

IMPACT STORIES

SNTA Helps Mexican State Quintana Roo Raise \$196 Million for Infrastructure



As sub-national authorities in Latin America begin accessing local capital markets to help finance their infrastructure needs, PPIAF's Sub-National Technical Assistance (SNTA) program has helped the Mexican State of Quintana Roo structure a series of pooled borrowing transactions, the first of their kind in Mexico, worth about \$196 million.

With SNTA's support, the State of Quintana Roo successfully mobilized long-term debt in 2009, despite the financial crisis, by providing a well-conceived investment opportunity that met the demanding standards of lenders. The construction work made possible by this financing is helping to offset job losses in the state, which resulted from the economic downturn in tourism and exports.

Lack of capital investment is one of the critical problems facing efforts to promote sustainable economic development and combat poverty in developing countries today. This is particularly true at the local level because local revenues, either from own sources or intergovernmental transfers, are almost never enough to finance needed development on a pay-as-you-go basis, and municipalities are generally perceived to be high-risk borrowers.

The Mexican State of Quintana Roo needed finance to improve infrastructure services, particularly for the poorer segments of the population that live in the Mayan peninsula. With the help of the Public-Private Infrastructure Advisory Facility (PPIAF)'s SNTA program, the State implemented a pooled borrowing transaction involving eight local governments and created a state financing facility, *Instituto para el Desarrollo y Financiamiento*, to spearhead this financing and future efforts of this kind.

PPIAF SUPPORT

PPIAF's SNTA supported the State of Quintana Roo with the structuring of the pooled transactions, the preparation for and delivery of credit ratings, and the training of participating entities in transaction implementation in 2009.

Originally designed as a pooled bond sale, the financial crisis meant that bond issuance in the capital market was no longer an option. But rather than risk delays, resulting increases in project costs, and any unnecessary continuation of substandard service provision, the state decided to carefully move ahead with a series of bank loans that could eventually be refinanced with long-term bonds when the markets recovered. SNTA helped restructure the transaction as bank loans, with special provisions negotiated with lenders, to facilitate later refinancing without penalties.

The concept of state borrowing on behalf of multiple municipalities could modify the way public finance is conducted in Mexico. Currently only 90 of the almost 3,000 sub-national public entities in Mexico have access to the financial markets for borrowing. Many smaller sub-national authorities have only a general idea about how to improve their creditworthiness and credit rating, as well as make their debt more

affordable. In general, most sub-national entities in other Latin American countries lack this step-by-step guidance in implementing such practical measures. Quintana Roo's pooled approach, backed by targeted creditworthiness improvements and an innovative borrowing structure, helped overcome these limitations.

OUTCOMES

PPIAF's SNTA helped achieve the following outcomes:

- Approval of state legal reforms necessary to implement pooled financing
- Twelve credit ratings in accordance with state law
- \$196 million in borrowing proceeds

DONOR COORDINATION

The U.S. Agency for International Development contributed by supporting the following reforms in the federal and state legal frameworks:

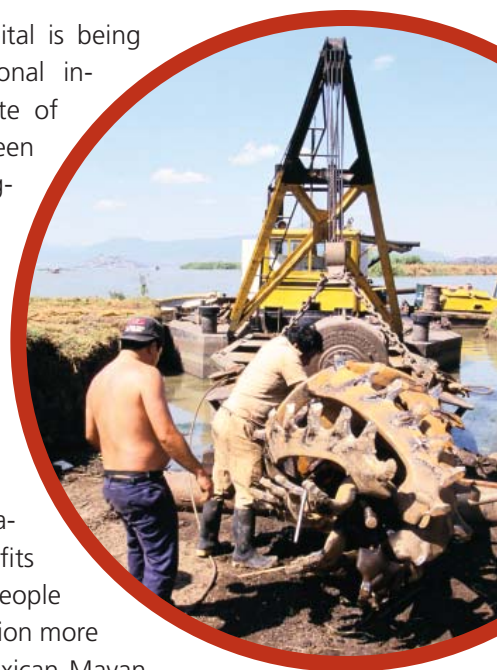
- The reform of two federal laws in 2000, which permitted the use of revenue intercepts for project financing
- The reform of two federal laws in 2005, which permitted state governments to create special purpose financing vehicles and for those SPVs to borrow from the capital markets
- The reform of three laws in the State of Campeche in 2009 to facilitate the implementation of public-private partnership (PPP) programs in the state

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF's support has made an impact on the ground.

IMPACTS

Domestic private capital is being invested in sub-national infrastructure. The State of Quintana Roo has been able to mobilize long-term debt despite the financial crisis via an innovative series of syndicated loans. This program will help accelerate socioeconomic development in the Mayan peninsula, with infrastructure service benefits for over 1.2 million people in the state and 2 million more in the rest of the Mexican Mayan region.



RELATED PPIAF/SNTA ACTIVITIES IN MEXICO

- 2005: PPP Options for Water Supply and Sanitation for Matamoros, **\$74,000**
- 2009: Pooled Bond Issue, State of Quintana Roo (SNTA), **\$595,576**
- 2009: Building Technical Capacity to Develop the PPP Program in Jalisco, **\$230,000**
- 2010: Market-Based Infrastructure Financing for the State of Campeche (SNTA), **\$640,000**

Learn more about SNTA at
www.ppiaf.org/snta