

PPP and Hungary: What should we do for success?

Judit Varga, PhD

On the one hand PPP is a complex, time-consuming and costly solution to supply public duties. On the other hand it could be a good method to satisfy certain public needs. As the author mentioned PPP has favourable properties. It is particularly suitable to produce goods and services from which consuming non-payer consumers may be excluded.

So PPP can be a good device in the State's hand but its advantageous features are not realized automatically. Every PPP contract needs careful preparation, impact assessment.

Hungarian experiences show that these former prudent deliberations, impact assessments were not happened. This is one reason why the Hungarian PPP contracts' lack of success. The other reason is the Hungarian legal institutional environment. What should we do to have a chance to create a successful PPP contract?

- There is a need to eliminate the regulatory vacuum because expressly legal standards for establishing long-term state contracts lacking in today's Hungarian legal system. Earlier there were fragmentary regulations for these treaties in our general act of public finance but they were compulsory only for contracts made by central government and not for contracts made by local governments.
- In addition, we should strive to ensure a stable regulatory environment because the profit-oriented stakeholders manage as a risk the rapidly changing legal standards and they price themes. This will result in increase of costs. Because of the former reasons, it should define the stability of development policy as an aim.
- It would be important to accept and adapt legal requirements which grantee an objective comparison method of public task provision alternatives. This comparison should be important after the investment decision is taken.
- Essential during the implementation and operation of PPP projects that the state lives with its control right, keeps it and does not contract it out.
- It is determinative that the state does not miss the consistent application of sanctions when its private partner does not fulfil the contract or fulfil it late or wrong. Lack of sanctions – thought that the missed interests' enforcement by state – were problems in many domestic PPP investments.
- Also it would have a great need for a system of legal norms which grants transparency of the utilization of public resources. This could be ensured by consistent control and monitoring, by disclosure of these controls' results, by the detailed and same formed indication of the Budget and Final Accounts' data in each separated projects. It is a problem in Hungary for instance when each ministries' PPP projects are in an aggregated form in the Annual Budget and Financial Accounts Acts. Thus amount for each PPP investments are not separated from each other. Still belong to the transparency is that: public funds user companies do not rely on business secrets the context of budget support and ensure the publication of these data.

The overall conclusion is that PPP is a complex contractual construction which can be an option of original investments by the state in many fields of public task provision and which is able to adopt for the ever-changing social and economic needs which brought it alive. PPP's application in practice is not free from challenges because of the long contract length and the presence of for-profit public sector partners in the public tasks provision. Due to the former points and the state short-term budgetary planning and because of the medium term policy objectives PPP can be a constant subject of professional and policy debates.

A sample for other countries

István Hoffman, PhD

The Finnish reform of the structure and management of welfare services is a highly debated change. It fits to the new European trends, the concentration of the welfare services. The economy of scale is highly required and the traditional forms of service provision seems to be inefficient. Therefore more centralized and concentrated structures have evolved in Europe. This tendency could be observed in the Scandinavian countries, as well. The first concentration reform was the Norwegian health care reform in 2002 which resulted the nationalization of the former municipal inpatient health care. In Sweden new, urban inter-municipal cooperation evolved.

The one-tier Finnish municipal system and the broad municipal tasks resulted strong debates on the reform of this welfare service system. It was clear, that the traditional system should be reformed. In the last decades alternative solution have evolved. Firstly, the voluntary health care were encouraged by the central government which resulted a slowly, but evolutionary change. The economic crisis impacted this system and the acceleration of the concentration process was required.

After 2010 the reform became a hot topic in Finland. Several authors stated that the centralization of the welfare services should be an adequate answer. The municipalities tried to maintain the former system. At the end neither solutions were chosen. Although the concentration of the health care services seems to be a compromise, it is strongly debated. The chosen model is a bit inadequate to the Finnish municipal traditions, the welfare regions are relatively big and the real local governance could prevailed only limitedly – thus the central government does not have the responsibility, but the municipalities have only a limited impact on the system.

Because the concentration of the public services is a trend in Europe, the results of the Finnish reform are very interesting, because this model could be a sample for other European countries.

Finland is far away

Gábor Péteri, PhD

It is rather hard to assess a complex social and health care reform by reading a brief blog, only. But my understanding of the present coalition government's reform efforts is that they aim not a simple centralization of Hungarian style. The three year long reform program is more about regionalization of human services and strengthening the new national regulatory, professional advisory and development functions. But as Mr. Möllari wrote, at the same time keeping the purchaser-provider split, that is to allow diversity of competing service organizations. And here the amalgamated municipal governments could play an important integrating role. As we could read the new county governments' social and health care services will be financed solely by the central budget (details mechanisms elaborated later).

So this makes the Finnish reform really interesting: how the competing goals of technical service rationale (economies of scale, incentives for savings, equitable service standards) can be matched with the traditional values of local autonomy, transparency or the "old fashioned" NPM values of customer orientation, freedom of choice, etc.

There is a lot to learn from Finland in this respect - with high hopes that they will have sufficient time, political strength and consensus, economic prosperity to complete the reform process. It seems that the administrative capacity and technical expertise are in place.

Some elaboration of current work with Finnish reform

Markku Mölläri, Ministry of Finance, Finland

Thanks for excellent comments, Mr Hoffman and Mr Péteri. Our reform is indeed quite a change for our system and debate about it is currently high. The Association of Finnish Local and Regional Authorities has a key role in commenting and also the metropolitan area debate has been active in last few days.

Discussion has much concentrated on the new regional level and how that is to be done. The discussion about the future role of the municipality has not been emphasized so much in this extend. Our message to the municipalities has been quite encouraging: after transfer of the big tasks in social and health care sector, there will remain still very large and important duties for the local level. Also the economic adjustments of the reform are very positive for municipalities, even though there are fears of the effects – how cutting in municipal income tax percent, equivalent of task transfer, is done right.

There are several interesting points we really should get it right for success. There should be, also in future, the role for municipality to encourage local business culture and creating new workplaces in the enterprises of the area – in good co-operation with region. The role of municipality in promoting health living, to prevent diseases and

social problems is also a highly important one. And of course big duties in education and culture will remain in municipal level.

We are not very busy promoting amalgamations currently – the last carrot money is given to few amalgamations coming into force from 2017.

The very important issue that is under development in workgroups is developing indicators for services and economy – very interestingly, the evaluation of objective and subjective need of customer is not an easy task. Indicators are in key role to help ways to better cost and quality control. There is a lot of room for better data management – digitalization is on the top agenda of Government, but finding concrete solutions is a hard work. The freedom of selection is an issue that is under political discussion, and that discussion is very interesting.

