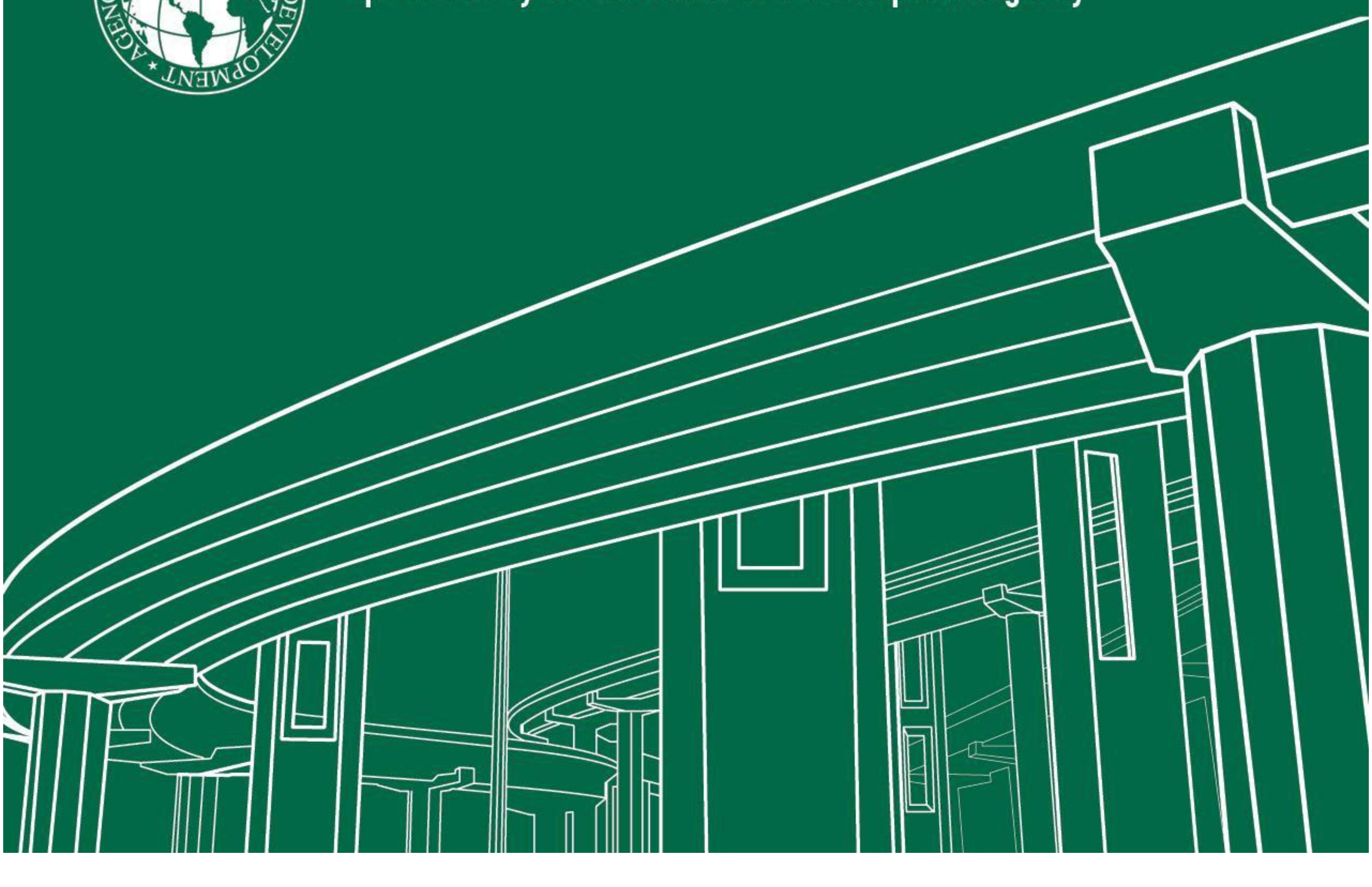
MAJOR INFRASTRUCTURE PROJECTS IN MEXICO

A Resource Guide for U.S. Industry

Sponsored by the U.S. Trade and Development Agency



About This Report

This report has been developed to provide potential U.S. exporters with an overview of México's infrastructure sectors, the sector development plans in place through 2018, and to provide profiles of a sample of specific upcoming projects of potential interest.

This document represents just one section of a larger report developed and published by the U.S. Trade Development Agency. The full text is housed online in the U.S. Commercial Services' Market Research Library and can be accessed by visiting http://buyusainfo.net/docs/x_8012471.pdf. Please note that this document is an interim product. Further elaboration of transportation and telecommunications projects will be provided in the final version to be published later in 2014. This will include additional sections describing project opportunities in the energy and water sectors.

For More Information on These Opportunities

To learn more about the opportunities described in this report, locate the U.S. Export Assistance Center nearest you by visiting http://www.export.gov/eac and contact your local U.S. Commercial Service Trade Specialist for more information.

The U.S. Trade and Development Agency

The U.S. Trade and Development Agency (USTDA) helps companies create U.S. jobs through the export of U.S. goods and services for priority development projects in emerging economies. USTDA links U.S. businesses to export opportunities by funding project planning activities, pilot projects and reverse trade missions while creating sustainable infrastructure and economic growth in partner countries.

The U.S. Commercial Service — Your Global Business Partner

With its network of offices across the United States and in more than 80 countries, the U.S. Commercial Service of the U.S. Department of Commerce utilizes its global presence and international marketing expertise to help U.S. companies sell their products and services worldwide.

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Transportation – Infrastructure Finance

The Secretaría de Comunicaciones y Transportes (SCT) is México's federal agency responsible for the country's transportation and communication systems. The SCT's mission is to develop and advance policies and programs in the transportation and communication sectors that contribute to the sustainable economic growth and social development needs of México. The SCT achieves this mission through area-specific administrative bodies. These administrative bodies are responsible for a given mode or group of modes of transportation, generally, and transportation statistics, information, and planning, specifically. These SCT units are covered in more detail in the background sections for each specific transportation mode.

Under the new administration the SCT has made it their priority to provide transport infrastructure that makes the movement of products, services, and people easier, in a fast, efficient, and low cost manner. Gerardo Ruiz Esparza was appointed by President Enrique Peña Nieto to serve as the Secretary of Transportation in 2012. The SCT was allocated $107 billion (MXN) of México's 2014 budget, 50% higher than the previous year's allocation to the agency. SCT funding accounts for 12.3% of the total projects to be carried out in 2015.

The administration's $590 billion (USD) 2014 – 2018 National Infrastructure Program (PNI in Spanish) encompasses a wide variety of projects aimed at the development of an enhanced national network of roads, ports, airports, railways and telecommunications services and infrastructure. Many of the investments identified in the PNI will be funded from an array of sources including federal resources from the Fondo Nacional de Infraestructura (FONADIN, México's National Infrastructure Fund), the Banco Nacional de Obras y Servicios Públicos (BANOBRAS, the National Works and Public Services Bank), state and municipal sources, user fees, and Public Private Partnerships (PPPs). Multilateral institutions including the World Bank Group, the North American Development Bank (NADB), and the Inter- American Development Bank (IADB) continue to be active partners supporting development of transportation infrastructure in México through a range of financing instruments and technical assistance.

Domestic Financing

National Budget and Programs

México's first multi-year, multi-sector infrastructure financing program, the National Infrastructure Program (PNI by its Spanish acronym), covered the period and 2007 – 2012. Initiated by President Peña Nieto's predecessor, President Felipe Calderón, this programmatic approach planned $233.8 billion in infrastructure investment. This was composed of investments of $110.9 billion in oil and gas infrastructure, $35.1 billion in electricity infrastructure, $26.1 billion in telecommunications, and $26.5 billion in road and highway spending. A total of $41 billion was allocated for all transportation infrastructure projects.

At over $590 billion in projected total investment, the 2014 – 2018 PNI exceeds the previous multi-year plan by 133%. It encompasses a wide variety of projects in the sectors of transportation, telecommunications, energy and water, as in the previous program. It adds spending for additional infrastructure projects in the sectors of tourism, urban development, and health.

Uses of Funds Sector	Planned Investment (Billions)	As a by Percent
Energy	$ 297.2	50%
Urban Development & Housing	141.9	24%
Transportation	51.4	9%
Telecommunications	49.3	8%
Water	31.9	5%
Tourism	13.8	2%
Health	5.6	1%
TOTAL	**$ 591**	**100%**

PNI Uses of Funds

Sources of Investment Funds	Planned Investment (Billions)	As a Percent
Federal Budget	$270.9	45.8%
Private Investment	218.5	37.0%
Entity Internal Funds	70.4	11.9%
Subsidies	15.4	2.6%
State Funds	6.8	1.1%
FONADIN	5.1	0.9%
Other Trust Funds	2.9	0.5%
Municipal Funds	0.9	0.1%
TOTAL	**$591.0**	**100.0%**

PNI Sources of Funds

A significant portion of the funding to execute the PNI is expected to come from two non-state sources. Entity internally generated funds, such as from user and customer fees paid to productive state enterprises, like CFE and PEMEX, will account for 11.9% of investment. Investments by investors, operators and concessionaires are expected to account for 37% of program funding. The percentage of funding sources varies significantly, by sector and by project. Some projects are fully supported by the federal government, and at the other end of the spectrum there are projects that are expected to leverage private investment for nearly their full cost. The implementation of a range of ongoing major reforms in energy, telecommunications, and other sectors is expected to enable this significant reliance on non-traditional funding sources.

BANOBRAS and FONADIN

The National Bank of Works and Public Service, BANOBRAS, is México's national domestic development bank. Founded in 1933, the mission of BANOBRAS is to provide financing for projects receiving direct or indirect public funding in the areas of infrastructure and provision of public services. In parallel with its financing activities an important objective of the bank is to support the institutional strengthening of state and local units of government and to further sustainable development. BANOBRAS-supported project goals include defined targets in areas such as development of basic social infrastructure, enhancement of national competitiveness, support to economic growth, and generation of significant net public benefits. In 2012 BANOBRAS reported providing assistance in various forms in the amount of USD $1.2 billion and holding total assets of USD $26.7 billion. 63% of project credit in 2012 was dedicated to road projects (particularly public-private partnership toll roads), another 15% to energy, 13% to security, and $6% to water and sanitation.

Since 2001 BANOBRAS has shifted its focus from traditional direct financing of infrastructure projects to tools boosting municipal access to credit and to technical assistance, strengthening of the sub-national debt market through guaranties, and development of the project financing market. More recently a particular emphasis has been placed on assisting projects that will generate their own revenue streams, and with private participation in development and operations.

BANOBRAS is also responsible for managing the National Infrastructure Fund (FONADIN). FONADIN is a national trust fund that was created in 2008 as a specific vehicle to provide grants, loans and guarantees, with initial capitalization and its own operating revenue sources. FONADIN is tasked with supporting and coordinating investments in communication, transportation, water, environment, and tourism projects. Besides providing very long-term financing, a key role of FONADIN is to assume the portion of project financing risk that the private sector will not bear. This enables leveraging of the maximum private participation in projects with high net public benefits, but higher risk and lower levels of financial profit. In 2012 FONADIN authorized support for more than USD $2.4 billion in projects. FONADIN supported projects must have private participation, be bid competitively through an impartial process, and generate revenue streams sufficient for full or partial repayment. In 2012 projects supported included light rail and heavy metro expansions, toll roads, and wind power generation. In the last five years, all of the federal toll road PPP projects have received some kind of support from FONADIN. In the Private Equity program, FONADIN has committed $400m to support eight different private equity funds, with a total market cap of $2.4bn. This is particularly relevant because México simply did not have these kinds of funds pre-2009.

Most of FONADIN's efforts are channeled through a structure with distinct programs for sanitation, water, mass transit, toll roads and private equity funds support.

AFOREs

México's privately-administered defined-contribution pension funds are known by their Spanish language acronym as AFOREs. Collectively over USD $140 billion is managed by these funds. Historically the bulk of these funds – over 80% - were invested in Mexican government debt.

Following a series of reforms the AFOREs have begun to significantly diversify their holdings by shifting allocations into more complex portfolios including foreign securities and equities. The law now permits AFOREs to make investments in real estate and infrastructure project unlisted debt and equity instruments.

<u>External Financing</u>

World Bank Group

Established in 1944, the World Bank Group is composed of five organizations. The International Bank for Reconstruction and Development (IBRD) lends to governments of middle- and low-income countries. The International Development Association (IDA) provides interest-free loans and grants to the poorest countries. The International Finance Corporation (IFC) focuses on the private sector by financing investment, mobilizing capital and providing advisory services. The Multilateral Investment Guarantee Agency (MIGA) provides political risk insurance to investors and lenders. The International Centre for Settlement of Investment Disputes provides facilities for conciliation and arbitration of investment disputes.

The World Bank Group has two fundamental goals: end extreme poverty and promote shared prosperity. It provides assistance to many sectors including energy, telecommunications, water and sanitation, and transportation. In 2012 the IBRD and IDA combined made $30.8 billion in disbursements and had $259 billion in loans and credits outstanding.

All the World Bank components are active in México except the IDA. As of this writing a new Country Partnership Strategy is being finalized by the Bank, aligned with México's National Development Plan through 2018. Strategic goals are to include increasing productivity, ensuring poorer segments of society benefit from - and can contribute to - growth, combining economic and environmental aspects of sustainable development and, strengthening public finances and improving government efficiency. As of this writing over $2.4 billion in support is being provided to México across 29 projects. A wide range of infrastructure projects are among these current activities, including in the sectors of green energy, telecommunications, mass transit, and water. An example is the $350 million MX Urban Transport Transformation Program, which is providing support to many transit projects across México, leveraging funds from other sources such as FONADIN's national PROTRAM program, the World Bank, and state and local resources. This program is an example of one that has substantial resources remaining to be disbursed, over $322 million. These funds will leverage much substantial resources to support many projects of potential interest to U.S. exporters in the mass transit sector through 2018.

Inter-American Development Bank

The Inter-American Development Bank is a multilateral regional development bank established in 1959. IDB has 48 member countries of which 26 are Latin American and Caribbean borrowing members, including México. Just over 50% of the Bank's capital stock is held by regional developing member countries and the United States holds a 30% share. Since its inception the IDB has provided over $226 billion in support to borrowing members in the form of loans, grants, technical assistance and research. Of this amount México has received $28.6 billion for a wide array of projects including various infrastructure development projects.

The IDB's country strategy through 2018 is to stimulate productive, social, and territorial development in order to boost the Mexican economy's growth potential. The bank will support the country in the areas of: 1.) public management; 2.) the financial system; 3.) labor markets; 4.) business competitiveness; 5.) social protection; 6.) health; 7.) urban development; 8.) rural development; and 9.) climate change. Infrastructure investment priority areas will include urban transportation, telecommunications, logistics optimization, energy efficiency, and financial tools and programs to enable leveraging of non-IDB sources of financing for investments in infrastructure projects.

As of this writing Mexican projects and facilities under preparation are proposed to receive more than $1.2 billion in IDB support. This project pipeline includes such proposals as provision of direct financing for the Manzanillo Container Port and Logistics Facility in the amount of $172.5 million, $90 million for a fund to support exploration and development of geothermal energy projects, and $450 million proposed for national development Bank NAFINSA to lend to support development of cogeneration facilities.

North American Development Bank and the BECC

The North American Development Bank (NADB) and the Border Environment Cooperation Commission are sister institutions established as a joint effort of the U.S. and Mexican governments to enhance the environmental conditions and the quality of life for the people living along both sides of the U.S.-México border. These interdependent institutions work with project sponsors and local communities to develop, finance and build self-sustaining projects. BECC focuses on the technical aspects of project development, verifying the technical viability, environmental and health impacts of projects through a formal certification process. For projects certified by the BECC, NADB then offers direct financing in the form of loans and grants to public and private entities for the implementation of the projects. NADB also offers technical assistance for institutional capacity and planning for the development of sustainable infrastructure. The NADB portfolio includes projects in the sectors of water/wastewater and drainage, air quality, solar and wind energy, and energy efficiency. NADB financing is done at relatively low interest rates and may be for up to 25 year terms. It may not be used to finance more than 85 percent of the eligible costs of a project.

To be eligible for NADB financing a project must remedy an environmental or human health problem, must pass the BECC certification process, and normally must be located within 62 miles north of the border in Texas, New México, Arizona or California, or 186 miles south of the border in the states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora or Baja California. For projects supported in the Mexican states, a Mexican entity, COFIDAN, is linked to the NADB and used to channel the NADB funding.

As of this writing NADB has financed more than 171 infrastructure projects in the border region through over $1.9 billion in loans and grants. In 2013 alone, the bank disbursed over $215 million in loans and $17.9 million in grants. Some projects approved in recent months by BECC for NADB support include wastewater treatment plant improvements in California, a wind energy plant in Baja California, street paving in Sonora, and a solar energy park in Texas.

United States Trade and Development Agency

The United State Trade and Development Agency (USTDA) is an independent U.S. Government foreign assistance agency that is funded by the U.S. Congress. USTDA seeks is to help companies create U.S. jobs through the export of U.S. goods and services for priority development projects in emerging economies. USTDA links U.S. businesses to export opportunities by funding project planning activities, pilot projects, and reverse trade missions while creating sustainable infrastructure and economic growth in partner countries.

USTDA provides grant funding to overseas project sponsors for the planning of projects that support the development of modern infrastructure and an open trading system. The hallmark of USTDA development assistance has always involved building partnerships between U.S. companies and overseas project sponsors to bring proven private sector solutions to developmental challenges.

USTDA's programs are responsible for generating over $23 billion in U.S. exports to emerging markets, supporting an estimated 110,000 U.S. jobs over the last 10 years. That means $73 in exports of U.S.- manufactured goods and services for every $1 programmed.

USTDA carries out its mission by providing grants directly to overseas project sponsors who, in turn, select U.S. companies to perform the USTDA-funded activities. While USTDA projects span a wide variety of sectors, many focus on energy (with a particular focus on clean energy), transportation, telecommunications, and environmental services. USTDA finances activities in areas such as technical assistance, project feasibility studies, and pilot projects.

Export-Import Bank of the United States

The Export-Import Bank of the United States (Ex-Im) is the official export credit agency of the U.S. with a mission to assist U.S companies of all sizes in financing the export of U.S. goods and services to international markets.

Ex-Im does not compete with private sector lenders; they export financing products that fill gaps in trade financing. Ex-Im assumes the credit and country risks that the private sector is unable or unwilling to accept. They also help to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. A strategic Partner of USTDA, Ex-Im provides working capital guarantees (pre-export financing), export credit insurance, and loan guarantees and direct loans (buyer financing). No transaction is too large or too small. On average, more than 85% of their transactions directly benefit U.S. small businesses.

In 80 years of its existence, Ex-Im has supported more than $567 billion of U.S. exports, primarily to developing markets worldwide. Ex-Im Bank supports more exports to México than to any other country. This already strong relationship was strengthened even further in 2011 with a $75 million trade facility for Banco Nacional de Comercio Exterior (BANCOMEXT), México's official export credit agency. The facility allows expedited review of qualified financing requests from Mexican buyers of U.S. goods and services, when BANCOMEXT serves as the borrower of record.

Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) is the U.S. Government's development finance institution that generates private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy. Because OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging markets, catalyzing revenues, jobs and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds.

Established as an agency of the U.S. Government in 1971, OPIC services are available for new and expanding business enterprises in more than 150 countries worldwide, including México. Globally to date, OPIC has supported more than $200 billion of investment in over 4,000 projects, generated an estimated $76 billion in U.S. exports and supported more than 278,000 American jobs.

OPIC was granted permission to offer its full range of programs services in México by the Mexican Congress in August of 2004. In 2013 over $80 million in support was provided to ventures in México through a combination of finance and investment funds.

The United State Commercial Service in México

The U.S. Commercial Service (USCS) is the trade promotion arm of the U.S. Department of Commerce's International Trade Administration. USCS works within the United States and in U.S. Embassies and Consulates in nearly 80 countries worldwide. The USCS network of trade professionals connects U.S. companies with international buyers, providing them with market intelligence, trade counseling, business matchmaking, and advocacy and commercial diplomacy support.

U.S. Small Business Administration

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. SBA recognizes that small business is critical to the economic recovery and strength, to building America's future, and to helping the United States compete in today's global marketplace. Although SBA has grown and evolved in the years since it was established in 1953, the bottom line mission remains the same. The SBA helps Americans start, build and grow businesses. Through an extensive network of field offices and partnerships with public and private organizations, SBA delivers its services to people throughout the United States, Puerto Rico, the U. S. Virgin Islands and Guam.

SBA's office for the support of small business international trade development, the Office of International Trade works in cooperation with other federal agencies and public- and private-sector groups to encourage small business exports and to assist small businesses seeking to export. Through a network of 19 U.S. **Export Assistance Centers**, SBA district offices and a variety of service-provider partners, they direct and coordinate SBA's ongoing export initiatives in an effort to encourage small businesses going global. SBA provides tools such as the **Export Business Planner** to help small businesses work through the processes of export readiness and planning.

The **State Trade and Export Promotion Grant Program (STEP)** is a 3-year pilot trade and export initiative to make matching-fund grants for states to assist "eligible small business concerns," enter and succeed in the international marketplace. Services under the STEP Program are funded in part by SBA, but are provided to eligible small business concerns – or "STEP Clients" - by STEP grant recipients located in most states and territories, and the District of Columbia.

SBA provides a number of loan programs specifically designed to help develop or expand trade and export activities. The **Export Express program** offers financing up to $500,000. Using a network of approved lenders, SBA determines eligibility and can provide a loan approval in 36 hours or less. **Export Working Capital loans** provide advances for up to $5 million to fund export transactions from purchase order to collections. These loans have a low guaranty fee and quick processing time. Finally SBA's **International Trade Loan Program** provides small businesses with enhanced export financing options for their export transactions. The ITL is designed to help small businesses enter and expand into international markets and, when adversely affected by import competition, make the investments necessary to better compete. The ITL offers a combination of fixed asset, working capital financing and debt refinancing with the SBA's maximum guaranty— 90 percent— on the total loan amount.

Further Reference

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