



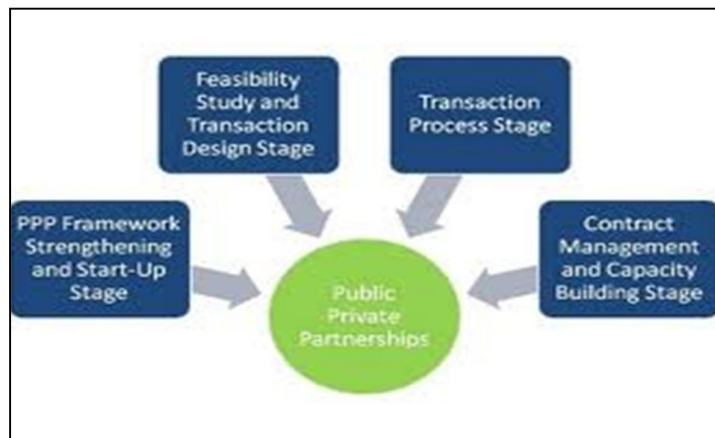
ROLE OF REGULATORY FRAMEWORK IN DECISION MAKING IN INFRASTRUCTURE INVESTMENT THROUGH PPP

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INTRODUCTION:

The increasing complexity of global economic challenges continually transforms the system of interdependent countries and placing increasing pressure on states and their existing national institutions (Reinicke 1998). As the limitations of purely intergovernmental efforts to coordinate effective public policies become ever-more apparent (Hewson and Sinclair 1999), corporations and global civil society organisations have begun to claim a growing presence in global affairs, leading to profound reconfigurations of global power and authority. Consequently, where these processes of interdependence and globalisation interact, public and private actors are coordinating to form new governance arrangements (Buse and Walt 2002, 43).



Although discussions on the effect of infrastructure on the economy are interesting for both scholars and policymakers, infrastructure planning and decision making are, in fact, not simple processes. Decision making for infrastructure such as building roads, ports, and other major public works is becoming more complex. The issues that need to be considered are not only technical and economic, but also environmental and political.

There is a trend all over the world for citizen involvement in decision making. In line with this trend, governments are exploring different types of planning and decision making that consider the increased interdependency of actors. Concepts such as interactive planning, network management, stakeholder dialogue, community governance, open-planning procedures, and participatory planning have emerged.

In the present globalized era, we live in a networked society. Any policy, any strategy, any human project, has to consider this basic fact (Castells, 2006). It is little wonder that decision making has become more complex. Problems cannot be solved by organizations on their own. As a consequence, hierarchy as an organizational principle has lost much of its meaning, with horizontal networks replacing hierarchies (Koppenjan & Klijn, 2004). As Birkland (2001) said, intuitively we can understand that actors in the policy process can and must interact with each other to advance policy proposals.

Without this interaction, nothing would happen, and policymaking would come to a standstill. Organizations and individuals who are participants in complex decision problems interact in an environment in which conditions are often changing rapidly and unpredictably, which increases the uncertainty experienced by participants dealing with decision problems (Radford, 1978). These issues not only affect developed countries but also countries in transition like Indonesia, which have become democratized. Reform occurs not only in the political system but also in public administration and public finance, together with a decentralization policy. Even though discussions on new perspectives on decision making usually take place in Western countries, it is quite interesting to explore the possibility of using a variety of analytical approaches in a developing country where the concept of participatory planning and citizen involvement has been growing (see, for example, Dasgupta & Beard, 2007; Timothy, 1999).

Conceptual Framework:

The concept of 'regulation' is commonly defined in various broader and narrower meanings (cf. Baldwin & Cave, 1999; Jordana & Levi-Faur, 2004), and is often also associated with the notion of 'governance' (Rhodes, 1996; Peters & Pierre, 1998; Kooiman, 2003). In the broadest sense, regulation can be characterised as "sustained and focused control exercised by public agency over activities that are valued by a community" (Selznick, 1985: 363). However, I would tend to agree with the editors of the new journal *Regulation and Governance*, which see regulation as a narrower concept than governance: "Regulation can be conceived as that large subset of governance that is about steering the flow of events and behavior, as opposed to providing and distributing" (Braithwaite, Coglianese & Levi-Faur, 2007: 3). Regulation, in the way that I use the term in the dissertation, is thus more about steering, directing and controlling than it is about collecting and redistributing scarce resources. Accordingly, I define regulation as the subset of governance that involve "every mode of political steering involving public and private actors, including traditional modes of government and different types of steering from hierarchical imposition to sheer information measures" (Héritier, 2002: 185). This includes command-and-control (hard law) as well as broader soft law measures, such as economic incentives, supply of information, self-regulation, etc. (Baldwin & Cave, 1999; Mörth, 2007).

The concept of 'policy' can be characterised broadly as "A set of interrelated decisions taken by a political actor or a group of actors concerning the selection of goals and the means of achieving them within a specified situation where these decisions should, in principle, be within the power of these actors to achieve" (Jenkins, 1997: 30). Furthermore, as argued by Hecló, "As commonly used, the term policy is usually considered to apply to something 'bigger' than particular decisions, but 'smaller' than general social movements" (Hecló, 1972: 84; also cited in Parsons, 1998: 13). A policy is the end-result of a process of public decision-making in which one or several actors invest resources and/or engage in strategic decision-making games with the purpose of advancing a certain decision-outcome over its alternative specifications (Scharpf, 1997). This can for example be the launch of an official PPP programme, the initiation of pilot PPP projects, green and white paper initiatives, sector-specific strategies, or budgetary decisions which earmarks money to PPP projects. Moreover, it can also be decisions more generally aimed at institutional capacity building, such as the launch of a PPP competence unit or an inter-departmental PPP group to coordinate government PPP initiatives. The actors involved in policy-making in relation to PPPs can be both public and private actors (Klijn & Teisman, 2003), and actors at multiple levels of government (Jessop, 2005).

Governance concerns the manner through which a society or organisation 'steers' itself to achieve common goals (Rosenau 1995), but even using the term 'governance' implies a movement away from authoritative state-based governance towards one characterised by interactions between actors (Peters 2005) and a shift towards a cooperation state (Börzel and Risse 2005, 196) or even in the direction of a world of "governance without government" (Rosenau and Czempiel 1992). Yet this shift from government to governance marks 'a significant erosion of the boundaries separating what

lies inside a government and its administration and what lies outside them' (Shapiro 2001, 369) and enhances the role of partnerships, which ignore the boundary between state and market (Tilly 1992; Polanyi 1957; Schwartz 2000). The increasing promotion of PPPs can be seen as a furtherance of trends towards greater reliance on multi-layered, multi-playered patterns of governance.

As it became more widely recognised that global problems necessitated global solutions, growing support for these new forms of networked governance developed. Uniquely structured to overcome market and government failure and leverage the capacities of the varied sectors, partnerships are supposed to create synergies and results not possible without collaboration. However, public-private governance arrangements do not only the counter state-led steering of the past. From an academic perspective, they challenge both traditional International Relations (IR) theories and the analytical tools used in its assessment.

Transnational PPPs present a paradox: as innovative institutional arrangements, they should bring together diverse actors to address pressing global governance deficits; on the other hand, their growing presence can lead to a fragmentation of policy authority and challenge the foundation on which global governance is based. At the crux of this paradox are persisting debates regarding partnership legitimacy. However, drawing this distinction is especially significant at the onset: input, or procedural, legitimacy, versus output legitimacy, commonly associated with effectiveness.

When considering the role of PPPs in global governance, the implications of potential tradeoffs between these elements are paramount. Can PPPs compromise on democratic notions of accountability as long as they fulfil their promise of being pragmatic delivery mechanisms? Or, will PPPs be accepted as legitimate governance actors only if they bring enhanced elements of these procedural elements - participation, representation and transparency? These challenges are not unique to partnerships: governance arrangements always involve tradeoffs, but unlike traditional structures of international and national governance, we know little regarding how these are manifest within and across partnerships.

PPPs challenge both traditional notions of legitimacy, and there is a growing body of critiques which debate notions such as their participation, representation and accountability, as well as effectiveness more broadly. Researchers have begun to tackle these questions, though largely from a theoretical rather than an empirical perspective, at best utilising a few case studies as examples. Emerging works suggest that partnerships have indeed led to substantial gains (Caines 2005; Buse and Tanaka 2011) and contributed to addressing these pressing global problems. Yet evidence on whether PPPs are truly "win-win" solutions, succeeding where both states and markets have failed, is far from clear. The cumulative positive impact of partnerships is neither established nor properly tested (Biermann et al. 2007b). Given their diverse nature and ranging focuses, more needs to be done to systematically study the impact of these unique collaborative institutions.

These debates will certainly continue, and this work does not promise to settle them here, but what is clear from the onset is that transnational PPPs need a thorough examination. Systematic analysis must address their contribution to global governance, and in particular address whether these institutions are legitimate and effective mechanisms for governance. Doing so involves placing these institutionalised interactions under a critical lens and developing an evaluative framework which addresses both the pragmatic questions at hand and the broader theoretical debates.

Crafting such an institutional model and theory which examines the varying characteristics of PPPs' forms, functions and democratic mechanisms is a necessary first step of analysis. Only after this is done can a proper evaluation of their effectiveness be properly undertaken. As Marra acknowledges, "Evaluation could, in fact, help define the appropriate policy role for the private and public sector suggesting when each should have the principal responsibility, where the two can work together, and the extent to which they can share responsibility" (2000, 153). Transnational partnerships could be an effective answer to many global governance issues, but without a proper understanding of their variance and potential effectiveness, addressing where, why and how they can be successful will remain elusive.

CONCLUSION

In recent studies, in line with social and environmental changes, decision making could be seen as a series of rounds where decisions are taken in various arenas as a series of interactions among multiple actors involved in the network.

One of the apparent implications is that network analyses are also becoming increasingly significant for the planning and decision making of infrastructure in the current era of governance. The perspective of governance as network steering (Klijn & Koppenjan, 2000; Koppenjan & Klijn, 2004) recommends the participation of stakeholders in policymaking because of the interdependency between actors. Government and business, both control sources that are necessary to spatial investments and other policy (Oosten & Esselbrugge, 2004). From this point of view, the design of policymaking for infrastructural investment and PPPs particularly should be more sensitive to the real characteristics of the decision-making process.

It is widely recognized that when formulating infrastructure policy several issues need to be considered viz., the decision-making process, the economic impact of infrastructure, and the role that infrastructure plays in determining FDI location.

One of the considerations in policy making is to understand the real situations and problems faced when it comes to infrastructure development.

Among the infrastructure projects, construction of roads and bridges constitutes the biggest segment. Nationally, the length of roads has increased significantly although several problems persist. Many villages still do not have paved roads. In urban areas, road density is still low compared to that of cities in other countries. In terms of quality, most of the national roads are in good condition, provincial roads are less well maintained, while most district roads are in poor condition. When viewed from a regional perspective, the distribution of infrastructure across the provinces is to be balanced.

The studies identified problems in infrastructure development from three perspectives:

(i) financial resources, in regard to low and slowing investment in infrastructure,
 (ii) regulation and institutional framework in regard to policy making, and
 (iii) rules of investment and decentralization in regard to the changing responsibility for infrastructure development. Several attempts have been made by the central government to tackle the problems, including formulation of policies such as promoting public-private partnership, reform of regulation and institutional framework as well as establishment of the National level Committees for the Acceleration of Infrastructure Provision to undertake the responsibility for coordination.

Despite the achievements, two issues remain:

- (1) complexity of the decision-making process in the new environment with multi-actor involvement;
- (2) and imbalanced distribution of infrastructure among the regions.

Implications for Policy

While it is not easy to outline a simple overarching policy to cure all problems related to infrastructure development, this study generated some specific pointers for policy formulation. For instance, the identification of rounds in decision making will enable governments to manage the successful and speedy completion of the entire process. With growing multi-actor involvement in decision making, it is important for all the actors, including the government, to maintain a vibrant network by establishing good relationships among themselves. Even though the studies revealed that the decision-making process is growing to be more complex, understanding the process with reference to the existence of rounds, and interaction of actors in the network, can help successful policy formulation.

Therefore, greater coordination between infrastructure sector policy making and regional development policy making is strongly advised. By assuming that the impact applies for the whole

country or for regions (sub-national level), the policy implication suggest that regional authorities can get optimal benefit while supporting a national policy on infrastructure investment.

While it is clear from this study that infrastructure contributes to economic growth, the direct contribution of infrastructure to poverty reduction still needs to be assessed in terms of scope or degree of impact. Indirect impact through economic growth and job creation that can finally reduce unemployment and poverty is conceptually accepted. However, for policy making, it is important to find out the effectiveness and impact of different types of infrastructure investment on poverty reduction.

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