Chapter 3
Risks and Projects Phases

ABSTRACT

This chapter provides the rational for the importance of developing an effective and efficient replica for risks in PPP arrangement in order to optimize measures to handle them. Various attempts have been made to dig up all the risks in the project phases as an alternative service delivery improvement but to date there has been a lack of proper analogies of risks in the PPP project phases. This is also a lack of clear codification for risk of the project phases in the literature to provide useful benchmark mechanisms to improve a particular phase and to share risk optimally. The aim of this chapter is to develop a conceptual replica to comprehend risks in the project phases, and to determine means to advance risk-free PPP project phase. The different case studies will be examined in an effort to simplify the tasks of creating a risk-free PPP projects. In unearthing the melodrama in handling risks in PPP project phases, it is concluded that there is a lack of proper risk sharing formula that make most PPP projects to fail and a lack of emphasis in designing a less risk prone PPP projects.

Risks are generally deemed acceptable if the possible gains exceed the possible losses. - Rory Burke

INTRODUCTION

The central theme of this chapter is the nature and role of risks in each phase of PPP projects. Perhaps, paradoxically, a good deal of attention is given to the formulation and implementation of a PPP project, for each which will become clear as well proceeds. Most notably because the focus and content PPP projects are deeply engrained with risk that has fundamentally changed the landscape of PPP implementation in the last few years. Three main themes dominate the discussion in this chapter: the selecting, planning and designing phase, the procurement and contractual design choice phase, and the construction/service delivery phase. The importance of this topic for the achievement of successful PPP project cum effective and efficient service delivery should not be underestimated. High value production and quality service consumptions are PPP-driven processes and the conditions and contexts in which projects are incepted, procured and implemented in the contemporary world of rapidly changing wants and
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needs. It has to be clear from the outset, that, as a general rule, risk management in PPP should not be directed at reaching a point of satisfaction without due consideration of the critical phases of PPP project development. Rather, the central concern should be with inception and development of PPP project process to suit the needs of the parties and prospects of success. As shall be seen these are non-trivial tasks. Even imitation or adaptation far from the technological frontier can require major investment in organizations and capabilities.

Typically, as noted earlier, many projects fail because of choices made in the early stages of development. According to Crompton, Goulding and Pour (2014), a poorly designed project-delivery approach or the wrong decisions about procurement can also lead to delays, higher costs, and diminished returns. Thus, Akintoye and Main (2007) contend that project risk management has to be a core element of project selection, planning, and design, and it has to be continuous across the entire life cycle of the project. Alashwal, Rahman and Beksin (2011) recommends that for each stage of a project, there are important questions that need to be asked on five central areas of forward-looking risk assessment, risk ownership, risk-adjusted process, risk governance and risk culture. On the forward-looking risk assessment, the questions should be which risks is the project facing? What is the potential cost of each of these risks? What are the potential consequences for the project’s later stages as a result of design choices made now?. While questions for risk ownership should be which stakeholders are involved and which risks should the different stakeholders own? And what risk-management issues do each of the stakeholders face, and what contribution to risk mitigation can each of them make? The questions that should be asked for risk-adjusted processes are what are the root causes of potential consequences, and through which risk adjustments or new risk processes might they be mitigated by applying life-cycle risk-management principles? On risk governance the questions to ask is how can individual accountability and responsibility for risk assessment and management be established and strengthened across all lines of defense? For the risk culture asks what are the specific desired mind-sets and behaviors of all stakeholders across the life cycle and how can these be ensured. The phases are looked at in turn.

SELECTING, PLANNING AND DESIGNING PROJECTS PHASE

In addressing issues in the phase of PPP project development; there are several likely difficulties that can be faced. The first is the vast range of probable areas where PPP project ideas can be developed from. In terms of individual probable project or the sector or the composition of such projects or the relative contribution of the project or the level of its implementation, or in relation to available resources there are numerous differences between projects. Just like there are differences between the projects inceptions. At one, the great success of a well conceived PPP project arise from proper selection, planning and design; at the other end, it can be observes the continual problems of many unsuccessful PPP projects in predominantly failure to conceive this first phase right (Bennett & Peace, 2006). In between is a vast range of issues and matters to be resolved which will differ from project to project and what is appropriate for one project will not be appropriate for another such that for successful projects. Similarly, the appropriate choice of a project in one sector is quite different from that which is appropriate in another sector. Public sector organizations are adapting workable systems within an evolving projects’ probable situation and the derivation of project that can succeed in the end (Eriksson, Dickinson & Khalfan, 2007). A ‘one approach fits all’ for all projects selection approach clearly will not suffice. Consequently, there is no best approach independent from time, place and the future of the chosen project area. Context is