Chapter 5

Risk in a Partnership

ABSTRACT

Each partner has an enormous obligation in the management of risks in any PPP arrangement. The partner must ensure that concerted efforts are exerted that risks are specifically specified in their natures and where they fall. The partners thus have to comprehensively get to the knowledge of the nature and kind of the risk and where they hit most. Literature review is used to identify all forms of risks in a PPP arrangement, and their effects, and their probable solutions. These are then explored through deeper systematic reviews of case studies of implemented PPP projects and those on-going ones implemented and being implemented in various countries. Risk issues in PPP relate to typology, perspectives of parties and criteria. The findings show that effective identification and comprehension of risk in PPP will increase the likelihood that intended purpose is achieved in PPP especially when the boundaries for risk taking is well established.

If you do not actively attack the risks, they will actively attack you. - Tom Gib

INTRODUCTION

In most PPP projects, risks of small, medium and large magnitudes make up the majority of the failures and account for the highest proportion of stalled/incomplete PPP projects. These risks that are intentionally unattended to are made able to rare their ugly faces and continue to survive to destroy a PPP project. In order to become less harmful, these risks must be consciously handled and comprehensively ‘disbanded’ from the PPP processes. These approaches can be particularly difficult to achieve for a successful PPP projects in both developed and developing economies. However, it’s helpful to have a complete understanding of what these risks are which would act as a benchmark for properly managing them. This chapter identifies risks from a worldwide experience with examples and illustration from both the developed and developing world. These objectives can be particular helpful, now that many governments world over have taken to PPP by storm. In particular, this chapter focuses on classifying risks in a partnership by advancing them on terms of development phase, construction phase and operation.

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phase. The section on “approaches of risk management practice” describes the different approaches and their roles in the PPP cycle. The sub section on ‘qualitative approach’ describes the qualitative nature of risk and how this can be compensated. Quantitative risk approach is a sub section that makes most successful projects admirable. The sub section on “qualitative versus quantitative approach” outlines those that can be done and achieved by using the combined approach of qualitative and quantitative. The final section on “Integrated risk management” summarizes the process of secure risk management taken within the realm of an integral structure. It defines the term to make it clearer to be understood. This will then be followed by discussions on the principles of Integrated Risk Management (IRM) before taking on a deeper understanding of the critical success factors responsible for a smooth management or risks in PPP. This is chapter that must be well understood if risks are to properly managed because no one can management something which such a one does not know of. There shall where applicable be detailed presentation of the different possible risks that can be experience in a PPP. The presentation shall be accompanied with deeper and detailed illustrations and some relevant examples will be provided as well. This is believed to act as a pace setter for the rest of the remaining chapters. In the end though there shall be a conclusion to the chapter, but as usual references for furthering readings shall also be included in the chapter.

**RISK CLASSIFICATION IN A PARTNERSHIP**

The term risk encompasses a heterogeneous group of unusual occurrences, ranging from a single event producing devastating effect at a single point to sophisticated events in complex projects, for example, PPP that requires specialized treatment. What is, or is not, a risk is usually defined by the number of those who handle it and definitions vary between actors and implementers. Jin and Doloi (2007) warn that risk is one of the biggest and most fascinating challenges of all times for humanity, because of its presence in all fields. Within the general complex PPP projects a number of risks can be identified: with no particular exception to any stage. In most instances, little efforts have been made to know and understand these risks such that in the end their devastating effects cannot be gauged. Failure to recognize the prevalence of risk in a partnership, caution Yongjian, ShouQing and Chan (2009) can lead to a distorted classification and inability to file proper solution(s). This section aids in that direction by discussing the typology of risk, risk factors as risk categories in a partnership.

**Typology of Risk**

According to Checherita and Gifford (2007), typology of risk in a partnership can be classified into two: common risks and PPP-specific risks. Common risks can arise in any road infrastructure investment, irrespective of the structure of ownership, financing or operation. Common risks can be classified according to the phase of the project lifetime in i) risks arising during the design-construction phase; ii) operational risks, and iii) permanent or indirect risk. A synthesis of the typology of common risk includes the adequate risk allocation between the government and the private partner. This is presented in Table 1 inclusive of the recommendations regarding contractual design and other measures that the public authority could implement in order to mitigate its risk, as well as the overall risk associated with the project.