

UTAP

Unidade Técnica de Acompanhamento de Projetos

**Managing Fiscal Risks from PPP:
Country case of Portugal**

World Bank Treasury webinar

April 12th, 2017

- 1) UTAP in brief
- 2) The development of the Portuguese PPP portfolio
- 3) 2011 sector crisis and 2012 legal and institutional reform
- 4) Fiscal risk management tools: lifecycle perspective
- 5) Lessons learned

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The Ministry of Finance technical support unit for PPP projects

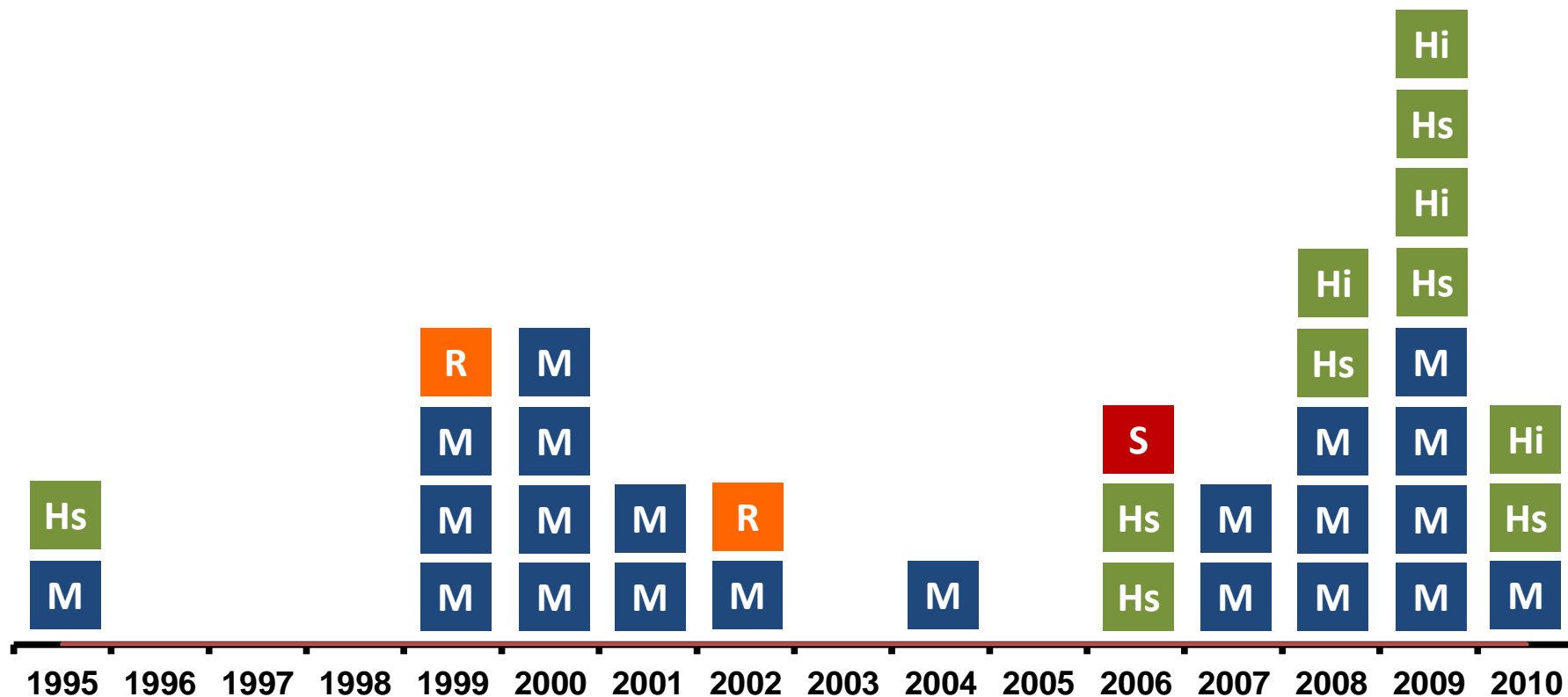
- A result of the Economic and Financial Support agreement signed by Portugal in 2011 with IMF, EC and ECB
- Established by the 2012 legislation (Decree-Law 111/2012) as part of a comprehensive PPP sector reform
- Fully operational since January 2013
- Currently 11 full time technical staff (a maximum of 13)
- Involvement throughout all stages of project lifecycle
- A close partner of all line ministries with PPP contracts: infrastructures, healthcare, home affairs and environment
- Provides technical support in other large scale projects implemented under other public procurement figures

The Ministry of Finance technical support unit for PPP projects

- Responsibilities:
 - Project appraisal, structuring and tendering
 - Reporting system on PPP and concessions
 - Oversee of PPP contracts on behalf of the Ministry of Finance
 - Contract renegotiation
 - Legal and financial technical support to the Ministry of Finance and other ministries and public institutions
 - Budget process support
 - PPP know-how management
 - External representation of Portugal

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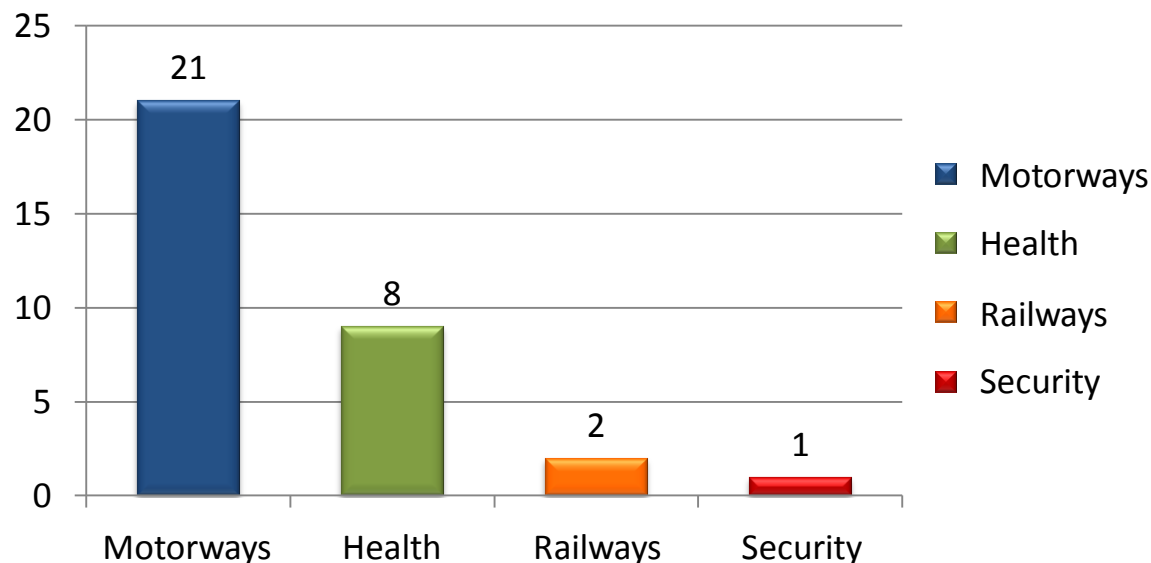
- Evolution of PPP contracts signed: motorways (M), health care services (Hs), health care infrastructure (Hi), railways (R) and security (S)



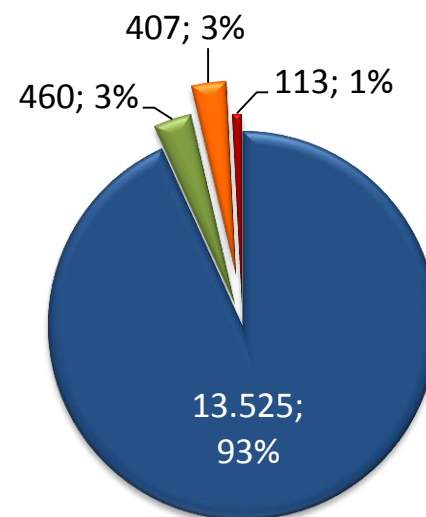
UTAP's mandate: Central Government PPP

- 32 contracts in 4 sectors
- Cumulative investment of 14.505 million € (December 2015 data)

Portfolio composition



Cumulative investment

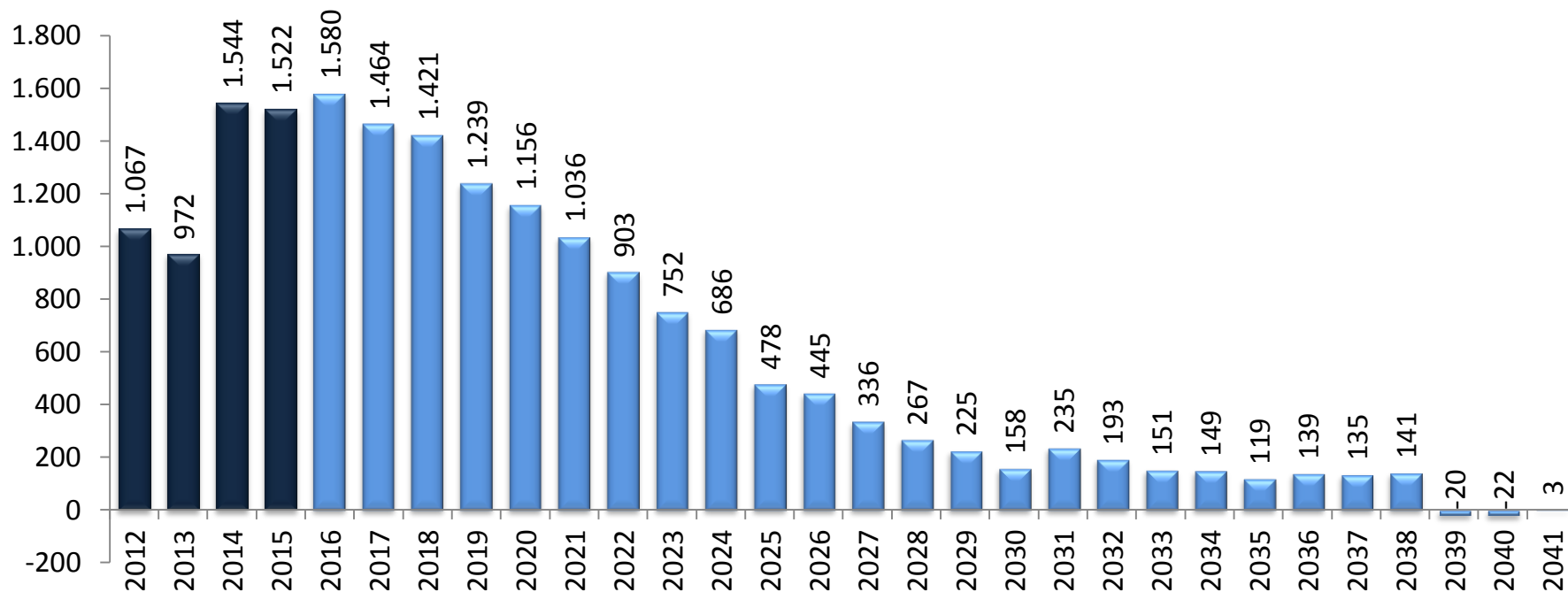


Source: UTAP

Central Government PPP expenses

- Total lifecycle net expenses forecast (32 contracts): 13.400 million €

Central Government PPP net expenses (million €)

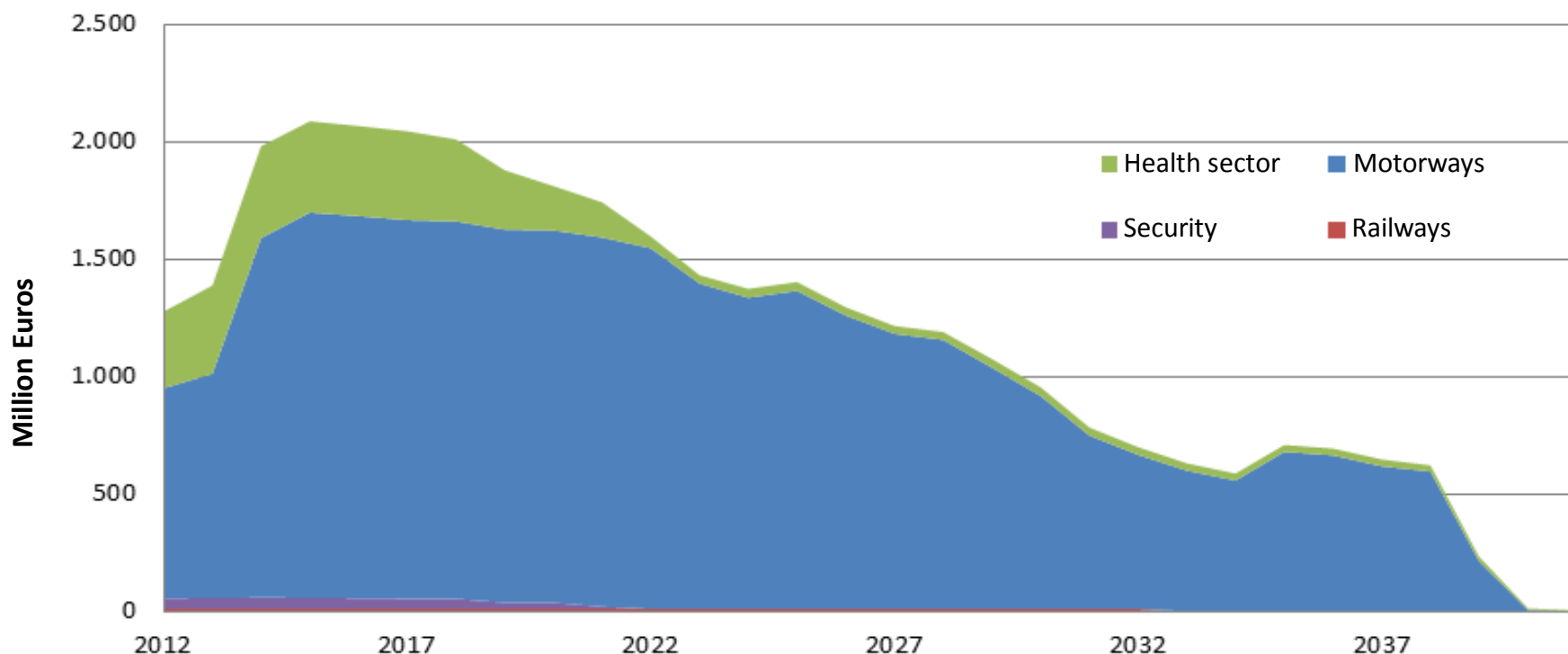


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2011 debt crisis – strong fiscal sustainability concerns about PPP

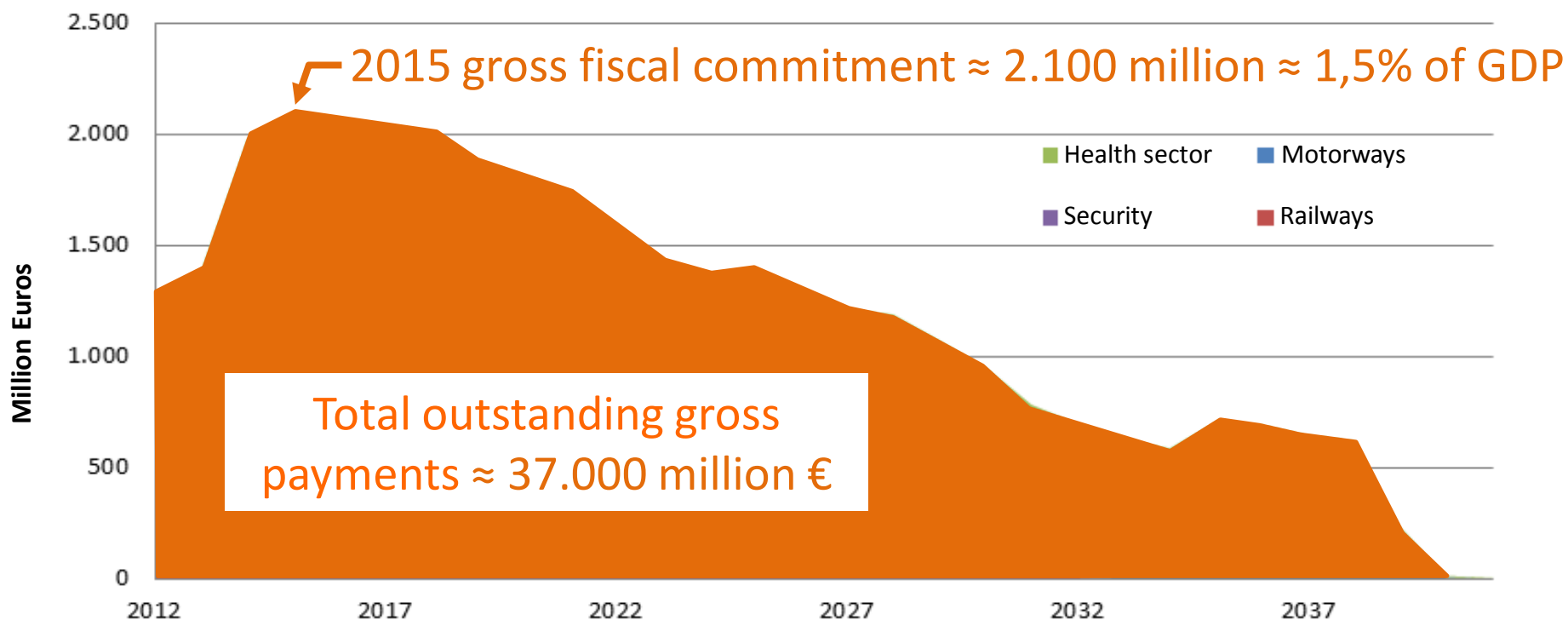
- 2012 State budget – PPP sector “do nothing” fiscal scenario seen as unsustainable from a contract lifecycle perspective



Source: UTAP, from 2012 State Budget data

2011 debt crisis – strong fiscal sustainability concerns about PPP

- 2012 State budget – PPP sector “do nothing” fiscal scenario seen as unsustainable from a contract lifecycle perspective



Source: UTAP, from 2012 State Budget data

2011 debt crisis – strong fiscal sustainability concerns about PPP

- Moreover, the State budget figures include only signed PPP contracts with firm financial commitments, and there was a very substantial pipeline of new PPP:
 - 4 road PPP tenders under preparation
 - 20 road PPP under consideration, in different phases of appraisal, planning and structuring
 - The new Lisbon airport: structuring was underway
 - The new high speed railway (HSR) network: over 500 km divided into 6 PPP, 1 under construction, 1 tender launched
 - The new Lisbon hospital tender launched and underway, plus 3 additional PPP hospitals (all 4 infrastructure contracts)

Strong political and public opinion debate around PPP

- Planning, project selection, public accounting and budgeting for PPP not transparent
- Unclear “bill” of projects in the pipeline (new motorways, HSR and new airport) and strong concerns about financial/fiscal sustainability
- A clear problem regarding “adverse selection” of projects:
 - Projects developed with high optimism bias
 - Lack of a centralized public body or standardized procedure for cross-section project selection
 - Large volumes of “cheap money” from banks available for project finance infrastructure operations – a matter of “bankable” versus “good projects”?

2012 Ministry of Finance + IMF public sector audit regarding PPP sector

- Lack of coordinated and centralized public action, even within the MoF
- Asymmetry of information, resources and technical capacity – underdimensioned and/or poorly prepared public teams
- Excessive resource to external advisers and low capacity to accumulate experience by the public sector
- Deficit of quality in some key methodologies – CBA, PSC, VfM...
- Poor contract management by line ministries – insufficient resources
- The role of “gatekeeper” by the Minister of Finance was ineffective, due to technical and political reasons
- Poor control of fiscal risks and contingent liabilities – frequent unilateral acts by public partners, increasing litigation and fiscal uncertainty

Legal and institutional PPP framework reform launched in 2012

- Regain control over the fiscal outcome of PPP, both concerning known and contingent liabilities
- Reinforce the role of the MoF, evolving from a “gatekeeping role” to active participation throughout project lifecycle
- Create inside the MoF a professional and stable structure, specialized in PPP financial and legal affairs – centralize action and ensure the know-how and technical capacity are created (and stay)
- Apply more rigorous technical methodologies and criteria in structuring and launching PPP projects – CBA, VfM, PSC
- Enhance transparency along project lifecycle – public disclosure
- Improve the fiscal control and reporting system – public disclosure

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Decree-Law 111/2012 – key features introduced by the reform

- Institutional perspective:
 - Creation of UTAP, as the “long arm” of the MoF, with a lifecycle approach to fiscal risk management
- Fiscal control measures during structuring and tendering phases:
 - Compulsory project affordability and fiscal impact studies
 - Sensitivity analysis on fiscal performance of projects – regarding project and macroeconomic variables
 - Detailed description of expected project outputs
 - Issue a detailed risk matrix – public/private risk allocation and expected fiscal impact, including mitigation strategies for risk retained by the public sector

Decree-Law 111/2012 – key features introduced by the reform

- Fiscal control measures during execution and contract management:
 - Minimization of unilateral decisions by public partners
 - Ex-ante determination of fiscal impacts and affordability of unilateral measures
 - Fiscal impact assessment of contract renegotiations as well as change in the original risk matrix
- Transparency and information disclosure:
 - Compulsory disclosure of (i) PPP contracts and annexes, **(ii)** annual and quarterly reports on financial and fiscal impact of PPP, **(iii)** any relevant legislation and appointment of task teams, and **(iv)** tender documents – UTAP's own website

DL 86/2003 PPP regime arrangements

PPP project proposal + structure

- Preliminary studies
- Strategic studies
- Cost-Benefit Analysis (CBA)
- Tender documents preparation
- Draft legal documents

Work developed by line ministry teams

“Follow-up commission”

- Analyze and further develop previous documents/studies
- Value for Money analysis, PSC

Parity of ministries:

- 1 President
- 2 line ministry
- 2 MoF

“Tender commission”

- Evaluation of bids
- Shortlist of bidders
- Negotiation phase
- Award proposal to ministries

Parity of ministries:

- 1 President
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Contract management

- Budget and fiscal follow-up

MoF leadership:

- Parpública, SGPS
- DGTF

DL 111/2012 PPP regime arrangements

PPP project proposal

- Preliminary studies
- Reasoned PPP proposal

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“Project team”

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MoF leadership:

- 3 UTAP
- 2 line ministry

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Fiscal risk management tools

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Project structuring and appraisal: leadership assumed by the MoF through UTAP

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Leadership assumed by MoF through UTAP along the project lifecycle

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- MoF role as gatekeeper is ineffective – technical and political reasons
 - Thorough involvement of the Ministry of Finance required along the lifecycle (“end-to-end”) – resident PPP unit strongly recommended
 - Sound fiscal management starts with sound project selection – cross-sector planning, project appraisal (CBA), risk allocation...
 - Need for solid multiannual fiscal planning and accounting procedures
 - Transparency and disclosure of information, reporting system – prevent and manage fiscal, political and public opinion related risks
 - Adequate contract management is a key factor for success at different levels – need to reinforce public teams in this area
 - “Stick to the plan” – avoid unilateral actions by the public sector, thus reducing fiscal risks and contingent liabilities
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