Strategic Management of Contingent Liability Risk in Public – Private Partnerships.

BY

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A research project submitted to the

Selinus University

in fulfillment of the requirement for the award of a

Doctor of Philosophy in

Risk Management in Public Private Partnerships

October 2021

DECLARATION

I, Onwodi, Oforkanji Emmanuel hereby declare that this research work has been written by me and is a record of my own research work. It is a further improvement in scope and detail to the projects work I submitted to the Birmingham City University for my Master's Degree Programme in 2015 in Risk Management. This final work has not been presented in any higher degree by anybody. All references are dully indicated and sources of information specifically acknowledged.

OCTOBER 2021

ONWODI OFORKANJI EMMANUEL

CERTIFICATION

This project dissertation titled "**Strategic Management of Contingent Liability Risk in Public – Private Partnerships" by ONWODI, OFORKANJI EMMANUEL** meets the regulation governing the award of a Doctor of Philosophy (Ph.D) Degree of the Selinus University of Science and Literatures and is approved for its contribution to knowledge and literature presentation.

Supervisor

Project Coordinator

DEDICATION

This study is dedicated to God Almighty for His enabling grace towards this work and to all who love research work.

Abstract

Public Private Partnership (PPP) procurement option for infrastructure provision is gradually becoming a popular concept in Nigeria. Before now, the traditional (conventional) procurement system was the widely used method by governments at all levels (Federal, State and Local) in meeting the supply of infrastructure delivery to its citizens.

A recent KPMG (2014) report indicates that many governments' organizations in the world are gradually looking to PPPs as an initiative to promote the delivery of infrastructure in the provision of public services. The report also upheld the growing popularity of PPP across the globe. This KPMG report (2014) further explains that the attributes to this popularity include global economy, market and investment trends.

Global demand for essential infrastructure services has developed over the years, quickly outstripping the supply capacity of existing resources, this is in addition to the constant population growth and swift urbanization together with pitiable maintenance and narrow investment over the past four decades which has placed enormous burden on existing infrastructure in Nigeria to the point that the resulting huge infrastructure deficit has significantly constrained economic expansion and improvement in the country, thus restraining government's efforts at improving the quality of life.

However, with the ever increasing demand on the government's lean financial resources and the growing and urgent need for supply and provision of adequate infrastructure to the growing population, there is the need for an alternative source of funding for infrastructure provision in the Country.

All the above makes the introduction and adoption of the Public Private Partnership (PPP) arrangement a widely accepted method of procurement by the various levels of Government in Nigeria.

PPPs as novel as it may be, is not without the associated risks, especially risks whose occurrence may not be pre-determined and largely dependent on occurrence of certain future events such as the risk of a contingent liability. The government must therefore be prepared to

adequately plan, asses and manage contingent liabilities for effectiveness and to reduce the effect of any financial burden on the government.

This research aims to provide adequate insight into the management of contingent liability as a risk which government must deliberately identify and manage.

The first phase of this research involved the structured interviews which were conducted with three high level PPP Officials in Ministry, Department and Agencies (MDAs) that have recently commenced the use of PPP as their procurement method. The exercise then allowed for the next phase of the research which entailed surveying the staff members in the stakeholder industry through a structured questionnaire.

From the findings of this research, together with the clear knowledge derived from the review of available literature on this topic, conclusions were drawn to provide users especially in the public sector a clearer understanding of the imperatives for the strategic management of risk of contingent liabilities in Public Private Partnership arrangements.

ACKNOWLEDGEMENT

Firstly, I sincerely remain gratitude to Almighty God for His guidance and protection over my family throughout the duration of this course.

During the period of this study, I have naturally acquired debts of gratitude to various people who contributed immensely to the successful completion of this research work.

My general supervisor – Dr Salvatore Fava, who really helped me with all the support I needed to make it a success, the Dr Sabrina Mazza form the Academic support office for all th support given to guide me.

My unreserved appreciation goes to my wife, Mrs. Adenike Onwodi and my children Ekene Onwodi and Chinedum Onwodi for their understanding throughout this period.

My sincere appreciation goes to my school, the Selinus University of Science and literature and the Selinus Business School, whose philosophy of professionalism in PPPs and risk management and control has made the programme interestingly rich and equipping students to meet future challenges at the work environment in particular and the business world in general.

Acronyms

IFRS – International Financial Reporting Standards

PPP – Public Private Partnerships

ICRC – Infrastructure Concession Regulatory Commission

FMOF - Federal Ministry of Finance

DMO - Debt Management Office

TABLE OF CONTENTS

CHAPTER 1 INTRODUCTION

1.1 Introduction & Background

Globally, PPPs are gradually taking the centre place as an alternative option of financing for the development of infrastructure especially as Government resources are usually not enough to meet with the ever-growing demand for infrastructure development in many countries of the World including Nigeria.

According to Marrasse (2013) as a result of the myriad of challenges of our complex times, government institutions alone cannot affectively provide the resources required for development. He agrees that global partnership develops further open and financial system and addresses the special needs of the least developed countries.

According to OECD (2007) PPPs are defined as agreement between the government and one other party and further explains that these parties can include operators and financiers. As PPPs have grown throughout the world, most governments are usually expected to take up contingent liabilities for example in respect of early termination of contract, revenues and or debt guarantees. Most often these guarantees present challenges and major issues to government in their financial planning as they must always track these contingent obligations in line with sound legal and regulatory practices.

There are also contingency liabilities issues in relation to the application of the PPP transactions according to OECD (2007). There is therefore the need to develop the required skill and capacity to address these contingency liabilities and manage government risks in PPP projects.

1.1.1 The problem area of the research

The main issue which this research aims to focus on is to highlight the fact that government should be made aware of various contingent liabilities in PPP projects to ensure proper management and planning of such risk which is highly supported by the OECD (2007) in which it explains that in PPP arrangements there is always sufficient transfer of risk to both parties for efficient operations. These risks create serious liabilities for the government. This research is therefore focused in attempting to support government in addressing these problems through the outcome of the review and findings.

In his views, Irwin et al (2009), proposes that to assume these contingent liabilities, a clear decision of how to value, maintain and limit them is usually tough for the government. Brixi (2002) however argues that most policy makers always build up government liabilities to avoid difference in adjustment and painful structural reforms.

This research will be carried out to ensure that that is clear identification of this these contingent liabilities in PPP projects together with the ways of mitigating them in the public sector.

1.1.2 The researcher’s background & Interest in the subject

The researcher has a background in project finance with bias for risk management analysis and financial modeling of PPP transactions.

The researcher is also currently saddled with the responsibility of reviewing projects to determine whether they both economically and financially viable for the government of Nigeria to enter into partnership with the private sector.

1.2 Scope of the dissertation

The research is clearly an expansion of my earlier submitted research work on Risk Management to showcase the areas of Government support for financing PPPs and focus on the risk of contingent liabilities in PPP projects for Agencies of Government of Nigeria. The research is adequately further scoped to ensure that issues like valuing of liabilities and managing liabilities and the cost of guaranty and guarantee funds are adequately addressed and the objectives set are achieved. It considered the need for adequate planning for contingent liability in the PPP Process and the types, planning and mitigation of contingent liabilities.

It reviewed the role of PPP risk management Units and benchmarking them with other jurisdictions across the globe and then carries out a review of the Nigerian PPP framework and legislation, the role of the Federal Ministry of Finance, Debt Management Office (DMO), Infrastructure Concession Regulatory Commission (ICRC) and other relevant Agencies of Government. These reviews will be carried out in line with best practices and international standards.

In gathering information and data analysis, this will be gathered from the publications, short studies reviewed, face to face interviews, and questionnaire. The survey method will be adopted (Interview and questionnaire). The dissertation will be more qualitative based. Structured questions will be used which will align with the scope to gather quantitative data and interview sessions to ascertain the correctness of views shared in certain quarters in view of the need for proper risk assessment and planning in the management of PPP risks.

The perceptions on a wide range of issues of risks in large businesses will be gathered and analyzed. The study will explore the range of activities undertaken by risk management managers, their roles and their impact through interviews which will be conducted with heads of Risk Management Managers or their deputies.

The scope of the research work does not cover the critical evaluation of the other project risks and techniques for measuring these risks and other contingent liabilities due to time constraint.

1.3 Rationale

The backdrop of carrying out this project is to critically ensure that strategic contingent liability risks are adequately planned, assessed and effectively managed to ensure that PPP projects are well implemented and to a large extent minimize the risk of contingent liability for the government. That Government support for financing PPPs are strategic and efficient.

These contingency liabilities according to Brixi (2002) arise with weakness in the macroeconomic framework, financial sector and regulatory and supervisory system as well as weak information disclosure to the market. They also occur as a result of activities outside budgetary framework which governments pursue.

1.3.1 Why the research is important (novelty)

This research is important as it addresses the risk of contingent liabilities, especially as it affects the potential loss which government is likely to face in the event of the occurrence of such circumstances.

This is supported by Brixi (2002) as he explains that many governments have been faced with series of macroeconomic instability as a result of obligations that were not recorded in any fiscal document. This is so because these governments took advantage of guarantees and financial schemes to have their policies implemented outside the budgetary system and they are sometimes unaware of the spread of risk in the market.

Irwin et al, (2009) reaffirms that public private partnerships when used by government for the provision of infrastructure, normally assumes that there will always be contingent liabilities. He gave example of early contract termination, debt and other revenue guarantees.

It is therefore necessary that this is brought to lime light early enough to forestall any risk.

1.3.2 Implications for the sector

The implication for the sector is promptly addressed in the subject area of the research, considering the cases and incidences of failed Public Private Partnership (PPP) projects as a result of the inadequacy or absence of planning, assessing and management risks and particularly contingency liabilities which are a government risk in PPP transactions. (Yong, 2010)

Governments all over have continued to suffer huge losses as a result of their inability to adequately address the risk of contingent liabilities; this provides a good rationale for the research.

1.3.3 Implications for the country

According to Cebotari (2008), it is important to carry out this research in the subject area, especially with the lime light on contingency liabilities as a result of the increased public awareness of the readiness to impair fiscal sustainability. He explains further that Contingency liabilities may lead to moral hazard and if not mitigated early enough, could increase the overall cost of governance and examples according to him include the transfer of credit risk in the case of loan guarantee.

He added that both the Standard & Poor and Moody have both had problems as a result of not incorporating contingent liabilities in their assessment of sovereign credit risk.

1.3.4 Implications for the profession

This research will greatly make a positive impact on the profession and professional practice of risk mitigation and contingent liability monitoring institutions towards the development of PPPs in Nigeria, this is because Government will now become more aware of the risks inherent in PPP transaction, this will in turn greatly provide the support and assistance for professionals in the field and other practitioners alike especially with the conclusions of this dissertation.

1.4 Key aim of the Dissertation

Irwin et al (2009) said that “Contingent liabilities are problematic for governments both conceptually and in practice”, this is so as most government institutions are not adequately prepared to mitigate such risks.

The main aim is to critically review contingent liability as a government risk in PPP projects transactions and in particular by ensuring proper planning, through the assessment of the Nigerian PPP framework, PPP Units and Contingent liability risk management and provide useful recommendations to assist government in addressing these contingent liability risks

1.5 Subsidiary Objectives

In addressing this problem with contingent liabilities arising as a result to government entering into PPP transactions, the following are subsidiary objective for the study.

1. Determine the role of PPP Regulators such as the Federal Ministry of Finance, Infrastructure Concession Regulatory Commission (ICRC), Debt Management office and the National Planning Commission amongst others.
2. Reviewing the accrual accounting techniques to reflect government contingent obligations, IMF financial reporting guidelines and International Financial Reporting Standards for contingent liabilities, developing the best ways of mitigating key contingent liabilities to limit government's exposure to the dangers involved in using PPPs to conceal government contingent liabilities.
3. Examine the need for the establishment of PPP Units in MDAs and their role in capacity building and skills development in improving the ability of government to properly mitigate contingent liability risks.

1.6 **Research questions**

The research questions have been carefully structured into four different headings in other to determine the following;

The following are some of the questions that will be asked during this project work

1. What are the common types of contingent liabilities in PPP projects in your organization?

2. What are the mitigation framework/ risk management matrix established to adequately manage these contingent liabilities in the PPP project cycle?

3. What is your organization’s planning and assessment criteria for contingent liabilities and the accounting standards / reporting method to guarantee transparency?

4. What are the available skill and expertise available in the PPP Units?

The questionnaire will be semi structure into the following four headings to enable it meet the objective set for the projects and provide the researcher with opportunity of gathering information in relaying to the following areas.

- **Capacity & Skill**
  - ✓ What is the level of capacity and skill of the PPP Unit staff in the MDAs?
  - ✓ And amount of input analysis do they carryout in PPP Projects?

  This question is to identify the available Skill and capacity of the Government to handle contingent liability.
- **Policy**
  - ✓ How much attention is paid to risk analysis when government considers new promises of contingent liabilities?
  - ✓ Does the MDA quantify the future cost of option?

  This question is to show the level of consideration given to risk analysis in policy formulation and Adequacy of Policy and framework for effective control of contingent liability
- **Accountability**
  - ✓ Does any legal requirement apply to the government with respect to estimating accounting and reporting the cost of contingent liabilities?
  - ✓ Is the Government legally required to explain measures in public liabilities?
- **Recording & Reporting – Transparency**
  - ✓ Which Agency of Government is responsible for final approval, recording, monitoring and data consolidation of contingency liabilities?
  - ✓ Are there special templates and standards adopted by the Government for reporting contingent liabilities and what is the frequency of such reporting?

1.7 **Methodology Summary**

The survey method will be adopted (Interview and questionnaire). The dissertation will be more qualitative based. This is a result of the nature of information required to enable the researcher establish the facts relevant in the dissertation. Structured questions will be used to gather quantitative data and interview sessions to ascertain the correctness of views shared in certain quarters in view of the need for proper risk assessment and planning in the management of PPP risks.

Perceptions on a wide range of issues of risks in large businesses will be gathered and analyzed. The study will explore the range of activities undertaken by risk management managers, their role within companies and their impact.

Interviews will be conducted with heads of Risk Management Managers or their deputies.

The data will be generally gathered from the publications, short studies reviewed, face to face interviews, and questionnaire. It will consider a wide variety of scholars view on PPP governance and related issues, planning of risk management and contingent liabilities in PPPs.

1.8 Summary of chapter One.

In Chapter one, a review of the problem area, scope of the study, why the research was necessary, implications of the study to the profession, country, sector, key aim and subsidiary aims, research question and methodology and approach. These areas were covered in this chapter.

CHAPTER TWO RESEARCH METHODOLOGY

2.1 INTRODUCTION AND BACKGROUND

In conducting a research, "t*he purpose of the research should be clearly defined and common concepts be used*" (Kothari, 2004) , this chapter recognizes this, and seeks to address the variety of theoretical approaches to preparing project management studies, and presenting the awareness of research into risk interpretation and allocation across institutions. And at the same time, show some near approaches used by many researchers to enable study of risk matters.

2.1.1 **WHAT THE CHAPTER COVERS**

This chapter details out the various methods of research and other varied approaches to research methodology. To achieve the purpose of this chapter and ensure that the most suitable approach and research methodology is adopted, very careful attempt was made to consider in detail the benefits as well as the disadvantages of the approaches and research methodology in this study.

2.2 **KEY TERMINOLOGIES**

The chapter discusses a few terminologies to enhance and show clearly the major differences in their uses and approach as contained below.

2.2.1. WHAT IS RESEARCH?

"Research in common parlance refers to a search for knowledge" (Kothari, 2004, p.1) this includes both scientific and systemic search on a defined topic for relevant information.

"Research is the process of arriving at a dependable solution to a problem through a planned systematic collection, analysis and interpretation of data" (Singh, 2006, p.1) it ensures that man is able to provide solution to problems in his immediate environment.

2.2.2 WHAT IS RESEARCH PROCESS

It is the series of necessary actions and steps usually utilized in a sequential order during the research (Kothari, 2004, p.10). It is important that every research aims at addressing the research in a manner to establishing the results through defined steps. PPPs generally follow structured steps in its implementation and this research will attempt to follow the laid down steps as much as possible.

2.2.3 WHAT IS RESEARCH METHODOLOGY

"Research methodology is a way to systematically solve the research problem" (Kothari, 2004, p.8) it is necessary that the researcher understands the necessary steps on the study and the logic behind each of them. The research on PPP contingent liability risks will be carried out to carefully address the main problems inherent in the management approaches. The Federal Government of Nigeria through the various Ministries, Department and Agencies have the responsibility for the implementation of PPPs, evidence has shown that most Government Institutions are not aware of the possible occurrence of contingent liabilities as a result of their actions or inaction in PPP projects. The steps to be followed will systematically solve the problems.

2.3 EXPLANATION OF THEORETICAL RESEARCH METHODS

2.3.1 QUALITATIVE / QUANTITATIVE / MIXED METHODS

- "***Quantitative research*** *is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity."* (Kothari, 2004)

- "***Qualitative research****, on the other hand, is concerned with qualitative phenomenon, i.e., Phenomena relating to or involving quality or kind."* (Kothari, 2004). It is "any type of research that produces findings not arrived at by statistical procedures or other means of qualification" (Strauss & Corbin, 1998)

- **Mixed method / triangulation**

This is a combination of both the quantitative and qualitative method in carrying out a research. Greener (2008) explains that in practical world, we find researchers using both observable objective facts through the manipulation of numbers and also through the perceptions of those who have the facts.

2.3.2 DEDUCTIVE AND INDUCTIVE

Greener (2008) describes deductive as a process which starts by first looking at the theory, then coming up with a hypothesis from the same theory which will relate to the main focus of the research and then the testing of the theory.

The inductive research aims to generate a theory from the investigation from other research methods and starts by looking at the focus of the study and "Deductive theory represents the commonest view of the nature of the relationship between theory and research. The researcher deduces a hypothesis which is subjected to further empirical evaluations" (Bryman & Bell, 2007) so is closely related to the quantitative method highlighted above.

2.3.3 GROUNDED THEORY

"*Theory that was derived from data systematically gathered and analyzed through the research process." (Strauss & Corbin, 1998, p.12).* The grounded theories are more likely to give clear understanding because they are derived from data and provide insightful meaning and guide. (Strauss & Corbin, 1998) the three stage support for grounded theory includes – semi structured questionnaire and focus groups for quick analysis.

2.3.3 EPISTEMOLOGY

"The validity of human knowledge and reliability of the sources of our knowledge is epistemology" (Singh, 2006). It organizes how knowledge is imparted and the measure

at different stages. Epistemology determines what should be regarded as acceptable knowledge in human education according to Bryman & Bell (2007).

Essentially, it is regarded as our perceived relationship with the knowledge we are trying to discover. Other considerations in this respect will include:

- **Positivism/Realism. "***It is a position that advocates the application of naturals sciences to the study of social reality and beyond with the realities***" (Singh, 2006)** it says further that both natural and social science should and can indeed apply the same approach to data collected and explanation. "*Positivistic approaches are founded on a belief that the study of human behavior should be conducted in the same way as studies conducted in the natural sciences"(Collis & Hussey, 2003, p.52).*

- **Constructivism.** According to Bryman & Bell (2007) *"constructivism is an ontological position which asserts that social phenomena and their meaning are constantly being accomplished by social actors, it implies that social phenomenon and categories are not only produced through social interaction but that they are in constant state of revision"*

2.3.4 PHENOMENOLOGY

Phenomenology makes use of qualitative methods (Strauss & Corbin, 1998) and it tries to describe, translate and explain and interpret events from the perspectives of the people who are the subject of the research. The participant's own subjective frame of reference is the particular concern with appreciative behavior from the participants.

2.3.5 ETHNOGRAPHY

According to Schensul et el, (1999) *"Ethnography is a scientific approach to discovering and investigating social and cultural patterns and meaning in communities, organizations, and other social settings"* this is normally guided by and generates theory, it is both qualitative and quantitative, usually conducted locally and applied during the observation, interactions and activities to improve the ability to gather as many information on the group as possible. Ethnographers pay more attention to bias and ensuring that the data is accurate.

2.4 RESEARCH METHODS

2.4.1 HISTORICAL RESERCH

According to Singh *(2006) "History is the meaningful record of man's achievement".* Historical approach is used by historian researchers to mirror the society as it transforms in structure and function.

"*Historical research deals with the past experiences. Its aim is to apply the method of reflective thinking of social problems, still unsolved, by means of discovery of past trends of event, fact and attitude. It traces lines of developments in human thought and action in order to reach some basis for social activity*." (Singh, 2006, p.113).

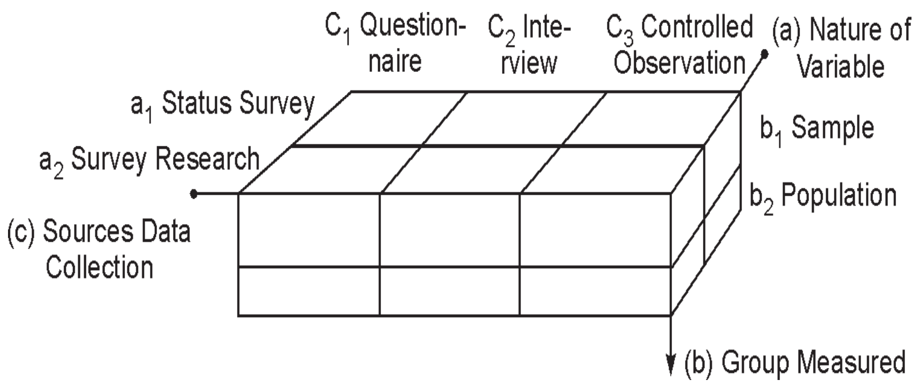
It is predominantly qualitative in nature and demands principles of careful methodology and will comparable to other types of research. The direct limitation is the fact that it very difficult to study historical event on the basis of cause-effect connection, this is hindered by the obstacles of objectivity as well as the need to have a good historical outlook.

2.4.2 SURVEYS

"*It is concerned with the present and attempts to determine the status of the phenomena under investigation*" (Singh, 2006). Singh describes the following categories as further classifications of the survey method into four categories:
(a) Descriptive (*b*) Analytical (*c*) School survey and (*d*) Genetic.

Singh (2006) explains that the (*a*) Descriptive survey is of four types: (a1–Survey testing method, a2–Questionnaire survey method, a3–Interview survey method.
(*b*) Analytical survey is of five types: (b1–Documentary frequency, b2–Observational survey, b3–Rating survey, b4–Critical incident, b5–Factor analysis.)
(*c*) School survey and (*d*) Genetic survey.

Singh (2006) further explains that this classification of survey studies can be exposed with the help of three dimensional 2 × 2 × 3 diagrams.



Whatever be the survey type, *"the method of data collection happens to be either observation, or interview or questionnaire/opinionnaire or some projective technique(s)."* (Kothari, 2004)

- **Characteristics of the Survey Method**

According to Singh (2006) the following are the main characteristics of the survey method of research:

Surveys according to Singh (2006) vary greatly in complexity, It does not seek to set up a body of scientific principles but it provides information practical to the solution of local problems and contributes to the advancement of knowledge.

Advantages of Sign's work include the fact that ith method is simple to understand and can be administered at a low cost except for the issues around individual's perception about responses etc.

- **Interview -**

This could be face to face and a good way of gathering information from various patterns of people.

- **Questionnaires –** this is generally referred to as survey. The researchers can combine both the many approaches at using this approach. A well structured questionnaire will save time and address the basic and simple questions for the researcher.

2.4.4 CASE STUDIES

According to Singh (2006) *“Case study is a method of exploring and analyzing the life of a social unit - be that unit a person, a family, institution, culture group, or even an entire community.”* Singh explains that case studies established the cause and effects of relationships.

It supports the study of a particular subject, e.g. one organization, in depth, or a group of people, and usually involves assembling and analyzing information; information that may be both qualitative and quantitative.

According to Kothari (2004) many researchers are constantly using the case study approach as it helps to them grow experience and builds skill, constructive for the design of the questionnaire, it helps to make possible the study of social units. The limitation however is the inability to compare the data and the fact that it consumes time and other resources.

Kothari (2004) explains that in spite of the above limitations, the many researches in various disciplines and constantly using the case study approach as a scientific tool in view of the advantages. He added that will training the limitations can be overcome.

2.4.5 ACTION RESEARCH

Action research involves an involvement by a researcher to persuade change in any given situation and to check and evaluate the results. The researcher, working with a client, identifies a particular objective, e.g. ways of improving telephone responses to ‘difficult’ clients, and explores ways this might be done.

The researcher enters into the condition, e.g. by introducing new techniques, and monitors the results.

2.5 RATIONALE FOR THE CHOSEN METHOD

All public capital projects irrespective of how they are procured, managed and financed generate future liabilities. Some of these, such as the cost of repaying domestic currency, borrowing or the costs of operating and maintaining an asset are direct and predictable with a relatively high level of certainty. Others such as the cost of managing the consequences of an environmental incident related to an asset or addressing the effects of technological obsolescence are subject to a high degree of uncertainty both as to when/if they will arise and as to the sums involved.

The aim is to ensure that fiscal exposure to contingent liabilities from PPP is properly understood, is allowed at the project level only where it makes a significant and proportionate contribution to national development, and in aggregate is kept within manageable limits.

For this reason, the survey method has been chosen as the research method for this study. This will involve the use of questionnaire and interviews. Both of them will be structured as it will afford the researcher the opportunity to lead the respondent to and assist the research in gathering of data faster and in a better manner. The research will collect responses from identified key individuals in the society especially in the infrastructure industry and the Government administrators and policy makers in PPP regulation in Nigeria.

According to Singh (2206), although many surveys still go further than a mere description of the contemporary situation, the major purpose of survey method in research is to tell ‘‘what is”? i.e. to explain the problem or phenomenon and ensure that those responsible for implementations of government policy understand the risk of contingent liabilities and try as much as possible to mitigate them

The study is to survey the some of the Government agencies using Public Private Partnerships as their preferred procurement option and to ensure that these Government Agencies have identified the contingent liabilities risks inherent in these PPP transactions with a view to adequately mitigating them as appropriate. This is another essential reason for the adoption of the survey method as it applies for both qualitative and quantitative approach to the study. The survey method therefore provides an adequate platform for data gathering for this research. The concept of PPPs in Nigeria is generally new and many Government Agencies lack the capacity to effectively implement the technical nature of the mitigation of contingent liability.

The focus of this study is to survey the agencies of Government to ensure that they adequately plan, asses and manage Government risks which include right of way, termination of contracts, political risk and with special emphasis on contingency liabilities to ensure sound risk management policy.

The benefit of the Questionnaire Survey is that it gives broader physical reporting, permits wide coverage at a least expense of both funds and effort and makes for sound legitimacy in the outcome.

The validity of questionnaire data will depend on the validity and willingness of the respondent to offer the information requested. The existence of the PPP Units in the Government Departments which is a key delivery tool for the implementation of successful PPPs will be hinged on the validity of the data in this case.

The collection of valuable data will be pulled together from the various Ministries, Departments, and Agencies of Government who have PPP projects on going in their respective Organizations. These Government Agencies include those involved in critical infrastructure projects across the country especially at the Federal Level. These projects will cut across PPP sectors like Transport, Works, Road, Aviation, Solar energy and Power generation etc.

The data for the development of the matrix of contingent liability on PPP projects will be collected through a structured interview which will include questions that will be simple to understand and respond to considering the nature of respondents in Nigeria.

“Misinterpretations are due to the respondent’s willingness or impersonality. Mailed questionnaire are usually impersonal. The reliability of the questionnaire is often ignored.” (singh, 2006).

The Grounded Theory method is not appropriate for this study despite its simple nature and method of data collection, but to be able to accomplish this; the research will require pre knowledge of the study.

Case studies are mostly used to formulate theories. According to Kothari (2004) many researchers are constantly using the case study approach as it helps to them gain experience and builds their skill, the information collected are useful for the design of the questionnaire, it helps to facilitate strongly the study of social units. The limitation however is the inability to compare the data and the fact that it consumes time and other resources. This further explains why the most appropriate method will be the survey method as the method is able to compare the data without consuming time.

2.6. ETHICS AND RESEARCH

According to Greener (2008) the questions we ask in any research must be seen to be fair and valid. The questions also should be presented in a systematic way. A clear example is to ask the question as to whether PPP contingent liabilities have a register for updating new PPPs with associated contingent liabilities and for new PPP contract.

Worthy of note is the fact that there is no structure to maintain a register of all individual PPP projects which create contingent liabilities, in each case recording the source (or sources) of liability, its potential scale and the period over which the exposure will continue, the event that would lead to the liability crystallizing, and the likelihood of this materializing.

According to Kothari (2004) efforts should be made to ensure that the validity and reliability of the data is checked carefully and that the conclusion should be restricted to only those justified by the data from the research and narrowed to those for which the data provide a sufficient basis.

In this study a careful attempt will be made to ensure that the basics elements in recognition of a good ethical work were pursued, these include the elements of showing the truth in the presentation of valid data, honesty in ensuring a detailed work and research into other areas of study. It is import to ensure that sound ethical standards are pursued in PPP contingent liability research to further guarantee the validity of data and information utilized.

According to Cohen *et al, (2007*) there are about ten ethical questions about the ethical dilemma which the researcher must address

- coercing them to participate – this will include the PPP administrators and variying stajkeholders.

- Involving people such as officers in the PPP Units in various Agencies without their knowledge or consent
- withholding information about the true nature of the research
- deceiving participants in other ways to falsely gain information.
- inducing them to commit acts diminishing their self-esteem
- violating rights of self-determination (e.g. in studies seeking to promote individual change)
- exposing participants to physical or mental stress
- invading their privacy in any way

2.6.1 Research Strategy

This study adopts two empirical evidence methods (Questionnaires and Interview) to ensure that through the use of interviews and questionnaire, the above have been mitigated against. Literatures research on planning, assessing and managing risk management and were carried out to understand the key principles. The officials of the various PPP Units in the various MDAs were researched upon to provide valid data on the study.

2.6 **CHAPTER SUMMARY**

2.6.1 SUMMARY OF CHAPTER

This chapter detailed out the various methods of research and other varied approaches to research methodology, very careful attempt was made to consider in detail the benefits as well as the disadvantages of the approaches and research methodology in this study to enable an achievement of the purpose of this chapter and ensure that the most suitable approach and research methodology was eventually adopted,

2.6.2 HOW IT CONTRIBUTED TO THE OBJECTIVE SET

The objective set was to be achieved through the review of details of the various methods of research and other varied approaches to research methodology with a view to achieving the purpose of this chapter and ensure that the most suitable approach and research methodology is adopted, the chapter was of great support for the researcher in setting a research framework and guide and arriving at a suitable methodology to properly undertake the study and meet the study objective.

Systematically, the research method gave proper guide in the course of the study. The researcher was very careful to consider in detail the benefits as well as the disadvantages of the approaches and research methodology in this study.

In adopting the survey method, it collects data from a number of cases at a point in time, is cross-sectional and not disturbed with the characteristics of individuals.

2.6.3 SUMMARY OF KEY WEAKNESSES THAT REMAIN

A few of the weakness observed include the interview sessions which were scheduled earlier and have been rescheduled due to the very tight schedule of the key officials and some high profile company executive. If time permits this could still be done.

2.6.4 DISSEMINATION OF RESULT

The results of the raw data collected which were collected from the various interviews as well as the surveys which were equally conducted will subsequently be utilized to provide clear answers to some of the research questions mentioned in the earlier part of this study.

The details from the sub sections will also further provide clear information around the research area.

CHAPTER THREE LITERATURE REVIEW

3.1 INTRODUCTION

This review commences with an insight into what PPPs are, the features of PPPs, Institutional framework for PPPs. The definition of contingent liabilities, review of the regulatory environment, global best practices in mitigation and countries strategies. It also deals with the other issues such as risk identification, recording, standards, and others. The idea is to provide the basis for the properly addressing the problem inherent in PPP. The chapter ends with a summation of the areas covered and the conclusions drawn from the various review and previous work of other researchers and authors. The findings and conclusion will form a basis for the final conclusion of the dissertations.

3.2 WHAT ARE PPPS?

Yong (2010) defines PPPs as long term contracts, usually agreed between two parties (public and Private) usually for the delivery of a public services. He however agrees that there is usually acceptable definition of PPPs. It differs between organizations, countries and over time.

The Indian definition states that it is a partnership between a public and private entity for the creation of and management of an infrastructure asset for public purpose or a concession period on commercial terms where the private party has been competitively procured.

The Australian definition describes PPPs as the provision of public infrastructure and services by the private sector party.

According to OECD (2007) “PPPs are defined as an agreement between the government and one or other partner. He further explains that these parties can include operator and financiers

According to Maurrasse (2013) the role of the government is to provide critical social services but perspectives differ widely on the particular are the primary responsibility of Government. He further said that as fiscal constraints force government to slow down in face of global economic pressure, government cannot do everything and therefore gaps will always remain and partners will fill those gaps. He maintained that partnerships are gradually springing up due to scarce resources that have to be allocated to fast chaining demographics.

Maurrasse (2013) explains that the World today faces harsh reality, higher government debt with aging population, rising social insurance, mass movement to cities putting pressure on government to adjust to realities. Governments must therefore be creative in the financing and delivery of public goods services.

3.3 FEATURES OF PPPS

Yong (2010) explains that in PPPs the following feature obtain.

- Significant risk sharing between the parties is always present
- There are the likewise long term contractual relations.
- There is also the partnership agreement or better still the concession agreement in place.

3.4 GLOBAL FRAMEWORK FOR PPPS

Yong (2014) states that regulatory framework forms a major part of a country's PPP framework. He explains that in some cases, some countries set up regulatory offices with the sole responsibility of providing this support. He further confirms that some of the areas relating to regulatory framework include;

- The way the market is positioned in terms of prices and the effect of service delivery.
- Providing realistic service delivery.
- Environmental protection and other schemes and incentive that will provide environmental protection.

3.5 PPP INSTITUTIONAL ARRANGEMENTS

Yong (2010) explains that institutional arrangements should be put in place for effective PPP regulation by either the Government, by independent regulation, regulation by contract and outsourcing of regulatory function.

3.5.1 MANAGEMENT OF A SUCCESSFUL PPP PROCESS

Farquharson et al (2011) states that the management of a successful PPP process will depend largely on Good Governance and proper project management. This he explains is not without sound risk management and quality control.

3.5.2 USE OF A RISK MANAGEMENT MATRIX

Farquharson, et al (2011) explains that a sound project management practice is to put in place a risk matrix for the project preparation process which will help to properly identify "who does what, whether budgets are in place and how risks are mitigated" He explains that this is however different from the risk matrix for risk allocation.

3.5.3 USE OF A SYSTEM BOARD

Ensuring a good relationship with all stakeholders in dealing with series of issues that may arise in the process of preparation, procurement and operation of the PPP project is a good way of project governance (Farquharson, et al (2011).

According to him, there are unforeseen events at different stages of the project development which may give rise to termination and bring out the burden of contingent liability on the government. He recommends that a good way of executing sound project governance is by using a systems board. He further explains that a systems board includes the public sector stakeholders and other independent members who then provide the much needed expertise for solving issues and taking decisions key to the project.

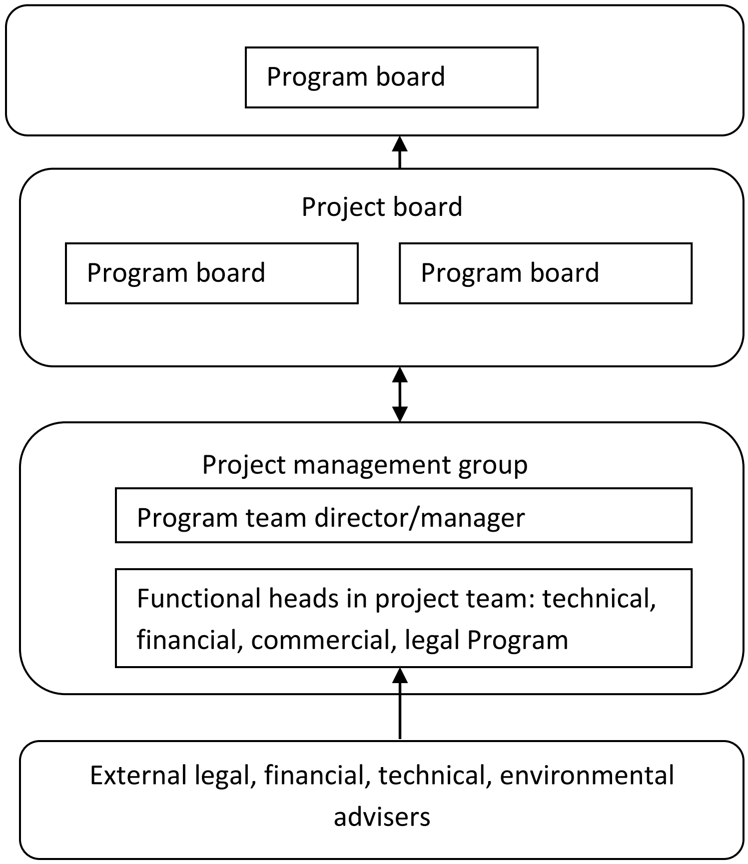


Figure 1 – System Board. Source: Farquharson et al (2011)

3.5.4 QUALITY CONTROL AND ASSURANCE

Farquharson, et al (2011) explains that around the globe, it is common practice to see PPP schemes use quality assurance method to enhance the programme management. According to him, this is not an audit trail but to a basis of useful challenge for the government to establish the readiness of the project to go to market and to ensure that at the various stages of the project development up till the contract stage, nothing has been left out. This essentially will include the identification of contingent liability.

In addition he stated that this will help to resolve the problems of the lack of clarity of understanding of the project, lack of effective engagement with the stakeholder,

3.5.5 ROLES OF PROJECT ADVISERS

The provision of suitable project advice is the responsibility of the project advisers. These advisers may include technical advisers, financial advisers, legal adviser, environmental adviser and in some countries with narrow PPP experience, a lead transaction adviser. (Farquharson, et al 2011)

3.6 WHAT ARE CONTINGENT LIABILITIES?

Porker et al (2023) defines contingent liabilities as existing items with unknown outcomes as a result of its independency on certain future events. He maintains that recording it should only arise where there is a reasonable estimation of the amount and that disclosure should be as notes to the statement and not on the balance sheet.

Young (2010) in his view argues that the occurrence of certain future events can give rise to liabilities and that contingent liabilities under a PPP scheme are either explicit or implicit. These views were explained differently by Revsine et al (2011) who said that contingent liabilities are usually crowed in uncertainty and to the existence of obligation with the uncertainty settled with occurrence of event.

Cebotari (2002) on his part expressed the views that contingent liabilities can either be explicit or implicit. He stated that explicit contingent liabilities are obligations that are based on policy commitment, contracts or law, which usually the government chooses to take on. These according to him include Loan guarantees where the third party borrowing is involved and export guarantees, where the importer reneges on the contract. He stated that others are

- Other financial guarantee such as exchange rate guarantee, pension guarantee, income, profit, rate of return guarantee, PPP arrangement etc.
- Government insurance programme such as flood insurance, war-risk insurance etc.
- Legal privatization, liquidation of Agencies.
- Claims against the government such as privatization, liquidation of Agencies etc.
- Indemnities such as to accept risk or loss or damages of another party
- Uncalled capital.

Implicit contingent liabilities according to Cebotari (2002) are potential or moral obligation, these includes

- Bailouts of public enterprises, financial institutions, sub national governments, private firms that are too “too big to fail”
- National disaster relief

- Environmental cleanup spending

Cebotari (2002) maintained that it is not a realistic option not to take on contingent liabilities for most government, and every government has somehow engaged in it and therefore has become exposed to contingent liabilities.

The International Accounting Standards 37, states that “contingent liabilities are possible obligations and present obligations that are not probable or not reliably measurable”. It requires entities not to recognize contingent liabilities but should disclose them unless the possibility of an outflow of economic resource is remote.

Nevitt et al (2000) states that a contingent liability is that which may happen in the future, it also likely never to take place and may other than time depend on other factors. He explained that future contract payment and potential legal ruling may from time to time occur that will create such contingent liabilities. An example here will be Early Contract termination. The government liability here will depend on cause of termination. This could be Project Company (Private sector) breach of its contractual obligations. In this case the Liability will normally be the market value of the project which is found by rebidding the contract.

The cause of the early termination could also be by Government breach of its contractual obligations. Here, the Liability will by the Government fully compensating lenders and shareholders for their losses.(Nevit et al 2000)

In his view, Brixi (2002) stated that contingent liabilities are obligations that are usually triggered by a discrete but uncertain event. He said that the probability of a contingent liability occurring as well as the magnitude of the required public sector outlay is exogenous.

Contingent liabilities according to Brixi (2002) also arise with weakness in the macroeconomic framework, financial sector, regulatory and supervisory system as well as weak information disclosure to the market. They also occur as a result of activities outside budgetary framework which governments pursue.

In his view, Cebotari (2002) defines contingent liability to mean obligations whose timing and magnitude depend on the occurrence of some uncertain future event outside the control of government. He further explained that some other definitions exist but are not germane.

The IMF (2001) defines “contingent liability as the present value of the accrued obligation of social security scheme.

3.6.1 EFFECTS OF CONTINGENT LIABILITIES

Brixi (2002) stated that many governments have been faced with series of macroeconomic instability as a result of obligations that were not recorded in any fiscal documents. This is so because according to him, the government took advantage of guarantees and financial schemes to have their policy implemented outside the budgetary system and they are sometimes unawares of the spread of risk in the market.

He further said that as soon as economic conditions were stabilized, the government was left with huge level of debts and other obligations. He stated that the main challenge of government is to launch a full effort to manage excessive risk taking and to manage in a productive way, the amount of risk they risk.

3.6.2 REPORTING OF CONTINGENT LIABILITY

Brixi (2002) stated that the institutional framework for dealing with contingent liabilities mainly relates to rules and practices of information disclosure, monitoring, panning & budgeting. The framework according to him must promote risk awareness culture in Government institutions and minimize risk.

In the accounting world, Ceborati (2002) explains that they remain off balance sheet events. Contingencies are brought into the balance sheet as provision and not contingent liabilities in accounting definition. However the argument remains as to whether liabilities became contingent when the event occurs or right from the day they were entered into the scheme.

Irwin et al (2009) said that many governments have achieved huge infrastructure provision through PPPs. He explained that PPPs which are also referred to as concessions, have been used by various government for the supply of infrastructure.

States that PPPs create contingent liabilities and those institutions like the IMF and the World Bank and other usually warm of the inherent risk associated with their introduction. Although, according to him, the first reaction of careful Ministry of finance will be to keep away from contingent liabilities.

He added that whenever there is a contingent liability, management issues sets in, as projects should then be monitored closely to avoid and limit risks.

Need for strategic management of contingent liabilities created by PPP

Irwin et al, (2009) while emphasizing the need for a sound strategic management of contingent liabilities recommends the following:

- In managing PPP rules, there must be incentives, adequate information and expertise to obtain the details of cost and contingent liability rules.
- The costs and risks of contingent liabilities must be quantified.
- Review of PPPs should be carried out by the Ministry of finance and authorized by the cabinet.
- In the allocation of risks only those that the government can bear or controlled should be allocated to government
- To avoid the concealment of contingent liabilities reporting standards must be on accrual accounting basis.
- Publications of PPP contract is compulsory to reveal the cost and risks on government.
- Modification of budgetary systems is necessary to reveal the cost of contingent liabilities.
- Fees should to be charged by the government for guarantees.

3.7 GLOBAL MANAGEMENT OF CONTINGENT LIABILITIES IN PPPS

Irwin et al (2009) focuses on how countries like Australia, Chile and South Africa have been able to effectively address the difficulties of contingent liabilities. He said that these countries have set up technical units in the Federal Ministry of Finance to carefully carryout project preparation, competitive bidding and review of the PPP projects. This according to him provided the government with the much need information through the review process to identify and mitigate contingent liability risk.

3.7.1 SOUTH AFRICA – PPP CONTINGENT LIABILITIES RISK MITIGATION

Irwin et al (2009) explains that South Africa adopted the following outline for their PPP reviews;

- Approval of PPP proposals at four phases by the Treasury before contingent Liabilities.
- Contingent Liabilities are discussed in the Treasury approval report
- Development of PPPs is guided by the manuals and standard contracts to forestall contingent liabilities.

3.7.2 CHILE - PPP CONTINGENT LIABILITIES RISK MITIGATION

Irwin et al (2009) explains that in Chile the following have been put in place:

- Contingent liabilities are measured and valued in relation to revenue guarantees for toll roads and concession on airport.
- The measurement results and value of contingent liabilities are published annually.

37.3 AUSTRALIA PPP CONTINGENT LIABILITIES RISK MITIGATION

The Australian Government according to Irwin et al (2009) has equally put in place the following measures in addressing the risk of contingent liabilities in PPPs;

- Minimize and control contingent liabilities by narrowly mitigating risks in project.
- PPP concession agreements and contracts are always published.
- The International financial Reporting Standards are used to prepare financial reports which then limit risks.

Cebotari (2002) also explained in the addition to what Irwin et al (2009) had said that the Australian Government deliberately carried the following

- Developed guidelines for entry into contingent liabilities by the government.
- That only identified risk should be entered into by the government.

- That the government can only enter into contingent liabilities where the expected cost of risk is lower that the benefit.
- Where there is a clear need for such contingent liabilities.
- Where the options for managing the risk has been fully analyzed and then explored to its fullest.
- Where the relevant government Agency has assessed the level of risk to be covered and the potential loss has been identified.
- And where there is adequate protection for the state

3.7.4 CANADA – PPP MITIGATION OF RISK

Cebotari (2002) provided the following mitigation strategies adopted by the Canadian government to address the risk of contingent liabilities.

- They have put in place a set of principles to regulate the risk of contingent liabilities in on the issue of guarantees by the government.
- Evidence that the loan cannot be financed without the guarantee.
- Repayment of debt is covered by adequate cash flow
- Satisfactory rate of rerun and yield.

3.7.5 EUROPEAN UNION

Cebotari (2002) stated that the European Union has also come up the following towards mitigating the risk of contingent liabilities;

- Developed a framework for State aid.
- Provision of guarantees to a few activities to ensure competitions.
- The rules f the State aid will show where the money can be utilized.

3.7.6 OTHER COUNTRIES DESIRABLE OF MITIGATING RISKS

Irwin et al (2009) also proposed the following measures as general guide for countries who may from time to desire to improve their measures of improving the risk of contingent liability as follows

- Reviewing PPP in the Ministry of Finance by officials who have the capacity and risks in PPPs.

- Contingency liabilities should be properly qualified. Particularly if it will affect the possibility of the liability.
- PPP contract s and relevant details and description of financial risks must be published.

3.7.7 GOAL OF RISK MITIGATION

According to Brixi (2002) the goal of risk mitigation and management is to ensure that government has cash available to meet obligation and deliver on promises.

Farquharson et al (2011) on his part describes risk sharing as the task of dealing with the consequences of each risk between parties. According to him, the standard to allocate risk to the party that is better able to manage the risk. In addition he said that the PPP contract will usually contain the risk mitigation measures considered necessary.

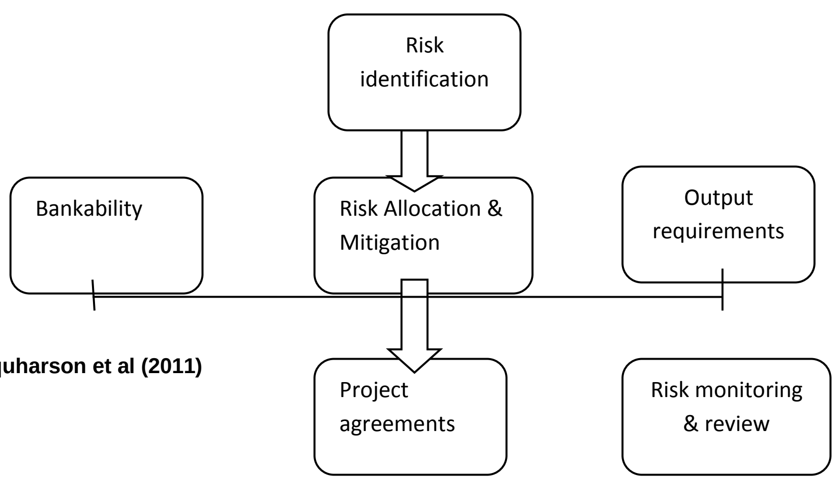
3.7.8 RISK IDENTIFICATION

Farquharson et al, (2011) describes risk identification as broad exercise relating to matters and contingent events that are both internal and external to the project.

3.7.8 RISK MONITORING AND REVIEWS

Farquharson et al, (2011) maintain that government must monitor all risks including hose allocated to third parties. This he explains is because the government is ultimately responsible for the provision of public services.

Elements of a Risk Management Plan



Source: Farquharson et al (2011)

3.7.9 ACCOUNTING FOR CONTINGENT LIABILITIES

Brixi (2002) records that traditionally; government reports their financial performance using the cash basis accounting, this is mainly due to the simplicity of this method.

He further explained that cash basis of accounting also comes with its weaknesses which he stated includes;

- Inaccurate measurement of current transactions
- Contingent liabilities are not reflected in the books until they are paid.
- Lack of information on stock of asset and liabilities.
- No depreciation and the risk of replacement are hidden.

3.7.10 CRITERIA FOR CONTINGENT LIABILITIES

Brixi (2002) recognizes too broad approaches i.e. accounting and budgeting to enable a good understanding of the contingent liabilities. Except that, according to him, this still does not deal with the main issue of risk management as to whether the government should commit to contingent liability or not.

3.7.11 SHOULD GOVERNMENT TAKE ON CONTINGENT LUABILITES?

Cebotari (2002) argues that even if there is a justification for the contingent liability the benefit must outweigh the cost and it must be the most efficient way of meeting a goal.

3.7.12 JUSTIFICATION FOR TAKING CONTINGENT LIABILITY RISK

Cebotari (2002) agrees that it is good practice for government to take on contingent liability and out across the following justifications to support his views;

- Socially desirable income distribution
- Create efficiency in the market
- Keep some firms alive through guarantees
- Prevent increase in unemployment
- Ensure that financial sector is not disadvantaged by withdrawing deposit guarantees.

Cebotari (2002) concluded that the point must be made as to whether the public sector is better able and positioned to manage the risk with contingent liabilities.

Adding that PPP arrangements involve sharing derived risk between the public and private sector party

3.7.13 RISK SHARING

According to Brixi (2002), PPPs involves risk sharing. Governments typically, reduces risk by sharing it to the private sector and some guarantees are also aborted when the limits its contingent liability.

3.8 NIGERIAN PPP ENVIRONMENT AND KEY PLAYERS

3.8.1 ROLE OF THE FEDERAL MINISTRY OF FINANCE

The Ministry of Finance (MoF) plays an important role in public financial management of PPP projects, and in evaluating and managing fiscal risks that may result from PPP agreements.

The MoF ensures that the forecasted costs for the FGN including any financial support that may be required to make a project viable are affordable over the full life of the contract. Together with the relevant MDA, it also reviews the costs and contingent liabilities as the project design and risk valuations are refined during the project preparation and procurement phases.

According to Federal Ministry of Finance, Nigeria requires about $100billion between now and 2014 to meet the minimum level of investment necessary to close the yawning infrastructure gap.

The private sector on the other hand, has a large pool of resources from which they can seek funding, which governments may not have access to, or the capacity to access. In addition, they can seek funding from both local and international financial markets. As a result, private sector involvement in infrastructure provision has been widely considered and implemented as a preferred method of financing infrastructure provision. Governments all over the world have come to recognize that the collaboration between public and private sectors is crucial to securing dependable and sustainable funding for infrastructure and reducing the pressure on fiscal budgets.

Private sector capital, therefore, is the effective recourse for Government.

Infrastructure investments contribute to economic development in three broad respects, namely:

- Increasing productivity and stimulating aggregate supply as well as demand;
- providing amenities which enhance the quality of life;
- Triggering multiplier effects of infrastructure development.

The Federal Ministry of Finance recently set up a PPP Unit in the Ministry with the aim of the following;

- Provide the enabling frame work for federal Government Ministries, Departments and Agencies to develop projects a under a PPP arrangement including the provision of project preparatory funding.
- The Unit is also to carry out risk analysis and risk mitigation functions.

However, the objective of is Unit is however not being achieved as a result of the lack of required skill and capacity to discharge this function. Creating a need for a well developed PPP Unit to address the risk of contingent liability for PPP projects in these MDAs

3.8.2 DEBT MANAGEMENT OFFICE (DMO)

The operation of the Debt Management Office (DMO) is governed by the Debt Management Office Act 2003. The DMO plays an important role in monitoring liabilities created by FGN's PPP projects and those State projects that require Federal guarantees. The DMO ensures that the contingent liabilities created by PPP projects are manageable within the FGN's economic and fiscal forecasts. The DMO advises the Federal Executive Council on the approval of individual projects and is also consulted in advance before an MDA requests any approvals for the involvement of any multilateral or regional agencies to provide guarantees or other financial instruments for funding a PPP project. The DMO also plays an important role in supervising the financial and capital markets.

DMO was established on 4th October 2000 to centrally coordinate the management of Nigeria's debt and maintain a reliable database of all loans or guarantee by the Federal or State or any of their agencies. The DMO was to centrally coordinate the management of Nigeria's debt, which was hitherto being done by a myriad of establishments In an Uncoordinated fashion. This diffused debt management strategy led to inefficiencies.

This diffusion in the management of public debt created Fundamental problems, including the following:

- Achieving positive impact on overall macroeconomic management, including monetary and fiscal policies;
- Consciously avoiding debt crisis and achieving an orderly growth and development of the national economy;
- Improving the nation's borrowing capacity and its ability to manage debt efficiently in promoting economic growth and national development;
- Projecting and promoting a good image of Nigeria as a disciplined and organized nation, capable of managing its assets and liabilities;
- Providing opportunity for professionalism and good practice in nation building;

3.8.3 ROLE OF THE NATIONAL PLANNING COMMISSION (NPC)

The National Planning Commission is responsible for the preparation of the FGN's National Development Plan, based on the sector plans of the MDAs. This Plan sets out the FGN's 15-year investment strategy covering all forms of procurement that will be financed in whole or in part from the federal budget. The investment strategy matches infrastructure needs against projected financial resources for all sectors, based on the Medium Term Sector Strategies prepared by each ministry. The investment strategy also identifies those infrastructure projects that will be financed by borrowing, as well as those projects that will be financed by current revenues.

The National Planning Commission also acts as a centre of expertise providing the tools and methodologies for the economic appraisal of the projects to be included in the National Development Plan, developing guidance on procedures and economic assumptions for cost-benefit analysis of the projects. The National Planning Commission monitors the economic benefits that result from government investment and uses this data to prioritize those projects that offer the highest economic or social return.

3.8.4 INFRASTRUCTURE CONCESSION REGULATORY COMMISSION

The ICRC is the Federal Government of Nigeria’s (FGN) s agency charged with regulating public and private processes in infrastructure provision. It has the responsibility of Promoting the development of a sustainable PPP framework towards the development of Brownfield and Greenfield infrastructure for the benefit of Nigerians

The ICRC Establishment Act 2005, sets out the following key functions of the commission:

- Provide general policy guidelines, rules and regulations
- Take custody of every concession agreement
- Ensure efficient execution of any concession agreement or contract entered by the Federal Government

  However the ICRC Act does not give the commission the powers to enforce regulation. This has been seen by many keys players in the PPP industry as a minus for the ICRC. The Governing Board of Directors are currently working to review and amend the Act and make it.

NATION	POP.	AREA	STOCK OF INFRASTRUCTURE				
	Millions	(m2)	Telecom (Millions)	Electricity (MW)	Rail (KM)	Roads (KM)	Airport
Netherlands	16.72	41,543	27.23	9170	2811	135,470	22
Brazil	179.1	8,514,877	191.78	86020	28,857	1,751,868	718
Turkey	96.81	783562	83.32	18900	8,697	426,951	90
India	1166.0	3287,263	464.84	76170	63,327	3,316,425	251
Nigeria	140.00	923,768	64.27	3000	4,500	193,200	22

Source: CIA world facts book

In furtherance of this objective, the Infrastructure Concession Regulatory Commission (ICRC) was established to be the major plank in operationalising the PPP process. The ICRC has therefore developed a National Public Private Partnership Policy (N4P) together with guidelines in line with the provisions of the ICRC Act 2005 and in the belief that a sound policy and institutional environment is a vital pre-requisite for the development of an effective PPP framework.

3.8.5 WHAT IS THE ROLE OF ICRC?

Pursuant to ICRC’s mandate (ICRC Act 2005), the Commission is presently;

• developing and issuing guidelines on PPP policies, processes and procedures;
• working closely with relevant MDAs to identify potential PPP projects and take a lead role in the development and procurement processes that will enable the participation of the private sector in line with international best practices;

• acting as the interface with the private sector to promote communication on national PPP policies and programmes from time to time o ensure that the set goals are properly achieved; collaborating with State Governments to promote an orderly and harmonised framework for development of infrastructure, and accelerate market development for PPP projects.

The ICRC has the top level support from the Presidency although this has not reflected yet in the sense that the Commission cannot compel parties to a contract to be sanctioned where they fail to carry out their individual responsibility and roles in the contract

The PPP Resource Centre

The PPP Resource Centre is comprised of personnel with legal, financial, and public administration backgrounds to provide the expertise for the implementation of PPP projects across different sectors in Nigeria. It operates within the ICRC acting as a central PPP knowledge unit. A major component of its role is act as an effective interface between the public and private sectors in relation to the PPP policies and practices in Nigeria. It also plays an important role in managing FGN equity in projects and ensuring that the investment decisions of the government are made primarily on commercial grounds.

The major responsibilities of the PPP Resource Centre are:

- To provide advice to the FGN on the development of policy for PPP;
- To issue guidance, in conjunction with the National Planning Commission, on the identification of PPP projects and programmes within the FGN's investment strategy;
- To provide advice on the Value-for-money assessment and affordability analysis of infrastructure projects that are being considered for PPP;

3.8.6 The Nigerian Federal Institutional Framework

The legislative frameworks governing PPPs in Nigeria allocate specific roles and responsibilities to various entities within the FGN. These specific FGN roles and responsibilities for PPP development and how the various entities work together in the PPP process are referred to as the institutional framework for PPP development. In order to make sure that there are checks and balances in the system, as well as oversight of the decision making process, many FGN entities are involved in the PPP process from beginning to end.

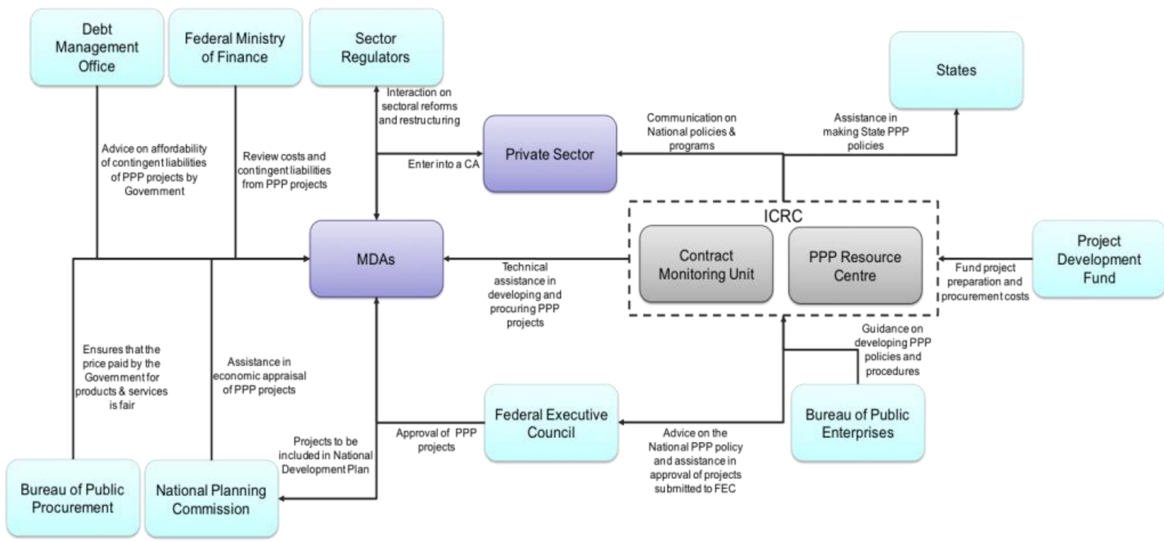


Figure : Nigeria's PPP Institutional Framework

3.8.6.1 Government support for financing PPPs and Risk mitigation efficiency strategies

The efficient financing of public private partnership projects can include the use of government support, to confirm that the government allows risks which it can accomplish better than private investors and to complement projects which are economically but not financially feasible. Wherever infrastructure projects have large public externalities, some level of direct financial support from government may be suitable.

The government will need to manage the establishment of government support, and in specific any contingent liabilities fashioned through such support apparatuses, for example through government guarantees of grantor payment obligations or sometimes through debt repayment.

Governments pursue a balance between i) the risks they incur when supporting infrastructure investment and ii) fiscal prudence.[1] Striking this balance right will help the government take decisions as to when to provide public-money support to manage the government liabilities that arise from such public-money support, while still being aggressive in encouraging infrastructure investment.

- **Valuing Liabilities**

- **Managing Liabilities**
- **Guarantee Fund**

3.8.6.2 **Valuing Liabilities**

It is important for Governments to measure the type of support provided to a project. Direct liabilities can be simply assessed and budgeted as and when the related liabilities fall due. For example, the government may undertake to make systematic payments to providers of road, hospital, school or prison facilities. As long as the amenities are properly constructed and made "available" to the grantor, the actual use of the facilities has only limited relevance for the availability payment.

The government might also provide guarantees, such as the revenue and exchange rate guarantees provided for toll road projects in Chile, Columbia, Korea and Spain,[2] which compensate facility operators when revenues fall below a given point or when the exchange rate between local currency and the currency of debt exceeds a given ceiling. Such contingent liabilities are more difficult to assess accurately, since the events which give rise to them are uncertain. The insurance industry practices actuarial tables to quantify contingent liabilities, and set its premium at an amount projected to cover its risk, set aside reserves and earn a profit. But, unlike insurance products, government support for PPP is tailored, and the body of data about the associated risks is extremely restricted.

Other methods exist, such as option-pricing techniques, to value guarantees.[3] A simple way to approach this valuation exercise is to assume maximum exposure, i.e. a 100% likelihood of claims. This is an extremely conservative and most likely inefficient approach. A more aggressive approach assesses the likelihood of claims on the guarantee, the quantum of those claims and their periodicity. The sum of these represents the likely cost to the government of the guarantee. Clearly this approach requires a number of educated guesses, given data constraints.

Hence, valuing contingent liabilities is considered more of an art than a science despite a number of sophisticated methodologies and software designed to assist in the process.

3.8.6.3 **Managing Liabilities**

The moment the expected cost of the guarantee to the government has been assessed, the delivery programme would present two practical issues need to be considered:

1) How will the government protect itself?

The government needs to shield itself from the applied and financial consequences of calls on its guarantees. This involves first recognizing the institution that will manage calls on guarantees with adequate resources to ensure that calls are properly made and processed. The government may need to be counter indemnified by the grantor or the relevant ministry; this has the benefit of reducing the moral risk of guaranteeing breaches by another party (a guarantee of a party's obligation, without any come back by the guarantor against the breaching party, may reduce the incentive for that party to comply with that obligation). A counter indemnity will incentivize the grantor to perform its obligations properly and should reduce the likelihood of calls on the guarantee.

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2) Who will pay for the cost of the guarantee?

The government will need to allocate the costs of providing guarantees, in particular the transaction costs associated with allocating government support, the cost of reserves set-aside for the guaranty, and any profit or additional funding to be used to increase available support. These costs can be borne by the government or by the project through the charging of guarantee fees, including upfront charges and periodic fees. Charging fees can also help ensure that guarantees are only sought when needed. Guarantee fees set too low encourage indiscriminate applications, and set too high discourage project implementation.

Governments actively managing fiscal risk exposure face challenges related with gathering of information, creating chances for dialogue, analysis of available information, setting government policy and creating and enforcing appropriate incentives for those involved.[4] Given the complexity of these tasks, it is pretty more popular for governments, and in particular ministries of finance, to create specialist teams to achieve fiscal risk arising from contingent liabilities, in particular those associated with PPP. This is often done through the debt management departments, which are already responsible for risk analysis and management. The institution(s) formed to help manage these liabilities can accomplish a number of functions, such as:

- obtaining information on government liabilities, in particular contingent liabilities;
- establishing criteria to guide government decisions (how much risk it will bear, what proportion of each risk it will cover, to which projects it will provide support, etc.);
- developing and housing specialist know-how in relation to the management of fiscal risk and its reporting;
- establishing rules governing the steps to be taken before public-money support can be offered;
- reviewing PPP project proposals to determine whether the proposed contract represents an appropriate investment of government resources and allocation of risk between the government and private investors and how much government support that project should receive;
- estimating the fiscal costs and fiscal risks of proposed public-money support;
- determining the type and level of government support to be extended to any given PPP project;
- monitoring government liabilities and disclosing them in the relevant forums, to give early warnings of required payments and any need to cut back on the issuance of new commitments;
- budgeting, accounting for and disclosing the fiscal risks associated with public-money support and setting the amount of reserve (if any) that the government must set aside with respect to the contingent liabilities borne, supporting the overall government fiscal management regime;
- improving collection through the counter-indemnities obtained from the party whose breach or failure resulted in the liability, to reduce moral hazard; and
- managing the government's total exposure to contingent liabilities, in principle rationing guarantees to their highest value uses while ensuring that the government is exposed only to manageable levels of risk.

3.8.6.4 **Guarantee Fund**

A system currently being considered by some governments includes the creation of a fund of liquid assets that can be quickly mobilized in the occurrence that a contingent liability is realized. The fund would take its own balance sheet, be removed from the annual budget cycle, and benefit from independent governance.

The fund could then be applied to:

- ring fence budget allocations intended for government support of PPP projects;
- reduce the likelihood of diversion of such funds for inefficient use;
- limit liabilities for government support provided to PPP projects to the value of its capitalization of the fund;
- reassure the public that government liabilities in the face of PPP projects are less likely to have catastrophic consequences, improving the credit enhancement function of government support; and
- help the government in their risk management of contingent liabilities (increasing efficiency and targeting of guarantees and ring-fencing government contingent liabilities). Shifting contingent liabilities to a separate entity with its own capital and limited liability will help to ensure there are no hidden risks in the government accounts, and that the government's exposure is limited by its equity in the fund.

This type of fund must be independent to allow proper management of the support provided, and closely regulated to ensure the project selection corresponds to government priorities and sectoral/cross-sectoral strategies. It must also have the staff with the skills and expertise needed to assess proposed projects, identify the right balance of government support and manage the implementation of that support, in particular in the run-up to financial close. This requires access to a significant amount of information and resources needed to perform appropriate due diligence.

Where assets or cash are set aside in such a fund, they are not available for other purposes and must be managed in a very conservative manner in order to retain the value of the fund. The government experiences this cost even if the assets or funds are not in fact needed to compensate fund liabilities. When the PPP programme is large or high value, the amount of assets that would need to be set aside in the fund may be prohibitive. Governments can also get contingent, stand-by facilities (for example from trusted lenders with good credit ratings to provide confidence to the market and those potential purchasers of such guarantees) to offset some of the need to set aside assets. These contingent facilities would be structured in such a way as to provide confidence to recipients of guarantees that sufficient money will be available without delay to address any liabilities the fund may incur, in particular for calls on guarantees, off-setting some of the capital requirements of the fund.

Setting up and managing a guarantee fund would raise issues similar to a financing intermediary, as discussed in Government Support in Financing PPPs, in relation to:

- decision making processes;
- governance;
- management;
- credit enhancement; and
- ensuring the inviolability of its operating policies

3.8.6.5 Government Support in Financing PPPs

It is important to emphasise that the need for government support can never be a welcomed development at all times and there is always a public component to a PPP. The method that this component takes will depend on the country and the project and can range from financial support, to indirect or contingent support, to in kind support (such as provision of land or equipment), to broader financial mechanisms that can support the country's PPP program or encourage the financial markets to lend into projects.

This section considers:

- **Funded products**
- **Contingent Products**
- **Financial Intermediaries**
- **Project Development Funds**
- **European Union Funds**

Funded products

The government may decide to provide direct support for the project for example through subsidies/grants, equity investment and/or debt. These mechanisms are particularly useful where the project does not in its own merit achieve bankability, financial viability or is otherwise subject to specific risks that the private investors or lenders are not well placed to manage. In developing countries where private finance is most needed, these constraints may necessitate more government support than would be required in more developed countries. Funded support involves the government committing financial support to a project, such as:

- direct support – in cash or in-kind (e.g. to defray construction costs, to procure land, to provide assets, to compensate for bid costs or to support major maintenance);
- waiving fees, costs and other payments which would otherwise have to be paid by the project company to a public sector entity (e.g. authorising tax holidays or a waiver of tax liability);
- providing financing for the project in the form of loans (including mezzanine debt) or equity investment (or in the form of viability gap funding); and
- funding shadow tariffs for roads and topping up tariffs to be paid by some or all consumers (in particular, those least able to pay) say in water and electricity projects to reduce the demand risk borne by the project company[1].

Few PPP projects are viable without some form of government technical or financial support. Efficient financing of PPP projects can involve the use of government support, to ensure that the government bears risks which it can manage better than private investors and to supplement projects which are economically but not financially viable.

Contingent Products

The government may choose to provide contingent mechanisms, i.e. where the government is not providing funding, but is instead taking on certain contingent liabilities, for example providing:

- guarantees, including guarantees of debt, exchange rates, convertibility of local currency, offtake purchaser obligations, tariff collection, the level of tariffs permitted, the level of demand for services, termination compensation, etc.;

- indemnities, e.g. against non-payment by state entities, for revenue shortfall, or cost overruns;
- insurance;
- hedging of project risk, e.g. adverse weather, currency exchange rates, interest rates or commodity pricing; or
- contingent debt, such as take-out financing (where the project can only obtain short tenor debt, the government promises to make debt available at a given interest rate at a certain date in the future) or revenue support (where the government promises to lend money to the project company to make up for revenue short-falls, enough to satisfy debt-service obligations).

For example, on the Zagreb-Macelj toll road, the government provided in-kind support in the form of land and contingent debt drawn down whenever revenues were insufficient to cover debt service. Thus, lenders were protected, but the risk remained with the equity holders.

The government will want to manage the provision of government support, and in particular any contingent liabilities created through such support mechanisms. Governments seek a balance between supporting private infrastructure investment and fiscal prudence.[2] Striking this balance right will help the government make careful decisions about when to provide public-money support and manage the government liabilities that arise from such public-money support, while still being aggressive in encouraging infrastructure investment. Government assessment of projects receiving such support is doubly important given the tendency of lenders to e less vigilant in their due diligence when government support is available, since this reduces lender risk and exposure.

Governments actively managing fiscal risk exposure face challenges associated with gathering information, creating opportunities for dialogue, analyzing the available information, setting government policy and creating and enforcing appropriate incentives for those involved. Given the complexity of these tasks, it is becoming more popular for governments, and in particular ministries of finance, to create specialist teams to manage fiscal risk arising from contingent liabilities, in particular those associated with PPP. This is often achieved through debt management departments, which are already responsible for risk analysis and management. The government may also consider creating a separate fund to provide guarantees, allowing the government to regulate better this function and ring fence the associated government liabilities..

The government may wish to use its support to mobilize private financing (in particular from local financial markets), where that financing would not otherwise be available for infrastructure projects. The government may want to mobilize local financial capacity for infrastructure investment, to mitigate foreign exchange risk (where debt is denominated in a currency different than revenues), to replace retreating or expensive foreign investment (for example, in the event of a financial crisis) and/or to provide new opportunities in local financial markets. But local financial markets may not have the experience, or risk management functions, needed to lend to some sub-sovereign entities or to private companies on a limited recourse basis.

To overcome these constraints, the government may want to consider the intermediation of debt from commercial financial markets, creating an intermediary sufficiently skilled and resourced to mitigate the risks that the financial markets associate with lending to infrastructure projects. To achieve this, the government may want to use a separate mechanism (the “intermediary”) to support such activities without creating undue risk for the local financial market, for example, by:

- using the intermediary’s good credit rating to borrow from the private debt market (e.g. providing a vehicle for institutional investors who could not invest directly in projects) then lend these funds to individual entities or projects as local currency private financing of the right tenor, terms and price for the development of creditworthy, strategic infrastructure projects;
- providing financial products and services to enhance the credit of the project and thereby mobilize additional private financing, for example by providing the riskiest tranche of debt, providing specialist expertise needed to act as lead financier on complex or structured lending, syndication, credit enhancement, and specialist advisory functions; and/or
- providing support to finance or reduce the cost or improve the terms of private finance for key utilities. These entities may need first to learn gradually the ways of the private financial markets, and the financial markets may need to get comfortable with lending to infrastructure operators. This mechanism can help slowly graduate such sub-national entities or state owned enterprises from reliance on public finance to interaction with the private financial markets.

Current best practice indicates that such intermediaries should be private financial institutions with commercially oriented private sector governance. Intermediaries meant to create space in an existing financial market must have commercial incentives aligned to this goal, with appropriately skilled and experienced staff, and a credit position sufficiently strong to mobilize financing from the market. Existing private financial institutions with appropriate skills and capacity can help to perform this function. However, private entities often suffer from conflicts of interest (e.g. holding positions in the market such that their interests are not aligned with the role of intermediary) or would be constrained from taking positions in the market due to its role as intermediary (crowding out vital market capacity). The government may therefore want to create a new private entity to play this role.

Examples of financial intermediaries developed by Governments are:

India:

India's Infrastructure Development Finance Company (IDFC)

IDFC was set up in 1997 by the Government of India along with various Indian banks and financial institutions and IFIs. IDFC's task was to connect projects and financial institutions to financial markets and by so doing develop and nurture the creation of a long-term debt market. It offered loans, equity/quasi equity, advisory, asset management and syndication services and earned fee based income from advisory services, loan syndication, and asset management capitalize on its established knowledge base and credibility in the market. IDFC also developed a project development arm, taking early positions in some project vehicles. By bringing projects through feasibility, structuring, and presentation to bidders, it generated success/development fees from the winning bidders.

The agency invested significant efforts in its early years in policy and regulatory framework changes to facilitate private investment in infrastructure. More bankable infrastructure projects subsequently emerged. IDFC has successfully leveraged the fact that the Government holds an equity stake – without compromising on its commercial orientation.

IDFC began operations with a strong capital base of approx US$400 million. Growth was initially slower than expected. After 6 years of operations, IDFC had a loan portfolio of around US$550 million and growth accelerated. After 8 years, an IPO in July 2005 introduced new equity and allowed early investors to realize their gains. An additional US$525 million equity was raised through an institutional placement in 2007, by which time, the Indian government's stake had fallen to 22 %. Other major shareholders now include Khazanah, Barclays and various Indian institutions.

India Infrastructure Finance Company Limited (IIFCL)

India Infrastructure Finance Company Limited (IIFCL) was incorporated on January 5, 2006 under the Companies Act 1956 as a wholly Government owned Company. IIFCL is a dedicated institution purported to assume an apex role for financing and development of infrastructure projects in the country. The authorized capital of the Company is Rs. 2,000 crore of which, paid up capital, at present, is Rs. 2,000 crore. Besides, the resource-raising programme of the Company would have sovereign support, wherever required.

The Company renders financial assistance through:

- Direct lending to eligible projects
- Refinance to banks and FIs for loans with tenor of five years or more
- Any other method approved by Government of India

Tamil Nadu Urban Development Fund (TNUDF)

An example of a subnational financing intermediary is the Tamil Nadu Urban Development Fund (TNUDF), which attracts private finance for on-lending to local governments for infrastructure projects, and encourages private-sector co-financing of such projects. The TNUDF is answerable to private and public shareholders, moving investment decisions away from the normal state decision-making process. However, TNUDF has not mobilized private investment in the manner anticipated, due mainly to the abundant public, subsidized funding available, making private finance too expensive and therefore less attractive.[3]

See also IFC SmartLessons, an awards program to share lessons learned by the International Financial Corporation (IFC) during development-oriented advisory services and investment operations.

Project Development Funds

In the UK, arguably one of the most efficient PPP market in the world, advisory costs during project development average 2.6 per cent of project capital costs. Advisory costs in lesser developed PPP markets run even higher. The large amount of upfront costs for procuring PPP projects, in particular the cost of specialist transaction advisers often meets with strong resistance from government budgeting and expenditure control. But quality advisory services are key to successful PPP development, and can save millions in the long-run. Therefore, funding, budgeting and expenditure mechanisms for project development are important to a successful PPP program, enabling and encouraging government agencies to spend the amounts needed for high quality project development.

The government may wish to develop a more or less independent project development fund (PDF), designed to provide funding to grantors for the cost of advisers and other project development requirements. The PDF may be involved in the standardization of methodology or documentation, its dissemination and monitoring of the implementation of good practices. It should provide support for the early phases of project selection, feasibility studies and design of the financial and commercial structure for the project, through to financial close and possibly thereafter, to ensure a properly implemented project. The PDF might focus on specific sectors or projects in a region or nationally, but needs to have a broad scope to address the different forms of PPP to respond to sector needs. The PDF may provide grant funding, require reimbursement (for example, through a fee charged to the successful bidder at financial close) with or without interest, or obtain some other form of compensation (for example, an equity interest in the project), or some combination thereof, to create a revolving fund. The compensation mechanisms can be used to incentivize the PDF to support certain types of projects.

Below are some of the project development funds/ facilities developed by governments:

South Africa Project Development Facility

Africa's Project Development Facility (PDF) is a single-function trading entity, created within the National Treasury in accordance with the Public Finance Management Act. Its primary function is to support governmental entities with the transaction costs of PPP procurement. The PDF collaborates with the Department of Provincial and Local Government's Municipal Service Partnerships Unit, provides funding for the preparation of feasibility studies and procurement of service providers, and may consider funding the costs of procuring the project officer. Support from the PDF can only be acquired if the project receives support from the National Treasury's PPP Unit.

The PDF recovers its disbursed funds either in part or in full as a success fee payable by the successful bidder at the financial close of the project. The risk of the project not reaching financial close is taken by the PDF in all cases other than an institutional default.

India

Project Development Fund of IL & FS

India Project Development Fund (IPDF) was introduced by IL&FS towards funding project development expenses of large infrastructure projects, primarily in surface transport, ports, water and power infrastructure. IPDF meets all project development costs and takes on the development risk upto financial closure.

IPDF is the first private equity fund in India for project development funding covering:

- Project Design & Techno-Financial Feasibility
- Environmental, Social & Market Studies
- Establishing Contractual Framework

European Union Funds

European Union (EU) Funds are an important element of European infrastructure finance. The European Commission makes funds available to EU Member States under either the European Regional Development Fund, the European Social Fund or the Cohesion Fund. Incorporating EU Funds into a public-private partnership (PPP) structure poses some challenges. The materials below provide guidance on how to combine private finance in a PPP structure with EU funds:

- Combining Cohesion and Structural Funds with PPPs in EPEC PPP Guide, European Expertise Centre (EPEC)
- Poznan Waste-to-Energy Project, Poland Using EU Funds in PPPs Case Study, European PPP Expertise Centre (EPEC), June 2012
- EU Funds in PPPs - Project Stocktake and Case Studies, European PPP Expertise Centre (EPEC), June 2012
- Using EU Funds in PPPs - explaining the how and starting the discussion on the future, European PPP Expertise Centre (EPEC), May 2011

3.8.7 SUMMATIONS AND CONCLUSION FROM THE LITERATURE REVIEW

The Literature review takes a wide review of a whole range of issues affecting the introduction of PPPs in Nigeria. It defines PPPs and explains its features. The relevant framework of global PPPs were highlighted and discussed in details. The institutional frameworks for PPS were also considered in line with in line. The role of PPP Advisers, risk management matrix, issues of disclosures and accounting and recording in various jurisdictions wee clearly considered in for different countries. The chapters agree that these approaches could be adopted in Nigeria as best practices across.

The chapter summaries that for strategic management of contingent liabilities created by PPP the following must be adopted in Nigeria;

Irwin et al, (2009) while emphasizing the need for a sound strategic management of contingent liabilities recommends the following:

- In managing PPP rules, there must be incentives, adequate information and expertise to obtain the details of cost and contingent liability rules.
- The costs and risks of contingent liabilities must be quantified.
- Review of PPPs should be carried out by the Ministry of finance and authorized by the cabinet.
- In the allocation of risks only those that the government can bear or controlled should be allocated to government
- To avoid the concealment of contingent liabilities reporting standards must be on accrual accounting basis.
- Publications of PPP contract is compulsory to reveal the cost and risks on government.
- Modification of budgetary systems is necessary to reveal the cost of contingent liabilities.
- Fees should to be charged by the government for guarantees

CHAPTER FOUR ANALYSIS OF RESULT AND OBERSAVATIONS

4.1 INTRODUCTION

This chapter points out the results of the raw data collected from the interviews and the surveys conducted in both stages of the research. This data was then used to answer the questions in chapter one. The data was centered on the same subject for the research. For the purpose of clarity and to show a great deal of transparency, the results have been recorded appropriately.

4.2 INTERVIEW RESPONDENTS

The earlier phase of the research centered on the interview with the three respondents who are key officials in the PPP industry with a great deal of experience in their field. The choice of the three respondents is mainly due to their vast experience in the subject matter been researched and their display of objectivity and unbiased sense of judgment. It is important that respondents display an independent mind of their own and not easily coerced or influenced.

4.2.1 RESPONDENT 1

The first respondent carries with him a high experience in the management of the debt of the country and in the PPPs generally. The respondent has been involved in negotiating debt with the Federal Government and the management of the country's debt profile and he is seen as an authority in his field. The first respondent is Mr. M. Amidu. He is a very senior Director with the Federal Government Agencies in charge of Debt Management and fiscal responsibilities. His contributions to the development of transactions have led to the closure of multimillion dollars deals for the Government.

4.2.2 RESPONDENTS 2

The second respondent has hands on experience and on project and function specific work on a day to day basis with the Federal Government. He has a wide experience also from the private sector. He was involved in the committee work for the development of a government position paper for the development of PPP Units in MDAs in Nigeria. The Second respondent is Mr. G. Danlami. He is a seasoned PPP expert and his is widely involved in PPPs across the global and recently in Nigeria. He is also involved in capacity building programmes for the development of appropriate PPP capacity building for the PPP infrastructure industry.

4.2.3 RESPONDENT 3

The third respondent has a strong background in financial modeling for PPP projects and risk management. He brings this experience to his works with the central office for the provision of services to government for the monitoring, reporting of contingent liabilities and ensuring that standards are met at tall times for the government to a avoid undue exposure of government. The third respondent is Mr. A. Umar. He has been involved in the analysis of financial models across PPP projects and has an extensive hands on experience in the review of financial models for the determination financial viability and economic bankability of PPP projects.

4.3 What are the common types of contingent liabilities in PPP projects in your organization?

This first question was used by the research to kick start the interview with all the three respondents. This question is wide and gives the researcher the opportunity to discuss and presents the topic of the dissertation to the respondent. The three respondents gave their views to the questions. Below are just but direct quotes to showcase their insights.

- "……The most common type of contingent liability is the termination of contract. The government are always in the habit of cancelling contracts, from time to time many Government Agencies cancel or even terminate the PPP contract and in some other cases, the projects are abandoned, and the government eventually suffer the penalty………..there is also force majeure…….” respondent 1

Respondent 1 There is the ended for the government to improve and honour contractual terms so entered into by them to avoid the risk of contingent liability.

- "……..The political climate is relatively unstable and has made it difficult for the government to manage contingent liability risk……..”respondent 2

Respondent 2 The government should make the economy stable by ensuring peace in the country for business to flourish and to avoid contingent liability.

- "…….the major risk is that of termination of contract but they are a lot more……"respondent 3

Respondent 3 seem to suggest that they there are so many of them which may not be open to the public. Government should be open and show more transparency in the governance. Publication of the PPP contracts should be enforced with appropriate disclosures for the use of the stakeholders.

4.4. What is the mitigation framework put in place to adequately manage these contingent liabilities?

The second research question explores the understanding of the respondents on the subject of contingent liabilities and the framework in place to mitigate contingent liabilities in their respective institutions.

- "……..the framework is currently being put together by the Federal Ministry of Finance…….the MDAs are responsible for this coordination through the project teams….respondent 1

Respondent 1 suggests that the frame work is not really in place and efforts should be made to provide clarity on this situation. More work will need to be done to implement a framework for the coordination of a sound contingent liability framework in the Ministries, Departments and Agencies.

- "….the framework is set by the Debt Management office who are charged with the responsibility of debt services monitoring, and they relate with the Ministry with no direct relationship with the MDAs who manage the projects…."respondent 2

Respondent 2 The DMO has a great role to play in ensure that the framework is place as an agency of government for debt coordination.

- "….. The ICRC is the agency of Government responsible for monitoring the PPP contract it is therefore their role to ensure the framework is put in place….respondent 3

Respondent 3 ICRC is critical in providing the regulatory guidance in the PPP arrangement in Nigeria. The PPP framework includes the risk assessment plan for contingent liability which the ICRC regulates but the domiciliation is with the FOMF and Debt management office.

4.5. What is your organization's planning and assessment criteria for Contingent liabilities and the reporting method?

The third question seeks to understand the assessment criteria in Government institutions carrying out PPP projects and what report of report they adopt and to determine whether or not it in line with the IFRS standards.

- **"….** For the PPP projects that we are involved in, the first thing is to ensure that the assessment is completed through a consultant…."respondent 2

Respondent 2 suggest the lack of capacity to conduct risk assess in public sector but emphasis the use of adviser which also commendation especially with the developing countries.

- "…….the assessment criteria are set by the DMO from time to time and the process of planning is included in the project delivery framework prepared by the project delivery team….the standards is usually as set by the IFRS"…" respondent 3.

Respondent 3 suggest the uncoordinated way of risk assessment by the Federal Ministry of Finance. The FMOF should always take up the responsibility. The IFRS states clearly the best practice standards to follow in such circumstances.

4.6 What are the available skill and expertise available in the PPP Units?

The fourth research question is to find out the level of skill available in the PPP Units and whether or not these Units exist in the first place.

- "….the PPP Units has been set up but the staffing has not been completed and the necessary logistic have ot been put in place for training…… at the moment our project work is done by consultants…."respondent 1.

Respondent 1 suggests that the PPP Units have not been established yet in most MDAs due to logistics problems. Government should address this issue as part of the larger issue of contingent liability

4.7 What are the barriers for a smooth implementation of a sound risk management system to guarantee the management of contingent liabilities?

The fifth research question is to highlight the barriers for a smooth take off of sound management of contingent liabilities on the public sector.

- "…….the lack of adequate skill, lack of effective regulatory framework, political will from the government and regulators…..respondent 1.

There is the need for capacity development for all officers in the PPP Units of MDAs as this will provide the much needed support for them in handling transactions and to be able to identify and mitigate contingent liabilities and other risks.

- “… . Lack of information and transparency in the government transactions are some of the key issues in the smooth risk management. ‘respondent 2.

The role of information in the mitigation of contingent liability cannot be overemphasized.
Government will need to be more transparent and they must publish on an annual basis the contract entered as seen with other jurisdictions.

- “…..Lack of timely reporting, accountability and the basis of accounting (cash basis) are a few of the factors against smooth management of risk of contingent liabilities……”respondent 3

4.8 REVIEW OF STRUCTURED QUESTIONAIRE

The structured questionnaire is to enable the researcher confirm the details of the interview questions and the long list of recommendations made by the authors from the literature review.

A total of 32 questionnaires were collected out of the 50 administered. This shows a good response rate. The questions were properly answered and response showed that there were not ambiguities. The results of the questionnaire analysis have been tabulated to show with the diagram the opinion expressed by the various respondents.

The questionnaire was administered to 50 persons cut across the private and public institutions to provide a wide spread of results. It was administered on very high level officials who have high responsibility for decision making. They also have the responsibility of influencing key government decisions.

The questionnaires were structured into four main areas i.e. capacity and skills, Policy, Accountability and Recording & Transparency. The idea is provide the research a good and clear understanding of the issues and to be able to relate them clearly with the findings in the literature review.

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- **Capacity & Skill**
  - ✓ What is the level of capacity and skill of the PPP Unit staff in the MDAs?
  - ✓ And amount of input analysis do they carryout in PPP Projects?

  This question is to identify the available Skill and capacity of the Government to handle contingent liability.

- **Policy**
  - ✓ How much attention is paid to risk analysis when government considers new promises of contingent liabilities?
  - ✓ Does the MDA quantify the future cost of option?

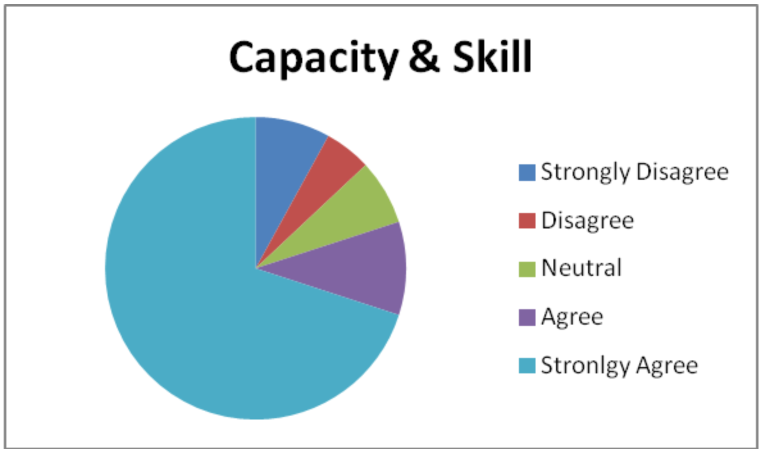
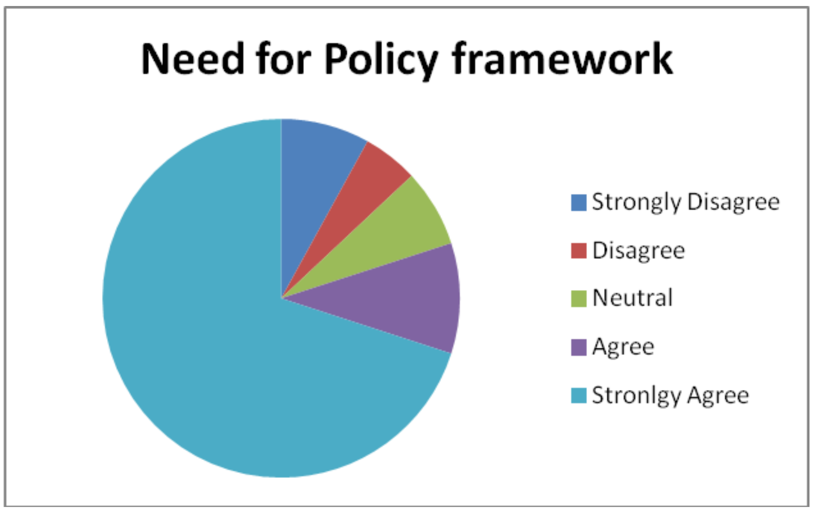
  This question is to show the level of consideration given to risk analysis in policy formulation and Adequacy of Policy and framework for effective control of contingent liability

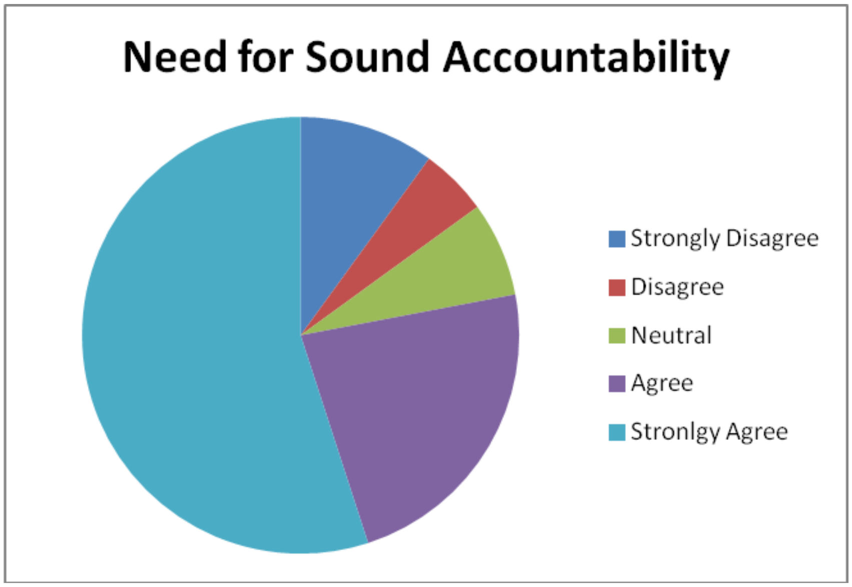
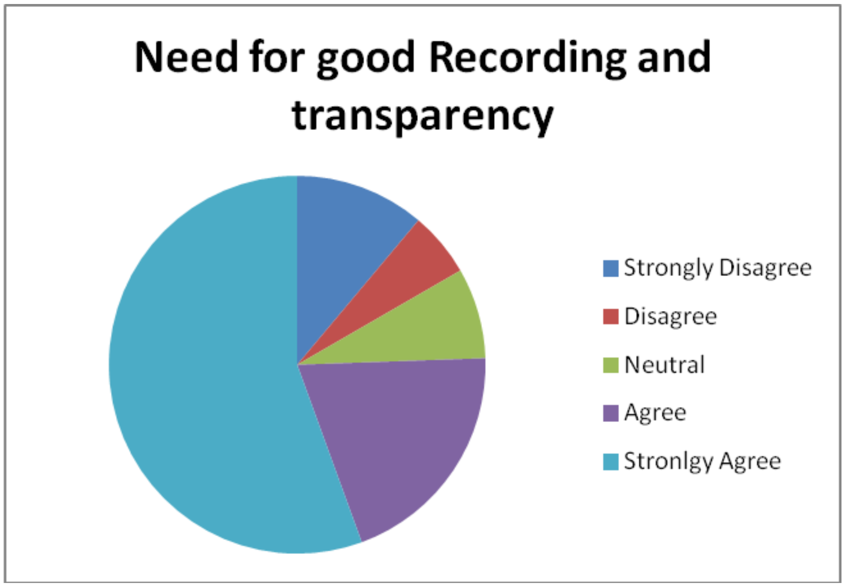
- **Accountability**

- ✓ Does any legal requirement apply to the government with respect to estimating accounting and reporting the cost of contingent liabilities?
- ✓ Is the Government legally required to explain measures in public liabilities?

- **Recording & Reporting – Transparency**
  - ✓ Which Agency of Government is responsible for final approval, recording, monitoring and data consolidation of contingency liabilities?
  - ✓ Are there special templates and standards adopted by the Government for reporting contingent liabilities and what is the frequency of such reporting?

Summary of the questionnaire administered.

N/o	Response	Summary of Total and remark
1	**Capacity & Skill** There is need for appropriate skill and capacity to handle transactions**.**	70% of the respondents agree that there is the need to put in place appropriate capacities and skill to handle transactions in PPPs 
2	**Policy** The need for policy framework to be put in place.	70% agree that there is the need for appropriate policy for the implementation of PPPs for the management of contingent liabilities. 

3	**Accountability** What is the extent of legal requirement with respect to estimating accounting and reporting the cost of contingent liabilities? To what extent does is the Government legally required to explain measures in public liabilities?	55% agreed to accountability as a way for ensuring that there is proper mitigation of contingent liabilities. 
4	**Recording and transparency** What is the extent of legal requirement with respect to estimating accounting and reporting the cost of contingent liabilities?	50% agree that there is the need to ensure time the recording of contracts to show contingent liabilities. 

From the above analysis it is evident that there is the need to deliberately address the issues of capacity building, policy formulation, accountability and reporting. This will help to address the risk of contingent liability.

4.9 Further Findings from the Analysis of the Characteristics of Contingent liabilities and ways of minimizing them

To manage government's exposure to contingent liabilities, in principle ration guarantees to their highest value use while ensuring that government is exposed to only manageable levels of risks.

- Typically, government bears some of the risks of PPP projects – although not as much as if the risk it would bear if it used public finance.
- Contingent liability require expenditure only if an unlikely future event occurs
- Contingent liabilities differ from ordinary liabilities that government incurs when it borrows money or otherwise commits itself to making payments
- Not all risks create contingent liabilities for accounting purposes.

4.10 Finds on how to minimize risks and contingent liabilities in PPP projects?

It is important to note the following areas as ways of mitigating liabilities in PPP projects:

- Cost-Benefit analysis must be used to choose projects; value for money to be used to choose among PPPs and public finance.
- It is important to always quantify the costs and risks of contingent liabilities.
- The Ministry of Finance should appraise proposed PPPs to make sure that the government can tolerate the liabilities when they arise.
- Government should allow risks that they can manage.

4.11 What other changes should be introduced to manage contingent liabilities?

- Budgetary systems should be modified to capture costs of contingent liabilities.

- Disclosure of PPP contract (even if on websites of sponsoring Ministries, Departments and Agencies (MDAs).
- Disclosure could prevent bad deals and indirectly increase public confidence in PPP.
- Government could consider changing fees for guarantees
- A guarantee fund could be established to …. With payments when guarantees are called.
- We pre-qualify and establish a list of consultants (firm) capable of supporting handling exercise.
- Hold a one day awareness session on the N4P framework for the pre-qualified consultants.
- Presentation of certification of recognition to the shortlisted consultants.
- Submission of the list of prequalified consultants to the MDAs.
- The consultants will be categorized into sectors and relevant specialized areas such as project (identification, development, selection, appraisal, procurement, financial models/analysis, legal, compliance, monitoring & evaluation etc)
- Mobilization of project development funds for the MDAs through
- Provisioning in their annual budget and other sources of funding.
  Refresher training, meetings etc.

4.12 Guarantee fund

A mechanism currently being considered by a number of governments involves the creation of a fund of liquid assets that can be rapidly mobilized in the event that a contingent liability is realized. The fund would have its own balance sheet, be removed from the annual budget cycle, and benefit from independent governance. The fund could be used to:

- Ring fence budget allocations intended for government support of PPP projects;
- Reduce the likelihood of diversion of such funds for inefficient use;
- Limit liabilities for government support provided to PPP projects to the value of its capitalization of the fund;
- Restore confidence of the public that government liabilities in the face of PPP projects are less likelyto have catastrophic consequences, improving the credit

improvement function of government support; and aid the government in their risk management of contingent liabilities (increasing efficiency and targeting of guarantees and ring-fencing government contingent liabilities).

- Shifting contingent liabilities to a separate entity with its own capital and limited liability will help to ensure there are no hidden risks in the government accounts, and that the government's exposure is limited by its equity in the fund.

CHAPTER FIVE CONCLUSION AND RECOMMENDATION

5.0 Introduction

From the list of the areas covered, and analysis and findings, this chapter will highlight the results; discussions from the literature review will be made as well as relevant findings and recommendations arrived at in the course of the research.

5.10 Factors for a sound mitigation of contingent liabilities in PPPs

5.1.1 Need for Capacity and Skill

This question is to identify the available Skill and capacity of the Government to handle contingent liability.

From the analysis of the questionnaire, it was clear that over 70% of the questionnaire administered strongly agree that there is the need to put in place a sound capacity and skill for the implementation of PPPs so as to be able to mitigate contingent liabilities in the PPP implementation.

It was also clear that from the respondents that they all agree that the Government does not have the capacity and right skill to mitigate contingency liability in PPP transactions.

5.1.2 Putting in Place a sound Policy framework

This question is to show the level of consideration given to risk analysis in policy formulation and Adequacy of Policy and framework for effective control of contingent liability.

The review of the literatures and the findings from the questionnaire agree that there is the need for a sound policy framework to be put in place. The respondents especially respondent 2, quite agree that the policies are not place, a task which is be put in place by the Federal Ministry of Finance and enforce by the Infrastructure Concession Regulatory Commission (ICRC).

Over 70% from the questionnaire also agree that there is the need to have in place a sound framework for the Policy framework for PPPs transactions.

5.1.3 Need for Accounting

This question identifies ay legal requirement applicable to the government with respect to estimating accounting and reporting the cost of contingent liabilities and if the government is legally required to explain measures to the public.

The respondents who are well experienced in the handling of PPP transactions in Nigeria all agree that the process of clearly accounting for PPP transactions is still at the infant stage and there is the need to show good accounting for the implementation of PPP transactions and that government is required to explain the measure publicly. From the Literature review, it is best practice across the world to have good accounting process especially the cash basis and accrual basis to accounting to ensure that there is relevance in the transitions.

From the review of the questionnaire administered, over 55% of the respondents strongly agree that there is the need to have in place a sound accounting process in place in line with international best practices.

5.1.4 Sound Recording and Transparency

This question identifies which Agency of Government is responsible for final approval, recording, monitoring and data consolidation of contingent liabilities. It also finds out if there are templates and standards adopted by the Government for reporting of contingent liabilities and the frequency of such reports.

It is important to recall here that three respondents all agree that the importance of a sound recording and transparency cannot be over emphasized. They all made it categorically clear that it is best practice to ensure that risk of contingent liabilities and well assess and cost quantifies and determined early in PPP the transaction.
Over 50% of the questionnaire administered and collected strongly agree that the Government should put in place a sound recording and make the process as transparent as possible. From the literature review, most of the authors agree that many private sectors institutions will not participate if the process is not transparent.

5.2 Strategic Management of contingent liabilities created by PPP

The Literature review summaries that for strategic management of contingent liabilities created by PPP the following must be adopted in Nigeria. Irwin et al, (2009) while emphasizing the need for a sound strategic management of contingent liabilities recommends the following:

- In managing PPP rules, there must be incentives, adequate information and expertise to obtain the details of cost and contingent liability rules.
- The costs and risks of contingent liabilities must be quantified.
- Review of PPPs should be carried out by the Ministry of finance and authorized by the cabinet.
- In the allocation of risks only those that the government can bear or controlled should be allocated to government
- To avoid the concealment of contingent liabilities reporting standards must be on accrual accounting basis.

- Publications of PPP contract is compulsory to reveal the cost and risks on government.
- Modification of budgetary systems is necessary to reveal the cost of contingent liabilities.
- Fees should to be charged by the government for guarantees

5.30 FURTHER REVIEW OF THE RESULTS ON MANAGING CONTINGENT LIABILITIES IN PPPS

From the findings of the various reviews from the respondents, literature review and the questionnaire, once the likely cost of the guarantee to the government has been assessed, several practical issues need to be considered: Governments actively managing fiscal risk exposure encounter challenges associated with gathering of information, creating opportunities for dialogue, analysis of available information, setting government policy and creating and enforcing appropriate incentives for those involved.

Given the intricacy of these tasks, it is becoming more popular for governments, and in particular ministries of finance, to build specialist teams to administer fiscal risk arising from contingent liabilities, in particular those associated with PPP.

- This is often achieved through debt management departments, which are already responsible for risk analysis and management.

- The institution(s) created to help manage these liabilities can fulfill a number of functions, such as:

  · Obtaining information on government liabilities, in particular contingent liabilities;

  · Establishing criteria to guide government decisions (how much risk it will bear, what proportion of each risk it will cover, to which projects it will provide support, etc.);

  · Developing and housing specialist know-how in relation to the management of fiscal risk and its reporting;

· Establishing rules governing the steps to be taken before public-money support can be offered;

· Reviewing PPP project proposals to determine whether the proposed contract represents an appropriate investment of government resources and allocation of risk between the government and private investors and how much government support that project should receive;

· Estimating the fiscal costs and fiscal risks of proposed public-money support;

· Determining the type and level of government support to be extended to any given PPP project;

· Monitoring government liabilities and disclosing them in the relevant forums, to give early warnings of required payments and any need to cut back on the issuance of new commitments;

· Budgeting, accounting for and disclosing the fiscal risks associated with public-money support and setting the amount of reserve (if any) that the government must set aside with respect to the contingent liabilities borne, supporting the overall government fiscal management regime;

· Improving collection through the counter-indemnities obtained from the party whose breach or failure resulted in the liability, to reduce moral hazard; and

· Managing the government's total exposure to contingent liabilities, in principle rationing guarantees to their highest value uses while ensuring that the government is exposed only to manageable levels of risk.

5.40 RECOMMENDATIONS

From the review and analysis of the subject matter, contingent liabilities must be properly identified, assessed and dealt with in a transparent way to manage the

debt. Failure to adequately deal with it can ultimately become a huge financial burden for the public sector.
There is the need for prudent management of contingent liabilities in the PPPs as a necessary element of public policy. Missteps of today do not end up in burdening the potential real development and growth of tomorrow.

The evolution of PPPs in other jurisdiction has further given a great window of support developing countries in the use of PPPs as alternative to procurement financing.

The ever growing public awareness on the imposition of cost through contingent liabilities has resulted in many governments constantly looking to mitigate risks with contingent liabilities. PPP transactions involve significant risk sharing schemes especially to parties that are re better able to manage them. It is clear from the analysis and the result of the analysis that government has a lot to do to ensure effective planning and monitoring of contingent liabilities. This requires that Government officials and decision makers must be fully aware of the nature and characteristics of contingent liabilities well ahead of time.

The need for a sound framework to be introduced as a proper guide for decision makers for proper contingent liabilities needs assessment is key and absolutely important. This will no doubt demand greater accountability responsibility on the government for contingent liabilities.
The need to have a holistic review of the decision to take on the risk must be properly reviewed to forestall any problem.

There is also the need for the institution of clear monitoring schemes to address contingent liabilities. It may be possible to mitigate low-impact risk by ensuring flexibility in government budgeting.

There is also the recognition of international best practice in contingent liability accounting for adequate transparency and adequate documentary budget provision. Institutions should be set up for managing contingent liability risks and should be established and handed over to the central coordinating ministry i.e. Federal Ministry of Finance.

There is also the need for policy makers to ensure that Government support for financing Public Private Partnerships and risk mitigation efficiency strategi ear put in place early in the transaction to ensure prompt delivery of the asset.

Valuing the PPP liabilities and proposing plans for the management of these liabilities are very important at all levels of Government. Its is good to bear in mind who would pay for the cost of guarantee and the various guaranty funds to be made available are all critical.

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[1] see www.gpoba.org which is a facility that supports output based solutions

[2] For further discussion of this issue, see Irwin, Government Guarantees: Allocating and Valuing Risk in Privately Financed Infrastructure Projects (World Bank, 2007)

[3] Krishnan, “Tamil Nadu Urban Development Fund: Public-Private partnership in an infrastructure finance intermediary” (World Bank, 2007)