

International Seminar on
Strengthening Public Investment and Managing
Fiscal Risks from Public-Private Partnerships

Budapest, Hungary
March 7–8, 2007

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Managing Fiscal Risks from PPPs: Main Issues for Governments

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**“International Seminar on Strengthening Public Investment and
Managing Fiscal Risks from Public Private Partnerships”**

IMF, Hungarian Ministry of Finance, ICEG-EC

Budapest, March 7-8, 2007



Overview

- 1. PPPs: Highlighting macroeconomic aspects**
- 2. Fiscal risks from PPPs: Schwartz and Monteiro**
- 3. Comments and discussion points**



1. PPPs: Highlighting Macroeconomic Aspects

- **PPPs: transform an up-front fixed expenditure into a stream of future obligations**
 - **smoothing out the cost of public investment**
- **Sound microeconomic rationale : achieving costs efficiency without compromising the provision and quality of public services/goods**
- **Risk of being used to evade the SGP constraints**



2. Fiscal Risks from PPPs: Schwartz, Monteiro

1. Ensuring the sound rationale

- Make sure that PPPs are done for the right reason:
 - increasing the efficiency gains
- Bad PPPs due to perception of zero-cost projects, burdening of future government by the incumbent
 - **the lack of long-term budgeting** (Monteiro)
- Require investment planning, risk assessment and **medium-term frameworks** (Schwartz)



2. Institutions

- Governing overall PPP procurement process
 - Good institutional planning ensures implementation of the PPPs
- **Multi-stage gateway process**, empowering the Finance Minister to stop or suspend a PPP project during the preparation and negotiation
- Risk appraisal process involving other than line ministries (Monteiro), separation of PPP promotion and oversight (Schwartz)



3. Transparency

- **PPPs may give rise to substantial contingent liabilities, which if realised could have a substantial impact on the government finances**
- **All the PPP related fiscal risk should be disclosed to enhance the risk awareness, leading to appropriate risk analysis**

3. *Comments and Issues for Discussion*

1. PPP and budgetary frameworks

- Long-term character requires long-term sustainability analysis of public finances
 - Contractual liabilities – flow of future claims certain
- Raising cost awareness in the medium-term, reducing the incentives to shift liabilities to the future by the incumbent
- Reinforcing the gateway process
- Transparency and reporting standards of PPP related information



3. Comments and Issues for Discussion

2. PPPs and contingent liabilities

Fiscal risk matrix: PPP related liabilities

	Direct Obligation in any event	Contingent Obligation if a particular event occurs
Explicit Government liability created by a law or contract	<ul style="list-style-type: none"> • Maastricht debt • Govt expenditure as stated in budget law 	<ul style="list-style-type: none"> • State guarantees on service purchase contracts (demand risk) • State guarantees issued to private investors and service providers • State guarantees on debt and other obligations of subnational governments
Implicit A “political” obligation of government that reflects public and interest group pressures	<ul style="list-style-type: none"> • Future recurrent costs of public investment projects 	<ul style="list-style-type: none"> • Non-contractual claims arising from private investment, for instance in infrastructure • Claims by subnational governments to assist in covering their own debt, guarantees, arrears (PPPs at subnational level)

Based on the framework by Polackova (1998).



3. Comments and Issues for Discussion

2. PPPs and contingent liabilities

- **Trade-off: accounting rules Vs cont. liabilities?**
 - **Stricter rules – risk transfer to cont. liabilities**
- **Ceilings on state guarantees in some countries**
 - **How do the state guarantee ceilings take into account the guarantees related to PPPs?**



3. Comments and Issues for Discussion

3. PPPs and subnational governments

- Increasing tendency of local and regional governments to engage into the PPPs
- Growing financial autonomy
- Need for regional development (infrastructure build-up)
- Significant fiscal risks due to:
 - Insufficient expertise on PPP management
 - Moral hazard - the central government bail-out (?)



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