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Construction in the city

Controlling Aggregate Exposure to PPPs

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As well as considering fiscal exposure project-by-project, some governments introduce targets or rules limiting aggregate exposure. A challenge is defining which types of fiscal commitments should be included—for example, does the rule apply to direct liabilities only, or are contingent liabilities included?

The introduction of specific limits on PPP exposure is described in **Irwin's article on controlling spending commitments in PPPs** (Irwin 2007, 114–115). For example:

- **Peru's Legislative Decree No. 410-2015-EF** (PE 2015) states that the present value of the total fiscal commitments to PPPs, excluding governmental finance entities, shall not exceed 12 percent of GDP. However, every three years, the President may, with the endorsement of the Ministry of the Economy and Finance, issue a decree to revise this limit, depending on the infrastructure needs of the country.
- In **Hungary**, Act 38 of 1992 (Article 12) limited the total nominal value of multi-year commitments in PPPs to three percent of government revenue, as quoted in Irwin's paper (Irwin 2007).
- **Brazil's** Federal PPP Law (BR 2004a, Law 11079) initially limited total financial commitments pertaining to all PPP contracts to a maximum of one percent of annual net current revenue—in 2009 Law 12024 raised this limit to three percent, and in 2012 Law 12766 raised it again to five percent.

Irwin describes how creating PPP-specific limits—distinct from other limits on public expenditure—can create incentives for agencies to choose traditional public procurement over PPPs even when PPPs would provide better value for money (or vice versa). Nonetheless, given the difficulties in deciding whether a particular PPP commitment is affordable, limits on aggregate exposure can be a helpful way to ensure the government's total exposure to PPP costs and risk remains within manageable limits (Irwin 2007).

Monitoring and managing the fiscal impacts and risks associated with PPP projects undertaken by quasi-fiscal entities at the subnational levels is important as well. This is more so in countries where the subnational governments have undertaken, or have plans to undertake large PPP portfolios of infrastructure projects—see **Gooptu and Kahkonen lessons of international experience on subnational debt management** (Kahkonen and Gooptu 2015).

An alternative is to incorporate limits on PPP commitments within other fiscal targets. For example, some governments introduce targets or limits on public debt or government liabilities. Some types of PPP commitment may be included within measurements of government liabilities, following international norms or national rules. However, this usually only applies in limited cases and is restricted to the national level as highlighted by **Liu and Pradelli**. Their paper (Liu and Pradelli 2012) proposes a more rigorous monitoring framework of fiscal risks imposed by PPP liabilities by using a minimum set of five sub-national debt indicators which also considers the SPV's debt. **Irwin** also describes an alternative of establishing a limit on debt plus PPP commitments (Irwin 2007).

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