



# Recent Developments in VfM Analysis in Latin America



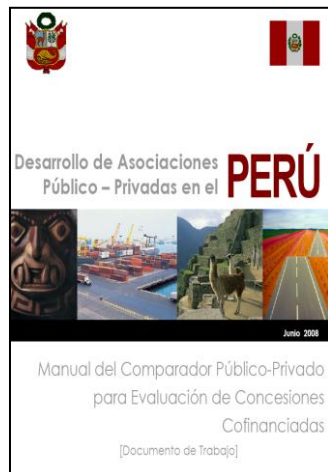
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Washington DC

# VfM in the region: selected cases

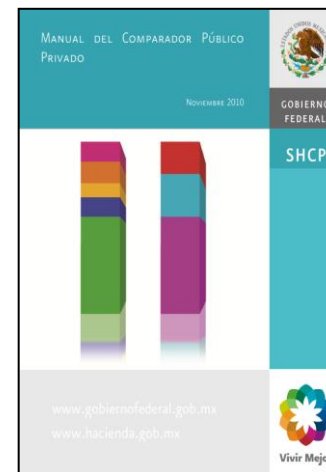
Peru (2008)



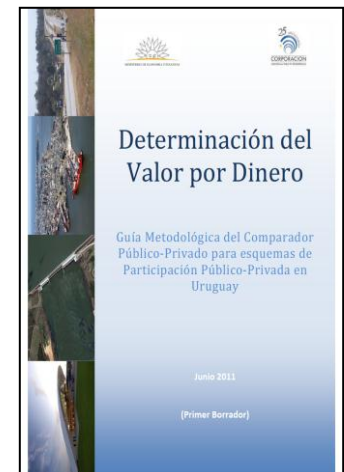
Colombia (2009)



Mexico (2010)



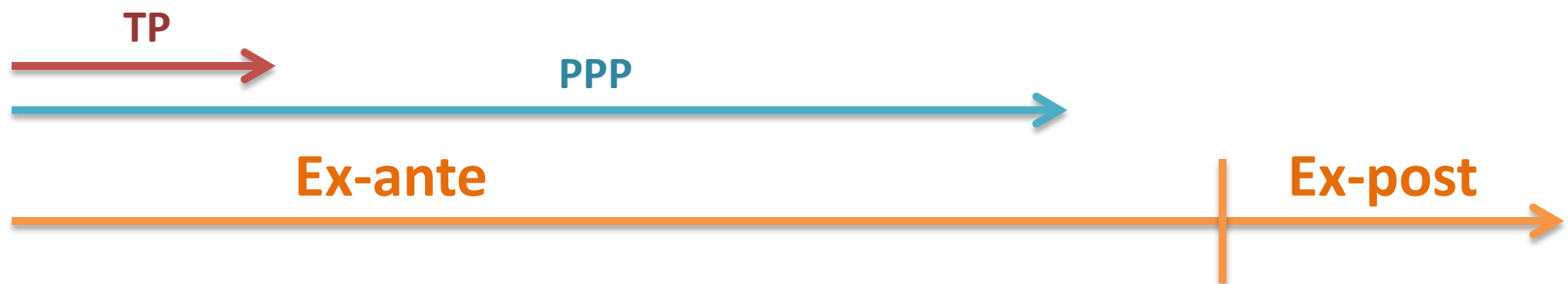
Uruguay (2012)



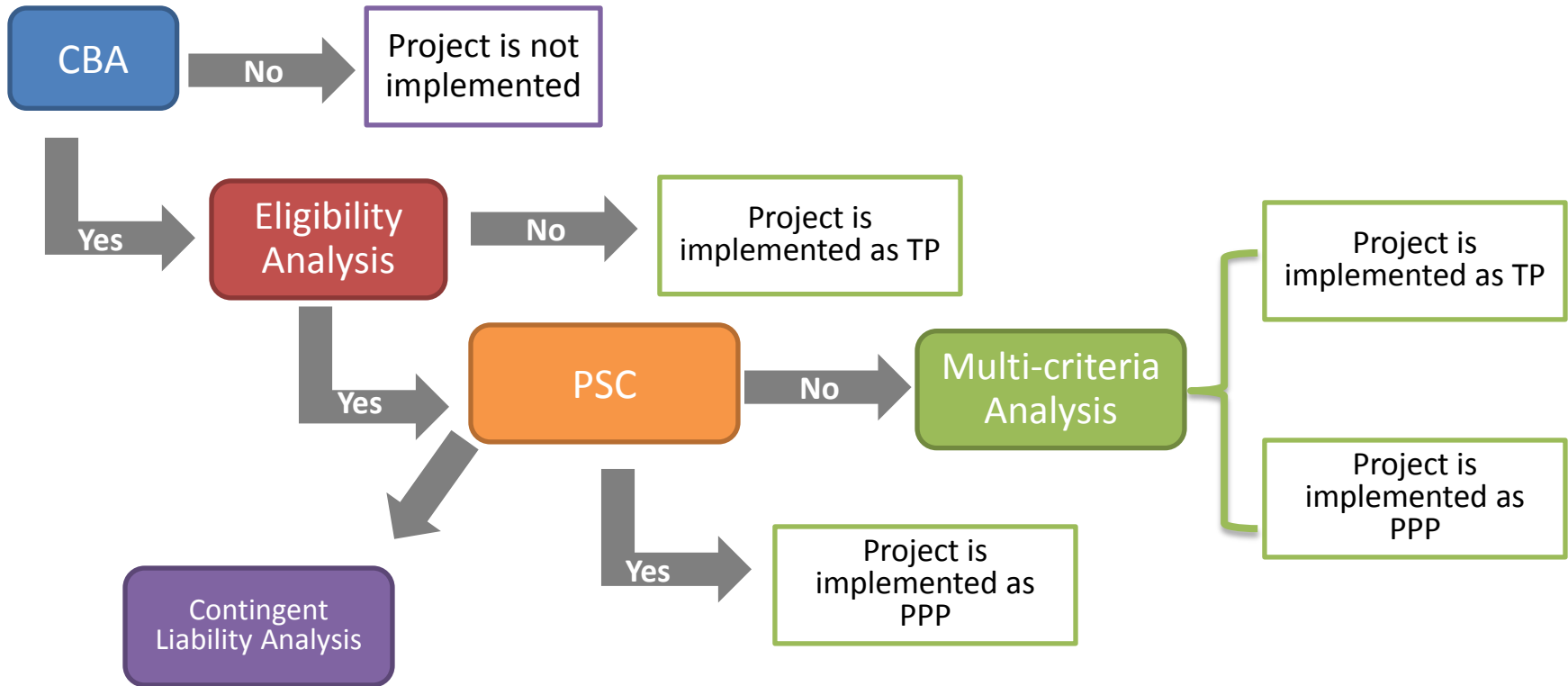
- PSC in Chile (2003-2005)
- Brazil (Federal government)
- Mexico (2006) and (2013)
- Peru: new approach in VfM

# Different approaches to test VfM

Country	Cost-Benefit Analysis	Traditional VfM			Contingent Liability Analysis	Ex-post VfM
		Eligibility Analysis	Public Sector Comparator	Multi-criteria Analysis		
Peru	Yes	No	Yes	No	Yes	No
Mexico	Yes	Yes	Yes	No	No	No
Colombia	Yes	Yes	Yes	Yes	Yes	No
Uruguay	Yes	Yes	Yes	No	No	No
Chile	Yes	No	No	No	Yes	No



# Traditional VfM Process



*TP: traditional procurement*

# Quantitative and Qualitative Tests

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- 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

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- 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

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- 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

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