PPPs Risk Sharing: Public and Private Roles

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Why PPPs?

PPPs combine the **different skills and resources** of various partners in **innovative ways** and allow for the **sharing of risks and responsibilities**. This ensures governments benefit from the experience and expertise of the private sector, and allows them to focus instead on policy, planning and regulation by delegating administrative and day-to-day operations.

Risk Management Cycle

- (i) **Risk identification***.* The process of identifying all the risks relevant to the project;
- (ii) **Risk assessment***.* Determining the likelihood of identified risks materializing and the magnitude of their consequences if they do materialize;
- (iii) **Risk allocation**. Allocating responsibility for dealing with the consequences of each risk to one of the parties to the contract, or agreeing to deal with the risk through a specified mechanism which may involve sharing the risk;
- (iv) **Risk mitigation***.* Attempting to reduce the likelihood of the risk occurring and the degree of its consequences for the risk-taker; and
- (v) **Monitoring and review***.* Monitoring and reviewing identified risks and new risks as the project develops and its environment changes, with new risks to be assessed, allocated, mitigated and monitored. **This process continues during the life of the contract.**

Risk Identification - Main Project Risks

Project Specific Risks

- site risk;
- design, construction and commissioning risk;
- operating risk;
- market (demand) risk;
- industrial relations risk;
- asset ownership risk.

External Risks

- sponsor and financial risk;
- network / interface risk;
- government policy and legislative risk;
- force majeure risk;
- social risk.

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Risk Identification (Indicative)

RISK

Political
- Expropriation
- Changes in law or regulation
- Adverse Government action or inaction
- Access to essential utilities (fuel, roads, water, etc.)
- Increases in taxes

Market & Revenue
- Insufficient tariff income
- Payment/collection risk
- **Dispatch**

Legal
- Property title/ownership
- Security structure
- Insolvency of Project Company/Government Agency
- Breach of contract

Financing
- Availability of debt financir
- Interest rate risk
- Foreign Exchange convertability
- Repatriation

Operations
- Project Company default
- Fuel price fluctuations
- Fuel delivery
- Spare parts
- Technology risk
- Environmental risk

Construction
- Increase in construction costs
- Labor availability and disputes
- Accidents or sabotage
- Contractor default
- Equipment availability and import risk
- Force majeure

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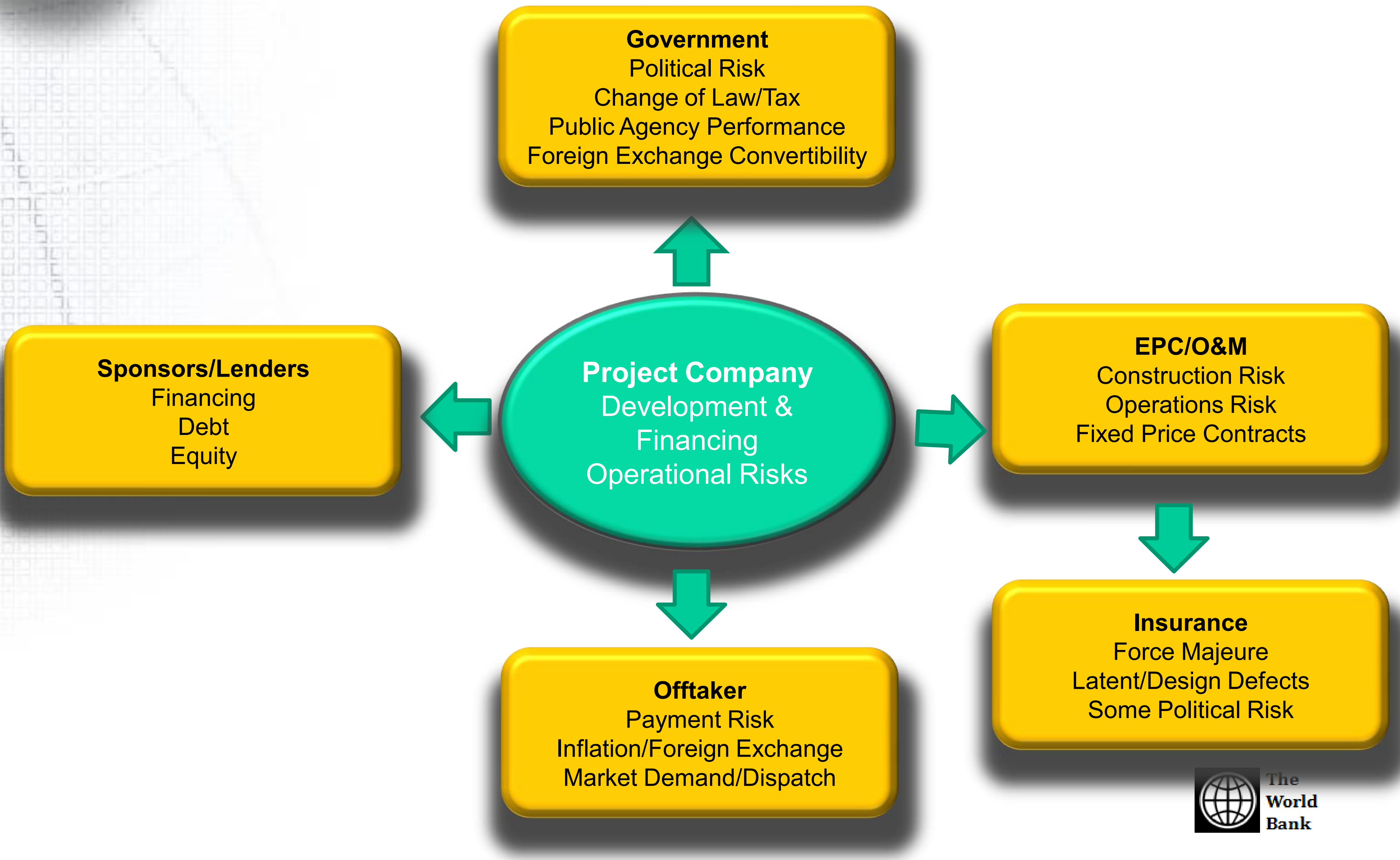
Risk Allocation - Core Principle

Allocating a risk optimally — that is, **to the party best able to control its occurrence and consequences** — reduces the likelihood of the risk eventuating by giving the party best able to control it an incentive to prevent its occurrence.

Risk Allocation in PPPs

- Government pays for availability or usage, or combination, of a service.
- Government may consciously —take-back” or share some risks where:
  - Private sector charges a higher premium on risk than public sector comparator.
- Government generally takes on:
  - government policy and legislative risk;
  - network / interface risk;
  - some site / land risk.

Indicative Risk Allocation for Power IPP



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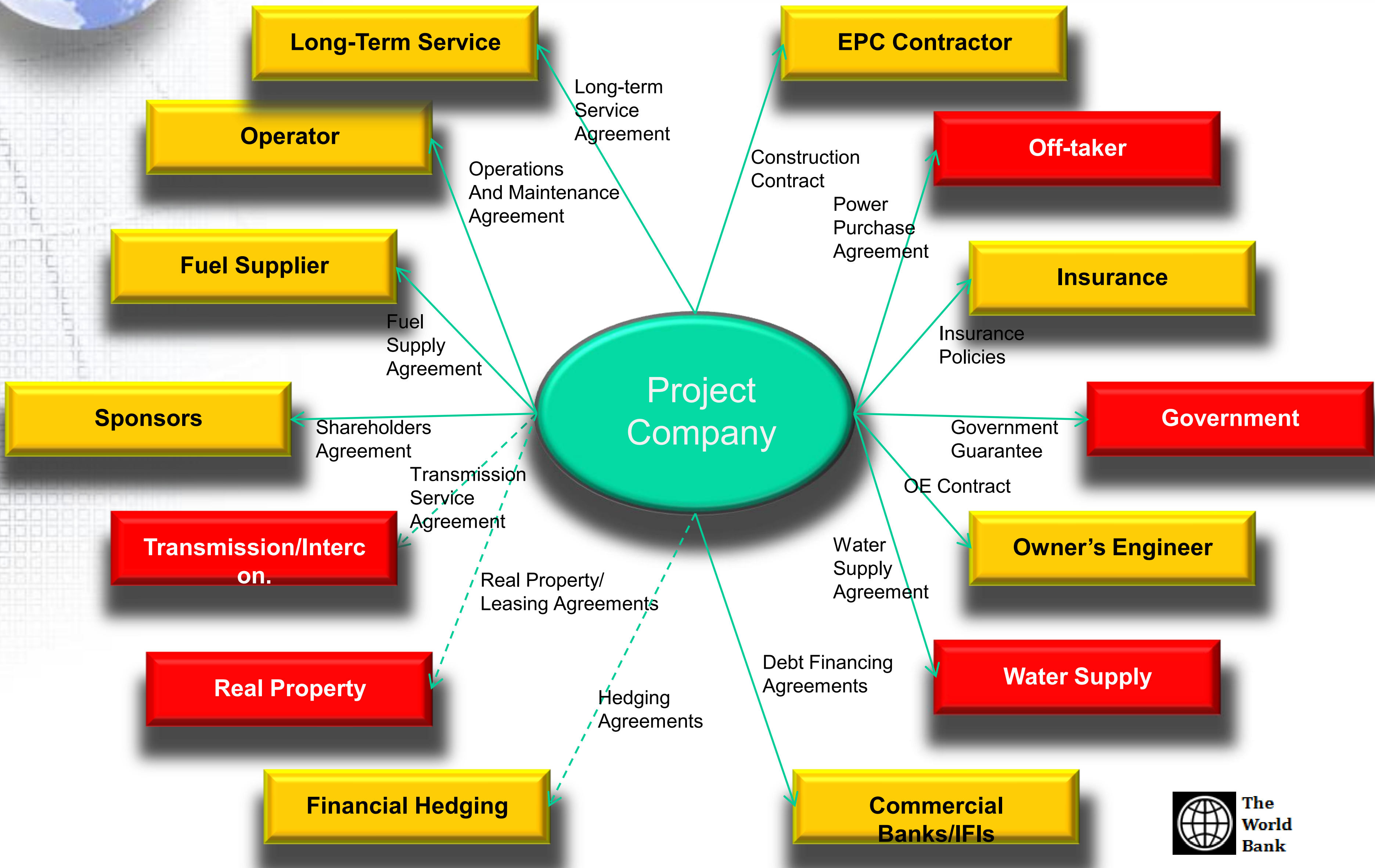
Indicative Power PPP Contract Structure



Key Risks in Renewable Energy

- Site Risk;
  - Reliability of fuel source (Wind, water, solar concentration)
- Design, construction and commissioning risk;
  - Risk and benefits of innovation and cutting-edge technology
- Network or Interface Risk;
- Market (Demand) Risk;
- Social Risk.

PPP in Infrastructure Resource Center in Contracts, Laws and Regulations

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