

# ***Public-Private Partnerships: Silver Bullet or Poison Pill for Transition Economies?***

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**Abstract:** *In many nations, public-private partnerships (PPPs) commonly bring government and business together to implement infrastructure projects. Such partnerships are proving increasingly popular and are applied in a range of contexts. However, the common rationale for PPPs emerges from a particular view of public management that has been dominant in countries like Australia and the United Kingdom, and the arrangements used reflect the institutions of such jurisdictions. When such a partnership model is 'translated' uncritically into other nation states, or indeed into other spheres of government activity, it is fraught with risk for the effectiveness of implementation and with the potential for unwelcome and unintended consequences.*

*For a transitional economy, PPPs raise questions of the necessary skill base for devising and managing them, in accessing capital markets, and in conflicts between commercial-in-confidence expectations of business and progress towards open and accountable government. For effective implementation of PPPs in a transitional economy like Romania, the most valuable contribution that the European Union could make may be to provide monitoring and guidance so as to avoid the pitfalls that other countries have encountered.*

*As Romania embarks on PPPs it should take advantage of the international experience; for example, that the benefits of PPPs may be institution-specific. Another important lesson concerns project costs which can be nebulous but long-lasting, such as the challenges to governance presented by contracts which bind future governments to arrangements that are too expensive to rescind, either financially or politically.*

**Keywords:** *public-private partnership, public management, EU policy, transition economies*

## **1. Introduction**

Public-private partnerships (PPPs) are not a recent discovery in public administration (Carroll and Steane, in Osborne, 2000: 38): in the Australian state of Victoria they emerged in their modern form in the 1980s (Maguire & Malinovitch, 2004; Russell *et al.*, 2000: vol.3, 24). They have proved increasingly popular in many jurisdictions, particularly in the United Kingdom and Australia (Brumby, 2005), because they appear to offer governments access to substantial capital that is especially useful for completing major infrastructure projects (Osborne, 2000). At the same time they deliver governments more immediate flexibility in using taxation revenues for current operations, such as provision of services in health, education and policing. Generally speaking, the main perceived advantages of PPPs are risk sharing and improved risk allocation, efficiencies in task allocation of large and complex operations, stability through commitment to long-term projects, and accountability through involvement of a wider range of stakeholders (Hodge & Greve, 2007: 545-546). Less obviously, moving service provision away from government might also diminish some perceptions of government failure when delivery is less than desired.

What is the *scope* of such a partnership? According to Hodge (2004), the operational definition of PPPs in Australia is ‘that government has a business relationship, it is long term, with risks and returns being shared, and that private business becomes involved in financing, designing, constructing, owning or operating public facilities or services’ (Hodge, 2004: 37). Except for its extent, this definition could also encompass much contracting out. PPPs can thus often signify little more than privatisation or sharing of a previously government-owned and operated service (Malone, 2005; Webb & Pulle, 2002: 2). Lehman and Tregoning (2004) suggest that the main characteristics of a PPP are built around the idea that the infrastructure is not directly owned by the public partner but either bought over time or leased from the private partner for a limited period of time, usually stipulated in the contract (Lehman & Tregoning, 2004: 78). More helpfully the Australian Government defines PPPs as follows (DoFA, 2008):

*PPPs reconfigure the procurement process by placing emphasis on the service or capability that the public service requires rather than the asset(s) used to provide them. Typically the responsibility for delivery of the service or capability is shared between the public and private sectors.*

McQuaid (in Osborne, 2000: 11) points to the concept of partnership itself as the defining principle: it assumes ‘synergy’ from joint efforts that individual parties could not achieve on their own; it involves strategy and project delivery; and it is ‘not pursuing purely commercial goals’. This then, and the implicit requirements for cooperation, separate a PPP from varieties of outsourcing and privatisation. Carroll and Steane (in Osborne, 2000: 37) adopt the same approach: public-private partnerships are agreed, cooperative ventures that involve at least one public and one private-sector institution as partners.

Difficulties in determining common salient features of PPPs, across countries and within federal systems of government, demonstrate a lack of basic agreement among specialists about what the term ‘PPP’ refers to, especially in relation to asset ownership structures. However, wider agreement can be identified, first around the idea of partnerships itself (Osborne, 2000), and second of risk sharing as a key consideration for partners in both sectors (Hodge & Greve, 2007: 545).

In this paper we adopt the narrower definition, in general accordance with Hodge’s summary, because that focuses most clearly on the promise and pitfalls of government reliance on PPPs as a main vehicle for infrastructure provision. Governments using PPPs accept the benefits of increased flexibility in the short term in return for constraints on their capacity in the longer term, since they hand over to their private partners both authority to manage or operate the services affected and the income stream from those operations.

## **2. PPPs: The rationale and public management**

Because Australia is a federation, provision and management of services and infrastructure is commonly through sub-national governments (six ‘States’ and two ‘Territories’), PPPs have been more widely implemented at this level than at a national level (Brumby, 2005). Teicher *et al.* (2006) trace the history of this trend. The persuasive and pervasive effect of new models of management in the 1980s led to a National Competition Policy in the 1990s, with an accompanying preference for privatisation, contracting out and modes of service delivery that moved away from direct government provision to contracted forms of delivery. Nationally, the impetus was to a shift away from public monopolies that had characterised Australian services in favour of purchasing services through the private sector (Hodge, 2004: 37). Reaction to perceived deficits in service delivery and public accountability, especially after a change of government in 1999 in the State of Victoria, for example, led to a refinement of private sector involvement to incorporate a ‘partnership’ model.

The *Partnerships Victoria* policy, introduced in 2000, identified opportunities for private sector provision of capital and technical capacity in partnerships. The policy sought to undo blow-outs in contracting costs, and, indeed, the costs of some contracts failing, that emerged under the previous

government (Russell *et al.*, 2000). The government yielded immediate control of any asset created, supplied none or only a proportion of the capital costs of the project and forewent operating profit until, much later, it would resume ownership or re-licence the service (DTF, 2000). ‘Partnership’ became the preferred term to characterise this formal relationship between government and businesses. Viewed in a positive light, ‘partnerships would shift risks to the private sector while public agencies would gain knowledge, new management skills and innovative best practices’ (Teicher *et al.*, 2006: 89) [1].

Key public policy documents show that government involvement with PPP principles and methodology has also reached an advanced stage in Europe. Guidelines provided in UNECE (2000) outline the rationale and requirements for using PPPs, the public management principles, project prerequisites and best proven implementation methods. Methodological recommendations rely on over 20 years of PPP implementation. PPPs are characterised by a long-term partnership involvement timeframe, dedicated investment (to the project and related services) and complex duties developing over time, through a series of complex planned stages (design, construction, finance, operation, maintenance, and transfer to the public sector). However, many public-private contracts clearly do not fall within the PPP domain, simply because they are short-term, there is no dedicated investment, and the services involved are easy and simple (UNECE, 2000: 8). Consequently, PPPs operate in a very different regulatory and managerial regime compared with the straightforward public purchasing of works, services and supplies from private providers. An important ingredient of the pro-PPP argument in Australia is the focus on attracting private sector finance into public works through a long-term contractual relationship that stimulates superior performance from the private partner (meeting deadlines and budget requirements) and operating infrastructure efficiently (Webb & Pulle, 2002: 1).

The European Commission issued *Guidelines for Successful Public-Private Partnerships* in January 2003, which describe conditions for successful PPP implementation at EU level, taking into consideration the most frequently used PPP types and structures, their historical outcomes and future potential, possible constraints, impact on open market access and free competition, and the best means to safeguard the public interest in PPP implementation. The EU experience of PPP design and implementation suggests that PPPs use in delivering public works and services is justified by a partnership in which the private sector delivers services but the public sector ensures quality (UNECE, 2000: 5; Matei, 2006). However, it appears likely that in the EU the state continues to adopt its historically interventionist stance, i.e., it delegates certain functions but does not treat this as a form of outsourcing. In Romania, for example, the law takes more the form of granting concessions from the state to providers (Deloitte, 2008:5; Matei, 2006).

Not surprisingly, government literature on PPPs tends to occupy the field in Australia with each sub-national government developing its own guidelines and practices, but with the larger Eastern states being particularly keen to promote PPPs and to make available the rationale and mechanisms for using them, as their websites reveal. Departments of Treasury and Finance tend to be the main sources of information, and they are also the ‘homes’ of the PPP administration in some instances. The national government, while not entirely absent from the area, has been a later, parallel developer of regimes for PPPs (see DoFA, 2006a-f, 2008; Brumby, 2005; Maguire & Malinovitch, 2004). As we shall see, the new national government elected in 2007 is considering how – or whether – to proceed with partnerships or return to central funding of major infrastructure projects.

English (2007) shows that *Partnerships Victoria* has had at least five important outcomes for the history of PPP development in Australia: (1) the formal, unified adoption of the term PPP in public administration discourse; (2) some previously state-subsidised hospital and corrective services were removed from private sector provision; (3) some comprehensive and specific steering mechanisms were developed and then broadly adopted in other Australian states; (4) these steering mechanisms included procedures governing pre- and post-contracting decision-making; and (5) value for money, defined as obtaining the best possible outcome at the lowest possible price through risk transfer, was promoted as the primary objective of PPPs (English, 2007: 314).

English (2007) also notes that two different PPP models operate in Victoria, mainly distinguished by 'source of revenue stream and nature of government guarantees'. The first model (very similar to the British PFI) assumes public services are delivered by government agencies, while infrastructure and ancillary services are ensured by the private partners. The demand risk is borne by the government, which guarantees the private provider a minimum level of revenue by paying this directly. The second model (used in Australia for over 20 years, for utilities and toll roads) transfers demand-based market or revenue risks to the private partners and financial risks to users, while the government does not provide any direct payments or revenue guarantees (English, 2007: 314-315). The language of PPPs typically cites 'best value' as its principle, a term adopted from local government in the UK (see Martin in McLaughlin *et al.*, 2002, chapter 8), which was also incorporated into the redesign of local government in Victoria from 1999. In both cases 1999 marked a shift from compulsory competitive tendering of government services to a more nuanced model that portrayed the state government as a partner with local government and a guarantor to the community of service focus and quality (Local Government Victoria, 2008).

As with the UK experiences in the 1990s, early Australian PPP experiences were often inferior to the more traditional approach to public procurement through competitive tenders (Harris, 1996; Quiggin, 1996; Russell *et al.*, 2000). In response, government agencies developed formal procedures to assess PPPs, and followed the path of the Blair government in the UK, by shifting its focus from reducing public debt to delivering value for money by improving risk allocation. Whether the second-stage PPP experience has been successful is still a matter for debate.

### **3. Experience with PPPs: problems and pitfalls**

Although disputes over PPP planning and implementation have often been ideological, there are valid criticisms to be made. Cannadi and Dollery show that, despite proliferation of PPPs in local public infrastructure, the approach has given mixed results. They recommend that 'policy makers should employ a nuanced performance evaluation framework to assess the benefits and weaknesses of private provision on the basis of the specific type of infrastructure in question and the kind of services it provides rather than simply endorse carte blanche privatization' (Cannadi & Dollery, 2005: 112). This points to a significant element in understanding PPPs: the model that abstracts a rigid set of principles such as cost and risk minimization may fail to take into account very different sorts of requirements across the various projects, just as the Australian government commented in its definition. It is not the case, for example, that the services to be provided by the new Children's Hospital in Melbourne can be equated with the services provided by the EastLink tollway, either in the short or long term or in community impact.

#### **3.1 The Australian Experience**

Predictably adoption has not been uniform across states in Australia, notwithstanding similar rationales and public documentation. Malone (2005), for example, notes that the two largest by population, New South Wales and Victoria, have been 'strong early adopters', but an emerging trend is for Victoria to pursue PPPs on a much wider scale in future, whereas the New South Wales (Labor) government is facing resistance from within its own ranks. Similarly, regimes promoted in the state of Queensland or by the national government have not translated into numerous projects (Malone, 2005: 421). Malone (2005: 421) describes the approach of Australian governments (other than Victoria – but see Davidson, 2005<sup>[2]</sup>) to PPP delivery of public infrastructure as 'reasonably cautious', due to public disputes around the effectiveness of this type of investment. In New South Wales, concerted support of PPPs in the media by a former Cabinet Secretary (Gary Sturgess) has not demonstrably shifted public opinion in their favour (Sturgess, 2002, 2005, 2006, 2007; Davidson, 2005). Conversely, in Victoria a relentless campaign in a major broadsheet newspaper, *The Age* (e.g., Davidson, 2003, 2005, 2007), has had no discouraging effect on government commitment; instead the government has replied

with its own counters to correct mistaken ‘myths’, as it characterises the criticisms (Brumby, 2005; DTF, 2007a; *Australian Financial Review* 26 May 2008, reporting Premier Brumby). In Victoria, PPP projects to date have a capital investment value of \$AUD 4.5 billion; since 2002-03, such projects have accounted for about 10% of annual public asset investment (DTF, 2007b; Brumby, 2005, 2003; PAEC, 2006), which was the target in the Fitzgerald review (2004). Reviews or audits have consistently found in favour of PPPs (e.g., The Allen Group, 2007), despite academic and media reservations, as Grimsey and Lewis (2007) note: good stories are buried, bad news stories abound.

### **3.2 Public and Private Funding**

One striking difference between European and Australian experience is in the approach to public funding of PPP projects. Most PPP projects in Australia have been privately funded, and there is a clear preference for this formula among Australian State governments. EU policy, however, has an important public funding component (notwithstanding exceptions at member state level, such as the UK, which is much more similar to Australia in this respect). This feature draws the EU nearer to Canada and the US, where most infrastructure PPPs have so far been supported by a mixture of private and public funds (see also Hodge & Greve, 2008: 6).

### **3.3 Legitimacy**

Moreover, EU and Australian policy on PPPs differ significantly in their understanding of ‘legitimacy’. EU policy underlines the need for public authorities to uphold long-term commitments under PPP contracts signed off by previous governments. Legitimacy is defined in terms of government’s reputation with respect to honouring commercial contracts. In sharp contrast, Australian policy is silent on this point, and we believe that this is largely due to a very different concept of legitimacy, defined in terms of a government’s commitment to a political mandate from the electorate or the view that a previous government’s commitments ought generally to be honoured. Indeed, as Russell *et al.* (2000: vol.1, 30-31) point out, ‘unwinding’ unworkable or unwanted contracts may incur great risk to reputation and credit rating, with the result that governments have found themselves bound to honour contracts where policy shifts might advise otherwise. For example, Transurban, the operator of CityLink (a toll road system), has control for 34 to 54 years, and an entitlement to compensation if the road system is altered, but by 2008 just such alterations were being envisaged, such as the provision of a major cross-city tunnel. The OneLink (‘Metcard’) automated ticketing system that Russell *et al.* noted might last until 2007, however technology changed, has by 2008 maintained its operation because its replacement, ‘MYKI’, cannot yet be implemented. The operators have found the extension very profitable, but they have not been required to upgrade the services that earn the profit. The problem, based in a rapidly developing technology, was foreseeable (Russell *et al.*, 2000: vol.1, 124-125).

Concern has emerged in Australia that PPP contracts lock in future governments to arrangements that may not prove beneficial long-term. Accordingly, Hodge and Greve take the view that ‘to the extent that new infrastructure contract delivery arrangements have reduced existing accountability arrangements and altered longstanding governance assumptions with little democratic debate, new partnership arrangements lack legitimacy’ (Hodge & Greve, 2008: 16). This reinforces what Russell *et al.* found eight years earlier. Whether this cuts through to public opinion is debatable. Government responses in Australia have been reactive and proactive, in that greater and greater volumes of procedural information are released, including, in some cases, the contract (e.g., the County Court project: DTF, 2008b) and Auditor-General analysis (DTF, 2008c; VAGO, 2006). However, critics contend that such claims to transparency are illusory; rather, the ‘watchdog’ has been co-opted in support, and documents have been edited or ‘spun’ to place emphasis on benefits (Davidson, 2007). A government website published the Convention Centre contract, for example, but

left blank pages about government payments and included explicit reference to the need to present a persuasive picture through ‘careful positioning’. Russell *et al.* (2000: vol. 1, 33) tabulate six major projects where economic, environmental or social impact analyses were generally not undertaken. Every case also lacked Parliamentary committee scrutiny. They included the Casino, CityLink, OneLink, prisons, public transport and the Grand Prix. In each instance there is no shortage of government ‘information’ about project benefits, but also no robust detail about assessment of value and cost. This said, however, it is fair to say that the focus in government in Australia is on risk, rather than legitimacy.

### **3.4 Risk Assessment Capacity**

There seems to be increasing preoccupation in Australia with moving away from the temptation to achieve short-term gains through PPPs and towards considering longer-term political risks, in particular regarding potential costs to democracy. Russell *et al.* (2000; see vol.1, 129, 172) devote some discussion to this, citing the institutional importance of access to information by the Auditor General, the Ombudsman, and the Parliament and its Committees; they note that what ought to be public records have been transferred into private hands (Russell *et al.*, 2000: vol.1, 129-134). Other examples are difficult to present in detail, because of the ‘commercial-in-confidence’ constraints that limit access to information. However, if we look to instances of contracting or outsourcing failure, we may also detect possible risks for PPP implementation. In an especially egregious case, the New South Wales government was the victim of a private transport company’s creation of fictitious resources to win a government tender. The company’s collapse not only harmed private investors but deprived company staff of their entitlements (leave and so on) and a substantial regional community of its school bus services (Hill, 2003; Maddocks, 2003: NSW Legislative Assembly, 2003). Victoria’s ongoing problems with public transport ticketing signal similar implementation and financial risks. In the case of the MYKI ‘smart card’ (public transport electronic ticketing) system, delays have forced retention of the current paper ticket system, itself not a public success, with flows of compensation to the existing operator (*The Australian, Herald-Sun* 26 May 2008), reportedly because of bureaucratic commitment to unachievable timelines (*The Age* 27 May 2008).

The result of such experiences has generally been a careful approach to PPP expansion, with the exception of Victoria (where also the debate about democracy is loudest: e.g., Davidson, 2007). The driver towards a risk-reduction strategy has often been, first, the observable one of removing a commitment from the annual balance sheet (Russell *et al.*, 2000: vol.3, 26-39), and, second, which is inferred, the attempt to shift responsibility for service quality away from the political to the private sector realm. The latter notion, as we will explain, has not proved successful. The local communities in New South Wales whose children could no longer conveniently travel to school are unlikely to absolve the government of its perceived responsibilities. Governments, moreover, may be unable to recover payments already made; goods not yet transferred may form part of insolvency proceedings; and, politically and socially most damaging, substitute services may not be readily available.

The general question that arises is: are governments able to assess risk accurately? Government operations have traditionally not been business operations, and business risk assessments have not formed part of public sector training and ethos. Expertise may indeed be acquired, but not always uniformly or readily. PPPs have additionally placed some arms of government at a disadvantage when so much information that is necessary for calculation of risk is declared

‘commercial-in-confidence’ and therefore excluded from detailed review (see Russell *et al.*, 2000: vol.1, 96-107, with a challenge at p.98 n.38, on interpretation).

#### **4. Applying PPPs to transitional economies**

Developed economies’ experience with PPPs raise questions that transitional economies cannot afford to ignore. A review in Victoria has found both positives and room for improvement. Innovation, timeliness, certainty of price and maintenance are gains; PPPs are better suited where the private sector can most effectively add value; for policy sustainability, the state requires a ‘critical mass’ of partners able to supply 10% of annual investment; risk management needs constant attention and adjustment; and public sector skills must be improved to reduce transaction costs (Fitzgerald, 2004: 1-2). In sum, many technical elements of PPPs can be satisfied through application of technical solutions, but old lessons from public management about coordination, game-playing, contract management and transaction costs continue to emerge with projects in Romania as well (see *The Diplomat*, 2006). These general observations are applicable wherever a public sector, built around authority, legitimacy and process involves itself with a private sector built around ‘bottom-line’ efficiency and shareholder/investor benefit. Public interest and private interest cannot be assumed to be identical in a number of critical respects. The process of aligning them may be challenging and cannot be undertaken in a formulaic manner.

Importantly, Romania also faces the challenge found elsewhere in establishing an enduring cohort of potential partners (*The Diplomat*, 2006), so that emerging projects do not founder for lack of interest. In this regard, Victoria’s (and Australia’s) interest in pursuing extra-territorial investment by transnational corporations may be helpful (such as happened in operating public transport and in delivering power, water and gas utility services, and providing toll roads and hospitals).

##### **4.1 Capital Requirements**

According to McCreevey (2005), EU reports indicate that the new member states will require massive infrastructure investments of €500 million over the next four or five years. Hence, despite substantial financial support promised by the EU, Romania has to build its public administration capacity to meet EU funding requirements (Percival, 2006), and also consider PPPs as a viable formula for a much-needed, nationwide, fast-paced infrastructure development.

Capital markets in Romania are well-regulated and the environment for capital market growth appears to be very favourable (Alpha Finance Romania, 2005). While procedural and regulatory information abounds, information on the performance of capital markets is rather scarce. The data provided by Alpha Finance Romania are normative, not empirical. The capital market has grown at an unprecedented rate in the last 7 years or so, but development directions have proven (generally) conservative and risk-averse. Classical banking structures are preferred to more experimental financial services institutions.

The legislation governing Romania’s capital market has experienced successive reforms in the last 10 years. The current 2004 law aims to align Romania’s capital market to European standards (Alpha Finance Romania, 2005). Despite a lack of systematic analyses on this issue, there is no reason why we should assume that capital markets in Romania are not sufficiently developed to provide a solid basis for the engagement of government strategies for PPPs. Durnev *et al.* (2004:622), for example, suggest that Romania is among those transitional economies whose reforms have led to functionally more efficient markets. Dragotă and Mitrică (2004:353-354) conclude that, although the legislative and policy reform is progressive, ‘the Romanian capital market has experienced a downward trend: the indexes have decreased almost all the period. Also, even though the listed companies number is acceptable, the market liquidity is still low’. On the basis of econometric tests, the authors conclude that the Romanian capital market is inefficient, but that is against the background of a progressive development trend (Dragotă & Mitrică, 2004:360). On the other hand, Romania’s

accession to the EU on 1 January 2007 has contributed to reviving foreign investment in Romania and has attracted the promise of massive EU funding for large infrastructure projects – both contributing to a strengthening of Romanian capital markets.

The main obstacle in the government being able to borrow more cheaply than the private sector lies in the inefficiencies of government administration. Over-regulation of transactions (seeking to ensure transparency and accountability in the public sector) may produce a discouraging effect. However, expert opinion is generally that project management efficiency and skills are much more serious issues for Romania (when it comes to PPPs) than capital formation through government borrowing. Funding itself is much less of a problem than fund management and absorption (*The Diplomat*, 2006).

#### **4.2 Risk and best value?**

The Australian experience introduces some precautions in terms of what ‘best value’ should really refer to, as Romania has also found (*The Diplomat*, 2006, reporting a simplistic reliance on lowest bids). The real cost of finance for a PPP project lies in its risks rather than its primarily estimated material costs, such as costs of construction and ongoing operation:

*The private sector explicitly prices these risks into the cost of finance. When the public sector finances a project, taxpayers bear the risks and implicitly subsidise the cost of the project because the risks are not factored into the government borrowing rate. (Webb & Pulle, 2002: 1)*

There is a growing reluctance in the Australian community to endorse this practice and an urge to identify alternative ways to share financial risk through a PPP project. Hence, while there is in-principle agreement with the rationale of optimum public management in both the EU and Australia, there could be significant practical differences in how this argument is understood and applied in each case. Russell *et al.* (2000: vol.1, 11-12, 28-31) identified the specific nature of risk for projects and the need for adaptability in government understanding of it as key points for analysis.

Victoria’s Kennett Government (1992-1999) argued that contract specification was the most effective way of managing PPPs and other forms of ‘outsourcing’. The results, as Russell *et al.* explain, were not as hoped. The regime led to increased litigation and led private providers to focus on contract specifics, not contract intention. As we have observed, the Bracks Government (from 1999) attempted to deal with this through a ‘shared’ governance that enlarged the concept of what constituted ‘best value’ for the state. Thus the state monitors and supervises municipal authorities but also provides them with scope to choose between modes of service provision and timing, provided municipal councils do respond directly to their local community.

#### **4.3 Transparency and accountability**

Transparency and accountability are usually estimated as low in public administration in Romania (Percival, 2006). This indeed may be a serious obstacle in planning and implementing PPPs successfully and efficiently: PPPs generally raise questions about ‘clouding’ accountability wherever they are introduced (McQuaid, in Osborne, 2000: 10). However, some case-by-case analyses indicate possible successes. In government concessions of water and sewerage services to the private sector, Matei (2006:6) found that the service met delegation requirements, allowed for ‘a greater economic and technical transparency’, and thus controlled financial risk more readily. This case may be atypical, both of Romanian PPP practices (which are still in their infancy) and of a proper market situation, but it invites further attention.

#### **4.4 Knowledge and capacity gained – or lost?**

One of the hopes for PPPs was public sector benefits of increasing knowledge, skills and practice (Teicher *et al.*, 2006: 89). The global market in skills and knowledge is an expanding one, and countries like Australia are enthusiastic adopters of policies for importing skills into local labour markets. But such skill shifts are at a cost to the exporting country and are not always efficiently used by the importing country (Nahan, 2001; Sharmin *et al.*, 2008). Sturges (2007) is more optimistic:

*There is no reason to fear that in doing so we will weaken our public services here at home. This is not a zero-sum game. On the contrary, an international trade in public service managers has the potential to deepen our domestic capabilities and lead to the importation of best practice from overseas.*

This, however, is a serious risk for a transitional economy, where investment in skills and knowledge is already at a premium. Indeed, one of the defining characteristics of developing nations is the ‘brain drain’ to high-wage developed nations or at least to consulting firms, merchant bankers and other organisations that are active in the global labour markets for services.

Romania has such a shortage of managerial talent, in particular in the public sector. For this reason, considerable EU funding has been allocated for the development of the management skills of public officials in Romania. Generally speaking, ‘the country’s weakest points are the infrastructure and human resources’ (News-In, 2008). PPPs could circumvent this problem, provided that the issue of improving transparency and accountability practices in the public administration are resolved (Transparency International Romania, 2008).

The dearth of management skills suited to managing and scrutinising PPPs is an issue common to many jurisdictions, but there are differences in extent between developed and transitional economies. Where governments pursued New Public Management (NPM) agendas, especially in the 1980s and 1990s, the pool of competent administrators was diminished, with the result that when PPPs became popular with succeeding governments, capacity to manage them effectively was limited. Traditional bureaucracies tended to lack contract management skills that are an integral part of PPPs, because their training and orientation is hierarchical and directive, whereas relationships with PPPs require more negotiation skills (see Dawson and Dargie, e.g., in McLaughlin *et al.*, 2002: 36-37). On the other hand, the post-neoliberal managers who succeeded them often had narrow or shallow portfolios of skills, with an emphasis on management style. They lacked broad understanding of the public sector context and interest that PPPs must address.

At the present stage of development of the Romanian polity and economy, it is unlikely that governments would or could bid to retain the necessary homegrown expertise and may have to appeal to international sources (*The Diplomat*, 2006).

#### **4.5 Future directions**

PPPs are also peculiarly linked to ideology and therefore subject to shifts in dominant political ideas and opinion. Their adoption in Victoria is not due only to a wish to rectify perceived imbalances in public sector reform in the 1990s, particularly the radical reform agenda of the Kennett Government, but to preserve some of the benefits of that era, which was itself a response to perceived management and financial failure of the Cain-Kirner Governments (1982-1992). In this case the rhetoric of partnership served to mask a commitment to private sector involvement in government that, historically, belonged to the Liberal Party (conservative) rather than to the currently governing Labor Party (left-centre), but which has been co-opted by the latter to avoid accusations of financial inexperience or risk.

Yet at the national level, the election in late 2007 of the Rudd Labor Government after a long period of Liberal-National Government (1996-2007) has seen a shift in interest back to the creation of

'nation-building' strategies, which was a theme of a much earlier era. The outgoing Howard Government, for example, created a fund to support higher education, but only the earnings of the fund were to be available for expenditure. The Rudd Government's May budget in 2008 created instead a large infrastructure fund with its capital to be available for projects through an independent commission to be created by government. Such a fund is not predicated on partnership, except insofar as the sub-national governments will become 'partners' as the implementers of some central plans. At present, however, observers are looking to the appointments to the new agencies, Infrastructure Australia and the Building Australia Fund, to try to detect future directions, such as expansion of PPPs at national level: not only are private sector members prominent but the former chief public servant in Victoria, Terry Moran, now the chief public servant for the national government, and the Victorian Government's adviser on large-scale transport planning, Rod Eddington, are included (*The Age* 20 May 2008). As we have observed, Victoria, under John Brumby, requires no such reading of the auspices to see how favoured PPPs remain. It could be added, however, that this apparent shift away from private sector financing initiatives does not reflect any loss of confidence in PPPs but a pragmatic adaptation to the fact that an unanticipated and prolonged economic boom has created consistent budget surpluses. Taking into account the precepts of countercyclical budgetary policy, governments can plan to fund infrastructure and other capital works over the medium term.

#### **4.6 Current Victorian stories – and questions**

The Victorian Government has a number of major projects in hand, and it provides much detail or linking on its Partnerships Victoria website. In each instance, however, the questions are just as interesting as the promise.

A new Royal Children's Hospital in 2011 is to replace the existing major facility on an adjacent site. It is to treat an additional 35,000 patients annually. However, in key areas such as oncology this is to be achieved without additional beds – and despite a projected major growth in Victoria's population (*The Age* 27 December 2007). The EastLink motorway, opened in 2008, is shown by government as a \$2.5 billion project but elsewhere as \$3.8 billion, though delivered ahead of schedule; it is a toll road and will return substantial profits to the financing consortium for about three and a half decades (*The Age* 10 December 2007). Southern Cross Station shows a net cost to government of \$309 million – the June 2002 figure that remained on Partnerships Victoria's webpage for the project in May 2008 – but in fact the project totalled about \$700 million, including a \$200 million cost overrun. Not surprisingly, the focus has been on its architectural profile as an international award winner (*The Age* 24 June 2007). The proposed Victorian Desalination Plant, costed at \$3.1 billion, is claimed to redress the capital's water shortages, but at a cost of doubling water bills to consumers (*Sydney Morning Herald* 19 June 2007); this is up from a previous estimated cost of \$1 billion (*The Age* 7 April 2007). Long-time critic of such projects, Kenneth Davidson, has pointed to an existing, surveyed alternative, a pipeline from Tasmania, that would cost \$500 million, and be completed in two years rather than six (*The Age* 28 February 2008). But a pipeline of this kind would not support the creation of a market for water as a commodity, nor would it attract the same group of investors.

It is also interesting to note that debate in Victoria has remained resolutely at the 'macro' level – who supplies, how and at what cost. In Romania there is a wealth of experience about the 'micro' concerns of community impact and quality assurance, not least because service delivery has looked to municipal involvement, not just central direction (Matei, 2006; *The Diplomat*, 2006).

None of these projects are themselves a 'waste'. What they raise in each case are time-honoured questions about public infrastructure: how are the decisions made – and in whose interest are they made? who *really* pays for it, and how much? who can know what the final cost will be? have all the alternatives been canvassed? have the long-term commitments implied in each been assessed as 'best value'? and so on.

## **5. Conclusion**

Several lessons emerge from this discussion of PPPs.

Hodge and Greve (2008) point out that ‘many governments seem bound to rush headlong into new PPP territory without either acknowledging past partnership lessons, or articulating today’s highest priority areas of concern’ (Hodge & Greve, 2008: 2). Arguably Victoria did this without understanding all the consequences, or even the most important of them. Former Victorian Premier, John Cain, has commented that his pioneering Freedom of Information legislation (1982) never envisaged exemptions of ‘commercial-in-confidence’ information under public contracts; had he foreseen the trend, he would have produced legislation of a much more robust kind; perversely, commercial confidentiality is being used to stifle competition (*The Australian* 27 May 2008).

As a new EU member, Romania can avoid this trap by comparing the EU and Australian experiences, and learning from both to take precautions in several important areas. In particular, assumptions about the manifest benefits of PPPs across a number of fronts such as transparency, accountability and general public access need careful scrutiny. The renegotiation of contracts, such as the management of public transport in Victoria, and the failure to specify infrastructure renewal at a workable level are further examples not only of incurred cost but of delayed improvement. Operational management of a high order has also proved essential, though often lacking. Romania, as a transitional economy, must be aware of the risks associated with entrenched interests’ retaining control of markets, to the detriment of efficient capital allocation, efficient economic growth and general loss of accountability (Durnev *et al.*, 2004).

### **5.1 ‘Apparent depoliticisation’**

The inevitable regulatory role that government must exercise over its partners has meant that political risk in particular – perceptions of who is to blame for service failure – cannot effectively be shifted from the political realm to the private sector service provider: the public expects its services to be provided, and has electoral power to punish governments that fail to ensure adequate provision.

Governments of all persuasions must be warned that the public will not accept face-saving referrals to the providers of sub-optimal services – even where, as in Victoria, the government financially penalises transport operators who fail to deliver services at agreed levels (Department of Transport, 2008). The public has to hand a readier ‘victim’ for its dissatisfaction than a distant, anonymous transnational corporation.

### **5.2 Cost and efficiency**

In managing cost and efficiency – delivery on time and on budget – PPPs have proved as fraught as other mechanisms for service or infrastructure delivery. Reviews have been supportive of the overall achievements of projects (Grimsey & Lewis, 2007: 175-178), especially when such reviews have emanated from or been commissioned by governments themselves. However, major projects like the Cross City Tunnel in Sydney or the Southern Cross Station in Melbourne are uncertain in their final costs (in the former case: though an ‘engineering triumph’) or have incurred additional, unbudgeted costs through litigation between partners and the government (in the latter case: though an ‘architectural triumph’) (Grimsey & Lewis, 2007: 178-179).

In the longer term, government commitments to projects may incur costs that are a multiple of the project cost had it been undertaken as a government project (Davidson, 2005: ‘If the Government had been more prudent in its financing arrangement for the [Royal Women’s Hospital], it could have had two hospitals for the price it will ultimately pay for RWH’). The avoidance of short-term debt, and the avoidance of reporting deficits on the budget, carry with them a high price in deferred costs and financing.

As a new EU member state Romania is primarily interested in keeping investments ‘off

balance sheet' so that the country can meet the EU criteria for budget reporting and balancing (World Bank, 2007). In practical terms, this means that Romanian government policy on PPPs would learn from Australian examples (see Brumby, 2005: 4) as to the costs this policy decision may incur.

### **5.3 Governance**

Questions of governance will not go away by shifting activities to PPPs, and may indeed be exacerbated. In Victoria, for example, application of 'commercial-in-confidence' principles to arrangements between the government and its private partners are constantly challenged as issues for accountability and transparency (Russell *et al.*, 2000). In a jurisdiction, then, with a long-established tradition of media scrutiny and formal instruments for access to government information, there nonetheless remain deficits in accountability which have not yet been resolved – and perhaps, by the nature of the conflicting principles, cannot be.

It is no great step to question how immune to corrupt or incompetent practice PPPs can be in a context where institutions for scrutiny are less well developed (Matei, 2006; Percival, 2006). Reviewers (e.g., Russell *et al.*) commented that in Victoria they found no evidence of corruption, but as the Auditor-General in Victoria also comments (VAGO, 2006), accounting standards are not necessarily complete or perfect: the right questions may not be asked nor might the right information be obtained. The need remains to develop *and constantly upgrade* public monitoring and transparency mechanisms in the management of PPP contracts. Public transparency is especially important in a country like Romania, where there is still much to be done to catch up with EU standards, in terms of transparency in general public administration and public service delivery, and, more broadly, to engender confidence of investors. Accounting practices underpin goals of improved transparency through reporting (Percival, 2006). Historical practice in accounting standards is likely not only to reflect earlier practice under the former communist regime for some time, but to carry with them 'silent' expectations of style and content of reporting of outcomes and outputs – and even willingness of companies and individuals to disclose vital information to government (e.g., accessing robust data: Filer & Hanousek, 2002). Data that report on PPP implementation are therefore crucial.

Furthermore, decisions made now, for the short-term benefit of an incumbent government, may limit the flexibility of future governments, and impose unexplained, even unforeseen costs on taxpayers. Grimsey and Lewis (2007: 182) argue that such risks are inherent in government and that PPPs may provide a more transparent way of addressing them, but there are sufficient examples in Australia to suggest that this is overly optimistic.

Transitional economies therefore need to avoid the initial temptation to regard PPP implementation as a purely technical issue dependent on solving accounting and project management problems. Instead, they should adopt a broader strategic approach, with a sound understanding of the longer-term political implications of government involvement in PPPs.

### **5.4 Silver bullet or poison pill?**

On balance, then, PPPs present Romania with an opportunity, but, as with so much public sector reform, the overarching message is *festina lente* – hasten slowly.

### **Endnotes**

[1] English (2007) more comprehensively summarises the current state of PPPs in Australia

[2] Since that article, a change of Premier has brought the former Treasurer, John Brumby, the Premiership, and he is on record as a consistent champion of PPPs.

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