International Seminar on

Strengthening Public Investment and Managing Fiscal Risks from Public-Private Partnerships

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Talking Points for Teresa Ter-Minassian
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In my comments, I would like to highlight a few main aspects discussed over these last two days related to: investment needs; sustainability and fiscal space issues; the quality of public investment; the scope for PPPs to create fiscal space; risk transfer and Eurostat rules; and finally key requirements for successful public-private partnerships (PPPs).

There are substantial investment needs, especially in productive infrastructure, in the old, and particularly in the new member states of the European Union (EU). In some areas, these needs can be met through private initiative; in others, there is need for public sector involvement either through traditional public procurement or through PPPs.

The impact of public investment on growth depends crucially on the initial level of the capital stock and on the quality of investment, but also on the overall macroeconomic environment and fiscal sustainability. Only a few EU countries with low debt and non-overheated economies can responsibly resort to additional debt financing.

Fiscal space for public investment can be created in a sustainable manner through:

- Domestic revenue mobilization (but a number of countries in the EU already have a high tax burden);
- Transfers from the EU budget (but there are co-financing and additionality requirements, and absorption capacity constraints);
- Expenditure reallocation, which often requires structural reforms; and
- Efficiency gains, by improving the quality of investment (obtaining better value for money (VfM))

The seminar has focused on increasing public investment quality and efficiency through systematic use of cost-benefit analysis, medium-term budget frameworks, and medium-term expenditure frameworks. Regarding procurement options, there is also consensus on the need to prepare good VfM assessments before undertaking PPPs. VfM should be the driving force for PPPs.

PPPs create fiscal space through efficiency gains and not by being moved off budget. Even if not recorded immediately in deficits and debt levels, PPPs do create future liabilities (certain or contingent) for governments; thus, they do not alleviate the intertemporal government budget constraint except to the extent that:

- They facilitate mobilization of resources through user fees; and

- Promote, through the involvement of private know-how and management, efficiency gains sufficient to compensate for the typically higher borrowing costs of private sector partners, and the higher transaction costs involved in PPPs.

Speakers have emphasized the importance of appropriate risk sharing to promote efficiency gains and ensure adequate VfM from PPP projects. One point that has been made by many is that governments should resist the temptation to shift to the private sector risks that the latter is not well equipped to bear just to meet the Eurostat rules for classifying PPPs off-budget, as this would lead to inappropriate design of the contract or to increased chances of its renegotiation.

A main lesson that in my view has come out of the presentations is the complexity of PPPs. In this respect, speakers emphasized the need for:

- An enabling legal and institutional environment;
- Adequate multidisciplinary capacity in the public sector to assess prospective PPP projects, build public sector comparators, manage the tendering process, accompany the implementation phase, renegotiate in an efficiency way when necessary, etc.
- Institutional structures to deal with PPPs; there was some debate as to the appropriate composition and location of a PPP unit, but consensus on the need for an appropriate gateway process managed by the MoF.
- Appropriate assessment (quantified as possible) of future costs and risks for the budget, their transparent disclosure in budget documentation, and their incorporation in fiscal sustainability assessments.

These are in some way daunting requirements. They should not discourage countries from undertaking PPPs, but they should point to the need to:

- Start small, to gain experience and build a reputation, before undertaking larger and riskier projects; and
- Learn from lessons from other country experiences. In this respect, we welcome the various initiatives taken by the European Commission, the European Investment Bank, and the European Bank for Reconstruction and Development to support the new member states in their approaches to PPPs.