PPP evaluation process in Chile

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PPP evaluation process

- PPP unit is located in Public Works Ministry
- PPP project sources:
  - Unsolicited proposals
  - Other units of Public Works Ministry
  - Other line ministries
PPP evaluation process

**Unsolicited Proposals**

- Can be presented by any entity
- Must meet requirements
  - Basic engineering
  - Demand studies
  - Financial model
  - Other studies required by PWM Concession Unit
- Processed by Concessions Unit
- Once processed, becomes a Government project: PWM is the project owner
PPP evaluation process

Line Ministry PPP Projects

• No specific rule to select PPP projects...
• ... However, some criteria are generally applied, including:
  • Complexity & experience with PPP type
  • Size
  • Risk profile
  • Feasibility of charging users
• Line Ministry must sign an agreement with PWM, specifying:
  • Main economic conditions
  • Approvals required
  • Main duties and responsibilities
• Once signed, PWM becomes owner of PPP project
PPP evaluation process

- Line Ministries
- Public Works Ministry
- Unsolicited Projects

PPP Projects – Concessions Unit
PPP evaluation process

Concession Unit undertakes for each potential PPP:

- Engineering studies
- Demand forecast
- Social evaluation (CBA)
- Financial design
- Contract design
- Business model
- Risk allocation
- Others studies as required for specific projects
PPP evaluation process

Concession Unit needs:

- CBA approved
  - Social evaluation must be approved by the Social Development Ministry (SDM)
  - SDM reviews all information used to construct CBA

SDM

- Demand studies
- Scale and Specifications
PPP evaluation process

- Concession Unit needs MoF approval for the contract
- Before approving, MoF assesses:
  - Contingent liabilities
  - Fiscal impacts
  - Risks
  - Case for PPP v/s traditional procurement
PPP v/s Traditional Procurement

Simulate fiscals flows under both schemes

\[ PV_{\text{TP}} = PV(\text{Investment, taxes, staff expenses, other operating expenses, maintenance?}) \]
PPP v/s Traditional Procurement

- Comparing just the cost has an implicit assumption: benefits are equal under both schemes
- That’s incorrect, because governments typically don’t adequately maintain assets
- Maintenance by the PPP company is enforced by the contract
- In practice, benefits under traditional procurement are lower with time, and are constant under a PPP
- To compare like-for-like, in the traditional procurement cash flow we include an extra cost to maintain equal benefits
PPP v/s Traditional Procurement

Simulate fiscals flows under both schemes

• Cost of adequate maintenance over project life could come from engineering
• A simplification could be to use a linear depreciation of the investment
PPP v/s Traditional Procurement

Simulate fiscals flows under both schemes

\[ PV_{\text{PPP}} = PV(\text{Government payments, tax, Government staff expenses, other Government operational expenses}) \]
PPP v/s Traditional Procurement

Which discount rate do we use?

- All cash flows we are looking at are government cash flows
- So we must use the same discount rate under both schemes
- Initially considered using the social discount rate: the rate used for CBA analysis, capturing social cost of capital
- But that rate include the private sector—we just need the cost of capital of the government
- Since Government of Chile is AAA in local currency, the government cost of capital is the risk free rate in the internal financial market
PPP v/s Traditional Procurement

As a result we expect:

<table>
<thead>
<tr>
<th>Traditional Procurement</th>
<th>PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIAP: good data base</td>
<td></td>
</tr>
<tr>
<td>Staff expenses</td>
<td></td>
</tr>
</tbody>
</table>

- Operational government payments
- Government staff expenses
PPP v/s Traditional Procurement

PPP expenses = \( \alpha \times \) government expenses, \( \alpha < 1 \)
PPP v/s Traditional Procurement

Advantages of our approach

• All the information to apply this methodology is already available
• Can be done in a very short time, so will not create a delay in project development
• Simple approach—does not require specialist skills
PPP evaluation process

Ministry of Finance
- Fiscal impacts
- Contingent Liabilities
- PPP v/s TP

Social Development Ministry
- CBA

Attorney General
- Legal Review

President
- General approval

Concessions Unit