

THE BUILDING BLOCKS OF PPP DEVELOPMENT

SEOUL, REPUBLIC OF KOREA; MAY 23-24, 2019

PLAN OF THE PRESENTATION

- 1. A USEFUL METAPHOR**
 - 2. PPPs: MYTHS AND REALITY**
 - 3. THE BUILDING BLOCKS OF FISCALLY-RESPONSIBLE,
PLANNING-RELEVANT PPP DEVELOPMENT**
 - 4. ISSUES AND CHALLENGES**
 - 5. OPEN DISCUSSION**
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1. A USEFUL METAPHOR FROM ANOTHER FIELD

Imagine a credit institution, with:



- (i) no central risk management functions;*
- (ii) no loan appraisal guidelines or practices*
- (iii) no formal credit monitoring routines, or*
- (iv) no credit origination strategy or business plan to prioritize efforts and exposure*

... operating in a legal framework that offers no predictability in contract enforcement or protection of creditors

- QUESTION 1: IT MIGHT BE ABLE TO LEND, BUT SHOULD IT LEND?*
- QUESTION 2: WHAT IF e.g. ADB SHOWS UP AND SAYS: "LET ME HIRE A CONSULTANT TO HELP DO THE LOAN APPRAISAL OF BORROWER/PROJECT X?"*
- QUESTION 3: AND WHAT IF WE CALL IT A "PILOT"?*
- SO: NO, NO & NO?*

2.1 PPPS: MYTHS AND REALITY

WHAT DO THESE STATEMENTS HAVE IN COMMON?

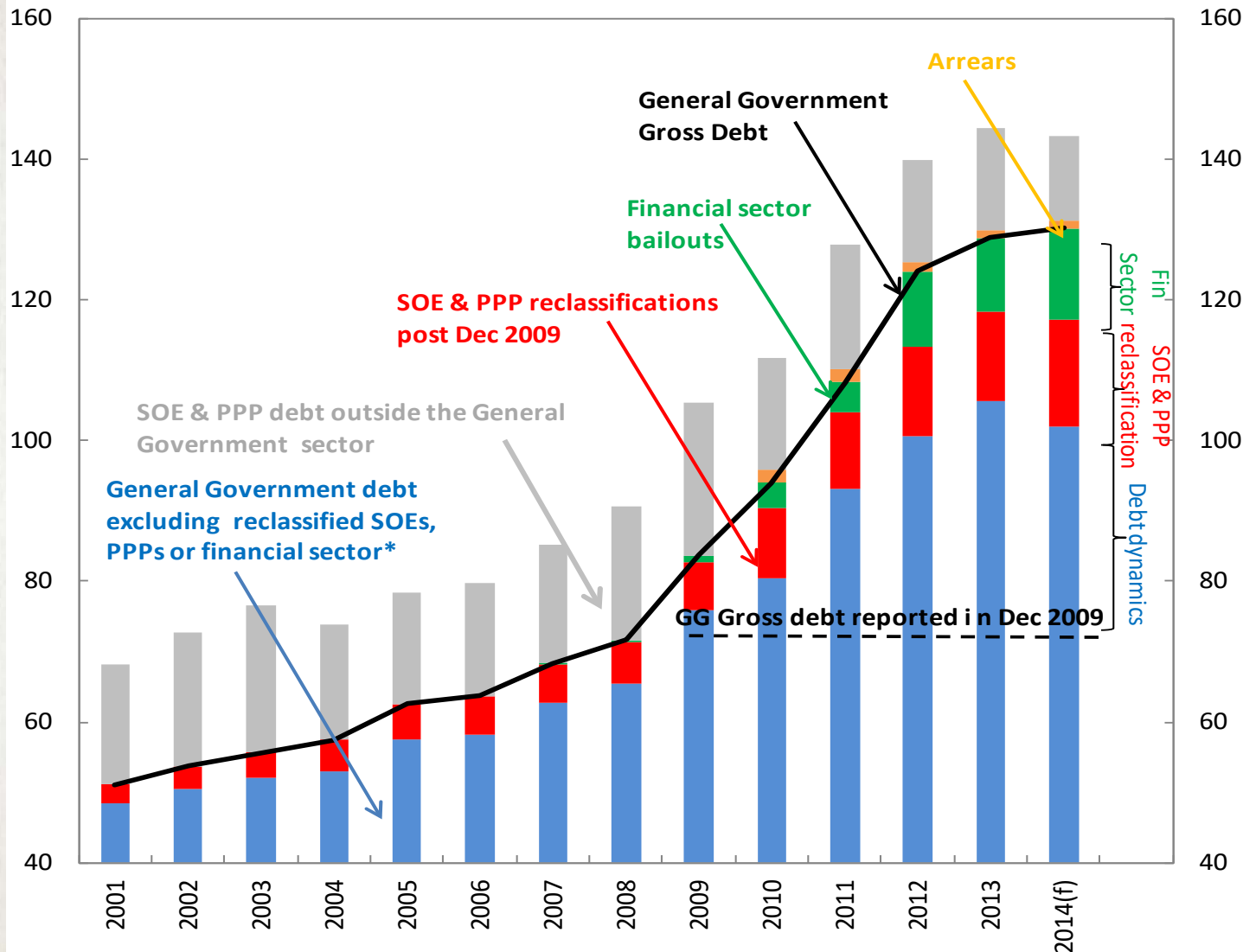
- *“PPPs lift fiscal constraints...”*
- *“(...) for countries under fiscal difficulties, PPPs offer a way forward”*
- *“Countries with lack of capacity to implement projects can use PPPs to mitigate these institutional gaps...”*

They are often voiced by PPP transaction advisors...

IN REALITY:

- **PPPs offer no fiscal free-lunch: fiscal efficiency is equivalent to ex-post Value-for-Money. But this is not an automatic outcome. In fact:**
 - **PPP experience in advanced jurisdictions has not always been successful**
 - **PPP experience in developing/emerging countries is mixed, to say the least.**
- **PPPs can improve public services, introduce new technology/management practices. In contrast to a pure public project, a well-designed PPP exposes the government to less risk.**
- **But poorly-designed PPPs pose substantial fiscal and governance risks, and can expose the governments to much larger fiscal risks than traditional investment projects.**
- **PPPs in general pose a problem for fiscal management because their costs are deferred (or contingent). Their long time horizon makes estimates of fiscal costs more difficult. *PPPs can also be used to bypass formal budget constraints; and often traditional budgetary processes cannot be relied on to ensure that PPPs are used wisely.***

2.2 CAUTIONARY TALES (1/2)



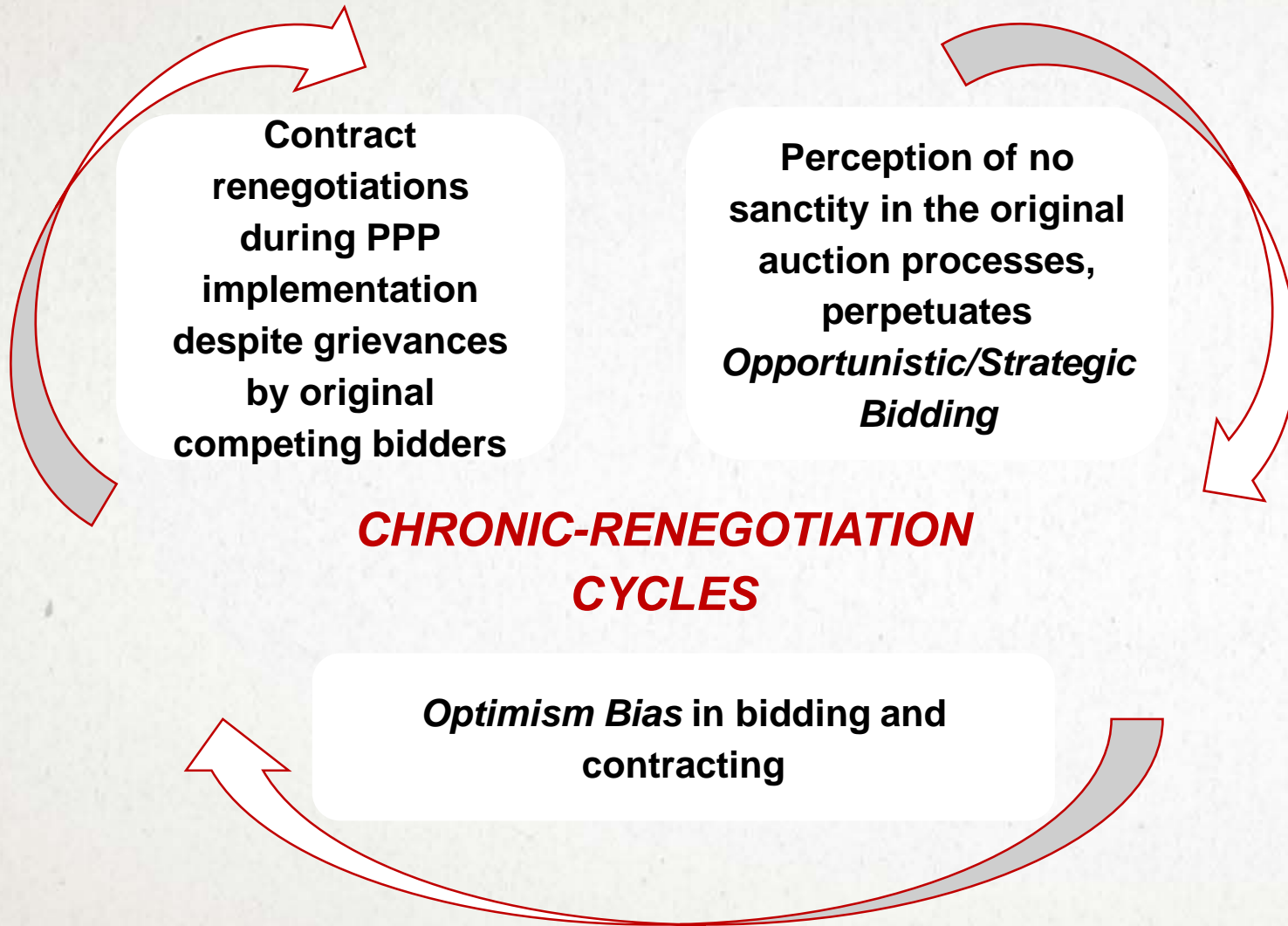
Portugal: heavy infrastructure investments until 2010

- Little growth impact
- EU fiscal accounting rules "led to" heavy use of SOEs/PPPs to finance public investments off-budget

RESULT: Public Debt rose from 84 (2009) to 130 percent of GDP (2014):

- 1/3 reclassification of SOE/PPP debts
- 1/3 financial bailout cost
- 1/3 public debt dynamics during crisis

2.2 CAUTIONARY TALES (2/2)



Expected fiscal efficiency of PPPs (i.e. ex-ante VfM), can be jeopardized by contract renegotiations – which by necessity happens under no competitive tension and asymmetric information. Many countries have seen high rates of fiscally-costly renegotiations:

- Peru, India, etc.
- General sources: poor contract management/design/selection
- But “deeper/underlying” sources: opportunistic behavior, by both public and private parties.

3. THE BUILDING BLOCKS OF FISCALLY-RESPONSIBLE, PLANNING-RELEVANT PPP DEVELOPMENT (1/3)

“WHAT LEGAL/REGULATORY/INSTITUTIONAL FRAMEWORK IS NECESSARY TO “ENABLE” PPPS?”

IS NOT EQUIVALENT TO ASKING

“WHAT LEGAL/REGULATORY/INSTITUTIONAL FRAMEWORK IS NECESSARY TO ENSURE PPPS ADD VALUE-FOR-MONEY”

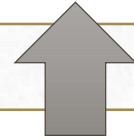
“TRANSLATION”:

- Consistency with multi-year fiscal and sector investment planning priorities;
- PPP pipeline development is integrated with effective public investment management frameworks
- Fiscal affordability filters are applied by MOF to risk allocation proposals, in its gatekeeper role
- Competitive tension is ensured at all times and conflicts of interest are controlled for
- Only PPPs with expected positive Value-for-Money are bid-out, and effective contract management ensures that ex-post Value-for-Money is not put at risk

3. THE BUILDING BLOCKS OF FISCALLY-RESPONSIBLE, PLANNING-RELEVANT PPP DEVELOPMENT (2/3)

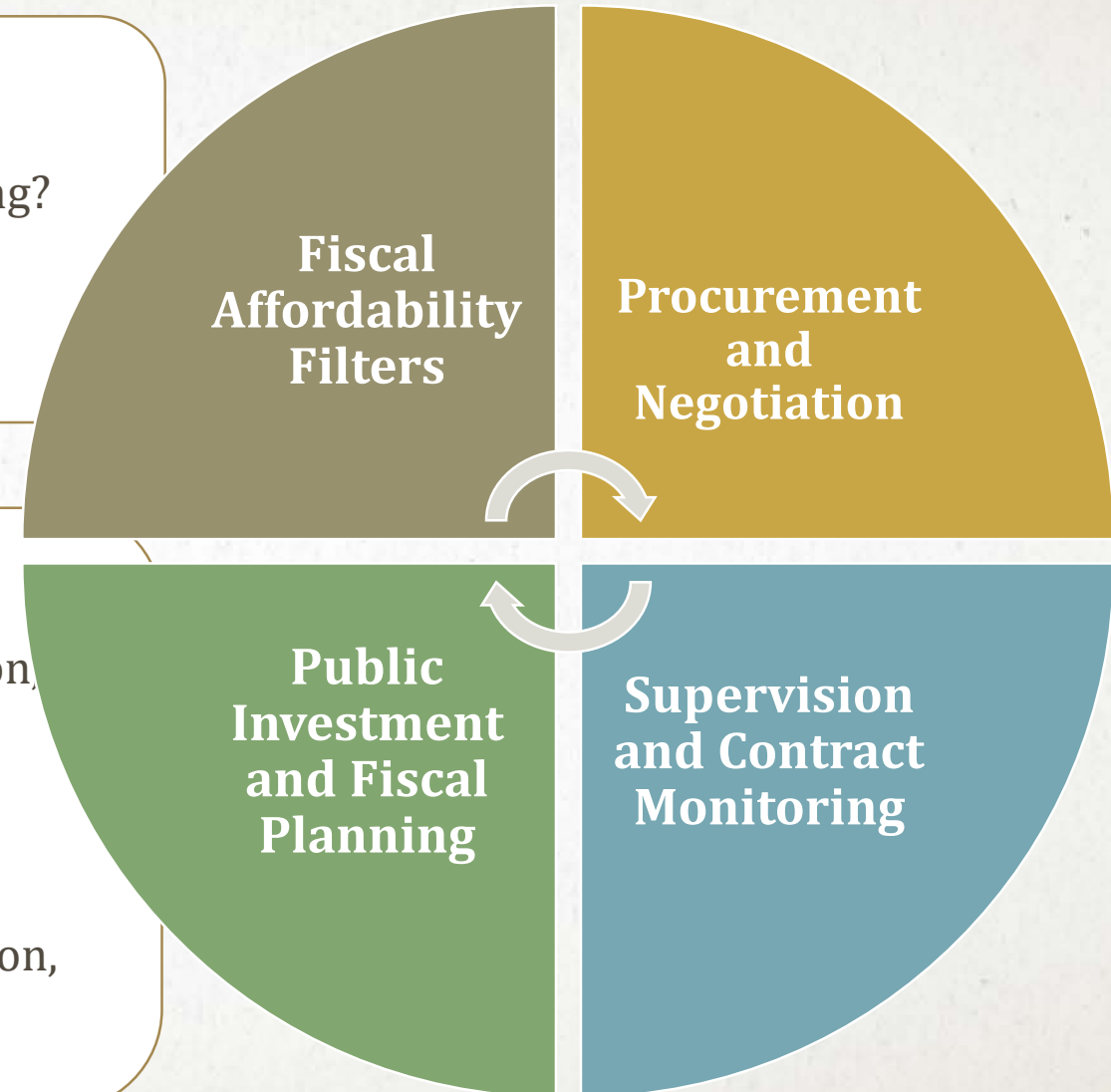
Public Debt and Fiscal Risk Management:

- Fiscal rules integration with MTFF and PPP liability accounting?
- Fiscal affordability analysis and PPP risk appraisal
- Are general fiscal risk management functions comprehensive and integrated?

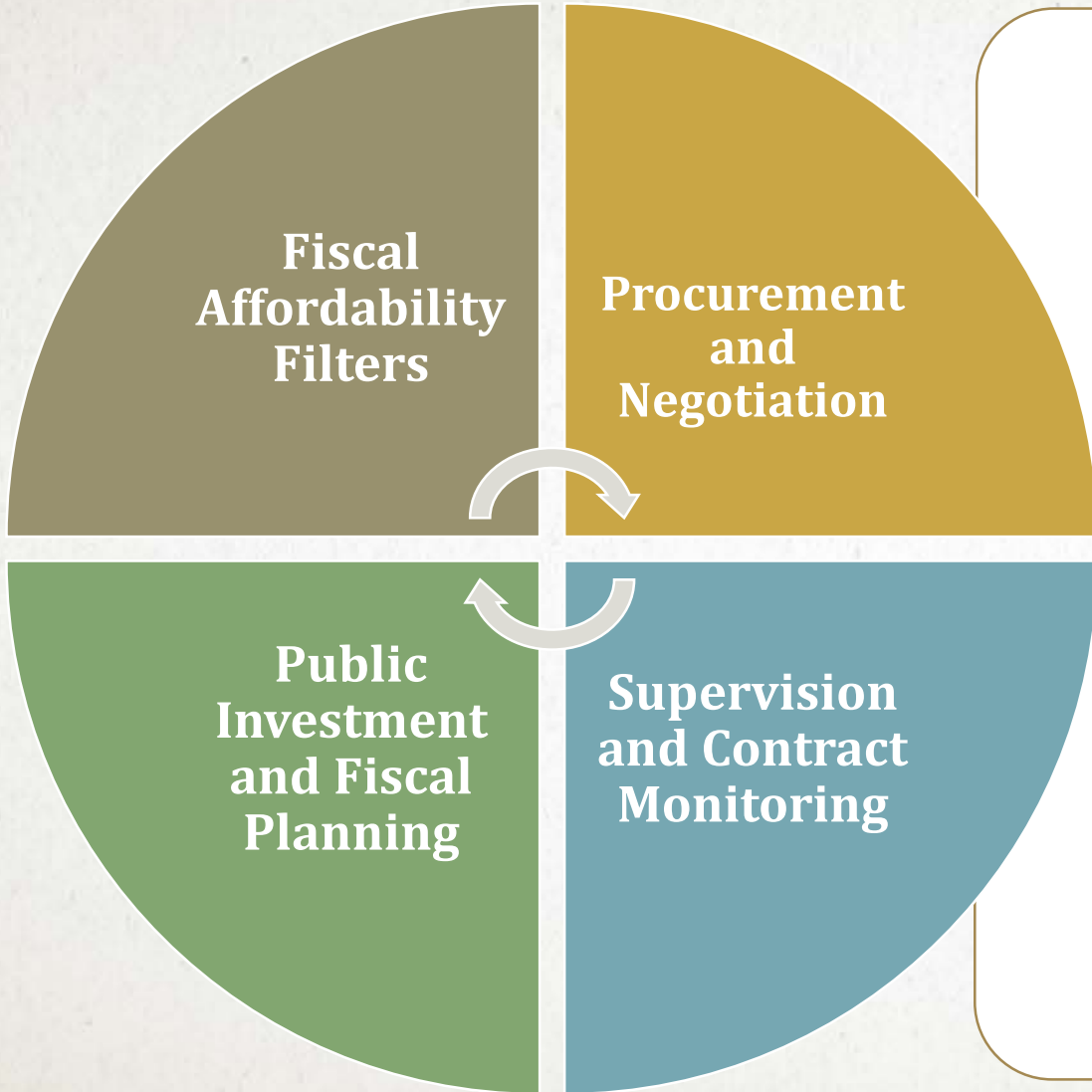


PIM-PFM-PPP Frameworks:

- National/Sector Plans, planning horizons, project prioritization, Multi-year budgeting and MTEF
- Economic Rationale tests and Project Appraisal, PPP option integrated in PIM frameworks, Value-for-Money tests
- *PPP Operational Framework*: Project preparation, Technical analysis, Demand forecasting, Financial analyses, Risk allocation, Project structuring (and VfM), Contracts Drafting, Market sounding, Evaluation for decision making



3. THE BUILDING BLOCKS OF FISCALLY-RESPONSIBLE, PLANNING-RELEVANT PPP DEVELOPMENT (3/3)



- **Procurement Framework:**
 - Ensures quality of pre-feasibility technical work
 - Competitive Tension
 - Corruption risk (USPs and self-fulfilling perception)
- **Negotiation Capacity**
 - Approaches to mitigate renegotiation risk (at-entry)



- MTEF, availability of planned funding to meet fiscal commitments (e.g. contingent)
- Portfolio and contract management, oversight and performance audits
- Contingency Preparation for Problem Resolution
- Systemic approach to contract renegotiations
- Asset and Contract Registers

4. ISSUES AND CHALLENGES

4.1 SEQUENCING:

- **INSTITUTIONAL FRAMEWORKS TAKE TIME TO DEVELOP**
- **PPP CAPACITY IS ALSO DEVELOPED ON A "LEARNING-BY-DOING" BASIS.**
- **"Georgia example of a solution"**

4.2 POLICY CHOICES MUST WEIGH CAPACITY CONSTRAINTS AND RISKS:

- **REALISM IS ESSENTIAL (USPs; INSTITUTIONAL PPPS; DIRECT SELECTION; TYPE OF PROJECTS; UPFRONT COSTS OF TECHNICAL PREPARATION)**

4.3 PPP TRANSACTION ADVISORS vs. PPP POLICY-MAKERS

4.4 INCENTIVE MECHANISMS: CONSISTENCY

4.5 FINANCIAL MARKETS DEVELOPMENT
