



VENTURES
W/OUT
BORDERS

VWB Insights

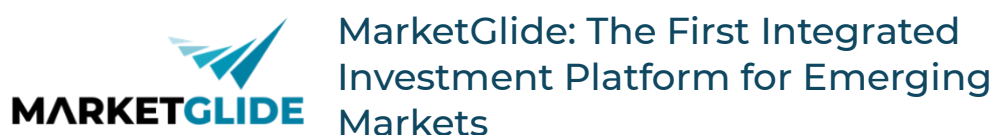
**PRIVATE EQUITY
IN EMERGING
MARKETS
INFRASTRUCTURE**



WWW.VENTURESWB.COM

Ventures Without Borders: Facilitating Private Equity Investment in Emerging Markets

Ventures Without Borders (VWB) specializes in guiding global investors and local companies through private market investments in emerging markets. By leveraging our deep market insights, extensive network, and strategic expertise, we help investors identify lucrative opportunities while managing associated risks. VWB offers end-to-end advisory services, from market entry strategy and due diligence to deal structuring and post-investment management, ensuring that our clients can succeed emerging markets with confidence.



Currently under development by Ventures Without Borders, **MarketGlide** is the first integrated investment platform specifically designed to transform how private market investments in emerging markets are sourced, analysed and executed.

MarketGlide not only streamlines investment processes but also places a special focus on its vibrant community of investors, local partners, and project developers. This platform is tailored to enhance connectivity and leverage the growth potential within these regions. Features include:

- **Curated Investment Opportunities:** Gain access to a carefully vetted selection of high-potential infrastructure projects across key sectors such as transportation, energy, and telecommunications.
- **Advanced Analytics:** Utilize our comprehensive analytics and data insights to assess investment viability, risk, and expected returns with greater precision.
- **Collaborative Community Tools:** Our platform facilitates seamless collaboration, enabling investors to connect, share insights, and work together with local partners and project managers.
- **Regulatory Compliance Support:** Receive guidance about complex regulatory frameworks with tools designed to ensure full compliance and operational transparency.

By integrating these essential functionalities, MarketGlide empowers global investors to make well-informed decisions and capitalize on the substantial growth opportunities that emerging markets offer.

Join our community to connect with like-minded professionals and explore the frontiers of investment in some of the world's most promising regions.



Executive Summary

Private equity (PE) investment in emerging market infrastructure is a key driver of economic growth and development. This white paper explores the opportunities and challenges associated with PE investment in infrastructure within these regions, providing a comprehensive analysis of strategies, risks, and real-world case studies.

Through quantitative data, historical trends, and forward-looking insights, we look into the specific sectors of transportation, energy, and telecommunications, highlighting the importance of private equity in bridging the infrastructure funding gap.

1. Introduction

Emerging markets present a unique combination of high growth potential and significant investment risks. These regions are characterized by rapid urbanization, increasing consumer demand, and the need for substantial infrastructure development. According to the World Bank, the annual infrastructure investment gap in emerging markets exceeds \$1 trillion.

This gap highlights the critical role that PE can play in providing the necessary capital and expertise to develop essential infrastructure. Private equity firms are increasingly looking at emerging markets as fertile grounds for infrastructure investments. These investments not only promise substantial returns but also contribute to the socioeconomic development of the regions. However, the volatile nature of these markets requires a strategic approach to mitigate risks and maximize returns.



2. The Need for Infrastructure Investment

Economic Growth and Urbanisation

The rapid pace of urbanization in emerging markets is creating a significant demand for infrastructure development. Cities in these regions are expanding at an unprecedented rate, driven by population growth and rural-to-urban migration. This urbanization necessitates the development of robust infrastructure to support economic activities, improve living standards, and sustain long-term growth.

For instance, the United Nations projects that by 2050, approximately 68% of the global population will live in urban areas, with much of this growth occurring in Asia and Africa. This demographic shift underscores the urgent need for investments in transportation, energy, and telecommunications infrastructure.

Sector-Specific Demands

Transportation

Transportation infrastructure, including roads, railways, ports, and airports, is crucial for the efficient movement of goods and people. Inadequate transportation infrastructure can hinder economic growth by limiting access to markets, increasing transportation costs, and reducing competitiveness. In emerging markets, significant investments are required to upgrade and expand transportation networks to meet growing demands.

According to the Global Infrastructure Hub, an estimated **\$9.6 trillion** will be needed for transportation infrastructure in emerging markets by 2040 - critical for enhancing connectivity, facilitating trade, and supporting economic development.

Energy

Reliable and sustainable energy sources are essential for industrial activities, residential consumption, and overall economic growth. Many emerging markets face energy deficits that constrain economic activities and limit access to modern amenities. Investments in energy infrastructure, particularly in renewable energy sources, can address these deficits and promote sustainable development.

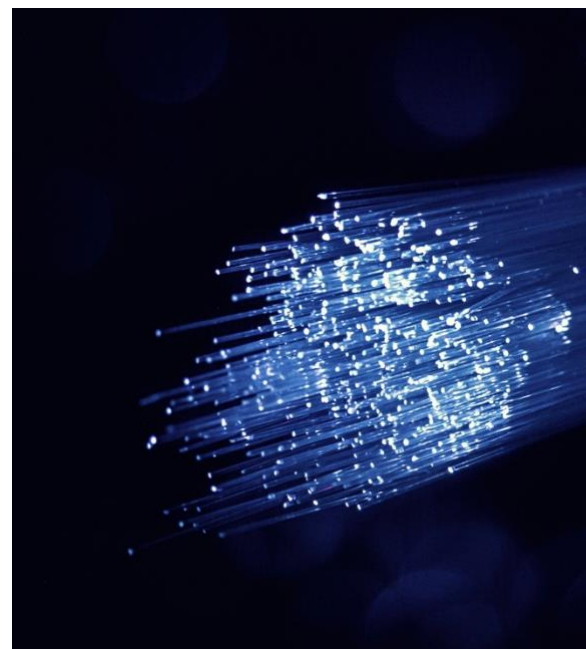


The International Energy Agency (IEA) estimates that emerging markets will require **\$2.3 trillion** in energy infrastructure investments by 2035 to meet growing demand and transition to cleaner energy sources. These investments will be pivotal in ensuring energy security, reducing greenhouse gas emissions, and supporting economic growth.

Telecommunications

The digital revolution has made telecommunications infrastructure a cornerstone of modern economies. Improved connectivity can drive innovation, enhance education, and facilitate business activities. In many emerging markets, there is a significant digital divide that needs to be addressed through investments in telecommunications infrastructure.

The GSMA projects that by 2025, mobile internet penetration in Sub-Saharan Africa will reach **39%**, up from 24% in 2018. This growth will require substantial investments in telecommunications infrastructure to expand network coverage, improve internet speeds, and enhance service quality.



3. Private Equity's Role in Infrastructure

Private equity firms are ideally positioned to address the infrastructure needs of emerging markets. Their investment strategies typically involve acquiring significant stakes in infrastructure projects, providing capital, management expertise and operational improvements.

Advantages of Private Equity

Long-Term Capital

Infrastructure projects often have long development and operational timelines. Private equity firms can provide the patient capital needed to support these projects through their various stages of development.

This long-term investment horizon aligns well with the lifecycle of infrastructure projects, ensuring that they receive the necessary funding and support over extended periods.



Operational Expertise

Private equity investors bring valuable expertise in project management, operational efficiency, and strategic oversight. This expertise can significantly enhance the success of infrastructure projects by improving operational performance, reducing costs, and optimizing resource allocation.

Risk Mitigation

Through diversified investment portfolios and strategic partnerships, private equity firms can mitigate the risks associated with infrastructure investments in volatile environments. By spreading investments across multiple projects and sectors, PE firms can reduce their exposure to specific risks and enhance the overall stability of their portfolios.

4. Investment Strategies for Infrastructure in Emerging Markets

a) Direct Investment

Direct investments involve PE firms acquiring ownership stakes in infrastructure projects. This approach provides significant control over project execution and management but also exposes investors to higher risks.

Advantages of Direct Investment

1. **Control:** Direct investments allow PE firms to have significant control over project management and strategic decisions, ensuring alignment with their investment objectives.
2. **Higher Returns:** By directly investing in projects, PE firms can capture a larger share of the financial returns generated by successful infrastructure projects.
3. **Customisation:** Direct investments enable PE firms to tailor their investment strategies to the specific needs and conditions of each project.



Disadvantages of Direct Investment

1. **Higher Risks:** Direct investments expose PE firms to the full range of operational, financial, and market risks associated with infrastructure projects.
2. **Resource Intensive:** Managing direct investments requires significant time, effort, and expertise, particularly in unfamiliar markets.
3. **Limited Diversification:** Concentrating investments in individual projects increases exposure to idiosyncratic risks.

Case Study: Direct Investment in UAE Renewable Energy

A notable example of direct investment is when **Actis**, a European PE firm invested directly in **Yellow Door Energy**, a leading solar energy project in the UAE. The investors implemented their strategies, which resulted in a significant increase in energy production and profitability.

b) Infrastructure Funds

Infrastructure funds pool capital from multiple investors to invest in a diversified portfolio of infrastructure assets. These funds offer risk diversification and professional management but may limit the control individual investors have over specific projects.

Advantages of Infrastructure Funds

1. **Diversification:** Infrastructure funds spread investments across multiple projects and sectors, reducing exposure to specific risks.
2. **Professional Management:** Fund managers bring expertise and deep insights into local markets, leading to better investment decisions.
3. **Lower Resource Requirements:** Investors do not need to manage day-to-day operations, freeing up time and resources.

Disadvantages of Infrastructure Funds

1. **Less Control:** Investors have limited control over individual investments within the fund, relying on the fund managers' decisions.
2. **Fees:** Management and performance fees can reduce overall returns.
3. **Potential Misalignment of Interests:** The objectives of fund managers may not always align perfectly with those of the investors.



Case Study: Private Equity Funds in Indian Infrastructure

Private equity funds investing in Indian infrastructure have shown significant returns due to the country's economic growth. For example, a private equity fund focusing on road and highway projects in India achieved an average annual return of 18% over seven years. The diversification and professional management provided by the fund mitigated risks associated with individual projects' volatility.

c) Public-Private Partnerships (PPPs)

Public-Private Partnerships (PPPs) involve collaboration between governments and private investors to develop and operate infrastructure projects. These partnerships can leverage government support and reduce risks while providing private investors with attractive returns.

Advantages of PPPs

1. **Government Support:** PPPs benefit from government support, including regulatory approvals, subsidies, and guarantees.
2. **Risk Sharing:** Risks are shared between the public and private sectors, reducing the burden on any single party.
3. **Enhanced Credibility:** Government involvement can enhance the credibility and acceptance of infrastructure projects.

Disadvantages of PPPs

1. **Complex Negotiations:** Establishing PPPs involves complex negotiations and agreements between multiple stakeholders.
2. **Regulatory Challenges:** Overcoming regulatory structures can be challenging and time-consuming.
3. **Potential Conflicts:** Differences in objectives and priorities between public and private partners can lead to conflicts.

Case Study: The Riyadh Metro Project

The Riyadh Metro Project in Saudi Arabia is a prime example of a successful PPP. The project involves constructing a comprehensive metro system in Riyadh, funded by a mix of public and private investments. The collaboration between the Saudi government and private equity firms has facilitated the project's progress, despite regulatory and operational challenges. Expected to open in 2024, the project will cost approximately \$22 billion to build.



d) Joint Ventures

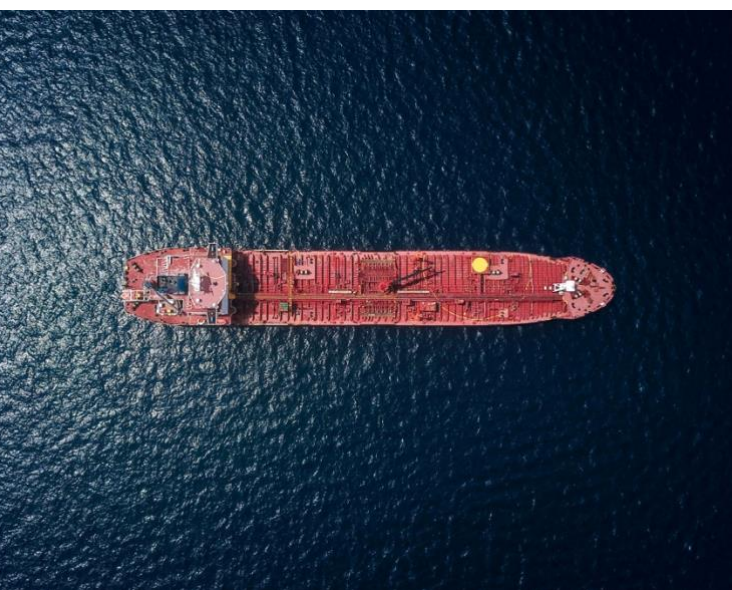
Joint ventures involve partnering with local businesses to pool expertise and resources. This strategy can be particularly effective in emerging markets where local knowledge and connections are crucial.

Advantages of Joint Ventures

1. **Local Expertise:** Local partners bring valuable market insights, cultural understanding, and regulatory knowledge.
2. **Shared Risks:** Operational and financial risks are shared between partners, reducing the burden on any single entity.
3. **Access to Networks:** Local partners can provide access to established networks and relationships, facilitating smoother operations and market entry.

Disadvantages of Joint Ventures

1. **Complexity:** Joint ventures can be complex to establish and manage, requiring clear agreements and strong communication.
2. **Potential Conflicts:** Differences in business culture, objectives, and management styles can lead to conflicts.
3. **Control Issues:** Sharing control can limit the ability to implement changes swiftly and independently.



Case Study: Joint Ventures in Brazilian Ports

A notable example is a joint venture between an **DP World**, an Emirati logistics company and a **Rumo**, Brazilian railway operator to upgrade and expand port facilities in Santos. Rumo provided market insights, regulatory guidance, and operational expertise, while DP World brought in capital and international best practices. The partnership led to successful project completions and substantial returns for both parties

e) Legal Structures: Optimising for Tax Efficiency and Legal Protection

Choosing the right legal structure is critical for optimising tax efficiency and ensuring legal protection. Various structures, such as corporations, limited partnerships, and trusts, offer different benefits and challenges.

i. Corporations

Corporations provide limited liability protection, meaning investors are not personally liable for the company's debts. They are also beneficial for raising capital through equity financing.

Advantages of Corporations

1. **Limited Liability:** Protects investors' personal assets from business liabilities.
2. **Access to Capital:** Easier to raise capital through the issuance of shares.
3. **Perpetual Existence:** The corporation continues to exist even if ownership changes.

Disadvantages of Corporations

1. **Double Taxation:** Profits are taxed at the corporate level and again as dividends to shareholders.
2. **Regulatory Burden:** Subject to more regulatory requirements and higher administrative costs.



ii. Limited Partnerships

Limited partnerships (LPs) involve at least one general partner who manages the business and assumes liability, and one or more limited partners who provide capital but have limited liability.

Advantages of Limited Partnerships

1. **Pass-Through Taxation:** Profits are not taxed at the partnership level but passed through to partners' individual tax returns.
2. **Flexibility:** More flexible management structure compared to corporations.
3. **Limited Liability for Investors:** Limited partners are not personally liable beyond their investment.

Disadvantages of Limited Partnerships

1. **Unlimited Liability for General Partners:** General partners are personally liable for business debts.
2. **Complexity in Management:** Requires clear agreements to manage roles and responsibilities effectively.



iii. Trusts

Trusts can be used to hold investments, providing benefits in terms of asset protection and tax efficiency.

Advantages of Trusts

1. **Asset Protection:** Protects assets from creditors and legal claims.
2. **Tax Benefits:** Can provide tax benefits depending on the jurisdiction and structure.
3. **Estate Planning:** Useful for estate planning and transferring wealth to future generations.

Disadvantages of Trusts

1. **Complexity and Costs:** Establishing and managing a trust can be complex and costly.
2. **Regulatory Compliance:** Must comply with trust laws and regulations, which can vary significantly by jurisdiction.

iv. Offshore Entities

Offshore entities in jurisdictions with favourable tax laws can optimize tax obligations but must be managed carefully to comply with international tax regulations and anti-money laundering standards.

Advantages of Offshore Entities

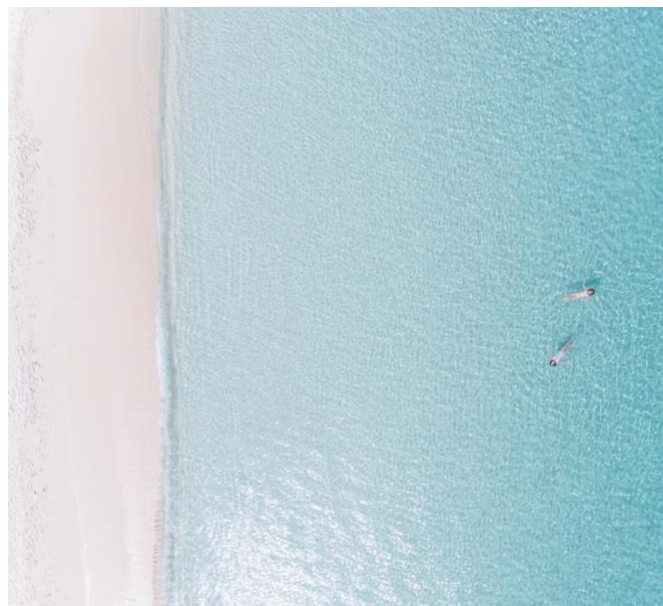
1. **Tax Efficiency:** Can significantly reduce tax obligations.
2. **Confidentiality:** Provides privacy for investors.
3. **Asset Protection:** Offers protection against political and economic instability in the investor's home country.

Disadvantages of Offshore Entities

1. **Regulatory Scrutiny:** Subject to increased scrutiny and compliance requirements.
2. **Reputation Risks:** May attract negative perceptions or reputational risks.
3. **Complexity:** Requires expertise to navigate international laws and regulations.

Case Study: Offshore Entities in the Cayman Islands

The Cayman Islands are a popular jurisdiction for establishing offshore entities due to their favourable tax laws. A European family office set up a series of offshore trusts and corporations in the Cayman Islands to manage their investments in Southeast Asia. This structure provided significant tax savings and asset protection but required meticulous compliance with international regulations.



5. Risks and Challenges

Political and Regulatory Risks

Political instability and regulatory changes can pose significant risks to infrastructure investments. PE firms must establish strong relationships, based on trust, with local governments to mitigate these risks.

Currency Risk

Currency volatility can erode returns on investment. Hedging strategies and investments in projects with revenue streams in stable currencies can help manage currency risks.

Operational Challenges

Infrastructure projects in emerging markets often face operational challenges, including logistical issues, supply chain disruptions, and limited access to skilled labor. PE firms must implement robust operational strategies to address these challenges.

Environmental and Social Considerations

Infrastructure projects can have significant environmental and social impacts. PE firms must ensure compliance with environmental regulations and adopt sustainable practices to minimize negative effects and enhance project acceptance by local communities.

6. Strategic Approaches to Mitigate Risks



Due Diligence

Thorough due diligence is essential to identify potential risks and evaluate the viability of infrastructure projects. This includes assessing political stability, regulatory environment, and financial feasibility.

Local Partnerships

Collaborating with local partners can provide valuable insights into the market and regulatory landscape. Local partners can also help navigate bureaucratic processes and facilitate community engagement.

Diversification

Diversifying investments across different sectors and regions can mitigate risks and enhance the stability of returns. Infrastructure funds are particularly effective in achieving diversification.

Long-Term Planning

Infrastructure investments require a long-term perspective. PE firms should develop comprehensive business plans that account for potential risks and outline strategies for sustainable growth and profitability.

7. Concluding Remarks

Private equity investment in emerging market infrastructure presents significant opportunities for high returns and economic development. However, it also involves substantial risks that require careful management. By leveraging their expertise, capital, and strategic approaches, PE firms can play a pivotal role in addressing the infrastructure needs of emerging markets. This white paper highlights the importance of thorough due diligence, strategic partnerships, diversification, and long-term planning in successfully navigating the complexities of these investments.

Glossary of Terms

- **Private Equity (PE):** A form of investment where funds are directly invested in private companies, often to acquire a controlling interest.
- **Emerging Markets:** Economies that are in the process of rapid growth and industrialization.
- **Infrastructure Funds:** Investment funds that focus on infrastructure projects.
- **Public-Private Partnerships (PPPs):** Collaborative agreements between government entities and private sector companies to finance, build, and operate projects.