



FISCAL RISK MONITORING FRAMEWORK FOR CONTINGENT LIABILITIES OF PPP PROJECTS

Prepared by

Debt Management Office

Ministry of Finance

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1. Purpose and Context

The purpose of this framework is to establish a consistent system for identifying, quantifying, and reporting contingent liabilities arising from Public–Private Partnership (PPP) projects at both Federal and Provincial government levels. PPP contracts can create fiscal exposures that do not immediately appear in budget or debt statements but may materialize later through guarantee calls, revenue support mechanisms, indexation adjustments or termination-related payments.

This framework provides a uniform methodology to classify and quantify both direct and contingent liabilities and to consolidate these into a single national PPP fiscal exposure dataset managed by the Federal Risk Management Unit (RMU) of the Ministry of Finance. The data will be utilized to support medium-term fiscal planning and disclosed in the Fiscal Risk Statement (FRS) and/or in the periodic Debt reports of the Debt Management Office.

The framework defines minimum reporting requirements only. It does not change risk allocation, project approvals or contractual design. Provincial PPP units retain full decision-making authority and responsibility for project appraisal, structuring and contract management. The Federal RMU's role is limited to consolidation and reporting. Where required, this framework will be reviewed and updated to accommodate any refinements in the underlying quantifying methodology or incorporate sector specific fiscal risk parameters.

2. Scope and Coverage

The framework applies to PPP projects that create, or may create, fiscal exposure and, at a minimum has achieved commercial close (signing of PPP Agreement) at the federal or provincial level.

PPP projects are defined as qualified projects under the respective federal and provincial PPP Acts and Rules, typically involving long-term contractual arrangements where the private party assumes significant construction, financing or operational risk and where payments are linked to performance or demand.

The respective PPP Risk Management Units of the provincial governments and PPP Authority (P3A) for Federal projects, shall submit bi-annual reports as of June and December-end of each Fiscal Year to the RMU, as per the template. The reporting shall include:

- **Direct Liabilities** (e.g., VGF support, Annuity or Land acquisition costs) and
- **Contingent liabilities**, including minimum revenue guarantees, KIBOR/FX indexation, cost escalation, compensation events and termination payments.

Coverage may be expanded in later phases to include other long-term public service contracts with comparable guarantee or payment commitments. The reporting framework distinguishes between Direct Liabilities, which are contractually fixed and certain and Contingent Liabilities, which may arise only if specified events occur. Also, where contract has provided specific formulas to calculate direct and contingent liabilities, which may differ from explanation provided in this framework, the respective contract will take precedence.

3. Direct Liabilities

These are fiscal payment obligations that are certain and committed under the PPP contract. These shall be reported at nominal contract value without discounting or scenario adjustment. The reporting will include Government Upfront VGF, Government Equity Contributions, Government Debt or Quasi-Equity Contribution (where applicable), Land Acquisition, Environmental and Resettlement Costs financed by Government and contract Annuity Payments. Concessionaire Equity and Commercial Debt will also be collected to reflect project capital structure but will not be included in consolidated fiscal liability reporting (as they are not direct fiscal obligations). Direct Liabilities shall be reported at total nominal value committed under the PPP contract and not discounted as the purpose is to enable consolidation of aggregate fiscal exposure and not project-level cashflow forecasting. The reporting structures are summarized in Table 1 and Table 2 below:

Table 1 Government Funded Components Under Direct Liabilities

Category	What to Report	How to Report
Government Upfront VGF	Total VGF committed	Report the full committed amount (not annualized or discounted)
Government Equity Contribution	Any equity injected by Government into the SPV	Report the committed share, even if not fully disbursed yet
Government Debt	Any debt provided directly by Government to support the project	Report the total debt provided
Land Acquisition & Resettlement Costs	Cost covered directly by Government	Report the full nominal cost agreed at approval
Annuity / Availability Payments	Scheduled periodic payments to the concessionaire	Report the total nominal value of annuity and not NPV

Table 2 Private Sector Financing Components (Not Counted as Fiscal Exposure)

Category	What to Report	Why It's Collected
Concessionaire Equity	Total equity committed by private partner	Allows benchmarking of leverage / private participation
Commercial Debt / Project Finance Loans	Total debt raised by SPV	Allows debt–equity profiling and sector comparison

4. Contingent Liabilities:

Represent potential fiscal obligations under PPP contracts that may arise in the future if specified conditions occur. For the purpose of this framework, CLs are reported to enable a consolidated national view of PPP-related fiscal exposure. All CLs shall be reported at their total nominal value for the full contract duration. CLs are reported under two categories:

(i) Explicit Contingent Liabilities (ECLs): Contract-based exposures where the PPP agreement defines a trigger and provides a method to calculate compensation. Federal and Provincial agencies shall report total nominal contractual exposure for the following (if applicable):

- Minimum Revenue Guarantees (MRG)
- Interest Rate Indexation (KIBOR-linked adjustments)
- Foreign Exchange (FX) Indexation or Pass-Through
- Termination Compensation (all termination scenarios)
- Change in Law / Compensation Event Provisions

Table 3 Calculation of Explicit Contingent Liabilities

ECL Type	Definition	What to Report (Nominal Value)	How to Calculate It	Probability Rating	Example (Simple Illustration)
Minimum Revenue Guarantee (MRG)	Government compensates concessionaire if revenue falls below guaranteed level.	Report the full guarantee ceiling for the contract term.	MRG Exposure = Guaranteed Annual Revenue × Contract Years	Low: Actual demand consistently ≥ threshold Medium: Demand fluctuating around threshold High: MRG triggered	If the government guarantees a minimum annual revenue of Rs. 1.2 billion under a 10-year toll road PPP, and the concession period is 10 years, then:

				previously or expected soon	<p>MRG Exposure = Guaranteed Annual Revenue × Contract Years</p> <p><i>Example:</i> If government guarantees Rs. 1.2 billion/year for 10 years, then: MRG Exposure = 1.2b × 10 = Rs. 12 billion</p>
Cost Escalation (Construction / Input Costs)	Increase in construction or input costs beyond agreed thresholds	Report the max exposure from cost escalation over the life of the project, based on indices / escalation formulas.	Nominal Escalation Exposure = Base Cost Subject to Escalation × Escalation Factor	<p>Low: Escalation capped and historically stable.</p> <p>Medium: Partial cap or index volatility observed.</p> <p>High: Escalation triggered or contract lacks a cap.</p>	<p>Eligible¹ construction cost = Rs 6 billion. Contract allows escalation up to 10% over base cost. Cost Escalation Exposure = 6.0b × 10% = Rs 0.6 billion (reported as nominal ECL).</p>
Interest Rate Indexation (KIBOR-linked)	Payment adjusts when KIBOR changes.	Report the maximum upward adjustment permitted.	KIBOR Exposure ² = Debt Indexed Portion × Maximum KIBOR Spread Adjustment	<p>Low: Stable KIBOR history</p> <p>Medium: Visible recent volatility</p> <p>High: Multiple past adjustments or refinancing pressure</p>	<p><i>Example:</i> If Rs. 6 billion of project debt is priced at 11%, and KIBOR rises to 13%, then: KIBOR Exposure = 6b × 2% = Rs. 120 million/year. Multiply by loan tenor 8 years = Rs. 960 million.</p>
Foreign Exchange (FX) Indexation / Pass-Through	Payment adjusts if part of cost or debt is in foreign currency.	Report total FX-exposed component as per contract.	FX Exposure = FX-Linked Cost Component × FX Adjustment Formula	<p>Low: Minimal foreign cost share or stable FX</p> <p>Medium: Moderate FX exposure</p>	<p><i>Example:</i> If 30% of CAPEX = USD 20m, and contract allows full pass-through at PKR rate at FC, and devaluation risk is</p>

¹ Eligible refers to standard FDIC contract clauses that generally provide cost escalation on key material items, such as steel, cement, bitumen and fuel.

² To maintain consistency across provinces, the Federal DMO shall issue semi-annual guidance on benchmark KIBOR and foreign exchange (FX) rate assumptions for reporting purposes. Provincial RMUs shall use these standard reference values when calculating KIBOR-linked and FX-linked exposures.

				High: High FX exposure + recent devaluation trend	recorded, then FX Exposure = USD 20m × PKR rate at financial close. If rate was Rs. 280/USD. Exposure = Rs. 5.6b.
Early Contract Termination (ECT)	Payment owed if contract is terminated (Gov default, Pvt default, etc.).	Report maximum termination amount (no scenario evaluation).	Termination Exposure = Maximum Contractual Termination Payment	Low: Stable contract performance Medium: Contract variations/negotiations underway High: Dispute, arbitration, or distress signals visible	<i>Example:</i> Termination schedule states that upon government default, Compensation = Debt Outstanding + Equity + ROE (e.g., Rs. 18b total in financial model for max value). Report. Rs. 18 billion. No adjustment.
Compensation / Relief Events (including change in law)	Adjustment if law change affects cost or revenue.	If cap exists, report cap. If no cap, use the insured value or a validated engineering estimate of expected cost exposure.	If the contract defines an insurance-linked cap (e.g., 10% of project cost or the insured value), report that. Where no cap exists, use a consultant-verified estimate based on project reference costs or FIDIC-based relief valuation.	Low: Regulatory environment stable Medium: Known upcoming reforms High: Change already activated or requested in writing	<i>Example:</i> Contract caps change in law compensation at Rs. 2 billion. Report Rs. 2 billion. If uncapped and model shows Rs. 350m / year impact for 5 years, then Exposure = 350m × 5 = Rs. 1.75b. Use engineering estimates/FIDIC estimates where applicable.

(ii) Implicit Contingent Liabilities (ICLs): Non-contractual exposures that may arise due to policy, sector precedent or political economy considerations. These shall be reported only where there is demonstrated precedent or a credible likelihood based on recent experience limited to:

- Tariff or user-charge freeze resulting in revenue gaps
- Bailout for distressed projects to maintain service continuity

If no such exposure is evident, ICL fields should remain blank. Table 4 below demonstrates how to calculate implicit contingent liabilities (ICLs).

Table 4 Calculation of Implicit Contingent Liabilities

ICL Type	Definition	When to Report	What to Report	Example (Simple Illustration)
Tariff / User Charge Freeze	Tariff adjustments not applied despite formula.	Only if tariff indexation has been suspended in practice.	Report annual revenue gap \times remaining years.	<i>Example:</i> Contract tariff = Rs. 500, applied tariff = Rs. 350, demand = 2m users/year \rightarrow Revenue Gap = $(500-350) \times 2m = \text{Rs. } 300m/\text{year}$. If 8 years remain, Exposure = $300m \times 8 = \text{Rs. } 2.4b$.
Distressed Project Bailout / Financial Rescue	Govt intervenes if project becomes financially unviable.	Only where precedent exists in same sector.	Report estimated fiscal support based on comparable bailout.	<i>Example:</i> Previous toll-road PPP bailout required Rs. 1.8b injection to maintain service. Similar conditions present here \rightarrow Report Rs. 1.8b.

5. Probability Rating of Contingent Liabilities:

For each Explicit and Implicit Contingent Liability, the reporting agencies shall assign a qualitative probability rating of Low, Medium, or High, based on observable project performance and contract execution conditions. The rating shall be recorded directly in Annex (Reporting Template) in the respective column provided.

The rating reflects the likelihood that the contingent liability may be triggered during the remaining contract period. No numerical probability estimation or modelling is required. Agencies shall use the following guidance when assigning ratings:

Table 5 Probability Matrix

Probability Rating	Definition	Examples for Agencies (Use Observable Evidence)
Low	Trigger is unlikely	Demand/usage consistently above guarantee threshold; no previous calls; indexation stable

Medium	Trigger may occur depending on conditions	Demand fluctuates, indexation volatility observed, or sector shows moderate stress
High	Trigger has occurred before or is likely to recur	Guarantee previously called; tariff freeze ongoing; renegotiation discussions active

A **brief one-line justification** shall be entered in the column titled “*Basis for Rating*” in the reporting template. Examples:

- “MRG triggered in FY2023”
- “Demand fluctuating around threshold”
- “No past compensation; demand stable”
- “Tariff indexation suspended since 2021”

This ensures the rationale for the rating is auditable and consistent.

6. Funded Guarantee:

Funded guarantees are legally binding government commitments issued to support a PPP project where the Government undertakes to assume a financial obligation if specific events occur or to fulfill a funded commitment agreed in the transaction structure. These include standby letters of credit (SBLC), partial credit guarantees, payment guarantees, or other financial support instruments backed by government resources or balance sheet capacity. This framework requires each federal and provincial PPP agency to report all active funded guarantees in full, so that guarantee exposure is fully reflected in the federal contingent liability register and publicly disclosed through the DSA or in the FRS.

Table 6 Funded Guarantees Guidelines

Field	Required Detail
Guarantee Type	e.g., SBLC, Payment Guarantee, Debt Service Guarantee, Minimum Revenue Guarantee Instrument
Issuing Authority	Provincial or Federal Government Entity / Department / SPV
Date of Issuance	Date guarantee instrument was executed
Coverage Amount	Total maximum guarantee amount (nominal value, not remaining balance)
Risk Event Covered	e.g., debt service shortfall, revenue gap, termination, force majeure

7. Principles for Fiscal Risk Management

- **Transparency:** All PPP projects that create, or may create, fiscal exposure shall be disclosed using the standard reporting template issued by the Federal RMU (Annex-1). This ensures consistency in classification and comparability across provinces.
- **Consolidation:** The Federal RMU shall compile and consolidate data received from federal and provincial PPP agencies and report it under the FRS, providing a unified national picture of PPP-related direct and contingent liabilities.
- **Accountability:** Provincial PPP units retain full responsibility for project evaluation and fiscal obligations; the Federal RMU's function is consolidation and reporting.
- **National PPP Liabilities Tool:** The Federal RMU shall maintain a National PPP Liabilities Tool and Dashboard, which will consolidate:
 - Project-wise summaries of fiscal exposures
 - Liability-wise breakdowns (Direct, ECLs, ICLs)
 - Provincial and sectoral exposure profiles
 - Annual and contract-term nominal exposure totals
 - Outstanding funded guarantee positions

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Annexures

Summary of Total Contingent Liabilities*

	Federal	Punjab	Sindh	Khyber-Pakhtunkhwa	Balochistan	Total
Total Projects	5	6	17	3	5	36
Contingent Liabilities (PKR Bn) - A	83.7	21.8	255.5	7.3	-	368.3
O/w:						
- Minimum Revenue Guarantees		4.7	61.0			65.7
- Cost Escalation			146.6	4.3		150.9
- KIBOR/Interest Rate Cover			-	3.0		3.0
- Termination Liabilities	83.7	17.1	48.0			148.7
Financial Guarantees (PKR Bn) - B	6.9	4.7	80.0	12.3	-	104.0
Total (A+B)	90.6	26.5	335.6	19.6	-	472.3
Note: - Only qualified projects included as defined in respective PPP Acts - Contingent Liabilities are those contractual obligations for which Public Sector has assumed the risk. These are nominal values calculated over the life of the contract. - Financial Guarantees are those instruments issued in lieu of a financial commitment agreed to be undertaken by the Public Sector, such as VGF support. - Numbers based on Provisional estimates as provided by respective Risk Units.						

* Provisional estimated numbers as of December 2025 as received from Federal P3A, Provincial PPP Risk Units from Punjab, Sindh, Khyber-Pakhtunkhwa & Balochistan.

Reporting Template

1. Project Identification							2. Institutional Details					3. PPP Structuring		4. Financial Structuring			Direct Liabilities										Contingent Liabilities										5. Govt. Support & Risk Management									
These columns define the basic identity and context of the PPP project:							Captures the key government and private stakeholders involved:					Focuses on the contractual and financial		Summarizes the financial scope of the project:			Govt. Funded Components					Private Financing Component					Explicit Contingent Liability										Implicit Contingent Liability		Type : 1							
S.No	Provincial Unit	Project Name	Description	Project Stage (Commercial Close / Financial Close)	Project Start Date	Project End Date	Sector	Govt Agency	Project Manager	Email	Phone No.	Contractors/ Private Partner	PPP Model	Concession Period	Project Cost	Concessionaire Equity	Govt. Debt	Govt. Equity / VGF	Govt. Debt	Annuity	Government Upfront VGF	Government Equity Contribution	Government Debt	Annuity	Land Acquisition (certain)	Concessionaire Equity	Commercial Debt	MRG	MRG Risk	Cost Escalation	Cost Escalation Risk	Kibor Escalation	Kibor Risk	FX Escalation	FX Escalation Risk	Termination	Termination Risk	Change in Law	Change in Law Risk	Political Tariff / User Charge Freeze	Distressed Project Bailout	Guarantee	Guarantee Type	Guarantee Issuance Date	Amount	Risk Coverage
																													Low			Low		Low		Low		Low		Low		Yes				
																													Medium			Medium		Medium		Medium		Medium		No						
																													High			High		High		High		High		No						