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PUBLIC-PRIVATE PARTNERSHIP IN MEXICO

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LIST OF ABBREVIATIONS

BOO: Building, Own Operation;

BOT: Building, Operation and Transferring,

DBFO: Design, Building, Finance and Operation,

DGPyPs: Dirección General de Programación y Presupuesto sectorial, in the case of the agencies

LFPRH: Ley Federal de Presupuesto y Responsabilidad Hacendaria

RLFPRH: Reglamento de la Ley Federal de Presupuesto y Responsabilidad Hacendaria

LAASSP: Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público

MNPAPF: Manual de Normas Presupuestarias para la Administración Pública Federal

RLAASSP: Reglamento de la Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público

PEF: Presupuesto de Egresos de la Federación

PFI: Iniciativa de Financiamiento Privado

PPI: Proyectos y Programas de Inversión

PPS: Proyecto de Prestación de Servicios

SCT: Secretaría de Comunicaciones y Transportes

SEP: Secretaría de Educación Pública

SF: Secretaría de la Función Pública

SHCP: Secretaría de Hacienda y Crédito Público

SS: Secretaría de Salud

OVERVIEW

The economic dynamics of recent decades has reduced public resources for investment. The multiple fronts that should be served by the public budget, including priority investment projects for social and economic development, are often subject to delays. In the early nineties in Britain public-private partnerships schemes were promoted to carry out public investments necessary for the provision of services in areas such as transportation, defense, water, education and health.

This type of arrangement provides that the risks and contingencies related to the financial costs and execution of works, move to the private sector; the maintenance and operation services after completion of the project are also provided by the private sector. However, the ultimate responsibility for the project remains with the public sector. This design partnership will help ensure the provision of new infrastructure and facilities, in correspondence to a plan derived from a specific policy, according to schedule and most important for the public sector, according to established costs.

Traditionally, the provision of goods by the public sector has faced harsh criticism stemming from the monopolistic nature of the market, ie the lack of competition results in inefficiency, as prices do not respond to the demand and do not reflect the actual costs of the service. The revenue derived by the public sector ise insufficient to service provision, leading to low investment levels, deterioration of existing infrastructure, poor quality and no service expansion. This argument, widespread, does not necessarily reflect the vocation of both, the public and private sectors of the economy. While the private sector can provide services more effectively and efficiently than the public sector, not necessarily best serves the needs of the population. What motivates the private sector is to obtain the profit, therefore it has an incentive to continually reduce costs and improve delivery mechanisms, which could eventually compromise the quality of service. Indeed, there are significant differences between the public and private sectors. The former has different responsibilities, beyond the profit, as not all services can be provided to the population in a profitable manner. Hence the introduction in México of the Service Providing Projects (PPS) in the provision of goods and services PPS does not necessarily increase the efficient use of scarce public sector resources if they are contracted firms exaggeratedly prone to risk, which may lead to adverse selection and moral hazard.

CHAPTER 1. THEORETICAL BASIS OF PPP´S

1.1 DEFINITION

The public-private partnership (PPP) is a generic term to involve private companies in the provision of public services and works. The private finance initiative (PFI) in UK is the biggest PPP project in the world. Other governments have developed other PPP schemes, depending on the characteristics of each country and sector.

In Mexico, the scheme is called Service Providing Project (PPS). This type of public-private partnership allows the private sector to provide support services to the government, which, in turn, provides a public service. In this contractual arrangement, resources, risks and rewards for public and private sectors combine to generate greater efficiency, better access to capital and ensure compliance with a range of government regulations concerning the environment and the workplace . The public interest is served through clauses in the contracts that establish a constant monitoring and review of the operation of the service, or development of the service or facility.

1.2 PURPOSE

The essential purpose of the PPS is to increase the coverage and quality of public services that provide government agencies and entities through the hiring of support services provided by an investor supplier. The services contracted through a PPS should support the government to give better effect to the functions and utilities which they are responsible.

Importantly, the definition and development of each PPS shall conform to the applicable regulatory framework and meet the cost-benefit criteria established. A PPS is developed based on a service contract long term, minimum 15 years, through which an investor vendor provides a range of services to the public sector, well-defined, establishing the quality standards required during the life of the contract, and the distribution of risk between private investors and government.

In the more complete case, the provider investor takes care of design, financing, construction, operation and maintenance of assets and services related.

1.3 OBJECTIVES

The PPS projects outline the following objectives:

1. Improving the coverage and quality of goods and services provided by the public sector, maintaining the infrastructure in proper operating condition.
2. Promote the development of infrastructure through schemes to complement it and the more efficient use of public resources.
3. Rational use of scarce public resources, trying to get the greatest benefits.
4. Finance public infrastructure needs without pressing public spending.

1.4 BENEFITS

1. You get the best of the abilities and skills of public and private provision of public services.
2. Maintaining optimal levels of quality in the long term, for public services.
3. The public sector can exploit the potential of its resources to devote to other social needs.
4. Exploit the resources and expertise of the private sector to deliver services efficiently and timely.
5. Are reduced or eliminated the delays and costs that commonly afflict the development of public projects.

1.5 RISKS

Risk allocation:

PUBLIC

- Project Planning
- Permissions
- Land Availability
- Project Modifications Required by The Government
- Changes in Demand
- Inflation
- Default
- Law Reforms
- Pre-existing Pollution
- Opposition to the Project

PRIVATE

- Project Design
- Construction Cost Overruns
- Delay in the Construction
- Operation at a Higher Cost
- Hidden Defects
- Maintenance Costs
- Failure in Quantity and Quality of Service
- Operation of the Equipment and Repositioning
- Insurance
- Obtain and Maintain Necessary Permits
- Technological Obsolescence
- Inflation and Interest Rate

SHARE

- Archaeological Finds
- Geohazards
- Force Majeure

1.6 KEY FEATURES OF THE PPS

To be considered a PPS[1], the project must meet the following characteristics:

- Their implementation involves a contract of long-term service from a department or entity and an investor supplier.

[1] Center for the Study of Public Finances MFPC, (Ministry of Finance and Public Credit) Agreement which lays down rules for the implementation of projects to provide services, Title II projects for provision of services, number 4. DOF March 26, 2003.

- Services provided under the contract should enable contracting departments or agencies to better fulfill its mandated functions and services, and the objectives outlined in the National Development Plan and sector programs.

- The provision of services is carried out with the assets to build or provide the investor supplier, including assets under concession by the public sector, depending on the requirements of the contractor. The ownership of the investor's assets may be private or government.

- Payments are made based on the availability and quality of services provided. Once these criteria, the government has an obligation to cover the payments, which are recorded as current expenditure.

- Must demonstrate, through a cost-benefit analysis, the value of making a PPS.

- The risks associated with the project are distributed between the two sectors.

- While the private sector participates in a PPS, the ultimate responsibility for the provision of public services to users lies solely in the public sector.

In general, the public sector may propose, under the PPS scheme, all those projects in which to define service quality standards and long-term risks, however, to develop a project such as PPS, you must demonstrate to through cost-benefit analysis, that the net social value is positive compared to a reference project traditional public investment.

CHAPTER 2. BACKGROUND

2.1 ORIGIN IN ENGLAND

In 1992 the UK government in order to reduce the requirements of public sector borrowing, developed two public investment schemes, where co-participate in private initiative, the so-called public-private partnerships: public private partnership (PPP) initiative private finance (PFI), focused on the provision of services, although initially sought to reduce public sector borrowing requirements, when labour replaced the conservatives, the emphasis was on reducing the risk that it would move the industry private. As expected, the experience was spread and several countries have used this scheme to serve the population.

In a PFI project, the government contracts with a private company a long-term, 15 years or more to design, finance, build and sell goods or services such as schools, hospitals, roads and prisons, among others, the government, in turn, provides a service to the population. The advantages of this system are that the government should not pay at once; spending on infrastructure and on the other hand, the private partner is responsible for maintenance, for a periodic payment.

In the U.S., the average of the cities, working in partnership with private enterprise to supply 23 of the 65 basic municipal services. The use of this tool is increasing because the scheme is effective in meeting public needs, improving service quality and a cost-effectiveness favorable.

The public-private partnerships can be applied to a wide range of functions, which include:

- Conceptualization and Project Origin
- Design

- Financial planning and design
- Construction
- Operation
- Maintenance
- Receiving services and / or property
- Program Administration

All these activities are incorporated into the contract, reflecting the objectives of the public agency in relation to activities and delivery schedule, cost certainty, financial innovation, liability transfer, management and operation. The typical package includes:

- Operation and maintenance by the private sector on a pre-established performance contract.
- Private management program in exchange for a fee or from scheduled costs and incentives for scheduled maintenance.
- Integrated design for a fixed rate on a long term contract.
- Layout of Construction, Operation and Transfer (BOT).
- Design, Finance, Build, Operate and Transfer (DBFO) and;
- Construction and Operation Own (BOO).

The scheme was not without problems, since the initial purpose was to avoid increasing the debt, the first contracts the provision of services is made at a cost substantially higher than the traditional. This was because private investors working with a yield higher than that of government securities, although the government took all the risk associated with project revenues. * The proposed solution was the development of formal procedures for evaluation of the PPS, in which the main criterion was the value for the money that was obtained from the appropriate allocation of risk. These assessment procedures are incorporated into the PFI and its Australian counterpart in the late nineties.

2.2 HOW DID PPS APPEAR IN MÉXICO

As show in Figure 1, based on the PFI model, since 2002 the Mexican government began to evaluate the potential of PPS scheme and design its regulatory and operational framework.

Fig. 1 Outline of the implementation of PPS in Mexico

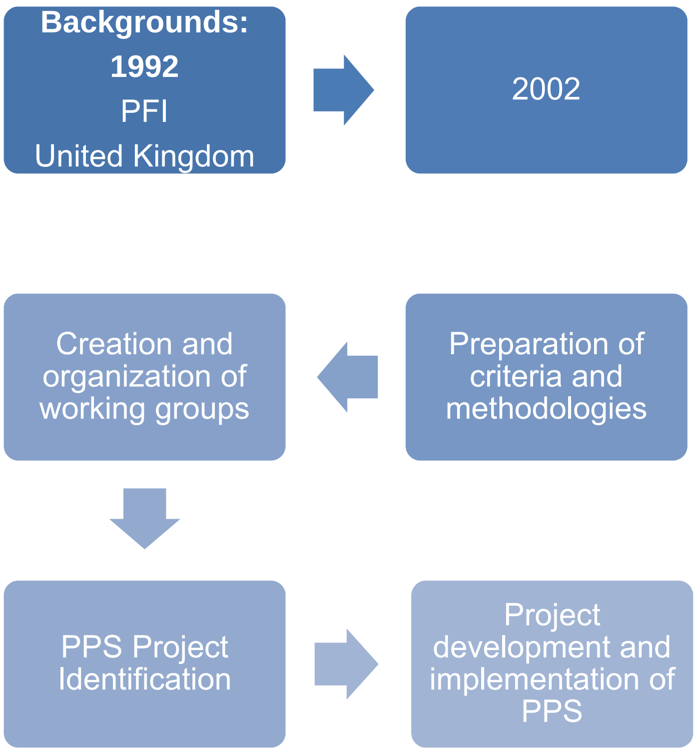
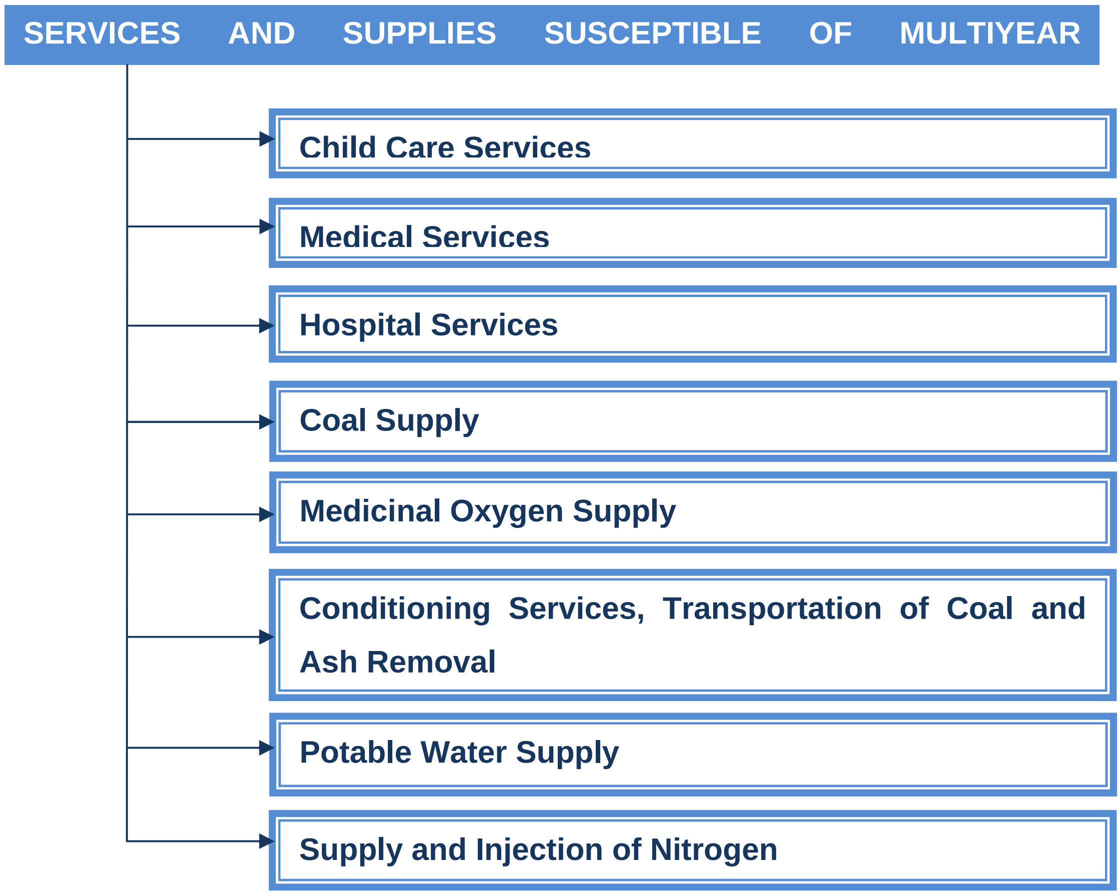


Fig 2. Services in Mexico that the regulations allow to contract as multi-year



2.2.1 THE LEGAL FRAMEWORK OF PPS IN MEXICO

The PPS appear first in Mexican law by the "Agreement establishing the Rules for the Implementation of Service Delivery Projects" published by the Ministries of Public Service and Public Finance, in the Official Journal the Federation on March 26, 2003, the same that was without effect on the agreement of the same name, published on April 9, 2004 (the "Rules PPS"). The constitutional foundation rests on Article 134 of the Constitution, which establishes the works contracts by competitive bidding, to guarantee the exercise of public resources with adherence to principles of economy, efficiency, effectiveness, fairness and honesty.

Therefore, the regulation is complemented by the Procurement Act, Leases and Public Sector Services and Regulation (LAASSP), which regulates the planning, programming, budgeting, spending and control service delivery, procurement procedures and establishes provisions for the fulfillment of future commitments. The minimum contract for a PPS is 15 years.

Additionally, the Federal Budget and Fiscal Responsibility (BFRL), Article 50 provides the ability to multi-year contracts for public works, acquisitions, leases and services during the fiscal year, while the rules of that law (RLFPRH), section IX, articles 35 to 41, establishes the requirements that must comply with the PPS, to be considered as such and receive funding from the budget. Other standards are established in the Budget Policy Manual for the Federal Public Administration (MNPAPF), and in other jurisdictions, as shown in Figure 3.

Fig. 3. Legal Framework for Service Delivery Projects

ORDER		MAIN PROVISIONS
A	Federal law of budget and fiscal responsibility	25 and 50
B	Regulations of the Federal Law of Budget and Fiscal Responsibility	Articles 150 to 155
C	Procurement law, leases and public sector services	24 and 25
D	Agreement because of which is create the manual of budget rules for the Federal Public Administration	2, fr. XXXII, 5, 10, fr. I, 63, 64 y 110
E	Agreement because of which is establish the Rules for making PPS	9,10,16,26 y 27
F	Agreement to guidelines for the elaboration of drafts of the budget expenditures and coordination with SHCP and SEGOB	2 y 6
G	General provisions of programming and budgeting process for fiscal year 2006	3,4,5,8 y 9
H	Criteria for determining the limits of the annual budget applicable to PPS	All
I	Guidelines for cost-benefit analysis of projects to provide services	All
J	Methodology for comparison of bids	All
K	circular trades - circular trade 801.1-.231 - circular trade 801.1-.328	All
L	New items, added in 2005 to target spending classifier for use in the 2006 budget	Heading 3415

Source: SHCP, Unit on Investment and the Ministry of Health, White Paper Program: Draft Regional High Specialty Hospitals Developed by the Health Ministry under the scheme of Projects for Provision of Services (PPS), October 31, 2006, p. 61.

Under the rules PPS, the PPS are the set of actions required for an agency or entity receiving long-term service provider by an investor through a service contract long term, other than those defined as projects long-term productive infrastructure investment conditional.

Based on paragraph 10 of the Agreement are issued rules for the implementation of PPS, payments that the agencies made as consideration for services received under a long service contract shall be recognized as *current expenditures*[2] except that at the end of the contract is chosen by the acquisition of the asset, then you consider investment spending.

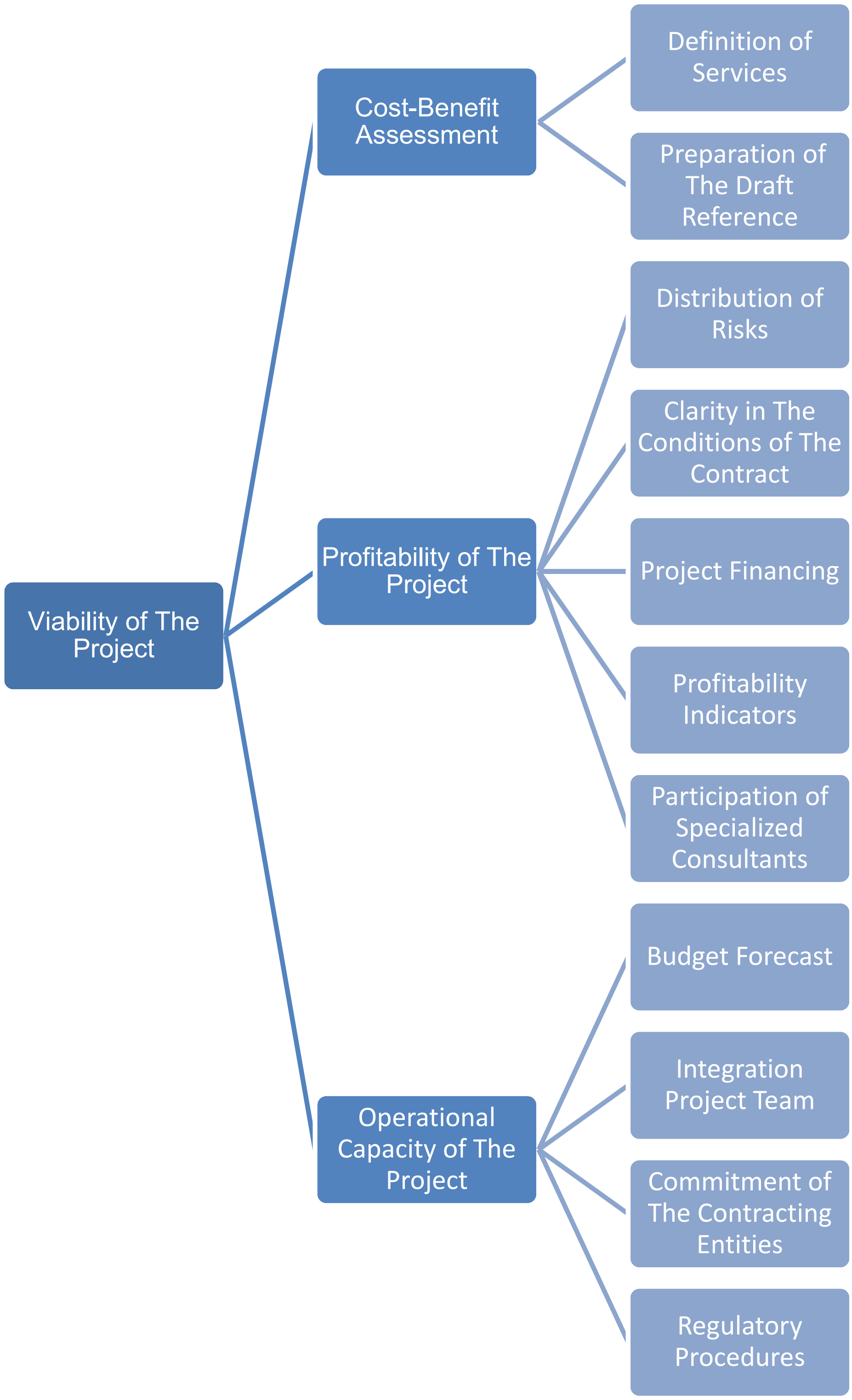
The project contracts, required a high level of detail, compared with traditional mechanisms to cover those aspects of service definitions, levels of quality, performance mechanisms and risk, so it is necessary participation of specialists, both public and private.

Traditionally, the costs of consultants represent a total value of long-term contracts. Maintenance costs, equipment, replacement, operation and risk management are set out in the contract, encouraging the reduction of problems caused by delay of work, cost overruns, technological change, corrective maintenance and other project risks, we must recognize, however , which is not possible to foresee all the contingencies that absolutely could be in a long term project.

The figure 4, show the feasibility of a PPS, and all the stages involved in a project. One of the advantages of PPS is that the total cost of the contract is determined from the beginning. This cost is deferred into a defined series of periodic payments in real terms and adjusted for changes in price levels. The impact of the budgetary commitments on public finances and its feasibility should be evaluated for each project, the areas responsible.

[2] Item 3415 Servicing Projects: Appropriations to cover the expenses that the agencies made to suppliers in return for services rendered under the terms and conditions set out in contracts of long-term services, which are formalized by the Projects called for Provision of Services

Fig. 4. The Tree of feasibility of a PPS



Source: Garcia Medina, F. Ulysses Service Providing Projects(PPS) in Mexico, 2007.

CHAPTER 3. CONCESSION VS. PPS

CONCESSIONS

- Concessions granted by public tender.
- SCT given to the contestants the final design and right of way free.
- SCT delivered to a study gauging bidders but assumes no responsibility for any resulting changes.
- SCT sets the maximum average rates and the rule for updating.
- The concession period is up to the maximum allowed by law (thirty years).
- The government gives the initial public resources, through the National Infrastructure Fund (FONADIN).
- The grant is awarded to the lowest bidder to request financial support from the government, measured as the sum of the initial and the net present value of subordinated contribution commitment.
- The government undertakes to perform, if it's necessary, a subordinate contribution (CAS) to cover the debt service.

- When projects do not require public funds, the concession will be awarded to the bidder who meets the legal, technical and financial bid and offer greater consideration to SCT.

- Distribution of risks in the areas of unforeseeable circumstances or force majeure through insurance and a contingency fund established in FONADIN.

- Possibility to return the invested capital in case of early termination of the grant for reasons attributable to the own dealer.

PPS

- Concession granted through public bidding that secures to the dealer the right to be awarded the contract for the provision of services.

- The contract term of service is fixed, 15 to 30 years.

- The contract established a partnership between the Secretariat and a private company to design, finance, construct, maintain and operate.

- The provision of the service is done by private enterprise in exchange for periodic payments quarterly.

- The periodic payment is based on a mechanism that considers the availability of the route and level of use.

- Each bidder calculates a periodic payment based on:
  → Cost of construction, maintenance and operation.

→ Return on capital contribution (including financial costs).
→ Transit estimated annual in a specific band.
→ Period of contract.

- The net present value of flow payments periodic is the variable decision to grant the award, following validation of compliance with the requirements technical, legal and financial.
- After construction, the modernized road continues to operate as a free of tolls.
- When the model is applied to highways, the periodic payment is made using a combination of tariffs and budgetary resources.

CHAPTER 4. PPS EN MÉXICO

4.1 PROCEDURE FOR APPROVAL OF A PROJECT TO PROVIDE SERVICES

To carry out a PPS, the agencies have a long way detailed in the agreement establishing the rules for the implementation of projects to provide services (PPS Rules), the route is summarized in Figure 5.

The first step is to file a request for authorization to the Ministry of Finance through its Department of Planning and Budget (DGPyPs sector), this authorization allows you to set the stage for the preparation of the draft contract to provide services long term. This application must be added the following information:

A. The description of the project to provide services;

B. Rationale for the project, highlighting its consistency with the objectives and strategies of the NDP, and other sector programs, institutional, regional and special corresponding to the agency or applicant;

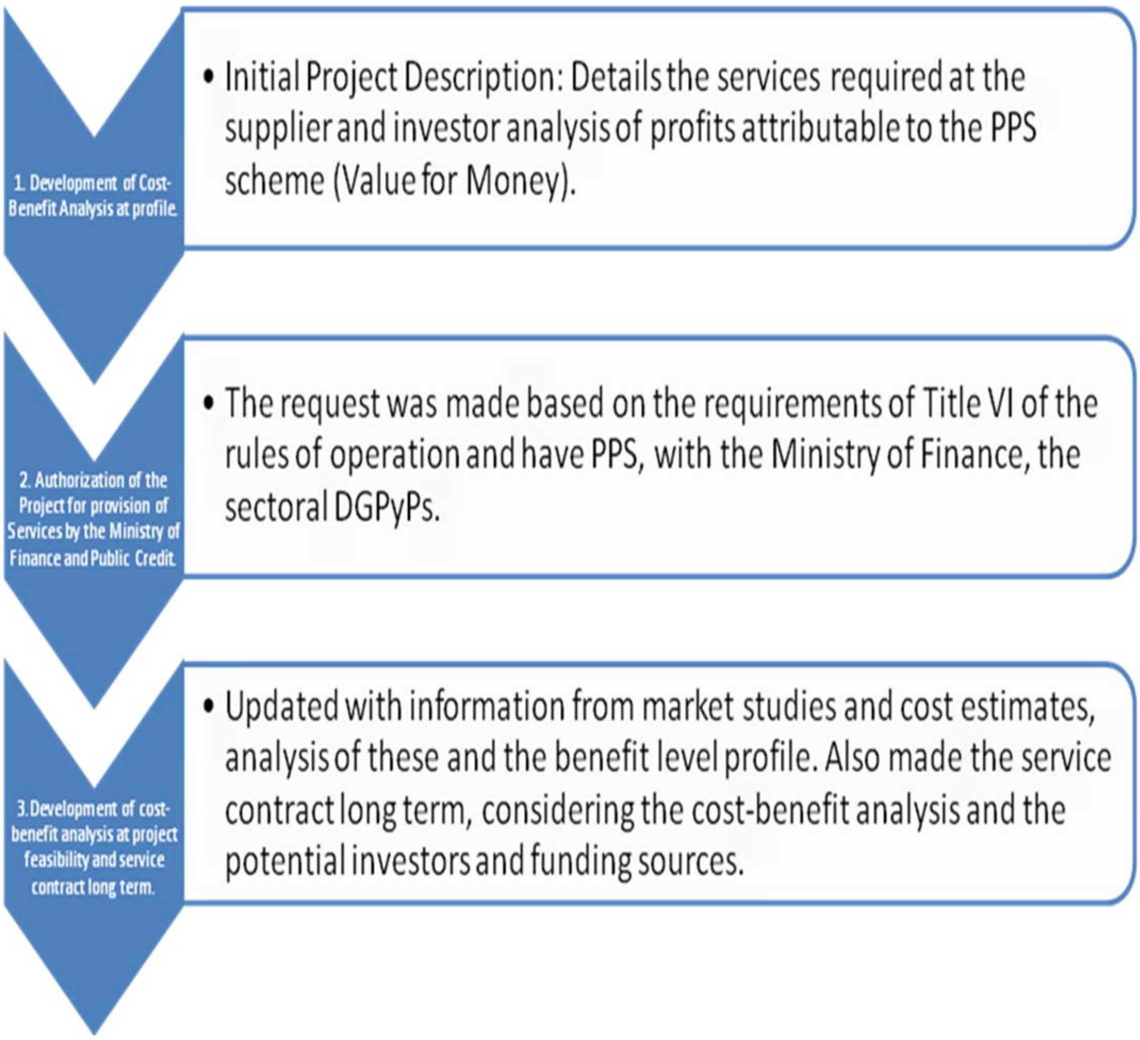
C. The favorable opinion of their legal and budgetary areas, the governing body or area coordinator, as applicable;

D. The cost-benefit analysis;

E. The recruitment procedure to follow;

F. The main elements that will hold the service contract term, to be held between the agency or contracting entity and the investor. In this shall include: the description of the services provider will provide the investor, the duration of the contract, the time to start providing services over the assets constructed or provided by the investor supplier; advances required, the risk allocation between the agency or contracting entity and the investor supplier, the conditions for the acquisition of assets, if any.

Fig 5. The Route of the PPS



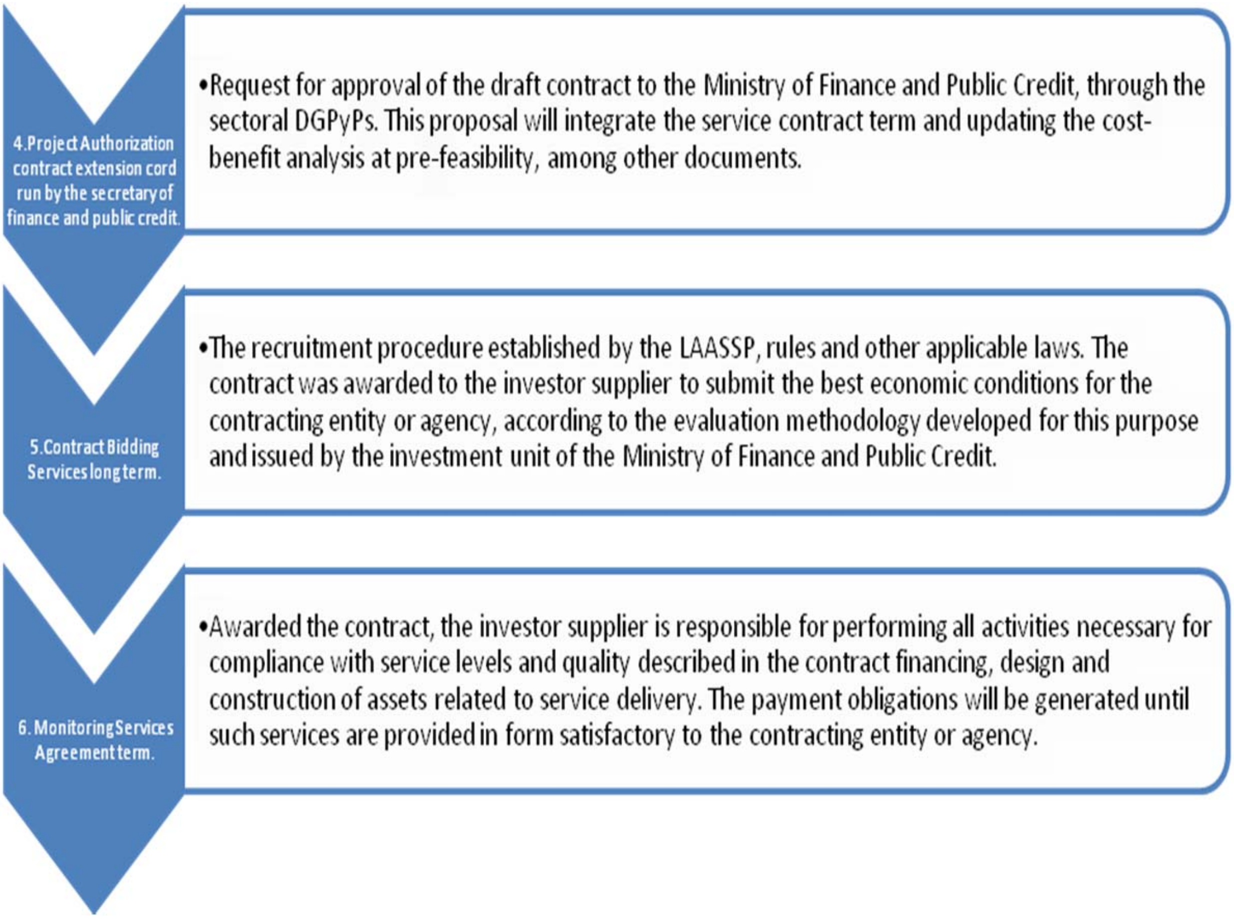


Figure 6 shows the coordination group involved in the development of the PPS, and Figure 7 shows the resources needed for its realization.

Fig. 6. Coordination Group for the PPS.

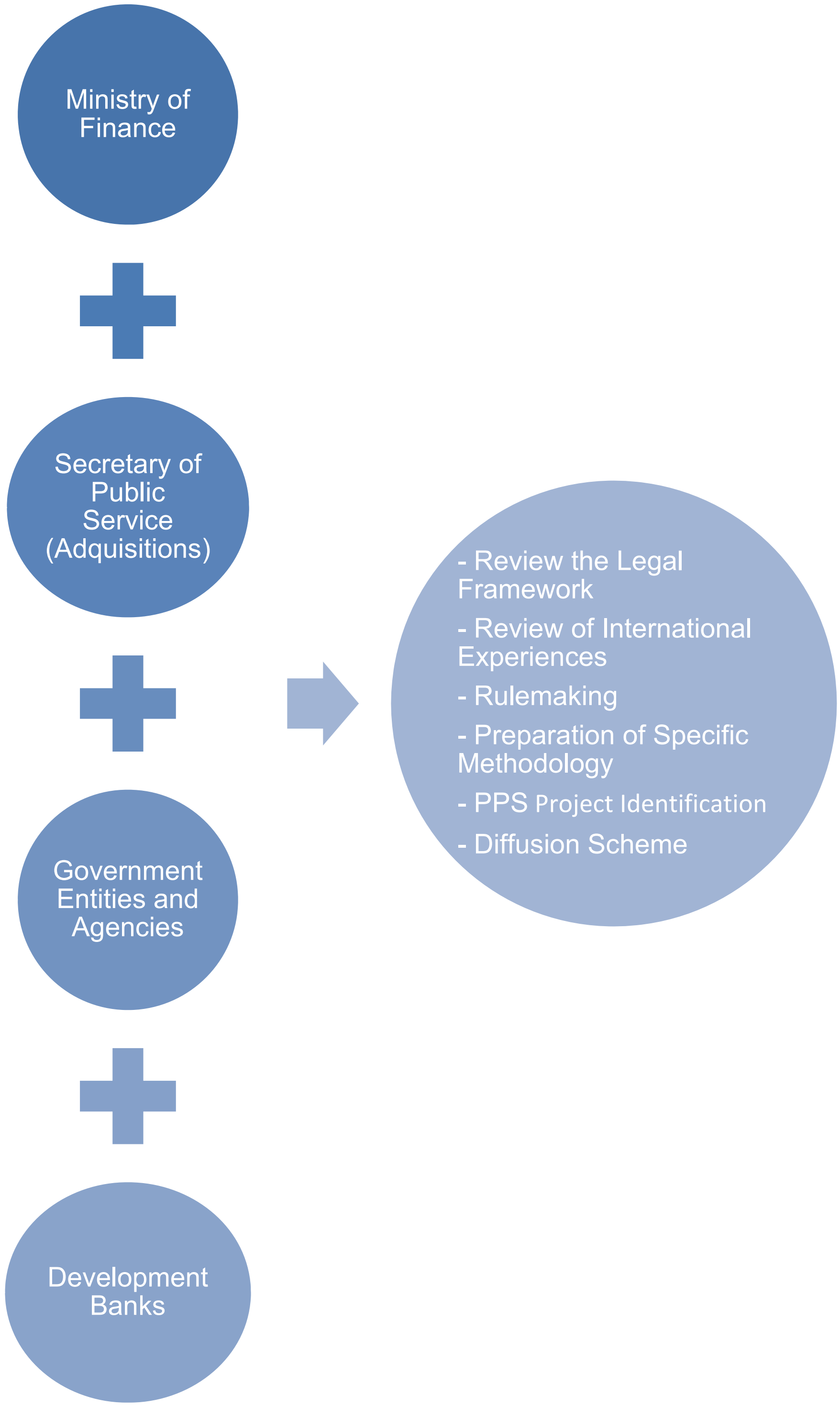
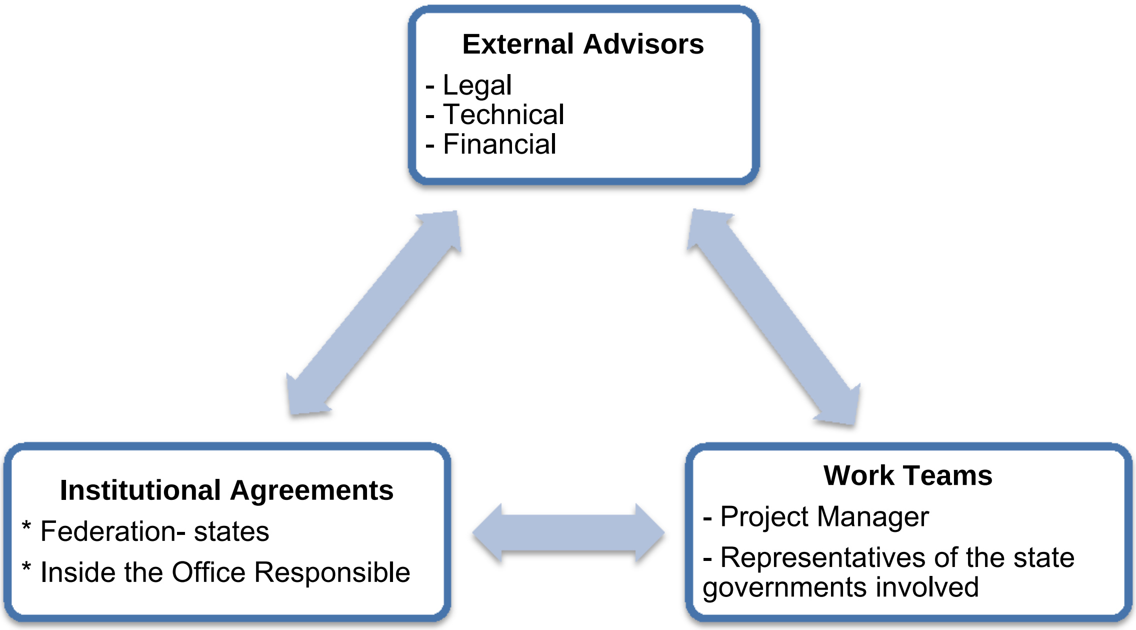


Fig. 7. Resources Involved in the Realization of a PPS



Once supported the application with all required information, the sectoral DGPyPs seek the views of the Policy Unit and Budgetary Control, regarding the future impact of the expenditure involved in the contract, public finance federal public sector as well as the view Investment Unit in relation to compliance with the guidelines for cost-benefit analysis of the project. When you count on favorable opinions, the Ministry of Finance issued the first approval.

4.2 THE CONTENT OF COST-BENEFIT ANALYSIS

The BFRL states that all investment projects should be recorded in the Portfolio of Projects of the SHCP, this is necessary, particularly for the PPS, where the cost-benefit analysis should show if the project generates net benefits equal to or higher than would be obtained if the services are proportioned through budget investment. The cost-benefit analysis must contain the following[3]:

Executive Summary: Overview of the project, briefly describing its most relevant to meet the need or problem to be solved, the main features of the project, the reasons why the chosen alternative is the most convenient, and profitability indicators risks associated with their implementation.

Without project situation and possible solutions: Diagnosis of the current situation that motivates the project, shall be reported and explained the alternatives evaluated, the situation without the project, considering the current optimization measures, which must be projected over the evaluation horizon . Analysis of current supply and demand, estimates over the horizon of evaluation should include the methodology, assumptions used and their justification.

Project Description: includes objective, which must correspond to the National Development Plan and sector programs, regional or special apply to the agency or entity responsible for its implementation; purpose, components, activities, project type, economic sector and location geographical installed capacity, generation of income or savings, technical evaluation, legal or environmental project, progress in obtaining rights of way, where applicable, the total project cost, separating the costs in the stages of implementation and operation; funding sources, the estimated scheduling, resource allocation (federal, state, municipal and private) economic assumptions, existing infrastructure and development projects that could be affected by the project.

Situation with the project: describe the impact on the market for the project, comparing the situation without project optimized the situation with the project, so as to identify the impacts attributable to the project only.

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[3] Guidelines for cost-benefit analysis of projects to provide services, Ministry of Finance-Investment Unit.

Project Evaluation: identify and quantify in monetary terms the costs and benefits of the project, their flow along the horizon of evaluation should be considered the direct and indirect externalities and intangible effects on the relevant market, market related and others.

Should include performance indicators: NPV net present value, internal rate of return IRR, IRR rate of return immediately, if applicable. In addition to investment projects of economic infrastructure and income generating monetary savings (PIDIER'S and acquisition of real property by lease) must include a financial feasibility analysis.

Sensitivity and risks: identify the effects that cause changes in the relevant variables on the profitability indicators (NPV, IRR, IRR), ie percentage changes in the total amount of investment, demand and prices of inputs and goods to be produced, as well as the risks associated with the project affecting their profitability.

In this step, we recommend performing or not the project, summarizing the main indicators, which support the decision.

4.3 TITLE VII OF THE PPS RULES: THE SERVICE CONTRACT

Once we have obtained the first authorization of the SHCP, the agency or entity applicant is able to present to the Ministry of Finance a draft contract to long-term services, under the terms of Title VII of the Rules PPS.

To do this you must obtain permission from the service contract term to the Ministry of Finance, through the corresponding DGPyPs.

The draft long-term contract must have the information submitted for the approval of the project, plus the following:

G. Estimate of the payment obligations at year's prices, by the contracting agency or entity, for all fiscal years to implement, these must be submitted in the currency provided for the recruitment and in national currency;

H. Form, terms and conditions of payment. Figure 8 shows the Calculation of estimated flows the investor payment provider

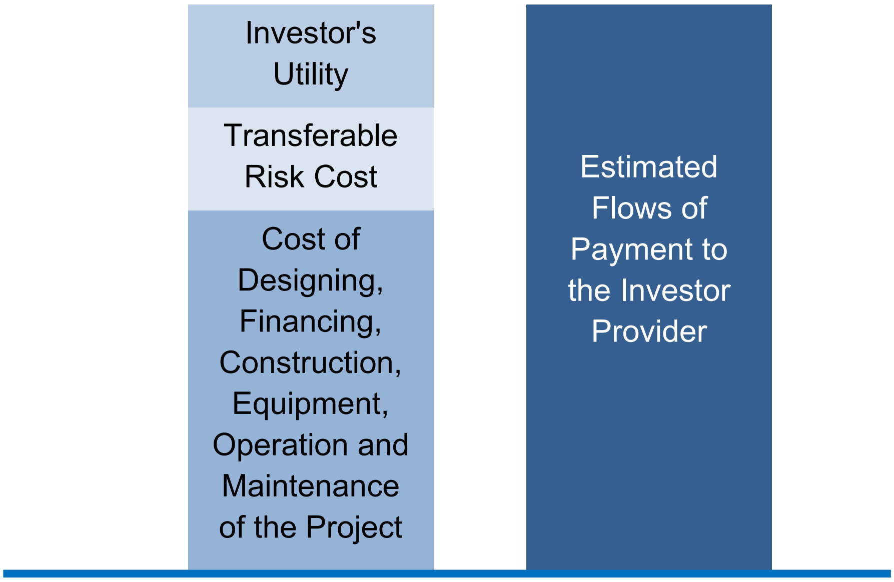
I. Conditions for modification and extension of the contract; Center for the Study of Public Finances

J. Guarantees, insurance coverage and mandatory provider hired by the investor;

K. Formulae and general methodologies for performance evaluation of investor-provider, including the formula for the adjustment for changes in prices;

L. Means of consultation and dispute settlement contained in the contract and causes early termination and termination thereof.

Fig 8. Calculation of estimated flows the investor payment provider.



Source: Investment Unit of the Ministry of Finance.

The file also integrate the authorization of the SHCP for the project, the authorizations for the legal and budgetary justification for the conclusion of the long-term services conforms to the objectives and targets set, updating the cost-benefit analysis, budget forecasting in PEF for the payment of the obligation in the current fiscal year, the commitment letter specifying that in formulating the draft budget will be prioritized obligations under the contract for the provision of long-term services, and those projects where the agreed upon purchase of the assets, contingent commitments established in the contract to provide services long term.

Once it has completed the whole process and the views of investment units and the Policy and Budgetary Control were favorable, the Ministry of Finance authorizes the contract and the contract may proceed, it shall be subject to the provisions of the LAASSP and its regulations.

The award criterion is to select the most experienced participant to demonstrate financial and technical capacity to provide the services requested and submit the financial bid of less amount calculated in present value terms.

The next step is the monitoring of the service contract long term, once awarded the contract; the investor supplier is responsible for performing all activities necessary for compliance with service levels and quality described therein.

In this process, including financing activities, design and construction of assets related to the service, but payment obligations by the contracting entity or agency will be generated until the services are provided to the satisfaction the contracting entity or agency, according to the provisions set forth in the contract, this should be carried out performance evaluation of investor-provider, through an explicit methodology in the contract. If the performance is lower than projected in the contract a discount for payment to be made by the contracting agency or entity. This payment mechanism has the advantage that the investor controls the availability provider, flows of income and expenses are anticipated with certainty and the banks see the mechanism as low risk, making it affordable.

Each project formed an Advisory Committee and an Executive Committee by signing a cooperation agreement (MOU), summarized in Figure 9.

The process of selection of the winning project is shown in Figure 10.

Fig. 9. Supervision of Project Development

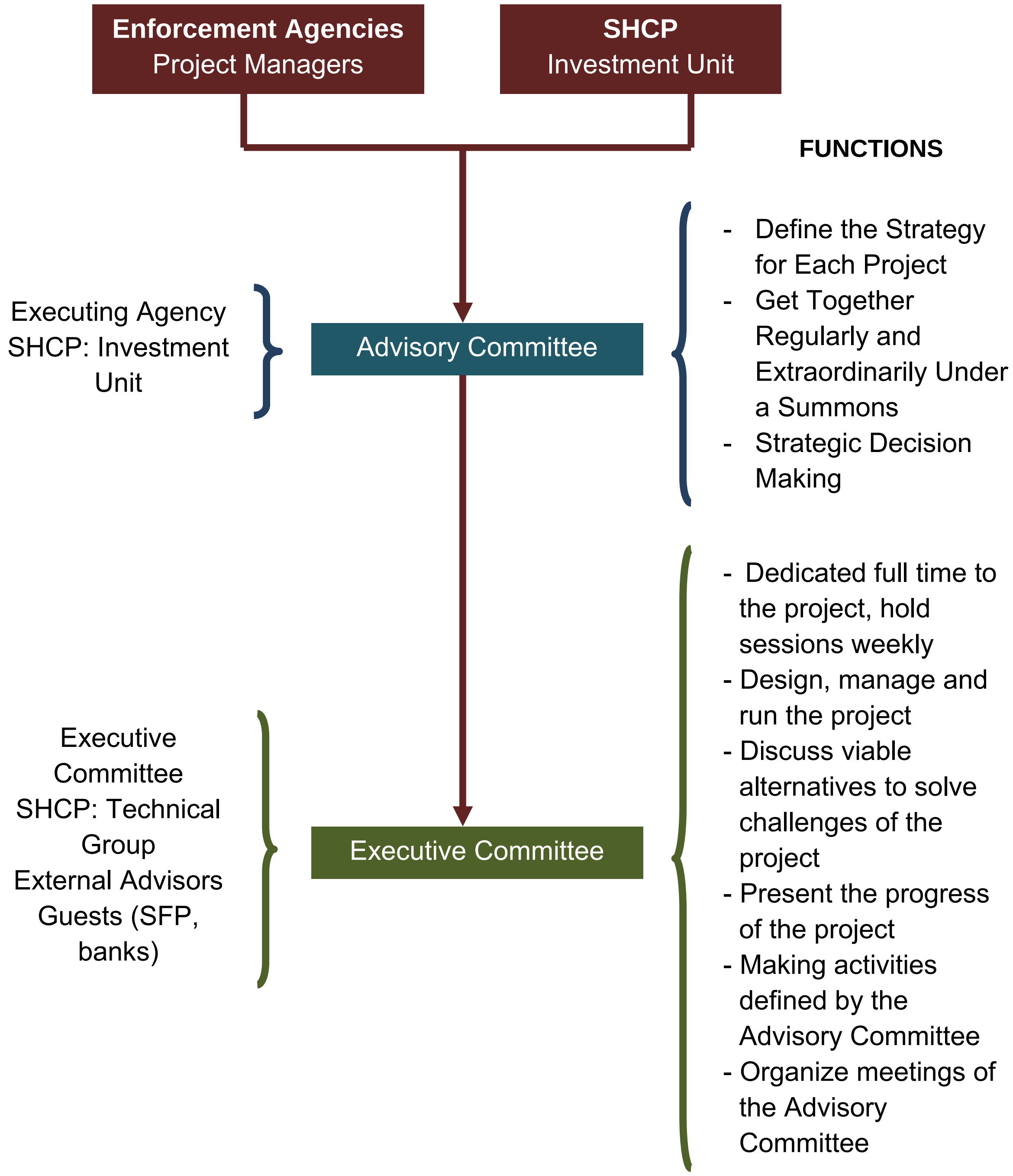
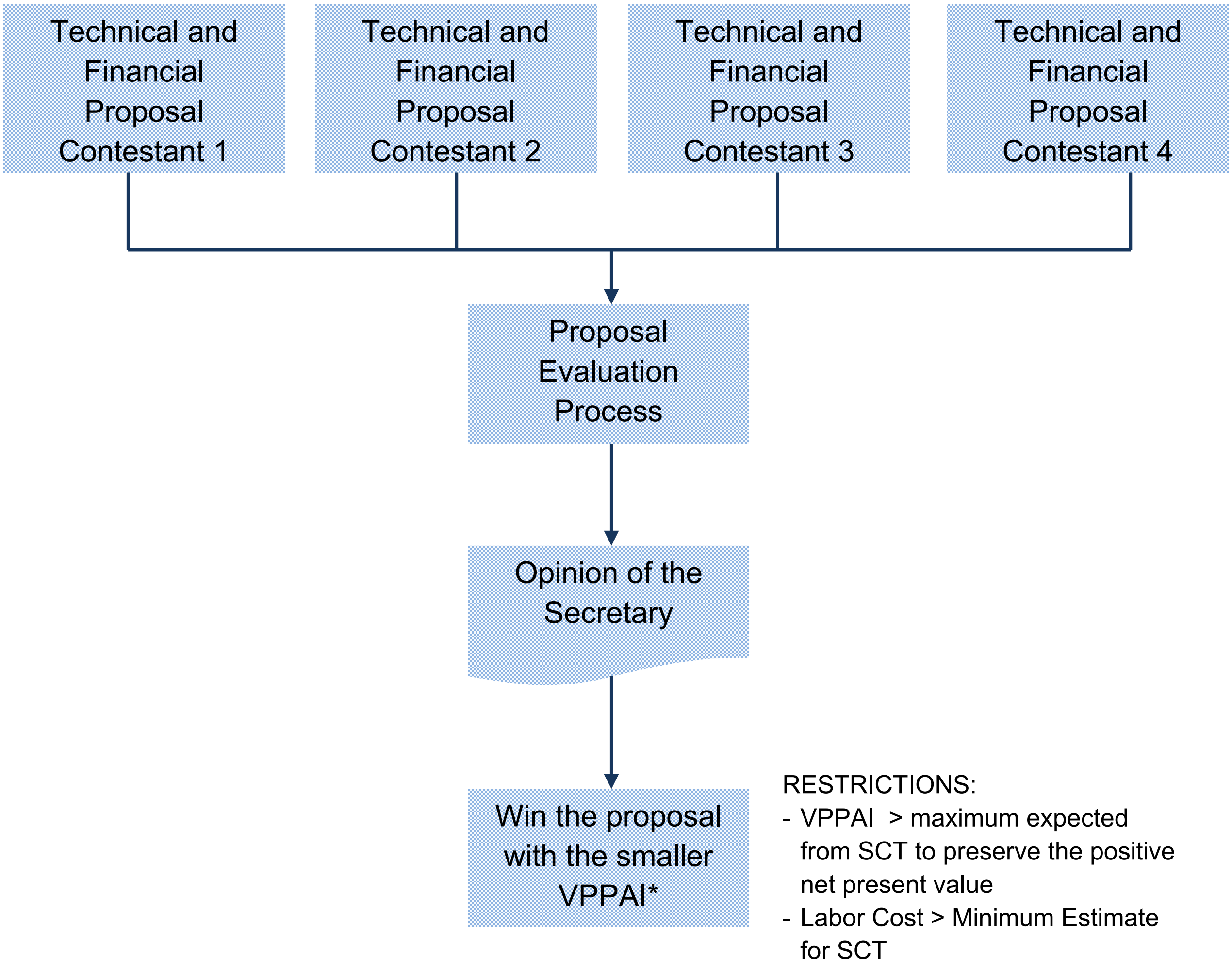


Fig 10. Criterion Failure for Awarding the Contract



4.4 BUDGET ALLOCATIONS

According to the criteria for determining the annual allocation limits applicable to PPS[4], the scope for resource allocation to meet the obligations of contracts PPS will be determined through calculating the difference between the budget amended

[4] Ministry of Finance, Circular Letters No. 231 and No. 801.1.-801.1.-328, May 2005 and August 2004 respectively.

authorized spending less unavoidable, unless regularization is applied when spending plus another adjustment measures of spending.

The resources available must be sufficient to meet the annual average impact of PPS commitments, which will be the result of the sum of the average annual payment obligations acquired by approved contracts with investor, providers, plus the average annual cost of the commitment estimates in authorization applications pending PPS, plus annual average costs associated with the operation of projects.

The contracting entity or agency responsible for the availability of resources, including additional sources of budgetary resources, for example: State resources, recovery fees for services and revenue from concession services for the project.

4.5 METHODS OF FINANCING

The purpose of the implementation of the PPS is to supplement conventional financing practices by combining different sources, reducing pressures on the budget. This depends on the development of instruments in the local financial system and access to foreign markets.

Some of the sources that could be used to support the PPS are:

• Shareholding;

• Bonds anticipatory expected returns;

• Infrastructure Bonds;

• Credit for state infrastructure bank;

• Issuance of bonds secured by expected direct charges for the use or provision of service (fees, tolls);

• Other sources of funding for traditional public agencies that may be available to investors suppliers: leases, income from the use of other facilities, shadow tolls.

Funding for the PPS, often requires the mixing of different tools publicly sponsored private and commercial debt.

4.6 CURRENT ISSUES IN A PPS CONTRACT

Despite the benefits touted by these associations, some problems can be foreseen on the horizon:

- The cost of financing public infrastructure, through a PPS, may be superior to the traditional pattern of public debt.

- The private sector requires a rate of return above the rate required by the public sector. This difference impacts on public finances and the government's ability to maintain and expand existing services.

- While the injection of private resources adequate to meet needs and provide public services, which could have been postponed or unattended in the short term, also in the long term liabilities accrue over the life of the contract.

- Since these are long-term contracts in excess of fifteen years in the private counterpart could observe changes in investment strategies, organization, property or the board.

- Finally, the PPS arise when a private investor or the government identifies an opportunity, not necessarily respond to urgent needs fully identified, in this case, the private sector develops at an extra cost.

That is, the PPS contracts can produce unexpected results and reduce the government's ability to provide adequate services. As for the reduction of public sector financial risk by transferring the debt and the risk to the private sector, improving the fiscal balance, this effect is achieved effectively, but in the short term. The use of private resources increases the level of exposure to contingent liabilities in the event of breach of contract of service, for example, when the private sector is unable to provide essential services contract, the public sector is forced to act as guarantor. Therefore increases the risk of the public sector, while the ability to directly reduce falls, the public sector remains the provider of last resort in cases where the private sector experienced losses and abandon the contract, the public sector should intervene to maintain services.

4.7 PPS PROJECTS IN MEXICO STATE

<table>
<tr><th colspan="2">VEHICULAR BRIDGE IN AVENUE PROLONGACIÓN MADERO AND JAMES WATT AVENUE</th></tr>
<tr><td>Total Length: 0.7 km. Involves the construction of three structures: one on the west issuer sewage on the passing of another train and another first level left turn.

Construction Period: 12 months

Initial Total Investment: 243.0 MDP
Includes the cost of final design, construction supervision and maintenance and conservation lighting and signage.</td><td></td></tr>
<tr><td>Problems to solve: The issuer west of sewage and the rail line located in this county, have become over time in real barriers to vehicle traffic in the direction east, west, this impediment has become a acute problem that has led to the creation of a conflict zone road that requires a comprehensive solution.</td><td>Indicators Social Cost-Benefit Obtained:

Reduction of Generalized Travel Cost 50% compared to vehicle operating costs without project.

You get an immediate return rate of 35.6%, which almost triples the social discount rate (12%).</td></tr>
</table>

Financial Benefits PPS:

1. The prospect of the construction cost and maintenance of the project is reduced in the assessment period to 25 years. That is, the initial investment by the reference project is estimated at 243.0 million pesos and operating costs, reinvestment and maintenance planning to a horizon of 25 years puts the figure at 496.0 million pesos. PPS By the risks transferred to the service provider and the optimization of construction processes, to estimate the cost at 25 years of investment and operation of the project at 445.0 million pesos, which reduces the cost of the project at 51.0 million pesos.

2. Transferred to 81% of the inherent risks of the project (externalities, financial cost and unpredictable situations), which through the normal procedure of public works were preserved the state.

3. Budget availability of GEM can hire these services and maintain sound public finances as the State of Mexico, as the cost or PPS annual payment is estimated to not exceed 52 million pesos.

BYPASS OF ATIZAPAN A NICOLÁS ROMERO	
Total Length: 6.8 km. In three sections, one 2.7 km, one more existing 0.9 km (Via Dr. Jorge Jimenez Cantu) and the third of 3.2 km. Including lighting and maintenance, **Construction Period:** 6 months **Cost of the Work:** MDP 209.7 **Right of Way Release Cost:** MP 239.2 **Maintenance and Preservation:** 16.1 MDP **Initial Total Investment:** 465.0 MDP	
Problem to be Solved: The road infrastructure in the municipal seat is radial or concentric and is poor. The municipality's road network is characterized by a lack of continuity. The Annual Average Daily Traffic that use the existing roadways to enter or cross the county seat is 28,000 vehicles, so the technical inefficiency of the roads is one of the most serious urban conflicts	**Indicators Social Cost-Benefit Obtained:** • Reduction in Generalized Cost Travel (GCS) in approximately 40% compared to vehicle operating costs without project. • You get an immediate return rate of 23%, representing 11% above the social discount rate (12%).

FINANCIAL BENEFITS PPS:

1. The prospect of the construction cost and maintenance of the project is reduced in the assessment period to 25 years. That is, the initial investment by the reference project is estimated at 465.0 million pesos and the cost of operation and maintenance reinvestment projected a horizon of 25 years puts the figure at 923.0 million pesos. PPS

By the risks transferred to the service provided and the optimization of construction processes to estimate the cost at 25 years of investment and operation of the project in 670 MDP, which reduces the project cost at 253 million pesos.

2. Transfer 59% of the inherent risks of the project (externalities, financial cost and unpredictable situations), which through the normal procedure of public works were preserved the state.

3. Budget availability GEM Communications Sector can hire these services and maintain a sound public finances of the State of Mexico, as the cost or PPS annual payment is estimated to not exceed 67 million pesos.

EXTENSION OF THE AV. LAS TORRES IN THEIR TRACKS EAST AND WEST AND MODERNIZATION OF EXISTING ROAD.

Length: 4.2 kms East Construction Section.

Modernization of Existing Section: 15.0 kms.

Section: 3.8 kms west building.
Consider the construction of 5 bridges and overpasses in:

- Av Tech (PSV).
- Av and Av Diaz Miron May 5 (PSV)
- Pino Suarez Avenue (PSV).
- Jesus Carranza Avenue and Paseo Colón (Depressed).
- Boulevard Adolfo Lopez Mateos (Distributor Road).
- Construction Period: 12 to 15 months.

Total initial investment: 1,359:0 MDP (MDP includes 270 p / Lib. Of Right of Way).

Problem to be Solved: In Toluca Valley there is only a couple road that crosses the city and the suburbs, which is “Paseo Tollocan”, however vehicular demand has grown exponentially, so it is necessary to provide the City or Valley of Toluca road with a few features warrant as an alternative solution for the passage of trucks long route without crossing the densest part of the city.

Indicators Social Cost-Benefit Obtained: Reduction in Generalized Cost Travel (GCS) in 11% of operating costs without project.

You get an immediate return rate of 12.36%, but other benefits not included in the economic evaluation, such as savings in time and travel costs of approximately 10,000 vehicles per day will use the planned overpasses.

It will also use this road in east-west local movements and vice versa, venting Tollocan Paseo traffic.	

FINANCIAL BENEFITS PPS:

1. The prospect of the construction cost and maintenance of the project is reduced in the assessment period to 25 years. That is, the initial investment by the reference project is estimated at 1359.0 MDP and its cost of operation and maintenance reinvestment projected a horizon of 25 years raises the figure to 2,693.0 million pesos. PPS By the risks transferred to the service provider and the optimization of construction processes, to estimate the cost at 25 years of investment and operation of 2,095.0 MDP project, reducing the project cost 598.0 million pesos.
2. Transfer 81% of the inherent risks of the project (externalities, financial cost and unpredictable situations), which through the normal procedure of public works were preserved the state.
3. Budget availability of GEM can hire these services and maintain sound public finances as the State of Mexico, as the cost or PPS annual payment is estimated to not exceed 237 million pesos.

CONCLUSIONS

It is a fact that the infrastructure of a country determines the speed of development and economic welfare of its population to influence the four pillars of the economy: economic growth, employment, productivity and equitable distribution of income.

In Mexico and in general in Latin America it is required infrastructure investment, because the necessities in infrastructure exceed the financial capacity of the government, making it necessary to involve private sector with the public sector.

PPS projects can contribute to more efficient use of public expenditure; flexible use of resources for investment in social infrastructure and contribute to provide better public services, but the scheme is not without problems: the time of completion of PPS projects is relatively long, development of the contract is complicated by the level of detail involved.

The PPS scheme is not appropriate for projects that have to be implemented in the short term, the scheme is not necessarily efficient in every project, the cost of consultants is relatively high and many offices in Mexico lack the necessary experience, plus this kind of contract involves a radical change in the form of public sector procurement.

According to the Ministry of Finance, there are outstanding issues to improve the definition, authorization and monitoring of PPS. A first aspect relates to all the regulatory framework, since it is scattered rules should be concentrating on a single legal system, whether a specific law for the PPS, a concessions law or regulation to the General Law of National Assets in the latter case, it would require the intervention of the legislature.

Another aspect is to improve the bidding process by which PPS contracts are allocated, this requires LAASSP reform and regulation to include the concept of negotiated solicitation and review mechanism for evaluating the proposals. Regarding the Fiscal Coordination Law, would have to amend Article 9 of the Act to require that the entities to register with the Ministry of Finance its payment obligations arising from the PPS. The experience of the PPS is being replicated statewide: Oaxaca, Durango, among others, have reformed their regulatory frameworks to implement the scheme.

Finally, to ensure continuity of the PPS scheme, we must institutionalize, through the creation of an institute or area dedicated exclusively to the development of PPS.

The results of PPS are mixed and are not yet possible to assess the operation of services, because no project is completed.

PPS may become a valuable tool to prevent excessive public debt, especially in companies with high levels of marginalization and thereby advance in the construction of infrastructure; it would be necessary the creation of a PPS rate, which indicate the level of investment relative to the amount of indebtedness or in connection with federal contributions of each entity.

The state legislatures should constantly assess the indebtedness of the states based on their ability to pay in order to ensure that no major damages to public finances.

It is essential to establish locks that limit the hiring of debt beyond the real possibilities to be taken for payment and operate, by the Ministry of Finance, a permanent monitoring for transparency purposes, the levels of local debt according to their degree of sustainability, so that in that vein the PPS are a financing strategy of the states and municipalities of Mexico, it is important to seek alternative financing schemes that increase the quality and level of service responsibility of the state.

It is necessary to modernize the legal and administrative framework of the procurement of public infrastructure.

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GLOSSARY OF RELEVANT TERMS

Contract for long-term services: legal act involving several fiscal resources, held between a unit or entity of the Federal Public Administration and an investor supplier, which is set by, firstly, the obligation of the investor supplier provide long-term, one or more services to build assets or provide it in accordance with a project to provide services and, on the other, the payment obligation by the agency or entity for the services we are provided.

Agency or entity contracting: agency or entity of the Federal Public Administration which concludes a service contract with an investor long-term supplier.

Investor provider: natural or legal person, who enters into a service contract with a long-term agency or entity.

Project services: set of actions required for an agency or entity receiving long-term service provider by an investor through a service contract long term, other than those defined as productive infrastructure projects of lake conditional term investment.

Investment project: A set of works and actions necessary for the creation, expansion and modification of fixed assets.

Draft budget investment: investment project that is covered entirely with government funds as capital expenditure authorized in the Expenditure Budget of the Federation.