

# Paraguay's PPP push

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As some LatAm countries have witnessed a slowdown in the procurement of PPPs, Paraguay is pushing ahead with a programme which is attracting the attention of both European sponsors and global investment banks.

New York project finance bankers began to look at Paraguay following the passing of the country's PPP law in 2013, but given its sub-investment grade status, many conceded it would be some time before they could lend to its projects. However, some international lenders are now understood to be demonstrating appetite for Paraguayan PPPs.

While Paraguay does not yet have a huge pipeline of projects, its concession package appears to be attracting all of the right players. The projects are sizeable enough (in terms of investment) to have proven interesting to largely European sponsors – including Sacyr, Mota Engil and Vinci – and are possibly too large for local players to develop and finance alone.

## **Borrowing from Peru's success**

Paraguay's PPP programme has been directly inspired by Peru's certificate model under which concessionaires are issued government-backed, milestone-linked payment obligations, which essentially absorb construction risk.

The templates of the payment certificates, called *Certificados de Reconocimiento de la Obligación de Pago*, are based so closely on this structure "to the extent that you can actually see in some instances the exact same language is being used", comments Diego Harman a New York-based Peruvian associate at Clifford Chance. "European sponsors know how to manage this kind of contract".

These types of concessions differ to other PPP contracts in the region, such as those awarded under Colombia's fourth generation of highways programme (4G), under which, despite the provision of government payments and other mechanisms implemented to isolate construction risk, the risk is ultimately born by the private sector party.

These structures which support Peruvian infrastructure projects have historically lent themselves well to securitisations. Global investment banks, including JP Morgan and Goldman Sachs, who have been aggressively pushing for mandates in other LatAm infrastructure finance markets, including Colombia, are understood to have appetite for structuring these kinds of securitisations in Paraguay.

Bidding consortia have been able to secure letters of intent from international financiers at bid stage, a requirement under the tender documents, suggesting a vote of confidence for the programme from the international community. "It's a requirement to submit a letter of intent from a bank showing interest, but some of these bidders have been able to submit not just one, but two or three", says Harman.

The Paraguayan government has also extended the use of payment certificates for public works projects which in most other jurisdictions is reserved exclusively for PPPs. Harman adds: "The possible implication of this is that sponsors wishing to develop public works in Paraguay should also be able to access international financing and have more

financing options on an off balance sheet basis”

## Paraguayan procurement

Advised by Deloitte, the Ministry of Public Works and Communications (MOPC) released a request for proposals (RFP) for the design, build, finance, operation and maintenance of the country’s first PPP in September 2015. The 30-year concession comprises a [road widening project along the highway routes 2 and 7](#). The expansion project requires an estimated investment of between \$350 million and \$400 million.

Under the terms of the contract the concessionaire will receive two separate payments from the government: one will cover construction costs over the course of 15 years and another for the operation and maintenance over the 30-year life of the concession. Additionally, the government will pay \$80 million towards land expropriation costs.

The MOPC awarded the project to a consortium comprising Spanish developer Sacyr, Portugal's Mota-Engil and local Paraguayan construction company Ocho A in October 2016.

Unlike in most other LatAm PPP markets where the awarding of contracts is relatively immediate to proposal submissions, Paraguay’s MOPC does not typically set firm deadlines for the conclusion of tender processes.

The MOPC is evaluating proposals for most of the projects it has in tender. These include technical and economic bids presented by three groups for the modernisation of the Silvio Pettirossi International Airport PPP in June 2016.

All of the consortia comprise at least one, if not all, foreign firms. They include a consortium of Vinci Airports, Talavera and Ortellado, a group comprising Cedikor (of the Eurnekian group) and Caminos Viales del Uruguay and a consortium made up of Sacyr Construcciones and Agencias Universales (Agunsa).

Evaluations are still ongoing even for projects that have single bidders. For example, Mota-Engil was the only firm to present a proposal for the Ruta 9 Carlos Antonio López highway project, known as the “Transchaco”, in June 2016, but the final contract is yet to be awarded. MOPC is also analysing a single bid presented in July from Acciona for the Essap sanitation PPP.

The ministry has also launched a tender for the first phase of the \$700 million Bioceanic corridor project which aims to connect the Chaco region in Paraguay with the Pacific and the Atlantic Oceans. It is due to soon open bids for the 277km first stretch between Carmelo Peralta-Loma Plata in the department of Alto Paraguay.

While it is perceived as a good thing that the ministry is thoroughly evaluating proposals some have suggested the market would prefer to have a firm deadline in place of when the procurement process is due to end. But for now Paraguay's procurement process seems to be working.

The launch of Paraguay's PPP programme has undoubtedly come at a good time for the LatAm project finance market as there has been a slowdown in the roll out of infrastructure PPPs in more mature markets, such as Peru and Brazil, and Chile.

It is still early days for the latest LatAm frontier market to put PPP to the test but initial indicators suggest its formula is convincing.

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