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**SOME DETERMINANTS OF THE PUBLIC-PRIVATE  
PARTNERSHIP ENABLING ENVIRONMENT IN THE WESTERN  
BALKAN**

**Sladjana Sredojević<sup>1\*</sup>**

***Abstract:** Public-Private Partnerships (PPPs) is a complex and long-lasting arrangement and specific mode of cooperation between public and private entity. Beside legal framework, environment where the PPPs are implemented is a crucial precondition for their development and implementation. The objective of the research is to disclose some of the most relevant characteristics of the national level macroeconomic framework which may directly create PPP enabling environment favorable for their successful launching and qualitative implementation. The research is focused on the Western Balkan countries where national economies are still creating favorable business climate and market based principles in order to attract such a type of investment.*

***Key words:** Public-Private partnership, Macroeconomic preconditions, enabling environment, Western Balkan*

**1. Introduction**

Due to the significant empirical contributions of the Public Private Partnership (PPP) concept in infrastructure development in many countries worldwide, this concept could play an important role in meeting the needs for infrastructure development within fiscal and monetary restraints. There are cases that the PPP project can be implemented in a very successful manner even in the environment with no solid and healthy economy. However, this could be used rather as an exemption and not the rule. The quality of the national level framework, determined by its macroeconomic and institutional characteristics is a necessary environment for the successful and qualitative implementation of PPPs. This is particularly important in those countries which are in the in transition from previously existing central planned economy towards economy based on market principles. Therefore, the focus of this research is one of the regions of Europe – Western Balkan region (Albania, Bosnia and Herzegovina, FYRO Macedonia, Montenegro, and Serbia).

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\*Special Advisor for International Financial Institutions, International Cooperation, Financial Markets and Education at the Association of Serbian Banks, Serbia,

✉ sladjana.sredojevic@gmail.com.

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One of the major features of the Western Balkan countries is that all of them have big development needs. Development of infrastructure, particularly hard one, is a precondition for the fostering of overall economic development, enhancement of the private sector, and foreign direct investment attraction. This means that among other national development goals, infrastructure development is a *primus inter pares* goal that just has to be accomplished.

At the same time, the countries of the Western Balkan Region and their municipalities are faced with the constraints in their capacities to boost financing of infrastructure. The constraints are dominantly rooted in the area of public finance due to the shortage of domestic sources such as accumulation, savings, and domestic investments, or public debt ceilings for the capital investments long-term borrowing. Eventually, the effects of the world economic crisis multiplied already existing challenges in this field. Under those circumstances, the existing basic and systematic problem of these kinds of countries is placed between their willingness and openness for the PPP as international deal on the one hand, and very often the lack of proper, solid and ready institutional and macroeconomic factors that are needed on the other hand. In order to try to address some answers to this problem, the research will focus on the questions:

- What are the determinants of the national framework that are most influential on the success of PPP implementation at the local level?
- Is the role of institutions in PPP systematically important for successful PPP implementation?

## **2. Literature review**

Literature about various case studies on PPPs worldwide shows that many authors agree that the cooperation between public and private sector is not a new phenomenon, but they have different views on how deep are the roots of PPP concept itself. There is a wide range of features that a PPP contract can adopt. In addition, national and/or local frameworks may provoke different interpretations of the concept. It is of utmost importance to remember the determinants of PPP projects given by the European Commission in the Green Paper on Public-Private Partnerships and Community Law on Public Contracts and Concessions: “*the term refers to forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service*” (European Commission, 2004, pp. 3).

The literature on PPPs covers different research areas. Hodge and Greve (2010) point to the multidisciplinary character of PPPs as one of the major challenges. Since it is the subject of the empirical and academic research, PPP concept has already disclosed determinants for its successful implementation. According to Hainz and Kleimeier (2012) findings, the way PPPs are implemented, including conditions of their financing (terms of the loan contract), depend not only on the political risk but also on the legal and institutional environment as well. Although legislation is necessary, national level framework as environment where the PPPs are implemented is a crucial precondition for their launching, fostering and implementation. The results of the 2012 EECIS Infrascop

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study done by The Economist Intelligence Unit (2013), also shows that “*creating an operational and effective PPP system requires more than just passing the necessary laws and making regulatory changes*”.

For the purpose of this research, PPP is used as a term of wide diversity of practice that has developed over time to facilitate private sector participation in the provision of public infrastructure. Research is carried out as a Desk Review, using also the review of library and online literature, databases, reports, documentation and interviews.

### **3. PPP Enabling environment determinants**

PPP as a concept or ‘phenomenon’ (European Commission, 2004, pp. 3) is a subject that requests certain rules to be stipulated in the legislation form. Although being also present at and driven by the market, PPP need proactive and comprehensive initial step or action of the state which results in solid legislation framework which enables further market behavior.

However, legislation is not enough for PPP successful implementation. This is particularly important in those countries which are in the transition from previously existing central planned economy towards economy based on market principles. That is the case in one of the region of Europe – Western Balkan region with following countries: Albania, Bosnia and Herzegovina, FYRO Macedonia, Montenegro, and Serbia. All countries of the Western Balkan Region do have the laws that are regulating PPPs in form of PPP explicitly, or in a form of concessions. However, there are many other factors which have significant and direct impact on the PPP enabling environment, and we can classify them into the a) external determinants (macroeconomic position of the country) and b) internal determinants (legislation, institutions and local financial market).

#### **3.1. External determinants – macroeconomic position of the country**

Various factors are shaping the determinants of the PPP market and extent of its activity. Besides, there are many classifications in the literature about those factors (Sredojevic, 2010: 52). Among wide range of macroeconomic factors that are defining environment where PPP are implemented, here we discuss on several selected indicators that create external reflection of the country, as shown in Table 1. Gross national income per capita and level of income, country status in relation to EU membership and Country status in relation to IMF.

**Table 1. Some external determinants - macroeconomic preconditions for PPP implementation among the Western Balkan region countries**

Country	GNI per capita (2011-2015) in USD	Level of Income	Country status in relation to EU	Country status in relation to IMF
Albania	4,450.00	Upper middle Income	Candidate	Seventh Review of the Extended Fund Facility Arrangement

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Bosnia and Herzegovina	4,840.00	Upper middle-income	Potential Candidate	Arrangement under the Extended Fund Facility
FYROM	5,150.00	Upper middle-income	Candidate	/ (In 2015, Completed Early Repayment of Entire Outstanding Obligations to the IMF). In 2016, Only 2015 Article IV Consultation.
Montenegro	7,320.00	Upper middle-income	Candidate	/ Only 2015 Article IV Consultation with Montenegro.
Serbia	5,820.00	Upper middle-income	Candidate	Dec. 2015. Third Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria.

Source: The World Bank Group <http://ppi.worldbank.org/>, European Commission <http://ec.europa.eu/enlargement/>, International Monetary Fund [www.imf.org](http://www.imf.org) (April 2016).

Those indicators were chosen according to their relevance for the country's position at the international market (and particularly among potential foreign investors), as well as to the fact that their official level or state is set by official sources and therefore publicly available and comparable.

a) *GNI per capita and Level of income* are the indicators that are defining general level of the country development, living standard and potential of its economy. There are various classifications of income level today. According to the Country classification set by the World Bank where income is a criterion, economies are divided according to 2014 GNI per capita. For the current 2016 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,045 or less in 2014. In this respect, there are four groups of countries:

- I. Low income - \$1,045 or less;
- II. Lower middle income - \$1,046 - \$4,125;
- III. Upper middle income - \$4,126 - \$12,735; and
- IV. High income - \$12,736 or more.

As Table 1 Shows, all countries of the Western Balkan region belong to the group of upper middle income countries ranging from 4,450 USD *per capita* in Albania to 7,320 USD *per capita* in Montenegro. Although not having achieved yet the standard of income of developed market economies, the level of income per capita of these countries is solid enough to enable their local business environments, including PPPs. On the other hand, this level of income is also indicator of necessity for further improvement of the investments' attraction climate enough for foreign investors including for PPP projects which was also elaborated by Bartlett and Uvalic (2013).

b) *Country status in relation to the European Union integration*. Being a member of the European Union is of a big importance in general for the country's positioning on the international market but also for its own economy perspective and doing business

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standards. For successful PPP implementation, European Union membership is important rather for the reason of existence of certain sets of internationally recognized standards for doing business than as a geopolitical flag. The criterion of EU membership is an important parameter in making projections of future trends and developments in fostering PPP in Western Balkans. Western Balkan region is a part of Europe which is rather on-the-way-to the full membership in the European Union. All countries from this region were identified as a potential candidate for EU membership during the Thessaloniki European Council summit in June 2003. All countries have been putting efforts during the reform processes in order to achieve more favorable status in relation to the EU membership; however, at this moment, none of these countries is a full EU member. As shown in Table 1, while Bosnia and Herzegovina is potential EU candidate, Albania, Serbia, Montenegro and FYR Macedonia gained the status of candidate country. Only Serbia and Montenegro have formally started accession negotiations. Western Balkan countries are surrounded with the countries which are already members of the EU. Therefore, the Western Balkan Region today exists in a context of different groups of countries concerning their political status and particularly status of EU membership:

I group of countries that are full EU members - Greece, Bulgaria, Romania, Slovenia, Croatia;

II group of countries that are EU candidate countries - Albania, FRY Macedonia, Serbia, and Montenegro;

III group of countries that are potential EU candidate - Bosnia and Herzegovina

Greece, Bulgaria, Romania, Croatia and Slovenia, as EU member countries, are obviously more advanced concerning the number of PPPs that have reached financial close, that are operational, but also regarding the number of future PPP that are in the pipeline. The most important elements for PPP implementation, such as legal, institutional and organizational environment are already in place in this group of countries. This does not necessarily mean that being EU member country is the reason enough to have favorable environment for good PPPs implementation, but for sure it represents the basic framework of internationally recognized standards and transparency (e.g. Directives, Regulation). In addition, closer to EU on their path countries are, the better dynamics and quality of PPPs in the level playing field will be.

*c) Country status in relation to the IMF.* All countries of the Western Balkan region do have a historical relationship with an International Monetary Fund. Various IMF's forms of assistance have represented significant milestones in those countries' development in the recent history. The current status of each country is different from each other, and its ranging from the Stand-by arrangement in Serbia to the usual consultation under the Article IV of IMF Statute (Surveillance policy) in FYROM or Montenegro. In any case, statements of the IMF missions in those countries are subject to the full attention of the potential private sector partners, sponsors, financiers and other stakeholders at the international markets who are interested to enter PPP market in this region.

### 3.2. Internal determinants – legislation, institutions and local financial market development

**Table 2. Internal determinants of PPP enabling environment**

Country	Quality of regulatory process/ PPP legislation	Existence of PPP Task Force	Local Financial markets development
Albania	High compliance	Concession Treatment Unit (ATRAKO) under the Ministry of Economy, Trade and Energy	16 commercial banks present
Bosnia and Herzegovina	Medium compliance	Various levels - four Commissions for Concessions	26 banks
FYROM	High compliance	Not formally structured	19 commercial banks
Montenegro	High compliance	Commission for Concessions	14 banks
Serbia	Medium compliance	Commission for PPP as a specialized institution for assistance in realization of PPPs, as well as for promotion, information and consultancy in the field of PPPs. Also, in charge of PPP approval (“green lightning”)	30 commercial banks

*Source:* European Bank for Reconstruction and Development (2012)

*a) Quality of regulatory process with focus on PPP.* Presumption that without good quality of PPP legal framework, the work of institutions in charge of PPP would not be effective, is valid also in the case of this region. In reference to the study done by the European Bank for Reconstruction and Development on concessional framework in their member states, the quality of the existing PPP regulation which serves as a base for institutional setting, varies across the countries in the region. In range from low to high compliance of the domestic PPP regulation with the best EU practice and current EU regulation, Table 2. illustrates that the countries of the Western Balkan achieved following levels of compliance: high compliance in Albania, FYR Macedonia and Montenegro while Bosnia and Herzegovina are recording medium level of compliance of regulation.

*b) Institutional preconditions – Existence of PPP Task Force.* Institutional aspects are of crucial importance on the macro level in terms of the existence of institutions in charge of PPP. The best PPPs case studies worldwide are showing that the institutional organization is set on the central government level, particularly in the early stage of implementation of PPP program. Furthermore, well organized institutions in charge of PPP support, with their roles and responsibilities and transparent decision making process is the most important factor on the national level that can be manageable.

According to the results of the study done by the European Bank for Reconstruction and Development on concessional framework in their member states (2012), all countries of the region are recording some form of PPP task force or Concession Task force with clear tasks and responsibilities in PPP/concession field. Therefore, in organizational terms, the governments of the Western Balkan countries are having a solid base for playing the role that they have in fostering PPPs, for coordination with all stakeholders in PPPs, particularly in its activities on sharing the knowledge and good

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practice. The competences given to these PPP/Concession Units are similar: ranging from the expert assistance to public bodies in their preparation of the PPP project proposal, dispute resolution to giving the approval (green light) to the PPP project proposals. The role and function of these PPP Units is of a crucial importance for the effective and transparent implementation of PPPs, particularly during the phase of their preparation.

c) *Local Financial markets development.* Beside the importance of legal framework and PPP institutions in place, solid private sector, and particularly financial markets, in the local PPP market is equally relevant. Institutions that are present in a financial market of a country are one of very important factors for successful PPP implementation. Presence of variety of financial institutions, such as commercial and investment banks, pension funds, insurance companies, credit rating agencies, audit companies, investment funds, are shaping financial market in order to make it deep, mature and solid – which in turn creates very favorable environment for PPP implementation. All countries in the region achieved very solid level of financial markets development, with rather strong presence of commercial banks of universal type. However, still there is a lack of mature and liquid debt markets in the Western Balkan Region, as well as the lack of more sophisticated and longer-term financial instruments. That would be needed since PPP structures are useful for facilitating capially intensive infrastructure transactions because the spreading of project risk among a number of participants creates a sense of mutual interest - everyone stands to lose if the project fails. As a result, financiers are assured that the participants are likely to work together to resolve issues that may otherwise stall the project.

Also, presence of international financial institutions (IFI) in those financial arrangements is significant. They are very important due to their expertise, know-how, catalytic role, and this presence is particularly important at the beginning of the process of PPP implementation in the country. This is the case in the region of the Western Balkans, where presence of IFIs such as EBRD in the early stage is very important (The Economist Intelligence Unit, 2013). However, the environment in the country, and every single PPP deal, has to be put in place as a result of joint forces between public sector and IFIs.

## **4. Conclusions**

Solid regulation framework very often is necessary, but not sufficient factor to provide favorable environment for PPPs implementation. The results of the 2012 EECIS Infrascopes study (2013, The Economist Intelligence Unit) shows that “creating an operational and effective PPP system requires more than just passing the necessary laws and making regulatory changes”. The quality of the national level framework and creation of the PPP enabling environment is therefore of an utmost importance and precondition. In this paper two groups of factors have been observed in that respect: external, or exogenous factors on the macroeconomic position of the country, from one side, and internal factors that are reflected through legislative and institutional framework in the PPP field, and local financial markets development. The paper focused rather on the factors that are contributing to the PPP enabling environment while at the same offers the fields which policy makers can actively work on. This is particularly important in the observed region of the Western Balkan, i.e. countries which are in the in transition from previously existing

central planned economy towards economy based on market principles. Many countries in the region have made positive steps in improving their PPP processes formally, but will now need to focus resources on enhancing implementation capacity and project oversight.

Among wide range of macroeconomic factors that are defining environment where PPP are implemented, here we discussed on three chosen indicators: level of income, country status in relation to EU membership and relationship with the IMF. Although not having achieved yet the standard of income of developed market economies, these countries have very solid level of income per capita necessary to enable their local business environments. Although they are not full EU member countries, closer to EU on their path countries are, the better dynamics and quality of PPPs in the ground will be. All countries in the region achieved very solid level of financial markets development, with rather strong presence of commercial banks. Presence of international financial institutions (IFI) in those financial arrangements is very important. They are very important due to their expertise, know-how, catalytic role, etc., but the governments of the countries must not rely on the leading role of the IFIs. Still there is a lack of mature and liquid debt markets in the Western Balkan Region, as well as the lack of more sophisticated and longer-term financial instruments. Almost all countries in the region have some form of PPP Task Force, but other side of institutional aspect could be improved more – efficiency and clarity of the PPP legislation framework.

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### **NEKE DETERMINANTE OKRUŽENJA KOJE PODSTIČE RAZVOJ JAVNO-PRIVATNOG- PARTNERSTVO NA ZAPADNOM BALKANU**

*Apstrakt: Javno-privatno partnerstvo (JPP) je složen i dugoročan aranžman i predstavlja specifičan oblik saradnje između javnog i privatnog lica. Pored pravnog okvira, među najvažnijim preduslovima za uspešni razvoj i primenu JPP jeste i okruženje u kojem se oni sprovode. Cilj istraživanja je da rasvetli neke od najznačajnijih odrednica makroekonomskog okvira koji na nacionalnom nivou mogu direktno i pozitivno uticati na stvaranje podsticajnog okruženja za JPP i njihovo uspešno pokretanje i kvalitetnu implementaciju. Istraživanje je fokusirano na zemlje Zapadnog Balkana u čijim se nacionalnim ekonomijama radi na uspostavljanju pozitivne poslovne klime i principa tržišne privrede sa ciljem privlačenja ove vrste investicija.*

*Ključne reči: konformizam, grupni pritisak, podsticajno okruženje, koncepti menadžmenta, inovativni potencijal.*