Despite the inevitable differences, governments have very strong incentives to enter into private-public partnerships, including BOT arrangements. The benefits to government include the following:

- off-budget financing;
- projects built at a much lower capital cost to government;
- greater probability of efficiency in construction and operation because the private sector has stronger incentives for cost control;
- risk assessment done by the market rather than the political system;
- risks are transferred to project developers, rather than the government (except if there are revenue guarantees); and
- greater probability that the underlying technology will be commercialized in the host country.

CONTRACTORS

The relationship between the contractor (who may also be a project developer partner) and the project developer is usually centered around a fixed-price design-build contract. This reduces some of the risks to the project developers and the host government. A number of variations are possible to share the risk. For example, there might be both an estimated price and a maximum price, backed up by penalties for non-performance.

EQUIPMENT SUPPLIERS

Equipment suppliers usually operate as subcontractors to the design-build contractor during the construction phase. Suppliers will normally also provide spare parts during the life of the project. In build-operate-transfer (BOT) projects, tried and tested technology is generally preferred. If the design has worked in one place, it will probably work reasonably well in another. Equipment based on unproven technology carries risks that make both governments and lenders uncomfortable.

Suppliers may participate as partners in project development companies in BOT projects. This is a means of generating new equipment and parts sales. Another advantage of taking an ownership position is that early involvement in the project helps the supplier to influence the selection of plant and equipment.

A disadvantage of ownership is that significant participation requires a larger initial investment than the supplier would ordinarily have to make. Moreover, the supplier bears many of the development costs and risks that are normally covered by the owner of the utility. Clearly, the supplier must balance risk with rewards in deciding whether to participate.