parties bring frustration, even breach of contracts. There are many risks that need to be borne by the government in PPP projects. Thus risk sharing is the other distinguishing characteristic of PPP; the success depends on the appropriate allocation of risks. Project risks therefore need to be identified very carefully and allocated to parties who are best suited to manage it at lowest possible cost. Risks have a price and each party in a PPP project have a different perspective and approach to assess risks. Furthermore, each party makes a price for their services taking into account a profit to compensate by bearing such risk. Examples of PPP risks are as follows:

- Technical risk: due to engineering and design failures.
- Construction risk: because of default in construction techniques, cost and time overruns.
- Operation risk: due to higher operating cost and maintenance.
- Revenue risk: failure to extract resources, the fluctuation of prices and demand of product and services.
- Financial risk: due to inadequate financial cost and hedging of revenue streams.
- Force Majeure risk: due to acts of God, war and natural disasters.
- Regulatory/ Political risk: legal changes and lack of government support.
- Environmental risk: hazardous and adverse impacts on environment.
- Project default: failure of the project due to a combination of any of the above factors.

Identification and assessment of risk is therefore not an easy task as risk is interrelated. Risk mitigation helps parties to take action (1) to reduce likelihood of risk materialising and (2) to reduce the consequences of event. Therefore, it is understood that precise risk estimation and allocation to parties is of immense importance; it plays an important part in the cost of financing and success of PPP projects.

The government is one of the major parties in PPP. Though it is theoretically believed that PPP should be entirely self-supporting with no recourse or guarantees from the public or private sponsors, but practical guarantees are sometimes necessary. Private sector invests only to those projects from which they can gain profit i.e. financially sound. There are projects where economic benefits are more substantial than financial gains. Governments are especially interested to invest into these projects. In order to attract private sectors to these projects governments need to give some support and guarantees to the private sector so that debt service obligations are made, smooth operation for revenue generation is ensured (i.e. no change in law and regulations). The private sector may also request government guarantees against market or commercial risk. It is essential for the government to appreciate that in order for most PPP infrastructure projects to suc-



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