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## PPP'S AND THEIR PERSPECTIVE IN SOUTH EASTERN EUROPE

**Abstract:** *Public-private partnerships (PPPs) include the private sector supply of infrastructure assets and services that have traditionally been provided by the government. Additional supply of the private capital and management can make more easier the fiscal constraints on infrastructure investment and the efficiency of the economy should increase. By mentioning all these advantages, PPPs become more and more important instrument around the world and it has to be mentioned that there are programs of PPPs in a number of countries (including Chile, Ireland, Mexico, and the United Kingdom). However, it is important to mention that sometimes PPPs are not more efficient than public investment and government supply of services. The point is to find the reasons for the less efficiency of this kind of projects in some countries. One particular concern is that PPPs could usually be used to by pass the spending controls, and to move public investment off budget and debt off the government balance sheet, while the government still is involved in the risk and faces potentially large fiscal costs.*

**Key words:** *PPPs, fiscal policy, public debt, investment, infrastructure, investment process, private capital, public investment, budget, risk*

## JPP I NJIHOVA PERSPEKTIVA U JUGOISTOČNOJ EVROPI

**Sažetak:** *Javno-privatna partnerstva (JPP) obuhvataju privatni sektor snabdevanja infrastrukturnim sredstvima i snabdevanja uslugama koje inače obezbeđuje vlada. Dodatni priliv privatnog kapitala i menadžment mogu da olakšaju fiskalna ograničenja povodom investicije u infrastrukturu i povećaju ekonomsku efikasnost. Pominjući sve ove prednosti, JPP postaju sve značajniji instrument širom sveta. Treba reći da u mnogim zemljama već postoje programi (uključujući Čile, Irsku, Meksiko i Ujedinjeno Kraljevstvo Velike Britanije i Severne Irske). Međutim, važno je napomenuti da JPP ponekad nisu učinkovitija od javnih investicija i pružanja usluga od strane vlade. Kada govorimo o ovakvim vrstama projekata, cilj je pronaći razloge manje efikasnosti u nekim zemljama. Jedna od posebno zabrinjavajućih mogućnosti je da se sklapanjem JPP-a mogu zaobići kontrole potrošnje, kao i da javne investicije ne budu vidljive na prikazu stanja budžeta i dugovanja na bilansu stanja države, dok se vlada još uvek suočava sa rizikom i potencijalno velikim fiskalnim troškovima.*

**Ključne reči:** *JPP, fiskalna politika, javni dug, investicija, infrastruktura, investicioni proces, privatni kapital, javna investicija, budžet, rizik.*

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## INTRODUCTION

The private sector usually plays a role in the supplementation of public infrastructure. Governments may hire engineers and technicians to design specific equipment and contract with construction firms to carry out those designs. However, this could be made by design-bid-build process in which governments procure design and construction services separately. The usual name for this process is “public procurement” and is held as the antithesis to the PPP model.

Sometimes, governments use the private sector in order to provide a wide range of services previously delivered by the public sector. These public-private partnerships (PPPs) are long-term agreements and the government purchases services under a contract, either directly or by subsidizers.

Economists learn early that in a mixed economy, all economic activity entails some combination of private (decentralized) and public (centralized/collective) action or influence. Purely public or purely private markets never exist in practice. Given the classification of economic activity, PPPs obviously represent examples of “boundary crossings”. It is of special interest to examine how and why they are used and how effective they are in achieving the goals of the partners. Understanding where a particular PPP approach “fits” in this framework can be extremely helpful in any review or examination of PPPs (Mullin, 2002).

## DEFINITION OF PPP

Public-Private Partnerships, are defined according the point of view of the beholder. However, there has to be consistency and compatibility among the different viewpoints. The framework developed here is based on economic theory, but it has to be mentioned that it is consistent with the views of other disciplines, like political science, legal, financial, professional economic development, and sociological perspectives.

The term public-private partnership (PPP) does not have a legal meaning and can be used to describe a wide variety of arrangements involving the public and private sectors working together in some way. Policy makers have invented an ingenious array of terms to summarize what they are trying to achieve. It is therefore necessary for them to be very clear about why they are looking to partner with the private sector, what forms of PPP they in have in mind, and how they should articulate this complex concept (World Bank, 2009).

Public-private partnerships (PPPs) usually are arrangements where the private sector supplies infrastructure assets and services that in the past decades were provided by the government. PPPs are usually attractive and profitable to both the government and the private sector. The government, by private financing finds support for increased

infrastructure investment without raising the deficit borrowing and the public debt. Also this could be a source of government revenue. However, better management in the private sector, and its capacity to innovate may increase the efficiency. This means a combination of better quality and lower cost services. The private sector, through PPPs is interested in business opportunities in areas from which it was in many cases previously excluded.

The usual economic measures of the performance of some economic system are efficiency and equity. In the past, the people considered that the public and private sectors are completely mutually exclusive realms, but later on that view was constantly being revised. As it was mentioned, PPPs are now recognized as reliable and politically attractive means for combining the advantages of both private and public sectors.

According to Mullin (2002), before venturing too far into this analysis, we may ask what exactly are meant by the terms “public” and “private” and “partnership”? A synthesis from many sources suggests the following general definitions:

- By “**public**” we mean resources are allocated through some type of *centralized and collective* decision-making process, typically, but not necessarily, via some level of government.
- By “**private**” we mean the economic decision maker is an *individual* consumer or producer, maximizing utility or profits, respectively, resulting in resource allocation decisions made in a *decentralized* fashion.
- By “**partnership**” we mean a formal or informal arrangement, agreed upon by both parties in advance, calling for some kind of joint action or collaboration to provide (and possibly produce) a product or service; with joint decision making and all known roles, responsibilities, compensation, and risks identified and allocated between and among the partners by this advance agreement. This can be for a specific deal or transaction or institutionalized for joint actions and collaboration on an ongoing basis.

Note that partnerships can be formed by private parties alone, or by public parties alone. Our study focuses on partnerships with at least one public partner. This definition alone suggests the primary economic reason for the establishment of a partnership: both (or all) parties stand to gain from such arrangements, beyond the potential gains from other decision-making or production arrangements.

In a PPP a government enters into a long-term contract with a group of companies (usually two or three) that have formed a consortium specifically for that project. In the most common form of a PPP the consortium takes on the responsibility of not only designing or building a facility but also operating, financing and sometimes even owning it for an extended period of time (often about thirty years). The various

functions normally associated with providing a public facility and associated services are bundled into a single long-term contract, and the consortium is responsible for obtaining financing. In return, the consortium receives regular payments (Fussell, Beresford, 2009).

According to that, the understanding of public private partnership is that it is a legally-binding contract between government and business for the provision of assets and the delivery of services that allocates responsibilities and business risks among the various partners. In this kind of arrangement, the government is still actively involved in the project's life cycle. On the other side, the private sector has to be responsible for the more commercial functions such as project design, construction, finance and operations.

The differentiation of the types and applications of PPPs, and the categorization means that there are various meanings of this term. Also, it has to be mentioned that there are three mutually exclusive "general themes" or "analytical contexts" in which PPPs can be viewed and analyzed: First, they represent "institutionalized cooperation" between the public and private sectors, and we can examine how they evolve and mature in a "socio-political context." Second, they can be viewed as an economic development policy instrument or an arrow in state and local economic development officials' quivers. Third, they can be assessed as an alternative form of urban politic structure and public resource allocation mechanism, during a time when many are observing a change in the traditional role of government, shifting from "rowing to steering". These are all interesting viewpoints, and all lead to important questions and issues (Mullin, 2002).

The term "public-private partnership" illustrate a wide range of possible relations between public and private sector in the context of infrastructure and other services. Some different terms that are used for this type of activity include private sector participation (PSP) and privatization. This three terms are often used interchangeably, but still there are differences like:

PPPs represent a wide framework that include the private sector knowledge and capital structure. From the other side, the role for government is to ensure that the social obligations are met. However, it is important successful sector reforms and public investments to be achieved. The strong PPP allocates the tasks, obligations, and risks among the public and private subjects in a proportional way. It is clear that the public partners in a PPP are government entities (ministries, departments, municipalities, or state-owned enterprises). The private partners usually are local or international and may include businesses or investors with technical or financial expertise that is relevant for the project. By that arrangement, the public and the private sectors have different advantages, relative to the other, in performing specific aims. The government's contribution may take the form of capital for investment (available through tax revenue). Also it could make transfer of the assets, or other commitments or in-kind contributions that support the partnership. However, the government provides social responsibility,

environmental awareness, local knowledge, and an ability to mobilize political support. The private sector's role is to make use of its expertise in commerce, management, operations, and innovation to run the business efficiently. The private partner may also contribute in capital investment depending on the form of contract.

Privatization includes the sale of shares or ownership in a company or the sale of operating assets or services owned by the public sector. Privatization is usually provided in sectors that are not traditionally considered public services, such as manufacturing or construction. Privatization occurs in the infrastructure or utilities sectors, and it is usually accompanied by sector-specific regulatory arrangements to take account of social and policy concerns related to the sale, and continuing operation of assets used for public services.

## MOTIVATION FOR ENGAGING IN PPP'S

In the past two decades, the governments are using the private sector to design, build, finance, and operate infrastructure facilities that were usually provided by the public sector in the past. PPPs offer opportunity of improvement of the delivery of the services and the management of facilities. Other benefits are that the mobilizing of the private capital means lowering of the gap for demand of investment in public services. The government and even donor resources fall far short of the amount required and for this reason, the access to private capital can speed up the delivery of public infrastructure.

For centuries, governments have used private contractors to provide a wide variety of public services. More recently, partnerships between governments and private contractors have become a feature of the 'new public management' ('NPM') reform movement that has radically altered public administration processes across countries in the Organisation of Economic Cooperation and Development ('OECD') in its attempts to increase the economy, efficiency and effectiveness of the public sector. The term 'public private partnership(s)' ('PPP(s)'), while universally used, has different contemporary meanings and manifestations. Differences in PPP models stem from situationally-specific contextual factors that affect their outworking in different jurisdictions over time and, in turn, their nature, purpose, characteristics, implementation and oversight (English, 2006).

Governments use PPPs with the private sector as an instrument to improve the procurement of public services. The PPP process requires relevant information about the real long-term cost of service delivery. That creates more realistic debate on project selection. Through improvement of the identification of the project's long-term risks and the allocation of those risks between the public and private sectors, the PPP process creates space for more efficient use of resources.

PPPs require the state and the state agencies to think and act in proper innovative ways that require new skills. They are usually a tool that is reforming the procurement and the public service delivery. They are not merely a means of leveraging private sector resources. PPPs have to be realized as something that is more than a one-off financial transaction with the private sector. They have to be based on firm policy foundations and long-term political commitment. Private sector partners look for these factors when deciding whether or not to bid for a project. Although most forms of PPP involve a contractual relationship between the public and private parties, the long-term nature of these contracts creates a strong long-term mutuality of interest.

PPPs provide an opportunity to improve service delivery by allowing both sectors to do what they do best. Government has to set policy and serve the public. It is better positioned to do that when the private sector takes responsibility for non-core functions such as operating and maintaining buildings. They also improve cost-effectiveness. By taking advantage of private sector innovation, experience and flexibility, PPPs can often deliver services more cost-effectively than traditional approaches. The resulting savings can then be used to fund other needed services. They also reduce public sector risk by transferring it to the private partners, those risks that can be better governed by the private sector.

However, by the PPPs, the deliver of the capital projects is much easy and faster and it makes the use of the private partner's increased flexibility and access to resources. Improvement of the budget certainty is another important factor. Transferring risk to the private sector may lower the potential for government cost overruns from unforeseen circumstances during project development or service delivery. Services are provided at a predictable cost, as set out in contract agreements.

They also make better use of assets. Private sector is motivated to use facilities and equipment fully, and to make the most of commercial and market opportunities to maximize profits on their investments. This can result in higher levels of service, greater accessibility, and reduced occupancy costs for the public sector.

The PPPs approach also encourages better approach for planning and budgeting, through the use of long-term contracts. For example, a company that agrees to operate building for many years will have to be securitized that the asset remains in a certain condition and, therefore, it has to include all maintenance costs in its budget for the life of the agreement. PPPs give the private sector access to secure, long-term investment opportunities. Private partners can generate business with the relative certainty and security of a government contract. Payment is provided through a contracted fee for service, or through the collection of user fees – and the revenue stream may be secure for as long as 50 years or more.

Private sector partners can profit from PPPs by rising the efficiency through the managerial, technical, financial and innovation capabilities. They can also expand their

PPP's capacity and expertise – or their expertise in a particular sector – which can then be leveraged to create additional business opportunities.

According to British Columbia PPP Handbook, the three main needs that motivate governments to enter into PPPs for infrastructure are:

- to attract private capital investment (often to either supplement public resources or release them for other public needs);

Governments face an ever-increasing need to find sufficient financing to develop and maintain infrastructure required to support growing populations. Governments are challenged by the demands of increasing urbanization, the rehabilitation requirements of aging infrastructure, the need to expand networks to new populations, and the goal of reaching previously unserved or underserved areas. Furthermore, infrastructure services are often provided at an operating deficit, which is covered only through subsidies, thus constituting an additional drain on public resources.

Combined with most governments' limited financial capacity, these pressures drive a desire to mobilize private sector capital for infrastructure investment. Structured correctly, a PPP may be able to mobilize previously untapped resources from the local, regional, or international private sector which is seeking investment opportunities.

The goal of the private sector in entering into a PPP is to profit from its capacity and experience in managing businesses (utilities in particular). The private sector seeks compensation for its services through fees for services rendered, resulting in an appropriate return on capital invested.

- to increase efficiency and use available resources more effectively; and

The efficient use of scarce public resources is a critical challenge for governments—and one in which many governments fall far short of goals. The reason is that the public sector typically has few or no incentives for efficiency structured into its organization and processes and is thus poorly positioned to efficiently build and operate infrastructure. Injecting such incentives into an entrenched public sector is difficult, though not impossible, as Singapore has demonstrated by developing a government-wide dedication to efficiency while maintaining many critical services within the public domain.

PPP allows the government to pass operational roles to efficient private sector operators while retaining and improving focus on core public sector responsibilities, such as regulation and supervision. Properly implemented, this approach should result in a lower aggregate cash outlay for the government, and better and cheaper service to the consumer. This should hold true even if the government continues to bear part of the investment or operational cost since government's cost obligation is likely to be targeted, limited, and structured within a rational overall financing strategy.

- to reform sectors through a reallocation of roles, incentives, and accountability.

Governments sometimes see PPP as a catalyst to provoke the larger discussion of and commitment to a sector reform agenda, of which PPPs are only one component. A key issue is always the restructuring and clarifying of roles within a sector. Specifically, there is a requirement to reexamine and reallocate the roles of policy maker, regulator, and service provider, particularly to mobilize capital and achieve efficiency, as outlined above. A reform program that includes PPP provides an opportunity to reconsider the assignment of sector roles to remove any potential conflicts and to consider a private entity as a possible sector participant.

Implementing a specific PPP transaction often forces concrete reform steps to support the new allocation of sector roles such as the passage of laws and establishment of separate regulatory bodies. In essence, re-examination of the regulatory and policy arrangements is critical to the success of a PPP project.

PPPs offer similar benefits like the privatization process. The privatization was process where the public sector was heavily involved in supplying goods and services to private individuals and firms. The tendency of the private sector to undervalue social infrastructure, and the large costs in relation of providing much economic infrastructure, have been obstacles to competition, and hence to privatization, in these areas. According to that, there was extensive privatization of trading companies, transportation companies, and small and medium enterprises during the 1980s and 1990s. The privatization of large public enterprises engaged in key areas of infrastructure such as electricity, gas, and water utilities, oil and airline companies was, on a global scale, not as widespread. The reason for that was the monopoly position and/or the strategic importance of many of the companies involved. The exception was the area of telecommunications, where technological progress has significantly increased opportunities for competition across the world.

## CHARACTERISTICS OF PPPs AND TYPES OF PPPs

There is no clear agreement on what does and what does not constitute a PPP. A PPP has recently been defined as “the transfer to the private sector of investment projects that traditionally have been executed or financed by the public sector” (European Commission, 2003, p. 96). Through the private execution and the financing of the public investment, PPPs have two important characteristics: there is an emphasis on service provision, as well as investment, by the private sector; and significant risk is transferred from the government to the private sector. However, the PPPs are distinct from these in that they represent relation and cooperation between the government and the private sector in order to build new infrastructure assets and to provide the related



services. The concessions and the operating leases, which have also been used to reduce the role of government in the economy are forms of PPP.

A typical PPP takes the form of a design-build-finance-operate (DBFO) scheme. Under such a scheme, the government specifies the services it wants the private sector to deliver, and then the private partner designs and builds a dedicated asset for that purpose, finances its construction, and subsequently operates the asset and provides the services deriving from it. This contrasts with traditional public investment where the government contracts with the private sector to build an asset but the design and financing is provided by the government. In most cases, the government then operates the asset once it is built. The difference between these two approaches reflects a belief that giving the private sector combined responsibility for designing, building, financing, and operating an asset is a source of the increased efficiency in service delivery that justifies PPPs (World Bank, 2004).

The government or some local authorities are usually the main purchaser of services provided under a PPP. The services may be purchased for the government's own use, as an input to provide another service, or on behalf of final consumers for instance a prison, a school, and a free-access road would fall into these respective categories. Private companies that operate the invested project also sell services directly to the public, as with a toll road or railway. This kind of arrangement is often referred to as a concession, and the private operator of a concession (the concessionaire) pays the government a concession fee and/or a share of profits. Usually, the private concessionaire owns the PPP asset while operating it under a DBFO scheme, and the asset ownership is transferred to the government at the end of the operating contract, usually for lower value than the true residual value (and often at zero or a small nominal cost).

However, it has to be pointed that the term PPP is occasionally used to describe a wider range of arrangements. Particularly, some PPPs exclude functions that characterize DBFO schemes. Usually by this respect are schemes which combine traditional public investment and private sector operation of a government-owned asset. This arrangement may be in a form of an operating lease, although in some cases such the case where the private operator has some responsibility for asset maintenance and improvement, this is also described as a concession. Operating leases and such kind of arrangements are typically regarded as PPPs. But, the private sector involvement in asset building alone—which can take the form of a design-build-finance-transfer (DBFT) scheme or a financial lease—is not strictly speaking a PPP, because it does not involve service provision by the private sector.

According to World Bank/Infrastructure Consortium of Africa (2009), terms such as BOT (build, operate, and transfer) or DBFO (design, build, finance, and operate) are often used to describe such schemes. When the infrastructure is not returned to the public sector, it is sometimes referred to as a BOO (build, own, and operate) contract.

While different sectors will have their own particular issues, these arrangements can apply across a wide range of infrastructure provision. Whether in power generation, roads, or the provision of schools or hospitals, the broad nature of the PPP is determined by what rights, obligations, and risks are assumed by the public or private parties within the partnership. In this regard, two principal forms of PPP are common: concession and availability-based PPPs.

- Concession PPPs

In a concession PPP, a public authority grants a private party the right to design, build, finance, and operate an infrastructure asset owned by the public sector. The concession PPP contract is for a fixed period, say 25–30 years, after which responsibility for operation reverts to the public authority. The private party recoups its investment, operating, and financing costs and its profit by charging members of the public a user fee (for example, a toll).

Thus a key feature is that the private party usually assumes the risk of demand for use of the asset, in addition to the risks of design, finance, construction, and operation. However, demand risk may be allocated in various ways: for example, the public authority may share the risk by underwriting a minimum level of usage. User charges may be either prescribed in the PPP contract or set by the concessionaire. Typical examples of this type of PPP include toll roads, railways, urban transport schemes, ports, and airports.

Franchises are a subset of concession PPPs in which the private sector takes over existing public infrastructure, operating and maintaining it under a fixed-term contract, often with an obligation to upgrade it. They are common, for example, in the rail sector. The private party often pays an initial lump sum of money to the public authority to acquire the franchise. Clearly the dividing line between franchises and concessions is not precise. If a project involves a high level of initial investment in new or upgraded infrastructure, it may be called a concession, whereas if it involves a limited level of initial investment (even if there are long-term maintenance requirements), it may be called a franchise.

- Availability-Based PPPs

The other main form of PPP is similar to a concession PPP, in that it also involves the private party designing, financing, building or rebuilding, and subsequently operating and maintaining the necessary infrastructure. However, in this case, the public authority (as opposed to the user) makes payments to the private party, as, when, and to the extent that a public service (not an asset) is made available. Hence the demand or usage risk remains with the public authority.

The original form of availability-based PPP is the power purchase agreement (PPA) used in power generation projects. In this case, private investors build a power generation plant and contract to sell the electricity generated to a publicly owned power utility.

The public authority assumes the demand risk and makes a minimum payment for availability (or capacity) of the power plant, whether or not its output is required. (A further payment is made for usage, to cover the cost of fuel for the plant.)

The PPA structure can be used for any kind of “process plant” project— that is, cases where something goes in one end and comes out the other end, such as gas converted to electricity or transported in a pipeline. The same principle can be used for waste treatment plants.

A further development of the PPA structure is also used in social infrastructure projects, such as schools, hospitals, prisons, or government buildings, as well as in other non-”self-funding” projects such as rural roads. Such PPPs are used where accommodation is provided or where equipment or a system is made available. In all these cases, payments are again generally based on the availability of the accommodation facility, equipment, or system and not on the volume of usage

Governments have found these types of PPP to be very effective in ensuring that public facilities are delivered on time and on budget, are properly maintained, and are able to deliver public services in the context of constrained resources. The United Kingdom pioneered this form of PPP as part of its private finance initiative (PFI) program for the provision of social infrastructure, and many other countries, such as South Africa, are increasingly using this approach. For the purposes of this guide, these types of PPP are called PFI-model PPPs. In some countries these forms of PPP are referred to as annuity schemes. However, if an annuity is paid irrespective of performance, these schemes are just another form of government borrowing and fall outside the scope of PPPs as discussed in this guide.

Whether to use a concession or an availability-based PPP is both a policy decision and a reflection of who is best placed to pay for the service. However, concession PPPs present their own challenges with regard to demand risk and user affordability. It is important to establish the appropriate level and scope of services, looking at the opportunities to blend concession and PFI-model approaches and to tailor overseas development assistance into longer-term, performance-based contracting support or capital grants blended with the private financing requirements.

- Transnational Projects

Many infrastructure projects are transnational in nature. This characteristic can present added complexity, involving different jurisdictions and multiple procurement authorities, placing further pressure on governments (and creating additional risks), as the private sector does not expect to have to resolve jurisdictional issues. If the private sector has to resolve such issues, it will begin to question the level of public sector commitment to the project.

Otherwise, most of the underlying issues of good project preparation are the same as for national projects. The transnational nature merely places a brighter spotlight on these issues. Thus throughout the project preparation and tendering process, additional attention will need to be paid to the following:

- Clear ownership of the project, especially at the country level
- Alignment of policies among the relevant governments as they affect the project
- Clear, appropriately aligned legal and procurement processes
- Appropriate joint governance and approval processes, with the delegation of suitable authorities from the respective governments
- The design and operation of the public sector party responsible for drawing up and managing the contracts
- The possible need for common technical, safety, environmental, social, and other operating standards.

## PURPOSE AND PROCESS OF CREATION OF PPPs

PPPs take many forms, with range of degrees of public and private sector involvement – and varying levels of public and private sector risk. Under such an arrangement, the private sector party usually agrees to undertake the following:

- Design and build or upgrade the public sector infrastructure
- Assume substantial financial, technical, and operational risks
- Receive a financial return through payments over the life of the contract from users, from the public sector, or from a combination of the two
- Return the infrastructure to public sector ownership at the end of the contract (in some cases the private party may retain ownership of the asset).

Sectors in which PPPs have been completed worldwide include: power generation and distribution, water and sanitation, refuse disposal, pipelines, hospitals, school buildings and teaching facilities, stadiums, air traffic control, prisons, railways, roads, billing and other information technology systems, and housing.

The preparation of the PPP's projects usually are created by PPP units. They are usually government agencies that support the promotion and development of the PPP's. A review of international practice shows that these PPP units may be asked to perform a wide variety of roles. Most provide information and guidance on PPPs to government

departments. This can include general resources on PPPs, such as international experience and customized guidance on the preparation of PPPs. This guidance can include standard contracts, concession agreements, or contract clauses and detailed procedures for identifying, evaluating, and procuring PPPs.

According to Dutz, Hariss, Dhingra and Shugart (2006), in a few cases PPP units do no more than perform this information and guidance role. The Canadian federal government created an agency, the P3 Office, to promote the benefits of PPPs and to act as a resource center, developing guides and “self-help” tools. But in some cases, such as in Ireland, agencies that aid project preparation do not issue guidance material. Many PPP units provide advisory support and funding to line departments and subnational agencies developing PPPs. This usually involves PPP unit staff acting as resource people, but it can include additional funding to pay the costs of transactions advisers. In some case PPP units play a leading role in closing the transaction and receive compensation for deal closure.

Important issue is what role PPP units should play relating the line departments. For departments that may develop a large number of PPPs, the reason of existence is building up their own PPP capacities. However, in the United Kingdom the Prison Service and the Highways Agency, which have many projects, both have a dedicated Private Finance Initiative (PFI) team. Also in Pakistan the Private Power Infrastructure Board was created to accelerate the private investment in power generation. Many departments with far fewer deals, building up PPP capacities may not be economic. It means that for example local authorities in the United Kingdom that implement PFI school and hospital projects usually rely on support from the central bodies. Timing also matters. A PPP unit can assist a line department at the start of its program, when the department lacks experience. But line departments that helped pioneer PPPs may have more experience than a newly created PPP unit. In these cases the PPP unit needs to take care not to slow the more experienced agencies, though it should ensure that they properly address critical issues (such as affordability and value for money).

Finally, PPP units often play a role in the approval of PPPs developed by line agencies. This often involves providing input into decisions made by others rather than having direct clearance authority. In South Africa the Treasury relies on the PPP Unit to assess whether line agencies and provinces can meet the costs of proposed PPPs within their future budgets. The PPP Unit is involved at three points: after the feasibility study, before the bidding documents are issued, and before the contract is signed. In other cases the link is less direct. In the Philippines, for example, the BOT Center is just one member of an interagency committee that approves build-operate-transfer (BOT) projects.

Still, this oversight role is potentially the most important one for a PPP unit. In some countries, such as South Africa, the unit’s primary role and motivation is to scrutinize

the quality, affordability, and expected fiscal cost of proposed PPPs. Where PPP units primarily screen PPPs, assess value for money and affordability to the government, or disseminate good practices, they often take the form of a cell or group within an existing government agency. That agency is often the finance ministry or treasury.

One option is to establish a unit within a ministry and rely on long-term consultants, as with South Africa's PPP Unit. Another option, creating greater independence from the government, is to set up the unit as an autonomous entity, attached to but not fully part of the government bureaucracy. The third approach comes from Canada, where Partnerships British Columbia is a government-owned company. A fourth way is to set up a joint venture company owned in part by private shareholders. Such units often receive performance-based payment, linked to deal closure, for example.

## CONCLUSION

South Eastern European countries do not have large experience in the field of PPPs. According to the fact that many institutional investors exist on the market such as pension funds and investment funds, it is important to think for the possibility to develop options for creation of PPPs because the money of these kind of funds should have to be used for a purpose of development of the domestic economy.

However, the experience is in Australia, Canada, UK and some other Commonwealth countries. Also some European countries developed the process of creation of PPPs. In these countries the assets of the institutional investors are used for creation of productive investments for building infrastructure.

It is important to mention that South Eastern European countries should have to follow the experience of the Latin America countries. In this case, the assets of the pension funds in some Latin countries like Chile are used for building infrastructure like airports and highways.

The South Eastern European countries should have to follow that kind of examples and to use the assets of the domestic institutional investors in profitable projects instead of investment of the assets abroad.

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