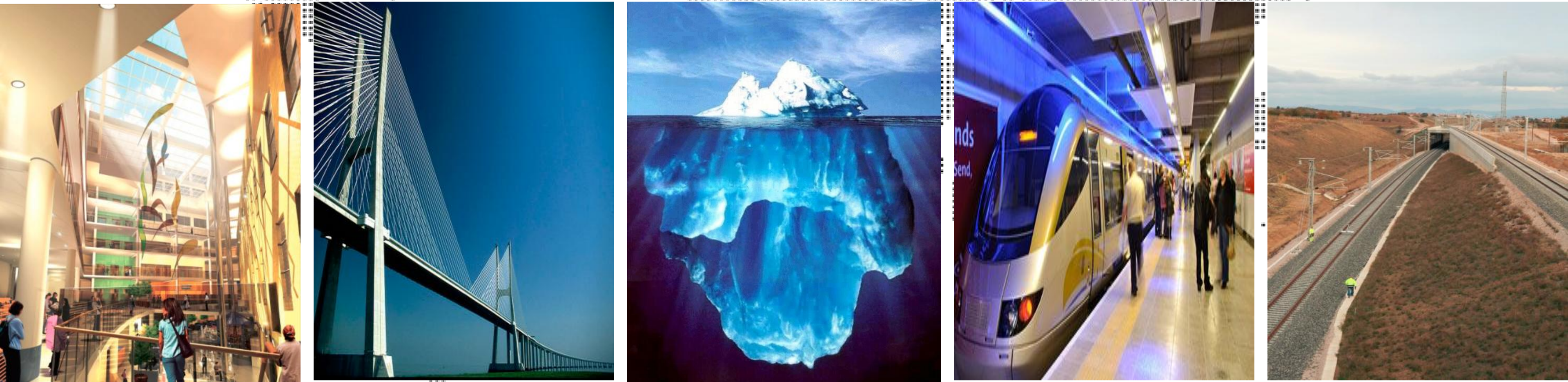
Managing Public-Private Partnerships



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Why PPPs becoming popular?

Governments struggling to close the infrastructure gap

- Limited fiscal space amid declining public investment and capital stock
- Low infrastructure stock may hinder medium-term growth
- Leveraging the efficiency of investment spending becomes crucial

PPPs can deliver efficiency gains and Value for Money

- Improve design and internalize maintenance over project's life
- Contain delays and cost
- Redirect government focus toward public policies and expected outputs away from hiring/buying inputs and deciding on technologies
- But transaction and private capital cost can be high

Perverse biases that favor PPPs…

Challenge

- PPPs are typically considered as “off-budget” operations
- Many countries follow cash-based budgeting

This introduces a bias in favor of PPPs

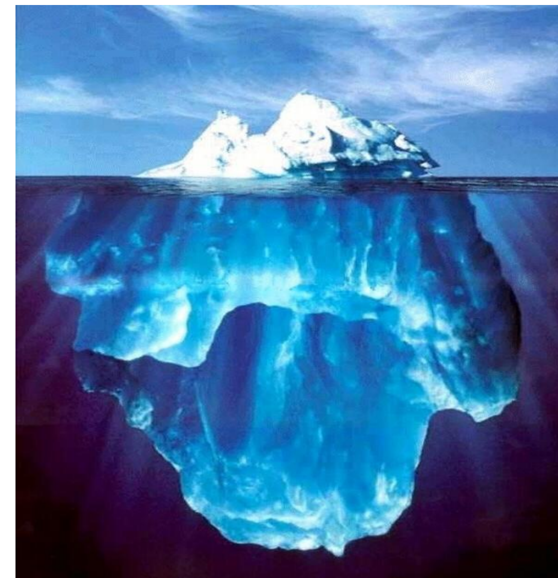
- No immediate budget implication
- No impact on balance sheet or headline indicators (debt or balance)

Helps circumvent expenditure limits and conceal debt

- Allow governments to defer spending without deferring benefit
- Governments tend to treat PPPs outside budget cycle/MTFF
- Cash-strapped governments tend to use PPPs to bypass fiscal constraints

…and could lead to fiscal costs

Fiscal costs could be large



PPPs:

- are usually large projects
- create firm and contingent liabilities
- reduce budget flexibility in the long term

Commitment budgeting can help mitigate the bias

- Spending appropriations for the current year
- Commitment appropriations for future years
- Can introduce explicit limits on commitment appropriations for PPPs

Renegotiations are a key source of risks

Renegotiations are common and frequent

- 55 percent of all PPPs get renegotiated
- on average, renegotiations occur every 2 years
- complete contract cancellations are rare

Renegotiations tend to favor private-sector operators

- increases in tariffs (62 percent of all renegotiations)
- automatic pass-through to tariffs of cost increases (59 percent)
- decreases in private sector investment obligations (69 percent)
- decreases in concession fees paid to the government (31 percent)

Minimum disclosure recommendations

Until best reporting practices are adopted, to reduce moral hazard

- **Fully disclose known and potential costs of PPPs in the medium-term fiscal framework and debt sustainability analysis**
- **Compile and disclose information for each PPP project**
  - Future payment obligations/revenues
  - Contract provisions that affect amount, timing, and certainty of budget cash flows
  - Obligations borne by the government or public financial institutions
  - Arrangements for transfer of assets at contract termination
  - Preferential financing through on-lending or public financial institutions
  - Project financing or off-balance sheet items such as contingent liabilities provided by entities owned or controlled by government

Managing fiscal risks

Ensure efficiency, fiscal affordability and risk mitigation

- **Two-step investment planning and project selection**

  Procure as PPP only if already in PIP and provides VfM

- **Strong management and oversight framework**

  Dedicated PPP unit (under Finance Ministry) for due diligence

- **Clear, fair, predictable legal framework for PPPs**

  Harmonized with other laws

- **Full and transparent disclosure all fiscal risks**

  Guard against pre-committing large spending or hidden liabilities