8.2 Assessment of value for money and affordability of infrastructure projects

Public infrastructure projects are gateways for social and economic growth. When deciding which projects to undertake, governments should also consider their value for money, which entails the optimal combination of quality, quantity, features and costs, calculated over the project's lifetime. Moreover, projects need to be cost-effective and affordable for both the government and the end-user. To ensure this, many countries have frameworks with clear criteria and methodologies for assessing projects' value for money and defined roles for each stakeholder involved in the process. These frameworks consider which costs should be assessed to determine a project's affordability, such as construction, maintenance, operation and monitoring expenses.

Countries in the Latin America and the Caribbean (LAC) region have different configurations for their frameworks for assessing value for money and affordability of infrastructure projects. In 11 out of 15 surveyed LAC countries (73%), finance ministries play a gatekeeping role in approving all proposed infrastructure projects and/or determining whether they comply with established requirements. In Brazil and the Dominican Republic, finance ministries only have this gatekeeping role for public-private partnership (PPP) projects. The frameworks in 6 out of 15 LAC countries (40%) have formal processes to assess the value for money of all PPP projects, while 3 countries restrict this assessment to PPP projects above a certain threshold. In addition, in the Dominican Republic, Ecuador and Nicaragua, all projects are assessed by an independent and impartial expert, while in Bolivia, Chile and Costa Rica, these expert assessments are only carried out for projects of specific relevance. It is worth highlighting that the Dominican Republic conducts both internal and independent expert value for money assessments for all infrastructure projects (Table 8.1).

LAC countries use different methodologies to assess infrastructure projects' affordability and value for money. The most common is the cost-benefit analysis, used by 13 out of 15 surveyed countries (87%). The second most common methodology for evaluating infrastructure projects is cost-effectiveness analysis, employed by 7 of the 15 surveyed LAC countries for PPP projects (46%) and by 9 (60%) for other infrastructure projects. Similarly, some LAC countries assess projects through cash-flow estimates over the project cycle (7 out of 15 for PPP projects, 5 out of 15 for other projects). Additionally, other methodologies are used by fewer countries, such as business case methodology, used only by Brazil and Mexico. It is worth highlighting that Brazil uses all the methodologies considered in the survey to assess its infrastructure projects (Figure 8.4).

Which costs are considered when assessing a project's affordability are just as important as the methodologies used to determine value for money. Most LAC countries consider construction costs (14 out of 15, 93%) and both maintenance and operation costs (12 out of 15, 80%). However, only a few countries assess other costs, such as estimates for adaptations and renovations (only considered by four countries) and costs related to decommissioning (only Colombia) (Online Figure F.5.1). There is scope to improve on cost estimates, which would help to reduce the risks of delays to infrastructure projects due to adaptation issues or closure of works due to missed deadlines or lack of compliance with regulatory frameworks.

Methodology and definitions

Data are from the 2022 IDB-OECD Survey of Infrastructure Governance conducted in July 2022, with responses from 15 LAC countries. Respondents were predominantly senior officials in central/federal ministries of infrastructure, public works and finance, as well as in infrastructure agencies and other line ministries.

Public-private partnerships are long-term agreements between the government and a private partner whereby the private partner delivers and finances public services using a capital asset, sharing the associated risks with the public sector.

Affordability means that projects can be accommodated within the government's current and future budget constraints. Affordability from the end-users' perspective refers to their ability and willingness to pay tariffs or other user charges associated with access to and use of the infrastructure asset.

Further reading

IDB (2022). *Risk Matrix and PPP Contract Standardization, Best Practice, and Gap Analysis in Brazil*. http://dx.doi.org/10.18235/0004213.

OECD (2020), "Recommendation of the Council on the Governance of Infrastructure", *OECD Legal Instruments*, OECD, Paris, https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0460.

Figure notes

F.5.1 (Coverage of costs estimates to assess the affordability of infrastructure projects, 2022) is available online in Annex F.

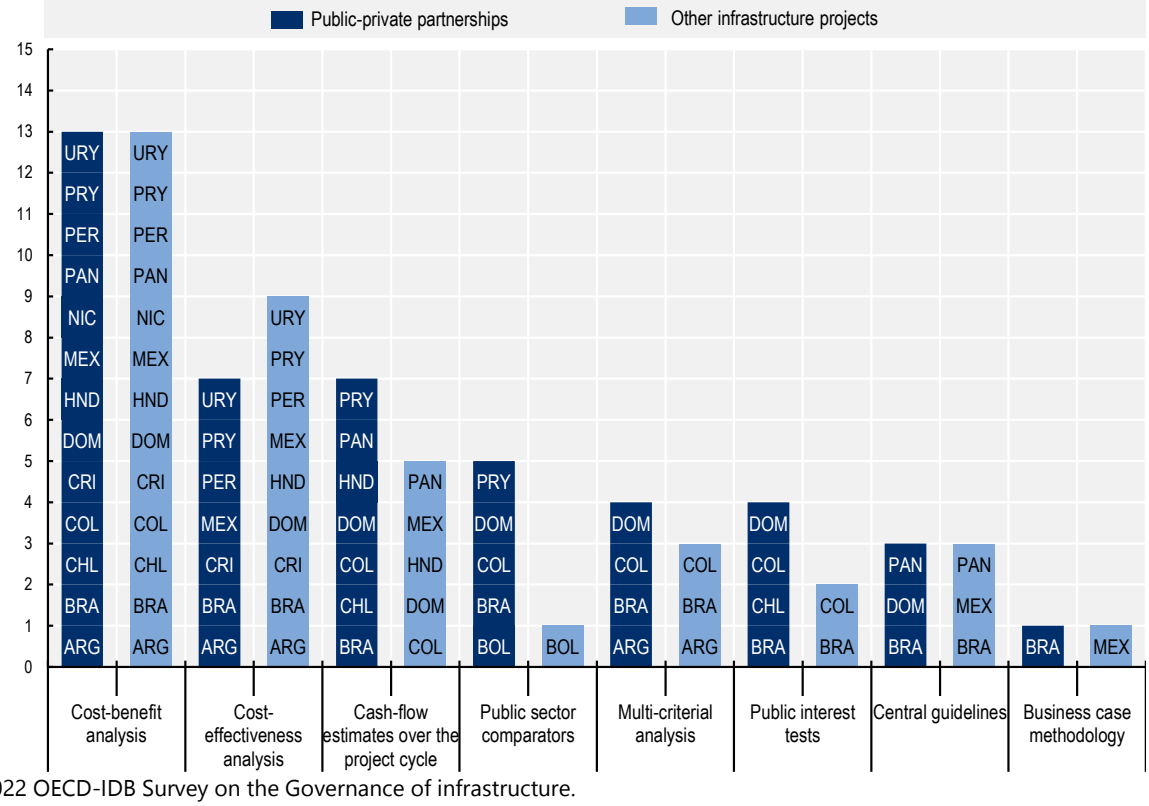
Table 8.1. Framework for assessing value for money and affordability, 2022

	Gatekeeping role of the ministry of finance for project approval	Existence of a formal process to evaluate value for money		Independent and impartial expert assessment
		PPPs	Other infrastructure projects	
Argentina	✓	○	○	○
Bolivia	✓	✓	✓	▲
Brazil	●	○	○	×
Chile	✓	...	...	▲
Colombia	×	✓	✓	○
Costa Rica	✓	...	...	▲
Dominican Republic	●	✓	✓	✓
Ecuador	✓	...	...	✓
Honduras	✓	...	...	×
Mexico	✓	✓	...	○
Nicaragua	✓	...	...	✓
Panama	✓	✓	✓	×
Paraguay	✓	...	...	×
Peru	✓	✓	✓	×
Uruguay	+	○	○	○
LAC Total				
✓ All projects	11	6	5	3
○ Projects above a certain threshold	0	3	3	4
● Only for PPPs	2			
▲ Projects of specific relevance	0	0	0	3
+ Other	1	0	0	
× None	1	0	0	5
... Not available/Not applicable	0	6	7	0

Source: 2022 OECD-IDB Survey on the Governance of infrastructure.

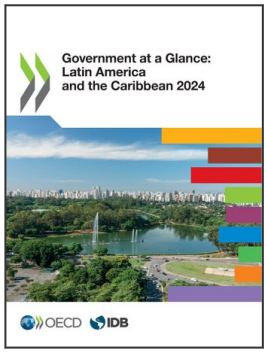
StatLink https://stat.link/e16gq5

Figure 8.4. Methodologies for assessing infrastructure projects, 2022



Source: 2022 OECD-IDB Survey on the Governance of infrastructure.

StatLink https://stat.link/rkmu06



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