



PPPs and fiscal management

Timothy Irwin

World Bank

Riga

6 March 2007

Overview

- In a typical PPP, a private company agrees to provide a service in return for
 - A promise of payments from government or
 - The right to collect user fees and, often, government guarantees or a promise of subsidies.
- Private financing might lower (quality- and risk-adjusted) project costs.
- But part of the appeal of PPPs to many governments is avoiding immediate spending.

Public finance and PPPs

Public borrowing to finance construction of road

PPP contract in which government agrees to make availability payments

Government gets asset without immediately having to raise taxes or cut other spending

Government gets asset without immediately having to raise taxes or cut other spending

Government must repay debt irrespective of demand for road

Government must make availability payments irrespective of demand for road

Government must soon report increased spending and debt

Government need not immediately report any new spending or debt

The policy problem

- A desire to avoid immediate spending can lead governments to use, or design, PPPs in ways that don't lower costs.
- Because PPPs typically require the government to spend money later or to give up future revenue, they can cause fiscal problems later

Five ways to tackle the problem

1. Ensure you can estimate the relative costs of publicly financed projects and PPPs (good framework, good data)
2. Adopt the best accounting standards: IMF's Government Finance Statistics Manual 2001 and International Public Sector Accounting Standards or other modified IFRS
3. Prepare and publish 30-year forecasts of government spending and revenues that incorporate PPP commitments
4. Ensure decisions to enter into PPPs must be approved by party other than spending ministry (Ministry of finance, Cabinet)
5. Try to ensure that fiscal rules don't bias the choice between PPPs and public finance.

More

- “Five ways governments can control spending commitments in public-private partnerships”
- tirwin@worldbank.org