

MEXICO: NEW FUND TO SUPPORT INVESTMENT IN ENERGY PROJECTS

Summary

HSBC and Mexican Government create a new programme to provide credit to SMEs in the energy sector. The credits will offer attractive interest rates for almost any project in the production chains for the oil, gas, renewable energy and electricity sectors. Part of Peña Nieto's strategy of achieving higher growth rates and employment. Potential opportunities for UK SMEs once the secondary legislation of the energy reform approved.

Detail

1. President Peña has faced opposition to Energy Sector reform, through which his administration aims to achieve significant new direct investment and the creation of approximately half million jobs by the end of 2018. A significant number of these new jobs would come from an increase in the demand for energy inputs, in which small and medium suppliers (SMEs) would play a crucial role delivering promised economic growth.
2. New opportunities to invest in the oil, gas, electricity and renewable energy production chains will arise when Congress approves the energy reform's secondary legislation. SMEs will have a significant role in exploiting these. However, Mexico still faces problems around Financial Inclusion, affecting SMEs in particular. Therefore the announcement on 19 May that HSBC and the Mexican development bank Nacional Financiera (NAFIN) were to create a new fund of £1.3bn to finance firms who want to invest in the sector was welcome. The new fund can be used by both domestic and foreign SMEs looking to invest and work in the Mexican energy sector.
3. The programme, called 'Impulso energetico' will cover large, medium and small businesses, and NAFIN will provide guarantees up to £300m of the fund to lower risk and offer more competitive interest rates. These guarantees can cover up to 80% of the loans, which will range from £25,000 to £25m. Interest rates for the loans are dependent on the currency in which the loan is made and are low relative to normal market rates: just 6% if the loan will be in MXN\$ and 4.5% in US\$. SMEs will as a result have access to better financial investment vehicles compared to loans from the rest of the commercial banking sector.
4. The operation rules of the fund are very flexible, providing for credit to firms engaged in exploitation, exploration or refining activities, as well as suppliers along the productive chain. There are some caveats around requiring recognition from PEMEX as a supplier in certain cases but this is not all encompassing. The loans can also be used to acquire machinery, equipment, inventories or infrastructure. HSBC expects approximately one thousand businesses to benefit from the loan scheme.

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Comment

5. Official growth forecasts predicted that the energy reform alone would increase Mexico's growth rate by 1% by 2018 and 2% by 2025. However, as we have seen with other structural reforms, the negotiation and passage of the secondary legislation is key to providing the conditions for a positive business environment which boosts domestic growth rates.
6. The draft proposal for the energy reform's secondary legislation requires that contracts in shale gas and oil exploitation must constitute a minimum of 25% 'national content' (meaning that a quarter of workers or suppliers etc making up the deal need to be Mexican). This means that foreign firms will be able to provide the remaining 75% 'content'. The Mexican 'national content' percentage is far lower than those established in the Brazilian or Norwegian models (both with national content above 50%). This underlines the opportunities the energy reform will give to UK suppliers, particularly SMEs, who, with the HSBC and NAFIN fund, will be able to access cheap credit, which will hopefully provide further encouragement for their participation.
7. We will continue to promote a positive business environment for UK firms, so that they can start taking work forward as soon as the secondary legislation is approved. There are of course large on-going opportunities for UK companies in the energy sector even before this positive energy reform package is finally passed. The new loans can be used to access those opportunities too.

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