

FISCAL AFFAIRS DEPARTMENT

PPP  
FISCAL RISK  
ASSESSMENT  
MODEL (PFRAM)



INTERNATIONAL MONETARY FUND

# THE PPP FISCAL RISK ASSESSMENT MODEL (PFRAM)

**The PFRAM, developed by the IMF and the World Bank, is an analytical tool to assess the potential fiscal costs and risks arising from PPP projects.** In many countries, investment projects have been procured as Public Private Partnerships (PPPs) not for efficiency reasons, but to circumvent budget constraints and postpone recording the fiscal costs of providing infrastructure services. Hence, some governments procured projects that either could not be funded within their budgetary envelope, or that exposed public finances to excessive fiscal risks. To address these concerns, PFRAM has been developed as an analytical tool to quantify the macro-fiscal implications of PPP projects, to be used not only in the context of IMF and World Bank technical assistance but also by PPP units in ministries of finance.

**In practice, assessing a PPP project involves both gathering specific project information and making judgments about the government's role at key stages of the project cycle.** PFRAM provides a structured process for gathering information for a PPP project in a simple, user-friendly, Excel-based platform, following a four steps decision-tree:

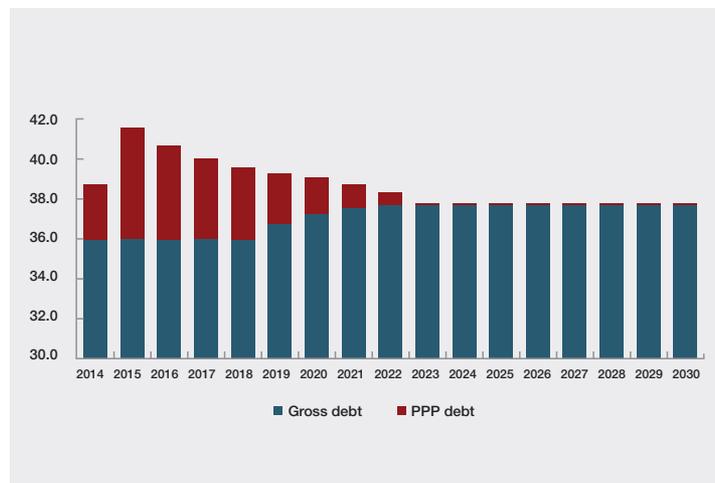
- **Who initiates the project?** The impact of main fiscal indicators (i.e., deficit and debt) varies depending on the public entity ultimately responsible for the project (e.g. central, local governments, state-owned enterprises, etc.).
- **Who controls the asset?** Simple standardized questions assist the user in making an informed decision about the government's ability to control the PPP-related asset—either through ownership, beneficial entitlement, or otherwise.

- **Who ultimately pays for the asset?** The funding structure of the project is what determines its implication on main fiscal aggregates. PFRAM allows for three funding alternatives: (a) the government pays for the asset using public funds; (b) the government allows the private sector to collect fees directly from users of the asset (e.g., tolls); and (c) a combination of the two.
- **Does the government provide additional support to the private partner?** Governments can not only fund PPP projects directly but they can also support to the private partner in a variety of ways, including providing guarantees, equity injections, or tax amnesties.

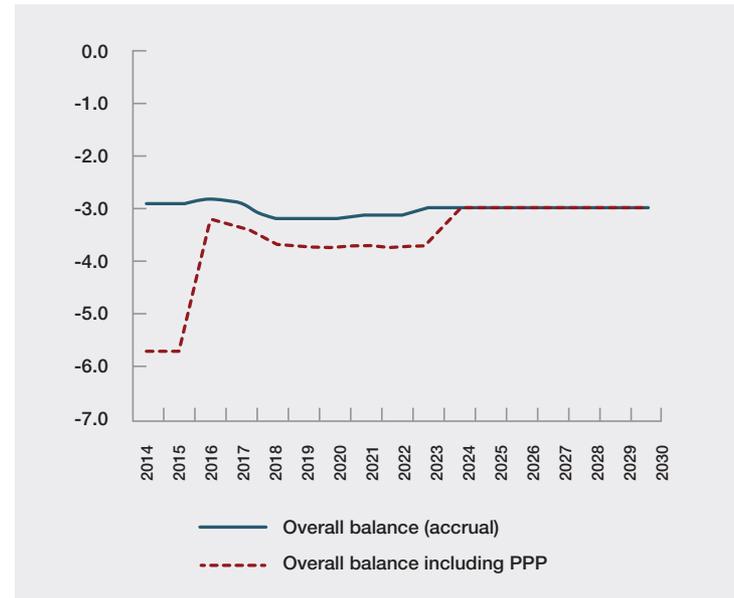
**PFRAM generates standardized outcomes based on project-specific and macroeconomic data (Figures 1–4).** The latter include: (i) project cash flows; (ii) fiscal tables/charts on a cash and accrual basis; (iii) debt sustainability analysis with and without the PPP project; (iv) sensitivity analysis of main fiscal aggregates to changes in macroeconomic and project-specific parameters; and (v) a summary risk matrix of the project. PFRAM is currently being pilot-tested, and will be launched in April 2016.

## PFRAM MAIN OUTPUTS

**Figure 1 Central Government Gross Debt with/without PPP Project (In percent of GDP)**



**Figure 2 Accrual Balance Indicators (In percent of GDP)**



**Figure 3 Cash Balance Indicators (In percent of GDP)**

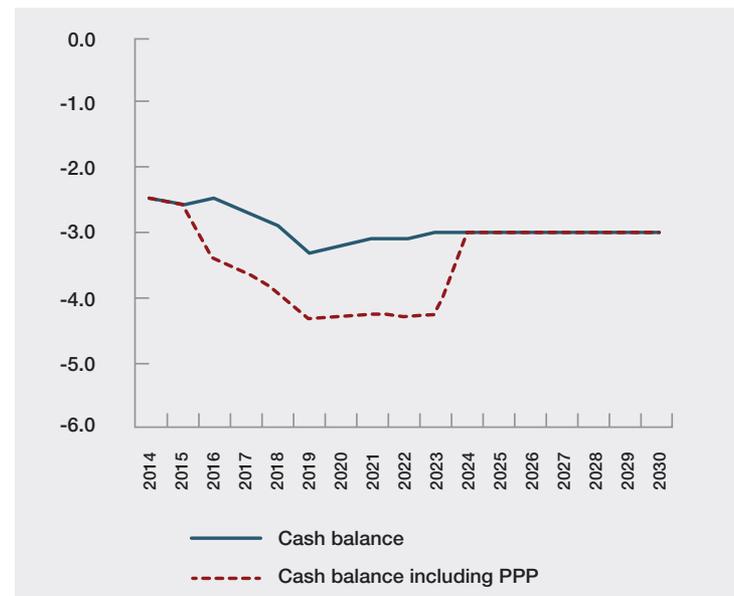


Figure 4 Project Risk Sharing Arrangements

IDENTIFICATION OF RISKS		ALLOCATION	LIKELIHOOD	FISCAL IMPACT	RISK RATING <small>Likelihood*Impact</small>	MITIGATION STRATEGY	PRIORITY ACTIONS <small>Rating*Mitigation</small>
1	Governance risks	Public	Medium	Low	Low	NO	Medium priority
2	Construction risks	Shared	Medium	Medium	Medium	NO	High priority
3	Demand risks	Private	High	High	Critical	NO	Critical
4	Operational and performance risks	Shared	Low	Low	Irrelevant	NO	NO action required
5	Financial risks	Private	Medium	Low	Low	YES	Low priority
6	Force majeure	Shared	Low	High	Medium	NO	High priority
7	Material adverse government actions	Public	Low	Low	Irrelevant	NO	NO action required
8	Change in law	Public	Low	Medium	Low	YES	Low priority
9	Rebalancing of financial equilibrium	Private	Low	High	Medium	NO	High priority
10	Renegotiation	Shared	Medium	High	High	YES	Medium priority
11	Contract termination	Shared	Low	Medium	Low	NO	Medium priority

The tool is available for download at [www.imf.org/publicinvestment](http://www.imf.org/publicinvestment)

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