

# Risk Management in Public-Private Projects in the Field of Archival Services

*PATRICIJA JANKOVIČ*

President of ISMA, Institute for Innovative System Methods and Applications, Zgornja Kungota 10j, 2201  
Zgornja Kungota, Slovenija  
e-mail: patricija.jankovic@guest.arnes.si, info@isma.si

## Risk Management in Public-Private Projects in the Field of Archival Services

### *ABSTRACT*

The article discusses risk management in public-private projects in the field of archival sciences. Archives are part of obligatory public service and as such subject of state financing. Public-private projects can help providing public service even in archives by establishing private financing for infrastructure or other public needs. Risk management is one of the key disciplines for making effective decisions within such projects. The generalization of risk management process is performed through IEEE STD 1540-2001 (Standard for Software Life Cycle Processes-Risk Management). Main sub processes and risks are defined. The distribution of the risks is addressed within.

## Gestione del rischio in progetti pubblici o privati nel settore dei servizi d'archivio

### *SINTESI*

L'articolo affronta la gestione del rischio nel settore pubblico o privato di progetti nel campo delle scienze archivistiche. Gli archivi sono parte dell'obbligatorio servizio pubblico, e come tale oggetto di finanziamento statale. Progetti pubblici o privati possono contribuire a fornire servizio pubblico anche negli archivi attraverso la definizione dei finanziamenti privati per le infrastrutture o altre esigenze pubbliche. La gestione del rischio è una delle discipline chiave per prendere decisioni efficaci in tali progetti. La generalizzazione del processo di gestione del rischio viene effettuata secondo la norma IEEE STD 1540-2001 (Norme per i processi a lungo termine – Gestione del rischio). Vengono definiti i principali processi secondari ed i rischi. Viene inoltre accennato alla distribuzione del rischio.

## Krizno upravljanje javno zasebnih projektov na področju arhivskih služb

### *IZVLEČEK*

Arhivi predstavljajo zakonsko obvezno javno službo in so kot taki financirani s strani države. Z omogočanjem zasebnega financiranja infrastrukture in drugih javnih potreb, lahko tudi na področju arhivskih služb javno zasebni projekti pomenijo veliko finančno razbremenitev javnega sektorja in hkrati tisto partnerstvo, ki je potrebno za učinkovito upravljanje arhivske javne službe. V članku obravnavamo krizno upravljanje, ki je ključna disciplina pri sprejemanju učinkovitih odločitev v tovrstnih projektih. Poseben poudarek je na standardu IEEE 1540-2001 (Standard for Software Life Cycle Processes-Risk Management) v katerem so generalizirane vse prvine kriznega upravljanja, z opredelitvami glavnih procesov in porazdelitvijo rizikov.

## INTRODUCTION

The Protection of Documents and Archives and Archival Institutions Act, passed in 2006 (Official Gazette, no. 30/2006), explicitly establishes archival service as a public service. Article 53 specifies the following as its main activities:

- evaluation of documentary material belonging to public entities, providing explanations regarding duties of public entities towards documentary material, conducting professional supervision and training employees that work with documentary material;
- evaluation of public documentary material in archives, exclusion of unnecessary documen-

- tary material, sorting and professional processing of archival material in archives;
- acquisition, evaluation and professional processing of public and private archival material, creating inventories, guides and other aids for using and publishing archival material, publishing archival sources;
- storing and material protection of archival material;
- keeping records of public and private archival material;
- registering archival material abroad that pertains to Slovenia and the Slovenian people, complementing archives' own material with reproduction of such material and creating guides and other aids related to archival material;
- registering private archival material belonging to legal entities and natural persons;
- cooperation with owners of private archival material, professional counseling, professional supervision;
- putting archival material into service, publishing transcripts or copies of documents and issuing certificates based on documents;
- conveying cultural values related to archival records;
- conducting research assignments in the field of archival studies, history and other fields related to archival material;
- issuing publications;
- preservation of archival material belonging to former state, autonomous, self-management and other bodies and legal entities for which archives or their predecessors were responsible according to previous laws regulating archives.

In view of the fact that archives belong to the category of obligatory public services that must be provided by the state. Especially in order to preserve its cultural heritage, they are financed solely from the state or local budget.

Archives often face problems in carrying out specific tasks or planning new projects since, due to the current economic and political situation, the state or the local community cannot withstand the financial burden of new projects and can barely finance the ongoing ones. This certainly represents a serious blow to the archival institutions, which could offer to the public a lot more and contribute to the added value of their activities if they had additional funds to finance them.

Both international and national legislation provide for different ways of cooperation between private and public entities, especially when it comes to carrying out public services. It is irrelevant whether the issue is financing infrastructural facilities or providing services and whether we are dealing with commercial or non-commercial public services. The guiding principle is the cooperation between the public and private sectors in establishing the best possible offer and activities in the field of performing public services.

We must, however, distinguish between different forms of cooperation between the two partners. Public contracts for the procurement of goods and services or for construction are not what we understand as public-private partnership; they are one-time contracts, where the public partner orders goods or services and the private partner provides them. When the contract is finished, the cooperation generally stops. When it comes to archives, the Protection of Documents and Archives and Archival Institutions Act, as a *lex specialis*, imposes special rules for such contracts. The supplier of equipment and services must report its activities to the state archive no later than eight days before the beginning of carrying out its activities. Based on the application, the state archive checks its completeness and issues an administrative decision ordering the entry of the supplier into the register of suppliers (Article 83). The accreditation state archive concludes an agreement with the supplier regarding the supplier's accreditation that regulates the relationship between the state archive and the supplier in accordance with the general conditions for accreditation that are laid down by the state archive. Based on the agreement, the state archive constantly checks whether or not the supplier meets the prescribed criteria; if so, the archive enters the equipment or service provided by the supplier into the register of accredited equipment and services. Only the supplier of goods or services that have been entered into the register of accredited equipment and services can use the title of provider of accredited equipment or services in its business and market operations (Article 86).

More partnership components can be found in concessions for conducting public services. These cases involve long-term cooperation between the public and the private sector. Concession is a license given to a private entity by an administrative body in order to perform public services or activities.

True partnership occurs only in projects where a public and a private partner cooperate on an equal footing in performing a public service. This usually involves a long-term project-based cooperation. In simplified terms, the private partner takes upon itself the financial burden of the project, while the public partner, by means of its rules (legislation or ordinances), makes sure that the private partner makes a return on its investment throughout the period of performing the activity. This is a greatly simplified definition and serves the sole purpose of explaining the main difference between public procurement, concessions and public-private projects. The latter undoubtedly represent an added value almost everywhere where public services are carried out, since they make possible the realization of those projects that the state or the local community would not be able to finance and that yet have a major public importance. Carrying out and planning such projects is not an easy task since they require great knowledge, both professional knowledge and project management knowledge.

Risk management is one of the key disciplines for making effective decisions within public-private projects. The purpose of risk management is to identify potential problems before they occur. Countermeasures or actions can be taken that reduce or even eliminate the likelihood and/or impact of these problems. Risk management in general is considered as a critical tool applied to continuous checking of the feasibility of project plans, improving the search for and identification of potential problems. Impacts can affect project activities and the quality and performance of products/services. Risk management may also be considered as a way to improve active management. Therefore successfully implemented risk management may:

- Identify potential problems
- Help understand the likelihood and consequences of these risks
- Force the management to make priorities of the risks addressed
- Lead to the recommendations of alternatives
- Help the selection of the appropriate treatments
- Help monitor the effectiveness of each treatment
- Improve risk management policies and
- Introduce regular evaluation of the risk management process and procedures

The PPP project risk management should:

- Target the acquisition, supply, development/construction, operation, and maintenance of products/services
- Include the risk management process which is defined and can be adapted for use at an organization level or project level, for different types and sizes of projects, for projects in different life cycle phases, and to support diverse stakeholder perspectives.
- Be adaptable for individual organizations and projects to meet their specific situations and needs.

The implementation of PPP is generally focused on two issues. The first is a required investment in infrastructural objects necessary to conduct the services, while the latter is a guaranteed and lasting source of revenue to the private investor. These issues have caused the entanglement of public and private sources of financing throughout the history.

## SHORT COURSE OF DEVELOPMENT OF PUBLIC-PRIVATE PROJECTS

In the beginning of organized implementation of public services in the 19<sup>th</sup> century, the providers of services were privately owned companies. Their business was based on a licence or concession granted by the government or a local community. The private initiative produced the many-branched system of project financing that also included international funds.

However, in the beginning of the 20<sup>th</sup> century, the balance tipped towards the public procurement of public services and construction of infrastructure. The reason lay in the rise of state interventionism. The existing private infrastructure was nationalized while monopolies were created by merging individual private service providers, and in some countries the state-managed public services were made into a constitutional norm.

Eventually in the 1980s the participation of the private sector in public projects has begun gaining momentum. The reasons are many-fold; from the continual indebtedness of state budgets to the harsh budget limitations and the establishment of global markets of capital and the broad offer of private financing resources. Another strong influence is privatization – the transfer of public infrastructure into the hands of private capital.

In the past the role of local communities in public infrastructure management around the world has been relatively simple. The local communities, regions or counties were most often investing in the public infrastructure (hospitals, schools, roads, water supply systems). All these needs were mostly financed by the budget or loans taken directly by the communities. Another common source of financing were the institutionalized donations of citizens or locals. Today the citizens/local inhabitants simply expect more services, better infrastructure and a higher public standard, and these demands can no longer be financed by the public sector, as the financial options and sources of money are scarce.

The current method of public service financing and implementation can no longer satisfy the growing requirements of the public standard. Also, the classic way of financing the construction of infrastructure from the state budget has become unacceptable; consequently the last two decades have brought radical changes around the world.

As a consequence of these changes two interdependent trends have emerged:

1. The withdrawal of the state from the field of infrastructure construction and operative management and
2. The evolving definition of the state's role as a regulator of infrastructural activities increasingly provided by the private sector.

In the procurement of the funds for public infrastructure financing, three different methods have become dominant, depending on the available resources:

- a. Financing from the current revenue; it foresees that infrastructure investment expenses are covered directly from the current budget revenue of the local authorities or state grants;
- b. Loans; comprises the covering of financial sources for infrastructure by issuing securities or raising loans in the capital market;
- c. Public-private joint ventures, including privatization, that involve a partnership and contractual cooperation of the public and private sectors according to one of the possible forms of cooperation of private subjects.

Another option that can be considered among the possible financial resources for infrastructure investments, apart from the current budget revenue and loans, are joint ventures involving the private sector. The essences of joint ventures of the private and public sectors are the savings achieved by the community, as its financial burden is partially reduced. To motivate the private sector to participate in the projects, appropriate compensation for the invested funds and risks involved must be arranged (Milutinovič, 2002).

The interweaving of public and private interests can materialize in several different forms, and most often in the following three combinations:

- Public ownership of facilities and public management;
- Public ownership and private management;
- Private ownership and private management.

All these forms have their advantages and weaknesses. The latter lies mostly in the difficult distribution of risks and interests. The public owner may not want to engage in the providing of services, and at the same time worries about the fate of infrastructure and the respect for public interests if the activities are taken over by the private sector. On the other side the private partner, despite the entrepreneurial spirit, will not be willing to invest in the infrastructure unless there are guarantees concerning the income and duration of the services (Ilešič, 2000).

## RISK MANAGEMENT – GENERALIZATION OF SOFTWARE ENGINEERING STANDARD

Let us first define some terms according to IEEE 1540:

- Acceptability: The exposure to loss (financial or otherwise) that an organization is willing to tolerate from a risk. Risk acceptability may apply to an individual risk or to a collection of risks, such as the totality of risks involved in a project or enterprise. Acceptability may differ for different categories of risk and may depend on the cost of treatment or other factors.
- Consequence: An outcome of an event, hazard, threat or situation. The outcome may be a loss or a gain and may be expressed qualitatively or quantitatively.
- Likelihood: A quantitative or qualitative expression of the chances that an event will occur. Quantitative expressions may include numerical scales or probabilities.
- Project risk profile: A project's current and historical risk-related information; a compendium or aggregate of all of the individual risk profiles in a project. The project risk profile information includes the risk management context, along with the chronological record of risks and their individual risk profiles, priority ordering, risk-related measures, treatment status, contingency plans, and risk action requests. A project risk profile consists of a collection of the risk profiles of all the individual risks, which in turn includes the current and historical risk states.
- Risk: The likelihood of an event, hazard, threat, or situation occurring and its undesirable consequences;
- Risk action request: The recommended treatment alternatives and supporting information for one or more risks determined to be above a risk threshold.
- Risk category: A class or type of risk (e.g., technical, legal, organizational, safety, economic, engineering, cost, schedule).
- Risk exposure: The potential loss presented to an individual, project, or organization by a risk; a function of the likelihood that the risk will occur and the magnitude of the consequences of its occurrence. Risk exposure is commonly defined as the product of a probability and the magnitude of a consequence, i.e. an expected value or expected exposure. This software risk management standard takes a broader view that includes qualitative expressions of risk exposure.
- Risk management plan: A description of how the elements and resources of the risk management process will be implemented within an organization or project.
- Risk management process: A continuous process for systematically identifying, analyzing, treating, and monitoring risk throughout the life cycle of a product or service.
- Risk profile: A chronological record of a risk's current and historical risk state information.
- Risk state: The current project risk information relating to an individual risk. The information concerning an individual risk may include the current description, causes, likelihood, consequences, estimation scales, confidence of the estimates, treatment, threshold, and an estimate of when the risk will reach its threshold.
- Risk threshold: The criteria (e.g., a level of risk exposure) against which stakeholders evaluate a risk. Different risk thresholds may be defined for each risk, risk category or combination of risks. Exceeding a risk threshold is a condition that triggers some stakeholder action.
- Risk treatment: The process of selecting and implementing risk control options.
- Stakeholder: A person or group that has an interest in the management of risk.

In the opinion of Leskovar and Jankovič (2006), the purpose of risk management is to continuously identify and mitigate the risks. As a result of successful implementation of risk management:

- a. The scope of risk management to be performed will be determined.
- b. Appropriate risk management strategies will be defined and implemented.
- c. Risks will be identified in a strategy and as they develop during the conduct of the project.
- d. The risks will be analyzed, and the priorities related to applying resources to monitor these risks will be determined.
- e. Risk measures will be defined, applied, and assessed to determine changes in the status of risk and the progress of the monitoring activities.
- f. Appropriate action will be taken to reduce or avoid the impact of risk.

The risk management process is a continuous process for systematically addressing risk throughout the life cycle of a product or service. This process consists of the following activities:

- a. Plan and implement risk management
- b. Manage the project risk profile
- c. Perform risk analysis
- d. Perform risk monitoring
- e. Perform risk treatment
- f. Evaluate the risk management process

The performance of risk treatment is assumed to be part of general technical and managerial processes. Managerial and technical processes involving the stakeholders define the information requirements that the risk management process must support (i.e., the information the stakeholders require in order to make informed decisions involving risks). These information requirements are passed to both the “plan and implement risk management” and the “manage the project risk profile” activities. In the “plan and implement risk management” activity, the policies regarding the general guidelines under which risk management will be conducted, the procedures to be used, the specific techniques to be applied, and so forth, are defined. In the “manage the project risk profile” activity, the current and historical risk management context and risk state information are captured. The project risk profile includes the total sum of all the individual risk profiles (i.e., the current and historical risk information concerning an individual risk), which, in turn, includes all the risk states (adapted from Jankovič, Leskovar, 2006).

## THE RISKS AND DISTRIBUTION OF THE RISKS IN PPP

The transition to partnership between the public and private sectors has found its legality in the roles taken by the public authority and the private subjects. The former is responsible for providing the essential services to the population according to the needs of the society. The latter service providers implement the services according to the cost/benefit criteria. Partnership of the two enables the association of both roles. Still, decisions must be rational, and the public authority needs to review all possible risks of such cooperation and thoroughly study the procedures of partnership formation to create successful partnerships.

Partnership projects are structurally based on the risk distribution principle. This is what defines the partnership between the public and private sectors. It is not a miracle formula, but merely a way to improve the projects' selection of technology and the quality of results, as well as reducing the expenses for insurance against unexpected risks.

What is essential in the entire process is the project itself. It should dictate the distribution of risks in order to stay in line. Taking charge of a risk should be compensated, and the efforts to reduce costs may influence the risks. A typical example is the risk of construction, which can be mainly controlled by the private party and therefore the insurance against that risk is reasonable. For example, the insurance costs can be incorporated in the construction price. In contrast, the commercial risk is often very big and the insurance for the risk can be costly for the private party. That is immediately evident from the higher price and higher subsidies in case the project is not self-sustainable. If the community takes charge of that risk, there is a danger that they may have to pay the compensation for the lack of revenue. Still, that can be acceptable if the project serves an important socio-economic interest.

The distribution of risks should be based on two principles:

- The first basic principle states that the risks taken should be paid for, and the magnitude of risks a partner takes charge of should be proportionate to the related benefits of the project (financial, socio-economic or other);
- The second principle states that the charge of a risk is taken by the partner that is in the best position to do so. This principle may need to yield to the first basic principle.

The main categories of risks are:

- Technical risks (design, construction);
- Financial risks;

- Demand risks (exploitation);
- Revenue related risks;
- Higher force risks;
- Macroeconomic risks;
- Legal risks.

Some of these risks are limited to the private sector, e.g. the non-remunerative investments, and some to the public administration (inefficiency of public offices).

## CONCLUSION

To achieve a good level of risk management one should consider the fact that the structure of risks should precede the establishment of partnership between public and private partners. This structure will dictate the inclusion of individual parties. The biggest risk for the public party is the decrease of the quality of services or the cessation of the delivery of public goods and additional budget expenses. A multi-phase action is necessary: the identification of risks, evaluation of their potential effects, reducing risks by coordinated partner action and the allocation of remaining risks.

Accepting a risk has a certain price. It is in the interest of the public authority to cooperate in project risk reduction and to transfer only those risks to the operator and the banks that they can accept - and not transfer all the risks. The public body must find the optimal course of action between the risks they are trying to transfer to the private partners, the advantages sought in the project and the expenses incurred upon the community by the project.

The reduction of project risks should proceed in the form of several coordinated actions that are based on the following principles: preparation of the institutional framework, good definition of the project, seeking international aid, choosing a single contractual partner with global experiences, covering the financial risks, marketing the project to citizens and user, contract flexibility.

The distribution of the remaining risks should allow the public party to transfer all the risks that the private party is able to accept:

- The current technical and financial risks are transferred to the private partner in the highest possible degree;
- The demand and pricing risks should be distributed among the partners according to the expected benefits;
- The direct risks of the environment cannot be transferred to the private sphere without increasing the expenses. Some risks can be covered by multilateral organizations that provide guarantees.

It is a sound idea for the issuer of the concession to seek advice from legal, technical and financial advisers of national and even international recognition. The costs of their services will be unquestionably recovered through time saved in the creation of partnership, the improvement of negotiations conditions and fewer discords. Additionally, the advice enables the public administration to prepare the documentation justifying the interest for a public-private partnership and assures its acceptance.

But when we think about how much more the public service could offer to the community and its citizens, the answer to the question: "Public private projects, yes or no?" is not difficult at all.

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#### SUMMARY

As part of obligatory public service, archives are subject of state financing. Because of the financial crises the state and local communities have no more resources for financing the required projects. Cooperation between the public and private sectors could show us the how to manage obligatory public services, especially by establishing strong and in progress adjusted public-private projects. Risk management is one of the key disciplines for making effective decisions within public-private projects. The purpose of risk management is to identify potential problems before they occur. Countermeasures or actions can be taken that reduce or even eliminate the likelihood and/or impact of these problems. Risk management in general is considered as a critical tool applied to continuous checking of the feasibility of project plans, improving the search for and identification of potential problems. By mastering risk management in those projects and with considering the Standard for Software Life Cycle Processes-Risk Management IEE STD 1540-2001, such projects could make a significant contribution to improving the quality of carrying out public services for the whole community by raising the level of added value.

Original scientific article

Submitting date: 28.04.2012

Acceptance date: 30.06.2012