Norman Manley International Airport Public Private Partnership Analysis of Contingent Liability Exposure

AUDITOR GENERAL'S DEPARTMENT

INDEPENDENT ASSESSMENT REPORT

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This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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Auditor General's Overview

The Financial Administration and Audit (FAA) Act requires the Auditor General to certify that a public private partnership (PPP) involves only minimal contingent liabilities accruing to the Government. This assessment is only required for 'user pays' PPP as these projects would not be included in the public debt. User-pays PPPs are commercially free standing and are paid for by charges, fees or tolls by the users of the service or infrastructure, as is the case for the Norman Manley International Airport (NMIA) public private partnership. The NMIA PPP achieved financial closure with the signing of the Shareholder Funding Agreement on October 2, 2019 and the operations of the Airport handed over to PAC Kingston Airport Limited in that month.

Hence, in keeping with the requirements of the FAA Act, I assessed the contingent liability exposure of the NMIA concession arrangement over the medium-term. Of note, this assessment can only be undertaken after financial closure is achieved. Based on my review of the Concession Agreement using the IMF/World Bank Public Private Partnership Fiscal Risk Assessment Model (PFRAM), I have assessed that the NMIA concession arrangement contains only minimal contingent liability.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

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Executive Summary

1. The Government of Jamaica (GOJ) Public Private Partnership (PPP) Policy which was approved by Cabinet in 2012, defines a public private partnership as a "procurement contract between the public and private sectors in which the proficiency of each party is focused in the designing, financing, building and operating an infrastructure project or providing a service through appropriate sharing of risks, resources and rewards". Of note, PPPs are designed to, inter alia, extract long-term value for money through appropriate risk transfer to the private sector and therefore serve as a viable alternative to government funding for these projects.

2. The Jamaican PPP Policy sets out the principles that should guide decision making by Ministries, Departments and Agencies (MDAs), which are utilizing PPPs to improve infrastructure and the delivery of public services. The Public Bodies Management and Accountability (PBMA) Act outlines specific responsibilities for the Minister of Finance in relation to PPPs and provides a link between contingency risk of PPPs and total public debt. Section 48B (6)(d) of the Financial Administration and Audit (FAA) Act requires the Auditor General to indicate whether a public private partnership involves only minimal contingent liabilities accruing to the Government.

3. The Government of Jamaica, through the Airport Authority of Jamaica, entered into a 25-year concession arrangement with PAC Kingston Airport Limited to operate, manage, modernise, expand and develop the NMIA, with the signing of the Shareholder Funding Agreement on October 2, 2019.

Finding

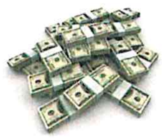
4. Using the IMF/World Bank Public Private Partnership Fiscal Risk Assessment Model (PFRAM), I assessed the risk to the Concession Agreement relating to the NMIA PPP for several risk categories[1]. As a user-pays PPP, I noted that the Concessionaire is responsible for most of the 11 risks categories identified. Based on the PFRAM, I have assessed that the NMIA PPP contains only minimal contingent liabilities to the Government.

Recommendations

5. Given that PPP transactions may be subject to contract renegotiation in the event either partner desires adjustment, which could be a source of fiscal risk, the Government of Jamaica should continually monitor the NMIA PPP and ensure timely review of risk mitigation strategies to ensure they remain relevant.

[1] The PFRAM was developed by the IMF and the World Bank as an analytical tool to assess the potential fiscal costs and risks arising from the PPP projects.

Key Statistics



Concessionaire Financing US$15 million Equity Contribution; and Subordinate loan of US$112,000,000 for design and to carry out capital work at the Airport.

US$5 million up front concession fees to GOJ; and 62.01 per cent concession fee of Gross Revenue due to Owner monthly without set-off with annual fee adjustment.

25-year Concession Agreement to operate, manage expansion, modernisation and development of the NMIA, effective October 2019.

Part One - Introduction

Overview

6. In 2014, as part of the measures to improve the fiscal responsibility framework, the Public Bodies Management & Accountability (PBMA) Act was amended, which provided legislative responsibilities for the Minister of Finance in relation to public private partnerships. Section 6B (2) of the PBMA Act states that, "The Minister shall ensure that there is full disclosure and regular reporting on contingent liabilities, including the matters referred to in Sub-sections (6) and (9), in each Fiscal Policy Paper to be tabled pursuant to the Financial Administration and Audit Act".

7. The PBMA (Amendments) Act 2014 states that a Contingent Liability is:
   a) an existing obligation that arises from past events but is not recognised because -
      i. it is not probable that an outflow of resources will be required to settle the obligation; or
      ii. the amount of the obligation cannot be measured with sufficient reliability.

8. The PBMA Act recognizes the relationship between PPPs and public debt management. Section 6B(5) noted that "For the purposes of Section 48C(1)(b) of the Financial Administration and Audit Act:
   a) the indebtedness of a public body within the specified public sector, arising from a Government-pays public private partnership, shall comprise part of the public debt;
   b) the indebtedness of the user-pays public private partnerships shall not comprise part of the public debt."

9. In the case of user-pays public private partnerships, if there are significant contingent liability risks, this may have implications for the public debt. "Where the likelihood of a contingent liability that (a) accrues to a public body within the specified public sector; and (b) arises from a public private partnership, becomes probable, the quantified amount of the contingent liability shall thereupon form part of the public debt, for the purpose of Section 48C(1)(b) of the Financial Administration and Audit Act".[2]

10. Section 48B (6)(d) of the FAA Act requires the Auditor General to indicate whether a public private partnership involves only minimal contingent liabilities accruing to the Government.

Background

11. NMIA Airport Limited (NMIAL), operators of the NMIA, was incorporated in 2003 as a wholly-owned subsidiary of the Airports Authority of Jamaica (AAJ) and operated under a 30-year Concession Agreement, which was completed in 2004. According to the Recitals (Section E) of the Concession Agreement between AAJ and NMIAL dated October 10, 2018, the concession was intended to be

[2] Section 6B(9) of the Public Bodies Management and Accountability (PBMA) Act

on an interim arrangement pending the procurement of a suitable, private operator to develop, finance and maintain the NMIA on a long-term concession basis.

12. The GOJ, through the AAJ, entered into a long-term Concession Arrangement with PAC Kingston Airport Limited, for the modernization, expansion, operation, maintenance and financing of the Norman Manley International Airport (NMIA) for the duration of the contract period[3]. The Concession Agreement is for a period of 25 years in the first instance (Early Termination) unless extended at the request of the Concessionaire. The Shareholders Funding Agreement was signed on October 2, 2019 and the Airport handed over thereafter, in October 2019.

Concessionaire's Responsibilities for Management and Operation of the Airport

13. The Concessionaire has the exclusive right for the Concession Period to:
    (a) carry out the Works and any Enhancement Works and Restoration Works (if applicable);
    (b) carry on the Airport Business;
    (c) collect and receive the Aeronautical Revenues and the Non-Aeronautical Revenues,
    in each case subject to, and in accordance with, the terms of this Concession Agreement and Applicable Law.

Profile of Public Body

14. The Airports Authority of Jamaica was established as a statutory Corporation in 1974 under Airports Authority Act of Jamaica. Section 8 of the Act requires that it shall be the duty of the Authority:
    a) to administer, control and manage prescribed airports and any other property vested in it under the Act;
    b) to provide and maintain such services and facilities as are in its opinion necessary or desirable for the efficient operation of prescribed airports or as the Minister may require but, except with the consent of the Minister, the Authority shall not provide any navigation service;
    c) to provide rescue and firefighting equipment and services at prescribed airports.

15. Since inception, the AAJ had the sole responsibility relating to the control and management of designated airports until the Airports Authority Act (Amendment) 1996. This amendment created an enabling legislation and the instruction of Private Sector Participating (PSP) Scheme, which allows these functions to be undertaken by other companies other than the AAJ.

[3] PAC Kingston Airport Limited is a limited liability company incorporated under the laws of Jamaica and is formed as the Concessionaire by the preferred bidder, Grupo Aeroportuario Del Pacifico, S.A.B de C.V. (GAP)

Financing for the concession arrangement

16. Under the terms of the NMIA Concession Agreement, the Concessionaire is solely responsible for financing the implementation of the Concession Agreement. This was made possible through Shareholders Funding Agreement dated October 2, 2019, between Grupo Aeroportuario Del Pacifico S.A.B de C.V. (GAP) of Mexico (Shareholder) and PAC Kingston Airport Limited (Concessionaire) and Airport Authority of Jamaica (Owner). The Agreement provides for the Concessionaire and the Shareholder to execute the Shareholder Funding Agreement in favour of the Owner by guaranteeing that the Concessionaire will have sufficient funds to fulfil its obligations, which include carrying out the airport business and completion of capital works.

17. The total financing of US$127 million includes US$15 million first and second equity contributions by December 31, 2019 and a Subordinate Loan totalling US$112 million for capital works.

Table 1: NMIA Concession Agreement Shareholder Funding

Equity	Financing Amount US$	Due
Guaranteed First Equity	9,000,000.00	October 31,2019
Guaranteed Second Equity:	6,000,000.00	December 31, 2019
Subordinate Loan:	112,000,000.00	100% disbursement by August 15, 2025
Total	**127,000,000.00**	

Source: NMIA Concession Shareholders Funding Agreement, October 2, 2019

Revenue Flows to AAJ

18. The NMIA Concession Agreement allows for revenue generation to the Government from the Concessionaire in the form of concession fees. According the Section 32 of the Agreement, the Concessionaire shall pay the Owner without set-off or any other deduction monthly, subject to annual adjustments. As a condition precedent to the Concession Agreement, the Owner receives up front, a concession fee of US$5 million. In addition, monthly instalments of the concession fee are due and payable to the Owner by the Concessionaire on the 25th of each month during the concession period and shall be equal to 62.01 per cent of gross revenue.

Objective, Scope and Methodology of our Assessment

19. I conducted an independent assessment to determine whether the NMIA Public Private Partnership arrangement involves only minimal contingent liability, thereby limiting the Government of Jamaica's exposure to fiscal risks. The assessment was planned and conducted in accordance with the Government Auditing Standards, which are applicable to Guideline on Best Practice for the Audit of Risk in Public Private Partnership (PPP) (ISSAI 5240) issued by the International Organization of Supreme Audit Institutions (INTOSAI). The review was also guided by the IMF/World Bank Public Private Partnership Fiscal Risk Assessment Model (PFRAM).

Part Two – Analysis of Fiscal Risk

20. This report assesses the contingent risks to the Government of Jamaica (GOJ), given the implication for the fiscal accounts and public debt stock. The assessment relies on the IMF/ World Bank Public Private Partnership Fiscal Risk Assessment Model (PFRAM) framework. There are specific risks that emanate from these PPP's, which either are allocated to each party to the PPP agreement or are shared. The assessment covers 11 risks as outlined below, and summarised in **Appendix 1**.

Governance Risk

21. Governance risks relate to the regulatory and political risks, possibly due to legal changes and unsupportive government policies. In this PPP, the Governance risks were allocated to the GOJ with the probability of occurrence being low and the fiscal impact being medium. This is in a context where the GOJ has a public investment management framework in place, which significantly mitigates any potential risk for this area. The PBMA forms part of the legislative framework, which sets a cap for contingent liability at 8 per cent of GDP[4]. Additionally, the enhanced fiscal rules require that all PPPs be continually assessed by the MoFPS; be included in the Public Sector Investment Programme (PSIP); and be subject to standards set out in the Public Investment Management System (PIMS). As it relates to the institutional framework, the Development Bank of Jamaica (DBJ) and the MoFPS have the core responsibility to assess transactions in line with the criteria set out in the PPP policy. Adequate disclosure by the GOJ is critical to the management of governance risk as poor public perception of the governance arrangements underpinning the PPP may hinder the progress of the project.

22. The Concession Agreement contained the Attorney General's opinion, which states that the Airports Authority Act establishes AAJ as a separate legal entity under Jamaican law. By virtue of the Act and Section 28 of the Interpretation Act, the AAJ has the power to enter into contracts in its corporate name. In addition, the AAJ is authorized to enter into the Concession Agreement having been approved by the Cabinet. The Concession Agreement in Section 54, explicitly states under the Section governing law and jurisdiction, that the Concession Agreement shall be governed by and construed in accordance with the laws of Jamaica.

Construction Risk

23. One of the main deliverables under the Agreement and at sole cost to the Concessionaire, is completion of the planned modernization and expansion of the facilities at the NMIA. This is to be achieved through the execution of a capital works programme set out in Section 25 of the Concession Agreement. Accordingly, the construction risks associated with the PPP are allocated to the Concessionaire and as such, the likelihood of the risk materializing and fiscal impact to the GOJ are determined to be low. The risk associated with the capital works for the expansion of the NMIA,

[4] The contingent liability cap was set at 3 per cent up to March 31, 2017.

includes delays in construction, resulting in cost escalation, which may lead to additional financing costs. Capital works will include a runway extension and an upgrading of the various utilities systems and the execution of apron works. Section 25 of the Agreement, details among other items, the obligations of the Concessionaire, relating to the completion date of the capital works, delay events and outlines penalties or liquidated damages that accrue because of any construction delays.

24. Section 25.1 of the Concession Agreement states that the Concessionaire shall carry out and complete the design, construction, installation and commissioning of the capital works in a good and workmanlike manner with good quality new materials in accordance with specific guidelines including the relevant approvals, standards and schedules. The design and construction of all capital works are to be performed in accordance with "International Building Code (IBC) - incorporating Jamaican Applications approved by the Bureau of Standards of Jamaica (BSJ) and the Jamaica Civil Aviation Authority (JCAA) manual of aerodrome standards as applicable. Funding of the capital works is provided to the concessionaire in the form of a shareholder subordinated loan of US$112 million from the Parent Company of the concessionaire, Grupo Aeroportuario del Pacifico S.A.B. de C.V. (GAP).

Demand Risk

25. Demand risk relates to the risk that demand for airport traffic may fall below a specified level, or outside a specified range. Demand risk for this PPP is shared between the Concessionaire and the Owner (AAJ), but skewed towards the Concessionaire which would be more affected if demand falls. This is in a context where under the Agreement, expenses are borne solely by the Concessionaire which is required to use all its reasonable efforts to operate and maintain the Airport in a manner calculated to optimize the availability, capacity and efficiency, including flow of Passengers and allocation of space. While the risk of fall in demand was assessed to be medium as the NMIA may face competition from the other local international airport and global challenges could influence a fall-off in international travel, the fiscal impact to the Government was assessed to be low. This is based on Section 32 of the Concession Agreement, which states that the Concessionaire shall pay the concession fee to the Owner, without set-off or any other deductions.

26. Further, the monthly installment of the concession fee shall be paid by the Concessionaire to the Owner each month during the concession period and shall be equal to 62.01 per cent of Gross Revenue. As it relates to monitoring of the traffic flows of the airport, Section 18.4.2 of the Concession Agreement states the Concessionaire shall throughout the concession period, regularly monitor traffic flows and regularly examine operations at the Airport. This is in accordance with the International Air Transport Association (IATA) requirements level of service which would encourage the AAJ to monitor the operational performance of the facility and indicate any potential revenue shortfall, given implications for the collection of concession fees. In addition, Section 43 of the Concession Agreement provided an added protection in the form of 'Owner step-in right' that gives

the AAJ the right to enter and take over operations if the traffic at the Airport is materially disrupted for a specified period.

Operational and Performance risks

27. Operational and Performance risks primarily relate to the risk of not having clearly defined performance indicators; GOJ not having full access to information associated with the performance of the project; as well as, the availability of specialized human resources at a reasonable cost. Overall, the balance of these risk categories were mainly allocated to the Concessionaire and as such, the likelihood of these risks materializing for the Government based on the PFRAM were assessed to be low. This was in a context where the Government has unencumbered access to information regarding performance of the operations of NMIA as Clause 19.3 stipulates that the Concessionaire must prepare reports and maintain accurate, up-to-date and complete records including records related to the operational performance of the Airport on a quarterly basis, as well as, make such information available to the Owner upon reasonable request. In addition, the Concessionaire is required to attend quarterly meetings with AAJ or its representatives in order to facilitate periodic reviews of financial and operational performance. We noted that the Agreement also contains clear penalties to be levied against the Concessionaire for failing to meet performance indicators. In this regard, Section 18 of the Agreement notes that the Concessionaire is liable to pay performance liquidated damages if it does not meet the stipulated service quality indicators and minimum facilities standards clearly outlined in the Concession Agreement.

28. Concerning access to specialized human resources, we noted that the Concessionaire has sufficient access to human resources, as there is an existing workforce in place. The Agreement provides the Concessionaire with the ability to enter into labour contracts with existing NMIA employees for its operations at its own discretion. Furthermore, Section 23 of the Agreement requires that the Concessionaire undertake, at its own cost, the implementation of training programs for operational, planning, and maintenance staff which would ensure a consistent supply of quality human resources.

Financial risks

29. Financial risks are associated with obtaining financing for the project and includes interest and exchange rate risks due to excess volatility over the concession term. An assessment of the Concession Agreement indicates that these risks are largely allocated to the Concessionaire. In this regard, the Concessionaire is solely responsible for financing the operations of the NMIA along with the outlined capital works to be undertaken. We noted that the Concessionaire was able to secure the necessary funding from its shareholder in order to satisfy its obligations under the Concession Agreement. This was accomplished by way of a Shareholder Funding Agreement (SFA) and a Shareholder Loan Agreement (SLA), which were conditions precedent to the Agreement. Given the assurances under the SFA regarding the availability of financing to the Concessionaire, the attendant risks for not obtaining financing would be considered low. Furthermore, any fiscal impact

to GOJ emanating from such risks would also be considered low as the GOJ/AAJ assumes no liability under the SFA, while no loan guarantee was provided for the Subordinated Loan.

30. We expect the Concessionaire to be in a position to manage any exchange and interest rate risks as the operating currency of NMIA is the US dollar and as such, the revenue operations, debt obligations and main expenditure items of the Concessionaire are similarly denominated in foreign currency. As a result, there would be limited need for currency conversion, as transactions would mainly be carried out in the same currency as the operating currency. Regarding interest rate risk, while there is no risk to the Government as it has no liability under the SFA or Subordinated Loan, it is not expected that the existing financing arrangements of the Concessionaire, particularly the Subordinated Loan, would be subject to interest rate volatility, given the terms outlined in Section 6(b) of the SLA.

Force Majeure

31. The Concession Agreement Part VII Section 37, defines the circumstances viewed as Force Majeure events[5]. These events are beyond the control and not reasonably foreseen by both parties to the Agreement, making it impossible for the Concessionaire to fulfil the performance obligations. The provision in the Agreement allows Force Majeure risks to be shared between the Concessionaire and the Owner (AAJ), as either party has the right to invoke the Force Majeure Clause.

32. According to Section 37.2 of the Agreement, the occurrence of Force Majeure events do not relieve the Concessionaire's obligation to pay concession fees. However, if Force Majeure events continue without remedy beyond six months, inhibiting the Concessionaire's performance of service, either party can initiate termination of the Agreement. Under such a circumstance, the Concessionaire would be entitled to relief from performance of service as well as, the right to compensation by the Owner under Schedule 10 of the Agreement. Whereas the likelihood of such events materializing is considered low, the fiscal impact to the Government is assessed to be medium, in the context where the level of termination payment by AAJ to the Concessionaire is mitigated by insurance proceeds, which accrue to the Concessionaire. Section 21 of the Agreement states that the Concessionaire at the date of commencement and throughout the Agreement, should maintain insurance policies to include those categorized as Force Majeure events outlined in Schedule 6, Parts 1-4, which includes all risks for work erection/construction, property, business interruptions, third party and all insurances required by applicable law.

[5] Part VII Section 37 defines **Force Majeure events** as "war, invasion, blockade, international embargo, armed conflict or act of foreign enemy directly alternatively/indirectly affecting Jamaica, revolution, riot, insurrection or other civil commotion, act of terrorism or sabotage, explosion, radioactive, biological or chemical contamination or ionizing radiation unless caused by parties to the contract, strikes, pressure waves caused by devices travelling at sonic or supersonic speed, effects of natural elements including lighting, fire, tsunami, earthquake, flood, storm, typhoon, hurricane, cyclone and tornado, epidemic, plague, aircraft collision or accident that affect infrastructure of the Airport in a manner that is impractical for the Concessionaire to exercise its rights or comply with the Agreement.

Material Adverse Government Actions

33. According to Section 38 of the Concession Agreement, a Material Adverse Government Action also called "Political Force Majeure" is defined as events, which occur after the execution date, which has material adverse effects on the "ability of the Concessionaire to observe and perform any of its material rights and obligations under the Agreement and/or the cost or profit arising from such performance". The Agreement stipulates that the occurrence of Material Adverse Government Action does not preclude the Concessionaire from concession fees. However, obligations relating to Material Adverse Government Action, which substantially inhibits Concessionaire's performance for 60 consecutive days, allows either party to initiate termination in accordance with Clause 44.3, in which case, the AAJ will be required to compensate the Concessionaire.

34. Assessment of the Concession Agreement's Material Adverse Government Action, revealed that the likelihood of such event materializing during the concession period is low, with an overall low risk-rating. Notwithstanding the low risk-rating, the fiscal impact is assessed as medium for Material Adverse Government Actions, which triggers payment compensation from the Owner. However, Material Adverse Government Action compensations are mitigated by Concessionaire's insurance proceeds.

Change in Law

35. Part 1 of the Concession Agreement outlines that a Change in Law is "the enactment, issue or publication of any new Applicable Law, the repeal or modification or re-enactment in whole or in part of any existing Applicable Law or a change in the interpretation or any application of any Applicable Law after bid submission." A Change in Law can be both beneficial and detrimental to parties of the contract. However, a Change in Law in the NMIA Concession Agreement does not preclude the Concessionaire from payment of concession fees.

36. Section 39 of the Concession Agreement outlines measures that deal with a Qualifying Change in Law, including the requirement for notice to be given by either party to the Agreement; however, no specific period for which such notice is required, was indicated. The assessment of a change in law revealed that the risk was mostly allocated to the Government with a low likelihood of occurrence, with a medium fiscal impact as the Concessionaire is allowed to claim compensation for Qualifying Change in Law, which could see the Government paying compensation from Government revenue entitlement in the Concession Agreement. However, it is critical to note that a change in legal and regulatory regime requires close monitoring, as risks associated with Change in Law may not be easily quantifiable.

Rebalancing of Financial Equilibrium

37. The need for Rebalancing of Financial Equilibrium may require the Government to compensate the Concessionaire for financial disequilibrium. Contracts that allow for the rebalancing of financial equilibrium, heighten the risk to government from PPP ventures. However, there is no explicit framework of re-balancing financial equilibrium in this Agreement. Hence the likelihood of this risk materialising, as well as the fiscal impact is lowered.

Renegotiation risks

38. The renegotiation process in PPP projects offers a mechanism through which risks can be realigned from one party to another. Due to asymmetry of information, the Owner must be cognizant of the risk and fiscal impact of renegotiations. In Part 6 of Schedule 2, the Concessionaire Agreement outlines the terms after the initial transfer by which the Concessionaire can request a renegotiation; that is, if it "will benefit the provision of the Airport Services and the performance of the Concessionaire". Notwithstanding, the renegotiation should not disrupt the provision of the Airport Services, the business of the Airport or the welfare of the Transferring Employees. While the concession does allow for renegotiation, it will only be facilitated if the terms are to the betterment of the Airport, hence the risk is shared by both parties. Moreover, neither party can make any change to the Transferred Contract without the consent of the other party. This mitigates the risk to both party and as such, the likelihood and fiscal impact to the Owner would be low. Further, Fiscal Policy Paper FY2020/21 states "the GOJ limits renegotiations to cases in which it is likely to benefit from improved value for money, consulting specialised advisors and establishing competent and experienced teams, to guide the renegotiation process".

Contract Termination Risks

39. The NMIA Concession Agreement indicated a clear provision for contract termination. The Agreement outlined several triggers to terminating the contract with clear guidelines on how to proceed in each event stipulated in (Part VIII) of the agreement. The Concession Agreement can be terminated on the expiry of the concession period as well. as the occurrence of:

a) A Concessionaire Events of Default
b) An Owner Events of Default
c) A Force Majeure Event
d) A Material Adverse Government Action

40. Except for termination caused by Concessionaire Event of Default, all other listed termination events present an obligation to the Owner to compensate the Concessionaire through a termination payment. This includes the payment of the outstanding debt, redundancy payment, and transfer cost as well as equity compensation. However, it must be noted that either party can initiate termination of the agreement, hence termination risk is shared.

41. The Agreement encourages mitigating early termination with the use of the dispute resolution procedures (Part XII). If there are any disputes or differences between the Owner and the Concessionaire, either party has the right to put in writing to the other party, the need for use of the Technical Expert or Arbitration to resolve the issues. The likelihood of contract termination in the event of default (Owner and Concessionaire) was deemed low given the experience of both parties' involvement in prior PPPs. The fiscal risk is deemed to be medium, given the existence of insurance.

Appendices

Appendix 1- PPP Risk Assessment Matrix

IDENTIFICATION OF RISKS		ALLOCATION	LIKELIHOOD	FISCAL IMPACT	RISK RATING	MITIGATION STRATEGY	PRIORITY ACTIONS
					Likelihood*Impact		Rating*Mitigation
1	Governance risks	Public	Low	Medium	Low	YES	Low priority
2	Construction risks	Private	Low	Low	Irrelevant	YES	NO action required
3	Demand risks	Private	Medium	Low	Low	YES	Low priority
4	Operational and performance risks	Private	Low	Medium	Low	YES	Low priority
5	Financial risks	Private	Low	Medium	Low	YES	Low priority
6	Force majeure	Shared	Low	Medium	Low	YES	Low priority
7	Material adverse government actions	Public	Low	Medium	Low	YES	Low priority
8	Change in law	Shared	Low	Low	Irrelevant	YES	NO action required
9	Rebalancing of financial equilibrium	Private	Low	Low	Irrelevant	YES	NO action required
10	Renegotiation	Shared	Low	Low	Irrelevant	YES	NO action required
11	Contract termination	Public	Low	Medium	Low	YES	Low priority

Source: IMF/World PFRAM Tool