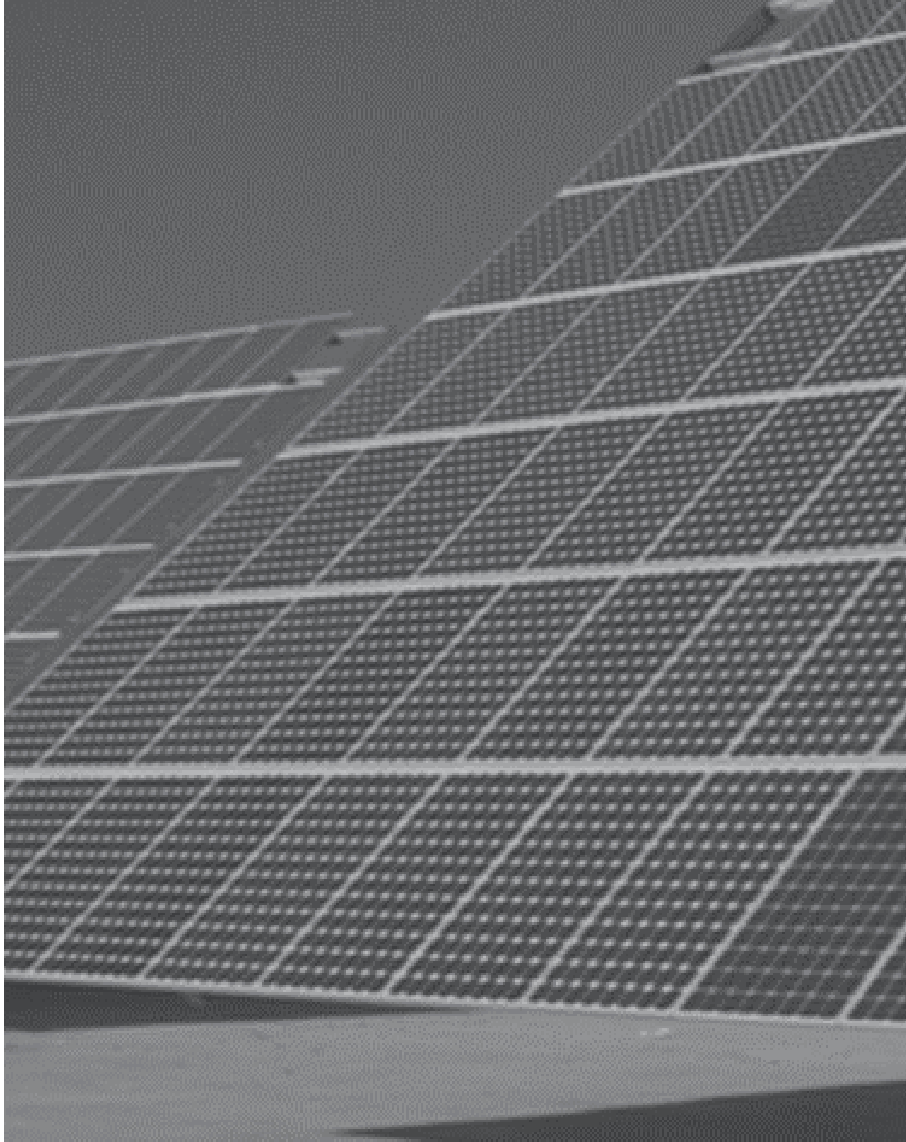
ESCAP

Applied Workshop on Preparing Infrastructure Projects

21th - 25th March
Bangkok



DAY 3

MRTA Study Visit

Applying central concepts to structuring PPP projects

- S1: Project screening
- S2: Defining project characteristics
- S3: Output specification
- **S4: Risk allocation**
- S5: Project structuring
- S6: PPP Contract
- S7: Contract Management Plan
- S8: Procurement Planning

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Session 4: Risk Identification and Allocation

Risk Allocation is the important partner to Output Specification !

Output Spec leaves space for innovation, risk allocation locks in performance

PPP Risks

- Chance of something happening that affects a PPP project (usually negatively)
- Consequences and costs if it happens
- Who is directly affected and incurs those costs?
- How do they respond knowing that it is their risk?

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Risk as a PPP value driver

- Risk allocation is closely linked to performance
- Partners behave to manage or avoid incurring risks they are responsible for
- If payments / profitability of a private party is exposed to a particular risk, they will manage that risks to avoid incurring it
- Hence how risks are allocated is closely linked to how PPP partners perform

Key risk allocation issues

- In a PPP, (most) risks are identified and allocated to a partner in the PPP contract
  - i.e. the contract will have clauses saying, "…if *xyz* happens, then the private partner will be responsible for the costs", or
  - "… if *abc* happens, then the public sector will compensate the private partner", etc.

- Each risk should be allocated to the partner who is best able to control or manage that risk
  - Public example – policy change risk is best managed by the public partner
  - Private example – design or construction risk is best managed by the private partner
  - Shared example – force majeure (flood, earthquake) is often shared

Risk is allocated at a cost

- When a risk is transferred to the private partner they will reflect this in their bid price
- Risks transferred to the private partner are typically contractually passed on to other parties in the SPC on same principals (who can manage them best). This can create most efficient management of risk
- Equity / debt providers will adjust their return expectations / interest rates based on risks of the project (so transfer a risk to SPC = more expensive debt = higher price to users / government)
- Hence can be a high price for:
  - Transferring too many risks
  - Transferring the wrong risks

Types of PPP Risks

Risk	Description
Planning stage	Planning approvals Environmental certificate Land availability Etc.
Construction stage	Construction delays Cost overruns Etc.
Operation stage	Design fault Maintenance costs risk Operation costs risk Demand risk Etc.

Types of PPP Risks cont…

Financing	Interest rate risk Currency risk Inflation risk Tariff setting risk Etc.
Others	Policy risk Regulatory risk Interface risk Contract risk Force majeure (earthquake, floods, etc.) Etc.

Case Work

- Discuss your project
- Identify some main risks
- Discuss to which party the risk should be allocated
- Consider why this partner should be responsible for that risk, and what effect it will have on performance
- Be prepared to make a short report back to the plenary

Session 4 Plenary Group Report Back

Applying central concepts to structuring PPP projects

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Session 5 : Project Structuring

Use the case findings from :

- Project screening assessment (Session 1)
- Project Characteristics (Session 2)
- Output Based Specification (Session 3)
- Risk Allocation (Session 4)

Project Structuring:

- **Main roles of partners**
- **Payment Structure**
- **Contract duration**

Roles of Partners

- **What do you want each partner to do? (under the PPP contract)**
- **What will the private partner be responsible for?**
- **What will the public partner be responsible for?**
- **Possible role of other bodies?**

Note. Be as practical and specific as possible when indicating roles. Think about whether the role you expect each partner to play is actually realistic and will be a role that the partner would actually be prepared to take on.

Payment Structure

- **How will the revenue flow in the partnership?**
- **Who will pay whom, when and how?**
- **Where will revenues come from, who will collect them and how?**
- **How will payments or charges be determined, who will determine them and how?**
- **How will payment be enforced?**

Note. The payment structure is closely linked to how you specify roles as well as to the way you intend to regulate the partnership.

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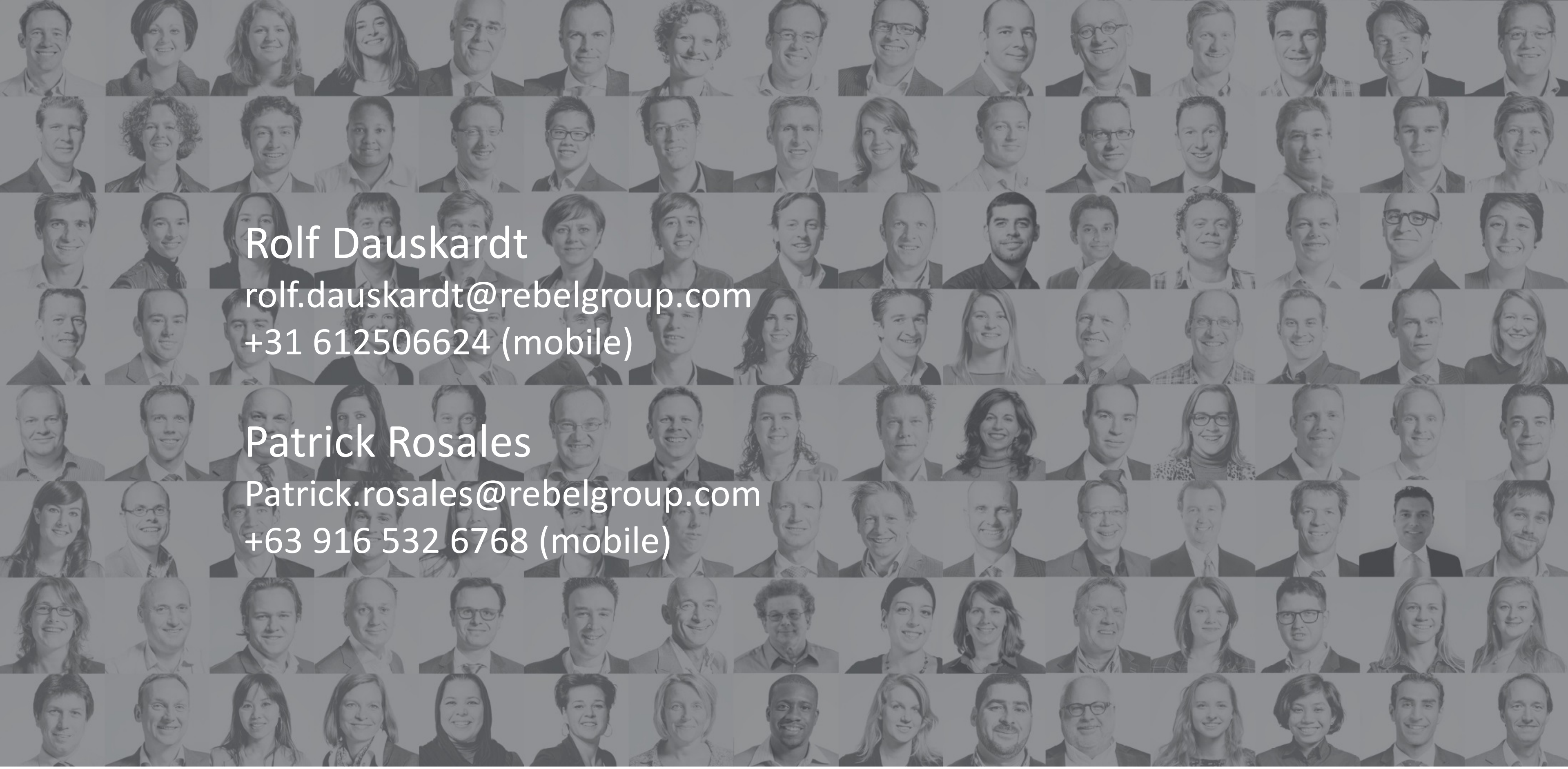
Contract Duration

- Lifecycle of the assets involved
- Potential for lifecycle optimization
- Too short ?
- Too long ?



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