

CORRUPTION IN PUBLIC PRIVATE PARTNERSHIPS AS A BARRIER TO SUSTAINABLE DEVELOPMENT: THE CASE OF ALBANIA

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Abstract Public Private Partnerships (PPPs) are one of the forms used by governments to provide a better service for the benefit of the citizens. However, since these projects are of a large scale, the practices of corruption between the state and the private party undermine the value for money, influencing the economic development of the country and the distribution of public funds. In Albania, investments through Public Private Partnerships are highly discussed due to high corruption during the tendering phase, the selection of the winner, but also during the implementation of the project. Almost all PPP investments have been viewed as cases of corruption, and some have resulted in investigations by state authorities. Therefore, this paper aims to represent the potential scope and cost of corruption of PPPs in Albania and how they affect the sustainable development goals. The qualitative analysis reveals that PPPs and corruption have a positive relationship in Albania, implying the urgent need for an effective risk assessment and monitoring plan for PPPs to combat corruption and promote sustainable development.

Keywords: public private partnerships, corruption, sustainable development goals, risk assessment, Albania

JEL: H4, H42, D7

1 Introduction

The United Nations established 17 Sustainable Development Goals in 2015, one of which is to improve infrastructure quality, sustainability, and accessibility for all (UN, 2015). But many developing countries still lack basic infrastructure and face financial challenges. To solve this problem, governments are using public-private partnerships (PPPs) to build and manage public infrastructure. PPPs involve a long-term agreement between a government entity and a private party, who bears significant risk and management responsibility (World Bank, 2018).

PPPs can enhance public infrastructure and services and alleviate government budget constraints through private investment. However, corruption in PPPs is a potential risk due to weak governance and institutional frameworks. Corruption can hinder sustainable development and weaken the effectiveness of PPPs in delivering infrastructure projects, especially in countries such as Albania, where corruption is a persistent problem and PPPs are seen as a solution. Therefore, it is important to study the link between corruption and PPPs in Albania to identify effective measures to minimize corruption risks and encourage sustainable development.

This paper aims to provide an overview of the existing literature on corruption in PPPs, as well as a case study of Albania, highlighting the key challenges and opportunities for promoting sustainable development in the context of PPPs.

This paper is organized as follows. Initially, a comprehensive review of the literature on PPPs and corruption will be presented. Additionally, another section will concentrate on corruption in PPP projects within Albania, treating some waste- to-energy PPP projects. It should be emphasized that the conclusions drawn in this paper are intended only to provoke further investigation and discourse on this topic.

2 Literature Review

Corruption in PPPs has been identified as a significant challenge that hinders the implementation of these arrangements and erodes trust in public institutions. The literature has examined this issue from different perspectives, with authors highlighting the causes and consequences of corruption, as well as strategies to prevent it. There are some factors which causes the corruption in PPPs.

One of the major causes of corruption in PPPs is the *lack of transparency and accountability in the decision-making process*. According to Schomaker (2020) the lack of clarity and disclosure of information about project financing, procurement, and operations creates opportunities for corruption. Similarly, Michele and Cabrera (2018) argue that a lack of clear governance structures and legal frameworks increases the likelihood of corruption in PPPs. Also, in a study of PPPs in Latin America, Wiss and Faria (2007) found that corruption was a significant problem, particularly in countries with weak governance and institutional frameworks. They argue that improving transparency and accountability, as well as building local capacity, can help address corruption in PPPs.

Another factor that contributes to corruption in PPPs is the *complex nature of these arrangements*. As noted by Hodge and Greve (2007), the involvement of multiple stakeholders with differing interests and incentives can create conflicts of interest and opportunities for rent-seeking behavior. Moreover, the use of complex financial instruments, such as public guarantees and tax breaks, can obscure the true cost of PPP projects and create opportunities for manipulation.

PPP projects are susceptible to corruption at all stages of the project, including the decision stage, tender stage, and contract execution. Dishonest transactions can occur during the tender and negotiation stages, leading to an unfair advantage for contractors. Quality monitoring is crucial during contract execution, and unforeseen circumstances may require changes in pricing or service terms, which may also be vulnerable to corruption. Corruption during contract execution may undermine the enforcement of the agreement (Iossa & Mortimort, 2011).

Another cause of corruption in PPPs is the *non-transparent procurement procedure*. To prevent this, measures like preparing feasibility studies beforehand, using open procedures, and implementing deterrents like penalties need to be in place. For instance, in Bulgaria, authorities investigated allegations of corruption in a PPP water project through a judicial process, which serves as a deterrent to future individuals who may attempt to bypass established procedures for their own gain (UNECE, 2004).

The consequences of corruption in PPPs are also significant. Apart from the financial losses incurred by the public sector, corruption can lead to a loss of public trust in government institutions and reduce the legitimacy of PPPs as a tool for sustainable development.

Authors Michele and Cabrera (2018), Beatriz and Noemi (2022) show that corruption is associated with lower project quality and higher costs, and can prevent private sector investors. According to Iossa and Martimort (2014), corruption in PPPs can have severe consequences on sustainability, as it can result in reduced quality of services, higher costs for users, and loss of public trust in the partnership. Corruption can also discourage future investment in PPPs and hinder economic growth. To promote sustainability, the authors suggest implementing transparent procurement procedures, ensuring fair competition, and enforcing strong anti-corruption measures.

Furthermore, to prevent and combat corruption in PPPs, authors have suggested a range of strategies, including the use of effective governance frameworks, greater transparency and accountability and the involvement of civil society and the media.

For instance, Hodge and Greve (2007) recommend the establishment of independent oversight bodies to monitor PPP projects and UNECE (2004) suggest the adoption of legal frameworks that promote competition and prevent collusion between public and private actors.

In conclusion, the literature has identified corruption in PPPs as a significant challenge that hinders sustainable development. To address this issue, there is a need for greater transparency and accountability in decision-making processes, the establishment of effective governance frameworks, and the involvement of civil society and the media in monitoring PPP projects.

3 Methodology

The methodology utilized for analyzing PPP and corruption involves a qualitative research approach, which relies on a comprehensive analysis of relevant literature from both national and international sources. The literature sources also include data from government agencies such as the Ministry of Finance and Economy and

international organizations such as the World Bank and Transparency International. The literature review allows the identification of concepts, theories and mechanisms that have been used by different countries or should be used in the fight against corruption in PPPs, in order to promote sustainable development.

4 Results

Albania has made progress in transitioning to a market-based economy with a focus on infrastructure development, but corruption remains a persistent challenge, with a poor ranking in global corruption indices, including a ranking of 101 out of 180 countries in 2022 (Transparency International, 2023).

The Albanian government has recognized the potential of PPPs as a means of delivering infrastructure projects, and has implemented 228 PPPs, but 5 of them have been resolved, as a result the current number of concession/PPP contracts is 223. These contracts are in different sectors such as transportation, energy, health, waste management and education, with a total contract value around 31% of GDP in 2021 (Ministry of Finance and Economy, 2022). Most of the projects in Albania are in the field of energy and transport, followed by projects in the health and waste management sectors, which often come with price or volume guarantees. These PPP contracts were awarded mainly through unsolicited proposals, and sometimes the lack of a competitive procurement procedure often prevented foreign investors from participating. Despite attempts by the government to bring in private capital through PPPs, the excessive use of these partnerships has led to significant contingent liabilities due to limited transparency and weak institutional oversight (IFC, 2022).

For 2021, a total of 14 PPP contracts with government budget support were identified, accounting for about 6% of total PPP contracts (*presented in Figure 1*). The total value of these PPP contract is around 1.95 billion Euro. These contract are distributed across various sectors including transportation, health, waste management, education and fiscal sector.

All the sectors related are identified with high risk due to the various challenges related to inadequate infrastructure, the absence of competitive procurement processes and fluctuations in demand (IFC, 2022). This paper will focus only on 3 projects with budgetary support, those in waste management sector.

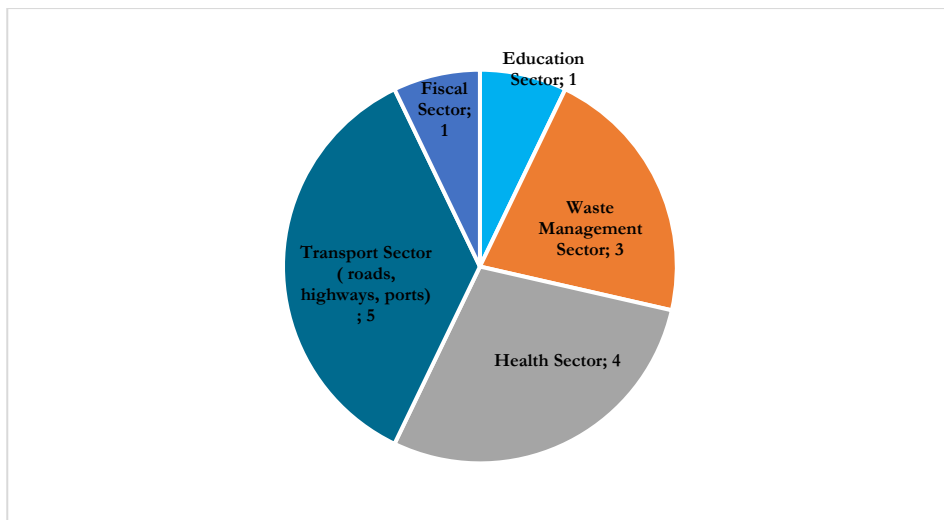


Figure 1: Number of the PPPs contract with budgetary support by sectors

Source: Ministry of Finance and Economy (2022)

Recently, three PPP projects in the waste management sector have been found to be linked to corruption. The government of Albania granted agreements to construct three waste-to-energy incinerators using public-private partnership project schemes in Elbasan (approved in 2014 with a total investment value about 21.7 million Euro), Fier (approved in 2016 with a total investment value about 27.3 million Euro), and Tirana (approved in 2017 with a total investment value about 124.2 million Euro). The total investment value of the three incinerators is around 173.2 million Euro (ATRAKO, 2022).

According to the Transparency International (2020), the companies that received the contracts from the government were the only ones to bid in all three cases. The case of the incinerator in Tirana is a prime example of how corruption can undermine PPPs in Albania. The bidding process for the project was criticized for being opaque and non-competitive, with allegations of government officials

receiving bribes to ensure that the contract was awarded. The private company has not built yet the plant, so actually the total waste of Municipal of Tirana are landfilling or burning for elimination.

Similarly, the Fier incineration PPP project has faced criticism from environmental and community groups, who argue that the incinerator poses a risk to public health and the environment. There have also been concerns raised about the lack of transparency in the bidding process and allegations of corruption involving government officials and private companies involved in the project.

Furthermore, for the Elbasan incineration PPP project, Elbasan winner put forward unsolicited proposals and obtained a contract without undergoing a tender process. Additionally, key persons in the awarded companies share business partnerships, raised concerns about favoritism and potential corruption. So, due to allegations of links between politicians and high-ranking officials, including ministers and mayors, with the incinerator scheme, there have been convictions handed down by the judicial system for this three projects (Transparency International, 2020).

In addition, these projects with PPP have a very high budget cost as they all have budget support for the amount of waste deposited by the municipalities, estimated about 93 million Euro in total for 2015-2021 (Ministry of Finance and Economy, 2022).

As it is shown above, the impact of corruption on PPPs in Albania is significant resulting in higher budget costs, lower quality results, and loss of public trust. Also, corruption has undermine the potential benefits of PPPs for sustainable development, such as improved infrastructure and enhanced service delivery.

However, there have been taken some measure to monitor the operation of these PPPs contract as well as the risks derived from them. In 2018, the Ministry of Finance and Economy in Albania established a Fiscal Risk Unit to manage fiscal risks arising from PPPs implemented by line ministries during the restructuring process. However, the unit still lacks capacity. Despite efforts to improve the system, transparency around PPPs remains limited. To address the issue, additional capital financing, clear frameworks for administrative tariffs, and improved institutional planning and oversight capacities are required (IFC, 2022).

Berisha et al. (2022) identify critical success factors for implementing PPPs in Albania. Results showed that for Albania identifying the right project and financial capacity are the most important critical success factor. Trust, openness, fairness, negotiation, and a defined revenue stream were also identified as important factors since the partnership between the private and public entities is perceived with skepticism by the general public and mostly considered as based on corruption.

Overall, the relationship between corruption and PPPs in Albania is complex and multifaceted. By examining the challenges and opportunities for promoting sustainable development in this context, it is possible to identify effective measures to mitigate corruption risks and promote the positive impact of PPPs on infrastructure development and sustainable development in Albania.

5 Discussion and Conclusion

PPPs are increasingly being used to build and manage public infrastructure, with the aim of improving infrastructure quality, sustainability, and accessibility but corruption can hinder their ability to promote sustainable development. Corruption can occur at various stages of PPPs, including project selection and execution. Factors that contribute to corruption in PPPs include a lack of transparency, complex arrangements, and inadequate institutional and governance frameworks in certain countries. The negative effects of corruption in PPPs are severe and include monetary losses, a decline in public confidence in government institutions, and reduced credibility of PPPs as a tool for sustainable development.

The Albanian government has implemented in total 228 PPPs (with total contract value equivalent to 31% of the country's GDP in 2021) in various sectors, including transportation, health, energy, waste management, and education. A total of 14 PPP projects are with budget support, accounting for about 6% of total PPP contracts, with a total value around 1.95 billion Euro. But, despite the Albanian government's efforts to use PPPs to improve infrastructure, limited transparency and weak institutional oversight have led to significant contingent liabilities. Corruption has been identified as a significant challenge, with recent cases involving waste management projects leading to convictions. These projects have a very high budget cost as they all have budget support for the amount of waste deposited by the municipalities, estimated about 93 million Euro in total for 2015-2021.

Our qualitative analysis reveals that PPPs and corruption have a positive relationship in Albania, implying the urgent need for an effective risk assessment and monitoring plan for PPPs to combat corruption and promote sustainable development. Strengthening governance and institutional frameworks, increasing transparency and accountability, and promoting stakeholder engagement can help to mitigate corruption risks and promote sustainable development outcomes.

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