

Chapter 7

Risk Management Framework

ABSTRACT

This chapter examines the adoption of a formal risk management strategy framework in a PPP arrangement. The chapter shows the relevance of risk management as an PPP project management tool. The chapter also reveals how the use of risk management is dependent on relational skills, knowledge of the PPP project activities and experience. Risk management can therefore be seen as both a context-dependent devices and as a technique abstracted from the context. The paper discusses how managing risk can be dealt with in risk's complexity, addressing the expectation of multiple PPP actors and external stakeholders. It is concluded that a good risk management framework must be derived from the risk fundamentals through a clear processes and above all be monitored on a regular basis. This requires proper planning to ensure sustainability of the framework with an inclusion of the varied stakeholders.

Good risk management fosters vigilance in times of calm and instills discipline in times of crisis. - Dr. Michael Ong

INTRODUCTION

If there were full information about the praiseworthiness of PPP arrangements and other collaborations, risk management programs would probably not exist. All PPP projects would be implemented without any hurdles in the sense that nothing would debar the achievement of its objectives and service delivery without doubt is very superb. Likewise, there would probably be no need for private finances since borrowing and financing from the private sector would form a portfolio of undesired for development purposes. Moreover, the vision of a development attempts without the inclusion of the private sector may be contemplated in the context of the full consequences of the ongoing urge and craze for PPP projects. PPP arrangement is already replacing the traditional form of infrastructural development and service delivery provision (Armistead & Pettigrew, 2008). Although it is normally assumed that the public sector has all required resources and obligations to deliver quality goods and services, the reality is that the public sector is now sort of all required resources and cannot therefore provide quality goods

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and services. Scarcity of resources amidst rising ever changing demands for quality services is already undermining the role of the public sector in infrastructural development and service delivery provision (Chen, 2010). It is thus possible that inclusion of the private sector in the development processes could ultimately mean just that, lending direct involvement of private sector organizations and cutting out a deal with the public sector in form of PPP (Gazley & Brudney, 2007).

Risk currently plays an important role in devastating the course of PPP initiation and implementation because of lack of full information on the management framework standings of the partners (Aldoori & Sha, 2007). The public partner normally has more information about PPP project risk standings than the private partner and consequently there is asymmetry of information. In the real world of information asymmetry, which is most acute in developing countries, the public partner do not only exploit but leave the private partner in the cold in some cases. As PPP project progresses on, essentially ‘swimming’ in risks, both partners may not have the same understanding of outdoing the risks. In the process of a framework for countering such, they should allocate resources to develop a framework which is most efficient and ensures that risks can be appropriately handled. However, it is rational for the partners to panic if they suspect a PPP project is unsound, implementation process is inherently unstable and must be gripped to protect the PPP project and to cause stability in the implementation process. This implementation challenge, combined with the risk of fraudulent misuse of the PPP project itself, necessitates the formulation of a promising risk management framework (RMF). The first step in developing a promising framework for a successful PPP is therefore to ensure that both partners understood and respectively agree on a workable RMF. Thus the RMF ought to be seriously taken as the art and science of identifying, analyzing, and responding to risk throughout the life of a PPP project and in the best interests of meeting its objectives. Berg (2010) cautions that; RMF should not be overlooked for any PPP projects. This is because it helps to improve PPP project success by helping to select good projects, determining project scope, and developing realistic estimates. Bolvin, Farret and Salvi (2007) reminds that though crisis management has higher visibility due to the obvious danger to the success of the PPP project, its only proper RMF that can help a PPP project have a fewer problems to begin with.

The remainder of this chapter is structured into 4 other sections. The section on ‘Risk management fundamentals’ discusses the importance of risk estimation in promoting the developing of an effective RMF. Risk mitigation as well as risk transfer/allocation, as means of correcting the deficit of risk exposure, are examined under this section. Risk identification, assessment and analysis are explored in the section on ‘Risk management processes. The section on ‘Risk control and monitoring’ focuses into detail risk control and risk monitoring. It also discusses risk auditing and reporting. Conclusion is offered in the last section.

RISK MANAGEMENT FUNDAMENTALS

In order to obtain their objectives, partners must be prepared to take risks and face uncertainties. Evidently, there are no shortages of risks and uncertainties to challenge a PPP partners’ ability to manage risks (Gupta & Sharma, 2015). New technologies, globalization, and innovations in products and service delivery processes will influence even more complex and dynamic decision making environment for an effective risk management (Flanagan, Norman & Chapman, 2006). At their basic level, risk and uncertainty are fundamentally multifunctional and multidisciplinary concepts, applicable in PPP arrangement as much as in implementation. Additionally, risk and uncertainty involves concepts from

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