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ties, increased transparency has the potential to reduce their *supply* by government.

Finally, the chapter raises an interesting question about the efficient extent of contingent liabilities provided by government. For efficiency, risks need to be distributed to those best able to manage them. Governments may be better at managing risks when they have better information. As noted in the chapter, this implies that governments should at least bear *sovereign risks,* such as those associated with governments changing policy to reap rents from large infrastructure projects. However, there is an interesting question about how much sovereign risk the government should be expected to bear if private investors choose to invest in countries with *generally* risky regulatory environments. In such cases, general regulation failure acts like a general tariff—and it is by no means certain that selective tariff exemptions (or regulatory guarantees) for specific projects will improve economic efficiency.

Overall the chapter provides an excellent benchmark for similar studies of other countries—although, while reading the chapter I wondered why so much of the information it contained was not routinely issued by all governments.

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Comment Shigeki Kunieda

Contingent liability is recognized as one of the important causes of fiscal instability in developing countries. Various measures to manage contingent liability and fiscal risk are actively discussed by international financial institutions and academic researchers (Brixi and Schick 2002).

The Llanto chapter provides a valuable survey on the Philippine contingent-liability problem (especially its depth and seriousness). The policy proposals discussed in the chapter are comprehensive and consistent

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with the recommendations of the recent research. I agree with the general directions of the proposals of this chapter. Here I would like to point out two issues that might be relevant in future discussions of the Philippine contingent-liability problem.

Limits of Risk Sharing by Governments

The previous argument of government's guarantee provision implicitly assumes that the government can share very large risk even if private markets cannot share the same risk. (We can call it a *deep pockets* view of the government.) However, as Bulow and Summers (1984) stress in the case of risk sharing through capital gains tax, the risk shared by the government will be ultimately shared by its taxpayers. Then, the limits of guarantee provision by government should be determined based on the taxpayers' capability of risk sharing. For example, while idiosyncratic risks can be spread efficiently among current taxpayers, economy-wide risks are difficult to be shared among current taxpayers, since every taxpayer suffers the same shocks. In some cases, temporary risks can be spread over generations by the government, since the government has special ability to impose tax on future generations. However, permanent risks are difficult to be shared even with different generations, since every generation suffers the same shocks. While the limits of risk sharing by governments are not so deeply discussed in this chapter and the other research, I would like to stress that we should take not only markets' capability of accepting risks but also the taxpayers' capability of accepting risks into consideration when we discuss the government guarantee in the Philippines or other countries.

More Active Use of Global Market Solutions

With the recent rapid development of global capital, insurance, and commodity markets, even very large risk can be shared through private markets now. For example, the risk surrounding the price volatility and availability of fuel can be shared relatively easily in international markets. With these alternative private ways for efficient risk sharing, as the *core guarantee* proposal in the chapter suggests, the Philippine government should not newly guarantee fuel and other input risk. Further, while the chapter focuses on the restrictions on new provisions of the government guarantee, the government itself can transfer the already existing risks guaranteed by it to private markets through some derivative and insurance products. In order to reduce the total risk guaranteed by the Philippine government, the transfer of the exiting risks to private markets should be considered seriously.

However, for shifting the risk of projects themselves to global investors directly, appropriate governance structure of the projects and sufficient

legal protection of investors are necessary. Without these conditions, private investors prefer debt or debtlike investment supported by sufficient guarantee or collateral. Thus, the importance of the establishment of the legal and other environment providing good governance structure of projects and sufficient legal protection of investors should be stressed more in the discussion of the contingent liability in the Philippines or other developing countries.

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