

Projects & Procurement - Mexico

On the threshold: Mexican PPP bill to boost investment opportunities

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Current budget limitations affect Mexico's ability to maintain its existing - and, in many cases, ageing - infrastructure and to undertake new projects at the required speed. The country's aim is to become one of the world's most developed countries by 2030, but infrastructure is a bump in the road to success. Public-private partnerships (PPP), and effective legislation on the processes involved, may be the way to get back on track.

National Infrastructure Plan and economic interference

When President Calderón assumed office in 2006, he launched the most aggressive infrastructure plan in Mexico's history. The National Infrastructure Plan 2007-2012 was expected to raise more than \$6 billion in private funds and to assign more than \$270 billion of the government's budget to infrastructure during Calderón's term of office.

Unfortunately, the 2008 economic meltdown and the war against drug cartels have seriously limited the availability of public funds. Government investment in infrastructure has shrunk and the president has been forced to shift his focus to other key areas. Compared to the position in 2006, the state budget is limited: at present, the political will to develop infrastructure is not matched by the availability of public funds.

Private investors are waiting for the right opportunity and the optimal market conditions to invest in Mexico's infrastructure. Some have already developed investment funds specifically for Mexico's infrastructure market, such as the \$400 million Macquarie Mexican Infrastructure Fund. However, they are not prepared to assume all the costs and risks associated with infrastructure development, and are asking for stronger legal protection for direct investment.

Lessons from the past: development of PPP

Mexico is not the first country to suffer from a lack of infrastructure investment due to its economic circumstances. During the 1980s, the United Kingdom and Australia faced similar problems: a lack of public funds and a need for infrastructure. The solution to their problems was to create the PPP scheme.

In November 2009 the president submitted a bill on PPP to the Senate. After many changes, it was approved in October 2010 and is now pending approval by the House of Representatives.

Some project finance experts have hailed the federal bill - incorporating the Senate's revisions - as one of the best instruments of PPP legislation in the world. It incorporates the United Kingdom's experience of testing PPP models, from the first stages of the private finance initiative to the more recent refinements such as value for money analysis, risk assessment and risk-sharing mechanisms.

Nevertheless, the bill is lacking in key respects - it needs provisions on dedicated PPP units and a regulatory framework for its development and implementation. The Organisation for Economic Cooperation and Development has made clear that one of the key factors in the success of a PPP project is the creation of dedicated units that supervise the development and costs of each project.

PPP in future

Given the challenges facing Mexico's infrastructure investment plans and the priorities in the 2012 federal budget, the development of PPP seems to be the best option if

Mexico wants to achieve its 2030 goals. The PPP bill would provide the legal protection that investors are seeking, including risk allocation mechanisms, a clear basis from the start of the bidding process and the right to resort to arbitration.

If the bill is approved, Mexico could position itself as one of the most developed Latin American countries in infrastructure terms over the next decade. Investors would be encouraged to seek business opportunities in Mexico – the infrastructure investment funds are already waiting – and the government would be free to focus on sectors that require more direct state attention and control, such as education, national security, healthcare and social programmes. Regardless of its flaws, the bill would open the door to a significant phase in the country's development.

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