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

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.

2. Outline of PPP Schemes in Indonesia
There are several types of PPP in Indonesia\(^1\). 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-mitigation\(^2\). We administered questionnaires and interviewed key persons in government and the private sector side to obtain information about their risk management practices, from July 18\(^{th}\) to August 25\(^{th}\), 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

<table>
<thead>
<tr>
<th>Case</th>
<th>PPP Project</th>
<th>Type of PPP</th>
<th>Location</th>
<th>Length of Contract (Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Built and Manage Giri Sasana Historical Building</td>
<td>BOT</td>
<td>West Bangka</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>Built and Manage Muntok Mini Mall</td>
<td>BOT</td>
<td>West Bangka</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>Built and Manage Purasi Beach Hotel</td>
<td>Lease</td>
<td>Bangka</td>
<td>25</td>
</tr>
<tr>
<td>4</td>
<td>Built and Manage Restaurant and Stores around Gerasi Lake</td>
<td>BOT</td>
<td>Bangka</td>
<td>25</td>
</tr>
<tr>
<td>5</td>
<td>Built and Manage Serbunga Building and Public Park</td>
<td>BOT</td>
<td>Bangka</td>
<td>25</td>
</tr>
<tr>
<td>6</td>
<td>Built and Manage Atiram Market Building</td>
<td>BOT</td>
<td>Pangkalpinang</td>
<td>30</td>
</tr>
<tr>
<td>7</td>
<td>Manage ex Regent Office Building as Tobacco Industry</td>
<td>Lease</td>
<td>Bantul</td>
<td>20</td>
</tr>
<tr>
<td>8</td>
<td>Built and Manage Wig Industry</td>
<td>BOT</td>
<td>Bantul</td>
<td>20</td>
</tr>
<tr>
<td>9</td>
<td>Built and Manage Reksonepar Market Building</td>
<td>BOT</td>
<td>Yogyakarta</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>Built and Manage Ngertilas Pesanggrahan Building</td>
<td>BOT</td>
<td>Yogyakarta</td>
<td>20</td>
</tr>
</tbody>
</table>

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-1project had the smallest
income 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.

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

2) Ezekiel Chinyio and Alasdair Fergusson: Public-Private Partnerships in Managing Risks and Opportunities, edited by Akintoye, Beck and Hardcastle; Chapter 5, Blackwell