In Times of Uncertainty, Governments Must Adapt and/or Evolve PPP Frameworks

Public-Private Partnerships (PPPs) have long been hailed as tools for mobilizing private investment, delivering infrastructure efficiently and sharing risks between the public and private sectors.

Traditionally, these models relied on predictable risks and contracts designed for stability. Today, however, systemic uncertainty — from global pandemics to geopolitical crises and economic shocks — has challenged these assumptions."

Governments now face a dual imperative: **adapt contracts immediately to address project-specific risks and evolve legal and regulatory frameworks** to build long-term resilience. The challenge lies in balancing flexibility, which contracts provide, with the stability ensured by law. Recent global shocks have exposed the limits of traditional PPP models based on static risk allocation. By combining immediate contract adaptation with long-term legal evolution, PPPs can continue delivering infrastructure efficiently while withstanding the uncertainties of a rapidly changing world.

PPPs in a World That No Longer Makes Sense

Consider a transport PPP that reached financial close just as COVID-19 struck. Traffic forecasts, once considered reliable, collapsed overnight. Lenders panicked. Sponsors convened emergency meetings. Public authorities turned to the contract—only to find that force majeure clauses offered little relief. The problem was not contractual; it was structural.

Today, PPPs operate in a state of continuous uncertainty. From the war in Ukraine to rising Gulf tensions, systemic risks are now part of the landscape. Static risk allocation models are no longer sufficient; partnerships must become dynamic and resilience-based.

Even highly celebrated PPPs are vulnerable. Morocco's Noor Ouarzazate Solar Complex, combining large-scale renewable ambition with complex financing and long-term power purchase agreements, faces technology cost volatility, currency exposure and shifting energy pricing dynamics. Similarly, Saudi Arabia's IWPPs, including Ras Al Khair, have historically benefited from government backing, stable demand, and predictable revenues. Today, they confront rising EPC costs, supply chain disruptions, interest rate shocks, and tariff pressures. Renewable PPPs under Saudi Vision 2030 must also navigate aggressive tariff competition, shifts in investor appetite, and rapid technological evolution.

These examples underscore a key lesson: **even the most "bankable" PPPs are not immune to systemic change**, and governments must act proactively to safeguard their success.

Contracts: The First Line of Defense

Contractual adaptation is the fastest and most practical way to address immediate project risks. Governments should focus on several key areas:

Redefining Force Majeure (FM)

Force Majeure clauses must evolve to reflect today's complex risks. Beyond traditional events like storms or strikes, FM should explicitly cover pandemics, geopolitical crises, and supply chain breakdowns. Relief mechanisms should move from a binary "yes/no" approach to graduated, scenario-based responses, distinguishing between '**short-term FM'** for temporary disruptions and '**long-term FM'** or '**prolonged FM'** for systemic shocks that threaten financial viability. This ensures PPPs remain flexible and responsive under a wide range of unexpected circumstances.

Why Force Majeure Alone Is Not Enough

While FM clauses are essential, contracts cannot fully manage systemic or prolonged crises. They must be complemented by other risk management tools: **risk repricing mechanisms, revenue protection measures, time flexibility for milestones, and legal recognition of systemic risks**. Strengthening PPP law to explicitly cover pandemics, geopolitical crises, and supply chain disruptions ensures predictability, reduces disputes, and maintains investor confidence.

Risk Repricing Mechanisms

Contracts should include **periodic review clauses** to recalibrate tariffs, availability payments, or financing terms in response to inflation, interest rates, or input cost changes. Using **formula-based, transparent recalculation methods** reduces disputes and maintains investor confidence. By allowing financial adjustments over time, risk repricing ensures projects remain **bankable and sustainable** even when economic conditions deviate significantly from initial forecasts.

Time Flexibility

Projects must accommodate unforeseen delays without jeopardizing financial stability. **Automatic construction extensions** tied to external shocks—such as supply chain disruptions, extreme weather, or regulatory restrictions—provide predictable flexibility. Aligning **milestone payments** with adjusted timelines maintains cash flow and viability while preventing unnecessary penalties or disputes.

Revenue Protection Tools and Compensation Mechanisms

To protect private partners against lower-than-expected demand, contracts should include minimum revenue guarantees or demand-risk sharing triggers. These mechanisms stabilize cash flows and reduce the likelihood of defaults or renegotiations. Compensation is central to balancing risk between public authorities, lenders, and sponsors:

- **Short-term FM**: operational relief, such as timeline extensions and minor milestone adjustments.
- **Long-term FM**: financial compensation to stabilize projects under sustained uncertainty.

Experience from Morocco's renewable projects and Saudi IWPPs shows that traditional assumptions — where private partners absorb systemic risks — often fail. Governments inevitably bear much of the shock, making robust FM and compensation clauses indispensable.

Financial Resilience Clauses

Projects should be prepared for financial stress through **refinancing frameworks, lender step-in rights, and contingency reserves or escrow accounts**. Refinancing frameworks allow debt restructuring without breaching contracts, while lender step-in rights enable temporary management by financiers to safeguard operations. Contingency reserves ensure liquidity for short-term cash shortfalls. Together, these provisions enhance resilience, protect public and private interests, and preserve long-term continuity.

Law & Regulation: The Second Layer

Contracts alone cannot sustain investor confidence. Governments must evolve **PPP law and regulation** to provide structural resilience. Legal frameworks can complement contractual tools, ensuring fair treatment of stakeholders, avoiding ad hoc disputes, and reinforcing public service continuity. Measures include:

- **Legal Recognition of Systemic Risks:** Explicit coverage of pandemics, geopolitical crises, and global economic shocks.
- **Standardized Crisis Response Frameworks:** Predefined rules for compensation, renegotiation, and dispute resolution.
- **Fast-Track Renegotiation Mechanisms:** Avoid lengthy approvals during crises.
- **Institutional Strengthening:** Dedicated PPP units for risk monitoring and scenario planning.
- **Flexibility with Predictability:** Clear rules to prevent arbitrary political interventions.

PPP law does not predict crises; it organizes the response to them.

Gulf Crisis: A Real-World Stress Test for PPP Resilience

The 2026 Gulf crisis offers a stark demonstration of why public-private partnership (PPP) frameworks must evolve to address systemic geopolitical risks. Escalating tensions around the Strait of Hormuz immediately disrupted energy and transport projects, challenging assumptions embedded in even the most “bankable” contracts.

Energy Sector Disruptions

- QatarEnergy declared force majeure on LNG exports due to unsafe shipping routes.
- Kuwait Petroleum Corporation suspended crude and refined product shipments.
- Iraq invoked force majeure on foreign-operated oilfields, including Rumaila.

These actions abruptly halted revenues, strained lender security, and triggered urgent renegotiations with private partners, underscoring the limitations of traditional contract structures under systemic shocks.

Transport and Logistics Challenges

Major Gulf ports under PPP or concession models, such as Jebel Ali and Fujairah, experienced severe cargo backlogs as vessels anchored offshore in response to the Strait’s closure. Rising war-risk insurance premiums and delayed shipments disrupted revenue flows, highlighting the critical need for geopolitical and supply-chain contingencies in PPP agreements.

Contract Adaptation vs. Framework Evolution

Short-term contract measures—force majeure clauses, emergency relief mechanisms, and operational flexibility—enabled immediate responses and temporary revenue protection. However, the systemic nature of the crisis revealed that contract-level adjustments alone are insufficient.

At the framework level, static risk allocation, limited revenue protection mechanisms, and insufficient integration of geopolitical and supply-chain risks exposed vulnerabilities. True resilience requires evolving PPP frameworks to anticipate systemic disruptions, implement graduated relief measures, and embed long-term risk mitigation strategies.

While these examples highlight the limits of existing frameworks, they also raise a more immediate question: how should governments manage ongoing PPP contracts when crises hit?

Managing Ongoing Contracts Under Stress

When crises arise and regulatory reform cannot be implemented immediately, governments must act within existing frameworks to stabilize ongoing PPP contracts. This requires pragmatic, structured approaches that prioritize service continuity while

preserving contractual integrity. Rather than reopening contracts wholesale, targeted adjustments—such as **temporary financial relief, rephasing of obligations or conditional compensation**—can help absorb shocks while maintaining, as far as possible, the original risk allocation. **Clear governance, including predefined triggers and streamlined approval processes**, is essential to ensure consistency and avoid ad hoc decisions.

However, increased reliance on public support—through **guarantees, compensation or revenue protection**—can significantly impact public finances. These measures create contingent liabilities that may strain fiscal space and, over time, affect governments' appetite for PPPs. Striking the right balance is therefore critical: while short-term support may be necessary to preserve projects and investor confidence, it must remain fiscally sustainable and avoid undermining the core principle of risk transfer that underpins PPP models.

Conclusion

Contracts provide flexibility — enabling PPP parties to *address specific project circumstances and emergent shocks* immediately. However, contractual responses alone may be insufficient when systemic risks persist or reflect structural instability in today's environment.

That's where **PPP legal and regulatory frameworks** must evolve — embedding systemic risk recognition, crisis response pathways, and **fast-track renegotiation mechanisms** into law. Such frameworks help avoid ad hoc political intervention, support predictable renegotiation, and maintain investor confidence even under extreme uncertainty.

Governments should therefore fortify both contract language and PPP laws to encompass today's broader risk landscape, ensuring partnerships remain adaptive, fair, and financially viable even amid global shocks.

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