Chapter 4
Risk Sharing in a Partnership

ABSTRACT

Risk sharing is an activity which integrates recognition of risk, awareness of a party’s capability, risk assessment, and developing strategies to accept and own the risk using managerial resources. Some traditional risk sharing philosophy is focused on taking risk of a lesser costs to the risk taker. Proper risk sharing, on the other hand, focuses on taking and acceptable risk within the capacity of the party to manage. Objective of proper risk sharing is to reduce the possibility the risk taker would not perform the part of the bargain. It may refer to numerous types of measures a partner would undertake to ensure the risk taken does not prevent the partner from performing part of the bargain. The chapter describes the different steps in risk sharing process which methods are used in the different steps, and provides some examples for risk acceptance and risk sharing that can be pursued by a partner.

Don’t be afraid to take a big step when one is indicated. You can’t cross a chasm in two small steps. - David Lloyd George

INTRODUCTION

There is a growing literature on risk in PPP studies and practices but there is little agreement on what the term means. What causes it as well as its effects on PPP projects is hardly known. Three distinct views on risks can be conveniently distinguished as follows: contractual perspectives which deals with internal and external unforeseen occurrences that tend to derail contractual obligations in the PPP projects and focuses on real execution of the contract as agreed; construction perspective that emphasizes actual implementation of the PPP project and actualizing PPP agreements and inscribed in paper; and operational perspectives which is concerned with the rivalries between implementers and beneficiaries and a power struggle the parties often engage in that derails the PPP project implementation process. Given the diversity of thinking on the issues, it is not surprising that the academic and policy debates on risks in PPPs become so convoluted and emotional. There is also little sign of consensus being reached over practical guidelines for policy makers. The inconclusive state of academic and policy debates means...
that the concept of risk remains somewhat elusive particularly at the PPPs-level. Furthermore, the connection between public and private level PPPs still seems vague and there appear to be contradictory views in its policy implications. Against this backdrop, this chapter assesses the concept of risk and risk management to enhance a better understanding of the concepts and apply them to the world of PPPs. The main concern of the chapter is to uncover the innermost ‘egg-shell’ of risk rather than gleaning from the periphery. It aims at a broader and detailed understanding of risk so no iota of doubt remains in the mind. This would act as a benchmark for a fuller grasps of the different risk-topics discussed in the proceeding chapters. Nonetheless, suffice to note that different risk situations present quite different hazards so different modes of safety control and risk management need to be devised. In a public private partnership arrangement, an inverse relationship is found between the accepted norms of handling risks than what is done in practice. Quite sizeable methodologies have been developed over the years, to handle risk in public private partnership.

The chapter begins by examining risk and risk management separately. It then applies the concept of strategy, notably, in the context of appreciating an important distinguishing feature of this book from other works on risk management in PPPs. Emanating from this understanding, the chapter proceeds to chart out and analyze a roadmap for effective risk management. This shall be handled in manner of assessment, designing the risk sharing networks, and implementation. Having highlighted the roadmap, the chapter focuses on those necessary conditions which must be in existence for proper risk sharing to take place. Then it goes on to discuss appropriate conditions in the glow of strong capabilities of the public partners, good capabilities of the private partner, and sustained private partners’ commitment. These are intended to improve a better understanding of the central thesis of this book. A conclusion will close the chapter in the end as references consulted will also be listed down.

**RISK: BASIC CONCEPTS**

Mere entry into a PPP arrangement which is perfectly of a contractual nature, suggests a range of risks that must be dealt with (Alderman & Ivory, 2007). A contract is a risky business in that whatever has been agreed on must be executed as agreed and even to the letter. Unfortunately, unforeseen future occurrences often derail the execution of obligations as inscribed in the contract (Loizou & French, 2012). Hence, like any other form of contract, PPP is bound to fall a victim to risks. Moreover, parties to a PPP arrangement often times tend to ignore risk and enter into a contract with all the imperfections embodied in the contracts in form of uncountable risks (Assaf & Al-Hejji, 2006). While the parties may be contended of having entered into such an agreement to leverage their interests, the tendency of under looking the crucial importance of digging deep in all those risks contained in the project, is the epitome of failure of the agreement they would enter into (Aldoory, Kim, & Tindall, 2010). Somewhat the parties’ emphases have tended to shy away from the critical issues which would affect the actual implementation of the PPP arrangement.

In spite of this differing indifference, notions of risk and risk management are real in a PPP arrangement (Ammar, Berman & Sataporn, 2007). Their manifestations are seen in the failure of hundreds of PPP projects that have either stalled or remained incomplete. This shows that the reality of risk and how best to manage it underpinned by a common sharing framework between parties to a PPP arrangement, which is practically lacking in most PPP is very worrying. For this reason, the capabilities to management risk must be demonstrated by both parties to the PPP arrangement (Bloomfield, 2006). The devastat-