

RISK-ALLOCATION: THEORETICAL AND EMPIRICAL EVIDENCES. Application to Public-Private Partnerships in the defence sector.

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Abstract.

Using a Principal – Agent framework, we start by pointing out two normative risk allocation criteria. The first is expressed as follows: risk should be allocated to the partner best able to control it. The second criterion stipulates that the risk should be allocated to the least risk-bearing cost partner. These two criteria are also advocated by the law & economics literature and by the economic theory of insurance. In a second part, we apply these normative criteria to the case of public-private partnerships in the defence procurement sector. We base our analysis on a large qualitative risk assessment recently realised in this sector. A precise description of the normative risk allocation is suggested. In a third part, we compare this normative risk allocation to the French risk allocation policy in procurement contracts.