

Bank financing is usually secured by concession revenues and rarely guaranteed by either the concessionaire or its construction affiliate. Mexican financial groups have provided funding for toll road construction through highway bonds, commercial paper and equity-backed debt.

To finance its contribution, the government has used several mechanisms including contributions over time from the value-added tax generated by the project. Another approach is to provide an existing two-lane highway as equity in the project. This way, the concessionaire can expand it and collect revenues from it.

Once financing has been arranged, the concessionaire and the banks establish a trust for approving and paying construction expenses. The government carefully monitors the progress of construction according to previously determined specifications. Contracts are usually based on unit prices. Consequently, if the design is altered for a valid reason, the amount of construction increases as does the overall cost of the project. Such added costs, called change orders, are usually due to the government's incomplete design and are common in toll road projects. Concessionaires (project developers) may renegotiate an extension of the concession, and they must also finance the higher cost until the renegotiation is completed.

Once cash flow becomes reasonably predictable and sufficient to service debt, Mexican construction companies often try to reduce their equity investment in the concession. They do this through debt financing, equity reduction, equity placement or outright sale of their interest in the project. The Mexican government is committed to reducing the complexities of existing concessions and to avoiding future difficulties by awarding concessions on an integrated basis.

In the future, concession projects will probably be made more attractive to private investors. Increasingly liberal foreign investment regulations will open up this sector to a broader range of project developers. Companies from the United States, the United Kingdom, Italy and France are already pursuing opportunities in Mexico. There are, however, a number of barriers to entry and over the medium term most of them will focus on joint ventures with local firms.