

**GRADUATE SCHOOL OF PUBLIC POLICY (GraSPP)
THE UNIVERSITY OF TOKYO
CASE STUDY—PUBLIC-PRIVATE PARTNERSHIPS:
THEORY, PRACTICE, AND CASES
DAY 4: APRIL 20, 2013**

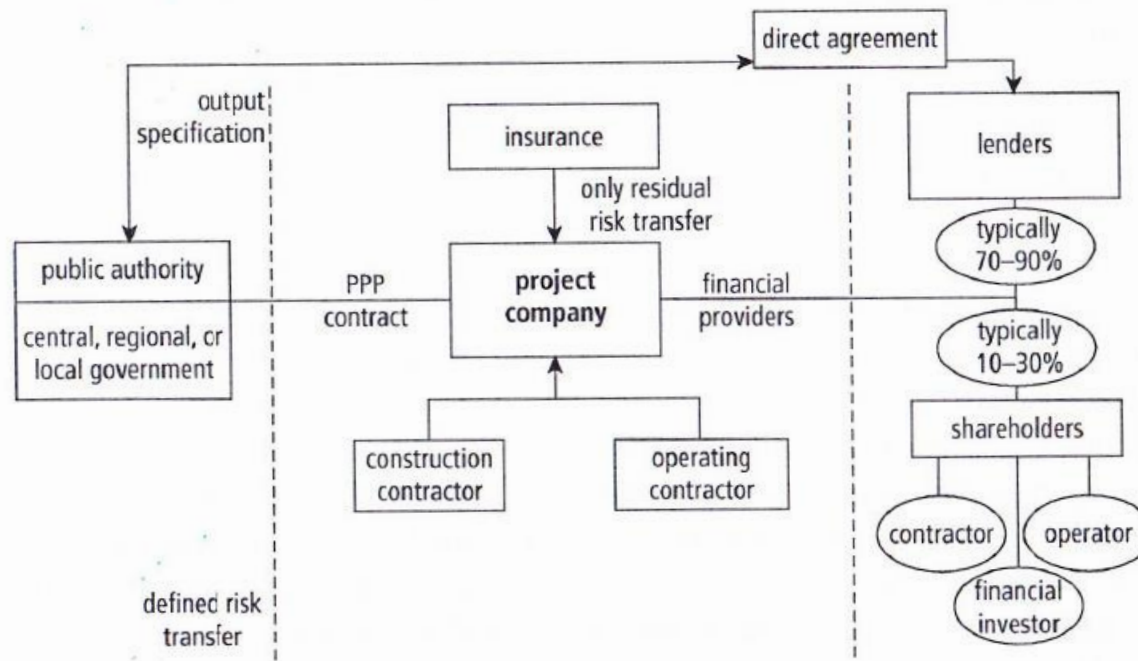
Government Contingent Liabilities

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Private sources of finance for PPPs

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Figure 5.1 Typical Contractual Structure of a Public-Private Partnership

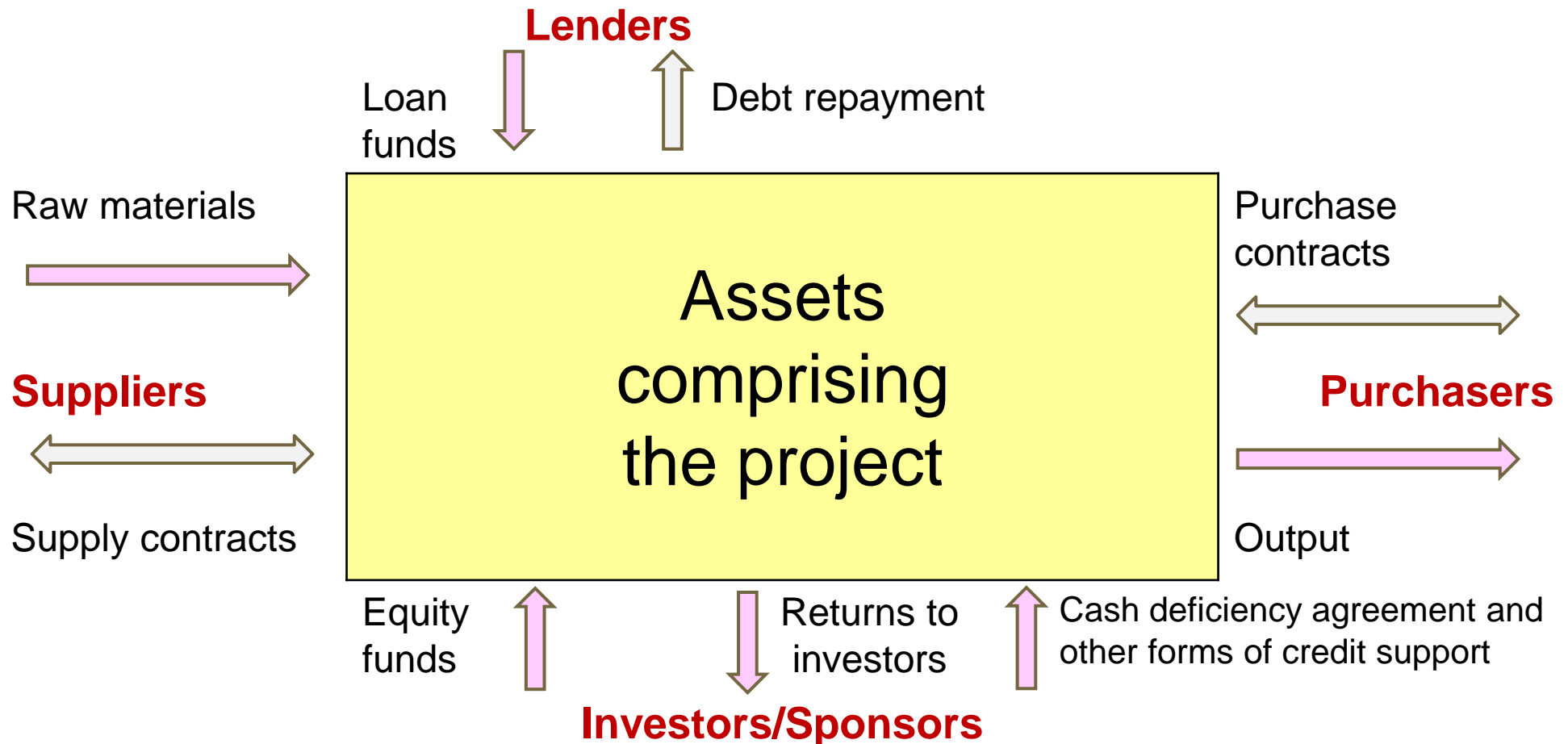


Source: Authors.

Source: page 59, World Bank/PPIAF [2011]

Private sources of finance for PPPs (continued)

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Private sources of finance for PPPs (continued)

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Cover Ratios—level principal repayments

Year	0	1	2	3	20	21	22	23	24	25	Total
(a) CADS		95	95	95	95	95	95	95	95	95	2,375
Lenders' viewpoint:											
(b) Loan repayments		39	39	39	39	39	39	39			900
(c) Interest payments		54	52	49	9	7	5	2			648
(d) Total debt service [(b) + (c)]		93	91	88	49	46	44	41			1,548
(e) Year-end loan outstanding	900	861	822	783	117	78	39	0			
ADSCR [(a) / (d)]		1.02	1.05	1.07	1.96	2.06	2.17	2.29			
Average ADSCR		1.50	1.52	1.54	2.12	2.17	2.23				
LLCR [(NPV(a)*) / (e)]	1.30	1.33	1.36	1.39	2.16	2.23	2.29				
Average LLCR	1.73	1.75	1.77	1.79	2.23	2.26					
PLCR [(NPV(a)) / (e)]	1.35										
Average life of loan	12 years										

Source: page 163, Yescombe [2007] * : to year 23.

Private sources of finance for PPPs (continued)

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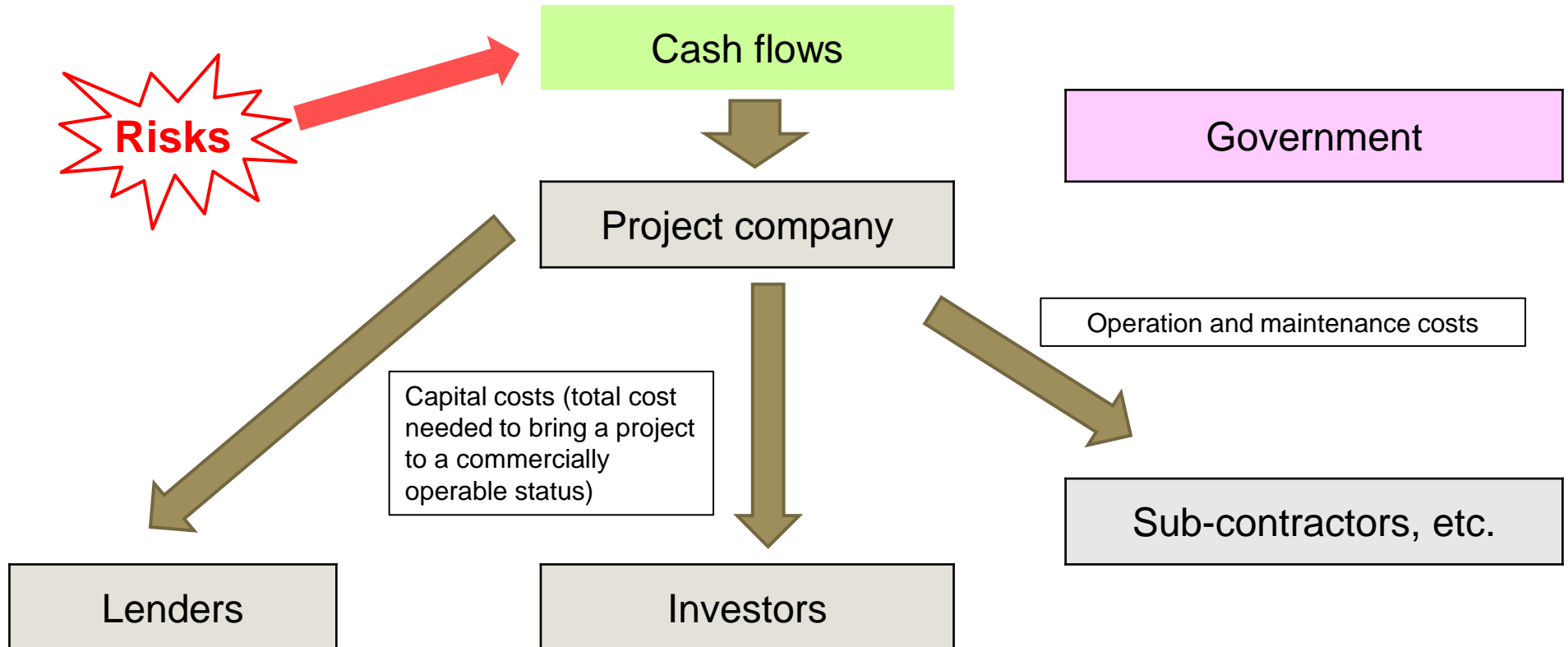
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(d) Total debt service [(b) + (c)]		93	91	88	49	46	44	41			1,548
(e) Year-end loan outstanding	900	861	822	783	117	78	39	0			
Investors' viewpoint:											
Equity investment	-100										
Distributions [(a) – (d)]		2	4	7	46	49	51	54	95	95	827
IRR	15%										
Payback period	c. 9 years										

Source: page 163, Yescombe [2007]

Why do we discuss government contingent liabilities vis-à-vis PPPs?

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What are “contingent liabilities”?

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Definition of **contingent adjective**

1 subject to chance: *the contingent nature of the job*
(of losses, liabilities, etc.) that can be anticipated to arise if a particular event occurs.

2 (**contingent on/upon**) occurring or existing only if (certain circumstances) are the case; dependent on: *his fees were contingent on the success of his search*

3 *Philosophy* true by virtue of the way things in fact are and not by logical necessity: *that men are living creatures is a contingent fact*

noun

a group of people sharing a common feature, forming part of a larger group: *a contingent of Japanese businessmen attending a conference*

a body of troops or police sent to join a larger force: *six warships were stationed off the coast with a contingent of 2,000 marines*

Source: Oxford Dictionaries Online

What are “contingent liabilities”? (continued)

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Origin:

late Middle English (in the sense 'of uncertain occurrence'): from Latin *contingere* 'befall', from *con-* 'together with' + *tangere* 'to touch'. The noun sense was originally 'something happening by chance', then 'a person's share resulting from a division, a quota'; the current sense dates from the early 18th century

Source: Oxford Dictionaries Online

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

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- *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

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- *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 and/or Miko.*