



Municipal Water & Wastewater Treatment Opportunities

Municipal Wastewater Treatment Opportunities

State	Municipality or Town	Wastewater Treatment Plant Investment			
		# Plants	Installed Capacity l/s	Year	Drivers/Comments
Baja California	Mexicali	4	935	2003	JBIC funds earmarked; a pro business government but results have proven slow.
Baja California	Tijuana	3	590	2003	
Baja California Sur	San José del Cabo	1	200	!	Desal plant; bid call published
Coahuila	Saltillo	1	1250	2002	New mixed company (AgBar) will bid (and likely perform)
Colima	Manzanillo	Undecided		?	PROMAGUA funds
Chiapas	Tapachula	1	400	2003	Chiapas is a priority market due to marginalization; CNA/IDB funds
Chiapas	Salina Cruz	1	900	2003	
Chihuahua	Ciudad Juárez	1	1000	2004	Expansion project
Federal District	MCMA	4	50000	2003	JBIC and IDB funds; may do one 20 m3/s plant inside DF first
Guanajuato	León	Undecided		?	
Guerrero	Acapulco	3	270	2003	PROMAGUA funds
Guerrero	Zihuatanejo	Undecided			Impulse is bad press on dirty bay; PROMAGUA funds
Hidalgo	Pachuca	1	400		PROMAGUA funds; pro-business
Jalisco	Guadalajara	5	7400	2003	Awaiting approval of JBIC funds under new state & local government; may do part w/own \$
Oaxaca	Oaxaca de Juárez	1	620		Political problems have stalled it
Quintana Roo	Cancún (B. Juárez)	Undecided	650		PROMAGUA funds; rapid development obligates environmental considerations in high-end resort areas.
Puebla	Tehuacan		250		PROMAGUA and BANOBRAS financing
Sinaloa	Los Mochis	1	1000	?	Waiting for PROMAGUA diagnostic
Sonora	Hermosillo	1	2000	2003	Politics have stalled, but likely to happen in 2003



Sonora	Nogales	1	250	2003	Debating over which side of border it will go
Tamaulipas	Matamoros	1	800	?	On hold
Tamaulipas	Cd. Victoria	1	560	?	On hold
Tamaulipas	Reynosa	Undecided			
Tamaulipas	Río Bravo	1	300	2006	
Tamaulipas	Nuevo Laredo	Undecided			
Tamaulipas	Altamirano-Tampico-Madero	2	900	2002	
Veracruz	Coatzacoalcos	Undecided			Political will due to express backing by President Fox; re-use component; PEMEX also client
Veracruz	Salina Cruz	1	100		PROMAGUA
Veracruz	Veracruz	1	400		
Veracruz	Xalapa	1	750		Bid call published; tenders due in February
Zacatecas	Zacatecas	1	700	2003	Call to be published ASAP

Rural Opportunities

Rural communities do not typically have the resources or the know-how to provide adequate water infrastructure and administration. As such, these areas, which make up roughly 27% of Mexico's population, rely heavily on the CNA, and their corresponding state water commissions, for financial, technical and administrative assistance.

To help in this process, the IDB and the CNA have established a US\$600 million fund for rural water and wastewater treatment development. Because of the diffuse nature of rural development, however, interested companies are advised to seek opportunities top down, starting with the IDB and BANOBRAS, then to the CNA, and finally to the state water commission and the local communities.

The objective of this program is to support the development of infrastructure in the rural zones, by lowering the responsibility and control of the municipal governments, reinforcing mechanisms for financing, applying the norms that guarantee the quality of the water services, and promoting the efficient services to the rural population.

Characteristics of the program:

- CNA is responsible for coordinating with the State Water and Sanitation Commissions (CEAS) and the Municipal Operator Organisms (OO).
- BANOBRAS is the finance agent.
- The IDB contributed with US\$360 million of a total cost program of US\$600 million



- The loan will be pay at a TIIE + 6 rate.
- The program started in 1998 and will be finish in 2004.
- All the states have been added to this program except Nuevo Leon. The loan provides 50% of the total cost of each project and the other half is provided by the state government.
- Chiapas has been a focus state, due to high levels of marginalization and low coverage levels.

The program involves constructing:

- Water extraction wells
- Potable water pipelines
- Sewage systems
- Small wastewater treatment plants

Phase II of the IDB Loan

The IDB is currently evaluating a second phase of the Rural Water & Sanitation Infrastructure Development Loan. Because of the success of the first loan, over 75 percent of which has now been earmarked, it is probable that Phase II will likely be approved.

Interested companies should contact:

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PROMAGUA

IDB Municipal Water Utility Strengthening Loan

The IDB recently approved a US\$10 million municipal water utility strengthening pilot program. The pilot program, similar in its goals to PROMAGUA, the federally funded program to assist municipalities diagnose and remedy their technical, administrative, commercial and regulatory deficiencies, will choose 4-5 towns from a current shortlist of approximately 15. The towns with the most serious problems will be chosen. Each of the 4-5 towns will then hold an international tender to hire a consultant to assist in strengthening and improving the efficiency of the local water utility. If the pilot program is successful (i.e., of the towns with the most serious problems show significant signs of improvement) a second, much larger project will be implemented to apply nation-wide. CNA will coordinate but the chosen municipalities will be the executing agencies.



The short-listed towns to date are: El Fuerte and Escuiapa, Sinaloa; Lazaro Cardenas and Puruandiro, Michoacan; Fresnillo and Zacatecas, Zacatecas; Juchitan, Pinotepa Nacional, and Salina Cruz, Oaxaca; Atlixco and Tepeaca, Puebla; and to-be-announced towns in Veracruz.

Strategic Considerations: Municipal Projects & Procurement

Market entry cost in Mexico's municipal water and wastewater treatment sector is a function of the ability to understand the political processes. Nepotism and cronyism remain rampant in municipal procurement and staffing. Any contract binding a municipality for longer than the mayor's maximum three-year term typically requires the approval of not only the mayor but also the city council and the state legislature. Projects sponsored by inter-municipal water authorities are even more complicated, in that in addition to the supposedly semi-autonomous inter-municipal utility, each city council as well as the state legislature and governor, must sign off on the project.

Procurement of Goods from Annual Operating Budgets

In Mexico, there are more than 2,300 municipalities and 950 local water utilities. Most utilities will purchase basic equipment and materials (meters, pumps, pipes, etc.) as part of their annual operation and maintenance budgets. Traditionally, these contracts are awarded based more on personal contacts than technology. Although changing slowly, it remains essential to get to know the prospective customer before attempting to participate in bid processes. In addition to developing the personal relationship, companies should be aware of the utility's:

- Plans and needs
- Budget related to the goods or services offered
- Bidding schedule

Low budgets and bidding rules requiring public entities to award contracts to the lowest cost bidder, making the market extremely sensitive to price. As such, economies of scale are very important. The market is also quite diffuse because of the autonomy of most municipal utilities, and therefore, suppliers are forced to target a few, larger, faster-growing markets or employ representatives in several geographic locations around Mexico.

In any case, a physical presence (or at least a local agent or distributor) is essential to developing municipal sales. Most equipment suppliers will employ one or more of the following strategies:

- Focus on a geographical market. This strategy is followed by SMEs with a local presence and contact in a particular city. Although representing the least amount of financial exposure for the company, this approach does not provide room for growth and leaves the company vulnerable to a sharp loss in business when a new mayor or governor takes office.
- Promote and develop direct sales. This is done by attending conferences and expos and developing direct sales leads by marketing and meeting with ANEAS, targeted local utilities, CNA, private sector developers, and other entities.
- Focus on demand concentration. For example, 80% of the meter market is concentrated in 42 municipal utilities. Large suppliers will typically adopt this strategy—employing sales agents and/or full-time staff, covering various regions including Mexico City, Guadalajara,



Monterrey, and other fast-growing markets such as Baja California Some of the major meter equipment suppliers falling into this category are: Neptune (Schlumberger), Census, ABB Kent, Badger, Hersey and Sappel, Cicasa and Azteca.

Municipal Projects

Compared to equipment procurement, municipal infrastructure projects involve much more complex and transparent bidding processes. In most cases, third party entities participate or provide financing (CNA, BANOBRAS, IFIs), and therefore national and international public bidding rules must be followed. Developing relationships in advance of the bid, however, remains essential. Proposing creative, cost effective solutions is necessary to differentiate oneself from the competition. If successful, the bid documents may be drafted to require technology or characteristics more closely resembling ones profile.

Access to information is also limited. Despite the recent passage of Mexico’s first Freedom of Information Act, Mexico still does not have a culture of “open access”, and therefore project and market intelligence is often jealously guarded.

Because of these barriers, foreign companies entering the water infrastructure market will typically opt for a local partner rather than an agent. The local partner will bring relationships, local know-how, and in some cases, a local EPC component. The foreign firm, in turn, is expected to provide competitive technology and financing. The parties will often share administration and operation responsibilities—taking advantage of the efficiency and technology of the foreign partner and the local knowledge of the Mexican partner.

The table below illustrates the roles taken by the foreign and Mexican partner in a customary water project in Mexico.

Partnering Roles

Essential Project Component	Provision of Expertise/Service	
	Local	Foreign
Business Development and Relationship Building	√√	√√
Project Development	√√	√√
Design	√	√√
Build	√√	
Equipment supply	√	√√
O&M/Administration	√√	√√
Government Relations	√√	√
Financing and Guarantees		√√

- √√ = involvement essential or customary
- √ = involvement advisable or occasional
- = involvement not customary