

PPP Risk Sharing

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PPP Risk Sharing – Private Sector and Public Sector Roles

- All infrastructure projects entail risk

- PPPs provide
 - an opportunity to share risks
 - a structure to manage risks





Risks should be assigned to those parties best able to manage them with the Government retaining policy and regulatory risks and the private sector assuming commercial risks

Type of Risk	Government	Private Sector
Political Risks:		
Expropriation of the company etc	X	
Regulatory Risks:		
Permits etc	X	
Construction Risks:		
Land acquisition	X	
Cost overrun (no change in scope) etc		X
Operation Risks:		
Impact on environment		X
Force majeure etc	X	X
Demand Risks:		
Traffic shortfall	X	X
Tariff	X	
Macro Economic Risks:		
Inflation etc	X	X





PPP Risk Sharing – Private Sector and Public Sector Roles

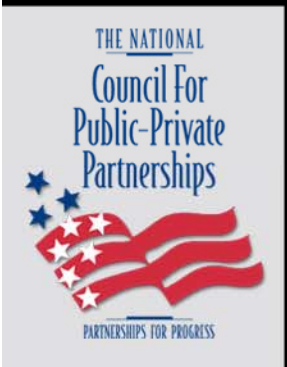


Macro-economic Risks

Risks related to external economic conditions not directly related to the project

Project Risks

Risks inherent to the project or the environment in which it operates



Macro-economic Risks

Inflation

Interest Rates

Currency Exchange Rates

Project Risks

Design

Land Acquisition

Permitting

Construction

Operation and
Maintenance

Environmental

Regulatory

Political

Force Majeure, etc.



Risks must be identified, categorized and evaluated.

- Risks should be allocated to the party best able to mitigate and manage them.
- While not universally applicable, certain generalizations may be made about risk allocation.



Typical Risk Allocation Matrix

Private Sector	Shared	Public Sector
Design	Permitting	Land Acquisition
Construction	Force Majeure	Regulatory
Operation		Political
Demand		
Environmental		
Interest Rates		



Few of these rules should be regarded as universal. Take demand risk for a highway PPP as an example.

- The private partner could assume all demand risk (e.g., payments based solely on toll revenues).
- The government guarantees some level of traffic (e.g., 80 percent of projected traffic/toll revenue) and the private partner assumes incremental risks.
- The government makes availability payments, relieving the contractor of demand risk.