IMO STATE

PUBLIC PRIVATE PARTNERSHIP

PPP FISCAL COMMITMENTS AND CONTINGENT LIABILITIES MANAGEMENT (FCCL) FRAMEWORK

OCTOBER 2024

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ACROYNMS AND ABBREVIATIONS

CA	-	Contracting Authority
DMO	-	Debt Management Office
DMS	-	Debt Management Strategy
FY	-	Financial Year
GDP	-	Gross Domestic Product
IAS	-	International Accounting Standards ST-State
Treasury and PlanningPFF	-	Project Facilitation Fund
PFM	-	Public Finance Management
PIIP	-	Privately Initiated Investment Proposal
PPP	-	Public Private Partnerships
TA	-	Transaction Advisor
VFM	-	Value for Money
VGF	-	Viability Gap Funding

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1. INTRODUCTION

The Imo State Fiscal Commitments and Contingent Liabilities (FCCL) Framework is a key instrument for ensuring fiduciary responsibility and sustainable financial management. It is designed to address the state's fiscal challenges and leverage opportunities, aligning with its strategic objectives and socio-economic priorities.

The framework emphasizes the importance of understanding fiscal commitments and contingent liabilities (FCCL) associated with Public-Private Partnership (PPP) projects. These liabilities include future debt and interest payment obligations, financial compensations under termination clauses, and recurring contractual responsibilities, such as operational subsidies. A clear grasp of these commitments is essential for informed policy decisions and robust Public Financial Management (PFM).

The primary objective of the FCCL Framework is to provide a structured methodology for public officials across relevant institutions—including the Debt Management Office (DMO), Public-Private Partnerships (PPP) Board, Ministry of Finance, Accountant General's Office, and Contracting Authorities (CAs)—to effectively assess, monitor, and manage fiscal commitments and contingent liabilities arising from PPP projects.

By equipping officials with this tool, the framework supports sustainable fiscal planning, minimizes financial risks, and enhances the state's ability to deliver on its development objectives through well-structured and responsibly managed PPP initiatives. The following tools have been developed to facilitate the implementation of this Framework:

1. "PPP FCCL Model–Imo State Portfolio" (Spreadsheet) and "FCCL Model Manual" (Document)
2. The "PPP FCCL Summary–Imo State Portfolio" (Spreadsheet) is a complementary tool to the "PPP FCCL Model Imo State Portfolio."
3. "Stochastic Model PPP" (Spreadsheet) and "Note on Stochastic Analysis" (Document)

1.1.1 PPP Project Pipeline

A critical driver for the FCCL Framework is the growing pipeline of PPP projects in Imo State. These projects offer significant opportunities to accelerate socio-economic development and introduce various fiscal commitments and contingent liabilities. Properly managing these obligations—such as debt repayment guarantees, operational subsidies, and termination compensation—requires a robust FCCL Framework to mitigate risks and ensure financial sustainability. Below are some public-private partnership (PPP) projects in Imo State, Nigeria:

- Installation of virtual Pipeline for CNG
- Completion of Multilayer Car Parking lots at 2 points in Owerri Capital City
- 20,000 BLPD Modular Refinery
- Dredging of Otammiri and Njaba Rivers, 16km and 25km respectively.
- Oguta Lake Wharf/ Sea Port
- Imo State Rubber Estate Project Financing by Capital Markets, Europe/Grace Bridge Company

Table 1 1 presents a snapshot of the current PPP project pipeline, comprising Six projects (three in the Transport, Two in Oil & Gas and One in agriculture / agro-processing sectors.

S/N	NAME	SECTOR	STAGE	CONTRACTING AUTHORITY	AMOUNT
1	Installation of virtual Pipeline for CNG	Oil & Gas	Implementation	Ministry of Petroleum	NGN 2.5bn
2	Completion of Multilayer Car Parking lots at 2 points in Owerri Capital City	Transport	Implementation	Ministry of Special Projects	NGN 40M
3	20,000 BLPD Modular Refinery	Oil & Gas	Implementation	Ministry of Special Projects	NGN 32bn
4	Dredging of Otammiri and Njaba Rivers, 16km and 25km respectively	Transport	Implementation	Ministry of Environment in collaboration with Ministry of Works	NGN 10bn
5	Oguta Lake Wharf/ Sea Port	Transport	Implementation	Ministry of Special Projects	NGN 32bn
6	Imo State Rubber Estate Project Financing by Capital Markets, Europe/Grace Bridge Company	Agriculture	Implementation	Ministry of Agriculture & Food Security	$10 Billion

1.2 Regulatory Framework

The enactment of the **Imo State Public Private Partnerships (PPP) Law No 11 of 2018 as amended,** and other relevant Laws (Table 2) established a legal and regulatory framework to facilitate private sector participation in financing, constructing, developing, operating, or maintaining government infrastructure and development projects through PPP agreements. This law enables sustainable and mutually beneficial partnerships between the government and private sector players.

Procuring projects through the PPP model offers significant potential benefits. It can reduce the overall life cycle costs and risks the government bears while introducing private sector expertise, operational efficiency, technology, and innovation. This approach enables the delivery of higher-quality infrastructure at an accelerated pace, provided that the risks are allocated appropriately between the government and the private party.

Despite these advantages, PPP arrangements inevitably create fiscal liabilities for the government due to its contributions to the partnership. These liabilities include explicit commitments, such as payments or guarantees, and contingent liabilities, which depend on specific events.

To address these challenges, Imo State is committed to implementing its PPP program fiscally responsibly. To this end, the state has developed a Fiscal Commitments and Contingent Liabilities (FCCL) Management Framework. This framework ensures that all liabilities arising from PPP projects are identified, assessed, and managed throughout the project lifecycle, from inception to the operations phase. By doing so, the state seeks to balance the benefits of PPPs with prudent fiscal management, ensuring sustainable development outcomes. Table 2 below summarizes the existing regulatory framework governing Public-Private Partnerships (PPPs) and Public Financial Management (PFM) in Imo State, highlighting relevant laws, provisions, and impacts.

Table 2: Regulatory Framework for PPPs and PFM in Imo State

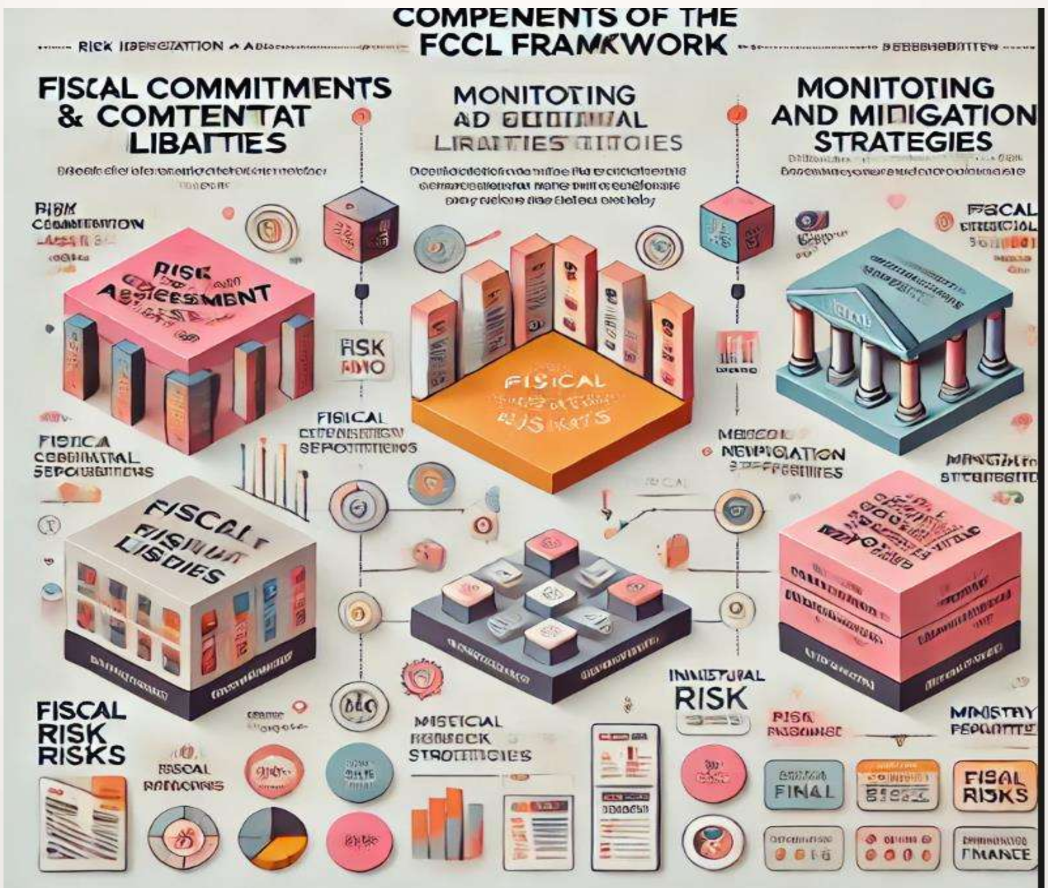
Law/Regulation	Related Provisions	Impact
Imo State Public-Private Partnerships (PPP) Law, 2018 as amended	Establishes legal and regulatory frameworks for private sector participation in infrastructure projects.	Encourages private sector investments; clarify roles, responsibilities, and risk-sharing mechanisms.
Imo State Fiscal Responsibility Law, 2016	Mandates prudent fiscal management, debt sustainability, and adherence to budgetary responsibility principles.	Promotes fiscal discipline, accountability, and sustainable management of state resources.
Imo State Debt Management Law, 2021	Provides guidelines for borrowing, loan guarantees, and debt management.	Ensures sustainable debt practices and minimizes fiscal risks from contingent liabilities.
Infrastructure Concession Regulatory Commission (ICRC) Act, 2005 (Federal)	Provides the framework for PPP concessions across Nigeria, applicable to states.	Aligns Imo State PPP projects with national standards and international best practices.
Imo State Investment Promotion Agency Law, 2010	Promotes investment-friendly policies and provides incentives for private sector participation.	Attracts private sector partners and boosts economic development.
Imo State Cash Management Strategy 2020	Establishes processes for cash and Expenditure profiling.	Enhances transparency, efficiency, and accountability in the management of public finances.
Public Enterprises (Privatization and Commercialization) Act, 1999 (Federal)	Allows for the privatization and commercialization of government enterprises.	Create opportunities for PPPs in previously state-controlled sectors.

1.3 Components of the FCCL Framework

The FCCL Framework is composed of several key elements:

- Risk Identification and Assessment: Tools and methodologies for identifying fiscal risks and evaluating their potential impact on state finances.
- Fiscal Risk Reporting: Mechanisms for documenting and disclosing fiscal commitments and liabilities to ensure transparency and accountability.
- Monitoring and Mitigation Strategies: Guidelines for ongoing monitoring of liabilities and proactive measures to manage fiscal risks.
- Institutional Responsibilities: There is a clear delineation of roles and responsibilities for relevant agencies, including the Debt Management Office (DMO), PPP Board, Ministry of Finance, and Accountant General's Office. Figure 1 presents the components of the Imo State FCCL Framework.

Figure 1: Components of FCCL Framework



The FCCL Framework is divided into two main sections:

1. FCCL Guidelines provide a detailed description of fiscal liabilities arising from executing PPP agreements. It presents how they should be managed through the project life cycle by the legal, institutional, and regulatory framework and
2. FCCL Technical Guidance presents the methodologies for measuring and valuing direct and contingent liabilities. It describes how they are applied in the Long-Term Fiscal Planning (LTFP) Tool, developed to monitor these liabilities.

In addition to the framework, an Excel-based tool (the Long-Term Fiscal Planning Tool or LTFP

Tool) and its user manual (the LTFP Tool Manual) have been developed to assist in identifying, assessing, and monitoring FCCL arising from the PPP projects. It is to be used in conjunction with the FCCL Framework.

1.4 Application of the FCCL Framework

These guidelines must be applied to all PPP projects submitted for consideration and approval under the Imo State Public Private Partnerships (PPP) Law 2018 to the Imo State Public Private Partnership Board. They also extend to all PPP projects initiated by Local Governments to manage their FCCL. All PPP projects executed before the commencement of these guidelines will also be reviewed for FCCL to collect and consolidate FCCL information as required.

The FCCL Framework is a **dynamic document** that will be refined and revised periodically as the PPP program evolves:

- It first looks at how PPPs give rise to fiscal commitments - both Direct and Contingent Liabilities define both. (Section 2)
- Section 3 of the FCCL Framework explains:
  - ✓ Why do liabilities need to be managed?
  - ✓ the fiscal risk of liabilities.
  - ✓ the governance framework to support the management of PPP liabilities; and
  - ✓ how to value, disclose, report, pay for, and account for government liabilities to PPPs

2. FISCAL COMMITMENTS FROM PPPs

While PPPs offer benefits to a budget, they have fiscal implications. PPPs are not "cost-free" to the Government. Though they provide a source of finance, they do little, if anything, to create additional sources of funding. The Government commitment is the same; only the timing is different. Under a PPP arrangement, the Government almost always bears some risk or provides some support that gives rise to an ongoing fiscal commitment, be it contingent liability or an actual direct liability.

- **Direct Liability (DL)** is a defined and quantified undertaking to pay or carry a funding obligation for a feature, phase, or item in a PPP project essential to its development, operation, or completion. Its salient characteristic is that the occurrence of the payment obligation is known, although uncertainty may remain as to the size. Examples of such direct liabilities include supplying land needed for the project; upfront "viability gap" payments - in which the government makes a capital contribution to ensure a project that is economically desirable but commercially unattractive can proceed; annuity or availability payments - in which a regular unitary payment over the life of a project is conditional on the availability of the service; etc.

- **A Contingent Liability (CL)** is an obligation that arises from a particular discrete but uncertain future event (one that may or may not occur) that is outside the control of the government. For contingent liabilities, the occurrence (trigger event), value, and timing of payment may all be unknown or cannot be definitively determined. Such liabilities include guarantees on specific risk variables, e.g., exchange rate, inflation, prices and traffic, force majeure, termination payments, and credit guarantees.

These types of commitments are explicitly set in the PPP agreements. However, fiscal obligations can come from implicit sources as well. For instance, a Letter of Support (LOS) for a specific project may be considered a type of guarantee for some stakeholders; political or socially sensitive projects might expect to be rescued by the Government if financial distress occurs.

Additionally, contract adjustments and renegotiations may increase existing obligations or create new obligations. They may, for example, significantly modify the costs of the projects and the payments to be made by the Government.

Although direct liabilities are often considered more predictable than contingent liabilities, this is not always the case. Direct Liabilities can also include uncertain components within their structure. For example, the project agreement for a toll road project may consist of a service payment defined as an annual payment to be made by the government to the concessionaire in the function of availability characteristics. This service payment can change in function of inflation, exchange rate, local interest rate, change in function of quantity and weight of vehicles, change of scope, increase of road size, and other components. This goes to show that direct liabilities can have a significant amount of uncertainty.

Fiscal Risks cause fiscal outcomes to deviate from expectations or forecasts (IMF, 2016). They arise from the realization of Contingent Liabilities - obligations triggered by an uncertain event and from the realization of macroeconomic shocks or other unpredictable variables.

Hence, CLs are, by definition, fiscal risks. Due to uncertain parameters, direct Liabilities may be subject to fiscal risks when they change. Within the context of PPP agreements, we need to pay attention to sources of budgetary risks other than those embedded in direct or contingent liabilities.

Other sources of fiscal risks are channeled through different provisions – controlled by the Government – of the PPP contract. For instance, an extension of the project scope, allowed in the PPP contract and subject to the government's consent, modifies the project's costs for the government. Other sources are outside the scope of liabilities to be paid by the Government to the private partners. An example is a reduction of user-based revenues the Government uses to fund a project. This reduction does not affect Government liabilities owed to the concessionaire (that may be fixed and independent of user revenue performance) but has a fiscal impact.

Uncertainty, or unpredictable outcomes, makes the estimation and management of fiscal commitments more challenging.

Chart 2: Examples of fiscal commitments in a PPP portfolio of projects

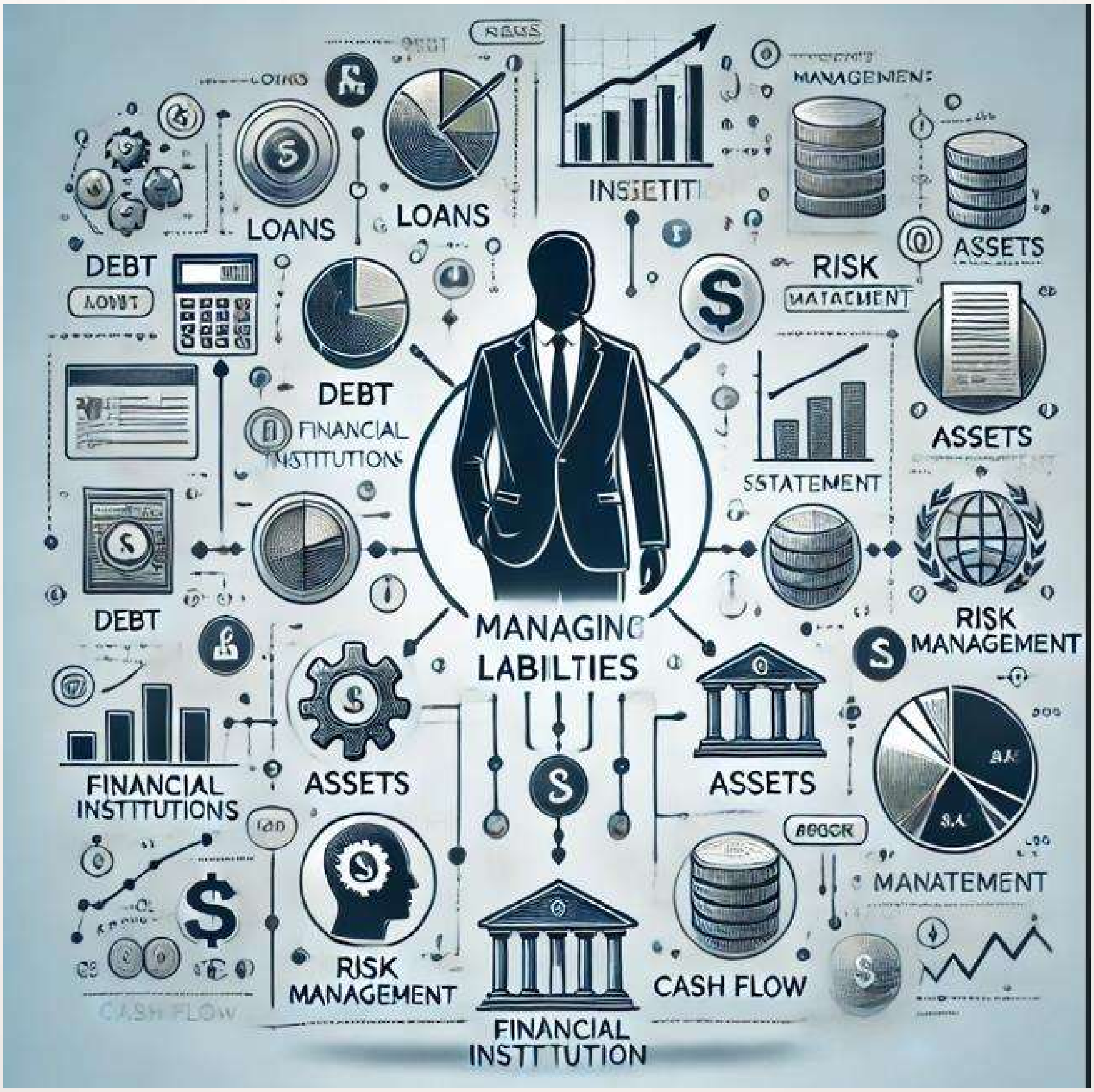
Project	**Fiscal Commitment (Central Government)**		**Other fiscal risks**
	Direct Liability	**Contingent Liability**	
Toll Road	- (One-time) Upfront capital subsidy - (Quarterly) Service payments - adjusted permanently by macroeconomic parameters and contingent events.	-Termination payments in case of default of the concessionaire, or contracting authority, or force majeure.	- Change of scope that modifies the service payment. - Toll-revenue risk.
Roads Annuity Program	- (Quarterly) Annuity payments - adjusted permanently by macroeconomic parameters, and contingent events.	-Termination payments in case of default of the concessionaire, or contracting authority, or force majeure.	- Change of scope that modifies the service payment (capped on a fixed percentage of annuity value)
Students Accommodation	None	- Guarantee on 100% occupancy of the hostels - Termination payment in case of default of concessionaire, contracting authority, or force majeure	

Overall, it is essential to note that Government commitments to PPPs are materially different from Government debt and require a different management approach. When a government borrows, it uses the borrowed funds and is obliged to repay the debt regardless of how well they are used. Government liabilities to PPPs are like payments for services delivered, which are linked to the service provider's performance and are non/limited recourse in nature.

3. MANAGEMENT OF FISCAL COMMITMENTS

The two-stage structure of managing fiscal commitments (development and implementation) used in this FCCL Framework is based on the framework proposed by Shendy (2014). Liabilities are managed and controlled in all phases of the PPP development, approval, and implementation processes. The functions are shown in the context of the broader PPP project development and implementation process.

Figure 1: Functional Components of Managing Liabilities



While the primary FCCL oversight role is assigned to the DPDM, Table 3 below shares the general governance and institutional framework, including the specific functions that need to be undertaken to manage and mitigate contingent liabilities during the PPP project lifecycle.

Function	Objectives	Role/Responsibility
Preparing	To develop a project design that will be bankable and ensure that the risks the government will bear are consistent with good risk allocation principles, borne at the lowest cost and with minimal fiscal impact.	**Contracting Authorities: / Kwara State Investment Promotion Agency (KWIPA)** Project feasibility studies and implementation plans
Analyzing	To inform decision-making when the project is structured and approved and provide a basis for monitoring and budgeting for liabilities.	**DMO, PPP Board:** Fiscal risk assessments and other tools for analyzing liabilities
Approving	To ensure the use of government resources in the form of liabilities is focused on policy priorities, represents value for money, and is consistent with good fiscal management.	**PPP Committee:** Central approval to ensure that PPPs are concentrated in the government's policy priorities, represent value for money, and are consistent with good fiscal management **DMO:** Allocated the overall responsibility of approving the fiscal commitments and contingent liabilities before submission to the PPP Committee for approval.
Accepting	To clarify the government's commitment to its liability obligations, and to ensure the executed contract is consistent with earlier analysis and approval.	**Contracting Authorities (sometimes including State Treasury):** Involve the government executing formal instruments such as project agreements, issuing letters of support, or performance undertakings to guarantee that they will honor its obligations and commitments.
Monitoring	To provide the information needed to disclose, act on emerging issues, and, if necessary, budget for liabilities.	**Contracting Authorities, DPDM, PPP Unit:** This will help the government track its exposure to fiscal risk from year to year and improve its ability to take action to reduce the cost or likelihood of an event triggering a payment should risks emerge.
Budgeting and Paying	To ensure resources are available to make payments promptly when required, improving credibility and clarity as to how costs of liabilities will be borne, and mitigating the fiscal impact.	**Ministry of Budget and Planning**: Establishing a well-defined system for budgeting and paying for liabilities will ensure the government has the resources available to meet its obligations and mitigate contingent liabilities' fiscal or budgetary impact.
Disclosing	To improve accountability for decision-makers and increase transparency of the government's commitments to third parties (such as credit agencies and lenders).	DMO: Reporting on exposure to liabilities through the budget and government accounts to increase transparency and improve the accuracy and completeness of information available to external parties

Mitigating	To help reduce the cost to the government of bearing contingent liabilities by reducing the likelihood or cost of those liabilities.	All - CAs and State Treasury directorates: Continuous monitoring of exposure to contingent liabilities from PPP projects and actively managing that exposure where possible by identifying and taking action on emerging issues.

3.1

Institutional framework for FCCL management

While the primary FCCL oversight is the role assigned to the FRC, the general governance and institutional framework, including the specific functions that need to be undertaken to manage direct and contingent liabilities during the PPP project lifecycle, is shared as follows: Table 3 shows the Institutional framework for FCCL management.

Table 3: Institutional framework for FCCL management

Adequate identification and assessment of fiscal commitments and risks during the development stage will allow the Government to make sound decisions regarding the financial structure, risk allocation, and project approval

3.1. Development Stage

The development stage includes the identification and assessment of fiscal commitments and risks and the assessment of affordability. Chart 5: Methodologies for Assessment and Analysis of Fiscal Commitments and Fiscal Risks and Chart 6: Affordability Indicators (below) are based on the framework proposed by Shendy (2014).

3.1.1. Identification and Assessment

The first step to assessing fiscal commitments and other potential fiscal risks is identifying them within the project structure. Identifying and evaluating fiscal implications of a PPP agreement involves identifying and allocating risks of the project, defining the payment mechanism, obligations and rights of all parties, etc. The base information needed shall be found in the risk analysis and risk matrix within feasibility studies. For active projects, these would be found in the project agreements, letters of support, guarantee instruments, etc. Experts will also require advice regarding all aspects of the project sector (i.e., water and sanitation, transport, energy, etc.) and the project's specific financial structure.

PPP agreements, letters of support, and other explicit Government support provide the fiscal commitments (direct and contingent). These documents contain provisions for the payment mechanism and allow adjustments to availability payments, tariff-based payments, etc.; guarantees and trigger conditions; and termination payments. The risk register will also allow us to identify mitigation and monitoring measures (explained in Section 3.2.1) for risky liabilities. For instance, if the Government pays termination in the event of default of the concessionaire, the risk matrix shall contain mitigation actions to mitigate this risk of default, including monitoring actions to anticipate potential default.

Moreover, the contract agreement may not explicitly contain all the risks and consequences of risks taken by the Government in a project. For example, the Government may take revenue risk and pay to the concessionaire is an availability payment. In this case, the contract will focus on the characteristics of such an availability payment and not on the effects of real demand falling below expectations, for instance. The risk matrix, therefore, complements the contract agreement in identifying fiscal commitments and fiscal risks.

The process of identification and assessment of fiscal commitments and fiscal risks is undertaken in the following three steps:

(1) Analysis of the project risk matrix using a Risk Register.
(2) Identification of fiscal commitments using a Fiscal Commitments Register; and
(3) Assessment of fiscal commitments and fiscal risks

The first step involves analyzing the project's risk matrix. It must be noted that a typical project risk matrix focuses on the consequences and mitigation measures of risks over the private partner. An expert shall develop a fiscal risk matrix and must focus on the effects and mitigation measures over the Government entity. Inputs to develop this matrix are the project risk allocation matrix elaborated for the feasibility study, the finance structure documents, the PPP agreement, etc.

Chart 3 shows an example of the Risk Register that consolidates step 1. It shall contain only risks that are allocated partially or totally to the government. The Register includes a description of the risk, allocation, cost, likelihood and fiscal impact, and government mitigation actions. As the objective we are pursuing is to assess fiscal impact, columns "Cost," "Likelihood/Fiscal impact," and "Government mitigation actions" of the Chart Risk Register must be populated only when the risk is allocated totally or partially to the government. All these things shall be done with the help of a project's expert adviser.

Chart 3: Risk Register

Risk	**Description**	**Allocation**	**Cost**	**Likelihood / Fiscal Impact (*)**	**Government Mitigation Measures**
Project X					
Risk A	-	Private / Central Government / State-owned enterprise / Local authority	Estimated cost	Qualitative estimate of likelihood of occurrence	Measures to be done by government to mitigate the risk
Risk B	-	-	-	-	-

(*) According to analysis of risk, historic information and expert judgment, the likelihood and impact of risk may be Low, Medium or High.

The last column "Government Mitigation Measures" is directly related to the column "Monitoring Information: Fiscal Commitments and Fiscal Risks" of Chart 7 of the Monitoring Section. Hence, consistency between both columns shall be checked. These measures are important to formulate management responses and actions to reduce and control the identified risks.

The benefits of managing risk appropriately include facilitating informed and systematic decision-making, minimizing risks' consequences, and improving the project's understanding of risks.

The following are some of the suggested types of mitigation measures:

- **Preventive Measures**. To limit the possibility of an undesirable outcome. Some examples include insurance, partial guarantees (such as those provided by financial institutions to mitigate the risk of a public entity failing to perform its financial obligations), financial instruments (to reduce financial risks, such as interest rate, exchange rate, commodity prices), and cap provisions.

- **Corrective Measures**. To correct undesirable outcomes, such as implementing a contingency plan in case of natural disasters or contract termination.
- **Detective Measures**. To identify occasions of undesirable outcomes. This includes all monitoring activities and reports. For example, if the government provides termination payments in case of default contracting authority default, it shall monitor the financial performance and compliance with the contracting authority's obligations.

In addition to the risk register, a summary of each project's risk profile should be created, as shown below. This summary will allow for comparing the various risks within the project in terms of impact and probability.

Figure 3: Summary of risk profile

The second step is to identify and register direct and contingent commitments. They shall be consolidated in the "Fiscal Commitments Register" shown in Chart 4 below. It contains types of the liabilities, description of adjustment factors and trigger events, and the location (which will depend on the stage of the project).

Chart 4: Fiscal Commitments Register

Fiscal Commitment	Type of fiscal commitment/Definition	Adjustment factors /Trigger events	Location
Project X			
Payment 1	Direct/Contingent 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	-	-	-

The last step is the assessment. Chart 5 provides guidelines on what measures and methodologies to use for assessing fiscal commitments and fiscal risks.

Chart 5: Methodologies for assessment and analysis of fiscal commitments and fiscal risks

Fiscal commitment	Estimate	In function of available information
Direct Liabilities		
Upfront payment	- Annual cost over life of project - Present value of payment stream for the period of agreement	-
Availability payment		-
Availability payment adjusted permanently by macroeconomic parameters		- Scenario analysis - Stochastic analysis
Availability payment adjusted by contingent events		- Scenario analysis - Qualitative analysis of likelihood of reaching trigger values - Stochastic analysis
Contingent liabilities		
Revenue guarantee	- Estimated annual cost over life of project - Estimated present value of payment stream for the period of agreement	- Scenario analysis - Qualitative analysis of likelihood of reaching trigger values - Stochastic analysis
Debt guarantee		
Guarantee over annual payment by state-owned enterprise, local or subnational government	- Estimated annual cost over life of project - Estimated present value of payment stream for the period of agreement	
Termination payment	- Maximum value	- Qualitative analysis of likelihood of reaching trigger values
Other fiscal risks		
-	- Maximum value	- Qualitative analysis of likelihood

		- Stochastic analysis

The assessment/analysis/quantification can be done using the following spreadsheet models. These three tools allow the users to calculate direct and contingent liabilities and provide cash flow and Government accounting statements:

- PPP FCCL Model – Imo State Portfolio:
  - The "PPP FCCL Financial Model Manual" provides a step-by-step guidance on how the spreadsheet model "PPP FCCL Model -Imo State Portfolio.xlsm" operates
- Stochastic Analysis:
  - The "Stochastic Analysis" spreadsheet allows for estimations with stochastic analysis (Monte Carlo simulation). This is explained in the "Note on Stochastic Analysis".
- Termination Payment:
  - The spreadsheet Termination Payment allows for the calculation of termination payments.

Fiscal commitments and risks that cannot be assessed quantitatively shall be assessed qualitatively using information from the Risk Register (Chart 3) and the Risk profile (Figure 2).

3.1.2. Assessment of Affordability

With the estimations of fiscal costs, the government must now check if the project is affordable. The three standard instruments used to check affordability are:

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

The first instrument entails the Budget Department checking whether the project is aligned with budget constraints and priorities. The primary step is verifying that the fiscal commitments are affordable within the budget. This is achieved by assessing if the commitments allow the contracting authority to accomplish the target fiscal or surplus. It must be noted that this step needs to be done in line with the overall PPP framework, i.e., verifying that the fiscal commitment estimations allow for positive social benefits (pass the cost-benefit analysis). Also, the affordability analysis must be consistent with the budget department's overall liability and budgetary risk management.

Fiscal commitments from PPPs are considered debt-like obligations. Hence, DMOs may consider the consistency of treating such obligations within the overall government liabilities and fiscal management framework. PPP commitments could be included in debt measures to determine a project's impact on overall debt sustainability.

Finally, some governments adopt specific limits or thresholds on direct fiscal commitments of PPPs. The objective is to avoid tying up too much of the budget (within one particular sector or at an aggregated level) in long-term payments. However, such limits are usually not needed in the early stages of the PPP programs such as Imo State's PPP program. This could be later developed as the magnitude and potential of the program increases.

In addition, the Imo State Government will establish a specific fund from which realized PPP CLs will be paid i.e. the PPP Project Facilitation Fund (PFF).

Window 4 of the PFF is purposed to provide short-term liquidity for contingent liabilities that arise from implementation of PPP projects.

The institutional governance and operational framework of the Fund is described in the current PPP Project Facilitation Fund Regulations 2017 and the PFF governance and operations manual. That provides necessary guidance to CAs on the procedures to be followed for assessment and decision on potential CL payments.

This next chart shows affordability indicators proposed in this Framework:

Chart 6: Affordability indicators

Fiscal commitment	**Cost**	**Indicator of fiscal affordability** (Including projections over PPP contract length-beyond medium-term horizon)
Direct liabilities	- Estimated Annual payments - NPV	- Cost as percentage of ministry or sector agency, and national annual revenue / deficit-surplus budget - Cost as percentage of national public debt - Cost as percentage of GDP
Guarantees	- Estimated annual payment, or expected average payment - NPV (Base/Downside cases)	- Cost as percentage of ministry or sector agency, and national annual revenue / deficit-surplus budget - Cost as percentage of contingency line - Cost as percentage of public debt - Cost as percentage of GDP
Termination payment	- Estimated worst-case payment or expected average payment - NPV	- Cost as percentage of national budget - Cost as percentage of contingency line - Cost as percentage of GDP
Other fiscal risk	- Estimated worst-case payment or expected average payment - NPV (Base/Downside cases)	- Cost as percentage of ministry or sector agency, and national annual revenue / deficit-surplus budget - Cost as percentage of contingency line - Cost as percentage of GDP

3.1 Implementation Stage

3.2.1. Monitoring

Managing fiscal commitments entail monitoring, reporting and budgeting of PPP projects both at individual project level and at portfolio program level. An adequate monitoring and disclosure of fiscal commitments and risks will allow preventing undesirable events, mitigating its impact, and making informed decisions during the operation phase.

This stage will require gathering project financial parameters, risks and performance, and country macroeconomic information, and any other input that might affect fiscal commitments and fiscal risks. The objective will be to ensure that updated information is reported at the right time to the relevant gatekeeping entities, in line with section 65(1)(f) of the PPP Act that obligates each CA to submit reports on the project agreement implementation to the PPP Committee every half-yearly.

Each commitment or fiscal risk must have specific information such as financial and accounting ratios and indicators to monitor the evolution along the entire length of contract. This next chart highlights what minimum information shall be collected and registered by the CAs in each project.

Chart 7: Monitoring Information: Fiscal Commitments and Fiscal Risks

Fiscal Commitment	**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	-	-	-	-

3.2.2. Reporting and Disclosing

The Imo State Government must account for and report on their fiscal commitments of PPP contracts. The State Treasury and Planning shall keep a centralized register of fiscal commitments for PPP transactions at the National or sub-national level. Proper reporting incentivizes the government to scrutinize its financial position. Additionally, making reports available to other parties such as lenders, rating agencies, PPP stakeholders, and the public enables them to make informed opinions on the Government's PPP fiscal management and performance.

Fiscal commitments shall be reported for internal and external transparency regarding the financial effects of PPPs on the government's position. It is also recommended that given that fiscal commitments may have debt-like effects on public finances, they should be subject to similar checks and limits.

Chart 8 below shows the suggested information to be reported on direct and contingent liabilities. Description shall include: description of the liability, estimate of the value of the liability, annual cost and present value (for direct liabilities) and maximum exposure (for contingent liabilities). This reporting shall be included medium-term budget reports and debt strategy reports. Specifically, the DMO shall publish information on all fiscal commitments as a section in the Debt Management Strategy (DMS) published annually by the State. The DMO shall also publish the consolidated information on all FCCLs in the Annual Debt Report.

For public disclosure purposes, it is recommended to disclose the stream of annual payments and net present value of all payments with respect to direct liabilities per project. It is also recommended to publish maximum exposure for those contingent liabilities which probability or occurrence is considered low (such as for instance termination payments). In the case of guarantees, it is recommended either (1) to disclose the stream of annual payments and net present value of all payments per project if the information used for its estimation is reliable, or (2) the maximum exposure of aggregated payments. The reporting format sample for presenting direct and contingent liabilities by project is as shown below.

Chart 8: Reporting Sample of Fiscal Commitments by project

<table>
<tr><th rowspan="2">PPP Project</th><th rowspan="2">Direct liabilities</th><th colspan="3">Annual payments value for 3-year budget</th><th>Present value of all payments</th></tr>
<tr><td>2023</td><td>2024</td><td>2025</td><td>2023</td></tr>
<tr><td>Project 1</td><td>- Annuity payment. Indexed quarterly by inflation.</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Project 2</td><td>- Annuity payment. Indexed quarterly by inflation.</td><td></td><td></td><td></td><td></td></tr>
<tr><th rowspan="2">PPP Project</th><th rowspan="2">Contingent liabilities</th><th colspan="3">Estimated annual payments value for 3-year budget</th><th rowspan="2">Present Value of Maximum exposure</th></tr>
<tr><td>2023</td><td>2024</td><td>2025</td></tr>
<tr><td rowspan="2">Project 1</td><td>- Revenue Guarantee</td><td></td><td></td><td></td><td></td></tr>
<tr><td>- Termination payment in case of contracting authority default</td><td colspan="3"></td><td></td></tr>
<tr><td>Project 2</td><td>- Termination payment in case of contracting authority default</td><td colspan="3"></td><td></td></tr>
</table>

It must be noted that estimations of liabilities (Chart 5) and follow-up activities (last column Chart 7) must be updated in an ongoing basis. Estimates should be updated at least during the following milestones:

a. Approval by Budgetary department
b. After Feasibility Study
c. Before signing
d. After signing
e. After financial closure
f. During construction years (they are the riskiest years)
g. During operation (checking on financial performance of firm)

3.2.3. Accounting

The State Government needs to decide whether and/or when fiscal commitments should be recognized in financial statements through creation of public assets, liabilities or expenses. This is important because fiscal responsibility is usually examined in relation to thresholds over Government's liabilities and expenditures. It must be taken into account that adequate accounting and reporting tackle the perception bias that PPPs attract immediate private financing without increasing Government spending and debt. Determining how PPP commitments are to be recognized is important as it defines whether such liabilities count toward debt management limits. International public-sector accounting standards, such as IPSAS 32 and international government financial reporting and statistics guidelines, such as IMF's GFSM (2014) and IMF's Guide on Public Sector Debt Statistics (2013) provide a framework for accounting and statistics of PPP transactions.

IPSAS 32 defines when PPP assets and liabilities should be recognized; assuming the Government follows the accrual accounting standards. Assets and liabilities appear in government's balance sheet, if: (1) the government controls or regulates the services the operators must provide through a PPP agreement, and (2) the government controls any residual interest in the asset at the end of the contract. Under the FCCL Framework, the assets provided by the concessionaire are recognized together with the correspondent liabilities whether the assets are funded through users-tariffs or by government. Regarding contingent liabilities, IPSAS 19 states that the expected cost of a contingent obligation should be recognized on the government's books only if: (1) it is more likely than not (50%) that the event will occur; and (2) the amount of the obligation can be measured with sufficient reliability. The model "PPP Fiscal Commitments Model--Imo State Portfolio.xlsm" contains Government's financial statements considering IPSAS 32 approach and accrual accounting. Given that the State uses cash-based budgetary system, accrual estimations over the income statement or the balance sheet may be used for supplementary disclosure. However, reporting in line with the accrual standards is recommended.

The model "PPP FCCL Model – Imo State Portfolio.xlsm" also generates cash flow estimations and contains stream of payment of direct liabilities (e.g. availability payments) and revenue and debt guarantees.

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