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
Contents of the session

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

- **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

*Source: UTAP, Ministry of Finance*
Contents of the session

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

- PPP financial close
- Beginning of operations
- End of the contract

Construction
Operations

On-balance sheet project

Interest, operating & maintenance costs

Government debt
Expenditure

Off-balance sheet project

Debt on private sector balance sheet
Capital investment expenditure on private sector balance sheet
Service payments

Government debt
Expenditure
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:

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<th>VERY HIGH</th>
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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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1. EPEC in the WB region in brief

2. PPPs in the WB region – some observations

3. PPPs in the WB region – some recommendations
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
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
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
Contents of the session

1. EPEC in the WB region in brief

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3. PPPs in the WB region – some recommendations
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...