



# ReSPA

Regional School  
of Public Administration

Comparative Analysis of Lessons Learned  
from Recent Development in  
Implementation  
of Public Private Partnership Projects  
in the Western Balkan Region

WORKING PAPER





## Foreword

In the past few years, ReSPA has recognised the needs of its Member States for improvements in the field of PPP and has introduced a PPP training programme and initiated a series of similar institutions towards the same goal, an insufficiency of knowledge and experience in launching and implementing public investment using the PPP model, which significantly differs from the traditional procurement, has been revealed.

Although the countries in the Western Balkans have undertaken reforms in the field of PPP and concessions in the context of the European Union integration process, duly enforced policies and procedures are not yet in place. This affects not only national investment schemes, but also the objectives of the different available programmes like IPA, including the Western Balkans Investment Framework (WBIF) and the financial resources provided by similar international financial institutions and bilateral donors.

Therefore, the need to identify the major gaps in competencies for PPP preparation, procurement, evaluation and monitoring by conducting comparative analysis in the Western Balkans region appears to have useful. Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia and Kosovo<sup>1\*</sup> are the focus of this regional comparative study (CS).

The study comprises unique analytical data on operational projects and projects in the tender phase as of July 2015. The key findings and recommendations demonstrate the individual objectives set up in the SEE2020 Strategy for creation of a fully liberalised public procurement market in the region, enabling private investments in line with EU Investment Policy. It has also taken into account the key principles of public administration related to Principles of Public Administration standards and rules, and the application of fundamental project management principles.

By focusing on the practicalities of PPP project implementation, as well as the lessons learned, the recommendations can be used later as an inherent part of the training-needs analysis for developing training programmes. With this regional comparative study ReSPA is aiming to maintain a platform for professional education and training, and is assisting in enhancing the capacities necessary for public investments using the PPP model. By doing so, ReSPA is assisting in implementing the EC Enlargement Strategy, reflecting the need to support investment in infrastructure in the WB countries.

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<sup>1</sup> This designation is without prejudice to positions on status, and it is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

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## Abbreviations

B&H	Bosnia and Herzegovina
CS	Comparative study
FYROM	Former Yugoslav Republic of Macedonia
EPEC	European PPP Expertise Centre
EU	European Union
Report	Overview of the PPP Legal and Institutional Frameworks in the Western Balkans (July 2014 <sup>2</sup> ) developed by EPEC
WB	Western Balkans
WBIF	Western Balkans Investment Framework
PA	Procuring Authority
PFI	Private Finance Initiative of authority-pay PPP
PP	Public Procurement
PPP	Public Private Partnership
Project(s)	Any kind of projects implemented or tendered to be implemented as PPP projects
ReSPA	Regional School of Public Administration, <a href="http://www.respaweb.eu/">http://www.respaweb.eu/</a>

## Disclaimer

The content and findings of this comparative study is a result of investigation on site conducted by the national experts and reflects the understanding of the interviewed representatives of the contracting authorities and public institutions in charge of PPP. Projects selected for assessment were considered as PPP projects by the public authorities in charge of these projects. Opinion of the international experts who provided guidance for the national experts and accumulated their findings is limited to recommendations and conclusions on the data received from the WB regions. Please note that any views or opinions presented in it are solely those of the authors and do not necessarily represent the views and opinions of the Regional School of Public Administration (ReSPA). No liability for any potential damage caused by this study shall be accepted by ReSPA or international experts involved. The comparative study was drafted within the period of July-October, 2015 thus it is based on the data available on a rather short notice.

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<sup>2</sup> Available at [http://www.eib.org/epec/resources/publications/epec\\_wbif\\_overview\\_ppp\\_institutional\\_arrangements\\_institutional\\_frameworks](http://www.eib.org/epec/resources/publications/epec_wbif_overview_ppp_institutional_arrangements_institutional_frameworks)

## Summary

The core part of the study is dedicated to PPP-project-related know-how, reviewing the projects in implementation and in the procurement (tender) phase. Special attention is given to the presenting of diversity of traditions and approaches used by the respective countries in the WB region.

The main findings and recommendations of the study have identified different approaches what is PPP project as such as well the major gaps in PPP project cycle management (project preparation, assessment, procurement, implementation and monitoring).

## 1. Introduction

### 1.1 Background and rationale of the study

In the countries of the WB the PPP model is considered an attractive way to leverage the resources available from EU funds (IPA) including the WBIF and respective international financial institutions and bilateral donors. Although it is beneficial to attract private investment into public infrastructure and services traditionally procured by the government (public sector) accelerating the implementation of priority infrastructure, PPP is even now challenging governments in the WB region to improve the national institutional and legal framework for efficient PPP model implementation. Given that a significant number of projects funded from the IPA have a regional dimension and are aimed at achieving the highest-possible multiplier effect for the resources of both grants and loans,<sup>3</sup> the EC is invigorating regional cooperation to foster homogeneous good practice. In a wider sense and in terms of the new EU Investment Policy for attracting private capital into infrastructure development and to bridge shortages in the public budget, a modern and effective PP, PPP and concession policy is a precondition. In line with that, public procurement is identified as a field of direct relevance for creating a fully liberalised and competitive economic environment in the scope of the *SEE2020 Strategy . Jobs, and the Prosperity in a European Perspective*<sup>4</sup> developed under the auspices of the Regional Cooperation Council (RCC), which is, with its five pillars, highly correlated and aligned with the *Europe 2020 Strategy*.

In a narrower sense and being committed to full integration into the European Union (EU), the candidate countries (Albania, FYROM, Montenegro and Serbia) and potential candidates (B&H and Kosovo)<sup>5</sup> E D Á @æç ^ Á c [ Á & [ { } | ^ Á , ã c @Á c @^ Á ÒWq • Á • c æ} á æ! EU Directives on PP including PPPs and concessions and fulfil the benchmarks for Chapter 5 of accession negotiations relating to PP. Also, considering the key principles of public administration related to the public financial management as defined in Chapter 6 of U Ò Ô Ö Đ Ù Q Ö T ÇÉÁ %Ú! ã } & ã ] | ^ • Á [ +Á lã • ã | ã &ç æã ÇÉÁ (ã ã ) ÿ ã • c !

<sup>3</sup> Y Ó Q Ø K Á %Ú [ c ^ } c ã æ | Á ~ [ ! Á Ú! [ { [ c ã } \* Á Ú Ú Ú • Á ~ } á ^ ! Á dic@ofÁne WIF + Ê Á Ö! æ~ c June 2014, available at: <http://www.wbif.eu>.

<sup>4</sup> SEE2020 Strategy available at: <http://www.rcc.int/pages/62/south-east-europe-2020-strategy> (downloaded on 3 September 2015).

<sup>5</sup> This designation is without prejudice to positions on status, and it is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

<sup>6</sup> U Ò Ô Ö Đ Ù Q Ö T ÇÉÁ %V @^ Á Ú! ã } & ã ] | ^ • Á [ +Á lã • ã | ã &ç æã ÇÉÁ (ã ã ) ÿ ã • c ! <http://www.sigmaweb.org/publications/Principles-Public-Administration-Nov2014.pdf> (downloaded on 3 September 2015).



public administration reform in the enlargement process, the countries that are seeking EU accession and that are receiving EU assistance through the Instrument for Pre-accession Assistance (IPA) are requested to meet the set of criteria derived from EU *acquis* requirements and from international standards and requirements, as well as good practices in EU Member States and/or OECD countries. As a minimum benchmark of good administration, countries should ensure compliance with these fundamental principles so as to have a public procurement system that includes public-private partnerships and concessions regulated by duly enforced policies and procedures that reflect the principles of the Treaty on the functioning of the EU and the EU *acquis*, and that are supported by suitably competent and adequately resourced institutions.

In that context in the past few years, ReSPA has recognised the needs of its member states for improvements in the field of PPP and has introduced the PPP training programme and initiated the PPP network. While working jointly with the European PPP Expertise Centre (EPEC)<sup>7</sup> and JASPERS (Joint Assistance to Support Projects in European Regions)<sup>8</sup> towards the same goal, an insufficiency of knowledge and experience to launch and implement public investments using the PPP model, which significantly differs from the traditional procurement, has been revealed. At the same time, the need to identify the major gaps in competencies for PPP preparation, procurement, evaluation and monitoring has been identified. In that sense the rationale of the comparative study is to increase the exposure of PPP public stakeholders to the aforementioned practicalities of PPP projects. Representative data on the PPP contracts in force have been collected and compared in order to identify and share the findings on the practicalities of PPP project implementation, as well as the lessons learned and its recommendations.

## 1.2 Objectives and deliverables of the study

The general objective of the comparative study is to foster PPP market development in the WB and to encourage development of common PPP practice in the WB region, as well as regional PPP projects. It aims to increase the exposure of PPP public stakeholders to the aforementioned practicalities of PPP projects. By comparing the collected representative data on PPP contracts in force and in the tender phase, the study identifies and shares its findings on the practicalities of PPP project implementation, as well as the lessons learned and its recommendations. The recommendations can be used later as an inherent part of the training-needs analysis for developing training programmes in ReSPA and in the national training institutions. By reviewing the cross-referral data it identifies sectors relevant to launching PPP project pipelines with a regional dimension.

## 1.3 Scope of the study

The study provides findings on operational and projects in tender phase which are assumed as PPP projects by the authorities in charge of these projects.

## 1.4 Methodology of the study

The study was conceptualised during the previous PPP network meetings organised by ReSPA, taking into account the needs expressed by the participants. Two international PPP

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<sup>7</sup> The EPEC is an initiative involving the European Investment Bank (EIB), European Commission, European Union Member States, Candidate Countries and certain other countries.

<sup>8</sup> JASPERS provides technical assistance for infrastructure projects.

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experts were engaged to draft questionnaires for both operational and PPP projects in tender phase to be used as the tools by national experts. Six national experts involved in PPP development of their respective countries were involved to report practical understanding about PPP projects from public authorities after interviewing them. Each national expert was asked to suggest at least two operational PPP projects per country and at least two PPP projects in tender phase. Selection of PPP projects to be assessed was based on the verified possibility to access the necessary representatives of public authorities as well as data about projects. A data processing method: developing a questionnaire for data collection; meetings on site to make interviews and fill up questionnaire; quality check and clarification of findings; data analysis, comparison and summarising.

## 2. PPP contracts in force

### 2.1 Types of PPP contracts according to international classification

**Thirteen operational PPP projects** have been assessed by the national experts in their respective countries. Structured interviews with representatives from the public authorities in charge of PPP projects have been carried out for the objective of CS. All 13 projects are classified as PPP projects in the respective countries. Distribution of projects is almost equal between both governmental levels: contracts for six projects are concluded at the municipal level and seven projects at the national level (as specified in Table 1).

*Table 1. List of operational PPP projects (sorted by date of signing PPP contract)*

No	Country	Project title	Public Authority which represents Public Partner	Governance level	Sector	Specific project type	Date of signing PPP contract
1.	Albania	Tirana Airport Partners Tirana International Airport 20 Year BOOT (Build, Own, Operate and Transfer) Concession	Ministry of the Economy and Ministry of Transport and Communications	National	Transport	Airport	November 2004
2.	B&H	Mini hydroelectric power plants on Drinjaca MHE Municipality	Republika Srpska (RS) Ministry of Industry, Energy and Mining	National	Energy	Power plant	January 2006
3.	Montenegro	Meljine. Putijevci Road Reconstruction	Municipality of Herceg Novi	Municipal	Transport	Road	January 2007
4.	Albania	Devoll hydroelectric power project	Ministry of Energy and Industry	National	Energy	Power plant	December 2008
5.	B&H	Ulog hydroelectric power plant	Republika Srpska (RS) Ministry of Industry, Energy and Mining	National	Energy	Power plant	November 2009
6.	Kosovo	Prishtina International Airport Concession	Government of Kosovo through PPPC	National	Transport	Airport	April 2011
7.	Montenegro	Student Accommodation Facility Construction in Podgorica	Ministry of Education	National	Education	Accommodation for students	April 2012
8.	Kosovo	Urban Transport Services in the Municipality of Peja	Municipality of Peja	Municipal	Transport	Public transport	April 2012
9.	FYROM	Solid waste management concession	City of Skopje	Municipal	Environment	Waste management	2013

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No	Country	Project title	Public Authority which represents Public Partner	Governance level	Sector	Specific project type	Date of signing PPP contract
10.	FYROM	Administrative and commercial building, Gorce Petrov	Municipality of Gorce Petrov	Municipal	Government infrastructure	Governmental Building	June 2013
11.	FYROM	Zonal parking	Municipality of Bitola	Municipal	Transport	Parking lots	July 2013
12.	B&H	Janjici hydroelectric power plant	Government of the Federation of Bosnia and Herzegovina (FBiH)	National	Energy	Power plant	May 2014
13.	Serbia	Public transport in suburban areas on the territory of Topola municipality	Municipality of Topola	Municipal	Transport	Public transport	May 2015

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For 12 of the 13 projects, their projects were identified as concessions and only one as a Ú Ø Q Ê Á , @ã & @Á @æ • Á à ^ ^ } Á à ^ • & ! ā à ^ ā Á æ • Á æ Á %o] ~ à | ā & Á , [ ; \ authority-pay project was signed in FYROM at the municipal level for administrative and commercial building in Gorce Petrov. However, the latter does not meet basic PPP definition as private partner is not maintaining the assets he has created.

Table 2. Scope of operational PPP projects (according to the answers provided by respondents to the national experts)

	Concessions			PFI	
	YES	NO	Not applicable	YES	NO
According to the contract, did the private partner obtain the responsibility to acquire land and/or other assets?	4	8		-	1
According to the contract, did the private partner obtain the responsibility to propose a design of the assets to be constructed/reconstructed?	10	2		1	-
According to the contract, did the private partner obtain the responsibility to construct (build) the assets, to obtain equipment or to make other tangible investments?	11		1 <sup>9</sup>	1	
According to the contract, did the private partner obtain the responsibility to operate and/or maintain the assets?	11		1		1
According to the contract, did the private partner obtain	12			1	

<sup>9</sup> Ú & [ ] ^ Á [ ~ Á Ú ^ ! Public transport in suburban areas does not include any construction works disregard which party private or public is responsible for this. It is rather service concession limited to investments into vehicles.

	Concessions			PFI	
	YES	NO	Not applicable	YES	NO
<b>the responsibility to structure finance for the investments?</b>					
<b>According to the contract, did the private partner obtain the responsibility to transfer the assets to the public authority?</b>	9	3		1	

Transfer of the assets to public authority at the end of the contract was not agreed in three projects, where the reasons for selecting such an approach differ substantially:

1. In the case of the concession for the construction and operation of the road network in the city of Tuzla, the concessionaire is responsible for the construction and operation of the road network. Therefore it seems logical not to require the assets being transferred to the public authority after five years of implementation of the concession contract.
2. In the case of the concession for the construction and operation of the bus fleet, the same approach regarding vehicles was applied: the buses will remain the property of the private partner after 10 years of the concession contract, as no demand for investments has been pre-set for the vehicles. Bus stops have been included in the scope of the project, and the requirements to design, construct and maintain bus stops on the land proposed by the public authority were determined together with the transfer of such assets at the end of concession agreement.
3. In the case of the concession for the construction and operation of the accommodation facility on the land proposed by public authority were determined, but the assets are to be left to the private entity after 30 years of the concession contract. It is even more contradictory that it has been noticed that the Ministry of the Economy considers this a BOT (build-operate-transfer) project. In international practice, BOT means that the property is to be returned to the public entity.

## 2.2 Time taken to sign PPP contract

**The interval of time taken to sign a PPP contract is extremely wide: from three to 20 months.** The usage of time is assessed by two aspects:

1. The time taken to prepare for tendering (drafting feasibility studies, cost-benefit analysis, tender documents, decisions to be made and all other procedures to launch the tender). The average duration of preparation for tendering at the national level in all is 11 months and at the municipal level is 10 months in all countries.
2. The duration of tender procedure (starts with the tender announcement and ends with the contract awarding). For two of the 13 projects, the durations of the tender procedure were not reported. The average duration of tendering at the national level in all countries is nine months and at the municipal level 6.8 months.

The distribution of the received answers is provided in the table. The correlation coefficient between number of months to prepare for tendering and the duration of the tender procedure is 0.34. There are summarised values in the last column, expressed in the number of months.

Table 3. Number of months spent to sign PPP contract

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Country	Project title	Level	Project value (million USD)	Number of months for preparation for tendering	Tender procedure in months	Total number of months
				A	B	A+B
<b>Montenegro</b>	Student Accommodation Facility Construction in Podgorica	National	8	3	n/a	3
<b>FYROM</b>	Administrative and commercial building, Gorce Petrov	Municipal	12.6	6	n/a	6
<b>Serbia</b>	Public transport in suburban areas on the territory of Topola Municipality	Municipal	1.2	5	3	8
<b>Albania</b>	Devoll hydroelectric power project	National	535	8	6	14
<b>Kosovo</b>	Urban Transport Services in the Municipality of Peja	Municipal	4.0	6	9	15
<b>Kosovo</b>	Prishtina International Airport Concession	National	220	12	4	16
<b>FYROM</b>	Zonal parking	Municipal	0.261	12	6	18
<b>Montenegro</b>	Meljine. Putijevci Road Reconstruction	Municipal	18.5	12	6	18
<b>B&amp;H</b>	Janjici hydroelectric power plant	National	35.3	12	12	24
<b>B&amp;H</b>	Ulog hydroelectric power plant	National	100	12	12	24
<b>B&amp;H</b>	Mini hydroelectric power plants on Drinjaca MHE Municipality	National	n/a	12	12	24
<b>Albania</b>	Tirana Airport Partners Tirana International Airport 20 Year BOOT (Build, Own, Operate and Transfer) Concession	National	100	20	8	28
<b>FYROM</b>	Solid waste management concession	Municipal	73	18	10	28

### 2.2.1 Time spent preparing for tendering

The correlation between the number of months spent preparing for tendering with the issues listed below has been assessed together with:

1. Project value . the higher the project value, the higher the project risks and higher the value for money that can be achieved, so there are usually longer discussions with the stakeholders, and more meticulous documentation to be drafted; and
2. Total duration of PPP contract . the longer the PPP contract, the more precise the preparation needed, which requires time.

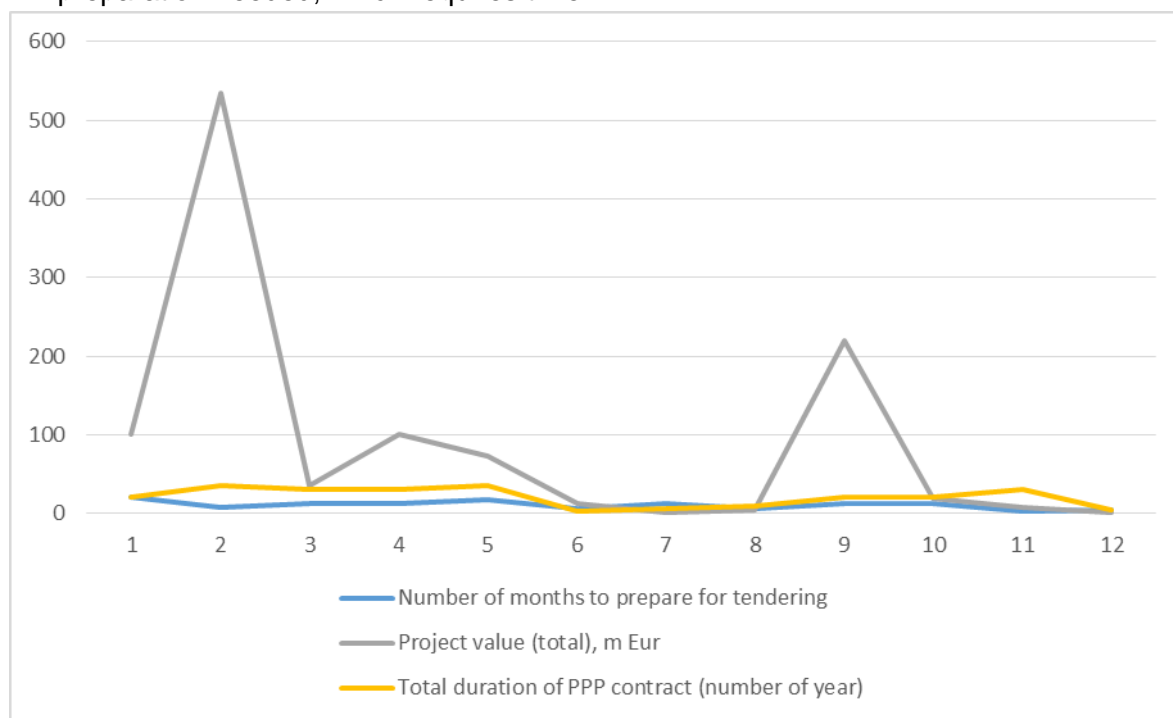


Figure 1. Correlation of project value, total duration of PPP contract and number of months to prepare for tendering

A positive, but weak correlation can be discovered between the number of months taken to prepare for tendering and the total duration of the PPP contract (yellow and blue lines) with a correlation coefficient equal to 0.32. The project value does not correlate with the number of months taken to prepare for tendering (correlation coefficient: 0.067) and has a weak correlation with the total duration of the PPP contract (correlation coefficient: 0.493).

There is a negative correlation (correlation coefficient -0.49) between the date of signing the PPP contract and the number of months taken to prepare for tendering.

The analytical questions regarding the market regarding the tender and the time spent to prepare for the tendering were analysed. The distribution of the answers to the question "How many months did you take to prepare for tendering?" is shown in Figure 2. The most frequent response was 12 months, irrespective of whether the project was tendered internationally or locally. Twelve months seems sufficient time to get ready to implement the necessary preparatory work to start binding negotiations with the market.

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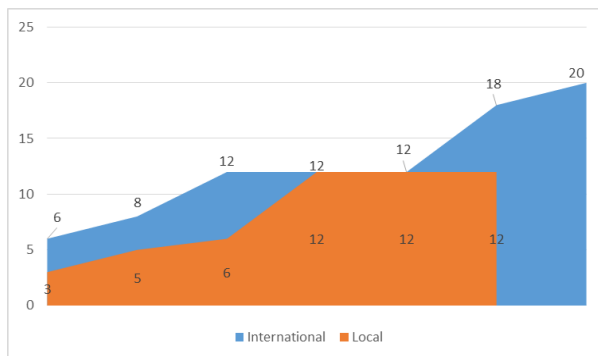


Figure 2. Time taken to prepare for tendering in cases where the tender was announced internationally and locally

The average time taken to prepare for tendering with advisers was 12.4 months, while in the absence of advisers it was 10.75 months. Involvement of advisers most likely resulted in more questions raised during preparation phase and in more thoroughly prepared documents. A negative correlation (correlation coefficient .30) can be observed between the number of months taken to prepare for tendering with and without the advisers.

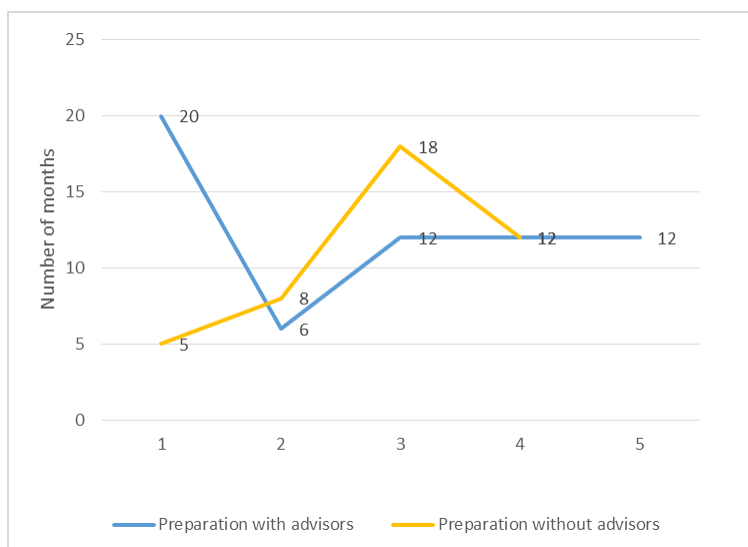


Figure 3. Time taken to prepare for tendering in regard to the availability of advisers

leader for the fastest preparation for tendering: without any initial assessment on the expected level of competition with an appointed team in cooperation with experienced advisers, the tendering procedure took only three months to prepare for tendering in 2012. In question was the domestic market and only local private investors were made aware of the tender. No announcements on an international database, on a website or during an international event were made by the Ministry of Education. As a result, a single bidder submitted a bid and was awarded the 30-year concession contract. Indeed, the competitiveness of the single bid is under question. However the project value was not the lowest among the operational projects and a possible impact on national fiscal indicators can be expected.

The longest preparation for tendering, lasting 20 months was reported for the Tirana airport concession (Albania). The initial assessment on the expected level of competition was performed, advisers were appointed as well as a dedicated team. The market in question was the international one and the tender was announced in *The Financial Times*, *The Wall*



*Street Journal*, etc. The preparation took place back in 2003. 2004 when the economy was substantially weaker than it is today. For the purpose of comparison, the Prishtina airport concession (Kosovo) was signed in 2011 and the preparation for tendering took 12 months (8 months shorter). The seven-year period between the start of the two airport concessions in the WB region has to be taken into account. In 2010 the Tirana airport concession was in its sixth year out of 20. It means that the proximity of major construction risks had already been managed, operation of the airport was effective and both the private and public markets were aware of the lessons learned from the Tirana airport concession.

Twelve months taken to prepare for tendering is the most frequent answer for six projects out of 13. This was also the case for three transport projects in FYROM, Kosovo and Montenegro and for three energy projects in B&H.

### 2.2.2 Time taken for tendering

The time taken to prepare for tendering has been assessed in correlation with the particular issues affecting the duration of the tendering process:

1. The availability of advisers . c @^ Á ~ ~ ^ • c ã [ } Á %oP æç ^ Á ^ ç ] ^ ! ã ^ } & ^ á c ^ & @} ã & æ| Á æá ç ã • [ ! • Á à ^ ^ } Á æ] ] [ ã } c ^ á + Á , yæ• Á æ• \ ^ of competencies to implement the tendering procedure. Two responses were missing, seven were positive and four negative. With advisers the average duration of tendering was 6.6 months, without advisers . 7.75 months. It is worth to remind, that for preparation the results were opposite. This leads to the conclusion that longer the preparation shorter the tendering procedure is observed. More detailed results on the issue of advisers is presented in the table and in the chart below.
2. The project team . the ~ ~ ^ • c ã [ } Á %oP æ• Á æÁ c ^ } á ^ ! Á ^ ç æ| ^ • c æà | ã • @^ á Ñ + Á , æ• Á æ• \ ^ á Á ã } Á [ ! á ^ ! Á c [ Á ^ • c ã { æc and quality of project management. The majority of the responses (11) confirmed the availability of the allocated human resources and only two municipal projects were tendered in the absence of a dedicated tender evaluation team. Without the dedicated team, the tender procedure lasted six months for the Montenegro project and nine months for the Kosovo projects.
3. Claims received during tendering . c @^ Á ~ ~ ^ • c ã [ } Á %oÖ [ Á ^ [ ~ Á @æç ! ^ \* æ! á ã } \* Á c @^ Á c ^ } á ^ ! Á ] ! [ & ^ á ~ ! ^ • Á æ} á Á ! ^ • ~ | c • unforeseen delays. Claims did not occur in the usual performance of the markets: only four claims (each during the tendering for projects in different countries) were received during the tendering for one national and three municipal projects. All the claims were received in projects that were announced internationally. Thus claims were received in four projects out of the six (67%) announced internationally and no claims were received for municipal projects.
4. The market the tender was aimed at . c @^ Á ~ ~ ^ • c ã [ } Á %oÖ ã á Á æ} ^ Á ã } c ^ ] æ! c ã & ã ] æc ^ Á ã } Á c @^ Á c ^ } á ^ ! Ñ + Á , æ• Á æ• \ ^ á Á ã } Á [ ! more time in the case of the participation of international bidders. All 13<sup>10</sup> projects responded to this question in the survey: six were positive and seven negative answers. For two projects the tenders were announced in international databases

<sup>10</sup> All 13 responses to this question were received and are presented, although the duration of tendering was reported only for 11 projects.

but did not attract any international bidders. However, the success rate (75%) of attracting international investors is a significant indicator.

- The procurement procedure. The possible effect on the total duration of tendering. All 13 projects reported on the selected procurement procedure, although the answers are not consistent. Five projects reported that the selected procurement procedure was according to the PPP Law but did not follow the procedure. One case identified restricted procedure and one reported that the procedure was a self-initiated offer provided by the concessionaire. One answer was confusing, as compliance with the PPP Law and Public Procurement Law is indicated as being equally important as selecting the procurement procedure. The distribution of replies is provided, grouped, in the table below.

Table 4

Sectors/Level/Country	Yes	No
Education	1	
National	1	
Montenegro	1	
Energy		2
National		2
Albania		1
B&H		1
Environment		1
Municipal		1
FYROM		1
Government infrastru	1	
Municipal	1	
FYROM	1	
Transport	5	1
Municipal	3	1
FYROM	1	
Kosovo	1	
Montenegro	1	
Serbia		1
National	2	
Albania	1	
Kosovo	1	
In total:	7	4

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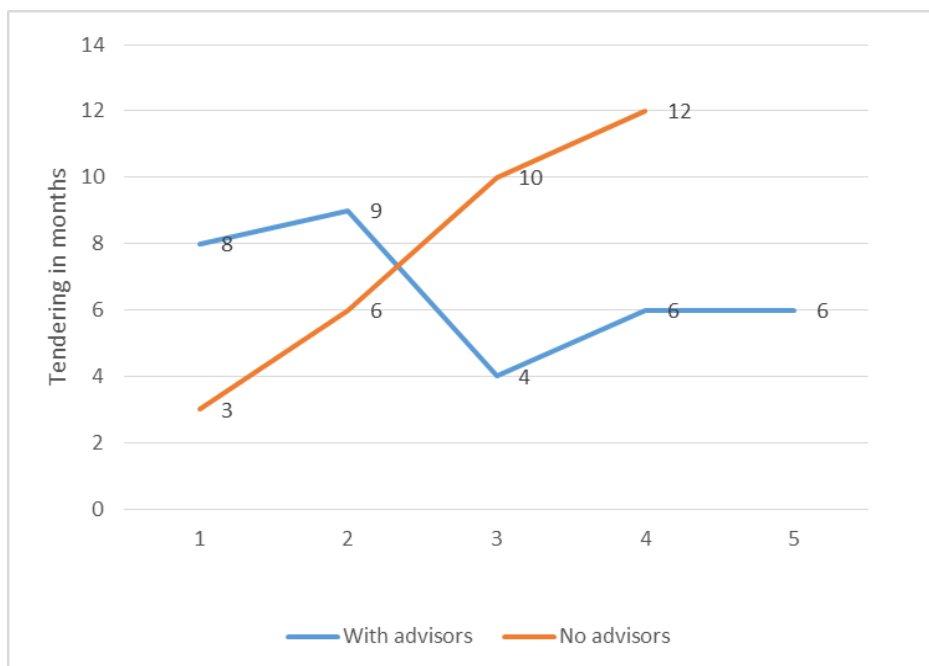


Figure4. Duration of tendering with and without advisors

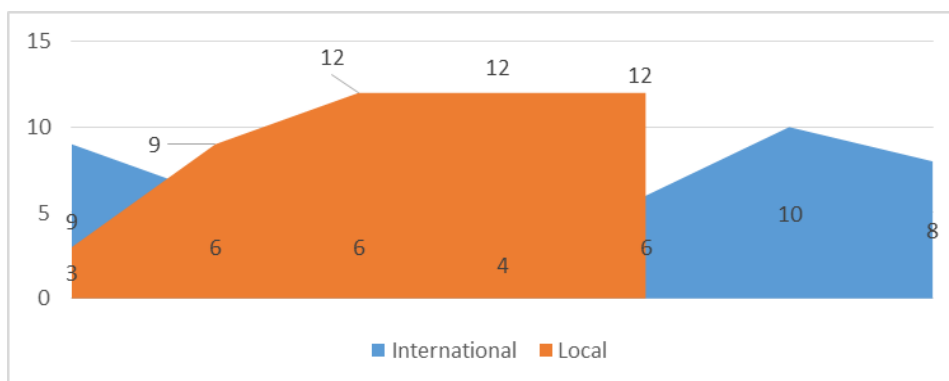


Figure5 Number of months taken for tendering in cases where the tender was announced internationally and locally

Table5 Duration of the tender procedure according to the selected procurement procedure

Duration of tender procedure in months according to the selected procurement procedure		
Open procedure	According to the PPP Law	Restricted
3	9	6
8	4	
6	12	
10	12	
6	12	
n/a		

## 2.3 Sectors

**The leading sector in the region is transport** with six projects (almost half of the total scope):

- Two operational contracts for the airports in Tirana (Albania) and Prishtina (Kosovo), concluded with a seven-year interval: in 2004 and 2011;

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- Two public transport PPP projects in Serbia (2015) and Kosovo (2012);
- One road PPP project in Montenegro (2007); and
- One parking PPP project in FYROM (2013).

The municipalities were the public partner for all public transport and parking projects regardless of the WB country. Both airports were signed at the national level. The average duration of contracts in transport sector is 13.5 years, and the average project value 57 m ” È Á

The Energy sector is represented by four concession projects, three of them in B&H and one in Albania. The contracts in the energy sector were signed during the period from 2006 to 2014. All the energy projects in B&H were signed for 30 years and one in Albania was for 35 years. The value of the project in Albania is more than five times as high as the largest project value in B&H. The sector with the lowest variation among projects is the energy sector: contract duration, PPP type, the number of months taken to prepare for tendering and the approach to tender procedures are the same for all projects assessed.

The other three operational projects were signed in 2012. 2013: in the environment sector (2013, waste management in FYROM), in education (2012, student accommodation in Montenegro) and government infrastructure (2013, administrative building in FYROM).

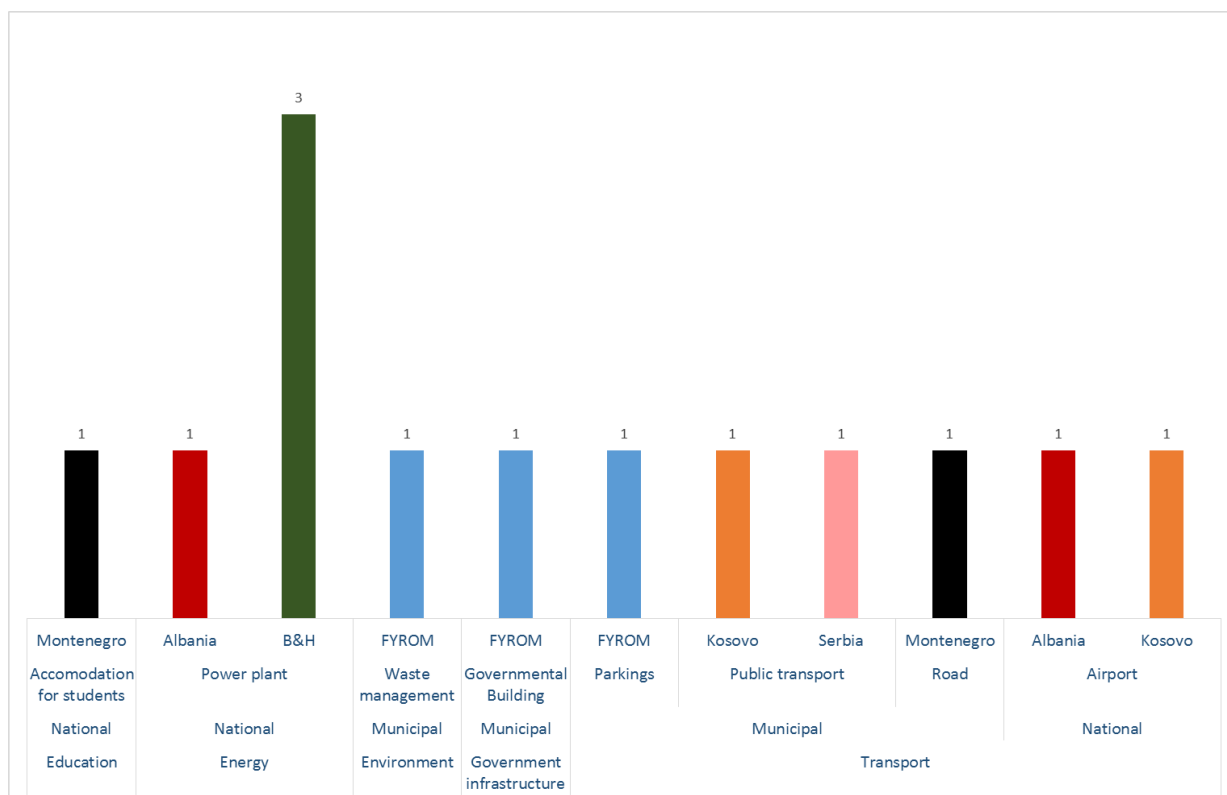


Figure 6. Sectors of the assessed operational PPP projects

## 2.4 Project values

The range of project values is extremely wide: the lowest value is 261,000 € for the city of Skopje (FYROM). The highest is 220 million € for the concession in Podgorica, Montenegro) and 220 million € for the concession, Kosovo). The average value of national projects reported is 166.39 million €.

- The range for municipal projects is from 261,000 € for the city of Skopje (FYROM). The average value of municipal projects reported is 18.26 million €.
- The range for national projects is from 8 million € for construction in Podgorica, Montenegro) and 220 million € for the concession, Kosovo). The average value of national projects reported is 166.39 million €.

The project values of the Tirana and Prishtina airport concessions differs by almost a factor of two: 82.120 million € for the Tirana airport concession and 164.240 million € for the Prishtina International Airport Concession (Kosovo). The Report provided a completely different value for the Tirana airport concession which is 34 million €. The value of 82.120 million € that such value does not include either CAPEX or OPEX, financing costs or the value of risks. For the Prishtina airport project the value consists of 100 million € to the private partner. The Report identifies a project value twice as low. Comparison of the two airport concessions in the region is provided in the table below.

Table 6. Comparison of the Tirana and Prishtina airport concessions

Name of the Project	Tirana Airport Partners Tirana Airport 20 Year BOOT (Build, Own, Operate and Transfer) Concession (Albania)	Prishtina International Airport Concession (Kosovo)
Value of capital investments fl 7 5 D 9 L L ' fl Ö L	120.000.000	220.000.000
Value of operating expenditures fl C D 9 L L ' fl Ö L	0	20.000.000
Value of risks transferred to d f ] j U h Y ' d U f h b	0	100.000.000
Value of risks retained by public U i h \ c f ] h m ' fl Č	0	0
Value of financing costs	0	6%

The project value was the most complicated piece of information to get hold of from the responding authorities in B&H. Continuous attempts to obtain information about project values resulted in no comprehensive findings. The only value of an operational PPP project amounted to 35.332 million €. The value of risks transferred to private partner was not available for the national expert. Even the report was not presented by the authorities. According to the project design document

available from the United Nations Framework Convention on Climate Change<sup>11</sup>, the key assumptions used for investment analysis include:

*Table7. Key assumptions for the project Ulog hydroelectric power plant*

An assumption	Value
<b>CAPEX for fixed assets during 2012-2015</b>	41.702 m "
<b>Equity IRR</b>	9.62%
<b>Annual OPEX</b>	767,000 "
<b>CAPEX for fixed assets during 2012-2015</b>	41.702 m "
<b>Equity IRR</b>	9.62%

The average annual income calculated by the author using the above-listed assumptions is equal to 3,115 m ". Based on the total value of income is equal to 84.1 m "

Respondents were asked to provide a breakdown of their reported project values for the assessed operational projects. The distribution of the answers among the 10 assessed projects is presented in the table below. Being aware of the fact that all the reported projects are concessions, the different methodologies used to calculate the project values can be the reason for such an uneven dispersal of answers.

*Table8. Breakdown of the reported project value in the assessed operational contracts*

Item to be included into project value	Number of projects which reported the project value structured by the following items	Number of projects which reported the project value which does not contain the following items
<b>Value of capital investments (CAPEX)</b>	9	1
<b>Value of operating expenditures (OPEX)</b>	5	5
<b>Value of risks transferred to private partner</b>	5	5
<b>Value of risks retained by public authority</b>	4	6
<b>Value of financing costs</b>	5	5

No CAPEX value is included in the 120 m ". CAPEX value is the only component included in the project value of operational projects reported from FYROM. The OPEX value is not included in the Meljine. Putijevci Road Reconstruction in Montenegro, the Tirana airport project and all three projects from FYROM regardless of the fact that all of them are from different sectors (waste management, administrative building and parking). The lowest number of projects included the value of risks retained by the public authority.

An obvious non-correlation between the defined scope of operational projects and items included in project value calculation is observed in the figures presented below. The rationale for such a comparison is to check the relevance of the number of projects where the private

<sup>11</sup>

<https://cdm.unfccc.int/filestorage/5/1/6/516IBT3GQR4JE278W9XMAKVYOSZDNP/PDD%20ver03.pdf?t=OEI8bnZrNGJmfDBRepkU-mWpoCJpFpPINfjX>

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partner was obliged to construct, operate and finance the assets, and the number of projects where the value of CAPEX, OPEX or financial costs have been included in the project value.

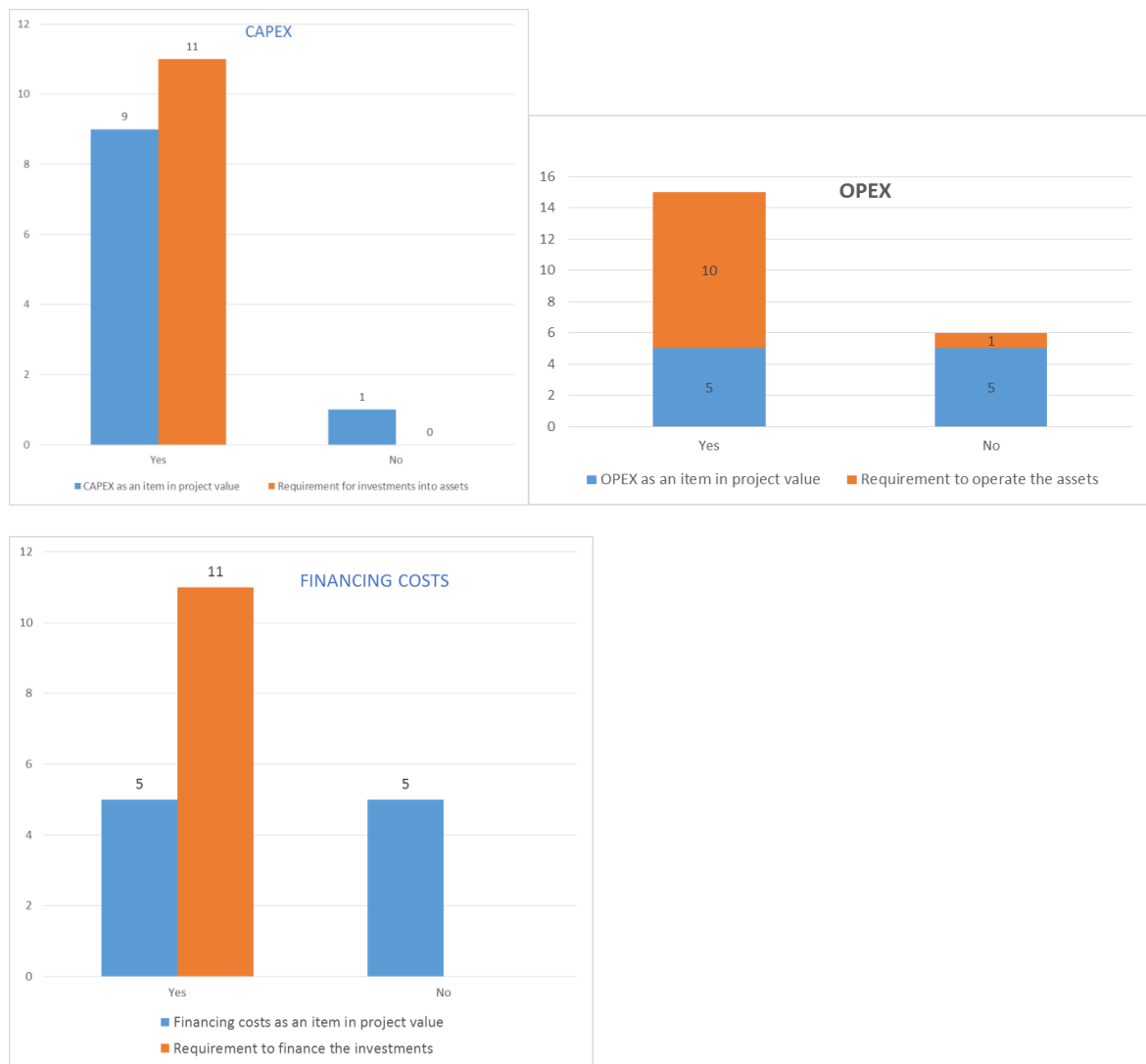


Figure 7. Comparison of project scope and items included to calculate project value

## 2.5 Duration of the contracts

The distribution of the contract duration is provided in the histogram below. The duration of the majority (four out of the 13 projects) of the projects were 30-year contracts, although three are from the energy sector and one in student accommodation. The lifecycle of power plants in international practice is deemed to be longer than for student accommodation infrastructure. A duration of 20 year for the PPP contract occurred in both airport cases and in the road reconstruction.

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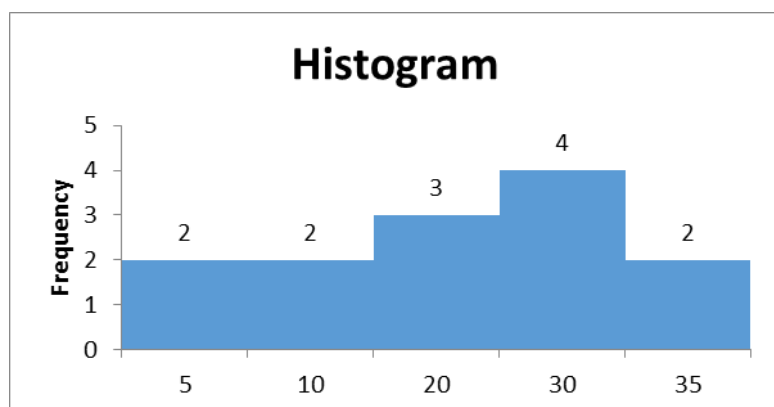


Figure 8. Histogram of project duration of the assessed operational projects

The minimum PPP contract duration was 3 year (administrative and commercial building, Gorce Petrov) although the maximum possible duration of PPP contracts in FYROM is 35 years. The maximum PPP contract duration is 35 years. The average duration of the assessed operational projects is 21 years.

Table 9. Duration of the assessed operational contracts

No.	Country	Project title	Sector	Particular project type	Date of signing PPP contract	Project duration (number of years)	Maximum number of years for the country
1.	Albania	Devoll Hydroelectric Power Project	Energy	Power plant	December 2008	35	35 or more
2.	Albania	Tirana Airport Partners Vëllë International Airport 20 Year BOOT (Build, Own, Operate and Transfer) Concession	Transport	Airport	November 2004	20	
3.	B&H	Mini hydroelectric power plants on Öljak Zvornik Municipality	Energy	Power plant	January 2006	30	50
4.	B&H	Janjici hydroelectric power plant	Energy	Power plant	May 2014	30	
5.	B&H	Ulog hydroelectric power plant	Energy	Power plant	November 2009	30	
6.	FYROM	Solid waste management concession	Environment	Waste management	2013	35	35
7.	FYROM	Administrative and commercial building Gorce Petrov	Government infrastructure	Governmental Building	June 2013	3	
8.	FYROM	Zonal parking	Transport	Parking lots	July 2013	6	
9.	Kosovo	Prishtina International Airport Concession	Transport	Airport	April 2011	20	Unlimited
10.	Kosovo	Urban Transport Services in the Municipality of Peja	Transport	Public transport	April 2012	10	
11.	Montenegro	Student Accommodation Facility Construction in	Education	Accommodation for	April 2012	30	Not defined because there is no law



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		Podgorica		students			defining it
12.	Montenegro	Meljine. Putijevci Road Reconstruction	Transport	Road	January 2007	20	
13.	Serbia	Public transport in suburban areas on the territory of Topola municipality	Transport	Public transport	May 2015	5	15 and 5 for transport projects

The actual duration of the assessed operational projects has been compared with the maximum duration of PPP contracts in each respective country according to the legislation. It is observed that provisions regarding the duration of PPP contracts are at a different level of maturity. The respondents for Kosovo reported that before recent amendments to the law, the maximum number of years was 40 and after the latest amendments it became unlimited. They provided a very advanced remark . that project duration depends on the project lifecycle.

The respondents from Montenegro reported that this kind of regulation is expected in the PPP Law, which is currently lacking. They provided the remark that the Ministry of the Economy is aware about international PPP practice, and has therefore defined a 30-year given regarding the project duration: for the road project the maximum duration was 30 years, but the Government and the Parliament are able to approve projects up to 60 and 90 years respectively. The conclusion can be made that project duration is rather a political issue, but in practice the project scope and duration are critical variables that define the structure of a PPP project, the tender documents as well as the provisions of the contract. Remarks from the Albanian respondents address similar practice as in Kosovo: 35 years for PPP contracts is the maximum, but in special cases it can be a longer period if it is approved by the law.

The respondent from B&H reported a 30-year maximum duration for PP contracts and for FYROM it was 35 years.

## 2.6 Affordability

The issue of affordability analysis prepared in order to demonstrate that the authority and/or end-users and five (42%) negative. Since according to best international practice affordability shall be assessed in all public investment projects regardless of whether they are PPP projects or not, the negative answers are analysed in this chapter. The fact that the majority of the assessed operational projects are concession-type ones is not a discouraging factor for the assessment of affordability: affordability can be assessed from the standpoint of the final consumer and of its financial standing, as well as state resources.

According to the answers received, an affordability analysis was not prepared for the Montenegro student accommodation project. Together with this answer the comment is provided that the public authority in charge of the project was guided by the price of accommodation in state-owned dormitories. It can be concluded that the affordability was assessed in relevance to existing student accommodation facilities. Only if it is the case that

the dormitory constructed as a result of the PPP contract is the same quality as the existing state-owned dormitories and the financial standing of students is at the same level, can the basis for comparison be considered satisfactory. Nevertheless, another thing to notice regarding the project value is that the Government pays 40,000" Á ] ^ ! Á { [ ] c @Á ~ [ ! Á students, but the fact that this is not included in the 8 m" Á ã } á ã & æ c ^ á Á ] ! [ b ^ & c Á ç æ question as to whether it is affordable for the Government to pay about 14.4 m" Á ~ [ ! Á c @^ Á student dormitory over 30 years. An affordability analysis shall be required unconditionally.

Affordability has not been assessed in one out of the four energy sector projects: Janjici hydroelectric power plant. For two other energy projects from B&H, clarification is provided as to why the affordability was not assessed: according to the respondents, electricity is a monopolistic good and has a defined price which is subject to a decision by the authorities, so there is no room for an affordability assessment. It seems controversial, as to some extent the supply of electricity is deemed to be a service of the general economic, thus affordability shall be ensured for all citizens. It refers directly to the security of the electricity supply and to the majority of countries where the energy supply is a regulated market. Thus the conclusion can be made that affordability in electricity projects shall be assessed regardless at the same extent as in all other projects. Most likely the assessment of affordability would reveal the necessity to assess possible state aid issues. An affordability assessment was not carried out for the Devoll hydroelectric power project in Albania either. The same situation happened in Kosovo with the Prishtina airport project . affordability was not assessed.

The method how the affordability was assessed is presented in details for Serbian project %Ú ~ à | ã & Á c suberban be| ^ œÁ á ] Á Á c @^ Á c ^ ! ! ã c [ the affordability of [ | æÁ { ~ the project was an analysis based on the summary of all the expenditure the private partner makes, and then on the basis of available information on the frequency of passengers and similar parameters . the average price that should be paid by end-users was calculated. It shall be noticed, that usually reverse approach is used: demand for services is estimated, average number of passengers for each route is calculated, necessary frequency of transportation services for each route, passengers affordability in terms of level of income, alternative options for transportation and their costs, also operational expenditures are calculated, financial sustainability and funding gap (if any) is calculated. Only after finalized assessment of expected project cash flows decisions regarding private partner involvement shall be considered.

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- Pre-feasibility study of the project;
- Feasibility study of the project;
- Cost. benefit analysis of the project (or investment project);
- Private partner financial model (*shadow bid*);
- Project business plan;
- Project teaser;
- Market analysis;
- Environmental impact assessment;

- Technical project for (re)construction works (design);
- Template of PPP contract;
- Tender documentation for private partner selection;
- Real estate evaluation report;
- Other documents (*please specify*).

The distribution of the answers is presented in the figure below. Based on the figure the conclusion can be made that there is a common practice (92%) in the WB region to develop a cost-benefit analysis for the project and tender documents before launching the tender. A feasibility study and PPP contract template were prepared in eleven projects out of thirteen while a pre-feasibility study, environmental impact assessment, market analysis and technical documentation for construction were prepared in nine projects out of thirteen.

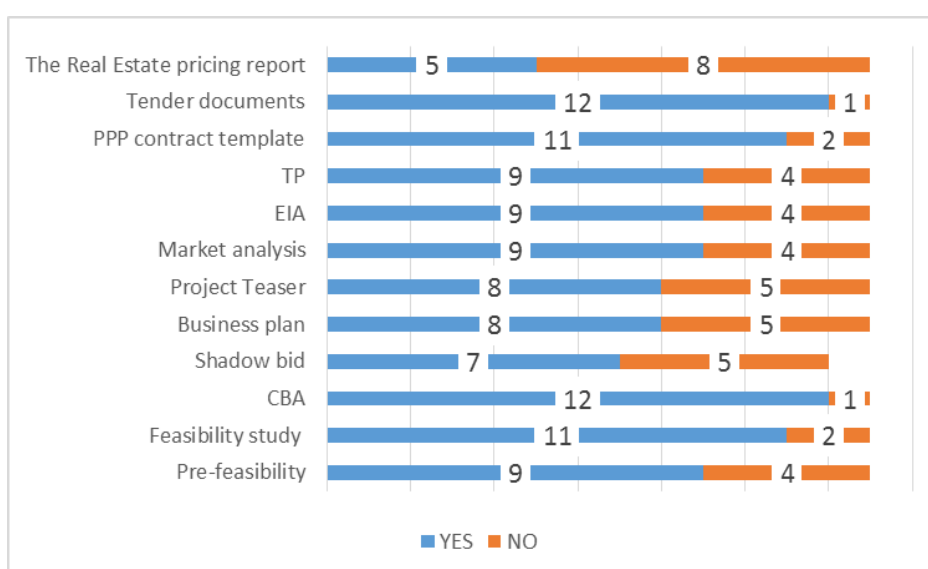


Figure 9. Distribution of answers regarding documents developed before launching the tender for operational projects

## 2.7 Risk sharing

Risk sharing was assessed by posing questions of whether the value of risk was included in the project value. The next question asked addressing risk sharing was whether a risk matrix was included in the tender documents. Among the received responses, in two projects the value of transferred and retained risks was reported in figures. However the risk matrix did not form part of the tender documents in six out of 11 operational projects. The score from the value of risks transferred to the private partner was the same as that retained within the public authority (see the figure below).

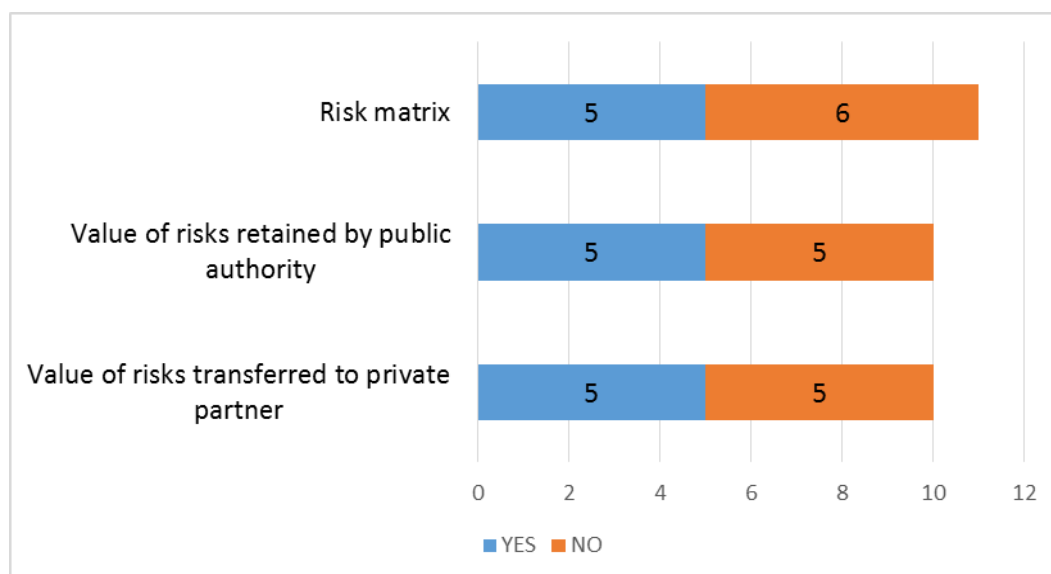


Figure 10. Distribution of answers regarding risk sharing in the assessed operational projects

## 2.8 Value for money (VFM)

Value for money in PPP terms is subject to continuous discussion, therefore during the survey two simplified questions were posed:

1. Did you compare the VFM of the best and final offer with the estimated VFM in your project planning documents?
2. What benefits from this PPP contract are you experiencing as an outcome of this particular PPP contract?

In total 13 responses were received to the first question: 10 positive confirmations that VFM was managed during the tendering process and three negative responses with single clarifications on the subject. The reason indicated as clarification is related to poor competition for the project. VFM was not assessed because only a single bidder participated in the tender. Such a reason would not be the case in mature PPP markets such as the UK, where the awarding of a contract to a sole bidder is against the law: a new tender must be launched with revised tender documents if only a single bidder has expressed interest.

Together with positive answers the timing and scope of VFM comparison were described by respondents. The results are presented in the table below.

Table 10. Descriptions regarding timing and scope of VFM assessment

Description regarding VFM comparison <u>timing</u>	Description regarding <u>scope</u> of VFM
After the offers were estimated, comparison of the value for money was made with the project planning documents, in order to see the result with the end-users	Comparison between feasibility study and the proposal received
Shortly before contract negotiations	The estimated value remained

Description regarding VFM comparison <u>timing</u>	Description regarding <u>scope</u> of VFM
During bids evaluation procedure	
Upon receipt of the final bids	

The main responses to the second question were that the main PPP benefits relate to the quality of public services. The benefits listed by the respondents relate to mainly quality issues:

- Regular public transportation for passengers within the municipality;
- Top-class quality and safe passenger service;
- Changes in habits: more of the population prefer public transportation;
- Less traffic congestion/jams in the city;
- Safety of regular electricity supply;
- New standards in electricity production;
- Pre-conditions for tourism development realised with the constructed road;
- Reduced CO<sub>2</sub> emissions;
- Positive impact on GDP growth as a result of increased energy export;
- Pre-conditions for development of other industries;
- New working places for the local population;
- Better operation of the public administration;
- Better sustainability of resources as a result of better recycling.

Special attention shall be paid to the fact that the listed benefits can be delivered as a result of traditional public investments. For example, a reduced quantity of CO<sub>2</sub> is expected as an economic benefit in all renewable or energy efficiency projects, thus is traditionally calculated in the CBA. Such benefits are delivered regardless of the way public investment projects are implemented: procuring traditionally (taking major investment risks) or entering into a long-term PPP agreement (sharing risks with the private partner).

Special attention shall be given to the reported benefit . the public finances saved. Such a benefit can be considered as a PPP benefit in cases where the majority of the risks is transferred to the concessionaire and the PPP contract demonstrates high efficiency in terms of the revenue stream from the consumers. However, such a statement is to be verified by thorough auditing.

## 2.9 Monitoring of PPP contracts

The last part of the questionnaire was explicitly dedicated to assessing the quality and

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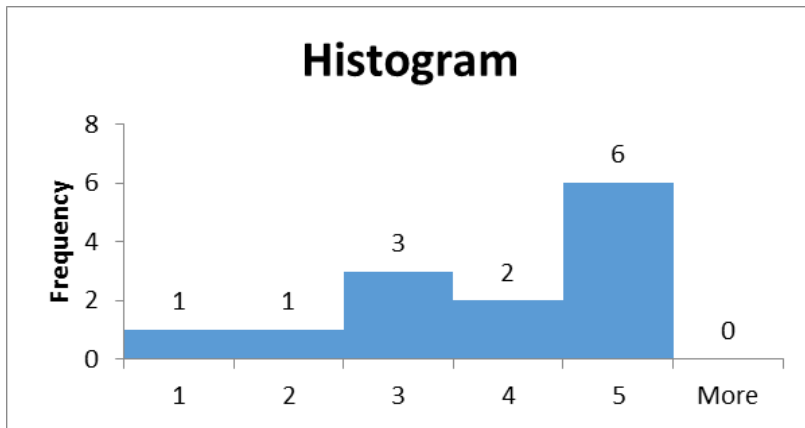


Figure 11. Histogram of the number of officers appointed to monitor the assessed operational projects

To assess the awareness of the appointed project officers about the monitored projects the questionnaires were distributed to all project officers. The results are presented in the histogram below. A positive conclusion can be drawn. In 10 out of 13 cases, at least one officer was involved in project development in the earlier stages. Only two projects managed to have the same project team from the beginning till the contract monitoring stage.

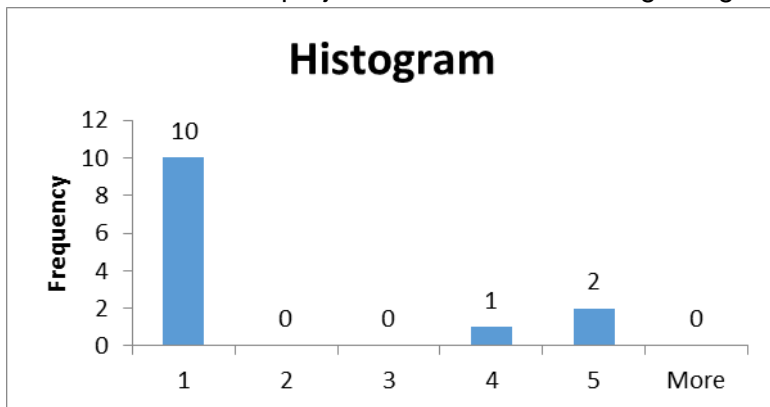
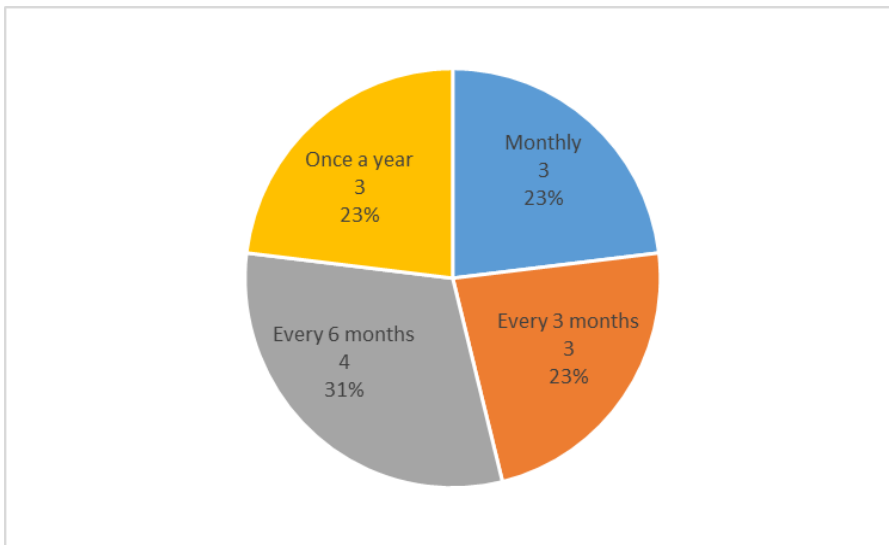


Figure 12. Histogram of number of officers who participated in earlier project development phase than monitoring

Answers were received from all 13 projects regardless of the fact that only nine of them have dedicated monitoring teams.

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*Figure 13. Distribution of answers on the reporting frequency of the operational projects*

Contract management efficiency will be considered as of the highest quality, as no disputes occurred with the private partner during the operational PPP contract either without or with recourse to an external institution for dispute resolution (court or similar).

The final question in the survey addressed customer satisfaction and enables assessment of monitoring efficiency. Customers were described as target groups using the project results (e.g. drivers in the road project, pupils in the school project, etc.). Seven responses were negative . no estimations of customer satisfaction were carried out and in only four projects did they form part of the monitoring activity.

Risks occurred only in one project out of the 13 reported: the risks transferred to private partner and risks retained by public authority were equal.

### 3. PPP projects in tender phase

#### 3.1 Types of PPP contracts according to international classification

**Fourteen PPP projects in the tender phase** were assessed by national experts in their respective countries using structured interviews with representatives from the public authorities. One project out of the 14 is an exceptional case since the project tender has already resulted in failure (public garage in the city of Sabac, Serbia). It is required as part of the analysis to reveal the reasons for the failure, as lessons learned. The public authorities in charge are municipalities in eight cases and national authorities in six tenders (Error! Reference source not found. and Figure 14).

*Table 11. List of PPP projects in the tender phase (sorted by country)*

No	Country	Project name	Public authority in charge	Governance level	Sector	Project type
1.	Albania	Grant through concession "Kalivar" hydroelectric power plant in the form of a B.O.T.	Ministry of Energy and Industry	National	Energy	Power plant
2.	Albania	Concession project/PPP Milot. Morine Highway	Ministry of Transport and Infrastructure	National	Transport	Road
3.	B&H	Buroj OZONE O3	Municipality of Trnovo	Municipal	Tourism	Tourism services
4.	B&H	Doboj. Vukosavlje Highway	JP Autoputevi Republike Srpske (RS) d.o.o. - Highways of Republika Srpska Public Company	National	Transport	Road
5.	FYROM	Kavadarci zonal parking	Municipality of Kavadarci	Municipal	Transport	Parking
6.	FYROM	Tetovo zonal parking	Municipality of Tetovo	Municipal	Transport	Parking
7.	Kosovo	City market in Prizren	Municipality of Prizren	Municipal	Social & Community	Market
8.	Kosovo	Waste Management Services in the Municipality of Suhareka	Municipality of Suhareka	Municipal	Environment	Waste
9.	Montenegro	Bar. Boljare motorway	Ministry of Traffic and Maritime Affairs	National	Transport	Road
10.	Montenegro	River Moraca hydroelectric power plant	Ministry of the Economy	National	Energy	Power plant
11.	Serbia	City of Sabac Public Garage	City of Sabac	Municipal	Transport	Parking
12.	Serbia	E-763 motorway route	Government of the Republic of Serbia acting by and through the Ministry of Construction, Transport and Infrastructure	National	Transport	Road
13.	Serbia	Non-toll road construction and maintenance in the Municipality of Stara Pazova	Municipality of Stara Pazova	Municipal	Transport	Road
14.	Serbia	Sewerage network in the Municipality of Stara Pazova	Municipality of Stara Pazova	Municipal	Environment	Sewerage



*Comparative Analysis of Lessons Learned from Recent Development in Implementation of Public Private Partnership Projects in the Western Balkans Region*

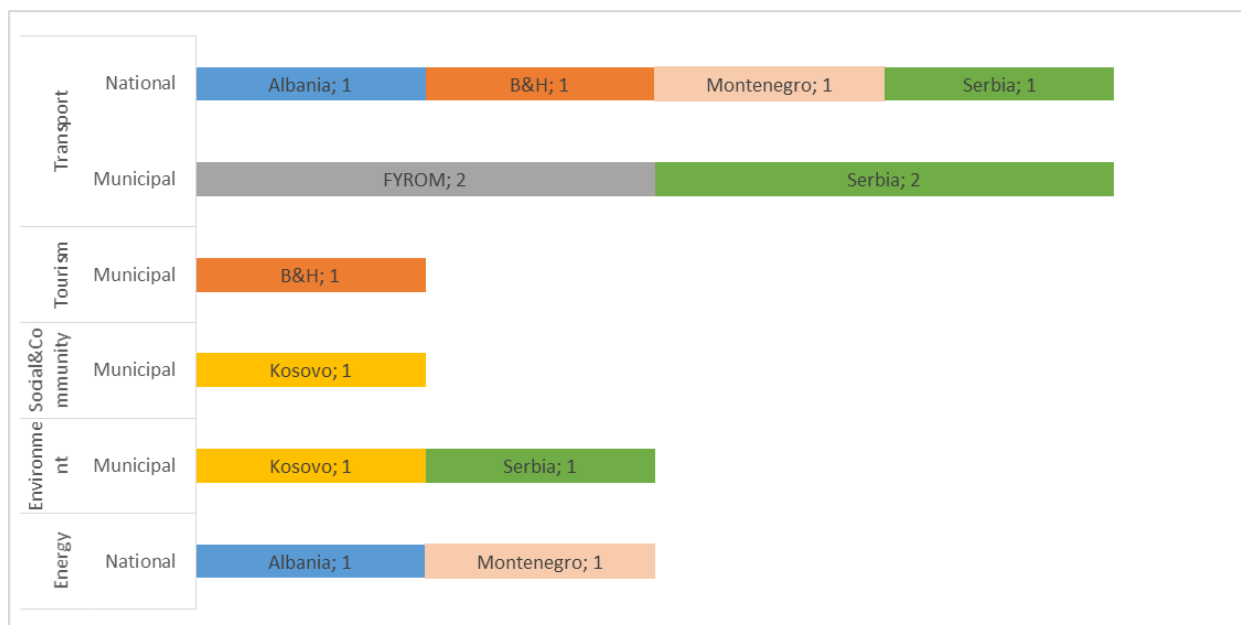


Figure 14. Scope of assessed projects in tender phase

Consistency in PPP planning is observed in Kosovo and Montenegro: the same PPP projects in the tender phase were reported in the Report published in July 2014 and in the present survey. Albania and Serbia reported only one project which was identified as a potential project in the Report and the other projects in tender were named for the first time.

project classified as a concession or PPP/PFI (private finance initiative) in your respective & [ ~ } c | ^ Ñ+ È Á V @^ Á æ à • ^ } & ^ Á [ ~ Á æ Á ~ } ã ~ ã ^ á Á { æ c ~ | ^ Á ] | a observed when reading the answers. Classification was not provided for the prob ^ & c Á %ó ~ | [ b U Z U Þ Ò Á U H + È Á V @^ Á { æ b [ | ã c ^ Á [ ~ Á c @^ Á | ^ ] [ | c ^ á Á ] | [ b ^ & c • of 13). Three projects out of the 13 were presented as PFIs with concession elements. Most likely such a justification is selected to introduce the sharing of availability or revenue risks with the private partner. Inconsistency in the methodological approach to project value calculation can be the reason why respondents justified the PPP type as a mix of concession and PFI. Although three projects out of the 13 were classified as PFI type, the definitions ç æ i ã ^ á K Á ã } Á Ù ^ | à ã æ Á c @^ ^ Á , ^ | ^ Á • [ Á & æ | | ^ á Á %ó ] ~ à | ã & Á ] a . user-pay PPP. The detailed scope of the PPP projects in tender and the responses received on classification of PPP type are presented in the table below.

Table 12. Scope of the observed PPP project in the tender phase

No	Country	Project name	Project scope	Responses regarding PPP classification
1.	Albania	Grant through concession "Kalivar" hydroelectric power plant in the form of a B.O.T.	Increasing production capacity of the power sector through renewable sources, in this case through water sources.	Concession
2.	Albania	Concession project/PPP Milot. Morine highway	To build, upgrade, operate and maintain the Milot. Morine highway	Concession
3.	B&H	Buroj OZONE O3	Construction of Touristic City "Touristic City	n/a

*Comparative Analysis of Lessons Learned from Recent Development in Implementation of Public Private Partnership Projects in the Western Balkans Region*

No	Country	Project name	Project scope	Responses regarding PPP classification
Buroj OZONE"				
4.	B&H	Doboj. Vukosavlje highway	Project development, construction, management and maintenance of the Highway Doboj - Vukosavlje	PFI
5.	FYROM	Kavadarci zonal parking	Kavadarci zone parking	Concession
6.	FYROM	Tetovo zonal parking	Tetovo zone parking	Concession
7.	Kosovo	City market in Prizren	City Market in Prizren	Concession
8.	Kosovo	Waste Management Services in the Municipality of Suhareka	Waste Management Services in the Municipality of Suhareka	Concession
9.	Montenegro	Bar. Boljare motorway	Bar Boljare Motorway	Concession <sup>12</sup>
10.	Montenegro	River Moraca hydroelectric power plant	River Moraca hydroelectric power plant	PFI with concession elements
11.	Serbia	City of Sabac Public Garage	Concession for design, financing, construction, maintenance and management of a public parking garage in Sabackih Zrtava Square for conducting community and other commercial activities in the building	
12.	Serbia	E-763 motorway route	Concession project for the Financing, Construction, Operation and Maintenance of E-763 motorway route, for the section from	
13.	Serbia	Non-toll road construction and maintenance in the Municipality of Stara Pazova	Public. Private Partnership project on funding, construction and maintenance of the non-toll road network in the Municipality of Stara Pazova	PFI
14.	Serbia	Sewerage network in the Municipality of Stara Pazova	PPP project on funding, construction, management and maintenance of the sewerage network in the Municipality of Stara Pazova	

Respondents were asked to indicate the main responsibilities that the private partner is required to undertake:

- 1) *The private partner is required to undertake the responsibility to acquire land and/or other assets (PRE-DESIGN).* A positive answer was given in two out of 14 cases: for Kosovo which is considered a concession project. In the latter project, if the private partner requests that the municipality provide land for the waste management facility, the property will remain with the municipality and the private partner will use the land in the form of a leasehold.
- 2) *The private partner is required to undertake responsibility to propose the design of the assets to be constructed/reconstructed (DESIGN).* The majority of the answers (eight out of 14) were positive. The design was not an obligation of the private partner

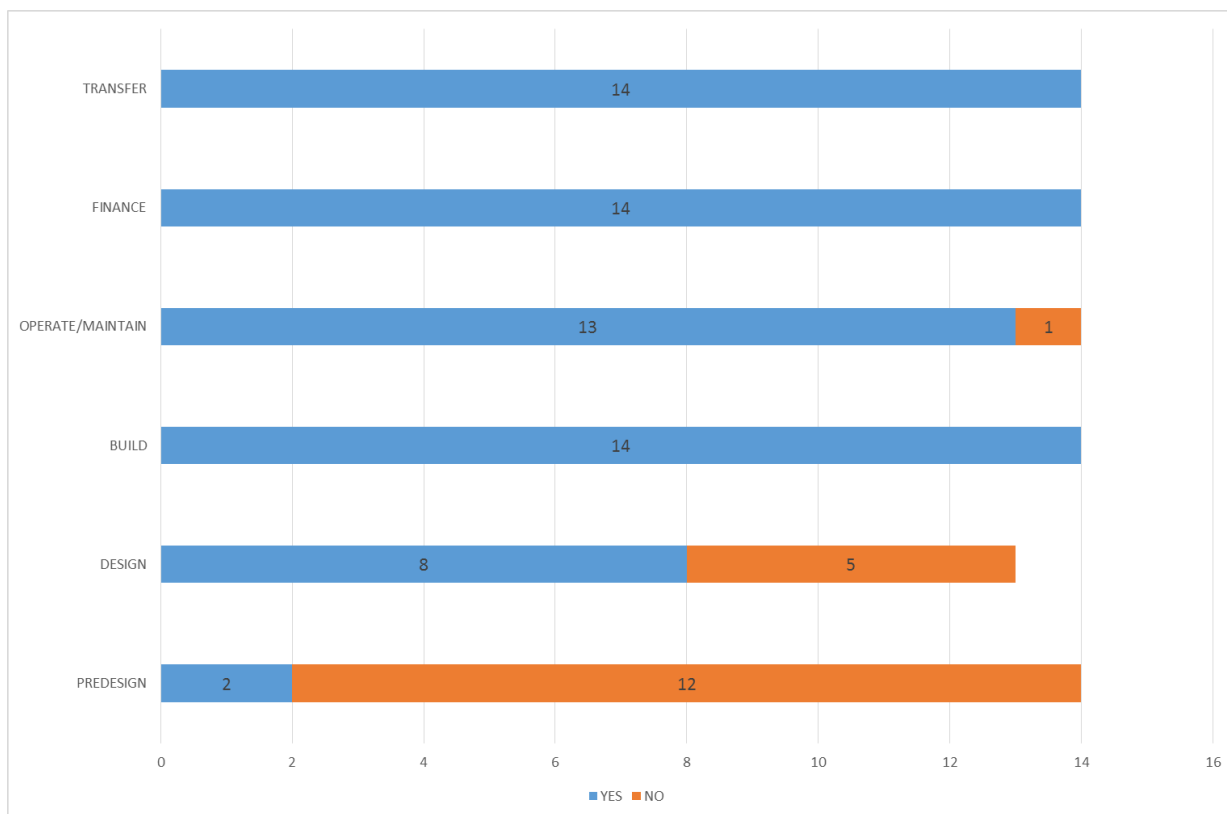
<sup>12</sup> In the questionnaire the answer was indicated as PFI, but according to the project description provided by national expert it was indicated that the Bar. Boljare motorway was to be a toll road. Thus the concession type is assumed in the CS.

in either of the Serbian PFI-type projects, nor in the PFIs with concession elements. The same situation is found in the concessions for parking in FYROM. More flexible provisions regarding design have been observed in Montenegro for the hydroelectric power project: the public authority proposed the suggested design, but the concessionaire was allowed to submit his design instead. Such flexibility is highly beneficial in cases where the public authority is in a position to transfer all construction risks to the private partner. Otherwise if the private partner is not allowed to contribute to the design of infrastructure, the public authorities can face difficulties in transferring major design and construction risks to the private partner.

- 3) *The private partner is required to undertake the responsibility to construct (build) the assets (BUILD).* The private partner is responsible for the construction and maintenance in the Municipality of the assets. In the other projects in tender, the private partner is responsible for operating the assets.
- 4) *The private partner is required to undertake responsibility to operate the assets (OPERATE).* The only project where the private partner is not in charge of operating the assets is the Serbian PFI-cable car project. The private partner is not responsible for the design of the assets or for land acquisition. In the other projects in tender, the private partner is responsible for operating the assets.
- 5) *The private partner is required to undertake responsibility to structure finance for the investments (FINANCE).* The same situation has been observed as with the construction of the assets: in all the projects in tender, the private partner is obliged to structure finance for the projects regardless of which type of PPP project (concession or PFI) is being tendered.
- 6) *The private partner is required to transfer the assets to the public authority at the end of the PPP contract (TRANSFER).* According to all the responses received, the private partner has to transfer the constructed assets to the public authority at the end of all types of PPP contracts.

Figure 15. Split of project scope according to the obligations

*Comparative Analysis of Lessons Learned from Recent Development in Implementation of Public Private Partnership Projects in the Western Balkans Region*



### 3.2 Preparation of PPP projects

The strategic background of the decision to implement PPP projects which are present in concessions in FYROM and one from the project with the highest indicated value. of preparation of tender documentation, the project was presented to the Municipal Council, which decided to support and approve this project and the procedure for implementation. It

According to this notice, a positive answer can be assumed for this concession project. However, the timing for such strategic decision is controversial. The demonstrated approach to strategic planning shall not be the best practice for any kind of public investments as it implicates that any project suggested by private entity can be converted into strategic objective without proper assessment and to create even financial obligations for public authority.

Respondents were further asked to indicate the level of the strategic planning document in which the project is included. The responses received demonstrated that two national projects in Montenegro were strategically justified at both the municipal and national levels. The indicated horizon of the planning documents is the year 2020 and proved the generally acceptable seven-year planning horizon.

According to this notice, a positive answer can be assumed for this concession project. Although the parking concessions in FYROM represented the lowest project value, they are not excluded from the requirement of strategic approval.

Respondents were further asked to indicate the level of the strategic planning document in which the project is included. The responses received demonstrated that two national projects in Montenegro were strategically justified at both the municipal and national levels. The indicated horizon of the planning documents was the year 2020 and proved the generally acceptable seven-year planning horizon.

Respondents were asked about the documents they developed before launching a tender to select a private partner. A selection of 12 documents was proposed for the respondents and one put forth a suggestion identifying their own documents:

1. Pre-feasibility study for the project
2. Feasibility study for the project
3. Cost. benefit analysis for the project (or investment project)
4. Private partner financial model (shadow bid)
5. Project business plan
6. Project teaser
7. Market analysis
8. Environmental impact assessment
9. Technical project for (re)construction works (design)
10. PPP contract template
11. Tender documentation for private partner selection
12. Real estate evaluation report
13. Other documents (please specify)

The vast majority (13 out of 14) of respondents indicated that they have developed tender documents. The PPP contract template, which usually forms a part of the tender documents, was prepared in 11 cases out of 14. The best available PPP practice requires development of pre-feasibility, feasibility studies and CBAs for each project procured as a PPP. Evidence of efforts taken is demonstrated by the answers: pre-feasibility studies were drafted in six cases, feasibility studies were developed for 12 projects and CBAs for nine projects. In one case for which the PPP type remains unknown, it was indicated that these documents are under development, which confirms that the public authorities are aware of the necessity to have such documents prepared. The smallest set of documents, without any indications that

hydroelectric

feasibility study, PPP contract template and tender

documents consisted of a pre-feasibility study, feasibility study, EIA and tender documents. The distribution of all the answers is provided in the figure below.

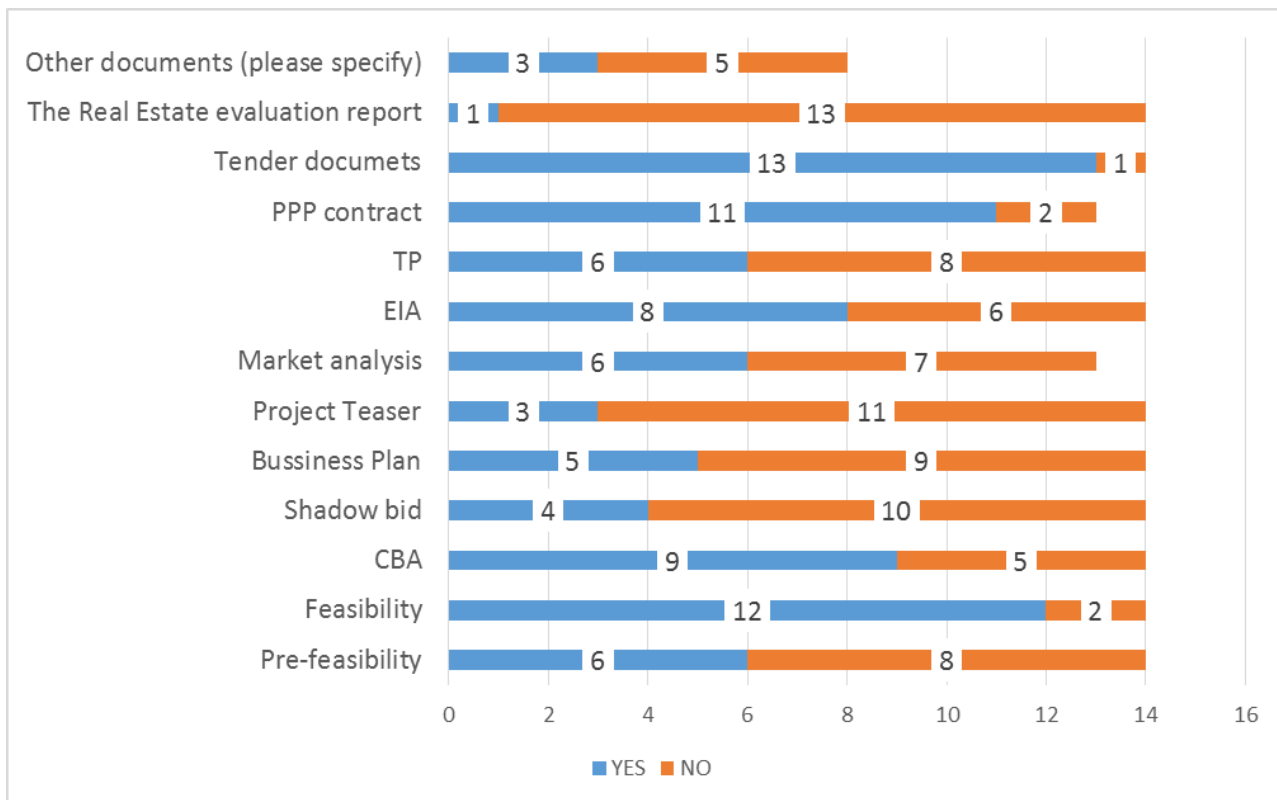


Figure 16. List of documents developed before launching the tender

To assess the level of transparency, the question was posed: "Was there an information campaign about the potential PPP project in the media before starting tendering?" The results are shown in Figure 16. The majority of respondents (13 out of 14) answered 'NO', indicating that an information campaign was not conducted before starting tendering.

### 3.3. Transparency of the tendering process

#### Fourteen assessed PPP projects in tender had an accumulated total value of 5.9 bn Ö "

The questionnaire contained questions regarding the value of the projects. The results show that the accumulated total value of the 14 assessed PPP projects in tender was 5.9 bn Ö ". The largest project value was 1.75 bn Ö ", and the smallest was 0.23 bn Ö ". The average project value was 0.42 bn Ö ". The total value of the projects was 5.9 bn Ö ", which is equivalent to 422.9 m". The results are shown in Figure 17 below.

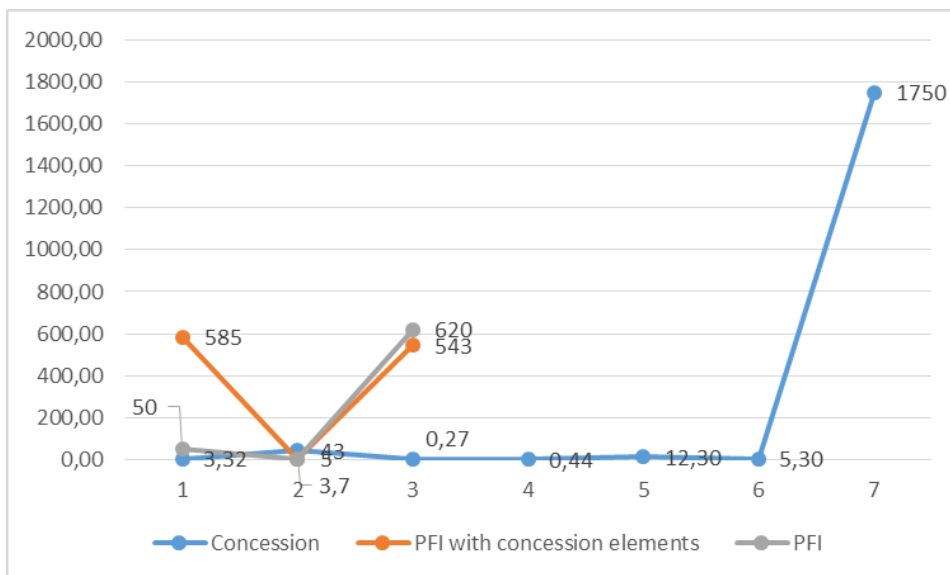
Comparative Analysis of Lessons Learned from Recent Development in Implementation of Public Private Partnership Projects in the Western Balkans Region



Figure 17

For both parking projects in FYROM an important remark was provided that the project value was calculated as per the feasibility study. For the Bar. Boljare motorway project, the project value is presented taking into account the time impact on the project value: the net present value of CAPEX, OPEX, value of risks, value of financing costs are expressed in NPV terms.

Similar project values are observed when grouping projects in the region according to their type. The widest range of project values (0.27 . 1,750 m" D Á , æ• Á [ à • ^ ! ç ^ à Á ã } Á Ú Ú Ú the concession type. PFI-type PPP tenders, as well as PFIs with concession elements reported a similar range of project values (3.7 . 620 m" D È



*Figure 18 Distribution of project values according to the type of PPP*

By asking the following questions, the breakdown of cash flows included in the calculated project value was addressed. There was a general answer, regardless of the PPP type, that CAPEX was included in the identified project value. However OPEX was not included in three concession cases as well as in all projects that were so-called PFIs with concession elements. No risk value was estimated in either the PFI or PFI with concession elements types of projects. The distribution of the answers is presented in the table below.

*Table 13 Composition of indicated project value of the projects in tender*

Item included in project value	Concessions		PFI		PFI with concession elements	
	YES	NO	YES	NO	YES	NO
Value of capital investments (CAPEX)	7	-	3	-	3	-
Value of operating expenditures (OPEX)	4	3	3	-	-	3
Value of risks transferred to private partner	5	2	-	3	-	3
Value of risks retained by public authority	4	3	-	3	1	2
Value of financing costs	3	4	-	3	2	1

The answers received revealed that all the indicated values of concession projects include CAPEX and in three cases out of seven, the value of CAPEX was identified. For two concession projects CAPEX came to 85% (city market in Prizren) and 90% (Kalivar hydroelectric power plant) of the indicated project value. CAPEX accounted for 14% of the indicated project value in one concession for waste management in the Municipality of Suhareka. The latter is the only project in tender which reported that OPEX amounts to a major part (76%) of the total indicated project value.

Some important notes were provided by respondents in regard to the project value:

1. *During the tender project it was not structured for the availability payment. The concessionaire acquired the right to collect tolls and to cover maintenance costs, thus OPEX is not included in the project value. Although the project is classified as PFI with concession elements, most likely a concession would be more appropriate. If the project is classified as a concession, project value shall reflect revenues rather than CAPEX, as is the case now.*
2. *classified as a PFI, hence the service fee is to be collected by the public partner. In case this is duly justified in terms of the legal basis and efficiency, this is in line with the selected PFI type.*
3. *Blended financing was*
4. *understanding that all project costs are to be included in the project value. Although the expenditures incurred for the project design, technical solution, spatial planning documents, strategic assessment of environmental impacts are not included in the value of this particular project, the advanced understanding of the necessity of*



including project development costs is a key asset for PPP development in the country.

### 3.4 Duration of preparation for tender

There were 13 responses received regarding time taken to prepare for tendering. According to the responses received, the least time taken to prepare for tendering was one month and the longest preparation required 24 months. The average duration was 9.7 months. The histogram of responses is presented in the figure below.

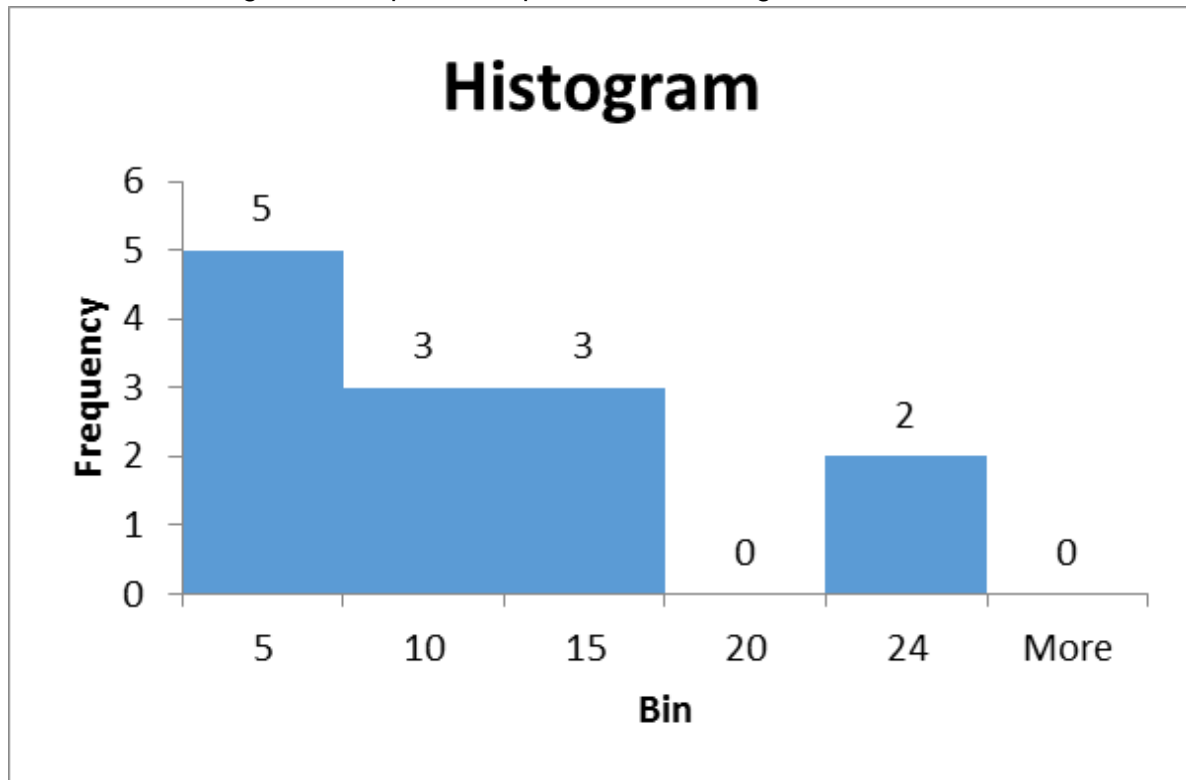


Figure 19 Histogram on duration of preparation for tender

months in the tendering procedure. However, evidence of long tendering procedures lasting from 10 to 30 months were observed in seven projects (see histogram below).

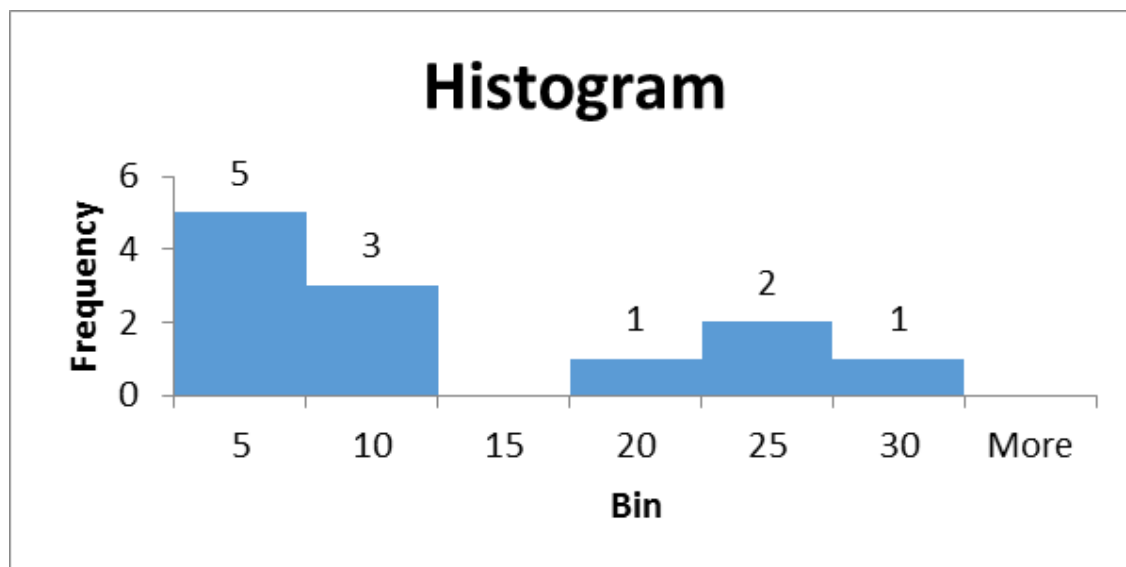


Figure 20 Histogram of the number of months taken for tendering from the tender until July 2015.

### 3.5 Risk sharing

The approach to the risk assessment was more practical than methodological in the questionnaire used for comparative study. Two questions were submitted to respondents in regard to risk sharing:

1. Do your tender documents contain a mechanism for penalty deductions from the availability fee in case the private partner is not properly managing the transferred risks?
2. Do your tender documents contain a mechanism for compensation and extra payments in case the public authority is not properly managing the retained risks?

There were seven positive answers to both questions. The negative responses were accompanied with the comments why a risk-sharing mechanism is absent:

- Two responses stressed that the concession type of PPP was selected without an availability fee, hence no deductions can be made. Such an answer implicates the weak understanding that concessions are not just conventional private business and monitoring of concessions agreement shall be ensured by public authority in charge. Mechanisms for penalty deductions shall be included anyway since concession agreement is for delivery of public services according to the agreed output specification. In case public services are not delivered at the agreed quality, private partner shall be imposed financial consequences to reduce his revenue and/or profit.
- One response received stated that such issues will be negotiated, hence they are not included in the initial tender documents. An issue of negotiations is clear although subject of negotiations can be the conditions and size of compensations rather than question of compensations itself. It is recommended to have a preliminary interests of public authority expressed in the tender documents. This would contribute to the efficiency of negotiations.

### 3.6 Scope and structure of tender documents

documents listed for respondents to assess their relevance to the projects in tender:

1. Project information memorandum;
2. Pre-qualification criteria;
3. Expected schedule and stages of the tender process;
4. Tender evaluation criteria;
5. Output specification;
6. PPP contract
7. Risk matrix
8. Payment mechanism
9. Contract termination provisions
10. Direct agreement
11. Transfer of staff to the private partner
12. Other provisions

All the tender documents contained the expected schedule and stages of the tender process. Such a situation reflects that the public authorities are aware of the basic principles of public procurement procedures. Basic tender documents such as output specification, tender evaluation criteria and pre-qualification criteria were drafted in 13 out of the 14 projects. Contract termination provisions were detailed in 12 sets of tender documents, and PPP contract and project information memorandums in 11 projects. PPP-specific parts of the tender documents, such as the payment mechanism and risk matrix were drafted in nine out of the 14 cases. However direct agreement, as such, was present only in three PPP projects in the tender phase. According to the responses received, it is most likely that the projects were only addressing new infrastructure, as no issues regarding transfer of staff were addressed in all the tender documents. The distribution of the answers is provided in the figure below.

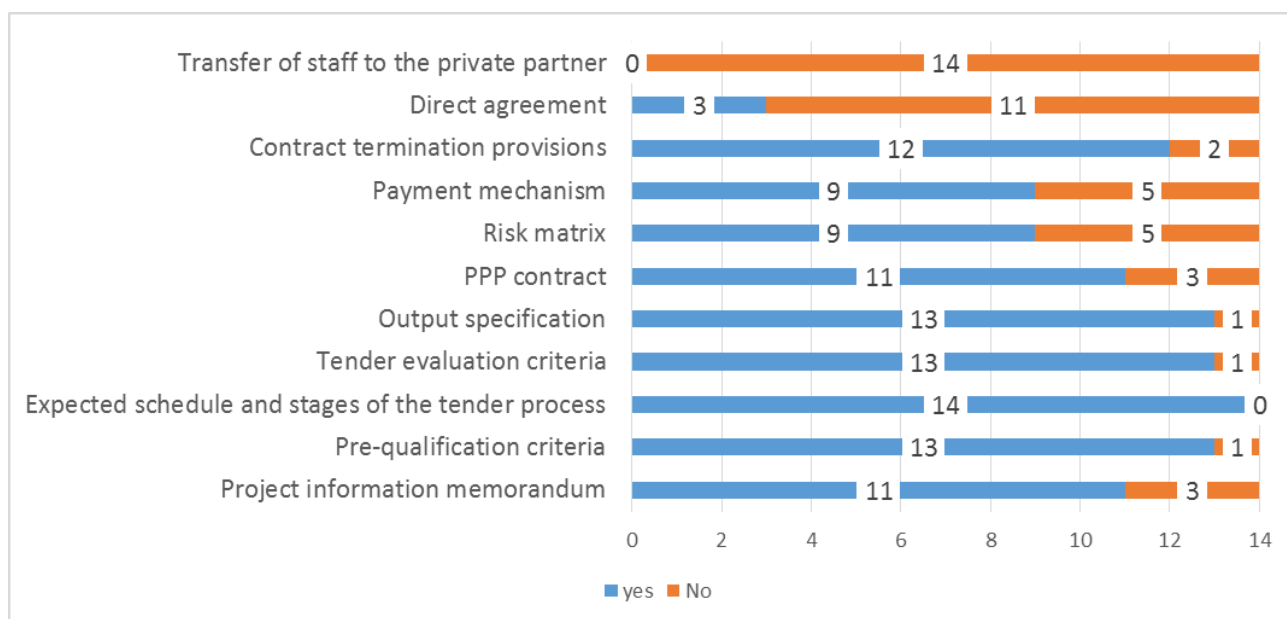


Figure 21. The content of tender documents

### 3.7 Private sector involvement

There were 10 positive responses received to the question "Were consultations with the private market (potential bidders, financial institutions, etc.) before the project were implemented (basic and general market testing, public consultations, etc.)?"

Of the 10 positive responses, 4 indicated that the consultations with private sector stakeholders (e.g. contractors, financial institutions) to participate in the project had been provided regarding the timing of such an assessment:

- One project indicated that it was done during the pre-qualification of the tender;
- One reported that a positive answer was provided, as the companies are approaching the public authority and introducing their capacities;
- One response received was regarding public consultations; and
- One indicated that it was a part of the feasibility study,

the expected level of competition was assessed in the feasibility study leads to the conclusion that the requirements for feasibility studies are high and the quality delivered is sufficient.

### 3.8 Other important findings

To obtain understanding about the place of PPP in the public investment process, a survey was conducted. 14 responses were received while the other 12 were positive. One positive response contained an explanation that the project was developed as a PPP project after the private partner was identified as being interested in such a project. Only one positive response was provided with advanced understanding about decision making on PPP: the decision to procure as a PPP was made after the feasibility study was developed.

Dedicated project teams were appointed in 12 projects while two projects had no established project teams and their role was undertaken by consultants. A steering committee was established to supervise the preparation process in nine projects in the tender phase and in one project an unofficial steering committee was present. Three responses provided indicated that it was not the right time for a steering committee, as the project documentation was still under preparation.

## 4. Main recommendations and conclusions

### 4.1 Compliance of public procurement and PPP legislation with the EU regulations

The majority of the countries have undertaken significant steps in public procurement and concession reforms, providing a legal framework for the implementation of projects by PPP covering the authority-pay and user-pay models. In B&H and in Montenegro, the concession model is widely used for exploitation of public resources and not as a user-pay model in terms of PPP contract. Although the legal frameworks in general respect fundamental EU principles, they still have to be aligned with new EU directives and consider other relevant regulations to enable good practice in PPP project implementation. This is particularly related to the public financial management principles and budget and expenditure regulations which have to be adapted to the needs of the contracting authorities at the national and regional and local levels. In that context all countries have to align their regulations so as to be compliant with EU rules on deficit and debts.

In practice it is recommended to strengthen realisation of fundamental PPP principles in the existing PPP legal framework and methodologies. It is recommended to distinguish concessions from authority-pay PPP and to avoid mixing both of them in one PPP project<sup>13</sup>. Enhanced planning of public investments shall prevail over straightforward decisions to implement the project using the PPP model. Decisions regarding PPP-type concessions or authority-pay PPPs in planning phase shall be based on the financial cash flows of each project as well as the justified scope of private partner involvement. It is recommended to develop a reliable cost-benefit analysis for each public investment project and assess the affordability of the public authority in charge of the project before making the decision to implement the project using PPP model.

The relevant attention shall be given to the project value and its calculation methodologies and principles. With Directive 2014/23/EU on the awarding of concession contracts<sup>14</sup> it was emphasised that the method of calculating the estimated value of a concession needs to be set out, and should be identical for works and services concessions, as both contracts often cover elements of works and services. The calculation should refer to the total turnover of the concessionaire in consideration of the works and services that are the object of the concession, as estimated by the contracting authority or the contracting entity, excluding VAT, over the duration of the contract. It is recommended to implement these principles to ensure compliance with EU regulations and to contribute to sound financial management.

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<sup>13</sup> CELEX: 32014L0023&from=EN compliant with any EU regulation or international best practice in the field of PPP.

<sup>14</sup> Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the awarding of concession contracts. Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0023&from=EN>

## 4.2 Functioning of the institutions in charge of PPP

In parallel with the legal reforms, most countries have established an institutional framework for PPP implementation and PPP Units as a key institution. Due to the lack of PPP policy, the weakest part in Albania, FYROM and Serbia is a coordination mechanism between different stakeholders. In Kosovo the system is functional vertically and horizontally while in Montenegro it is not functional. Most of the countries have to strengthen the role and capacity of the ministries of finance especially for budget planning and assessing the fiscal impact of the PPP and concessions projects from the long-term budget perspective, monitoring and control of the budget execution and expenditure for PPP (authority-pay) and concession contract (user-pay) implementation. In connection with that, the ministries of finance have to consider debt management strategies to comply with the EU rules on deficit and debts.

## 4.3 Enforcement of the public procurement and PPP law

Although the public procurement laws are to a large extent in the conformity with the EU *acquis*, it is relatively the new systems which are challenging the respective institutions in consistently applying the rules and procedures to establish good practice. In particular this refers to the proper application of the criteria for selection of the private partner in the competitive tender procedure (using the lowest price instead of the most economically advantageous tender). However, there are still cases when restricted procedures are selected to procure for PPP, and PPP contracts are being signed with a sole bidder. The efficiency of such PPP deals is under question as well the value for money of such transactions.

It is recommended to develop methodological guidance and share examples of the PPP-specific parts of tender documents, namely the risk matrix, output specification and payment mechanism. Training and distribution of the best practice on the above-listed issues would contribute to the effective application of the public procurement procedures in practice.

## 4.4 Administrative capacity

The key institutions involved in the PPP project management cycle are still understaffed and not completely operational to be able to fulfil their roles stipulated by the law. Some countries are still lacking the proper guidance and manuals for assisting in project management, while a training programme is provided only in Kosovo. Besides the central key institutions, a wide range of contracting authorities are lacking competences in all aspects of PPP and concessions (legal, technical and financial).

Sufficient administrative capacity is necessary not only to initiate, plan and procure for PPP, but also for the proactive monitoring of operational PPP projects. It is recommended to appoint a PPP project officer for each PPP project to undertake the tasks of transparent monitoring. The best practice of detailed provisions on reporting obligations, as well as the principles and frequency is recommended to be implemented in PPP contracts.

More intensive initial consultations with the private market as well as financial institutions would contribute to the increased quality of PPP tenders in the region. Sufficient administrative capacity in the authorities responsible for PPP should be dedicated to

implementing such consultations. Co-operation between business promotion and investment agencies with PPP authorities should be deemed as the most efficient practice.

#### 4.5 Project management principles

The investigations reveal that in all Western Balkan countries an overall policy framework for PPP and concessions implementation does not exist. As a result, the project identification and preparation is on a case-by case process, not contributing to the replicability of the project and creating a project pipeline in the respective sectors. It is recommended to respect strategic planning principles and to ensure that PPP projects are justified in terms of the strategic objectives of the national and/or regional development of the sector concerned. The compatibility of the economic benefits of the planned public investments with the strategic objectives should be verified before making decisions on long-term PPP commitments.

#### 4.6 Proposals for improvements of PPP environment in WB Countries

On the basis of the findings summarised in the above section, the proposals shall be articulated in the following contexts:

- The objectives set out in the SEE2020 Strategy for creation of a fully liberalised public procurement market in the region enabling private investments in line with the EU Investment Policy;
- The key principles of public administration related to public financial management as defined in Chapter 6 of OECD/SIGMA
- Standards and rules in particular with the EU Directives on public procurement (PP) including PPP and concessions and the benchmarks for Chapter 5 . PP of accession negotiations met; and
- Application of fundamental project management principles.

Furthermore, the proposals shall be primarily focused on the steps to be taken in order to bridge the gaps in PPP project implementation and are intended to be beneficial for decision makers in the national institutions responsible for public procurement policy, including public private partnerships and concessions, PPP practitioners and for the national training institutions.

#### 4.7 Strategies and Policies for development of public infrastructure

- Envisage a proper strategic framework for PPP implementation, setting up long-term goals compliant with different national horizontal (sectoral) and vertical (national, regional, municipal) development strategies and in line with EU 2020 priorities;
- Ensuring the political support crucial for successful PPP implementation through adopted strategies and action plans;
- Improving communication with all the relevant stakeholders and the general public at the national and local levels through an adequate communication strategy;
- Improve the dataset on PPP projects for promoting the advantages and benefits of the PPP model for citizens; and
- Ensuring support from other relevant international organisations to gain partners in establishing best practice.

#### 4.8 Institutional and administrative capacity for PPP implementation

- Perform an analysis of the functioning of the key institutions identifying the main obstacles and bottlenecks;
- Further endeavour to fine-tune the laws and secondary regulations for alignment with the EU *acquis* enabling a smooth and efficient PPP procedure;
- Conduct a review of the role of the PPP Units or other institutions responsible for PPP and determine the scope of their functions for avoidance of conflicts of interest;
- Envisage the strengthening of the PPP Units through the available resources (either funding or technical, such as IPA, UNECE International Centre of Excellence, EPEC, WB Institute, IFC, etc., bilateral assistance);
- Development of an adequate training programme for different target groups with assistance of the national training institution and international organisations; and
- Development of the necessary guidance, manuals, methodological tools and standard documentation for establishing good and harmonised practice.

#### 4.9 Proposal for further interventions and joint initiatives (technical assistance, training programmes, development of tools, infrastructure project plan development, etc.)

Given that the majority of the existing gaps are identified in the PPP project cycle management assessing weak institutions which lack the necessary competencies, it is proposed to:

- Consider a multi-beneficiary project proposal addressing the available granters (IPA) or donors designed to cover the most common needs of the countries;
- Insist on ReSPA visibility in the national public administrations for promoting the opportunity to strengthen administrative capacity in different areas including PPP;
- Assist in development of curricula and training programmes together with the national training institutions based on the findings of the study and the outcome of past ReSPA activities and analysis;
- Assist in development of materials for providing modern learning platforms in the domain of the novelties in public policy on EU and global level; the concept of  $\pm \cdot \{ \text{æ}! \text{ c } \acute{\text{A}} \& \tilde{\text{a}} \text{ c } \tilde{\text{a}} \wedge \cdot \text{ q L } \acute{\text{A}} \} \wedge , \acute{\text{A}} \sim \sim \} \acute{\text{a}} \tilde{\text{a}} \} * \acute{\text{A}} [ ] ] [ ! \text{ c } \sim \} \tilde{\text{a}} \text{ c } \tilde{\text{a}} \wedge \cdot$  technologies; cross-cutting issues with other relevant fields; and
- Assist in identifying the available programmes for application of joint initiatives (EU, multilateral and bilateral).



## ANNEX 1. FINDINGS ABOUT OPERATIONAL PROJECTS IN WB REGION

### 1. Airports

The history of the airport dates back to 1965. The trigger for the project was demand for investments to expand the passenger terminal, as well as parking infrastructure and to contribute to enhanced quality of aviation services: air-traffic control and hangars for large aircraft.

Before entering into a concession agreement, Prishtina International Airport was operated by a financially stable, publicly-owned enterprise (hereinafter referred to as the POE). After the concession agreement was signed, the passenger services were transferred to the concessionaire and the air navigation services remained within the POE.

As a result of the concession a new 42,000 m<sup>2</sup> terminal building was constructed, 1,750 parking lots for vehicles constructed and a new air-traffic control building and hangars for large airplanes. The scope of the concession includes operation of airport services, both airside and landside for 20 years. An estimate of capital investments accounts for 100 million EUR. Based on the contract, the concessionaire will also share 39.42 % of the overall airport turnover, which is expected to account for 400 million EUR annually.

The result of the concession is that the new terminal was inaugurated on 23 October 2013<sup>15</sup>.

The private concessionaire is profitable while air navigation services are financially not sustainable for POE.

The main criticism is directed towards the decision for the financially unbalanced split of airport services. The decision to enter into the concession was also criticised because it was affordable for POE to make investments on its own and to continue the supply of both passenger services and air navigation.

Prishtina International Airport was awarded the title of 'Leading Airport in Europe' in 2015<sup>16</sup> together with the main European airports in Spain, Germany, United Kingdom and France. It is a significant achievement for an airport in the WB region.

Nowadays the Prishtina international airport concession is managed without a dedicated project management team. As this team is lacking, the contract management is provided by the PPP Department itself. However, the PPP Law does not give the PPP Department any role in contract management, except for the obligation to monitor and issue opinions regarding the level of compliance of a contracting authority and a private partner with the terms of a PPP agreement. Pursuant to the PPP Law, every contracting authority is required to establish a professionally qualified contract management team to monitor and enforce strict compliance by the private partner with the terms of the PPP agreement.

There is a positive issue on the subject of the management of Prishtina international airport that representatives from the PPP Department were involved in the design and

<sup>15</sup> <http://www.airportpristina.com/company-profile/history>

<sup>16</sup> <http://www.worldtravelawards.com/award-europes-leading-airport-2015>

negotiation of this particular PPP agreement. Although the need to find a substitute for the PPP Department to manage the contract is perceived, the tenders launched for consultancy services have not succeeded. The insufficient maturity of the PPP market in the country is the presumed reason faced by the public authorities.

It is most likely that the value for money achieved as a result of the concession is not being properly articulated by the public authorities in charge of the concession. Dissemination of the economic impact of the concession would be beneficial for increased awareness of PPP practice in the region. Successful PPP project performance is suggested to be communicated to the stakeholders as well as to the society.

### 7-year BOT (Build, Own, Operate and Transfer) Concession

The history of the former Rinas Airport in Tirana, nowadays named Tirana Nënë Tereza International Airport, dates back to 1957.

The history of the concession started on 17 August 2000 with Decision No. 457 of the Albanian Government regarding development of a master plan and feasibility study for granting concessions for the construction of a new passenger terminal at Rinas Airport, based on the enforced Law on Concessions No. 7973.

The public authority in charge of granting the concession was the Ministry of Transport as the administrative body of the airport and the Ministry of the Public Economy and Privatisation as the state owner. Financial assistance to obtain an external consultancy services was provided by the World Bank.

The trigger for the concession was the necessity to increase the number of passengers through the construction and modernisation of the terminal.

The concessionaire received the exclusive right to perform international flights within the territory of Albania for 20 years. Tirana Airport Ltd is an SPV, established by:

1. HOCHTIEF AirPort GmbH . a subsidiary of the world leading construction group with an airport specialisation. The company has divisions acting in the airport sector in Germany, Albania, Greece, Hungary, Australia and the UK<sup>17</sup>.
2. DEG - Deute Investitions-und Entwicklungsgesellschaft mbH ("DEG") . a subsidiary of KfW which is a well known financial institution active in developing markets<sup>18</sup>.
3. The Albanian American Enterprise Fund . a US corporation established pursuant to the Support for East European Democracy Act of 1989 with the purpose to promote the private-sector development of Albania<sup>19</sup>.

The Concessionaire Agreement which was passed by the parliament by Law No. 9312 dated 11 November 2004. (<http://80.78.70.231/pls/kuv/f?p=201:Liqj:9312:11.11.2004>) was signed with this company.

The approved Concession Contract provides for all the procedures and ways of monitoring this contract which envisaged the establishment of a PIU composed of five people from the contracting authority.

<sup>17</sup> <http://reports.hochtief.com/ar07/39.chap>

<sup>18</sup> <https://www.deginvest.de/International-financing/DEG/Die-DEG/>

<sup>19</sup> <http://www.aeef.com/>

The concessionaire is obliged to report only during the construction phase of the airport and now the airport is in the phase of operation, but obviously the PIU is for the entire period of the concession and receives information whenever it wants and considers necessary.

One of the main goals of this contract was certainly the construction and modernisation of the terminal in order to fulfil the target of increasing the number of passengers. The contract also put more emphasis on the quality of construction than on the projected value of the investment. According to calculations made by consultants and cited even in the report that accompanied the Law, the Albanian state would benefit from this Concession by about 124 m<sup>3</sup>. Reports on the efficiency of the PPP contract would contribute to increased public awareness of the advanced benefits created for the region by international private companies.

## 2. Urban Transport Services concession in Peja (Kosovo)

The absence of an efficient public transportation services in the Municipality of Peja was the main triggering point to initiate the project. Transportation services for the population were provided by multiple private buses and taxis. Such a situation resulted in traffic overload and congestion as well as air pollution. The goal of the Municipality of Peja was to increase the efficiency of public transportation services and to increase the number of passengers using public transport.

The project was approved by the PPC in September 2011, and the contract was approved on 17 April 2012. The scope of the concession agreement is the transfer of an exclusive right for 10 years to the concessionaire (i) to provide transportation services, (ii) to install and maintain bus stops, (iii) to collect fees for providing transportation services, and (iv) to collect rent for giving usage of the advertising spaces near bus stops and buses in accordance with the concession agreement.

Problems emerged immediately after the entry into force of the PPP agreement. The municipality failed to ensure the exclusivity rights granted to the concessionaire as it did not with other transport operators, which significantly affected the revenues expected by the concessionaire. Discussions between the concessionaire and the municipality seem to have led to no viable solution and, according to the PPP Department, implementation of the PPP agreement has been suspended. There is no information on whether the concessionaire is planning to initiate legal proceedings against the municipality for breach of the PPP agreement.

**Comprehensive management of risks within the public authority is of equal importance to the success of each PPP project. It is recommended to disseminate the lessons learned within the region and to increase understanding about the possible impact of risk management among public authorities.**

### 3. Public transport in suburban areas on the territory of Topola municipality (Serbia)

The concession agreement was signed recently on May 2015 for 5 years. The project is included into Strategic programme of sustainability of municipality of Topola, priority I<sup>20</sup>. Based on the needs of potential passengers the bus time-table, the list of minimal technical, personnel and financial characteristics for selection of the private partner were developed and included in tender documents. Duration of tendering was 5 months, the selected procedure was the open tender.

Before launching a tender pre-feasibility, feasibility and cost-benefit analysis have been developed. The note was provided by the responsible authority, that cost-benefit analysis is not an integral part of project documentation, since it has been performed in a free form to determine feasibility of the project and the optimal transportation prices. The affordability of the project was assessed taking the starting point of the total expenditure to be incurred by the private partner and the number of the expected passengers and their trips.

According to the contract, private partner provides vehicles and supply transportation service and collect fees from the passengers. Municipality provides reimbursement for transportation of specific categories of passengers that are using the transport for free (pensioners, students, etc.). If expenditures are higher, he has the right to appeal to Municipality of Topola for increase of ticket price of transportation.

financing, value of risks transferred to private partner and retained within public authority. No SPV has been established: the following companies have been awarded: PUPD „Janjusevic, Priboje

**The decision to run PPP contract without the established SPV can result in a threat to the addressed cost of public services. In the particular case, the ticket price can be increased if private partner incurred more operational expenditures than expected. At first this means that operational risk is shared between public and private authorities. Secondly, if private partner has no separate financial accountancy for the concession agreement, the threat that operational expenditures from his activities not related with the concession contract can be included becomes significant.**

### 4. River Devoll Hydropower Concession Project (Albania)

The scope of the project is concession for the construction of hydroelectric power plants on the River Devoll Cascade.

As in the case of the Kalivar Hydroelectric Power Station which was granted on concession, the Devoll Cascade project was the result of an unsolicited project proposal submitted from the company EVN AG (Austria). Thereafter, the head of the Contracting

<sup>20</sup> Available on [www.topola.com](http://www.topola.com), page 89.

Authority issued an order decision No. 463, dated 18 July 2007 on starting the procedures for the granting of concessions for the hydroelectric power stations on the River Devoll Cascade.

After the approval of an order, the Documents Drafting Unit and Bids Evaluation Commission (BEC) for this concession was established according to the enforced legislation (law No. 9663/2006) was approved.

After the BEC approved all the tender documents, the Documents Drafting Unit published the Bulletin of Public Notice No. 32, dated 13 August 2007 at the PPA and in two national daily newspapers: KOHA JONE and PANORAMA, during the period 6. 8 August 2007 and in the Financial Times newspaper during the period 6. 8 August 2007 in three consecutive issues.

The competition for the evaluation of bids for granting the concession for hydroelectric power stations on the River Devoll Cascade from 806 m asl and 95 m m asl including all tributaries was opened on 19 November 2007 at 11:00.

Only 2 bidders out of the 12 companies that had purchased the bidding procedure documents, namely the companies "Landsvirkjun" (Iceland) and "EVN" took part in the competition.

The companies that withdrew their competitive procedure documents were:

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No electronic public procurement was available these days thus the physical envelopes were opened in the presence of all the members of the BEC and the representatives of the two bidding companies.

The BEC, after taking into consideration the offer submitted by the company "Landvirkjun" found that it did not meet the legal, financial and technical requirements necessary to qualify in accordance with the Terms of Reference (ToR).

Under these circumstances, based on the legislation in force, the BEC unanimously decided to disqualify the bid submitted by the company "LANDSVIRKJUN". Meanwhile, the BEC & [ ] • ã á ^ | ^ á Á c @ ^ Á à ã á Á • ~ à { ã c c ^ á Á à ^ Á c @ ^ Á & [ { ] æ } ^ Á Ä Ò X I accordance with the Terms of Reference.

Based on the bid submitted and technical evaluation made by the BEC, the company "EVN AG" with the following criteria:

- < The total installed capacity 319 MW
- < Annual Average Energy output 985,400 MWh
- < Concession Fee 2% until the initial deadline  
4% until the additional deadline
- < Construction timeframe 6 years
- < Pumping Capacity Potential 668%
- < Optimal observation of ecological and environmental impacts
  - o Minimal flood area 2,317 ha
  - o Insurance of minimal flow at the river natural bottom 15.6%
  - o Minimal visual impact 66.7%

Since "EVN AG" qualified as the only bidder, it was assessed with points according to the evaluation criteria and was awarded 100 points (maximum).

Based on the business plan submitted by "EVN AG", the construction of three (3) hydroelectric power stations: Lohan, Grabove, Skanderbeg, Druze and Banja was proposed. For its construction, the company invested in civil construction work and about 10% of the total installed capacity of 319 MW and electricity output of an average year-long flow of 985,400 MWh. Funding would be made through the equity of the company itself. Revenues from this investment would be ensured through the production and sale of electricity. The electricity sale price would vary depending on several factors (day/night, home/abroad or combinations thereof). Maintenance, administrative and personnel costs would form the majority of the operational costs. Based on the requested internal rate of return on investment of 6.5% (which reflects the specific risk of the project) putting into operation of these hydroelectric power stations would last for a period of six years.

After intensive negotiations, the concession contract between the parties was signed. It was approved in Parliament through law No. 10038, dated 23 February 2009.<sup>21</sup> The total duration of the PPP contract was 35 years under "initial terms" and automatically extended until the earlier of (i) the end of the calendar year in which it is determined that the IRR Achievement Event has occurred and (ii) the end of the calendar year in which the Production Achievement Event occurs (the "extended term").

A joint working group between the public and private partners, consisting of four high-level members, two from each side, was set up to monitor this contract.

**The situation when 12 participants expressed their intention to bid for the project but only 2 submitted their bids most likely means the poor quality of**

<sup>21</sup> <http://80.78.70.231/pls/kuv/f?p=201:Ligj:10083:23.02.2009>

**the project itself or tender documents. It is recommended to consider consultations with the market to explore the reasons why number of participants has reduced so significantly instead of proceeding with an award of the single bidder.**

## ANNEX 2. FINDINGS ABOUT WB PROJECTS IN TENDER PHASE

### 1. Kalivar Hydropower Project (Albania)

In March of 2013, the company "BE IS" LLC, in accordance with concessionaire procedures, submitted to the Ministry of Energy a project proposal for the construction of the Kalivar Hydroelectric Power Station, which exploits the flow of waters of the Rivers Kimza and Mesul in the Municipality of Dibra.

A State Technical Review (STR), composed by 12 experts, created specifically by the Ministry of Energy and Industry (the Contracting Authority) made the technical and environmental due diligence of the project proposal, while a special working group set up at the Ministry of Energy and called the Project Proposals Identification Group assessed the economic and financial impacts of the project. It evaluated this project as one of public interest and awarded a bonus of 2% of the points (based on its technical and financial results).

Generally, an unsolicited proposal refers to a situation where the identification of the object of the concession is made by a private partner. In this case it presented a feasibility study to the Contracting Authority (CA). Based on its technical and financial results, the CA gives a bonus of up to 10% of points, which serves as a bonus during the bidding evaluation procedure. We would like to clarify here that such a procedure is specified in the legislation for concessions and this is the case with an unsolicited proposal when a private partner identifies and performs a project for taking on a concession for one or more hydroelectric power stations within the basin of an assigned area.

The bonus and the determination of the Contracting Authority were approved by the concession for Kalivar Hydroelectric Power Station that commenced after the concessionaire procedure CMD No. 608, dated 24 July 2013, was issued.

All other steps were undertaken at a later stage and the date of 19 November 2013 was set for the development of the competition procedure. However, with the change of the central government, it was found that the concession procedures were in accordance with law No. 9663/2006, while the concessionaire procedures commenced after the entry into force of Law No. 125/2013. Therefore decision No. 608, dated 24 July 2013, on the awarding of a bonus and the starting of the concessionaire proceeding was abrogated by CMD No. 922, dated 4 October 2013.

Consequently, the project identification was already finalised and the Contracting Authority turned it into a competitive procedure for selection of concessionaire in compliance with the proposal already required by the state, pursuant to the enforced law No. 125/2013 on concessions and PPP.

Additionally, pursuant to the Order of the Minister "On the establishment of the commission for granting Kalivar Hydroelectric Power Station on concession" No. 58, dated 3 March 2015, the Commission drafted and then approved the Standard Documents of Concession for Kalivar Hydroelectric Power Station in accordance with the legislation on concessions and Standard Documents of Concession Type, which were compiled by the Public Procurement Agency (PPA), with the following basic data:



*Comparative Analysis of Lessons Learned from Recent Development in Implementation of Public Private Partnership Projects in the Western Balkans Region*

- The type of procedure would be an "open" one;
- The deadline for the submission and opening of bids would be 26 May 2015 at 12:00 noon;
- The period of validity of the bids was 150 days;
- The term of validity of the Bid Provision was 180 days.

Thereafter the concession procedure of PPA, dated 29 March 2015 with reference No. 90263-03-29-2015 was entered into the electronic procurement system.

On 26 May 2015, the date assigned for the opening of the bids in compliance with the Standard Documents of Concession, the bids delivered for this competitive procedure were opened and two bidders had delivered their offers, namely:

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The bids summarised, referenced in Appendix 1 of the CSD (ToR . Terms of Reference), completed and signed were as follows:

No.	Criterion	Measurement Unit	BE-IS LLC.	> J · Í ; ; ^ G · / · Í B ] _ U
1	Annual output of electricity	kWh	24,474,521	14,170,827
2	Installed power	kW	5,472	3,270
3	Time of works execution	Month	12	12
4	Value of investment (without VAT)	ALL	465,326,140	380,802,530
5	Cost per unit of machinery and equipment per installed kW	ALL/kW	40,000	39,623.85
6	X æ   ~ ^ Á [ ~ Á % Ø [ } & ^ • • ã [ (expressed in % of annually produced electricity)	%	4.7	4.0
7	Money value paid to the Contracting Authority as a result of the granting of concessionaire rights	%	1.0	0.7

The legal, economic and technical qualification documents were initially considered and after its evaluation, it was concluded that:

- "BE-IS" LLC. had submitted all the required documentation in accordance with requirements set out in Appendix 9 of the CSD.
- V @ ^ Á Ú ! [ ç ã • ã [ } æ | Á W } ã [ } Á [ ~ Á c @ ^ Á & [ { ] æ } ã ^ • Á % Ø È Õ R È Ù Á Õ ! [ ~ ] + submitted a bid which did not comply with the qualifying criteria according to appendix 9 of the CSD.

Consequently, the Commission decided to disqualify the Provisional Union of the companies "F.G.J.S Group" LLC and "Nika" LLC. due to not meeting the legal, economic, financial and technical qualification requirements under appendix 9 of the CSD (the bidder was notified by letter No. 132/34, dated 22 July 2015) and continued with the technical evaluation of the project proposed by "BE IS" LLC.

After examination of the technical documentation it was verified whether the bidder "BE-IS" LLC had submitted the environmental, hydrological, geological required studies, etc. as well as the technical solution for the power plant operation. The latter was complete, justified and the project abode by the terms of reference.

The total hydropower parameters according to feasibility study will be:

- < Installed power (kW) . 5,463 kW
- < Average annual energy output kWh . 24,474,521 kWh/year

first and only bid and assessed the bid presented with points according to the criteria specified in the bids form as follows:

Assessment in points:

No.	Criterion	Max. points	Bid points
1	Installed power (kW)	25	25
2	The duration of works implementation (month)	20	20
3	Electricity output (kWh)	15	15
4	Economic and financial analysis	15	7
5	annual electricity)	9	9
6	Money value	5	5
7	The cost of machinery and equipment per installed kW of power (ALL/kW)	5	5
8	Ecologic and social impact	3	2
9	The scheme for connection of the hydroelectric power station with the electrical energy system	3	3
	TOTAL	100	91

Based on the offer presented by "BE-IS" sh.p.k., the total value of the investment for the construction of the hydroelectric power station is to be 465,326,140 ALL for the installed power of 5,463 kW and electricity production of 24,474,521 kWh. It is expected that the investment project will become profitable with these key performance indicators:

- Positive Net Present Value (NPV) of over 744 million ALL;
- Internal Rate of Return (IRR) of about 23.7%; and
- ISS (Investment Self-Settlement) of about 6 years.

The investment was considered feasible after the sensitivity analysis was performed.

Following the decision of the Commission for the classification of "EU IS" sh.p.k. as the sole bid with a total of 91 points and the disqualification of the Provisional Union of the companies "F.G.J.S Group" sh.pk and "Nika" sh.p.k, the latter turned to the Public Procurement

**Readiness of public authority to implement a project is considered as very low as decision to implement a project is initiated and proposed by the private partner only. The basic issues are unclear such as 1) is the project implementation relevant to strategic objectives of the country; 2) is the bid selected for award delivering value for money and 3) is PPP the optimal solution for this project to be implemented.**

## 2. Milot Morine Highway (Albania)

The Ministry of Transport and Infrastructure of Albania (MTI) has decided to offer a concession for the road between Milot and Morine as part of the Development Strategy of the Traffic System in the Republic of Albania.

The road concerned is 114.5 km highway consisting of three sections of varying standards; it has limited need for expansion; an annual average traffic of 4,100. 6,400 vehicles per day, with traffic peaking in the summer months . a high proportion of leisure traffic; the road is considered to be the first tolled road in Albania; a challenging mountainous terrain with numerous cuts and embankments, some of which are geotechnically unstable; the largest twin-bore tunnel in the SEE region . the 5.5 km Thirra tunnel (the figure with project map is provided below).

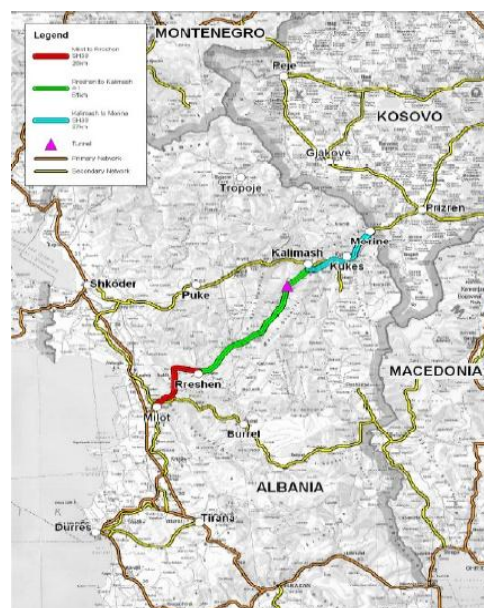
An international consultants are hired to deliver:

1. Comprehensive assessment of the Project (technical, legal, financial and environmental due diligence);
3. Services of structuring PPP transaction;
2. Draft of tender documents, including the Concession Agreement;
3. Communicating Project to investors and lenders;
4. Negotiations with short-listed investors;
5. Assistance in implementation of the tender process.

The estimated value, according to the pre-feasibility study carried out by the Contract Authority (CA), of the project is between 38 and 43 million " € Á

The procedure for the concession/PPP project of the Milot. Morine highway is planned to be carried out in two phases:  
- The first phase of prequalification and the second phase of assessment of the bids and announcement of the winner. The following prequalification procedure is selected:

MTI published an invitation for prequalification:



- (a) U } Á c @ ^ Á T V Q q • Á [www.transport.gov.al](http://www.transport.gov.al) on 16 February 2015, at 15:00;
- (b) On the Infrastructure Journal website [www.ijournal.com](http://www.ijournal.com), on 16 February 2015;
- (c) In the Financial Times newspaper on 16 February 2015; and
- (d) % Õ æ : ^ c æ Á Û @ ã ] c æ ! ^ + Á æ } á Á % Õ 16: February 2015 @ ã ] + Á } ^

The MTI published the contract announcement, including this Requirement for Qualification and key terms of the Concession/PPP agreement on the official website of the Public Procurement Agency ([www.app.gov.al](http://www.app.gov.al)) on 16 February 2015 at 15:00.

After submitting the Request for Prequalification, potential bidders will be evaluated in relation to the requirements and criteria set out in the attached instructions for potential bidders.

Potential bidders found to meet the requirements and criteria of the prequalification process will be called "Prequalified Bidders".

Prequalified Bidders will be invited to participate in the second phase of the competition procedure.

The qualification requirements should be submitted by 15:00 local time on 23 September 2015 at the address of the Ministry.

The prequalification requirements will be evaluated by the Bid Evaluation Commission set up by the MTI. The Bid Evaluation Commission will finish its assessments within 60 days of the final deadline of the submission of the Applications for Prequalification. The MTI will publish the list of prequalified bidders in the Public Announcement Bulletin within 30 days of the date this decision was made.

Currently the public authority is in the stage of prequalification, since about 10 entities have expressed their interest (provisional unions or companies).

After this phase, the financial and technical bids are assessed and the Commission will come up with a decision.

Following the signing of the agreement, both parties typically need to carry out several obligations before the Concessionaire can start construction and take over Operations & Maintenance:

Land expropriation: the Government needs to provide the necessary land for construction activities within the rigorous timeframe in order to allow the construction to start;

Financial closure: the Concessionaire must secure necessary financing from lenders and equity partners in order to allow the construction to start.

Design and permission: the Concessionaire must prepare all the necessary documentation and designs and apply for all permits in a timely manner;

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The five employees of the Contracting Authority will monitor the Concession Contract and the manner of reporting and oversight will be defined precisely in the Concession Agreement (contract).

**The competition for the project is sufficient. The distribution of risks according to the information provided is highly relevant in regard to the party who is better at management of the particular risk. However, government is considered as being in better position to undertake management of some**

**macroeconomic and /or legal risks<sup>22</sup> which most likely are not very significant in value but important for the success of the project in a long run.**

### 3. Buroj OZONE O3 concession (B&H)

Although the project has been classified as concession, officials from the Municipality of Trnovo who are responsible for project development have decided to apply for the project questionnaire filled by the national expert is negative experience faced in cooperation with other levels of governments and institutions of public administration in B&H.

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Municipality of Trnovo signed the Memorandum of Understanding (MoU) and contract on development of documentation for infrastructure and physical planning with this private entity Buroj OZONE O3. The scope of the project according to MoU and the contract for development of documentation consists of construction of hotels, apartments, villas, market places, health centres for approximately 40 thousand inhabitants on 137 00 hectares of the land in Municipality of Trnovo. The planned duration of possible concession is planned for 99 years what is not compliant to universal traditions on duration of PPP contract. The indicated total p! [ b ^ & c Á ç æ | ~ ^ Á æ & & ~ { ~ | æ c ^ á Á ~ [ | Á G È H Á à ā | | ā [ ] Á " Ê Á [ ] ". It is planned to rent the land necessary for construction of the touristic city and award concessionaire with concession right for construction. At the expiration of the concession contract all facilities might be transferred to municipality or sold.

At the project preparation phase municipality took responsibility to develop physical and urban plans as well as infrastructure project plans while obligation of investor is to pay for development of the documents necessary for construction of the assets. The private entity is in the process of setting up local construction and operation company SPV, as well as drafting the business plan.

Project teaser is available at <https://www.youtube.com/watch?v=2Goijl9aN5A>.

**No public service is addressed with the project. The public interest in the project is not clearly set. Most likely the transaction has to be classified as privatisation of the land or green field investment into free economic zone or similar territory. The duration of possible concession agreement is too long in terms of ability to determine mutual obligations and liabilities for 99 years. Threat of possible negative impact to municipal budget in terms of direct and/or contingent liabilities shall be deemed as obvious.**

<sup>22</sup> Such risks can be inflation risk, also risk of increased tariff for VAT and/or profit tax and similar risks relevant to the project.

#### 4. Bar Boljare Motorway (Montenegro)

The idea of constructing the Bar. Boljare Motorway dates back to the 1960s. In late 2007 the World Bank (WB) was selected as the advisor on the model of financing the project. The WB suggested the PPP model as more appropriate than a conventional loan. The Law on the Participation of the Private Sector for the Delivery of Public Services was not suitable (it covered only BOT arrangements) for such a complex and huge PPP project. Therefore, a *lex specialis* procedure within three months. The WB conducted an analysis of the optimal model of PPP through the IFC, which became the leading adviser of the Government of Montenegro for this project. It led the preparation of tender documents; hired a technical entity from the United Kingdom, which developed a feasibility study and due diligence of the complete technical documentation, subcontracted a legal adviser, a French company to work on the *lex specialis* and to develop a contract for the concessions and PPP.

Even PPP specific parts of the tender documents were developed: IFC developed the risk matrix, tailor-made PPP contract, etc. The Bar. Boljare Motorway project is included in national strategic planning documents, such as the Spatial Plan of Montenegro 2020 and the Transport Development Strategy, as well as in detailed spatial plans. The IFC with its subcontractors developed a feasibility study of the project, cost-benefit analysis of the project, certain elements of market analysis, an environmental impact assessment, a technical project for construction works, tender documentation for selection of the private partner. The Real Estate Evaluation Report was done only roughly because the design study was not in place. There was only a general study for the complete route available that included three options, and it was too costly to do an assessment for each of them. Expropriation was the responsibility of the state and the state has done the preparation. The rough assessment of the real estate value was about 25 m<sup>2</sup> €

Preparation for the tender took 10 months. Supervision of the preparatory process was delegated to Monteput<sup>23</sup>. The tender was prepared by international and local experts that also involved academic staff (the IFC guided the selection). An affordability analysis was conducted and the risks were calculated following the analysis. It was calculated that tolls would not be sufficient to repay the investment and the analysis proposed additional guarantees for the repayment which minimised the risk for the private partner. The capacities of the private sector and financial institutions were analysed superficially only. The level of competition was not assessed. The rationale for such a decision, based on the reasoning that improvement of the infrastructure can raise the attractiveness of Montenegro as a corridor in the WB, includes the Bar. Boljare Motorway, and its regional character contributes to interconnectedness. The motorway was considered a need and in the public interest. The Ministry is coordinating its activities with counterparts from Serbia in order to enter the

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<sup>23</sup> Monteput is in charge of: i) The organisation of the tunnel "Sozina" and access roads (building and electro-mechanical maintenance), management and monitoring of traffic, tolls, fees for leasing the road land and putting up signs on the road land; ii) Professional supervision of construction, engineering supervision, preparation of project documentation, preparation of tender documents and other jobs related to technical preparation, engineering, consulting and management; and iii) Performing other duties as assigned by the Government in connection with the development and construction of highways and road facilities in the Republic of Montenegro.

European project of WB Infrastructure by 2030 and plans to connect the Bar. Boljare and Ecoris created options for private-sector participation. A certain level of flexibility was introduced, because the Ministry had to guarantee intensive traffic.

In 2008 the EBRD in London conducted a road-show. The Bar. Boljare project was promoted then, and information was published in the *Financial Times*, and on the website of international financial institutions, as well as on a local website. The tender evaluation team was formed and it differed from the team that prepared the tender. The project information memorandum, prequalification criteria, expected schedule and stages of the tender process, tender evaluation criteria, output specification, PPP contract, risk matrix, and payment mechanism formed part of the tender documentation.

Private sector was involved through information announced in international databases, a website, and events. The IFC followed the procedures of the World Bank in this respect, and the Government announced the tender in a local newspaper.

The project was procured in two stages. The Law on Public Procurement was exempted, and the international best practice applied. The private partner was asked to suggest a model for financing a project. The IFC advised the phasing of the Bar. Boljare Motorway project: i) to complete the highway; or ii) to complete just a route that was considered a priority one. That information was included in the invitation for prequalification. Over the prequalification procedure, the legal and technical aspects of the consortiums and companies were assessed, and those that met the criteria passed the evaluation of the financial offers in the next procedure. The 11 initial offers were reduced to six that went on to the second stage. The tender procedure was supposed to last for six months, but due to the global crisis, the first-ranked bidder asked for an extension to the deadline because of time necessary to negotiate with financial institutions, so the deadline was prolonged for three additional months.

The estimated CAPEX calculated as the net present value was 601 million euros. The criterion for assessment of the bids was the net present value.

The bid offered by the private partner included the value of risks transferred to private partner, value of risks retained by public authority and value of financing costs were included in the calculations. The private partner was allowed to assess the expected level of traffic and Government was willing to take on part of the surplus or deficit. The first-ranked bidder accepted 100% of the risk. The Ministry offered risk sharing of 50. 50, and the same proportion for the profit.

The PPP Contract for Bar. Boljare Motorway was not signed. The project is financed as a classical loan project for now. From 2010 the Ministry was negotiating with Chinese companies to conduct it as a PPP, even offering a hybrid model of the combination of both private and public financing. China's policy changed to the countries of Europe in 2012 when their Prime Minister announced a preferential credit line to 16 countries, among which was Montenegro. The preferences are set through a five-year grace period, a 20-year repayment period, and 3% fixed interest rate. Negotiating the credit, the Ministry of Traffic and Maritime Affairs obtained favourable conditions. A six-year grace period, 2% fixed interest rate, and it decided to conduct the project through the loan.

**Generally PPP is not limited to participation of private banks in project financing. Whenever any kind of private financing for this project is received it will not mean that this project is a PPP project. Transfer of any risks like**

**design, construction, operation and maintenance, demand or other risks can mean that PPP model is under consideration.**