

Analysis of the Municipal Wastewater Projects for 2011

According to a list provided by the Mexican National Water Commission (Conagua), in 2011 there were 204 proposed projects that counted with at least 65% federal funding from one of three principal funding sources (APAZU, PROTAR, FONADIN) for the construction or rehabilitation of municipal wastewater treatment plants.

To find out how many of these projects were really bid and/or carried out in 2011, LGA Consulting reviewed and analyzed the information on each in the following two ways:

- 1) Review of the Compranet system to confirm the existence and the status of the project– said system is supposed to contain information on all federal, state, and municipal bids and awards.
- 2) Calls to the municipalities and states where the projects were not found in the system, trying to contact the person in charge of the project at the applicable municipal or state water authority for information.

To facilitate the analysis, the findings were divided in 5 groups: 1) Bids founded, 2) Bids canceled, 3) Bids postponed, 4) Bids not found in applicable state or municipal water authorities (i.e. “no info”), and 5) Bids where the identified authority was impossible to reach for comment (“no answer”).

Of the total 204 wastewater projects requested by municipalities and states and which had more than 65% funding from FONADIN, PROTAR, APAZU, 47% were published in Compranet or confirmed by phone with the appropriate water entity (See below).

	Not Found (postponed, no Info, or no Answer)	Found/Existing	Canceled	Total
Rehabilitations	22.5%	14.5%	2.0%	39.0%
New Construction	24.5%	32.3%	4.2%	61.0%
TOTAL	47.0%	47.0%	5.8%	100.00%

Some of these projects had already been concluded and others were still in the bid and/or construction process. 123 projects or 61% corresponded to new plant construction while 39% corresponded to rehabilitation or major maintenance projects. Concerning new construction projects, 32.3% have been or are currently being carried out while 24.5% corresponded to

pending projects (i.e. postponed, no information or we were unable to get an answer). Concerning rehabilitation projects, almost twice as many projects were pending (22.5% of the total) than those that we found in the system (14.7% of the total).

The below table gives a more detailed breakdown of the new construction and rehabilitation projects by the five confirmations or answers we received.

	# of Projects		
	Rehabilitations	New	Total
Found	30	66	96
Canceled	5	7	12
Postponed	13	7	20
No Info	24	22	46
No Answer	9	21	30
Total	81	123	204

Then considering both new and rehabilitation projects together, 12 projects or 6% were canceled. There are several reasons why a project is canceled. However, the municipal authority in charge of the bid or the description of the cancellation in Compranet indicated, in the majority of cases, that there was a lack of compliance with the bid regulations and that if they continued the process, it would cause damage to the entity or almost certainly result in cancellation at a later stage in the process.

20 projects or 9.3% were postponed or still pending, meaning that they are not in the system and do not have a specific or approximate start date. In some cases, they were delayed due to lack of resources from the municipal and/or state authorities (i.e. the other 35%). In other cases, they were postponed because of conflicts between the applicable municipality and state about which entity would carry out the project.

30 projects or 15.2% could not be found (i.e. “no answer”), that is, we could not locate a contact to get information on the bid. In these cases, we called applicable the municipality as well as the applicable state and were unable to get a response.

In the case of 46 projects or 22.5%, no one knew or had any information about the project, that is, they either did not know about the project or they had a notion but they had no idea who in their agency was in charge of the project or when it would take place. An example of this problem was the case of the wastewater treatment plant extension and rehabilitation project in the municipality of Angostura, Sinaloa. We contacted the applicable municipal and state water authority, and while they had notions about the project, no one had any idea which entity or

person was in charge of the project or when it would be carried out. A similar situation existed in the case of the wastewater plant rehabilitation project in the municipality of Macuspana, Tabasco where when we called the respective municipal and state water authorities, we were told that no such project existed. Finally, in some cases, municipal or state authorities simply told us that they did not want to give information about the project or its status.

Analysis of Results: Why are only 50% of the federal funded projects in the system?

The projects that have are pending or have no information or where we were unable to get an answer totaled 47%. This is very similar to the percentage of projects actually found or identified (48%). One might ask why the percentage of projects found is not a lot higher than those postponed or impossible to identify?

To address this concern, we can turn to the results of the APAZU funding authority questionnaire for the evaluation of program results for some interesting context. Said questionnaire system indicates that each year there are very significant and extensive delays in bid and project deadlines resulting in proposed projects for a given year being delayed 6 months or more, generally resulting these projects being pushed back into the next fiscal year. The results of these questionnaires establish that the main problems or hindrances that exist for the bidding, initiation and/or execution of projects are the following: (a) lack of additional financial resources required to finish the project (i.e. additional 35%) either because of lack of funds or because said funds were allocated to a different project, (b) deadlines were not respected in the bid process, (c) monthly progress reports on the construction were incomplete or unreliable, (d) local water authorities have very limited technical capabilities and inaccurate benefit projections, and (e) federal rules and regulations were too complicated or difficult to comply with or simply were not complied with.

Conclusion

During 2011, solid wastewater new construction and rehabilitation projects were presented by the states and municipalities to Conagua and to the different federal funding agencies and were approved. However, less than half of the proposed, federal funded projects were bid and/or executed in this calendar year. The other half were detained because of problems like lack of additional funding, bureaucracy, party politics, state vs municipal agency in-fighting, and without a doubt corruption was a major factor as well. This generates a considerable backlog of projects contributing to Mexico's very bad infrastructure project execution record. In fact, Mexico's water infrastructure system is considered to be much less efficient than those in Argentina, Brazil, Chile, and Colombia and is even below Peru. It is also considered to be one of the slowest in project bid and execution processing in Latin America, something that has to change.

Based on the above and from the specific information given by municipal water agencies, of the

20 postponed projects, LGA expects 12 to take place in 2012. Concerning the 76 federally funded projects where we could find no information (“no info” or “no answer” categories), LGA uses 3 scenarios to try and project how many of these projects will come back on line: (a) low (less than 25 projects), (b) moderate (between 25 and 50 projects), and (c) high (more than 50 or more than two-thirds). Because Mexico is entering a Presidential election year in 2012, LGA does not consider the “high” scenario to be realistic. While it is entirely possible that the moderate scenario could take place, it believes that the low scenario is unfortunately probably the most realistic for 2012.

In another article in this Report, we will more extensively discuss market size estimates for the waste water municipal.