

RISK

Before a build-operate-transfer (BOT) agreement is packaged, a detailed analysis must be conducted. Risks are associated with three phases of the project:

- pre-commissioning risks;
- post-commissioning risks; and
- risks that apply throughout the project's life.

All of these risks must be analyzed by the project developers, both for their own satisfaction and for the benefit of investors and lenders. Reducing and properly allocating all risks is essential if the BOT project is to proceed beyond the planning stages. This is accomplished by balancing the contractual obligations of all participants and, where feasible, the judicious use of insurance.

MAJOR RISKS OF BUILD-OPERATE-TRANSFER INFRASTRUCTURE PROJECTS

Pre-commissioning risks	Post-commissioning risks	Lifetime risks
■ shareholders abort project	■ output shortfall due to physical damage, strikes, operational problems	■ host country currency is devalued
■ late start-up	■ fuel shortages cause output shortfalls	■ increased interest rates
■ cost overruns	■ slower start than expected	■ nationalization and expropriation
■ delays arising from <i>force majeure</i>	■ output prices lower than forecast	■ currency convertibility is not maintained
■ damage to equipment	■ inflation and/or operating costs exceed forecasts	■ local partners/shareholders fail to fulfill joint venture responsibilities
	■ changes in fuel supply arrangements	
	■ import restrictions are imposed	
	■ tax regime difficulties	
	■ changes in legislation	