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

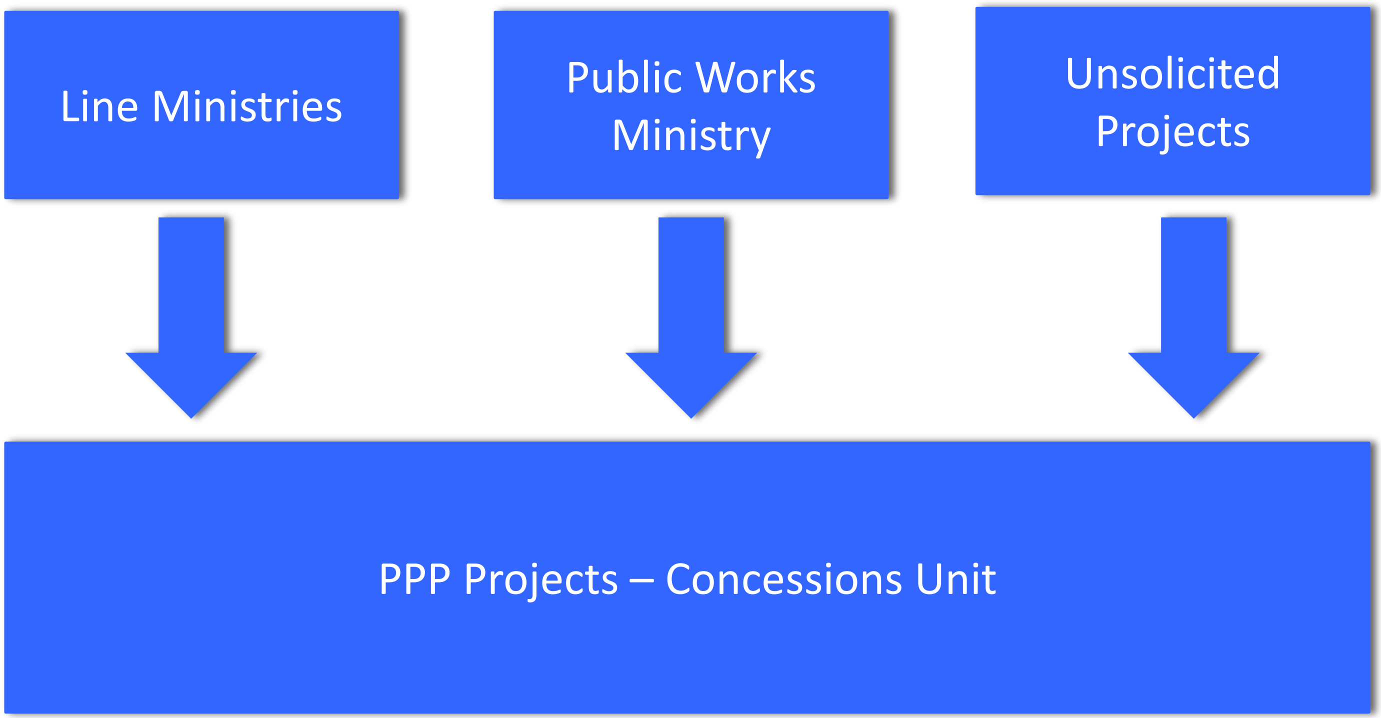
- Can be presented by any entity
- Must meet requirements
  - Basic engineering
  - Demand studies
  - Financial model
  - Other studies required by PWM Concession Unit
- Processed by Concessions Unit
- Once processed, becomes a Government project: PWM is the project owner

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



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

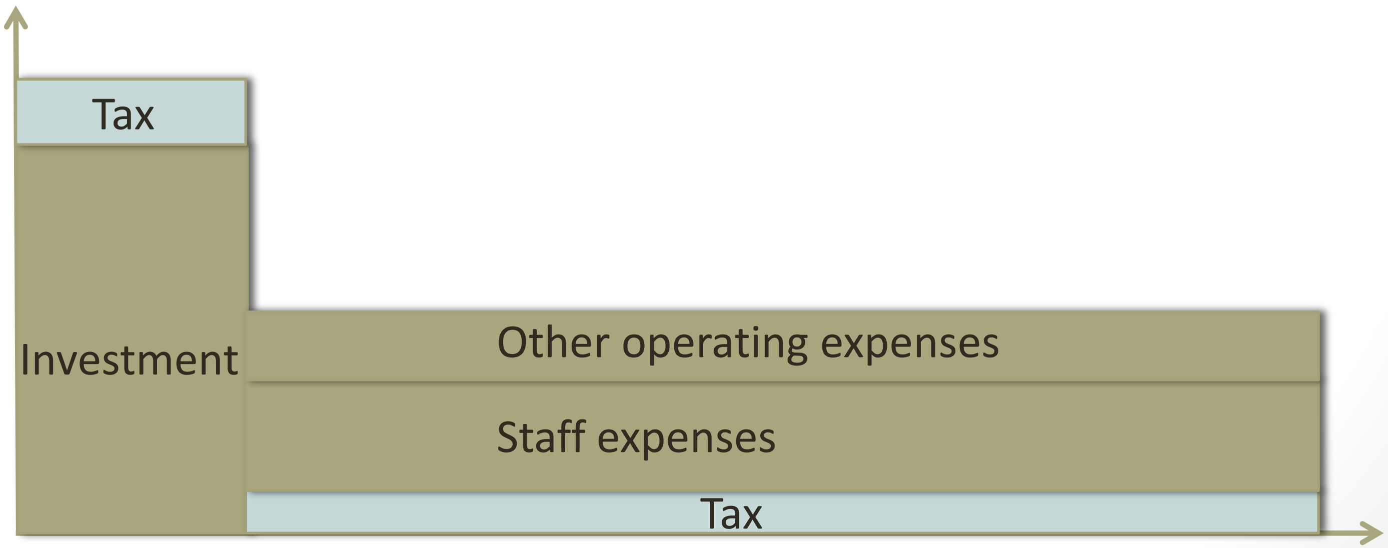
PPP evaluation process

- 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

$$PV_{TP}=PV(\text{Investment, taxes, staff expenses, other operating expenses, maintenance?})$$



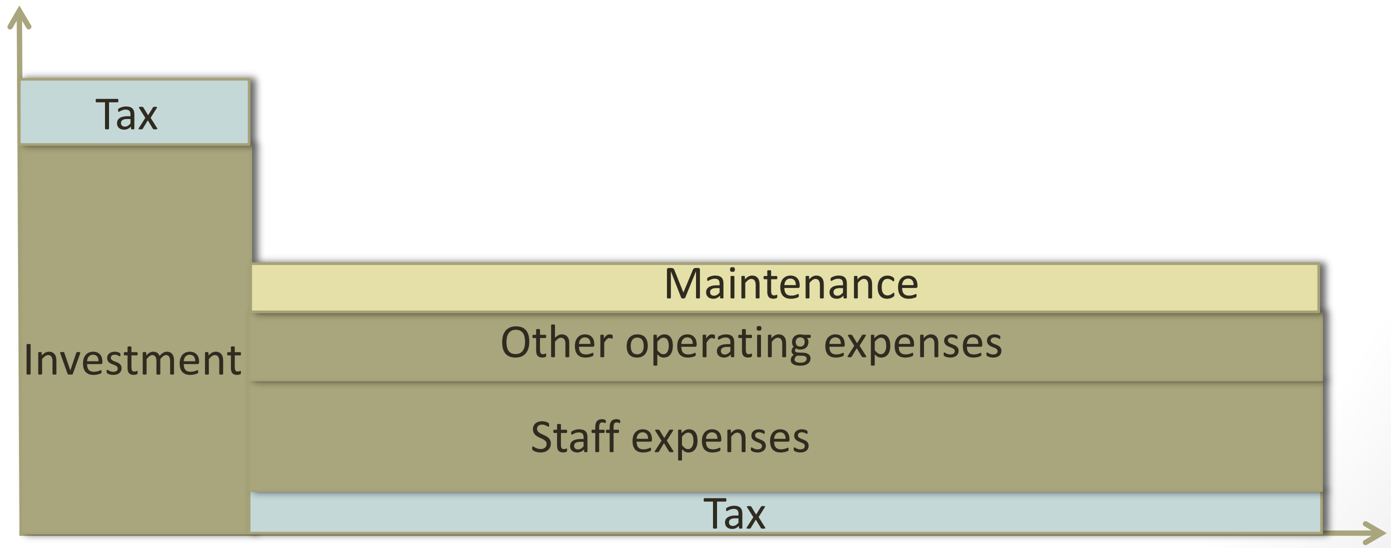
PPP v/s Traditional Procurement

- 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

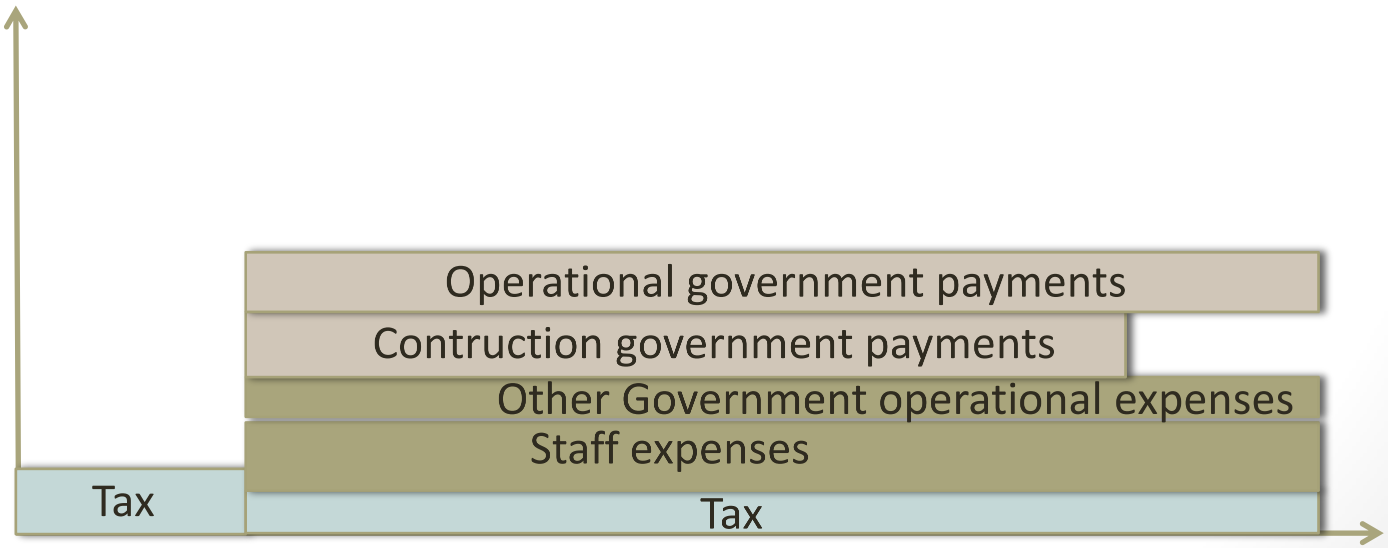
- Cost of adequate maintenance over project life could come from engineering
- A simplification could be to use a linear depreciation of the investment



PPP v/s Traditional Procurement

Simulate fiscals flows under both schemes

PV_{PPP}=PV(Government payments, tax, Government staff expenses, other Government operational expenses)



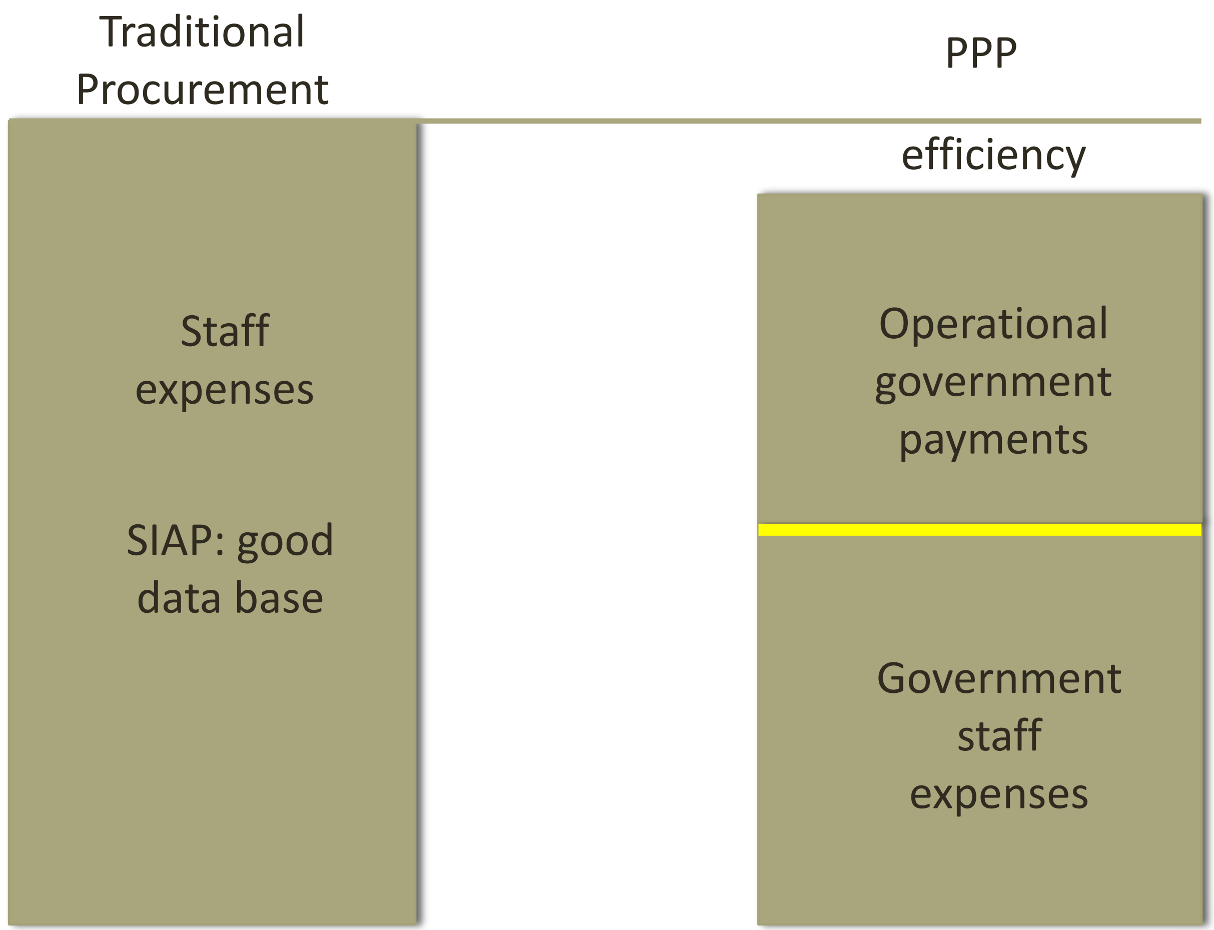
PPP v/s Traditional Procurement

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

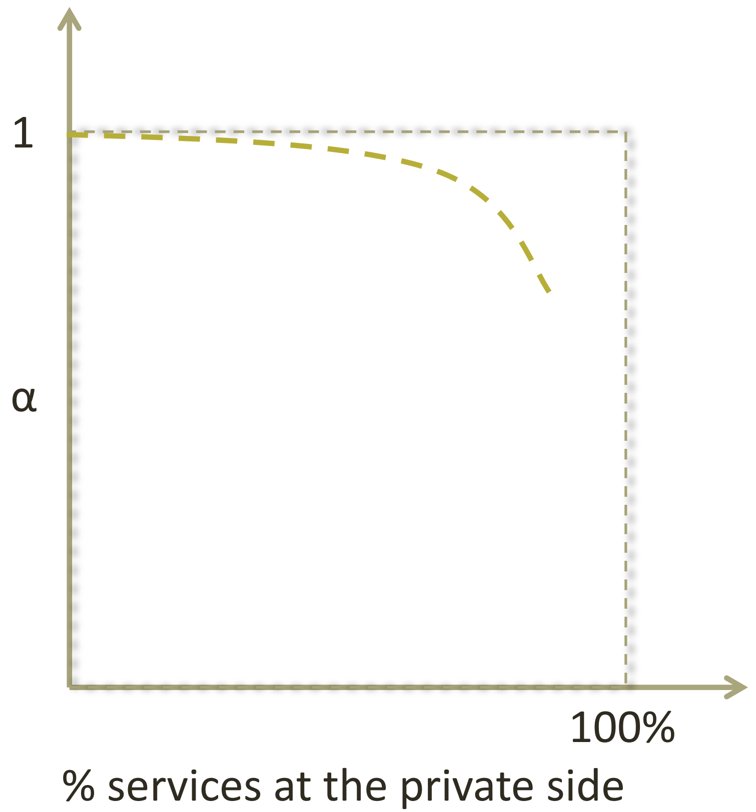
PPP v/s Traditional Procurement

As a result we expect:



PPP v/s Traditional Procurement

PPP expenses = α x government expenses, α < 1

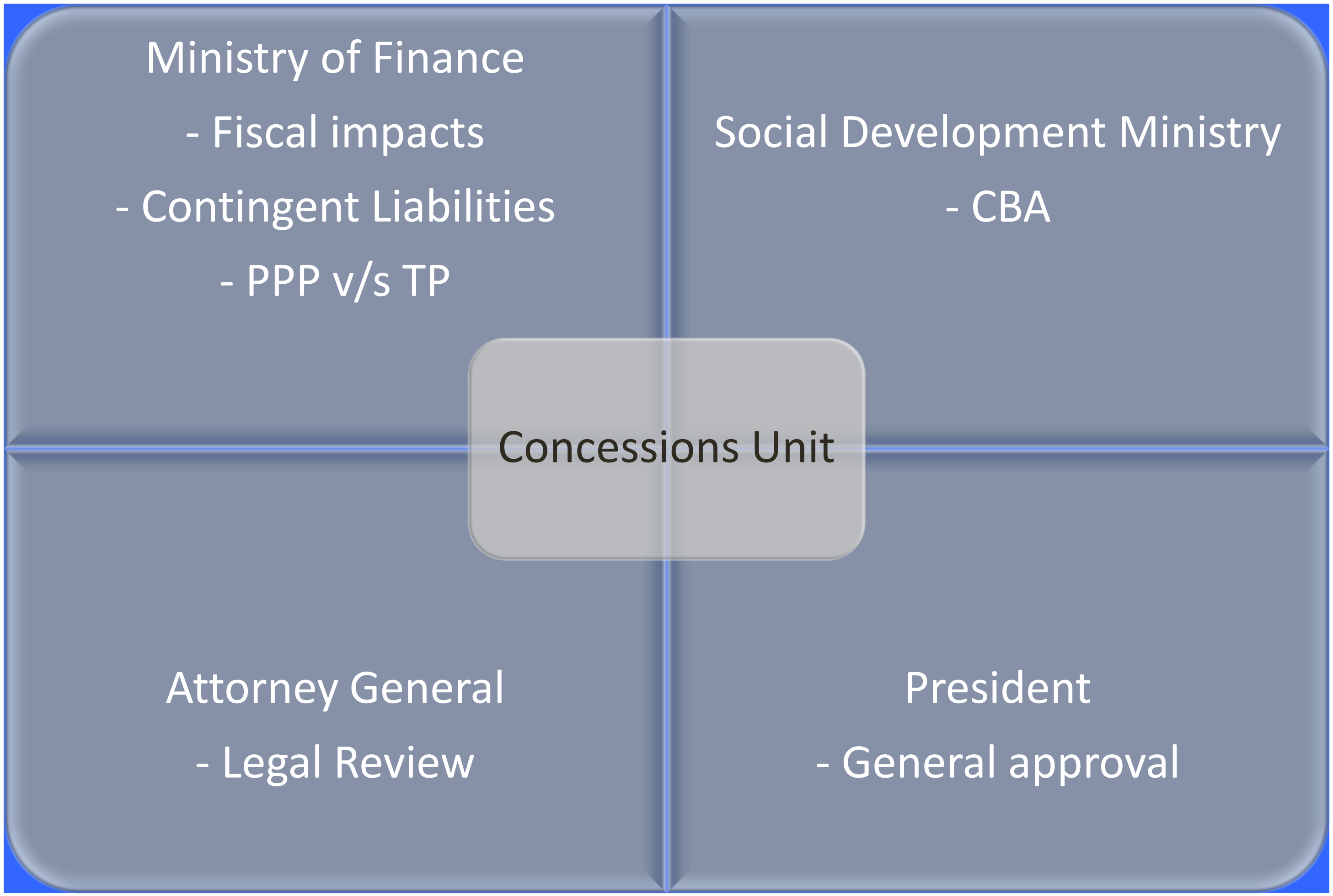


PPP v/s Traditional Procurement

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



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