The relevance of Eurostat Treatment of PPPs

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What is the Eurostat issue?

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Eurostat rules on PPPs: why is the subject important?

- EU limits for government deficit and debt: Maastricht criteria
- Key questions: who should "record" PPP/concession projects and how?
- Issue becomes more critical in an era of fiscal constraints
- Much discussed topic but relatively poor understanding

What do the Eurostat rules imply?

If government "owns' the PPP asset:

Capital investment of the PPP	→	Impact on **deficit/surplus**
Liabilities for financing the PPP	→	Impact on **debt level**

If not, only the regular payments for services are recorded over time

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Dangers of an excessive off balance sheet focus

- Excessive off balance sheet focus can be at the expense of sound project preparation (e.g. value for money, bankability)
- Excessive off balance sheet focus may push public authorities to use PPPs where not adequate
- PPPs create an 'affordability illusion', exacerbated when a project is off balance sheet
- When off balance sheet, the fiscal risks from the PPP may not be managed properly (e.g. recognition of long-term government financial commitments)

But some PPPs are properly prepared (VfM, affordabilty) and still need to be off-balance sheet for them to happen

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Where are the Eurostat rules?

- Overarching methodology for EU economic statistics European System of Accounts (ESA10) of September 2014, replacing ESA95
- Revised Eurostat Manual on Government Deficit and Debt (latest edition dated March 2016)
- Eurostat advice on individual cases – PPP projects of Member States

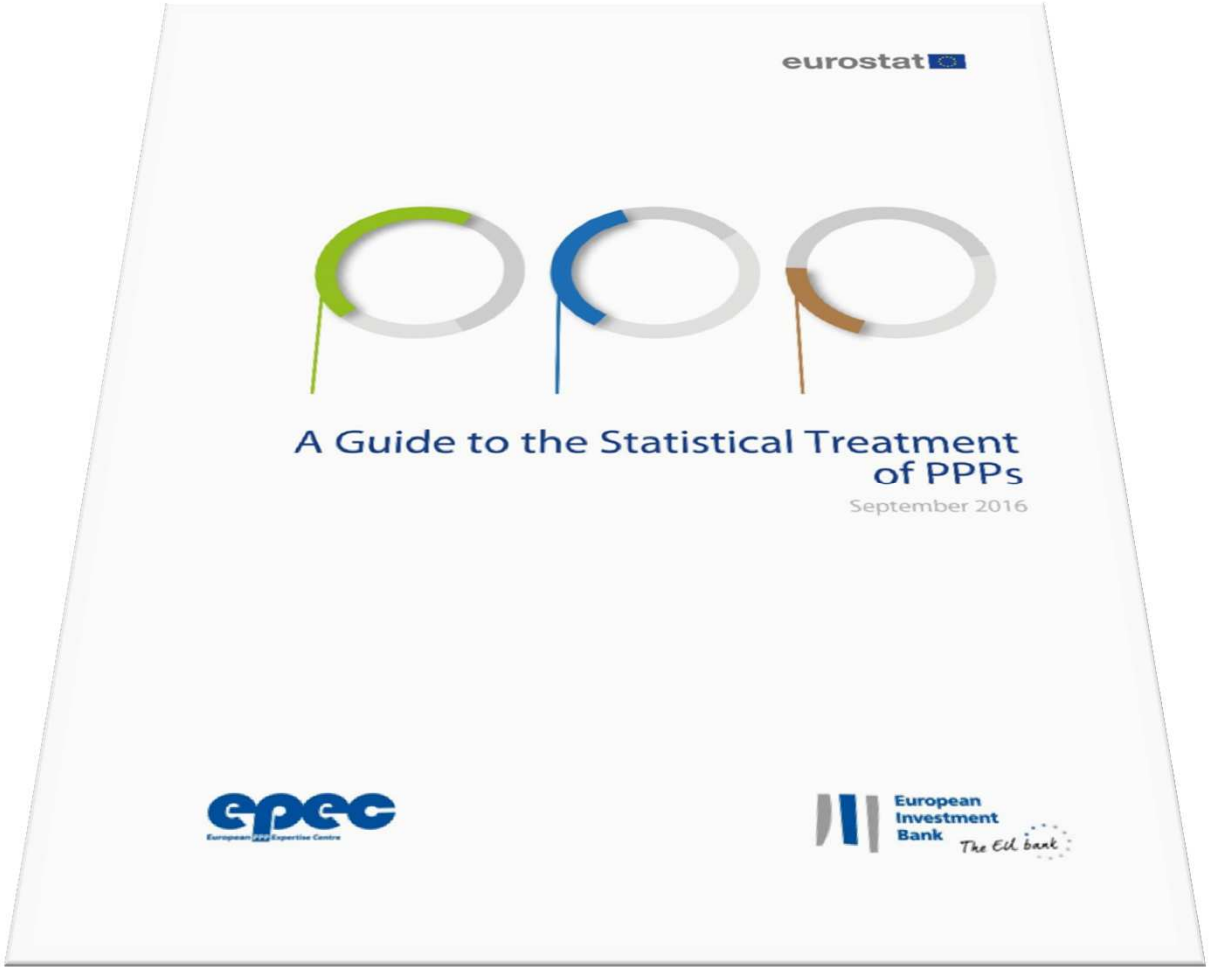
The rules are written for statisticians rather than for PPP stakeholders

The perception of PPP stakeholders

- Recent developments (rules and cases) have been perceived as a tightening of position
- Stakeholders' concerns:
  - Clarity of the some of the rules
  - Unpredictability in the interpretation of the rules
  - Frequency of changes given long PPP gestation times
- This has brought significant uncertainty for PPP projects and programmes in procurement across the EU

Action was needed!

What have we done to address the issue?



Free download at: **www.eib.org/epec/resources/publications/epec_eurostat_guide_ppp**

What is the EPEC/Eurostat Guide?

- A practical and user-friendly guide on the statistical treatment of PPPs
  - A "contract-feel"
  - Covers typical PPP contract provisions and structures
  - Captures EU-wide market practice
  - As clear and precise as possible on how specific contract provisions affect the statistical treatment
- Aimed at public sector PPP stakeholders, but not only
- It is detailed and technical and assumes a good working knowledge of PPPs

About the EPEC/Eurostat Guide

- Explains Eurostat's interpretation of the rules and approach to assessing statistical treatment
- Based on the rules currently in force (ESA 2010, MGDD 2016)
- Clarifies (but does not change) the existing rules
- Constitutes official Eurostat guidance
- Applies to PPPs only (not concessions, not energy performance contracts)
- Applies to projects that reach financial close after 29 September

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Looking ahead

- Greater awareness and understanding of the interaction between PPP provisions and the statistical treatment of PPPs
- Should bring stability
- A useful tool for PPP practitioners, public decision-makers (and national statistical authorities)
- More efficient use of PPPs as projects plan and prepare with greater confidence on statistical treatment issues
- EPEC and Eurostat commitment to seeing the Guide widely understood and applied (dissemination events)

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