

Risk Management of PPP in Case of Historical Building in West Bangka, Indonesia

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1. Introduction

A Public Private Partnership (PPP) is one of several good strategies for providing public facilities and services. However, sometimes a PPP does not run as well as expected. Unskilled risk management is one of the major causal factors in an unsuccessful PPP. The purpose of this research is to describe and identify how risk management (risk identification, risk evaluation, risk assessment and risk mitigation) was done for a PPP formed to utilize historical houses of Giri Sasana Menumbing in the West Bangka Local Government. To reach the purpose, this case compares risk management practices to nine other PPPs in Bangka, Pangkalpinang, Bantul and Yogyakarta in Indonesia. **Figure 1** shows the locations of cases.

Giri Sasana Menumbing, built in 1927 by the Dutch, is located on the top of Menumbing Mountain at a height of 445 meter above sea level. It has nice scenery, fresh air and is surrounded by protected forest. In 1994, the local government cooperated with the Carmeta Corporation to increase the number of historic buildings and thus enhance its attractiveness as a tourism destination. A restaurant and a hotel were built there under a 15-year contract.



Figure 1 Locations of Case Study

2. Outline of PPP Schemes in Indonesia

There are several types of PPP in Indonesia¹⁾. The Service contract is when government and a private entity work together to finish certain work, such as road maintenance, generally in the short term (1-3 years), for compensation/fee. The Management contract is when the government hands over all management and maintenance of the infrastructure and service, generally over 3-8 years for a fixed fee. The Private contract pays a fixed fee to government for the use of a public facility (manage, operate and maintain) and the public receives income from user fees, generally over 5-15 years. The Built-Operate-Transfer (BOT) contract is also between the government and a private entity, in which the private entity is responsible for designing, financing, managing, operating and maintaining such facilities as airports, seaports, toll roads, water treatment plants, information technology systems and independent power producers, generally over 10-30 years. There are also other kinds of BOT, such as BT (Built and Transfer), BLT (Built-Lease-Transfer), BOO (Built-Own-Operate), BTO (Built-Transfer-Operate), CAO (Contract-Add-Operate), DOT (Develop-Operate-Transfer), ROT (Rehab-Operate-Transfer) and ROO (Rehab-Operate-Own). The Concession contract is when

government hands over all responsibility to a private entity to design, develop (build), finance, manage, operate and maintain new facilities such as airports, seaports, toll roads, hospitals and sport centers, generally over 25-30 years.

3. Survey and Results

Risk management is an iterative process of risk identification-evaluation-mitigation²⁾. We administered questionnaires and interviewed key persons in government and the private sector side to obtain information about their risk management practices, from July 18th to August 25th, 2009. The projects were chosen from several PPP projects, such as historical buildings, malls (market building), hotels, restaurants, and tourism, to identify the type of PPP and the length of the contract. **Table 1** shows those results.

Figure 2 shows the answer results for risk identification schemes in 10 cases. The identification techniques and their related “Yes” or “No” answers are shown in the rows by Case. Cases -3, -6 and -8 use all of the identification techniques. Using the “brainstorming” technique, the cases were classified into two groups of Cases -1, -2, -4, -5, -7 and Cases -9, -10.

Table 1 contents and schemes of PPPs studies

Case	PPP Project	Type of PPP	Location	Length of Contract (Year)
1	Built and Manage Giri Sasana Historical Building	BOT	West Bangka	15
2	Built and Manage Muntok Mini Mall	BOT	West Bangka	15
3	Built and Manage Parai Beach Hotel	Lease	Bangka	25
4	Built and Manage Restaurant and Stores around Gerasi Lake	BOT	Bangka	25
5	Built and Manage Serbaguna Building and Public Park	BOT	Bangka	25
6	Built and Manage Atrium Market Building	BOT	Pangkalpinang	30
7	Manage ex Regent Office Building as Tobacco Industry	Lease	Bantul	20
8	Built and Manage Wig Industry	BOT	Bantul	20
9	Built and Manage Reksonegaran Market Building	BOT	Yogyakarta	20
10	Built and Manage Ngestilaras Pesanggrahan Building	BOT	Yogyakarta	20

Source: survey 2009

Using “analysis and assumption,” we divided the former group into Case-1, -2 and others. Although Case-1 and Case-7 are different with regard to the building purpose and the PPP types, BOT and Lease, they identified the same risks: “personal and corporate experience”, “safety reviews”, “intuitive insight”, “site visits”, “interview and survey”.

Figure 3 shows the answer results for risk assessment when categorized into risk evaluation. The answers for “Low”, “Median” or “High” in each case are shown in the rows. This figure shows that Case-1’s answers to “change in regulation”, “change in governmental policy” are higher than the “Median” in the other PPPs. And the answers are “Median” in “risk in market” and “construction”, and “High” in “maintenance”. Interviews with the company of Case-1 shows that the asset was transferred from an old local government to a new local government, which had tried to take over the management of the building since 2006. Many facilities such as roads, restaurant buildings, hotels, historical buildings, and sport facilities were broken. The number of tourists and visitors had decreased since 2003 and reduced private income, which impacted the facilities’ maintenance. The access to Giri Sasana Menumbing was difficult. Case-1 has the characteristic of having higher risks because of its historical building use. The new local government, with limited funds, focused on other facilities development that they considered more important than this location.

Figure 4 shows the answers regarding risk evaluation practices. It shows that Case-1 did “assessed only main risk”, “adjudication in risk evaluation decided by key personnel” and “reactive in risk assessment.” Its answers are the same as for Case-7.

Figure 5 shows the answer results regarding risk mitigation practices. In Cases -3 to -10, there are more than 3 mitigations. However, Cases -1 and -2 only performed “risk retention (own company absorbs risks)” and “risk transfer such as insurance, specialist or sub contractor”, respectively. Namely, Case-1 did not transfer the risks to insurance, a specialist or a subcontractor. The company (Carmeta Corporation) absorbed all the risks itself. Case-1 did not perform “risk reduction by redesigning the building to safety issues” or other mitigation tools because of limited finances or lack of budget. The company has many PPP projects for tourism in Bangka (Jati Pesona Hotel), West Bangka (Giri Sasana/Case-1) and Pangkalpinang (Jati Wisata Hotel). The economic crisis in 1998 and the Bali blast incident caused a sharp decrease in revenues from all projects. The company reduced its project costs at Giri Sasana (Case-1) because it considered that the Case-1 project had the smallest revenue among the other projects, and the costs of mitigation actions were too high. That was why the company also did not undertake the risk mitigation strategy, “Risk reduction by redesigning building due to safety”, “Risk transfer such as insurance, specialist, sub contractor”, and other mitigation management tools in Case-1.

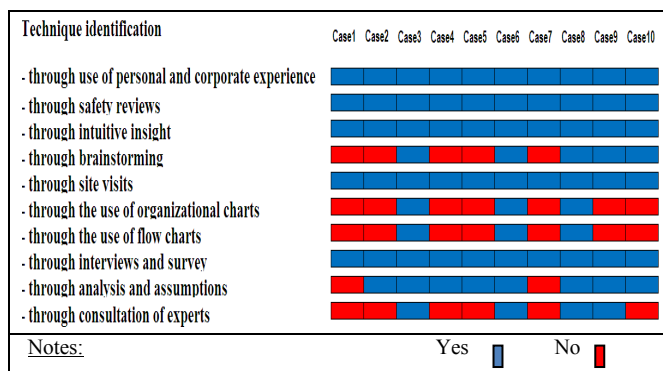


Figure 2: Risk Identification

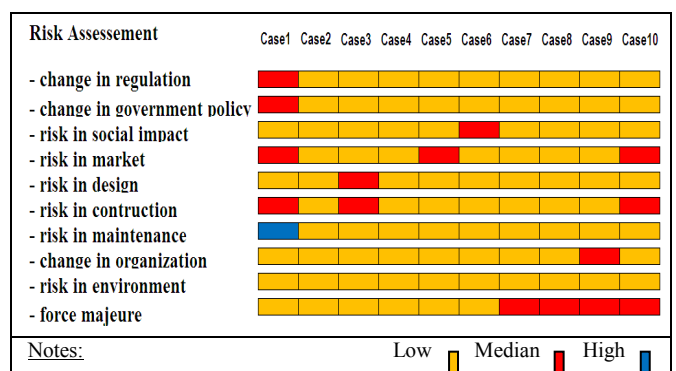


Figure 3: Risk Assessment

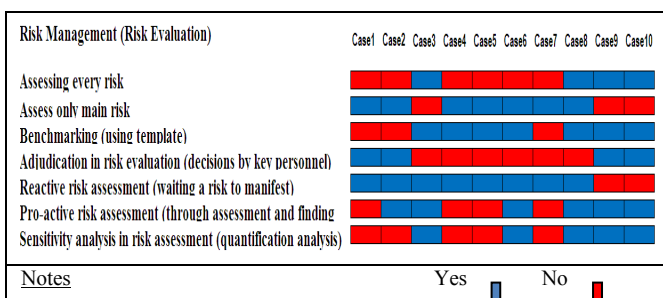


Figure 4: Risk Evaluation

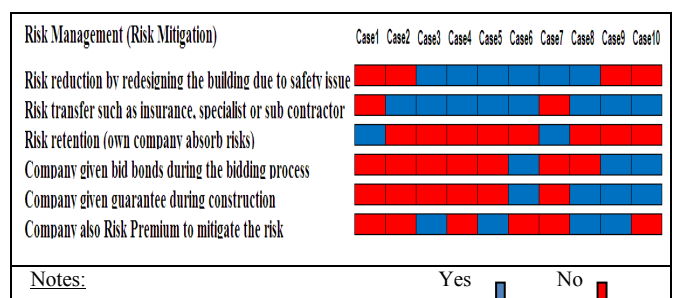


Figure 5: Risk Mitigation

4. Summary

Comparing the nine cases of PPP in Indonesia, Case-1 -- managing historical buildings in West Bangka -- shows significant differences in its risk management schemes. It shows that this PPP has more risks in “change in regulation”, “government policy”, “construction”, “maintenance” and “market” than the other PPPs. The risk evaluation and risk mitigation were inadequate, but the company absorbed all the risks. The lack of risk mitigation efforts was due to the company’s policy to reduce its expenditures in all of its PPP projects.

References

1) Hindranto Windhu : Public Private Partnership in Indonesia,, retrieved from <http://www.pppindonesia.co.id> on Desember8th, 2009.
 2) Ezekiel Chinyio and Alasdair Fergusson: Public-Private Partnerships in Managing Risks and Opportunities, edited by Akintoye, Beck and Hardcastle; Chapter 5, Blackwell Science , Inc., USA, pp. 95-125, 2003.