

# TCT workshops

## PPPs and public debt: key considerations

TCT Headquarters, Belgrade  
12 and 13 October 2022

## Objectives of the session

1

Discuss budgeting for PPPs

2

Introduce Eurostat rules for PPPs

## Contents of the session

1. Budgeting for PPPs
2. Introduction to Eurostat rules for PPPs
3. The EPEC/Eurostat PPP Guide

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## Affordability, budgeting and statistical treatment

### Affordability

*Can we afford to deliver this project as a PPP?*

- *How much money will we need?*
- *Where will the money come from?*

### Budgeting

*How do we ensure future payment obligations are budgeted for?*

*How do we avoid future fiscal shocks?*

### Statistics

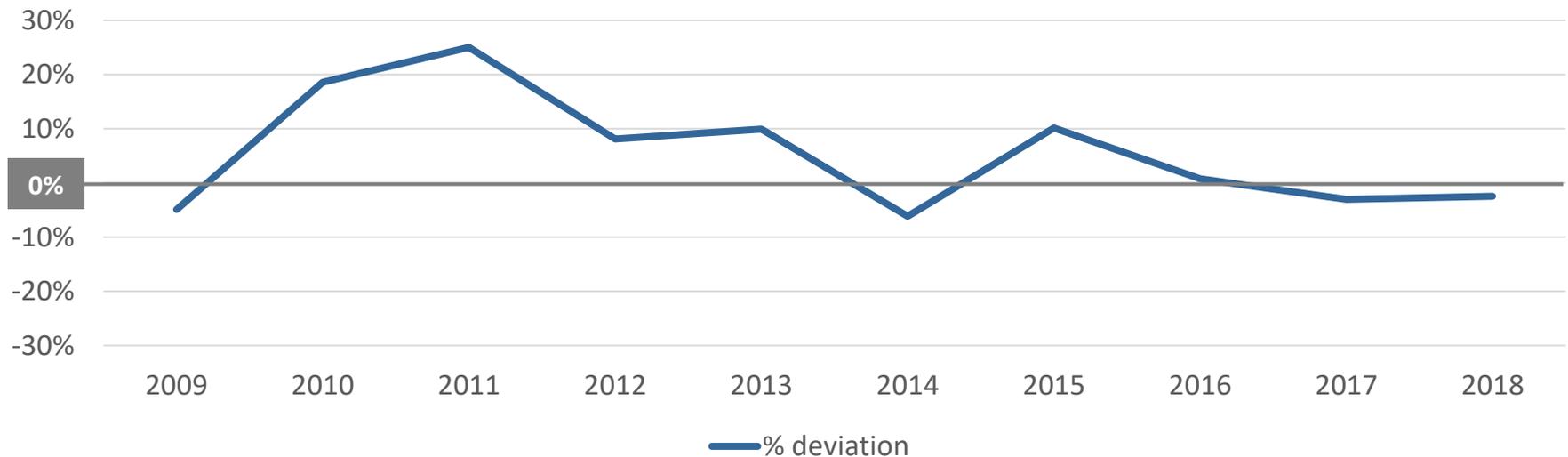
*How do we reflect the PPP in statistical reporting on national deficit/debt?*

## Budgeting – some key issues

- Ensure consistency of PPP related fiscal commitments with execution results
- Budget horizons often too short for long-term PPP payment obligations
- Authority budgeting and accounting rules
- Cash based versus accruals based models
- Present adequately off-balance sheet projects commitments
- Contingent liabilities: how to forecast and budget
- The role of non-MoF teams in budgeting during PPP preparation, procurement and contract management

## Budgeting – the need for consistency

Portuguese PPP portfolio – execution versus budget, % deviation



Source: UTAP, Ministry of Finance

- 2009-2012: frequent deviation of execution over budget, with undesirable budget (and media!) consequences
- 2013: new approach, coordinated action between PPP unit, MoF and MoT, methodological improvements for long term forecast

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## Eurostat rules – why important for PPPs?

- EU controls on levels of government deficit and debt – the Maastricht criteria
- Eurostat rules relate to statistical treatment – not to be confused with accounting rules/practices and budgeting
- Who should record PPPs (and concessions) in their balance sheets and how? The public partner? The private partner?
- Critical issue in an era of fiscal constraints – the “fiscal space” for launching investment projects
- Important Eurostat definitions:
  - “PPP” = government paid PPP
  - “Concession” = user paid PPP

***Different rules and handbooks!***

## Eurostat rules – impact

- Eurostat rules define if an asset (a government paid or user paid PPP) is on or off government's balance sheets and what happens:

- If the asset is **“on balance sheet”** for government:

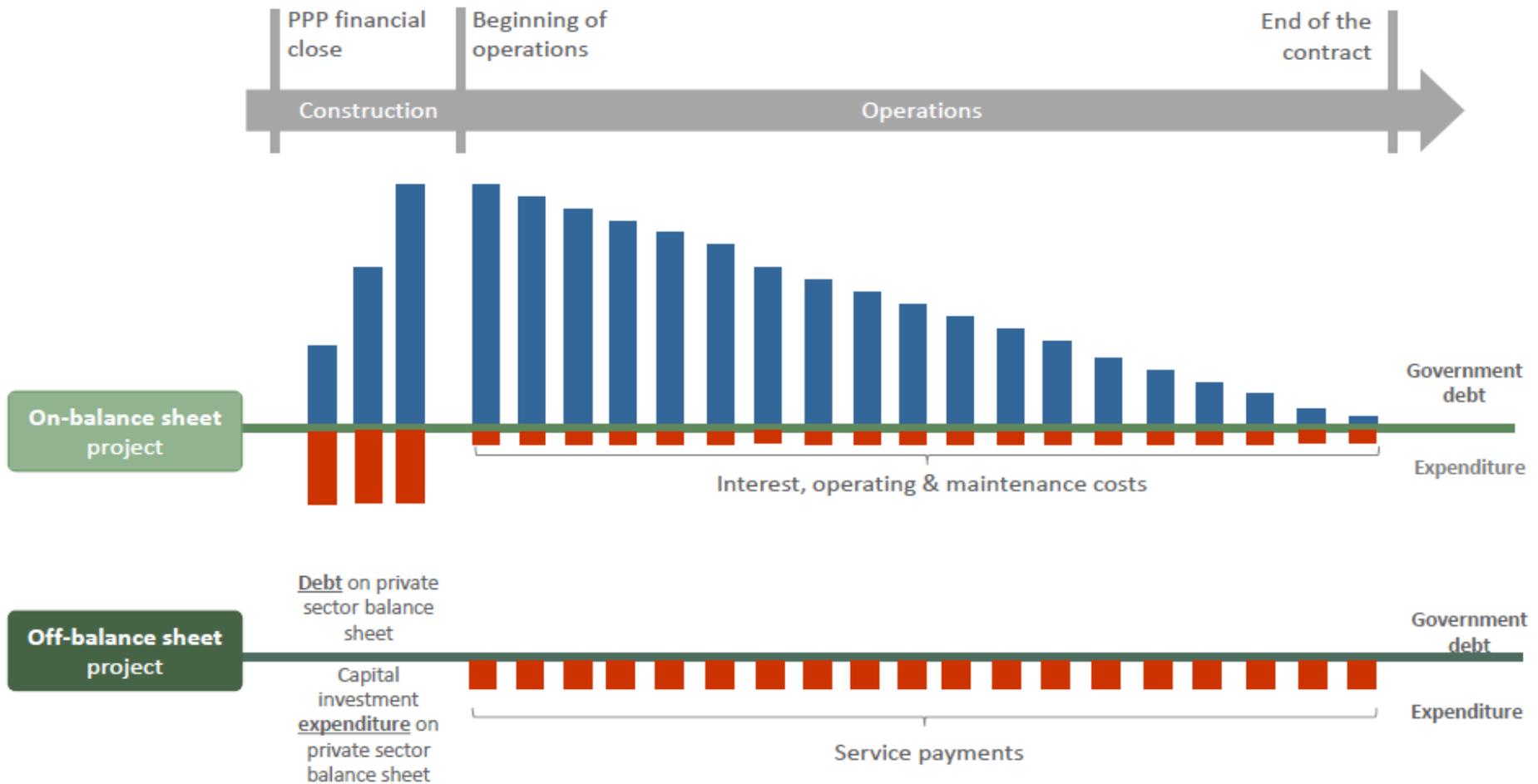
PPP capital investment  Impact on deficit/surplus

PPP financing liabilities  Impact on debt

- If the asset is **“off balance sheet”** for government:

PPP service payments  Impact on deficit/surplus

# Eurostat rules – a government paid PPP



## Eurostat rules – basic working principles

- Key underlying principle: the “economic ownership”, involving the analysis of

The parties involved

The structure of the project

How the contract allocates risks and rewards

## Eurostat rules – where to find them?

- Overarching methodology for EU economic statistics European System of Accounts (ESA10) of September 2014, replacing ESA95
- Revised Eurostat Manual on Government Deficit and Debt (MGDD, latest edition dated March 2016)
- Eurostat advice on individual cases delivered to PPP projects in Member States
- And now also in *A Guide to the Statistical Treatment of PPPs...*

## Eurostat rules – when to apply them?

- The statistical treatment of a PPP is assessed on the basis PPP arrangements at financial close and the rules in force at that time
- If the PPP contract arrangements change (renegotiation, government decision, etc): assess the change against the rules in force at the time of the change
- The national statistical office is responsible for the assessment and can approach Eurostat for advice

## Eurostat rules – use in the Western Balkans

- The candidate countries are **not legally bound to follow the ESA 2010** and the clarifications provided by Eurostat
- However, **Eurostat strongly encourages** the candidate countries to follow to ESA 2010
- Albania, BiH, Montenegro, N. Macedonia and Serbia are **part of Eurostat's government finance (GFS) and excessive deficit procedure statistics (EDP) working processes**
- This includes **technical visits to the countries and publication of GFS and EDP data**
- Objective: ensure that the candidate countries could provide the necessary statistical information **immediately after EU accession**

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## A Guide to the Statistical Treatment of PPPs

September 2016

## The EPEC/Eurostat PPP Guide

- Developed jointly by EPEC and Eurostat as a clarification to the MGDD (no modification or extension of scope)
- A practical and user friendly guide on the statistical treatment of PPPs
  - Provides a “contract feel” structure and presentation
  - Covers typical PPP contractual provisions and structures
  - Captures EU wide market practice
  - As clear and precise as possible on how contract provisions affect the statistical treatment

## The EPEC/Eurostat PPP Guide – steps of analysis

- **Step 1:** does the project fit Eurostat's definition of a PPP?
- **Step 2:** do any provisions of the PPP influence the assessment of statistical treatment?
  - MODERATE impact
  - HIGH impact
  - VERY HIGH impact
  - Automatically **ON BALANCE SHEET**
- **Step 3:** account for all issues identified and reach a conclusion on the statistical treatment

## The EPEC/Eurostat PPP Guide – steps of analysis

- Strong presumption of OFF BALANCE SHEET treatment if:

	<b>MODERATE</b>	<b>HIGH</b>	<b>VERY HIGH</b>
<b>Issues identified</b>	$\leq 2$	0	$\leq 1$
<b>Issues identified</b>	$\leq 1$	$\leq 2$	0
<b>Issues identified</b>	$\leq 4$	$\leq 1$	0
<b>Issues identified</b>	$\leq 7$	0	0

## The EPEC/Eurostat PPP Guide – examples

- Government financing > 50% capital costs = **ON BALANCE SHEET**
- Government takes full risk of insurance cost increases = **HIGH impact issue**
- Government's income from the asset equals 5% of the availability payments = **MODERATE impact issue**

***WARNING: the assessment must consider all contractual and commercial aspects of the PPP***

## TCT workshops

# PPPs in the WB: some observations and recommendations

TCT Headquarters, Belgrade  
12 and 13 October 2022

## Objectives of the session

1

Deliver a high level review of PPPs in the WB

## Contents of the session

1. EPEC in the WB region in brief
2. PPPs in the WB region – some observations
3. PPPs in the WB region – some recommendations

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## EPEC in the WB region

- Several WB countries are EPEC members
- EPEC delivers routinely **policy and project related advisory assignments** in the region
- Good knowledge of **institutional and legal frameworks**, as well as progress towards EU compliant legislations
- Two WB-wide EPEC engagements on behalf of the WBIF:
  - 2013-2014, *PPP Institutional Strengthening in the WB*
  - 2017-2018, *Strengthening the Capacity of the Public Sector to Undertake PPPs in the WB*
- 2017-2018 study conclusions and recommendations **still valid**

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## PPPs in the WB region – some observations (1/2)

- Key indicator: high mortality of PPP projects
- Limited evidence that the identification of projects and the decision to use PPPs follow a systematic process of assessment for suitability
- Institutional arrangements hindered by unclear definition of roles and responsibilities and shortage of dedicated resources
- Major PPP projects in the region demonstrate good practice in project preparation and procurement phases
- Increasing quality of transaction advisers has brought additional benefits to project preparation (still, not a guarantee for success)

## PPPs in the WB region – some observations (2/2)

- Early involvement of MDBs can bring valuable assistance to the preparation of projects (still, not a guarantee for success)
- Using a PPP will not make an unsound project better or help overcome external market factors
- Large-scale project finance operations require considerable knowledge and experience, and local banking and financial markets still need to develop further
- Unsolicited proposals from the private sector are unlikely to deliver VfM, large asymmetry of information between private and public sides

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## PPPs in the WB region – some recommendations

- Further align national procurement and PPP legislation to the EU directives and best practices identified
- Consider establishing central PPP units to support all levels of public administration to develop and implement PPPs
- Empower public sector teams, ensure coordinated action
- Implement a more systematic approach to assessing the suitability of projects to use PPP as part of the project identification stage
- Implement a consistent approach to assess and demonstrate the potential for value for money of a PPP in a project
- Develop national (or perhaps regional) guidance on several areas of common interest: unsolicited proposals, contracts, use of advisers...

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