



**XXIV<sup>th</sup> WORLD  
ROAD CONGRESS**  
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## Mesures Taken by Mexico in response to the Global Financial Crisis to facilitate Public Private Partnership

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# TRANSPORTATION NETWORK

- ❑ **Mexico has developed an extensive transportation network:**
  - 366,000 kms of highways
  - 26,000 kms of railways
  - 116 ports
  - 85 national and international airports
  
- ❑ **However, the system performs below what is required to achieve the country's development goals, as shown by:**
  - Low rank in competitiveness (58th of 142 countries)
  - Insufficient coverage (0.18 highway kilometers / km<sup>2</sup>)
  - High dependence on roads (67% of freight and 99% of passengers in domestic trips)
  
- ❑ **Substantial investment needs to maintain, widen and improve existing transportation infrastructure and build new infrastructure to improve safety, competitiveness and quality of service.**



# NATIONAL INFRASTRUCTURE PROGRAM 2007-2012

- As part of the National Infrastructure Program, the Ministry of Communications and Transport (SCT) is undertaking the following investment program in billions of pesos for the 2007-2012 period:

Sector	Investment (billions of pesos)	Public Funds (billions of pesos )	Private Resources (billions of pesos)
Highways	287	159	128
Railways	49	27	22
Ports	71	16	55
Airports	59	32	27
<b>TOTAL</b>	<b>466</b>	<b>234</b>	<b>232</b>

\* 1 Mexican Peso = 0.09 USD



# MEXICAN HIGHWAY PPP PROGRAM

- ❑ **Situation**
  - **Limited annual federal budget**
  - **Allow earlier development of toll and free roads**
  - **Give continuity to the road network**
  - **Integrate transport corridors**
  - **Offer a better service to the user**
  
- ❑ **Mexico's PPP program is key to achieve the goals of the National Infrastructure Program 2007-2012.**
  
- ❑ **Although, the financial crisis has slowed the pace of infrastructure development through PPP models, the Mexican Government remains committed to PPPs and is implementing strategies suited to the new economic and financial conditions in order to continue the expansion of the highway network.**



# PPP IN THE MEXICAN HIGHWAY SECTOR

## Used PPP financial models

FINANCIAL MODEL	PAY BACK MECHANISM
➤ Highway Concession	➔ Tolls
➤ Service Rendering Projects or Projects for the Provision of Services (PPS)	➔ Road capacity- availability and use (PFI)
➤ Utilization of Highways Assets	➔ Combination of Brownfields and Greenfields paid back by tolls



# PPP GENERAL PROBLEMATIC

- **Difficult for financial closure**
- **Restricted credit offer**
- **Reduction of bidders number**
- **Reduction of offered resources in equity and debt**
- **Financial periods reduction**
- **Restricted access to the financial market**
- **Increasing coverage costs**
- **Funding in local currency**
- **Leverage ratio reduction**
- **More equity participation is asked by the banks**



# PPP CONCESSION HIGHWAY PROGRAM 2007 - 2011

STATUS	PROBLEMATIC
<p><b>19 concession in operation</b>  <b>1,046 km, 25,549 million of pesos</b></p>	<p>✓ <b>Qualifications for securitization</b></p>
<p><b>7 concessions under construction</b>  <b>291 km, 12,239 million of pesos</b></p>	<p>✓ <b>Syndicated credit</b>            ✓ <b>Credit restriction</b>            ✓ <b>Detailed supervision</b></p>
<p><b>6 projects under construction with no budgetary resources or as surrounding projects</b>  <b>634.1 km, 33,476 million of pesos</b></p>	<p>✓ <b>No budgetary resources authorization</b>            ✓ <b>Detailed supervision</b></p>
<p><b>7 concession granted and next to begin construction</b>  <b>371.9 km, 18,208 million of pesos</b></p>	<p>✓ <b>Credit restriction</b>            ✓ <b>Banks failure and disengagement</b>            ✓ <b>Government support through BANOBRAS and FNI with senior and subordinated debt</b></p>



# PPP CONCESSION HIGHWAY PROGRAM 2007 -2011

STATUS	PROBLEMATIC
<p>3 projects into bidding process 145.3 km, 5,540 million of pesos</p>	<ul style="list-style-type: none"> <li>✓ Change of bidding papers to facilitate involvement</li> <li>✓ Projects size reduction</li> <li>✓ BANOBRAS and FNI credit support</li> </ul>
<p>9 projects linked with existing concessions next to begin construction 253 km, 18,100 million of pesos</p>	<ul style="list-style-type: none"> <li>✓ Modifications to the concession titles</li> <li>✓ Credit restrictions</li> </ul>
<p>8 projects next to begin construction with FNI resources 472.4 km, 22,262 million of pesos</p>	<ul style="list-style-type: none"> <li>✓ Project and resources authorization</li> </ul>
<p>13 projects in the pipeline 671.8 km 30,442 million of pesos</p>	<ul style="list-style-type: none"> <li>✓ Financial structure design to meet market conditions</li> <li>✓ Design of stapled financing</li> </ul>

☞ Total 72 projects, 3,863.8 km, 165, 816 million of pesos





# CHANGE IN THE ROAD CONCESSION FINANCIAL CONDITIONS

BANK OFFER CONDITIONS	BEFORE CRISIS 2007 – sep 2008	AFTER CRISIS Oct 2008 - to now
Characteristics	<ul style="list-style-type: none"> <li>• Dynamic financial market</li> <li>• Credit facility</li> <li>• Securitization</li> <li>• High risk structures</li> </ul>	<ul style="list-style-type: none"> <li>• Liquidity bank restrictions</li> <li>• Investment portfolio value decreasing</li> <li>• Searching for new financial conditions to improve portfolios productivity</li> <li>• Reduction of assets life for faster recovery</li> </ul>

## INTERMEDIATE MARGIN (BASIS POINTS)

Construction	150 – 180	275 – 300
Operation (Y3-Y5)	170 - 200	300 – 325
Operation (Y6 – Y10)	195 - 250	350 – 400
Operation (Y11 - )	250 - 300	400 – 425
Comissions (%)	1.5 – 2.0	2.0 – 3.25
Maximum period (years)	18.0 – 20.0	14.0 – 16.0
Maximun leverage	70% debt – 30% equity	60% debt – 40% equity



# PPP KEY QUESTIONS

- Which should be the optimum size of the projects?
- How to combine Brownfields with Greenfields in an optimum way?
- Are the Brownfields too cheap in this moment?
- Which should be the concession grant criteria?
- How to generate competition in new concessions bidding process?
- Which supports should be created by the government to help the PPP projects?



## ❑ **SUPPORT INSTRUMENTS**

- **BANOBRAS** - Public works and services bank
- **FNI** - National Infrastructure Fund

## ❑ **OBJECTIVE** - Promote, attract and support PPP infrastructure

- **Allocating resources for preparation, project elaboration and right of way acquisition**
- **Taking risks that market can't assume**
- **Initial support to non financial rentability projects**
- **Improving private banks long term credit conditions with guaranties and participation**
- **Offering retrieve and non retrieve resources**



## □ PRODUCTS

- **Initial contribution**
- **Senior debt**
- **Guaranties**
- **Credit**
- **Subordinated debt**
- **Risk equity**



# CHANGES IN THE INFRASTRUCTURE SECTOR

- ❑ **The severe economic and financial crisis that has affected most countries has also impacted Mexico's PPP program in the highway sector.**
- ❑ **Such impacts have become evident through:**
  - **Lower availability of funds for infrastructure development (debt and equity)**
  - **Higher interest rates and shorter terms for available loans.**
  - **Higher returns on equity**
  - **Project size has decreased substantially due to debt and equity restrictions**



# CHANGES IN THE INFRASTRUCTURE SECTOR

- **The number of interested participants has decreased sharply, both in the financial and the infrastructure sectors, and all of them are behaving very cautiously**
  - **GDP contracted severely during 2009 as compared to 2008 (-6.5%) and toll-based revenues have decreased in real terms**
- To ensure the applicability of México's public-private partnerships under prevailing conditions, a strategy to adjust and adapt them has been put in place during last years**



# STRATEGY TO CONTINUE HIGHWAY INFRASTRUCTURE DEVELOPMENT THROUGH PPPs

- ❑ **SCT's strategy to ensure the continuation of its highway infrastructure program with private participation includes the following measures:**
  - **Efficient combination of “greenfields” with “brownfields” and reduction of project size.**
  - **Participation of Banobras, the national infrastructure bank, in the financial structures to be implemented for each project, through credits made available to bidders under equal conditions, offering “Stapled Financing”**
  - **Development of some projects as public works with funds provided by the National Infrastructure Fund.**



# STRATEGY TO CONTINUE HIGHWAY INFRASTRUCTURE DEVELOPMENT THROUGH PPPs

- **Restructuring of existing concessions to develop new infrastructure.**
- **Design of a second package of Service Rendering Projects with availability-based methods of payment.**
- **Opening of new infrastructure financing options with participation by pension funds.**
- **Review of bidding documents to facilitate the participation of interested parties.**
- **Improvement of the legal framework, in particular for right of way acquisition.**





# CONCLUSION

- ❑ SCT is committed to achieve the National Infrastructure Program goals in the highway sector and therefore requires the continuation of the PPP program.**
- ❑ Given the changes in the infrastructure financial and economic sectors, SCT has adapted the scope and characteristics of its PPP program to the existing environment.**
- ❑ SCT will permanently review the evolution of the financial markets and adapt its PPP models, projects and programs in order to ensure their success.**



# CONCLUSION

- ❑ **SCT is looking forward to keep close contact with financial institutions, pension funds, concessionaires, infrastructure funds and other stakeholders to ensure the competitiveness of Mexico's transportation infrastructure PPP programs.**

