Recent Developments in VfM Analysis in Latin America

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VfM in the region: selected cases

- PSC in Chile (2003-2005)
- Brazil (Federal government)
- Mexico (2006) and (2013)
- Peru: new approach in VfM
### Different approaches to test VfM

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost-Benefit Analysis</th>
<th>Traditional VfM</th>
<th>Contingent Liability Analysis</th>
<th>Ex-post VfM</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Eligibility Analysis</td>
<td>Public Sector Comparator</td>
<td>Multi-criteria Analysis</td>
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<tr>
<td>Peru</td>
<td>Yes</td>
<td>No</td>
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<td>Mexico</td>
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<td>Colombia</td>
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<td>Uruguay</td>
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Different approaches to test VfM include:

- **Ex-ante** (Anticipated benefits and costs before implementation)
- **Ex-post** (Benefits and costs after implementation)

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Traditional VfM Process

TP: traditional procurement
Quantitative and Qualitative Tests

• Eligibility Index and Multi-criteria analysis are qualitative assessments

• Public Sector Comparator
  – Discounted project cost (whole-life cost of assets) net of revenues
  – Net payment to SPV is estimated
  – Total risk are divided in Retained Risk (RR) and Transferred risk
Risk analysis

• Two complementary approaches:
  – **Bottom-up**: each risk is quantified (probability and $ impact) in risk workshops and/or other sources
  – **Top-down**: historical information / benchmarking to cap total risk (CAPEX)
    – Only main risks are quantified on initial investments

• Sensibility test: mean and variance / percentile analysis

• Total risk is divided RR and TR

• Lack of information: debate and concerns
PSC: some assumptions

• Assumptions:
  – **Output**: both TP and PPP deliver the same product
  – **Quality**: idem
  – **Project revenue**: idem

• Discount rate: Risk free rate
  – WACC is used to estimate payments to the SPV
  – Same discount rate for all project

• No correction factor (optimism bias)
The VfM in Practice

• So far, very limited experience
  – How VfM helps to improve the project preparation?
  – VfM and tender process?

• Some cases are well documented
  – Uruguay: prison and road
  – Colombia: roads

• Lack of details on risk analysis
Thank you