

### KEY MEXICAN CONSTRUCTION COMPANIES INVOLVED IN THE HIGHWAY CONCESSION PROGRAM

- ☐ Grupo ICA
- ☐ Tribasa
- ☐ Pycsa
- ☐ Protexa

## RESULTS

After five years of operation, reviews on the success of the concession program are mixed. Over 3,000 km of highway have been built since 1988 but investors are finding that the traffic flow on these roads is not as high as expected. Drivers are choosing alternate routes in order to avoid paying the high tolls (for example, the one-way toll on the Mexico City-Acapulco highway is U.S. \$77). Construction firms are not recouping their investments as quickly as projected and concession periods are being extended to compensate.

A limited number of firms have taken part in this program. These are, for the most part, the largest construction firms with the resources and the capabilities to undertake projects of this magnitude. In a few cases consortia of medium-sized companies have successfully bid on concessions. For those firms that do participate, there have often been significant costs overruns which have increased the debt of the private operators (the 400 km Mexico City-Acapulco highway was finished at U.S. \$1 billion — double its estimated cost<sup>3</sup>).

Financing of these projects has been one of the problem areas. With Mexican interest rates ranging upwards of 30 percent per annum, concession owners are forced to seek international financing where possible. Lack of experience in financial markets is cited as a problem.

The government's reaction to these problems has been to consider extending the terms of concessions from their current 10 to 12 years to as much as 30 years.

## LESSONS FROM THIS EXPERIENCE

The fallout of the highway experience may offer opportunities to Canadian firms:

- Traditional methods of construction are being reviewed. Builders, who are now responsible for the maintenance of the roads over extended concessions, are looking for new road building technologies that can reduce their long-term operating costs.
- Mexican financial institutions have redefined their requirements with regards to funding these programs. Projects must now be well defined and "financially engineered" — two areas in which Mexican construction firms have not traditionally excelled.

In December 1993, the Communications and Transportation Secretariat (SCT) announced nine new highway projects that will require an investment of U.S. \$684 million. The new concessions should guarantee lower tariffs for motorists and will help modify the current concession system used in awarding construction contracts.

*El Financiero International*

## BIDDING ON HIGHWAY CONCESSION PROJECTS

The award of highway concessions is handled through public tender (see Section 10). Calls to tender are published in major national newspapers and the general specifications of the project are distributed to interested bidders. Due to the magnitude of the investment, proposals must be accompanied by a letter of guarantee from a financial institution demonstrating financial support for the construction and concession phases of the project.

