

ADVANTAGES OF BUILD-OPERATE-TRANSFER

There is a global trend towards much greater private sector involvement in infrastructure development. This trend is not unprecedented. In the 19th century, private-capital financed canals and railways around the world. Private investors are once again being called upon to build and operate roads, bridges, tunnels, power stations, water treatment plants and other infrastructure projects that have been considered the sole responsibility of governments for many years.

To fund these activities, developers are increasingly using the concept of project financing. This means that loan repayment is based on the revenues generated by a project rather than on the income or assets of the developer. Joint venture partners are generally called upon to provide less than 20 percent of the capital cost. Also known as limited-recourse or non-recourse financing, this specialized field is attracting more and more players.

Traditionally, countries like Mexico have financed public infrastructure through transfers of public funds combined with borrowing from the international financial institutions as well as from large commercial banks in the developed countries. Up until the early 1980s, the large commercial banks along with the World Bank took the lead in lending to developing countries. Further assistance was provided by export credits guaranteed by suppliers' governments. Ten years ago, these were the most common method of financing infrastructure projects. The debt crisis of the developing world in the early 1980's changed this, however. Large commercial banks got out of lending to developing countries. This withdrawal of the commercial banks created a crisis. The other mechanisms, such as the international financial institutions, could not adequately fill the void.

There is simply not enough money available from international lending institutions to handle the rapidly growing demand for infrastructure projects. Taxpayers in countries such as Mexico cannot finance such projects on their own. The only way to cover these financial requirements has been to increase the flow of private capital to the projects.

Under the build-operate-transfer (BOT) approach, private capital, usually from foreign sources, is combined with supplier credits and other types of financing. The foreign, or joint-venture project development company runs the facility for a defined period. It collects user fees, repays the project debt and, at the agreed time, transfers the assets to the government of the host country. This financing method has become increasingly popular. It is estimated that roughly half of all infrastructure investment is now coming from private investors as a result of this approach.