ADB

Seventh Thematic Workshop of the Infrastructure Financing and Public-Private Partnerships (PPP) Network of Asia and the Pacific

Strengthening Risk Management and Fiscal Governance

-Kyrgyz Republic-

15 June 2022

Fiscal Risk Management

- **For any possible PPP projects:**
  - It is important to identify, appraise, approve, budget, and monitor the fiscal commitment, both **direct and contingent liabilities**.
  - This requires typically **an appropriate set of rules and clear allocation of responsibilities** among the relevant government agencies.

- **Direct liabilities:**
  - Upfront "viability gap" payments
  - Availability payments
  - Shadow tolls or output-based payments

- **Contingent liabilities**
  - Guarantees on particular risk variables
  - Compensation clauses
  - Termination payment commitments
  - Debt guarantees or other credit enhancements

PPP Law in the Kyrgyz Republic

“when a PPP project requires financial support from the state budget, the tender documents require preliminary approval by the authorized public agency and the public agency on financial risk management with regard to budget risks” (article 11, para 5):

It fails:

- to address the possible fiscal implications of continent liabilities including the risk and impact of the liability materializing;
- to address the possible revisions of the direct and continent liabilities upon the development of the project;
- to provide appropriate reference for reviewing, approving and reporting of the fiscal commitments arising from PPP arrangements.

Framework for the Fiscal Risk Management

- Guidelines for identifying, appraising, authorizing and monitoring of fiscal commitments originating from PPP arrangements

  (MOF order in 2015, revised in 2020)

- Maximum amount of fiscal commitments arising from PPP, set at 0.5% of annual expenditures

  (MOF order in 2017)

- Government will review the options to strengthen the viability and bankability of PPP projects in accordance with international best practices including but not limited to:
  - The establishment of a Kyrgyz Infrastructure Finance Fund
  - The establishment of Guarantee Facilities
  - The establishment of a Viability Gap Financing facility

  (MOF letter in 2015)

- Establishment of PPP Unit within PIP Department of MOF

(November 2021)

Fiscal Exposure Assessment
- Dialysis service PPP-

- Main project features
  - Establishment and operation of 4 new dialysis centres to expand the limited dialysis capacity and to improve the quality of dialysis services
  - The capital costs are approximately USD 10 million
  - The project is currently in operation (since 2017)
- PPP Agreement
  - A competitive tender
  - PPP contract for a duration of 10 years to implement the project
  - Ministry of Health and Fresenius Medical Care Deutschland GmbH
- Direct Liabilities
  - The direct fiscal exposure for the State Budget is the balance of the payment obligations from the Ministry of Health to the private partner.
  - For a period of 10 years a monthly fee based on the number of dialysis sessions will be paid taking into account a guaranteed number of sessions and an agreed upon session price

Fiscal Exposure Assessment
- Dialysis service PPP-

- Contingent Liabilities

Table 1: Events and fiscal implications

#	Event	Main Fiscal implications
1	Special Circumstances Primarily, change in Legislation, government intervention or government default	• Compensation of losses essentially to restore the target return on equity
2	Early contract termination because of private partner default	• Compensation of Book Value of Assets minus Value of bank Guarantee
3	Early contract termination because of public partner default	Compensation of: • Third Party Break-up costs • Debt outstanding • Paid-in Equity • 10% of remaining monthly payments up to a maximum of 2 years
4	Early contract termination because of force majeure	Compensation of: • Third Party Break-up costs • Debt outstanding • Paid-in Equity

Fiscal Exposure Assessment
- Dialysis service PPP-

- Contingent Liabilities

Table 2: Summary of fiscal implications with respect to compensation for ECT
for Government Default, including FX provision
(maximum fiscal exposure for CLs for use in off-balance sheet reporting in KGZ mln)

Calendar Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Operating Year	1	2	3	4	5	6	7	8	9	10
	73	71	65	57	47	35	20	17	13	7

Key Binding Constraints

Inadequate provisions to manage fiscal risks arising from PPP

- Any PPP arrangement should be approved by the budget authority
- Any fiscal exposure has been properly identified, appraised, approved
- Fiscal risk is properly monitored and managed upon implementation

Inadequate provisions to ensure competitive tension in the selection of a private partner.

- Law allows for various exceptions from the overall requirement for competitive tendering
- Value for money in terms of fair pricing of the service provision to the government and/or users requires a competitive selection
- If only one business entity is interested, it is questionable whether the project is adequately structured and should be implemented as such

Inadequate provisions to ensure effective oversight of the program

- Need for effective gateway reviews through the development process
- Checks and balances by relevant agencies are required
- Adequate project appraisal, project structuring and tendering in order to reduce the risk of failure.

Thank you!