The Advisory Group on APEC Financial System Capacity-Building

Third Meeting 2011
23 August 2011
Mediterraneo A, Los Delfines Hotel & Casino
Lima, Peru

Meeting Paper 4-C

Inter-American Development Bank
Infrascope: PPP Readiness Index and Software Tool developed and published by the Economist Intelligence Unit in collaboration with FOMIN

Assesses a country’s readiness and capacity for public-private partnerships in water, transportation and electricity

Evaluates 19 countries in Latin America and the Caribbean, according to their relative performance in six key areas, using 19 indicators

Platform for policy dialogue with countries as well as tool to measure impact performance of FOMIN capacity building projects

Learning tool for governments and donors

Key Characteristics

**Sector specific** – focuses on water, transport and electricity projects

**Contract specific** – evaluates concession contracts and does not consider management and lease contracts or divestitures

**Country-level** assessments – only considers regional tendencies where possible and relevant

Considers both **qualitative and quantitative** factors

**Dynamic** rather than prescriptive model
The Infrascope Development Process

Activities
- Search relevant, publicly available data sources
- Interview country and sector experts, distribute survey
- Review laws and regulations
- Compile secondary reports and assessments
- Qualitative analysis of laws, regulations and institutions
- Data normalisation
- Compare index results against survey responses, interviews, World Economic Forum Index

Sources
- World Economic Forum, PPIAF sector reports, Economist Intelligence Unit publications (Country Commerce, Country Finance, Risk Briefing)
- Economist Intelligence Unit analysts and model builders

Currently, the third edition of the Infrascope is under development. Additionally, an Infrascope pilot for Asia is in the advanced stages of development.
### Infrascope Thematic Categories

**Legal and regulatory framework**
- Consistency and quality of PPP regulations
- Effective PPP selection and decision making
- Fairness/openness of bids, contract changes
- Dispute resolution mechanisms

**Institutional framework**
- Quality of institutional design and roles
- PPP contract, hold-up and expropriation risk

**Operational maturity**
- Public capacity to plan and oversee PPPs
- Methods and criteria for awarding projects
- Regulators’ risk allocation record
- Experience in transport and water concessions
- Quality of transport and water concessions

**Financial facilities**
- Government payment risk
- Capital market; private infrastructure finance
- Marketable debt
- Government support for low-income users

**Investment climate**
- Political distortion
- Business environment
- Political Will

**Sub-national adjustment factor**

A sub-national indicator was added to the 2010 addition and a “political will” indicator replaced “social attitudes toward privatization”

### Infrascope Index weights

Each category was scored 0-100 and is weighted to produce the overall index score:

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory framework</td>
<td>25%</td>
</tr>
<tr>
<td>Institutional framework</td>
<td>20%</td>
</tr>
<tr>
<td>Investment climate</td>
<td>15%</td>
</tr>
<tr>
<td>Operational maturity</td>
<td>15%</td>
</tr>
<tr>
<td>Financial facilities</td>
<td>15%</td>
</tr>
<tr>
<td>Sub-national adjustment factor</td>
<td>10%</td>
</tr>
</tbody>
</table>
SIMULATION OF INFRASCOPE AS A LEARNING TOOL

**Economist Intelligence Unit**

2010 infrascope index for Latin America and the Caribbean

This benchmarking tool is a ranking tool that evaluates the legal, regulatory, and operating environments for public-private partnerships (PPP) in transport, water sanitation and electricity infrastructure for 15 Latin American and Caribbean countries. The analyses and scores in the tool provide a comparative assessment of individual country weaknesses and faculty for PPP implementation.

Evaluations were conducted and data was collected on a national level for all countenance indices, with the exception of the Sub-regional adjustment factor. For the purpose of this index, PPP refers specifically to projects which involve a long-term commitment to a project that is funded by a mix of public and private finance and for which all risks are transferred to the concessionaire, which also bears either capital costs or operating costs, or both.

This model is constructed from 19 indicators, 15 of which are qualitative and 4 of which were scored from 2-4, where 4 = best. The remaining indicators were based on quantitative variables. Five category scores and one adjustment factor - Legal and regulatory framework, Institutional framework, Operational capacity, Investment climate, Financial stability - are adjusted on a 1-5 scale.

Each indicator is normalized from 0-100 where 100 = best. From the underlying quantitative indicator data, the score is calculated using the following normalization formula:

\[ x = \frac{x - \text{Min}}{\text{Max} - \text{Min}} \]

The weighting for each indicator and category can be adjusted by editing the "weights" spreadsheet. Please note that the current category weights are the Economist Intelligence Unit-selected weights.

**Benefits as Learning Tool**

- Reference tool for discussions on PPP program or project
- Assess country performance, progress, and areas for improvement based on comparisons with best practices
- Frame year-to-year country changes
- Interactive - Enables changes to raw data and weights based on view of user
In-depth analyses of country indicators
Pop out windows enhance usability
Peru Country Profile – Institutional Framework

The Infrascope assessment for Peru’s PPP institutional framework improved 25 points YoY and received a favorable score. What are important factors in this assessment? Positive factors? Areas for improvement?

- May 2008: Passage of Regional and Local Public Investment with Private Participation Law (Dec. 2008: regulations to implement law approved)
- Law established uniform PPP framework, reduced transaction costs, better defined main procedures for developing PPPs
- More recent regulatory changes have further improved inter-institutional coordination
- With changes, increased concentration of power in ProInversión. Therefore, increased importance of checks and balances.

Source: Infrascope 2010, Peru Country Profile
Peru – Key Issues

How can Peru enhance the development and implementation of PPPs?

- Increase government capacity to plan and prepare projects
- Improve contractual arrangements to limit renegotiations
- Enhance dispute resolution

Source: Infrascope 2010, Peru Country Profile
Chile’s PPP legal and regulatory framework received a favorable evaluation and improved 21.9 points YoY. What are important factors in this assessment? Positive factors? Areas for improvement?

- Public Works Concessions Law (April 2010)
  - Private sector compensation more objectively determined
  - Limits on unintended transfer of commercial risks to public sector and limits on renegotiations
  - Requires further bidding for additional significant works to enhance transparency
  - Improved system for responding to unsolicited bids

Source: Infrascope 2010, Chile Country Profile
The EIU evaluation of the Chilean investment climate declined slightly YoY. What explains this change?

- Largely temporary factors
- Global recession
- Earthquake

Source: Infrascope 2010, Chile Country Profile
Chile Country Profile

How can Chile enhance the development and implementation of PPPs?

Chile – Key Considerations

- Increase government capacity to manage concessions
- Allow for greater separation of regulatory responsibilities

Source: Infrascope 2010, Chile Country Profile
The Mexican institutional framework for PPPs received a favorable evaluation and improved 25 points YoY. What are important elements of this evaluation? Best practices? Areas for improvement?

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
<th>YoY</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall scope</td>
<td>56.1</td>
<td>+0.2</td>
<td>4</td>
</tr>
<tr>
<td>Legal and regulatory framework</td>
<td>56.1</td>
<td>+0.3</td>
<td>4</td>
</tr>
<tr>
<td>Institutional framework</td>
<td>56.3</td>
<td>+25.0</td>
<td>1</td>
</tr>
<tr>
<td>Operational maturity</td>
<td>58.0</td>
<td>+0.1</td>
<td>3</td>
</tr>
<tr>
<td>Investment climate</td>
<td>56.1</td>
<td>-5.7</td>
<td>6</td>
</tr>
<tr>
<td>Financial facilities</td>
<td>72.2</td>
<td>-2.8</td>
<td>2</td>
</tr>
<tr>
<td>Subnational adjustment</td>
<td>50.0</td>
<td>+2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Infrascope 2010, Mexico Country Profile

- Established capacity at national level for project selection, evaluation, supervision
- Efforts underway to improve capacity at state level
- Lack of institutional coordination at different levels of government
Mexico Country Profile – Investment Climate

The EIU evaluation of the Mexican investment climate declined YoY. What explains this change?

Mexico – Investment Climate

- Global recession - Negative effects highlighted dependence on U.S. economy, economic concentration in certain industries
- Divided government - More difficult to implement competition reforms

Source: Infrascope 2010, Mexico Country Profile
Mexico – Key Considerations

How can Mexico enhance the development and implementation of PPPs?

- Uniform, comprehensive legal framework for PPPs
- Institutional presence, coordination at national level to establish comprehensive policies and maintain oversight of PPP system

Source: Infrascope 2010, Mexico Country Profile
Available through the FOMIN website (http://www5.iadb.org/mif/) under Programs and Projects > Access to Basic Services > Engaging Private Sector in the Delivery of Basic Services

Thank you.

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