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BEYOND THE ASSET: COORDINATION RISK IN INFRASTRUCTURE INVESTING

Infrastructure assets are becoming more dependent on one another. That shift may have important implications for how investors think about risk, financing, and value creation.

By Gustavo Vera, CFA, FRM

The global race to build artificial intelligence infrastructure is triggering one of the largest waves of capital deployment in modern infrastructure markets.

According to the International Data Center Authority (IDCA), annual investment in data centers is approaching $1 trillion globally. In Singapore, one of the world's leading digital infrastructure hubs, data centers already consume approximately 19% of the country's electricity.

At that scale, digital infrastructure no longer operates independently of the physical systems that support it.

A data center may have committed customers, attractive economics, and available financing. Yet its long-term success depends on infrastructure that often sits outside the project itself: power generation, transmission capacity, telecommunications networks, land availability, water resources for cooling, permitting approvals, and regulatory coordination.

A single large-scale facility can consume as much electricity as a small city and require water volumes comparable to those used by thousands of households. The investment case therefore extends well beyond the boundaries of the asset itself.

This raises an important question for infrastructure investors.

Project finance has historically been built around the ability to isolate and allocate risk. Construction risk can be transferred. Operating risk can be managed. Revenue risk can be contracted. The result has been one of the most effective capital allocation frameworks in modern finance.

But many of the infrastructure systems now being built are becoming increasingly dependent on one another. In those environments, project outcomes may be influenced not only by the quality of the asset itself, but also by the successful development of multiple adjacent assets and supporting systems.

The question is no longer whether a project can perform as expected on a standalone basis. It is whether the broader ecosystem surrounding that project can develop with sufficient speed, alignment, and coordination.

This may represent the next major challenge in infrastructure investing: coordination risk.

From Standalone Assets to System Dependencies

Traditional infrastructure underwriting begins with the individual asset. That approach remains necessary, but it may no longer be sufficient.

Historically, investors could focus primarily on the risks and cash flows directly associated with a project. Today, a growing share of investment outcomes may depend on factors that sit outside the asset itself.

The analytical perimeter of infrastructure investing is therefore expanding.

Investors must still assess contracts, counterparties, leverage, regulation, and asset quality. But they may also need to underwrite the broader ecosystem in which the asset operates. That includes physical bottlenecks, sequencing risk, regulatory alignment, sponsor coordination, permitting timelines, and the credibility of future demand.

The challenge is no longer limited to understanding whether an asset can perform as expected. Increasingly, investors must assess whether the surrounding system can evolve in a manner consistent with the assumptions embedded in the investment case.

This does not replace traditional due diligence. It widens it.

The key question becomes: what assumptions about the broader system are embedded in projected cash flows, and how resilient are those assumptions if the system develops more slowly, differently, or out of sequence?

In a more interconnected infrastructure landscape, some of the most important investment risks may no longer reside within individual assets. They may reside in the dependencies between them.

The Financing Consequences

Coordination risk matters because infrastructure is ultimately a cost of capital business.

Small differences in perceived predictability can materially affect valuation, leverage capacity, refinancing flexibility, and equity returns. Assets that appear similar at the technical level may deserve very different financing treatment if the systems surrounding them differ materially in quality.

The reason is straightforward. Infrastructure finance depends less on the existence of future cash flows than on confidence in the assumptions that support those cash flows.

A project embedded within a well-coordinated ecosystem can offer lenders and investors greater visibility into future outcomes. A project dependent on unresolved transmission constraints, uncertain permitting timelines, fragmented stakeholder interests, or unproven demand assumptions may require higher return thresholds, lower leverage, stronger covenants, or more conservative downside cases.

Coordination does not simply influence whether a project gets built. It influences how confidently capital can be committed before the project is built. In that sense, coordination can affect more than project execution. It can affect the price of capital itself.

This creates a potential source of competitive advantage.

Investors capable of identifying where infrastructure systems are likely to develop in a coherent and mutually reinforcing manner may be able to underwrite risk more confidently before that confidence is fully reflected in market pricing. Conversely, investors who analyze assets in isolation may underestimate risks that sit outside the asset-level model but remain embedded in the broader investment thesis.

Coordination risk therefore sits at the intersection of strategy and finance. It is operational in origin, but financial in consequence.

Implications for Infrastructure Investors

The practical implication is not that investors should abandon specialization. The opposite may be true.

As infrastructure systems become more complex, deep sector expertise becomes increasingly valuable. But future investment success may depend on combining that expertise with a broader understanding of how infrastructure systems evolve.

This changes the nature of opportunity identification.

Investors may need to identify not only attractive assets, but also the assets that enable future investment activity, unlock constrained capacity, attract incremental demand, or strengthen the economics of broader infrastructure platforms.

Viewed through that lens, capital allocation becomes more than a process of selecting investments. It becomes a process of anticipating how infrastructure systems will develop over time.

The strongest infrastructure investors may therefore be distinguished not only by their ability to evaluate assets, but by their ability to understand sequence.

Not simply what is attractive today. But what today's investment makes possible tomorrow.

Coordination as an Institutional Capability

Coordination risk also raises an important question about the role of institutions and strategic partnerships.

In many cases, the private sector can finance, build, and operate individual assets efficiently. The challenge often lies elsewhere: ensuring that the broader system develops in a coordinated manner.

Permitting, grid planning, land use, industrial policy, demand aggregation, and public-private partnership frameworks can all influence whether projects become financeable. When those elements are fragmented,

investors face greater uncertainty. When they are aligned, future cash flows become easier to underwrite.

In that sense, coordination can function as a form of credit enhancement. Not because it eliminates risk, but because it increases confidence that the conditions required for future cash flows will materialize as expected.

The same principle applies at the industry level.

A power developer, a data center operator, an industrial customer, and a transmission provider may each evaluate projects independently. Yet when those participants align around a common investment thesis, the result can be stronger demand visibility, better risk allocation, and more attractive financing conditions.

This suggests that value creation may increasingly occur before capital is deployed.

The ability to assemble the right partners, secure credible demand, align regulatory support, and coordinate complementary investments can materially influence project economics long before construction begins.

A Different Investment Discipline

Coordination risk does not undermine the foundations of infrastructure finance. It makes them more demanding.

The discipline of allocating risk remains essential. Contracts, counterparties, capital structures, and asset-level analysis will continue to sit at the center of infrastructure investing. But investors may increasingly need to recognize that some of the assumptions embedded in an investment case depend on factors that sit beyond the asset itself. They depend on whether a broader system develops in a coherent and timely manner.

That requires a different form of judgment.

One that combines traditional project finance discipline with an understanding of how infrastructure systems evolve over time. The challenge is no longer limited to evaluating individual assets. It increasingly involves evaluating the conditions that allow those assets to succeed.

This raises an interesting possibility. If coordination influences project viability, financing conditions, and ultimately returns on capital, then coordination may represent more than a way of reducing risk. It may become a source of value creation in its own right.

Viewed through that lens, the ability to align institutions, secure demand, coordinate complementary investments, and assemble strategic partnerships becomes more than an execution capability. It becomes part of the investment thesis itself.

Perhaps the next evolution of infrastructure investing will not be defined solely by who can identify the best assets. It may be defined by who can create the conditions that allow those assets to realize their full value.