

Although this book is devoted to explaining the BOT method, build-own-operate (BOO) method of mobilizing private capital is increasingly being employed in many countries, including Mexico. The implications for project developers between the two methods remain virtually the same. The essential difference is that the project or facility is not eventually transferred to the government: it remains in the hands of the project developers. The BOO method is becoming increasingly preferred in situations where the government wants to privatize infrastructure without having to absorb facilities at the end of project concessions periods, such as is the case for BOT projects. The BOO method is less attractive than BOT for road or highway projects because of the question of land ownership. However, BOO is becoming increasingly attractive for public utilities projects.

CONTRACTUAL RELATIONSHIPS

In theory, the commercial agreements that underlie build-operate-transfer (BOT) are fairly simple. The steps to the BOT approach are as follows. A project development consortium of private contractors, financiers and investors is formed. Consortium members design, finance, build and operate the infrastructure facility. After a specified period, anywhere from 10 to 30 years, the project developers are expected to have repaid the project debt and earned a profit. They then hand the facility over to the host government. There are many variations, but the end use and end user are always predetermined. In more formal terms, BOT can be described as a fully risk-allocated, design-build contract, coupled with a sale of the project to the users on the basis of a pre-established commitment and contract.

In practice, BOT schemes can be quite complex because countries such as Mexico present special problems for any commercial operation. For example, investments are usually in hard currencies, while revenues are in local currencies. It is, therefore, necessary to guarantee that sufficient foreign exchange will be available to service foreign loans and equity investments.

Collecting accounts receivable can also be a problem, particularly when the product is perceived as a public utility. Collection can be difficult, for example, in electricity or water treatment projects where disconnection of delinquent customers is not always an option. For this reason, toll roads, public transit systems or other fare box operations are seen as better risks because they involve cash receipts received directly from the public.

BOT facilitates project financing by giving the lender access to the cash flow generated by the project but not to the revenue of the companies running the project. This does not ignore the project developers record, however, since lenders prefer to finance projects that are run by people in whom they have confidence.

Financing any major infrastructure project involves a web of contractual relationships between a number of parties. Assuming that the prerequisite cash flow is available to finance a project, the success of a BOT arrangement depends upon an appropriate and acceptable allocation of risk among the parties.