



## **PUBLIC PRIVATE PARTNERSHIPS VIABILITY IN THE WESTERN BALKANS: A COMPOSITE INDEX APPROACH**

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### **Abstract**

*This paper aims to assess the viability of Public Private Partnerships across six Western Balkan countries through the construction of a composite PPPs Viability Index for the period 2008-2024. This index integrates three core dimensions of PPPs viability such as economic, fiscal, and institutional. Using data from international databases, the paper applies Min-Max normalization method to build a comparative cross-country index for Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. The findings show relatively moderate differences in the PPP viability among countries in the region. Also, it highlights the importance of the institutional dimension as one of the most important determinants of PPP viability. Countries with better indicators of governance, government effectiveness and regulatory quality performed better on the index.*

*Keywords: Public Private Partnerships, PPPs Viability, Western Balkans, Composite Index, Investment*

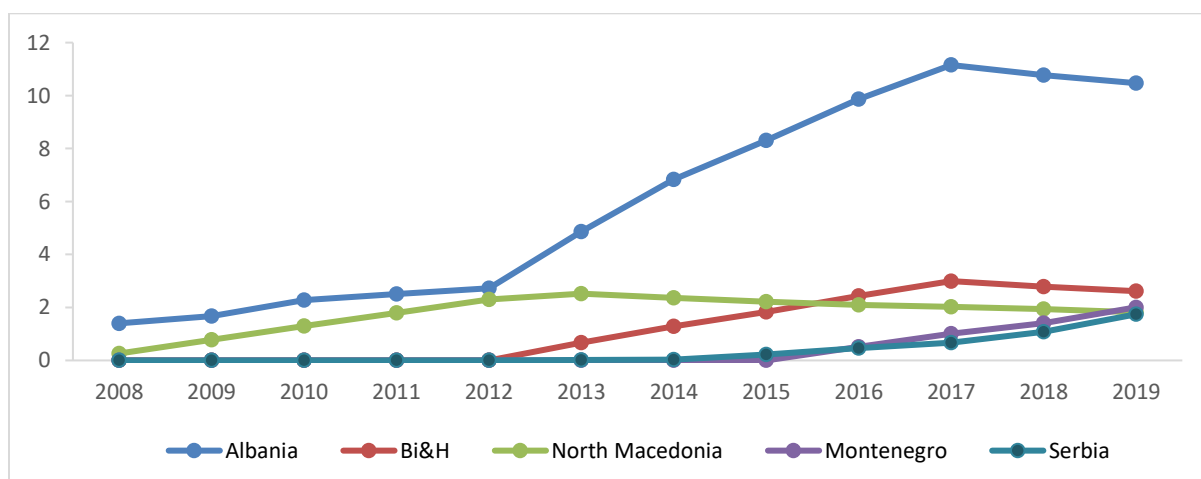
## INTRODUCTION

Public-Private Partnerships have taken on an increasingly important role in financing public investments in infrastructure or public services. This is especially evident in developing countries and economies in transition, which have a high need for infrastructure investments, but at the same time face budgetary constraints.

In the context of the Western Balkans, the importance of PPPs has increased significantly in recent decades, as a result of the need to build and improve infrastructure, improve public services and align with European Union standards. However, the implementation of PPPs in these countries remains diverse, depending on institutional capacities, transparency, fiscal risk and the long-term sustainability of such projects. Studies on the Western Balkans show that the region continues to have large investment needs in transport, energy, environment, water and sanitation and social infrastructure. (EPEC, 2018; Aytan et al, 2018, Martinj et al, 2023). In this context, PPPs are considered a potential instrument for mobilizing private capital and accelerating infrastructure development.

The development of the PPP market in the region has been uneven and with different dynamics between countries. As shown in Figure 1, the stock of PPP capital as a percentage of GDP has followed different trajectories in the Western Balkan countries. Albania has the highest level of capital stock of PPP (constant prices, percent of GDP) in the region, which reflects a more intensive use of this instrument in financing public investments. Whereas, the other countries of the region are characterized by a more gradual development of the PPPs market, highlighting the existence of different macroeconomic and institutional conditions that affect the development and use of PPPs.

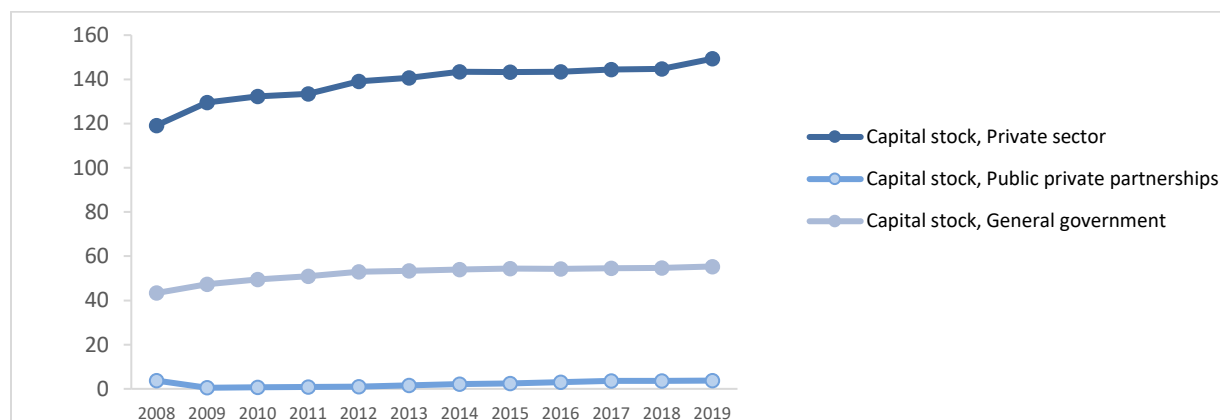
Figure 1: Public Private Partnerships, Capital Stock by Country (% of GDP)



Source: IMF Investment and Capital Stock Dataset (ICSD), 2025

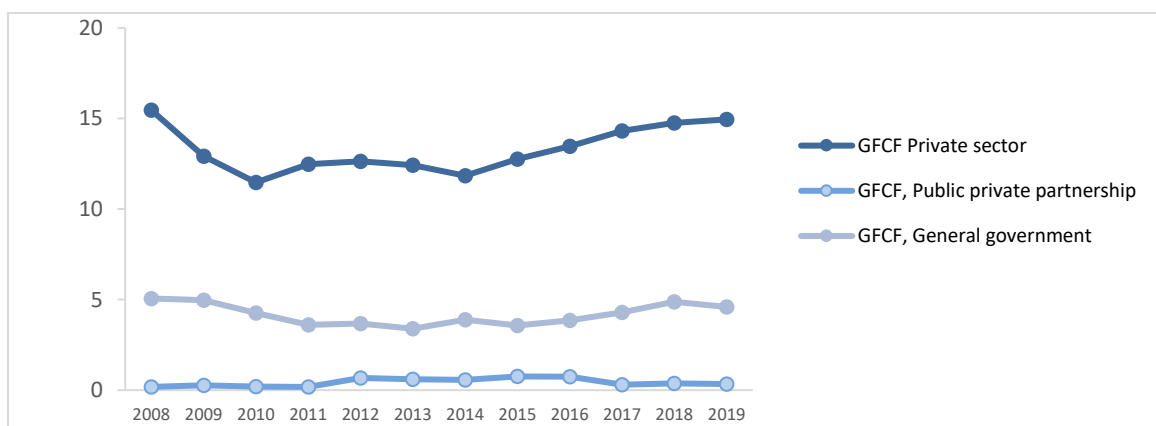
But despite the gradual increase in PPPs, the overall capital structure and gross fixed capital formation in the Western Balkan countries continue to be dominated by the public and private sectors. The analysis of average investment indicators for the Western Balkan countries during the period 2008-2019 shows that the capital structure in the region is dominated mainly by the private sector, while the share of investments through public-private partnerships is relatively small in the total capital. At the same time, the general government capital stock maintains a relatively stable level, with a slight upward trend during the analysed period (Figure 2a). However, although the stock of capital associated with PPPs remains at lower levels compared to the other two forms of investment, after 2012 a progressive increase is observed, implying a gradually larger use of PPPs in the region, as an alternative mechanism for financing infrastructure and public services.

Figure 2a. Average Capital stock structure in WB (% of GDP)



Source: Authors' calculations based on IMF Investment and Capital Stock Dataset, 2025

Figure 2b. Average Gross Fixed Capital Formation structure in WB (% of GDP)



Source: Authors' calculations based on IMF Investment and Capital Stock Dataset, 2025

A similar trend is observed in the average indicators of gross fixed capital formation (Figure 2b), where the private sector represents the largest share of new investments in the economy, while investments through PPPs remain relatively low. However, the gradual increase in the share of PPPs in total investments after 2012 represents the growing interest of the Western Balkan countries in using alternative financing instruments, especially in conditions of fiscal constraints and high needs for infrastructure investments. Another important aspect that emerges from this data analysis is related to the role of infrastructure investments in stimulating private investment and economic growth. Authors Gutzianas, Holzner and Jovanović (2026) in their paper argued that public infrastructure investments can have a 'crowding in' effect on private investments, increasing productivity and attractiveness to investors. Similarly, Aytan et al., (2018), argue that quality infrastructure improves economic competitiveness and supports economic convergence and supports this process.

Furthermore, the Western Balkan countries are candidate countries and potential candidates for joining the European Union. One of the most important chapters that requires increased attention from policymakers in the countries of the region is the negotiation of Chapter 5 'On Public Procurement' which must be aligned with the legislation and standards of the European Union. An important issue that receives special attention in this chapter are Public Private Partnerships.

According to the European Commission's annual progress reports, the Western Balkan countries should make efforts to improve the quality of the institutional framework and the implementation of the legal framework. More specifically, for PPPs, the emphasis is on the approximation of legislation to the EU acquis. Across the region, Montenegro has aligned its law on PPPs and concessions with Directive 2014/23/EU (European Commission, 2025a), followed by Serbia which also has a higher level of adaptation of the legal framework for PPPs to European standards compared to other countries in the region, however, still needs to make further alignments (European Commission, 2025b). Albania has an average level of adaptation of the legal framework for PPPs (European Commission, 2025c). North Macedonia is still in the early phase of aligning its legislation with European Union standards. The need to build a PPP and concessions registry is also highlighted. (European Commission, 2025d). As for Bosnia and Herzegovina and Kosovo, the two countries still have work to do to bring their legal framework closer to the EU acquis. In Kosovo, the process of adopting the draft law on PPPs and concessions has been stalled for over four years as a process. (European Commission, 2025e), whereas for Bosnia and Herzegovina the legal framework for PPP and concessions remains fragmented and not aligned with the basics of European standards (European Commission, 2025f).

Despite the interest in implementing PPPs in the Western Balkans, the literature on assessing the viability of PPPs in the region remains unexplored. The literature on PPPs suggests that their adoption by countries depend not only on investment needs or the size of the economy, but also on a combination of other factors. Macroeconomic and fiscal stability, institutional quality and regulatory framework are considered among the main factors influencing the ability of countries to implement PPPs effectively.

In this context, the purpose of this paper is to assess the viability of PPPs in the Western Balkan countries by developing a composite index that captures economic, fiscal and institutional readiness for the six countries in the region: Albania, Kosovo, North Macedonia, Montenegro, Bosnia and Herzegovina, and Serbia. The analysis covers the period 2008-2004, which captures both the expansion of PPP approvals and the progressive efforts across countries to align their PPP legal and institutional frameworks with European Union acquis.

This paper is structured as follows: First, a review of the main theoretical and empirical findings regarding the factors affecting the viability of PPPs will be presented. Then, a description of the methodology followed for constructing the PPP viability index will be presented, followed by the results for the Western Balkans region and discussions related to these findings, and finally, we conclude with the conclusions. The paper aims to contribute to the academic literature on PPPs but also to policy-making debates, by providing an analytical framework that can help identify structural weaknesses and priorities for improving the PPP environment in the region.

## LITERATURE REVIEW

The literature on PPPs has gradually evolved from an initial focus on them as an alternative financing mechanism towards a more integrated approach that includes economic, fiscal, and institutional dimensions, as well as determinants of success. Early studies have addressed viability mainly in terms of the economic profitability of individual projects, considering PPPs as mechanisms to address the lack of public investment in infrastructure and the fiscal constraints of governments. In this context, the Corbancho, Funke and Schwartz (2008), International Monetary Fund (2004), and the European Investment Bank (2004) considered PPPs as alternatives to traditional public financing and privatization, emphasizing the transfer of risk and the involvement of the private sector in the provision of infrastructure and public services.

After the 2000s, the literature began to focus more on the factors that determine the adoption of PPPs. The authors Grimsey and Lewis (2005) in their study considered PPPs as a suitable alternative only for specific projects, where the transfer of risk, private management and financial incentives can create higher efficiency in the realization of infrastructure and the provision of public services. According to the authors, the financial analysis should be completed

by considering other socio-economic factors, since the real value of PPPs is related not only to the reduction of costs, but also to the quality of the results and the protection of the public sector from unreliable results. Later, Hammami et al., (2006) identified the size of the economy, macroeconomic stability and institutional quality as determining factors in the implementation of PPPs by countries.

Thus, the approach of studies began to change by treating the concept of PPP viability as a concept closely related to institutional capacity and the regulatory environment, not only to financing needs. Another important analysis was by Checherita (2009), who in her study integrated the theory of investment under uncertainty into the analysis of PPPs, noting that the decision to invest in PPPs depends negatively on uncertainty, political risk and the cost of capital, while being supported by a high fiscal burden and the need to make investments in infrastructure. According to Engel, Fischer and Gelatovic (2014), PPPs are not automatically the optimal solution for every sector and their feasibility depends on the economic characteristics of the project, institutional quality, and the ability of governments to manage complex long-term contracts. In this context, the authors argue that the success of PPPs should not be assessed solely based on private financing, but on their ability to improve efficiency, quality of services and long-term maintenance of infrastructure.

The literature also supported another approach, specifically the fiscal dimension of PPPs. Empirical evidence showed that PPPs can contribute to improving the fiscal position by reducing direct public investment and deferring payments, but at the same time they can also increase fiscal risk and contingent liabilities, especially in countries with weak institutions. (Yurdakul et al. 2021; Funke et al., 2013; Reyes-Tagle and Garbacik, 2016; Checherita, 2009; Hammami et al., 2006). Similarly, authors Engel, Fisher and Gelatovic (2014) emphasize that there is no direct financial reason to prefer PPPs to traditional public provision of infrastructure. This is because they affect the state budget in the same way as traditional public investments, transferring costs and liabilities to future periods through budgetary payments or user fees.

Following this approach, the literature has also focused on the critical success factors of PPPs. Osei-Kyei and Chan (2015) from an analysis of 27 studies on PPPs, identified that the most important factors for the success of PPPs are appropriate risk allocation between public and private risk, the existence of a strong agreement, political support, community support and transparency in the procurement process. Later, Jachowicz (2016) states that measuring effectiveness is about minimizing costs and maximizing the results of a project, assessing the way in which financial and administrative resources are used, but also the achievement of objectives. According to the author, PPPs are considered as a mechanism that can help improve the efficiency of public service delivery through the combination of public and private sector

resources and capacities. Also, the effectiveness and viability of PPPs depend on the existence of a stable institutional environment, sustainable monitoring of contracts and financial sustainability. In the same line of argument, authors Almarri and Boussabaine (2017), in their paper on PPP viability, identify critical success factors that positively impact the value-for-money of PPPs, highlighting the importance of government guarantees, macroeconomic conditions, procurement transparency, and the separation of powers between the public and private sectors. This links the PPPs viability not only to the economic feasibility of individual projects but also to the quality of governance and the institutional environment. Similarly, Casady (2020), from the analysis of 48 countries through the fuzzy-set qualitative comparative analysis method, found that the performance of PPPs is not achieved through a single institutional model, but through different combinations of institutional factors. The results show that market credibility, political and social support, and the regulatory framework constitute essential conditions for the development of functional PPP markets. In contrary, authors Roehrich, Lewis, and George (2014) argue that despite the significant increase in the use of PPPs, there are important gaps in how these partnerships function and are applied in different sectors. According to them, although PPPs can contribute to infrastructure development and improving the quality of public services, the current literature does not provide sufficient evidence on the factors that determine the success or failure of PPPs, especially regarding risk management, incentive mechanisms and institutional conditions that can affect the long-term performance of projects.

In this context, the literature emphasized that PPP viability should not be measured solely through the volume of PPP investments, but through a combination of economic, fiscal and institutional indicators. This approach has also been used to construct the PPP Viability Index, to assess the relative readiness of countries for effective PPPs adoptions.

## METHODOLOGY

To measure the market readiness in the Western Balkan countries for the implementation of PPPs, we have constructed a PPP viability index for the period 2008-2024. The selected period comes because of the fact that during these years the Western Balkan countries gradually have made attempts to harmonize the legislation on public procurement (and in particular PPPs and concessions) according to EU standards. Also, during this period there was a significant increase in the number of PPPs signed in these countries according to the World Bank PPI database and other national databases. The analysis includes all six Western Balkan countries: Albania, Kosovo, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia, as they are countries that have similarities in economic development and the increasing use of PPPs as an instrument for financing infrastructure and providing public services. Furthermore, all these

countries aim for the European Union, and one of the most important chapters that they need to adapt to European standards is particularly Chapter 5, 'On Public Procurement'. Our analysis takes into account key economic, fiscal and institutional indicators so that this index is as comprehensive as possible.

So, the PPP viability index is built on three main sub-indices: economic, fiscal, and institutional, which contain selected indicators based on the literature on critical factors that influence the adoption of PPPs.

To construct the economic sub-index, the indicators GDP annual growth (in percent), GDP per capita (constant US\$), and Gross Fixed Capital Formation (GFCF) as a percentage of GDP were selected, as these indicators reflect important dimensions of a country's economic capacity and investment potential in support of PPP development. The economic growth rate measures the short-term dynamics and pace of economic expansion, indicating the economy's ability to generate economic activity and demand for new investments. While GDP per capita reflects the level of economic development and the structural capacity of the economy, reflecting the potential of countries to support infrastructure projects or investments such as PPP. These data are taken from the World Bank database, World Development Indicators for the analysing period.

Regarding the fiscal dimension, which assesses the capacity of countries to support PPPs without creating high fiscal risks, we have used indicators such as public debt as a percentage of GDP and General Government net lending/borrowing as a percentage of GDP, which serves as a proxy for the fiscal balance of countries. Although PPPs are often considered an alternative financing mechanism for public infrastructure, they entail long-term liabilities for the government. In the context of high public debt, the government's ability to fulfil these types of contractual agreements are perceived as uncertain, negatively affecting the attractiveness of PPP projects for private investors. Consequently, since public debt is expected to have a negative impact on PPP viability, reverse normalization was used, so that lower debt values reflect higher viability scores. These data are taken from the International Monetary Fund, World Economic Outlook (2026).

While the institutional dimension that measures the quality of governance and the institutional capacity of states, in this paper it has been decided to be represented by indicators such as government effectiveness and regulatory quality from the Worldwide Governance Indicators database by the World Bank. The selection of these indicators is based on the literature that argues that institutional quality and the regulatory framework are key factors for the success and long-term viability of PPPs. According to the EPEC (2018) use of PPPs without strong value for money analyses, clear risk allocation and sufficient institutional capacities can lead to inefficient and fiscally problematic projects. Thus, the positive of infrastructure investments can be limited in the absence of effective institutions.

To construct the index, we used the methodology presented in the Handbook on Constructing Composite Indicators: Methodology and User Guide (OECD et al., 2008), which represents one of the most widely used approaches in the literature for developing composite indices.

Since the indicators are presented in different units of measurement, we applied the Min-Max normalization method to transform all indicators into a common scale from 0 to 1. According to OECD et al., (2008), this approach is suitable for constructing indicators with small samples, thus providing a better relative comparison between countries and simpler interpretation. Specifically, each indicator is transformed according to the following formula:

$$I_{qc}^t = \frac{x_{qc}^t - \min_c(x_q^{t_0})}{\max_c(x_q^{t_0}) - \min_c(x_q^{t_0})}$$

Where,  $I_{qc}^t$  represent normalized value of individual indicator  $q$  for country  $c$ , at time  $t$ .  $x_{qc}^t$  represents the value of indicator  $q$  for country  $c$  at time  $t$ , while  $\min(x_q^t)$  and  $\max(x_q^t)$  denote the minimum and maximum values of the respective indicator across all countries in the sample for a given year. This normalization approach transforms all indicators into values ranging from 0 to 1, where 0 represents the weakest-performing country and 1 represents the strongest-performing country for the respective indicator. For the indicator with negative impact on PPP viability (in our case General government gross debt, percent of GDP), we have adjusted the normalization procedure by applying an inverse min-max normalization procedure, so that higher normalized valued consistently reflect more favorable conditions across all dimensions. This ensures a consistent direction of interpretation.

To construct the index, we also used the equal weighting approach between the three main dimensions (33.33% for each of them). Each dimension was assumed to contribute equally to the final index, avoiding overestimation of a single dimension and reflecting the multidimensional nature of PPP viability. Therefore, the final index (PPP viability index) was calculated as a simple arithmetic average of the economic, fiscal and institutional sub-indices.

For the purpose of comparing countries, the PPP viability index results are classified into different categories to facilitate interpretation. In line with the methodology of Freudenberg (2003), a categorical scale approach has been used for this purpose, where countries are grouped into low, moderate and high levels of PPP viability. This classification is determined using the standard deviation method around the sample mean. Considering the relatively small number of Western Balkan countries included in the analysis, an interval of  $\pm 0.5$  standard deviations was used in order to avoid overly concentrated classifications and achieve a more balanced distribution between viability categories. Countries with PPP viability index scores above the mean plus 0.5 standard deviations are classified as having higher relative PPP viability, while countries below

the mean minus 0.5 standard deviations are classified as lower relative viability. Remaining countries are categorized as moderate viability. (Freudenberg, 2003; OECD et al., 2008).

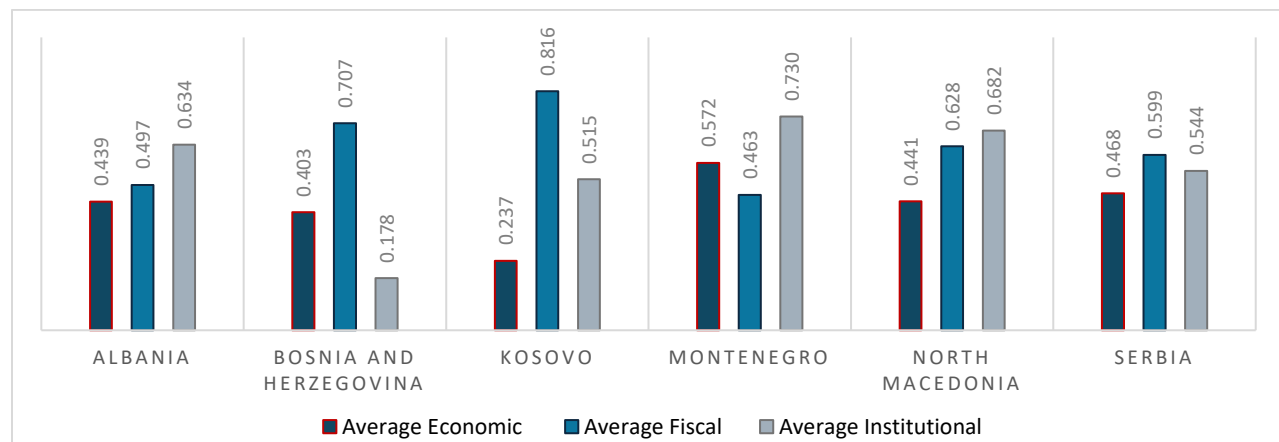
The study presents some methodological limitations, related to the small number of countries analysed, which affects the sensitivity of the results to the selection of indicators and the normalization method. Also, the lack of standardized data on the real performance of PPPs limits the possibility of directly measuring the operational success of PPP projects. It should also be noted that the index represents a relative and not an absolute assessment of the viability of PPPs in the region.

## RESULTS AND DISCUSSION

This section presents the main results of the construction of the PPP viability index and sub-indices for the Western Balkan countries. It is mainly noted that the Western Balkan countries have a relatively close level, as far as PPP viability is concerned, however, there are important differences between the sub-indices that indicate the situation in different economic, fiscal and institutional dimensions (Figure 3).

More specifically, the results of the economic sub-index show significant differences between countries, with Montenegro performing the best with an average index (0.572), implying more favourable macroeconomic conditions and higher potential for attracting private investment, followed by Serbia (0.468), Albania (0.439) and North Macedonia (0.441). Albania and North Macedonia have a similar economic result, indicating a moderate level of economic activity. While, Bosnia and Herzegovina and Kosovo remain the countries with the lowest score, highlighting the greatest limitations in these countries in terms of market size and economic capacity or long-term potential for PPP projects.

Figure 3: Sub-indices across Western Balkan countries (in average), 2008-2024



Source: Data from WDI, WGI, IMF, authors calculations

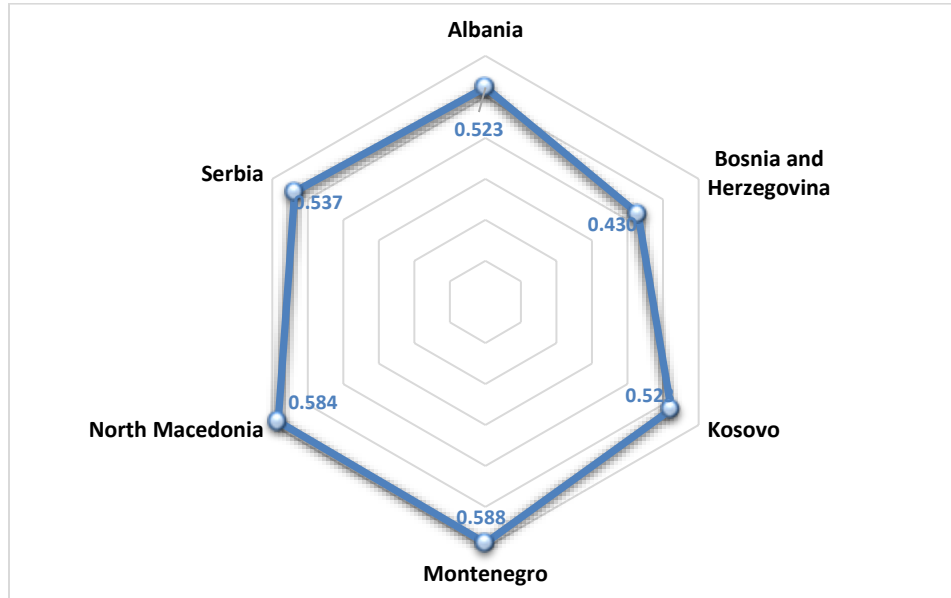
The fiscal dimension represents one of the most important components of PPP viability, as PPPs create long-term fiscal commitments and require sustainable financial capacity for governments. The results show that Kosovo has the highest fiscal performance with a score of 0.816, reflecting a relatively more favourable fiscal position and lower levels of public debt. Bosnia and Herzegovina ranks second with 0.707, while North Macedonia and Serbia present the most moderate results. Albania presents a score of 0.497, implying that it has more limited fiscal space than other countries to support PPPs. Montenegro results in the lowest fiscal performance (0.463) resulting from high levels of debt and limitations in total flexibility.

Another sub-index constructed is the institutional one which is calculated by considering the averages of the normalized data of the dimension's government effectiveness and regulatory quality. The institutional dimension is one of the determining factors of PPP viability, as the implementation of PPPs requires functional institutions, a stable regulatory framework and effective administrative capacities. In the region, Montenegro results in the highest institutional performance (0.730), followed by North Macedonia (0.682), Albania (0.634), which indicates relatively higher levels of government effectiveness and regulatory quality. Meanwhile, Serbia (0.544) and Kosovo (0.515) result with average levels in the region, reflecting gradual improvements in the institutional framework, but still with challenges in terms of governance and effective implementation. Bosnia and Herzegovina results with the lowest level of performance in the institutional aspect 0.178. This result may also explain the country's overall low performance in PPP viability index.

#### *But what does the PPP viability index show for the Western Balkan countries?*

As mentioned in the methodology of this paper, the PPP viability index is constructed as a simple average of the three sub-indices presented above. The weight given to each sub-index is the same. The results of the PPP viability index show significant differences between the Balkan countries in terms of their readiness to develop and support PPPs in a sustainable manner. Based on the calculation, it results that the PPP viability index is considered high for Montenegro and Macedonia with scores of 0.588 and 0.584 respectively. These countries are classified in the higher viability category, meaning that they have relatively more favourable conditions for the implementation of PPPs.

Figure 4: PPP viability index for Western Balkan countries, 2008-2024



Source: Data from WDI, WGI, IMF, authors calculations

This situation is followed by Serbia (0.537), Albania (0.523) and Kosovo (0.523) which, based on the threshold considered, are classified as having moderate PPP viability. Albania and Kosovo have the same score, which indicates that both countries have created some supporting conditions for the development of PPPs, although significant challenges remain, especially in the institutional aspect and in the management of fiscal obligations related to PPPs. The lowest ranking in the region is Bosnia and Herzegovina (0.430). What can be concluded from the index results is that the countries with the best performance in the index are those that have macroeconomic stability, functional institutions and the best governance capacities.

These findings are important for how the PPP market readiness of the region should be viewed. The findings of this paper are in line with the existing literature on infrastructure development and PPPs in the region, highlighting once again that the Western Balkans continues to face significant infrastructure gaps, limited institutional capacities and fiscal constraints that directly impact the ability to develop a sustainable market for PPPs. Although PPPs can be a viable option to increase efficiency and provide value for money, or other benefits if well planned and managed. (Atoyan et al,2018; EPEC, 2018).

The findings show that Montenegro and North Macedonia present the highest level of PPP viability in the region. This suggests that these countries have created relatively more favourable conditions for PPPs in terms of institutional and public policy. Specifically, the high institutional performance of Montenegro and North Macedonia is consistent with the literature according to which the quality of governance, government effectiveness and regulatory framework constitute

critical factors for the success of PPPs. According to EPEC (2018), PPPs require institutions capable of identifying, preparing, procuring, and managing projects over the long term, while weaknesses in these processes often lead to projects with high fiscal risk and low efficiency.

On the other hand, Bosnia and Herzegovina results with the lowest level of PPP viability, due to weak economic and institutional performance. This reflects the institutional fragmentation and complexity of the country's governance structure that the literature identifies as important obstacles to the planning and coordination of infrastructure investments. (Atoyan et al, 2018)

Albania and Serbia appear a moderate level of viability. However, both of these countries have more approved PPPs<sup>1</sup> compared to other countries in the region, but what is highlighted by the results is that there are still significant limitations, especially in the fiscal dimension. This is particularly evident in the case of Albania, which in the last two decades has used PPPs intensively in various sectors of the economy, creating long-term liabilities or contingent liabilities.

An interesting finding is related to the fiscal performance of Kosovo and Bosnia and Herzegovina, despite the weaker performance in the economic and institutional dimensions. This implies that the fiscal space is not sufficient to guarantee a sustainable market for PPPs. In the case of Kosovo, although the fiscal indicators are more positive, the literature highlights that the number of active PPPs remains very low, mainly due to the lack of political prioritization, the complexity of the projects and limited institutional capacities. (Democracy Plus, 2026). These results support the argument that PPP viability should be considered a multidimensional concept, related not only to fiscal and economic indicators, but also to the institutional capacity to manage the full cycle of PPPs.

The results of the PPP viability index show that the Western Balkan countries are still at moderate levels of readiness for PPPs. Although there is a significant need for structural investments, their successful development requires strengthening public institutions, improving fiscal governance, increasing technical capacities and improving project selection and monitoring processes. In this form, PPPs can be transformed from an alternative financing instrument into a real mechanism for supporting the long-term economic development and convergence of the region with the European Union.

## CONCLUSIONS

This study developed a PPP Viability Index to assess the readiness of Western Balkan countries to implement and sustain public-private partnerships. By combining economic, fiscal and institutional dimensions into a single analytical index, it aimed to provide a more

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<sup>1</sup> See more detail in World Bank PPI Database available at: <https://ppi.worldbank.org/en/visualization>

comprehensive assessment of the structural conditions that support or constrain the development of PPPs in the region.

The results show that PPP viability in the Western Balkan countries remains heterogeneous and closely linked to the quality of institutions, fiscal capacity and economic conditions of each country. Montenegro and North Macedonia resulted in the highest level of PPP viability, reflecting a relatively more functional and favourable institutional environment for the implementation of PPPs. In contrast, Bosnia and Herzegovina recorded the lowest level of viability, mainly as a result of institutional fragmentation and weaknesses in government coordination. Albania, Serbia and Kosovo were classified in the moderate viability category, which indicates that although some supportive conditions for PPPs exist, the countries continue to face important structural constraints.

One of the main conclusions of the study is that PPP viability should not be understood only in financial terms or at the individual project level. The successful implementation of PPPs depends on the interaction between macroeconomic stability, fiscal sustainability and institutional quality. The study highlights the importance of the institutional dimension as one of the most important determinants of PPP viability. Countries with better indicators of governance, government effectiveness and regulatory quality performed better on the index. This result supports existing literature, according to which the success of PPPs is closely linked to the ability of public institutions to identify, prepare, procure and monitor projects effectively and transparently. In the absence of these capacities, PPPs can create inefficient projects and increase governments' fiscal exposure.

This study contributes to the existing literature by proposing a multidimensional approach to measuring PPP viability at the country level in the Western Balkans. Unlike approaches that focus only on the volume of investments or the financial aspects of projects, the PPP viability index aims to capture the broader economic, fiscal and institutional environment necessary for the sustainable development of PPPs. However, the study also has limitations, mainly related to the availability of standardized data on PPPs and the subjective nature of the selection of indicators and weights in constructing the index. Future studies could expand the analysis by including additional indicators, a larger number of countries or different weights.

From a policy perspective, the findings suggest that improving the viability of PPPs in the Western Balkan countries requires a more careful approach, focused on strengthening institutional and legal capacities, beyond expanding the PPP portfolio. Although budgetary constraints may encourage the use of PPPs as an alternative financing instrument, in the absence of consolidated institutional and fiscal capacities, this may increase exposure to contingent liabilities and long-term fiscal risk. Therefore, governments should not consider PPPs as

automatic substitutes for traditional public investments, but should focus on creating the necessary conditions for their effective implementation. In this regard, priority should be given to consolidating the legal and regulatory framework for PPPs, strengthening institutional coordination mechanisms and increasing the technical capacities of institutions responsible for project identification, appraisal, procurement and monitoring. Also, countries should pay attention to improving fiscal risk assessment and reporting practices in order to ensure that engagements in PPP projects do not undermine the long-term sustainability of public finances.

In conclusion, the study concludes that strengthening public institutions, improving fiscal governance and increasing public investment management capacities constitute essential conditions for increasing PPP viability in the Western Balkans. Without these reforms, expanding the use of PPPs could increase fiscal risks and limit their potential to contribute to sustainable economic development and the process of convergence with the European Union.

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