opportunity. It allows you to get exposure to infrastructure assets across the world through a managed portfolio. The Fund is trading in the NYSE under the ticker symbol INF.

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