



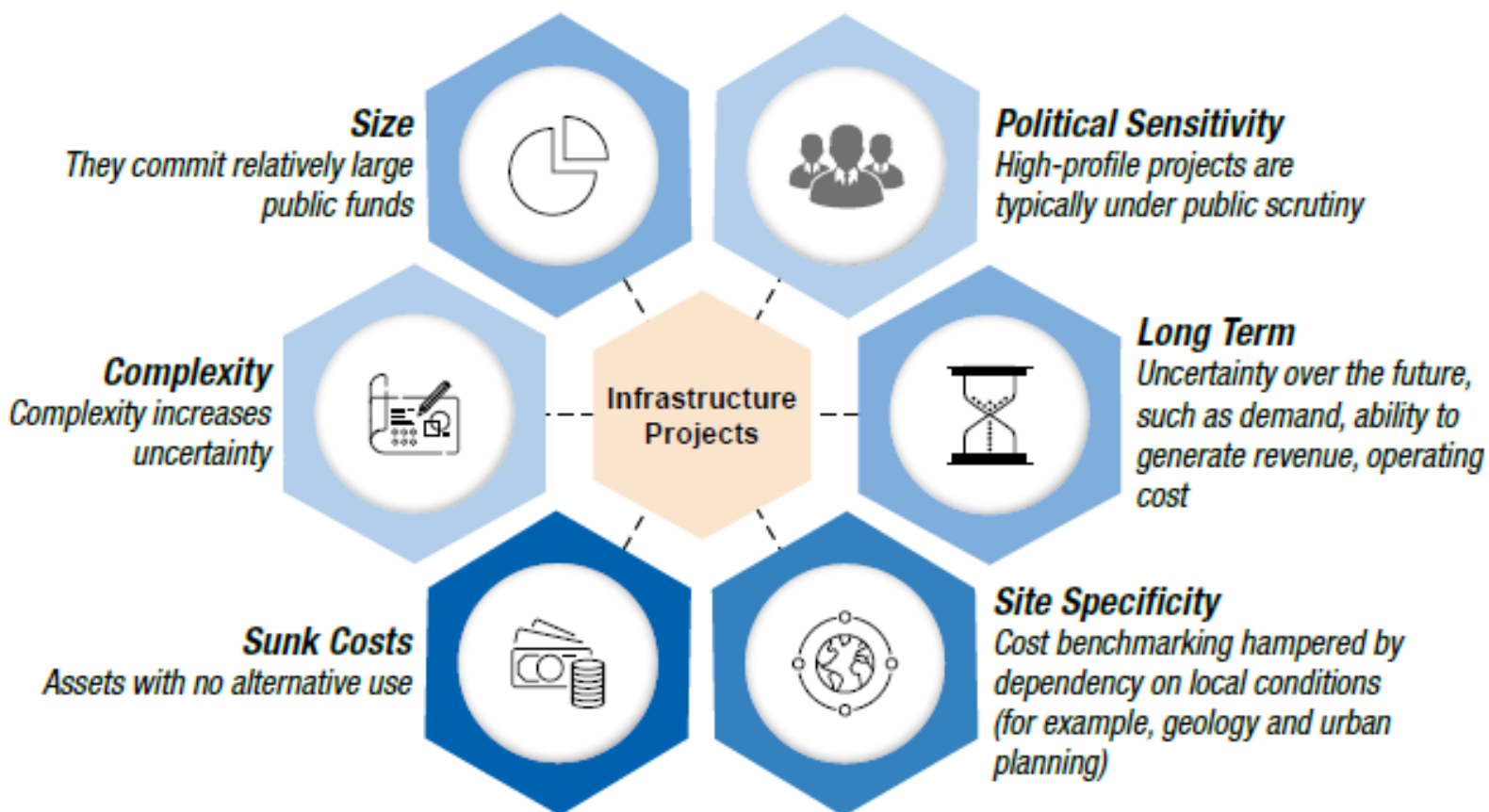
# **Managing Fiscal Risks in Infrastructure Impact of Covid-19**

*EUROPEAN REGIONAL NETWORK FOR INFRASTRUCTURE  
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# Infrastructure projects are a large source of fiscal risks

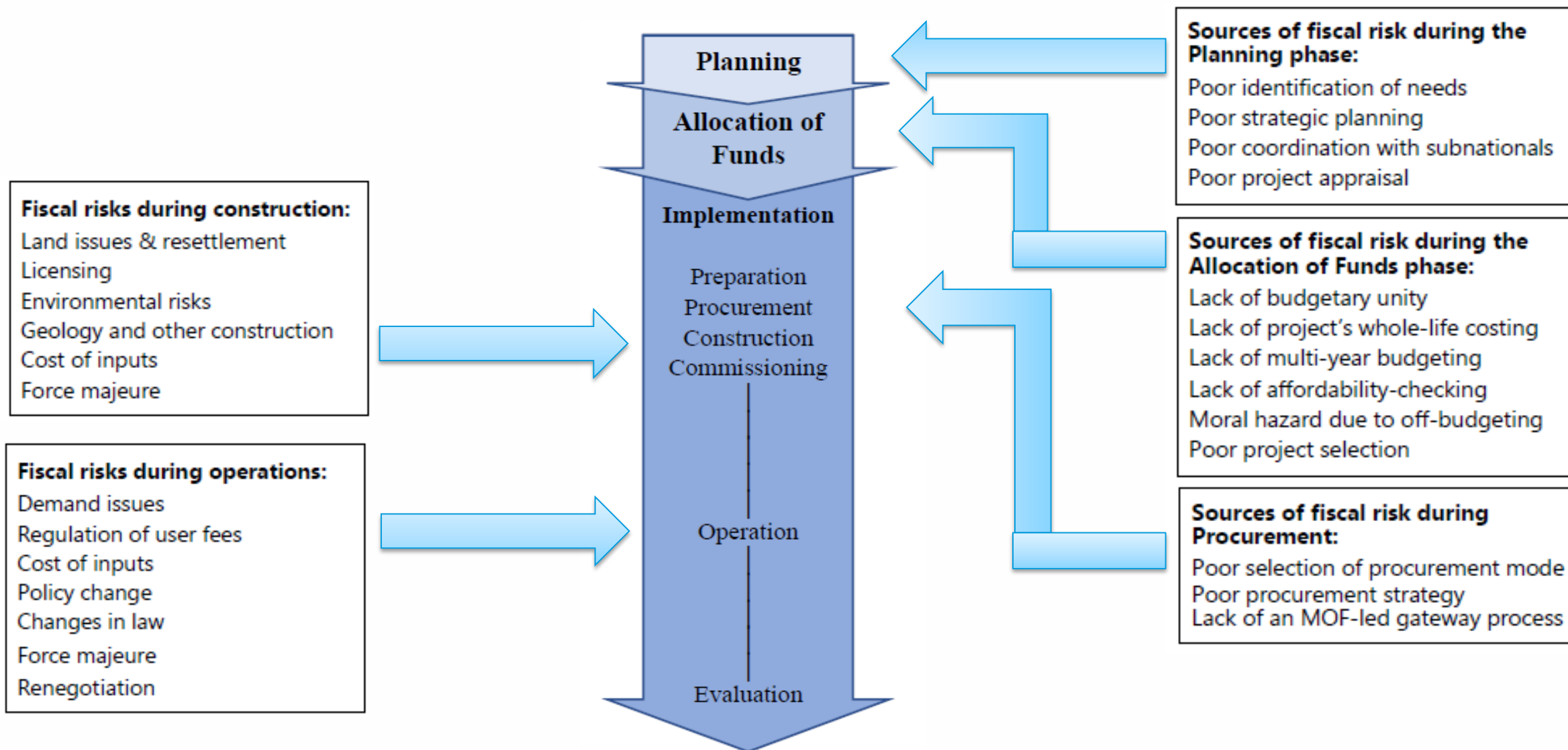


## Estimation of Cost Overruns (Average, %)

| Sector              | Range   |
|---------------------|---------|
| Roads               | 20 - 24 |
| Railways            | 34 - 40 |
| Tunnels and bridges | 33 - 48 |
| Hydroelectric dam   | 71      |
| Nuclear reactor     | 117     |
| Wind farm           | 8       |
| Solar facility      | 1       |

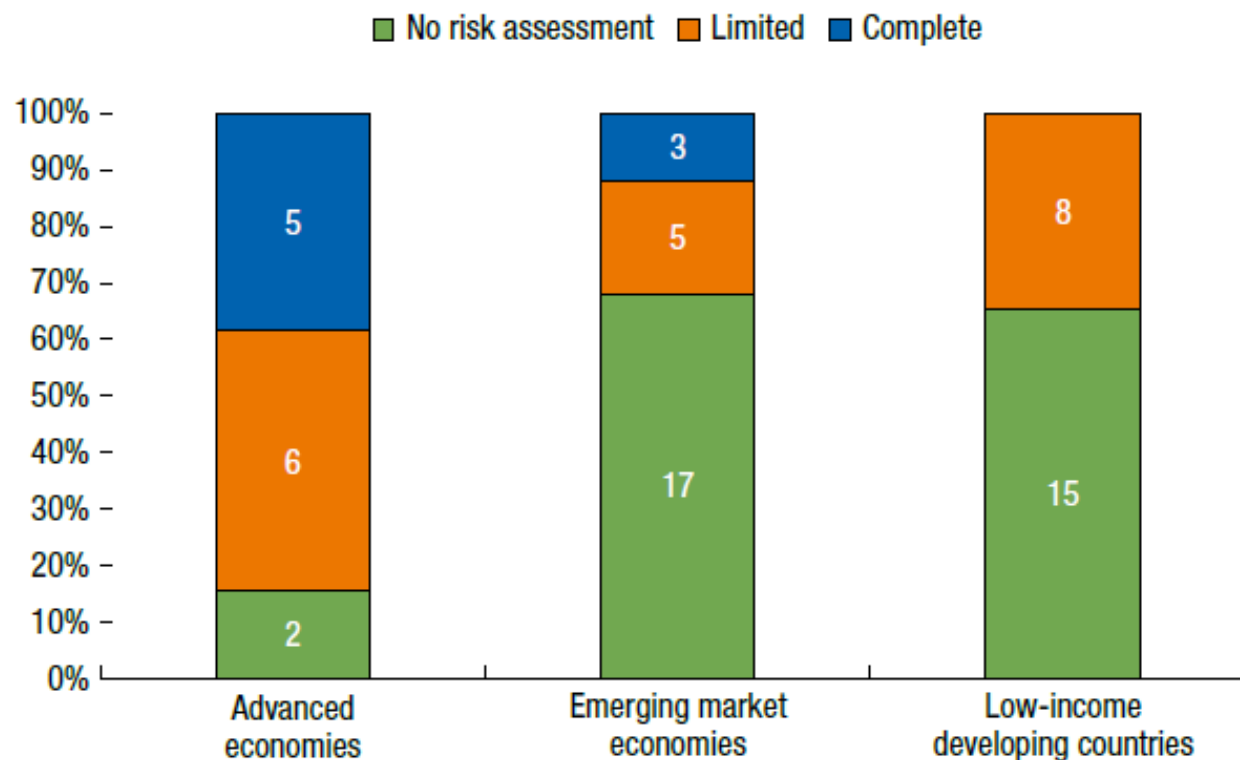
Sources: IMF staff compilation based on Flyvbjerg and Cantarelli and others 2010, Sovacool and others 2014.

# Most fiscal risks materialize during implementation, but many originate from weaknesses at early stages of the project cycle



# Management of fiscal risk in infrastructure remains under-developed

## Risk Assessment in Project Appraisals, PIMA database



Source: PIMA database, July 2019.

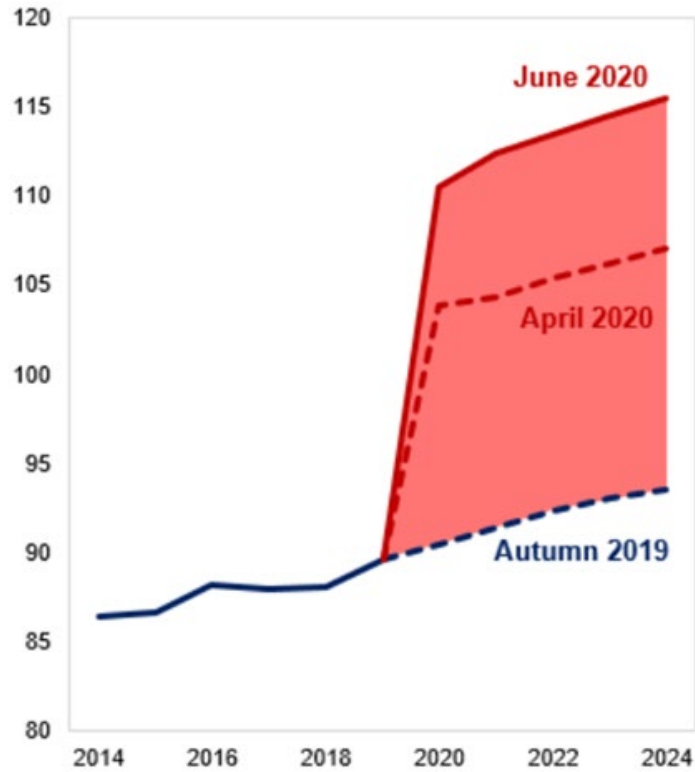
Note: There were 61 total PIMA assessments: 13 in advanced economies, 25 in emerging market economies, and 23 in low-income developing countries. PIMA = Public Investment Management Assessment.

# Why Worry about Fiscal Risks in Infrastructure

## Covid-19 a crisis like no other

### G20 General Government Debt

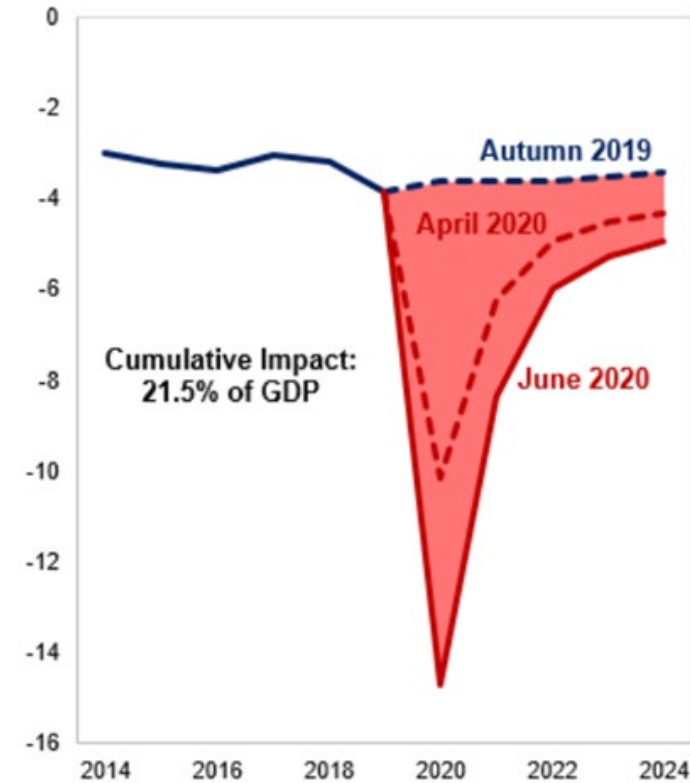
(Weighted Average, Percent of GDP)



Source: WEO, National authorities and IMF Staff estimates as of June, 2020.

### G20 Fiscal Balance Forecasts

(Weighted Average, Percent of GDP)



Cumulative Impact:  
21.5% of GDP

# Why Worry about Fiscal Risks in Infrastructure

## Covid-19 is a crisis like no other

### Macroeconomic shocks

- Speed and size of decline activity
- Composition of output decline—collapse in consumption of contact-intensive services
- Extreme uncertainty

### Macro fiscal implications

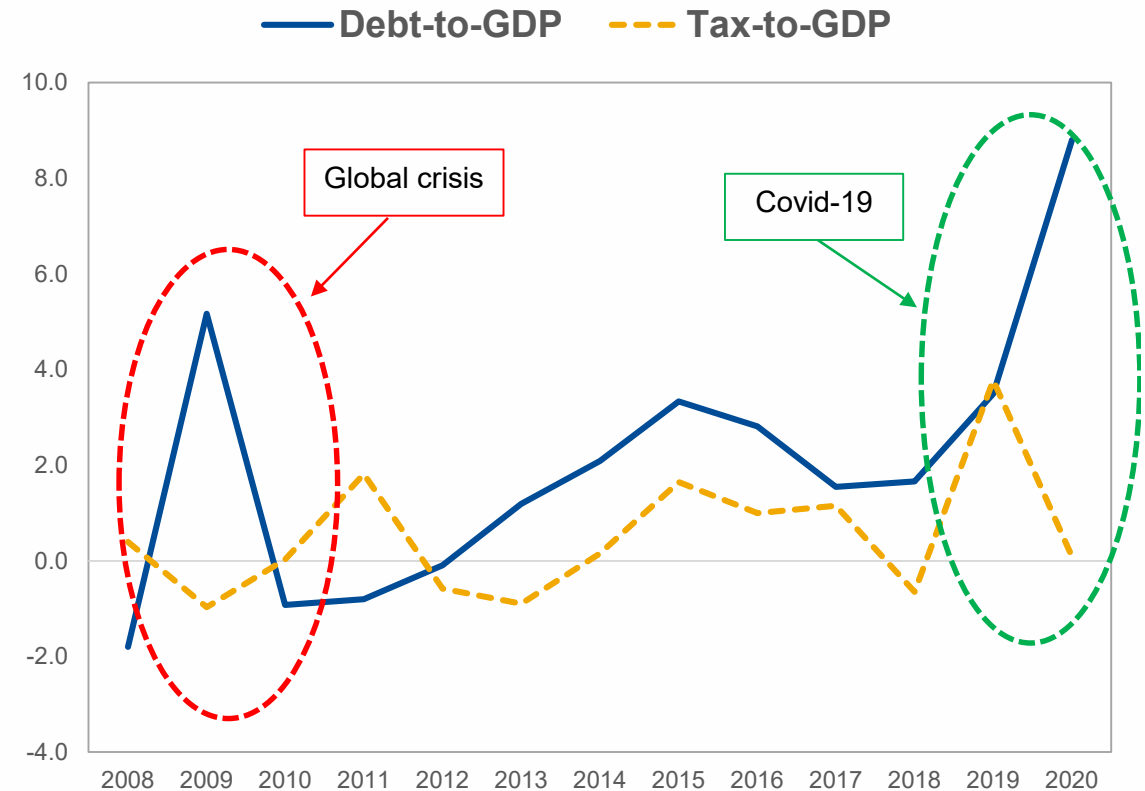
- Impact on revenue projections
- Assessment of public debt sustainability

### Materialization of fiscal risks

- Management of contingent liabilities
- PPPs, SOEs, loan guarantees, subnational governments, pension systems
- Increased probability of materialization

### Increasing debt, declining tax revenue

(y-o-y change in EMEs)





# How Covid-19 Impact Infrastructure Projects

## A perfect storm

### Overall dynamics

- **Reduced project revenue / demand**
  - Demand shifts temporary or permanent?
- **Increased costs**
  - Supply chain issues
  - Operational costs
- **Deferred maintenance**
  - Government liquidity issues
  - Scarce work force
- **Increased uncertainty**
  - Increase overall project costs
  - Realization of contingent liabilities

### Delays and disruptions

- **All projects**
  - Projects procured traditionally
  - Government-funded PPPs
  - User-funded PPPs
- **At all stages of project cycle**
  - On-going projects
  - Projects under preparation/negotiation
- **And the project pipeline**
  - Changes in priority sectors
  - Change in risk appetite from public and private sector

# How Covid-19 Impact Infrastructure Projects

## A perfect storm

### Sectors

- **Transport**

- Demand shifts temporary or permanent?

- **Water & Utilities**

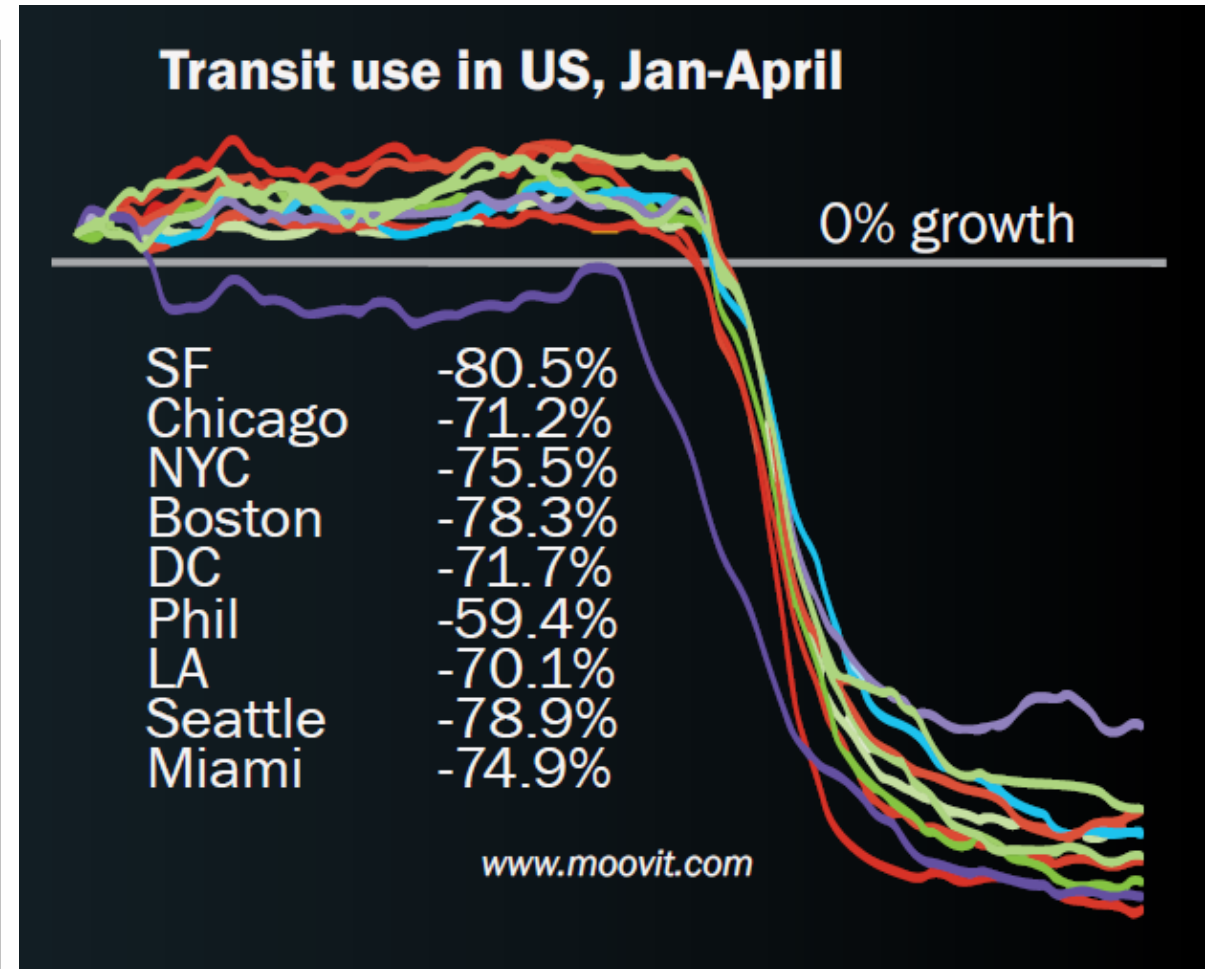
- Can households pay? Affordability
- Increased operational costs
- Impact on SOEs?

- **Health**

- Is health a public good? Affordability
- Increased operational costs

- **Telecom**

- Bright spot





# How Covid-19 Impact Infrastructure Projects

## Challenges for risk management over time

### During lockdown

- **On-going projects**
  - Reduced revenues and demand
  - Increased costs
  - Deferred maintenance
  - Project disruptions
- **New project**
  - Stand-still

### Emerging from lockdown

- **On-going projects**
  - Managing force-majeure
  - Funding of project delays and cost overruns
  - Realization of contingent liabilities
- **New projects**
  - Increased uncertainty
  - Change in priorities

### Looking ahead

- Fiscal space for infrastructure
- Reprioritization of project pipeline
- Change in risk appetite
- Coordination btw central and SNGs
- Inadequate data
- Limited capacity

# A holistic approach for managing fiscal risk from infrastructure

## Resolve



### During lockdown

Prioritize Service Continuity

- Maintain payments to infrastructure, be flexible with performance standards
- Clarify interpretation of force majeure
- Protect the value of the infrastructure
- Strengthen communication between partners

## Reassess



### Emerging from lockdown

Revise Project Pipeline

- Adjust investment plans to new needs
- Reassess investors and government's risk tolerance
- Revise existing pipeline of appraised projects and reassess risks
- Discuss new PPP structures more suitable for increased uncertainty

## Reform



### As soon as possible

Strengthen Infrastructure Governance

- Strengthen institutional framework, procedures and methodologies for project preparation, appraisal and selection
- **Develop a risk management function for infrastructure projects, including PPPs**
- **Manage fiscal risks centrally**
- Improve project information systems
- Strengthen project and portfolio management

## Final Remarks

- **Fiscal risks exist not only in PPPs, all large infrastructure projects are risky**
- **Fiscal risks in infrastructure can be large, countries should be prepared to manage them**
- **Fiscal risks in infrastructure typically materialize during implementation, but many sources of risks originate at early stages of the project cycle**
- **So government can proactively manage fiscal risks by strengthening infrastructure governance**
- **Increased uncertainty due to Covid-19 underpins the need for better overall fiscal risk management, including of infrastructure projects**
- **The approach to manage risks in infrastructure will vary across countries, but it should be comprehensive, and start from early stages of project cycle**
- **Covid-19 provides an opportunity to learn and push forward reforms to improve overall fiscal risk management, including fiscal risks from large infrastructure projects, including PPPs**

**Thanks for your attention!**