



VfM approach in Developing Country PPPs

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PPIAF supports private sector investment in developing countries

A. Technical Assistance to Governments to Develop PPPs

Enabling Environment Reform

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

Capacity and Awareness Building

- Knowledge products
- Training
- Rapid diagnosis for PPPs

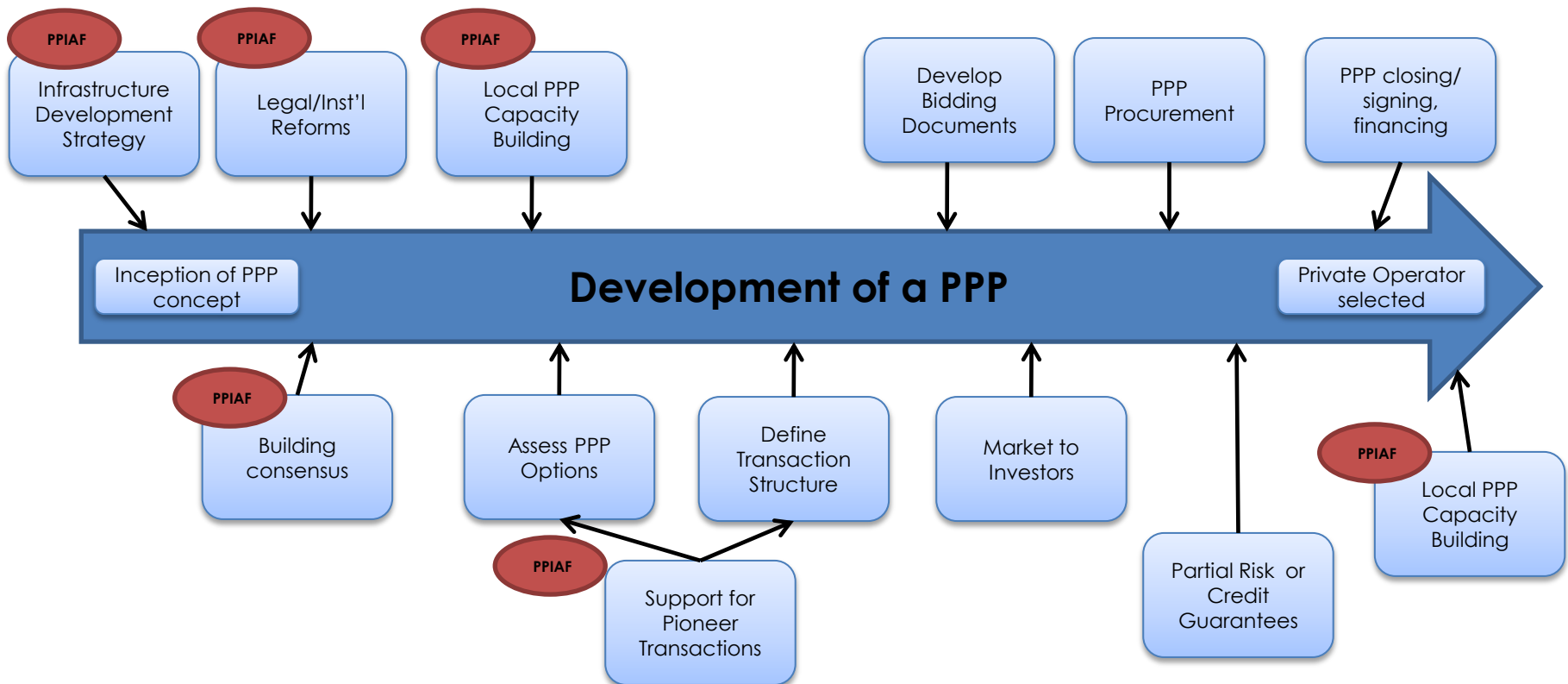
Project Preparation (Pioneer transactions)

- 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

PPIAF works upstream



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)

Value for Money - Approach

- 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