ceed, they must shoulder certain risks such as political risk guarantee, underwriting minimum toll levels and protection against certain events of force majeure.

One of the interesting things is that, guarantees do not add any cost to a project and can be as simple as only assurance, such as no change in tax, no second facility and so on. However, the guarantee is not without cost to a government. It makes contingent liabilities which require careful selection, monitoring, accounting and provisions for budget to meet future guarantee calls. In PPP infrastructure projects, some risks are still left to the government which always prefers to pass as many of the risks as possible to private parties. The most widely used major guarantees against revenue risk are off-take and supply agreement. Revenue risk includes demand and price risk. The concession period of any PPP infrastructure project is normally ten to fifteen years and more. It is very complex and needs meticulous care for analysing demand and price upfront. Supply and off-take contracts are of central importance in this aspect. In order to reduce price risk, sponsors as well as lenders carefully examine supply contract with the project company. Major considerations are length of supply, availability, creditworthiness and whether the supplies are the major component of the product produced. It is possible to link the price of supply to the price the project company receives for its product (i.e. from off-taker).

Two widely used supply contracts are 'Supply and Pay' and 'Supply or Pay'. Supply agreements, off-take agreements reduce price risk. It reduces the demand risk as well. Two widely used off-take agreement are -- "Take or Pay' and "Take and Pay'. It is also noted that 'Take or Pay' arrangements are of many shades of grey and do not impose a straight-forward obligation for a utility to buy the full quantity of the product. A minimum revenue can be guaranteed and the remaining part of risk may rest with the project. In many situations, the state or a state-owned enterprise is the off-taker. The price may be controlled by concession terms or by law establishing the framework for the industry. The investors and lenders are therefore required to understand existing legal framework and pricing structure so that may take necessary measures against legislative changes and political risk.

Government guarantee should only be used where the government has full control such as expropriation, nationalisation, confiscation and so on. Government guarantee is also sought against state owned enterprise or state agency where it is the off-taker of a project. In most cases, the condition of state owned agencies are financially unsound and credit-standing position on guarantees about off-take agreement do not add any value to the project. The government therefore requires providing counter guarantee and backstop payment obligations in such cases.

The government has to ensure competitive bidding to meet transparency, accountability and creditworthiness of PPP projects to the nation, particularly to the opposition party.

Public Private Partnership brings together the expertise of the government and the private sector to meet the needs of the public effectively and efficiently. If properly structured PPP will deliver public services that can better meet the needs of the public without compromising public policy goals and needs.

The government has to ensure competitive bidding to meet transparency, accountability and creditworthiness of PPP projects to the nation, particularly to the opposition party. The government should also participate in capital investment of PPP projects. The government needs to innovate investment tools such as subordinated debt under the Multi-lateral Development Banks (e.g. the World Bank) such as Private Sector Energy Development Fund (PSEDF) or Private Sector Infrastructure Fund (PSIF). This debt mechanism not only relieves the investors but also attracts other offshore and domestic lending institutions to finance. The government must also ensure performance guarantee in 'Put or Pay' supply contract if state owned enterprise (SOE) are the suppliers, and creditworthy purchase guarantee 'Take or Pay' as off-taker for the project. The government needs to encourage Export Credit Agencies (ECAs), Multilateral Development Banks (MDBs) and insurance companies to participate in financing and/or providing political and commercial risk coverage for the project. The government needs careful selection of legal attributes for mitigating risks involved in PPP projects which will help to form financial structuring. This will enable the government to set legal strategies depending on conditions prevalent in PPP projects.

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