

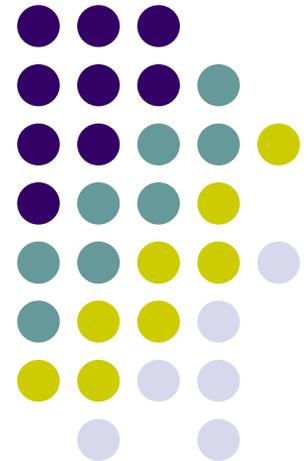
Budgeting for Public-Private Partnerships

Symposium on Evaluating Innovative Approaches to Public Service Delivery

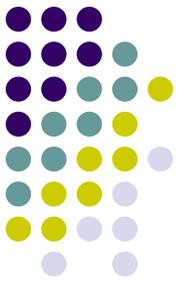
OECD Working Party of Senior Budget Officials
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The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.

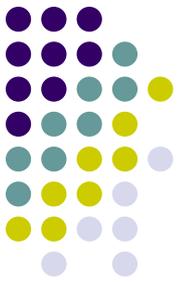


Introduction and Overview



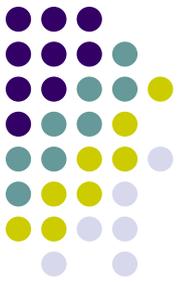
- PPPs are a key avenue for achieving efficiency gains—value for money—from private participation in public investment
- Value for money is achieved by distributing project risks to the party (public and private) that can best manage the risk
- But, PPPs pose challenges for budgeting (including planning, implementation, accounting, and reporting) and management of fiscal risks and affordability
- A proper legal and institutional framework (including a gatekeeper role for the MoF) is needed to manage fiscal risks of PPPs, but focus here is on budgeting and efficiency aspects

Good and Not so Good Reasons for PPPs



- Right approach—PPPs provide better value for money
 - Wrong approach—PPPs allow investment off budget
 - Moving spending off budget can bypass expenditure controls
 - Moving debt off balance sheet can create untransparent direct and contingent liabilities for the government
 - Potentially threatens the integrity of the budget process and undermines efforts to safeguard macroeconomic sustainability
 - Is an obstacle for achieving fiscal discipline and good governance
 - Governments can be left bearing most of the risk involved and face large fiscal costs
- Adequate risk sharing is key for value for money

PPPs and Value for Money

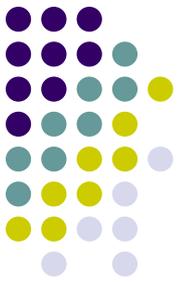


PPPs can increase (+) and reduce (-) value for money

- (+) Private sector expertise/innovation; quality services
- (+) Bundling → incentives to reduce life-cycle costs
- (+) Maintenance strategy internalized
- (+) User fees

- (-) Higher private sector costs of financing and risk
- (-) High transaction costs (10-20 percent of capital)
- (-) Lower flexibility → more difficult to modify contracts

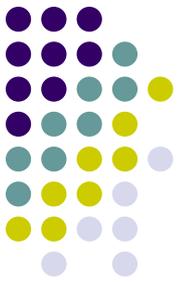
Risk Distribution



Traditional public procurement versus PPPs

	Public Procurement	PPP
Private Sector	Design & construction	Design & construction
	Service provision	Service provision
	Maintenance & renewal	Maintenance & renewal
	Quality of service	Quality of service
	Volume	Volume
Government	Force majeure	Force majeure
	Obsolescence	Obsolescence
	Residual value	Residual value
	Regulation/policy	Regulation/policy

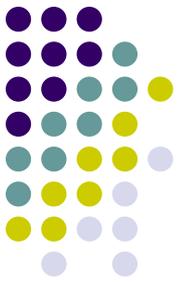
Capital Budgeting



Basics of choosing right public investment projects:

- Set up systematic approach to investment planning, project selection, and prioritization
- Use multi-year and comprehensive fiscal framework to provide guidance on fiscal affordability of projects for annual budget planning
- Make use of cost-benefit analysis for all public investment projects
- Project proposals must disclose future operating costs and how these will be financed

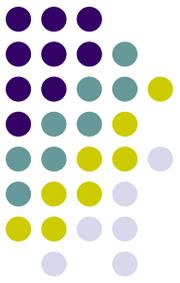
PPP is Procurement



Procurement—decide whether to execute the project as a PPP:

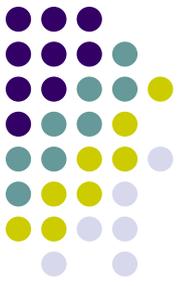
- PPPs should be done only if they offer value for money relative to traditional procurement
- Develop and use public sector comparators indicating the cost of traditional public provision
- Include PPPs as integral part of government medium-term strategy and medium-term budget framework

Accounting for PPPs



- Key budgeting issue: whether to classify PPP transactions as fiscal transactions or private sector transactions
 - This depends on the classification of the PPP as a fiscal or private sector entity
- Eurostat: PPPs should be classified as private entities if the private partner bears most construction risk, and either most availability risk or demand risk
- This raises concerns:
 - Projects may be done as PPPs to classify them as private
 - Design of risk distribution of projects that are well suited for PPPs may be suboptimal (i.e., too much risk transfer to the private party)
 - Even if the PPP is classified as public, it may be difficult to show contingent liabilities on public sector's books

Fiscal Reporting



- The accounting dilemma can be resolved through proper rules for accounting of contingent liabilities, but no such rules exist yet
- An alternative approach is to mitigate potential moral hazard through transparency.
 - Emphasis on comprehensive disclosure of known and potential future costs of PPPs for public finances
 - Incorporation of PPP-related costs into Debt Sustainability Analysis and medium-term budget framework; explore risks with scenario analysis