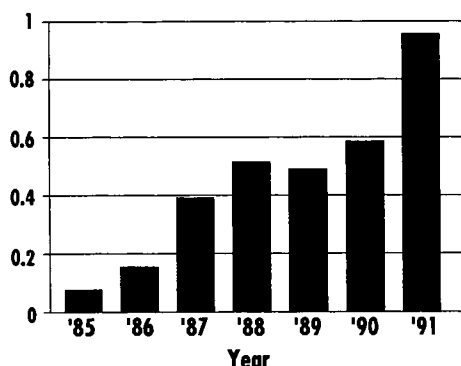


3. SECTORAL OPPORTUNITIES — ROADS AND HIGHWAYS

FIG. 3.1
PUBLIC INVESTMENTS IN ROAD CONSTRUCTION
(U.S. \$ BILLIONS)



Source: National Institute for Statistics, Geography and Information (INEGI)

One of the most active sectors of infrastructure development in Mexican is highway construction. In 1989, the federal government introduced a program to construct 15,000 km of new four-lane highway by the year 2000. As a first phase, it proposed 40 ventures to improve existing highways and to construct approximately 7,000 kilometres of toll roads. To date over 3,000 kilometres of highways have been built and approximately 2,000 kilometres are currently under construction.

In 1991 public investment in highway construction had risen to 3 billion new pesos (U.S. \$1 billion) which represented close to 10 percent of all spending on public construction. In addition to public funds, the private sector has taken over a considerable portion of the highway construction through the *Programa Nacional de Carreteras de Cuota Concesionadas* — the highway concession program. It is estimated that since the introduction of this program the investment in roads already built and those currently under construction is more than U.S. \$10 billion. Much of this has been financed by the builders in return for short term concessions.

THE HIGHWAY CONCESSION PROGRAM

The development of toll road concessions was the first example of privatization of Mexican public construction projects. In order to finance construction of highways the government created a build-operate-transfer (BOT) scheme. Under the concession program the investor (usually a large construction company) finances and builds the road, retains ownership of the highway over a period of 10-12 years, and recoups the investment via the collection of tolls. At the end of the concession period the ownership of the highway is transferred to the state. The government guarantees the investor's return on investment in terms of projected traffic revenue over a set period of time. If the traffic is lower than projected, the tenure period is extended to compensate; if the traffic exceeds expectations, the period is shortened and the government takes ownership earlier.

The privatization of the highway system was considered important for several reasons:

- It allowed the government to modernize its highway system within the constraints of a shrinking public works budget.
- It represented one of the cornerstones of the government's infrastructure renewal program. Road transportation is viewed as essential to attracting new industrial investors who will require safe, timely and cost efficient transportation.
- Being the first application of infrastructure privatization (indeed the first of its kind in Latin America), it was one of the most significant measures of the government's initiative and was to be used as a blueprint for future concession projects by both the government and the funding institutions.

