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Infrastructure Investment in Mexico: challenges and opportunities

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Agenda

1. Infrastructure and Competitiveness

2. Regulatory and Institutional Framework

3. Recommendations

1. Infrastructure and Competitiveness

Infrastructure Investment in Mexico

- National Plan of Infrastructure 2007-2012 ($190 billion).
- Fondo Nacional de Infraestructura (FONADIN)-BANOBRAS, has been crucial for infrastructure development in Mexico.
- Infrastructure investment 4.5% of GDP.
- Transport Industry: $30 billion investment in the last five years.

- Highest level of annual investment in transport in 2011 around $7.5 billion
- Private investment in transport infrastructure $6 billion in the last five years. (20% of the total investment)
- Mexico Society of Civil Engineers estimated that Mexico requires an investment of around $400 billion in infrastructure.
- “Infrastructure the project that Mexico needs” Camara Mexicana de la Industria de la Construccion (CMIC)

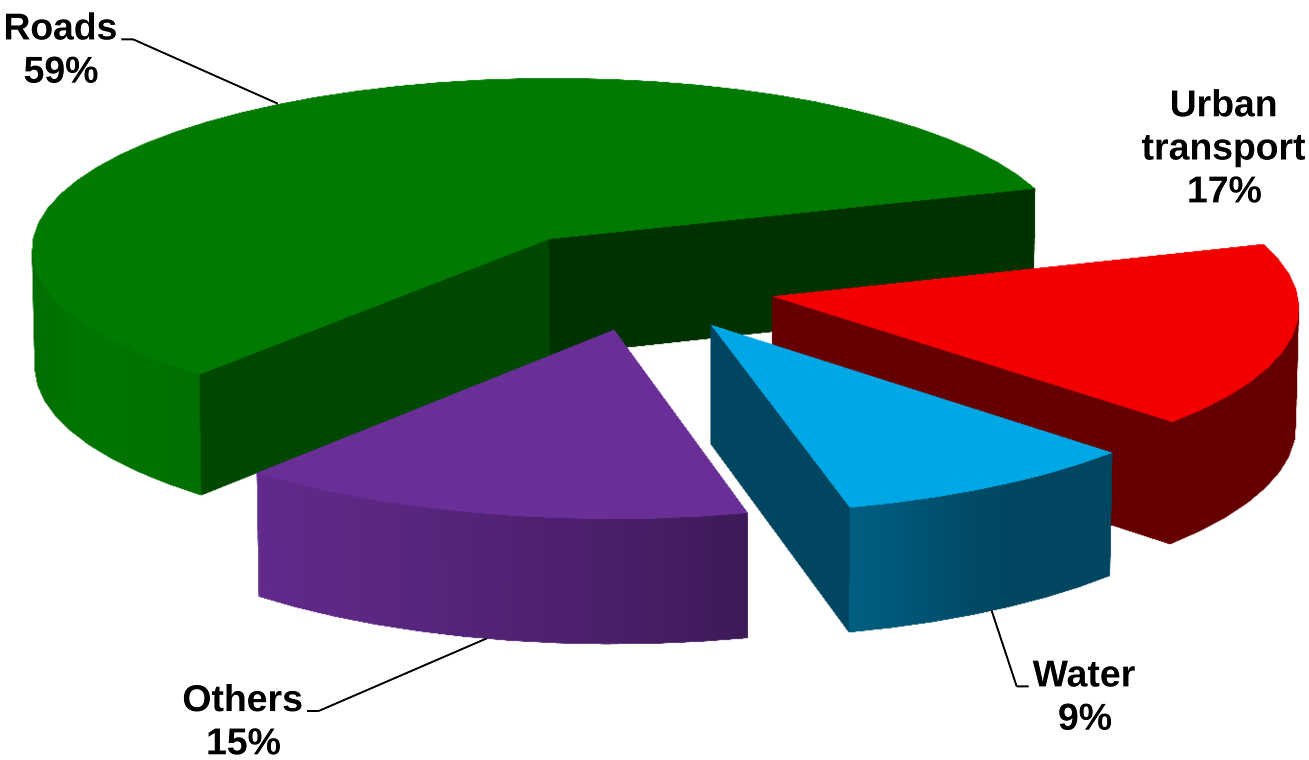
Global Competitiveness Index: Infrastructure Ranking 2011-2012 (1)

Country	Competitiveness Rank	Infrastructure Rank
United States	5	16
Canada	12	11
Chile	31	41
Panama	49	38
Brazil	53	64
Mexico	58 (52)	66 (64-2007)
Argentina	85	81

Global Competitiveness Index: Infrastructure Ranking 2011-2012 (2)

Country	Quality of Roads Rank	Quality of Railroad Rank	Quality of Ports Rank	Quality of Air Transport Rank
United States	20	20	23	31
Canada	14	15	14	22
Panama	60	45	5	15
Chile	22	82	37	35
Brazil	118	91	130	122
Mexico	55 (49)	68 (65)	75 (64)	65 (55)
Argentina	96	89	94	119

Fondo Nacional de Infraestructura (FONADIN)



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2. Regulatory and Institutional Framework

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Regulatory Framework PPS

1. Constitution and PPS (Proyectos para Prestacion de Servicios) Laws
2. PPS Laws in 53% states, Procurement Laws in 25% of states, no specific law 22%.
3. Cost-Benefit Analysis(CBA) for PPS: 62% of States require CBA.
4. Congress approval: 59% of States require approval for the project, multiannual payments and guarantees.
5. Regulation for PPS guarantees: 59% of States have a specific regulation for guarantees.

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Regulatory Framework for Concessions

1. Specific concession law plus public contracting laws: 28% of states.
2. Generic law plus public contracting laws: 72% of states.
3. Term of the concession: 60% of states non specified, 40% states between 20 to 30 years.
4. Possibility to transfer concession rights: 34% of states, 58% non regulated and 8% prohibited.
5. Possibility of concession bailout: 63% of states.

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New PPP Law 2012

1. Adequate level of studies prior to start a PPP. Technical, legal, environmental, economic and project finance.

2. Unsolicited proposals will be a new set of potential PPP projects. The proponent will receive a bonus to participate in a formal bidding procedure that will not be higher than 10% considering the criteria to adjudicate the bidding.

3. PPP does not guarantee lower price - competition does

4. Public sector can hire transaction financial advisors or investment banks to support any of the stages of the bidding process.

5. Clear procedure for expropriation.

National PPP Unit

	Number of Countries	Countries
Yes	18	Australia, Belgium, Canada, Czech Republic, Denmark, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, The Netherlands, Poland, Portugal, UK and Chile
No	9	Austria, Finland, Island, Luxemburg, México, New Zealand, Spain, Sweden and United States.

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PPP Units

1. Several states have created PPP Units located in different public agencies. For example Chiapas-Treasury, Yucatan-Planning and Budget, Oaxaca infrastructure, Guanajuato-Planning and Investment.

2. PPP Units normally provide technical assistance to the specific sector in the transaction process. In the case of PPS, PPP units are responsible for main economic and financial studies to determine the feasibility of the PPP project. PPP Units are “state-owned investment banks”.

3. Health, Communication, and Transport Departments have their own PPP Units.

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Challenges

1. Essential that the public does not perceive that PPP merely substitutes a private sector monopoly for a public sector monopoly.
2. Procedural transparency and professionalism is critical to the success of PPP procurements. Training and capacity building is crucial.
3. Prevent potential collusion between bidders.
4. Design of optimum bidding mechanism.
5. Clear rules and objectives for contract renegotiation and fiscal sustainability.
6. Strength regulatory, institutional and technical capacity through learning by doing process.
7. Share experiences of PPP among states.

3. Recommendations

Key factors for success

- Approach PPP infrastructure development as a National Program rather than ad-hoc transactions by States.
- Develop a clear pipeline of PPP projects to attract global private sector participation.
- FONADIN and BANOBRAS experiences are key for success.
- Promote vigorous, open, and transparent competition.
- Promote homogenization of the regulatory framework among states.
- Improve coordination and communication among public sector, private sector and financial institutions.

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Many thanks