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# Maintaining Good Governance & Fiscal Discipline with PPPs

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Gerd Schwartz  
Division Chief, Expenditure Policy Division  
Fiscal Affairs Department  
International Monetary Fund  
Contact: [tterminassian@imf.org](mailto:tterminassian@imf.org)

OECD Seminar at BNDES, Rio de Janeiro, October 25, 2005

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## Fiscal Risks & Fiscal Accounting

- Is achieving fiscal discipline and good governance more difficult with PPPs? Answer—yes it has been (see Hungary) but it does not need to be.
  - Key issue: How to capture fiscal risk from PPPs
  - Key problem: Public accounting rules for PPPs
    - may create adverse incentives for risk sharing.
    - create incentives to design PPPs to move them off-budget, even at the cost of reducing value for money.
  - International accounting standards for PPPs need to improve.
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## Fiscal Risks & Fiscal Accounting: Eurostat

- Eurostat rules (2004) are inadequate: they reduce the likelihood that PPPs are carried out for the right reason, i.e., to capture efficiency gains.
- Most PPPs likely to be classified as private investment, even though the government bears many risks.
- Rules are applied in a context where governments try to minimize fiscal deficits and debts to meet SGP targets.

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# Fiscal Risks & Fiscal Accounting: Eurostat

- Likely results for projects:
  - Projects being done as PPPs to classify them as private;
  - Projects that are well suited for PPPs are designed suboptimally so they can be classified as private.
- Likely results for fiscal accounts:
  - Contingent liabilities for the public sector pile up from investments that are not on the public sector's books
  - Budgetary rigidities are created, as future revenues are in fact being pre-committed, without this being evident in the balance sheet.

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# Fiscal Risks & Fiscal Accounting: IMF Proposal

- Mitigate incentive problems and clarify fiscal implications of PPPs, *even when they are classified as private*:
  - Emphasis on comprehensive disclosure of known and potential future fiscal costs of PPPs.
  - Incorporation of potential costs into medium-term budgetary projections and medium-term public debt sustainability analyses.

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# Fiscal Risks & Fiscal Accounting: Disclosure

- **Transparency in government budgets. For each PPP, budget should provide information on:**
  - Future payment obligations of each partner, certain and/or contingent, for the following periods: 1–5 years; 5–10 years; 10–20 years; over 20 years.
  - Significant terms of the project that may affect future cash flows, valued to the extent feasible.
  - Contract renewal and termination options
  - Main parameters on the provision of services
  - The rights of each partner to use specific assets
  - Arrangements to transfer specific assets at the end of the concession period

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# Fiscal Risks & Fiscal Accounting: Disclosure

- Whether PPP assets are included on government balance sheet, and how the project affects the reported fiscal balance and public debt.
- Where PPP assets are accounted for (e.g., balance sheet of special purpose vehicle, or in the private partner's financial statements).
- Any preferential financing for PPPs provided through government on-lending or via public financial institutions.
- Future expected or contingent government revenue, such as lease receipts, revenue or profit-sharing arrangements, or concession fees.
- Any project financing or off-balance sheet elements involving entities owned or controlled by government.

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# PPPs in Medium Term Fiscal Scenarios

- ❑ **For PPPs that are classified as private:**
  - Primary spending: Future payments by the government under PPP contracts and expected future costs of guarantees
  - Potential costs of contingent liabilities: explore with multiple scenarios and stress tests
  
- ❑ **For PPPs that are classified as public:**
  - Investment is public spending and its financing is public debt
  - Separate future gov't payments into its economic components.
    - ❑ Primary spending: Services provided on an ongoing basis,
    - ❑ Cost of financing is Interest spending,
    - ❑ Below the line: financing implicitly provided by private partner
    - ❑ Work with multiple scenarios