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Structuring a PPP

Comptroller Office

Line Ministry

PPP Project

Ministry of Finance

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

Private Sector
Investment Figures

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

### Total Investment, Mexico

**Figures for 2009**

<table>
<thead>
<tr>
<th></th>
<th>Billion Dollars 2009</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary traditional Investment</td>
<td>45.7</td>
<td>4.1%</td>
</tr>
<tr>
<td>Pidiregas</td>
<td>4.4</td>
<td>0.4%</td>
</tr>
<tr>
<td>Other Budgetary Investment</td>
<td>1.9</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Total Traditional Investment</strong></td>
<td><strong>50.9</strong></td>
<td><strong>4.6%</strong></td>
</tr>
<tr>
<td>PPP's</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roads</td>
<td>1.7</td>
<td>0.2%</td>
</tr>
<tr>
<td>Social sector (Hospitals &amp; University)</td>
<td>0.2</td>
<td>0.0%</td>
</tr>
<tr>
<td>Ports</td>
<td>0.3</td>
<td>0.0%</td>
</tr>
<tr>
<td>BANOBRAS</td>
<td>2.6</td>
<td>0.2%</td>
</tr>
<tr>
<td>FONADIN</td>
<td>3.0</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>Total PPP's</strong></td>
<td><strong>7.8</strong></td>
<td><strong>0.7%</strong></td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td><strong>58.7</strong></td>
<td><strong>5.3%</strong></td>
</tr>
</tbody>
</table>
PPP Schemes

Traditional Public Works

Service Contracts

PIDIREGAS PPAs, BOT

Leasing

Concessions

PPS (PFI-like contracts)

Highway Operation & Construction

Service Privatization

Public Sector

Ownership

Private Sector

Very limited transfer

Risk Transfer

Full risk transfer

Public Private Partnerships Mexican Experience
PPP Schemes

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:

<table>
<thead>
<tr>
<th>Plant/Pipeline</th>
<th>Contracted Capacity</th>
<th>Total Investment Amount (md)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burgos CSM</td>
<td>-</td>
<td>9032</td>
</tr>
<tr>
<td>Nitrogen Plant</td>
<td>1200 mmcf/d</td>
<td>883</td>
</tr>
<tr>
<td>LNG Altamira Plant</td>
<td>500 mmcf/d</td>
<td>440</td>
</tr>
<tr>
<td>LNG Baja California Plant</td>
<td>230 mmcf/d</td>
<td>700</td>
</tr>
<tr>
<td>LNG Manzanillo Plant</td>
<td>500 mmcf/d</td>
<td>550</td>
</tr>
<tr>
<td>Naranjos-Tamazunchale Pipeline</td>
<td>300 mmcf/d</td>
<td>190</td>
</tr>
<tr>
<td>Manzanillo-Guadalajara Pipeline</td>
<td>300 mmcf/d</td>
<td>365</td>
</tr>
</tbody>
</table>
PPP Schemes

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.
Independent Power Producer Program (IPP)

- As of 2008, 28 of the approved Pidiregas 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.

<table>
<thead>
<tr>
<th>Private Investment (million dollars)</th>
<th>Public Investment (million dollars)</th>
<th>Total Amount of Investment (million dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 IPP</td>
<td>9,780</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: PEF 2008
PPP Schemes

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)

<table>
<thead>
<tr>
<th>Investment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Awarded PPS Contracts</td>
<td>1,097</td>
</tr>
<tr>
<td>PPS Contracts to be awarded</td>
<td>374</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,427</strong></td>
</tr>
</tbody>
</table>
PPP Process & Participants

**Line Ministry**
- Identifies needs
- Prepares Cost-Benefit Analysis (CBA)
- Analyzes and approves the CBA (social return)
- Award

**MoF Investment Unit**
- Line Ministry Investment Unit
- Project Finance Structuring Possible support
- Evaluates Final PPP Evaluation*
- Financial Structuring

**Line Ministry**
- Compares PPP vs Traditional Procurement*
- Possible support

**MoF**
- BANOBRAS FONADIN
- Public Private Partnerships Mexican Experience

*Only in PPS (PFI-like projects)
Line Ministry

- 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)

• 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 BANOBURAS and FONADIN.
National Infrastructure Fund (FONADIN)

- 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

• 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
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