ANNEX 2 PUBLIC-PRIVATE PARTNERSHIP RISK ASSESSMENT CONCLUSIONS AND RECOMMENDATIONS

1. If the Government believes that it is able to implement PPP projects that are related to high risk and large contingent liabilities, then the Government should also be able to quantify the risk associated with PPP projects by including it in the Fiscal Risk Declaration and providing transparency.
2. PPP projects are associated with increased risk due to private partnerships, false cash flows, demand calculations, inadequate risk sharing between public and private partners, and lack of institutional knowledge. PPP projects are legally complex, both due to the fact that part of the regulation is on the Government side and because of the nature of the specific contractual arrangements. The long execution period of a contract increases the likelihood that it may be affected by the economic / financial crisis and other unforeseen circumstances.
3. The private partner's goal will always be profit-making, not the provision of public-benefit or government-related functions, which is particularly faced with obstacles and difficulties during the implementation of the project.
4. It should be noted that, in general, governments tend to save large projects, which is why the state budget assumes most of the risks. According to the IMF study, the cost of a project that failed to reach 1% of GDP or, in the extreme case, 2% of GDP.
5. It is essential to assess the benefits of choosing PPP as compared to traditional investments. According to an IMF study, PPPs have been created in a number of countries not because of their effectiveness, but to circumvent the budget constraints and postpone the fiscal costs of providing infrastructure services to the present, which has led governments in a number of countries to focus on low-quality and fiscally expensive projects.
6. PPP projects can cost more than initially planned and less transparent compared to traditional investments.
7. In general, governments have a tendency to save large projects, thus the state budget assumes most of the risks.
8. Failure of other countries shows that the insufficient attention paid by Latvia to this risk can lead to significant losses to the state budget in the future. Available information available so far shows the lack of transparency and the lack of quantification of PPP project commitments, and hence flaws in fiscal impact and risk assessment.
9. Most countries have worked to streamline PPP strategy, inventory, risk management, etc. based on the negative experience of failures with significant fiscal impact.
10. Several countries have experienced many unsuccessful projects, including Great Britain, Australia, France, Portugal, Croatia, Slovakia, Bulgaria, etc.
11. Taking into account global trends and available information in Latvia, demand for PPP as a solution to the financing of significant public sector investments is expected to increase, hence the crucial issue is the adequacy of risk assessment, quantification and transparency.
12. It is expected that the available funding of EU funds will decrease and Latvia's budget possibilities are limited. Many projects have already been developed (there were already 60 identified potential projects by the year 2102). Consequently, it can be concluded in general that only a few successful PPP projects are needed to make this financing mechanism more widely applied with all its consequences.
13. The government must understand the possible consequences of the decisions that are taken, not only today, but also for future generations.
14. The public has the right to be informed about the efficiency of the funds used by taxpayers.
15. Publicly available information indicates that no comprehensive information has been gathered, therefore, the public is not provided with transparency, there is no common management approach and clarity in PPP projects in Latvia.

16. A clear mechanism for PPP implementation, risk assessment and transparency should be developed before such a financing mechanism is used more widely. Necessary requirements by strengthening the regulatory enactments.
17. Work on developing a methodology for quantifying risk should be initiated immediately, ensuring adequate risk assessment and process transparency.
18. Information about projects and their risks must be publicly available. The International Monetary Fund and the World Bank have developed transparency effects on PPP projects.
19. Consistency in PPP management with respect to the general government sector needs to be respected.
20. In international publications, PPP skeptics often point out that several organizations and consultancies want to be well off at the expense of this complex model and to be at the forefront of the accumulation of large pension funds.

Prepared in cooperation with Ilze Brezaucka (volunteer) in accordance with the contract signed on 27 December 2017 for the provision of public-private partnership risk assessment. Full report available here: http://fdp.gov.lv/files/uploaded/FDP_1_08_409_20180406_Interim_report_Ann2.pdf