Risk Identification & Allocation

The document provides a copy of the slides presented in the fourth module of the ESCAP e-learning series on Public-Private Partnerships. The related e-learning video can be watched on the ESCAP website.

Objectives

- Type of risks
- Principles for risk allocation

ESCAP supports governments in the Asia-Pacific region in implementing measures to efficiently involve the private sector in infrastructure development. The ESCAP e-learning series on Public-Private Partnerships contributes to this objective and aims at improving knowledge on PPPs.

For further information please contact:
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United Nations ESCAP
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Land Acquisition & Site Conditions

Allocation

Public                                      Private
Availability ?
Ground Conditions
Archeological discoveries
Ownership ?
Environmental Clearance
Rehabilitation & Resettlement

Securing Land before tendering?

Construction

Cost Overruns
Delay
Inadequate design

Operational

Interruption of services
cost increase
Additional Maintenance
Salaries

Allocation

Public                                      Private
Cost Overruns
Delay
Inadequate design

Is-it a significant risk?

Public Infrastructure Projects:
86% of projects are above budget
+28%

Estimated Budget
Actual Cost

Comparison (Australia)

Average Cost Overruns (% of original cost estimate)

PPPs: 12%
Traditional Procurement: 35%

Strong incentive to deliver on time

Operational

Allocation

Public                                      Private
Cost Overruns
Delay
Inadequate design

Interruption of services
cost increase
Additional Maintenance
Salaries

Tariff Adjustment to inflation

Long-term input supply agreement

Input prices
Revenue losses
Asset Handover

Residual Value?

Asset condition

Allocation

Public

Private

Demand

What is demand risk?

Lower demand than projection

Financial distress

Is it easy to estimate the future demand? NO!

Forecasting

General Economic Downturn

Overestimated “willingness to pay”

Demographic change

Connecting infrastructure

Optimistic Bias

What's the best allocation?

Difficulty in forecasting demand -> high premium will be charged

Strong incentive for the operator to attract users

Public

Private

Guarantees?

Extension of concession period?

Exclusivity?
4 Political, Legal & Regulatory

Why is it important?

- Potential impact on Project viability
- Private Sector has no control on these risks
- Protection / Compensation?
- If risk deemed too high... no private sector interest

Political risks

- Political Risk Insurance?
- Compensation?
- Expropriation
- Breach of contract
- Early Termination

Legal risks

- Taxation rules

Regulatory risks

- Unilateral tariff revision
- Tariff in contract?
- Appeal?
5 Force Majeure

Political & Natural Events

Compensation?

Termination? 6 - 12 months

Insurance

Allocation
Public → Private

Early in project development

Key Document

Risk Matrix

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Please note that the video can be accessed on http://www.unescap.org/our-work/transport/financing-and-private-sector-participation