

# PUBLIC-PRIVATE PARTNERSHIPS: A PROFITABILITY ANALYSIS OF THE PARTNERSHIPS IN THE ENERGY SECTOR IN ALBANIA

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## Abstract

The aim of this study is to realize an analysis of public-private partnerships (PPPs) in Albania. Our focus will mainly be the PPPs in the energy sector. Public-private partnerships contracts have experienced a significant increase in the last decades in Albania. They have had a great impact on public finances of the country, this is why they have often been “attacked” for the negative impact that they might have on the actual and especially the future of the country. We will work to make a comparative analysis of the cost and benefits that Albania has had from signing these contracts. We will also work to analyze the management of these public-private partnerships during the pandemics, which will be helpful to reveal the possible difficulties that the government might have in managing them. Something that has inspired us to make a deeper analysis of them is related to the energy crises that the country has experienced in the last years. We want to “dig” deeper in order to see if these PPPs are really worth it or not. Is it worth or it brings a burden for the actual and future generations of Albania?

## 1. INTRODUCTION

Public-private partnerships (PPPs) are seen from different points of view, by taking into consideration the legal components, the financial aspects, etc. They have often been subject to public discussions and debates, which may be related to the great impact that they have. We are now living in a moment, in which the pandemic situation of COVID-19 has changed significantly many things for everyone, including here individuals, organizations and governments. If we see the impact that COVID-19 has had on Albanian economy, it has been really significant.

COVID-19 found Albania in a difficult moment when the country was working to get recovered from the negative consequences of the earthquakes of the previous years. Despite the significant number of lives lost, the earthquakes caused an unpredicted increase in public expenses. Governmental finances are still experiencing a delicate moment, in which the level of the public debt is reaching the highest levels. PPPs have often been part of hot discussions, because of the significant weight that they have, by reaching the highest level with 35% of the gross domestic product (GDP) in 2020. They have often been blamed for the negative impact that might have, not only on the actual situation of the public finances but also on the future, since they may cause a burden for the future generations of Albania.

## 2. LITERATURE REVIEW

Public-private partnerships are one of the issues that have often been the subject of hot debates, due to the significant impact that they have. Below we are making a summary of some of the main information revealed from the literature review.

Costantinescu (2012) has focused on public-private partnerships in the case of health insurance services in Romania. They emphasize the fact that PPPs serve as a better option when talking in terms of the cost of the product/service that are offered through them. Their research revealed that the efficiency of the health insurance services gets improved by choosing public-private partnerships, which comes from the combination of the characteristics of both sectors.

Gjini (2017) has focused on the usage of public PPPs as a way to improve the quality of public services in Albania. What this research emphasizes is related to the importance that needs to have the legal framework, anyway they emphasize the fact that despite the negative effect that they might have they are a better option than total privatization. Overall, PPPs bring out acceptable results, but there are also some problems like unreliable competition, inefficient study, etc.

Keçi (2020) get focused on the analysis of public-private partnerships from a legislative point of view, as well as the risk management in Albania. They emphasize the positive fact that there is

a dedicated unit for the development of PPPs, as well as the fact that these agreements allow a phased construction. This may help in eliminating the overvaluation of the costs. Regarding the weaknesses of PPPs, they mention the poor competition, unsolicited proposals, lack of valuation of sustainability, etc.

Liman et al. (2021) analyze PPPs in the case of hemodialysis in Nigeria, by getting focused also on the profitability comparison with the private subjects that operated in this field. They revealed that these partnerships had helped in increasing the availability of dialysis service, but not in improving kidney transplants. They suggest the possibility for additional PPPs in this field, or better management of these services even when talking about the private sector, which might be focused more on the profit rather than on the quality of the services that they offer.

### **3. AIMS AND METHODOLOGY**

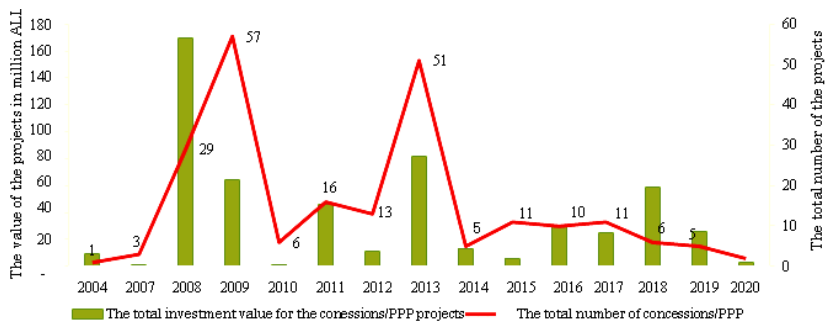
The aim of this research is to realize an analysis of PPPs in Albania. Our work will mainly consist of the PPP contracts that are signed in the energy sector in Albania. The government has signed some PPP contracts in the energy sector that have had a really important impact on the government budget as well as on the economy. We will work to discover the efficiency of these contracts, as well as to make a cost-benefit analysis. Our analysis will mainly be based on secondary information and will be a combination of qualitative and quantitative analysis. Some of the main objectives of our study are:

- to analyze the evolution of PPPs in Albania in the last decades;
- to reveal the impact of COVID-19 in PPPs in the energy sector;
- to analyze the efficiency of PPPs in Albania;
- to make a cost-benefit analysis of PPPs in the energy sector.

### **4. PUBLIC-PRIVATE PARTNERSHIPS IN ALBANIA**

The public-private partnerships trend shows a significant increase in PPP contracts, especially after 2000. The main reason for using them has been for financing public projects as well as for building the public infrastructure. During the period of 2005–2013, as a part of the initiative of the privatization of the local hydropower, some of the small hydropower got privatized and some others were given to foreign companies through the contracts of the rehabilitate-own-operate (ROT), build-operate-transfer (BOT) and build-own-operate (BOO) types. These contracts were used as a way of rehabilitation of the existing hydro powers, their operation as well as transferring them to the state.

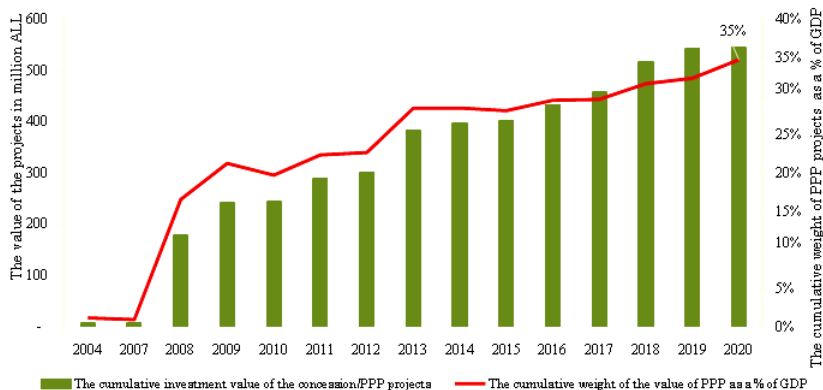
**Figure 1.** The trend of concessions/PPP projects signed during the period of 2004–2020



Source: Ministry of Finance and Economy (<https://www.financa.gov.al/>).

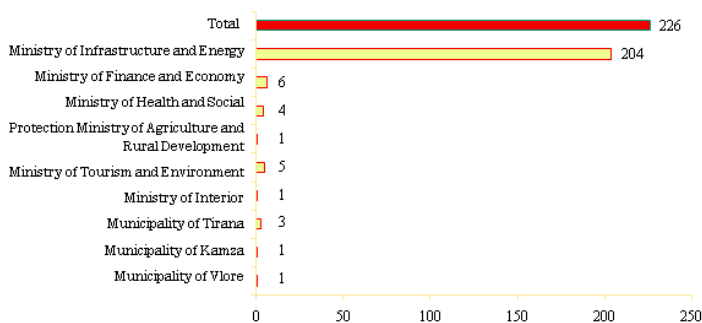
Some other contracts have been used to help increase the hydric power of the Albanian economy by exploiting unused hydric resources. Albania has signed 50 concession/public-private partnerships after 2013, in sectors that have had a significant impact on the economic development of the country, as well as in helping to assure sustainable economic growth in several economic sectors (education, health, environment, etc).

**Figure 2.** The cumulative weight of concessions/PPP projects as a % of GDP, 2004–2020



Source: Ministry of Finance and Economy (<https://www.financa.gov.al/>).

**Figure 3.** The number of concessions/PPP agreements according to the contracting authority that has underwritten the contract



Source: Ministry of Finance and Economy (<https://www.financa.gov.al/>).

As we can see from the above figure, the greatest part of the contracts (PPPs and concessions) include the infrastructure and energy sector. The energy sector includes 186 contracts, with a total value of 419,4 billion of ALL (Albanian Lek). One of the main reasons why we have chosen to deepen our analysis on this sector is related to the significance that they have on the public finances. The current energetic crises of the country have been another factor that has inspired us to undertake a more detailed analysis of this sector. The focus of our work will be the analysis of these partnerships by making a quantitative analysis of the costs and benefits for Albania, but also a descriptive analysis of issues that go beyond the quantitative analysis.

## 5. CONCLUSION

As our analysis revealed, public-private partnerships have played a significant role in the Albanian economy. The energy sector is one of the sectors in which PPPs have been widely used. The value of the PPP contracts includes great amounts of money, and it has increased significantly in the last years. If we take into consideration the fact that the total investment value included in these PPPs has been a significant part of the Albanian GDP, by reaching 35% in 2020.

Despite the work that the government has done to improve the functioning of the energy sector, it seems to have been quite difficult to create a sustainable development of it. What still remains concerning is related to the great negative impact hydropower has had in the Albanian environment as well as in terms of the cost of the energy that Albanian citizens have to pay. What the results show is that these partnerships seem to cause a burden for future generations and also the fact that despite their usage and costs, the country still has not managed to have a sustainable development of the energy sector.

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