

Abstract

Infrastructure is the key for sustained economic growth as inadequate infrastructure can limit the growth prospect of an economy. Worldwide governments are promoting Public Private Partnership (PPP) for implementing Private Infrastructure Projects (PIP) to ensure greater efficiency and possible cost reductions with the involvement of private sector. However for Private Infrastructure Projects (PIP) the presence of government as mitigator of risk is very important, as with exchange rate fluctuation, market risk and force majeure the project may not be feasible for private sector. While PIP is still an emerging concept in many developing countries, often private sector in these countries participated in infrastructure projects only after government supports like revenue guarantee, exchange rate guarantees were included. Such liability adopted by the government entails significant future contingent liabilities. Therefore proper risk analysis and management of these guarantees are important for both government and private sector. While in the context of infrastructure, Sri Lanka has some experience in PIP arena, however these experiences have been limited to sectors such as ports, telecommunication, and power. While promoting the concept of PIP, it is important for Sri Lankan Government to identify the potential fiscal risks arising from private infrastructure projects. It is essential for Sri Lanka to create appropriate institutional and organizational arrangements for analysing and reporting possible fiscal liabilities for individual PIP before it is awarded, possibly at the feasibility stage. In this regard, the paper describes the evolution of sound fiscal risk management practices in other countries. Based on international best practice this paper provides suggestions for project approval process for fiscal risk management along with challenges, possible outcomes, and recommendations for fiscal risk management. In this regard, the Central Bank need to carefully analyse the impacts of the PIP agreement clauses and understand the implications of the PIP projects in the economy including risk arising from possible exchange rate guarantee and other economic impacts from their ripple effect. PIP regulation of Sri Lanka should ensure provision of charging fees to create a central guarantee fund and making budgetary requirements to compensate for the expected cost to the Government.

JEL Classification Codes: D23, H41, L33, C14

Key Words: Government Guarantees, Fiscal Risk Management, Private Infrastructure Project