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How Do Countries Measure, Manage and Monitor Fiscal Risks Generated by Public Private Partnerships? Chile, Peru, South Africa, Turkey

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Outline

- Background

- Country Comparisons
 - Governance and institutional framework
 - Management of the fiscal commitments
 - Evaluation models
 - Budgeting and Accounting
 - Reporting

- Key lessons

PPPs and Fiscal Risks

- PPP contracts create fiscal commitments and expose governments to fiscal risks
 - Direct liabilities (DL)
 - Contingent liabilities (CL)
- These commitments can accumulate and have significant untimely impact on government budget
- Selection of fiscally and operationally sustainable projects is critical
- Monitoring of the government's balance sheet credit exposure throughout the life of each project and in a consolidated way helps prevent and mitigate the risks

Governance and institutional framework

	Chile	Peru	South Africa	Turkey
PPP legislation issued in...	1991 Organic law	2008 Organic law	1999 Organic law	1990s Sector & model based laws
Investment amount	<ul style="list-style-type: none"> ▪ \$13 billion, 59 projects ▪ App. 5% of GDP, 2013 	<ul style="list-style-type: none"> ▪ \$10.5 billion, 19 projects ▪ 4.7% of GDP, 2013 	<ul style="list-style-type: none"> ▪ 22 projects, 2013 	<ul style="list-style-type: none"> ▪ \$26 billion, 111 projects ▪ 3.4% of GDP, 2012
PPP unit	PPP unit at MoP (promotion & monitoring)	Proinversion (promotion & advisory)	PPP Unit at NT (advisory)	None
Related institutions	MoP MoF	Proinversion MEF	PPP Unit (NT) ALM Unit (NT)	MoD MoF TT HPC
Financing source	Domestic market	Domestic and external markets	Domestic market	Domestic and external markets

Management of the fiscal commitments

	Chile	Peru	South Africa	Turkey
Fiscal commitments	<ul style="list-style-type: none"> Min. revenue guarantee (CL) 	<ul style="list-style-type: none"> Financial guarantee (CL) Min. revenue / demand guarantee (CL) Unitary payment (DL) 	<ul style="list-style-type: none"> Unitary payment (DL) Min. revenue guarantee (CL) Early termination guarantee (CL) 	<ul style="list-style-type: none"> Treasury investment guarantee (CL) Min. demand guarantee (CL) Assumption guarantee (CL) Availability payment (DL)
Management over the lifetime of projects	<ul style="list-style-type: none"> MoP monitors each project MoF evaluates max. present exposure and payments / project & portfolio (2.67% of GDP, 2013, expected net value of government payments of 0.14% GDP) 	<ul style="list-style-type: none"> MEF monitors the 7% fiscal rule on fiscal commitments (\$6,5 billion, 2012, 3.3% of GDP) 	<ul style="list-style-type: none"> NT evaluates max. exposure from project / portfolio (MLE about R11 billion, 0.36% of GDP, 2012) Fiscal Liability Committee at NT has an internal project rating system 	<ul style="list-style-type: none"> MoD monitors BOT/BLT projects Guarantee limit and risk account provisions for Treasury guarantees and assumption guarantee (Limit on assumption guarantee \$3 billion for 2013) TT will evaluate potential impact of BOTs on budget

Evaluation models

Chile	<ul style="list-style-type: none">▪ Default probabilities from CLs▪ Probability distribution of future payments from/to the government▪ Market value of the minimum revenue guarantee▪ PV of maximum probably exposure of the portfolio
Peru	<ul style="list-style-type: none">▪ Default probabilities from CLs▪ Valuation of the credit exposure from CL▪ Exposure from fiscal commitments evaluated to monitor fiscal rule
South Africa	<ul style="list-style-type: none">▪ Unitary payments known and computed▪ Early termination risk assessed▪ CLs do not have a model
Turkey	<ul style="list-style-type: none">▪ For TT guarantees: Probability of default based on past performance and financial statements / expected loss from projects and portfolio▪ Models to be developed for assumption guarantee and potential impact of BOTs

Budgeting and Accounting / Reporting

	Chile	Peru	South Africa	Turkey
Budgeting and Accounting	<ul style="list-style-type: none"> ▪ Small provision on MoP budget for all PPPs ▪ Called guarantees paid from following year's MoP budget 	<ul style="list-style-type: none"> ▪ Small fraction of sectorial budget allocated to estimated PPP payments ▪ Budgeted and accounted in the corresponding line ministries' budget 	<ul style="list-style-type: none"> ▪ Provisions and payments for unitary payments recorded in procuring institution's budget 	<ul style="list-style-type: none"> ▪ Risk account provision for Treasury guarantees ▪ Responsible intuitions may provision and account depending on project setup ▪ If assumption guar. called, cost recorded as capital loss in institution budget
Public availability of information	<ul style="list-style-type: none"> ▪ Contracts in MoP website ▪ Consolidated risk exposure for PPP portfolio on MoF website 	<ul style="list-style-type: none"> ▪ Contracts in Proinversion and OSITRAN website ▪ Loan guarantees and estimation of fiscal commitments published yearly by MoF 	<ul style="list-style-type: none"> ▪ List of projects and some financial info. At NT website ▪ NPV of the committed unitary payments for some projects ▪ Max. exposure from PPP portfolio published by NT 	<ul style="list-style-type: none"> ▪ Consolidated information on PPPs in 2012 MoD publication ▪ List of Treasury guarantees with investment amount on TT website ▪ Payments to 1 defaulted PPP published by TT

Key conclusions / observations from the case studies

Countries have tailored fiscal risk management and monitoring frameworks to fit their circumstances

Overall credit exposure is assessed to monitor and manage the fiscal commitments in a consolidated way

Evaluation models help assess fiscal risks and assess project/portfolio level credit exposure

Scrutiny on budgeting and accounting should be strengthened to facilitate proper monitoring

Sharing more and standardized information would improve transparency and accountability

Questions?

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