



# PPP: Fiscal Approach



OECD, July, 2006

Madrid



# Background



- Brazil has positive experience with private investment in infrastructure – roads, rail, power, ports, telecom.
  - i) Regulatory Policy already in place.
  - ii) Profitability.
  - iii) Efficiency.
  - iv) Courts recognize property rights and contract obligations.



# Brazil Concession and Privatization Program 1990-2005

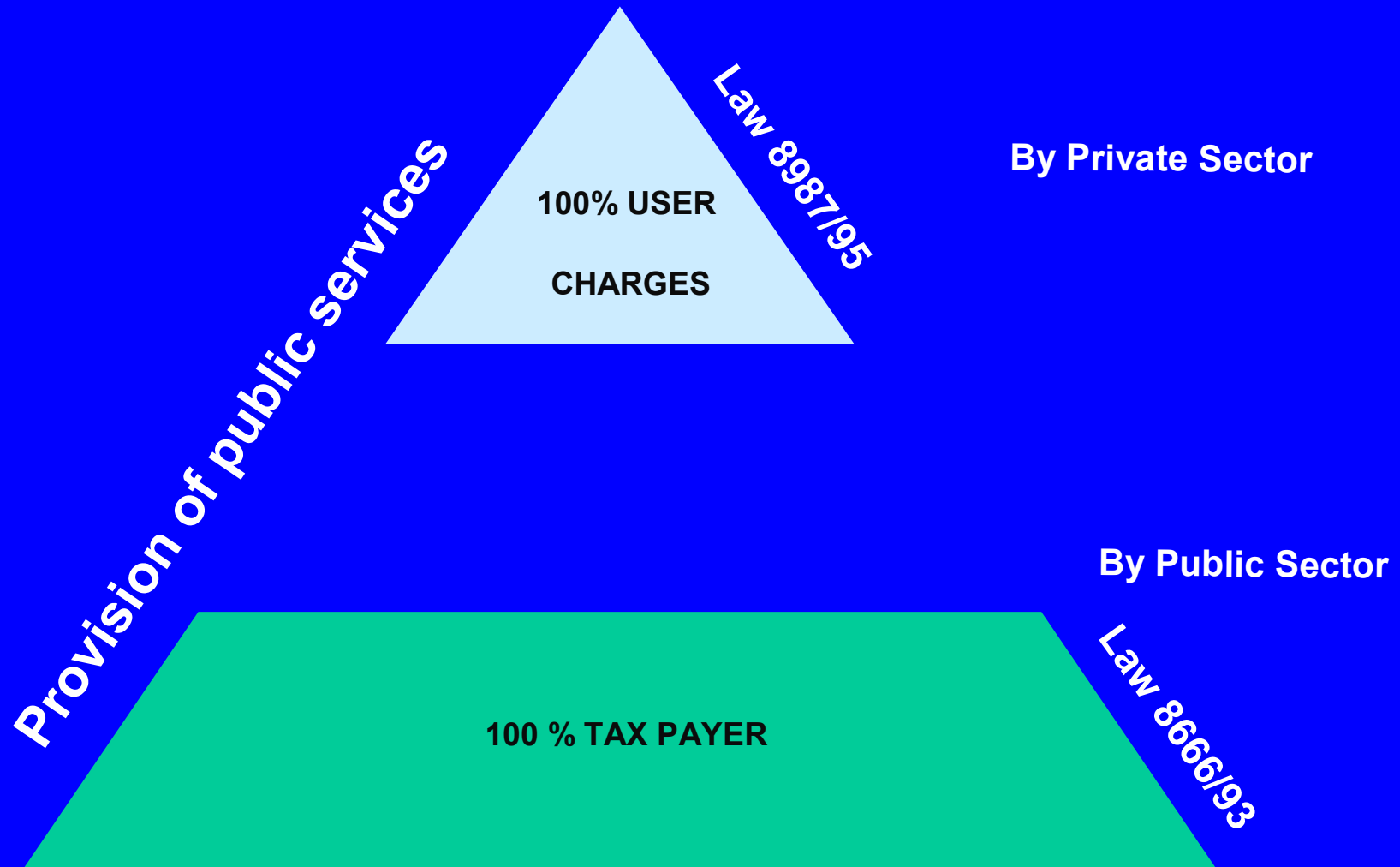


US\$ billions

|                | Revenue | Debt Transfer |              |
|----------------|---------|---------------|--------------|
| <b>Federal</b> | 59,8    | 11,3          | 71,1         |
| <b>States</b>  | 28,0    | 6,7           | 34,7         |
|                | 87,8    | 18,0          | <b>105,8</b> |



# Brazil legal framework to provide public service BEFORE PPP Law

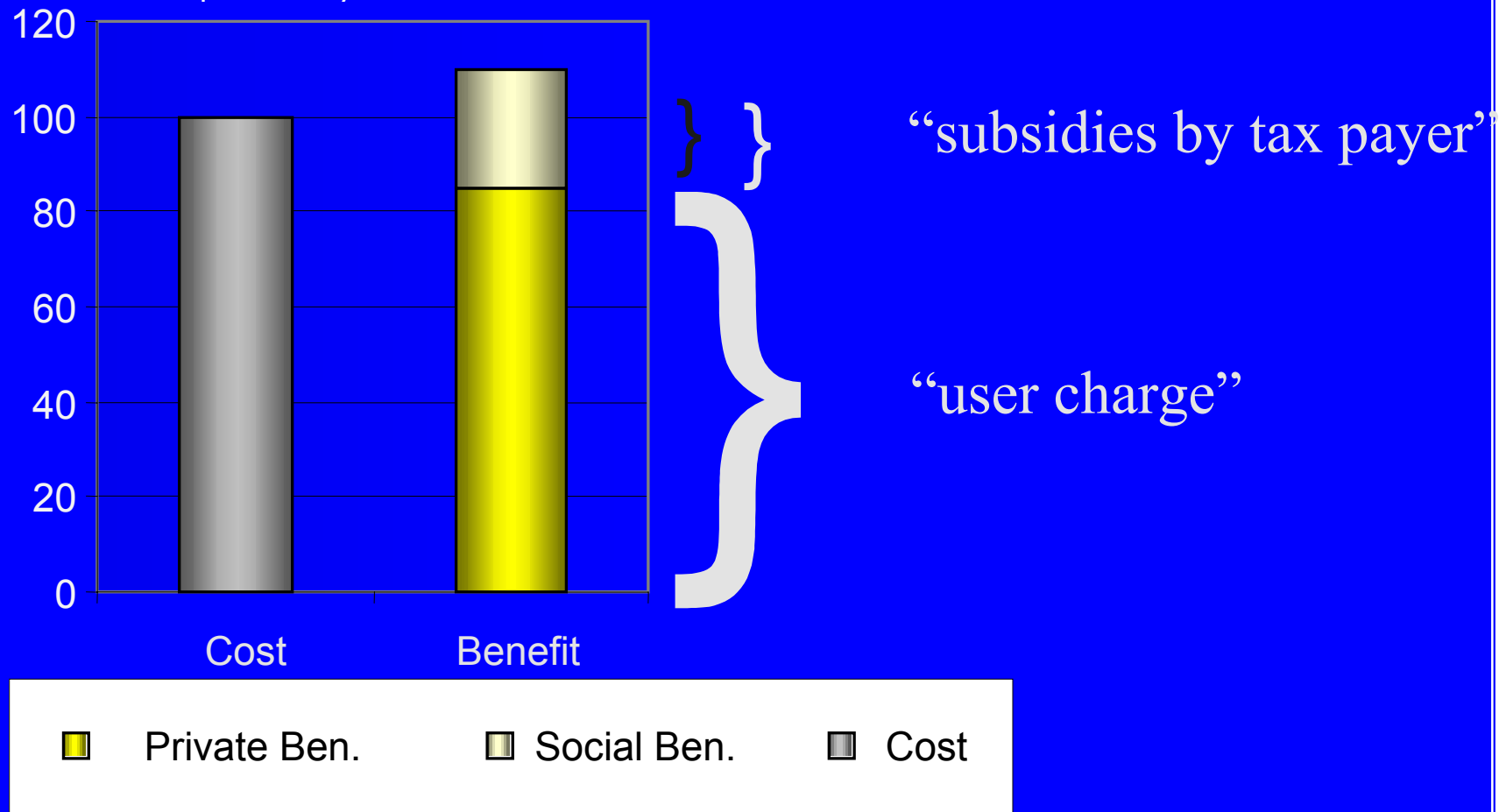




# Some Projects could not be covered without a new PPP Law

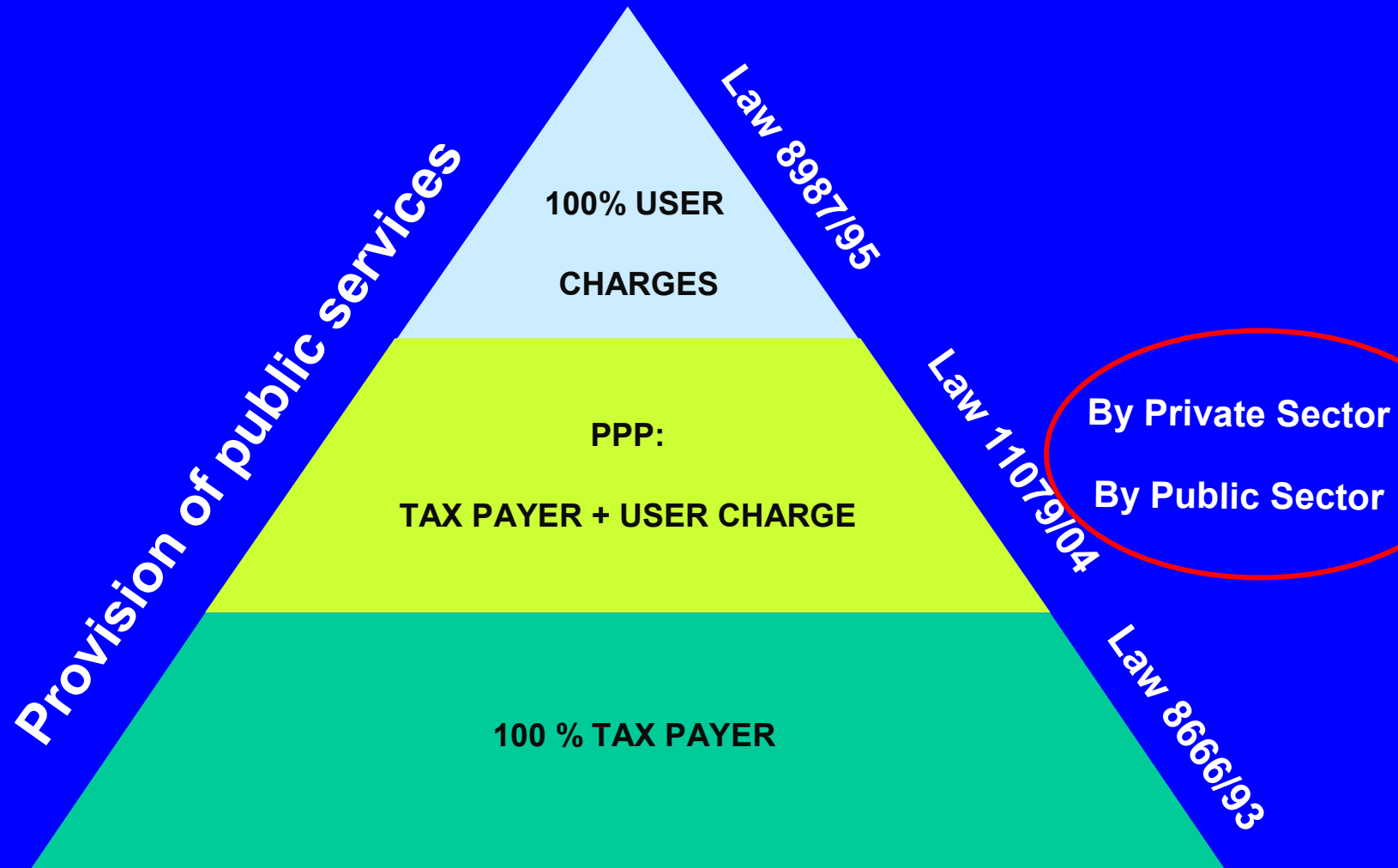


- PPP seen to be a opportunity to increase investment, specially in infrastructure.



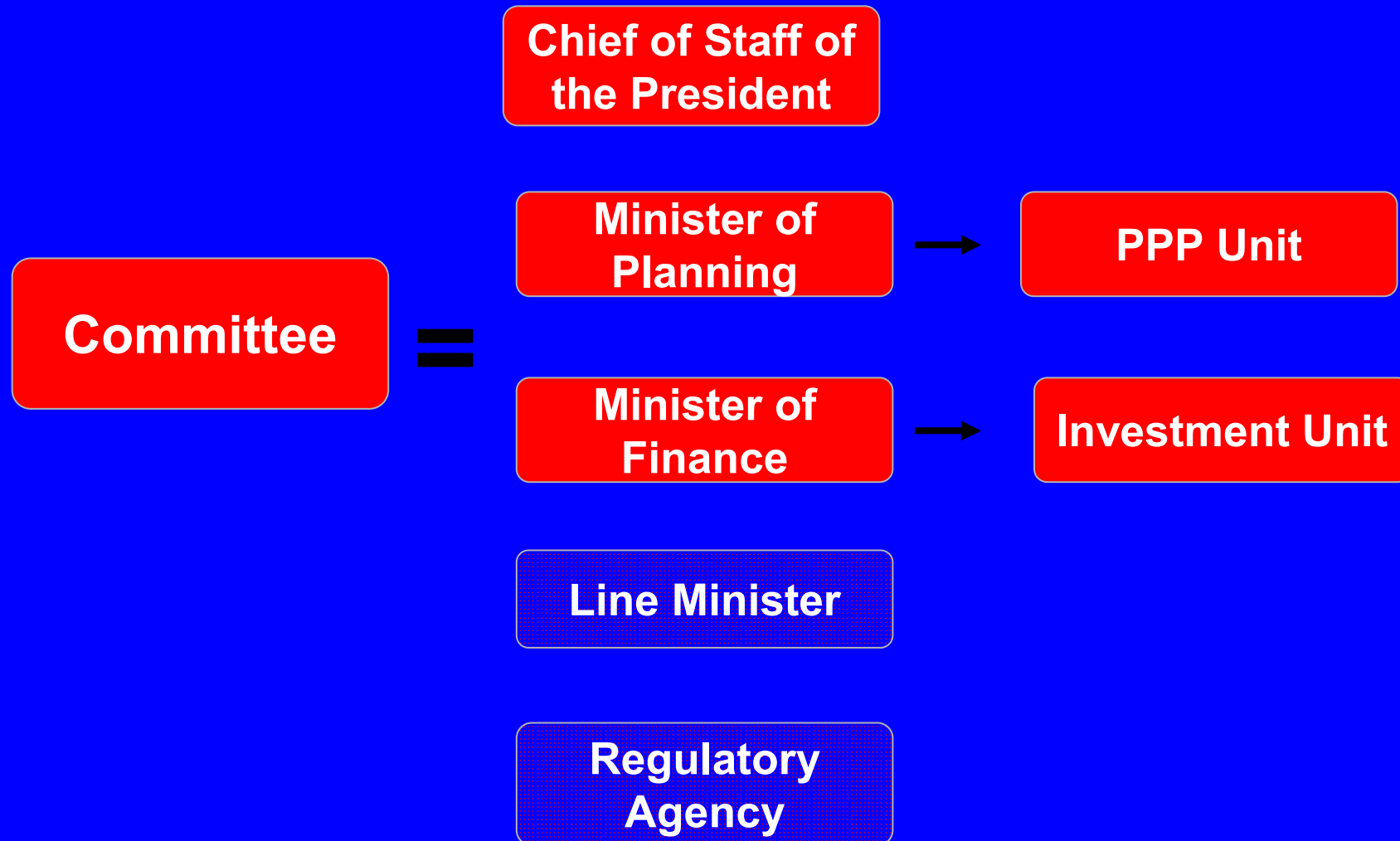


# PPP law complete the the legal framework





# INSTITUTIONAL FRAMEWORK





# Fiscal Concerns

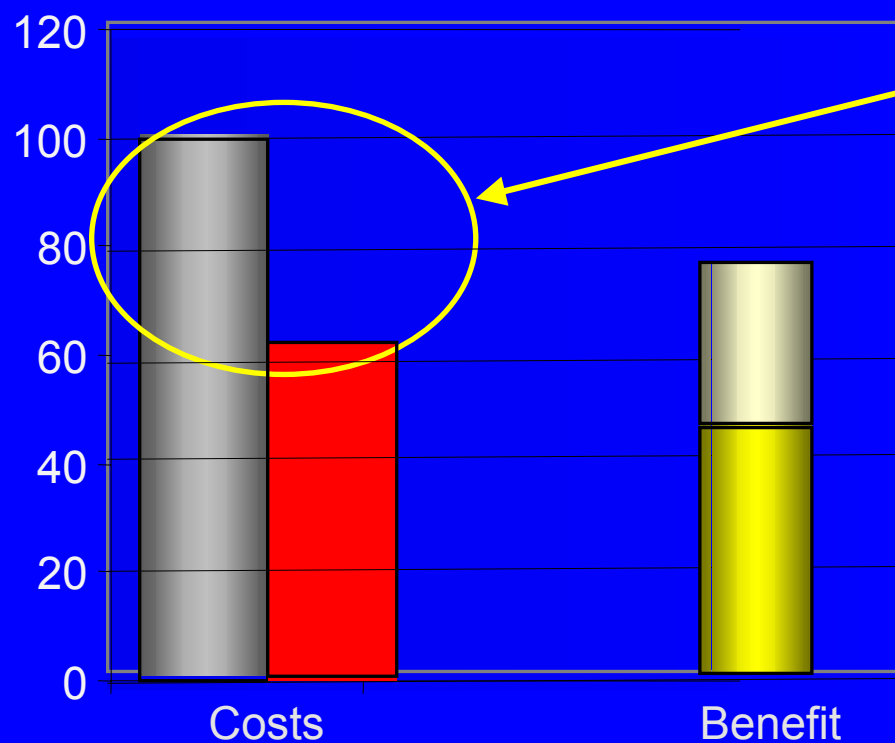


- GOOD PPP PROJECTS can improve fiscal sustainability:
  - i) Reduce investment and maintenance costs
  - ii) Create new source of revenue – user charges
  - iii) Increase potential output
- BUT... PPP can also reduce fiscal sustainability:
  - i) High and unpredictable financial commitment
  - ii) Project with adverse cost-benefit and cost-revenue relation





# Examples of PPP moral hazard

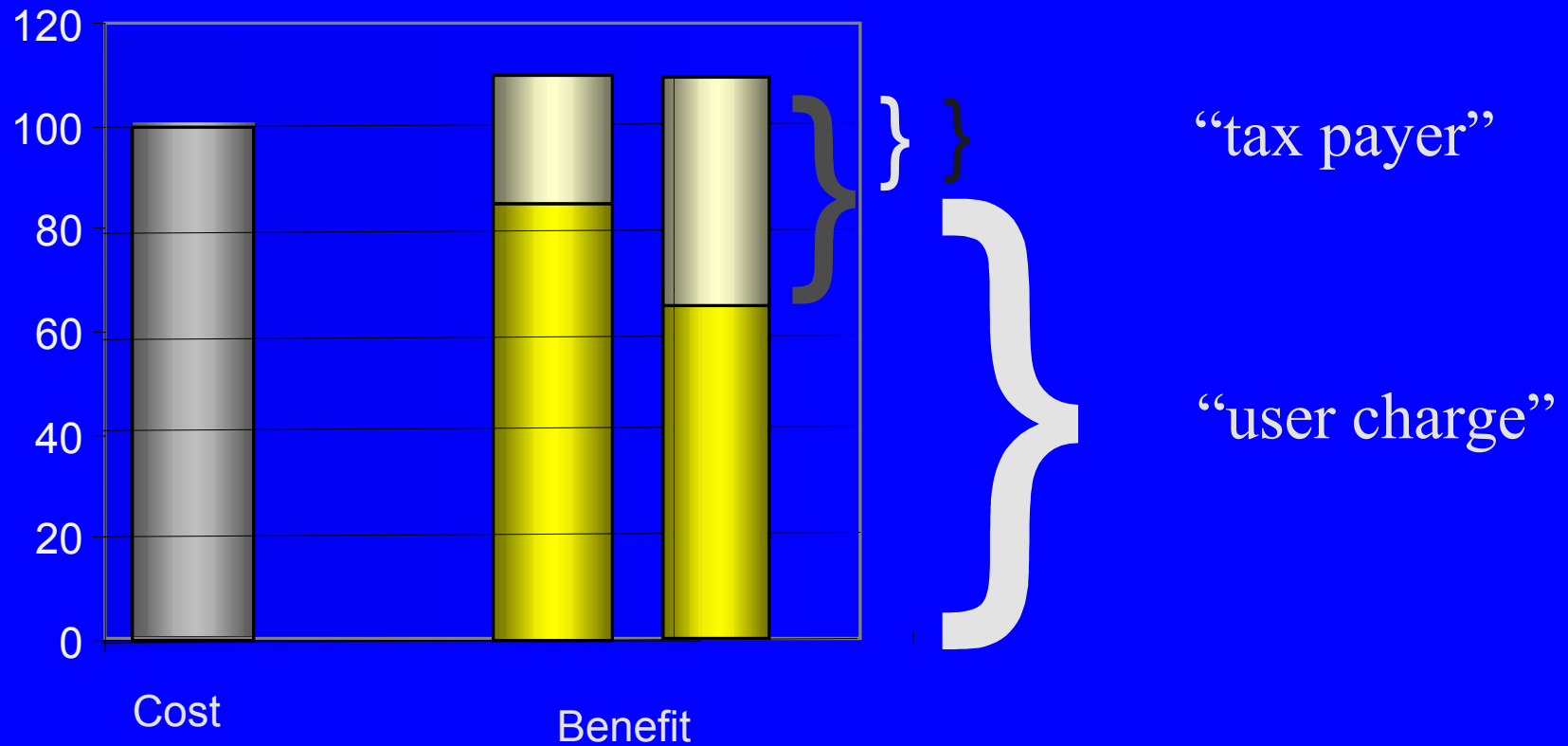


• Hidden liabilities

■ Hidden Cost ■ Cost Contracted ■ Social Ben.



# Examples of PPP moral hazard



■ Private Ben. ■ Social Ben. ■ Cost



# Mitigations of Fiscal Risks and Moral Hazards



ONE WAY THAT BRAZIL IS WORKING, FROM THE FISCAL SIDE:

i) Accounting rules: debt limit

ii) Expenditures Limit: 1% of Net Revenue per year

Federal Level => US\$ 1,5 billion in 2005

States Level => US\$ 0,9 billion in 2005



# On the fiscal Perspective: The importance of Accounting



- The Brazil Accounting rules will be Based on international Best Practices:
  - i) UK and EUROSTAT
  - ii) SPV – Special Propose Vehicle
  - iii) Leasing
  - iv) Basel II
- How to account SPV asset?
  - We are studying a more conservative rule then EUROSTAT, using the concept from SOX approach.
- How to account potential financial liabilities?
  - We decide to use Basel II, calculating the Probability of Default and the Lost Given Default.



# MAIN GOAL

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Positive incentives to:

- reach efficient; and
- fiscal sustainability

SIMULTANEOUSLY



Thank You

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