CASE STUDY
—PUBLIC-PRIVATE PARTNERSHIPS: THEORY, PRACTICE, AND CASES

DAY 4, OCTOBER 26, 2012

"Government Contingent Liabilities"

This slide set is prepared mainly based on:

- World Bank (1998). Contingent liabilities—a threat to fiscal stability. Prem Notes Number 9, November 1998.
- Monteiro Rui S (2008). PPPs and fiscal risks: experience of Portugal. In; Schwartz G, Corbacho A & Funke K (eds). *Public Investment and Public-private Partnerships: Addressing Infrastructure Challenges and Managing Fiscal Risks*. Basingstoke: Palgrave Macmillan: 118-131.

Scope of government contingent liabilities

- *What government action could cause contingent liabilities?*

- *How do you define government "direct liabilities"?*

"Direct liabilities are predictable obligations that will arise in any event."

- *How do you define government "contingent liabilities"?*

"Contingent liabilities are obligations triggered by a discrete but uncertain event."

- *How do you define government "explicit liabilities"?*

"Explicit liabilities are specific government obligations defined by law or contract."

- *How do you define government "implicit liabilities"?*

"Implicit liabilities represent a moral obligation or expected burden for the government not in the legal sense, but based on public expectations and political pressures."

- *Then, what about government "direct explicit liabilities"?*

"These liabilities include sovereign debt, expenditures guided by budget law in the current fiscal year, and expenditures over the long term for legally mandated items."

- *Furthermore, what about government "direct implicit liabilities"?*

"Direct implicit liabilities often arise as a presumed consequence of public expenditure policies over the long term."

- *Logically, what about government “contingent explicit liabilities”?*

“Contingent explicit liabilities legally oblige government to make a payment if a specific event occurs.”

- *Finally, what about government "contingent implicit liabilities"?*

"Contingent implicit liabilities are not officially recognized until a failure occurs."

PPPs and fiscal risks

- *How do you define "fiscal risk" entailed in PPPs?*

Monteiro (2008) defines the term "fiscal risk" as "potential adverse impact on the financial position of a public body as a result of factors that affect the performance of a PPP project."

- *What do you think are the main sources of fiscal risks entailed in PPP transactions?*

First, the basic characteristics of public service could weaken the public sector's bargaining position, thus increasing fiscal risks.

- *Do you think of any other sources of fiscal risks entailed in PPP transactions?*

Second, the lack of a long-term budgetary framework could broaden fiscal risks going forward.

- *Again, do you think of any further sources of fiscal risks entailed in PPP transactions?*

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Please feel free to send me e-mails with any question about the course or if you want to make an appointment. To help me not to miss your incoming e-mails,* ***please start the subject line with "5140489" (Course No.)* *when you send e-mails to Nishizawa's.*