



ABIA STATE FISCAL COMMITMENTS AND CONTINGENT LIABILITIES FRAMEWORK

Abia State Government Public-Private Partnership and
Investment Promotions Office

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Acronyms & Abbreviations

ABSG	Abia State Government
AG	Accountant General
AO	Accounting Officer
BPP	Bureau for Public Procurement
CA	Contracting Authorities
CL	Contingent Liabilities
DMO	Debt Management Office
DMO	Debt Management Office
FCCL	Fiscal Commitments and Contingent Liabilities
FBC	Full Business Case
FC	Fiscal Commitments
FCCL Register	Fiscal Commitments and Contingent Liabilities Register
FGN	Federal Government of Nigeria
FOC	Fiscal Oversight Committee
FRC	Fiscal Responsibility Commission
FRL	Fiscal Responsibility Law (FRL) 2012
GDP	Gross Domestic Product
IPSAS	International Public Sector Accounting Standards
MAGA	Material Adverse Government Actions
MDA	Ministry, Department and Agencies
MFBP	Ministry of Finance, Budget and Planning
MTEF	Medium-Term Expenditure Framework
NPV	Net Present Value
OBC	Outline Business Case
PFF	Project Facilitation Fund
PFM	Public Financial Management

PFRAM	PPP Fiscal Risk Assessment Model 2.0
PFRM	Project Fiscal Risk Matrix
PFRR	Project Fiscal Risk Register
PO	Project Officer
PPP	Public Private Partnership
PPP Office	Public Private Partnership and Investment Promotions Office
PPL	Public Procurement Law
RfP	Request for Proposals
VfM	Value for Money

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1.Introduction

1.1. Purpose and Context

The Abia State Fiscal Commitments and Contingent Liabilities (FCCL) Framework has been developed to address the growing need for fiscal discipline and risk management in the State's Public-Private Partnership (PPP) programme. As PPPs expand to bridge the infrastructure gap, they create direct financial obligations and potential contingent liabilities that, if not carefully managed, can undermine fiscal stability and crowd out essential public spending.

The FCCL Framework therefore establishes a structured system for identifying, evaluating, and managing these fiscal risks. Anchored in the State's legal and institutional arrangements, the framework ensures compliance with relevant legislation and administrative instruments governing PPP procurement, implementation, and oversight.

To strengthen project preparation, the State has established a Project Facilitation Fund (PFF) (see Section 1.7), with a minimum allocation of 3% of the total estimated capital investment of the PPP pipeline. Administered by the PPP Office under the oversight of the Ministry of Finance, the PFF finances feasibility studies, market assessments, and tendering processes, thereby reducing fiscal risks and improving project robustness.

The framework will be enforced through the Ministry of Finance, supported by the PPP Office, which will ensure that all PPP projects comply with fiscal responsibility requirements before approval and implementation.

1.2. Objectives of the FCCL Framework

The objectives of the Abia State FCCL Framework are to:

- **Safeguard fiscal sustainability** by ensuring that PPP-related commitments and liabilities remain within the State's fiscal capacity.
- **Promote accountability and transparency** in the approval, monitoring, and reporting of fiscal commitments arising from PPP projects.
- **Strengthen project preparation and selection** by embedding fiscal risk analysis and affordability assessments at every stage of the PPP lifecycle.
- **Enhance risk management** by identifying, quantifying, and mitigating fiscal risks and contingent liabilities before they crystallize.
- **Support evidence-based decision-making** using standardized tools (e.g., PFRAM, NPV, VfM) for project evaluation and affordability testing.
- **Align PPP projects with developmental priorities** outlined in the State Development Plan while maintaining prudent fiscal oversight.
- **Build investor and stakeholder confidence** by demonstrating the State's commitment to robust fiscal governance and predictable PPP practices.
- **Ensure compliance and enforcement** by requiring that all PPP projects obtain FCCL clearance from the Ministry of Finance, supported by the PPP Office, prior to approval and implementation.

1.3. Components of the Framework

The FCCL Framework is organized into two main components:

- i. **FCCL Guidelines** – These provide policy direction to ensure that the financial implications of the State’s PPP projects are clearly understood, effectively managed, and do not create undue risks to public finances.
- ii. **FCCL Technical Guidance** – This introduces the Public-Private Partnerships Fiscal Risk Assessment Model (PFRAM), an analytical tool developed by the International Monetary Fund (IMF) and the World Bank Group (WBG) for assessing fiscal costs and risks associated with PPP projects. It sets out methodologies for identifying, assessing, and allocating risks that generate direct and contingent liabilities, and explains how PPP-related obligations can be integrated into broader fiscal planning to ensure consistency with the government’s fiscal targets.

This FCCL Framework is conceived as a “living document.” It will be reviewed and revised periodically to reflect emerging fiscal realities, evolving PPP practices, and lessons learned from implementation. By maintaining this flexibility, the Framework ensures that Abia State can adapt its fiscal risk management approach to changing economic conditions, new policy directions, and the dynamic nature of infrastructure delivery through PPPs.

2.FCCL Guidelines

2.1. Objectives

The objective of the FCCL Guidelines is to provide a standardized approach for relevant agencies of the ABSG and Contracting Authorities in identifying, assessing, and managing fiscal commitments and contingent liabilities arising from PPP projects. The Guidelines are designed to ensure that Abia State balances the potential benefits of private sector participation in infrastructure delivery with the imperative of maintaining fiscal discipline and managing long-term financial risks.

Recognizing that PPPs are alternative procurement methods for delivering public sector projects, the Guidelines are anchored in Abia State’s existing policy, legal, and regulatory frameworks – including the Public-Private Partnership and Investment Promotions Law (2015), the Public Procurement Law (2012), the Fiscal Responsibility Law (2012), and the Debt Management Office Law (2020). They do not create a parallel system for fiscal risk assessment or duplicate institutional mandates; rather, they provide a complementary framework that strengthens existing processes, enhances inter-agency coordination, and ensures fiscal risks are systematically managed across the PPP lifecycle.

2.2. Applicable Legal and Regulatory Frameworks

The following table provides a summary of the key legal and regulatory instruments in Abia State, highlighting their specific provisions and the relevance of each to the identification, management, and oversight of fiscal commitments and contingent liabilities (FCCL) in PPP projects:

Table 1: Relevant Laws and Regulations in Abia State and their Impact to PPPs/FCCL Framework

Legislation/Instrument	Key Provisions	Relevance to FCCL
Abia State Public-Private Partnership and Investment Promotions Law (2015)	Section 23: Prohibits PPP agreements from containing financial guarantees from the state. Section 17(6): Mandates the PPP Office to initiate, develop, procure PPP projects, and liaise with relevant government agencies for coordination.	Governs PPP processes, reducing direct fiscal exposure by prohibiting guarantees. Ensures collaborative FCCL assessment through inter-agency coordination led by the PPP Office (confirmed as the Abia State Public Private Partnership and Investment Promotion Agency, established October 25, 2024).
Abia State Public Procurement Law (2012)	Establishes transparent procurement guidelines for PPPs by MDAs. Requires the Public Procurement Bureau to issue Certificates of No Objection.	Ensures fiscal discipline in PPP contracting, verifying FCCL compliance during procurement.
Abia State Fiscal Responsibility Law (2012)	Mandates prudent fiscal management, including contingency budgeting for liabilities.	Aligns PPP fiscal commitments with budgetary constraints, guiding FCCL allocation and long-term sustainability.
Abia State Debt Management Office Law (2020)	Requires alignment of debt practices with fiscal responsibility principles. Mandates the DMO to maintain an FCCL Register.	Guides management of contingent liabilities (e.g., loan guarantees), ensuring fiscal oversight and accurate FCCL tracking.
State Financial Regulations	Regulates financial operations, including PPP-related disbursements.	Ensures fiscal oversight by the Ministry of Finance for PPP commitments.
State Development Plan (2025 – 2050)	Outlines strategic priorities for infrastructure development.	Guides sector prioritization for PPP projects, ensuring FCCL align with developmental goals in transportation and healthcare.

The framework is overseen by the Abia State Public Private Partnership and Investment Promotions Office (PPP Office), established under the PPP Law (2015). The PPP Office coordinates PPP project initiation, development, and procurement, collaborating with MDAs, the Ministry of Finance, Debt Management Office (DMO), and other stakeholders to manage FCCL effectively. This aligns with Abia State's infrastructure needs, leveraging private sector expertise while ensuring fiscal sustainability through diligent risk management.

2.3. Scope of the FCCL Framework

This framework applies to:

- All PPP projects under the Abia State Public-Private Partnership and Investment Promotions Law (2015).
- Initiatives by contracting authorities, including ministries, departments, and agencies (MDAs), as outlined in the Public Procurement Law (2012).
- Fiscal management practices harmonized with the Abia State Fiscal Responsibility Law (2012) and Abia State Debt Management Office Law (2020), ensuring FCCL align with state-wide fiscal responsibility principles, including contingency budgeting and debt management strategies. This harmonization integrates FCCL into the Medium-Term Expenditure Framework (MTEF) and DMO Debt Strategy Reports, promoting fiscal sustainability.

2.4. Prioritization of PPP Projects

2.4.1. Strategic Sectors

PPP investments will be concentrated in sectors that combine sustainable fiscal profiles with high developmental impact, ensuring that limited public resources are deployed where they deliver the greatest value.

2.4.2. Priority Sectors

Agriculture and Trade & Commerce have been identified as immediate priorities. These sectors present moderate fiscal risk profiles and are fully aligned with the Abia State Development Plan (2025 –2025). The plan is to transform Abia into a regional hub for value added agriculture and food exports and modernise Aba and other commercial centres into structured, tech-enabled trade hubs.

2.5. Overview of Fiscal Commitments and Contingent Liabilities

1. **Fiscal Commitments:** These are explicit and legally binding obligations that the government must fulfil as part of the PPP agreement. They include:
 - Availability payments for infrastructure services.
 - Viability Gap Funding (VGF) to bridge private sector revenue gaps.

2. **Contingent Liabilities:** A contingent liability (CL) is a potential financial obligation that depends on the occurrence of an uncertain future event outside the control of the government. Their occurrence, value, and timing are inherently uncertain and cannot be determined with precision. In the context of PPP contracts, CLs include:
- Loan guarantees or revenue shortfalls.
 - Termination payments, compensation clauses in PPP contracts, or project risks (e.g., force majeure events).

2.6. FCCL Management

Most phases of the PPP cycle are iterative. Accordingly, the early identification and assessment of fiscal commitments and risks during the project development stage are critical to shaping government decisions on project financial structure, risk allocation, and ultimate approval. The management and control of liabilities span all phases of the PPP lifecycle – covering planning, budgeting, project development, implementation, and contract management. The table below illustrates Abia State’s PPP process, highlighting the phases where FCCL typically arise and the institutional responsibilities assigned at each stage.

The table below sets out the primary stakeholders in FCCL management, describing their respective roles and institutional composition to clarify responsibilities and ensure effective coordination across the PPP lifecycle:

Table 2: FCCL Management by Stakeholders Across Abia State’s PPP Process Cycle

Phase	Activity FCCL Context	Institutional Responsibility
Project Initiation	<ul style="list-style-type: none"> Needs assessment, project screening, initial FCCL identification. Initiate PPP projects in line with sectoral priorities, as identified by the PPP Governing Council. 	Contracting Authority
	<ul style="list-style-type: none"> Initiate strategies for developing public infrastructure and promoting investment through PPPs, per Section 17(6) of the PPP Law (2015). Collect, analyze, and disseminate information about investment opportunities and resources. 	PPP Office
	<ul style="list-style-type: none"> Act as the policy-making body for Public-Private Partnerships and Investment Promotions under the PPP Law (2015). Identify priority sectors for PPP initiatives, in alignment with Sections 7.2.1 and 10.1.2 of the FCCL framework. Approve budgets, frameworks, and strategies for consultants, specialists, and advisors. 	PPP Governing Council
Feasibility study	<ul style="list-style-type: none"> Conduct feasibility studies to identify fiscal risks and required guarantees. Monitor project implementation and report regularly on fiscal commitments to the PPP Office and Ministry of Finance. FCCL assessment required to identify likely fiscal risks, for example, demand for the services, land availability risk, comparison of likely revenue, and likely costs leading to a funding gap. Explicit quantification of all fiscal obligations with an assessment of affordability for all projects considered suitable to be procured as PPPs. Ensure that direct liabilities can be accommodated within budgetary limits and that CLs are provided for. 	Contracting Authority (utilising technical guidance “PFRAM” tools)

	<ul style="list-style-type: none"> • Confirm affordability and sustainability of FCCL. • Approve budgets for fiscal commitments. • Review feasibility studies, prequalification, and evaluation processes for potential projects. • Ensure preliminary contract structure reflects acceptable risk allocation. 	PPP Office and Ministry of Finance (MoF)
	<ul style="list-style-type: none"> • Collaborate with the Debt Management Office and other entities to ensure fiscal risks are identified, quantified, and mitigated. 	MoF
Project Approval	<ul style="list-style-type: none"> • Ensuring that the use of government resources (which take the form of liabilities) are focused on policy priorities; represent value for money; and are consistent with applicable public financial management strategies. 	PPP Office
	<ul style="list-style-type: none"> • Collaborate with the Ministry of Finance and Economic Development to update the FCCL Register and mitigate fiscal risks. 	Debt Management Office (DMO)
	<ul style="list-style-type: none"> • Confirming that FCCL are appropriately budgeted and accounted for and consistent with applicable laws and regulations such as the Appropriations Law, Fiscal Responsibility Law, etc. • Maintain the FCCL Register to track all fiscal commitments and contingent liabilities. • Approve the progression of the PPP project to procurement phase 	Ministry of Finance
	<ul style="list-style-type: none"> • Approve large-scale PPP projects and fiscal commitments in alignment with State priorities. 	Abia State Executive Council
	<ul style="list-style-type: none"> • Monitor compliance with the Abia State Fiscal Responsibility Law (2012) to ensure PPP-related fiscal commitments align with budgetary constraints. 	Fiscal Responsibility Commission

	<ul style="list-style-type: none"> • Review fiscal policies and commitments to promote transparency and accountability in PPP processes. • Provide advisory support to the Ministry of Finance and Economic Development on fiscal risk management. 	
Procurement	<ul style="list-style-type: none"> • Confirming that the procurement documents reflect the outcome of feasibility study assessment with regards to fiscal obligations, and that bidders are required to explicitly assume the risks allocated to private sector parties. • Ensuring that draft PPP contract does not materially deviate from Value for Money (VfM) considerations and acceptable financial/fiscal risk allocation. 	Contracting Authority / MoF/ PPP Office
	<ul style="list-style-type: none"> • Ensure compliance with the Public Procurement Law (2012) in PPP-related procurements. • Review procurement procedures for transparency and Value for Money (VfM). • Issue "Certificates of No Objection" for PPP project contracts. 	Bureau of Public Procurement
Contract award	<ul style="list-style-type: none"> • Negotiate and finalize concession agreements with the approval of the PPP Governing Council. 	PPP Office
	<ul style="list-style-type: none"> • Ratify all concession agreements and major proposals from the PPP Office, per Section 17(6) of the PPP Law. 	PPP Governing Council
	<ul style="list-style-type: none"> • Award Contract 	Abia State Executive Council
	<ul style="list-style-type: none"> • Ensuring that all fiscal risks are manageable and generate a risk register for monitoring. • Confirming that appropriate strategy is in place for managing fiscal risks and other retained risks. 	DMO/MoF

Construction/Operations Phase	<ul style="list-style-type: none"> • Manage debt and contingent liabilities arising from PPPs, as mandated by the Abia State Debt Management Office Law (2020). • Assess and monitor loan guarantees and other contingent liabilities to ensure alignment with fiscal responsibility principles. • Collaborate with the Ministry of Finance and Economic Development to update the FCCL Register and mitigate fiscal risks. 	DMO
	<ul style="list-style-type: none"> • Monitor project implementation and report regularly on fiscal commitments to the PPP Office and Ministry of Finance. • Ensuring efficient management of fiscal risks and transparency in reporting of fiscal risk management 	Contracting Authority
	<ul style="list-style-type: none"> • Monitor and verify compliance with concession agreements by private partners. 	PPP Office
Coordination	<ul style="list-style-type: none"> • Ensure smooth collaboration among stakeholders 	Fiscal Oversight Committee (FOC)/ PPP Stakeholder Committee
	<ul style="list-style-type: none"> • Maintaining a centralized database for sharing fiscal data, risk assessments, and project updates, accessible to the Ministry of Finance, DMO, and Fiscal Responsibility Commission. • Facilitating regular inter-agency meetings, to address cross-sectoral issues and ensure alignment with the State Development Plan and fiscal frameworks. 	PPP Office

2.7. Other Coordinating Roles of Central Agencies

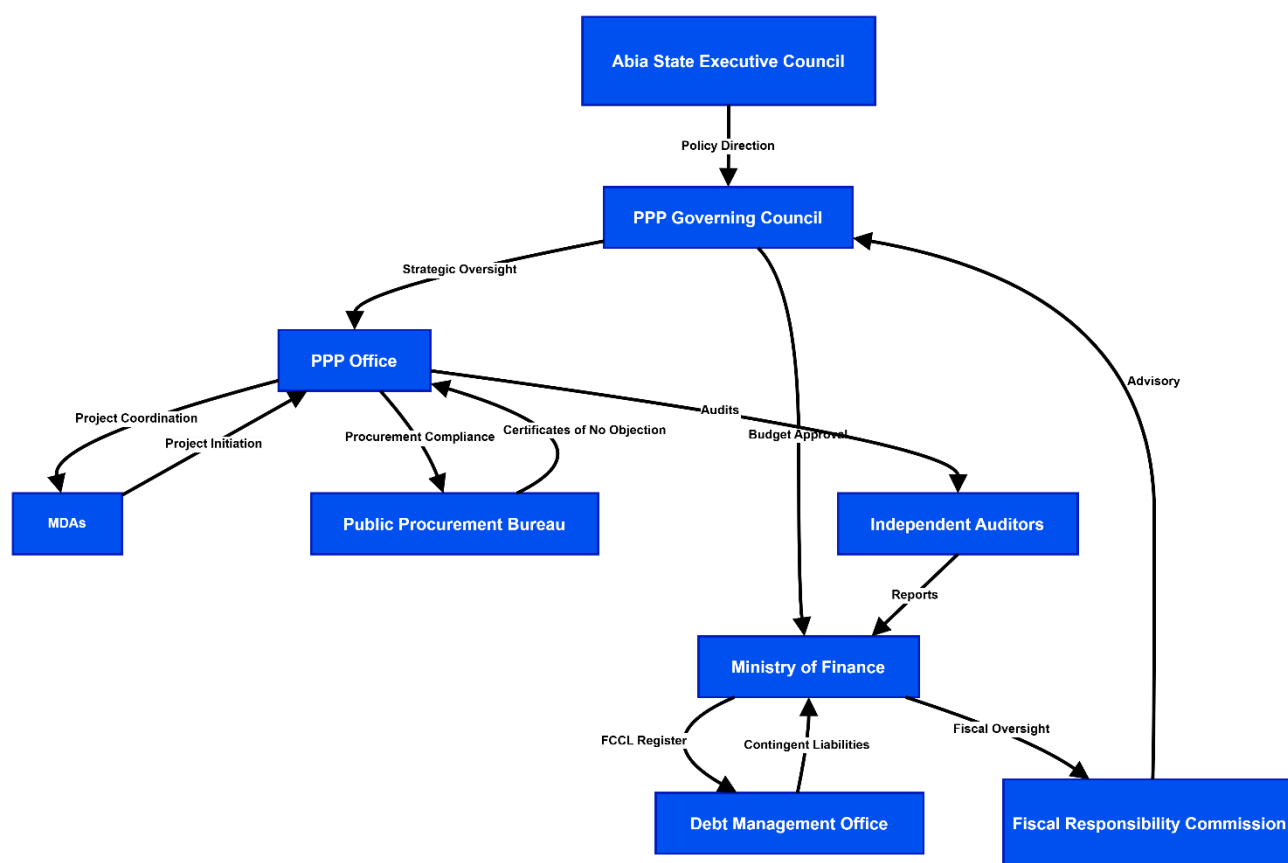
While the Contracting Authority retains primary responsibility for assessing and managing FCCL principally through the effective use of fiscal risk management tools, central oversight agencies, including the MoF, DMO, the Office of the Accountant-General, and the Office of the Auditor-General, exercise statutory oversight within the broader Public Financial Management (PFM) framework.

Table 3: Other Coordinating Roles of Central Agencies

FCCL Function	Objectives	Role/ Responsibility
Monitoring	<ul style="list-style-type: none"> To monitor emerging issues proactively and, where necessary, make budgetary provisions for potential liabilities. To enable government to track its exposure to fiscal risks over time and strengthen its capacity to take measures that reduce both the likelihood and the fiscal impact of trigger events. 	MoF, DMO, Office of the Auditor-General
Budgeting	<ul style="list-style-type: none"> To ensure resources are available for timely payment of obligations, thereby enhancing government credibility and reducing the fiscal impact of liabilities. To establish a clear system for budgeting and settling liabilities so that obligations are met without creating unplanned budgetary pressures. 	MoF, Office of the Accountant-General
Disclosure	<ul style="list-style-type: none"> To strengthen accountability of decision-makers and enhance transparency around the State's fiscal commitments, including those relevant to third parties such as credit agencies and lenders. To improve the accuracy and completeness of fiscal reporting by disclosing exposure to liabilities through the budget and government accounts. 	DMO, Office of the Auditor-General
Mitigation	<ul style="list-style-type: none"> To reduce the fiscal cost of contingent liabilities by lowering both the likelihood of their occurrence and the impact when they arise. To continuously monitor exposure to contingent liabilities from PPP projects and actively manage risks by identifying and addressing emerging issues in a timely manner. 	DMO, MoF, Office of the Auditor-General

Figure 1 below illustrates the Institutional Roles in the State's FCCL Management.

Figure 1: Institutional Roles in the State’s FCCL Management



2.8. Project Facilitation Fund

To strengthen the preparation stage of PPP projects, Abia State has established a Project Facilitation Fund (PFF), consistent with international best practice for PPP frameworks. The PFF is dedicated to financing critical upstream activities such as feasibility studies, market assessments, project design, structuring, and tendering, ensuring robust project preparation.

- **Funding Allocation:** Set at a minimum of 3% of the total estimated capital investment of the State’s PPP project pipeline, drawn from the annual State budget and supplemented by contributions from development partners (e.g., the World Bank).
- **Management:** Administered by the PPP Office, under the oversight of the Ministry of Finance, and subject to approval by the PPP Governing Council.
- **Purpose:** To mitigate fiscal risks by ensuring that projects are rigorously prepared, and by strengthening Value for Money (VfM) analysis and affordability assessments before commitments are made.

3. FCCL Technical Guidance

This section sets out the technical guidance for managing FCCL across the entire PPP project lifecycle in Abia State. It describes the fiscal risk management process – from identification

and assessment to mitigation and monitoring – ensuring consistency with the State’s fiscal policies and infrastructure development priorities. The guidance is anchored in the Public-Private Partnership and Investment Promotions Law (2015), the Public Procurement Law (2012), the Fiscal Responsibility Law (2012), and the Debt Management Office Law (2020).

To support implementation, the Public-Private Partnerships Fiscal Risk Assessment Model (PFRAM), developed by the IMF and World Bank (2022), is adopted as a reference tool for structuring risk analysis and fiscal oversight.

3.1. FCCL Management During Project Development Stage

The project development stage encompasses all steps involved in selecting, preparing, and appraising a potential PPP project. This section covers:

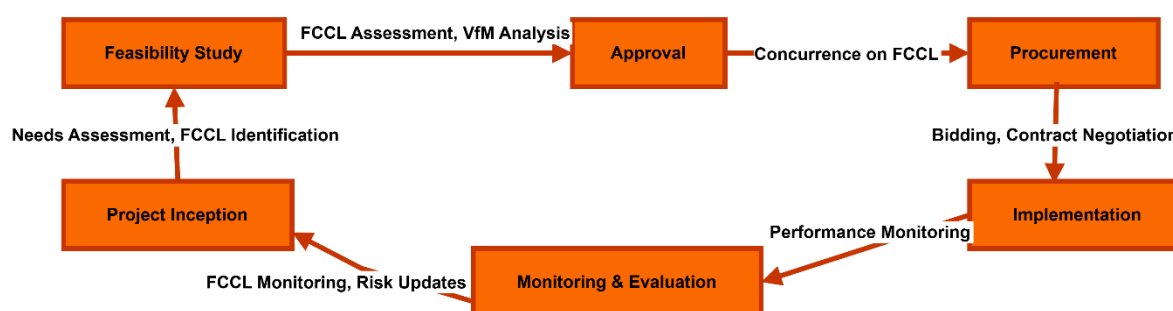
- The process for fiscal risk management (Section 3.1.1); and
- Quantifying fiscal commitments and assessing affordability (Section 3.1.2).

Together, these activities enable authorities to make well-informed decisions on the project’s viability and fiscal implications.

3.1.1. The Abia State Fiscal Management Process

The PFRAM 2.0, developed by the International Monetary Fund (IMF) and the World Bank Group (WBG), is an analytical tool for assessing fiscal costs and risks associated with PPP projects. This is to be adapted for use in Abia State by Contracting Authorities and MoF on a project-by-project basis. As a dynamic tool, it can be updated throughout the project lifecycle to reflect changing conditions. Figure 2 illustrates the PPP process flow in Abia State

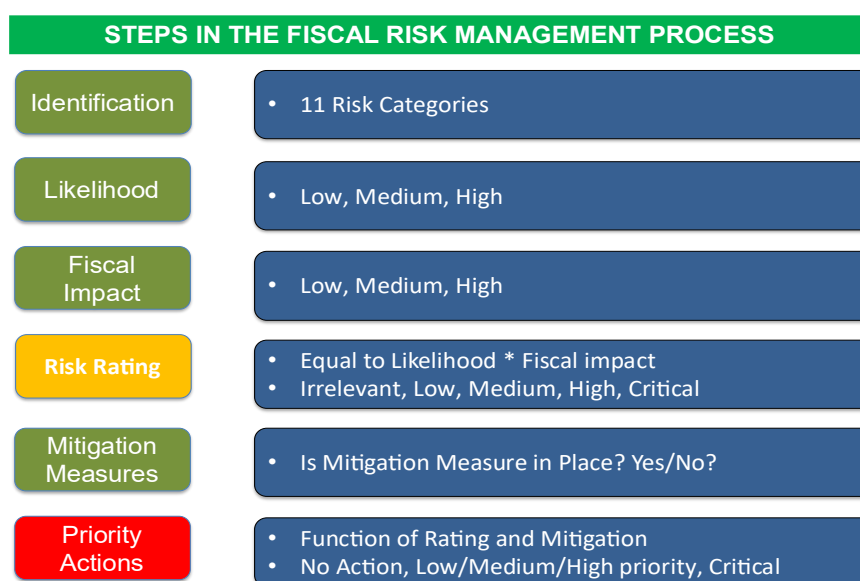
Figure 2: Abia State PPP Process Flow



PFRAM supports the systematic identification, assessment, and mitigation of fiscal risks specific to each PPP project. Complementing this, a Fiscal Risk Matrix is also prepared on a project-by-project basis to formalize the Contracting Authority’s assessment of risks, including both those specified in the contract and potential risks not expressly provided for.

The overall assessment of fiscal risks under PFRAM follows a six-step process, as summarized in Figure 3:

Figure 3: Six-step Approach to Fiscal Risk Management



The PFRAM 2.0 process applies a structured, step-by-step approach to fiscal risk assessment, using a “traffic light” system to guide decision-making. Each step builds on the previous one, moving from risk identification through to prioritization of actions, thereby ensuring that fiscal risks are systematically analyzed and managed. The expression of the six steps are as follows:

- Identify the risk (green).
- Determine the likelihood of the risk occurring (green).
- Assess its potential fiscal impact (green).
- Based on this information, PFRAM automatically generates a risk rating (amber).
- The user then provides information on proposed mitigation measures (green).
- Finally, PFRAM indicates the priority level of required actions (red).

1. Identification of Fiscal Risks

As a first step, the PFRAM 2.0 risk matrix supports the Contracting Authority in identifying the principal fiscal risks typically associated with PPP projects. Drawing on the World Bank’s PFRAM 2.0 instrument, eleven (11) major categories of risks and fifty-two (52) subcategories are captured in the Project Fiscal Risk Register (PFRR). **Table 4** summarizes the main risk categories and their subcategories. A more detailed breakdown of risks and sub-risks is provided in [Appendix A](#), while [Appendix B](#) contains a comprehensive questionnaire to guide Contracting Authorities (or their appointed Transaction Advisors) in assessing these risks.

Table 4: Risk Categories defined by PFRAM

S/N	Main Risk Category	Number of Risks Subcategories
1	Governance Risks	3 detailed risks

2	Construction Risks	19 detailed risks
3	Demand Risks	10 detailed risks
4	Operation & Performance Risks	7 detailed risks
5	Financial Risks	4 detailed risks
6	Force Majeure Risks	No Subcategories
7	Material Adverse Government Actions (MAGA)	No subcategories
8	Change in Law	No subcategories
9	Rebalancing of Financial Equilibrium	3 detailed risks
10	Renegotiation Risks	No subcategories
11	Contract Termination Risks	2 detailed risks

Fiscal commitments and contingent liabilities are most effectively identified and assessed during the project inception and feasibility study phases. At these stages, detailed analysis enables the approving authorities – the MoF, DMO, Fiscal Responsibility Commission, and PPP Governing Council – to make informed decisions on project affordability and available fiscal headroom before advancing to procurement. The subsections below further set out the key types of FCCL typically identified during these early phases.

Direct Fiscal Commitments

These are fixed obligations incurred by the State under PPP agreements, typically identified during feasibility studies. Examples include:

- Capital Contributions – Initial State investments in infrastructure projects.
- Availability Payments – Regular payments linked to service delivery benchmarks, assessed using Net Present Value (NPV) to determine long-term affordability.
- Operational Subsidies – Ongoing payments provided to maintain project viability, evaluated for fiscal sustainability.

Contingent Liabilities

These are obligations that arise only if certain future events occur and are identified and quantified during feasibility studies. Examples include:

- Revenue Guarantees – Commitments to ensure minimum revenue levels for private partners.
- Termination Payments – Compensation payable if a project is terminated due to force majeure events or contract breaches.
- Loan Guarantees – Commitments to cover debt obligations in the event of private partner default, assessed by the DMO.

2. Likelihood of Risk Occurring

What is the likelihood of such risks materializing in the future? The Contracting Authority is not required to provide a highly precise estimate; rather, it is sufficient to classify the likelihood of occurrence as **low, medium, or high**. Several factors can guide this assessment, and these are illustrated in **Table 5** below.

Table 5: Likelihood of Risk

Scale	Likelihood
Low	<ul style="list-style-type: none">▪ Very unlikely but not negligible▪ Would require highly unusual circumstances
Medium	<ul style="list-style-type: none">▪ Likely and possible▪ Not unprecedented
High	<ul style="list-style-type: none">▪ Very likely, almost certain▪ Extensive precedents

3. Fiscal Impact

Once the relevant risks for a PPP project have been identified and categorized, the Contracting Authority should assess their potential fiscal impact. This assessment is carried out using both quantitative and qualitative methods.

Quantitative analysis estimates the potential cost in monetary terms (e.g., through financial modelling or NPV calculations), while qualitative analysis considers non-financial dimensions such as political, regulatory, environmental, or operational implications that may affect the project's viability.

The results of this assessment are subject to review and validation by the MoF and the DMO to ensure consistency, accuracy, and alignment with the State's fiscal policies.

The most critical output in assessing FCCL is the estimated cost of risk occurrence. However, this is also the most difficult to predict, as the fiscal impact of risks can vary significantly depending on how they materialize. The Contracting Authority should therefore evaluate potential fiscal impacts holistically, using both quantitative and qualitative perspectives, and provide sufficient information to support a rating of low, medium, or high.

- **Quantitative perspective:** The potential cost of a risk can be assessed in monetary terms, for example by comparing the estimated impact against the State's GDP or relative to overall project costs.
- **Qualitative perspective:** Some risks may be less easily quantified but can still have significant fiscal implications. For instance, the materialization of governance-related risks could result in reputational damage, reduced efficiency, diminished service

availability, or weakened transparency, all of which can affect fiscal outcomes indirectly.

Table 6: Illustration of a Fiscal Impact Scale Rating

RATING	QUANTITATIVE THRESHOLDS	QUALITATIVE CONSIDERATIONS
LOW	Estimated fiscal impact \leq 0.1% of State GDP or \leq 5% of total project cost	Minimal impact on service delivery; limited reputational or governance risk; easily managed within existing budget allocations.
MEDIUM	Estimated fiscal impact between 0.1–0.5% of State GDP or 5–15% of total project cost	Noticeable impact on fiscal space; may require budgetary adjustments; potential operational or governance risks affecting efficiency and transparency.
HIGH	Estimated fiscal impact $>$ 0.5% of State GDP or $>$ 15% of total project cost	Significant fiscal pressure; likely to disrupt budget priorities; material governance or reputational risks affecting service availability and public trust.

4. Risk Rating

Based on the Contracting Authority's inputs, PFRAM 2.0 automatically generates a risk rating to determine the severity of each fiscal risk. At this stage, the likelihood of occurrence is combined with the estimated fiscal impact to produce an overall risk rating, as illustrated in Table 7.

Table 7: Demonstration of Risk Rating

Risk Rating = Likelihood x Fiscal Impact				
Fiscal Impact	High	Medium	High	Critical
	Medium	Low	Medium	High
	Low	Irrelevant	Low	Medium
		LOW	MEDIUM	HIGH
		Likelihood		

Source: PFRAM 2.0 User Manual

Risks assessed as having both a high likelihood and a high fiscal impact are classified as critical and highlighted in deep red. A high-risk rating results from either a high likelihood with medium impact or a medium likelihood with high impact, and is highlighted in red. Using the same logic, risks may be classified as medium (orange), low (green), or irrelevant (light green). PFRAM 2.0 applies a formula-based assessment and automatically assigns a corresponding colour code based on the Contracting Authority's inputs for likelihood and fiscal impact.

5. Mitigation Measures

PFRAM risk matrix allows the Contracting Authority to document existing mitigation measures while also assisting in the identification of additional measures appropriate to each type of risk. The mitigation strategy applied will depend on the specific nature of the risk. For instance, under financial risks, a subcategory addresses the risk that a private partner may be unable to manage excessive interest rate volatility. In such cases, PFRAM automatically suggests a standard mitigation measure: *“Conduct thorough due diligence on private bidders’ financial capacity and managerial competence to deliver the project.” “Establishing robust qualification requirements, bid bonds, and performance bonds helps deter unqualified or speculative bidders from participating in PPPs.”*

The table below sets out a range of mitigation options tailored to different categories of fiscal risks.

Table 8: Optional Mitigation Strategies Based on Severity of Risk

Severity	Mitigation Strategy
Critical Risks	<ul style="list-style-type: none">• Establish Contingency Reserves and allocate specific budgetary reserves or contingency funds to address immediate fiscal shortfalls or unexpected expenditures.• Implement stringent fiscal rules such as debt ceilings or balanced budget requirements to maintain fiscal discipline.
Medium Risks	<ul style="list-style-type: none">• Regularly monitor fiscal indicators and provide transparent reporting on the state of fiscal risks to identify early warning signs.• Incorporate flexibility in budget planning to reallocate funds if medium risks materialize without causing major disruptions.• Gradually build up fiscal buffers such as sovereign wealth funds to provide financial support during downturns.
High Risks	<ul style="list-style-type: none">• Develop medium-term fiscal frameworks (MTFFs) that incorporate potential high-risk scenarios and outline policy responses.• Implement expenditure ceilings and enhance budgetary controls to avoid overspending.• Regularly assess and report on contingent liabilities, such as government guarantees and consider setting up Contingent Liability Funds to cover these liabilities if and when they materialize.

6. Determination of Priority Actions

Once risks have been rated and existing or potential mitigation measures considered, the Contracting Authority must determine the priority of required actions, as demonstrated in **Table 9**. This step helps the Contracting Authority to decide which risks must be addressed and in

what order. As a guiding principle, the most severe risks (those with a high or critical rating) should be prioritized, since resolving low-impact risks, even if simple, does little to improve the project's overall risk profile or reduce exposure for government. Moreover, not all risks warrant mitigation; in some cases, limited fiscal loss may be acceptable when weighed against the cost of intervention.

PFRAM 2.0 supports this prioritization by combining the risk rating with the presence or absence of mitigation measures, as illustrated in **Table 10**. Risks assessed as *irrelevant* (light green) never trigger a priority action, regardless of mitigation. Conversely, risks rated as *critical* with no mitigation in place result in a *critical priority action* (deep red). If mitigation measures are already in place, the same risk may be downgraded to a *high priority* (light red).

Table 9: Determining Areas of Priority Actions

Priority Action = Risk Rating x Mitigation Measure						
Mitigation measure	NO	No action	Medium priority	High priority	High Priority	Critical
	YES	No action	Low Priority	Medium priority	Medium priority	High Priority
		Irrelevant	Low	Medium	High	Critical
		Risk Rating				

Depending on the stage of the project cycle, risks identified as requiring priority action can be addressed through three main approaches:

1. **Project Redesign** – Modifying the project structure or design to eliminate or reduce the risk (only feasible prior to contract signing).
2. **Additional Mitigation Measures** – Introducing or strengthening safeguards to limit the likelihood or impact of the risk.
3. **Fiscal Space Provisioning** – Creating budgetary capacity or reserves to absorb the potential fiscal cost should the risk materialize.

3.1.2. Quantifying Fiscal Commitments and Affordability

As outlined in **Section 2.4**, FCCL consists of both direct and contingent financial liabilities. Direct liabilities include obligations such as upfront payments, Viability Gap Funding (VGF), and availability payments. Contingent liabilities are more diverse and fall into two categories: (i) Explicit Contingent Liabilities – such as guarantees, termination payments, and compensations explicitly stated in the PPP contract; and (ii) Implicit Contingent Liabilities – which are not contractually defined but may arise from political, economic, or social pressures.

All direct and contingent liabilities shall be consolidated in the FCCL Register (**Table 10**). The Register captures the type of liability, relevant adjustment factors, associated trigger events, and the project stage in which the liability is located.

Table 10: FCCL Register

Fiscal Commitment	Type of fiscal commitment/Definition	Adjustment factors/Trigger events	Location
Project X			
Payment 1	Direct Explain payment concept, periodicity, and form of calculation	Detail adjustment factors and trigger events if apply	Specific location where this information was taken (Feasibility Study, PPP Contract, Letter of Support, etc.) -
Payment 2	Contingent Explain payment concept, periodicity, and form of calculation		
Payment 3	-	-	-

3.1.2.1. Quantifying Fiscal Commitments to a PPP Project

The government's fiscal commitments (both direct and contingent) are determined by the provisions of the PPP contracts. Direct liabilities are generally straightforward to quantify, as their values are often explicitly stated in the contract. Contingent liabilities, however, are more complex to value, as they require careful assessment of both the potential size of the obligation and the likelihood of it being triggered.

Direct Liabilities

The value of direct fiscal commitments can be estimated from the project's financial model, prepared during the development stage. Typically, the direct fiscal contribution required represents the gap between the total project cost (including a commercial return on invested capital) and the revenues the project is expected to generate from non-government sources such as user fees. The resulting fiscal cost can be measured in several ways, including:

- A. **Estimated Annual Payments** – The projected amounts the government is expected to pay each year of the contract, based on the most likely project outcomes. This measure is particularly useful for assessing the annual budgetary impact of the project.
- B. **Net Present Value (NPV) of Payments** – The discounted value of the government's payment obligations over the full term of the contract (e.g., availability payments). This measure reflects the government's total financial commitment and is especially relevant for financial reporting and analysis, including debt sustainability assessments.

Contingent Liabilities

Assessing the cost of contingent liabilities is more complex than valuing direct liabilities, as the need for payment, its timing, and its magnitude are inherently uncertain. Broadly, two approaches can be applied to estimate these costs:

- A. **Scenario Analysis:** This approach involves making assumptions about the outcome of events or variables that influence the value of the contingent liability, and then calculating the potential cost under those assumptions. For example, it may include estimating the fiscal impact on government under a “worst-case” scenario, such as a private partner default at different stages of the contract. It could also involve calculating the potential cost of a guarantee linked to a specific variable – such as demand – across different demand outturns.
- B. **Probabilistic Analysis:** An alternative approach is to apply formula-based modelling to define how the variables affecting the contingent liability are expected to behave. Using a combination of mathematical techniques and computer simulations, analysts can estimate the distribution of possible costs. This approach makes it possible to calculate key statistical measures—such as the median (most likely) cost, the mean (average) cost, and selected percentiles (e.g., the range within which the cost is expected to fall 90 percent of the time).

Table 11 illustrates the methodologies for quantifying fiscal commitments to a PPP project.

Table 11: Methodologies for Quantifying Fiscal Commitments to a PPP Project

FCCL	Estimate	Function of available information
Direct Liabilities		
Upfront (Co-financing) payments	- Annual cost over life of project	- Base Case (Most likely project outcomes)
Availability payments	- Net Present Value of payment stream for the duration of agreement.	- Using an appropriate discount rate
Contingent liabilities		
Revenue guarantee	- Estimated annual cost over life of project	- Scenario analysis - Qualitative analysis of likelihood of reaching trigger values - Probability of occurrence
Debt guarantee		
Guarantee over annual payment by state-owned enterprise, local or subnational government	- Estimated present value of payment stream for the period of agreement	
Termination payment	- Maximum value	
Other fiscal risks		

3.1.2.2. Assessment of Affordability

Once fiscal cost estimations have been made, the government can determine whether the project is affordable. This assessment should form an integral part of the feasibility studies. Three common instruments are typically used to test affordability:

1. Comparing annual cost estimates against the projected budget,
2. Assessing the impact on debt sustainability; and
3. Introducing limits on PPP commitments.

Figure 4: Options for Determining Affordability



The first instrument requires the Contracting Authority, in collaboration with the Abia State PPP Office, to verify that the project is consistent with budgetary priorities and constraints. The starting point is to assess whether the fiscal commitments are affordable within the annual budget allocations and whether they allow the Contracting Authority to meet its fiscal targets or maintain a surplus.

This affordability check must be undertaken within the broader PPP framework to ensure that fiscal commitments not only fit within the budget but also deliver positive social benefits (i.e., pass the cost–benefit test). In addition, the analysis must be consistent with the State’s overall liability and fiscal risk management framework overseen by the MoF.

As FCs from PPPs are considered debt-like obligations, the Abia State Debt Management Office (DMO) should incorporate them into the State’s total liabilities and fiscal management framework. PPP commitments must therefore be reflected in debt measures and sustainability assessments to fully capture their impact on fiscal space.

Finally, the MoF, in collaboration with the FRC, should determine whether the aggregate FCs are within legal or regulatory thresholds, both at the sectoral level or state-wide levels. The objective is to prevent excessive long-term budgetary exposure to PPP obligations and to preserve fiscal flexibility.

3.2. FCCL Management During Project Implementation Stage

3.2.1. Risk Allocation

Risk allocation is the process of determining which party – public or private – will assume responsibility for each identified risk, and to what extent. Risks allocated to the private partner are often described as “transferred risks,” while those allocated to the public partner are referred to as “retained risks.” In practice, some risks may also be shared between both parties.

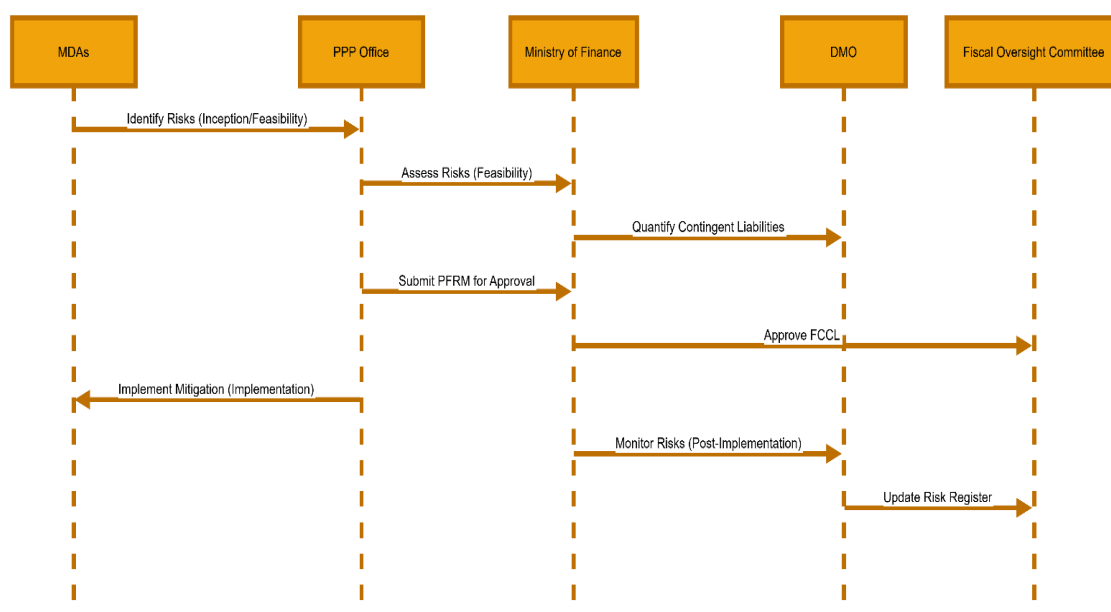
A general principle is that risks should be allocated to the party best able to manage them efficiently. Where it is evident that transferring a risk to the private partner would be unacceptable or only accepted at a cost higher than the potential fiscal loss if the government were to retain and manage it, such risk should remain with the public sector.

Risk assessment and allocation is an iterative process that evolves throughout the PPP project cycle. Preliminary risk allocation is typically defined during the project development stage to support the Value for Money (VfM) assessment and commercial feasibility analysis, based on a thorough identification and evaluation of risks.

In practice, risks retained by the public sector (either fully or in part) are incorporated into PPP contracts under three main categories: (i) compensation events, (ii) relief events, and (iii) force majeure. Each of these categories carries potential fiscal implications for government.

Risk allocation lies at the core of PPP structuring. The PPP contract should set out a comprehensive allocation of project risks, specifying the responsibilities of both public and private partners. Building on this, the Contracting Authority’s Contract Manager should prepare a risk matrix and maintain a risk register, documenting the likelihood and impact of identified risks and updating these assessments periodically throughout the contract term. Figure 4 illustrates the State’s risk PPP FCCL management process.

Figure 5: Risk Management Process Flow



3.2.2. Constructing the Project Fiscal Risk Matrix (PFRM)

The outcome of the risk management process is consolidated in the Project Fiscal Risk Matrix (PFRM). Using inputs from PFRAM 2.0, a summary project risk matrix is generated, presenting the fiscal risk assessment across the eleven (11) risk categories in the form of a heat map (see **Table 12** for an example).

The PFRM should be reviewed annually, as well as whenever an event alters the project's risk profile. To support this, the Contracting Authority must establish a monitoring framework to track both identified and emerging risks throughout the project lifecycle. The PFRM should be updated regularly as the project advances, particularly at key milestones such as financial close and commencement of operations.

Table 12: Sample Project Fiscal Risk Matrix

Risk identification	Likelihood	Fiscal Impact	Risk Rating likelihood* Impact	Mitigation strategy (Is it in place?)	Priority actions	Adopted Mitigation Strategy
Governance Risks	Low	Medium	Low	No	Medium Priority	
Construction Risks	Medium	High	High	Yes	Medium Priority	
Demand Risks	Medium	Low	Low	No	Medium Priority	
Operational and Performance risks	Low	Low	Irrelevant	Yes	No action	

Risk identification	Likelihood	Fiscal Impact	Risk Rating likelihood* Impact	Mitigation strategy (Is it in place?)	Priority actions	Adopted Mitigation Strategy
Financial risks	Medium	Medium	Medium	No	High Priority	
Force Majeure	Low	Low	Irrelevant	Yes	No action	
Material adverse government actions	Medium	Medium	Medium	No	High Priority	
Change in law	Medium	High	High	No	Critical	
Rebalancing of financial equilibrium	High	Medium	High	Yes	High Priority	
Renegotiation	High	Low	Medium	Yes	Medium Priority	
Contact termination	Medium	Medium	Medium	Yes	Medium Priority	

3.2.3. Developing the Project Fiscal Risk Register

When preparing the draft contract and allocating risks, Contracting Authorities should:

- Review the major risk categories;
- Identify the key fiscal risks specific to the project that must be addressed in the PPP contract or supporting legal framework; and
- Initiate the preparation of the Project Fiscal Risk Register (PFRR), as illustrated in **Table 13**.

Table 13: Sample Project Fiscal Risk Register (PFRR)

Risk Identification		Allocation	Likelihood	Fiscal Impact		Rating	Mitigation
<i>Category</i>	<i>Event type</i>	<i>Govt/Private/Shared</i>	<i>Probability of occurrence</i>	<i>Base Costs</i>	<i>Cost of occurrence</i>		<i>Measures and costs</i>
Governance	Risk A						
	Risk B						
Construction	Risk A						
	Risk B						
	Risk C						

Demand	Risk A						
Operation	Risk A						
	Risk B						

3.2.4. Reporting and Decision Making

The Contracting Authority has a critical role in ensuring that the Project Fiscal Risk Matrix (PFRM) is properly applied and used as a decision-making tool throughout the PPP lifecycle. In particular, the Authority should:

- **Present the PFRM for each project to decision-makers** – specifically PPP Office and the MoF – to provide full transparency on the fiscal risks and potential liabilities associated with the project. This enables informed discussion and strengthens accountability in the approval process.
- **Use the PFRM as an input for project approval** by MoF and for ratification of Concession Agreements by the PPP Governing Council, ensuring that affordability, risk allocation, and fiscal sustainability are explicitly considered before a project progresses to procurement and before a PPP contract is signed.
- **Apply the PFRM during contract management**, with the Contract Manager updating and monitoring the matrix to track risk exposure, assess the effectiveness of mitigation measures, and flag emerging risks that may alter the government’s fiscal position.

3.3. FCCL Management during Contract Management Stage

FCCL risks should be subject to continuous monitoring and periodic review. While the Contracting Authority retains primary responsibility for contract management – including fiscal monitoring – the PPP Law grants the PPP Office powers to monitor and verify compliance with concession agreements. Accordingly, the PPP Office should establish a structured monitoring system to track both identified and emerging risks throughout the project lifecycle. This process must run in parallel with regular updates to the Project Fiscal Risk Matrix (PFRM) as the project advances. To ensure consistency with Abia State’s legal and regulatory framework for PPPs, fiscal risk estimates should be recorded and updated at defined project milestones.

3.3.1. Monitoring FCCL

During the contract management stage, the Contracting Authority is responsible for collecting and reporting all relevant project data, including financial parameters, risk developments, performance indicators, and macroeconomic information that may affect fiscal commitments and risks. The objective is to ensure that timely, accurate, and updated information is transmitted to central oversight agencies, including the MoF, the DMO and the PPP Office.

Each commitment or fiscal risk must be tracked using specific information such as financial ratios, accounting indicators, and performance benchmarks to monitor its evolution over the lifetime of the contract. **Table 14** specifies the minimum information to be collected and registered by Contracting Authorities for each PPP project.

Table 14: Information for Monitoring FCs and Fiscal Risks

FC	Required information / Periodicity	Entity who must send information	Obligation to submit information set at: (PPP Agreement, Letter of Support, etc.)	Follow-up of mitigation activities of Risk Register
Project X				
Direct Liabilities				
Payment 1	-	-	-	-
Payment 2	-	-	-	-
Contingent Liabilities				
Payment 1	-	-	-	-
Payment 2	-	-	-	-
Other fiscal risks				
Risk A	-	-	-	-

3.3.2. Accounting for PPPs

Public sector accounts comprise three main sets of records – budgeting, accounting, and statistics – each of which uses information at different stages of the fiscal cycle. Ideally, the treatment of PPPs should be consistent across all three, such that budgeting, accounting, and statistical reporting standards reflect similar impacts on key fiscal aggregates, including deficit and debt.

In practice, however, governments often report PPPs differently across these systems, leading to inconsistencies in how fiscal impacts are recorded and interpreted. PFRAM 2.0 takes a conservative approach by assuming that PPPs are fully on-budget, recorded on the balance sheet, and incorporated into government finance statistics. This ensures a transparent and comprehensive view of their fiscal implications.

3.3.3. Budgeting for PPPs

Good practice dictates that PPPs should be fully reflected in the government’s budget, competing for budgetary resources on the same basis as traditionally procured public investment projects. Ideally, there should be no distinction in the way PPPs and conventional projects are recorded.

In practice, however, challenges arise when government budgets are prepared on a cash basis. Under such systems, PPPs typically affect the budget only once the government begins making regular payments to the private partner after construction is completed and the asset becomes operational. During the construction phase, no cash flows are recorded since the private partner finances the works upfront.

For government-funded PPPs, budget outflows are therefore recognized only when availability payments or similar obligations commence in the operational phase. In contrast, for user-funded PPPs (e.g., concessions), no cash flows are recorded in the government's budget, as the private partner recovers its investment directly from users through fees or tariffs. This creates gaps in fiscal reporting, undermines budget discipline, and reduces transparency regarding the State's long-term commitments and liabilities.

Already, the Abia State Government operates a budgeting approach that ensures full transparency, comparability, and fiscal discipline. To ensure effective budgeting for PPP-type liabilities, the following processes should be adopted:

- a. PPPs should be integrated into the annual budget and Medium-Term Expenditure Framework (MTEF) alongside traditionally procured projects, competing for limited budgetary resources.
- b. Direct fiscal commitments (e.g., viability gap funding, capital contributions, and availability payments) should be explicitly appropriated in the annual budget under clear line items, in accordance with relevant Appropriation laws.
- c. Contingent liabilities should be disclosed in budget annexes and updated annually in the FCCL Register, with scenario analyses to anticipate possible cash flow impacts.

By adopting these measures, Abia State will strengthen budget discipline, enhance fiscal transparency, and ensure that PPPs contribute sustainably to infrastructure development without undermining long-term fiscal stability.

3.3.4. Reporting and Recognizing PPP Liabilities

The Abia State Government will account for and report on all financial commitments arising from PPPs, including those under active PPP contracts. To maintain transparency and fiscal discipline, the MoF and DMO should ensure that PPP-related reporting is consistent with the State's overall fiscal reporting framework.

Table 15 outlines the suggested information that Contracting Authorities should provide for each PPP project, covering both direct and contingent liabilities. The required information includes:

- a. Description of the liability
- b. An estimate of the value of the liability
- c. The annual cost and present value (for direct liabilities); and
- d. The maximum exposure (for contingent liabilities).

This information should be consolidated into the State's fiscal reports, including the Medium-Term Budget Framework (MTBF) and the Debt Management Strategy reports prepared by the DMO.

Table 15: Reporting Sample of FCs by Project

PPP project	Direct liabilities	Annual payments value for 3-year budget			Present value of all payments
		2025	2026	2027	
Project 1	- Annuity payment. Indexed quarterly by inflation.				
Project 2	- Annuity payment. Indexed quarterly by inflation.				
PPP project	Contingent liabilities	Estimated annual payments value for 3-year budget			Present Value of Maximum exposure
		2025	2026	2027	
Project 1	- Revenue Guarantee				
	- Termination payment In case of default of contracting authority				
Project 2	- Termination payment In case of default of contracting authority				

Estimations of liabilities (**Table 15**) and related follow-up activities should be updated on a continuous basis. Fiscal responsibility is typically assessed against thresholds on government liabilities and expenditures. Robust accounting and reporting are essential to dispel the perception that PPPs provide “free” private financing without adding to government spending or debt. In reality, PPP commitments create long-term fiscal obligations that must be properly recorded and disclosed.

Determining how PPP commitments are recognized is critical, as it establishes whether such liabilities count toward debt management limits. International frameworks such as the International Public Sector Accounting Standards (IPSAS 32), the IMF’s Government Finance Statistics Manual (GFSM 2014), and the IMF’s Guide on Public Sector Debt Statistics (2013) provide consistent approaches for accounting and statistical treatment of PPP transactions.

For transparency – both internal and external – fiscal commitments must be reported. Abia State, having adopted IPSAS, is guided by IPSAS 32 in determining the extent to which PPP commitments are recognized as government capital expenditure or liabilities. Under IPSAS 32, PPP assets and liabilities should appear on the government’s balance sheet if:

- A. The government controls or regulates the services the contractor must provide with the PPP asset, including beneficiaries and pricing; and

- B. The government retains control over any significant residual interest in the asset at the end of the contract.

With respect to contingent liabilities, IPSAS 19 provides that the expected cost of a contingent obligation should be recognized only if:

- a. It is more likely than not (i.e., probability > 50%) that the event will occur; and
- b. The amount of the obligation can be measured with sufficient reliability.

To strengthen fiscal discipline and transparency over PPP projects, the State Government will align the accounting and reporting of PPP commitments explicitly with IPSAS 32 and IPSAS 19. This will be operationalized through supplementary disclosure notes in the State's annual budget and debt strategy reports, ensuring that both direct commitments and contingent liabilities arising from PPPs are consistently reported, monitored, and factored into fiscal planning and debt sustainability assessments.

3.3.5. Disclosing PPP Liabilities

Best practice suggests that even when PPP commitments are not formally recognized as liabilities, they should still be disclosed in notes to the government's accounts and reports. Increasingly, many jurisdictions require that contingent liabilities be disclosed in budget documents or in fiscal reports submitted to the legislature.

Specifically, Abia State Fiscal Responsibility Law requires annual reporting of contingent liabilities in budget documents. PPP commitments and contingent liabilities should also be included in both the Fiscal Risk Appendix to the Annual Budget and in the DMO's debt reports. This dual reporting will improve fiscal transparency, strengthen legislative oversight, and ensure that PPP obligations are systematically monitored as part of the State's overall fiscal risk management strategy.

4. Feedback and Framework Enhancement

Continuous improvement of the FCCL Framework depends on systematically collecting, analysing, and integrating fiscal feedback from PPP projects. This ensures that fiscal risk management and budgeting processes remain responsive, transparent, and aligned with Abia State's evolving fiscal priorities.

4.1. Fiscal Feedback Collection Mechanisms

4.1.1. Fiscal Performance Surveys

- Objective: Capture stakeholder feedback on the management of FCCL in PPP projects.
- Process:
 - The PPP Office conducts surveys at project closure, targeting the Ministry of Finance, Debt Management Office (DMO), relevant MDAs, and private partners.

- Surveys focus on fiscal performance indicators, such as budget adherence, resolution of contingent liabilities, and effectiveness of risk mitigation.
- Responsibility: PPP Office; Fiscal Responsibility Commission.

4.1.2. Fiscal Review Meetings

- Objective: Provide a platform for dialogue on fiscal challenges and opportunities for improvement.
- Process:
 - The Fiscal Oversight Committee convenes quarterly meetings to review FCCL performance.
 - Meetings draw input from the PPP Office, MoF, and DMO, and document fiscal feedback for integration into framework updates.
- Responsibility: Fiscal Oversight Committee; PPP Office.

4.2. Fiscal Feedback Analysis and Integration

4.2.1. Fiscal Analysis Workshops

- Objective: Translate feedback into actionable fiscal improvements.
- Process:
 - The Ministry of Finance and PPP Office convene annual workshops to analyze survey results and review meeting outcomes
 - Tools such as gap analysis are applied to identify fiscal management weaknesses and propose corrective actions.
- Responsibility: MoF; PPP Office; DMO.

4.2.2. FCCL Framework Updates

- Objective: Ensure the FCCL Framework remains up to date and relevant.
- Process:
 - Revise risk assessment protocols, budgeting strategies, and reporting formats on an annual basis.
 - Incorporate lessons from fiscal closure reports.
 - Updates require approval by the PPP Governing Council.
- Responsibility: PPP Office, MoF.

4.3. Fiscal Continuous Improvement Cycle

The cycle of continuous improvement is structured in five steps:

- **Data Collection** – Gather fiscal feedback through surveys and review meetings (PPP Office).
- **Evaluation** – Analyze feedback using PFRAM 2.0 and related tools (MoF; DMO).
- **Framework Updates** – Revise FCCL protocols and practices based on findings (PPP Governing Council).

- **Implementation** – Apply updated processes to new PPP projects (Fiscal Oversight Committee).
- **Monitoring** – Track effectiveness through quarterly fiscal reports, led by the MoF.

5. Implementation and Rollout Plan

Operationalizing the FCCL Framework for PPP projects in Abia State requires a comprehensive and immediate implementation strategy. The objective is to ensure that all fiscal commitments and contingent liabilities (FCCL) are systematically captured and managed across every stage of the PPP project cycle. This section presents a streamlined rollout plan that integrates resource allocation, capacity building, and stakeholder engagement. The implementation is anchored in the State’s legal and institutional framework, including the Abia State Public-Private Partnership and Investment Promotions Law (2015), the Public Procurement Law (2012), the Fiscal Responsibility Law (2012), and the Debt Management Office Law (2020).

5.1. Implementation Strategy

Operationalizing the FCCL Framework requires a phased approach that balances immediate application with long-term institutionalization. The strategy is designed to ensure that fiscal commitments and contingent liabilities are systematically identified, recorded, and managed across all PPP projects, while maintaining alignment with Abia State’s legal and fiscal governance framework.

5.1.1. Immediate Application

- **Objective:** Ensure FCCL protocols are applied to all new and ongoing PPP projects to comprehensively capture fiscal risks.
- **Key Activities:**
 - Finalize and disseminate the FCCL Framework document within one month, led by the PPP Office.
 - Mandate FCCL assessments for all PPP projects, including those under procurement, implementation, or monitoring, using PFRAM 2.0
 - Establish a Risk Management Unit within the PPP Office and activate the Fiscal Oversight Committee to oversee compliance.
- **Timeline:** 1–3 months.
- **Responsibility:** PPP Governing Council; PPP Office; MoF; DMO.

5.1.2. Transitional Integration for Ongoing Projects

- **Objective:** Retroactively apply FCCL protocols to existing PPP projects to ensure no fiscal risks are overlooked.
- **Key Activities:**
 - Conduct a rapid FCCL audit of all active PPP projects within three months, identifying unrecorded fiscal commitments and contingent liabilities.

- Pilot-test the FCCL Framework on two high-priority projects in the PPP pipeline:
 - Umuahia–Aba Road Rehabilitation (Transportation, Build–Operate–Transfer model).
 - Aba General Hospital Upgrade (Healthcare, Build–Operate–Transfer model).
- Update the FCCL Register with audit findings, managed jointly by the MoF and the DMO.
- Where feasible, revise existing PPP contracts to include FCCL clauses, subject to approval by the Bureau of Public Procurement.
- **Timeline:** 3–6 months.
- **Responsibility:** MoF; DMO; PPP Office; Bureau of Public Procurement.

5.1.3. Full Institutionalization

- **Objective:** Embed the FCCL Framework into all PPP processes and state fiscal systems.
- **Key Activities:**
 - Integrate FCCL protocols into project planning, procurement, and monitoring processes across all MDAs, in line with the PPP Law (2015).
 - Align FCCL reporting with the Medium-Term Expenditure Framework (MTEF) and the DMO’s Debt Strategy Reports.
 - Establish continuous monitoring and evaluation mechanisms to enforce compliance and strengthen accountability.
- **Timeline:** 6–18 months.
- **Responsibility:** PPP Governing Council; MoF; DMO; Fiscal Responsibility Commission.

5.1.4. Harmonization with Fiscal Responsibility Law

- **Objective:** Ensure FCCL implementation is fully consistent with the fiscal management principles in the Fiscal Responsibility Law (2012).
- **Key Activities:**
 - Align FCCL budgeting with the contingency provisions and long-term planning requirements of the Fiscal Responsibility Law (2012).
 - Coordinate with the DMO to ensure contingent liabilities are managed in accordance with both the DMO Law (2020) and Fiscal Responsibility Law (2012).
 - Conduct a compliance review within six months, led by the Fiscal Responsibility Commission, to verify harmonization.
- **Timeline:** 3–6 months.
- **Responsibility:** MoF; DMO; Fiscal Responsibility Commission.

Appendix A: PPP Project Pipeline

The Abia State PPP project pipeline currently comprises one hundred and seven (107) Active projects, of which fourteen are already AIP projects– concentrated in the transportation, agriculture, waste management and healthcare sectors – have been prioritized for immediate FCCL assessment.

Project	Sector	Model	FCCL Focus
Ariaria Market Remodelling	Market Development	Design, Build-Operate & Transfer (DBOT)	Construction risk, Market Acceptance, Availability of Capital.
Truck Transit Park	Transportation	DBOT	Construction risk, Business Viability
Waste Management Project	Waste Management	Joint Venture	Construction risk, Funding risk
Aba Commercial Smart City	Market Development	DBOT	Capital availability, Construction risk, Business Viability
Alpha Solar Project	Power and Energy	Joint Venture	Construction Risk, Business Viability, Financial risk
Cassava Farm & Processing Plant	Agriculture	Joint Venture	Construction risk, Operations risk
Palm Oil Plantation and processing	Agriculture	Joint Venture	Financial capacity risk, Operations risk
Coordinated Drug Wholesale Centre	Healthcare	DBOT	Construction risk, financial risk, Operations
2MW – Renewable Energy Plant for Government Offices	Power and Energy	DBOT	Financial risk, Operations risk
Mesotho International Market	Market Development	DBOT	Financial risk, Construction risk, Demand risk
Aba Leisure Park	Hospitality and Leisure	Joint Venture	Construction risk, Demand risk, Operations risk
Garment Factory	Manufacturing	Joint Venture	Construction risk, Operations risk

Appendix B: Primary Stakeholders

Primary stakeholders in the context of Abia State PPPs are the core public and private institutions directly responsible for the initiation, development, financing, implementation, regulation, and oversight of PPP projects. They include entities with statutory or contractual mandates to design, approve, fund, monitor, or manage PPP transactions and their associated fiscal commitments and contingent liabilities.

Stakeholder	Role	Composition
Abia State Public Private Partnership and Investment Promotion Agency (PPP Office)	Oversees PPP project initiation, development, procurement, and coordination with agencies, per Section 17(6) of the PPP Law (2015).	Director General, 2 project managers, 3 risk management analysts, 2 legal advisors, 1 financial analyst.
Abia State Debt Management Office (DMO)	Manages debt and contingent liabilities, ensuring alignment with fiscal responsibility principles, per DMO Law (2020).	Director, 3 debt analysts, 2 fiscal risk assessors, 1 compliance officer.
Ministries, Departments, and Agencies (MDAs)	Implement PPP projects under the Public Procurement Law and coordinate with the PPP Office.	1 sector-specific commissioner, 2 project coordinators, 2 procurement officers per MDA.
State Ministry of Finance	Oversees financial regulations and budgetary allocations for PPP commitments, per State Financial Regulations.	Commissioner for Finance, 3 budget officers, 2 financial analysts, 1 risk assessor.
Private Sector Partners	Provide funding and expertise for PPP projects, with fiscal implications managed under the FCCL framework.	1 project sponsor, 2 financial institution representatives, 3 technical consultants per project.
Fiscal Responsibility Commission	Monitors compliance with the Fiscal Responsibility Law (2012) and advises on fiscal risk management.	Chairman, 2 compliance officers, 2 policy advisors, 1 risk analyst.

Appendix C: Definition of Key Terms in the FCCL Context

Term	Definition
Fiscal Commitment	Direct financial obligations borne by the state under a PPP agreement, e.g., availability payments or capital contributions.
Contingent Liability	A contingent liability is a potential financial obligation of the Abia State Government that may arise from uncertain future events linked to PPP contracts or related activities.
Liability	Any financial obligation, whether direct (fiscal commitment) or potential (contingent), arising from PPP agreements.
Value for Money (VfM)	Refers to the optimal use of public resources to achieve the desired service outcomes at the lowest possible long-term cost, taking into account quality, efficiency, and risk transfer. It is achieved when a PPP project delivers better outcomes than traditional public procurement by ensuring that the benefits of private sector participation.
Viability Gap Funding	Refers to a financial contribution provided by the Abia State Government to make a PPP project commercially viable when the project is economically and socially desirable but not financially attractive to private investors on its own.
Force Majeure	Refers to any event or circumstance beyond the reasonable control of either contracting party that prevents, hinders, or delays the performance of obligations under a PPP contract. Such events are extraordinary, unavoidable, and not attributable to the fault or negligence of the affected party. Force majeure events include natural disasters (such as floods, earthquakes, and storms), war, civil unrest, terrorism, acts of government, and large-scale public health emergencies such as epidemics and pandemics (e.g., COVID-19).
Risk	Refers to the possibility that an event or condition, whether internal or external to a PPP project, may occur and adversely affect the achievement of expected outcomes. In the context of PPPs, risk is typically defined as the potential for financial, operational, legal, or reputational loss arising from uncertainty.
Risk Event	The actual occurrence of an uncertain event or condition that adversely affects a PPP project's performance, costs, or fiscal outcomes.
Risk Matrix	A structured tool used to assess and present project risks by mapping the likelihood of each risk occurring against the potential fiscal or operational impact if it materializes.

Appendix D: Legal Framework for Disclosure

Purpose: To outline legal requirements for disclosing FCCL in PPP projects.

- **Abia State PPP Law:** Mandates transparency in PPP contracts, including fiscal commitments and risks.
- **Abia State Fiscal Responsibility Law:** Requires annual reporting of contingent liabilities in budget documents.
- **Infrastructure Concession Regulatory Commission (ICRC) Act 2005:** Stipulates disclosure of PPP project details, including guarantees, to the public.
- **International Standards:**
 - **IMF Fiscal Transparency Code (2014):** Requires disclosure of PPP-related contingent liabilities in financial statements.
 - **IPSAS 22:** Mandates notes on PPP commitments in accrual-based accounting.

Guidance:

- Publish an annual contingent liabilities report, as practiced in Chile.
- Lagos State's PPP Directorate maintains a public portal for project disclosures, enhancing transparency.
- Ensure compliance with ICRC's National Policy on PPPs for federal alignment.

Implications for PPP Disclosure

Purpose: To address the consequences of disclosure practices on fiscal management and stakeholder trust.

- **Fiscal Discipline:** Transparent disclosure (e.g., annual reports) encourages scrutiny by the Ministry of Finance, reducing unauthorized commitments.
- **Investor Confidence:** Public disclosure of risks and guarantees attracts credible private partners, as seen in Kaduna's PPP program.
- **Public Accountability:** Disclosure mitigates public backlash by clarifying fiscal risks, aligning with Abia State's governance principles.
- **Challenges:**
 - Estimating contingent liabilities is complex; over-disclosure may deter investors.
 - Lagos faced initial resistance to disclosure due to commercial sensitivity but mitigated this through standardized templates.

Appendix E: Summary of Specific Disclosures for PPP Projects

Disclosure Item	Description	Frequency	Medium
Project Details	Name, sector, contract type, duration.	At project approval	Public portal, ICRC website
Fiscal Commitments	Annual direct payments (e.g., availability payments, subsidies).	Annual	Budget documents, annual report
Contingent Liabilities	Guarantees (e.g., minimum revenue, termination), estimated NPV.	Annual	Contingent liabilities report
Risk Assessment	Key risks and mitigation strategies.	At appraisal, updates annually	Project appraisal reports
Contract Summaries	Key terms, risk allocation, termination clauses.	At contract signing	Public portal
Performance Metrics	KPIs, service delivery outcomes.	Quarterly	Monitoring reports

Appendix F: PFRAM Risks and Sub-Risks

PFRAM 2.0 includes a Project Fiscal Risk Matrix to systematically assess the main fiscal risks on a project-by project basis. The risks included in the matrix areas as follows:

1. Governance Risks

- **R1.** If the Public Investment Management (PIM) framework is not strong enough to guarantee that only priority projects are selected, a non-priority project might be implemented and absorb public resources, crowding out priority projects and leading to efficiency losses. To mitigate this risk, the public investment management framework should to be reinforced.
- **R2.** If the MFBP is not able to effectively manage fiscal risks arising from this project, the risks might be amplified, and the probability and impact of other fiscal risks may be higher than they would be with adequate experience and capacity. To mitigate this risk, capacity in the fiscal risk management team in the MFBP should be strengthened.
- **R3.** If project and contract information is not disclosed adequately, public concerns regarding the governance of the project/contract may arise, preventing users from acting as independent auditors of the project and/or exerting pressure to change the project. To mitigate this risk, the government should put in place a strong communication strategy engaging stake holders and creating ownership of the project, together with clear and standardized disclosure procedures for project information and, ultimately, contract disclosure.

2. Construction

R4. Risks related to land availability

- If the land is not already available, the government might face additional fiscal costs arising from possible compensation for construction delays. To mitigate this risk, (1) a complete assessment of land needs should be undertaken prior to contract closure; (2) the land acquisition process should be prepared; and (3) buffers and flexibility clauses should be included in the contract.
- If the project might be canceled due to lack of land, the government might face costs due to compensation to the private partner and the project redesign. To mitigate this risk, the government should ensure land availability at an early stage of the project cycle.

- If the private partner has to pay for the land acquisition, the private partner might not be able to cope with the cost; the government would be confronted with the cost of project cancellation and retender, or renegotiation at higher fiscal cost. To mitigate this risk, the government should ensure land availability at an early stage of the project cycle or provide sufficient information regarding the need and value of the land to ensure that the private partner is able to cope with the cost.
- If the government has to pay for land acquisition, it may face additional fiscal costs arising from the acquisition and possible delays due to unavailability of land, which might lead to compensation payments for possible delays. To mitigate this risk, the government should (1) complete the assessment of land availability and cost prior to contract closure; and (2) build in buffers and flexibility clauses in procurement and contracts.

R5. Risks related to relocation of people and activities

- If people and/or activities are subject to relocation due to project implementation:
 - If the government is paying for the relocation of people and/or activities and possible project delays, it will face the cost of relocation and compensation. To mitigate this risk, the government should undertake a timely assessment of relocation needs and engage in effective stakeholder management.
 - If the private partner is paying for the relocation of people and/or activities and is unable to cope with cost, the government will be faced with the cost of project cancellation and retender, or renegotiation at higher fiscal cost. To mitigate this risk, the government should ensure timely assessment of relocation needs and provide sufficient information on relocation needs and costs.

R6. Risks related to land decontamination

- If the government has to pay for land decontamination and the need for decontamination arises, this will result in fiscal costs. To mitigate this risk, the government should undertake a timely assessment of the need and cost of decontamination.
- If the private partner has to pay for land decontamination and is not able to cope with the cost, the government may face the cost of project cancellation and retender, or renegotiation at higher fiscal cost. To mitigate this risk, the government should (1) ensure a timely assessment of decontamination needs; and (2) should provide sufficient information on land condition.

R7. Risks related to environmental and archeological issues

- If there is a possibility of facing environmental/archeological issues and the government has to pay for them, the government may face costs (1) for environmental and archeological issues; and (2) for compensation payments it might have to make to the private partner due to project delays. To mitigate this risk, the government should (1) specify environmental constraints prior to tender (including permits and licenses); and (2) develop a plan to deal with archeological findings.
- If there is a possibility of environmental/archeological issues and the private partner has to pay for them, the private partner might not be able to cope with the associated costs; the government may be faced with the cost of project cancellation and retender, or renegotiation at higher fiscal cost. To mitigate this risk, the government should (1) specify environmental constraints prior to tender (including permits and licenses); and (2) develop a plan to deal with archeological findings.

R8. Risks related to geological issues

- If there is a possibility of geological issues and the government has to pay for them, it may face compensation payments. To mitigate this risk, the government should (1) ensure a timely assessment of the geological conditions and their implications for the project; and (2) develop a plan to deal with these issues.
- If there is a possibility of geological issues and the private partner must pay for them, the private partner might not be able to cope with the costs related to these issues; the government may be faced with the cost of project cancellation and retender, or renegotiation at higher fiscal cost. To mitigate this risk, the government should (1) ensure a timely assessment of the geological conditions and their implications for the project; and (2) provide sufficient information regarding geological conditions.

R9. Risks related to licensing

- If the project is subject to licensing and the government pays compensation for project delays due to delayed licensing, the government may face the costs of compensation for project delays. To mitigate this risk, the government should ensure that subnational governments are fully supportive of the project and that project deadlines are consistent with subnational regulations.

R10. Risks related to failures/errors/omissions in project design

- If the government can be held responsible for design failures, errors, or omissions, it may have to pay compensation for failures in designs presented to the private partner if the cost of design risks is not fully transferred to the private partner. To mitigate this risk, the tender process and the contract should ensure that the private partner takes full responsibility for the design.

R11. Risks related to inherent defects in assets transferred to the private partner

- If the government can be held responsible for any inherent defect in assets transferred to the private partner, it may have to pay compensation to the private partner for inherent defects and the costs of defect remediation. To mitigate this risk, the government should ensure a prior assessment of the quality of the assets to be transferred to the private partner, allowing for full pricing of identifiable defects.

R12. Risks related to changes in project design and scope required by procuring agencies

- If the government is responsible for compensation due to changes in design and scope required by procuring agencies, it may have to compensate the private partner for net costs due to changes in the design and/or scope. To mitigate this risk, the contract should include provisions allowing for changes in the design/scope of the project, up to a predetermined limit. In addition, the accountability framework to monitor project cost overruns should be reviewed and improved, as necessary.

R13. Risks related to changes in input prices

- If the government is responsible for compensation in the event of excess volatility in input prices, it may have to pay compensation for significant changes in input prices. To mitigate this risk, the volume and prices of the relevant inputs should be monitored, and sufficient funds should be allocated for expected compensation payments.
- If the private partner faces any excess volatility of input prices, the private partner may not be able to cope with significant changes; the government may be faced with the cost of project cancellation and retender, or renegotiation at higher fiscal cost. This risk can be mitigated by renegotiating the contract to reestablish financial equilibrium.

R14. Risks related to changes in nominal exchange rate

- If the government is responsible for compensation in the event of excess volatility in nominal exchange rate, it may have to pay compensation for significant increases. To mitigate this risk, the volume of foreign currency required, and the exchange rate should be monitored, and sufficient funds should be allocated for expected compensation payments.
- If the private partner faces any excess volatility in the nominal exchange rate, the private partner may not be able to cope with significant changes; the government may be faced with the cost of project cancellation and retender, or renegotiation at higher fiscal cost. This risk can be mitigated by renegotiating the contract to reestablish financial equilibrium.

3. Demand

- If the PPP is **fully funded by the government**, and the **payments are linked to the volume** of service being provided:
 - **R15.** If a cap is in place, the project may be confronted with much higher demand than included in the contract, which might require a costly renegotiation of the cap or require the government to purchase services from other providers. This risk can be mitigated by managing demand and possibly diverting demand to less costly alternative services.
 - **R16.** If no cap is in place, the government may face higher than expected demand, leading to higher-than-expected costs. This risk can be mitigated by managing demand and possibly diverting demand to less costly alternative services.
 - **R17.** If the project is suffering from insufficient demand, this may lead to project failure; the government may face costs for early termination or renegotiation. This risk can be mitigated by managing the demand or by renegotiating the contract to re-establish financial equilibrium.
- If the PPP is **fully funded by the government**, and the **payments are not linked to the volume** of service being provided:
 - **R18.** If demand is much higher than expected, the project may collapse, and the government may face the cost of early termination or contract collapse. This risk can be mitigated by managing or diverting demand, which could have a fiscal cost.
 - **R19.** If demand is much lower than expected, the project might be challenged; the government would not face additional fiscal costs, but it would pay for a service that is

not/not fully being taken up by the user. This risk can be mitigated by managing demand by increasing demand or diverting it from other projects.

- If the project is either **totally user-funded or funded by a combination of government payments and user fees**:
 - **R20.** If users consider user fees—regulated or not—excessive relative to services received, this might have a bearing on the reputation of the government. This risk can be mitigated by effective communication.
 - **R21.** If the project is suffering from insufficient demand, this might lead to project failure, presenting the government with additional fiscal costs for early termination or renegotiation. This risk can be mitigated by managing the demand or by renegotiating the contract to re-establish financial equilibrium.

4. Operation & Performance

- **R22.** If the PPP agreement does not ensure that the government has full access to information on project performance, the government may be unable to effectively manage the contract. To mitigate this risk, the information-sharing requirements should be included in the contract and addressed in the legal framework.
- **R23.** If the contract does not clearly specify performance indicators, reference levels, and penalties or deductions, the government may face significant risks for not being able to address poor performance by the private partner. Failure to monitor project performance can lead to poor contract enforcement, which has administrative, efficiency, and political costs. It may also cause difficulties in applying project cancellation clauses and possibly in using step-in rights by financiers. To mitigate this risk, (1) key performance indicators should be included in the PPP agreement, with reference levels, linked to penalty mechanism (preferably automatic deductions from periodic payments); and (2) the core contract management team should be involved in contract negotiation to guarantee that performance indicators/levels are fair, measurable, and contractible, that is, able to be presented as evidence in court.
- **R24.** If the government does not have the capacity and procedures in place to monitor performance, it faces significant risks for not monitoring performance, which has administrative, efficiency, and political costs. To mitigate this risk, contract monitoring procedures should be in place when contracts are signed; a core contract management team

should be assigned before contract closure and should be involved in contract negotiation to guarantee that contract management procedures are feasible and efficient.

- **R25.** Depending on whether and how the contract addresses the introduction of new technologies, technical innovation may create explicit and implicit fiscal risks for the government. To mitigate this risk, the duration of PPP agreements should not exceed the expected life cycle of the technology used in the sectors, enabling the government to respond to technological innovation within a reasonable timeframe. For PPP agreements for projects including high and low innovation components, it can be appropriate to separate the two components—for example, a hospital building from the medical equipment—into separate contracts that might be of different duration or nature; the high-tech component might not be under a PPP agreement but might be undertaken as traditional public procurement.
- **R26.** If there is a scarcity of specialized human resources, this could lead to performance issues. To mitigate this risk, the government should reallocate human resources from other activities or plan capacity-building activities in advance.
- **R27.** If there is a risk of significant increases in labor costs, this may lead to project failure. To mitigate this risk, the government should plan capacity building activities ahead of time.

5. Financial

- **R28.** If the private partner is unable to obtain finance for project implementation, the government may face project failure **before implementation starts**, being forced to take over the project, re-tender, or redesign and re-tender the project. To mitigate this risk, the government should (1) undertake a proper due diligence on private bidders' financial conditions and their ability (technical and managerial) to conduct the project; (2) establish adequate qualification requirements; (3) consider bid bonds and performance bonds to discourage not suitable candidates from bidding for PPPs; and (4) require some degree of commitment by financing parties during tender for very sensitive projects in less developed financial markets
- **R29.** If the private partner is unable to refinance short-term financing instruments, the government may face project failure **after implementation starts**. In such cases, the government could (1) be required to pay compensation for capital investment, (2) take over the project, or (3) renegotiate an interim financial solution and then re-tender the project (possibly under worse cost conditions for government). To mitigate this risk, in addition to

undertaking the measures listed under **R28**, the government may require bidders to obtain long-term financing for very sensitive projects.

- **R30.** If the private partner is unable to manage risk of excess volatility in interest rates, the project may face post-contract failure. The government could (1) be required to pay compensation for capital investment, (2) assume the project, or (3) renegotiate an interim financial solution and then re-tender the project (possibly under worst cost conditions for government). To mitigate this risk, the government should undertake the measures listed under the **R28**.
- **R31.** If government contractually accepted some exchange rate risk, fiscal support may be needed in the form of compensation; it may have to pay compensation for excessive volatility of exchange rate. Also, if the private partner is unable to cope with excess volatility in the nominal exchange rate, the government may have to (1) renegotiate under stress or face project collapse and pay compensation for capital investment; or (2) assume the project and then re-tender under a different risk allocation scheme. To mitigate these risks, the government should ensure a proper consideration of exchange rate risk, which may lead to better risk sharing and proper use of hedging mechanisms.

6. Force Majeure

- **R32.** If there is no exact list of events to be considered force majeure tailored for the project, the government might have to pay compensation, adjust, or even terminate the contract due to force majeure events. Full or partial compensation by the government may even force the government to buy the assets or assume debt. To mitigate this risk, the scope of the force majeure events should be clearly stated in the contract, considering the legal requirements and specific project conditions. The contract should create incentives for the private partner to get insurance against some risks when insurance is available at a reasonable cost and to effectively manage risks by designing assets and managing services in ways that minimize the probability of occurrence and size of impact.

7. Material Adverse Government Actions (MAGA)

- **R33.** If no clear definition of events to be considered MAGA are included in the contract, the government might have to pay compensation, adjust, or even terminate the contract due to acts and omissions by public entities, potentially forcing the government to buy the assets or assume debt. To mitigate this risk, contract managers should monitor the channels through which government's actions and omissions can affect the project during the life of the contract. Executive government actions and policy changes should be carefully

evaluated by the contract manager and the fiscal management team to assess any impact on the PPP agreement.

8. Change Law

- **R34.** If the PPP agreement does not identify changes in law that do and do not require compensation by the government, the government might have to pay unforeseen compensation when adjusting or even terminating the contract due to changes in law. Changes in law might also benefit the private partner and, if not considered in the contract, increase the private partner's profit margin without benefitting the government. The cost of changes in law might include compensation payments, need to buy the asset or to assume debt, or loss of potential compensation paid by the private partner to the government. To mitigate this risk, the PPP agreement should clearly identify changes in law that trigger a compensation or the right to terminate and should define the consequences. In addition, legislation and public policies should be in place to efficiently deal with this risk.

9 Rebalancing of financial equilibrium

- **R35.** The legal framework may prescribe that the government is paying compensation and/or terminating the contract due to requirement to reinstate financial equilibrium. The government may have to pay compensation or cancel the project. To mitigate the risk from this, the PPP agreement should restrict its application to the cases of force majeure, MAGA, avoiding its application to a wider range of situations.
- **R36.** The government might have to pay compensation and/or terminate the contract due to contract guaranteeing a rate of return for the private partner. To mitigate this risk, clauses and expectations on a guaranteed level of project rate of return or the shareholder's rate of return should be avoided.
- **R37.** The government might have to pay compensation and/or terminate the contract due to excessive protection against some hardships. To mitigate this risk, hardship clauses, if needed, should be precise and strict. Alternative methods to reduce excessive private sector risks should be considered, including insurance, future markets, and other hedging mechanisms.

10. Renegotiation

- **R38.** If the government opens an uncontrolled renegotiation process, under information asymmetry and no competitive pressure, it might jeopardize economic efficiency by allowing the private partner to transfer to the government costs and risk that had originally

been accepted by the private partner, with the fiscal impact depending on the government's ability to manage the renegotiation process. To mitigate this risk, the government should have a strategic view of PPP agreement management and create the capacity to renegotiate.

11. Contract Termination

- **R39.** If the government enters into an early termination process without clear knowledge of the consequences and procedures, the lack of clarity regarding consequences on early termination increases the private partner's bargaining power, leading to increases in the cost of termination; possibly preventing the government from cancelling non-performing contracts, or generating incentives for governments to nationalize a project or assets without proper assessment of the cost of that decision. To mitigate this risk, contracts should include a clear definition of the reasons for early termination (for example, underperformance of the private partner, public interest, or force majeure) and should present its consequences in terms of transfer of assets and responsibilities, namely, financial compensation for capital investment. Compensation should vary according to the party responsible for the early termination.
- **R40.** If the government terminates the contract without a clear understanding of transfer processes, including financial consequences, then (1) it may need to pay for stock of inputs or outputs; (2) human resources issues may imply financial compensation or increased current expenditures; and (3) licenses needed to continued operation may create fiscal surprises. To mitigate this risk, contracts should include a clear definition of the termination process; all financial consequences and identified gaps in the contract should be resolved by having both parties sign transfer protocols detailing the rule.

