

The role of behavioral economics principles and theory in conceptualizing and developing PPP framework in BiH

Soko Aida, M.Sc. and PhD Candidate
Consultant at Prime Minister Office
Sarajevo, Bosnia and Herzegovina
aida.soko10@gmail.com

ABSTRACT

The paper is exploring the link between major principles of behavioural economics and development of PPP in Bosnia and Herzegovina. Rational reasons to enter PPP are recognized worldwide and range from financial to political motives. Relevance of these motives for Bosnia and Herzegovina has been discussed and overall, it is clear that all motives remain to be very valid. However, still no single PPP has been structured.

Research focus is on elaboration of analytical foundations for decision making process in considering PPPs on both sides of equation: in public and private sector, aiming to offer guidance on three basic questions in conceptualizing and developing PPPs in BiH: When? Why? and How?

Therefore, less rational field related to behavioural economics principles and theory has been explored. Firstly, the rationality of usual explanation for economic slowdown has been discussed and demystified aiming to prove that there are no insurmountable obstacles to make use of PPP concept in BiH, but rather prejudices and irrational fears. The perception of potential stakeholders is explored by structured interviews of public and private sector players, including largest corporations, SMEs, government, banks and development institutions. Questionnaire contained 10 quick questions aiming to get overall perception of PPP concept and obstacles for development of such projects in BiH.

The results show strong influence of behavioural economics principles on PPP perception by relevant stakeholders, confirming departure from three cornerstones of standard economic model: unbounded rationality, unbounded willpower and unbounded selfishness. Data analysis enables deeper insight into reasons for lack of willingness at both sides of equation: public and private sector to undertake further steps in developing PPPs. At the same time perception of PPPs by relevant stakeholders provide useful input to decision makers in identifying obstacles and creating supporting environment for PPPs.

KEYWORDS: Behavioural economics, Public Private Partnerships, Bosnia and Herzegovina, Economic development

Public Private Partnership has been subject of strong debate in terms of its effectiveness, but overall, if properly structured, it may be one of the main drivers of economy development in transition countries. The decision about application of PPP model shall be based on careful analysis and informative decision making process. Key ingredients of effective collaboration include eight I's: Individual excellence, Importance, Interdependence, Investment, Information, Integration, Institutionalisation and Integrity (Kanter, 1994). Four C's are critical in process of selection of partners: Compatibility, Capability, Commitment and Control (Hagen, 2002) where compatibility is one of most important issues in terms of identifying complementary strengths and weaknesses. In essence, two major issues shall be addressed: motives shall be present and relevant experience and knowledge has to be secured. If both motive and institutional capacity is present, success is dependent on context factors and partnership design. Context factors refer to (i) willingness to start the partnership, (ii) experience/tradition with PPP, and (iii) right momentum to start PPP, while partnership design factors refer to: (i) the possibility to implement PPP, (ii) capacity of government to steer process, (iii) level of commitment, (iv) time and capacity devoted by partners and (v) level of ownership (Pfisterer et al, 2009).

If all these factors are present, and still no PPPs developed, the rationale has to be sought in other areas to identify major obstacles and way of overcoming them. The paper aiming to explore if there are rational obstacles like transition issues, lack of experience, lack of legal framework, private sector specifics, or the behavioural economics may offer some explanations.

The paper aims to provide insight into rational factors which usually drive process of designing and implementing PPPs and check if they are present in Bosnia and Herzegovina. Afterwards, the link between behavioural economics foundation and PPP development in BiH is explored, by setting the context in which PPP shall be implemented based on perceptions of major stakeholders.

All four motives are there

Worldwide, four major motives to implement Public Private Partnerships are recognized: financial, developmental, efficiency, and political. Among them, most frequent reasons to enter into a PPP are financial ones due to lack of funds in public sector and the need for risk diversification. Development motives are also widely used to enable transfer of knowledge from private sector and encourage investments that would not be done due to high risks. Efficiency reasons are twofold and are arising from market or government failure while ideological/political motives refer to the widely accepted concept of economic liberalization and less state intervention (OECD, 2013).

Financial motives to initiate PPPs are unquestionable in case of Bosnia and Herzegovina. Bosnia and Herzegovina has complex budget allocation system. Complexity arises out of administrative set up and asymmetric system of sub-national governments and is financially reflected in budget deficits at all levels of governments. Overall weak capacity to secure funding at competitive rates, IMF arrangement requirements and macroeconomic instability seriously limit possibilities of public sector to develop projects and finance improvement of public services. The role of financial pressure in PPP development has been subject of strong debate among academics. Opponents to PPPs driven by lack of public funds underline fundamental incompatibility of such approach and criticize effort of the IFIs to "financialize" PPPs (Hall, 2014).

Initially, in early 1970s, when the concept has been coined, PPP was focused on development of urban construction projects, than the concept evolved to concept whereby private partner become paid by the government rather than by consumers. Over the time PPPs were seen as mobilizing private finance for public ends, and later on as partnerships in the area of education, health services, and prison incarceration (Jomo et al, 2016). In general, PPPs are seen as developmental projects and this motive shall be prevailing in considering such projects. Developmental motives in case of Bosnia and Herzegovina do not need very detailed elaboration. After the war which destroyed economy there is a need to make not only physical recovery of infrastructure and public services, but to put together broken links and ties among different communities and economically disadvantaged groups. Small population and land area make many of services unattractive for private sector as they cannot be commercially priced. This requires state intervention to improve life conditions and encourage investments where risk is too high for private sector.

Efficiency becomes imperative in countries like Bosnia and Herzegovina. After Yugoslavia fall apart, new countries faced with many challenges, but on the top of that, Bosnia and Herzegovina experienced four years' war period. As mentioned earlier, war did not just caused physical damage, but has interrupted economic development, companies lost their markets, many qualified workers left the country, while others suffered from loss either of their work places or competitiveness due to long period of inability to maintain and improve its skills. Needless to mention, many people were killed, become disabled or simply become hardly employable for different reasons. To take care on these people budgets become heavily affected by different payments to vulnerable groups. In parallel destroyed economy hardly generate enough revenue to cover all these social needs. Hence, public sector needs to be highly efficient to cope with such challenges and find ways to fulfil its role of social protection and in the same time be generator of economy development. So, third motive, efficiency is not just desirable, but it is imperative and way to survive.

And finally, there are political/ideological motives which in essence enable incorporation of private management and innovation knowledge in public initiatives without privatization (Van Garsse & Verhoest, 2008). In many countries PPP have been developed to show commitment of government to demonstrate economic liberalization and decrease of state intervention (Kuriyan and Ray, 2009) Political/ideological motives have to be clearly understood to remove maybe biggest obstacle to PPP development in BiH. Unfinished process of privatization and numerous cases of unsuccessful privatization attempts have created rather negative perception about private sector role and importance. Through such lenses PPPs are also seen as rather negative and overall perception is that infrastructure projects and public services shall remain at public sector jurisdiction. Promotion and careful selection of PPP project may have multi-fold effects on perception of public and private sector by average citizen.

In such an environment where the economy developers and market players cope with limited resources and specific complications, all four motives to enter into PPP arrangements seems to be very valid in case of Bosnia and Herzegovina.

Two millennia of experience

In historical context, PPP is not a new concept; but rather at least two millennia old. It just had new shape and context today. The roots may be traced about two thousand year ago in the Roman Empire system of network of postal stations (*cursus publicus*) which was administered by government, financed by tolls and taxes and maintained by private sector. In general, Romans were very open to public private cooperation and used the model for construction and operation of ports, road construction, public baths and running of the market. The similar concept has been used in France during 12th and 13th centuries for the construction of new fortified towns. Whole villages were given to inhabitants under collective contracts obliging them to improve living conditions and granting concessions over activities under monopoly like mill, bridges and highways. Later on, in 16th century public works concession programs were developed in area of road paving, waste management, public lightening and postal services, while industrialisation in 19th century brought rapid urbanisation and strong expansion of the concept in transport, water supply, sewage and energy. After centuries of private sector involvement promotion, in the 20th century the trend has been reversed and role of the state increased due to instability caused by world wars, but the PPP get back in the scene in 1980s (PPIAF, 2009).

In Turkey, for instance, history of PPP goes back to the Ottoman Empire when the concessions have been granted for public services (Railways, Post offices, Lighthouses, Ports, Gas, Water, Energy) as well as for manufacturing industry (Food, Mining, Metal industry, Paper production, Chemical Industry) and the legal framework has been established in 1910 by Law on Concessions for the Public Benefit (Shaw & Cetinsaya, n.a.).

Among interesting and well known PPPs worth to mention are: River concession granted 1438 to the French nobleman Luis de Bernam to charge the fees for goods transported on the Rhine, Concession given 1792 to the brothers Perrier for water distribution in Paris, Channel Tunnel construction, and maybe most emblematic example – Eiffel Tower, whereby Alfred Eiffel designed and built it against the right to charge visitors for 20 years period.

The concept has been tested and proved for 2000 years and there is a rich experience and expertise gained in almost every sector, in developing and developed countries. To summarize, there are motives in place as well as lessons learned worldwide, so, what's wrong with adopting and implementing PPP concept in Bosnia and Herzegovina?

Stuck in transition?

Looking at rational explanation for lack of PPP initiatives in BiH, the first logical choice would be the lack of entrepreneurial tradition and underdeveloped private sector at one side and lack of capacity at public sector side to structure and implement complex projects.

Bosnia and Herzegovina is indeed characterized by small market and fragmented economic space with a heritage of state planned approach to economy development. The weak capacity of the public sector due to the budget deficits is combined with overall lack of the entrepreneurial tradition and therefore still developing private sector.

But, let's look back into history – central planning and state ownership was a system in place for 45 years, after Second World War till early 90s. Approximately, we are talking about one generation. Is it really possible to seriously interrupt market trends, so that private sector cannot recover? Furthermore, at that point of time Yugoslavia was most open economy among socialist countries, unlike to Poland, Hungary, Czechoslovakia, Bulgaria, Romania, and USSR, which practically had closed borders.. Any rational explanation here is contradictory. If 45 years is enough to completely replace market by central planning, than one shall expect strong state able to cope with modern challenges and create supportive environment for private sector development. As mentioned earlier, Yugoslavia was most liberal socialist country in Europe. But, in general Yugoslav economy was not the leading one among Eastern European countries, measured by GDP per capita and new countries created after fall of Yugoslavia are struggling to catch up the trend in ex socialist countries in Europe. Other countries had much more rigid central planning and market control system, but still, private sector get back its place very soon after abolishment of socialist system in late 1980s and early 1990s.

In 1970s and 1980s, among European countries with socialist system in place, major progress in terms of GDP per capita increase has been recorded in Hungary and Yugoslavia where GDP per capita in 20 years increased 5 and 4 times respectively. In 20 years after failure of socialist system (1990-2010) majority of these countries have recorded strong growth, but Bosnia and Herzegovina did not catch up. In particular, strong growth has been recorded in Czech Republic, Poland and Hungary, while Romania and Bulgaria have recorded growth, but on much lower scale. The least economy growth is recorded in ex-Yugoslav and ex-USSR countries.

Czech Republic records strong growth regardless the fact that ex Czechoslovakia has been divided into two countries. Some of countries which were previously part of USSR record remarkable growth and already become members of EU (Estonia, Latvia, and Lithuania), regardless splitting of country and markets. At the other side, countries with continuity in terms of country size, Hungary and Poland also record strong growth, while Bulgaria and Romania recorded some growth, but at much lower speed. These facts confirm that even division of countries do not necessarily prevent economic growth, neither state continuity grants better position for in terms of economic growth,

The possible explanation is that the state was strong in some ex socialist countries and thus enabled control over economy development even after change of the system. The milestone however was EU joining when significant increase of GDP per capita has been recorded in Bulgaria, Poland, Romania and Hungary, showing that change of the system do not necessarily require significant time to take a new course. But does it really have to do with the state or it is result of private sector development?

Taking the perspective of diversification by developed and developing/transition countries some key differences maybe observed, in particular in areas of coping with the political agenda, regulatory framework, driving forces for PPP implementation, sectoral distribution, and form of PPP. In principle developing countries are more focused on achieving macro targets by PPP, while developed countries are concerned with micro issues. Unlike to developed countries which act on policy level, PPP implementation in developing countries is often catalysed by International Financial Institutions. Despite all knowledge transfer and influence of IFIs, PPPs in

developing countries show little evidence on collaborative relationship, and legal framework is in principle inadequate. In terms of sectors in developing countries are focused on economic infrastructure, while developed one moved step ahead towards social infrastructure development (Kahyaogullari, 2013).

Indeed, the ideology in socialist countries promoted collectivism as a viable and desirable alternative to free market principles, and developing countries still struggling in catch up with developed ones in terms of major goals and principles in PPP implementation. But, there is evidence of countries with similar challenges in managing to find a way out and unlock its economic potential. So, the experience of other transition countries shows that obstacles may be overcome and the fact that system has been dramatically changed is not a reason by itself to struggle with private and public sector development.

Legal framework (does not) exist?

Although, legal framework is not harmonized and adopted at every single level of (sub) national government, it does not make a PPP implementation impossible. Namely, BiH is consisted out of two entities: RS and Federation BiH, later being further divided into Cantons and then municipalities, while RS has only municipalities. RS has a PPP law, Federation at the entity level do not have a Law, but Cantons do.

Technically there are no obstacles to structure and implement PPP as any project has to be placed in certain municipality and all of them are “covered” by existing legal framework. Also, specific PPP Law is not necessary condition to implement PPP, neither existence of Law provides confidence that PPP concept will work. Many countries do not have explicit PPP Law but treat PPP as way of procurement. Well, it is not a perfect framework for PPP development, but it is important to underline that existing legal framework does not prevent design and implementation of PPPs in BiH.

But, why these arrangements are not in place? The rational motives are there, no legal obstacles for their implementation, but the process is still to be kicked off. Are there rational reasons behind it or we shall seek for other type of explanations? Can behavioural economics offer some explanations?

BiH Private sector specifics

Before moving into a field of behavioural economics, we shall take a look at the stage of development and main drivers of private sector growth in Bosnia and Herzegovina. Economic theory is based on rational choices, willingness to maximize profits and looking for best interests of individual. While high level analysis of FDIs in Bosnia and Herzegovina may confirm this theory, many of domestic investors do not follow the pattern and are often led by overconfidence, choices based on social effects rather than economic ones, optimism and many other features of behavioural economics.

The example of Goražde, a relatively small municipality in Eastern Bosnia which in relatively short period of time have developed strong industry is very interesting to share. In 1990s

Goražde has strong industry, but during the war time the whole town has been practically destroyed. As result of after-war-math Goražde get quite isolated from the rest of FBiH due to bad road infrastructure and lack of direct connection with the rest of FBiH. For many years after municipality was struggling to recover and many people, particularly young professionals have left the municipality. It just happened that two big investors decided to place its production facilities there, for simple reason of Goražde being their home town. Both of them left this municipality quite long time ago, and develop its business in EU. Following basic economic theory, the businessman operating in “just in time” industry hardly would find rational reasons to place production facility in Goražde. But, these two gentleman did so ... and it become very successful story. Thanks to their presence some other foreign investors came to municipality and complementary and supply chain SMEs have developed its business as well. In last 5 years economy growth measured by turnover of companies in Goražde records 80% increase, and 46% increase of total employees. Only two mentioned investors account today for more than 40% of total employees in municipality. Goražde is not a single case, there are other examples like Gračanica, Gradačac, and Tešanj. Majority of investments by domestic (and Diaspora) investors are focused on “home town”, no matter on better conditions in other areas. This fact, combined with low level of FDIs creates quite specific environment for private sector development in BiH.

Role of Behavioural Economics Principles and Theory

Behavioural economics, as a combination of economy and psychology, is considered to be relatively new field of study looking after explanation of irrational choices in economic actions. But the relevance of behavioural insights has been incorporated in work of many prominent economists quite long time ago (Smith, 1759; Fisher, 1928; Simon, 1951; Katona, 1951; Scitovsky, 1976). Behavioural economics modifies three cornerstones of standard economic model: unbounded rationality, unbounded willpower and unbounded selfishness. In real life situations, departures for all three major cornerstones emerge both in judgments and in choices. The most common manifestation include framing effects, loss aversion, status quo bias, mental accounting, fiscal illusion, hyperbolic discounting, overconfidence, underreaction, overreaction, etc.

In this paper four concepts are explored in more details: Individual framing theory, Social interactions theory, Status quo bias and Overconfidence. Individual framing effect theory deals with “frame dependence” assuming that the individual decision depends on the way how the choice is presented as many individuals react differently to gains as to equal-but-opposite valued losses. Social interactions theory refers to the abundant evidence that individual is under influence of group notions such as social norms and customs. In particular, “social contribution dilemma” occurs when individual’s interests are opposed to those of the community (Alm & Bourdeaux, 2013). In decision making process, the individuals are often affected by Status Quo Bias as the tendency to favour decisions that maintain the existing state of affairs i.e. resistance to change. Overconfidence effect is observed when individual have confidence in its own ability greater than objective performance. It is mainly based on issues such as high rates of entrepreneurs who enter a market despite the low chances of success (Moore & Healy, 2008).

One may expect and may explain economically irrational behaviour at the side of public sector, due to different motives and drivers in decision making process. But when it comes on the field

of private sector, the patterns have to be understood by decision makers at public sector side and channelled towards positive effects on economy development. Status quo bias is probably one of the major obstacles to move on with PPPs and as well as framing effect has to be carefully managed. Is there something wrong in using the same approach as it is case in Gorazde (overconfidence effect)? If private sector players are ready to take more risks having high confidence in their home area and having much stronger motives to succeed, why not to use this fact? The crucial issue is, however, how to influence the willingness to cooperate due to social contribution dilemma as private sector maximization of benefits is contradictory to community interests. Here the circle is closed and we get back to Status quo bias i.e. to remain in the safe zone and no change shall take the place which means, no PPPs.

Stakeholder's perception matters

Results gained out of selective interviews with major stakeholders give some overall light on perception of PPPs in Bosnia and Herzegovina. In total 60 respondents were asked 10 quick questions. Respondents were carefully selected among private sector players (large corporations and leading SMEs), public sector (Government and SOEs), Banks and NGO sector (including educational and development players).

Respondents have high level agreement on PPP being a good concept that shall be implemented in BiH as much as possible. On the scale of 1 to 5, whereby 5 shows highest level of agreement, average score reached is 3.76. The best score is given by NGOs and educational institutions (4.50) and large corporations (4.29). Educational institutions have strongest believe that PPP is good concept, but hardly efficient in BiH. Interestingly, the same opinion is shared by SOEs. The reasons for such perception may be sought in the fact that there is no experience in implementing PPPs in BiH and PPP literature points out complexity of such projects. Intentionally, all respondents were given a freedom to assign the score to these rather opposite statements: (i) PPP is good concept and shall be implemented in BiH as much as possible and (ii) Good concept, but hardly can be efficient in BiH. It has resulted with high level agreement that PPP shall be implemented as much as possible and at the same time that it can be hardly efficient. It is hard to find any rational explanation for such perception. In particular, it is hard to explain in case of Banks which shall be most risk averse among respondents. Banks welcome PPPs as good concept, but also agree that the chances for being efficient are low, and interestingly, Banks assigned almost the same score to these two rather contradictory statements.

To complement above stated contradiction, only 11% of respondents would not take a part in PPPs if they would have a chance to do so and majority of them are from private sector side. Although high majority of respondents believe that PPP is good concept but hardly may work in BiH, they would take a part in such project, which is another irrational momentum to be observed.

Why PPPs are not implemented?

Among the reasons for lack of implementation of PPPs, three are identified as strongest ones, namely Corruption, Lack of capacity at public sector and Legal instability.

Corruption seems to be perceived as major obstacle and it is highly scored among respondents, in average 3.64. At the second place is Lack of capacity at private sector which was scored as 3.59. The strongest perception about corruption being major obstacle is among NGOs which have scored it at 4.11. The government officials have scored this lowest among respondents, but still relatively high (3.11).

Second largest obstacle is recognised in lack of capacity at public sector side, which again has a largest score by NGO sector (4.44), and is closely followed by Banks (4.14). Again Public sector scored this issue quite low (2.75), considering that this is not major obstacle.

Having in mind long term prospect of PPPs legal instability arises as huge problem, and it has been identified as third largest obstacle with an average score of 3.36. Again NGOs and Banks are most concerned and have scored this obstacle at 4.00 and 3.43 respectively.

As a largest obstacle NGOs and Banks see Public sector capacity, while Private sector major concern is Corruption. Interestingly, public sector sees major problem at lack of trust between public and private sector.

The rationale behind these views may be found in the process of giving concessions on natural resources which is perceived as very non transparent process with high level of corruption. Although concessions on natural resources are not considered to be PPP by core definition, it is generally perceived as part of public private cooperation.

Looking at scores assigned by respondents, seems that money is not an issue, liquidity at private sector and banks LT sources are perceived as least problematic. It is rather strange perception, as banks are indeed liquid but with very limited capacity to finance large scale projects due to small equity base and limited possibilities to grant longer maturities as the refinancing sources are on shorter term. In both areas (maturity match and credit concentration vs. Equity) regulatory rules are quite strict in Bosnia and Herzegovina. So, capacity of local banks is rather limited, but it is often overcome by financing by headquarters outside of BiH, which explains low score but could be misleading.

Sectors – where to develop PPPs?

In terms of sectors where PPPs shall be implemented infrastructure projects are on the top of the list. It is mainly driven by strong public debates and interest in developing road infrastructure and 74% of respondents believe that is best to start PPPs there. The second hot topic is waste management (72%) and surprisingly tourism (67%) takes a third place, before Building and maintenance of business zones (57%), Health (51%), Central heating (46%) and Railways (34%).

It is also interesting to take a look at the selection of sectors by different groups of stakeholders. Bank's first choice is Road infrastructure (79%) and Tourism (79%), followed by Waste management (57%) and Health sector (57%). NGOs and Educational institutions strongly believe that PPPs shall be implemented in area of Waste management and Tourism, both gained 89% of respondents support, while private and public sector have less confidence in Tourism, which got

60% and 54% support respectively. Waste management projects got strong support by both Public (77%) and Private Sector (72%). Public sector sees high potential in PPPs supporting Building/Maintenance of business zones and this is far highest support (92% of public sector respondents), but Banks scored this quite low (36%). The reason for that is high number of Brownfield and Greenfield locations which may be relatively quickly transformed into business zones and they are mainly owned by different levels of Government. Although railways are maybe obvious choice for PPPs, they were assigned with lowest score, overall and individually by different group of respondents. Logically, Public sector provided highest support (46%) and Banks provided lowest support (14%). One possible explanation is that the current status of Railways is very problematic as they are highly indebted, with several scandals around procurement which lead to perception of low potential and high risk.

Key success factors

Looking at key success factors there is full agreement that mix of domestic and private companies is winning combination. In total 79% of respondents agreed to this. There is also recognised need to have know-how transfer through Mentoring of countries which were successful in PPP (52%) and Advisory services (51%).

Banks (93%) are most convinced that mix of domestic and foreign companies at private sector side is winning strategy and also strongly agree that mentoring by countries that successfully implement PPPs will be most beneficial (79%). Other stakeholders are not so convinced that mentoring is key for success, in particular public sector scored it quite low (38%). Advisory services are scored high by NGOs and educational institutions (78%), while Private sector does not consider them as key success factor i.e. only 36% of respondents believe that these services are needed.

In fact, these perceptions are not surprising, each group of stakeholders stated strong support for some specific area of interest. Mix of foreign and domestic companies would diversify risk for banks in terms of financing, NGOs and Educational institutions have interest of providing Advisory services and public sector would prefer not to be mentored. While majority of reason behind such scoring are understandable, they are not highly rational as the major concern to all stakeholders shall be success of the Project, not particular individual interests. Individual benefit cannot be maximized if project is not successful.

Main drivers of PPP in Bosnia and Herzegovina

Getting back to four major motives to enter into PPP arrangements, the ranking clearly shows developmental motive as most important one. Development of infrastructure projects gets highest score (74%), thanks to perception of Banks (86%) and Private sector (76%). Other two groups of stakeholders: Public sector (85%) and NGOs (89%) consider need for Improvement of public services in general as key driver for PPP projects. Employment is third main driver and is scored very high by Public sector respondents (77%) which are clearly understandable having in mind high Unemployment rate. Knowledge transfer from private sector is recognized at private sector side (60%), but public sector does not agree with it and only 31% of respondents see it as main driver of PPPs.

Having in mind overall dissatisfaction with public services including some basic ones such as business registration, it is interesting to observe relatively low score given by private sector (52%) and banks (43%) to the Improvement of public services as main driver for PPP projects.

Another interesting fact is that Lack of funds in public sector is not recognised as a major driver, except from Banks (71%). Private sector and NGOs and Educational institutions scored it quite low, 32% and 33% respectively. It is out of question that only pure fact that budget deficit shall be key driver to explore PPP models, but it is recognised to be most often reason worldwide. Again here we may observe, individual framing and particular interests of different stakeholders. Infrastructure projects are definitely most interesting as all stakeholders may be involved on one or another way.

So, where the problem is?

It is hard to find rational reasons to explain why there are no PPPs in Bosnia and Herzegovina, at least in some more advanced phase than having idea. Behavioural economics offers some explanations through its basic principles and theory. In complex environment such as BiH, is hard to expect rational choices.

Government has recognised importance of PPPs and has clearly identified development of legal framework and removing obstacles for PPPs implementation as one of the main priorities in Reform Agenda. This is definitely way to go and therefore understanding of different perceptions is crucial. Being they rational or not is less important. It shall be acknowledged that these perceptions are there and shall be properly managed and changed to create supportive environment for PPP implementation.

Let's than go back to three basic questions in conceptualizing and developing PPPs in BiH: When? Why? and How? The answers are very simple.

When? As soon as possible.

Why? For all rational and irrational reasons

How? Think small and start with quick wins. Get back trust between public and private players

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