

**Joel Moser** Contributor*I cover investment in energy and infrastructure.*

Opinions expressed by Forbes Contributors are their own.

ENERGY 3/12/2015 @ 1:58AM | 398 views

Emerging Market Infrastructure

[Comment Now](#)

If you read my last column on the characteristics of infrastructure risk, you should be thinking that emerging market infrastructure investment is an oxymoron. After all, emerging markets are partly about country risk, and infrastructure risk is partly about not taking risks. But the infrastructure asset class provides many flavors of investment and the growth and emerging markets are the place where there is the greatest demand for infrastructure capital.

The best statement of the outwardly oxymoronic quality of emerging market infrastructure investment that I have heard came from a fellow panelist in Abuja Nigeria several years ago at a conference on infrastructure investment in Nigeria. He said “...if the Nigeria 10 year sovereign bond yields 14%, why should I come here and sort through a complex power plant project to make an 18% return if I can sit at home in New York and make 14% for exposure to this market? I should be getting over 30% yield for both risks together.” He had a point.

But emerging market infrastructure investments need not carry the full country risk of the host nation. Sovereign risk is frequently covered by sovereign risk insurance purchased in the commercial market or provided by an [International](#) Financial Institution (IFI) such as the World Bank or another global institution. Indeed, the net return on sovereign risk, after insurance premiums, will beat the yield on the credit of the surety provider. When combined with structured project risk, the net return on a properly hedged investment probably won’t reach 30% but it may reach 20%, or nearly that, which is not bad for an asset-based uncorrelated investment.

So for those seeking yield, emerging market infrastructure investment can be part of the solution, and for those seeking global diversification, these real assets can be an alternative to the roller coaster of listed securities.

What about currency risk? The business models for infrastructure investment are many and some do carry exposure to national currency while others do not. For those seeking to diversify currency risk, a revenue based “toll” investment model in local currency may be just the thing. Others may seek the yield available in growth markets but worry about declining currency value, which is hard to hedge conventionally for the long periods of time that infrastructure returns capital.

For these investors, a sovereign counter-party “availability” payment—a government use payment, of sorts—with one of several varieties of currency valuation adjustment mechanisms could be a solution.

To be sure, these are sophisticated financing structures and not for an investor who is not an expert. Nevertheless, there are a range of investment funds which specialize in equity investments in the emerging markets under business terms that include risk hedging from global institutions, some based in the United States, New York or [Washington](#) DC, and others based in the regions. There are even a few listed funds that focus on this. In the next post, the final in this series on infrastructure investment, a look at disruptive investment in infrastructure.