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A General Overview of PPP and Concession Contracts, Their Statistical Treatment and Classification

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Abstract: *This paper explores the role of Public-Private Partnerships (PPPs) and concessionary contracts in economic development, highlighting the collaboration between public and private sectors in delivering infrastructure and public services. PPPs leverage private expertise, capital, and management to efficiently finance, build, and operate projects traditionally provided by the public sector, such as roads, hospitals, and utilities. Concessionary contracts, a form of PPP, grant private entities rights to operate public services or manage infrastructure, typically funded through user fees.*

The analysis underscores the advantages of PPPs, including cost savings, risk-sharing, and reduced public debt, supported by studies emphasizing efficiency gains and enhanced service delivery. Key motivations for using PPPs include managing fiscal constraints while addressing complex projects, reducing risks, and promoting equity in-service distribution.

Furthermore, the paper will explore the statistical treatment and classification of PPP contracts, emphasizing the importance of transparent and standardized accounting practices as outlined by Eurostat, EPEC, and the World Bank. By adhering to these standards, governments can manage their fiscal responsibilities effectively while ensuring accurate economic reporting.

1. INTRODUCTION

Economic literature highlights various models and examples of economic development across countries, emphasizing the crucial relationship between the public and private sectors in fostering growth. Among the diverse forms of these partnerships, Public-Private Partnerships (PPPs) and concessionary contracts have gained particular significance, especially in infrastructure development and public service delivery. These arrangements enable governments to leverage private sector expertise, capital, and management, addressing critical needs in areas traditionally dominated by public provision, such as transportation, healthcare, and utilities. This paper aims to explore the role of PPPs in fostering economic development while examining the legal and statistical frameworks governing their treatment in public sector accounts. By analyzing both the benefits and challenges of PPPs, as well as their implications for fiscal policy and international governance, the paper seeks to provide a comprehensive understanding of their contribution to sustainable development and sound fiscal management.

Despite the potential benefits of PPPs, their complex financial and operational structures necessitate careful legal and statistical treatment, particularly in relation to government deficit and debt reporting. In the European Union, the European System of Accounts (ESA 2010) and Eurostat (2016) Manual on Government Deficit and Debt (MGDD) provide essential frameworks for classifying PPP contracts. These guidelines ensure that the economic impact of long-term public-private collaborations is accurately reflected in national accounts, facilitating transparent fiscal management and compliance with EU regulations.

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2. GENERAL AND STATISTICAL TREATMENT OF PPP-S

In the absence of sufficient financial resources, public institutions turn to private entities through Public-Private Partnership (PPP) instruments, which offer a method of financing or managing a public service aimed at social welfare. Unlike traditional methods of promoting competition and increasing public services offered, as seen in the experiences of other countries, PPPs are increasingly considered the most efficient forms with a significant impact on a country's economic development. In a PPP, the public and private sectors work together to build public infrastructure projects such as roads, railways, hospitals, schools, hydroelectric dams, and more.

A Public-Private Partnership (PPP) is a collaborative arrangement between one or more public sector entities, such as governments or public agencies, and private sector companies. These partnerships are commonly employed to finance, construct, and manage projects that serve public needs and that traditionally are being provided by the public sector (Farquharson & Yescombe, 2018). Such projects can include infrastructure like roads, bridges, and hospitals; public services such as education and healthcare; and utilities like water supply and energy. In a PPP, the private sector contributes expertise, capital, and management skills, while the public sector provides regulatory support and oversight. The fundamental goal of these partnerships is to allocate risks and rewards between the public and private partners, ensuring that the projects are completed more efficiently and effectively than if undertaken by the public sector alone.

A Concessionary Contract is a specific form of PPP. Under this agreement, a government or public authority grants a private entity the right to operate a public service or develop and manage infrastructure for a predetermined period. During this period, the private entity is responsible for the investment, operation, and maintenance of the service or infrastructure. In return, the private entity typically earns revenue through user fees or tariffs. Although the concessionaire (the private entity) assumes the investment risk, it also stands to profit from the operation. At the end of the concession period, the infrastructure or service usually reverts to public sector control, often in a pre-agreed condition.

According to the OECD (2015), concessions are defined as: "A concession is a form of partnership between the public and private sectors in the provision of public works and services" ." They are further defined in the European Commission Directive "On Public Sector Procurement, 2004/17/EC," as contracts where the compensation for the works or services to be performed consists either solely in the right to exploit the work or service or in this right along with payment. The directive treats work concessions and service concessions differently. Works concessions are subject to specific provisions of the directive that cover how they are rewarded. Service concessions are excluded from the directive's coverage, although the principles of the Treaty will apply to the awarding of service concessions where there is potential cross-border interest.

Understanding these definitions is critical for grasping the legal and regulatory frameworks that govern public-private collaborations. The PPP Legal Resource Center (PPPLRC) is a key reference point in this context. Although there is no standard definition for PPPs universally, the PPPLRC serves as a comprehensive resource hub that provides legal, regulatory, and policy information relevant to PPPs. It offers a range of resources, including legal frameworks, guidelines, templates, case studies, and best practices. These resources are invaluable to governments, private sector entities, and legal professionals engaged in planning, negotiating, and executing PPP projects. The PPPLRC ensures that PPPs are structured effectively, legally sound, and in alignment with global best practices, thereby enhancing the success and sustainability of these partnerships.

The primary motivation for utilizing Public-Private Partnerships (PPPs) lies in their ability to deliver critical infrastructure and public services while offering several key advantages. These include lower costs, reduced risks, minimized budget deficits, improved efficiency and effectiveness, and enhanced equity. By combining the resources and expertise of both the public and private sectors, PPPs enable governments to address complex and expensive projects without the need for substantial public sector borrowing, which is often a significant concern in maintaining fiscal health.

Numerous studies have supported these claims. For example, Sarmento and Renneboog (2016) highlight that PPPs can lead to cost savings through competitive tendering and private sector efficiency. The private sector's expertise in project management, financing, and operational efficiencies often results in lower overall costs compared to traditional public sector procurement. Additionally, Iossa and Martimort (2015) argue that PPPs align incentives between the public and private sectors, leading to better project outcomes, as both parties have a vested interest in the project's success.

In addition to cost savings, PPPs are designed to distribute risks more effectively between public and private partners. This is crucial, as construction and operational risks can be significant in large infrastructure projects. According to Grimsey and Lewis (2005), risk-sharing in PPPs is one of the key factors that make them attractive to both public and private sectors. The private sector typically assumes the risks related to construction delays, cost overruns, and operational performance, while the public sector focuses on providing regulatory oversight and ensuring that the project serves the public interest.

Moreover, by involving private sector partners, PPPs can alleviate the financial burden on public budgets. Given that private entities often finance the initial investment in infrastructure, governments can avoid substantial increases in public debt. This is particularly important in the context of fiscal constraints, where governments are seeking ways to fund essential services without exacerbating budget deficits. A study by Engel et al. (2014) emphasizes that PPPs can be an effective tool for managing public sector liabilities while still delivering necessary infrastructure.

PPPs offer numerous advantages, including cost efficiency, reduced fiscal pressure, and improved risk-sharing mechanisms between public and private entities. Through the involvement of the private sector, governments can implement large-scale projects without heavily relying on public borrowing, thus maintaining fiscal stability. Furthermore, concessionary contracts—a specific form of PPP—allow private entities to manage public services or infrastructure for a set period, often funded through user fees, before returning the assets to public control.

Finally, PPPs can contribute to greater equity by ensuring that essential public services and infrastructure are accessible to all, including marginalized and underserved communities. By structuring agreements that emphasize public welfare, governments can ensure that the benefits of PPP projects are broadly distributed, promoting social equity and inclusion. This aspect of PPPs is crucial in achieving long-term sustainable development goals.

Another critical aspect that this paper would like to address is the statistical treatment of Public-Private Partnership (PPP) contracts from an international perspective, which is a fundamental concern for national statistical institutes. These institutes play a key role in classifying PPP contracts according to the rules and guidelines set out in the European System of National and Regional Accounts (ESA 2010) and the Manual of Eurostat on Government Deficit and Debt (MGDD).

The classification of PPP contracts is not a simple technical exercise but is vital for understanding how these contracts impact a country's public sector accounts, particularly concerning the calculation of government deficit and debt. The rules set out in ESA 2010 provide a comprehensive framework for this classification, ensuring that all EU member states apply consistent accounting standards. The MGDD further elaborates on how specific contracts, particularly those under the PPP model, should be treated in national accounts. These guidelines ensure that PPP contracts, which often involve long-term commitments and complex financial arrangements, are recorded in a way that accurately reflects their economic impact. By adhering to these standards, national statistical institutes ensure that the economic implications of PPP contracts are transparently and consistently reported, enabling better fiscal management and policy formulation.

The ESA 2010 framework is a legal act adopted by all European Union (EU) member states, providing a systematic and detailed description of a country's economy. It aligns with international accounting guidelines, specifically the United Nations System of National Accounts (2008 SNA), ensuring consistency in economic reporting across countries. Within this framework, fiscal indicators like deficit and public debt, which are critical for the Excessive Deficit Procedure (EDP), are defined. PPP contracts and concessions are particularly important in this context because they can significantly affect these indicators.

The need for clear terminology and standardized treatment of PPP contracts in national accounts has been highlighted in various studies. For instance, the European PPP Expertise Centre (EPEC) and Eurostat collaborated to produce the "Guidelines for the Statistical Treatment of PPPs," which became applicable on September 29, 2016. These guidelines provide a standardized approach to recording PPP contracts in public sector accounts, ensuring that countries within the EU adhere to consistent practices. This consistency is crucial for accurate economic comparisons and assessments across the EU.

According to the MGDD manual, different forms of contracts between government units and corporations, especially under the umbrella of "public-private partnerships" or "concessions," require careful classification within national accounts. This classification determines whether the financial commitments and liabilities associated with PPPs are included in the annual balance sheet of the relevant public sector units. The decision to record PPP-related information on the balance sheet can have significant implications for a country's reported deficit and debt levels, influencing both domestic fiscal policy and compliance with EU regulations.

The "Guide to the Statistical Treatment of PPPs," developed by Eurostat and the World Bank (n.d.) further elaborates on these issues. The guide emphasizes the importance of transparency and consistency in the statistical treatment of PPPs, ensuring that these contracts are recorded in a way that accurately reflects their economic impact. This guide also addresses the challenges posed by the complex nature of PPP contracts, which often involve long-term commitments and significant financial obligations.

The statistical treatment of PPPs according to Eurostat "Rules" has sometimes been considered one of the obstacles to undertaking a PPP and has therefore been the subject of much debate (worldbank.org). Stakeholders involved in specific projects have argued that the rules make it difficult to understand how PPPs can impact the financial balance of EU member states and how they affect the fiscal criteria set out in the Maastricht Treaty. The Maastricht Treaty, signed in 1992, foresaw the creation of the Euro. This treaty defined the tools and appropriate methods for fiscal supervision within the European Union. Provisions regarding the EDP (Excessive Deficit Procedure) are set out in the consolidated version of the 2012 Treaty on the Functioning of the European Union (TFEU). The TFEU requires EU Member States to respect budgetary discipline by adhering to two criteria: the deficit-to-GDP ratio and the debt-to-GDP ratio, which should not exceed reference values of 3% and 60% respectively, as stipulated in Protocol (3) of the EDP.

In the absence of sufficient financial resources, public institutions increasingly rely on Public-Private Partnerships (PPPs) to finance or manage public services aimed at promoting social welfare. Unlike traditional methods of public sector service provision, PPPs are being recognized globally as efficient tools with substantial impacts on a country's economic development. PPPs facilitate collaboration between public and private entities to execute large-scale infrastructure projects, including roads, railways, hospitals, and schools, while ensuring efficient management and risk-sharing. This collaboration allows governments to achieve key development goals without overburdening public finances (Farquharson & Yescombe, 2018; Sarmento & Renneboog, 2016).

The concept of PPP contracts is relatively new in Albania. The Albanian Government has created a flexible and attractive legal framework to demonstrate its firm commitment to encourage local and international private investment and to ensure greater cooperation between private partners and the Contracting Authority. Law no. 125/2013 "On Concessions and Public Private Partnership" (amended by Law no. 50, dated 18/07/2019), which defines the general rules of the procedure applicable by contracting authorities for awarding, executing, monitoring and evaluating contracts of public-private partnership.

According to Law no. 125/2013 "On concessions/PPP in the Republic of Albania" as amended, the definition of concessions is given as follows: "*A concession is an agreement with financial interest, concluded in writing between the contracting authority and one or more economic operators, the object of which is the performance of works, where the remuneration for the works/services to be performed consists of the right to use the works/services that are the subject of the contract or this right together with the payment", while the Public Private Partnership is defined as: "...a public works contract or a public service contract that meets the conditions that define it as a public private partnership, as regulated in this law and that is signed between the contracting authority on the one hand and the economic operator selected as the most successful bidder.*"

Albania is currently in the early stages of implementing both the ESA 2010 and International Public Sector Accounting Standards (IPSAS) frameworks, both of which provide standardized methods for assessing the fiscal impact of Public-Private Partnership (PPP) contracts. According to ESA 2010, PPP arrangements where the public sector retains significant control over assets and revenue streams are to be consolidated within the government's accounts (Eurostat, 2016). This alignment with ESA 2010 is critical for Albania to ensure a more accurate representation of public liabilities and assets arising from PPP agreements, contributing to improved fiscal reporting.

In addition to ESA 2010, the adoption of IPSAS is a key part of Albania's broader public sector accounting reform. IPSAS provides an internationally recognized framework for determining whether PPP assets should appear on government balance sheets, with the focus on the distribution of control and risk (IMF & World Bank, 2013). By adopting both ESA 2010 and IPSAS 32, Albania aims to enhance transparency, fiscal discipline, and the effective classification and monitoring of PPP contracts.

It is important to note that ESA 2010 requires national accounts to use a standard, agreed-upon reporting system. Therefore, the asset of a PPP must be recorded as either a whole government asset or a wholly non-governmental asset (ie its economic ownership cannot be shared between the government and the partner). As a result, when a PPP asset is found to be on the government's balance sheet, the total value of the asset (and related liabilities)

3. CONCLUSION

The treatment of PPP contracts has already been discussed by many scholars. A review of the literature regarding PPPs provides an opportunity to understand the current situation, which includes the nature of PPPs, the sectors where these contracts are most efficient, as well as to assess the trends in research. It is necessary to study the origin of an idea before reflecting on the current key topics and discussing the potential future direction of PPPs.

A PPP project generally involves long-term collaboration and a contractual relationship between the public and private sectors, which can last up to 25 or 30 years (Girth, 2014; Hodge & Greve, 2007). A short-term contract is not a PPP. Private sectors in a PPP project usually participate in certain phases of that project, including design, construction, operation and maintenance. These phases often involve large capital expenditures, typically millions of dollars or more (Newman & Perl, 2014). Thus, a long-term contract allows both partners to benefit from cooperation (Silvestre & de Araujo, 2012). At the same time, the long-term contract makes it possible for the private sectors to get a return on the initial investment and actually make a profit.

PPP focuses on the sharing of risks, costs, benefits, resources and responsibilities (Koppenjan, 2005). PPP will not transfer all risks or costs to private sector partners.

PPP is often a complex process (Ross & Yan, 2015). Due to the long-term nature of the contract and the multi-phase collaboration required (in terms of design, construction, operation and maintenance), the goals of the PPP partners and the political environment can be dynamic. These factors entail a requirement for partners to negotiate and interact throughout cooperation. This makes the process of cooperation in the PPP project potentially complex. In addition, each of the PPP partners has its own strategy and institutionalized background. This can make the decision-making process in PPP projects extremely complex (Klijn & Teisman, 2003). Finally, PPP projects have mutual goals.

Everything mentioned above will help to identify the sectors or sub-sectors where further PPP contracts can be concluded, their proper classification with the main goal of measuring the impact on the public debt and the deficit following methodological standards defined in manuals and instructions.

In conclusion, the statistical treatment of PPP contracts, as outlined by ESA 2010, the MGDD manual, and the guidelines from Eurostat and EPEC, is essential for ensuring that the financial implications of these partnerships are accurately captured in national accounts. This treatment not only affects how countries report their fiscal positions but also influences policy decisions and compliance with EU fiscal rules.

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