VfM approach in Developing Country PPPs

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**A. Technical Assistance to Governments to Develop PPPs**

- Policy development
- Legal and regulatory reforms
- PPP options
- Tariff regimes

**Enabling Environment Reform**

**Capacity and Awareness Building**

- Knowledge products
- Training
- Rapid diagnosis for PPPs

**Project Preparation (Pioneer transactions)**

- Business plan development
- Pre-feasibility studies
- Preparation of concessions, PPAs
- Negotiation of contracts

**B. Sub-National Technical Assistance**

Capacity creation in local utilities and municipalities to help them access financing on commercial terms and to improve their creditworthiness
Development of a PPP

1. Inception of PPP concept
2. Infrastructure Development Strategy
3. Legal/Inst’l Reforms
4. Local PPP Capacity Building

Assess PPP Options
Define Transaction Structure
Support for Pioneer Transactions

Develop Bidding Documents
PPP Procurement
PPP closing/signing, financing

Partial Risk or Credit Guarantees
Market to Investors

Building consensus

Partial Risk or Credit Guarantees

PPIAF works upstream

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Value for Money

• Key characteristics of PPPs
  • Private sector capital
  • Service delivery, efficiency and innovation
  • Optimal risk transfer
  • Performance based payments
  • Private sector risk pricing – premium !!

• VfM justifies this premium against a public sector procurement (and/or between other delivery models)
• Critical to select a procurement route

• Approach to VfM received considerable attention on focus of:
  • Absolute vs Relative/PSC
  • Financial vs Economic
  • Quantitative vs Qualitative
  • Standardized vs Customized
  • Sophisticated vs Simple
  • Single stage vs Multi-stage

• Many countries have reviewed or revised their approaches
VfM – Developing Country Issues

• Critical tool for project appraisal and budgeting decisions

• Challenges in implementing VfM - PSC
  • Project preparation and structuring abilities
  • Establish rationale for PPP (not for public financing gaps!)
  • Institutional capacity and skills for implementation
  • PSC benchmark data and experience
  • Decision-making abilities with available information
  • Appropriate discount rate
VfM – Implications for Developing Countries

- Implications of selecting appropriate VfM approach
  - Robustness of PSC – inputs and methodology
  - Risk allocation framework and risk pricing
  - Embedded qualitative assessment from program to project level
  - Level of assessment through the stages of project cycle
  - Consensus tool for stakeholder decision making

- Acknowledging the subjectivity of PSC is important
  - Can other approaches support the VfM decision?
VfM – Approach for Developing Countries?

- Capacity building to assess and appraise projects
- Lessons learned from other developing countries
- Use of simple tools for decision making
- Develop sophisticated methodologies as more PPPs are rolled out.
- Balance between quantitative and qualitative assessments
- Private sector confidence in VfM approach