

Unleashing Latin America's potential

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FORESIGHT

A Global Infrastructure Perspective



Free trade, robust regulation and transparency can open the doors to private finance to power the region's infrastructure, according to a recent WEF discussion. With its strong Reforms agenda and growing pipeline of projects, Mexico is becoming increasingly attractive to investors.

Infrastructure will play a huge role in advancing Latin America's economies and improving social inclusion. With this in mind, a recent session of the World Economic Forum (WEF), held in Riviera Maya, Mexico in May 2015, looked at ways to accelerate the region's infrastructure development, by creating an attractive environment for private finance.

Delegates urged a shift to more market-oriented economies, where traditionally publicly-owned assets could be opened up to private capital, including energy, telecommunications and transport, as well as 'social' infrastructure such as schools and hospitals. Mexico, Chile, Colombia and Peru, in particular, were commended for their efforts to sign trade agreements.

Legal, regulatory and structural challenges remain. Countries like Chile have a well-tested set of regulations and procedures refined through two decades of privately-funded projects. Some other nations are lower down the learning curve in preparing a pipeline of appealing projects and managing the tender process. Investors may be deterred by slow, cumbersome customs approvals and prohibitive tariffs, while a dearth of local engineering and project management talent is a further impediment.

In a continent with a mixed record of transparency, there is a pressing need to re-establish trust in the rule of law and governing institutions. Competitive bidding processes, timely payments for completed work and protection of intellectual property can help to reassure investors that they will be treated fairly.

Mexico's ambitious Reforms agenda

As Latin America's second largest economy, Mexico is taking strides to speed up its growth. A 2015 report from the Organization for Economic Co-operation and Development (OECD) praised Mexico for embarking: "...on a bold package of structural Reforms to break free from three decades of slow growth, low productivity, pervasive labor market informality and high income inequality."¹ These reforms cover areas such as competition, the financial sector, labor, infrastructure, energy, telecommunications and tax.

The Government is certainly thinking big; its National Infrastructure Program 2014–2018 pledges to invest US\$590 billion in 743 programs covering energy, land development, transport and communications, healthcare and tourism. Some of the landmark projects include a 1,000 kilometer (km) gas pipeline, Mexico City's new airport, high-speed and urban rail developments and nationwide fiber optic cable networks.²

Given that historically a number of Latin America infrastructure projects have failed to pass over the discussion phase, there is a strong argument for Mexico to curb its ambition somewhat and narrow down its priorities.

1. OECD Economic Surveys: Mexico, January 2015.

2. *Mexico Update: Infrastructure Plans Unveiled*, Americas Society/Council of the Americas, 9 October 2014.

“Mexico’s National Infrastructure Program 2014–2018 pledges to invest US\$590 billion on 743 projects.”

Logistics and distribution should be high on the agenda, especially in the Energy sector with the country in the midst of bids for exploration, exploitation and production of oil and gas fields. Two-thirds of bidders for these contracts are foreign.

Infrastructure private finance is not new in Mexico – the Real Estate and Private Equity sectors provide much of the liquidity – but, the country has less of a track record when it comes to bigger projects. Pension funds have recently been permitted to invest in alternative assets such as infrastructure, introducing a valuable new source of capital. However, the secondary market is still in its relative infancy, and lacking in liquidity, so local and federal Government, in addition to multilateral or development banks, are urgently needed to plug the funding gap.

Since 2012 Mexico also encourages unsolicited proposals from the private sector, which, if agreed, are put forward for tender. Although this approach involves upfront costs to the proposing party, it should lead to robust, well-scoped projects. What’s more, should the initial proposer fail to be awarded the subsequent tender, their feasibility costs are reimbursed by the winner.

Mexico is an international market that welcomes overseas businesses. Most major Spanish construction companies have significant operations in the country, and the big Mexican banks have expanded to become part of the global financial community. Chile may have set the benchmark for Private Equity funds in Latin America, and remains a preferred destination for many of them. However, as the burdens of protectionism, regulation and lack of transparency are slowly released, the prospects in other markets should not be overlooked.

The time for contemplation is done; the policies look good, now is the time for decisive action. Getting deals done and projects started must be the priority going forward.

Talking points for infrastructure investors

- Is there a well-established bidding process for projects?
- How mature is the secondary capital market?
- What is the track record for Public-Private Partnerships (PPPs)?

Infrastructure Sector session at WEF on Latin America, 6-8 May 2015

The panel session: **“Building tomorrow’s infrastructure,”** chaired by Stephen Beatty, KPMG Americas and India, Head of Global Infrastructure, discussed how to speed up the development of the region’s infrastructure, looking at funding strategies, project quality and project management, and the regulatory environment. Delegates considered the roles of various market participants including private financiers, Government and multilateral organizations.

A separate discussion, **“Infrastructure opportunities in the Mexican Energy Sector,”** moderated by John Scott, KPMG Deputy Chairman, looked at ways to increase the country’s appeal to infrastructure investors, especially in energy (oil, gas and electricity). The session featured high profile panel members including Mario Beauregard, CFO of Pemex, and Chris Sladen, President of BP Mexico.

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