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Public Private Partnerships: Mexican Experience

Ministry of Finance
Investment Unit
March 2009

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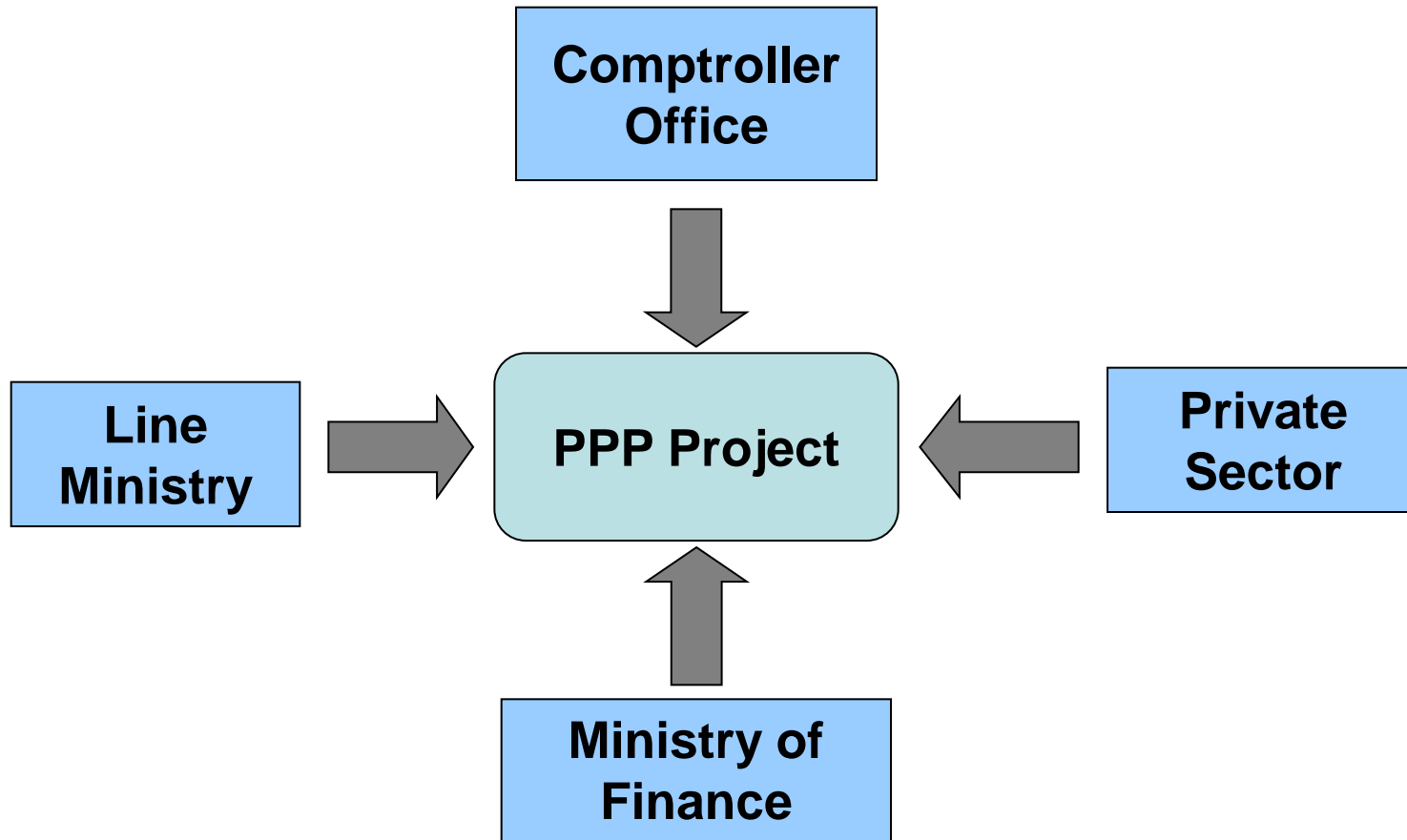
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Structuring a PPP



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- Investment Unit (Expenditures Undersecretariat)
- Public Works Bank (BANOBRAS)
- National Infrastructure Fund (FONADIN)

Investment Figures

- Considering PPP's investments plus budgetary investment in 2009 Mexico investment figures reach 5.3% of GDP



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Total Investment, Mexico

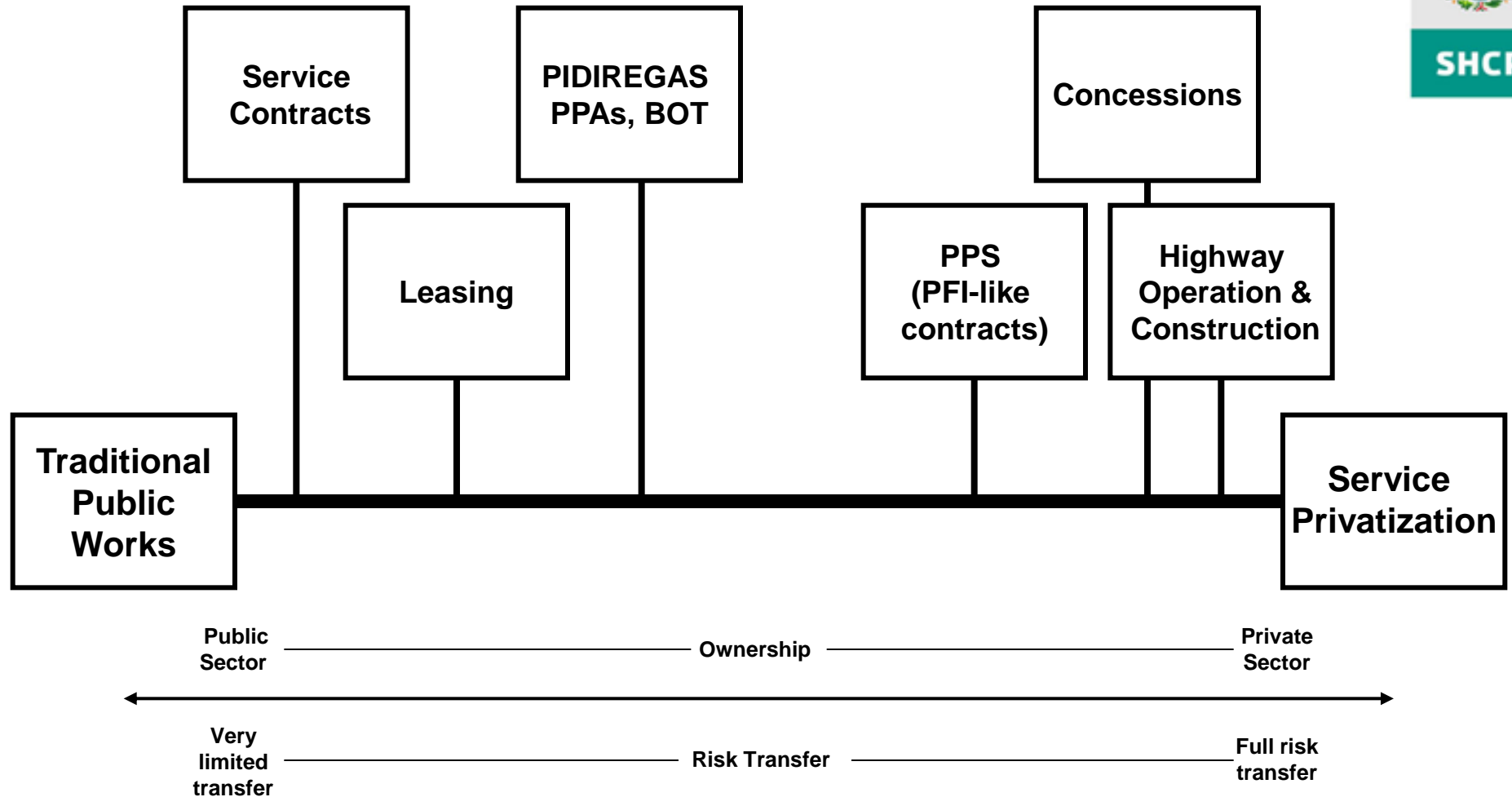
Figures for 2009

	Billion Dollars 2009	% GDP
Budgetary traditional Investment	45.7	4.1%
Pidiregas	4.4	0.4%
Other Budgetary Investment	1.9	0.2%
Traditional Investment	50.9	4.6%
PPP's		
Roads	1.7	0.2%
Social sector (Hospitals & University)	0.2	0.0%
Ports	0.3	0.0%
BANOBRAS	2.6	0.2%
FONADIN	3.0	0.3%
Total PPP's	7.8	0.7%
Total Investment	58.7	5.3%

PPP Schemes



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PPP Schemes



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Long Term Service Contracts (LTSC)

- Public entities like Pemex and CFE celebrate Long Term Service Contracts with the private sector for the acquisition and supply of goods and services for their operation
- The financial obligations derived from these contracts are accounted as current expenditure
- Below, some examples of the investment generated using these contracts in the energy sector

Plant/Pipeline	Contracted Capacity	Total Investment Amount (md)
Burgos CSM	-	9032
Nitrogen Plant	1200 mmcf/d	883
LNG Altamira Plant	500 mmcf/d	440
LNG Baja California Plant	230 mmcf/d	700
LNG Manzanillo Plant	500 mmcf/d	550
Naranjos-Tamazunchale Pipeline	300 mmcf/d	190
Manzanillo-Guadalajara Pipeline	300 mmcf/d	365



Pidiregas

- Mexico's Federal Government has promoted a PPP figure known as Pidiregas (Proyectos de Infraestructura Productiva de Largo Plazo) for PEMEX (oil and gas) and CFE (electricity), both of them are state owned companies.
- This type of investment projects are financed and built by the private sector, and when they are ready to generate income, they are paid by the Federal Government.
- In PEMEX, the total private sector participation reaches nearly 150.1 billion of US dollars, while in CFE it is around 35.6 billion of US dollars

PPP Schemes

Independent Power Producer Program (IPP)



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- As of 2008, 28 of the approved Pidieregas are Independent Power Producers (IPP).
- In 2008, the 19 operating IPPs have a 11,456 MW capacity, which represents 29.7 percent of the total national capacity and contribute with 47.2 percent of the total electric power generated
- Investment in these power plants reaches almost 10 billion usd.

	Private Investment	Public Investment	Total Amount of Investment
	(million dollars)		
28 IPP	9,780	30	9,810

Source: PEF 2008

PPS (PFI-like contracts)

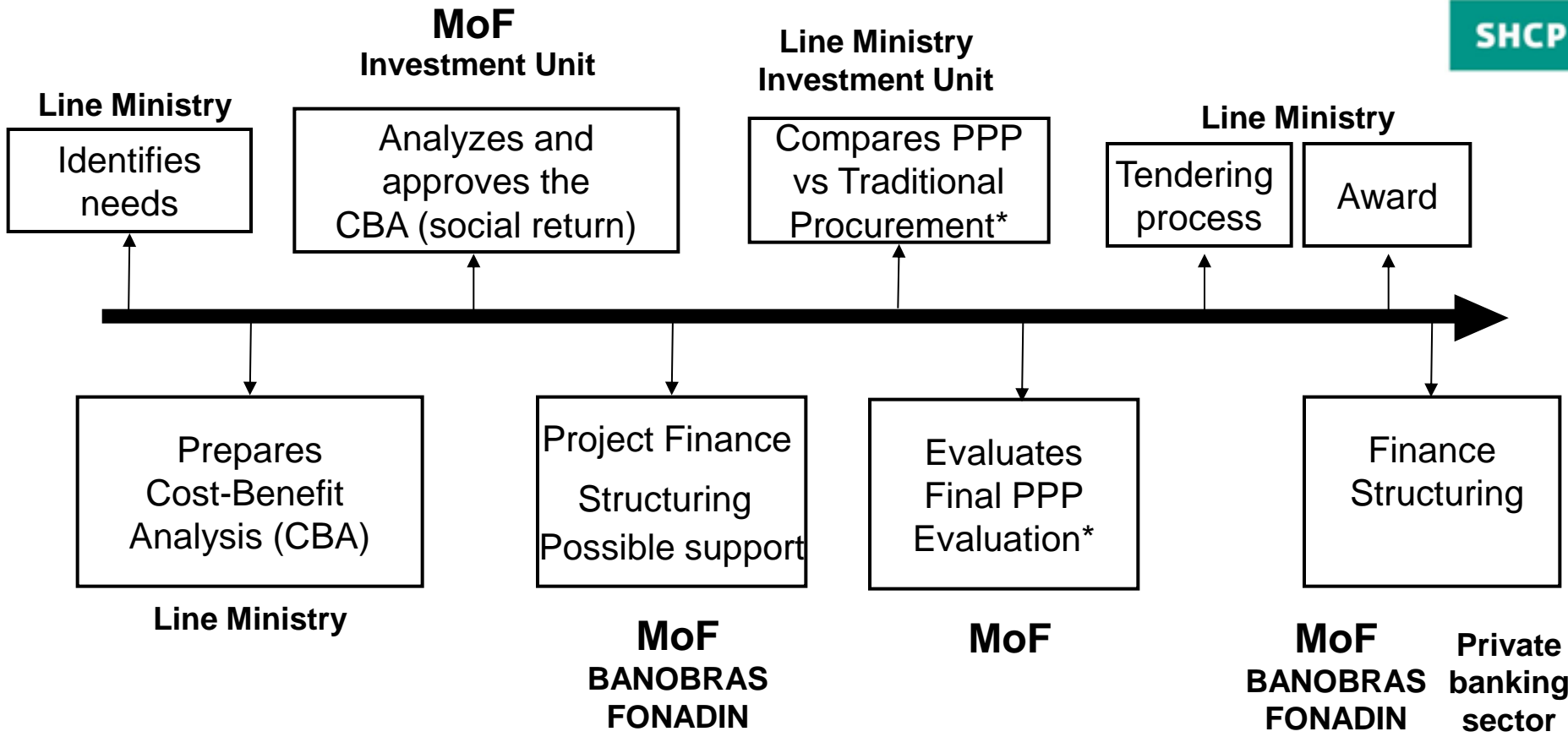
- PPS were modeled after the UK PFIs
- The first project, a toll free road, Irapuato-La Piedad was launched in 2005
- Estimated private investment on PPS projects will reach 1,472 md

Estimated Private Investment on PPS

(million dollars)

	Investment
Awarded PPS Contracts	1,097
PPS Contracts to be awarded	374
TOTAL	1,427

PPP Process & Participants



*Only in PPS (PFI-like projects)

Line Ministry



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- Identifies current and future needs
- Prepares Cost-Benefit Analysis
- Contracts external consultant
- Documents PPP
- Applies for approval
- Applies for funding (grants or financing) if necessary
- Launches tendering process

Investment Unit (MoF)



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- Reviews the Cost-Benefit Analysis
 - Does the project provides tangible economic and social returns?
- Compares Traditional Public Investment vs. PPP scheme
 - Value For Money (VFM) Evaluation
- Review draft(s) of PPS contract (PFI-like)
 - Term and payment conditions, guarantees, coverage, insurances, methodology to evaluate providers' performance, dispute solution mechanisms, among others
- Participates in the approval process for funding of BANOBRAS and FONADIN.

National Infrastructure Fund (FONADIN)



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- Supports the National Infrastructure Program
- Fosters and facilitates private funding to infrastructure projects
- Takes risks that the market is not willing to take
- It can provide guarantees on:
 - Credit risk
 - Regulatory risks
 - Stock market risk
 - Project performance risk
- Makes financially viable the projects with high social return but low financial return; and
- Promotes long term financing in a competitive context

Bids assessment



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- Road Concession
 - The concession is awarded to the bidder that requests the lowest amount of public funds
- PPS projects (PFI-like)
 - The criterion used to award the concession is net present value of periodic payments
- Highway Operation and Construction New Concessions
 - The concession is awarded to the bidder that offers the biggest payment

Contracts

- Contracts are written by Line Ministry
- In the case of PFI's, Ministry of Finance reviews the contracts
- Some recent contract improvements are:
 - Longer use of performance standards to other types of PPP contracts
 - New mechanisms to solve disputes for price increases of raw materials
 - New mechanisms to include additional services and works not specified in the initial contract



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Conclusions

- Different ways of organizing PPP add value to the process
- A strong ex-ante evaluation process generates stronger project
- Political commitment is very important to promote PPPs, but the best way to show this support is to visibly commit to the goal
- In times of financial difficulties Governments play a greater role in promoting infrastructure - financial support for PPP projects is crucial during these times



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