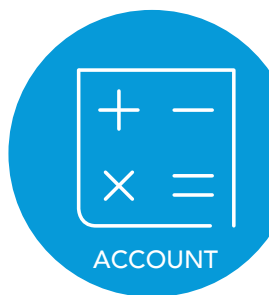


PPP FISCAL RISK ASSESSMENT MODEL (PFRAM)



FISCAL AFFAIRS



THE PPP FISCAL RISK ASSESSMENT MODEL (PFRAM)

The PFRAM, developed by the IMF and the World Bank, is an analytical tool to assess the potential fiscal costs and risks arising from PPP projects. In many countries, investment projects have been procured as Public Private Partnerships (PPPs) not for efficiency reasons, but to circumvent budget constraints and postpone recording the fiscal costs of providing infrastructure services. Hence, some governments procured projects that either could not be funded within their budgetary envelope, or that exposed public finances to excessive fiscal risks. As an analytical tool, PFRAM helps country authorities quantify the macro-fiscal implications of PPP projects, understand the risks assumed by government and identify potential mitigations measures. Since launched in April 2016, PFRAM has been used not only in the context of IMF and World Bank technical assistance, but also by country authorities—mainly PPP units in ministries of finance—to better understand the long-term fiscal implications of PPP projects. Building on lessons from two years of use, the new version of PFRAM allows for the analysis of a portfolio of projects.

In practice, assessing a PPP project involves both gathering specific project information and making judgments about the government's role at key stages of the project cycle. PFRAM provides a structured process for gathering information for a portfolio of PPP projects in a simple, user-friendly, Excel-based platform, following a five-step decision-tree:

- **Who initiates the project?** The impact of main fiscal indicators (i.e., deficit and debt) varies depending on the public entity ultimately responsible for the project (e.g. central, local governments, public corporations, etc.).
- **Who controls the asset?** Simple standardized questions assist the user in making an informed decision about the government's ability to control the PPP-related asset—either through ownership, beneficial entitlement, or otherwise.

- **Who ultimately pays for the asset?** The funding structure of the project is what determines its implication on main fiscal aggregates. PFRAM allows for three funding alternatives: (a) the government pays for the asset using public funds; (b) the government allows the private sector to collect fees directly from users of the asset (e.g., tolls); and (c) a combination of the two.
- **Does the government provide additional support to the private partner?** Governments can not only fund PPP projects directly but they can also support to the private partner in a variety of ways, including providing guarantees, equity injections, or tax amnesties.
- **What does the PPP contract risk allocation tell us about macro-fiscal risks?** Although risk allocation is key for structuring a PPP contract, understanding its macro-fiscal implications and the potential need for government actions related to a PPP contract can be, in practice, a challenging task. The PFRAM assists the analyst in identifying main fiscal risks arising from a PPP contract and provides a framework for evaluating risk likelihood and fiscal impact, as well as assessing the need for risk mitigation measures and/or government actions.

PFRAM generates standardized outcomes for a portfolio of PPP projects or a single project based on project-specific and macroeconomic data (Figures 1–5). The latter include:

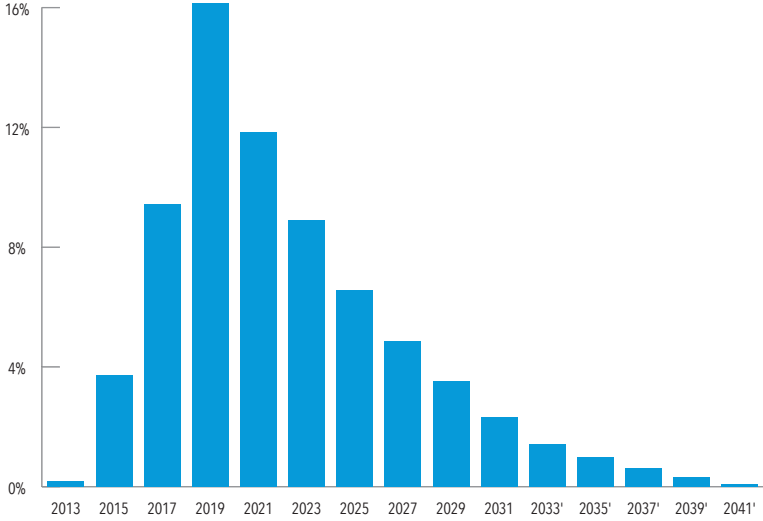
(i) project cash flows; (ii) fiscal tables/charts on a cash and accrual basis; (iii) debt sustainability analysis with and without the PPP projects; (iv) sensitivity analysis of main fiscal aggregates to changes in macroeconomic and project-specific parameters (e.g., contract termination); and (v) a summary risk matrix of each project.

PFRAM has been pilot-tested by the IMF and the World Bank. The new version (PFRAM version 2.0) will be released in 2019.

PFRAM MAIN OUTPUTS

Figure 1 Government Liabilities and Non-financial Assets of PPP Project

Government Liabilities (% of GDP)



Non-financial Assets (% of GDP)

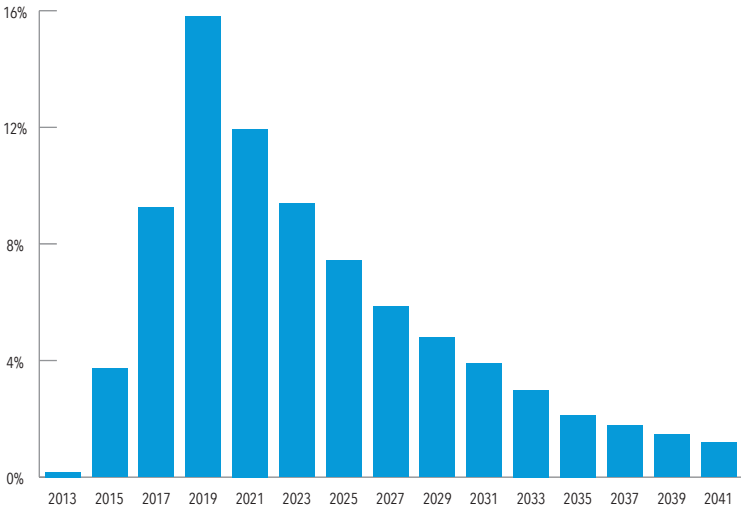
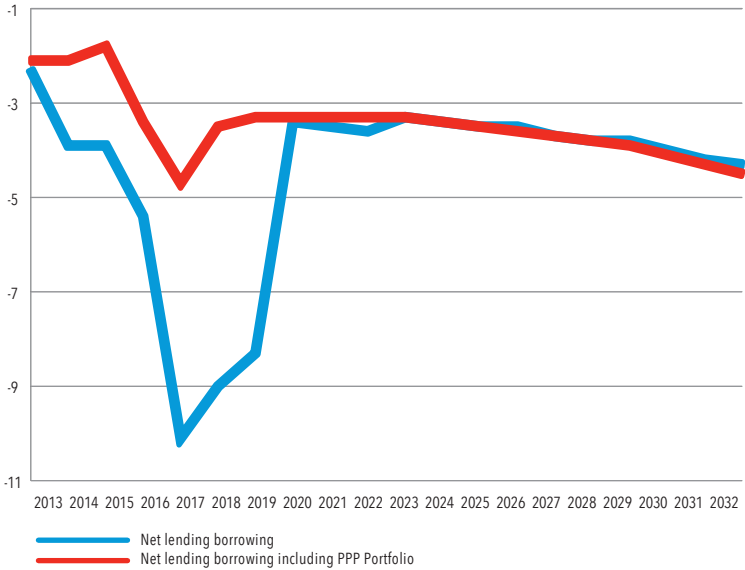


Figure 2 Government Overall Balance on Accrual and Cash Bases with and without PPP Project

Overall Balance—Accrual (% of GDP)



Overall Balance—Cash (% of GDP)

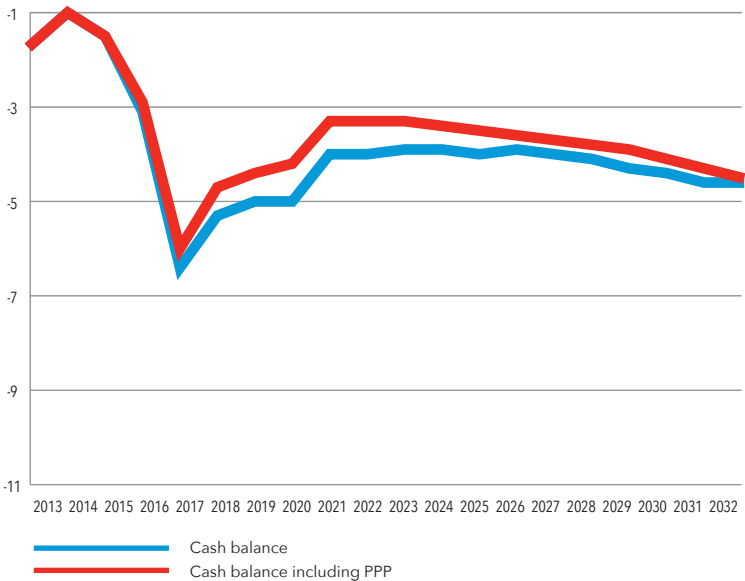


Figure 3 Government Gross Debt with and without PPP Project

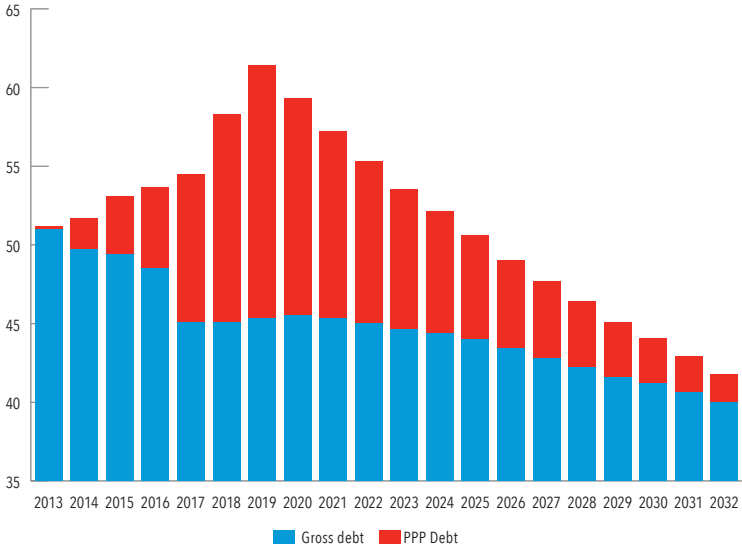


Figure 4 Sensitivity Analysis: Impact on Contract Termination on Overall Cash Balance (% of GDP)

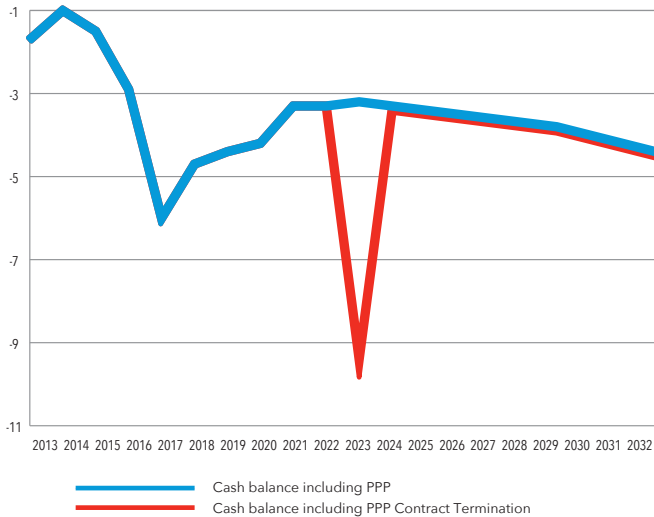


Figure 5 Project Fiscal Risk Matrix

IDENTIFICATION OF RISKS		LIKELIHOOD	FISCAL IMPACT
1	Governance risks	Medium	Low
2	Construction risks	Medium	Medium
3	Demand risks	Low	Medium
4	Operational and performance risks	Low	Medium
5	Financial risks	Medium	Medium
6	Force majeure	Low	High
7	Material adverse government actions	Low	High
8	Change in law	Low	Medium
9	Rebalancing of financial equilibrium	Low	Medium
10	Renegotiation	Medium	Medium
11	Contract termination	Low	High

RISK RATING Likelihood*Impact	MITIGATION STRATEGY	PRIORITY ACTIONS Rating*Mitigation
Low	NO	Medium priority
Medium	YES	Medium priority
Low	YES	Low priority
Low	YES	Low priority
Medium	YES	Medium priority
Medium	YES	Medium priority
Medium	YES	Medium priority
Low	YES	Low priority
Low	YES	Low priority
Medium	YES	Medium priority
Medium	NO	High priority

CAPACITY DEVELOPMENT ACTIVITIES

Since its introduction in 2016, the PFRAM has been used extensively in IMF and World Bank capacity development activities including:

- Direct support to country authorities in assessing the impact of their PPP portfolio on the fiscal position;
- Regional workshops to train country authorities—including from ministries of finance, line ministries and public corporations—in the use of PFRAM for analytical purposes. Regional workshops have been delivered in the Caribbean, Central Europe, Middle East, and Africa.



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CONTACT US

For more information about the IMF's work on public investment, visit the link below and download the PFRAM tool at [IMF.org/publicinvestment](https://www.imf.org/publicinvestment)

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