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An Analysis of Governance Policy and Practice in Public-Private Partnerships
in Transitional Economies: A Case Study of Kazakhstan and Russia

Submitted for the Degree of Doctor of Philosophy
at the University of Northampton

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ABSTRACT

This research examines management of public-private partnerships (PPPs) in the two transitional countries of the former Soviet Union - Kazakhstan and Russia. The study focuses on how key PPP actors in Russia and Kazakhstan perceive and adapt to contract regulation, risk allocation and dispute resolution challenges in PPP management.

The qualitative study draws on data from 30 in-depth semi-structured interviews with the respondents from four partnership projects, national and regional PPP centres, law firms and the government. Through a qualitative analysis of the interview data, four principal themes have emerged including partner opportunistic behaviour in a PPP; partner interaction; risk management in a PPP; and constraints and impediments to effective PPP governance. Utilising the PPP governance concept as the guiding theoretical framework, the research highlighted partners' opportunistic behaviour. A private partner exhibited its opportunism in a tariff setting and cost increases, whilst the public sector partners demonstrated their opportunistic behaviour by shifting public acceptance risk to a private party, exerting pressure in order to achieve results faster than contracted and framing a private partner's management flexibility.

The findings revealed that partners from both sectors tend to downplay the significance of governance structures that would permit them to effectively interact and resolve all kinds of issues including those of risk management. Investigation of tools for dispute resolution between partners showed that this area of collaboration is virtually non-existent. Partners largely disregard formal mechanisms for dispute resolution and excessively rely on informal relations. The research identified a large number of commonalities in PPP management and no major discrepancy between Kazakhstan and Russia with regards to partnership management and PPP critical success factors. In the latter, managing public-private relationship during the entire project term is the principal factor.

The study developed a model for more deeply understanding PPP governance in the two countries, which is the thesis' original contribution to knowledge. The model's core is the emergent PPP policy paradigm that the governments in both countries use. The study delineated the paradigm's principal elements and dynamics that contribute to PPP management changes in Kazakhstan and Russia. The research also contributes to knowledge by enhancing opportunism's definition and its application in the PPP setting.

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OUTPUTS AND DISSEMINATION

Articles in international peer-reviewed journals

Mouraviev, N. and Kakabadse, N. 'Rules of Engagement': How Experiential Learning Facilitates the Formation of a Public–Private Partnership in Russia. *Journal of Management Development*. In press.

Mouraviev, N. and Kakabadse, N. Public–Private Partnerships in Russia: Dynamics Contributing to an Emerging Policy Paradigm. *Policy Studies*. In press.

Mouraviev, N. and Kakabadse, N. Public-Private Partnership's Procurement Criteria: The Case of Managing Stakeholders' Value Creation in Kazakhstan. *Public Management Review*. In press.

Mouraviev, N. and Kakabadse, N. Risk Allocation in a Public–Private Partnership: A Case Study of Construction and Operation of Kindergartens in Kazakhstan. *Journal of Risk Research*. In press.

Mouraviev, N. and Kakabadse, N. 2012. Conceptualising Public-Private Partnerships: A Critical Appraisal of Approaches to Meanings and Forms. *Society and Business Review*. Vol. 7, Issue 3: 260–276.

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TABLE OF CONTENTS

CHAPTER ONE: INTRODUCTION	1
1.1 Chapter introduction	1
1.2 Research rationale	1
1.2.1 A personal perspective	1
1.2.2 Literature perspective	2
1.3 Research question and objectives	3
1.4 Research methodology	4
1.5 Research context	5
1.6 Research contributions	5
1.7 Thesis structure	7
1.8 Chapter summary	9
 CHAPTER TWO: LITERATURE REVIEW	 10
2.1 Introduction	10
2.1.1 The PPP emergence in Europe: the historical context	11
2.2 Conceptualising PPPs	13
2.3 PPP forms	18
2.4 Reasons for partnering	22
2.5 PPP shortfalls	27
2.6 PPP governance strategy and relationship quality between partners	30
2.6.1 PPP governance as a contribution to public management	31
2.6.2 Power arrangements in PPPs	33
2.6.3 Opportunistic behaviour as the main determinant of the need for PPP governance	34
2.6.4 Literature debate on how to improve PPP governance	38
2.7 Principal PPP risks	40
2.8 Principles of risk allocation in PPPs	44
2.9 Approaches to risk management	47
2.10 Kazakhstan and Russia: an analysis of the context	52

2.10.1	Areas of PPP operations in Kazakhstan and Russia	52
2.10.2	Internal and external PPP drivers in Kazakhstan and Russia	56
2.10.2a	Internal PPP drivers	58
2.10.2b	External PPP drivers	61
2.10.3	Public policy approaches to PPPs in Kazakhstan and Russia	64
2.10.4	Concessions in Kazakhstan and Russia	69
2.10.5	The Russian language literature regarding PPPs: focus areas	72
2.10.6	The Russian language literature: PPP management themes	75
2.10.6a	The nature and scope of government involvement in partnerships	76
2.10.6b	Risk management in a PPP	78
2.10.6c	PPP laws and regulations	79
2.10.6d	Association of PPPs with intrinsic advantages	80
2.10.6e	Criteria for PPP project selection	82
2.10.7	Gaps and weaknesses in the literature	83
2.10.7a	Government involvement in partnerships	83
2.10.7b	Risk management	84
2.10.7c	PPP legal issues and practical constraints	85
2.10.7d	PPP selected advantages	87
2.10.7e	PPP project selection criteria	88
2.10.8	Identification of critical research gap	89
2.11	Theoretical framework	90
2.12	Chapter summary	93
CHAPTER 3: METHODOLOGY		95
3.1	Chapter introduction	95
3.2	Research approach	96
3.2.1	Ontological positions	96
3.2.2	Epistemological positions	98
3.2.3	Approach to social theory	99
3.2.4	Research approach summary	102

3.3	Methodological choices and research strategy	104
3.3.1	Research strategies	104
3.3.2	Qualitative approach adopted in the thesis	107
3.4	Methods for data collection	110
3.4.1	Data collection methods	110
3.4.2	Participant selection	115
3.4.3	PPP project selection	116
3.4.4	Project descriptors and the context	118
3.4.4a	Railroad in Eastern Kazakhstan	118
3.4.4b	A toll viaduct in Ryazan, Russia	120
3.4.4c	Eleven kindergartens in Karaganda, Kazakhstan	122
3.4.4d	Two kindergartens and three schools in St Petersburg, Russia	125
3.4.5	Specific considerations	127
3.5	Pilot study	127
3.5.1	Purpose and participants	127
3.5.2	Preliminary findings	129
3.6	Methods for data analysis	131
3.7	Research validity	134
3.8	Ethical considerations	137
3.9	Chapter conclusion	138
CHAPTER FOUR: ANALYSIS		141
4.0	Chapter introduction	141
4.1	Opportunistic behaviour in a PPP	142
4.1.1	Opportunistic behaviour in a PPP: reasons and forms	143
4.1.1a	Opportunism in the form of the public sector partner's pressure ...	144
4.1.1b	Opportunism in tariff setting: diverging partners' interests	149
4.1.2	Short-term implications of partner opportunistic behaviour	152
4.1.2a	Lack of flexibility in business management	152
4.1.2b	Cost increases	155
4.1.3	Theme summary	157

4.2	Interaction between partners in a PPP	158
4.2.1	Partner interaction issues: categories and examples	159
4.2.1a	Partner interaction regarding securing project financing	159
4.2.1b	Interaction regarding construction of a facility	161
4.2.1c	Interaction regarding tariff setting	163
4.2.1d	Interaction regarding other operational issues	164
4.2.2	PPP organisational forms and their implications for partner relations	166
4.2.2a	A jointly formed project company	167
4.2.2b	A project management structure without an SPV	169
4.2.2c	A project management structure with an SPV	170
4.2.3	Tools and methods for dispute resolution between partners	172
4.2.3a	Informal relations	173
4.2.3b	Governance structures	174
4.2.4	Theme summary	177
4.3	Risk management in a PPP	178
4.3.1	Technical risk	179
4.3.2	Construction risk	180
4.3.3	Operating risk	181
4.3.4	Revenue (demand) risk	183
4.3.5	Financial risk	185
4.3.6	Environmental risk	187
4.3.7	Regulatory/political risk	188
4.3.8	Public acceptance risk	191
4.3.9	Project default risk	192
4.3.10	Foreign exchange risk	194
4.3.11	Risk involved in the choice of a private sector partner	195
4.3.12	Hidden protectionism	196
4.3.13	Theme summary	197
4.4	Constraints and impediments to effective PPP governance	198
4.4.1	Legal and regulatory barriers	199

4.4.1a	Irregularities in PPP legal framework and discrepancies between national and regional PPP legislation	199
4.4.1b	Tangled PPP tender procedures	201
4.4.1c	Ambiguity in the regional governments' privileges and responsibilities	202
4.4.1d	Complex and bureaucratic tariff and wage-rate setting	204
4.4.1e	Public versus private asset ownership	205
4.4.2	Institutional and managerial impediments	206
4.4.2a	Private partner's lack of flexibility in decision-making	206
4.4.2b	The private sector partner's procurement restrictions	208
4.4.2c	Lack of government commitment to a PPP	208
4.4.3	Financial constraints	209
4.4.3a	Lack of validity of the public sector comparators	210
4.4.3b	Difficulties with securing PPP financing	211
4.4.3c	PPP's financial flows: Constraints to effective risk management ..	212
4.4.3d	Taxation issues	213
4.4.4	Theme summary	214
4.5	Chapter summary	215
CHAPTER FIVE: DISCUSSION		217
5.0	Chapter introduction	217
5.1	Opportunistic behaviour in a PPP	217
5.1.1	Conceptualising opportunistic behaviour: drawing on the ontological position	219
5.1.2	Conceptualising opportunistic behaviour in a PPP: an operational definition	220
5.1.3	A PPP as a set of arrangements	221
5.1.4	Opportunistic behaviour in a PPP: diverging partners' interests	224
5.1.4a	Opposing perspectives regarding public acceptance of a PPP project	224
5.1.4b	Opposing perspectives on achieving results faster	

	than contracted	226
	5.1.4c Opportunistic behaviour regarding tariff setting	230
5.1.5	Short-term implications of a partner's opportunistic behaviour	231
	5.1.5a Overregulation as a principal reason for lack of flexibility in business management	231
	5.1.5b Framed private partners' management flexibility	232
	5.1.5c Cost increases	235
5.1.6	Theme summary	236
5.2	Interaction between partners in a PPP	237
	5.2.1 Partner interaction issues - varying perceptions	237
	5.2.1a Partner interaction issues - positive perceptions	238
	5.2.1b Partner interaction issues - negative perceptions	240
	5.2.2 PPP organisational forms: advantages and disadvantages	244
	5.2.3 Tools for dispute resolution between partners	245
	5.2.4 Theme summary	246
5.3	Risk management in a PPP	248
	5.3.1 Perceptions of financial risk	250
	5.3.2 Perceptions of revenue (demand) risk	252
	5.3.3 Low risk and the guarantee culture in PPPs	256
	5.3.4 Theme summary	258
5.4	Constraints and Impediments to Effective PPP Governance	258
	5.4.1 Legal and regulatory barriers	259
	5.4.1a A PPP: a legal and conceptual ambiguity	259
	5.4.1b Legal constraint to the government commitment to a PPP: three-year limit set by the budget law	263
	5.4.1c The interplay between PPPs and sustainability: are government financial obligations sustainable?	264
	5.4.1d PPP implementation issues	267
	5.4.2 Institutional, managerial and financial constraints	271
	5.4.3 Theme summary	273
5.5	Chapter summary	275

CHAPTER SIX: A MODEL FOR UNDERSTANDING PPP GOVERNANCE

IN KAZAKHSTAN AND RUSSIA: THE POLICY PARADIGM PERSPECTIVE..276

6.1	Chapter introduction	276
6.2	Theoretical framework of a policy paradigm	277
6.3	PPP policy paradigm: the principal elements	282
6.4	PPP policy paradigm: the underlying dynamics	286
6.4.1	Perceived PPP benefits: unbalanced government approach	287
6.4.2	Government tends to inflate positive PPP externalities and downplay negative externalities	290
6.4.3	Government support to PPPs: extensive financing	292
6.4.4	Government approach to risk allocation in a PPP	295
6.4.5	A concession as a prevailing PPP form	297
6.5	Model propositions	298
6.6	Model summary	305
6.7	PPP critical success factors	306
6.7.1	Legal and regulatory environment	307
6.7.2	Partner interaction	308
6.7.3	Risk management	310
6.8	Chapter summary	311

CHAPTER SEVEN: CONCLUSIONS AND CONTRIBUTIONS312

7.1	Chapter introduction	312
7.2	Key findings	313
7.2.1	PPP partners' opportunism	313
7.2.1a	Opportunism in the form of the public sector partner's pressure ...	313
7.2.1b	Private partner's opportunism in tariff setting	314
7.2.1c	Implications of partner opportunistic behaviour	315
7.2.2	Interaction between PPP partners	315
7.2.2a	Partner interaction	315
7.2.2b	PPP organisational forms	316
7.2.2c	Tools and methods for dispute resolution between partners	317

7.2.3	Risk management in a PPP	318
7.2.4	Constraints and impediments to effective PPP governance	319
7.2.4a	Legal barriers	319
7.2.4b	PPP implementation issues	320
7.2.5	PPP critical success factors	321
7.3	Achievement of research objectives	322
7.4	Contribution to knowledge	329
7.4.1	Contribution to theory	329
7.4.2	Contribution to research methods	332
7.4.3	Contribution to practice	333
7.5	Research limitations	336
7.5.1	Research bias	336
7.5.2	Sample size limitations	337
7.6	Directions for further research	338
7.7	Chapter summary	340
REFERENCES		341

LIST OF FIGURES

Figure 2.1 Why PPP governance is needed: The links between principal factors	37
Figure 2.2 Internal and external PPP drivers in Kazakhstan and Russia	57
Figure 2.3 Themes and issues in PPP management outlined in the literature	76
Figure 3.1 Triangulation in collecting data	135
Figure 3.2 Triangulation in data analysis	136
Figure 4.1 Chapter Four outline	141
Figure 4.2 Theme's structure: Opportunistic behaviour in a PPP	142
Figure 4.3 Partner interaction: Theme structure	159
Figure 4.4 Partner interaction scheme in a PPP implemented by a jointly formed project company	168
Figure 4.5 Partner interaction scheme in a PPP project implemented by a private operator without an SPV	170
Figure 4.6 Partner interaction scheme in a PPP project with an SPV, option one	171
Figure 4.7 Partner interaction scheme in a PPP project with an SPV, option two	172
Figure 4.8 Risk management: Theme structure	179
Figure 4.9 Constraints to effective PPP governance: Theme structure	198
Figure 5.1 Typical PPP arrangements: Contractual dependencies and a special purpose vehicle	222
Figure 5.2 Links between government opportunistic behaviour and the PPP's value for money	229
Figure 5.3 Opportunistic behaviour in a PPP: Forms and implications	237
Figure 5.4 Links between partners' behaviour in a PPP: Reinforcing a guarantee culture	257
Figure 6.1 The PPP policy paradigm in Kazakhstan and Russia: Principal elements	282
Figure 6.2 A model for understanding PPP governance in Kazakhstan and Russia	299
Figure 7.1 Chapter Seven outline	312

LIST OF TABLES

Table 2.1 Concessions approved by the Kazakhstani government as of January 2013	54
Table 2.2 Understanding and features of a PPP	66
Table 2.3 Number of concessions in Russia, 2009-2011	70
Table 2.4 PPP management theme, related issues and gaps in the literature. Theme 1: Government role in PPPs	84
Table 2.5 PPP management theme, related issues and gaps in the literature. Theme 2: Risk management in PPPs	85
Table 2.6 PPP management theme, related issues and gaps in the literature. Theme 3: Laws and regulations pertinent to PPPs	87
Table 2.7 PPP management theme, related issues and gaps in the literature. Theme 4: Association of PPPs with selected advantages	88
Table 2.8 PPP management theme, related issues and gaps in the literature. Theme 5: PPP project selection criteria	89
Table 3.1 Research approach summary	102
Table 3.2 Quantitative research versus qualitative research	105
Table 3.3 PPP projects selected for the study	117
Table 3.4 Railroad concession: Summary of key project details	119
Table 3.5 A toll viaduct in Ryazan, Russia: Key project details	122
Table 3.6 Kindergartens' PPP: Summary of key project details	124
Table 3.7 Kindergartens and schools in St Petersburg: Summary of key project details ..	126
Table 3.8 Attributes of interviewees selected for a pilot study	129
Table 4.1 PPP projects' codes	143
Table 4.2 Opportunistic behaviour of partners in a PPP: Summary of examples, reasons, forms and implications	157
Table 4.3 Partner interaction in a PPP: Summary of issues and improvement opportunities	178
Table 4.4 Summary of risks and risk mitigation methods	197
Table 4.5 Summary of barriers and impediments to effective PPP governance	215

Table 5.1 Reasons underpinning partners' opportunistic behaviour in the field of tariff setting	230
Table 5.2 Partner interaction: Themes and perceptions	238
Table 5.3 PPP organisational forms: Principal features	244
Table 5.4 Tools for dispute resolution in PPPs: Perceptions and practice	246
Table 5.5 Partner interaction in a PPP: Summary of issues and improvement opportunities	247
Table 5.6 Summary of risks, perceptions and risk mitigation methods	248
Table 5.7 Private partner's forecasted revenue during the concession term of 14 years in the PPP project in Karaganda	254
Table 5.8 Institutional, managerial and financial barriers to PPPs and improvement opportunities	272
Table 6.1 Summary of insights into a policy paradigm	280
Table 6.2 PPP Policy Paradigm in Kazakhstan and Russia: The underlying dynamics	287
Table 7.1 PPP critical success factors in Kazakhstan and Russia: The study findings	322
Table 7.2 Summary of research contributions	335

CHAPTER ONE: INTRODUCTION

1.1 Chapter Introduction

This research explores public-private partnership (PPP) governance in Kazakhstan and Russia. Specifically, the research investigates the experiences, views and perceptions of PPP actors regarding a range of management issues that emerged during the interviews and that formed the principal study's themes. The study focuses on understanding the managerial challenges facing PPP actors and how interviewees and their organisations have adapted to these challenges.

This first chapter aims to explain the rationale behind the research topic, state the research question and objectives, highlight the study's methodology and context, present the research contribution and outline the structure of the thesis.

1.2 Research Rationale

1.2.1 A personal perspective

This section reflects upon my personal motivation to investigate the topic of PPP management in transitional countries. As Russia is my country of birth, I have been watching closely many changes in the nation's political, economic and social life since 1991 when Russia began its transition to a free market system. In many respects, the country's landscape significantly has transformed during the past twenty years and multiple institutional, organisational, business and social changes have become a part of Russia's reality. Public-private partnerships that the country started to develop in the beginning of the twenty-first century are one of these innovations. As PPPs might revolutionise how public services are financed and provided, it is no surprise that partnerships instantly drew considerable attention from policymakers, economists, investors, financial analysts, infrastructure experts and researchers in many fields. With an educational background in economics and management, I have been following the country's progress in the PPP area with curiosity and have developed my keen interest

toward partnerships. Whilst many PPP aspects remained obscure to me, I thought about PPP management as an opportunity to conduct research and to develop my own research agenda.

Additionally, I have been watching equally closely Kazakhstan's advancement in the area of partnerships. Having lived and worked in Kazakhstan for a few years, I began comparing Kazakhstan's PPP progress with that in Russia. As I identified many commonalities between the two countries and found some differences in how PPP governance progressed, this became a starting point in my thinking about a research project that would embrace both Kazakhstan and Russia and would permit me to conduct a cross-country comparison of PPP management. I thought about this potential research as an exciting opportunity to explore the recent developments in the two nations that are looking for ways to improve public sector efficiency. The research opportunity materialised when I was accepted into a PhD programme at the University of Northampton. This is where my academic interests have transformed into the research objectives that are outlined later in this chapter.

1.2.2 Literature perspective

The literature about PPPs is diverse. With regards to the geographical coverage (i.e., countries that research covers), the vast majority of studies focus on industrialised (i.e., OECD) nations that have accumulated significant experience with partnerships. Although the literature stream that investigates PPPs in transitional countries is expanding (see, for example, Pongsiri, 2003; Jamali, 2004; Urio, 2010), scholars and practitioners know little about partnerships in Russia and virtually no studies are available about PPPs in Kazakhstan. Furthermore, to the best of author's knowledge, studies that are devoted to Russia highlight mostly the financing schemes underlying partnerships or the technical aspects of the PPPs' work (see, for example, Pankratov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2012). There are no comprehensive studies that focus on PPP management in Russia. This permits the author to argue that at present, the Russian PPP literature is lacking the management stream that would use a robust

theoretical foundation for investigating empirical data. The Kazakhstani literature is also silent about PPP management.

The rationale for this study emerged, in part, out of the literature appraisal. Whilst the researcher reviewed the large body of OECD literature that highlights certain theories underpinning partnerships and the experience of Western countries in PPP formation and implementation (see, for example, Akintoye *et al.*, 2003; Grimsey and Lewis, 2004; Hodge and Greve, 2005), the relevant questions regarding PPP governance in Kazakhstan and Russia transpired, such as: what underpins the PPP formation in the two countries; what interests does the government pursue by forming partnerships; what are the management practices in newly formed PPPs; what are the key issues regarding which partner interaction evolves; how do partners manage risks; and what factors may ensure success in PPP management? The PPP literature does not address these and many other questions, which stimulated the author's interest and motivation to conduct research.

It is fair to argue that the lack of understanding regarding how PPP governance evolves in Kazakhstan and Russia have induced the researcher to embark upon this empirical study. The gaps in the PPP literature, which Chapter Two discusses more fully, served as an additional stimulus for the researcher to undertake the study and address the gaps, fully or at least, in part.

1.3 Research Question and Objectives

This research will draw on the comparison of management issues in PPPs in two countries of the former Soviet Union – Kazakhstan and Russia. The overall aim is to examine the experience and perceptions of key stakeholders involved in the PPP projects in Kazakhstan and Russia in order to identify PPPs' shortcomings and critical success factors. The research addresses the following question:

How do key PPP stakeholders in Russia and Kazakhstan perceive and adapt to contract regulation, risk allocation and dispute resolution challenges in PPP management?

In order to answer the research question, the author set the following research objectives:

1. Investigate experiences and perceptions of key PPP actors in Kazakhstan and Russia regarding the contractual environment of partnership projects and how stakeholders perceive the effectiveness of government requirements and expectations;
2. Analyse perceptions and experiences of key partnership stakeholders (such as project managers, officials in government agencies and national and regional PPP centres) regarding risk management in a project, including initial risk allocation and how these actors should manage subsequent changes;
3. Identify commonalities and differences in PPP management in Kazakhstan and Russia, with the focus on critical success factors; and
4. Develop a new model for understanding the nature of PPP governance in Kazakhstan and Russia.

1.4 Research Methodology

The nature of all four research objectives calls for a qualitative, rather than quantitative, study. The methodology has to address the variety of participants' subjective insights and views in the contextual environment of the two countries and should permit the researcher to identify commonalities and differences in PPP management arising from what is essentially an individual experience and interpretation. As this research focuses on collecting and analysing actors' experiences, opinions and interpretations regarding PPP management, the study addresses all four objectives by qualitative data that the author collected and examined by employing a range of methods. The methodology chapter provides a detailed discussion of these methods and emphasises the appropriateness of the study's approach to meeting the research objectives.

1.5 Research Context

Russia and Kazakhstan represent useful countries for study and analysis. With regards to why the author examined and compared PPP management in Kazakhstan and Russia together, one can argue that the two nations possess a large number of commonalities in their economies and public policies. Both countries are transitional economies and share many economic, political, business, social, educational and cultural realities that stem from a common Soviet legacy. Although the two economies are different in size, the ways in which governments have shaped PPP development, created a legal and regulatory framework and selected sectors for partnership projects show considerable similarities. These similarities allow for meaningful comparisons both between Kazakhstan and Russia, but more broadly with western philosophies and practices (Mouraviev *et al.*, 2012). An empirical examination of the nature and scope of PPP arrangements in Kazakhstan and Russia may thus contribute to a more comprehensive understanding of whether partnerships can be a successful public management tool and what the unique features of PPP governance in the two countries are.

1.6 Research Contributions

This section presents a summary of key contributions that this research makes. A more detailed and complete explanation of research contributions is located in Chapter Seven.

The research makes a number of contributions to theory. The research adds new insights into conceptualising PPPs. The thesis argues that one should view PPPs as interplay between the public agencies, private investors, PPP centres, a special purpose vehicle, which is a project operator, contractual dependencies, and formal and informal interaction between actors. Hence, the study augments the theoretical underpinnings of a partnership by emphasising *PPP arrangements and relationships* that include multiple organisations and stakeholder groups (Fischbacher and Beaumont, 2003; Mouraviev and Kakabadse, 2012), rather than just a PPP operator.

Additionally, the study adds to deeper understanding of partnerships by adopting a view on the nature of PPP arrangements as a cooperative effort to jointly create value for its stakeholders. Furthermore, the research contributed to conceptualising a PPP by contrasting the value creation in a partnership with partners' opportunistic behaviour, which diminishes the PPP's value for money. Whilst the value creation may co-exist with opportunism, the author argued that opportunistic behaviour essentially manifests the ways in which partners adapt to government PPP regulations.

The research paid significant attention to partner opportunistic behaviour in a PPP and further contributed to theory by enhancing opportunism's definition and its application in the PPP setting. Defining and investigating partners' opportunism appeared critical for the PPP research as opportunistic behaviour is a distinctive feature of partnerships in Kazakhstan and Russia.

Another theoretical contribution is related to the model that the author developed for in-depth understanding of PPP governance in Kazakhstan and Russia. The model rests on the policy paradigm, to which the author has contributed insights by combining emergent ideas, defined problems, government strategies, organised actors and institutions, their capacities and expertise and interaction between all these elements. Both theorists and practitioners may potentially use this model to reflect upon the opportunities, constraints and prospects for PPP development in the two countries.

From the methodological perspective, the research makes a contribution by adopting a pioneering, for Kazakhstan and Russia, phenomenological stance and employing an unusual (for the study's region) data collection method (i.e., in-depth interviews) as opposed to the vast majority of the two countries' PPP studies that use documentary analysis. This research's qualitative methodology has allowed the author to explore topics, such as opportunistic behaviour in a PPP, partner interaction and risk management, specifically within a Kazakhstani and Russian context.

This research also makes an important contribution to management practice by highlighting the constraints and impediments to PPP development using the interview data, i.e., study participants' experience and views. The detailed account of interviewees' opinions has permitted the researcher to identify critical factors that may ensure partnership successes in Kazakhstan and Russia. For practitioners and

policymakers, critical success factors might serve as useful guidance in choosing better options for a PPP, avoiding pitfalls and ineffective solutions. The researcher has grouped by category the most essential factors for PPP success in Kazakhstan or Russia including:

- legal and regulatory environment;
- partner interaction; and
- risk management.

In addition to PPP critical success factors, the research has contributed to practice by suggesting measures that might overcome partners' opportunism. These recommendations include creation of incentives for achieving the project's performance targets; deregulating private operators; and re-focusing the public agencies on the PPPs' value for money as a matter of economic principle.

Additionally, the research contributes to management practice in the field of partner interaction. It has demonstrated that partner interaction is a distinct and highly disregarded (in Kazakhstan and Russia) area of governance. Based on the interview data, the research has concluded that partner interaction should be incorporated in PPP management. Specifically, PPP governance would significantly benefit from designing a formal framework for effective partner communication, building management structures for partnerships and creation of tools for dispute resolution between partners.

1.7 Thesis Structure

The thesis comprises seven chapters. This introductory chapter (Chapter One) has provided an overview of the research rationale and context and outlined the research scope, objectives and methodology. The introduction chapter also highlighted the key contributions of the PhD thesis to theory, methodology and practice. Finally, the chapter presents a review of the research structure.

Chapter Two provides the literature appraisal in relation to the research topic. In addition to the PPP literature review from OECD countries, which presents the Western approaches to PPP management, the chapter also discusses the Russian language literature that is available in Kazakhstan and Russia, which demonstrates country-specific, contextual

views on partnerships. The chapter identifies the gaps and weaknesses in the literature and delineates areas of further research.

Chapter Three explains the methodology that has guided this research. It highlights the philosophical stance that the author adopted, provides justification for the qualitative approach that the researcher selected and demonstrates its suitability for answering the research question and meeting the research objectives. The chapter also discusses the practical choices that the author made regarding data collection and data analysis methods. Additionally, the chapter presents the pilot study findings that set the initial framework for investigation and shed light on the principal themes that required further examination.

Chapter Four identifies the research findings and presents their analysis using a thematic approach. This chapter discusses four emergent themes, including opportunistic behaviour in a PPP; partner interaction; risk management in a partnership; and constraints and impediments to effective PPP governance. The chapter incorporates interviewees' voices in the form of direct quotes and excerpts that enabled the researcher to capture the respondents' experience, opinions and perceptions using their own words.

Chapter Five discusses the research findings and continues to explore the themes from the previous chapter. The chapter reveals the research results as they relate to existing knowledge and theories that underpin PPP formation and management. The chapter underscores the links between the interview data and concepts by presenting a comprehensive in-depth discussion of the meaning that interviewees attach to their perceptions and opinions.

Chapter Six presents a model for deeper understanding of PPP governance in Kazakhstan and Russia from the policy paradigm perspective. The chapter highlights the model's theoretical framework, the paradigm's principal elements, as well as its underlying dynamics. A set of propositions accompanies the PPP model. Theorists and practitioners might use these propositions to test the model in the future or in a different contextual setting. The chapter also includes a detailed discussion of the PPP critical success factors that the researcher categorised by three groupings as they emerged from the interview data.

Chapter Seven concludes this PhD thesis by highlighting the key findings and explaining how and to what extent the author has met the research objectives. The

chapter also demonstrates the originality and contributions of the research to theory, methodology and practice. Finally, this closing chapter discusses the research limitations and makes suggestions regarding areas of further study in the field of PPP management.

1.8 Chapter Summary

This chapter has introduced the research topic and provided an overview of the rationale for the study and its contextual setting. The chapter identified the research question and research objectives along with a summary of principal theoretical, methodological and practical contributions that this study makes. The chapter also outlined the structure of this thesis. The following chapter presents the literature appraisal which critically examines the relevance of extant PPP studies to the topic of this thesis.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Certain literature streams provide a useful theoretical background for this study, in particular, in the area of PPP governance arrangements, governance strategy and relational governance or the quality of the relationship between public and private partners. Both PPP governance strategy and relationship quality complement legal contracts and the effective interaction between partners may significantly mitigate risks and contribute to overall PPP success. Conversely, a lack of effective interaction may facilitate partners' opportunistic behaviour and may lead to a project failure. The strong influence that relationship governance exerts on PPP success or failure has determined the nature and scope of the literature appraisal. This chapter begins by highlighting the historical context of the PPP emergence in Europe, and then proceeds to conceptualising PPP and the different forms that PPP projects may take. It moves on to discuss specific PPP characteristics, the reasons for partnering, PPP shortfalls, the nature of risks and details of risk allocation and management.

The chapter also provides specific coverage of the Russian and Kazakhstani context and an evaluation of PPP operations in Russia and Kazakhstan, so that one can view partnerships in the context of political, economic and social realities in these transitional countries. Whilst the literature appraisal draws heavily on Western sources, it deals with the Russian language literature separately not only because it is contextually specific, but also because it appears biased: some key concepts, such as transaction cost economics and its impact on PPPs, are not even mentioned in the literature. In order to clear the investigation of any biases, Section 2.10 presents mainly a critical review of the Russian language literature and focuses on the analysis of the PPP context in Russia and Kazakhstan.

Scholarly approaches to PPPs are just emerging in Kazakhstan and Russia and focus mainly on the legal aspects of PPP formation. Relational issues are largely absent from the Russian language literature. With this in mind, the discussion of the partnerships' general aspects, such as the reasons to employ PPPs, understanding of risk

and risk allocation in a partnership and PPP forms, allows the researcher to contrast and compare the Western sources with evolving academic views on PPPs in Russia and Kazakhstan. It allows consideration of whether discrepancies exist and in which areas, what is unique about PPPs in those two countries and whether specific features and approaches characterise the academic discussion about partnerships in the Russian language literature. An analysis of the Russian language literature that this chapter presents allows an investigation to the extent to which expressed viewpoints are in line with those in the Western sources, or whether they present a culturally and contextually specific view of partnerships and PPP management.

2.1.1 The PPP emergence in Europe: the historical context

Before the PPP conceptualisation, this section highlights the historical context in which partnerships emerged in Western Europe and subsequently in Eastern Europe. As partnerships provide public services privately (i.e., instead of the government), one may view PPPs as a manifestation of the policy aimed at contracting out the government activities (Urio, 2010). From the historical perspective, the emergence of PPPs in Western Europe is often associated with New Public Management (NPM) (Grimsey and Lewis, 2004; Wettenhall, 2005; Yescombe, 2007). ‘... Contracting out has become, since the beginning of the 1980s, part of the vast NPM programme and of its major explicit goal, i.e. the reform of the State and the improvement of its efficiency’ (Urio, 2010: 32). Whilst the PPP meaning is much broader than a mere hire of a private company in order to provide a public service (which Section 2.2 discusses in detail), the PPP proliferation marks the shift of government policies in many Western European nations toward the greater use of the private sector for the provision of traditional public services, such as water treatment, health care, tunnels, bridges and roads. Historically until the 1980s and 1990s, among the three forms of interaction between the government and the private sector (i.e., commercial exchange, coercion and gift), the two latter forms prevailed (Wettenhall, 2005). However, in line with the NPM movement, since the 1980s governments in Western Europe increasingly began looking for mechanisms of co-production involving commercial exchange, rather than coercion

(Wettenhall, 2005). For example, in the United Kingdom from 1992 PPPs have become 'a key element in the Government's strategy for delivering modern, high quality services and promoting the UK's competitiveness' (Akintoye *et al.*, 2003: 14). Whilst the government in the UK and other Western European nations aimed at 'marketisation' of the public sector (Broadbent and Laughlin, 2003), the NPM agenda included greater use within the public sector of management practices drawn from the private sector and an increased emphasis on more explicit and measurable performance standards in terms of the range, level and content of services to be provided (Hood, 1995). 'PPPs are one exemplification of these trends, and of changing markets for public services, in that they allow for public services to be provided by public and private sector bodies working in a partnership' (Grimsey and Lewis, 2004: 52). In addition to the UK, many countries in Western Europe including France, the Netherlands, Portugal and Spain, among others, have been actively employing PPPs (Akintoye *et al.*, 2003).

In contrast to Western Europe, governments in Eastern European nations, such as Bulgaria, the Czech Republic, Hungary and Poland, began the PPP formation later, at the end of 1990s. Triggered by disintegration of the Soviet Union, the economic transition of these nations to a market system naturally incorporated the PPP employment as part of pro-market agenda aimed at free enterprise development, wide use of market tools and reversing historical government dominance. Additionally, as in the 1990s these nations faced severe economic difficulties on their way to sustainable and balanced growth, their persistent budget shortages became the principal driver of PPP development (Urio, 2010). Hence, the historical context of PPP emergence in Western Europe (i.e., the adoption of the neo-liberal agenda) varies from that in Eastern Europe (i.e., the acute shortages of budget funds for the provision of public services during the time of considerable economic instability and transition to a market system).

2.2 Conceptualising PPPs¹

It is useful to begin the literature review with a discussion of PPP definitions and analysis of the partnership's key features. This will give the basis for further comparisons regarding how PPPs are understood in Russia and Kazakhstan.

There is no single definition of a PPP upon which most academics and practitioners could agree, and quite a few definitions are available. Various definitions capture selected PPP features and, as a result, researchers understand the term 'public-private partnership' differently.

Many studies begin with an attempt to define a PPP and/or to enhance the available definitions. Often, instead of giving a comprehensive and complete definition, a researcher pays attention to a selected PPP feature. For example, Sedjari (2004) emphasises solidarity as a key feature that is supposed to exist between the public and private partners. Sedjari argues that a PPP is a new cultural phenomenon by itself. He calls PPP 'a culture of engagement' (Sedjari, 2004: 303). One can understand this as a 'capacity for the collective mobilisation of participants which now forms the substance and strength of public programmes' (Sedjari, 2004: 303), although there might be quite different national expressions of this mobilisation.

Similarly, Brinkerhoff and Brinkerhoff (2004) point out that mutuality is a key characteristic in a PPP. Bovaird (2004) defines PPP as commitment above and beyond contracts. Whilst Haque (2004) argues that there is no common consensus on the meaning of a partnership, he emphasises the two key PPP features – mutuality and organisational identity. Haque (2004) describes the latter as maintenance, rather than surrender, of each partner's own identity, beliefs and values.

The features described above are useful because they highlight partnership properties that make PPPs different from traditional forms of collaboration between the public and private sectors, such as public procurement contracts or where the

¹ The author wrote the text of this section in 2011-2012. Later, this text was included in the article co-authored with Nada Kakabadse, which *Society and Business Review* published in 2012 (Mouraviev and Kakabadse, 2012). The author certifies that the text in this section is his original contribution to the thesis.

government sub-contracts a private company for implementation of a specific task. In sub-contracting, the government normally does not expect features, such as solidarity, mutuality or commitment above contracts. Hence, these features usually are non-existent. Nevertheless, identification of special PPP features noted above is insufficient to explain how exactly collaboration in a partnership happens and for what purposes.

Klijn and Teisman (2003) emphasise that a PPP should be an institutionalised arrangement between public and private actors in which they share a responsibility for a product, risk, costs and benefits. Although this definition captures essential partnership features, it lacks explanation of what exactly a PPP intends to provide and how.

Grimsey and Lewis (2002) offer a more comprehensive and complete definition and describe a PPP as an ‘agreement where the public sector enters into long-term contractual agreements with private sector entities for the construction or management of public sector infrastructure facilities by the private sector entity, or the provision of services (using infrastructure facilities) by the private sector entity to the community on behalf of a public sector entity’ (Grimsey and Lewis, 2002: 108).

This definition includes and implies the following key PPP properties: (a) an agreement between a public agency and a private partner must take a form of a legally binding contract, (b) a contract should be long-term, (c) PPPs normally provide services in infrastructure, or PPPs may provide other services that some view as the public sector’s responsibility, (d) PPPs provide services on behalf of a public agency, (e) in the framework of a PPP, a physical asset is normally constructed or renovated, (f) in some cases the government can transfer an asset to a private partner and the latter accepts responsibility for its maintenance and (g) a PPP provides services to customers with the use of the asset(s) constructed by a private partner or transferred to a private partner by the public entity (Mouraviev and Kakabadse, 2012). Yet an additional PPP feature is that ‘provision of service may be compensated through payments by the government or may be funded through user charges and fees’ (Morallos and Amekudzi, 2008: 114). Hall gives a similar set of PPP features (Hall, 2008a: 3).

A notable feature of Grimsey and Lewis’s (2002) definition is that it focuses on tangible PPP elements – legal long-term contract, asset construction and provision of services with the use of constructed assets. These elements set the framework for

public-private collaboration. However, the above definition is silent about the process of the PPP project implementation and about interaction between PPP partners.

Other authors emphasise partner interaction, rather than legal framework. Andersen (2004) argues that a PPP is a continuous process of interaction and negotiation. Klijn and Teisman (2003) emphasise the same view and also claim that the involved parties realise the idea of mutual added value. Furthermore, interaction between partners that is supposed to create added value determines yet another PPP feature – the emphasis on output management (Pierre and Peters, 2000). This means that output specification in PPPs, which defines the elements of the service and how a partnership must provide it, becomes more important than input specification, i.e., how much a private partner has to spend on asset construction or maintenance, how exactly the construction should be done or how many staff should be hired (Morallos and Amekudzi, 2008: 116). Output management focuses on governance and on the process (Bult-Spiering and Dewulf, 2006), as opposed to input-oriented management in the public sector that focuses on institutions. To summarise, those researchers who emphasise partner interaction as the main PPP feature tend to pay less attention to legal frameworks underpinning PPP arrangements. In their opinion, the creation of added value in a partnership depends first and foremost on the interrelationship between the partners.

Revisiting the approach that argues that public and private partners have a shared responsibility in a PPP for a product, risk, costs and benefits (Klijn and Teisman, 2003), one should acknowledge that this definition includes key elements that partners have to share. Hence, it is sharing that transforms collaboration into a partnership. This is most evident with regards to costs: if public and private partners do not jointly contribute to project costs, then one partner's involvement becomes considerably reduced, which also is likely to result in risk reduction. In this case, cooperation may be managed by a contract, i.e., by hiring a private party to do a job for the government. In other words, the absence of one or more shared elements in a partnership may change the nature of public-private cooperation significantly – normally from a partnership-type interaction to contracting public services out to a private firm. From the perspective of shared

responsibilities, this definition successfully captures the collaborative nature of a PPP as opposed to hiring a private company for implementing a public sector task.

Additionally, some scholars often emphasise another partnership feature – a long-term character of interaction – as a distinctive PPP property (Klijn and Teisman, 2003; Hall, 2008a). Long-term projects as a rule require mutual contribution of resources, and this is why those involved implement them jointly, as each party is unable or unwilling to undertake a project on its own due to high risk and/or high costs associated with the long-term activity (Klijn, 2010). In contrast, short-term projects are easier to finance and they carry less risk. For a short-term project, the government can simply hire a private company in order to implement a public task, or the government agency can accomplish a task on its own. Hence, there may be no need to form a PPP. Thus, the long-term nature of collaboration also becomes an essential feature that comes along with a partnership's shared elements.

Most often researchers understand a PPP as a specific project of public-private collaboration to which the features discussed above apply. Sometimes this kind of a PPP is called a contractual PPP (Renda and Schrefler, 2006). However, there is one more meaning of a partnership which is called an institutional PPP (IPPP). 'This is a joint venture company, providing a public service, which is partly owned by a public authority and partly owned by a private company or private investors. They may also have a contract with the municipality to provide a service – for example, in Italy, Hungary, the Czech Republic and other countries some water operators are partly owned by the municipality, and partly by private companies, under contracts with the municipality to run the water services. These joint ventures may operate public services without having had to compete for a formally tendered contract, especially where they originated as municipal companies, or where a service was 'delegated' without tendering' (Hall, 2008b: 3).

This description illustrates that there can be two types of institutional PPPs. One is when a the government and private investors (either institutional investors or private individuals) jointly own a company and are involved in provision of a public service on an ongoing basis, without a time limit and without a specific contract with the

government agency. The other is when a jointly owned company has a delegated service and it may have a contract that includes regulating the service provision.

With regards to the features of institutional PPPs, Hall (2008b) examines the European Commission (EC) guidelines regarding various aspects of partnerships and emphasises that a private partner must play an active role in managing the partnership activities. He cites the 2008 European Commission Interpretative Communication on the Application of Community Law on Public Procurement and Concessions to Institutionalised Public-Private Partnerships (IPPP) C(2007)6661 Brussels, of 05.02.2008. Regarding institutional PPPs, this communication states that: ‘The private input to the IPPP consists – apart from the contribution of capital or other assets – in the active participation in the operation of the contracts awarded to the public-private entity and/or the management of the public-private entity’ (Hall, 2008b: 11).

Some key features which reference project-based PPPs would not apply to institutional PPPs. In particular, a private party may or may not construct an asset for the purpose of a service provision. A joint venture company does not provide a service on behalf of a public agency in the case where the government directly owns part of this business. Instead, it becomes a semi-government company. Depending on the government share of property ownership, customers may view a joint venture company as mostly private or, on the contrary, mostly government-owned. Also, an institutional PPP may have an unlimited life.

Thus, an institutional PPP has substantial differences with a project-based PPP and the meaning of an institutional PPP often may not match the key characteristics of a project-based partnership.

In summary, various approaches in the academic literature in defining PPPs are as follows:

(1) a PPP is a contractual partnership which means a legal long-term contractual arrangement that involves asset construction by a private party and a service provision on behalf of a public agency with the use of a constructed asset;

(2) a PPP is a project in which partner interaction and the parties’ relationship are the most important features;

(3) a PPP is a project that requires a shared responsibility from both the public sector partner(s) and the private sector partner(s) for product, risk, costs and benefits; and

(4) a PPP is an institutional partnership which the government and private investors jointly own.

The first three PPP definitions do not contradict each other. On the contrary, researchers may view them as complementary. The fourth presents a special meaning which is not in line with the other three because it represents mostly a structural form of PPP. It is worth emphasising that this thesis focuses exclusively on contractual PPPs in Kazakhstan and Russia, whilst institutional partnerships are beyond the thesis' scope.

Having discussed the understanding of a PPP, it is useful to identify the forms that PPPs may take and discuss their reflection in the academic literature. This will permit to capture additional details of how respective parties initiate partnerships, what their organisational structures are and how participants arrange property ownership in PPPs.

2.3 PPP Forms¹

PPPs may take many different forms. Sadran (2004) emphasises multiplicity and heterogeneity of PPP forms. He notes that PPPs vary infinitely from one policy sector to another and from one locality to another. One can view the scope of this variation from an industry perspective (i.e., sectors in which PPPs operate) and the organisational perspective (i.e., how exactly participants arrange a partnership).

Sectors of PPP operations in many countries vary widely and include, but are not limited to, transportation services and transport infrastructure (construction and operation of automobile roads, railroads, metro, airports, tunnels and bridges), the energy sector (construction and operation of power generation facilities and power lines), education (schools and dormitories), health care, criminal justice (courts and prisons), telecommunications, water treatment and water supply, disaster management,

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micro-credit provision, skill development, poverty eradication, sewage treatment, waste disposal and environmental management (Haque, 2004; Renda and Schrefler, 2006).

Sedjari provides his own classification of what he calls partnership intervention areas: sector partnerships, such as the housing sector in Morocco; PPPs limited to certain sectors or projects – those are widespread around the world; PPPs at the city level, such as a city water purification facility; and PPPs with regional impact, such as an inter-regional power station and/or regional electric grid (Sedjari, 2004: 299). Sadran (2004), whilst focusing on the French experience, emphasises that PPPs at the local level are especially common and important in France because the country is highly decentralised.

From the organisational perspective, PPPs may take specific forms such as a concession, or private finance initiative (PFI) or an asset life-cycle contract (Bovaird, 2004; Sadran, 2004; Sedjari, 2004; Kakabadse *et al.*, 2007).

A concession implies that a private party with the use of private funding constructs or renovates an asset, such as a road, or in some cases a public agency transfers an asset to a private sector partner. A private company assumes responsibility for the service provision for a specified period of time, often between 20 and 30 years, with the use of this asset, and at the same time accepts responsibility for asset maintenance and upgrading. To recover its investment and operating expenses, in return for its services a private company receives user fees.

With regards to a concession, there are varying opinions about the source of payments that a private partner receives. Hall argues that a concession contract is where a company receives user charges, meaning that government funds are not involved, whilst another form of a partnership – PFI – receives payments from a public agency (Ball *et al.*, 2001; Boyfield, 1992; Hall, 2008a). Other researchers claim that in a concession a private company can receive some form of compensation from final users or through regular payments by the public authority (Renda and Schrefler, 2006). The latter point of view acknowledges the possibility for the use of public funds for making payments to a concessionaire. At the same time it is unclear whether one can still categorise this PPP form as a concession in the case of payments to a private company by both the government and final users.

Also, in some concessions, the so called *shadow tolls* exist. They are used when the government guarantees certain revenue to a private partner for a pre-specified volume of service and the government pays these tolls instead of the final users (Sadka, 2007: 13; Williams, 2003: 9). Chapter Four (Analysis) and Chapter Five (Discussion) of this thesis will demonstrate that in two out of four studied PPP projects, which the governments in Kazakhstan and Russia call concessions, the government makes payments to the private sector partner whilst final users pay nothing.

PFI is yet another form of a PPP, although the difference between them is not clear cut. In contrast to other PPP forms, in which service provision requirements may change and evolve over time, in PFI the service specification is defined at the time when the parties sign a contract for the entire contract term. Additionally, in PFI a private company is a direct service provider, rather than a consortium or a special purpose vehicle (SPV) – a company formed solely by a private partner or jointly with a public agency – that frequently serves to implement the PPP project (Asenova and Beck, 2003; Grimsey and Lewis, 2004). However, often the difference between PFI and a PPP is blurred, and the literature uses both terms synonymously.

Yet another form of a PPP is asset life-cycle contracts. They are similar in nature to concessions although the difference may be that it is the public agency, not final users, that pays for the asset provision and related services (Bovaird, 2004; Sadran, 2004; Sedjari, 2004). The asset's useable life determines the contract length.

Specific partnership arrangements, which are also sometimes called PPP forms, depend on the underlying concept that a public authority intends to apply to a PPP. Available arrangements include BOT (build-operate-transfer), or DBFOT (design-build-finance-operate-transfer), or DBFOOMT (design-build-own-operate-maintain-transfer) or other combinations of some or all elements that assign responsibility for provision of public services to a private partner (Williams, 2003; Sadka, 2007; Morillos and Amekudzi, 2008).

For example, in the DBFOT scheme, a private company designs and constructs an asset using private funding, and then provides a service with an ongoing responsibility to operate a newly constructed facility. Immediately after construction is completed, a

private partner assumes the asset ownership. At the end of a PPP contract, a private company transfers an asset back to the government.

Sedjari (2004) offers yet another approach to PPP forms. Referencing Francois Ascher, Sedjari identifies three main PPP types: a public sector initiated PPP, a private sector initiated PPP and an appointed PPP (Sedjari, 2004: 298).

An appointed PPP, according to Sedjari (2004), is a mixed economy company that a city or a region may create, for example, for provision of city services. The public authorities own most of the capital, with some private ownership. These companies pursue public objectives, and at the same time they have flexibility in operational forms. Thus, the description of an appointed PPP resembles an institutional PPP. However, those who discuss IPPPs do not emphasise, as opposed to Sedjari (2004), that a public agency should own most of a company's capital.

Observing how respective players can initiate a PPP is useful for understanding project types that countries, which have varying degrees of political, administrative and fiscal centralisation, are likely to approve and launch. In a centralised federation, such as Russia, PPPs may focus on regional or national projects, at least in the beginning. In Kazakhstan, with a unitarian political and administrative system in place, PPPs are even less likely to exist at the local level.

For example, although the governments encourage PPP formation at all levels, including municipal, as of January 2011 in Kazakhstan there were no approved PPP projects at the local (city or village) level and regional level. The only current PPP projects in Kazakhstan are those of inter-regional and national scope, such as construction of an inter-regional electrical power grid and the operation of an international airport. The existing partnerships in Russia and Kazakhstan clearly illustrate that societal governance structure can also influence corporate governance models including those of PPP projects. Section 2.10 will discuss the existing PPP projects in Russia and Kazakhstan, as well as the understanding of PPP forms in the two countries.

Having reviewed PPP forms, it is useful to turn to how the literature identifies reasons for partnering or, in other words, what advantages PPPs may possess. This will

allow the researcher to compare the PPP benefits that Russia and Kazakhstan emphasise, and how their views contrast with the views in the Western literature.

2.4 Reasons for Partnering

As PPPs are often associated with a number of advantages, it is worth discussing what benefits partnerships may bring. PPPs also have shortfalls that will be discussed in the next section of the literature review.

There are three major options for infrastructure delivery (although each has many variations): direct public provision, contracting-out or public-private partnerships (Vining and Boardman, 2008a).

The literature thoroughly explores numerous reasons for partnering. Hofmeister and Borchert (2004) point out that in most cases economic efficiency and effectiveness are the only criteria. Although the literature highlights certain benefits related to PPPs, the majority of scholars commonly embrace the value for money perspective when they discuss PPPs' advantages and disadvantages (Brown, 2007; Kakabadse *et al.*, 2007).

Value for money (VfM), when applied to a PPP, means that a PPP is supposed to bring greater value for the money that the public sector spends, compared to where the government provides a service in-house (i.e., by a public agency) or where the government contracts out a service to a private company. The underlying logic is that using a PPP will make sense only if a PPP can deliver public sector services cheaper and better, meaning at a smaller cost as opposed to other options, and with improved quality (and other enhanced output features) as opposed to other options (Kakabadse *et al.*, 2007). If value for money is not there, for example, when government PPP project costs are higher than the cost of the direct public service provision, a PPP should not be employed.

The value for money perspective also manifests itself in a different way: whilst the government considers whether to employ a PPP, the overarching aim should be to get a good deal for the taxpayer (Colman, 2000). If the overarching aim is different, two serious risks to value for money can arise: that the government attention will be focused on executing the process, rather than achieving a good outcome; and that the

government attention will focus on reaching agreement on a deal and not on getting a good deal (Colman, 2000: 73).

The comprehensive definition of value for money is available in the U.K.'s Her Majesty's Treasury *Value for Money Assessment Guide*: 'Value for money is defined as the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirement. The term whole-of-life is used to refer to the lifecycle of the good or service. VfM is not the choice of goods and services based on the lowest cost bid' (Her Majesty's Treasury, 2006: 7).

The VfM concept allows public agencies to compare the costs of a planned PPP project with the cost of the same project, if participants are to accomplish it through traditional procurement. The definition above emphasises the need to take into account both the lifetime project costs and the quality of a good or service, making the output specification (which is a PPP property discussed earlier in this literature review) an important partnership feature. Hence, a trade-off between lifetime PPP project costs and the service quality is in the core of the VfM concept.

Having discussed the VfM assessment methodology and its application, Morillos and Amekudzi (2008) argue that, despite VfM usefulness, the government should look at the broader picture. 'Although the VfM assessment can be used to determine whether to pursue a PPP, public agencies must be aware of the complexities of the overall PPP process and the limitations of the VfM methodology. It is important for agencies to realise that VfM cannot be the only factor in the decision to pursue a project as a PPP; they must evaluate their own capacity to manage such large, complex, and long-term projects aside from what the final value might say' (Morillos and Amekudzi, 2008: 125).

In their conclusion above, the authors acknowledge the limitations of the VfM assessment methodology. Additionally, a researcher can draw two other implications from their observation. First is that authors do not imply in any way that other factors noted by many (such as an ability of a PPP to innovate, or superior management and technological expertise that a private company brings to a PPP, or a possibility for the government to faster meet the needs of infrastructure development) can take precedence over value for money. Although VfM is not the only basis for making a decision to

employ a PPP, VfM remains the most important factor. Second is that the lack of a government's own capabilities to manage large scale long-term projects may be a limiting factor. Even if the government identifies value for money in a prospective PPP, a public agency may opt to not pursue the project in the PPP form and may look for other ways of accomplishing a public sector task.

In addition to value for money, there are other reasons to employ partnerships. The researchers often emphasise the synergy that PPPs create as a result of mobilising public and private resources (Brinkerhoff and Brinkerhoff, 2004; Sedjari, 2004). Other reasons for PPPs include the use of comparative advantages and rational division of labor; multi-actor, integrated solutions (which means that a few public agencies, private firms and financial institutions can join forces for the implementation of a specific task); and engagement in open decision-making processes to promote a broader operationalisation of a public good (Brinkerhoff and Brinkerhoff, 2004). One can describe the latter as follows: as the partnership's ability to deliver a specified output (a good or a service) is a strong factor in deciding on the PPP's value for money, the involvement of final users in the discussion regarding what public goods they need and what their service requirements are will be useful for enhancing transparency and achieving the public sector's greater efficiency.

Other PPP advantages include: the use of private funds and know-how for the implementation of public sector tasks; insourcing private expertise in various fields including advancements in business as well as technology; and improvement of public sector management capabilities (Hofmeister and Borchert, 2004). With regards to management capabilities, the government, whilst employing PPPs, can learn from its own experience and use private sector partners' knowledge and skills for better service provision in the future and/or in other regions, and/or in other sectors, thus improving the public sector management. Partnerships, through the private sector involvement, may significantly accelerate project implementation and innovation in service delivery and technology (Morallos and Amekudzi, 2008).

With regards to other partnerships' drivers, scholars argue that PPPs enable public agencies to transfer a substantial amount of costs to the private sector. PPP advocates endorse the persuasive argument that people will either obtain some public services

with the use of private partners and private funds, or not. ‘The ability to shift the government’s financial burden of providing and maintaining facilities and services is a major driving force especially for nations and states facing funding strains on their infrastructure budgets’ (Morallos and Amekudzi, 2008: 114). This note applies to transitional countries including Russia and Kazakhstan as their infrastructure is in a great need for upgrading and development.

This argument in favour of PPPs – the increased use of private funds – has yet another side: it allows the government to greatly reduce its own borrowing and move some projects off the public sector books (Maskin and Tirole, 2008). Sadka asserts that we can view PPPs as a means to disguise conventional contracting undertakings that are subject to standard budgeting processes because PPPs are carried out off budget (Sadka, 2007: 2).

Hence, where the government opts to employ PPPs, the private sector will bear the cost of capital-intensive projects, such as those in infrastructure, and PPP costs will not be counted as public spending (Gallay, 2006). In many countries, especially in the European Union that restricts the size of its member-states’ public debt, this is a strong incentive, from the government perspective, to use partnerships. In February 2004, a ruling by Eurostat, the Statistical Office of the European Commission, stated that the assets involved in a PPP should be classified as non-government assets (Hall, 2008a: 5).

Additionally, an advantage of PPPs is that they enable governments to spread a certain amount of investment over many future budget years, rather than report the whole amount of investment in the same year when they carry it out, thereby converting a present budget deficit into future budget deficits (Sadka, 2007: 23). Spreading the costs over many years is a controversial feature associated with PPPs. The benefit is that the government’s fiscal stability in some particular years may not be compromised as a PPP does not require large government expenses over a short time. However, as overall government costs may be higher in a PPP, this will shift a burden to future generations and future governments (Osborne, 2000; Savas, 2000; Parker, 2012).

The often used argument in favour of PPPs is that they allow for better risk allocation and burden-sharing. Public agencies are attracted to the PPP concept due to their ability to transfer many project risks to the private sector. PPPs may optimise risk

allocation by transferring the risks to the party best able to manage them (Morallos and Amekudzi, 2008). 'In PPPs, the core principle lies in the allocation of risk between the two parties: well designed PPPs redistribute the risk to the party that is the 'superior insurer' or the 'least cost avoider', i.e., the party best suited to control and/or bear the risk' (Renda and Schrefler, 2006: 1). Sections 2.8 and 2.9 of this literature review will discuss PPP risk allocation in greater detail.

Another concept that focuses on the benefits of the public service provision by partnerships is derived from transaction cost economics (TCE). TCE emphasises minimising total social costs as a criterion for choosing an option for the public service provision (Vining and Boardman, 2008a).

Scholars define total social costs as production costs incurred in service provision (including construction costs and payments to third parties), plus transaction costs, such as bidding costs and interest payments on loans, plus (net) negative externalities (e.g., cost of pollution less value of positive externalities, such as reduced waiting time), holding quality constant (Vining and Boardman, 2008a: 149).

The TCE perspective argues that, if the employment of a PPP as opposed to the traditional public service delivery (via direct government provision or contracting out) minimises the sum of total social costs, a PPP should be preferred (Brown and Potoski, 2003; Vining *et al.*, 2006). Vining and Boardman (2008a) emphasise that, whilst doing an assessment, one should include all government transaction costs over the entire project period that derive from the project even if they do not appear in the project's budget. Also, one should include all externalities and account for quality differences, although these costs rarely show up in any budget (Parker and Hartley, 2003; Boardman *et al.*, 2005).

The concept of using a PPP where it permits minimising total social cost has some similarities with the value for money concept: both perspectives compare the PPP project's cost (or value) with a certain benchmark, which is the cost (or value) of a traditional way of the public service provision. Also, both perspectives require not only the use of quantitative methods, but also applying qualitative methods, for example, for assessment of value of externalities in TCE, or for assessing the PPP's effect on ensuring wider access to the public services in the VfM concept.

Concluding the section about the PPP advantages and benefits, it is worth noting that some of them may or may not be realised in a specific PPP project. For example, the PPP ability to innovate for the purpose of increasing the profit may not materialise (e.g., costs may rise whilst the profit may remain the same).

Many advantages are potential. Participants may or may not achieve them. Whether some advantages and benefits will materialise depends on how the partners designed a specific PPP project, and under which terms participants have formed a partnership. It also depends on how effective a partner interaction is in the course of the PPP project, which a separate section of this literature review will discuss. However, claims that the government should employ PPPs because they possess a number of distinct advantages seem unjustified as advantages are in no way guaranteed.

A thorough investigation of PPPs requires a discussion of not only their benefits, but also disadvantages, which the next section presents. As Kazakhstan and Russia both have limited experience in partnerships, some PPP disadvantages may not yet be observed. Transitional countries might significantly benefit from learning not only from the successful partnerships in other economies, but also from the PPP failures, and try to avoid mistakes in the future. Part of this research will be investigating what kinds of shortcomings transpire in Russian and Kazakhstani PPPs and whether these shortfalls are similar to those in OECD countries.

2.5 PPP Shortfalls

Although PPPs may have strong advantages, they also have certain shortcomings. Haque (2004) argues that in the literature there is a tendency to stress mainly PPPs' positive sides. This section focuses on disadvantages involved in using PPPs.

One significant disadvantage is that a PPP usually costs the government more than the direct provision of services by a public agency. The reason is that private firms, as opposed to the government, normally are facing higher interest rates on loans that they need for financing the PPP project. A PPP may be an expensive way of solving the public sector problems because private sector borrowing normally is more expensive, and, in the case of the PPP failure, the government should bear the project's full cost

(Bovaird, 2004; Kakabadse *et al.*, 2007). In line with the above, Hall argues that ‘in almost every country in the world, governments can borrow money more cheaply, at lower rates of interest, than the private sector’ (Hall, 2008a: 7).

Sadka (2007) explains why financial institutions are willing to lend money to the government at a lower rate (a ‘risk-free’ rate) than they are willing to lend money to the private sector. This is because banks correctly perceive that the government will not default on its loan, whereas the private sector may (Sadka, 2007: 17).

This means that, although it seems that private companies undertake PPP project financing and the costs should not concern the government, eventually the government and/or final users will pay all partnership costs. Hence, attracting a private sector party in a PPP normally costs the government more than where it opts to provide a service itself. In the case where a private company receives fees from final users, the outcome is the same: final users will have to pay more than what they would have been required to pay if the government provided the service.

Higher costs associated with PPPs are a significant shortcoming as they may outweigh value for money, which is the major argument in favour of partnerships. Additionally, PPPs may lead to erosion of a government’s own obligation for provision of public services (Haque, 2004). This may happen, for example, if quality of service deteriorates over time, and the government fails to correct a problem in a timely fashion. Although later on the government may discipline the private sector partner, daily monitoring and control are hardly possible. In addition, where customers do not see government involvement in the service provision, they may form a perception that the government distances itself from the traditional public services.

Other PPPs' shortcomings include personal and organisational differences between public and private partners that reduce overall partnerships' efficiency; commitment problems (Acar and Robertson, 2004); absence of methods to analyse risks and opportunities; a lack of clearly defined objectives; inadequate control and evaluation mechanisms (Hofmeister and Borchert, 2004); and contract alterations and difficulties in working relationships (Kakabadse *et al.*, 2007).

For example, a public agency may assign a high priority to the quality of customer service and reduction of waiting time for service, whilst a private partner may be more

interested in purchasing the equipment that makes fee collection easier. The public sector partner may be interested in keeping a user fee stable, whilst a private company may be pushing for raising fees and tariffs for the variety of reasons. A private partner's commitment to a project may be fading rapidly when a project approaches its completion and may transform to unwillingness to properly maintain or upgrade equipment and other physical assets that a private partner soon will have to transfer to the public agency.

Yet another PPP shortcoming is associated with risks to which PPPs are exposed. Certain risks may result from the lack of understanding between partners and a poor operating environment on each partner's side, for example, when a private partner abandons the project in the course of project implementation having faced the unforeseen risks and related costs. 'Unethical behaviour will backfire on both partners and will dramatically increase political risks. This will lead politicians to cancel PPPs too quickly' (Hofmeister and Borchert, 2004: 219). Some reasons may be relational issues in a PPP (which a separate section of this literature review will discuss) or there may be a poor project design, or financing issues or other problems. Regardless of the reason, a PPP failure might raise serious concerns whether the public policy regarding partnerships was effective and whether it misused taxpayers' money. This is likely to generate a discussion about the core issue: why was it necessary to employ PPPs in the first place if the participants cannot assure the value for money?

There is another, broader view on drawbacks associated with PPPs. Whilst PPP management requires transparency as part of good governance, transparency may highlight existing public sector shortcomings (Hofmeister and Borchert, 2004). This note may have a particular relevance to Kazakhstan and Russia, in which the public sector historically, from Soviet times, lacks transparency. In the context of the two countries, this implies that the government may use a PPP contract's commercial confidentiality as a protective device to shield its actions, expenses and contract terms from public disclosure and potential criticism. In the worst-case scenario, the government may use PPP confidentiality in order to conceal its costs, subsidies, the process of selecting a private partner, risk allocation and other issues that may concern the public.

PPPs' drawbacks deserve further elaboration in the Russian and Kazakhstani context, given limited experience that both countries have with partnerships. One of the objectives of this research is to investigate whether PPP shortcomings, if any, in the two countries are similar to those in other nations or whether shortfalls possess some features unique to Russia and Kazakhstan.

2.6 PPP Governance Strategy and Relationship Quality between Partners

According to Griffiths and Meyers (2005), the stream of literature that discusses governance strategy for PPPs includes: 1) economic governance strategies such as contracts (Lusch and Brown, 1996), and 2) relational governance strategies such as relational norms (Haugland and Reve, 1993). A contract is a formal governance mechanism, whilst relational governance is an informal governance mechanism.

The debate on governance includes a number of areas (Montfort, 2004, cited in Bult-Spiering and Dewulf, 2006), of which the interaction and links between parties in the public domain is most pertinent to PPP management. Bult-Spiering and Dewulf (2006) note that most PPP research focuses primarily on contracts, risks and financial or legal arrangements; however, we know little about the way public and private representatives interact during partnership formation and operation.

One should not downplay the importance of legal contract provisions because a contract specifies each party's rights and responsibilities (at least, as many as one can identify at the time of the PPP formation) and helps to remove ambiguities in both the short and the long run. At the same time, anticipating some events and putting relevant provisions in a PPP contract is a difficult task. Because of that, often PPPs emerge from incomplete contracts (Sadran, 2004), and parties have to interact and address together multiple issues in the course of project implementation, which calls for effective PPP governance (Ahadzi and Bowles, 2004).

This section begins with the insights of the literature debate on the role of PPP governance in public policy and public management. It moves on to discuss power arrangements in partnerships and possible sectoral influences on PPP management. The

discussion then focuses on partners' opportunistic behaviour as the principal factor that determines the need for effective PPP governance. The section concludes by highlighting the literature debate regarding how to improve PPP governance.

2.6.1 PPP governance as a contribution to public management

Academic literature on PPP governance strategy establishes a connection between partnerships and the concept of good governance and places PPPs in the broader context of public policy and public management (Klijn and Koppenjan, 2000; Johnston and Kouzmin, 2010). Researchers argue that PPPs contribute in many ways to public management effectiveness. For example, Sedjari looks at PPPs as a tool for modernising public administration and concludes that the use of PPPs 'means the end of the central role of public bodies in providing services' (Sedjari, 2004).

Although this observation seems to lack justification as in most countries, both industrialised and developing, the provision of many public services still remains the public sector task, it contrasts another view, which claims that a potential disadvantage of partnerships in a transitional country is a tendency of the government to avoid its development responsibilities and shift the blame for its own development failures onto others (Haque, 2004).

It would be useful to find out to what extent this observation applies in Russia and Kazakhstan because government avoidance of public sector responsibilities may be a strong factor against using PPPs. On the contrary, if the empirical evidence supports the claim that PPPs enhance the government's ability to deliver public services, this is likely to become a strong factor for the broader employment of partnerships in the two countries.

Similarly to Haque (2004), Sadran (2004) argues that PPPs do not by themselves create good governance. The evidence of multiple PPP failures and lack of PPP effectiveness in many countries support his view (Shaoul, 2002, 2006; Siemiatycki, 2006). Discussing how PPPs contribute to achieving the values of good governance, Sadran (2004) asserts that a partnership is (or should be) a triangle of relationships including a public authority, a private sector partner and a citizen affected by the state

intervention. However, he claims that because in reality ‘the triangle is rarely equilateral and relationships are often asymmetrical, the partners often undermine each other rather than offer each other mutual support ...’ (Sadran, 2004: 246).

The point about the nature and scope of partner collaboration deserves further investigation in the Russian and Kazakhstani context, especially the question regarding how much interaction with citizens and/or NGOs takes place, for example, for detailing the requirements for the public services that a PPP intends to provide. This is because involving citizens (i.e., beneficiaries of public services) in the discussion regarding what exactly they need is likely to ensure a better match between the population's needs and what a partnership plans to deliver.

Hofmeister and Borchert (2004) suggest their own approach to PPP governance strategy and discuss what they call ‘a PPP governance model’. The core of this model is that PPPs should contribute to the balance between political, economic, social and cultural elements in a country. This is why Section 2.10 of this chapter provides a background discussion of PPPs in Kazakhstan and Russia in order to view partnerships in the contextual environment of these transitional countries. To make a contribution to the balance of elements in a country, both parties, public and private, need to overcome an inward-looking orientation (Hofmeister and Borchert, 2004). Similarly to Sadran’s (2004) concept of a PPP as a triangle that includes a public sector agency, a private company and citizens, the PPP governance model stretches beyond the limits of interaction between organisations in the public and private sectors and implies a broader PPP role in the society (Klijn and Koppenjan, 2000; Wettenhall, 2003; Robinson *et al.*, 2010).

Bovaird (2004) puts forth a similar notion regarding governance strategy for PPPs and argues that PPPs should be part of public policy, not just one of the tools that the government can occasionally use in public administration. Bovaird (2004) asserts that the government needs to form and develop an appropriate policy regarding partnerships. In this case, the government can harmonise the PPP policy with other policies, which can make larger contributions to good governance.

In the context of Bangladeshi realities, Haque (2004), similarly to Bovaird, also points out that it is necessary to identify an overall development vision in a country and

determine how PPPs fit in this vision. Strategic vision regarding PPPs may be particularly useful in transitional countries, including Kazakhstan and Russia, as it specifies the policy direction, the government expectations and the PPP governance strategy that the government intends to employ. The PPP governance strategy may include guidelines and regulations regarding formal governance (contracts). Additionally, the government may develop its vision of relational governance in PPPs, for example, how parties should resolve disputes.

Whilst the role of PPPs evolves in Kazakhstan and Russia, it is useful to study how the government shapes the public policy regarding partnerships, and what the policy elements, priorities, and the driving forces are. This research will investigate the PPPs' role in the political, economic, social and cultural context of each of the two countries, from the public policy's perspective, which permits the researcher to evaluate PPP governance strategy.

2.6.2 Power arrangements in PPPs

In connection with the public policy regarding PPPs, part of the governance literature devotes itself to a discussion of different stakeholders and their interests, the impact of a PPP on these interests and assessment of each stakeholder's significance for the project's success (Fischbacher and Beaumont, 2003; Brinkerhoff and Brinkerhoff, 2004). Differing interests that partners in a PPP have and different tools that each partner uses to pursue them (such as administrative approvals, quality checks or discretionary use of funds) lead to certain power arrangements in a partnership.

The balance of power arrangements in PPPs depends on many factors, for example, on the general PPP legislation and how it defines partners' responsibilities, on the realities of the court system and whether participants can use it effectively for dispute resolution and on specific contract provisions.

The public partner dominance (which means that private partner's flexibility in planning, spending, price setting, purchasing and/or other aspects of decision making during the project implementation is constrained) may undercut the full expression of PPP principles, such as mutuality (Brinkerhoff and Brinkerhoff, 2004). This note may

have particular relevance to Kazakhstan and Russia as in both countries the government sector historically dominated. In this study, one of the research objectives is to analyse the partnership projects' contractual environment in Kazakhstan and Russia, which includes power arrangements, and to identify what influence these arrangements may have on PPP management and partner behaviour.

One can connect yet another aspect of power arrangements in PPPs to an industry's nature. The government regulates some sectors, such as the oil and gas sector, more, whilst other sectors may enjoy less regulation. As interaction issues between PPP partners often stem from differences in their interests, the nature and scope of government regulation including price setting, determination of import and export quotas and customs duties, environmental control, safety standards and administrative procedures influence the latter. Studies conclude that in some sectors, such as construction, the involved parties pay little attention to PPPs' relational aspects and rather focus on contractual arrangements (Egan, 1998; Doree, 2004; Bult-Spiering and Dewulf, 2006).

This suggests that there may be a sectoral influence on PPP management. In other words, power arrangements in partnerships may reflect not only what the PPP laws and regulations require, but power structures and related processes that a particular industry designed earlier also may influence them, based on other (unrelated to PPPs) economic, political and social considerations. In addition, PPP management processes and tools that might work successfully in one sector, such as toll roads, might not be effective in another sector, such as health care. A sectoral influence on PPP management in Russia and Kazakhstan is one of the issues that this research intends to address using the data from the studied projects.

2.6.3 Opportunistic behaviour as the main determinant of the need for PPP governance

The literature about PPP governance often highlights partner opportunistic behaviour as a reality of many projects. One can describe opportunistic behaviour as any kind of behaviour or action (or non-action) that pursues a party's self-interest and

departs from the project goals. Vining and Boardman (2008a) argue that, as it is impossible to write complete PPP contracts, parties are facing a longer time frame for opportunism to emerge from either side of the transaction. In other words, not only is opportunistic behaviour inevitable because of the natural pursuit of a party's self-interest; furthermore, opportunism may grow over time because of the long-term nature of PPP projects. Inevitable changes in government, policies, legislation, economy and technology over a lengthy period of time, such as 30 years, may significantly divert the parties' interests from originally set goals for a PPP project.

Naturally, the possibility for partner opportunistic behaviour calls for revisiting original arguments that transaction cost economics provided and used at the time of the PPP formation. Why form a PPP in the first place if it appears that growing opportunism may significantly increase project risks and the likelihood of the overall project failure?

This possibility for growing opportunistic behaviour becomes a considerable concern for either party in a partnership as it may lead to contract alterations, additional responsibilities, higher costs and greater risk. Hence, one can characterise opportunistic behaviour as the major factor that contributes to various types of risk, and this behaviour is a potential or ongoing problem that PPP management needs address.

Through the prism of opportunistic behaviour, one should emphasise the limitation of the transaction cost economics theory: it cannot provide reliable data in favour of a decision whether to form a PPP. Reliability of long-term estimations whether a PPP will incur lowers costs than traditional government procurement methods may be undermined because of unknown risks and partner opportunism, whilst cost savings may be significantly overrated. In addition, TCE cannot address a question whether a partnership is going to be successful (Hill, 1990; Madhok, 1995).

Uncertainty over the long run and related risks may increase the total PPP social costs (which were discussed in connection with TCE in Section 2.4 regarding reasons for partnering) to the point at which direct government provision of services becomes more cost-effective. Naturally, partners have to avoid this as it means that a PPP's overall economic efficiency is lower than that of direct government provision, assuming

that other factors, such as service quality, customer satisfaction or technological innovation remain the same in both options.

Pongsiri argues that 'implications of the transaction cost economics (TCE) theory concern the emergence of a co-operative relationship as a response to the uncertainty of transactions' (Pongsiri, 2003: 74).

Similarly to Pongsiri (2003), researchers assert that enhancing conformity of goals between the partnering organisations may allow parties to mitigate the transaction uncertainty by reducing their opportunistic tendencies (Ouchi, 1980). If interaction between parties becomes more effective, spreading risks may be easier, and effective interaction may serve as a safeguard against a partner's opportunistic behaviour.

Many studies (Pierre, 1997; Teisman and Klijn, 2002; Fischbacher and Beaumont, 2003; Brinkerhoff and Brinkerhoff, 2004; Bult-Spiering and Dewulf, 2006) support the concept of relationship quality, i.e., the need for managing relations between parties in a partnership, because, as their research concludes, PPP success strongly depends on the way partners manage interests and interactions.

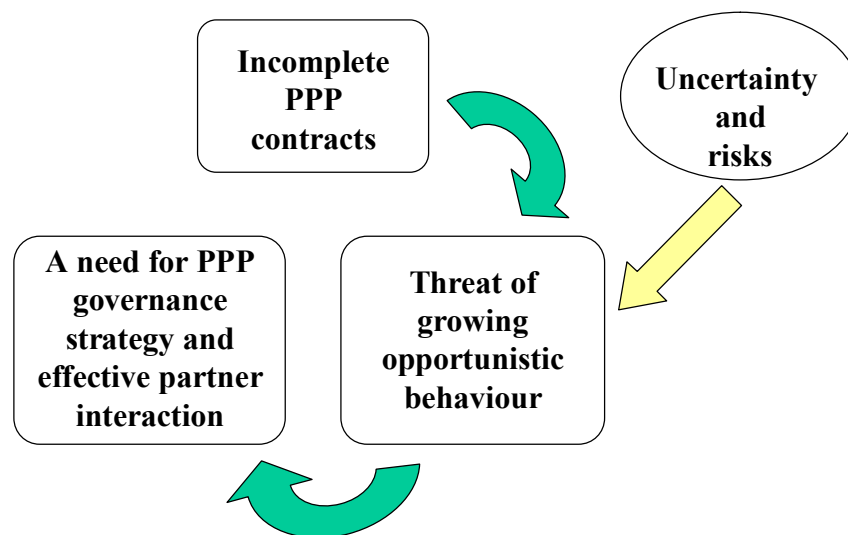
Another way of looking at the link between incomplete PPP contracts and the need for PPP governance is to identify whether a partner interaction is trustworthy. Reliance only on a formal contract that governs the relationship would not be sufficient to establish the partners' desired actions, but there also should be a positive social atmosphere which exists in a trusting relationship (Madhok, 1995). Madhok (1995) claims that trust facilitates shared expectations, common interests and tolerance to partners' goal conflicts. This research will investigate the partners' behaviour with regards to trust, which will allow the author to understand the general atmosphere in which parties collaborate and identify a trend.

In summary, the PPP governance literature concludes that it is unlikely that a contract can embrace and properly address all possible risks and other situations for many years ahead. Specifically, there are logical links between three factors. The first is that partnerships often begin with incomplete contracts or contracts that simply could not foresee potential PPP problems and address them. The second, which stems from the first, is that there is a threat of growing opportunistic behaviour of either party in a PPP due to the increasing probability of exposure to risks and, consequently, of losing

gains from the project. The third observation, which stems from the previous one, is that there is a need for a PPP governance strategy and effective interaction, in order to mitigate risks and reduce opportunism. This inevitably leads academics and practitioners to pay greater attention to informal PPP governance mechanisms, i.e., relationship quality in a PPP.

Figure 2.1 highlights the links between factors that explain the need for PPP governance.

Figure 2.1 Why PPP governance is needed: The links between principal factors



Source: Compiled by the author

Figure 2.1 emphasises the logical link that originates from a PPP contract that inevitably has to be incomplete due to difficulties in foreseeing all possible project development scenarios for the long term. This creates opportunities for either partner's opportunistic behaviour that is likely to grow over time owing to increasing risks, which in turn may be growing because of changing political, regulatory, economic and social

conditions. One way of resolving uncertainty and mitigating risks is to ensure effective interaction between partners by formal and informal management tools and procedures.

2.6.4 Literature debate on how to improve PPP governance

The academic literature seems to have paid less attention to PPP management. However, those whose research focuses on relations in partnerships often make recommendations regarding how to improve partner interaction. Drawing upon these recommendations, Acar and Robertson (2004) point out some unique PPP features. In their view, it is the partnerships' common organising properties that differentiate them from hierarchical, autonomous organisations that matter most. They emphasise that often 'managers in PPPs face the challenge of influencing the behaviour and performance of different individuals coming from different organisations without having the requisite formal authority to do so. ... An implication of this characteristic of public-private partnerships is the need to take into consideration alternative means and ways of influencing the behaviour and performance of participants in the absence of formal, hierarchical authority structures and processes' (Acar and Robertson, 2004: 332).

For example, in order to reconcile multiple personal and organisational differences between partners' staff and increase PPP effectiveness, Acar and Robertson point out the need to employ a combination of informal and formal means and processes of accountability in a mutually reinforcing way (Acar and Robertson, 2004: 342). Their study suggests that partners should pay adequate attention to informal processes and to building good personal relationships among the partnership's individual members. Another study concludes that, in order to facilitate effective PPP operations, 'an accountability plan needs to be in place to establish the outcomes for which each partner is responsible, to outline the constituents to whom the partnership is accountable, and to delineate the consequences of failure to meet establish goals' (Acar *et al.*, 2008: 18).

Another study (Kakabadse *et al.*, 2007) has proven the positive influence of standardised processes (such as regular monthly meetings between key stakeholders, systematic development of negotiation skills and specialist legal knowledge in key

members of staff and regular face-to-face discussions between managers and staff) on making the working relationships within a partnership better and more effective.

Yet another suggestion is to use special dispute resolution provisions for PPP projects and concessions, such as Dispute Resolution Boards composed of party appointed experts, which provide an informal and expeditious mechanism for resolving disputes and preventing costly and potentially unsuccessful full blown litigation or arbitration (Cook, 2007: 4).

The examples above serve to illustrate the high importance of informal means and processes for effective PPP management. However, there is a contrasting view of the informal governance mechanism in partnerships. Rufin and Rivera-Santos (2010) argue that ‘trust-based governance, while theoretically desirable, will play an insignificant role in the governance structures of PPPs’ (p. 16). Among the reasons for this statement the authors claim the following:

‘Once the alliance is established, the monitoring of the partners’ behaviour both inside and outside the alliance by external stakeholders is likely to add to the challenge of developing trust particularly. PPPs, which, unlike most agency activities, involve the generation of profits, are particularly susceptible to stakeholders questioning the fact that public resources are used to create profits and those profits are shared with private firms (Ahadzi & Bowles, 2004). As a result, we expect agencies to reinforce the formalisation of their interactions with the firm to avoid any suspicion of wrongdoing by its stakeholders. This will make it very difficult, if not impossible, for informal governance mechanisms to play a major role in the everyday governance of PPPs...’ (Rufin and Rivera-Santos, 2010: 15).

The implication for a private firm that is willing to form a partnership with a government agency is that a firm needs to be prepared for much more intense scrutiny and disclosure in a PPP than in other activities; to anticipate the direct or indirect influence of external stakeholders on the unfolding of the alliance; and to rely on different mechanisms to prevent opportunism on the part of the alliance partner, whilst not being able to rely on the trust-based mechanisms (Koppenjan, 2005; Rufin and Rivera-Santos, 2010: 17).

Although the conclusion that Rufin and Rivera-Santos derive from their research is less common than the one that puts strong emphasis on informal PPP governance, which is supposed to complement formal governance mechanisms, nevertheless, it is a useful contribution to the scholarly literature on partnerships as it offers an alternative understanding of success factors critical to PPP management.

Effective interaction between partners may serve not only the goal of reducing opportunistic behaviour of either party. A study of PPPs in Bangladesh concludes that private partners want to get close to the government in order to escape from state regulations (Haque, 2004). One can view avoiding state regulations as a way of keeping a private partner's commitment to a PPP project by using special tools, such as loopholes in existing laws, or by getting preferential government treatment through legal lobbying. However, government agencies in developing countries are typically characterised by less democracy, transparency and stakeholder monitoring, which likely means weakening of rules through corruption (Rufin and Rivera-Santos, 2010: 18). Given a relatively high level of corruption in Russia and Kazakhstan, private parties may be particularly interested in getting a special arrangement for themselves at any time of a PPP project, using the justification that they are involved in the provision of public goods (instead of the government) and, hence, that they deserve special treatment.

To conclude, scholars need to investigate PPP governance strategy in the Russian and Kazakhstani context by addressing a range of interaction issues between partners, including whether parties exhibit opportunistic behaviour and why; what informal and formal means and processes they use in their relations; and what tools they employ to reconcile the differences between their goals. This will allow the researcher to assess, from the relationship quality perspective, whether one can consider partner interaction a critical success factor for the PPP management.

2.7 Principal PPP Risks

Partnerships are exposed to various kinds of risk. The purpose of this section is to explore what principal risks PPPs face and how researchers understand them. This will allow the researcher to investigate whether partnerships in Kazakhstan and Russia are

exposed to the same kinds of risk and what the differences are. The next section of this literature review (Section 2.8) discusses how risk is allocated between partners and what risk allocation issues the existing literature delineates.

Guidelines of the European Commission (EC) define risk as ‘any factor, event or influence that threatens the successful completion of a project in terms of time, cost or quality’ (European Commission, 2003: 52). Similarly, researchers describe risk as ‘... the uncertain possibility of something going wrong that can result in increased cost or cause delay’ (Hardcastle and Boothroyd, 2003: 573). It is worth noting that risk may have direct impact on costs, and/or it may have an indirect impact, for example, on the quality and/or volume of services.

There are many different types of risk that PPPs may face. Grimsey and Lewis (2002), in their study of risks affecting infrastructure projects, identify the following nine types:

- **Technical risk.** This may happen due to engineering and design failures, and may lead to overhaul of the entire project.
- **Construction risk.** It includes errors in construction, inappropriate construction techniques and/or flaws in construction materials. This may lead to delays and escalation of costs.
- **Operating risk.** It involves higher than planned operating and maintenance costs.
- **Revenue risk.** It is also often called demand risk and it includes risk that comes from insufficient (i.e., below forecasted) demand for PPP services and from price volatility for services.
- **Financial risk.** It involves errors in the estimation of project revenue flows and project financing costs.
- **Force majeure risk.** It involves wars and calamities.
- **Regulatory/political risk.** It includes changes in government and/or public policies, and changes in laws and regulations pertinent to PPP operations and asset ownership.
- **Environmental risk.** This risk stems from adverse impact of the project on the environment (such as greater pollution), and adverse impact of changing

environmental conditions on the PPP operations, such as climate change that may cause a greater need in air conditioning a facility and, consequently, greater costs.

- **Project default.** Researchers view this risk as the overall project failure that may result from a combination of any kinds of risk described above.

Similarly, the EC guidelines discuss eleven types of risk as follows: revenue risk, construction risk, foreign exchange risk, regulatory (contractual) risk, political risk, environmental risk, latent defect risk, public acceptance risk, sustainability risk, hidden protectionism, and risk involved in the choice of a private sector partner (European Commission, 2003). Some kinds of risk are the same as in Grimsey and Lewis' (2002) classification, although there are few additional kinds:

- **Foreign exchange risk.** It involves the changing value of a domestic (national) currency compared to major world currencies, such as the U.S. dollar or euro. The risk comes into play if and when PPP parties have to purchase some equipment, materials or services from other countries during the project term. As these purchases were planned in a national currency, by the time one must make a purchase, the national currency's value may change and a buyer may have to pay more for materials and equipment (if national currency has depreciated), which will mean higher PPP project costs. In other cases, a buyer may have to pay less, if a national currency appreciated, which will mean cost savings for a PPP project. Naturally, this kind of risk is more relevant to transitional countries including Russia and Kazakhstan as their economies and currencies are less stable than those of industrialised countries.
- **Latent defect risk.** Grimsey and Lewis (2002) call this risk technical risk, which refers to potential technical flaws in the way that an asset was constructed.
- **Public acceptance risk.** This risk comes from the degree of willingness of population to use PPP services. As some services involve user fees, public acceptance often means the citizens' readiness to pay these fees. If many people are not willing to pay, the PPP facility may be underutilised leading to smaller revenue and the need for government subsidies. In addition, lack of public acceptance may lead to political ramifications for the government as the public

may be concerned with the misuse of taxpayers' money. In Kazakhstan and Russia where many people from the Soviet time became accustomed to free or heavily subsidised public services, such as health care or free roads, those who initiate PPP projects must carefully address public acceptance risk.

- **Sustainability risk.** This risk stems from a question whether a project can continue for the full length of its term as citizens' preferences may change, or the service may become outdated. For example, a recreational facility may face smaller use because of the development of new kinds of sports, entertainment and recreation; traditional railroads may become obsolete because of the development of new high-speed trains and railroads. This may result in earlier PPP project shutdown as opposed to the contract term. In this case, the government is likely to incur additional costs in order to compensate a private partner for its investment.
- **Hidden protectionism.** This is the risk of creating a private monopoly that the government protects from competition. The examples include power generating stations, toll roads, sports and leisure facilities and educational centres. In fact, examples may include any PPP if a government-protected monopoly restricts competition and leads to higher prices without losing customers.
- **Risk involved in the choice of a private partner.** This risk may exist because of a private partner's lack of experience or commitment to a PPP project, which may result in increased project costs and/or multiple disputes between parties. In the worst case, a private party may even abandon the project if it becomes money-losing.

The longer list of PPP-related risks, offered by the European Commission (2003), captures a larger number of details relevant to PPP formation and operation as opposed to placing some types of risk in more general categories, as did Grimsey and Lewis (2002), and, as a result, one can consider the two classifications complementary.

Out of many kinds of risk to which PPPs are exposed, revenue risk (or demand risk) is one of the most common because it is difficult to forecast accurately what revenues a project can bring over a long period of time. Such factors as tariffs (or prices), utilisation level and the price elasticity of demand influence revenue. Different sectors

have different historic information about demand for a service. The EC report emphasises that historical data may be a reliable basis for the demand estimates or may not. If costs were subsidised in the past, forecasting how consumers may react to unsubsidised prices may be a challenging task (European Commission, 2003). This applies to projects such as transportation services (railroads, automobile roads and airports), water supply, energy supply and educational services.

Additional factors may influence a PPP project's revenue. For example, a toll-road project also depends on drivers' income and level of automobile ownership. In countries with low incomes and low automobile ownership people may prefer to use slower but free of charge roads rather than paying tolls (Timar, 1998). Although in Russia and Kazakhstan incomes are generally lower than in industrialised countries, the level of automobile ownership is fairly high as many people drive inexpensive and older cars. As a result, the toll-road projects may be facing some unpredictable behaviour of drivers with regards to tolls. Partners need to carefully investigate patterns of consumer behaviour and the likelihood of public acceptance of such projects before their launch with the help of surveys, interviews and public discussions.

As for other kinds of risk, the research will investigate their relevance to partnerships in Kazakhstan and Russia. This research will explore what kinds of risk have greater importance for partnerships in the Russian and Kazakhstani context and why, and what risks have lesser importance. In addition, there might be some other risks that are unique to one country or both. The study of PPP risks will allow the researcher to understand how they are allocated among partners, and what tools and mechanisms partners use for risk mitigation. An overarching goal is to investigate whether existing risk management in Kazakhstan and Russia is a PPP success factor or an impediment.

2.8 Principles of Risk Allocation in PPPs

Scholarly literature and various guidelines for practitioners extensively discuss risk allocation in partnerships (Hodge, 2004; Hood *et al.*, 2006). PPP governance strategy

and partner relations should incorporate risk allocation as one can view it from the two perspectives.

The first is that initial risk allocation must be reflected in the original PPP contract, with an attempt to avoid or reduce uncertainty regarding which party accepts responsibility for what, in case some event happens. Klijn and Teisman (2003) argue that the public and private partners should share the PPP risks. As accepting an additional risk is likely to increase private partner's costs and decrease its profits, the risk acceptance is subject to discussion during the PPP contract negotiation process and getting some compensation in order to offset potentially higher costs. Effective negotiation of identified risks and related compensation in the initial PPP contract becomes, from this perspective, a factor that contributes to partnership success. Researchers often view risk sharing, much of which is specified in a partnership contract, as one of the main PPP aspects, especially in major infrastructure development projects due to their high capital costs (Hodge and Greve, 2005).

The second perspective suggests that, notwithstanding the contracts, how exactly partners bear the risk in the course of project implementation significantly depends on their interaction (Hofmeister and Borchert, 2004). Some risks may not be spelled out in a contract, and may require further negotiation, whilst some other provisions may be subject to interpretation by either party. Additionally, in the long run, new circumstances of any kind may develop, which may present new challenges and possibly the need to reallocate risks, responsibilities and costs. The examples of challenges to PPPs include changes in legislative environment, political and economic reforms and/or international influences. The partners cannot foresee some challenges, such as formation of (or phasing out) a regional customs union or a change in the region's administrative boundaries, which may influence the demand for a service. Especially in such cases, it is the partner relationship dynamics, rather than initial risk allocation, that will determine distribution and redistribution of risks and related expenses (Brinkerhoff and Brinkerhoff, 2004).

The EC guidelines point out that 'risk should be transferred to the party best able to manage it in the most cost effective manner' (European Commission, 2003: 52). The reason for this is that risk has direct influence on the party's financial position and on

the project's total cost. Risk allocation is not about just transferring some risks from the public sector to the private sector. Effective risk allocation requires finding out which party is going to be in a better position to deal with a particular kind of risk, so that the risk itself is mitigated, and related costs are the lowest as opposed to where another partner handles the risk. Guidance for Public Private Partnerships in New Zealand (National Infrastructure Unit of the Treasury, 2009) discusses similar notions about risk allocation.

The lowest cost becomes a critical factor in deciding which partner should bear a certain risk because the private party's costs have an impact above and beyond the private sector: the government and/or citizens have to compensate the private party's costs. The more a PPP project will cost to a private party, the more the government and/or citizens will have to pay. '... The degree of risk transfer to the private sector will influence the overall cost of the project to the public sector as all risk will be associated with the price premium. Therefore the objective must be to achieve a cost effective risk transfer, not simply a risk allocation for its own sake' (European Commission, 2003: 52-53). One can describe optimal risk allocation as follows. If greater ability to mitigate some risks and deal with them at the least possible cost belongs to the public sector partner, these risks should remain with the public sector. Those risks that a private partner can mitigate better and cheaper should transfer to the private sector.

Based on the concept of effective risk allocation, the European Commission guidelines for successful PPPs state four objectives for risk transfer, which include (a) reduction of long-term project costs; (b) creation of incentives to deliver projects on time, to required standard and within the budget; (c) improvement of quality of service and increase in revenue through efficient operation; and (d) ensuring consistent and predictable profile of expenditure (European Commission, 2003: 53). If both partners pursue these objectives, risk transfer, instead of assigning as many tasks and responsibilities as possible to the private sector partner, involves determination of which party can handle each risk best and how cost effective this risk management might be.

Guidance for Public Private Partnerships in New Zealand (National Infrastructure Unit of the Treasury, 2009) illustrates the meaning of proper risk allocation between

parties with the following two examples. One example suggests that the public sector should bear the demand risk for a prison because ‘the demand for the prison is very much influenced by legislation and therefore by the government’s sentencing policy, by the sentencing policy of the courts, by the approach taken by parole boards and by the Department of Corrections’ prisoner management policies’ (National Infrastructure Unit of the Treasury, 2009: 17). Further, Guidance concludes that transferring demand risk to the private sector partner would therefore be an inefficient allocation of risk. Instead, the payment mechanism should be based on some combination of service performance, availability and occupancy rates.

Yet another example from the same source is about the ground conditions in a tunneling project. Guidance for New Zealand partnerships claims that the public sector should bear the risk for the ground conditions because it is impossible to determine fully these conditions before tunneling operations begin. The document concludes that a private contractor responsible for the construction is in the better position to manage such risks and should therefore bear them (National Infrastructure Unit of the Treasury, 2009: 17). This is because it is in the contractor’s interest to complete construction at the least cost. Additionally, the contractor possesses the necessary expertise and technological solutions to undertake construction under various ground conditions. The ultimate influence on the PPP project is that the risk allocation becomes cost effective, and the overall project costs are smaller than in the case of assigning responsibility for the ground conditions to the public agency.

2.9 Approaches to Risk Management

Lam *et al.* (2007) provide fruitful insights into risk allocation. Their study identifies seven key risk allocation criteria. They include: ability of the party to foresee the risk; ability of the party to assess the possible magnitude of the consequences of the risk; ability of the party to control the chance of the risk occurring; ability of the party to manage the risk in case it occurs; ability of the party to sustain the consequences if the risk occurs; whether the party will benefit from bearing the risk; and whether the premium charged by the risk-receiving party is considered reasonable and acceptable

for the owner (Lam *et al.*, 2007). Although the above criteria are quite detailed and may be helpful in partnership design and contract preparation, risk allocation discussions often shift the focus to the links between risk management and private partner performance incentives.

There is a general consensus in the literature that at least some risk should transfer to the private sector in order to give incentives to a contractor to perform better, to improve its management and project performance. One of the tools to ensure that such incentives are in place is to not make full payments to a private partner until it meets all performance standards. The EC guidelines claim that ‘under most PPP projects, full payment to the private sector contractor will only occur if the required service standards are being met on an ongoing basis’ (European Commission, 2003: 15).

Similar to the EC guidelines, Guidance for PPPs in New Zealand states that ‘the payment should only be paid to the extent that the service is available, i.e., it should be proportionate to the quality or quantity of units. There should not be a fixed element which the contractor receives irrespective of performance. In principle, abatements for nonperformance (or penalties) should be large enough so that the contractor’s incentive to perform or to remedy performance defects is fully aligned with the government’s interests’ (National Infrastructure Unit of the Treasury, 2009: 20). The above shows how government can mitigate risk of a private partner’s nonperformance in a cost effective manner and, therefore, ensure that the public interest is served by receiving the pre-determined service quality and quantity without an increase in public fund use.

With regards to how PPPs allocate and mitigate risks, one can argue that ‘perhaps the most challenging feature of PPPs for contractors is the need to understand fully the risk allocation mandated under the PPP agreement between the project company and the government’ (Cook, 2007: 3). This view calls attention to the first and foremost challenge for parties – the need to identify the risks that each partner intends to accept in a partnership. This task has particular relevance to Kazakhstan and Russia: due to limited experience with PPPs in the two countries, parties may not fully realise the nature and range of risks to which they may be exposed, and how difficult and costly dealing with each risk might be. However, risk management tools may be available. As an example, Cook (2007) suggests using insurance coverage, such as surety bonds,

for a number of project situations to offset a private company for some unaddressed risks in an original PPP contract.

In line with Cook's (2007) proposal is a suggestion that 'those risks that are foreseeable and can be insured shall be handled by insurance as much as possible' (Shin, 2004: 4). Shin (2004) advocates a notion that risks should be insured whenever possible and should be allocated through negotiations between parties. However, purchasing insurance depends on the insurer's willingness to accept a certain risk, which in turn depends on how high a risk is priced. Thus, buying insurance may be possible, although it may be pricey for a private company and, ultimately, for the government and citizens.

Tools, such as insurance, for coping with risks may prove useful in Russia and Kazakhstan, and this study will investigate what instruments for risk management PPPs use and which of them are more effective.

As demand risk is one of the most common in partnerships, researchers often emphasise the government role in coping with demand risk. Prud'homme (2004) finds that participants underestimate partnership costs whilst they overestimate benefits. With regards to PPP revenues and expenses, he claims that 'errors of 50 per cent or more seem to be the rule rather than the exception' (Prud'homme, 2004: 2). There is almost always a difference between planned and actual outcomes and many reasons that explain that fact, such as low demand and/or additional expenses. As demand risk is often high, the government may play a significant role in mitigating it.

Sadka states that 'under many PPP arrangements, the government provides the concessionaire with a guarantee against certain cost overruns or revenue shortfalls' (Sadka, 2006: 8). In such cases, the contract should specify that the government would compensate extra costs to the concessionaire. Another safeguard which the government could provide concerns the benefit side. The government may offer insurance in those cases when the actual benefit is less than estimated. Hence, the government would share some risks, or may bear a risk instead of a private partner.

At the same time, demand risk is not merely the subject of negotiation and allocation between the parties regarding who is responsible for what aspect of it. Demand can shift, and some tools are available to a private company to encourage

demand. For example, in the case of a toll road, a private operator could do aggressive advertisement and marketing, provide clean and comfortable rest areas along the road, provide fast and good breakdown services, or, if demand is elastic, the private partner may charge a toll below the maximum level allowable in the concession agreement (Sadka, 2006: 13). Partners may prefer this way of coping with demand risk as opposed to the option where the government accepts responsibility for making additional payments to a private partner if revenue falls short of the projection, for the reason that this mobilises private partner innovation without the use of public funds.

Another government tool for dealing with demand risk is to give a guarantee to a private partner regarding the fixed amount of revenue. However, such guarantees may lead to a situation where a private operator has no incentive to increase the volume of services, such as boost traffic on the road. There would be no incentive because higher traffic volume is likely to lead to an operator's higher maintenance costs. In such cases 'some revenue-sharing arrangement, between the public and private partners, would seem to be efficient, as it would maintain an incentive for the concessionaire to take demand-enhancing measures' (Sadka, 2006: 13).

Instead of fixed government payments, Sadka (2006) offers a solution in which he sets out demand as a benchmark. 'If actual demand falls short of this benchmark, then the public partner pays the private partner a fraction α of the deficit; if actual demand exceeds the benchmark, the private partner transfers to the public partner a fraction β of the surplus' (Sadka, 2006: 13). This proposal seems more effective as it resolves the problem with lack of the private partner's incentives, creates motivation for increasing the volume of services and permits more efficient use of government money if demand is smaller than projected.

At the same time, a United Nations report suggests that 'guarantees and supports by governments must be provided with care' (United Nations, 2008: 38). By providing support the government not only deals with some kinds of risk, but also creates a 'guarantee culture' which reduces the private sector's incentives to accept risk, and the private sector may become increasingly risk averse. Similarly, the European Commission guidelines for PPPs argue that grant financing carries certain risks. Grants 'provide little incentive to efficiency enhancements usually associated with the

pressures of commercial financing. Additionally, the availability of free funds can cause a degree of dependency and ‘crowding out’ of alternative sources’ (European Commission, 2003: 66). As private investors are likely to view government grants as coverage of some of their risks, this method of coping with risks may be quite ineffective because it discourages private partner's innovation and reduces incentives for better performance.

The insights regarding a guarantee culture in PPPs and government grant financing of partnerships may have significant importance for Kazakhstan and Russia due to lesser development of private business in general and restricted opportunities for long-term financing, in particular. This research will explore what kinds of financial support the government uses in Kazakhstan and Russia and what influence government financing has on risk management in partnerships.

The concluding observation about risk management in PPPs is that, as the literature shows (e.g., United Nations, 2008), often in the course of project implementation one partner may try to shift risks to another partner, and usually parties cannot agree on the proper risk allocation. This is one of the main reasons why PPP projects fail (United Nations, 2008). This note reiterates the importance of governance and partner interaction in a PPP as opposed to an intent to fully decide on risk allocation in an original partnership contract. In other words, risk management includes not only initial risk allocation specified in a contract, but also – and more importantly – additional allocation and/or reallocation that may stem from unforeseen factors and that are likely to be heavily influenced by how effective partner interaction is. With regards to partnerships in Kazakhstan and Russia, this research intends to embrace both perspectives: the first is to analyse how partners shared risk initially, and second is to investigate what decisions, if any, partners make regarding risk redistribution during a project and what factors drive those decisions.

The thesis now moves on to highlight the PPP context in the two countries and evaluate the Russian language PPP literature that is available in Kazakhstan and Russia and to contrast and compare this literature with OECD approaches to partnerships.

2.10 Kazakhstan and Russia: An Analysis of the Context

This section provides contextual background for partnerships in Kazakhstan and Russia and includes the following:

- discussion of sectors in which PPPs operate;
- investigation of government approaches in the two countries to what a partnership is and what partnership types the governments form;
- overview of a concession as a preferred PPP form in the two countries and
- appraisal of available Russian language literature about PPPs and topics on which the literature focuses.

This contextual discussion will permit the researcher to identify PPP features that are unique to Kazakhstan and Russia and draw insights into whether discrepancies exist between the Western literature, on the one hand, and the government approaches and PPP practice in Kazakhstan and Russia, on the other hand.

2.10.1 Areas of PPP operations in Kazakhstan and Russia¹

PPP operations in Kazakhstan include the transportation sector (railroads and an airport), the energy sector (electrical power generation and transmission) and the social sector (construction and operation of kindergartens). There is a plan to convert in the near future a road from Astana, the capital, to the northern resort area of Borovoye, to a toll road, and give its operation and maintenance to a private company in the form of a concession. Additionally, there are three PPP projects targeting railroad construction, with the goal of establishing private companies to manage, maintain and operate these projects in the form of a concession for 25-30 years. Those include a railroad in Eastern Kazakhstan between the station of Shar and the city of Ust-Kamenogorsk, also a

¹ The author wrote the text of this section in 2011-2012. Later, this text was included in the article co-authored with Nada Kakabadse and Izabela Robinson, which *International Journal of Public Administration* published in June 2012 (Mouraviev *et al.*, 2012). The author certifies that the text in this section is his original contribution to the thesis.

segment of railroad between Eraliyevo and Kuryk and a segment of railroad between Korgas and Zhetigen (Kazakhstan Public-Private Partnership Centre, 2012). Another PPP project in Kazakhstan is the construction and operation of an international airport passenger terminal in Aktau, also as a long-term concession.

There are three further concessions in Kazakhstan in the field of power supply. One project involves the construction of power lines, power transmission and generation as well as maintenance of a railroad power system for a segment between the Makat and Kandyagash stations in the Aktobe region. The second project includes the construction and operation of an inter-regional electrical grid between Northern Kazakhstan and the Aktobe region. The third PPP project includes the construction and operation of a power station that will use natural gas for power generation in the town of Kandyagash in the Aktobe *oblast* (region).

Table 2.1 summarises the available information about concessions that have been approved in Kazakhstan, although some of them have yet to become operational.

Table 2.1 shows that some projects initially approved by the Kazakhstani government have been subsequently put on hold and are under reconsideration. Whilst the government never disclosed the exact reasons, this leaves just four concessions active (#1, #2, #3 and #8 in the table) out of eight that the government originally designed and planned for implementation.

Table 2.1 also highlights the organisational arrangements applying to concessions and indicates the partner representing the government in each of them. In three concessions (#1, #4 and #7 in the table) the Kazakhstan national railroad company, which is the fully government-owned corporation, plays the public sector partner role. In two other concessions (#5 and #6) the national Ministry of Energy and Mineral Resources initially, in 2007 and 2008, assumed responsibility of a public sector partner. Subsequently, this Ministry ceased to exist although some of its functions were integrated with the newly formed Ministry of Oil and Gas. The virtual absence of the public sector partner and related changes in channels of government budgetary funding explain, at least in part, why the two projects have been put on hold. The three remaining projects are ongoing: the public sector partner in #2 is the fully government-owned Kazakhstan Electric Grid Operating Company, and in #3 and #8 the regional

Table 2.1 Concessions approved by the Kazakhstani government as of January 2013

No	Project title	Project cost (U.S. dollars)	Concession term	Project status	Organisational arrangement with government: public sector partner
1	Construction and operation of a railroad between the station of Shar and the city of Ust-Kamenogorsk in Eastern Kazakhstan	\$202.5 mln	23 years, from 2005	Concession contract signed 6 July 2005. Construction has been completed (in part) in 2008; the project is operational.	Kazakhstan Temir Zholy (100% government-owned national railroad company)
2	Construction and operation of interregional electrical grid from Northern Kazakhstan to Aktobe region	\$165.82 mln	17 years, from 2005	Concession contract signed 28 December 2005. Construction phase has been completed; services are being provided.	Kazakhstan Electric Grid Operating Company (KEGOC) – 100% government-owned national power transmission company
3	Construction and operation of the passenger terminal of international airport in the city of Aktau	\$65.5 mln	30 years, from 2008	Concession contract signed 3 December 2007. Construction phase has been completed; services are being provided.	Regional government of the <i>Mangistausskaya oblast'</i>
4	Construction and operation of a railroad segment between Yeraliyevo station and Kuryk station	\$63.06 mln	23 years	Concession contract signed 14 December 2007. Construction has been postponed.	Kazakhstan Temir Zholy (100% government-owned national railroad company)
5	Construction and operation of the power system for the railroad segment between Makat and Kandyagash stations in Aktobe region	\$350 mln	23 years	Concession contract signed 14 December 2007. Project is on hold.	Kazakhstan Ministry of Energy and Mineral Resources. As it was reorganised in 2010 in the Ministry of Oil and Gas, the public sector partner is unclear
6	Construction and operation of natural gas power-generating plant in the town of Kandyagash in the Aktobe region	\$146.52 mln	20 years	Concession contract signed 7 April 2008. Construction has been delayed.	Kazakhstan Ministry of Energy and Mineral Resources. As it was reorganised in 2010 in the Ministry of Oil and Gas, the public sector partner is unclear

7	Construction and operation of a new railroad between Korgas station and Zhetigen station in South-East of Kazakhstan	\$775.4 mln	28 years	Concession contract signed 18 April 2008. Project is on hold.	Kazakhstan Temir Zholy (100% government-owned national railroad company)
8	Construction and operation of 11 kindergartens in the city of Karaganda	\$39.12 mln	14 years	Concession contract signed in November 2011. Project is operational	Regional government of the <i>Karagandinskaya oblast'</i>

Source: Adapted from Tilebaldinov, 2008; Kazakhstan Public-Private Partnership Centre, 2011; Regional Centre for Public-Private Partnership of the *Karagandinskaya Oblast'*, 2011.

governments assumed the public sector partner role.

These organisational arrangements and the current on-hold status of PPP projects demonstrate the dominance of the public partner and the reluctance or inability of private partners to accept larger risks. A project cannot begin or continue without extensive government financial support. For example, in the power-generating station construction project (#6), 20 per cent of the funding was to come from the public sector partner, 70 per cent from loans, and only 10 per cent from the private partner (Union.kz, 2009). Heavy reliance on government financial involvement both in Kazakhstan and in Russia is one of the key characteristics of a PPP in these countries. This confirms the different nature of a partnership in the context of these two countries. One can contrast them with the approach that OECD countries take, particularly in relation to risk sharing.

In Russia, PPP operations are broader and include transportation (both railroads and toll roads, airport construction and management, sea ports); urban and regional infrastructure, such as reconstruction of a water supply system in Perm (i.e., the *Permskaya oblast'*); construction of water purification facilities, such as in Petrozavodsk and the Republic of Karelia; construction of refuse recycling plants, such as in Yanino (i.e., the *Leningradskaya oblast'*); the creation of special economic zones for recreation and tourism, such as in the *Stavropolskaya oblast'* and a similar project in the Republic of Altay; and housing construction, such as the '*Simbirskoe Koltso*' in the *Ulyanovskaya oblast'* and a similar project in the '*Krasnoyarskaya oblast'*'. Additionally, the PPP project lists at the federal, regional, and municipal levels include

projects involving oil extraction and refining, centralised urban heating systems, construction of agricultural facilities, and creation of special economic zones for innovation and technological development (Public-Private Partnerships in Russia, 2010). One can attribute the much longer PPP lists in Russia to the country's larger economy, a more active collaboration between all levels of government and private businesses, as well as to the government's broader understanding of PPPs.

2.10.2 Internal and external PPP drivers in Kazakhstan and Russia¹

The Russian language literature normally lacks the discussion of background for partnerships. Instead, the literature usually underscores three items: many Western as well as transitional countries broadly use partnerships; PPPs are associated with perceived benefits (which section 2.10.5 of this literature review will discuss); and governments in Kazakhstan and Russia have already approved PPPs as a policy tool for the long run. The Russian language literature uses these three arguments as a typical justification for partnerships.

Nevertheless, some insights regarding the background for PPPs are available: some researchers argue that effective cooperation between government, business and civic groups in Russia is lagging behind that of industrialised nations, and is likely to be at the very beginning stage (Alpatov *et al.*, 2010: 17). The same applies to Kazakhstan, perhaps to the higher extent, due to authoritarian trends in government and underdevelopment of the civil society.

Many authors claim that there is a general lack of trust between the business community and government (Kabashkin, 2010; Pankratov, 2010: 86; Varnavskiy *et al.*, 2010), which means that private companies often are not interested in engaging in long term cooperation with the public sector. Hence, researchers can consider lack of trust between businesses and government as the background for PPPs. To reverse this

¹ The text of this Section 2.10.2 embracing Sections 2.10.2a and 2.10.2b has been included in the article that the author has published in *Organisations and Markets in Emerging Economies* (Mouraviev, 2012). The author certifies that the text in this section is his original contribution to the thesis.

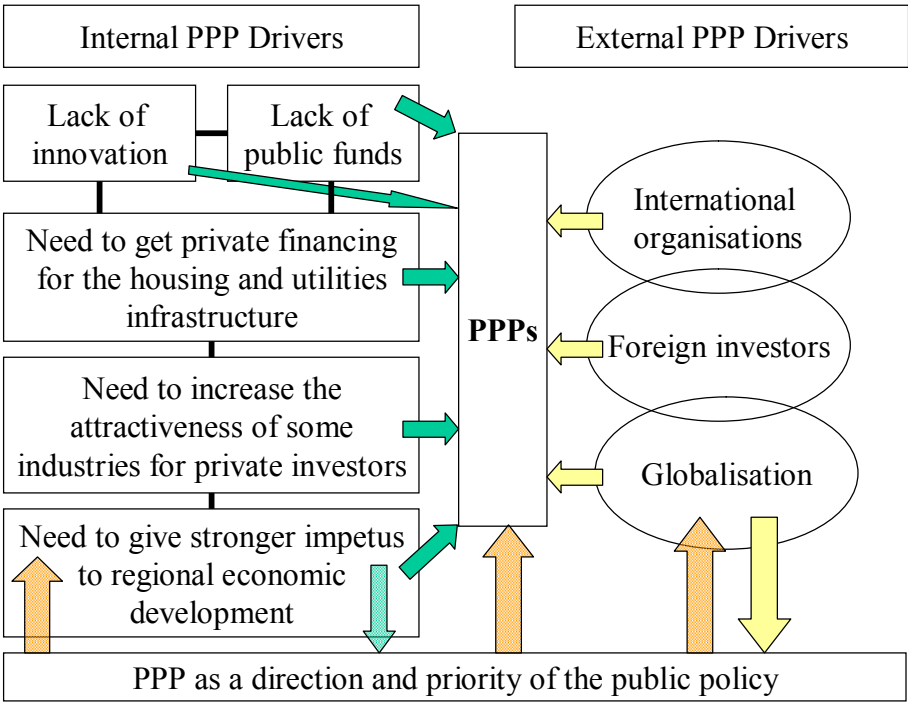
situation, the government and scholars view partnerships as a policy tool that would ensure closer collaboration between the public sector and the private sector.

However, it is insufficient to explain PPP development in Russia and Kazakhstan exclusively by the government approval of partnerships as a policy tool. In order to understand what factors contribute to the enhanced employment of partnerships, it would be useful to identify principal internal and external PPP drivers, which is the purpose of this section.

Figure 2.2 summarises PPP drivers as follows. They are divided in two groups – internal and external. There are five internal and three principal external drivers. Figure 2.2 depicts PPPs as a priority tool in the government development policy as a background factor that supports and enhances other drivers, both internal and external.

Figure 2.2 shows interrelations between the factors that drive the PPP development. For example, there is a certain pressure on governments in Russia and Kazakhstan from foreign investors supported by international organisations. In turn, this enhances the

Figure 2.2 Internal and external PPP drivers in Kazakhstan and Russia



Source: Compiled by the author

influence of globalisation processes on the public policy in the direction of broader employment of partnerships. At the same time certain public policy actions, such as selection of a concession as a preferred PPP form, aim to align Kazakhstan and Russia with perceived globalisation processes.

All drivers that Figure 2.2 depicts are discussed in detail below.

2.10.2a Internal PPP drivers

The discussion of internal factors that act as stimuli to the enhanced employment of partnerships in the Russian language literature is normally brief and does not involve elaborate justification of any of the factors. In other words, the literature considers PPP drivers as a given, obvious and not subject for an extensive debate. One can explain this by the notion that the strongest internal PPP driver in both Kazakhstan and Russia is the public policy that includes statements regarding the PPP employment as the government priority in collaboration with the private sector for the long run.

In particular, in the Conception for the Long-Term Social and Economic Development of the Russian Federation to 2020, which was approved by the Russian government in 2008, the government has determined a broad development of institutions and tools of public-private partnerships as a strategic direction (Alpatov *et al.*, 2010: 7). In 2008, the Kazakhstani government approved the Conception for Development of Public-Private Partnerships for 2009-2015. Similarly to Russia, this policy document has assigned a priority to the expansion of sectors for PPP employment as well as to the need for expanded use of various partnership tools and mechanisms (Conception for Development of Public-Private Partnerships in the Republic of Kazakhstan for 2009-2015, 2008: 18-19). In addition to railroads and the energy sector, the document calls for the use of PPPs in such sectors as water supply, education, health care, penitentiary system, utilities and housing infrastructure and urban transport infrastructure.

In turn, the public policy as an internal driver of a comprehensive nature is grounded in other, more specific drivers. Among these drivers, two are traditional for many countries in the world. They include lack of public funding and the intention to

obtain greater access to private funds; and lack of new technology and related anticipation that private firms will bring along technological, management and other kinds of innovation (Alpatov *et al.*, 2010: 16-17; Kabashkin, 2010: 9-11, 18-19, 30; Pankratov, 2010: 32; Varnavskiy *et al.*, 2010: 29-30).

Three other drivers are more relevant to the Russian and Kazakhstani context. They include the need to receive private financing specifically for upgrading the housing and utilities infrastructure; the need to increase investment attractiveness of selected industries; and the need to give stronger impetus to regional economic development.

A Need to Obtain Private Financing for Utilities and Housing Infrastructure

As Figure 2.2 shows, one internal factor is the assumption that scholars and policymakers commonly share – that PPPs may improve conditions in the housing sector which includes housing itself and housing and utilities infrastructure, such as water and energy supply, sewerage, supply of natural gas and heating systems (Kabashkin, 2010: 14, 17). This requires additional comments as follows.

As most people in both countries live in apartments, not individual homes, during the Soviet era all these systems were designed as centralised, meaning that service delivery originates from some central source that a government agency historically owns and manages. A typical illustration of the centralised service delivery is apartment heating. Aside from water for household needs, a family in its apartment receives from the centralised water heating service hot water that runs in heating units in each room. For this heating service a family pays a public agency a monthly flat fee. As these facilities were built in Russia and Kazakhstan 50-60 or more years ago, they have become outdated and require extensive renovation and upgrading. As a result, the need to obtain private investment in housing and utilities infrastructure is often the major driving factor for those in favour of PPPs (Kabashkin, 2010: 29-30).

A Need to Increase Attractiveness of Selected Industries to Private Investors

One more internal PPP driver also has a country-specific nature and applies to both nations. The government, with PPP help, aims to increase the attractiveness of selected

industries to private investors. Naturally, this driver is closely connected with the first one as the housing and utilities infrastructure is the sector that needs private investment the most.

However, the range of industries that would significantly benefit from private investment is broader and includes railroads, automobile roads, regional and local airports, health care, childcare, sports and recreation and education.

To raise a project's financial attractiveness in a selected industry means, according to the Russian language literature, that the government should pay part of the project cost (Pankratov, 2010: 88). Some authors assert that government support of a PPP project should be, as a rule, extensive and may take many forms such as a subsidy to a private partner's capital expenditure, periodic payments to an operator, tariff subsidies (i.e., citizens pay part of the tariff, whilst the government pays another part) and government guarantees for a private partner's loans and bonds (Pankratov, 2010; Varnavskiy *et al.*, 2010). Pankratov (2010: 80) suggests that the government should play the role of a guarantor in a PPP.

Similarly, other researchers argue that extensive government financial involvement in a partnership is one of the principles of PPP formation and operation (Varnavskiy *et al.*, 2010: 26). Although calling government financial support to a private partner 'a principle' seems to be lacking justification as this significantly increases public sector risks and costs and may undermine partnership's value for money, this approach is indicative of the typical understanding of the role that the government in Kazakhstan and Russia is supposed to play in a PPP, specifically from the financial point of view.

A Need to Give a Stronger Impetus to Regional Economic Development

Yet another country-specific PPP driver is the need to give – with the use of partnerships – the greater impetus to the development of regions (as opposed to projects aimed at improvements in major cities such as renovation of airports or construction of bridges and tunnels). This task is common for both Kazakhstan and Russia (Alpatov *et al.*, 2010: 26; Pankratov, 2010: 96; Varnavskiy *et al.*, 2010: 180-194).

The policy response to this need is that both countries currently are pushing for the formation of regional government-owned PPP centres that would provide institutional

structure for project selection, preparation and implementation monitoring. As of January 2011, 15 regions in Russia (out of 83 regions total) have formed PPP centres (Bazhenov, 2011: 11), although only one has been formed in Kazakhstan – Regional PPP Centre of the *Karagandinskaya oblast'* (Regional Centre for Public-Private Partnerships of the *Karagandinskaya Oblast'*, 2011). Regional PPP centres aim to integrate with regional governments in order to ensure more effective and faster project selection and, ultimately, faster economic development. Overall, the government assigned PPP centres the task to facilitate the formation of regional partnerships by guiding participants through the preparation and project approval process and helping them to arrange proper financing.

2.10.2b External PPP drivers

In addition to internal drivers, three external factors spur PPP employment. They include influence of international organisations, pressure from foreign investors and, more generally, globalisation impulses.

Impact of International Organisations

In Russia, the impact of international organisations has concentrated on the joint project of the United Nations Development Program (UNDP) and the Russian government-owned *Vnesheconombank*. One of the departments of the latter is the national PPP Centre which serves as the government financing and coordinating vehicle for partnership development. Designed for five years from 2010 to 2014, the joint UNDP-*Vnesheconombank* project aims to develop Russia's potential for PPP projects. Its activities include staff training, consulting and providing assistance to regional PPP centres, and preparation of the model projects in water supply, refuse management, energy supply, transport infrastructure and social infrastructure. In addition, the project aims to give recommendations regarding drafting regional laws and regulations that would allow extensive employment of PPPs (United Nations Development Program, 2009: 3-4). Although it is premature to evaluate the project's impact, its goals clearly address the core impediments to development of partnerships in Russia, i.e., virtual

absence of regional legislation governing PPPs, lack of qualified staff and lack of pilot projects, the experience of which would allow the government to employ some typical financing and management solutions tailored to a certain sector, such as water supply.

The same core impediments also exist in Kazakhstan, although no international organisation has come up yet with a similar PPP development project. It is worth noting that the UNDP project in Russia has an additional goal of contributing to the formation of the Regional PPP Centre for the Countries of the Commonwealth of Independent States (CIS). The project has acknowledged Russia's growing role in the CIS and intends to use the Russian experience for promoting PPPs in other CIS countries including Kazakhstan (United Nations Development Program, 2009: 5).

The Asian Development Bank (ADB) included Kazakhstan in its technical assistance project (2010-2012) aimed at preparing road maps for Central and West Asia in three sectors including energy, transport, and urban services (Asian Development Bank, 2010). ADB defines a road map as a strategic plan for both ADB and the government, which will enable better decisions to provide innovative solutions to sector challenges.

Describing these challenges and the need for technical assistance, the ADB report states that 'reforms are needed to improve the efficiency of service provision and to allow the private sector to participate' (Asian Development Bank, 2010: 1). Among its goals, ADB claims the improvement in 'delivery of infrastructure services that will create an enabling environment for public-private partnerships and private sector engagement' (Asian Development Bank, 2010: 3). As ADB works in tight collaboration with national governments, and, in addition, the Kazakhstani government co-finances this project, it is fair to argue that the ADB goals are synchronised with those of Kazakhstani public policy. Thus, this international financial institution is likely to impact Kazakhstan in the direction of increased employment of partnerships.

Pressure from Foreign Investors

Another external PPP driver is pressure that comes from foreign investors who are interested in using new business opportunities in transitional countries. The use of foreign investors in Russia and Kazakhstan possesses a number of advantages: foreign

firms may bring along the expertise that domestic companies lack, and financing can be arranged easier through foreign banks and access to foreign capital markets.

An example of foreign investment in PPPs in Russia is Northern Capital Gateway – an international consortium that includes Fraport AG Company (Germany), a leading worldwide operator of airports, Greek investment group Copelouzos and the Russian bank VTB Capital (Northern Capital Gateway, 2010). The consortium won a contract for re-construction and operation of *Pulkovo* airport in St Petersburg, Russia, and the project has commenced in April 2010.

In 2007, a Turkish company, *ATM Grup Uluslararası Havalimanı Yapım Yatırım ve İşletme Ltd Sti*, won a contract for one of the first PPP projects in Kazakhstan – a concession for 28 years that includes the construction and operation of an international airport passenger terminal in the city of Aktau (Kazakhstan Today, 2009). In 2011, another Turkish company, *7 Piramit*, won a contract for construction and operation of eleven kindergartens in the city of Karaganda – the first Kazakhstani concession in the social sphere. These examples show the interest of foreign investors in using the newly opened opportunities in Russia and Kazakhstan.

Integration with the Globalisation Processes

Finally, one can attribute a significant role in sending external impulses to PPP development in Kazakhstan and Russia to globalisation processes. The interest of the two countries in globalisation manifests itself as a general intention in those countries to align their policies, processes and tools in both the public and private sectors with international trends. Kazakhstan and Russia perceive the growing employment of PPPs in many countries around the world as one of those trends. Alpatov *et al.* (2010: 26) assert that Russia's integration with the world economy is one of the PPPs' main goals. The Russian language literature argues that the connections between PPPs and globalisation are developing in two directions: globalisation calls for the enhanced employment of partnerships, especially in transitional countries, such as Russia and Kazakhstan, because the government perceives PPPs as an internationally recognised tool; and partnerships serve as an impetus for further development of globalisation processes. Researchers explain the latter by two factors: increased use of foreign

investment in domestic PPPs is a sign of openness and internationalisation, and the government support of domestic private companies that seek participation in PPPs in other countries is also part of globalisation (Pankratov, 2010: 30-32).

The impact of globalisation impulses becomes more evident with regards to the use of concessions: not only do the governments in Kazakhstan and Russia deem PPPs as a global trend; furthermore, the governments in the two countries deem a prevailing use of concessions, as opposed to other PPP forms, as an international trend as well. Section 2.10.4 of this literature review will discuss the reasons behind the focus on concessions, in connection with globalisation impulses.

In summary, internal and external PPP drivers in Kazakhstan and Russia possess similar characteristics without any major discrepancies between the two countries. Many drivers are intertwined with and supported by a respective country's public policy, which has determined PPPs as a priority tool for developing long-term collaboration between government and business. The following section highlights the public policy approaches to PPPs in the two countries.

2.10.3 Public policy approaches to PPPs in Kazakhstan and Russia¹

When Russian government agencies and officials discuss public-private partnerships, they broadly categorise them as follows:

- a) concessions (Section 2.10.4 will discuss the nature of a concession in Kazakhstan and Russia);
- b) projects funded by the Investment Fund of the Russian Federation, which is the Russian federal government's financing channel; and

¹ The author wrote the text of this section in 2011-2012. Later, this text was included in the article co-authored with Nada Kakabadse and Izabela Robinson, which *International Journal of Public Administration* published in June 2012 (Mouraviev *et al.*, 2012). The author certifies that the text in this section is his original contribution to the thesis.

c) special economic zones, which are areas that enjoy more liberal taxation provisions and other privileges for businesses according to Russian legislation (Public-Private Partnerships in Russia, 2010).

These three broad categories are indicative of a government approach to partnerships which has two dimensions. One is understanding ‘partnership’ as a generic term for enhanced public-private collaboration; the other is understanding partnership as a specific project. These dimensions overlap in various government policy documents and classifications and can result in confusion and misunderstanding.

The term ‘partnership’, particularly in Russia, is a generic term for closer collaboration between government and business. It is a notion that emphasises the importance of public-private cooperation in many different forms and ways as a tool for social and economic development at the national, regional and municipal levels (Varnavskiy *et al.*, 2010: 12). This explains why the Russian government considers, for example, special economic zones as a form of partnership. A special economic zone is a powerful way to boost the economy in a particular area by providing preferential treatment and tax incentives for private firms in order to facilitate investment. However, the creation of such a zone implies the design of special rules and regulations for businesses that will be operating in the zone rather than a specific partnership project with one or few companies. Nevertheless, based on the idea of intensified collaboration with the private sector, the Russian government’s understanding of the term ‘partnership’ includes special economic zones. Similarly, projects of the Russian Investment Fund are large-scale projects that the federal government selects and funds. For regional projects, the government may extend this funding only in the form of a federal subsidy to the regional government. Nevertheless, as these projects mean greater cooperation with private firms, from the government perspective, these projects fall into the PPP category (Varnavskiy *et al.*, 2010: 37-39).

An alternative view of PPPs is that a partnership is a specific project. However, when it comes down to the discussion of PPP forms, the use of the term ‘PPP’ again becomes confusing. Within a classification of PPP forms, one can understand a partnership in different ways, again embracing a PPP as a term for enhanced

collaboration and a PPP as contract. Officially, PPP forms in Russia include (Varnavskiy, 2004; Glumov, 2009; Varnavskiy *et al.*, 2010: 37):

- all kinds of short-term contracts (service contracts, management contracts, technical assistance contracts, procurement contracts);
- rental (or leasing) contracts when government rents out an asset - a building, an office, a production facility or equipment - to a private company and receives a rental fee;
- production sharing agreements. Based on the Federal Law of 1995 and designed mostly for the oil and gas sector, these contracts specify that the government gives a private company a permit for the use of the certain territory for a fixed period of time. A private firm makes all the investment related to natural resource exploration and extraction, and part of the output belongs to the government;
- public-private corporations in which private participation is in the form of stock ownership. These range from major companies such as Gazprom (the largest Russian oil and gas company) and Sberbank (the largest Russian bank) to smaller regional and municipal companies. Both private companies and individuals may own stock shares; however, the controlling interest is in the hands of the government; and
- concessions (see separate discussion below in Section 2.10.4).

Table 2.2 summarises the meaning and key features of a PPP in the Western literature as opposed to Russia and Kazakhstan.

Table 2.2 Understanding and features of a PPP

PPP in Western Literature	PPP or Concession in Russia	PPP or Concession in Kazakhstan
<ul style="list-style-type: none"> • Mutuality • The joint contribution of resources for the common goal • Asset construction or renovation by a private party which then uses this asset in order to provide services • Use of private companies for the delivery of public services • Shared risk allocation between 	<ul style="list-style-type: none"> • PPP is broad form of public-private collaboration • Special economic zones with tax and other privileges for private firms • Investment contracts with participation of the Federal Investment Fund and private companies • Many public-private corporations are not involved 	<ul style="list-style-type: none"> • PPP is a project • Only one form of PPP – a concession – is used • Extensive government financial support to a PPP is allowed and expected • Only one PPP model is used: build-transfer-maintain

parties <ul style="list-style-type: none"> • Shared responsibility of partners • Multiple PPP forms (a concession, private finance initiative, asset life-cycle contract) • Multiple PPP models (including all or some of the elements such as: design-build-finance-operate-maintain-own-transfer) 	in the provision of public services <ul style="list-style-type: none"> • Private investors normally have no influence on the public-private corporation's business policy • A production sharing agreement shifts all the business risk to a private partner • Short-term contracts are a simple way of hiring a private party for a specific purpose • Also, PPP can be a project such as a concession • Only one PPP model is used: build-transfer-maintain • Extensive government financial support to a PPP is allowed and expected 	
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Source: Compiled by the author

In Russia, the broader interpretation of a partnership to include almost any kind of public-private cooperation allows the government to claim that the country is implementing a large number of PPPs. Other PPP forms, according to the official approach, such as the creation of special economic zones with tax and other privileges for private firms, and investment contracts with the participation of the Federal Investment Fund and private companies, are even further from the understanding of PPPs that the Western literature presents. Key partnership elements – mutuality, the joint contribution of resources for the common goal, use of private companies for the delivery of public services and shared risk allocation between parties – often appear to be missing and/or downplayed in the Russian approach. For example, in public-private corporations, private investors normally have no influence on the corporation's business policy, and many of those companies (such as Sberbank and Gazprom) are not involved in the provision of public services. A production sharing agreement shifts all the business risk to a private partner and the government role is limited to issuing a permit for the use of a piece of land which may or may not have some natural resources. The

government does not bear any risk. Short-term contracts, such as renovation of a water purification facility, or procurement contracts, often do not involve the use of government resources and are a simple way of hiring a private party for a specific purpose (Mouraviev *et al.*, 2012: 413-415).

In Kazakhstan the understanding of a PPP over the past few years has narrowed down to a concession. All current PPP projects in Kazakhstan are implemented in the form of a concession, and those that are prepared and are waiting for government approval (e.g. regional projects in the *Karagandinskaya oblast'* in the Northern part of Kazakhstan) are concessions as well (Regional Centre for Public-Private Partnership of the *Karagandinskaya Oblast'*, 2011).

Despite discrepancies in meaning and approach when compared with OECD countries, both Kazakhstan and Russia are keen on the use of concessions. The rationale for public policy in Kazakhstan and Russia regarding PPPs is the general intention to become closer to international standards and to adopt perceived 'best practice' standards. Whilst both countries become more open economically and politically, they use this typical justification for policy changes and actions and apply it to many sectors. For example, Kazakhstan is making the transition to a 12-year school education despite widespread public concern. In an effort to respond to globalisation impulses, Kazakhstan's government also approved a change to a three-tier academic degree structure – Bachelor's, Master's, Ph.D. – despite widespread concerns about the quality of education. Claiming globalisation as a goal of their educational reforms, both Russia and Kazakhstan have officially joined the Bologna process which aims at harmonising higher education in Europe. In July 2010, Russia and Kazakhstan entered a customs union in a controversial attempt to follow international trends in enhancing regional economic integration which they later invited Belarus, Kyrgyzstan and Ukraine to join. Russia and Kazakhstan are striving for other countries to perceive them positively as they attempt to formulate policies and practices and create institutions that are in line with those of industrialised countries and western orthodoxy of best practice. This incentive drives many policy actions including PPP policy (Mouraviev *et al.*, 2012: 416).

2.10.4 Concessions in Kazakhstan and Russia¹

This section discusses the meaning, nature and application of a concession as a preferred PPP form in Kazakhstan and Russia in order to set a context for further investigation of PPP management.

According to the Russian and Kazakhstani laws, a concession is a long-term arrangement when a private partner builds and operates an asset at its own expense, whilst property ownership belongs to the government from the moment a private partner completes the asset construction. A standard arrangement in OECD countries implies that a private company uses an asset to provide services, and in return for its investment, a private partner receives service fees from the population, which allows it to cover the project costs and make a profit.

In a search for better, more effective PPP policy instruments, both countries from 2005 are paying greater attention to concessions. As Kazakhstan exclusively uses a concession as a form of a PPP, and Russia puts strong emphasis on concessions, it is worth explaining when and why concessions became the focus of public policy in those countries.

In Russia, the legislature in the 1990s discussed a number of drafts of the law on concessions. However, the federal government finally passed the law ‘On Concessional Agreements’ in 2005. Although a major step forward in creating a legislative framework for concessions, there were no concessions until 2008, when the government approved subsequent amendments to this law. From 2008, the preparation of concession agreements became more intense, although until the beginning of 2009 the number of concessions still remained small. As of 30 January 2009, there were 23 concessions in Russia, with terms between 5 and 49 years, and all of them were at the municipal level

¹ The author wrote the text of this section in 2011-2012. Later, this text was included in the article co-authored with Nada Kakabadse and Izabela Robinson, which *International Journal of Public Administration* published in June 2012 (Mouraviev *et al.*, 2012). The author certifies that the text in this section is his original contribution to the thesis.

(Varnavskiy *et al.*, 2010: 47). They included power and heat generation projects, water supply and sewerage systems, waste utilisation facilities and sports projects.

As of January 2011, there were 200 concessions at the municipal level in Russia. In addition, there were two concessions at the regional level and two at the federal level (Bazhenov, 2011: 6). Table 2.3 summarises the rapid growth in the number of concessions.

Table 2.3 Number of concessions in Russia, 2009-2011

	January 2009	January 2011
Federal level	0	2
Regional level	0	2
Municipal level	23	200

Source: Compiled by the author from Varnavskiy *et al.*, 2010: 47; Bazhenov, 2011: 6.

The dramatic increase in the number of concessions over just two years, as Table 2.3 shows, illustrates the direction of the public policy aimed at enhanced employment of partnerships, particularly at the municipal and regional levels, although the latter is clearly lagging behind the former. Regional projects are likely to be larger and more expensive than municipal. Difficulties with finding investors and obtaining financing explain the slower growth in the number of regional partnerships.

Kazakhstan passed a similar national law on concessions in July 2006, although the government approved two concessions in 2005, possibly, as pilot projects on an experimental basis. These two projects included a railroad in Eastern Kazakhstan between the station of Shar and the city of Ust-Kamenogorsk (approved in July 2005, with the concession term of 23 years, until 2028), and construction and operation of an inter-regional electrical grid between Northern Kazakhstan and the Aktobe region, approved in December 2005, with a 17 year concession term, until 2022 (Tilebaldinov, 2008).

It is worth noting that the existing legislation in Russia and Kazakhstan allows governments to provide additional forms of support to a concessionaire, which makes the understanding of a concession quite different from the typical approach in OECD countries. For example, Article 14 of the Law on concessions in Kazakhstan says that government can (a) co-finance concession projects, and (b) compensate some investment expenses of a concessionaire during the concession period. This amendment to the original law was made in 2008, to address concerns that PPP projects were financially unattractive to private companies. The same Article says that the total monetary value of government support to a concessionaire should not exceed the total cost of an asset constructed by a private company. In other words, this provision includes a possibility that the government will pay all the private partner's investment expenses whilst the population (customers) may pay some amount or even nothing.

Similarly, in Russia the law allows the government to pay part of the investment cost of private companies. An example of government support to a private company is the concession contract signed by the Russia's Federal Road Agency on 17 July 2009. This concession includes construction of a road which will link one of the federal highways (which is called M-1 'Belarus' and runs from Moscow to Minsk) with a ring road around Moscow. The concession term is 30 years and the total cost of construction is 25.7 billion Russian rubles (USD \$857 million). The Russian Federal Investment Fund will pay 11 billion rubles (\$367 million) which is more than 42 per cent of the total project cost. A concessionaire will pay the remainder (Varnavskiy *et al.*, 2010: 48).

Undoubtedly, economic and political reasons for PPPs in Russia and Kazakhstan exist. Many of them stem from the onset of the 2008-2009 economic crisis.

In 2009, total funding from Russia's Investment Fund decreased from 113 billion rubles (\$3.77 billion) to 64 billion rubles (\$2.13 billion) due to budgetary constraints, and the number of investment projects including PPPs dropped from 21 to 15 (Varnavskiy *et al.*, 2010: 170). Governments in both countries in 2008-2010 experienced larger budget deficits than in pre-crisis years coupled with a general long-term policy goal aimed at reducing the tax burden and providing more social benefits to people. For example, in 2009, value-added tax in Kazakhstan decreased from 13 per

cent to 12 per cent as a part of the long-term taxation policy. During the time of economic decline this further decreased total government revenues.

In 2009, i.e., in the midst of the economic crisis accompanied by growing budget deficit, the Russian government decided not to cancel its original intention to raise pensions and proceeded with its long-term plan of increasing retired people's incomes. As a result, many regional and municipal budgets substantially decreased (Gusev, 2009) as those budgets are formed mostly by transfers from the federal government, which faced growing expenses and consequently, experienced a rising budget deficit. Similarly, budgets in regions and municipalities in Kazakhstan decreased as there is no regional and municipal tax structure in place. Both Kazakhstan and Russia have a high degree of fiscal centralisation, thus most of the tax revenue is in the hands of the national government. In the light of shrinking national, regional and municipal budgets in a time of economic downturn, governments in both countries paid greater attention to concessions as a tool to obtain private funding in order to implement public tasks. It is no surprise that the government focus coincides with the approval of the Kazakhstani law on concessions and Russian amendments to the law on concessions. These legislative acts gave a stronger impetus to the use of concessions in both countries (Mouraviev *et al.*, 2012: 415-416).

2.10.5 The Russian language literature regarding PPPs: Focus areas

This section provides an overview of the Russian language literature about PPPs in Kazakhstan and Russia and topics on which the literature focuses. The subsequent section (2.10.6) identifies specific themes and issues in the PPP management literature. The following section (2.10.7) reveals gaps and weaknesses in the literature.

As the PPP experience is limited in both countries, the number of scholarly publications is very small. Among commonly discussed topics, PPP advantages are by far the most popular. However, this discussion mostly highlights the items that the Western literature already has identified, whilst additional scholarly contribution is lacking.

For example, the Russian language literature and policy documents in Russia and Kazakhstan likewise emphasise the PPP value for money and add a related feature, namely the lack of public funding, which PPPs permit to overcome (Varnavskiy, 2004; Zusman, 2008; Azizov, 2009; Glumov, 2009; Gusev, 2009). PPP advocates endorse the persuasive argument that people will either obtain some public services with the use of private partners and private funds, or not. However, in the abovementioned sources the discussion of PPP value for money switches to the following perspective: scholars understand VfM as the partnerships' ability to deliver public services instead of the government (in other words, no PPP means no public service, due to lack of government funds). Although this argument – out of many others - in favour of PPPs is valid, using it as a single dominating factor in favour of partnerships is debatable, and is not in line with the Western literature regarding the nature of VfM (see discussion in Section 2.4 regarding reasons for partnering).

The Russian language literature extensively discusses the benefits of concessions and identifies at least four of them. First, long-term arrangements allow both partners to strategically plan their activities. Second, a private partner has a high degree of autonomy and flexibility in making business decisions, which may increase the project efficiency. Third, in the framework set by a concessional contract and general legislation, the government can discipline a private partner if it violates the concession's terms, for example, by not releasing payments to a private firm. This may be particularly useful for the protection of the public interests. Fourth, a concession implies a temporary use of an asset by a private partner whilst the property ownership remains with the government (Varnavskiy, 2004; Zusman, 2008; Gusev, 2009).

The literature normally discusses the above noted and other PPP advantages as a given, and the highlights often lack theoretical arguments and empirical evidence. For example, the literature often cites technological innovation as a major advantage of partnerships, i.e., a PPP may provide a technological breakthrough stemming from the intention to cut costs and increase profits. However, no particular evidence from Russia and Kazakhstan can support this at the present time.

As opposed to the discussion of PPP advantages that is often quite extensive and may take pages of text, the literature normally does not pay adequate attention to PPP

drawbacks and limits a description to one or two paragraphs. Overall, one can characterise the discussion in the Russian language literature as euphoria regarding partnerships, with high expectations about their performance. This approach lacks justification because the partnerships' failures and performance problems are fairly common in OECD countries. Also, the biased approach creates a distorted picture of PPPs by claiming that this form of public-private collaboration is most effective in many respects as it ensures reliable service delivery, rational use of public funds and innovation.

Another common topic is how, in which direction to amend legal provisions that determine the PPP contract terms. Both PPP policy documents in Russia and Kazakhstan, such as the laws on concessions in each country, and the Russian language literature emphasise a contract as the main and only document that ensures successful management for the partnership's duration. Many Russian and Kazakhstani scholars (Zusman, 2008; Azizov, 2009; Glumov, 2009; Gusev, 2009) conclude their studies with observations that the major reason for PPP shortfalls, both existing and potential, is that PPP-governing laws and regulations are underdeveloped, lack specifics and include 'grey areas' that are subject to differing interpretations. The most common conclusion is that the law on concessions in each country and other PPP-related laws and regulations require further improvement.

For example, Glumov (2009) emphasises the need to draft a law on PPPs that would set the guiding principles and legal basis for PPP formation and management specifically for Russia's regions (*oblasti*), rather than at the federal level. This law would allow regional governments to use legally-defined procedures and instruments to initiate PPP projects, select a private partner and know how far they can extend their own participation.

The extensive part of PPP literature in Russia devotes itself to special economic zones, projects financed by Russia's Investment Fund and to semi-government corporations with private stock ownership. This is because, as Section 2.10.3 discussed earlier, the government understanding of partnerships includes these three categories. As a result, about half of the PPP literature in Russia devotes itself to forms of public-

private collaboration, other than project-based PPPs. This is in sharp contrast with the Western literature which almost exclusively devotes itself to project-based partnerships.

Finally, it is worth identifying some neglected areas of PPP studies in the Russian language literature. They include research regarding specific PPP projects; PPP governance and partner interaction; and stakeholder interests and operating environments. Additionally, PPP shortfalls deserve further elaboration in the Russian and Kazakhstani context, given that the experience of the two countries with PPPs is relatively new and limited. Also, although some studies address risk management in PPPs, there is room for significant expansion in this research area.

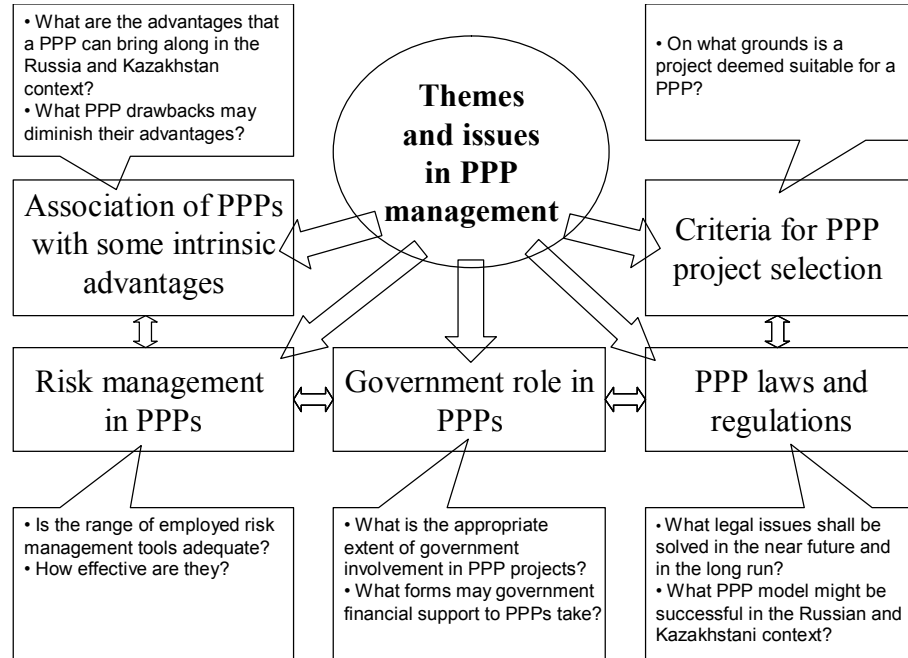
In general, PPP management studies that the Russian language literature reflects are in their infancy. No specific study has examined the aspects and determinants of relationship quality in PPPs in Kazakhstan and Russia, partner interaction, risk management and overall partnership performance.

2.10.6 The Russian language literature: PPP management themes

Having described the topics that draw attention of the Russian language literature in the area of public-private partnerships, this section discusses specific themes and issues related to PPP management that the literature identifies. The next section highlights the gaps and weaknesses in the literature.

The Russian language literature considers a number of issues in PPP management in Russia and Kazakhstan. Although the range of issues is quite broad and diverse, one can categorise them by the following themes: (1) the nature of government involvement in partnerships and the extent of government support to PPPs; (2) risk management in PPPs; (3) legal and other practical issues that address existing drawbacks in PPP regulations, and suggestions how to improve PPP formation and management; (4) issues stemming from automatic, although often unjustified, association of PPPs with some advantages; and (5) criteria for PPP project selection. Figure 2.3 summarises these themes and issues.

Figure 2.3 Themes and issues in PPP management outlined in the literature



Source: Compiled by the author

Figure 2.3 highlights the five main themes in PPP management that the literature discusses, as well as the main issues within each theme. Naturally, each theme is intertwined with all others, although the figure shows the connection with the neighbouring theme(s) only. In addition, issues within each theme are interconnected with issues from other themes, although the figure does not show this explicitly, because of graphical and space limitations and in order to keep the figure's structure clear. The discussion of themes and issues is provided below.

2.10.6a The nature and scope of government involvement in partnerships

The first theme includes issues regarding the nature and extent of government involvement in partnerships. In the Russian language literature, the project's *social significance* (Zusman, 2008; Azizov, 2009; Varnavskiy *et al.*, 2010) determines the nature of government involvement in PPPs. The Russian language literature claims that the government is not supposed to be involved in just any PPP project. In order to

justify the government participation in a partnership, a project has to be deemed socially significant. The latter means that a PPP should implement a project in a field or an industry that is significant for the population, such as health care or water provision, and the project results are supposed to have a positive influence on the standard of living by delivering some improvements for the people. However, the literature is silent regarding how exactly one can assess this significance and why one PPP project may be more significant than the other, and how one can measure the improvements for the population.

Additionally, the literature does not connect the project's social significance specifically to public services. In other words, the understanding of improvements that a PPP project is supposed to bring along is very broad and is not focused on anything in particular. The following example highlights this controversy. In the city of Karaganda, Kazakhstan, a PPP project targets the construction of 11 kindergartens, whilst another project aims at reconstruction of water purification facilities (Regional Centre for Public-Private Partnerships of the *Karagandinskaya Oblast'*, 2011). Another ongoing PPP project in Northern Kazakhstan aims at construction of power lines and transmission of electrical power across the region (Kazakhstan Public-Private Partnership Centre, 2012). The literature does not explain whether the social significance of the three above mentioned projects is equal to each other, and how their social significance differs from that of a PPP project that includes, for example, operation of a toll road.

The same theme includes issues related to government financial involvement in partnerships. The literature often underscores that the government should serve as a guarantor for a PPP project (Varnavskiy, 2004; Maksimov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2011a). This means that the government is supposed to issue guarantees for loans and other obligations for a private partner in a PPP. Yet another aspect restates and further develops the notion about the government's key role in a PPP: scholars assert that the government should expand all kinds of financial support to partnerships via all available channels (Tilebaldinov, 2008; Kabashkin, 2010; Pankratov, 2010; Varnavskiy *et al.*, 2010; Shabashevich, 2011). For example, the government may provide additional benefits to a PPP in the form of a subsidy, by

raising a tariff for PPP services above a pre-determined level, by waiving fines and fees related to delays with completion of some of the project's phases and by giving guarantees for infrastructure bonds that a private company may issue to finance a PPP project (Firsova, 2011b). The main justification for the enhanced government financial involvement is that this will increase the project's financial attractiveness to a private partner and the likelihood of launching a PPP (Chernyavskaya and Varnavsky, 2010).

2.10.6b Risk management in a PPP

The second theme that the Russian language literature discusses includes risk management in a partnership. Most often the literature understands risk management in a sense that risk should transfer from the public sector to the private sector (Varnavskiy, 2004; Gusev, 2009; Alpatov *et al.*, 2010; Varnavskiy *et al.*, 2010). This view becomes an issue since it contrasts the understanding of risk management in the Western literature, which argues that risk in a partnership should transfer to a party that is best able to manage it in the most cost effective manner (Section 2.8 of this literature has discussed principles of risk allocation in a PPP). In addition, as highlights of the first theme showed, many authors express a controversial suggestion that the government should enhance its financial support to PPPs by paying some project costs in various forms. Where government financial support to a partnership increases, government risks also increase. However, the Russian language literature does not view government enhanced involvement as a risk.

The literature largely downplays risk management. Most often it views risk management in a simplistic way: that the government should properly allocate risks between the partners before a project begins. In other words, the literature does not pay attention to dynamics of risk management: by disregarding risk management as a process, the literature emphasises exclusively initial risk allocation that parties specify in a contract at the time of PPP formation (Zusman, 2008; Azizov, 2009; Alpatov *et al.*, 2010).

2.10.6c PPP laws and regulations

The third theme in PPP management includes legal and other practical problems that stem from existing drawbacks in laws and regulations, and suggestions how to improve partnership formation and management. The theme concerns three issues: absence of regional PPP legislation; models that a PPP can take; and rights that partners in a PPP may possess.

With regards to the first concern the literature points out the virtual absence of legislation that would govern PPP formation and operation specifically at the regional and local, rather than the national levels. Regional (i.e., *oblast'*) and local governments often are reluctant to engage in a partnership because they are unaware how (in what forms and ways) and to what extent they can be involved in a PPP, for example, what resources and properties the government may use, what kinds of guarantees it may provide, what provisions a PPP contract may include and what kinds of approvals are necessary (Azizov, 2009; Glumov, 2009; Kabashkin, 2010; Pankratov, 2010; Bazhenov, 2011).

Another legislative issue concerns a model that a PPP can take. The Russian language literature shares an opinion that the existing – and the only – BTOM (build-transfer-operate-maintain) model is unsuccessful (Bazhenov, 2011). This is because private companies often are not interested in adequate investment in asset construction and its proper maintenance due to the legal requirement in both Russia and Kazakhstan that immediately upon completion of construction an asset ownership must transfer to the government. Private companies have a clear preference to own an asset during the project implementation, which creates stronger incentives for them to build, maintain and operate a property better. However, at present, private firms both in Russia and Kazakhstan are not allowed by law to own an asset constructed during a PPP project and must transfer property ownership to the government as soon as the partner has constructed an asset. Researchers suggest that a choice of PPP models should be legally available (Bazhenov, 2011).

It is worth noting that in existing PPP model and suggested models in Russia and Kazakhstan the project's design phase, normally marked by the letter D in a model

abbreviation, is missing because the government designs a project at its own expense. However, the literature does not identify the missing design phase, which the government has taken out of possible private partner involvement, as an issue. Hence, both scholars and the government largely downplay the importance of private initiative at the project design phase.

The third legislative issue is about partner rights in a PPP. The Russian language literature argues that each partner must have equal rights and this should be reflected in the legislation and implemented in practice (Zusman, 2008; Varnavskiy *et al.*, 2010). The notion about ensuring partners' equal rights stems from the lack of trust in the government that private companies often have and possible public partner dominance in a PPP (Kabashkin, 2010; Pankratov, 2010; Varnavskiy *et al.*, 2010). Although the literature deems these concerns as valid, it does not discuss what exactly private party's rights and privileges are missing, and/or what rights should be taken away from (or given to) the public sector partner.

2.10.6d Association of PPPs with intrinsic advantages

The fourth theme in PPP management literature includes claims that a PPP is instantly associated with at least two advantages that are intrinsic to partnerships. The first claim is that a partnership is a tool that brings along technological innovation. The second claim is that a PPP inherently carries greater efficiency due to the synergy effect.

The Russian language literature describes the link between PPPs and innovation as a claim that PPPs should be employed because they bring along technological innovation (Varnavskiy, 2004; Pankratov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2011b). However, this claim remains unjustified as innovations are in no way guaranteed. Furthermore, one should demonstrate that a certain partnership will produce innovation, and that the PPP technology will be truly innovative, rather than an incremental upgrade. In addition, one should identify the criteria of what constitutes technological innovation. For example, if in the beginning of the project a PPP employs highly efficient technology, which 20 years later becomes obsolete, although it remains

in a usable condition for another 10 years, are there enough arguments to claim that a PPP has brought along innovation?

Furthermore, the literature is silent that technological innovation may be costly, which leads to an increase in total PPP costs and, consequently, rising risks for both the government and a private partner.

The literature associates PPPs with yet another advantage - greater efficiency due to the synergy effect that stems from partner collaboration. The literature shares the notion that combining government resources with the private partner initiative driven by the profit motive, as well as with private sector funds and management expertise is likely to be advantageous (Zusman, 2008; Pankratov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2011a). However, there is no application of this notion to a specific project, and the explanation of why a certain PPP project may have greater efficiency (compared to the government in-house delivery) is often lacking.

At the same time, the literature is silent about overall PPP costs, i.e., aggregate costs of both the public sector and the private sector. As the literature does not view the overall PPP costs as a concern, this highlights an issue: participation in a partnership is likely to cost all parties more due to the following reasons. For example, a private partner normally obtains a loan at a higher interest rate than the government because a bank associates a private firm with greater risk; the government extends a subsidy that pays part of the project cost; or customers may face higher tariffs because the government may approve higher fees to ensure that revenue covers a private partner's expenses. In either case overall PPP costs increase. Greater PPP efficiency due to the synergy effect, therefore, becomes debatable.

Considering PPPs from the perspective of public policy and public management, it is worth noting that the Russian language literature is silent regarding concerns that the government, by engaging in a partnership, is likely to pay more as opposed to the cost of direct government provision or cost of contracting out.

2.10.6e Criteria for PPP project selection

The fifth theme of PPP management that the Russian language literature discusses concerns criteria for PPP project selection. Much like the previous theme, it is also linked to overall PPP costs and efficiency.

The Russian language literature is silent about transaction cost economics. Neither scholars, nor the government use this theory as a basis for deciding whether to form a PPP. Although overall PPP costs may be higher due to extensive government financial support to a partnership, expensive technology and the higher cost of a private partner's borrowing, nevertheless the literature claims that PPPs are a preferred form of collaboration between the public sector and the private sector in both Russia and Kazakhstan (Tilebaldinov, 2008; Kabashkin, 2010; Pankratov, 2010; Varnavskiy *et al.*, 2010; Bazhenov, 2011). This means that the literature in Russia and Kazakhstan accepts the notion that PPPs are associated with higher, not lower, total project costs (as opposed to the government in-house provision), although the Western literature argues the opposite. According to KPMG data, government financial support in Russia reaches 20 to 40 per cent of the total PPP project cost, which is significantly higher than in many other countries (10 to 20 per cent). KPMG data also show that the cost of contracting out in Russia is about 6 per cent less than the PPP cost (Shabashevich, 2011: 3-4). Why then do the Russian and Kazakhstani governments engage in PPPs?

Although the literature has identified this theme, it does not discuss the issues within the theme. The principal questions are as follows. What are criteria for PPP project selection in Kazakhstan and Russia? Are these criteria used consistently across different sectors and regions? Shall the government employ PPP project's social significance as the major criterion? If so, how will the government measure it? Shall the government use technological innovation as one of the criteria? Shall the government assign different weights or ranks to various criteria? In a broader sense, what are the implications of including some criteria and excluding others? The existing literature is silent with regards to all these questions.

The understanding of PPP themes and issues permits the researcher to identify the literature gaps that the next section highlights.

2.10.7 Gaps and weaknesses in the literature

The discussion of the principal themes in the PPP management literature available in Kazakhstan and Russia and identification of main issues within each theme allows the researcher to reveal literature gaps and weaknesses. This section considers the same five themes and summarises each theme, its issues and literature gaps in a table format.

2.10.7a Government involvement in partnerships

The first theme regarding the nature and scope of government involvement in PPPs features the following gaps and weaknesses. First, the literature is strongly biased toward large and increasing government financial support to partnerships. The literature recognises that often PPPs are not feasible without extensive government involvement that aims to make a project more attractive to the private sector partners. Additionally, the literature views the government financial support (such as guarantees for private loans) and other kinds of government participation in a project (such as active assistance to a private partner in purchasing land or in obtaining required licenses and permits) as a critical success factor that may significantly help a private partner implement a project. These views have limited focus and are unbalanced because the literature associates the government role with larger payments of PPP costs and with overcoming the government's own bureaucracy. Furthermore, calls for ever increasing government financial and administrative support to PPPs contradict another notion that the literature discusses, namely that partners should have equal rights and privileges in a PPP (see discussion in Section 2.10.6c above).

Whilst the first gap concerns the nature of government support to PPPs, the second gap refers to forms, methods and tools of government financial support. The weakness here is that discussion in the literature involves a limited number of existing and proposed forms and tools of government support. Most often they include direct government payment of part of the project cost; waivers of some fees for a private partner during the project implementation; guarantees for the private partner's loans; guarantees for private partner's bonds; exemptions to a private partner for payments of

finances (such as for construction delays); and raising service tariffs above the agreed upon levels. Although the government may use these tools for the benefit of a PPP project, the range of tools seems to be limited in scope, whilst other tools, such as tax exemptions or attraction of foreign investment, are beyond the current discussion. In addition, with regards to existing and suggested tools, the literature focuses on making government payments larger, rather than on creating incentives for a private partner for more efficient performance.

Table 2.4 summarises issues in this theme and relevant literature gaps.

Table 2.4 PPP Management Theme, Related Issues, and Gaps in the Literature Theme 1: Government Role in PPPs			
#	Theme	Principal Issues within the Theme	Gaps and Weaknesses in the Literature
1	Nature of government role in partnerships, extent of government support to PPPs	a) What is an appropriate (i.e. optimal) extent of government involvement in PPPs? b) What forms and methods may government support to PPPs take?	a) There is a strong bias in favour of ever increasing government support to PPPs b) The literature discusses a limited number of forms and tools of government financial support (e.g., a subsidy, fee waiver, government loan guarantees, increase in a tariff)

Source: Compiled by the author

2.10.7b Risk management

The literature gaps and weaknesses in the risk management theme are as follows.

First, the literature does not view government financial support to partnerships as risk. The literature uses a biased notion that PPPs should transfer risks from the public sector to the private sector regardless of the context.

Second, the literature discussion of risk management focuses exclusively on risk allocation when respective parties form a partnership and how to reflect this allocation

in a PPP contract. As a result, the literature disregards or downplays some risks, namely those that may occur in the distant future. The literature is silent regarding the ways and mechanisms of how to handle a certain unanticipated risk.

Third, the literature discussion that views risk management as a process of partner interaction over the entire length of a PPP project is missing. The dynamics of risk management, tools and mechanisms for risk mitigation are beyond the literature's scope. The literature is silent about partner interaction and the concept of relationship quality in a PPP.

Table 2.5 highlights the literature gaps and weaknesses in this theme.

Table 2.5 PPP Management Theme, Related Issues, and Gaps in the Literature. Theme 2: Risk Management in PPPs			
#	Theme	Principal Issues within the Theme	Gaps and Weaknesses in the Literature
2	Risk management in PPPs	a) Is the range of risk management tools adequate? b) How effective are they? c) How can risks be mitigated in the course of project implementation?	a) Government financial support to a PPP is not viewed as a risk b) Discussion of risk management focuses almost exclusively on initial risk allocation; some risks are disregarded or downplayed c) The literature is silent about dynamics of risk management in a PPP. Risk management is not viewed as part of a process of interaction between partners

Source: Compiled by the author

2.10.7c PPP legal issues and practical constraints

Literature gaps and weaknesses in the theme embracing legal issues pertinent to PPPs include the following.

First, the literature narrowly focuses on the various provisions of a proposed law that would create guidelines for PPPs specifically at the regional level. Although the

proposed legislative changes may be useful, legislative aspects at other levels - the national and especially local - draw much smaller attention.

Second, the literature discussion of a model that a PPP can take appears limited in scope. Although the literature asserts that legislation should allow more than one model for prospective partnerships, the discussion focuses on just one aspect of a model, namely, that the government should permit a private partner to own an asset for the duration of a PPP project, rather than lease it or assume a management responsibility as it is now in Russia and Kazakhstan. The literature considers an asset's private ownership as key to successful project implementation, which is unlikely to be true as there are clearly more than one PPP critical success factors. The literature is silent regarding how partners can implement successfully other components of a model, such as the design stage or the lease stage. The same limitation applies to various models: although the literature describes them, the analysis of how participants can employ a certain model in the Russian or Kazakhstani context is missing.

Third, the literature is silent regarding what legislative and other practical PPP problems the government need to solve in the long run. There is no discussion of political, economic, social, cultural and other possible impediments to the broader employment of partnerships in Kazakhstan and Russia. However, the literature shows multiple concerns, especially in Russia, regarding the lack of trust in the government as a factor that slows down PPP development. These concerns result in the discussion that partners in a PPP should have equal rights, and legislation should aim to assure this equality. This discussion appears biased because of multiple calls to expand the private partner's rights. The literature is silent as to why exactly these rights require expansion, what aspects of PPP management require the expansion of rights and what advantages and drawbacks changes in partners' rights and privileges may have. Additionally, the literature is silent regarding how citizens can effectively participate in PPPs taking into account that consumers are also stakeholders in a partnership.

Table 2.6 summarises the literature gaps and weaknesses in this theme.

Table 2.6 PPP Management Theme, Related Issues, and Gaps in the Literature Theme 3: Laws and Regulations Pertinent to PPPs			
#	Theme	Principal Issues within the Theme	Gaps and Weaknesses in the Literature
3	Laws and regulations pertinent to PPPs	<ul style="list-style-type: none"> a) What legal and other practical issues shall be solved in the near future? b) What PPP models might be successful in the Russian and Kazakhstani context? c) What are principal legal concerns for the long run? 	<ul style="list-style-type: none"> a) The literature's focus is limited with discussion of provisions of proposed national law on PPPs at the regional level; literature is silent regarding PPPs at the local level b) The proposed change in the existing PPP model is biased toward private asset ownership: a private partner should be allowed to own an asset for the duration of a PPP project c) The long-run legal constraints to PPP employment are not identified; instead a discussion focuses on ensuring partners' equal rights in a PPP, although the literature is silent regarding citizens' participation in PPPs

Source: Compiled by the author

2.10.7d PPP selected advantages

Literature gaps and weaknesses in the fourth theme that includes association of PPPs with selected advantages are as follows.

First, the weakness is that justification of a certain advantage normally is lacking. Often the literature discusses PPP advantages without any empirical data to support the claims that selected advantages are truly intrinsic. The literature is narrowly focused on technological innovation and the synergy effect in PPPs. However, the literature is silent regarding other potential advantages such as innovation in business management or more effective delivery of public services.

Second, the literature discusses PPP advantages as a given, regardless of specific conditions or context. As factors, such as government regulations, public perception of a quality of service, economic conditions and many others, are both highly country-specific and project-specific, the literature's assumption that one project's advantage may automatically transpire in another project is likely to be unjustified. Although the

literature points to the PPP experience in many Western as well as transitional countries, taking partnership advantages out of the context and ‘moving’ them to Russia and Kazakhstan lacks justification.

Third, in the discussion of PPP advantages the literature is silent regarding overall PPP costs. For example, participants may implement technological innovation in the framework of a project with the use of both public and private funds. However, costs do matter, and the literature largely disregards this. Rising overall PPP costs may be one of the partnership's main drawbacks, whilst other issues, such as unanticipated risks or inflation, also contribute to higher costs. However, the literature often downplays PPP drawbacks and it is silent regarding concerns about total PPP costs.

Table 2.7 summarises the literature gaps and weaknesses in this theme.

Table 2.7 PPP Management Theme, Related Issues, and Gaps in the Literature Theme 4: Association of PPPs with Selected Advantages			
#	Theme	Principal Issues within the Theme	Gaps and Weaknesses in the Literature
4	Often unjustified association of PPPs with some intrinsic advantages (that a PPP brings along technological innovation, and a PPP possesses greater efficiency than direct government service provision or contracting out)	a) What are the advantages that a PPP can bring along in the Russian and Kazakhstani context? b) What PPP drawbacks may diminish their advantages?	a) The literature is narrowly focused on selected PPP advantages that are deemed intrinsic, often without adequate justification. b) The literature discusses PPP advantages as a given, regardless of specific conditions or context. c) The literature is silent regarding overall PPP costs. PPP drawbacks are downplayed.

Source: Compiled by the author

2.10.7e PPP project selection criteria

The gaps in the theme regarding PPP project selection criteria are as follows.

First, the literature in Kazakhstan and Russia is silent regarding the use of the value-for-money concept and transaction cost economics as a theoretical foundation for project selection. Although the literature makes a note of the VfM concept, there is no discussion of what value is in the Russian and Kazakhstani context and how exactly one can measure PPP value.

Second, as the government does not employ VfM or TCE in project selection, it remains unclear what exact factors the government uses for making a decision to form a PPP. Essentially, the governments in Russia and Kazakhstan make a decision on a case-by-case basis. With regards to this, the gap area is that the literature does not identify criteria for PPP project selection, whilst the systematic discussion of criteria is missing.

Table 2.8 highlights the literature gaps and weaknesses in this theme.

Table 2.8 PPP Management Theme, Related Issues, and Gaps in the Literature Theme 5: PPP Project Selection Criteria			
#	Theme	Principal Issues within the Theme	Gaps and Weaknesses in the Literature
5	PPP Project Selection Criteria	On what grounds is a project deemed suitable for a PPP?	a) The literature is silent regarding the use of the value-for-money concept and the transaction cost economics concept as criteria for project selection. b) Criteria for the project selection for a PPP are not identified.

Source: Compiled by the author

2.10.8 Identification of critical research gap

Among the five themes that the literature review appraised, one theme - risk management in PPPs - has a critical influence on all the other themes. The risk management investigation embraces risks that interviewees and their organisations experienced and perceived in the Russian and Kazakhstani context, risk mitigation

techniques and dispute resolution methods that actors employed. From a broader perspective, risk management includes partner interaction, in which relationship quality may become an effective PPP governance tool. This broader perspective makes risk management a critically important theme as opposed to government involvement in partnerships, legal constraints to PPP development or selected PPP advantages that the governments in Kazakhstan and Russia emphasise.

Further, the rationale for viewing risk management as a critical theme is as follows. Partners cannot foresee many kinds of risk in a partnership that may occur in the course of project implementation. Before the project launch, risk allocation addresses only known risks and only in such a way, in which partners anticipate the risk implications. The probability of unforeseen risks grows over time, whilst partners become more likely to exhibit opportunistic behaviour. Whilst initial risk allocation cannot handle the problem of growing opportunism, the governance concept (which the next section discusses more fully) claims that effective collaboration between partners may significantly mitigate project uncertainties and risks and, ultimately, ensure PPP success. However, partners need to manage their relationship and to make partner interaction an integral part of PPP governance.

To summarise, in the extant literature the discussion of risk management focuses on initial risk allocation, whilst the literature disregards or downplays some risks. Furthermore, the literature about Russian and Kazakhstani PPPs is silent about dynamics of risk management: researchers do not view risk management as an essential component of partner interaction in a PPP. Hence, this study views the literature's disregard of PPP management as a process as a critical research gap. In this gap, the central under researched theme is risk management that relies on partner interaction.

2.11 Theoretical Framework

This section highlights the PPP governance concept as the thesis' theoretical framework. The PPP governance concept (Pierre and Peters, 2000, 2005; Bult-Spiering and Dewulf, 2006), with its focus on the process and on output management, in contrast to input-oriented management, is the main guiding theory for this study. Many

researchers contributed to the development of the governance concept, and this research will utilise the notion of relationship quality, which states that managing relations between parties in a partnership is a major factor for a PPP's success or failure (Pierre, 1997; Fischbacher and Beaumont, 2003; Sedjari, 2004; Brinkerhoff and Brinkerhoff, 2004; Bult-Spiering and Dewulf, 2006).

The literature review demonstrated why and how the PPP governance concept is useful for studying partnerships, particularly in the Russian and Kazakhstani context. The main argument for the usefulness of the PPP governance approach is that the transaction cost economics theory, which Section 2.4 devoted to reasons for partnering discussed in detail, appears insufficient for explaining whether the government should form a PPP in order to economise on public service provision costs, and whether a partnership will be successful (Hill, 1990; Madhok, 1995).

Whilst TCE argues that the government should employ a PPP where it minimises the sum of total social costs compared to the cost of direct government provision or the cost of contracting out, it specifies a criterion for employing partnerships, although it does not resolve the issue of uncertainty and related risks. In other words, TCE does not serve as a reliable framework that may ensure effective operation and successful partnership performance in the long run.

Transaction cost economics implies that assessment of total social costs must happen during the PPP selection process, before implementation. However, after the project has begun, partners often deal with unexpected events that may change the total social costs. If during the project implementation the total social costs increase to the level that makes a PPP project less cost-effective than traditional government procurement, the technical application of the TCE concept implies that the government must revoke a PPP project, although in reality it may not be possible because shutting down the project also may be costly.

As opposed to TCE, a more practical approach suggests that it may be useful to mitigate uncertainties by enhancing collaboration between partners. The latter concept takes into account that uncertainty and risk involved in long-term projects often result in partners' opportunistic behaviour, which may lead to even greater risk and increasing costs. This is why the literature review discussed the scholarly understanding of the

nature, sources and implications of partner opportunistic behaviour. The review elucidated that either partner's opportunistic behaviour is the main factor that determines the need for effective PPP governance (Ouchi, 1980; Hill, 1990; Madhok, 1995; Pongsiri, 2003; Vining and Boardman, 2008a, 2008b).

As the literature review showed, studies mostly investigate partnerships' contractual arrangements, including financial aspects and legal terms of PPP formation and operation, whilst partner interaction appears a largely neglected research area. This point is relevant to the research of PPPs in Russia and Kazakhstan as in these countries the literature pays most attention to the parties' responsibilities specified in a contract because partnerships are new and the two nations accumulated only a few years of experience with PPPs. Naturally, before the project launch, parties focus on working out the contractual details. As Russia and Kazakhstan have limited expertise in PPP management, parties in the public and private sectors lack the evidence whether they need to pay attention to partner interaction issues and, if so, to which ones. Hence, it is no surprise that the literature is silent about partner interaction.

To address the literature gap, this research will study PPP management in Russia and Kazakhstan in the framework of the PPP governance concept. The governance concept argues that effective management of relationship quality between parties in a partnership is a major factor that ensures PPP success (Pierre, 1997; Fischbacher and Beaumont, 2003; Sedjari, 2004; Brinkerhoff and Brinkerhoff, 2004; Bult-Spiering and Dewulf, 2006). As initial risk allocation cannot handle the problem of unforeseen risks and each party's behaviour becomes opportunistic over time (Williamson, 1993), the governance concept claims that effective collaboration between partners may significantly mitigate project uncertainties and risks. However, partners have to manage their relationship and employ effective tools and methods of risk mitigation.

At present, the literature in Russia and Kazakhstan does not emphasise the governance aspects of partner relations due to two reasons. First, PPPs are new and partners naturally pay most attention to defining their responsibilities and including them in a PPP contract. Second, a few years of experience in PPPs that the two nations have accumulated have not yet called the government and researchers to embrace partner interaction issues in their focus. In other words, parties in the public and private

sectors lack the evidence that they need to pay attention to partner interaction at all. As a result, partners in Kazakhstan and Russia disregard PPP management as a process including partner interaction, which the literature appraisal has confirmed.

The PPP governance concept as a guiding theoretical framework for this research allows one to accomplish certain tasks as follows. It permits the researcher to discuss initial risk allocation in a partnership and investigate what a PPP contract specifies. It also allows the researcher to identify issues and risks that emerge during the project term and to what extent partners foresaw them. Further, it provides the foundation for understanding of how actors have adapted to the emerged problems in risk management and partner interaction. Additionally, the PPP governance concept allows the researcher to explore the factors that play a critical role in a project, from the partner interaction perspective. Finally, the guiding theory is useful as it highlights the need to collect qualitative data regarding partner interaction that this thesis subsequently will analyse.

In summary, as the literature is silent regarding the PPP management process in Russia and Kazakhstan, the governance concept appears most appropriate for the study through the prism of partner relationship management that may effectively mitigate uncertainties and emerging risks and ultimately ensure partnership success.

2.12 Chapter Summary

This chapter presented a critical appraisal of PPP literature including Western (i.e., OECD) and Russian language sources. The chapter elucidated PPP conceptualisation from the Western perspective and then contrasted and compared it with PPP understanding in Kazakhstan and Russia. Further, the chapter discussed the literature views on PPP forms and models, partnerships' advantages and shortcomings. The literature review paid special attention to such topics as opportunistic behaviour and relationship quality because partner opportunism is the main determinant of the need for PPP governance. As risk management is one of the principal themes in PPP governance, the chapter provided detailed coverage of risks to which partnerships are exposed and risk management principles.

The chapter also provided contextual background for PPPs in the two countries. The literature review showed that the reasons for PPP employment may be different in Russia and Kazakhstan as opposed to Western countries. Specifically, it is questionable whether Russia and Kazakhstan use the value-for-money concept as a guiding framework for PPP formation. The chapter identified principal themes in the literature about partnerships in Kazakhstan and Russia and revealed gaps and weaknesses in each theme. A critical research gap is in the risk management theme: the extant literature does not view risk management as an important process of partner interaction. Furthermore, currently the latter is beyond the focus of PPP governance.

With regards to highlighted literature gaps and weaknesses, the chapter outlined the thesis' theoretical framework. Its core is the PPP governance concept that argues that effective management of relationship quality between parties in a partnership is a major factor that may ensure PPP success. Hence, this research will pay principal attention to partner interaction in a PPP.

The next chapter, Chapter Three, will introduce the philosophical perspective that the researcher has chosen for this study and will explain and justify the research methodology. Chapter Three also highlights the pilot study findings.

CHAPTER 3: METHODOLOGY

3.1 Chapter Introduction

This chapter describes methodological choices available for a researcher and justifies the positions that the author has adopted. The chapter begins by discussing this study's philosophical stance regarding the nature of reality and the relationship between the researcher and the researched. Then the chapter delineates the approach to social theory that this research takes in terms of direction of its reasoning and justifies an inductive approach that the author has adopted.

Section 3.3 elucidates the author's ontological and epistemological stances that determine the research strategy in the form of a quantitative approach and/or qualitative approach. This section highlights the nature, purposes and characteristics of each method of inquiry and explains the author's logic behind selecting a qualitative approach.

The chapter moves on to the in-depth description of data collection methods that this study employs (Section 3.4). This section highlights the details of four PPP projects that the researcher selected for investigation. The next part (Section 3.5) outlines the pilot study that permitted the author to expand the range of data sources and enrich the approaches as to how he collected the data. Section 3.6 focuses on the study's methods for data analysis.

The chapter proceeds to the discussion of factors that ensure the research's validity (Section 3.7). Next, Section 3.8 raises and answers ethical concerns of this study. The conclusive Section 3.9 summarises the research positions that the author has adopted in order to form robust methodological framework for the study of PPP management in Kazakhstan and Russia.

3.2 Research Approach

3.2.1 Ontological positions

The ontology of research concerns the nature of reality or ‘nature of the known’ (Sarantakos, 2005). The underpinning philosophical approach that a researcher adopts heavily influences how one investigates a specific topic. The two alternative philosophical paradigms in the ontology of research are positivism and phenomenology (Collis and Hussey, 2003). One can view each research paradigm as a set of assumptions that describe the researcher’s perceptions of reality, approach to the research process and the tools and methods of data collection and data analysis (Collis and Hussey, 2003; Sarantakos, 2005). This means that a research paradigm has implications for methodology that a researcher should employ in order to meet the study's objectives.

According to the positivist approach, the nature of reality is objective, and the reality itself is singular. There are ‘things out there’ that a researcher can discover, identify and illuminate. In contrast to positivism, the phenomenological approach takes a stance that reality is socially constructed. According to the phenomenological paradigm, reality is subjective and it has multiple dimensions (Hughes and Sharrock, 1997; Tsoukas and Hatch, 2001; Collis and Hussey, 2003; Sarantakos, 2005).

It is worth noting that the literature also uses other terms to designate the phenomenological paradigm. In particular, academia uses instead of phenomenology, the term *constructionism* (or *constructivism*) (Flick, 2009: 69). Scholars also use the term *interpretivist* (or *interpretive*) instead of phenomenological (Neuman, 2007). 'Most researchers who use an interpretive approach adopt a version of the constructionist view of social reality. This view holds that human social life is based less on objective, hard, factual reality than on the ideas, beliefs, and perceptions that people hold about reality' (Neuman, 2007: 43). This description shows that researchers use essentially a different designation to illuminate the phenomenological approach, without any major discrepancies between designations in reference to the paradigm’s nature.

In this thesis, the author takes the phenomenological stance. Ontologically, the author believes that the world is socially constructed and subjective as opposed to the positivist view that reality is objective and external. The author's phenomenological position is well justified by the nature of this thesis' research objectives as they focus on investigation of experiences and perceptions of key PPP actors in Kazakhstan and Russia regarding management challenges to partnerships and how stakeholders have adapted to them.

The thesis' philosophical research perspective is in line with the use of exploratory techniques that are part of qualitative, rather than quantitative research. Academics often associate quantitative research with the positivist approach, whilst they associate qualitative research with a phenomenological approach. The positivist paradigm emphasises the need to develop and test a hypothesis, analyse objective data and make generalisations based on the findings. In the phenomenological approach, a researcher achieves a deeper understanding of ambiguous and multidimensional concepts by exploratory techniques such as interviews, although a researcher can use more than one method (Easter-Smith *et al.*, 1994).

The author's phenomenological stance in this thesis permits to pay significant attention to the context in which public-private partnerships develop in Kazakhstan and Russia. As all things happen in a context, it is critically important not to overlook characteristics (such as political, economic, social and legislative features) that define the contextual environment in each country. This will permit deeper analysis of how various stakeholders handle PPP issues.

However, the phenomenological research paradigm has its shortfalls. The principal drawback is the lack of ability to use findings for making generalisations. As a researcher investigates the subjective world (or a part of it, such as a set of PPP management issues in a country) by capturing and understanding the unique context, one can hardly generalise the findings, unless the research concludes that commonalities between the two contexts are extensive enough that comparisons are appropriate and generalisations are valid. This chapter's sections regarding methods for data collection and data analysis discuss the research limitations in greater detail.

Having described the author's choice regarding the ontological approach, the chapter moves on to the discussion of the thesis' epistemological positions.

3.2.2 Epistemological positions

The epistemological perspective of research concerns the relationship between the knower and the known, or between the researcher and the researched (Hughes and Sharrock, 1997; Tsoukas and Hatch, 2001; Collis and Hussey, 2003; Sarantakos, 2005). The researcher's ontological stance determines her/his epistemological positions as the perception of the world inevitably underpins the role that a researcher assumes in relation to the world.

For each of the two alternative ontological paradigms, a corresponding epistemological approach is available. One approach assumes the researcher's independent (from what he/she is researching) role. The other approach, on the contrary, assumes the researcher's interdependent role with what he/she is researching.

The approach associated with positivism implies that a researcher is independent from what he/ she is researching (Tsoukas and Hatch, 2001; Collis and Hussey, 2003; Sarantakos, 2005). As the world is objective and the research intends to discover and describe what is 'out there', no interaction between the objective reality and a researcher is expected or required.

In contrast to the positivist paradigm and related epistemological approach, in the epistemological stance related to the phenomenological paradigm a researcher is part of what he/ she is researching and he/she interacts with objects of investigation (Tsoukas and Hatch, 2001; Collis and Hussey, 2003; Sarantakos, 2005; Neuman, 2007). As the world is subjective and socially constructed, the interaction with what one is researching may benefit the social research in a sense of a deeper, more intimate understanding of this subjective reality through interactive enquiry with objects of a study and careful capturing of the contextual details. The latter becomes available to a researcher exactly through the interaction with what one is researching, and by realising and interpreting perceptions of those involved in the study.

In this thesis, in line with the adopted ontological phenomenological research paradigm, the author takes on the epistemological stance that a researcher is part of what he/she is investigating. Interaction with what he/she is researching is necessary, and it is an essential part of the research that this thesis presents.

The author's choice of the ontological research paradigm and the corresponding epistemological view permit consideration of PPP management issues in their contextual uniqueness of each country (i.e., Kazakhstan and Russia). It is likely that these unique features will transpire as a result of the researcher's interaction with those who he will research, such as PPP managers, government officials and experts of national and regional PPP centres. As the author believes that the world is socially constructed, this research is concerned with how exactly the elements of reality (in the PPP field) are constructed and what the managerial perceptions of the PPP issues are. The chosen epistemological stance that implies interaction with those who will be researched serves the goal of accurately capturing the participants' perceptions of managerial challenges facing partnerships.

Capturing an *insider perspective* carries a clear advantage that participants may share their actual experiences with the intimate knowledge of details and may explain why and how they formed their perceptions in a certain way. However, an insider perspective is not free from drawbacks that may include biased opinions, one-sided views or unbalanced judgments due to limited information or personal preferences.

3.2.3 Approach to social theory

This section discusses an approach to social theory that the author has adopted. Specifically, the discussion focuses on the researcher's direction of reasoning in the thesis.

Researchers can approach social theory from a few perspectives. Neuman categorises a theory by the direction of its reasoning, the level of social reality that it explains (i.e., micro level, meso level and macro level), the forms of explanation it employs (e.g., prediction, causal explanation, structural explanation, or interpretive) and the overall framework of assumptions and concepts, such as a positivist, interpretive or

critical approach (2007: 29). As the previous sections have already discussed, the thesis' research paradigm includes ontological and epistemological positions. Therefore, the overall philosophical stance will become more complete by highlighting, in this section, the approach to social theory that the research takes in terms of direction of its reasoning, deductive or inductive. Additionally, this section delineates the level and units of data analysis for the study.

Using deductive reasoning, a researcher begins with an abstract thought and then proceeds to collect empirical evidence (Neuman, 2007). A researcher then tests concepts and theories that are the starting point of reasoning against the evidence. In an inductive approach, observations of reality are the starting point of research, and from observations of empirical evidence a researcher moves toward more abstract generalisations and ideas (Neuman, 2007: 30).

In this thesis, the author adopts an inductive approach (Patton, 2002; Creswell, 2007; Silverman, 2010). As the research's principal objective is to investigate managers' perceptions of issues involved in PPP formation and operation, an inductive approach is the most appropriate for the study. Instead of putting forward a hypothesis upfront, the study will make detailed observations of reality in the PPP field in the context of Kazakhstan and Russia by interviewing various PPP stakeholders (Section 3.4 of this chapter discusses methods of data collection in detail). These observations will serve as the basis for new concepts that the thesis may develop. With an understanding that theory is grounded in data, the thesis attempts to identify and explain patterns, relationships, commonalities or differences in PPP management in the two countries using thematic analysis (Section 3.6 provides an in-depth discussion of data analysis methods). However, the author does not intend to undertake a grounded theory study that aims to generate or discover a theory and employs prescribed and structured procedures (Glaser and Strauss, 1967; Strauss and Corbin, 1998).

An inductive approach to reasoning is harmonised with a grounded approach to research design and analysis that the author adopts. The latter implies constantly making comparisons (Neuman, 2007), which is most appropriate for this study as it attempts to accomplish a comparative research of PPP management issues in Kazakhstan and Russia.

Yet an additional aspect of a grounded approach to research design is that a researcher needs to be prepared for the unexpected in the process of data collection and data analysis as one informs the other. In other words, data collection and drawing theoretical insights occur simultaneously. 'When data collection and theorising are interspersed, theoretical questions arise that suggest future observations, so new data are tailored to answer theoretical questions that came from thinking about previous data' (Neuman, 2007: 89). This is relevant to the thesis' positions because the author intends to draw theoretical insights mostly from interviews with those involved in PPP management, and the interview data may post new theoretical questions and influence what kinds of data the researcher may need to receive from other respondents.

Whilst the author conducts part of this research at the *micro level* because it deals with individuals, their personal experiences and perceptions, the other part of analysis that the author undertakes is at the *meso level*. Meso-level theory is an intermediate level that links the micro and macro levels. The latter concerns the operation of larger aggregates such as social institutions and whole societies (Neuman, 2007: 34). Meso-level analysis refers to 'how societal and institutional forces mesh with human activity' (Olesen, 2000: 217). Meso-level analysis is in line with this study's overall objective, which is to examine the stakeholders' experiences in the PPP management in Kazakhstan and Russia in order to identify management issues, how stakeholders have adapted to them and what PPP critical success factors are. Naturally, some of these factors may refer to managers' behaviour and their actions (i.e., micro level), whilst others may stem from interaction between organisations, which is influenced by institutional responsibilities and motivation, as well as government policies. This mix of factors, including individual and organisational interactions and dependencies in the PPP management field, falls in the domain of meso analysis.

This research uses two types of a *unit of data analysis*. The first type embraces elements of PPP actors' perceptions. These include perceptions of PPP management issues and ways of adapting to them. 'Social situations' (in the terminology used by Clarke, 2005, cited in Creswell, 2007: 63) form the second type. This unit of analysis includes understanding the same issue (or 'situation') by a few participants, which calls for cross-examination of their perceptions, complemented by documentary analysis.

This unit of analysis permits the researcher to identify commonalities and differences between perceptions of different respondents, draw insights into the underlying reasons and better understand behaviour of participants and organisations.

An inductive approach to direction of reasoning, which is interconnected with a grounded approach to research design and analysis, is aligned with qualitative research, or one type of research strategy as opposed to quantitative research. Qualitative research strategy is the one that the author has chosen for this thesis.

After summarising the elements of the research approach, this chapter moves on to discuss a research strategy and justify the author's choice.

3.2.4 Research approach summary

Table 3.1 summarises the components of the author's research approach adopted for this thesis.

Table 3.1 Research approach summary

An approach	Core issue addressed by an approach	Approach adopted in this thesis	Description/ comments
Ontological	Nature of reality, nature of the known	Phenomenological approach	Reality is subjective, reality is socially constructed
Epistemological	Relationship between the researcher and the researched	A researcher is part of what he/she is researching	A researcher interacts with the study's participants
Approach to social theory in terms of direction of reasoning	Research process: deductive or inductive approach	Inductive approach	Research process begins with detailed observations of reality and moves to more abstract generalisations
Level of theory	Level of data analysis	Micro level and meso level	Study of managers' behaviour, coupled with examination of interaction between organisations

Unit of data analysis	What exactly one studies	Elements of managers' perceptions; situations	Study of actors' perceptions of PPP management issues and ways of adaptation to them; study of situations from different participants' perspectives
Guiding theory	What theoretical framework the study employs	PPP governance concept	Management of partner relations in a PPP is the key to successful partnership performance

Source: Compiled by the author

Table 3.1 highlights the author's key positions in this thesis. The adopted phenomenological research paradigm that considers reality subjective and socially constructed (Collis and Hussey, 2003; Sarantakos, 2005; Neuman, 2007; Flick, 2009) is in agreement with the epistemological stance that implies the researcher's interaction with the study's participants (Hughes and Sharrock, 1997; Tsoukas and Hatch, 2001; Collis and Hussey, 2003; Patton, 2002; Sarantakos, 2005; Neuman, 2007). In order to collect data, the author intends to interview stakeholders, whilst interaction with respondents is an essential part of the data collection process (which Section 3.4 discusses more fully later in this chapter).

Observations of participants' perceptions and experiences are the starting point of critical investigation of management challenges in the field of public-private partnerships (Ritchie and Lewis, 2003; Denzin and Lincoln, 2005; Creswell, 2007; Silverman, 2010). The research continues by using a grounded approach to data analysis (Neuman, 2007), specifically by thematic analysis, based on the initial identification of themes in the literature (Patton, 2002) and subsequent adjustments in themes stemming from the pilot study and initial interviews (Section 3.6 of this chapter elucidates thematic analysis more fully). The author also will complement thematic analysis of stakeholders' perceptions by documentary analysis (Patton, 2002; Flick, 2009; Silverman, 2010). The latter includes government reports, written official statements, published interviews and policy documents as an additional data source that

intends to contribute to deeper understanding of the contextual environment related to partnership management in Kazakhstan and Russia. Building on the study of these experiences and perceptions, i.e., on the micro-level analysis (Denzin and Lincoln, 2005; Neuman, 2007), and using an inductive approach (Patton, 2002; Creswell, 2007; Silverman, 2010), the author will aim to draw theoretical insights that are compatible with the empirical reality in the setting of the two countries. In other words, the author undertakes a meso-level analysis that factors in organisational dependencies and the influence of institutional forces (Olesen, 2000; Denzin and Lincoln, 2005; Neuman, 2007).

Western notions of governance play an important role in research design and analysis in this thesis. The governance concept largely provides a legitimising framework for PPP management because partners can offset deficiencies in legal contract arrangements and mitigate unanticipated risks, as the literature argues, through effective governance of their relations. Hence, the governance concept provides a useful lens through which this study investigates PPP management issues in Kazakhstan and Russia.

The next section addresses options in the research strategy and the author's choice, i.e., a qualitative research strategy.

3.3 Methodological Choices and Research Strategy

3.3.1 Research strategies

Quantitative research and qualitative research represent principal methodological choices for a study. One can view these two options as methods of inquiry or research strategies (Patton, 1990; Hughes and Sharrock, 1997; Patton, 2002; Collis and Hussey, 2003; Denzin and Lincoln, 2005; Sarantakos, 2005; Neuman, 2007; Flick, 2009). A strategy refers to how a researcher brings together particular methods and techniques in order to produce the most efficient means of collecting and analysing empirical evidence (Layder, 1993).

This section reviews the two research strategies. The following section discusses the author's choice for this research and explains the rationale behind it.

A set of distinctive features characterises each research strategy. Table 3.2 summarises key research strategy features.

As Table 3.2 shows, quantitative research begins with a hypothesis that a researcher tests in the course of investigation. This requires a researcher to identify variables which he/she will observe and measure. Additionally, a researcher needs to design the measures in a reliable way so that he/she can analyse data using standardised procedures. Consistent with the positivist ontological paradigm, quantitative research uses deductive reasoning. In a quantitative method of inquiry, a researcher formulates the research hypotheses and then verifies it empirically on a specific set of data (Frankfort-Nachmias and Nachmias, 1992; Neuman, 2007).

Table 3.2 also illuminates the key features of qualitative research. A researcher accomplishes the understanding and interpretation of complex reality by immersion in contextually determined data. Unlike quantitative research that defines and measures observable variables that form a reality, qualitative research defines reality from within, based on observing empirical data. A specific hypothesis often does not drive qualitative research. On the contrary, a researcher develops concepts, themes or generalisations during the process of data discovery (Creswell, 2007).

Table 3.2 Quantitative research versus qualitative research

Quantitative Research	Qualitative Research
The researcher begins with a hypothesis and then tests it.	The researcher captures and discovers meaning once he becomes immersed in the data.
Concepts are in the form of distinct variables.	Concepts are in the form of themes, motifs, generalisations and taxonomies.
Measures are systematically created before data collection and are standardised.	Measures are created in an ad hoc manner and are often specific to the individual setting or researcher.

Data are in the form of numbers from precise measurement.	Data are in the form of words and images from documents, observations and transcripts.
Theory is largely causal and is deductive.	Theory can be causal or noncausal and is often inductive.
Procedures are standard, and replication is assumed.	Research procedures are particular, and replication is very rare.
Analysis proceeds by using statistics, tables, or charts and discussing how what they show relates to hypothesis.	Analysis proceeds by extracting themes or generalisations from evidence and organising data to present a coherent, consistent picture.

Source: Neuman, 2007: 88.

However, it is worth noting that the themes identified in the literature appraisal, literature gaps and the evidence from extant research also may guide qualitative research. The starting point of this study is the thematic analysis based on themes and gaps that the author identified in the literature appraisal, whilst the themes can be adjusted after reviewing some collected data. The researcher has determined the initial themes as follows: examples, sources and implications of partner opportunistic behavior in a PPP; partner interaction in a PPP; risks and risk management in a PPP; partnership critical success factors.

In contrast to the quantitative method of inquiry, qualitative research often is inductive. Qualitative research is in line with the phenomenological ontological paradigm that implies that reality is subjective and socially constructed. Due to this, researchers often receive qualitative data in the form of words (such as from interviews) or images from documents and observations, whilst quantitative research deals with data in the form of numbers (Ritchie and Lewis, 2003; Creswell, 2009).

Yet an additional distinction between quantitative and qualitative research concerns values. In the quantitative method, a researcher views variables as objective data. A researcher does not base a hypothesis on some values because a hypothesis is a reflection of an objective world. In the quantitative method, a researcher's own values do not have any influence on the study. This is in contrast to qualitative research: as it

is interpretive, it inevitably takes into account the study participants' values, biases and preferences. A researcher treats the values and preferences as an essential part of subjective reality, from the respondents' perspective. Additionally, the researcher's own values may have substantial impact on what data he/she collects and how he/she interprets the findings (Denzin and Lincoln, 2005; Neuman, 2007).

In qualitative research, the social context is critically important (Neuman, 2007; Flick, 2009). The qualitative method of inquiry accepts the context as an essential set of factors and circumstances that influence an event or issue in question. When a researcher takes an event out of context, his/her interpretation of this event becomes different and may be distorted. In quantitative research, a researcher treats variables under investigation as objective, without regard to the contextual setting, because he/she views reality as objective (Denzin and Lincoln, 2005).

The quantitative method investigates reality by isolating selected elements from the whole picture as opposed to qualitative research that places parts of social life into a larger whole (Neuman, 2007: 89). The holistic approach to critical assessment of reality is, thus, an intrinsic feature of qualitative research (Creswell, 2007).

Having reviewed the principal distinctions between the two research strategies, the next section provides justification for the author's strategy for this thesis.

3.3.2 Qualitative approach adopted in the thesis

The ontological and epistemological paradigms that a researcher adopts determine, in part, the choice of a research strategy. Most importantly, a research strategy should be suitable to the study's objectives, so that the latter can answer research questions. From this perspective there is no single best, or ideal, research technique or strategy. 'The central point of reference is the appropriateness of the methods to the issue under study' (Flick, 2009: 33).

The main objective of this research is to investigate experiences and perceptions of various stakeholders in the field of public-private partnerships regarding management challenges to PPPs in Kazakhstan and Russia, and what ways and tools are available, in their view, in order to adapt to these challenges. In pursuit of this objective, the

research will use a qualitative approach as one can hardly quantify the study of perceptions and ways of adaptation to management challenges. Conducting the study in two countries implies that the researcher will do a comparative analysis of interview results. This determines that the study will not put forward hypotheses beforehand. Instead, it will categorise and use the collected data in order to explain the respondents' perceptions of managerial challenges. Subsequently, the study will identify the lessons from commonalities and differences in respondents' views and experiences for PPP governance.

The qualitative approach adopted for this research has the following advantages. First, a qualitative method of inquiry allows examining complex reality in the PPP field as opposed to applying quantitative methods. For example, many PPP benefits, such as customer satisfaction with a service or greater involvement of private companies in the delivery of public services, are qualitative in nature, and researchers can assess them non-quantitatively (Creswell, 2007; Flick, 2009). A qualitative assessment of the PPP impact on the overall effectiveness of the government sector may serve as an illustration of an advantage involved in this research approach.

Second, qualitative research allows capturing the context surrounding PPPs in Kazakhstan and Russia as opposed to a quantitative approach that focuses on selected variables and their measures without regard to how and in what circumstances PPP management issues evolve. An analysis of a PPP issue in its interconnectedness with other issues and in the country-specific context is a distinct advantage of qualitative inquiry that ensures the holistic treatment of management problems facing PPPs. In other words, when the researcher places PPP management aspects into the broader social context, this builds a richer picture of reality and allows a more accurate understanding of the meaning and significance of each element and avoiding distortions in this understanding (Denzin and Lincoln, 2005; Neuman, 2007; Flick, 2009).

Third, qualitative research allows identifying values that the study participants may have regarding selected management aspects. For example, some participants may place a high value on using a private firm's expertise in implementing innovative technological solutions whilst the same participants may place a small value on the customer service that an operator provides. In this respect, a qualitative approach

allows a researcher to identify participants' values, and then ask questions related to them, and receive value-driven answers (Patton, 1990; Denzin and Lincoln, 2005; Neuman, 2007). As the qualitative method incorporates values, understanding these values contributes to building a holistic picture of the PPP reality (Patton, 1990).

Fourth, qualitative research allows the researcher to use subjective data (Denzin and Lincoln, 2005). This is an advantage because the research aims to capture individual experiences, for example, of those PPP actors who were involved in negotiations regarding risk allocation between the partners. Qualitative method avoids being locked in some rigidly defined variables under investigation, which allows performing in-depth investigation of issues and looking beyond precise numerical assessment of selected aspects. In qualitative research, the benefit is that the researcher can receive diverse opinions about the same issue, for example, how to mitigate specific risk facing a partnership. This is consistent with the subjective view of the world, i.e., the phenomenological research paradigm that the author has adopted.

Fifth, a qualitative approach is most appropriate for this study because it allows exploring a new area of scholarly research in the PPP management field in Kazakhstan and Russia, namely relationship issues between parties in a partnership. The PPP literature in the two countries is silent about these issues that one may investigate with the help of qualitative, rather than quantitative, data. Specifically, PPP actors' comments, interpretations and opinions provide the basis for assessment of relationship challenges in a partnership and how participants handle them.

Finally, although development of theory is not unique to qualitative research, this method forms the convenient foundation for drawing theoretical insights into PPP management. Using an inductive process, the qualitative approach provides the basis for theory development from primary data gathered in the course of research as opposed to testing a pre-formulated hypothesis that is typical for the quantitative method. Thus, theory development happens alongside data collection, and as a researcher collects and interprets more data, astute insights and richer details further contribute to the advancement of theory (Denzin and Lincoln, 2005; Creswell, 2007; Neuman, 2007; Flick, 2009).

Although this research's qualitative method has a number of advantages, it also has some limitations. Because of the high degree of subjectivity in responses from participants, it may be difficult to generalise and make systematic comparisons. Also, a researcher's subjectivity inevitably plays a certain role in data analysis. The researcher's biases are unavoidable despite all efforts aimed at staying away from distortions. Due to the in-depth nature of investigation, the scope of research is often limited. For example, studying a large number of PPP projects in Russia is unfeasible because of time, labour and financial constraints, which limits the applicability of conclusions. Additionally, it is difficult to replicate a study due to subjective and varying responses from participants (Denzin and Lincoln, 2005; Neuman, 2007).

Notwithstanding some shortcomings, a qualitative approach enjoys distinct advantages that this section has highlighted. Owing to this, the author has adopted a qualitative approach as it is most suitable for achieving the study's research objectives.

3.4 Methods for Data Collection

3.4.1 Data collection methods

For this study, the researcher will use in-depth semi-structured interviews as a data collection method. Researchers widely use in-depth interview as a method of primary data collection because it has a set of advantages that no other method can offer (Ritchie and Lewis, 2003; Creswell, 2009; Flick, 2009; Silverman, 2010). These advantages include an opportunity for a researcher to combine structure with flexibility; an opportunity to obtain perceptions and opinions, rather than facts; an opportunity to achieve depth of an answer by asking additional questions that allow to clarify the interviewees' views; and a possibility to investigate issues and topics that were unanticipated and/or unplanned in the beginning of an interview (Ritchie and Lewis, 2003; Jones, 2004; Silverman, 2010).

Connecting the choice of the principal data collection method with the theme and context of this research, the author has identified a number of reasons in favour of interviews. First, interviews will allow capturing actual respondents' experiences and

their perceptions regarding PPP management, from the point of view of different stakeholders, rather than just gathering mere facts and figures about a partnership. The study of PPP experiences and perceptions calls for face-to-face contacts with actors and for collection of their opinions, in their own words, on the variety of aspects that go beyond provisions included in partnership contracts. Second, direct interaction with respondents by using a flexible interview structure permits a free expression of opinions, which may be, at times, not straightforward or contradictory. The free flow of thoughts and comments is likely to provide an invaluable source of data. Third, cultural traditions in Russia and Kazakhstan often form an interviewees' preference for face-to-face and informal contacts, rather than for written surveys or telephone interviews, because direct personal contact often is a key to more open and honest communication and better understanding of each other. Provided with the possibility for an informal dialogue, respondents are likely to be more open and freely discuss their experiences and views regarding PPP management. Fourth, direct personal contact with interviewees will allow the researcher to explain in detail the interview's purpose and, thus, completely eliminate participants' concerns regarding how the researcher will use the data.

The researcher has determined the choice between structured and unstructured interviews for the purposes of this thesis by the following. Discussing a *non-directive* style of interviewing that may result in ambiguity of data, Jones (2004) emphasises the need to achieve a complex balance between restricting structure and restricting ambiguity. Instead of a non-directive style, the more effective way of obtaining data and reducing data ambiguity is to set at least some interview structure. 'In short, researchers are more likely to get good data, and know what data they are getting, if the interviewees are told at the outset what the research topic is, even if initially in relatively broad terms, and why the topic is of interest' (Jones, 2004: 259). This argument supports the choice of semi-structured interviews as a data collection method for this thesis as opposed to unstructured interviews. In addition, semi-structured interviews, rather than unstructured, are a preferred method in this thesis because they allow the researcher to reduce the risk of collecting a considerable amount of data from

individually valuable interviews, although subsequent generalisations, based on widely diverse data, may be difficult (Miles and Huberman, 1994).

Further, the researcher has selected semi-structured interviews for the following reasons. First, interviews are an appropriate data collection method for obtaining informal opinions about selected aspects of PPP management regarding which there is no literature or any other sources. A critical appraisal of PPP literature has identified a few gaps, namely that there is no discussion of relationship issues in a partnership and opportunistic behaviour. In order to close these gaps and obtain relevant data, interviews with PPP stakeholders will be invaluable as no quantitative data can substitute the interview data.

Second, interviews allow exploring respondents' opinions about PPP critical success factors. Keeping in mind that PPP projects in Kazakhstan and Russia are still in progress and empirical data regarding their performance are not yet available, an investigation of perceptions and subjective opinions provides valuable insights about factors that may ensure PPP success. Additionally, interviews permit the researcher to explore actual experiences through questions regarding critical incidents related to partnerships (Patton, 2002). During interviews participants inevitably will use their judgements about what PPP aspects are more significant and require greater attention of PPP stakeholders, and what aspects are less significant. Hence, the study of interviewees' value judgments, in connection to PPP critical success factors, justifies the use of interviews as a data collection method that best suits the purpose of this qualitative research.

With regards to interviewees' values and those of a researcher, the interplay of which may influence the respondents-researcher relationship and, consequently, the data that a researcher collects, Jones (2004) has argued the following. 'What is crucial is that researchers choose their actions with a self-conscious awareness of why they are making them, what the effects are likely to be upon that relationship – and indeed whether their own theories and values are getting in the way of understanding those of the respondents' (Jones, 2004: 259). This point is relevant to this thesis' methodology. Having adopted in-depth semi-structured interviews as a method for data collection, the author will make every effort to avoid biases or prejudices. The researcher will

accomplish this by maintaining neutrality in asking a question and receiving an answer and by not providing an author's opinion to a respondent or making a value judgment that may distort data and/or influence the data collection process, although removing the researcher's own values and biases totally and completely from critical investigation is hardly possible. Section 3.8 of this chapter discusses access to participants more fully.

With regards to behavioural sciences, Sommer and Sommer have pointed out that 'all methods have good and bad features. The advantages may lie along one dimension, such as economy; the disadvantages along another, such as objectivity. The goal of the researcher is not to find the single best method. For most problems, several procedures will be better than one, even though each has its limitations; these tend not to be the same limitations' (Sommer and Sommer, 1980: 7).

To minimise the researcher's biases and ensure richness of data, this study uses yet additional method, namely documentary analysis (Denzin and Lincoln, 2005: 498-499). It includes gathering institutional documents and analysing the content of text in all kinds of media for communication such as books, newspaper and magazine articles, speeches and official documents (Neuman, 2007: 227). As a native Russian speaker, the author is able to critically evaluate such sources without the use of translation services. A critical appraisal of various kinds of documentation regarding PPPs in Kazakhstan and Russia intends to give the study much depth.

The interplay between the data collection from interviews and documentary analysis is that one technique complements another. For example, policy documents in Kazakhstan and Russia say little about risk mitigation in the course of PPP project implementation, and the documentary analysis has revealed this. However, additional risks that a partnership faces are a real challenge that management has to address by interacting with multiple PPP stakeholders. To this end, the researcher used in-depth interviews in order to obtain the necessary data regarding respondents' perceptions of risk mitigation and the ways how to better manage risks.

Yet an additional argument that highlights the need for two data collection methods is that documentary analysis has its limitation as it describes only what is in the text. 'It cannot reveal the intentions of those who created the text or the effects that messages in the text have on those who receive them' (Neuman, 2007: 236). To overcome certain

limitations of chosen data collection methods, this research employs data triangulation. Data triangulation, i.e., the use of different data sources, permits further enriching the knowledge by combining different sorts of data (Denzin, 1989: 237-241; Flick, 2009: 444-445).

The use of two data collection methods may lead to three types of results: converging results, complementary results and contradictions (Flick, 2009: 450). For example, a comparison of interview results with the data in policy documents, company reports and analytical papers may reveal discrepancies between the government understanding of PPP policies and management issues, on the one hand, and the PPP actors' perception of these policies and issues, on the other hand. In other cases, results of different methods of data collection may complement each other. Identification of differing data or of complementary data by using triangulation, rather than interviewing the largest possible number of respondents, makes the study more informative and contributes to the more effective production of knowledge (Flick, 2009).

In addition to interviews, the *focus group* method could provide a possibility for collecting primary data. However, this method is not feasible as managers of partnership projects, experts of national and regional PPP centres and government officials are physically located in different cities across Kazakhstan and Russia, making it unlikely that respondents may be available for participation in the focus group. Also, a researcher may use the focus group method when he/she wants to obtain an opinion from individuals who belong to a certain social group (i.e., group members should be homogenous), and wants them to inspire each other with ideas, and, thus, generate an in-depth discussion (Flick, 2009: 300). Since respondents in this research are individuals who are not a part of any specific social group, the researcher has rejected the focus group method as inappropriate. On the contrary, an in-depth interview is the most suitable technique for this research as the goal is to gather actors' unique opinions and experiences, rather than the views that are representative of the broader social group.

In summary, data collection methods have to be consistent with the type of research question. The qualitative nature of the research question in this thesis has determined the choice of interviews as a main instrument that permits the researcher to capture

participants' meanings and understanding of PPP management challenges.

3.4.2 Participant selection

This research follows the principle of gradual selection of respondents that is based on the notion of the relevance of cases and material to research objectives instead of participants' representativeness (Flick, 2009: 120-122). The researcher has employed *purposive (or purposeful) sampling* and, in accordance with this approach, the researcher has made certain sampling decisions during and as a result of data collection and analysis (Patton, 1990; Neuman, 2007: 142-144; Flick, 2009: 125).

In both countries the researcher has selected three groups of respondents for an interview. The first group includes key project actors of a private partner in a PPP, at the senior management level (director or deputy director) and/or middle management (head of a department or a section).

The second group includes stakeholders from the government, such as experts from the department responsible for supervision of PPPs within the Ministry of Transportation of Kazakhstan. This group also includes officials from a regional or city government that has become a partner in a PPP. The city government of St. Petersburg in Russia is an example of municipal government that in October 2009 has signed a PPP contract aimed at reconstructing *Pulkovo* airport located within the city limits.

The third target group for interviews is the staff in specialised national and regional PPP centres in Kazakhstan and Russia that are engaged in PPP project selection, evaluation and monitoring. The main criterion for selection of respondents from the government agencies, national and regional PPP centres was how closely a person is involved in partnership project evaluation and/or monitoring of project implementation and/or resolution of disputes related to PPP management.

The number of interviews is five per sample in each country (i.e., 15 in each country). This results in a total of 30 interviews for this study.

3.4.3 PPP project selection

This section highlights the reasons why the researcher has selected certain PPP projects for the study. The selection aimed to ensure that projects permit cross-country and cross-sector comparisons in the area of PPP governance. Hence, the sectors in the two countries should be similar.

The selection has begun with reviewing the PPP projects in Kazakhstan as the nation has a much smaller number of projects as opposed to Russia. In 2012, Kazakhstan had four ongoing PPP projects. The researcher has rejected two of them. These are the airport construction and operation in the city of Aktau and the construction and operation of an interregional electrical grid in Northern Kazakhstan. Both projects enjoy high visibility and, hence, the national government's close attention and support, which heavily influences the project management. Also, both projects have offices in remote locations. This logistically makes access to interviewees difficult.

Two other projects in Kazakhstan include:

- construction and operation of a railroad between the station of Shar and the city of Ust-Kamenogorsk in Eastern Kazakhstan, and
- construction and operation of eleven kindergartens in the city of Karaganda.

The first project is in transport infrastructure, whilst the second project is in social infrastructure. The researcher also selected PPPs in Russia from the similar sectors. In the transport infrastructure, this is a project that aims at construction and operation of the first toll viaduct (i.e., an automobile road overpassing the railroad) in Russia. From 2011, a private company called Regional Toll Roads implements this project in the city of Ryazan, which is about 190 km away from Moscow.

In Russia's social infrastructure, the study focuses on a PPP project in St Petersburg, which involves the construction and subsequent maintenance of two kindergartens and three schools for 10 years beginning in 2011 by a holding of Russian companies called *Baltros*.

Table 3.3 highlights the industries and projects in two countries that the researcher selected for a comparative study of PPP management.

Table 3.3 PPP projects selected for the study

Sector	Kazakhstan	Russia
Transport infrastructure	<ul style="list-style-type: none"> • A railroad segment (construction and operation for 23 years, from 2005) - a project in Eastern Kazakhstan • An operator—the company called <i>Doszhan Temir Zholy</i> (Kazakhstan) 	<ul style="list-style-type: none"> • A toll viaduct (construction and operation for 20 years, from 2011) - a project in the city of Ryazan, about 190 km away from Moscow • An operator—the company called Regional Toll Roads (Russia) and its SPV
Social infrastructure	<ul style="list-style-type: none"> • Eleven kindergartens (construction and maintenance for 14 years, from 2011) in the city of Karaganda • An operator—the company called <i>7 Piramit</i> (Turkey) 	<ul style="list-style-type: none"> • Two kindergartens and three schools (construction and maintenance for 10 years, from 2011) in St Petersburg • An operator—the company called <i>Baltros</i> (Russia) and its SPV

Source: Compiled by the author

To summarise, the study embraces:

- two countries - Kazakhstan and Russia,
- two sectors in each country - transport infrastructure (a viaduct and a railroad) and social infrastructure (kindergartens and schools), and
- two projects in each country (i.e., one in each sector).

The selection of sectors and projects permits the researcher to successfully reach the following aims. First, it ensures manageability of the study in terms of the appropriate scope of research objectives and the sample size. Second, it provides a choice of typical projects that participants are implementing outside of capital cities and that are not subject to close attention of national governments and related political pressure. Third, it gives a picture of similar, although not identical, projects in the same industries in two countries, which permits meaningful cross-country comparative study.

3.4.4 Project descriptors and the context

3.4.4a Railroad in Eastern Kazakhstan

This project – construction and operation of a railroad between the station of Shar and the city of Ust-Kamenogorsk in Eastern Kazakhstan – is the first public-private partnership in Kazakhstan. The PPP contract was signed 6 July 2005, a year before Kazakhstan had adopted the law on concessions on 7 July 2006 (The Law of the Republic of Kazakhstan ‘On Concessions’, 2006), as a pilot project. The Ministry of Transport and Communication that represented Kazakhstan's government was the original public sector partner with which a private operator – a company called *Doszhan Temir Zholy* – signed a concession for 23 years from 2005 to 31 December 2028.

The project aims to construct a segment of the railroad (about 151 km) in Eastern Kazakhstan in order to shorten and speed up the cargo and passenger transportation in this part of the country. In 2008, *Doszhan Temir Zholy* completed the main construction phase according to the original plan, and from January 2009, the railroad has operated in testing mode. However, the company has not completed all the construction, and it still has to build about 30 km of the railroad. Table 3.4 highlights project features.

A unique project feature is that it utilises the build–own–operate–transfer (BOOT) model according to which a private operator will transfer the constructed assets (i.e., railroad and related facilities) to the government no later than 31 December 2028. This is specified in the 2005 PPP contract, although the 2006 law on concessions has adopted a different (and the only) concession model for Kazakhstan, which is build–transfer–operate (BTO). Hence, the partnership uniquely features private asset ownership for the project's length as opposed to other Kazakhstani projects, in which an operator must transfer a newly built asset to the government immediately upon the completion of construction. The latter applies to the kindergartens' PPP in Karaganda, which Section 3.4.4c highlights. As the national government approved the railroad project prior to the adoption of the 2006 law on concessions, the project's model remains legally valid.

The *Doszhan Temir Zholy'* investors have changed since 2005, and as of 2012, four organisations own an operator's shares of stock. The national government's agency called

Table 3.4 Railroad concession: Summary of key project details

Descriptor	Detail information
Country and city	Kazakhstan, the <i>Vostochno-Kazakhstanskaya oblast'</i> (Eastern Kazakhstan region)
PPP objective	Put together investment to build about 151 km of a railroad and provide long-term passenger and cargo transportation
Capacity	15 trains each way per day
Type of contract agreement between parties	A concession
Implementation model	Build–own–operate–transfer (BOOT)
Concession term	23 years, from 2005
Construction cost	Initial investment was 31.3 billion Kazakhstani tenge (USD \$232.67 million)
Construction phase	Three to four years from 2005 to 2008 (completed in part)
PPP actors	National Ministry of Transportation; Investment Fund of Kazakhstan; the national railroad company <i>Kazakhstan Temir Zholy</i> ; private investors; an operator, <i>Doszhan Temir Zholy</i> with shared ownership by four public and private organisations
Financial structure	Investors' contributions in exchange for the corporate shares of stock (\$9.67 million), plus financing by selling corporate bonds (\$223 million), plus subsequent payments to a concessionaire by railroad users
Government contribution to a PPP	Land for the railroad, plus government guarantees for the corporate bonds worth \$223 million, plus an exemption from corporate income tax, land tax and property tax for 10 years after the service launch
Tariff setting	Tariff setting requires an approval by the government agency responsible for regulation of natural monopolies

Source: Compiled by the author

Investment Fund of Kazakhstan owns 48.94 per cent of *Doszhan Temir Zholy* shares and the national railroad company called *Kazakhstan Temir Zholy* (which is a 100 per cent government-owned corporation) owns another 46.02 per cent. Additionally, two private companies are involved in the investment: a company called *Kazzhol Invest* owns 2.86 per cent of the shares and a company called *Corporation ABE* - 2.18 per cent (Kazakhstan Stock Exchange, 2012).

Originally, funding for the railroad construction came from two sources: equity (4.15 per cent) and debt (95.85 per cent). Investors contributed funds in exchange for the corporate shares of stock (1.3 billion tenge, which was about USD \$9.67 million in 2005). Additionally, to finance the construction, an operator in 2005 sold corporate bonds with the face value of 30 billion tenge (about \$223 million) and the time to maturity of 23 years (Kazakhstan Stock Exchange, 2012).

The company plans to cover operating expenses and receive profit from cargo and passenger transportation, for which *Doszhan Temir Zholy* will enjoy a government-granted monopoly for the project term.

3.4.4b A toll viaduct in Ryazan, Russia

In Ryazan, a city of more than 500,000 people, located about 190 km away from Moscow, in 2011 the local government approved a PPP aimed at constructing and operating a viaduct - an automobile road overpassing the railroad. The toll viaduct will replace an older free railroad crossing. A traditional railroad crossing in Russia is a no-frills facility with a bar that opens and lets the cars cross the railroad for a few minutes. It then shuts and typically cars have to wait a long time (e.g., 30 minutes or longer) before they cross the railroad, whether there is a train or not, because of the safety concerns.

In May 2010, the Ryazan city government approved a concession where a private company called *Regionalnye Platnye Dorogi* (Regional Toll Roads) agreed to build a viaduct at its own expense under the condition that a company would collect a fee from each vehicle that uses the viaduct, except ambulances, fire trucks and other government

cars, for a 20 year period (Sopryakov, 2012). Upon the project's completion, the operator must transfer the facility ownership to the municipal government.

Russia's federal law on automobile roads requires that an alternative, free of charge railroad crossing should be available within close proximity to a toll viaduct (*Federalnyi Zakon #257-FZ*, 2007). Because an alternative free railroad crossing in this case is available, a driver who needs to cross the railroad in Ryazan has a choice: use a modern toll crossing with no wait or a free old-fashioned crossing with unpredictable waiting time. However, to use an alternative free crossing a driver will have to drive about 7 kilometres more.

The project exclusively uses private financing, which the non-governmental pension fund called *Norilskiy Nickel* provides. The pension fund is affiliated with a large Russian corporation *Norilskiy Nickel* that is one of the major nickel producers in the world. The volume of investment (i.e., construction cost) is 250 million rubles (about USD \$8.2 million (Sopryakov, 2012)). To implement a project, the private sector partner has formed an SPV - a stand-alone company called *RTR-Ryazan*.

The project documentation that is available on the corporate Web site claims that a project is a public-private partnership, but is not a concession because it is not using the provisions of Russia's federal law on concessions. The reason for this claim is that the municipal government does not extend any funding to the private sector partner.

This claim deserves further explanation as it opens a loophole for future PPP projects. As of 2012, the Russian federal legislation includes a few 'grey areas' regarding PPPs. First, it does not define a public-private partnership. Second, it defines a concession as a project that was formed and operates according to the federal law on concessions. This means that a concession is a project that draws some forms of government financial support, which the law specifies (*Federalnyi Zakon Rossiyskoy Federatsii #115-FZ*, 2005). Where the partners do not use the government financial support to a PPP, this permits them to argue that a project is not a concession.

The project uses the build–own–operate–transfer (BOOT) model, in which the private sector partner will own the newly built viaduct for the full project's length.

Table 3.5 delineates the essential project features.

Table 3.5 A toll viaduct in Ryazan, Russia: Key project details

Descriptor	Detail information
Country and city	Russia, Ryazan
PPP objective	Draw private funds in order to replace an older free railroad crossing with a modern toll viaduct and ensure its long-term operation
Capacity	25,000 cars per day
Type of contract agreement between parties	A concession (although partners claim that they use a non-concession contract)
Implementation model	Build–own–operate–transfer (BOOT)
Concession term	20 years, from 2012
Construction cost	250 million Russian rubles (USD \$8.2 million)
Construction phase	One to two years
PPP actors	Ryazan municipal government; a private operator Regional Toll Roads; its SPV <i>RTR-Ryazan</i> ; a private investor - <i>Norilskiy Nickel</i> pension fund
Financial structure	Private investor financing, with subsequent collection of tolls by a concessionaire
Government contribution to a PPP	The government temporarily provides land for a viaduct. After the project terminates, an operator transfers the facility and land to the municipal government
Tariff setting	Toll setting requires approval by the municipal government

Source: Compiled by the author

3.4.4c Eleven kindergartens in Karaganda, Kazakhstan¹

Each of the 11 new kindergartens will provide care for 320 children, with a total capacity of 3,520 children (*Stroitel'stvo i ekspluatatsiya kompleksa detskikh sadov v*

¹ The author wrote the text of this Section 3.4.4c in 2012. The text of this section subsequently has been included in the article co-authored with Nada Kakabadse, which *Public Management Review* plans to publish in 2013 (Mouraviev and Kakabadse, 2013, in press). The author certifies that the text in this section is his original contribution to the thesis.

gorode Karagande po skheme kontsessii [Kindergartens' PPP], 2011). Although all kindergartens will be within the city limits, the regional (rather than the municipal) government's Education Department has assumed the role of the public sector partner. The municipality (rather than the regional government) has provided land for constructing each kindergarten, and will build a utilities infrastructure including a water supply and sewage system, power lines and telecommunication networks.

The private sector partner must construct the kindergartens, equip them (one time only) with furniture and items needed for proper childcare and provide building operation and maintenance during the concession term. Operation and maintenance include cleaning services inside the kindergartens and the adjacent areas, snow removal and maintenance of electrical, plumbing and heating equipment. Additionally, a private partner must complete a cosmetic type of renovation twice during the concession term, i.e., every five years, and a major renovation of kindergartens two years prior to the end of the concession (Kindergartens' PPP, 2011).

The regional Department of Education (rather than the municipal) is responsible for providing educational services, health care and food for children and for purchasing replacement furniture and childcare items as needed (Ibid.).

The government, at its own expense, has specified all technical details of construction including the architectural design of buildings, their exact dimensions and the layout of land plots, car parking and lighting. The government has determined the total construction cost to be 5.83 billion tenge (USD \$39.12 million) (Ibid.). This amount includes construction costs only and does not include maintenance costs for the concession term that should not exceed 20 years, as per the government project proposal. The Kazakhstan law requires that a concessionaire must have in its possession and invest in construction no less than 20 per cent of its own funds (out of the project construction cost), whilst an investor may borrow the remaining 80 per cent (The Law of the Republic of Kazakhstan 'On Concessions', 2006).

The project will take the form of build-transfer-operate (BTO) meaning that a private company will have to transfer the property ownership to the government upon completion of construction, according to Kazakhstani law.

The government has determined its compensation to a concessionaire to be 5.34 billion tenge (\$35.84 million), which is 91.6 per cent of the total construction cost. It has scheduled its payments to begin from year three, i.e., after a private investor completes the construction (Kindergartens' PPP, 2011).

Table 3.6 highlights project features.

Table 3.6 Kindergartens' PPP: Summary of key project details

Descriptor	Detail information
Country and city	Kazakhstan, Karaganda
PPP objective	Attract financial resources to build 11 kindergartens and provide long-term maintenance
Capacity	320 children in each kindergarten, a total of 3,520 places
Type of contract agreement between parties	A concession
Implementation model	Build–transfer–operate (BTO)
Concession term	Up to 20 years, from November 2011. The final contract was signed for 14 years.
Construction cost	5.83 billion Kazakhstani tenge (USD \$39.12 million)
Construction phase	One to two years
PPP actors	Regional government of the <i>Karagandinskaya oblast'</i> ; Karaganda municipal government; a private investor/operator called <i>7 Piramit</i> (Turkey)
Financial structure	Private investor financing, with subsequent government payments to a concessionaire, plus revenue from childcare fees, plus potential revenue stream from non-core PPP services
Government contribution to a PPP	Land for each kindergarten plus financial outlays to a concessionaire of 5.34 billion tenge (USD \$35.84 million)
Tariff setting	Childcare fee setting requires government approval; government permits annual fee adjustment for inflation

Source: Compiled by the author

3.4.4d Two kindergartens and three schools in St Petersburg, Russia

In 2011, the St Petersburg city government approved a partnership with a management company called *Peremena* for construction and subsequent maintenance of two schools and three kindergartens for a 10 year period (GK '*Baltros*' *investiruyet 2.2 milliarda rublei v shkoly i detskiye sady*, 2011). *Peremena* is an SPV of *Baltros*, which is a private holding that includes development companies, housing construction companies, two companies making construction materials, an information technology firm, an energy company and a real estate agency.

An essential detail of why the private sector partner is interested in the project refers to the range of its companies and business fields, namely to *Baltros*' business as a developer of urban areas in St Petersburg. The PPP project was designed exactly in one of the new city areas that *Baltros* has developed. In this area that lacks social infrastructure, the company has built significant volume of housing, a part of which, as of 2012, was still for sale. Naturally, new schools and kindergartens can considerably raise the interest of prospective homebuyers in the area.

The private sector partner has determined the construction cost of each school at 770.3 million rubles (USD \$25.7 million) and each kindergarten at 196.3 million rubles (\$6.5 million) (GK '*Baltros*' *investiruyet 2.2 milliarda rublei v shkoly i detskiye sady*, 2011). Adding the operator's maintenance costs, the government will pay 1,284 million rubles (\$42.8 million) for a school and 327 million rubles (\$10.9 million) for a kindergarten during the partnership term. The total government payment in nominal prices is \$118.3 million, which is 67 per cent higher than the \$70.9 million construction cost (Ibid.).

To finance the project, the private sector partner uses its own funds and bank loans whilst the city government will make all payments to recoup private investment. Although the public kindergartens charge childcare fees, the fee level is unimportant for an operator as it will receive all payments directly from the government. Public schools do not charge any fees.

Table 3.7 illuminates project details.

Table 3.7 Kindergartens and schools in St Petersburg: Summary of key project details

Descriptor	Detail information
Country and city	Russia, St Petersburg
PPP objective	Attract financial resources to build two kindergartens and three schools and provide long-term maintenance
Capacity	110 children in each kindergarten and 825 children in each school
Type of contract agreement between parties	A concession
Implementation model	Build–transfer–operate (BTO)
Concession term	10 years, from 2011-2012, after completion of construction
Construction cost	\$70.9 million
Construction phase	One to two years
PPP actors	St Petersburg city government; a private investor/operator <i>Baltros</i> ; its SPV <i>Peremena</i>
Financial structure	Private investor financing (mainly, bank loans); with subsequent government payments to a concessionaire; customers do not pay any fees to a concessionaire
Government contribution to a PPP	Land for each kindergarten and school plus financial outlays to a concessionaire of \$118.3 million
Tariff setting	Not applicable as customers will pay childcare fees directly to public kindergartens, not to a concessionaire. Public schools do not charge any fees.

Source: Compiled by the author

The project employs the build-transfer-operate model: a private company must transfer the property ownership to the government upon completion of construction. An operator must undertake concurrent construction of two kindergartens and three schools and all of them should begin the service provision in 2012-2013.

3.4.5 Specific considerations

The researcher conducted the study in two countries – Kazakhstan and Russia. He examined two PPP projects in each country, or four in total.

In each country the researcher conducted 15 interviews with key PPP actors. It is likely that this has led to data saturation.

The researcher had experience with interviewing more than 35 respondents during previous academic research in Russia and Kazakhstan. Therefore, the researcher was in a position to capitalise on his experience for the benefit of this study.

The researcher attempted to seek the respondents' explicit consent to record (tape) an interview. In those cases when a respondent disagreed, the researcher captured the interview data by taking notes. The researcher conducted interviews in Russian because this is his mother tongue. As Russian is widely used in Kazakhstan in both the home and office environment, this allowed the researcher to conduct interviews without a language barrier.

The researcher ensured primary data authenticity by accurately translating from Russian to English. After the interviews, the researcher himself translated the data to English. As the researcher possesses native Russian language skills and a high degree of fluency in English, the researcher was able to accurately capture primary data and translate them in English with no distortions.

3.5 Pilot Study

3.5.1 Purpose and participants

The researcher has conducted a pilot study in order to obtain initial understanding of the range of issues involved in PPP management. A pilot study is a preliminary investigation that carries certain advantages. It broadens an array of data sources; it allows a researcher to immerse in data and to get a feel of the directions in which the data search should proceed; it facilitates the choice of questions that a researcher plans to ask during interviews; and it facilitates corroboration of evidence.

To this end, the researcher has conducted *episodic interviews* (Jovchelovitch and Bauer, 2000; Flick, 2000; Flick, 2009). Flick has extensively described the details of this method (2009: 185-191). The episodic interview aims to obtain two kinds of knowledge – episodic and semantic. 'Whereas episodic knowledge is organised closer to experiences and linked to concrete situations and circumstances, semantic knowledge is based on assumptions and relations, which are abstracted from these and generalised' (Flick, 2009: 185).

The first element of an episodic interview aims at getting 'episodic-situational forms of experiential knowledge' (Flick, 2009: 186). PPP actors' reflection of episodes in which participants had personal experiences is a valuable source of data. The nature of this data collection method fits well with the objectives of this research as it intends to explore management experiences and perceptions of challenges to PPPs and how actors adapt to these challenges. Thus, part of the data is linked to specific circumstances in which these PPP challenges have emerged and transpired, and accessing these data serves the study's research objectives well.

The second element of an episodic interview includes concrete pointed questions in order to explore concepts and their relation to each other. This element aims at accessing semantic parts of knowledge (Flick, 2009).

It is the combination of both elements that makes an episodic interview an effective research tool. An episodic interview '...includes a combination of narratives oriented to situational or episodic contexts and argumentation that peel off such contexts in favour of conceptual and rule-oriented knowledge' (Flick, 2009: 186).

The researcher has selected the participants for the episodic interviews as follows.

The first interviewee is a member of the Board of Directors of the Kazakhstani corporation called *Doszhan Temir Zholy*, located in the city of Almaty. This company is the PPP operator that is responsible for the construction and operation of a railroad between the station of Shar and the city of Ust-Kamenogorsk in Eastern Kazakhstan. The interviewee's extensive experience in implementing a PPP project is invaluable for the subsequent data search and analysis.

The second interviewee is the former senior manager of the Kazakhstan National PPP Centre that is located in Astana, the capital city of Kazakhstan. As the principal

task of the PPP Centre is to assist the government agencies in project preparation and obtaining approvals for partnership project proposals, this participant was involved in the oversight and guidance of these activities. His exposure to episodes regarding how the government agencies collaborate in the design of a PPP project is a valuable experience that might guide further data research. Table 3.8 summarises attributes of the interviewees' positions, their organisations and their areas of expertise.

Table 3.8 Attributes of interviewees selected for a pilot study

#	Interviewee's position, company and location	Interviewee's areas of expertise	Industry or agency
1	Member of the Board of Directors, <i>Doszhan Temir Zholy</i> . Office is located in the city of Almaty, Kazakhstan	<ul style="list-style-type: none"> • PPP project launch • PPP project implementation • Interaction between partners in a PPP 	Railroads (construction and operation)
2	Senior manager, National PPP Centre located in the city of Astana, Kazakhstan	<ul style="list-style-type: none"> • PPP project design • PPP approval process • Interaction between government agencies 	Government agency

Source: Compiled by the author

3.5.2 Preliminary findings

The researcher asked respondents questions regarding the four pre-determined categories:

1. What issues seem to occupy most attention of PPP actors?
2. How can a respondent prioritise these issues?
3. Who are the PPP key actors?
4. What organisational (institutional) documentation may be useful for a PPP study?

Respondents provided their answers that the researcher subsequently placed in appropriate categories and summarised. The researcher compared respondents' answers in order to identify commonalities and differences. The researcher has not found any major discrepancies, although there were a few differences in how the respondents prioritised PPP management issues. It is likely that these differences stem from different roles and positions that the two respondents have in the PPP field. The preliminary findings have shown the following.

The respondents have identified and subsequently prioritised the following issues: a) bureaucratic and lengthy interaction between the government agencies during a PPP project preparation; b) a difficult process of arranging financing for a project; c) problems with the PPP contract provisions that occasionally omit important points, which requires negotiation between partners after a project begins; d) the government strict regulations of tariffs for the PPP services.

Although respondents did not use the terms 'risk management', 'risk allocation' or 'partner interaction', all four sets of issues fall in the domain of risk management and partner relations, which are the key themes for this study. This has confirmed the direction of further research in terms of selection of principal themes and issues.

The preliminary findings also confirmed and expanded the range of organisations and interviewees which are useful for this study. Specifically, the respondents underscored that the regional governments (in addition to the government ministries) play the role of the public sector partner. This is the case of an approved PPP that aims at building kindergartens in the city of Karaganda in Northern Kazakhstan. Hence, the preliminary findings pointed to the need to expand the range of possible interviewees.

Findings regarding PPP institutional documentation also confirmed the need to do documentary analysis. In addition to laws and government regulations that are widely available, respondents pointed to annual reports that PPP operators prepare. These reports may be useful as they contain financial and analytical data. Additional organisational documentation may include analytical reports on specific issues that PPP operators, national and regional PPP centres occasionally release.

The benefits of the pilot study are as follows. It has confirmed the direction of the data search with the focus on partner interaction issues and risk management. It has

expanded the range of possible interviewees to be included in the study. It has confirmed the need for documentary analysis, in addition to in-depth interviews as the principal data source. Finally, it has facilitated the development of categories for the interview data. Section 3.6 will discuss these categories, along with the methods for data analysis.

The differing respondents' views, i.e., the private contractor's perspective versus the government agency's perspective, have ensured diversity of data sources, whilst the employment of the episodic interview method in a pilot study has permitted the researcher to expand and enrich approaches to data collection. 'By linking narratives and question-answer sequences, this method realises the triangulation of different approaches as the basis of data collection' (Flick, 2009: 190).

3.6 Methods for Data Analysis

Qualitative thick description is the foundation of data analysis in this research (Holloway, 1997; Patton, 2002; Seale, 2004). Thick description refers to the detailed account of interviewees' experiences in which the researcher makes explicit the patterns of cultural and social relationships and puts them in the context (Holloway, 1997). In this study, the researcher will carry out data analysis not by using the storytelling approach, but an analytical framework approach (Patton, 2002: 437-440), specifically, by a thematic analysis that involves providing the detailed account of actors' experiences and putting them in context (Miles and Huberman, 1994). Initially, the researcher has drawn the themes and analytical framework from the literature appraisal and subsequently integrated adjustments to the themes and the framework as a result of gradual data collection and evolving analysis.

This corresponds well to the purpose of this study to investigate the actors' experiences and perceptions of management challenges in the context of Kazakhstan and Russia because the researcher grouped perceptions and opinions by themes. Each theme reflects a PPP management issue or a set of issues. Unlike qualitative thick description that anthropological studies use (Holloway, 1997; Seale, 2004), the approach to data analysis in this thesis does not require capturing each and every small

detail of what an interviewee said. As the researcher planned to examine data in the framework of a thematic analysis, which this section describes below, the researcher coded interview data and placed different chunks of data in different categories.

The researcher has determined the initial themes and categories as follows: examples and sources of opportunistic behaviour in a PPP; short-run and long-run implications of partner opportunistic behaviour; interaction issues between partners in a PPP; tools and methods for dispute resolution between partners; emerging risks and risk management in a PPP; partnership critical success factors. In order to accommodate and analyse qualitative data, the researcher has drawn these six specific areas from the literature appraisal and the framework set by the guiding theory, i.e., the PPP governance concept. However, later on the researcher has reduced the number of themes from six to four by incorporating some issues in the remaining themes and by adjusting some themes. As a result, the researcher has determined the four following principal themes for investigation:

- 1) Opportunistic behaviour in a PPP;
- 2) Interaction between partners in a PPP;
- 3) Risk management in a PPP; and
- 4) Constraints and impediments to effective PPP governance.

Further, the research employs the process of data analysis, which includes the following stages.

The first stage includes preliminary analysis of themes that the researcher identified as a result of the literature appraisal and revelation of literature gaps. This stage generates the first order of data categories within each theme.

The second stage involves the pilot study, i.e., two interviews of exploratory nature. At this stage, the researcher tests the relevance of theoretical insights drawn from the literature assessment, identifies issues that will guide further research and integrates additional sub-themes in the research design.

At the third stage, the researcher develops a few categories within each theme. This permits him to structure data for further analysis.

At the fourth stage, the researcher enriches categories by their properties. The researcher shapes categories as a result of receiving additional data from interviews and

from documentary analysis. Additional data may confirm initial observations or, alternatively, additional data may disagree with initial data and this leads to adjustments in categories, earlier identified patterns, dependencies or relationships. It also leads to the need to obtain more data, so that they may contribute to deeper understanding of evolving patterns. At this stage, the researcher develops a set of categories in order to capture various kinds of issues that the researcher has identified during interviews and documentation review. The researcher then prioritises categories in order to separate more important issues from less important, subordinates them, and establishes links between them.

The fifth stage requires setting the limits for themes and sub-themes and setting boundaries for the range of items that are factored in. For example, at this stage the researcher needs to determine the scope of context-specific factors that may influence a specific PPP management issue (such as procedures for risk allocation between partners) and may need to set boundaries for situational factors.

The sixth stage includes writing up brief descriptors of situations that interviewees commonly depict or refer to. The purpose of descriptors is to identify typical issues in PPP management and commonly used ways of adapting to these problems.

At the seventh stage, the researcher makes cross-country comparisons and identifies commonalities and differences in PPP management. The eighth stage involves drawing up models, patterns, and observations that are based on earlier identified commonalities and differences in processes, interactions and relationships. Finally, the ninth stage includes writing the research report.

The data analysis process described above has certain commonalities with the constant comparative method that the grounded theory approach employs for the purpose of generating theory (Patton, 2002; Flick, 2009). Specifically, the constant comparative method implies multiple rounds of iteration marked by gradual changes at each stage. 'Although this method is a continuous growth process – each stage after a time transforms itself into the next – previous stages remain in operation throughout the analysis and provide continuous development to the following stage until the analysis is terminated' (Glaser, 1969: 220, cited in Flick, 2009: 407-408). This feature, i.e., that

previous stages remain in operation throughout the analysis, applies also to data analysis in this thesis (Glaser, 1965).

Having discussed methods for data analysis, the next section highlights how the study ensures its truthfulness. Section 3.7 examines research validity.

3.7 Research Validity

Research validity refers to how truthful the study is (Neuman, 2007: 120). Similarly, Flick argues that 'the question of validity can be summarised as a question of whether the researchers see what they think they see' (2009: 387). In qualitative research, three types of errors may occur: to see a relation or principle where they are not correct; to reject them when they are indeed correct; and finally to ask the wrong questions (Kirk and Miller, 1986: 29-30).

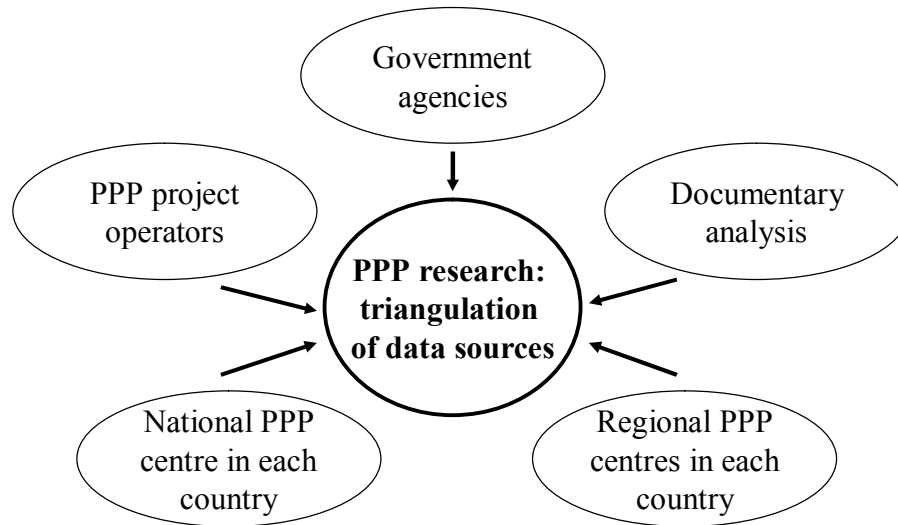
In order to ensure high validity of their research, 'most qualitative researchers concentrate on ways to capture an inside view and provide a detailed account of how those they are studying feel about and understand events' (Neuman, 2007: 120). In methodology of research, this refers to triangulation. 'Triangulation as a keyword is used to name the combination of different methods, study groups, local and temporal settings, and different theoretical perspectives in dealing with a phenomenon' (Flick, 2009: 444).

In this study, the researcher ensures validity by employing multiple data collection methods and data analysis. Figure 3.1 highlights triangulation of data sources.

Figure 3.1 illustrates methodological triangulation in collecting data that this research has employed. The researcher has collected data from a number of sources. They include interviewees from the public sector organisations, such as Kazakhstan's Ministry of Transportation, the government-owned national railroad company, regional and local governments; private operators that implement partnership projects; national PPP centres in both Kazakhstan and Russia; regional PPP centres in each of the two countries; and law firms that are involved in preparation of PPP contracts. Additionally, the researcher has collected data from organisational documentation, such as policy documents, project descriptions, industry and company statistics, analytical and

informational reports and published interviews with the government officials and company experts. Hence, for the purpose of achieving high validity, this research has employed triangulation in data collection and secured multiple data sources.

Figure 3.1 Triangulation in collecting data



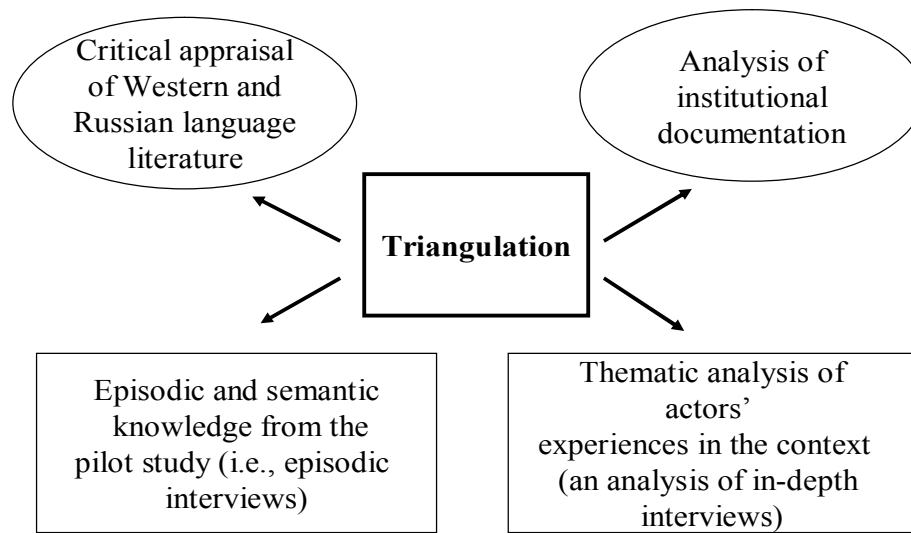
Source: Compiled by the author

In addition to data triangulation, the research has also employed the combination of methods in data analysis, which Figure 3.2 illustrates.

Figure 3.2 shows triangulation in methods of data analysis. The research has begun with the critical appraisal of scholarly literature that resulted in identifying principal streams, themes and gap areas. The researcher paid special attention to the Russian language literature including PPP themes that it highlights and under researched areas. The researcher continued his project by conducting the pilot study, analysis of institutional documentation in Kazakhstan and Russia and thematic analysis which he applied to data from in-depth interviews.

The researcher has borrowed his validity parameters for this study from Ritchie and Lewis (2003) who have described the following tools that are useful for checking the truthfulness of research. They include:

Figure 3.2 Triangulation in data analysis



Source: Compiled by the author

- 'Sample coverage: did the sample frame contain any known bias; were the criteria used for selection inclusive of constituencies known, or thought, to be of importance?
- Capture of the phenomena: was the environment, quality of questioning sufficiently effective for participants to fully express/explore their views?
- Identification or labeling: have the phenomena been identified, categorised and 'named' in ways that reflect the meanings assigned by study participants?
- Interpretation: is there sufficient internal evidence for the explanatory accounts that have been developed?
- Display: have the findings been portrayed in a way that remains 'true' to the original data and allows others to see the analytic constructions that have occurred?' (Ritchie and Lewis, 2003: 274).

By using tools described above (i.e., internal validation) and adopting triangulation of data sources and of data analysis methods, this research aims to ensure corroboration of empirical evidence, meanings and participants' insights and, thereby, reach a high degree of the study's validity.

3.8 Ethical Considerations

For interviewees, participation in interviews in this research has been voluntary, and the researcher sought consent from all respondents prior to interviews (Ritchie and Lewis, 2003: 66-67). The researcher has informed all participants regarding the aims and nature of this study, as well as of the likely duration of an interview and of the researcher's intention to use results exclusively for analytical purposes. In research, it is important to '... protect privacy by not disclosing a participant's identity after information is gathered' (Neuman, 2007: 57). Thus, in this study the researcher has made every effort to assure anonymity and confidentiality of all interviewees, which is in line with ethical standards in research (Ritchie and Lewis, 2003; Creswell, 2009).

The researcher has addressed specific ethical considerations as follows.

Permission requirement. The researcher used personal connections for making contacts with potential interview participants. The author's personal professional and private connections have helped him to identify interviewees in the government agencies, operators' companies and PPP centres in Kazakhstan and Russia. Using referrals, the researcher initially has approached potential study participants over the telephone in order to find out more about their area of expertise, their willingness to engage in a more detailed discussion and to solicit their consent to be interviewed. During the phone conversation, the researcher explicitly has raised a question whether a participant's organisation has a policy regarding interviews to external contacts. In all approached organisations there was no such a policy, and, in these cases, no permission from an organisation was required. After the researcher made initial contact with a participant and received the consent for an interview, together, they mutually selected a date and time for an interview. During the in-person interviews, the researcher asked participants to identify some key actors (normally, with whom they worked) that might be helpful for this study and provide contact information and referrals, which they did. Subsequently, the researcher approached newly identified respondents and asked to interview them using the procedure described above.

Informed consent. To maintain elements of informed consent, the researcher has notified participants of the study's purpose and has provided full identification of the

researcher's identity (Ritchie and Lewis, 2003: 66-67; Sarantakos, 2005; Creswell, 2009: 89-90).

Protection of participants' identity. The researcher analysed the data on an anonymous basis, only specifying the stakeholder group with which the participant is affiliated. The researcher employed the coding system in order to use the data in analysis without revealing the participants' identity. The researcher has replaced real names with code names (Ritchie and Lewis, 2003; Neuman, 2007).

Protection of confidentiality. The researcher did not mention in any documents the name of a participant, the names of their organisations as well as any details that may lead to a breach of anonymity and confidentiality, unless a participant explicitly stated that keeping confidentiality is unimportant (Patton, 2002; Ritchie and Lewis, 2003; Flick, 2009: 42).

Participant's comfort zone. The researcher assured each study participant that his/her participation is voluntary and that he/she has the right to withdraw at any time (Flick, 2009: 41).

Conflicts of interest. There are no conflicts of interest related to the links between the researcher's organisational affiliation and this study.

Researcher bias. By keeping neutrality during interviews, the researcher has taken steps in order to avoid showing any sign of appreciation or disagreement in the course of interviews and in particular, regarding topics of a sensitive or political nature (Patton, 2002; Neuman, 2007; Creswell, 2009; Flick, 2009).

3.9 Chapter Conclusion

In this chapter, the author has discussed his stance regarding research methodology. Throughout the chapter, the author emphasised the key notion regarding the research design, namely that the adopted methodology should be appropriate to the study from the perspective of meeting its research objectives and answering research questions (Flick, 2009: 33).

The starting point in the research methodology design was to identify the author's position regarding the nature of reality. This refers to the choice of an ontological

paradigm, positivist or phenomenological. The author believes that reality is socially constructed and subjective, and in line with this, the author has adopted the phenomenological paradigm.

The author's phenomenological position regarding philosophy of research has had the defining influence on elements of methodology that the author subsequently has chosen. In reference to epistemological positions, i.e., about the relationship between the knower and the known, the phenomenological approach has determined the author's stance that a researcher is part of what he/she is researching and a researcher interacts with the study participants.

The author's philosophical positions have determined his choice in favour of the inductive approach to research process. The author begins research with observations of empirical data. Instead of putting forward a hypothesis upfront, the study makes detailed observations of PPP management issues in the context of Kazakhstan and Russia by collecting data from various sources. As research progresses, the researcher develops more abstract ideas and theories. This way theory builds from the ground up, based on the collection and observation of empirical data.

As this study uses subjective data, the author has adopted a qualitative research approach. The research objective was to not make some generalisations based on precise numerical measures, but to gain insights into how participants understand management challenges to PPPs. Furthermore, a comparative analysis of Kazakhstan and Russia, in terms of PPP management perceptions and experiences, has also determined the choice of qualitative paradigm for the study.

Methodology also requires selection of appropriate methods of data collection and data analysis. The author has adopted in-depth semi-structured interviews as the main data collection method as this study investigates perceptions and opinions, not just mere facts and figures. The author has identified and discussed in detail the reasons that make this method most appropriate for the research. Additionally, the author employs content analysis that includes critical appraisal of extant literature and various kinds of organisational documentation.

In designing methodology for this research, the author has paid special attention to ensuring triangulation in both data sources and methods of data analysis. Multiple

sources of data for this study include interviewees from the public sector (such as ministries, government-owned companies, regional or local governments); private operators that implement partnership projects; and national and regional PPP centres in both Kazakhstan and Russia. Review of organisational documentation complements the interview data. The researcher achieves triangulation of data analysis by combining constant comparative method with episodic interviews from a pilot study, and by critical assessment of scholarly literature from both Western and Russian language sources. This way triangulation ensures corroboration of evidence and permits the researcher to reach a high degree of validity of the study.

The following chapter presents an analysis of the qualitative data that the researcher has collected during the in-depth interviews.

CHAPTER FOUR: ANALYSIS

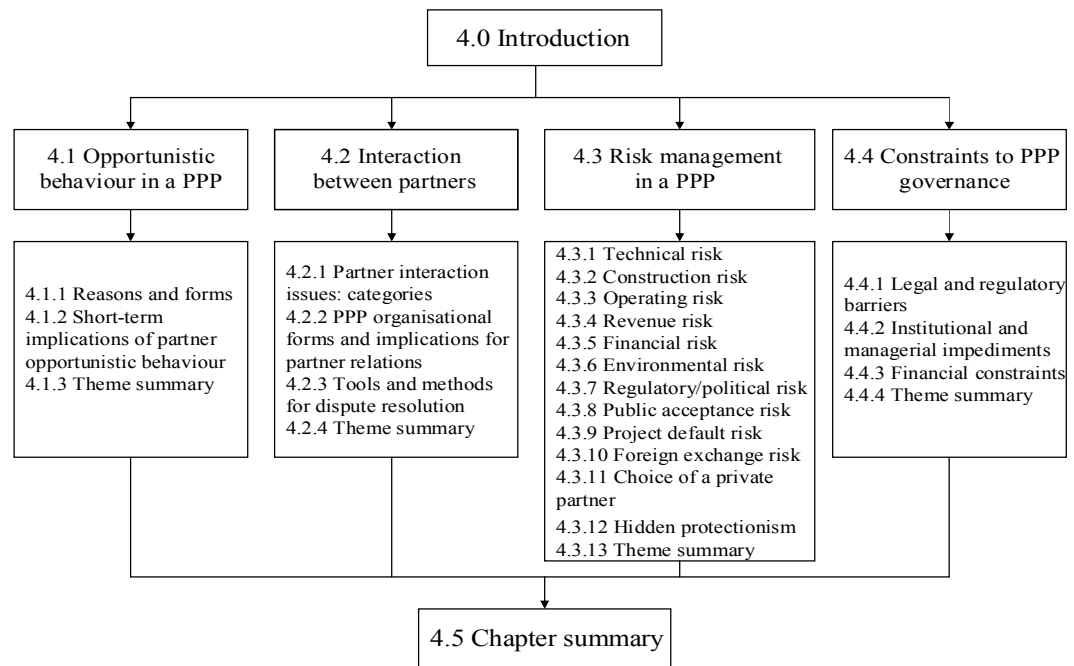
4.0 Chapter Introduction

This chapter delineates the results of in-depth interviews that the researcher conducted with the managers and key PPP project staff in Kazakhstan and Russia, as well as experts in the public agencies, national and regional PPP centres, law firms and non-governmental organisations that were or are involved in partnership governance. Using the participants' own words and opinions, the chapter captures their experiences in the exercise of PPP management and their perceptions of issues facing the partnerships. The chapter highlights the four key themes including:

- Opportunistic behaviour in a PPP;
- Interaction between partners in a PPP;
- Risk management in a PPP; and
- Constraints and impediments to PPP governance.

Figure 4.1 depicts the chapter's structure.

Figure 4.1 Chapter Four outline



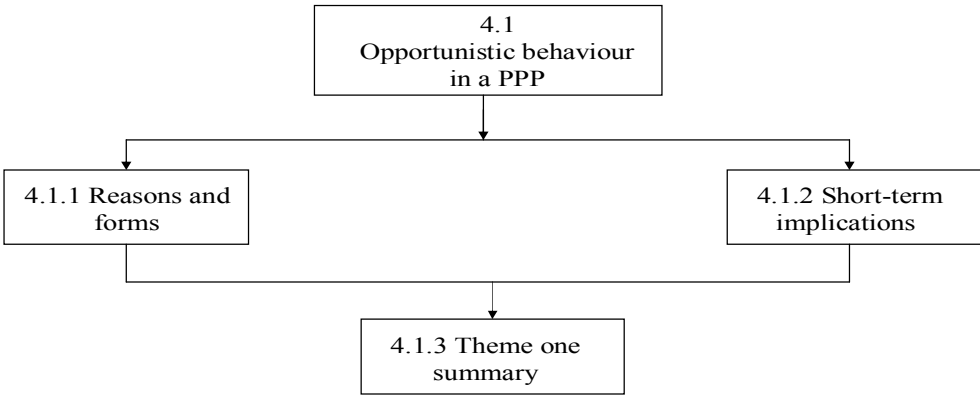
Source: Compiled by the author

Having presented a thematic analysis of empirical data, the following chapter focuses on discussion, whilst the subsequent chapter draws a PPP governance model and identifies PPP critical success factors.

4.1 Opportunistic Behaviour in a PPP

This theme is structured as follows. The discussion begins by highlighting the differences between opportunistic behaviour and defensive behaviour. It then illuminates opportunism in the form of the public sector partner's pressure and outlines how a private partner exhibits opportunism in a tariff setting. The theme concludes with the summary. Figure 4.2 illuminates the structure of this theme.

Figure 4.2 Theme's structure: Opportunistic behaviour in a PPP



Source: Compiled by the author

For convenient affiliation of data with a project, the researcher has assigned each project a code, as Table 4.1 shows.

Table 4.1 PPP projects' codes

PPP project	Project code
Railroad segment in Eastern Kazakhstan	KZ-1
A toll viaduct in Ryazan, Russia	RU-1
Eleven kindergartens in Karaganda, Kazakhstan	KZ-2
Two kindergartens and three schools in St Petersburg, Russia	RU-2

Source: Compiled by the author

4.1.1 Opportunistic behaviour in a PPP: Reasons and forms

Opportunistic behaviour in a PPP is the first theme that emerged during the interviews. With regards to the PPP research, the author adopts a broad operational definition of opportunism that refers to a partner's method of pursuing self-interest with or without guile. Opportunistic behaviour may manifest itself in the holdup problem (Besanko *et al.*, 2009) where a party in a contractual relationship may take advantage of the other party's vulnerability owing to high asset specificity (i.e., where an asset is unique to a certain project and cannot be easily sold or used in other projects). Besanko *et al.* (2009) assert that an incomplete contract offers a possibility for one party to exploit weaknesses of the other party's position whilst the transactions are in progress. Hence, from a strategy point of view, parties to a contract are generally interested in contemplating all relevant contingencies and determining a set of actions for every contingency. Otherwise, an incomplete contract opens doors for the holdup problem and other manifestations of opportunistic behaviour: "A firm holds up its trading partner by attempting to renegotiate the terms of a deal" (Besanko *et al.*, 2009: 140). Section 5.1 in Chapter Five provides the detailed discussion of opportunism's conceptualisation and its manifestation in partnerships.

Whilst typically used in the literature for describing the occasional pursuit of self-interest by either party in a PPP, the term 'opportunistic behaviour' overlaps with the term 'defensive behaviour'. Researchers define the latter as the reactive defence of self-

interests, rather than their active pursuit (Ashforth and Lee, 1990). Defensive behaviour avoids action via over-conforming, smoothing, stretching and stalling; avoids blame via playing safe, misrepresenting and escalating commitment; and avoids change via resisting change and protecting turf (Ashforth and Lee, 1990). To summarise, whilst defensive behaviour mostly aims at avoiding action, blame or change, opportunistic behaviour may also include the similar forms, although it mostly aims at direct or indirect gain.

The chapter now turns to the discussion of various forms that opportunism in PPPs under investigation manifested.

4.1.1a Opportunism in the form of the public sector partner's pressure

This section discusses examples of opportunistic behaviour that manifest in the public sector partner's pressure on a private party. The first subsection illuminates how the government and its private sector partner dealt with the public acceptance of a PPP project. The second subsection delineates how the government used its pressure in a few partnerships to achieve faster results.

Dealing with the public acceptance of a PPP

Interviewees from the toll viaduct project in Russia highlighted an example where the government exerted significant pressure on the private sector partner in order to have the latter deal with the emergent issues related to public acceptance of a PPP project. Interviewees asserted that an operator has to maintain an extensive Web site, which is a costly and labour-intensive effort, in order to enhance the public awareness and the public acceptance of the project, although the PPP contract did not explicitly specify this responsibility. It is likely that the company's effort stems from the informal government pressure. The following excerpt shows the interviewee's opinion:

'We have tons of documents on the corporate Web site with all kinds of extensive explanations of why this project is necessary and how we are going to implement it. Usually, companies don't do this. But we even have a blog for those who want to make comments. Can you imagine how much it costs us to

maintain a good Web site, read citizens' comments and reply to their concerns?'

RU-1-Alexander

Additionally, the same respondent expressed his concerns regarding free services that the company has to provide for a few months after the service launch:

'The country is building a market economy, and people need to pay for everything. We are a private company making a large investment instead of the government. Why do we need to provide the service free of charge? Well, we can do it and we already agreed to it. But not for long. We just need to see how this all works.'

RU-1-Alexander

One more excerpt highlights the reason underlying the decision to provide a free service:

'Of course, the government wants to satisfy people with a new viaduct. But they [the government staff] keep telling us that our company [an operator] implements the project and we will get paid in the future, and we have to deal with all the issues. The government kind of supervises our work.'

RU-1-Victor

The above excerpts are illustrative of government behaviour influencing the private sector partner in a certain way: the latter agreed to provide free services and absorb the cost. In a trade-off between higher revenue and greater public acceptance of the project, the private party decided to give up some revenue. However, it is unlikely that the private sector partner voluntarily engaged in this trade-off: the company's choice to publicise the toll facility and increase the public acceptance of the project was induced by the government, which opportunistically shifted the effort and its cost to an operator.

Government external pressure to achieve faster results

Another example that illustrates government pressure on a private party is associated with the quick results that the government planned to receive in the project aimed at the construction and operation of 11 kindergartens in Karaganda, Kazakhstan. The way the government designed this project was that the private sector partner must

undertake and complete the construction of all eleven kindergartens simultaneously, rather than one after another. An interviewee shared his concerns regarding the government plan to undertake the simultaneous, rather than sequential, construction of all facilities:

'The government is eager to report that it did something good for people. The government does not spend any money right now as it is the private investment. And because it's not its own effort, the government wants us to complete the construction as soon as possible, and all kindergartens must be completed at once.'

KZ-2-Darkhan

The excerpt shows that the government-designed project structure leads to elevated costs and problems with knowledge transfer. As all 11 kindergartens are to be constructed simultaneously during approximately one year, an operator cannot use the same equipment at each construction site, as would be possible in the case of sequential construction. This increases construction costs because an operator has to purchase and/or rent the same sets of construction equipment and tools and hire a large number of workers for all 11 sites. Additionally, the private sector partner will be unable to apply its own technical expertise gained during the construction process because construction of all 11 kindergartens will happen simultaneously. The same applies to the inability of knowledge transfer to the kindergartens' operation and maintenance: all kindergartens are scheduled to begin their operations simultaneously. Thus, this PPP missed an opportunity for public sector cost reduction due to the project structure that involves simultaneous, rather than sequential, construction of 11 kindergartens. In turn, the project structure stems from the government pressure to achieve quick results.

Another respondent expressed his concerns of a similar nature, i.e., that the government tends to exert both formal and informal moral pressure attempting to achieve faster outcomes:

'The government encourages us to complete the construction sooner than the planned deadlines. We talk about this all the time. But it costs money to do things faster.'

RU-2-Vladimir

On the same project, another interviewee commented as follows:

'The city government wants to show how it cares about people and because of this it keeps pushing us regarding the deadlines. They [government staff] always ask: "When? When will you finish this up?" They keep saying that we need to hurry up and that a delay is not an option. I know they realise that construction costs money but I don't think they care about our expenses.'

RU-2-Sergey

The excerpts above are indicative of the problems that might arise where the government pushes to achieve results faster. Although the project goals remain the same and the government does not expect anything different or additional from the private sector partner, government requests, if followed, impact work schedules and volumes, logistics schemes and may significantly alter (and even disrupt) the operator's established relations with workers and suppliers. Hence, in this case the government opportunistic behaviour manifests itself in assigning heightened priority to achieve fast results by ignoring the private partner's efforts and costs that are required to achieve these results.

Another interviewee has experienced the same kind of government pressure aimed at speeding up the project's progress as the following excerpt shows:

'The government naturally wants to launch the service as soon as possible. And it wants to open all facilities at once. But for us it means that we need to hire a lot of construction workers and then let them go after they are done with the job. We could have moved the same workers from one site to another but I don't think it's possible in this project. In essence, different workers will be doing the same kind of job at the same time at different construction sites. I don't think that this is the best way of using workers but what can we do? The government wants us to build all facilities within a year.'

KZ-2-Talgat

The above excerpt demonstrates the government's neglect of cost reduction opportunities. It shows that the government's opportunistic intention to report results sooner, rather than later, undermines a natural (from the perspective of transaction cost economics) goal of ensuring low cost to the budget and, ultimately, the taxpayers.

To summarise the above experiences and perceptions, interviewees have articulated the point that the government agencies tend to exert considerable external pressure on a private partner regardless of the project context, organisational dynamics and overall project goals. In those cases where the private sector partner is receptive to external pressure, the government push for its own agenda will likely result in an additional effort by a private party and related additional costs.

In addition to the pressure that the public sector partner exerts on an operator, public agencies may exhibit opportunistic behaviour in another way. An interviewee from the Russian PPP operator illuminates his experience as follows:

'The construction goes on schedule. Some issues exist here and there but all of them are minor. However, this year [2012] all of a sudden the government delayed its payments. It just stopped paying and it has lasted already for a few months. We talk to them [government staff] almost every day but they can't say what happened and when the government will be able to pay. All they say is that there are some budget issues and they will be resolved soon. But when?'

RU-2-Vladimir

In this case, government opportunism manifests itself in the neglect of the private partner's need to receive payments in an orderly fashion, on schedule, in order to ensure stable cash flow. As the private partner has to pay suppliers, pay wages and other capital and operating expenses, disregard for its needs essentially means a total disruption of the PPP operations, where a private party has to urgently borrow funds to cover its operating costs. Furthermore, government failure to pay on time may seriously undermine an operator's borrowing ability because a lender will be unsure how and when an operator will be able to repay the loan. Hence, government opportunistic behaviour manifests itself in the neglect of the PPP needs, which a private partner represents. If such government neglect occurs repeatedly, the overall PPP success may be severely compromised.

4.1.1b Opportunism in tariff setting: Diverging partners' interests

In contrast to government opportunistic behaviour demonstrated by public sector partner pressure, in another area of partner interaction – tariff setting – a private sector partner often behaves in an opportunistic way: operators persistently push for higher tariffs in order to earn larger revenue. The following comment highlights the operator's aim:

'We [an operator] want to raise tariffs in order to get more money as the project is not yet breaking even. This is the only way to make the project profitable. But the regulator rejects our applications...'

KZ-1-Damir

In the above excerpt, an interviewee associates a tariff raise with the project's higher revenue and, ultimately, an opportunity to turn the current operating loss into profit. Categorising an operator's behaviour as opportunistic depends on whether a private party acts in the interests of a PPP by applying for a tariff raise and whether the latter is the only available method for breaking even. For an operator, an increase in tariffs means no additional effort involved in increasing the volume of service provision, making quality improvements or enhancing the customer base. As it is an attempt to receive more revenue for the same service, it is unlikely that each tariff raise is in the common partnership interest.

From the government's perspective, a higher tariff means that a public service is becoming more expensive and less affordable to wider segments of customers. If tariff raises occur repeatedly, the erosion of the public service affordability becomes evident. The government that is concerned with the price stability for the public services should perceive a tariff raise as a tool that undermines this stability. Hence, the government perspective, which implies unfavourable treatment of applications for tariff adjustments, permits the society to receive the greater PPP value for money and, thus, serves the PPP interest as well as the interests of the taxpayers and the public. On the contrary, opportunistic private sector partner behaviour, that pursues its own interest, rather than that of a partnership, diminishes the PPP value for money. Instead of raising a tariff, an operator may look for ways of cutting costs and increasing the project's efficiency.

The common reasons for a private partner's opportunistic behaviour, such as intent to raise a tariff, are the need to pay for cost overruns and/or to finance the newly transpired business needs. The following example illuminates an interviewee's perception:

'This is not an easy project. In the past, project plans have changed a few times and the management has changed. We have a lot of expenses that nobody thought of five or six years ago. Also, energy costs went up quite a bit. Additionally, we need more money in order to deal with inflation, which is officially around 7 per cent a year. In order to get compensated for all this, why can't we raise tariffs by 10 or 15 per cent? Five years ago we didn't anticipate how much we would need to raise tariffs because our costs were different, they were much lower.'

KZ-1-Aibol

The excerpt highlights the operator's interest in using additional revenue from the higher tariff for paying expenses that the company management did not anticipate earlier. Additionally, the interviewee attributed certain elevated costs to changes in the project and its management that were not part of an original project plan. Although the operator's need to pay for additional costs is apparent, the partners in a project perceive each other's behaviour differently. An operator views its own actions as legitimate, whilst it views the anti-monopoly's agency's behaviour as opportunistic because the latter strictly follows its own (i.e., the government-set) rules and declines most applications for a tariff raise. To reiterate, from the operator's perspective, the regulator's behaviour is opportunistic because it does not take the project's context (i.e., the business need) into account.

The government takes the opposing view as an interviewee from the National PPP Centre confirms:

'They [PPP operators] use all kinds of reasons and excuses in order to justify a tariff increase. The regulator often cannot figure out with confidence whether the reasons for an application [for a tariff increase] are valid but it still declines many applications. The bottom line is that I don't think it is wise to

use the actual project costs as the main justification for tariff increases. As costs go up, the service prices will be skyrocketing...'

KZ-GOVT-3

The interviewee's comment illustrates the opportunistic nature of the operator's behaviour whilst the government pursues the goal of price stability for public services and, in essence, pushes a private party to look for ways of increasing the PPP efficiency, which contributes to greater PPP value for money. The latter is clearly the common PPP goal. Hence, comparing the operator's and the government's perspectives, one can conclude that the former is opportunistic, whilst the latter serves the public interest.

The similar behaviour of both partners manifests itself in a toll viaduct concession in Russia. The private sector partner is interested in a toll increase, whilst the government wants to keep the toll low and stable, as the following quote shows:

'We [the operator] have to begin with a very low fee - it is going to be just 10 rubles [i.e., about USD 32 cents]. Ten roubles is nothing, it's very low. We know that many drivers are prepared to pay a lot more but we have to keep the promise. However, of course, we will raise the fee in the future. But we need to get the government's consent. I'm not sure how soon we can get it. It may take a few years.'

RU-1-Konstantin

The interviewee has shown the partners' divergent interests similar to the Kazakhstani project: a private party shows its opportunistic intentions right from the project's beginning as it exhibits interest in a higher toll and greater revenue. Since the project is in its early stage (as the facility's construction has not been completed at the time of a 2012 interview), the likely underlying reason behind the interest in raising a toll is the desire to earn higher profit. In contrast to a private party's perspective, the government (even in the interviewee's perception) pursues the goal of ensuring the price stability for the citizens' benefit.

To summarise, this section has discussed the private sector partner's opportunistic behaviour and showed commonalities in actions and intentions that private parties in both countries exhibited.

4.1.2 Short-term implications of partner opportunistic behaviour

This section discusses two short-term implications of partner opportunistic behaviour, which interviews have identified: lack of flexibility in business management and cost elevation.

4.1.2a Lack of flexibility in business management

In all partnerships under investigation, a conflict of interests has emerged, namely, between tight government regulation and the need for greater flexibility in business operations. Naturally, respondents who work for the government organisations emphasised regulation, whilst those who work for the private parties put much higher value on greater flexibility in decision-making.

Overregulation

The following example illuminates limitations imposed on the private sector partner's management flexibility:

'Some government regulations look really strange. It appeared that we [an operator] are not allowed to own a building that we bought a few years ago. We used it as an office and a temporary housing for our staff. The building is located very close to the facility, it is so convenient, and we really need it. And now the government told us that we [a PPP project operator] do not have a right to own real estate according to some regulation. So, now we must sell it, and then we will rent another building or perhaps exactly the same building. This does not make any sense to me.'

KZ-1-Aibol

This example shows ineffectiveness of some government regulations that strip the private partner's operating power without proper justification. Furthermore, the example illuminates neglect of the partnership's context and its business need. Keeping in mind that the number of active PPP projects in Kazakhstan is as small as four (as of December 2012), the disregard of PPP needs, which limits the partnership's success,

may have significant detrimental influence on the overall partnership development in the country. Hence, the example is indicative of insufficient attention paid to PPPs at the public policy level. The government treats PPPs the same way as the public sector organisations, which results in overregulation of partnerships.

Framing the private partner's management flexibility

Another example illuminates a more complex case in which the government exhibited opportunistic behaviour. In the following excerpt, an interviewee commented on a PPP operator that issued corporate bonds with a coupon value which exceeded the volume of a government guarantee:

'We are now under huge pressure from the anti-trust agency: it wants us to buy back bonds. But where can we get the money to buy back bonds? Of course, we can take money from our current revenues, but this leaves very little money for development.'

KZ-1-Aibol

The example shows how the government perceives its own and an operator's risk. As the government understands that an operator has to secure financing for its investment and operations, the government has agreed to issue a guarantee for a certain amount of bonds. However, driven by a business need, an operator issued a larger volume of bonds to ensure uninterrupted investment. Whilst the government perceives this kind of a bond issue as a high-risk endeavour that may adversely influence suppliers in the case of PPP default, it required an operator to buy back some bonds, in order to reduce the corporate debt exactly to the volume of a government guarantee. The interviewee asserted that a bond buyback would leave much less cash for business development. Thus, the government has put itself in a less risky position in the case of potential project default: after the buyback, its financial liabilities are limited by exactly the value of bonds outstanding.

At the same time, the government framed the operator's behaviour in a risk-averse way and significantly reduced its flexibility in business management during a few years of bond buyback. In this case, the government exhibited opportunistic behaviour: whilst a private partner took additional business risk for the PPP benefit (i.e., by

receiving larger funds for uninterrupted investment), the government essentially slowed down partnership's business development by directing an operator to reduce the size of its debt. The ultimate result is the curtailed private partner's management flexibility. Although one can interpret the government action as defensive or as risk mitigation, the government pursued its own interest, rather than that of a PPP, whilst the private sector partner pursued the common PPP interest, rather than its own. Hence, overregulation represents the government opportunistic attempt to treat a partnership as the public sector organisation by minimising the private partner's opportunities to undertake business risk and by framing its management flexibility.

The government-imposed risk of staff attrition

Interviews showed that the government opportunistic behaviour manifested itself in a way that imposed the risk of staff attrition on the private sector partner, which also reduces its flexibility in business management. In 2012, in the transportation project in Kazakhstan the public sector partners put forward the requirement that an operator must move its management office from the city where the office was located during seven years from the project inception to another city that is located close to the newly built facility. As for the reason, the public partners' perception is that proximity to the facility will presumably permit the partnership to solve operational issues faster and more effectively. The following excerpt shows an interviewee's perceptions:

'We worked in the existing office seven years and things were okay. Now they [the public sector partners] want us to move. They say that it will help the business. But I have a family, kids. I lived here all my life. How can I move to another place? The idea just came out of the blue.'

KZ-1-Damir

Another interviewee also confirmed the controversy involved in the government attempt to influence PPP operations. The following excerpt illuminates this:

'Why does the government want us to move the office to another city? I think they [the government] are frustrated with the project's progress. The larger part of the railroad has been constructed and is operational; however, another part of the railroad is yet to be constructed. The government insists on the

faster completion of construction and the fully operational railroad. But how will the move help this? As far as I know, many staff will just quit as soon as the date for the move is set. They are not going to leave their families here and move there for a few years. It's much easier just to find another job. And how will these massive departures help to make the project more effective?'

KZ-1-Rustam

Another respondent reiterates the concerns regarding whether the office move may increase the project's effectiveness:

'I know that about half of the employees have already refused to move. So, the company will have to hire lots of people at its new location. I don't think that it is going to be easy. It is a much smaller city and qualified staff will be hard to find.'

KZ-1-Azamat

The three excerpts show that, by insisting on the office move, the government is unexpectedly putting pressure on the private sector partner by imposing a significant risk of key staff attrition. As there is no empirical evidence that the office move will increase the operations' effectiveness, one can categorise the public sector partners' behaviour as opportunistic, one that reduces an operator's flexibility in management decisions, rather than the one that addresses the proven business need.

To summarise, the government attempt to overregulate, the effort to reduce its own financial liabilities in the event of project failure, or the action that imposes additional risk on a private party, such as risk of staff attrition, are indicative of the government's opportunistic behaviour that frames and curtails a private partner's management flexibility.

4.1.2b Cost increases

An additional implication of government opportunistic behaviour is the private sector partner's cost increases. The following excerpts exemplify this.

'After our office moves to another city, we [an operator] have to rent apartments for those who have decided to move along. This is going to cost us quite a bit.'

Perhaps, later on we will hire more local staff but not right away. In fact, it would be best if we keep the existing workers because they know what's going on in the project quite well. And the business travel expenses will rise for sure. I just don't know whether we are doing the right thing with this move. There are so many new things to pay for.'

KZ-1-Azamat

In the above excerpt, an interviewee stated that an operator incurs additional costs related to the office move. The latter stems from the government pressure, rather than the operator's own initiative. As there is no hard evidence that the move will result in greater project effectiveness, the operator's additional cost is the direct outcome of the government's opportunistic behaviour.

The next excerpt highlights the government disregard of cost-savings opportunities. *'Ideally, we [an operator] could build one facility and learn a lot from our own experience - what materials are better, how many workers we need and how to use them better, what equipment is more reliable, what mistakes we can avoid. But the government is not interested in all that. They just want new facilities as quickly as possible.'*

KZ-2-Darkhan

As missed opportunities for cost reduction mean relatively higher budget expenses and a greater burden for the taxpayers, they are the equivalent of cost increases due to the government's opportunistic behaviour, i.e., neglect of costs in favour of faster results.

An interviewee observes the same kind of neglect in another project in Russia: *'The city needs kindergartens and schools. The way they [the government] think is this: we [the government] hired you [an operator] and we are going to pay big money. So, we [the government] need to open these kindergartens and the sooner the better. Just because we [the government] pay.'*

RU-2-Oleg

In the above quote, the interviewee confirmed the government's preference for a faster outcome, rather than cost reduction. This implies the government's opportunistic

behaviour for a relative cost increase in a PPP compared to what the cost could have been if the government and the PPP had pursued the cost reduction opportunity.

In summary, although there are varying manifestations of government opportunistic behaviour, the interviewees asserted that cost elevation is its most common implication in all investigated PPP projects.

4.1.3 Theme summary

Table 4.2 summarises examples of opportunistic behaviour that the interviews have identified, the typical reasons and forms of partner opportunism and their implications in the short term.

Chapter Five will discuss the implications of opportunistic behaviour in greater detail.

Table 4.2 Opportunistic behaviour of partners in a PPP: Summary of examples, reasons, forms and implications

Examples of opportunistic behaviour	Reasons and forms	Short-run implications
<ul style="list-style-type: none"> An operator wants to raise tariffs; An operator issued corporate bonds that exceeded the volume of government guarantees 	<ul style="list-style-type: none"> The private sector partner opportunism occurs due to cost overruns and new business needs Government opportunism intends to limit its liability in the case of project default 	<ul style="list-style-type: none"> Lack of flexibility in business management Cost increases as the regulator requires an operator to buy back bonds Overregulation in the case of a bond issue
<ul style="list-style-type: none"> The government requires that an operator moves its office to another city 	<ul style="list-style-type: none"> The public sector partner opportunism manifests itself in the form of government pressure due to unjustified reasons 	<ul style="list-style-type: none"> Cost increases Lack of flexibility in business management as benefits of new remote office location lack empirical evidence The government exposes the private party to the risk of staff attrition
<ul style="list-style-type: none"> The government requires an operator to maintain an extensive Web site and address the citizens' concerns in order to create a positive public perception of a PPP; 	<ul style="list-style-type: none"> The public sector partner opportunism in the form of government pressure results in the intention to shift an effort and costs to a private party 	<ul style="list-style-type: none"> Cost increases

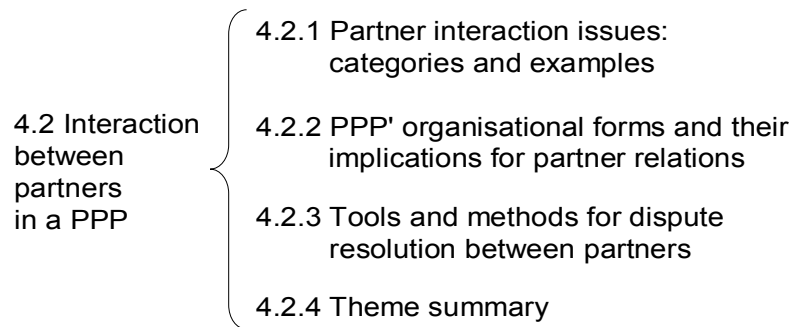
<ul style="list-style-type: none"> • The government requires an operator to provide the services free of charge during the beginning period 		
<ul style="list-style-type: none"> • The government insists on the fast concurrent construction of all facilities; • The government exerts pressure to complete construction faster than it was planned 	<ul style="list-style-type: none"> • The public sector partner opportunism manifests itself in the form of government pressure due to the desire to achieve fast results 	<ul style="list-style-type: none"> • Lack of flexibility in business management • Cost increases as both partners missed the opportunities to use economies of scale and benefits of the operator's own construction experience
<ul style="list-style-type: none"> • The government has delayed payments to an operator 	<ul style="list-style-type: none"> • The public sector partner opportunism manifests itself because of the government neglecting the private partner' and the PPP needs 	<ul style="list-style-type: none"> • Cost increases as an operator has to use borrowed funds to ensure stable cash flow and to make payments

Source: Compiled by the author

4.2 Interaction between Partners in a PPP

Interview results revealed an emergent theme about partner interaction in PPPs, which this section discusses. The section begins by categorising partner interaction issues and providing examples. It then informs partner interaction from the perspective of a PPP's organisational form. Subsequently, the coverage considers the tools and techniques of dispute resolution, as the study participants experienced and perceived them. The section concludes with the summary. Figure 4.3 outlines the theme's structure.

Figure 4.3 Partner interaction: Theme structure



Source: Compiled by the author

4.2.1 Partner interaction issues: Categories and examples

This study has grouped issues regarding the nature and forms of partner interaction in PPPs thematically as follows:

- Interaction regarding securing project financing;
- Interaction regarding construction of a facility;
- Interaction regarding tariff setting; and
- Interaction regarding other operational issues.

4.2.1a Partner interaction regarding securing project financing

The interaction field regarding various aspects of project financing includes issues where an operator needs:

- government financial support, such as government guarantees for obtaining a bank loan, or
- a loan directly from the government, or

- payments from the government as per mutually agreed schedule.

The following examples illuminate this field of partner interaction.

In the kindergartens' PPP in Kazakhstan, the private sector partner won a PPP contract claiming that it would use its own, rather than borrowed funds. However, later the company changed its original intention and aimed to obtain loan financing from the banks outside of Kazakhstan. An interviewee describes his experience the following way:

'We approached the government [in Kazakhstan] in order to get documents showing the government guarantees for our investment in Kazakhstan. We needed to show these documents in Turkish banks where we arrange financing. The government supported us, no problem. But it appeared that the matter is a lot more complicated than anyone thought.'

KZ-2-Talgat

The interviewee pointed to the complexity in arranging loan financing from a foreign bank that is located outside Kazakhstan: a letter of support issued by the regional government did not suffice for a foreign bank to give a loan.

Another PPP project in Kazakhstan experienced problems with operating losses for a number of years in a row. In 2012, the company management applied for a government loan in order to cover its operating loss in 2013:

'Borrowing and paying interest may not be a great thing, but what's good is that the government has been responsive and we got the loan. Anyways, it's much better and cheaper to borrow from the government than from a commercial bank.'

KZ-1-Damir

Both excerpts are indicative of the government's willingness to extend its support and the positive perception of collaborating with the government that interviewees from the private organisations have formed. An example from a PPP project in Russia also demonstrates tight partner collaboration and an overall positive experience working with the municipal government:

'We have full support from the government. They [the government officials] are truly interested in helping us with all kinds of problems, so that the project

begins as swiftly as possible. This is a great approach. We keep things simple and all problems are solved quickly.'

RU-1-Victor

In another project, the Russian operator has a negative experience interacting with the city government when the latter suspended its payments to a concessionaire for an unspecified period and without an apparent reason:

'It was just impossible to get any kind of information from them [the government staff]. Clerks kept saying that they don't know anything about the reasons [for payment delay], and their bosses were simply unavailable. It lasted weeks and weeks...'

RU-2-Sergey

In summary, participants reported a positive experience of collaboration with the government in those cases where the latter clearly expressed an interest in a PPP project, specifically, in a quick service launch. This explains the government's motivation that backs its willingness to cooperate and achieve quick results. One can attribute the negative experience of working with the government to the lack of knowledge within the government organisation itself regarding the source of the problem and how long it may last, although even in this case government clerks could have demonstrated much greater willingness to cooperate for the common benefit.

4.2.1b Interaction regarding construction of a facility

Interviewees reported mixed experiences in collaborating with government agencies regarding issues that arose during the construction process. These issues range from obtaining various permits, approvals and certificates for selected elements of construction to connecting a facility to municipal water and electricity networks. Whilst some participants had a good experience and formed a positive perception of collaborating with the government organisations, other participants have an opposite perception based on their negative experience (e.g., 'red tape' and lengthy approval time). The principal perception that interviews have revealed is that in any participants' experience, whether positive or negative, respondents asserted that government

agencies tended to view collaboration with a PPP much like a collaboration with any private contractor. To reiterate, the government staff did not distinguish between a PPP and a private contractor and tended to treat a partnership (including its requests and applications) the same way as it would treat a private company that the government simply hired to do a certain job. The following excerpt illuminates this:

'We waited for an approval [of a construction permit] for a long time. The process kept dragging on and on. Then, when we said that we need this permit right away because we do the job for the government, the answer was: 'so what?'

RU-2-Vladimir

Participants attributed their government interaction experience, whether positive or not, exclusively to the qualities of staff in the government offices. Those staff who were more friendly and proactive provided more effective treatment to PPP requests and applications than those who tended to exhibit bureaucratic behaviour and lack of work ethics. As an interviewee commented:

'It's critically important to keep good relations with clerks who actually do the job. They can get things done faster or they can be very slow. We pay a lot of attention to this.'

KZ-1-Azamat

Study participants recognise that there is a different level of partner interaction when the government tends to exert pressure on an operator in order to complete the construction sooner. This kind of interaction happens between senior government officials and operators' senior managers. Interviewees asserted that this kind of interaction happens during formal and, more often, informal conversations and is accompanied by vague promises to support a PPP in the future. Most often, respondents recognise the need to treat this pressure seriously. However, they acknowledged that speeding up the construction or renovation is an extremely difficult endeavour, which may incur large costs. An interviewee provides the following comment:

'Keeping the construction on schedule is very difficult. Delays in construction are a norm, not an exception. And then, when asked to speed up the

construction, we are usually puzzled: how is that possible? Do I have to hire another hundred construction workers or what? I usually say that I will do everything to be on schedule. I need to patiently explain what happens at the construction site, why there are delays, and how we are working on all that.'

RU-1-Alexander

To summarise, formal and informal interaction between partners in a PPP, as perceived by the study participants, lacks established processes and effectiveness. Much interaction occurs informally, with unpredictable outcomes for either party.

4.2.1c Interaction regarding tariff setting

A typical field of partner interaction includes issues related to an operator's applications for raising fees and tariffs for its services. This kind of interaction manifests itself in formal rather than informal ways because an application requires a formal approval by the government agency. Interviewees from two out of four studied PPP projects experienced interaction with public organisations regarding tariffs and their opinions are diverse¹. Although interviewees from both projects claimed that bureaucracy involved in the application process is excessive and tariff increases need to be thoroughly justified, one interviewee asserted that there is a convenient loophole: the government can approve a new tariff easier and faster if the latter has a temporary status. After some time, such as a year, the government can approve a new tariff, also as temporary.

'We can use temporary tariffs for a long time, one after another. The government seems to care a lot less about temporary tariffs, rather than permanent. Of course, for us it is a lot of work to apply again and again [for a new temporary tariff] and we never know if a new tariff is going to be approved. But the reality is that they approved all our requests.'

KZ-1-Rustam

An interviewee from the government agency commented on tariffs as follows:

¹ Interviewees from two other projects noted that they are not involved in tariff setting because the government, not an operator, receives a fee, such as a childcare fee, from citizens.

'They [a PPP] have to set a permanent tariff. This is how it should be. Temporary tariffs are for some special situations, they should not be used continuously. But we are aware that their construction is still unfinished. So, they may use a temporary tariff for a while.'

KZ-GOVT-2

The above excerpts show some imperfections in government regulations that, in turn, influence partner interaction in a PPP: although the government is interested in setting permanent tariffs, its own rules allow an operator to legally bypass the requirement and receive a government approval for a temporary tariff much easier and faster.

An interviewee from another project shared his perception of interacting with the government in a less optimistic way pointing out the bureaucratic procedures and heated debates that tariff setting is likely to involve:

'We will need to run our proposal through all kinds of committees in the city government, then get it approved by the city council, and then by the mayor. Some people in the government and ordinary citizens don't like what we are doing because we charge a fee for the service [railroad crossing] that used to be free. If we want to raise the fee, I'm sure somebody will be screaming...'

RU-GOVT-2

In summary, interaction between partners regarding tariff setting has proven to be difficult, in the opinion of interviewees. The established procedures are bureaucratic, lengthy and often are not streamlined.

4.2.1d Interaction regarding other operational issues

Three categories of issues that require partner interaction and that this chapter discussed above (project financing, facility construction and tariff setting) fall in a broader category of strategic choices. In contrast to this, partner interaction regarding other PPP aspects typically involves operational issues. An example of the latter is the pressure on an operator to move its office from a major city where it was located for seven years to another city, which is closer to the project's facility and operations. The

pressure came from two public sector partners, both in informal and formal (i.e., decision of the Board of Directors) ways.

'The office move was kind of a condition for getting a job in this company [a PPP]. We [an operator's manager and representatives of the public sector partners] discussed it a few times because I was hired in..... [a major city] and would have to move soon to a new location, which is quite far away. Of course, every new manager knew what was going to happen and we [a new management team] were prepared for that. But I'm still wondering whether it is the right decision for the project.'

KZ-1-Assem

Other managers also asserted that the decision regarding the office move took the form of an ultimatum: the public sector partners put it forward as a condition for employing a new management team.

'It [the office move] goes with the territory. 'A new management team must be close to the facility in order to quickly solve all operational issues', – that's what I was told.'

KZ-1-Damir

To summarise, the way that the partners handled this operational issue highlights the public sector partners' dominance in a PPP and their unwillingness to have an open discussion with the private sector partner or to give the latter flexibility in decision-making.

Such a lack of a private partner's flexibility manifests itself in an additional example. In fall 2012, the anti-monopoly agency directed a PPP operator to sell a building that it had owned for a few years and that it used both as an office and temporary housing for its staff in the area located in close proximity to the facility. According to the anti-monopoly agency, the reason was that an operator does not have a right to own real estate. This stems from Kazakhstan's laws and regulations that prohibit daughter firms of government companies (the operator's legal status) to permanently own a property. After the sale of the building, an operator will have to rent the same building and continue to use it exactly the way it used the building earlier. This will result in additional costs (e.g., real estate agent commission fees, legal fees

and rental expenses). Assuming that rental costs become an ongoing expense for many years ahead, i.e., for the project length until 2028, the operator's additional outlays may become significant. The following excerpt highlights the operator's lack of flexibility:

'I don't know what's wrong with our ownership of this building, and what the benefits of renting a building during many years are. It seems that the logic is kind of broken here. Well, we have to comply with the law and we will. But it's really strange. Who needs all that?'

KZ-1-Aibol

This sub-section concludes by highlighting what respondents did *not* note during interviews. There was not a single comment regarding partner interaction about the service quality. In two studied projects, the service has not been launched yet and the projects are at the construction stage. Two other studied projects began the service provision. However, interviewees did not share a single statement or concern about the ongoing service provision or the quality of future services. The interviewees did not note any discussion with the public sector partners on these matters. One can interpret this in two ways: that quality is the least of the participants' concerns or it is not a concern at all as long as the service is provided up to predetermined standards.

4.2.2 PPP organisational forms and their implications for partner relations

Partnerships may take different organisational forms with varied consequences for partner relations. This section discusses the organisational forms that the study has identified. Interview data revealed a variety of PPP organisational forms including:

- a project company that partners jointly formed as a stand-alone corporation and in which they jointly invested funds (KZ-1);
- the private sector partner's company that itself (without a special purpose vehicle - SPV) implements a project (KZ-2); and
- an SPV that the parent company (i.e., the private sector partner) formed specifically for the purpose of project implementation and in order to shield the parent company's assets and financial flows (RU-1 and RU-2).

4.2.2a A jointly formed project company

From the perspective of partner interaction, the first type of an organisational form – a project company – features the following characteristics: (a) the public sector partners have tangled relations between themselves as one of them owns almost 49 per cent of stocks whilst another owns 46 per cent, and the degree of their influence on the operator is subject to an ongoing debate; (b) two private sector partners have zero influence on the operator due to their small stock ownership - 5 per cent; (c) interaction between an operator and the public sector partners is episodic, not continuous (i.e., mostly it happens during the Board of Directors' meetings); (d) interaction between an operator and the private sector partners is virtually non-existent; and (e) there are no governance structures in place other than the Board of Directors.

An interviewee comments on the above organisational features as follows:

'We hold frequent Board meetings - on average once a month. I don't think we need anything else to run the company [a PPP operator]. The problem, though, is that sometimes not all Board members can participate in a meeting and a meeting is cancelled. So, we need to call a meeting again and again, and this means delays.'

KZ-1-Azamat

Another interviewee highlights the interaction with the public sector partners:

'We [an operator] have difficult relations with one of the public partners. We [an operator and the public sector partner] have opposing points of view - one after another. As far as I know, this goes on for years. I don't really understand why this happens and what is it that they [two Board members that represent this public sector partner] want.'

KZ-1-Aibol

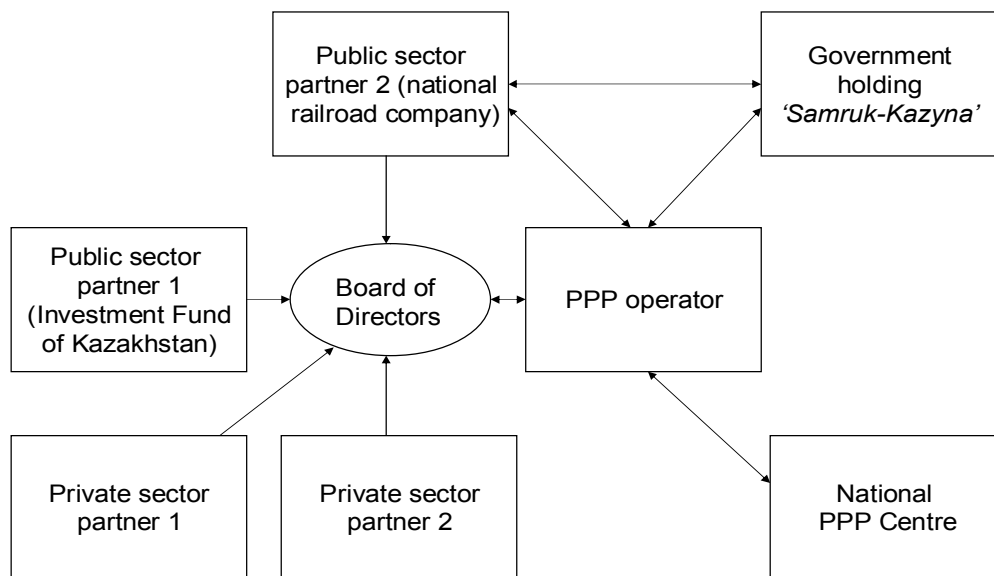
When reflecting upon the relations with the private sector partners, another interviewee states that:

'I don't know who they [representatives of the private investors] are, I never met them.'

KZ-1-Rustam

The comments above are indicative of the tangled and often ineffective relations between PPP partners. Such relationships highlight a lack of formal procedures that would permit faster and more effective partner communication and would result in well-informed and improved decision-making. Figure 4.4 shows the complex partner interaction scheme that this organisational form implies.

Figure 4.4 Partner interaction scheme in a PPP implemented by a jointly formed project company



Source: Compiled by the author from the interview data

In Figure 4.4, the direct link between a PPP operator and the public sector partner two denotes the customer–supplier relationship, in which the national railroad company is a customer, whilst an operator is a provider who carries cargos for a fee. At the same time, the national railroad company is an investor in this PPP, as it owns 46 per cent of the operator's shares of stock. The direct link between an operator and the 'Samruk-Kazyna' government holding (which fully owns the national railroad company) denotes a considerable amount of reporting that the government umbrella organisation requires from an operator. All these tangled relations and multiple interdependencies make

partner interaction in the PPP quite complicated and often ineffective, as interviewees have confirmed.

4.2.2b A project management structure without an SPV

The second type of a PPP organisational form that interviews have identified is where a PPP contract winner carries out a project without an SPV. In the study, this is a Turkish company that won a PPP contract in Kazakhstan. Although the relationship between partners (i.e., regional government and an operator) seems straightforward, in reality substantial interaction between an operator and the municipal government is also required, for example, regarding connecting newly built facilities to the city's power, natural gas, water and sewer networks. Additionally, both regional and municipal education departments will be involved in providing educational services in kindergartens. Figure 4.5 illuminates partner interaction in this organisational form.

As Figure 4.5 shows, an operator is involved in interacting with both PPP centres, national and regional, as it has to comply with various monitoring and reporting requirements. An interviewee highlights this as follows:

'We [an operator] have to provide quite a bit of reports regarding the project's status. We [an operator] are a private company, but because the government money is involved, the PPP centres collect a lot of reports.'

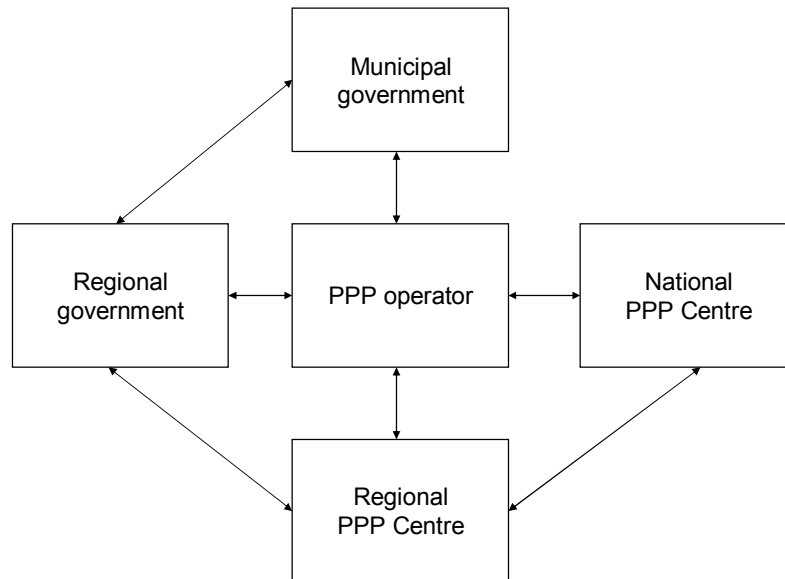
KZ-2-Kairat

Reflecting upon the government perspective on communicating with a PPP, an interviewee from the public agency provides the comment on monitoring and reporting requirements:

'The only way to monitor how a project is implemented is to request some documents. The list of documents is approved. We [national PPP centre] are not requesting anything additional. I don't think that the reports and our monitoring are so overwhelming.'

KZ-GOVT-3

Figure 4.5 Partner interaction scheme in a PPP project implemented by a private operator without an SPV



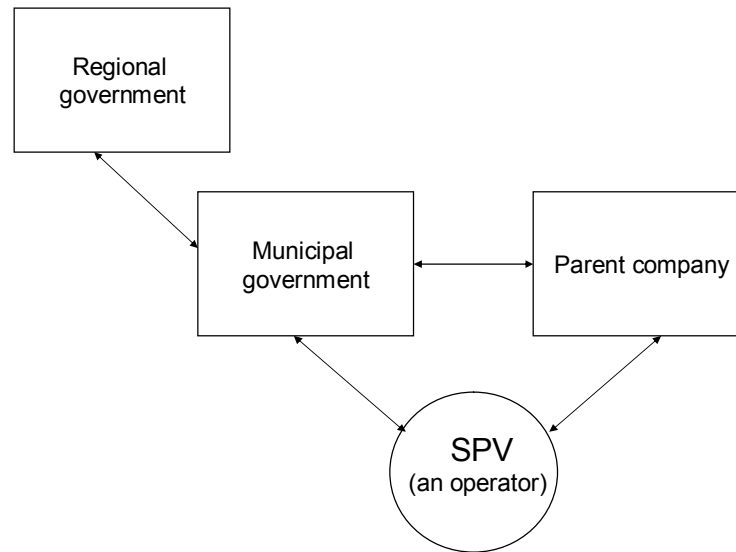
Source: Compiled by the author from the interview data

The two excerpts above show the interviewees' contradictory perceptions of reporting requirements. Those who work in a project tend to perceive this reporting as excessive, whilst those who work for the government perceive reporting as a fairly simple, routine activity.

4.2.2c A project management structure with an SPV

The third organisational form of a PPP that both studied projects in Russia use is an SPV that is formed exclusively for the project implementation purpose: as a stand-alone organisation, an SPV shields a parent company from financial claims and possible losses. Figure 4.6 depicts the partner interaction scheme in the Russian PPP.

**Figure 4.6 Partner interaction scheme in a PPP project with an SPV,
option one**



Source: Compiled by the author from the interview data

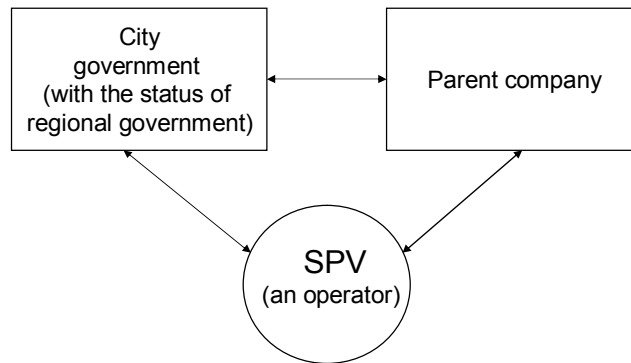
One can compare this structure with another Russian partnership project which has a simpler organisational form and more streamlined partner interaction, as Figure 4.7 shows. This project is carried out only in St Petersburg, whilst the latter, as well as Moscow, are the only two Russian cities that have the status of a region (i.e., *oblast'*). Hence, instead of two government levels (i.e., regional and municipal), in this case a PPP involves just one – the city government.

An interviewee asserts that the organisational form that employs an SPV provides a successful structure for partner interaction with minimal bureaucracy and reporting:

'The city government is fully aware of the project status. We keep them informed regarding what's going on, especially if there is some trouble or unanticipated delay in construction. And they [the city government] don't request a lot of documentation; very little, in fact.'

RU-2-Vladimir

**Figure 4.7 Partner interaction scheme in a PPP project with an SPV,
option two**



Source: Compiled by the author from the interview data

In summary, the organisational form involving an SPV in Russia appears, as perceived by the interviewees, much more streamlined from the perspective of reducing bureaucratic interaction, minimising reporting and permitting greater effectiveness in management decision making.

4.2.3 Tools and methods for dispute resolution between partners

Interviews revealed the following methods that participants employ for dispute resolution during their interaction in a PPP. They use:

- good informal relations with lower-level government staff;
- good informal relations with senior government officials;
- a governance structure such as the operator's Board of Directors; and
- citizens' involvement in partner relations.

4.2.3a Informal relations

Many interviewees pointed out the need to keep good informal relations with lower-level staff in the public agencies and with senior officials in municipal and regional governments. An interviewee expresses his view as follows:

'Sometimes there is just misunderstanding [between an operator and the government]. And one phone call, one friendly talk may resolve it easily. Instead of writing tons of letters, I can solve a problem within five minutes. But you need to know the right person and know him or her well.'

RU-2-Vladimir

Another informant recognises the importance of communicating with government clerks at the informal, rather than formal, level:

'You got to show that you are a good man, bring them candies sometimes, tell them couple funny jokes. And things will go a lot better than without all this. Sometimes it's the only way to get something done quickly, rather than complaining or going to their boss.'

RU-1-Konstantin

An interviewee from another project reinforces the importance of informal relations with government staff at all levels:

'Everything is being done by human beings. When you have some good access to someone, this person is likely to do a good job for you. Nourish the relationship and it will pay off.'

KZ-1-Rustam

When reflecting upon formal and informal relations with government senior officials, another interviewee sums up the perceptions regarding informal connections at the top level of government agencies:

'The boss's opinion makes a huge difference. I've seen people who used to come to a meeting with strong ideas set in their minds. But after they heard what the boss says, they changed their opinions quickly. Many officials vote how the boss votes, they just need to understand where the wind blows. So, we [a PPP operator] want to keep the good relations with the boss.'

KZ-2-Darkhan

The comment above is indicative of the high value that an interviewee places on good informal relations with the organisation's managers, which may also influence other staff for the benefit of the private sector partner.

4.2.3b Governance structures

Interviewees did not elaborate on the use of PPP governance structures as a method for dispute resolution. In the four PPP projects under investigation, interviews revealed no governance structures that are used for general management or specifically for dispute resolution other than the operator's Board of Directors and its meetings. To reiterate, three out of four PPP projects under investigation do not have any governance structures that reflect their partnership nature. Interviewees recognised in many different ways that the government and its agencies treat a PPP in exactly the same way as they interact with any private contractor: the government does not attach greater importance to interaction with a PPP on any issue including disputes. As an interviewee described:

'We [a PPP operator] are one of many private companies working for the government. I don't think that it needs to pay more attention to us. And it looks like the government thinks the same way.'

RU-1-Alexander

This perspective – that a PPP is much like any private contractor for the government – is dominant among respondents from both the private and the public sectors. An interviewee from the National PPP Centre argues that:

'They [PPP operators] have a lot of flexibility in what they are doing. They never come to us for an advice or anything else. They are constrained by some laws because some operators are natural monopolies. We [the national PPP centre] have no power over them [PPP operators]. The only thing that we can do is to request some documents. That's about it.'

KZ-GOVT-3

An interviewee from another government organisation reiterated the same point about a private operator's substantial flexibility and lack of governance structures:

'It's not like I can give them [the staff at a PPP operator] some executive orders. I can always talk to them but we don't always agree and we have some debates. This is okay. After all, what we [the government] need are good results. In the past, we had some big difficulties and disagreements in the project. And then the time has come to change the management team. And that's what we did.'

KZ-GOVT-4

The above excerpt reinforces the point made earlier about the importance of good relations at both formal and informal levels from the perspective of the government officer. It also underscores the point that the absence of effective governance structures may lead to lengthy disputes that are resolved by such dramatic actions as replacing the operator's management team.

When providing his comments regarding the effectiveness of the operator's Board of Directors, another interviewee asserts the following:

'Of course, the Board has some power. But its influence is quite limited. It considers issues that we [a PPP operator] put on the agenda. Often some key Board members are absent and the rest just approve what we propose. The Board has to approve some required items such as the annual budget or the date of the shareholders' meeting. But I don't think that the Board sets some significant rules or guidelines for us [a PPP operator].'

KZ-1-Damir

Another interviewee comments on the limited influence that the Board has on a PPP operator:

'Most of the time they [the Board members] just don't know what we [a PPP operator] are doing. Only at meetings, they look through the documents, and this is how they find out our news.'

KZ-1-Azamat

The Board's effectiveness is a concern for yet another respondent who commented on the Board's composition and the effectiveness of its meetings as follows:

'Two persons on the Board represent one public sector partner, and two other persons represent another public sector partner. Then there are two independent directors because the law on corporations requires this. But as they don't represent any party, they may just not show up. On top of that, some Board members also show up at a meeting not very often. And even if a person shows up once in a great while, how can he make an informed decision?

KZ-1-Aibol

The latter excerpt is indicative of some irregularities in the work of the Board, such as the inability to make informed decisions. Additionally, its composition does not reflect the participation of two private sector partners who jointly own 5 per cent of the operator's shares. Furthermore, those two Board members who represent one of the public sector partners reported that their public agency beforehand determines the way that they vote in a meeting:

'A week before the meeting [of the Board] we receive an agenda and the relevant documents. Then we study the documents and discuss them in our own meeting at our agency. The agency makes a decision regarding each agenda item and we must vote later on [in the Board meeting] how the agency has decided. We just can't change our opinion during a meeting.'

KZ-GOVT-1

The highlighted irregularities in the Board's work (e.g., poor meeting attendance; meeting cancellations because key Board members are missing; lack of flexibility of selected Board members in decision-making and lack of continuous information about the project progress) show considerable room for improvement in the Board's ability to effectively perform strategic management of a PPP project.

In summary, interviewees do not attach any significance to governance structures in a PPP: not only do participants pay insufficient attention to the structure that is already in place (the operator's Board of Directors), but they also neglect opportunities to form the structures and employ them as an effective PPP management tool. Another improvement opportunity for PPP management, which interviewees also disregarded, includes effective dispute resolution. The latter may include the employment of better-organised and streamlined procedures, such as that for tariff adjustments, for dealing

with customer complaints or for formal handling the issues regarding which PPP partners express varying opinions.

4.2.4 Theme summary

Partner interaction in a PPP occurs principally with regards to three categories of issues including project financing, facility construction and tariff setting. Although the operators' experiences are mixed and include both positive and negative aspects, most interviewees expressed their criticism and negative perceptions formed after interacting with the public agencies. Specifically, interviewees pointed out the lack of effective communication (especially regarding tariff setting), lack of established procedures (e.g., for applications) and that the government tended to not distinguish a PPP from any other private contractor that the government hires. Additionally, whilst interacting with a PPP operator, the public sector partner tended to demonstrate its dominance in decision-making and in the way that the government handled PPP requests.

In the opinion of the interviewees, two areas of partner interaction are largely neglected: (a) service quality and (b) governance structures and administrative processes. PPP managers and government officers did not share any experiences or perceptions showing their concerns regarding the service quality or improvements in PPP governance.

Among organisational forms that partnerships use, a jointly formed project company features, in the interviewees' opinions and perceptions, considerably more bureaucracy and ineffectiveness in governance than a PPP management structure that employs a special purpose vehicle. Another effective governance structure is where a PPP contract winner implements the project without an SPV. In both options, partner interaction, communication and reporting are much more streamlined as opposed to a jointly formed project company.

Interviewees' experiences and perceptions of dispute resolutions in PPPs show a marked neglect for formal dispute resolution mechanisms, whilst participants from the private sector heavily emphasise informal friendly relations with government staff that, in their view, may significantly facilitate the project work. Hence, dispute resolution is

yet another area in PPP management that may significantly benefit from adoption of effective governance mechanisms and administrative procedures. From the perspective of partner interaction, Table 4.3 highlights certain aspects of PPP management, in which interviewees identified problems and improvement opportunities.

Table 4.3 Partner interaction in a PPP: Summary of issues and improvement opportunities

Aspects of partner interaction	What is the problem?
Administrative processes	<ul style="list-style-type: none"> • Lack of established well-designed procedures • Ineffective communication between partners • The public sector partner dominates in decision-making • The government treats a PPP as it treats any private contractor (i.e., public sector partners show little commitment to a PPP)
PPP governance structures	<ul style="list-style-type: none"> • Joint venture exhibits ineffective governance • Organisational form that employs an SPV shows greater effectiveness
Dispute resolution methods	<ul style="list-style-type: none"> • Operators put significant emphasis on keeping good informal relations with the government staff • Partners from both sectors show neglect for formal dispute resolution mechanisms
Neglected subjects of partner interaction	<ul style="list-style-type: none"> • Service quality • Improvement of PPP governance structures and administrative procedures

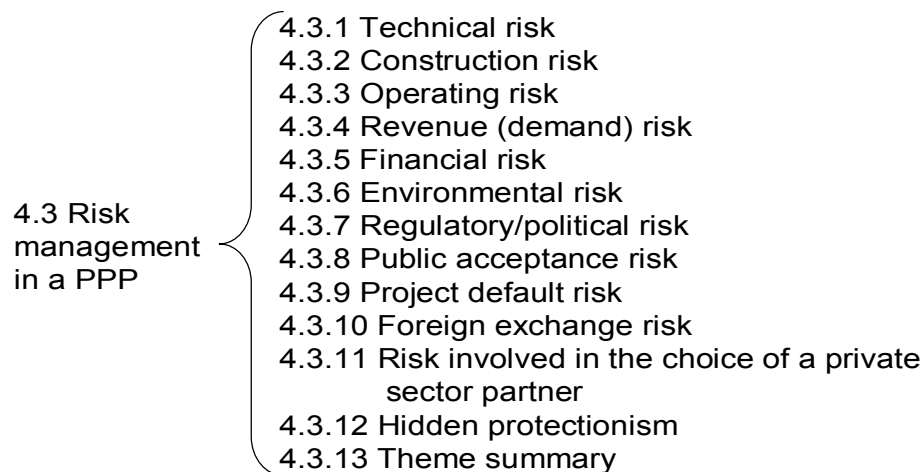
Source: Compiled by the author from the interview data

4.3 Risk Management in a PPP

This section presents an analysis of the interviewees' experiences and perceptions in the risk management field. The theme highlights three dimensions of risk

management - what kinds of risk the PPP participants faced, how they handled the risks and how they perceive risk mitigation methods and tools. The analysis is organised by the kind of risk, rather than by a range of risks that each PPP project faces. This permits the contrast and comparison of experiences, opinions and perceptions that respondents from different projects described regarding each kind of risk. In the chapter that follows, this categorisation allows for drawing insights with reference to commonalities and differences in PPP risk management in the two countries under investigation. Figure 4.8 outlines the theme structure.

Figure 4.8 Risk management: Theme structure



Source: Compiled by the author

4.3.1 Technical risk

Only one PPP project out of the four studied has experienced technical risk, such as flaws in the engineering project design at earlier construction stages. This has led to a revision of construction plans by an operator and re-doing some project work. As the scope of technical errors and omissions was quite extensive, the operator's departures from the projected expenses were also significant. Not only were additional costs

extremely high, but they also lasted for many years. When reflecting upon the magnitude of the technical risk, an interviewee claims the following:

'We had massive cost overruns for many years in a row. And construction should have been completed a few years ago. All this is a direct consequence of technical problems that cropped up right after construction began. The project should've been designed differently and with significantly greater financing. We can't even say for sure when exactly the construction will be completed.'

KZ-1-Rustam

The above excerpt also shows that the interviewee perceives the technical risk as unavoidable and does not indicate any possible ways of risk mitigation.

4.3.2 Construction risk

This risk includes errors in construction, inappropriate construction techniques and/or flaws in the construction materials. All interviewees denied that this risk has ever occurred in their projects; however, all of them pointed out that the chance of its occurrence should be driven to zero at the engineering design stage, i.e., prior to the beginning of construction. As a respondent noted:

'Construction has been done according to specifications. We don't change anything at this stage. We just can't. But the engineering design and all construction documentation must be correct. We work strictly by these documents.'

KZ-1-Aibol

Another respondent reiterates the need not only to minimise the risk, but to completely eliminate it:

'This risk may transpire only if somebody stole some materials or replaced them with some cheap stuff. Other than that, how can it happen? We have engineers on site and they carefully watch and guide the construction process.'

Perhaps, due to negligence? But, again, engineers are there to make sure that everything is right. They are responsible persons, I'm sure.'

RU-1-Victor

Another interviewee explains why his operator is interested in zero exposure to construction risk:

'We must completely take it [construction risk] out because we are going to maintain this facility for many years. If it is built neatly, then maintenance will include just minor repairs. And that's cheap compared to a major renovation.'

RU-2-Sergey

To summarise, all respondents realised the direct link between the high quality of construction and low maintenance costs, although interviewees did not note anything about service disruption in case a facility requires major renovation. No concerns about the continuity of service are indicative of the profit motive that has a higher priority to a private operator, rather than the service provision. Also, respondents view risk mitigation in a radical way, i.e., the risk must be completely eliminated in order to minimise maintenance costs.

4.3.3 Operating risk

Operating risk involves higher than planned operating and maintenance costs (Grimsey and Lewis, 2002). A respondent provides an example of a recent event that occurred outside of the project, which raised operating costs:

'The national railroad company has just approved new wage rates for its staff. You know what it means for us? We operate a segment of a railroad. We need to raise wages too, and perhaps make them even higher. Otherwise, our staff will just quit and go to work there. They will switch to higher paying jobs. We did not know about this change in the national railroad company until just a few weeks ago.'

KZ-1-Damir

Another interviewee from the same company was concerned with another event driven by external factors, namely the office move from the city where it existed seven

years to the city that is close to operations. This inevitably, in the interviewee's opinion, would result in additional costs (e.g., an operator has to rent apartments for relocated staff and incur additional expenses involved in travel to major cities in the country). Additionally, the interviewee has growing concerns regarding the availability of qualified staff, such as engineers and managers, at the new office location, and the company's need to offer higher wages in order to fill the vacancies, as the following excerpt shows:

'We don't have a financial director at the moment. It is fairly easy to find a good candidate here [major city in the country]. But I'm not sure what kinds of candidates we may get over there [in the city where the new office is]. If it comes to the worst, we will have to hire a person here, pay him good money and then move him to the new office. But we will need to rent a flat for him and pay more.'

KZ-1-Assem

The same interviewee points out that severe climate conditions are an ever-present operating risk factor that may result in higher costs:

'A couple years ago there was so much snow on the railroad tracks - it's unbelievable! Snow was as high as six metres! You can imagine that in these conditions snow removal equipment just doesn't work. Then, in spring, when the snow melts, there is [huge quantities of] water. It is a costly problem as well [protection from strong water streams]. Of course, we budget the money for snow and water protection. But we never know how much snow we may get in winter.'

KZ-1-Assem

In all three examples that were provided above participants did not indicate any risk mitigation tools as a company has no control over the external environment, both societal and physical. There was no indication of the company's intention to budget a contingency fund for these kinds of events.

Interviewees from two different operators have identified similar sources of operating risk, namely, utility payments that may increase total maintenance costs as

opposed to planned expenses and escalating tariff increases which may lead to operating costs overruns:

'You know that tariffs for water, electricity and natural gas go up every year. In fact, tariffs tend to jump quite high. Everybody knows that tariff hikes of about 15 per cent became the norm. But the government can raise them even higher and all at once. We have no idea how high tariffs will be, say, in three years from now.'

RU-2-Oleg

Another participant reiterated the uncontrollable character of annual tariff increases for utilities.

'We all know that tariffs are getting higher very fast. Of course, this is a concern. All we can do is to budget more money for utilities to make sure that we can pay the bills on time.'

KZ-2-Darkhan

Hence, the latter participant noted the natural risk mitigation tool in this situation: budgeting larger funds to allow for unforeseen tariff increases.

In summary, considering the sources of operating risk, participants pointed exclusively to external factors, i.e., those factors that are beyond the influence of the operator's management.

4.3.4 Revenue (demand) risk

Revenue risk stems from insufficient demand for PPP services and from volatility of prices for services (Grimsey and Lewis, 2002). Participants of three out of the four studied PPPs viewed the demand for their services as high and stable, whilst a respondent from one PPP pointed out that his project was exposed to this kind of risk. In his project, if the actual traffic volume fell short by more than 10 per cent of the projected traffic after the first year of operations, the municipal government agreed to purchase the facility. The following excerpt illuminates this:

'Our estimations are based on the number of cars that used the older facility [i.e., before the PPP launch]. Our forecast shows that after we open a new

facility the traffic volume is going to increase. But you never know. If for some reason drivers would prefer to use alternative routes or another railroad crossing, then we are in trouble. Then we will go to the city government.'

KZ-1-Azamat

The excerpt above not only demonstrates the demand risk, but also outlines how partners handle this risk: the government has consented to buy out the facility from a private investor in case the risk materialises. From the private operator's perspective, the way in which parties handled the risk is a risk mitigation tool. However, from the public sector partner's perspective, there is no risk mitigation: the city government bears all the risk.

The same operator was exposed to revenue risk from another source. The company had produced its annual budget based on the tariff increases for its own services, although the new tariffs were not yet approved. Hence, if the government did not approve the proposed new tariffs, complete or partial revenue risk might result:

'All tariffs go up every year. Of course, we don't know whether the anti-monopoly agency approves our proposal. It is not yet prepared. But we will work with them [the national anti-monopoly agency] and will try to justify higher tariffs.'

KZ-1-Assem

Taking into account that the company approved its annual budget just a week before the beginning of a new year, hence, leaving no time for further adjustments, the interviewee did not note the employment of any risk mitigation tools in this case.

Another respondent, who denied demand risk in his PPP, provided the following comment:

'We will be getting payments from both the government and parents [for childcare]. I'm sure there will be a long waiting list for a place in our kindergartens because people just can't afford private kindergartens. So, I think there will be no vacancies for children after we complete the enrolment. I'm positive. Perhaps, we can even exceed the enrolment limits a little bit.'

KZ-2-Kairat

This comment shows that anticipated capacity utilisation may even exceed 100 per cent and, under such circumstances, demand risk mitigation is unnecessary. An interviewee from another project also asserted that capacity utilisation in his PPP is likely to be at or above 100 per cent throughout the concession term.

'Our facilities [kindergartens and schools] are located in a brand new city district. As far as I know, there are no private kindergartens there and no private schools. And, of course, parents want to send their children to a kindergarten and school close by. So, that's us [a PPP that builds schools and kindergartens in the area]. At this point, we don't have any competitors in the area. I'm not even sure whether people are interested in a private school or a private childcare centre.'

RU-2-Vladimir

Hence, in this project there were no concerns regarding demand risk and, consequently, the interviewee's perception is that there is no need for risk mitigation.

4.3.5 Financial risk

Financial risk stems from errors in the estimation of project revenue streams and project financing costs (Grimsey and Lewis, 2002).

When reflecting upon project revenue streams, an interviewee highlighted an unusual design of revenue flows in a project, which depicted an operator's risk:

'The government project proposal included the revenue stream from non-core PPP services. So, the government believes that we should make some money not only from what it hired us for, but also from some kind of additional business. They [the government] designed the project as if this additional revenue is guaranteed. But it's a separate business. I'm not even sure what exactly business we can do. And what if we spend more money than this business will bring?'

KZ-2-Talgat

The comment above shows that in the project's financing scheme the government has included revenue from non-core services in the total project's revenue, alongside

government payments and childcare fees that the private sector partner receives from parents. When asked about the nature of non-core PPP services, the interviewee noted that they might include any business unrelated to childcare. However, what the government staff had in mind was the fee-generating use of kindergartens' premises (e.g., classrooms) for providing all kinds of training, such as English language tutoring, to the public. In the above excerpt, the respondent articulated the point that non-core services may be risky and that revenue from their provision is not guaranteed in any way. Hence, the interviewee identified the need for risk mitigation, although he did not outline any risk mitigation tools.

Another interviewee recognises financial risk stemming from incomplete construction:

'We need to complete the construction as soon as possible. But a lot of technical documents have to be approved first. We are not receiving sufficient money [revenue from services] because the railroad is not fully operational. Now, it's very difficult to count on revenue that we need to earn later this year [with the use of a completed facility] because we haven't yet started the construction of this segment.'

KZ-1-Rustam

The above excerpt highlights financial risk not only for the construction year, but also for subsequent years depending on when exactly an operator will complete the construction. This interviewee, much like a respondent noted earlier in this section, has not outlined any methods that may mitigate the risk.

An interviewee from a different studied project elucidated another type of financial risk in a PPP. In his project, the city government put its payments to the concessionaire on hold for an unspecified period claiming temporary difficulties with the availability of the budget funds. The interviewee described the difficulties that this event caused:

'We are lucky that my company is part of a holding. So, my company just borrowed some money for a short term from other companies so that we can pay salaries and all other operating expenses. But what if the government

stops paying us again in the future? These kinds of events totally ruin all our financial flows.'

RU-2-Vladimir

Although the interviewee expressed a clear concern regarding financial risk, he did not identify any ways to mitigate it. Furthermore, he admitted a possibility that this risk may materialise again in the future. He associated financial risk with the way in which the government treats a PPP:

'Well, the government kept paying salaries to school teachers, doctors in public clinics, all staff in municipal agencies. However, we [a PPP] didn't receive the payments for a few months. So, it's just us.'

RU-2-Vladimir

Hence, in the interviewee's view, the government treatment of a partnership is different from the government treatment of the public sector organisations. The government showed that a payment to a PPP is not its priority as opposed to paying salaries to staff at schools, public clinics, hospitals and all kinds of municipal agencies.

4.3.6 Environmental risk

Environmental risk stems from the adverse impact of both the project on the environment and the changing environmental conditions on the PPP operations (Grimsey and Lewis, 2002). Interviewees did not highlight any detrimental impact that their projects might have on the environment. Respondents from only one studied project expressed their views regarding how severe and unpredictable environmental conditions influence the project work:

'Snow removal from [railroad] tracks may not be as trivial as it seems. It depends on how much snow we got.'

KZ-1-Aibol

'We need to budget expenses for snow removal and for protection from water in spring. Sometimes these expenses exceed what we included in the budget.'

This is because the amount of snow [that covers railroad tracks] in some years is just unbelievably huge.'

KZ-1-Aibol

Environmental risk in this case overlaps operating risk as weather conditions exert significant influence on the project work and related operating expenses. In the same PPP project, another interviewee outlined the risk mitigation tool that the company has designed. He described a company's plan to construct a wall in order to protect - from one side - the newly built railroad from snow drifting due to strong wind that blows in winter. At the time of the project inception, partners did not foresee this risk, which later materialised in the impediments to transportation due to the high volume of snow (e.g., a few metres high) that covered railroad tracks in winter. In order to cope with this risk, an operator will have to incur a high construction cost. As the railroad's length is 120 km (as of 2012), the wall construction is an expensive undertaking that may take a few years and may significantly increase the company's capital costs, as well as maintenance costs. Although expensive, the protective wall construction aims at effective environmental risk mitigation, which the following excerpt shows:

'There is no other way to get protected from the snow. We have to build the wall.'

KZ-1-Azamat

4.3.7 Regulatory/political risk

This risk stems from changes in laws, regulations and public policies that are relevant to PPP operations and asset ownership (Grimsey and Lewis, 2002). Participants in all projects expressed concerns about elements that, in their view, were indicative of political uncertainty and consequent changes in PPP policy and regulations. In one project, an interviewee identified significant political support from the national government that the city government enjoyed, including support in PPP development:

'There is no federal PPP law. But we have our own [city] law. Why are some regions and cities very active in PPP formation and others don't do much? I can understand those officials in regions who are kind of slow. They may be

just afraid of pushing for PPPs because the legislative base is vague. What if somebody from the federal government comes and says: 'Why did you form a partnership? We don't have a law that allows that.' Everyone is aware that our city [St Petersburg] is different. The federal government supports everything that we do here.'

RU-2-Sergey

This interviewee emphasised the strong links between the national government and the city government, which resulted in political sponsorship of the city-level policies and activities, including the PPP development. At the same time, the interviewee recognised the limitations of these links:

'Look at what's happening in the country [Russia]. People are protesting against the government on the streets, we see this on TV almost every week. It was nothing like that two or three years ago. What if the [national] government changes? Will we keep our business [a PPP]? I don't know. Nobody knows.'

RU-2-Sergey

The above excerpt illustrates concerns regarding future changes in political leadership at the national level and, subsequently, at sub-national levels, which may trigger changes in laws and regulations surrounding PPPs. A contextual feature that adds to Russia's political uncertainty is a newly adopted system of regional governors' elections: from 2013, instead of appointment by the country's president, a governor will be elected by popular vote in a region. Hence, interviewees' perceptions of regulatory/political risk reflect a valid concern for the whole country, not only regarding the PPP policy and regulations, but also regarding many other public policy aspects.

Another interviewee reiterates the view of a PPP's extensive exposure to regulatory/political risk:

'We have very good working relations with the regional and municipal governments. If a new regional governor is elected, we can only hope that good relations will continue. But the new government may start implementing new policies. It's entirely possible.'

RU-1-Konstantin

Hence, interviewees perceive changes in national leadership as a likely scenario that might lead to the changes in regional and municipal policies. Interviewees admitted a possibility that, in a worst-case scenario, governments might stop payments to private sector partners. Another excerpt, by an interviewee from a Kazakhstani project, reinforced the point of high political/regulatory risk:

'We [the private sector partner] have a contract with the government. The contract and the law say that we must transfer the property ownership to the government upon completion of construction. This means we don't own the buildings, we just maintain them. If the government stops paying us due to changes in the policy or laws, we probably can go to the court. But I have doubts that we can win. Realistically, our chances [to win the court trial] are zero.'

KZ-2-Talgat

To summarise, in both countries, political/regulatory risk is associated with the possible future changes in political leadership at all levels. New pro-market leadership may push for extensive and accelerated PPP employment as opposed to their opponents who may push for discontinuing PPPs and a greater government role in public service provisions.

Mitigating this kind of risk is hardly possible because of power struggles at all government levels, which are beyond the scope of PPP influence. However, in one studied project the partners have identified a risk mitigation tool, i.e., a shorter concession term. Whilst the government was prepared to approve a concession for up to 20 years, among the bidders competing for a PPP contract, the government selected the one with which it signed an agreement for 14 years. The following excerpt illustrates this:

'We [the private sector partner] preferred a shorter concession term, and it appeared that the government wanted the same. A shorter term just streamlines the project, reduces the risk of inflation and generally makes both parties responsible for what each party should do. A shorter term leaves much

less room for renegotiation. Each party needs stability. Who knows what may happen in ten years?'

KZ-2-Darkhan

The above excerpt highlights the mutual interest of partners from both sectors to reduce the project's exposure to future unfavourable fluctuations, including shifts in the political agenda and possible changes in the legal and regulatory PPP environment. In this project, based on the interviewee's perception, partners attached much higher value to the political/regulatory risk reduction as opposed to parties in other projects.

4.3.8 Public acceptance risk

An interviewee from only one project (out of the four studied) recognised public acceptance risk for his PPP, as the following excerpt shows:

'We are working with citizens all the time – through the forum on our Web site, answering journalists' questions, phone calls. It's not easy, believe me. It takes lots of time and energy. Sometimes we have very heated debates and have to be very patient to strong criticism. I'm sure much of this will disappear once we open the facility and people will be able to see the benefits. But at this point quite a few people are concerned that we are going to charge a fee. They just got used to a free service.'

RU-1-Victor

Another interviewee from the same project (a toll viaduct) also confirmed the need to effectively deal with public acceptance risk. He also delineated a perceived risk mitigation tool. If the public largely refuses to use the toll viaduct and the traffic volume during the first year of operation significantly (e.g., more than 10 per cent) falls short of the planned volume, the municipal government, in accordance with the PPP contract, will have to buy out the facility at a predetermined price:

'We [the private sector partner] really wanted to include this provision in the contract. We need to have some guarantee. And the government was so confident that everything would go smoothly that it easily agreed to include the

provision. However, they [the city government] heavily push us to work with the citizens in order to have a good public image of this project.'

RU-1-Konstantin

The above excerpts show that the government largely shifted risk mitigation as a *process* to the private sector partner. The latter fully bears the cost as it deals with the public and tries to promote the project positively at its own expense. However, the ultimate responsibility for the risk is with the municipal government as it has agreed to pay the full cost of a newly built facility.

To summarise, there is a tangled and contradictory situation with risk management in this PPP project. The government's consent to buy out the facility is a risk mitigation tool exclusively from the private partner's perspective. For the government, risk mitigation includes the private partner's actions, for which the government does not pay. The private sector partner pays for the public acceptance risk mitigation; however, the private party is not responsible for the ultimate outcome, as it is protected by the buyout provision.

4.3.9 Project default risk

This risk refers to overall project failure that may result from a mix of any other kinds of risk (Grimsey and Lewis, 2002). In the construction and operation of a toll viaduct project (that Section 4.3.8 discussed in detail) public acceptance risk fed operating and financial risk and, in turn, project default risk. If the municipal government bought out the facility after the first year of operation, this would signal a termination of the partnership or project default. In addition to this possibility, an interviewee expressed concern about another aspect of project default risk. He emphasised that the government might not have enough funds for the buyout:

'Where will the city government get the money? I doubt that the city would budget the required amount just in case the project fails. Furthermore, it may need to get explicit approval from the regional government for the buyout, and it's not guaranteed in any way.'

RU-1-Alexander

This excerpt highlights not only project default risk, but also the possibility of government failure to pay in the case of project default. The interviewee articulated the difficulties in the local government's finances: a city in Russia does not have its own taxes other than the property tax and selected fees (e.g., for issuing construction permits and various licences). The city budget (except Moscow and St Petersburg) is financed by the region, which means that the latter has to explicitly approve what expenses and how much a city may include in its budget. Although the municipal government has accepted an obligation to buy out the facility in case the actual traffic falls short of the forecasted traffic, there is no guarantee that the city government will ever be able to include the required funds in its budget, which may significantly deepen the project default ramifications. Due to the highly centralised nature of Russia's fiscal system, PPP partners from either sector are unable to mitigate this aspect of project default risk.

Another PPP project (railroad concession in Kazakhstan) also is exposed to default risk. Due to massive cost overruns and the need to finance additional project expenses, an operator issued corporate bonds backed by the government guarantees. However, the bonds' coupon value has exceeded the volume of government guarantees by 20 per cent. Pursuing a goal of eliminating the negative snowball effect on bondholders in the case of a project failure, the Agency for Regulation of Natural Monopolies mandated an operator to reduce its debt (i.e., the value of bonds outstanding) by buying back bonds. The government insisted that the value of bonds outstanding should not exceed the volume that the government guarantees. The ultimate goal was to make sure that the government payments would not rise if an operator closed down for any reason, so that the bondholders would be able to receive their investment in full. The following excerpt outlines government concerns regarding project default risk:

'The previous management team has issued bonds as they didn't have much choice. They had to finance the project work. And then we got so much heat from the anti-monopoly agency. It claimed that it was against the law and proved it. Now we have to buy back our own bonds, but it seems too early to do this. We still don't have enough revenue in the project.'

KZ-1-Damir

The government is aware of financial difficulties in this PPP and of the operating loss stemming from insufficient revenue. However, the fact of government insistence on bond buyback shows that it does not fully exclude project default risk and mitigates it by administrative actions aimed at reducing the company debt.

Interviewees from two other studied projects, both in the social sphere of Kazakhstan and Russia, denied project default risk, or perceived it as negligible due to the simplified project financing scheme in which the government, rather than citizens, makes most payments to a concessionaire. An interviewee highlighted this as follows:

'We have arranged financing of construction. This part is done. The facilities will be completed next year. The only dramatic thing that may happen in the future is that the government stops paying us.'

RU-2-Oleg

Counting on the signed PPP contract, a concessionaire anticipates that the government will keep paying it fully and according to the pre-determined schedule. Hence, an operator does not perceive the possibility of government non-payments as default risk and is not concerned with mitigating it.

4.3.10 Foreign exchange risk

Only one PPP operator out of the four studied (a Turkish company that constructs kindergartens in Karaganda, Kazakhstan) has significant exposure to foreign exchange risk. A foreign investor undoubtedly would be interested in exchanging its profits, received in local currency, for U.S. dollars, euros or another major world currency, unless it finds opportunities for investment of all its profits locally. If the exchange rate between the local currency and the dollar changes unfavourably, a company would be able to purchase fewer dollars and the company's profit in dollars would be smaller. However, if the exchange rate changes in the opposite direction, a foreign investor may buy more dollars for the same amount of local currency and its profit will rise. The following excerpt highlights an interviewee's interpretation of this risk:

'We will be converting money in dollars because we need to take profit out of the country. Hopefully, in the future the exchange rate stays about the same as

now. We budgeted extra funds if dollars become more expensive. But, of course, nobody knows what the exchange rate might be in ten years from now.'

KZ-2-Kairat

The exchange rate risk in this PPP applies only to future profit, rather than operating expenses, as construction of facilities and their future maintenance do not require any unique materials that a private partner would have to purchase from a foreign supplier. Additionally, the exchange rate risk is not unique to a certain country: a foreign investor always faces this kind of risk, especially in a transitional country, due to the need to move profits to another nation. A private partner should not exclude the exchange rate risk from its forecast although ways and methods of assessing this risk and mitigating it are not easily available. Kazakhstan provides an example of an overnight adjustment in the exchange rate when, in February 2009, the National Bank (i.e., the country's central bank) altered the rate of the U.S. dollar from 120 tenge to 150 tenge (a 25 per cent change) (Mouraviev, 2011). An interviewee revealed the natural tool for coping with this risk – adding a risk premium to the project costs, although the tool is unable to fully mitigate it.

4.3.11 Risk involved in the choice of a private sector partner

This risk may exist because of a private partner's lack of experience or commitment to a PPP project. The project that Section 4.3.10 discussed (the kindergartens' PPP that a Turkish company implements) is also exposed to this kind of risk. The government bears this risk with regards to any unknown bidder. In the case of a prospective private sector partner from a foreign country, the risk is much higher as there are limited possibilities to find out details about a company's past performance or financial position. Additionally, the government should be concerned where a foreign investor has no local business experience. Lack of experience may result in an operator's higher cost of construction and labour and may decrease a company's net revenue. In addition, a foreign investor may underestimate the level of bureaucracy involved in running a business in Kazakhstan or Russia and overestimate opportunities

for earning additional income. An interviewee from a government organisation identified some concerns and the possibility of mitigating this risk:

'We [the government] would love to do thorough screening of foreign investors. But there is no way to do it. We cannot even check the accuracy of financial documentation [of a foreign bidder]. And, after all, there is the law that allows foreign companies to participate in bidding, so we should accept all bids as long as they meet the criteria.'

KZ-GOVT-1

4.3.12 Hidden protectionism

Hidden protectionism refers to the risk of creating a private monopoly that the government protects from competition (European Commission, 2003). A project that aims at constructing and operating a toll viaduct is exposed to this risk. An interviewee asserts that:

'We have to provide a choice to a driver – to use a toll viaduct or a traditional free railroad crossing. The law requires this and we surely will provide this choice. I don't think that we monopolise the service as the choice is available.'

RU-1-Alexander

Although it seems that the government and the PPP project took care of providing a choice to consumers, the implications of this 'choice' are twofold. First, a newly built toll viaduct becomes a monopoly as there is no other speedy railroad crossing anywhere close. After constructing a toll viaduct, a private investor or the government have no incentive to build another viaduct nearby, as an additional speedy railroad crossing may divert traffic and significantly decrease the first viaduct's revenues. Second, an outdated railroad crossing facility has to remain in place for another 20 years (i.e., the concession term) resulting in higher costs to citizens in the form of waiting time, slow crossing and lack of innovation. Hence, the risk of creating a private monopoly is quite high.

Another project that aims at constructing and operating a railroad segment in Kazakhstan also features the risk of hidden protectionism. However, the risk is much

smaller as the PPP railroad faces competition from the national railroad company and, additionally, from Russian railways. Alternative routes and alternative operators are available for customers. As an interviewee states:

We [a PPP railroad operator] want to set our tariffs at the level of the national railroad company or, perhaps, even lower. This way a customer will have a real choice. However, our delivery time is much shorter and this is how we will get a lot of business.

KZ-1-Rustam

Hence, there are no reasons to consider the railroad segment, which a PPP operates, a government-protected monopoly.

4.3.13 Theme summary

Table 4.4 summarises interviewees' experiences and perceptions of risk mitigation as per the interview data.

Table 4.4 Summary of risks and risk mitigation methods

Kinds of risk	Tools and methods used for risk mitigation	Project country
Technical risk	<ul style="list-style-type: none"> • None, although the risk exists 	Kazakhstan
Construction risk	<ul style="list-style-type: none"> • Risk elimination at the engineering project design stage 	Kazakhstan, Russia
Operating risk	<ul style="list-style-type: none"> • Budgeting larger funds to allow for unforeseen expenses 	Kazakhstan, Russia
Revenue (demand) risk	<ul style="list-style-type: none"> • The government has agreed to buy out the facility at a predetermined price if traffic volume falls 10 per cent short of the target level • High capacity utilisation due to lack of competition 	Russia Kazakhstan, Russia
Financial risk	<ul style="list-style-type: none"> • None 	Kazakhstan, Russia
Environmental risk	<ul style="list-style-type: none"> • Budgeting contingency funds • Building an additional protective facility 	Kazakhstan Kazakhstan
Regulatory/political risk	<ul style="list-style-type: none"> • Shortening the concession term 	Kazakhstan

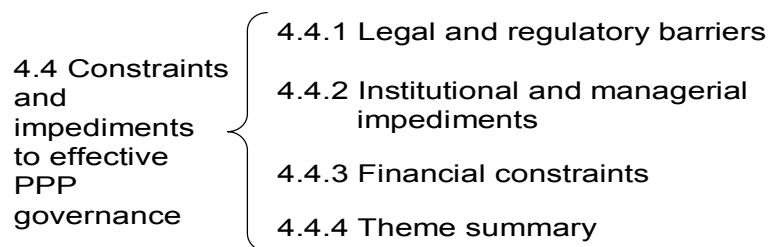
Public acceptance risk	<ul style="list-style-type: none"> Positive project promotion via a Web site, extensive communication with citizens and mass media 	Russia
Project default risk	<ul style="list-style-type: none"> Reduction of corporate debt by bond buyback 	Kazakhstan
Foreign exchange risk	<ul style="list-style-type: none"> Adding risk premium to the project costs 	Kazakhstan
Risk involved in the choice of the private sector partner	<ul style="list-style-type: none"> None, although the risk exists 	Kazakhstan
Hidden protectionism	<ul style="list-style-type: none"> Provision of an alternative free facility 	Russia

Source: Compiled by the author from interview data

4.4 Constraints and Impediments to Effective PPP Governance

A further theme to emerge from empirical data includes the barriers, limitations and impediments to effective PPP governance. The researcher has categorised the barriers and impediments as, first, legal and regulatory barriers; second, institutional and managerial impediments; and third, financial constraints to effective partnership management. Figure 4.9 illustrates the structure of this section.

Figure 4.9 Constraints to effective PPP governance: Theme structure



Source: Compiled by the author

4.4.1 Legal and regulatory barriers

Respondents identified a number of legal and regulatory barriers to effective PPP governance. These included irregularities in the PPP legal framework; discrepancies between national and regional PPP legislation; complex PPP tender procedures; ambiguity in the regional government's privileges and responsibilities; complex and bureaucratic tariff and wage-rate setting and public, as opposed to private, asset ownership. The discussion of each of these follows.

4.4.1a Irregularities in PPP legal framework and discrepancies between national and regional PPP legislation

Interviewees pointed to irregularities in the legal framework governing PPPs. In both Kazakhstan and Russia, there is no general law that defines a PPP, its legal status and the principal legal provisions governing PPP employment in a country. The law on concessions that each nation has adopted in 2005-2006 fills the legal gap only in part. Interviewees asserted that the law on concessions is incomplete and is not harmonised with other national laws. In Russia, a respondent identified the following contradiction between the law on concessions and the budget law:

'Many are wondering which law actually prevails. The law on concessions permits setting a PPP for 20 or 30 years. However, the [federal] budget code allows the government to extend the payment guarantees for no longer than three years. How to combine all this? Does it mean that the government signs a concession contract for 20 years, but it does not guarantee that it will pay a concessionaire? Who needs this kind of contract? Is it really legally binding?'

RU-2-Oleg

A lawyer from a Russian law firm reiterated the concerns regarding the validity of PPP long-term contracts that government agencies sign:

'Some regions [in Russia] are deeply in debt and their budget deficits are chronic, year by year. The budget law asserts that the region's debt should not exceed 15 per cent of its budget. But some regions persistently run deep

budget deficits and have little revenue. Their budget situation is not improving at all. When a regional government signs a contract for a long term, what does it count on? How and from what sources will it receive the larger funds?'

RU-Lawyer-2

These excerpts show that the commitment of public organisations, especially at the regional level, to extend payments to a PPP during the long period is highly questionable.

In Kazakhstan, an interviewee highlighted a similar contradiction between the national law on concessions and budgetary guarantees:

'When a regional government grants a concession for many years, how can it guarantee that it will actually pay? It gives it guarantee in writing, but where can it get the money in the future? The regional government gets funds from the national government, but the national government does not give any guarantee. This is confusing, isn't it?'

KZ-2-Kairat

In both countries, contradictions within the PPP legal framework also exist between national legislation and regional. A lawyer from a Russian law firm described the problem as follows:

'Many regions [in Russia] have adopted their own PPP laws. However, the civic law is the federal government's privilege. Hence, the legitimacy of regional PPP laws in the absence of the federal PPP law is debatable.'

RU-Lawyer-1

The comment above is echoed by a similar opinion that an interviewee in Kazakhstan provided:

'Some regions [in Kazakhstan] have formed their own PPP centres and adopted regional rules and regulations. I'm not sure that these regulations are really helpful. Kazakhstan has a unitary system. Everything is prescribed by the national government. Regional regulations may simply repeat the national laws, but the former may not replace the latter, and may not fill some existing gaps in national legislation. For example, the national law does not specify

what a PPP means or what an asset life cycle contract means. So, a regional law cannot help here at all.'

KZ-1-Damir

4.4.1b Tangled PPP tender procedures

Interviewees highlighted a number of irregularities in PPP tender procedures. The government has to organise separate tenders, rather than one, in order to finalise a PPP. The first is a PPP tender itself, the second is a tender regarding granting of land for a PPP project and the third is a tender regarding the procurement of services from a private company as Russia's federal law on government purchases requires. The following excerpt illuminates this complexity:

'Land cannot be transferred from the government to the private sector partner in the framework of a PPP tender and a subsequent PPP contract. The law on land requires that, in order to give land to private hands, the government must announce a separate tender and must subsequently issue a separate contract for the land use to the winner. What if some other company, not the PPP winner, wins the land tender?'

RU-2-Vladimir

When reflecting upon the complex PPP tender procedures, another participant recognised contradictions between existing Russia's federal laws:

'When the government wants to use the services of private firms or individuals, it has to comply with the law on government procurement. This means that the government has to run a separate tender, and then issue a contract [separate from the PPP contract] to the best bidder.'

RU-2-Oleg

This interviewee stated that in reality, a partnership becomes a set of different contracts, each with their own regulations. A set of regulations may include all or some of the following:

- A contract regarding the use of land;

- A separate contract regulating a government-owned facility's rent or free-of-charge use;
- A contract for government property use such as equipment in a recreational facility; and
- A separate PPP contract.

When commenting on the possibility of organising a unified PPP tender that would embrace all separate tenders (or would eliminate the need for at least some of them), an interviewee articulated the point that:

'It is impossible to synchronise these tenders, and one tender cannot replace another. The law requires the government to run all the tenders. Of course, this leads to longer time involved in closing the PPP contract. And additional bureaucracy is truly significant. I know cases where the bureaucracy has lead first to lengthy delays, and then even to cancelling an original intent to form a partnership.'

RU-2-Oleg

The latter comment summarises the downsides of the tangled PPP tender procedures – considerable bureaucracy, lengthy delays and overall ineffectiveness involved in the PPP formation.

4.4.1c Ambiguity in the regional governments' privileges and responsibilities

Interviewees expressed their concerns regarding a lack of understanding of what the government, specifically at the regional level, can do in the field of PPP governance. One interviewee described the chief reason for this ambiguity:

'As there is no common definition of a PPP, each region [regional government] decides on its own what a PPP is.'

RU-1-Konstantin

As a consequence of varying meanings attached to a PPP, each regional government makes its own decisions regarding what forms of support the government can extend to a partnership. Some regional governments set a reduced corporate

income tax rate for a PPP and/or give an extension of time to pay the corporate income tax. Other regional governments give an operator a subsidy to pay part of the project cost. In regards to forms of government support, an interviewee provided the following comment:

'I know that in [...] region, the government gives a subsidy in order to compensate a partnership for its use of a quite high interest rate for a commercial bank's loan. We [a PPP] receive nothing like that. I don't know if it is a subject for negotiation with the government, or the government just forgot to offer us this subsidy, or we were supposed to ask for it and insist on getting it. What if the loan interest rates sharply rise in the future? Can we renegotiate the PPP contract with the government and get this subsidy?'

RU-2-Sergey

In Kazakhstan, another interviewee stated that the government tools and possibilities for supporting and/or penalising a PPP are vaguely defined and their implementation lacks procedures and guidelines.

'I think government staff sometimes simply don't know what [legal provisions] they can apply to a PPP and what they can't apply. They always refer to the law, but there is more than one law governing partnerships. They point to one law for some reason and then they say about another one: 'No, we cannot use these terms'. Normally – unfortunately – there are no explanations.'

KZ-1-Rustam

In summary, the range of a regional government's privileges and responsibilities regarding PPP formation and management remains ambiguous. These privileges and responsibilities are even less clear at the municipal government level: not only the municipal rules and regulations should align with the regional PPP legislation (which is often vague or non-existent), but the latter should also align with the national PPP legislation, which has significant gaps and limitations, which Sections 4.4.1a and 4.4.1b have discussed.

4.4.1d Complex and bureaucratic tariff and wage-rate setting

Among legal and regulatory barriers to effective PPP governance, interviewees identified their experiences of bureaucratic tariff regulation. The latter often falls within the domain of the country's anti-monopoly agency. Interviewees believed that tariff setting was lengthy, the criteria for approval were blurred and the procedures were cumbersome. An interviewee suggested the following:

'There should be a totally different process for tariff setting. The anti-monopoly agency may need to monitor tariffs. However, the tariff setting should not be between an operator and the anti-monopoly agency. It should be between a service provider and customers. At this point, there are no negotiations between a supplier and a customer. So, how does the anti-monopoly agency know what tariff level it should deem acceptable and what level is unacceptable?'

KZ-1-Assem

Another interviewee from Kazakhstan reinforced the importance of direct tariff setting between a PPP operator and a customer:

'We [a PPP operator] formed a tariff that is much higher than the allowed limit. But we are convinced that this is the right tariff. However, the anti-monopoly agency allows an actual tariff to exceed what it considers a 'target tariff' by no more than 5 per cent. Well, we got a fine from the agency for exceeding the 5 per cent limit. I don't really understand who needs these 'target tariffs' and why we [an operator] have to pay the fine. What company will want to be in business like that, where some government agency regulates its prices?'

KZ-1-Azamat

An interviewee from Russia commented on tariff setting as follows:

'Luckily, we are not subject to tariff regulation by the anti-monopoly agency. We had to negotiate our current tariff with the city government, but that was about it. If we had to get a tariff approval from the anti-monopoly agency, forget about it. I personally don't want to be in this business. The process [of granting approvals for a new tariff] is slow, we would have to submit a pile of

documents and we will never find out the real reasons why they would want to see a different tariff level.'

RU-1-Konstantin

The above excerpt by the interviewee from Russia shows a clearly negative view of governmental bureaucratic tariff regulation in those cases where tariff setting is a part of anti-trust policy and is the public anti-monopoly agency's responsibility. The same interviewee described his own experience of collaborating with the local government regarding tariff setting as positive and effective. This is because an operator negotiated a tariff directly with the municipal government, hence, avoiding excessive bureaucratic procedures.

In Kazakhstan, another area that the national agency for regulation of natural monopolies keeps under its tight control is wage rates. The latter are subject to regulation because a national government-owned company formed, in part, a PPP operator (of a railroad concession). Although a public company owns a large percentage of the operator's stock, it remains unclear why the government needs to regulate the operator's wage rates. An interviewee provided the following comment:

'If we set our wage rates ourselves, what's wrong with that? With or without government regulation, we have to pay people at market rates; otherwise no one would want to work for us. We may pay bonuses for good performance. Again, nothing is wrong with that because it's a standard practice. So, why government regulation? How does it help? And whom?'

KZ-1-Aibol

The excerpt indicates a lack of support for government regulation and perceives it as an impediment to an operator's flexibility regarding hiring and retaining a qualified workforce. The interviewee's comment implies that the wage rate-setting power should belong to an operator.

4.4.1e Public versus private asset ownership

In both countries, another barrier to effective PPP governance is the legal requirement that an operator must transfer a property ownership of a newly constructed

facility to the government upon completion of construction. Hence, an asset ownership as a tool that motivates an operator to provide better facility management and maintenance is non-existent (except with a Kazakhstani railroad project that was approved prior to the adoption of current regulation). In the following excerpt, an interviewee asserts that private asset ownership would benefit a PPP project:

'If we had an opportunity to own a facility for 10 to 15 years or longer, I'm sure we would maintain it with greater care, which is natural in a long-term project. And it would be best if we transfer the facility to the government only after we get the final payment from the government. This is just to make sure that all payments are settled and neither party owes anything to another party.'

RU-2-Vladimir

The above excerpt indicates that, due to legal restrictions, the private sector partner does not have an opportunity to own an asset until the projects terminates and the government pays an operator in full, less fines and other penalties, such as for missed deadlines. Hence, the public asset ownership during the project implementation significantly reduces the motivation of partners in both sectors to properly fulfil their contractual obligations. Additionally, it does not shield a private partner against the risk of government default or incomplete government payments.

4.4.2 Institutional and managerial impediments

Interviewees identified the institutional and managerial barriers to effective PPP governance. They included the private partner's lack of flexibility in decision-making; procurement restrictions set for the private sector partner and lack of government commitment to a PPP, which leads to shifting responsibilities between partners.

4.4.2a Private partner's lack of flexibility in decision-making

Lack of flexibility in decision-making manifested itself in three out of four PPP projects under investigation. In two social infrastructure projects - one in each country - interviewees highlighted similar restrictions imposed by the public sector partner on a

private party. In both projects, the government insisted on the simultaneous construction of facilities, such as kindergartens, as opposed to sequential construction, where a contractor first builds one facility, then begins and completes the construction of another facility and then moves on to the next one. An interviewee describes this approach as follows:

'I don't really understand why we have to begin construction at a few sites at the same time. In this case, we have to hire a large number of construction workers at once and rent a lot of construction equipment and machines. It would've been much easier if we used the same construction team and equipment at one site, and then moved them to another site, and then to the next one.'

RU-2-Sergey

Another interviewee (from Kazakhstan) experienced a similar situation. He reiterated an idea about a lost opportunity of moving an operator's construction team and equipment from one site to another:

'I think the government simply wants to report that so many new facilities have been opened in the city in a certain year. But what difference will it make if construction lasts a few months longer? It is much easier and cheaper for us to organise work at one construction site at a time, rather than on a few sites simultaneously.'

KZ-2-Talgat

Both interviewees emphasised their strong preference for sequential construction as opposed to simultaneous construction, and expressed their concerns that, by inhibiting the flexibility of a private party, the public sector partner neglects an opportunity to receive economies of scale. Interview data reveal that the private sector partners are significantly more concerned with construction costs than the government. However, pursuing its own agenda, the latter insists on simultaneous construction of all facilities in a project, hence, giving a private partner no flexibility in decision-making and, consequently, reducing the project's efficiency.

4.4.2b The private sector partner's procurement restrictions

Another barrier to effective PPP management was procurement restrictions with which the private sector partner has to comply. An interviewee commented on his company's procurement experience as follows:

'As a national government-owned company formed my firm [a PPP operator], it automatically became the subject to rules and regulations governing the public sector organisations. This means we have to do all purchasing by tenders. Can you imagine how much time and effort we are spending for running the tenders? I do not think it makes us more efficient in any way.'

KZ-1-Damir

Another interviewee shared a similar opinion as follows:

'Why do we need to organise a tender in order to buy pens or paper clips? It is true that a government-owned company is our major shareholder, but why does this fact have to influence our purchasing? Tenders are so time-consuming. In addition, I am not sure that we are seeing lower vendors' prices. Actually, sometimes it looks exactly the opposite.'

KZ-1-Aibol

When reflecting upon the operator's lack of flexibility in making its own procurement decisions, both interviewees pointed out inefficiency and delays involved in organising purchasing through competitive bidding. They also expressed a concern whether competitive bidding is a necessary condition for running an operator's business and whether tenders bring the intended results (i.e., whether they permit avoiding corruption and receiving lower prices). Hence, interviewees perceived purchasing restrictions imposed on a PPP as a bureaucratic impediment to greater efficiency.

4.4.2c Lack of government commitment to a PPP

Interviewees highlighted the public sector partner's tendency to shift responsibilities related to the project work to an operator. An interviewee from the Russian PPP (a toll viaduct) asserted that, despite the need for both partners to show

mutual commitment to a project, in reality the public sector partner shifted most of the work to an operator.

'It would be kind of nice if the government accepts some responsibility for dealing with citizens' complaints. I think they [government staff] need to talk to people more often, run some events, such as a talk show on local radio or TV channel. But they do little. They just send people to us [an operator] and we need to answer phone calls, put materials and explanations on our Web site, maintain the blog. In all this work, what is the government role?'

RU-1-Victor

This interviewee recognised that in reality the government undermined its own commitment to the project by shifting responsibility for communicating with the population to the private sector partner.

Respondents from other studied projects shared similar concerns about the lack of the government commitment to a PPP. For example, an interviewee from Kazakhstan's project (railroad concession) describes her perception of the government commitment to a PPP as follows:

'Sometimes I feel that there is no [government] commitment. The way they [government staff] walk and talk shows that for them a PPP is like an additional burden for many years ahead. I'm sure that many of them think this way: 'The project is approved, and now you [an operator] do the job'.

KZ-1-Assem

Hence, interviewees articulated their perceptions that the government staff do not demonstrate any noticeable degree of commitment to a partnership, which results in shifting all kinds of project work from the public sector partner to an operator.

4.4.3 Financial constraints

Interviewees expressed their concerns regarding financial barriers and impediments to effective PPP governance including concerns about validity of the public sector comparators used for the PPP formation; difficulties with obtaining the bank financing;

and constraints to effective risk management in those cases where the government suspends its payments to a concessionaire and taxation issues.

4.4.3a Lack of validity of the public sector comparators

In both countries, respondents questioned the public sector comparators' accuracy and usefulness that the government previously had used for determining the value of a partnership project. For example, the government in St Petersburg, Russia, used the construction costs of a public school and a public kindergarten as benchmarks for cost determination in a PPP. The government in Karaganda, Kazakhstan, used the same approach for designing a kindergarten's construction project in the PPP form. Additionally, the government in Kazakhstan used the public sector comparator in the field of railroad construction for forming a railroad concession. Interviewees were concerned with how accurate, from the cost perspective, the public sector comparators were. The following excerpt illuminates this:

'How do we know whether the construction cost figures reflect what the government wanted to receive, in terms of the quality of the final product? What happens often in construction is that some part of the facility was built poorly and requires immediate replacement. However, the replacement cost becomes part of the operating, rather than the capital, cost.'

RU-2-Vladimir

Another interviewee also questioned government benchmarks.

'In construction, a lot of things depend on technology and equipment. Perhaps, the government gave us the numbers that reflect the extensive use of cheap labour from neighbouring countries, but we may need to employ different construction methods. The two construction projects may look similar, but in fact, they are never alike unless the same company does the construction of two facilities at the same time.'

KZ-1-Damir

An interviewee from another Kazakhstani project also recognised the limitations of government cost benchmarks:

'I don't think the government cost estimate [for a prospective PPP] tells us much. The government refers to its own experience, but we really don't know under what conditions and using what resources the construction company did the job. Was that company highly efficient or was it wasteful? Did it have much bureaucracy in its management or did it have a lean structure? Also, we have no idea what problems they faced during the construction and how these problems influenced the costs. The government has to look at cost estimates differently, I think. Perhaps, by inviting the bids ...'

KZ-2-Darkhan

To summarise, respondents articulated their concerns regarding the validity of public sector comparators that the government employed in selected projects. Interviewees pointed out the lack of a reliable methodology for assessing the PPP project value (cost). Consequently, as interviewees highlighted, no valid methodology existed for determining the volume of government payments and/or subsidies to an operator. The result was that there was no evidence that public sector comparators gave a valid and accurate benchmark for the PPP project costs.

4.4.3b Difficulties with securing PPP financing

When reflecting upon PPP financing issues, all respondents pointed out difficulties with obtaining bank loans. A measure that can help to expand bank financing for partnerships is using a newly build facility as collateral for a loan. However, the existing regulations in both countries require a private contractor to transfer an asset ownership to the government upon completing construction. An interviewee described the problem as follows:

'If we [an operator] own a facility, we can use it as collateral for a bank's loan. Financing of both capital expenditure and operating costs would be much easier. But at the moment the law permits just one model – build–transfer–operate. I know that private companies want a different model – build–own–

operate–transfer. The private ownership would make a huge difference for easier loan financing and more efficient maintenance.'

RU-2-Oleg

Hence, the interviewee concluded that the private sector partner should have an opportunity to own an asset that it builds or renovates in the PPP framework, so that it can use it for securing bank financing.

In addition to bank loans, in Russia the government designed a financing channel via *Vnesheconombank*, which is the federal government's investment bank. Financing that its PPP Centre extends attracts many public agencies, regional governments and private firms. However, although funds are available, *Vnesheconombank* offers limited financing opportunities because it only targets large-scale projects with minimum investment of two billion rubles (about \$64.5 million), which is a very large amount in Russia. The following comment illustrates the constraint and a possible solution:

'It is probably easier for Vnesheconombank to work with very large projects. But regions have a lot of smaller projects. For larger projects they need to team up with other regions and that's difficult. Also, it may be challenging to find a private investor for a large-scale project. Regions can undertake smaller projects faster and easier. It would be best if Vnesheconombank reduces its requirement for a minimal project cost.'

RU-1-Konstantin

Hence, interviews confirmed the interest among potential PPP participants and investors in receiving smaller loans via the federal government's investment channel in order to ensure a wider reach and broader suitability of *Vnesheconombank's* financing.

4.4.3c PPP's financial flows: Constraints to effective risk management

With regards to the projects' financial flows, interviewees expressed concerns about a specific risk, namely, where the government does not follow the agreed-upon schedule of payments to a concessionaire and payments may stop for an unspecified time. Interviewees asserted that, as this risk is inevitably unanticipated, its mitigation is hardly possible. However, the effective risk management calls, in the respondents' view,

for implementation of such tools as assignment of financial penalties to the government and interest accrual on an unpaid (or delayed) amount. The following comment highlights this concern:

'When the government stopped its payments, we [an operator] were in a quandary. When will the payments resume? Will they ever resume? When the project began, we did not think that the government might ever suspend its payments. But it happened. I think the government needs to accept responsibility for what it is doing or not doing. So, financial penalties, late fees and interest must be spelled out in a PPP contract for both partners, not just for an operator.'

RU-2-Sergey

Hence, the interview data identified the lack of incentives for ensuring timely government payments as a constraint to effective risk management in a PPP whilst the proposed tools may remedy the situation.

4.4.3d Taxation issues

Respondents highlighted concerns related to two taxes levied on a PPP - the property tax and value-added tax (VAT). Interviewees perceived both kinds of taxes as an unnecessary burden on a partnership. With regards to the property tax, the main concern was that a PPP has to pay this tax to the government on property that already belongs to the public sector. An interviewee provided the following comment:

'We don't own a facility as my company is an operator. So, it's a government-owned facility. But since we use it, we have to pay the property tax to the government for the privilege to maintain the facility. This is strange because if the government maintains it itself, then it pays no tax. Why is this tax necessary at all?'

RU-2-Vladimir

A similar issue exists with regards to value-added tax. During asset construction and maintenance, an operator pays VAT as any other private contractor. However, when the project terminates, an operator transfers a facility to the public sector. PPP

participants share a perception that the government needs to refund the full amount of VAT that an operator has paid during the project term. An interviewee believes that:

'The government assumes the facility's ownership right after we [an operator] have completed the construction. Of course, we [an operator] paid VAT on construction materials and everything else. This is a burden for the project, but at the end, the tax is fully shifted to consumers. Perhaps, we can get a refund after the project is completed.'

KZ-1-Azamat

Another respondent also shares a view that VAT increases the project's cost and, consequently, reduces the project's value for customers:

'We [an operator] included VAT in our financial plans. Due to VAT, the project costs more to us [an operator] and the government. But our prices surely depend on our costs. The higher the VAT, the higher the prices. So, the government regulation drives our prices up.'

KZ-2-Talgat

To summarise, interviewees perceived some kinds of taxes, such as the property tax and VAT, unnecessary and believe that this tax burden leads to higher prices for PPP services. Interviewees asserted that the government does not seem to be concerned with PPP financial effectiveness from the perspective of keeping the prices for the public services low.

4.4.4 Theme summary

Table 4.5 illustrates three categories of PPP barriers and impediments that this theme has discussed.

Table 4.5 Summary of barriers and impediments to effective PPP governance

Barriers and impediments to effective PPP governance, by category	Components and details
Legal and regulatory barriers	<ul style="list-style-type: none"> • Irregularities in PPP legal framework • Discrepancies between national and regional PPP legislation • Tangled PPP tender procedures • Ambiguity in regional government's privileges and responsibilities • Bureaucratic tariff and wage-rate setting • Public versus private asset ownership
Institutional and managerial impediments	<ul style="list-style-type: none"> • Private partner's lack of flexibility in decision-making • The private sector partner's procurement restrictions • Lack of government commitment to a PPP
Financial constraints	<ul style="list-style-type: none"> • Lack of validity of the public sector comparators • Difficulties with securing PPP financing • PPP's financial flows: constraints to effective risk management • Taxation issues

Source: Compiled by the author

4.5 Chapter Summary

The chapter discussed four themes that emerged during the in-depth interviews with respondents from partnerships, government agencies, law firms and national and regional PPP centres. The four emergent themes focused on PPP management issues and included:

- Opportunistic behaviour in a PPP, its reasons, forms and implications;
- Partner interaction issues including those related to PPP organisational forms and methods for dispute resolution;
- Risk management in a PPP and
- Constraints and impediments to effective PPP governance.

The chapter presented an analysis of the interview results. The author has captured the data using interviewees' own words that express their experiences, opinions and

perceptions. The thesis moves on to a more detailed discussion of the research results, which the next chapter outlines.

CHAPTER FIVE: DISCUSSION

5.0 Chapter Introduction

The chapter discusses four themes that emerged during interviews and that the interview analysis chapter has highlighted. These themes include:

- opportunistic behaviour in a PPP;
- interaction between partners;
- risk management in a PPP; and
- constraints and impediments to effective PPP governance.

The chapter begins by providing insights into the nature and meaning of opportunistic behaviour in a PPP. This section draws on the available literature sources and gives an operational definition of opportunism in a partnership. The chapter then discusses a number of situations in which partners in the studied projects exhibited opportunistic behaviour and highlights the underpinning reasons. A separate section elucidates the implications of partner opportunistic behaviour such as overregulation and a framed private partner's management flexibility.

The chapter moves on to illuminate partner interaction issues and advantages and disadvantages of PPP organisational forms that the study has identified. The following part discusses interviewees' perceptions of risk management in partnerships. The author pays special attention to emergent guarantee culture among private investors who are interested in PPPs. The concluding section focuses on impediments to effective PPP governance including legal, regulatory, institutional, managerial and financial constraints.

5.1 Opportunistic Behaviour in a PPP

This section's structure is as follows. It begins by conceptualising opportunistic behaviour in a partnership and by drawing an operational definition of opportunism in a PPP. As this conceptualisation stems from the nature of a PPP, the next part discusses the meaning of a partnership as a set of multiple tangled relationships and arrangements.

The following part moves on to highlight partners' opportunistic behaviour in their collaboration in three areas: regarding public acceptance of a PPP project, regarding achieving results faster than contracted and regarding tariff setting. The concluding part discusses implications of partners' opportunistic behaviour, such as overregulation, framed private partner's management flexibility and increased costs.

The study participants perceive each other's behaviour as opportunistic in a variety of ways. The study has identified two main forms of a partner's opportunism: (a) the public sector partner's pressure on a private party and (b) the push of the private sector partner for higher tariffs for its services. The following two quotes highlight the findings:

'I don't think that the government behaves like our [a PPP operator's] true partner. It behaves like a boss. It behaves like a boss who has decided something and believes that this is going to be best for a PPP. And then the boss pushes for his own decision no matter what, without listening much to its so called private sector 'partner'. Is this really a partnership? To me, it's more like a traditional the 'boss-subordinate' relationship.'

KZ-1-Damir

'The operator's emphasis on getting new tariffs approved as soon as possible is clearly excessive. They [the operator's staff] talk about new tariffs all the time as if there are no other ways to improve financial performance. They need to think about an overall project efficiency and keeping their costs low. And a new tariff is just an easy way to get more revenue, without much effort.'

KZ-GOVT-3

Although the study participants who represent two different sectors stayed away from directly blaming each other for certain actions or non-actions, the spirit of their views illustrated opportunism that an interviewee attached to an opposing party's behaviour. This raises an issue regarding how to categorise partner behaviour in a PPP. The fundamental question is: what kind of party's behaviour should one deem opportunistic? The discussion of the nature and specifics of opportunistic behaviour has multiple dimensions, and the beginning point is revisiting the ontological position that the author adopted in this thesis.

5.1.1 Conceptualising opportunistic behaviour: Drawing on the ontological position

As the author takes the phenomenological stance in this study, the author believes that the world is socially constructed and subjective (Collis and Hussey, 2003; Sarantakos, 2005). The author's stance is in contrast to the positivist view that reality is objective and singular (Tsoukas and Hatch, 2001). In the phenomenological view, reality has multiple dimensions (Hughes and Sharrock, 1997; Sarantakos, 2005). It is based on ideas and perceptions, rather than on objective facts and factual reality (Neuman, 2007). The study's phenomenological perspective has clear implications: it captures interviewees' experiences and perceptions, whatever these experiences and perceptions are, whilst there is no '*correct*' or '*incorrect*' experience or perception. Hence, capturing participants' experiences and perceptions implies their equal treatment: even if one participant's perception is very different from others and is far from other experiences and empirical data, the researcher should give it equal treatment, much like the treatment of any other perception.

Connecting the phenomenological perspective with the perceptions of opportunism, it is worth noting that the study's methodological approach permits the researcher to pay much attention to the participants' individual experiences and views, as well as to contextual details of PPP management in Kazakhstan and Russia. This is in line with the exploratory nature of qualitative study in this thesis, as opposed to quantitative research (Easter-Smith *et al.*, 1994; Sarantakos, 2005). The richness of contextual details and the multi-dimensional perceptions, in the interviewees' own words, ensures the qualitative research's depth, which is a distinct advantage of the phenomenological stance. However, the latter is not free from drawbacks, namely, that generalisations are hardly possible in this research approach. Whilst the contextual specifics and individual perceptions ensure the richness of detail, the same research design features make the findings truly unique, especially as far as the country-specific results are concerned. Even if the results carry some similarities in both countries, one must make conclusions with care to ensure that contextual details are preserved rather than neglected.

To conclude the discussion of the ontological position adopted in this thesis in relation to opinions and perceptions about opportunism, the author does not aim to judge whether one form or instance of a partner's behaviour in a PPP is opportunistic as opposed to another. The author's goal is to capture all kinds of partners' opportunistic behaviour by adopting a proper operational definition, which the following section delineates.

5.1.2 Conceptualising opportunistic behaviour in a PPP: An operational definition

With regards to defining opportunistic behaviour in general and a partner's opportunistic behaviour in a PPP in particular, the literature lacks the elaborate discussion, which results in conceptual ambiguity. There is no agreed upon definition of opportunistic behaviour. The simple conceptualisation of opportunism is that it refers to the self-interest of actors (Williamson, 1993). In his article devoted to economic opportunism, Williamson (1993) has made a significant contribution to understanding opportunism and offered a number of definitions and essential details, such as:

- Opportunism is where 'economic actors will break promises when it suits their purposes';
- Opportunism means 'self-interest seeking with guile'; and
- 'Opportunism corresponds to the frailty of motive which requires a certain degree of circumspection and distrust in the transaction cost economics scheme of things' (pp. 100-101).

Conceptualising opportunism, Williamson argues that:

'The possibilities that economic agents will lie, cheat and steal are admitted. The possibility that an economic agent will conform to the letter but violate the spirit of an agreement is admitted. The possibilities that economic agents will deliberately induce breach of contract and will engage in other forms of strategic behaviour are admitted' (1993: 101).

The above shows that opportunistic behaviour may manifest itself in an unlimited variety of ways and forms. Due to the multiplicity of potential forms of opportunism, a researcher, defining the latter, has to determine the significance of a key feature, namely, whether opportunism involves guile. The author's stance is that guile is unimportant as opportunism's key feature: the complex nature of a PPP as a set of long-term arrangements makes the relationships in a partnership multifaceted and multidimensional, and it is not an easy task to determine what exactly guile is and where it takes place.

In order to overcome conceptual ambiguity for the PPP research, the author adopts the following operational definition of opportunism:

In a PPP, opportunism is a partner's method of pursuing self-interest with or without guile, whilst a partner directly or indirectly gives up, forgets or neglects the common partnership's interests, goals or values.

The above definition rests on the nature of a PPP as a complex set of arrangements and relationships, which is in the core of a partnership's understanding. The following section provides insights into the PPP's nature and then establishes the links between the PPP nature and partner behaviour.

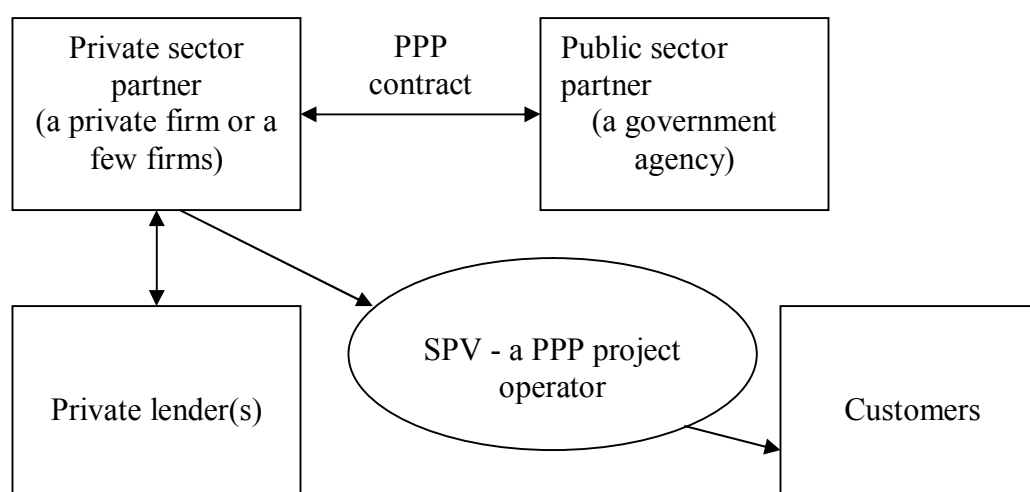
5.1.3 A PPP as a set of arrangements¹

This section aims to discuss why guile is unimportant as a potential defining feature of opportunistic behaviour in a partnership. In order to demonstrate this, a closer investigation into the nature of a PPP is required. A PPP refers to the set of multiple organisations, stakeholders and relationships between them (Akintoye *et al.*, 2003; Grimsey and Lewis, 2004). However, a PPP contract is between a government agency (or a number of agencies) and a private company (or a number of companies). Although customers, naturally, form an important group of stakeholders, they are not

¹ The text of this section has been included in the article that the author wrote together with Nada Kakabadse, which *Public Management Review* plans to publish in 2013 (Mouraviev and Kakabadse, 2013, in press). The author certifies that the text in this section is his original contribution to the thesis.

involved in any contractual obligations related to a PPP. A private company often forms a new company, to which researchers commonly refer as a special purpose vehicle for asset construction, its maintenance and service delivery (Yescombe, 2007). An SPV, which often becomes a PPP project operator, shields the private partner's assets from potential losses, i.e., protects the parent company in those cases where an SPV has to bear unplanned expenses stemming from unforeseen risks. Although in exceptional cases a private partner (i.e., a contractual party) assumes the operator's role, as a norm, an operator is an SPV. Figure 5.1 highlights typical PPP arrangements.

Figure 5.1 Typical PPP arrangements: Contractual dependencies and a special purpose vehicle



Source: Compiled by the author

As Figure 5.1 illustrates, typically neither the government nor banks have contractual relations with a PPP operator. This is because an operator does not have any assets other than those which a parent company provides. Therefore, lenders and other parties are unlikely to succeed in holding an SPV responsible for loans and any other contractual obligations as SPVs have limited or no assets as opposed to their parent companies. In some cases, financial organisations may be a part of the general

PPP agreement that includes the government and the consortium of private companies and lenders. However, banks will have their loan agreements with the private sector partner. An operator is not involved in any borrowing or other contractual relations as the SPV is a daughter organisation formed specifically for implementing the parent companies' obligations.

When one considers a PPP, most often the discussion does not focus on the SPV, although it conducts all the project work. The focus is usually on *PPP arrangements and relationships* that include multiple organisations and stakeholder groups (Fischbacher and Beaumont, 2003; Mouraviev and Kakabadse, 2012). The SPV management issues and its performance as a stand-alone firm may also require the researcher's attention. For example, researchers have not sufficiently explored the question of whether an operator effectively meets the construction deadlines and achieves other performance benchmarks. However, the SPV's performance heavily depends on a parent company as the latter borrows money for the PPP project, channels funds, technology and human resources to its SPV, and ultimately carries the responsibility for the PPP's contractual obligations (Yescombe, 2007). To summarise, *a PPP* typically means a set of relationships and arrangements, not a PPP operator.

Stemming from and reflecting a more complex partnership environment as opposed to that of a single business firm, the author adopts a view on the nature of PPP arrangements as a cooperative effort to jointly create value for its stakeholders (Freeman, 1984; Jones, 1995; Jensen, 2000; Jiménez and Pasquero, 2005; Freeman *et al.*, 2007; Freeman *et al.*, 2010), although created value may benefit stakeholders unequally due to inevitable trade-offs. A principal merit of this view is that it provides a framework for analysing whether value creation happens within the PPP arrangement because what the PPP creates must align with common stakeholder values. In contrast to value creation, a partner's action, non-action or neglect may undermine the common partnership's interests, goals or values in the pursuit of self-interest, which exactly defines opportunistic behaviour. Whether a partner's action, non-action or neglect happen with or without guile is, first, extremely difficult to determine due to long-term cooperative arrangements, rather than in merely contractual bilateral obligations, and, second, unimportant for categorising partner's behaviour: if partner's self-interest

supersedes the common value creation for a partnership (whether with guile or without it), the behaviour is opportunistic.

The following excerpt illuminates an interviewee's perception of the government's behaviour to which an interviewee does not attach any guile:

'The government kind of routinely rejects our applications for new tariffs. It has been going on like that for more than four years. It does not look like every time we submit a new application, someone is thinking hard whether to approve it or not. Rejection just became a routine...'

KZ-1-Rustam

To conclude, guile as a possible defining feature of opportunism appears unimportant, owing to the complexity of long-term relationships between partners in a PPP. The implication of this conclusion is that the current study has successfully resolved opportunism's conceptual ambiguity by incorporating in the analysis interviewees' perceptions that describe how a partner pursues self-interest at the expense of common partnership interests, goals or values.

5.1.4 Opportunistic behaviour in a PPP: Diverging partners' interests

The interview data revealed opposing partners' perspectives on three areas: with regards to the public acceptance of a PPP project; with regards to achieving results faster than the contracted dates and with regards to tariff setting. This section discusses each identified area of diverged partners' interests.

5.1.4a Opposing perspectives regarding public acceptance of a PPP project

In a trade-off between higher revenue and greater public acceptance of the project (a toll viaduct), the private party decided to forfeit some revenue. However, it is unlikely that the private sector partner had voluntarily engaged in this trade-off: the government induced the company's choice to publicise the toll facility and increase the project's public acceptance, which means that the government opportunistically shifted

the effort and its cost to an operator. Although both partners were interested in the greater project's public acceptance, the government's behaviour appeared opportunistic: not only did the government not want to accept any responsibility for dealing with the public acceptance, but it also exerted pressure on the private sector partner, so that the latter carried out all the work and incurred related costs. The following excerpt highlights the government's behaviour:

'The city government diverts all phone calls, written inquiries, complaints and suggestions to us. From what I know, when an office in the city government receives a call regarding a PPP project, they [government staff] simply say: 'Please contact a contractor. A contractor handles all this.'

RU-2-Michael

Another interviewee elucidates the involuntary nature of the trade-off to which the private sector partner is exposed:

'We [the operator] realise that the government resources are limited and for the government it is easier to assign all communication with citizens [regarding the PPP project] to us. We sort of anticipated that we would be engaged in this work. But we didn't realise that the government would shift all the work to us. It would be fair if the city itself handles at least part of this work.'

RU-2-Anna

Naturally, the city government is no less interested in the public acceptance of the PPP than the private sector partner. The project failure would undoubtedly backfire the government: the latter has agreed to buy out the viaduct at a predetermined price, should the traffic volume fall more than 10 per cent short of the projected traffic by the end of year one. Despite the safeguard against the project's low acceptance level, which benefits the private partner, rather than the government, the excerpts above indicate that the municipal government pays lip service to the public acceptance issue. It shifted all work and expenses to the private party by exerting all kinds of pressure.

5.1.4b Opposing perspectives on achieving results faster than contracted

The data revealed a range of cases where partners manifested their opposing perspectives with regards to the public agency's strong preference for achieving results faster than a PPP contract specifies. The outcomes of opposing perspectives transpire in:

- (a) lost opportunities for economies of scale;
- (b) lost opportunities for knowledge transfer; and
- (c) rising project costs.

These outcomes are the direct result of two factors: the certain project design that involves simultaneous construction of a few facilities with the same target completion date and the government behaviour where the latter pushes the private sector partner for achieving results faster than contracted. The following excerpt highlights these two factors:

'We [a PPP contractor] didn't design the project. From the very beginning, it was the government idea that all kindergartens must be constructed at the same time, and they should launch their operations all at once on a certain date. This is kind of traditional, Soviet-style reporting of what the government has done for the population. Reports must be cheerful and exciting, rather than mundane. Honestly, I don't know what is wrong with opening five or ten facilities one after another, not on the same day. Is it really so bad? Moreover, once the opening date has been set, the government persistently talks whether we can open the facilities sooner.'

KZ-2-Aliya

In two projects (out of the four under investigation) the government insists on simultaneous, rather than sequential, construction. This project design puts a contractor in a position where it has to undertake construction at more than one site at a time (e.g., to construct eleven kindergartens in a project in Karaganda, Kazakhstan, and to construct three kindergartens and two schools in a project in St Petersburg, Russia). To undertake simultaneous construction, a PPP operator has to hire a construction team for each site, buy or rent equipment for each site and provide procurement, engineering and management services for each site. In this case, an operator loses the opportunities to

take advantage of economies of scale. Furthermore, an operator loses an opportunity to learn from its own construction and management experience as each team works at one site only, rather than moves from one site to another. The latter means that the operator loses opportunities for knowledge transfer and, ultimately, for increases in labour productivity, from one site to another in the course of the same project.

Lost opportunities for capitalising on economies of scale and knowledge transfer mean that the PPP project cost is higher than what it could have been. In turn, this inevitably means that a PPP carries a smaller value for money for the government, the taxpayers and for society in general. As most often economic efficiency and effectiveness are the main and the only criteria for PPP employment (Hofmeister and Borchert, 2004), the government disregard of the cost-saving opportunities is not in line with what the literature argues regarding the reasons for partnering. It is worth noting that this disregard applies to both Kazakhstan and Russia and there are no cross-country discrepancies in the data received during interviews. In PPP projects in both countries, the government neglects the overarching aim of obtaining a good deal for the taxpayer (Colman, 2000).

The PPP value for money concept also implies opportunities for the public sector to take advantage of the private partner's innovation in service delivery, technology used and project management (Morallos and Amekudzi, 2008). However, in the two projects under investigation it is unclear how a private partner can be innovative once the government essentially has stripped of (by the project design) a private partner's opportunity to learn from its own experience and to transfer accumulated knowledge from one construction site to another within the same project. Hence, another aspect of the PPP value for money is also neglected.

To conclude, in the cases where the government insists on simultaneous, rather than sequential, construction of multiple facilities, the government's opportunistic behaviour manifests itself in assigning heightened priority to achieving fast results by ignoring the opportunities to make the private partner's efforts more efficient.

Yet an additional aspect of the government's opportunistic behaviour is where the public agency pushes the private sector partner for achieving results faster than

contracted. The government tends to exert both formal and informal moral pressure attempting to receive faster outcomes. The following excerpt exemplifies the latter.

'The government officials often remind us [the operator] of the due date and also ask whether we can complete the construction sooner. They always say that citizens need the services as soon as possible.'

RU-2-Konstantin

By exerting pressure to receive faster outcomes, i.e., by trying to move the completion deadlines sooner than contracted, the government disregards the private partner's planned efforts and costs as the government pressure may disrupt the construction schedule and payments to workers, suppliers and subcontractors and may result in significant unanticipated expenses. It is no surprise that contractors strongly resist to moving the construction completion dates. By pushing the due dates of various construction stages sooner, the government not only disregards the cost reduction opportunities stemming from the planned construction phases and costs, but also disregards the natural goal set by transaction cost economics, i.e., to ensure the lower costs to the taxpayers (Morillos and Amekudzi, 2008; Vining and Boardman, 2008a). The reason is that an accelerated construction schedule is likely to cost significantly more money than the one that the partners originally planned.

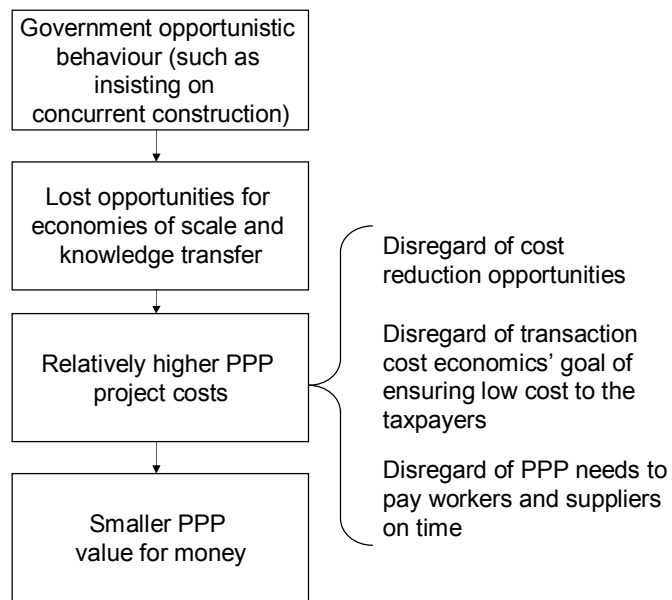
To summarise, interviewees have articulated the point that the government agencies tend to exert considerable pressure on a private partner regardless of the project contract, context, organisational dynamics and overall project goals. In those cases where the private sector partner is receptive to pressure, the government's push for its own agenda (e.g., achieving the outcomes faster) will likely result in an additional effort by a private party and related additional costs.

The diverging partners' perspectives on achieving results faster than contracted manifest themselves even brighter in yet another episode of government opportunistic behaviour where the government unexpectedly stopped its payments to a contractor in the course of a project without a clear reason, perhaps due to the budget constraints. This episode shows the government disregard of the PPP needs, such as a need to pay workers, subcontractors and suppliers fully and on time. The episode also elucidates the contradictory government policies with regards to a PPP: on the one hand, the

government pushes an operator to achieve results faster, for which an operator may incur additional costs, whilst, on the other hand, the government abruptly stopped paying a PPP for an unspecified period.

Figure 5.2 summarises the logical connections between government opportunistic behaviour, its implications for a partnership in terms of costs and cost reduction opportunities and the PPP value for money.

Figure 5.2 Links between government opportunistic behaviour and the PPP's value for money



Source: Compiled by the author

Figure 5.2 depicts the critical link that exists between the government's opportunistic behaviour and the PPP's value for money: the more extensive the government disregard of the private partner's interests, goals and needs, the smaller the PPP's value for money becomes for the taxpayers and the whole society including the government itself.

5.1.4c Opportunistic behaviour regarding tariff setting

The interview data elucidated the range of situations where the partners in the studied PPP projects exhibited opportunistic behaviour regarding tariff setting. In most cases, opportunistic behaviour transpired in the private sector partner's attempts to set a new, higher tariff that often a public agency rejected. Table 5.1 summarises the reasons underpinning each partner's behaviour.

Table 5.1 Reasons underpinning partners' opportunistic behaviour in the field of tariff setting

A private partner pushes for higher tariffs because:	A public agency acts to keep the operator's tariffs low because:
<ul style="list-style-type: none"> the PPP project is not yet profitable there is a need to pay for earlier cost overruns there is a need to finance new business projects or changes in original project plans 	<ul style="list-style-type: none"> the government is concerned with the general price level stability and with avoiding the cost-push inflation the government is interested in keeping the prices specifically for the public services low as these services often are monopolistic presumably, the government wants to ensure greater PPP value for money

Source: Compiled by the author

From the government's perspective, a higher tariff means that a public service is becoming more expensive and its affordability to wider segments of customers is decreasing. If tariff increases occur repeatedly, the erosion of the public service affordability becomes evident. The government that is concerned with the price stability for the public services should inevitably perceive a tariff increase as a tool that undermines this stability. Hence, the government's perspective, which implies unfavourable treatment of applications for tariff adjustments, permits it to receive a greater PPP value for money and, thus, serves the PPP's interest, as well as the interests of the taxpayers and the public. On the contrary, the opportunistic private sector partner's behaviour, in pursuing its own interest, rather than that of a partnership,

diminishes the PPP's value for money. Instead of raising a tariff, an operator must look for ways of cutting costs and increasing project efficiency.

5.1.5 Short-term implications of a partner's opportunistic behaviour

The chapter moves on to discuss two short-term implications of a partner's opportunistic behaviour which the interviews have identified: lack of flexibility in business management and cost increases. The chief reason behind the lack of flexibility is the government excessive regulation of private operators, which the next section highlights.

5.1.5a Overregulation as a principal reason for lack of flexibility in business management

The following example illustrates limitations imposed on the private sector partner's management flexibility:

'Some government regulations look really strange. It appeared that we [an operator] are not allowed to own a building that we bought a few years ago. We used it as an office and temporary housing for our staff. The building is located very close to the facility, it is so convenient and we really need it. And now the government told us that we [a PPP project operator] do not have a right to own real estate according to some regulation. So, now we must sell it, and then we will rent another building or perhaps exactly the same building. This does not make any sense to me.'

KZ-1-Aibol

This excerpt showed inappropriateness of some government regulations that strip the private partner's operating power without proper justification. Furthermore, the quote illustrated neglect of the partnership's context and its business need. Keeping in mind that the number of active PPP projects in Kazakhstan is as small as four (as of December 2012), the disregard of PPP needs may have significant detrimental influence on the overall partnership development in the country. Hence, the example shows the

insufficient attention that the government pays to PPPs at the public policy level. The government treats PPPs the same way as the public sector organisations, which results in overregulation of partnerships.

5.1.5b Framed private partners' management flexibility

In all four studied partnerships, a conflict of interests has emerged between tight government regulation and the need for greater flexibility in business operations. Naturally, respondents who work for the government organisations emphasised regulation, whilst those who work for a private party attached much higher value on greater flexibility in management decision-making.

The following example illustrates a case in which the government exhibited opportunistic behaviour regarding an operator's bond issue. An interviewee made a comment regarding a PPP operator that issued corporate bonds with a coupon value which exceeded the government guarantee's volume:

'We are now under huge pressure from the anti-trust agency: it wants us to buy back bonds. But where can we get the money to buy back bonds? Of course, we can take money from our current revenues, but this leaves very little money for development.'

KZ-1-Aibol

The quote shows how the government perceives its own and an operator's risk. As the government understands that an operator has to secure financing for its investment and operations, the government has agreed to issue a guarantee for a certain value of bonds. However, driven by a business need, an operator issued a larger volume of bonds to ensure uninterrupted investment. Whilst the government perceives this kind of a bond issue as a high-risk endeavour that may adversely influence suppliers in the case of PPP default, it required an operator to buy back some bonds, in order to reduce the corporate debt exactly to the volume of a government guarantee. In the quote above, the interviewee asserted that a bond buyback would leave much less cash for business development. Thus, the government has put itself in a less risky position in the case of

potential project default: after the buyback, its financial liabilities are limited by exactly the outstanding bonds' value.

At the same time, the government has framed the operator's behaviour in a risk-averse way and significantly reduced its flexibility in business management during a few years of bond buyback. In this case, the government exhibited opportunistic behaviour: whilst a private partner took additional business risk for the PPP benefit (i.e., getting larger funds for uninterrupted investment), the government essentially slowed down the partnership's business development by directing an operator to reduce the size of its debt. The ultimate result is curtailed private partner's management flexibility. Although one may interpret the government action as defensive or as risk mitigation, the government pursued its own interest, rather than that of a PPP, whilst the private sector pursued the common PPP interest, rather than its own. Hence, overregulation represents the government's opportunistic attempt to treat a partnership as the public sector organisation by minimising the private partner's opportunities to undertake business risk and by framing its management flexibility.

Interviews showed that the government's opportunistic behaviour manifested itself by imposing the risk of staff attrition on the private sector partner, which also reduces its flexibility in business management. In 2012, in Kazakhstan's railroad project, the public sector partners put forward the requirement that an operator must move its management office from the city, where the office was located for seven years from the project's inception, to another city that is located close to the newly built facility. As for the reason, the public partners' perception was that close proximity to the facility would allow the contractor to solve operational issues faster and more effectively. However, interviewees from the operator's staff perceived the office move differently, as the following excerpt illustrates:

'We worked in the existing office seven years and things were okay. Now they [the public sector partners] want us to move. They say that it will help the business. But I have a family, kids. I lived here all my life. How can I move to another place? The idea just came out of the blue.'

KZ-1-Damir

Another interviewee also confirmed the controversy involved in the government attempt to influence PPP operations. The following excerpt illuminates this:

'Why does the government want us to move the office to another city? I think they [the government] are frustrated with the project's progress. The larger part of the railroad has been constructed and is operational; however, another part of the railroad is yet to be constructed. The government insists on the faster completion of construction and the fully operational railroad. But how will the move help with this? As far as I know, many staff will just quit as soon as the date for the move is set. They are not going to leave their families here and move there for a few years. It's much easier just to find another job. And how will these massive departures help to make the project more effective?'

KZ-1-Rustam

Another respondent reiterated the concerns regarding whether the office move may increase the project's effectiveness:

'I know that about half of the employees have already refused to move. So, the company will have to hire lots of people at its new location. I don't think that it is going to be easy. It is a much smaller city and qualified staff will be hard to find.'

KZ-1-Damir

The three excerpts above show that, by insisting on the office move, the government exerts pressure on the private sector partner by imposing a significant risk of key staff attrition. As there is no empirical evidence that the office move would increase the operations' effectiveness, one can categorise the public sector partners' behaviour as opportunistic. It implies reducing an operator's flexibility in management decisions, rather than addressing the identified business need.

To summarise, with the government attempts to exercise excessive regulation, its efforts to reduce its own financial liabilities in the event of project failure or the action that imposes additional risk on a private party, such as risk of staff attrition, are indicative of the government's opportunistic behaviour that frames and curtails the private partner's management flexibility.

5.1.5c Cost increases

An additional implication of the government's opportunistic behaviour is the private sector partner's cost increases. The following excerpts exemplify this.

'After our office moves to another city, we [an operator] have to rent apartments for those who have decided to move along. This is going to cost us quite a bit. Perhaps, later on we will hire more local staff, but not right away. In fact, it would be best if we keep the existing workers because they know what's going on in the project quite well. And the business travel expenses will rise for sure. I just don't know whether we are doing the right thing with this move. There will be so many new things to pay for.'

KZ-1-Azamat

In the above excerpt, the interviewee stated that an operator would incur additional costs related to the office move. The latter stems from the government's pressure, rather than the operator's own initiative. As there is no hard evidence that the move will result in greater project effectiveness, the operator's additional cost is the direct outcome of the government's opportunistic behaviour.

The next excerpt highlights the government's disregard of cost-savings opportunities.

'Ideally, we [an operator] could build one facility and learn a lot from our own experience - what materials are better, how many workers we need and how to use them better, what equipment is more reliable, what mistakes we can avoid. But the government is not interested in all that. They just want new facilities as quickly as possible.'

KZ-2-Darkhan

As missed opportunities for cost reduction mean relatively higher budget expenses and a greater burden for the taxpayers, they are the equivalent to cost increases due to the government's opportunistic behaviour, i.e., where the government neglects efforts to reduce PPP costs as opposed to achieving faster results.

An interviewee observes the same kind of disregard in another project in Russia (kindergartens and schools' PPP):

'The city needs the kindergartens and schools. The way it [the government] thinks is this: we [the government] hired you [an operator] and we are going to pay you big money. So, we [the government] need to open these kindergartens, and the sooner the better. Just because we [the government] pay.'

RU-2-Oleg

In the above quote, the interviewee confirmed the government's preference for a faster outcome, rather than for keeping expenses low. The implication of this kind of government opportunistic behaviour is relative cost increases in a PPP compared to what the cost could have been if the government and the PPP had pursued the cost reduction opportunity.

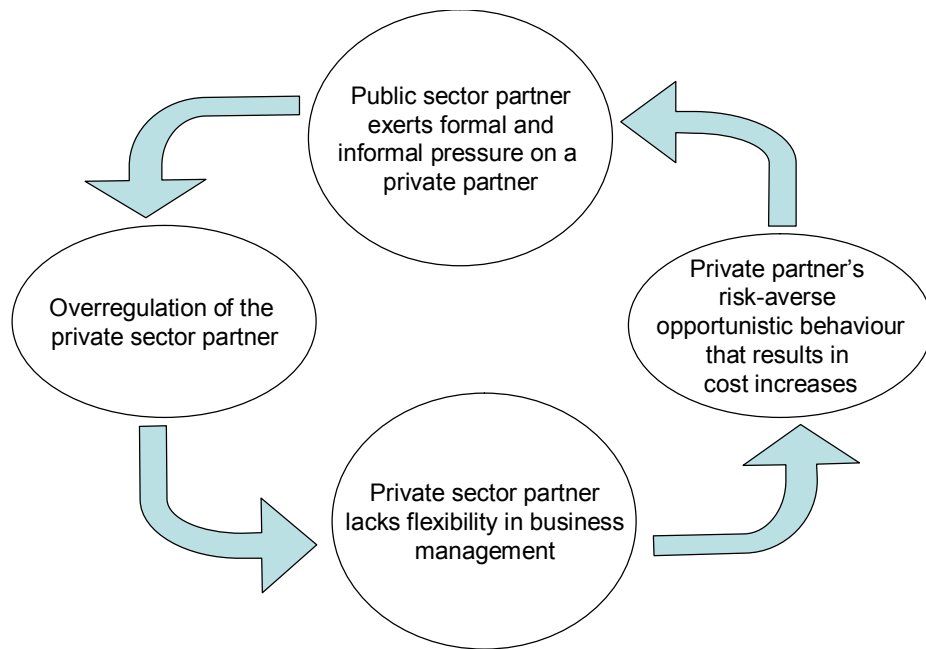
In summary, although there are varying manifestations of the government's opportunistic behaviour, interviewees asserted that cost increases are its common implication in all investigated PPP projects.

5.1.6 Theme summary

The discussion of a partner's opportunistic behaviour in a PPP has highlighted its principal implications for PPP governance: opportunistic behaviour results in the bounded private operator's initiative. The latter transpires in two aspects: (a) lack of a private partner's flexibility in business management due to government excessive regulation and (b) cost elevation, which stems from the risk-averse opportunistic behaviour. One can explain the latter by the overregulation that reduces a private party's incentives to undertake business risk, e.g., by implementing productivity enhancement measures.

Figure 5.3 summarises the principal implications of partners' opportunistic behaviour in a PPP.

Figure 5.3 Opportunistic behaviour in a PPP: Forms and implications



Source: Compiled by the author

As Figure 5.3 depicts, one kind of opportunistic behaviour by either party feeds another kind of opportunistic behaviour. Together, various kinds of behaviour and their implications result in a vicious circle in which each element feeds another. Although the study did not focus directly on overall PPP operation efficiency, interviewees' indirect comments have highlighted a large number of details that are indicative of compromised PPP efficiency owing to the vicious circle of opportunistic behaviour and its implications.

5.2 Interaction between Partners in a PPP

5.2.1 Partner interaction issues - varying perceptions

The study captured four groups of issues regarding which partner interaction typically takes place. They include issues of:

- PPP project financing;

- facilities construction;
- tariff setting; and
- operational issues.

With regards to partner interaction, respondents have mixed perceptions - negative and positive - on the range of issues. Interviewees expressed most criticism and described their negative experiences regarding interaction about facilities construction, tariff setting and operational issues. At the same time, data revealed that interviewees formed a positive perception of interaction regarding PPP project financing where a private partner receives government financial support. Table 5.2 summarises themes and perceptions of partner interaction.

Table 5.2 Partner interaction: Themes and perceptions

Themes	Perceptions of partner interaction
PPP project financing (i.e., government financial support to PPPs)	Mixed, whilst mostly positive
Facilities construction	Mixed, whilst mostly negative
Tariff setting	Negative
Operational issues	Negative

Source: Compiled by the author from the interview data

5.2.1a Partner interaction issues - positive perceptions

As Table 5.2 shows, collaboration regarding PPP project financing is the only theme of partner interaction that brings positive experiences and forms positive perceptions. There are certain reasons for that as follows.

In both Kazakhstan and Russia, financial support that the government can extend to partnerships is the area that is well defined by the legislation. The relevant national laws in each respective country define in a very detailed way the forms that the government financial support may take. In Kazakhstan, it is the 2006 'Law on Concessions' and in Russia it is the federal law 'On Concessional Agreements' that the

government adopted in 2005. It is worth noting that in both nations the governments deem extensive government financial support to partnerships necessary. This is because, as the literature argues, for private investors PPPs are often unattractive because they cannot generate profit (Pankratov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2012).

In line with this thinking, the governments in Kazakhstan and Russia have passed laws and regulations that permit various forms of government financial contribution to a PPP. For example, in Russia they include: a subsidy that the government can extend to a concessionaire; assets such as land that the government may contribute to a partnership; a tariff subsidy where the government pays part of a tariff whilst customers pay another part; government guarantees for private partner loans; government exemptions of a private partner from fines and fees. Kazakhstan has similar forms of government financial support to partnerships. Section 6.4.3 discusses the forms of government financial support to PPPs more fully.

As the list of possible forms of government support to a partnership is quite extensive, it promotes rising expectations among private investors regarding government payments and other direct and indirect financial benefits that they may expect from the public agencies. In addition to elevated government costs, this increasingly creates a guarantee culture among private investors (Pankratov, 2010: 80, 88; Varnavskiy *et al.*, 2010: 26) that may view the government as their source of financial gain regardless of the project's context.

In summary, interviewees most often perceive partner interaction regarding PPP project financing in a positive way because they know the 'rules of the game' and both partners 'play by these rules'. Naturally, the structured and clear environment fosters more effective communication between partners and adds to the transparency regarding benefits that each party can give or receive. The following excerpt highlights how an interviewee from a private party perceives partner interaction in this field:

'Whilst talking to some government employees, I was under the strong impression that the government is very interested in giving us what the law permits. I think they [the government] really wanted to launch a partnership and to make it successful by giving it as much as the laws allow to give, no matter whether it was really necessary. And, of course, we, as a private

investor, were eager to get as much as we could from the government in order to make sure that we are going to make profit in this project.'

KZ-2-Akylbek

Hence, the government regulations and guidelines regarding its own forms of financial support to a PPP not only make the 'rules of the game' clear, but also encourage both parties to completely use up all available public resources, thus contributing to the guarantee culture among private investors.

5.2.1b Partner interaction issues - negative perceptions

In contrast to the positive perception of interaction regarding PPP project financing issues, interviewees formed mostly negative perceptions of other partner interaction topics. Interviewees asserted that the government does not distinguish a PPP from any other private contractor that a public agency hires. This means that the government treats a partnership's requests, applications and inquiries in the same way as requests by any other contractor. Although interviewees from private parties did not ask for any favours for a PPP, they emphasised that a PPP carries out a project for the government and instead of the government, i.e., a partnership delivers a public service, rather than merely sells some private goods or services to the government like most contractors. This means, from the interviewees' perspective, that a PPP service - and a PPP itself - should be more significant to the government than another private contractor and its services. The following excerpt illustrates this perception:

'This is strange that the government does not see any difference between my company [a private PPP operator] and any other private company that the government hired to do a certain job. We [a PPP operator and the government] have common goals, we have shared responsibility. There are some risks that we need to handle all together. But the government behaves as if all these do not exist. They behave as if it's our [operator's] business and all these problems are just our headache, not theirs.'

RU-2-Vladimir

Another interviewee shares the above perception of the government's role:

'It seems that the government assumed the following role in the PPP: supervise and pay.'

KZ-2-Azamat

Hence, both comments illustrate three aspects that characterise the government's role in a PPP:

- the government has assumed a narrow role of more like a boss, rather than a partner;
- the government does not understand the PPP's business and does not acknowledge, by the way it interacts with a private partner, that the latter implements a job instead of the government, i.e., delivers a public service; and
- the government is not interested in closely interacting with the private sector partner and supporting a PPP by effectively managing a public-private relationship.

With regards to the lack of interaction between partners, interviewees also formed negative perceptions about formal and informal interaction. Interviewees asserted two things: that much interaction occurs informally and that both formal and informal interaction lacks established procedures and effectiveness. An excerpt highlights this as follows:

'Small issues evolve all the time, here and there, and many of them are repetitive. They are kind of annoying, but we need to tackle them again and again, mostly in an informal way.'

KZ-1-Rustam

Interviewees from the private operators were highly critical of another partner interaction area - tariff setting. Most criticism was about lack of established and clear application procedures for tariff increases, about lengthy application processes and tangled approval criteria. The common opinion was that government procedures for handling applications must be significantly streamlined, as the following excerpt illuminates:

'Who needs all this bureaucracy involved in bulky applications, with tons of supporting documentation? I don't think that the government agencies have human resources to read and analyse these applications as thoroughly as they

should. Basically, I think they [government staff] are playing by ear, rather than carefully examining all these numbers.'

KZ-1-Assem

Interviewees also have formed strong negative perceptions in another area of partner interaction - operational issues. One example of these issues is the case where the public sector partners insist on the office move from the central city to a smaller remote town that is located closer to partnership operations. Another example is the case where the government enforced its own regulation regarding mandatory sales of the office building that the PPP used for the project work: according to the government regulation, a PPP operator was not eligible to own the building because an operator was formed, in part, by the government organisation.

Regarding both cases, interviewees from private operators asserted that they have experienced:

- (a) significant public sector partner dominance, and, consequently,
- (b) framed, reduced operator flexibility in business management.

The following excerpt confirms these experiences:

'Somebody in the government got this idea that the office move to another town will allow resolution of many operational problems. But it will definitely create new ones, particularly, with staff recruitment and retention, and with attrition of existing staff. The office move requires a thorough discussion and understanding of all the pros and cons, but we [the operator] were stripped of the opportunity to have this discussion. The office move was kind of imposed on us [the operator].'

KZ-1-Assel

In this and other excerpts, interviewees stated that the public sector partner tended to exhibit its dominance in those situations where the nature of the issue lacked an established structure or known guidelines for resolution. In situations of uncertainty, the government normally insisted on its own ways of solving the problem, rather than giving flexibility to a private party in decision-making. One can explain this not by a high degree of the government's accountability for PPPs, but by the government's fear that the private sector partner made a decision on its own. To reiterate, a public party

takes the lead in making a decision in the situation of uncertainty not because of the business need, but because of the fear of penalty for non-action. The following excerpt by a government employee elucidates this:

'Whenever some issue catches the manager's attention [in the public agency], we [the public agency] feel that it's time for action. We don't know how strong the need for action is, but there is an understanding that an operator should not bring up small things to our attention.'

KZ-GOVT-3

An interviewee from a private company in a similar way highlights the reasons underpinning the government's logic:

'It seems that sometimes the government officials just want to show that they have the power and that they can do a lot of things to a partnership. They select an issue no matter if it is important or not, and push for a decision no matter whether it is truly necessary.'

KZ-2-Sholpan

In this section, an issue that has not caught any attention of partners – the service quality – deserves a concluding remark. Some clarifying questions to interviewees confirmed the simplistic partners' thinking about quality. Interviewees expressed no concerns regarding the quality based on a simple notion: prior to a PPP, the service was unavailable, non-existent; so, once a PPP provides a service and satisfies a need, almost any *acceptable* service quality will suffice. Although the range of *acceptable* quality parameters may be quite broad, its normal understanding, in the interviewees' opinions, is that 'it is much like the service quality of other providers'. The interviewee commented on the service quality as follows:

'Our railroad provides the service like many other railroads. I don't think that we need to be different from other operators. As long as we provide a similar quality, we should be okay.'

KZ-1-Azamat

To conclude, the service quality has not yet become a concern for partners in a PPP in either country, nor did it become an issue regarding which partner interaction evolves.

5.2.2 PPP organisational forms: Advantages and disadvantages

Interview data revealed advantages and disadvantages of various PPP organisational forms, which Table 5.3 summarises.

Table 5.3 PPP organisational forms: Principal features

PPP organisational form	Features, advantages and drawbacks
Joint venture formed by the public agencies and private investors	<ul style="list-style-type: none">• tangled power relationships between partners• the operator's Board of Directors is the only governance structure• private investors play no significant role• lack of formal governance structures and procedures• multiple interdependencies make partner interaction ineffective
An operator without an SPV	<ul style="list-style-type: none">• more effective interaction between partners• streamlined communication• streamlined power relations• extensive monitoring by the local and regional governments• extensive reporting to the national and regional PPP centres
A special purpose vehicle	<ul style="list-style-type: none">• considerably streamlined partner interaction• reduced bureaucracy• minimal reporting• greater flexibility and larger effectiveness in decision-making• clear SPV's accountability

Source: Compiled by the author from interview data

As Table 5.3 shows, an organisational form that employs an SPV provides a better, more effective platform for partner interaction in a PPP. The two studied projects in Russia use this organisational form. However, in Kazakhstan, a joint venture company has implemented one of the projects (a railroad concession). This is characterised by significantly tangled power arrangements, extensive reporting requirements and a

constrained private operator's flexibility in business management (e.g., all purchasing must take place through competitive bidding, whilst it takes between two and six months to run a tender). Another project in Kazakhstan (kindergartens' PPP) employs a form in which a tender winner itself carries out construction and operations, without an SPV. This form also provides, in the interviewees' perception, a more effective structure for partner interaction as opposed to a joint venture that the public agencies and private investors formed. The following excerpt highlights the effectiveness of an operator that does not employ an SPV:

'We [the operator] know our reporting requirements, we know that we are being monitored by the city government and the regional government and we need to work with them anyways, but other than that, there is not much bureaucracy.'

KZ-2-Kairat

To summarise, interviewees from an operator that does not employ an SPV and interviewees from the two projects carried out by SPVs did not express any serious concerns about lack of clarity in power arrangements between partners or about excessive reporting and monitoring. Their only concern was about the lack of well-established governance procedures. On the contrary, interviewees from a joint venture expressed deep criticism of the tangled power relations, ineffective governance structure and the lack of well-designed management procedures.

5.2.3 Tools for dispute resolution between partners

Interviewees paid limited attention to techniques for dispute resolution and largely disregarded this area of PPP governance. Table 5.4 summarises interviewees' perceptions of tools for dispute resolution and their importance.

Table 5.4 shows significant disregard of the formal dispute resolution mechanisms by PPP governance in Kazakhstan and Russia. Dispute resolution as a sub-field of PPP governance does not yet exist in the two nations as a recognised area of partner interaction, with established and elaborate tools, procedures and governance structures.

Table 5.4 Tools for dispute resolution in PPPs: Perceptions and practice

Tools and methods	Perceived importance	Existing practice
Formal dispute resolution mechanisms	Low importance	<ul style="list-style-type: none"> • Not used • Interviewees disregarded formal mechanisms in PPP governance
Good informal relations	High importance	<ul style="list-style-type: none"> • Used often • Interviewees emphasised their use
Governance structures	Moderate importance	<ul style="list-style-type: none"> • In three out of four studied PPPs, partners do not use any governance structures for dispute resolution • In one studied PPP, the operator's Board of Directors works
The operator's Board of Directors	Moderate importance	<ul style="list-style-type: none"> • The Board of Directors' influence on the operator is highly limited due to the occasional nature of interventions • There are serious irregularities in the Board's work • Presently, the Board is an ineffective tool for dispute resolution
Preferential treatment of a PPP as a joint public-private project	High importance	<ul style="list-style-type: none"> • No special treatment • The government treats a PPP in the same way as it treats any other private contractor • No indication of government commitment to a PPP project

Source: Compiled by the author from the interview data

5.2.4 Theme summary

The discussion of partner interaction issues has elucidated certain PPP governance aspects, in which interviewees identified problems and improvement opportunities. Table 5.5 summarises these governance issues.

As Table 5.5 shows, interviewees' experiences in partner interaction are mixed and include both positive and negative aspects. Most often interviewees were concerned

with the ineffectiveness of established procedures and existing organisational forms. Additionally, they criticised the lack of government commitment to a PPP and ineffective communication between partners. In part, good informal relations between the operators' staff and government staff could substitute the ill-designed governance structures and the lack of formal administrative procedures, such as dispute resolution mechanisms. However, the overall disregard by both partners of the formal management tools significantly reduces the opportunities for more effective PPP governance. In addition to the service quality, participants clearly disregard another area of partner interaction – governance structures and administrative processes.

Table 5.5 Partner interaction in a PPP: Summary of issues and improvement opportunities

Aspects of partner interaction	Issue
Administrative processes	<ul style="list-style-type: none"> • Lack of established well-designed procedures • Ineffective communication between partners • The public sector partner dominates in decision-making • The government treats a PPP as it treats any private contractor (i.e., public sector partners show little commitment to a PPP)
PPP governance structures	<ul style="list-style-type: none"> • Joint venture exhibits ineffective governance • Organisational forms that employ an SPV show greater effectiveness
Dispute resolution methods	<ul style="list-style-type: none"> • Operators put significant emphasis on keeping good informal relations with government staff • Partners from both sectors show disregard of formal dispute resolution mechanisms
Neglected areas of partner interaction	<ul style="list-style-type: none"> • Service quality • Improvement of PPP governance structures and administrative procedures

Source: Compiled by the author from the interview data

5.3 Risk Management in a PPP

The interview data on risk management in a PPP have permitted the researcher to investigate perceptions of twelve kinds of risk. The list of risks is in agreement with existing risk categorisation by scholars (e.g., Grimsey and Lewis, 2002; Hardcastle and Boothroyd, 2003) and international organisations, such as the European Commission and the United Nations (e.g., European Commission, 2003; United Nations, 2008). Table 5.6 summarises the interviewees' experiences and perceptions of risks and risk mitigation tools.

Table 5.6 Summary of risks, perceptions and risk mitigation methods

Kinds of risk	Perception of risk	Tools and methods used for risk mitigation	Project country
Technical risk	<ul style="list-style-type: none"> • Unavoidable 	<ul style="list-style-type: none"> • None, although the risk exists 	Kazakhstan
Construction risk	<ul style="list-style-type: none"> • Must be avoided at the engineering design stage 	<ul style="list-style-type: none"> • Risk must be eliminated at the engineering project design stage 	Kazakhstan, Russia
Operating risk	<ul style="list-style-type: none"> • Underpinning reasons for this risk are beyond the operator's control 	<ul style="list-style-type: none"> • An operator must budget larger funds to allow for unforeseen expenses 	Kazakhstan, Russia
Revenue (demand) risk	<ul style="list-style-type: none"> • Three out of four studied PPPs are risk-free • In one studied PPP, the government bears all the risk, although it shifted all risk mitigation effort to a private party 	<ul style="list-style-type: none"> • The government has agreed to buy out the facility at a predetermined price if traffic volume falls 10 per cent short of the target level • Lack of competition ensures high capacity utilisation 	Russia
Financial risk	<ul style="list-style-type: none"> • In three projects, private partners associate this risk with how the government treats a PPP (i.e., much like any private contractor) • This risk overlaps operating risk 	<ul style="list-style-type: none"> • None 	Kazakhstan, Russia
Environmental risk	<ul style="list-style-type: none"> • Only one studied project is exposed to this risk • This risk overlaps with the operating risk 	<ul style="list-style-type: none"> • An operator must budget contingency funds • An operator must build an additional protective 	Kazakhstan

		facility	
Regulatory/ political risk	<ul style="list-style-type: none"> • In all studied projects interviewees attach high importance to this risk • The principal reason for operators' concern is that they do not own facilities that they manage 	<ul style="list-style-type: none"> • Partners have shortened the concession term 	Kazakhstan, Russia
Public acceptance risk	<ul style="list-style-type: none"> • Only one studied project is exposed to this risk 	<ul style="list-style-type: none"> • An operator must promote the project via a Web site, extensively communicate with citizens and mass media 	Russia
Project default risk	<ul style="list-style-type: none"> • Two studied projects are highly exposed to this risk 	<ul style="list-style-type: none"> • An operator must reduce its corporate debt by bond buyback • The government consented to buy out a facility 	Kazakhstan, Russia
Foreign exchange risk	<ul style="list-style-type: none"> • Only one studied project is exposed to this risk because of the foreign investor • Risk premium adds to the overall project costs 	<ul style="list-style-type: none"> • An operator added risk premium to the project costs 	Kazakhstan
Risk involved in the choice of the private sector partner	<ul style="list-style-type: none"> • High risk in one project because of a foreign bidder • The risk materialised and resulted in a delay with the project launch 	<ul style="list-style-type: none"> • None, although the risk exists 	Kazakhstan
Hidden protectionism	<ul style="list-style-type: none"> • Very low importance • In three studied projects, the risk does not exist • In one project, the risk was effectively handled 	<ul style="list-style-type: none"> • Partners must provide an alternative free facility 	Russia

Source: Compiled by the author from the interview data

As Table 5.6 shows, some kinds of risk are common for projects in both Kazakhstan and Russia. They include construction risk, operating risk, financial risk, regulatory and political risk and project default risk. Other kinds of risk are unique to a specific project. Some of the risks interviewees perceive as low, whilst others they perceive as high. The next section discusses risk that respondents perceived as high, i.e., financial risk. The section that follows discusses risk that interviewees perceived as low,

i.e., revenue (demand) risk. Then the chapter highlights implications of risk perceptions for the emergent guarantee culture in PPPs.

5.3.1 Perceptions of financial risk

Most interviewees perceived this risk as high. Only in one out of the four studied projects - a toll viaduct in Russia - interviewees stated that the probability of financial risk occurrence is low, although they did not exclude it completely. An excerpt illustrates this as follows:

'Financially, we [an operator] will be in good shape as long as drivers use a viaduct. We know that there is a public acceptance issue because a toll viaduct is something new for most people as it's going to be the first toll viaduct in the country. But we are working on increasing public acceptance and we are confident that the demand for the service will be huge. We just need to show how effective a viaduct is, so that a driver can cross the railroad using a viaduct within a minute.'

RU-1-Konstantin

The interviewee justifiably connected three overlapping kinds of risk - public acceptance risk, operating risk and financial risk. When the first risk materialises, this inevitably triggers the occurrence of the other two.

In three other out of the four studied PPP projects, interviewees from the private sector partners associated financial risk with how the government treats a PPP (i.e., much like it treats any private contractor, with no commitment to the latter). This means that the government did not manifest its commitment to a partnership, and mutuality as a principal feature of cooperation in the PPP form (Brinkerhoff and Brinkerhoff, 2004) is missing. In this thesis, the literature review has identified certain critical PPP characteristics, including commitment above and beyond contracts (Bovaird, 2004), culture of engagement (Sedjari, 2004), solidarity (Sedjari, 2004), mutuality (Haque, 2004) and shared responsibility for a product, risk, costs and benefits (Klijn and Teisman, 2000, 2003). Hence, interview data revealed that the government agencies in the studied projects in both Kazakhstan and Russia failed to commit

themselves to a partnership by demonstrating clear support of PPP operations. Although the government extended significant financial support to PPPs at the time of a partnership formation, i.e., at the strategic management level, interviewees did not observe government commitment to a project during everyday operations management. The following excerpt illustrates the lack of government commitment when the government suspended its payments to an operator unexpectedly:

'The government has just stopped its payments to us [an operator] without an apparent reason. It was like a shock. How can we continue working without the money? There were no explanations, no indication of when the government may resume paying and almost no communication with government staff. I thought that in a partnership we [an operator] should be working together with the government, but it surely doesn't look like that.'

RU-2-Vladimir

In another project (railroad concession), an interviewee highlighted the government's lack of commitment in connection with operating and financial risk as follows:

'We [an operator] have prepared a plan that includes more than last year's volume of services. But the larger volume depends on whether the national [i.e., government-owned] company is going to purchase more services from us. The plan was approved, but the buyer has not signed any contracts with us for additional purchases. So, our plan is, in fact, not real. We just don't know how many services we will sell. As far as I remember, this happens every year.'

KZ-1-Damir

In the third studied PPP project (kindergartens' partnership), an interviewee also connects operating risk with financial risk and questions whether both risks are aligned with the government's commitment to the project. The following excerpt illustrates this:

'Why do we need to undertake the construction of all eleven kindergartens at once, simultaneously, and complete the construction of all of them at the same time? This is just because the government wants to open them at the same time.'

Can you imagine the construction of eleven facilities simultaneously as opposed to construction of one facility at a time? The effort is huge; it's going to be very stressful and costly. If there is some error in the project design, there will be no time to correct it. If there is a delay with some materials or equipment, all eleven sites may experience a subsequent delay. Financially, it is so costly to run eleven construction sites rather than one at a time. But it does not look that somebody in the government is concerned with this.'

KZ-2-Kairat

Another interviewee from the same Kazakhstani project (kindergartens' PPP) also questions the genuineness of the government's commitment to the PPP:

'It [the government] has its own goal, which seems more important for them [government staff] than anything else - to open all kindergartens at once, better yet the same day.'

KZ-2-Darkhan

To summarise, in three out of the four studied projects interviewees (a) justifiably connected financial risk with operating risk and (b) associated financial risk with the lack of government commitment to a PPP, which had various manifestations depending on a specific project. Contrary to the findings, the literature argues that commitment, solidarity, mutuality and shared responsibility for the service, risk and costs form the set of defining PPP features, which are missing in the studied projects in the two countries. Furthermore, with regards to risk mitigation, interviewees have not identified any tools and methods that may permit partners to effectively mitigate financial risk. One may argue that mitigation stems from the public partner's commitment, which is lacking in the studied projects, and this explains why risk mitigation tools are missing from the discussion.

5.3.2 Perceptions of revenue (demand) risk

Revenue (demand) risk is unique to only one project in Russia (a toll viaduct) because in three other studied PPPs the high demand for partnership services is essentially guaranteed. In three projects quantity demanded exceeds quantity supplied

because the PPP's service volume is insufficient to satisfy consumer needs: a PPP satisfies the need only in part. The following excerpt confirms the typical situation with no demand risk in a PPP:

'I know that the waiting line for childcare is huge. And I don't think that the newly built kindergartens [the kindergartens' PPP] will be able to eliminate the waiting line totally and completely. It looks like we [the kindergartens' PPP] will have to enrol more children in each group than our planned capacity suggests. And the waiting line still will be there. Sometimes parents are waiting for a place in a public kindergarten for years.'

KZ-2-Darkhan

The same kind of situation with no demand risk is in a PPP project in Russia (kindergartens and schools' partnership), as an interviewee highlighted:

'We are building schools and kindergartens in a brand new development of the city. There are many new apartment buildings here, people just moved in, but there are no schools and kindergartens. We intend to satisfy an acute need. You can't call it 'a shortage'; it's wrong. As of today, educational facilities simply are unavailable for the population. We are not even sure that the capacity of what we are building is going to suffice; perhaps there will be a shortage of places after we finish the construction.'

RU-2-Sergey

Hence, in three out of the four studied projects, interviewees did not identify revenue (demand) risk. As private operators' exposure to this major kind of risk that may lead to project default is non-existent, this means that PPP projects in Kazakhstan and Russia generally are low-risk. It is no surprise that the government formed PPPs exactly in the fields that experience an acute shortage of services, such as educational services at schools and kindergartens or transport infrastructure, such as a railroad or a railroad viaduct. The literature confirms this finding by arguing that in transitional countries the governments traditionally form partnerships in the transportation field and in the social sector including hospitals, spas, recreational facilities, schools, kindergartens and stadiums (see, for example, Pongsiri, 2003; Jamali, 2004; Bult-Spiering and Dewulf, 2006; Urio, 2010).

At the same time, the finding about demand risk that is close to zero as a distinctive feature of the PPP projects in Kazakhstan and Russia suggests that the government is interested in keeping the PPPs' exposure to risks low, thus inevitably enhancing the private operators' risk-averse behaviour. This behaviour rests on the preference for risk avoidance and on various government guarantees, including those that ensure stable, risk-free revenue stream to a contractor (Siemiatycki and Friedman, 2012).

The analysis of secondary sources, such as the project data, also confirmed the findings about no demand risk in a PPP and operators' risk-averse behaviour. The following example from the kindergartens' PPP in Karaganda, Kazakhstan, illustrates this. Table 5.7 summarises the government forecast of the private partner's revenue over the course of the project.

Table 5.7 Private partner's forecasted revenue during the concession term of 14 years in the PPP project in Karaganda

	Source of revenue	Amount (US dollars, in nominal values)	Percentage of total revenue	Comments
1	Government payments to a concessionaire	\$35.84 million	46.86%	Government agreed to pay over the course of 13 years or less
2	Childcare fees	\$29.65 million	38.76%	Parents' payments are deemed guaranteed and may rise due to excess demand for childcare
3	Concessionaire's commercial activities	\$11 million	14.38%	This is the government estimate; revenue is not guaranteed in any way
	Total:	\$76.49 million	100%	

Source: Kindergartens' PPP, 2011

As Table 5.7 shows, the risk stems from the third revenue source, as commercial activity has to yield at least \$11 million of net revenue to the private partner, or 14.38 per cent out of the total of \$76.49 million. A commercial activity has not yet been

defined and can include anything that the law permits. However, both partners entertain an idea that an operator may run some training courses using the kindergartens' premises. The government methodology raises concerns because it rests on the forecast of revenue per child. However, PPP commercial activity is largely unrelated to the number of children in a kindergarten. In fact, the revenue risk for the whole PPP project is linked exclusively to the demand for the PPP's commercial activities. As this revenue requires a creative business approach, marketing efforts and all other tools for setting up and running a business, there is no guarantee of success. The private sector partner will have to form a business in each of the 11 kindergartens, or 11 branches of the same business venture, or a few businesses with a few branches for each. It remains unclear what exact revenue generating activities a private partner plans to select, how much revenue they may bring and what the costs will be. In the case of unsuccessful commercial activities, the losses will decrease revenues from other sources. This poses an additional revenue risk. Neither the government nor the private sector partner can mitigate this risk.

To summarise, a relatively small part of revenue risk (14 per cent) transfers to the private partner, whilst the government guarantees a much larger revenue part (47 per cent). Additionally, an extremely high and stable consumer demand essentially guarantees another 39 per cent of revenue. This revenue risk allocation is highly favourable to the private sector partner. Naturally, commercial activities are associated with certain risks that one should not neglect; however, they also give a PPP operator an opportunity to generate net revenue that is even higher than forecasted.

The study's findings confirm that the government has acted – for the most part, although not always – in line with the theory underpinning risk allocation in a PPP, i.e., that risk should be allocated to the party best able to manage it at the least cost (Akintoye *et al.*, 2003). The findings show that the private sector partner bears most risks, which is in line with the extant literature. The latter emphasises that effective risk transfer will facilitate investment in critically needed infrastructure objects, whilst protecting the taxpayers from cost overruns (Flyvbjerg *et al.*, 2003; Chung *et al.*, 2010).

In the area of risk transfer to the private sector, the most controversial element is a proposed revenue stream that an operator is supposed to receive from the provision of

services unrelated to childcare. The government and the private sector partner are unable to mitigate this revenue risk. For a private operator, there are no performance incentives that are linked to revenue from non-core services other than a need to start some unspecified business that is, like any business, risky by itself. Hence, the effectiveness of this government method of revenue risk transfer is debatable.

In the kindergartens' PPP, the government has achieved almost a complete transfer of risks to the private sector partner. However, the costs of transfer are extensive government financial outlays to the partnership, which seriously compromises the PPP value for money. This finding is in agreement with the literature that argues that partnerships often carry little value for money (Hodge and Greve, 2007; Mouraviev, 2012; Mouraviev *et al.*, 2012; Siemiatycki and Friedman, 2012).

5.3.3 Low risk and the guarantee culture in PPPs

The study shows that the interviewees perceive some risks as low thanks to the government's efforts. One indication of this kind of government action is the fact that the government in either country designs for itself a PPP project proposal and then puts it out to tender, rather than inviting bidders to submit their own proposals, for example, regarding how to construct a set of kindergartens, or a segment of a railroad, or a tunnel. This implies that at the project design stage the government is able to purposely form a project as low-risk. The principal reason for this is the need to attract private investors, otherwise there may be no investors at all. The following excerpt illustrates these government intentions and actions.

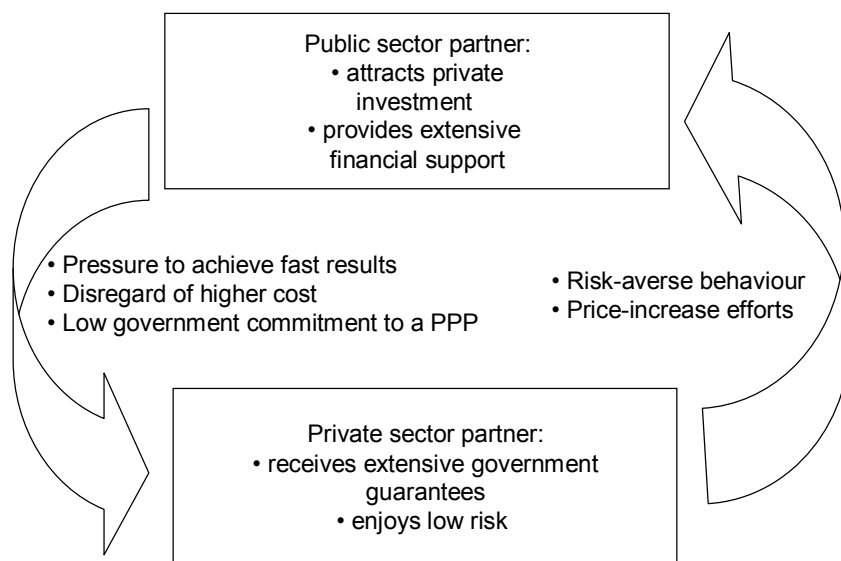
'I'm aware that the government announced the tender for the construction of kindergartens in another city more than once as during the first round no investors were interested. Finding qualified investors is not an easy task, and the government had to change the project terms and conditions in order to make them more attractive.'

KZ-2-Talgat

Although the government's desire to find private investors is easily understandable, by reducing investors' exposure to risks, the government encourages their risk-averse

behaviour and furthers a guarantee culture. As the current study shows, at the project implementation stage the government often exhibits disregard of higher PPP costs, for example, where the government exerts pressure to achieve results faster than contracted. This creates a vicious circle which links private operators' risk-averse behaviour to extensive government financial support to a PPP. The latter explains the government's self-assumed right to push contractors for faster results, for which operators demand even greater financial support. Figure 5.4 depicts the links between partners' behaviour in a PPP.

Figure 5.4 Links between partners' behaviour in a PPP: Reinforcing a guarantee culture



Source: Compiled by the author

As Figure 5.4 shows, opportunistic behaviour of both parties reinforces and enhances a guarantee culture, which becomes a prevailing set of rules for partnerships in both Kazakhstan and Russia.

5.3.4 Theme summary

This theme discussed interviewees' perceptions of risks to which PPPs in Kazakhstan and Russia are exposed. Additionally, the theme highlighted the interviewees' experiences and views regarding risk mitigation tools and their availability. The theme focused on two of the most common kinds of risk - financial risk, which interviewees perceived as high in three out of the four studied PPP projects, and revenue (demand) risk, which interviewees perceived as low.

The discussion of financial risk revealed that interviewees associate it with the way the government treats a private partner, i.e., in the same way as any private contractor. The discussion found that the government's treatment of a private partner stems from the lack of government commitment to a PPP, which the private sector partner is unable to mitigate.

Highlights of revenue risk showed that this risk is virtually non-existent in three out of the four studied projects. Hence, by providing extensive financial support to a PPP at the time of the partnership formation, the government advances a guarantee culture among private investors who view the government as a source of financial gain regardless of the project context. The government's own actions, such as disregard of higher costs when the public agency pushes for faster than contracted results, reinforce and enhance a guarantee culture and encourage private operators to exhibit risk-averse behaviour. It is worth noting that interviewees' perceptions and observations were common for both nations and the study has not identified any major cross-country discrepancy.

5.4 Constraints and Impediments to Effective PPP Governance

This section discusses two sets of impediments to PPPs:

- legal and regulatory barriers; and
- institutional, managerial and financial constraints.

5.4.1 Legal and regulatory barriers

5.4.1a A PPP: A legal and conceptual ambiguity

Among the legal barriers to PPPs that interview data identified, the first and foremost is the lack of legally defined partnership's meaning in the national legislation in Kazakhstan and Russia. This causes considerable confusion regarding understanding what a PPP is, how public agencies and private companies should treat a PPP and what support to partnerships is available. Interviewees stated that, as of April 2013, the governments in either country have not yet adopted national laws on PPPs and, hence, the definition of a PPP at the national level is missing. It is no surprise that the literature appraisal revealed significant variation between the two countries in the treatment of a PPP as a category, with a much broader and much more ambiguous PPP meaning in Russia as opposed to Kazakhstan (Varnavskiy *et al.*, 2010). For example, the government in Russia includes in PPPs special economic zones, production-sharing agreements that govern public-private collaboration in the oil sector, as well as rental arrangements, such as where the municipal government gives a boiler station in private hands in return for the hot water provision (Varnavskiy, 2004; Glumov, 2009; Varnavskiy *et al.*, 2010). In all noted arrangements in Russia, the key partnership characteristics, such as joint contribution of resources, sharing of risk, costs and responsibility, are missing, hence, contributing to confusion regarding the PPP meaning.

In contrast to loosely defined partnerships that the Russian government claims, Grimsey and Lewis (2002) give a comprehensive and complete definition to a partnership. They describe a PPP as an 'agreement where the public sector enters into long-term contractual agreements with private sector entities for the construction or management of public sector infrastructure facilities by the private sector entity, or the provision of services (using infrastructure facilities) by the private sector entity to the community on behalf of a public sector entity' (2002: 108). A notable feature of Grimsey and Lewis' definition (2002) is that it focuses on tangible PPP elements – legal long-term contracts, asset construction and provision of services with the use of constructed assets. These elements set the framework for public-private collaboration.

Yet, an additional PPP feature is that 'provision of service may be compensated through payments by the government or may be funded through user charges and fees' (Morallos and Amekudzi, 2008: 114).

Although features of all four studied projects match the principal characteristics of a contractual PPP in the framework of the above-given definition, the general confusion in both countries regarding what project one may categorise as a PPP remains massive.

Despite the national legislation's gap with regards to the PPP meaning, each country has adopted the law that defines a *concession* as the main PPP form. Because the complexities with definitions and other partnerships' legal issues normally are beyond the scope of the PPP staff's attention, the researcher conducted additional interviews for the current study with lawyers who work for the law firms and provide legal advice regarding partnership formation and management. These interviews aimed to draw lawyers' opinions with regards to the legal PPP framework, including impediments to further partnership development.

The lawyers commented on the fundamental PPP issues that stem from the national legislation's imperfections. They confirmed that the definition of a public-private partnership is missing in the national laws. However, the Russian law and the Kazakhstani law do define the term *a concession*. Although the definition may be less than perfect, the same laws on concessions in each country delineate the forms of government financial support that a concessionaire may receive. The following excerpt illustrates the national legislation's gaps regarding PPPs:

'If an investor wants to form a PPP and get funding from the government, an investor must form a concession and strictly follow the law on concessions. That's what this law is for. If an investor is not going to apply for government financial support, then it can call its project anything, but it won't be a concession.'

RU-Lawyer-1

An expert from the PPP Centre of the Russian government-owned investment bank *Vnesheconombank* expressed a similar opinion about the federal legislation that governs PPPs in the country:

'We [Vnesheconombank] are a government organisation and we must work by the law. We work with regional governments and their projects are large. They always ask for government financial support. So, we use the law on concessions and specify in the project proposal the forms of support that they [regional governments and private investors] can receive and what they can't receive. Only this law spells out what a concession is; other laws are supplemental.'

RU-GOVT-3

The same expert also commented on the bureaucracy involved in the PPP approval process:

'Because projects are large and regions [regional governments] often change their ideas regarding what to do and how to implement their plans, it usually takes about two years to get all the approvals. But for some projects it takes a lot longer.'

RU-GOVT-3

In Russia, the legal ambiguity with a *concession* versus *non-concession* created the management dilemma for investors interested in PPPs. They can:

- form a partnership using non-concessionary claims in reference to an arrangement that is essentially a concession (from the theoretical perspective); or
- form a partnership as a concession according to the federal law and use the government funding and other forms of financial support (such as exemption for selected taxes) that the law permits.

The managerial dilemma explains the significance of the non-concessionary option because it opens a loophole for future PPP projects. The federal legislation defines a concession as a project that is formed and operates according to the relevant law. This means that a concession is a project that draws some forms of government financial support, which the law specifies (*Federalnyi Zakon Rossiyskoy Federatsii* #115-FZ, 2005). Where the partners do not use the government financial support to a PPP, this permits them to argue that a project is a partnership, but not a concession.

In one of the studied projects - a toll viaduct in Russia - the company management has opted for a non-concessionary legal framework for a partnership. This means that

the company formed a PPP with the municipal government by receiving land (for temporary use) from the latter and is building a viaduct at the firm's expense. The critical element of a non-concessionary framework is that a company neither requested nor received any form of government financial support to a PPP, which the Russian federal law on concessions delineates (*Federalnyi Zakon Rossiyskoy Federatsii* #115-FZ, 2005). The private sector partner will be collecting user fees, which the federal legislation permits, and also will have to ensure that an alternative free railroad crossing is available in close proximity to a toll viaduct as the federal law on automobile roads requires (*Federalnyi Zakon Rossiyskoy Federatsii* #257-FZ, 2007).

The company decision in favour of a non-concessionary partnership has resulted in a successful and a relatively fast PPP project launch without government support. In contrast, creating many PPPs that intend to use some form of government financial support has been slow due to multiple rounds of approvals at various governmental levels. After the launch, the project enjoyed the fast progression through the construction stage that is, as of December 2012, close to completion. One of the company managers described the project's swift launch and progression as follows:

'All we [the private sector partner] had to get was the approval by the city government. This was quite easy because the city does not invest anything and the city wants this project badly. After that, we quickly started the construction as the engineering design was already prepared. We began the project quickly because we didn't need any approvals from ministries or regional government. We know very well that bureaucracy just kills many good projects.'

RU-1-Alexander

The fast and successful project progression has contributed to business development plans: the company plans to apply the same kind of PPP model to other projects that it wants to launch in the same region and beyond it. The following comment by the company manager highlighted the extensive plan for business development:

'The current project is going well. We [the company] want to launch about 50 more projects. We know for sure that many cities and regions are very interested because we already talked to them. The second project will be in the

same city [i.e., Ryazan]. But for these projects we need to find investors. That's the difficult part.'

RU-1-Konstantin

Clearly, one can attribute the fast project progression to an unusual method by which the private investor formed a PPP using a loophole in the Russian legislation. Other studied PPP projects did not enjoy this kind of success.

To summarise, in the absence of a PPP legal definition in either country's national legislation, the gap is filled, although in part, by a legal definition and the use of a *concession* as a prevailing PPP form. This explains why all PPP projects in Kazakhstan are concessions, and why most, although not all, projects in Russia also are concessions. Naturally, this legal barrier significantly narrows the partnership's meaning and limits the choice of PPP forms that are available to the government and private investors. Furthermore, this legal barrier creates an awkward situation where many regional governments in Russia have adopted their own PPP laws which include their own PPP definitions. Not only does this further contribute to conceptual ambiguity with the PPP meaning in the country, but it also creates additional legal confusion as the regional legislation in Russia, by the nature and structure of its legal system, cannot replace the national legislation. The national legislation's significance in Kazakhstan is even greater as the country has the unitary system. Improvements only in the national, rather than regional legislation can fill the gaps in the national-level legislation in both Kazakhstan and Russia, which calls for adopting the national PPP law in each country.

5.4.1b Legal constraint to the government commitment to a PPP: Three-year limit set by the budget law

In both countries, interviewees underscored a legal barrier to PPP development: the government signs a PPP contract for 15 to 30 years, whilst the budget code permits the budgetary commitments for up to three years. This means that an apparent contradiction exists between the budget code that sets rules and regulations for budgeting and possible range and length of budgetary commitments and the law on concessions in a respective country. From the conceptual standpoint, this means that

the government commitment to a partnership is legally constrained by a three-year period, and all guarantees that the government gives for the time beyond three years are invalid.

Although in the studied PPPs an operator has not yet faced a situation where the public sector partner cancelled its own promises that it extended earlier, the contradiction between the two national laws inevitably leads to arrested PPP development: the constrained validity of the government's own obligations may increasingly discourage private investors.

This finding supports the notion that the literature highlights regarding the significance of a clear legal and regulatory framework for PPP development (Klijn and Teisman, 2003; Grimsey and Lewis, 2004). Where the private sector partners are concerned with reliability of government payment guarantees to PPPs over the long term, this inevitably diminishes the private investors' interest. The same applies to the ambiguity of national and regional PPP laws and regulations: the larger the ambiguity, the smaller the private investors' interest. In summary, the governments' privileges and responsibilities at all levels regarding PPP formation and management remain ambiguous. Naturally, it is to the government's advantage to clear up this ambiguity and adopt laws that would permit the public agencies to extend their commitments above and beyond the three-year limit and to accept the relevant long-term legal responsibility for the PPP contracts.

5.4.1c The interplay between PPPs and sustainability: Are government financial obligations sustainable?

Interviewees expressed a large number of concerns regarding whether the government can guarantee its payments to a PPP. This issue is part of a broader picture that highlights the impact of partnerships in the two countries on the government itself and on sustainable development, which this section intends to elucidate.

In the case where the government unexpectedly suspended its payments to a concessionaire for an unspecified period and without an apparent reason, an interviewee highlighted the problem as follows:

'When the government suspended its payments to us [an operator], we were wondering what the reason might be. Clearly, it wasn't my company's performance because the project's progress was on schedule. So, it looked like the city government simply didn't have the money back then. But what was the problem? I don't really know, but it's entirely possible that the city has not received budgetary allocations from the national government for some reason.'

RU-2-Oleg

The excerpt shows that the government future financial obligations to a PPP may not be sustainable, which is an area of concern for the private sector partner. The government's obligations over the long run are linked to fiscal centralisation in either country and the issue manifests itself as follows.

PPPs use private funds for asset construction or renovation; however, private financing creates greater government future obligations because in Kazakhstan and Russia the government, rather than citizens, makes most payments to an operator for its services. This may undermine the public sector's stability. The government needs more money in the future to pay partnerships, although sources of government funds remain the same. The amount of revenue may increase or decrease depending on economic conditions, the taxation systems and tax rates, but securing steady annual increases in government tax revenue due to the need to pay PPPs presents a challenge for the government. Is it prudent for the government to accept greater financial obligations for 20 or 30 years without knowing exactly how it will receive additional money in the budget? Does it mean greater or smaller government accountability?

Another interviewee expressed his concerns regarding sustainability of government payments in the following excerpt:

'Perhaps the city budget has not got all the money in full from the federal budget. It's not like the city had all the money, but didn't want to release its payments to a PPP. Of course, not! Later on the government straightened out the problem, and we [an operator] got the payments. But what if this happens again? The governments may have some tension between them, but we [an

operator] *will be damaged by suspension of payments, and, perhaps, more than once.'*

RU-2-Vladimir

The realities of Kazakhstan and Russia, that both have a very high degree of fiscal centralisation, permit arguing that the PPP impact on intergovernmental systems of fiscal transfers is likely to be negative because sub-national governments and different public agencies have to engage in more intense negotiations in order to receive required funds. Much like many transitional countries, in Kazakhstan and Russia, fiscal transfers from the national government to sub-national governments are arbitrary and are subject to endless negotiation (Bird *et al.*, 1995; Bahl, 2000). The struggle of local and regional governments for obtaining more national government funds creates significant instability in regions and municipalities regarding projects that they can finance and launch. A need to pay PPPs will further intensify this instability. The main reason behind the constant struggle for intergovernmental transfers is the lack of fiscal decentralisation as Kazakhstan and Russia do not have local or regional taxes (Bahl and Wallace, 2003; Ebel and Yilmaz, 2003). In the following excerpt, through the prism of fiscal centralisation, an interviewee expressed his concerns regarding the validity of long-term PPP contracts in which the regional governments engage themselves:

'Regions [in Kazakhstan] don't impose their own taxes. The regional governments are financed by the national government. The latter decides how much money each region receives. So, when a region engages itself in partnerships, it essentially counts on more money from the national government in the future. But who can argue with confidence that the national government will give this money to the region?'

KZ-1-Damir

The above excerpt illuminates how the centralised fiscal system in Kazakhstan and Russia works. First, tax revenues flow in the national budget, and then the national government approves national and regional budgets. The latter become subject for continuous negotiation between governments prior to the approval, as well as after the budget approval, as national governments in both countries make unplanned transfers in the course of a fiscal year.

To summarise, it is likely that PPPs will lead to a more intense power struggle between regions for funding from the national government. When the government faces considerable uncertainty with finding money so that it can meet accepted obligations, it inevitably compromises sustainable economic and social development.

With regards to the interplay between partnerships and sustainability, a related question is whether oil revenues can effectively sustain PPPs in Kazakhstan and Russia. Can a country's natural resources make partnerships more sustainable, thus contributing to nationwide sustainable development? With Russia and Kazakhstan both oil-rich, the countries enjoy significant revenue from oil export. However, national budgets of both states are heavily dependent on oil sales and its price in the world market. When the revenue side of the national budget grows because of the higher than forecasted price of oil, expenses for social programmes also increase. When oil revenues fall, all kinds of government expenses, including those for PPP projects, should contract. Oil revenue may create excessive optimism that encourages the government to launch partnerships; however, oil revenue will not make the power struggle between regions for national funds easier.

5.4.1d PPP implementation issues

Tangled PPP tender procedures

Interviewees identified a broad range of legal and regulatory impediments that one can categorise as PPP implementation issues. These issues begin from the PPP formation where the public agencies and private investors face the complicated government requirements for multiple tenders for separate partnership-related aspects such as a separate tender for a PPP contract, then a separate tender for land that a PPP will use and a separate tender for purchasing private services. Interviewees criticised a current system of tenders where a PPP is essentially a set of contracts with their own provisions and regulations. The following excerpt highlights this complexity:

'At the time when we [an operator] got interested in this project, we didn't realise that we were supposed to bid more than once. Then, after we submitted the first bid and won the tender, the process became like a snowball, which we

couldn't stop. We have to bid for land, then for services. At some point it really became overwhelming to the extent that we were considering giving up this idea.'

RU-2-Vladimir

The excerpt shows the discouraging effect of multiple tenders on private investors. All interviewees confirmed that the PPP formation process would gain immensely from streamlining the tender procedures and consolidating all tenders in one. By doing this, the bureaucracy would be cut off and lengthy delays involved in running multiple tenders would be significantly reduced. Interviewees estimated that the time to closing the PPP contract may be reduced from the current two to three years to about one year or even six months for smaller projects.

Ambiguity in regional governments' privileges and responsibilities

The multiplicity of forms that the government financial support to PPPs may take, particularly at the regional level, also impacts the PPP formation. Regional governments are largely unaware of the range of tools available to them in order to encourage partnership formation and make private investors financially interested in a project. This results in a diverse picture across regions where one regional government may provide support to a PPP in considerably more forms than another region. As the number of precedents for extending a certain form of support, such as reducing a corporate income tax, is very small, some regional governments may be reluctant to use PPP support tools trying to avoid potential legal controversy and criticism from the public or the national government.

Interviewees expressed an opinion that at the bidding stage the government should provide extensive information and guidelines regarding forms of government financial support that a private partner may receive. An interviewee described this as follows:

'When we [a private company] were preparing a bid, we didn't know what kinds of government support were available. We simply were unaware what we could include in our proposal and what kinds of government support should be deemed unrealistic or even prohibited by the law. Of course, we had some

conversations and asked about what we could request, but all this was informal, unofficial.'

KZ-2-Kairat

The excerpt shows that raising awareness of PPP bidders regarding the forms of financial and administrative support they may receive is critically important for effective partnership formation. It will reduce ambiguity regarding what resources regional governments can contribute to partnerships and also will make the requirements for the private partners' contribution clearer. Extensive guidelines, personnel training and legal advice that the public agencies and/or PPP centres could provide should achieve raising awareness.

Complex and bureaucratic tariff and wage-rate setting

Another area of regulatory barriers to PPPs is bureaucratic tariff regulation in those cases where tariff setting is a part of anti-trust government policy and tariffs are subject for approval by the anti-monopoly agency. Interviewees criticised the lengthy and cumbersome tariff approval process and insisted on direct tariff negotiations between a customer and a service provider, without further approval by the anti-monopoly agency.

However, one should view the private operators' perspective that calls for direct tariff setting between themselves and customers as opportunistic. As partnership services are often monopolistic (e.g., a railroad, a toll road, a water-treatment facility or a stadium), the risk of market failure where a monopoly increases the price without losing customers is high (Stiglitz, 2000; Hyman, 2002). The threat of monopolistic manipulation with the service price and quantity requires mitigation by the governmental regulation of tariffs; otherwise, citizens may witness shrinking volumes and rising prices for traditional public services. Hence, one should view the government tariff regulation as effective in terms of reducing the private partners' opportunistic behaviour. Nevertheless, the government should ensure that procedures for submitting and processing new tariff applications are streamlined and shortened.

In another area – wage-rate setting – the government behaviour appears opportunistic and interviewees criticised the government efforts to regulate wages of the private operators' staff. The interviewees placed much emphasis on ensuring greater

private party's flexibility in business management. Justifying restrictions on PPP operations, such as government regulation of contractor workers' wage rates, is a challenging endeavour. In a market-oriented economy, attracting a highly qualified workforce requires each company to pay workers at market or above-market rates, whilst administrative restrictions may simply lead to staff attrition. From this perspective, government regulation of wage rates seems excessive and unnecessary and represents the government's opportunistic behaviour.

Public versus private asset ownership

Most of the study participants work for a private operator, rather than the government, and their experiences and perceptions naturally reflect the private sector partner's perspective. Typically, they call for greater private party flexibility in business management, better opportunities and conditions for private investors in a PPP and more extensive government financial and administrative guarantees to a partnership. Persistent calls for permitting private property ownership for an asset that the private party constructs or renovates illustrate the latter. Essentially, this means a legal introduction of a new PPP model in Kazakhstan and Russia: instead of the existing build–transfer–operate (BTO) model where a private party must transfer an asset's property ownership to the government immediately after completion of construction, the government may offer a new build–operate–transfer (BOT) model.

However, the value assigned to the introduction of a new model seems excessive as the private property ownership is in no way a panacea for other PPP management issues such as frequent cost overruns, cumbersome tariff setting, procurement restrictions and the public sector partner dominance in decision-making (Mouraviev *et al.*, 2012). 'It is clear that no matter how PPPs are defined, they fall short of a perfect mechanism for delivering public sector services' (Hodge and Greve, 2005: 346). Based on the thorough analysis of partnerships in both industrialised nations and emerging markets, Grimsey and Lewis (2004) convincingly argue that:

'... rather than conforming to a model, PPPs should be seen as a process, a systematic way of going about identifying the service needs, defining the outputs expected and the payment mechanism, evaluating and quantifying the

financial impacts and the inherent risks, identifying the most appropriate procurement model, developing commercial principles, confirming value for money, overseeing the design process and construction, managing the contract through to handback and monitoring service delivery. If this process is applied rigorously to each contract, then it will inevitably result in a different approach for every project' (p. 245).

Hence, although the private asset ownership may significantly improve the motivation for better property maintenance in the long run, it does not resolve many other issues of PPP management. Nevertheless, Kazakhstan and Russia should seize the opportunity to introduce the private asset ownership as a tool for raising the PPP's value for money.

5.4.2 Institutional, managerial and financial constraints

Interviewees provided a large number of comments regarding barriers of institutional, managerial and financial nature. Table 5.8 summarises their comments and related proposals of how to overcome these barriers.

Table 5.8 shows the most significant institutional and managerial impediments to PPP development, such as the government's requirement to conduct all purchasing by tenders (for PPP operators that the public agencies formed fully or in part) and lack of the government's commitment to partnerships where the public agency fails to distinguish a PPP from any other private contractor. In the latter case, the government tends to treat PPP requests, applications and other business needs in a lengthy and bureaucratic way, without any noticeable commitment to the partnership goals.

Additionally, Table 5.8 shows financial barriers to effective PPP operations. Among the most significant existing drawbacks is the government's failure to apply financial penalties to itself for breaching the PPP contract provisions, which means that currently only a private partner is subject to fines and fees for not performing specific tasks. Streamlining the contract terms regarding fees and penalties to either partner would permit partners to achieve equal rights and would make PPP management more effective. Yet an additional financial constraint is the current requirement that a PPP

Table 5.8 Institutional, managerial and financial barriers to PPPs and improvement opportunities

Current conditions	Improvement opportunities/ proposals	Advantages/benefits/comments
Institutional and managerial barriers		
Procurement restrictions: all purchasing must be done by tenders.	The government should remove the requirement of PPP purchasing by tenders.	This gives a PPP greater flexibility in business management; a tender should not be a condition for PPP operations. A tender does not necessarily ensure lower prices compared to off-the-shelf purchasing.
Lack of the government's commitment to a PPP: the government treats a PPP like a burden or at least much like any private contractor.	The government may design preferential procedures for treatment of PPP requests. The government may provide training to its staff.	This will permit achieving a noticeable degree of government commitment to a PPP; it may increase trust between partners.
Financial constraints		
The public sector comparators do not serve as effective benchmarks for PPP costs.	The government may employ the public sector comparators for limited use.	This just gives the government an asset's approximate cost valuation, subject to adjustment for inflation and varying conditions.
Loan financing for PPP projects is difficult to secure.	The government should permit using a newly constructed or renovated facility as collateral for the loan.	This gives a guarantee to a private bank and permits easier loan financing.
Financial penalties for violation of contract provisions exist mostly for a private partner.	Financial penalties should be instituted for both partners.	This gives additional guarantees regarding contract enforcement to either PPP partner.
Property tax on the newly constructed asset and VAT on all operators' purchases increase total PPP costs.	The government may exempt PPPs from the property tax as an asset belongs to the public sector. The government may either exempt an operator from VAT or may refund VAT upon the project termination.	This permits keeping PPP costs lower and, hence, increasing a PPP's value for money.

Source: Compiled by the author from interview data

operator must pay a property tax on an asset that the private partner built or renovated during the project. The following excerpt highlights the controversy:

'I'm not sure why the government imposes a tax on its own property. The only possible reason is that we [a private operator] manage the property. But we do this because the government hired us to do this. So, the government pays us for property management and we [an operator] pay the property tax to the government.'

RU-2-Oleg

The excerpt describes the following case. As the current law in both Kazakhstan and Russia requires, the private sector partner has transferred a property ownership to the government upon completion of construction. Hence, an asset belongs to the government.

However, the government still levies a property tax on it. The interviewee claimed that paying the property tax to the government on the government-owned asset is unnecessary. To conclude, as this tax increases PPP costs, it may increase the prices for PPP services and diminish the partnership's value for money.

5.4.3 Theme summary

At the conceptual level, impediments to PPPs stem from the lack of a partnership's legal definition in the national legislation in both Kazakhstan and Russia. The law on concessions in each country has resolved, although in part, the PPP's legal and conceptual ambiguity. The laws defined a concession as a principal PPP form and identified the multiple government tools and methods of financial support to a concessionaire. If an investor is interested in receiving any form of government support, an investor must comply with the law on concessions. Alternatively, an investor who is not requesting any form of government financial support may use the legislative loophole and employ a non-concessionary legal framework for a partnership. This way an investor forms a PPP, but not a concession, as the experience of one studied PPP in Russia has illustrated. This loophole further contributes to conceptual ambiguity

regarding the PPP meaning in the country, complemented by the multiple varying definitions of a PPP in the region's legislation, which by its nature in either country cannot replace the national legislation. Interviewees have highlighted that only improvements in the national, rather than regional legislation, can fill the gaps in the national laws in both Kazakhstan and Russia.

Yet another legal impediment to PPPs is a constraint in each country's budget law that limits the length of the government's financial commitment to a PPP by three years and makes the PPP contract enforcement questionable. In connection with the government's commitment to a PPP, interviewees also expressed concerns regarding the partnerships' impact on sustainability. At the root of the issue is the question of whether one can deem the government's long-term financial obligations as sustainable. Interviewees perceived the government's obligations as non-sustainable. This is linked to the high degree of fiscal centralisation in either country and non-existence of regional taxes that could serve as a guaranteed source of funds for public agencies and payments to a PPP.

Among impediments to the PPP project implementation, interviewees emphasised the need to replace a series of tangled PPP-related tenders, in which a PPP is a set of contracts with their own regulations, with a single unified tender. This would reduce bureaucracy and lengthy delays involved in the partnership formation. In reference to two other implementation issues - a tariff setting and wage-rate setting - the partners manifested opposing kinds of behaviour. The analysis showed that in a tariff setting, the private sector partners exhibit opportunism by pushing for direct tariff negotiations between a customer and the service provider, which is likely to result in higher prices for monopolistic services. In contrast to this, in wage-rate setting, the government exhibits its opportunism by not allowing a private partner to pay its staff at market rates. Hence, interviewees identified that the government has to loosen its tight regulations of PPP operators' wage rates.

Another institutional barrier is the regulation that prohibits private property ownership for an asset that a private party constructs or renovates. Changing this regulation would motivate a private partner for a better long-term asset management. Other impediments include the government requirement for PPPs to arrange purchasing

by tenders; lack of the government commitment to partnerships; ineffective public sector comparators and lack of financial penalties that a contract applies to the public sector partners for contract violations.

5.5 Chapter Summary

The chapter discussed four overlapping themes, including:

- Opportunistic behaviour in a PPP;
- Interaction between partners in a PPP;
- Risk management in a partnership; and
- Legal, regulatory, institutional, managerial and financial constraints to effective PPP governance.

Each theme presents a discussion of interviewees' opinions and perceptions, which are often complementary and are supported by excerpts. Each theme contrasts and compares the data between Kazakhstan and Russia and identifies country-specific conclusions, as well as cross-country observations that are valid for both nations. Each theme concludes with the summary. Next, the thesis moves on to drawing up a model for understanding the nature of PPP governance in Kazakhstan and Russia and to highlighting the PPP critical success factors.

CHAPTER SIX: A MODEL FOR UNDERSTANDING PPP GOVERNANCE IN KAZAKHSTAN AND RUSSIA: THE POLICY PARADIGM PERSPECTIVE

6.1 Chapter Introduction¹

This chapter develops a conceptual model for deeper understanding of PPP governance in the two nations and identifies PPP critical success factors. The model rests on the notion that researchers must view partnership formation and PPP management through the prism of the policy paradigm (Hall, 1993), which subsequent sections will discuss. The chapter elucidates why researchers may view the current PPP governance in Kazakhstan and Russia as a paradigm and examines how it is constructed. The chapter critically appraises the principal dynamics that contribute to the evolving transition in the set of ideas and standards regarding PPP governance in two countries. The nature of this transition signifies the departure from approaches to partnerships, which prevail in OECD countries, as Western academic literature and government reports discuss, to an emerging paradigm in public policy. The model is based on the empirical data that Chapter Four analysed and findings that Chapter Five discussed.

The chapter begins by defining a theoretical framework that guides an understanding of a paradigm forming. It then discusses Kazakhstan's and Russia's policy paradigm structure and the underpinning concepts. The chapter proceeds to delineate dynamics that intensify the paradigm development and provides a detailed discussion of each contributing factor. The chapter's concluding part highlights the PPP critical success factors that the interview data revealed.

¹ The author wrote the text of this chapter in 2012-2013. Also, this text was included in the article co-authored with Nada Kakabadse, which *Policy Studies* accepted for publication in 2013. (Mouraviev, N. and Kakabadse, N. Public–Private Partnerships in Russia: Dynamics Contributing to an Emerging Policy Paradigm. *Policy Studies*. In press.) The author certifies that the text in this chapter is his original contribution to the thesis.

6.2 Theoretical Framework of a Policy Paradigm

Prior to the delineation of the dynamics contributing to the PPP policy paradigm forming in Kazakhstan and Russia, this section will first discuss meanings which scholars attach to a policy paradigm in general, essentials that a policy paradigm typically includes, and why and how a policy paradigm becomes useful. Next, this section draws up the theoretical framework for a paradigm and discusses the structure of the evolving PPP policy paradigm in Kazakhstan and Russia.

Investigating the nature of a policy paradigm, Hall (1993) makes use of Anderson's (1978: 23) observation that 'policies are made within some system of ideas and standards which is comprehensible and plausible to the actors involved'. Hall (1993) embeds policy paradigms in the broader concept of social learning and emphasises the key role that ideas play in the policy process. He delineates a policy paradigm as '... a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing' (Hall, 1993: 279). In this approach, one can view a policy paradigm, first, as a mix of 'ideas and standards' (i.e., the policy itself), and second, as a tool framed by these ideas and standards, that addresses the problems and defines the relevant instruments. Due to its emphasis on the defining role of ideas in policy making, this perspective lacks an indication of how or through what a government may implement public policy.

Similar to Hall (1993) and other scholars who point out that a policy paradigm focuses on the formation of ideas (Menahem, 1998), Campbell (2002) argues that a paradigm's cognitive nature provides taken-for-granted descriptions and specifies cause and effect relationships for policy makers. Carson *et al.* (2009) also emphasise and draw elaborate insights regarding a policy paradigm's cognitive-normative nature. The latter includes, in their view, a generally coherent set of assumptions and principles, simplifying metaphors and interpretive and explanatory discourses. The paradigm's cognitive perspective represents itself in a shared conceptual framework that defines the social issues and how institutions should solve them (Carson *et al.*, 2009).

In contrast to Hall (1993), Carson *et al.* (2009) include in a paradigm's structure three types of processes: cognition and meaning, expression and action and its institutionalisation. This perspective significantly enriches our understanding of a paradigm and expands its boundaries to embrace not only the conceptualising component, but also institutional processes and implementation aspects. In reference to a paradigm's structure, one must acknowledge Fosler's earlier study. Analysing an economic development policy paradigm structure, Fosler (1992) accentuates its three principal elements including a new concept, a new set of state responsibilities and new institutional capacities. Thus, institutionalisation has evolved as a notable characteristic of a policy paradigm.

Burns and Carson (2009) further develop a broader approach to a paradigm and emphasise the role that institutions and actors play in shaping ideas and their implementation. They view a policy paradigm as a complex of concepts, principles and models that capture the interactions between ideas, institutions and organised actors engaged in political and administrative processes. Discussing the structure of policy paradigms, Burns and Carson (2009) emphasise that such a paradigm defines problems and their sources, which institutions must publicly address, and identifies the appropriate available strategies and resources to deal with these problems. The paradigm also defines 'appropriate actors (and their roles in what takes place), for instance, those who should have public authority relating to the application and development of public policy. Furthermore, a policy paradigm usually identifies agents with special expertise (knowledgeable, authoritative experts) to define and solve the problems' (Burns and Carson, 2009).

A policy paradigm may be useful in a certain way. A policy paradigm '... is influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole' (Hall, 1993: 279). Carson *et al.* also emphasise a policy paradigm's usefulness from the cognitive perspective. They argue that the policy paradigm concept permits the analysis of distinctly different, sometimes incommensurable ways of conceptualising the issues, problems, interests, goals and remedies involved in policymaking (Carson *et al.*, 2009). At the same time, a paradigm's usefulness comes along with its inherent limitation as a cognitive tool. This limitation stems from the

nature of what a paradigm involves as far as the range of political, administrative, social and economic activities is concerned. 'In other words, taken-for-granted paradigms constrain the range of policies that policy makers are likely to consider' (Campbell, 2002: 23). They also constrain the cognitive process as some aspects of policy making (that are beyond the paradigm itself) simply may fall out of a researcher's view.

To summarise the insights into the nature and structure of a policy paradigm, one can argue that a prevailing approach adopts a view, according to which a paradigm includes a set of elements such as ideas, defined problems, strategies and resources to deal with problems, organised actors and roles assigned to them, institutions, their capacities and processes, cognitive and analytical models, agents with special expertise, and interaction between all these elements that allows expression of goals, interests and authority (Fosler, 1992; Hall, 1993; Campbell, 2002; Burns and Carson, 2009; Carson *et al.*, 2009). Table 6.1 summarises varying approaches to a policy paradigm.

Overlapping approaches to a policy paradigm, as Table 6.1 illuminates, are indicative of a growing emphasis on actors, actions and institutionalisation in policy making, rather than on merely cognitive aspects. In the PPP context, institutionalisation means the creation of new organisational capacities, such as the formation of an agency charged with responsibility for the PPP development. Additionally, one must broaden the concept of institutionalism to incorporate social relationships as institutions are engaged in multiple interactions with actors and other institutions. Table 6.1 also highlights the dynamics of scholarly insights in the direction of a paradigm's conceptualisation in a broader way, i.e., a paradigm includes not only a shared conceptual framework, but also organised actors, with their defined roles, and established institutions, strategies and processes (Burns and Carson, 2009).

Borrowing from these studies, the author conceptualises the PPP policy paradigm in Kazakhstan and Russia as a cognitive-normative tool that includes two major aspects. The first aspect describes a paradigm as a tool which the government uses to facilitate partnership expansion. The reason for this is that the government plans to employ partnerships in order to attract private funding and expertise for solving acute social and economic problems, such as massively overhauling the outdated housing and utilities infrastructure. A paradigm assigns selected features to a partnership and disregards

Table 6.1 Summary of insights into a policy paradigm

Policy Paradigm	Paradigm's Structure: Key Components	Comments	Authors
Is a set of ideas, actions and institutional strategies	Includes a concept, a new set of state responsibilities and new institutional capacities	Institutionalisation is a notable feature of a policy paradigm.	Fosler, 1992
Is a framework of ideas and standards	Specifies problems to be addressed, goals and instruments	A paradigm is a part of social learning. It does not emphasise roles of actors and institutions.	Anderson, 1978; Hall, 1993
Forms ideas and specifies cause and effect relationships for policy makers	Offers taken-for-granted descriptions and solutions	The focus is on a paradigm's cognitive nature; a paradigm constrains the range of policies to consider.	Menahem, 1998; Campbell, 2002
Is a shared conceptual framework; it is a set of assumptions and principles, interpretive and explanatory discourses	Includes three types of processes: cognition and meaning, expression and action and its institutionalisation	A paradigm's boundaries embrace not only the conceptualising component, but also institutional processes and implementation aspects. Cognitive aspect is useful for understanding issues and policy remedies.	Carson <i>et al.</i> , 2009
Is a complex of concepts, principles and models that capture interactions between ideas, institutions and organised actors	Defines problems and their sources and identifies strategies and resources to deal with these problems	A paradigm also defines actors and their roles and agents with special expertise.	Burns and Carson, 2009

Source: Compiled by the author

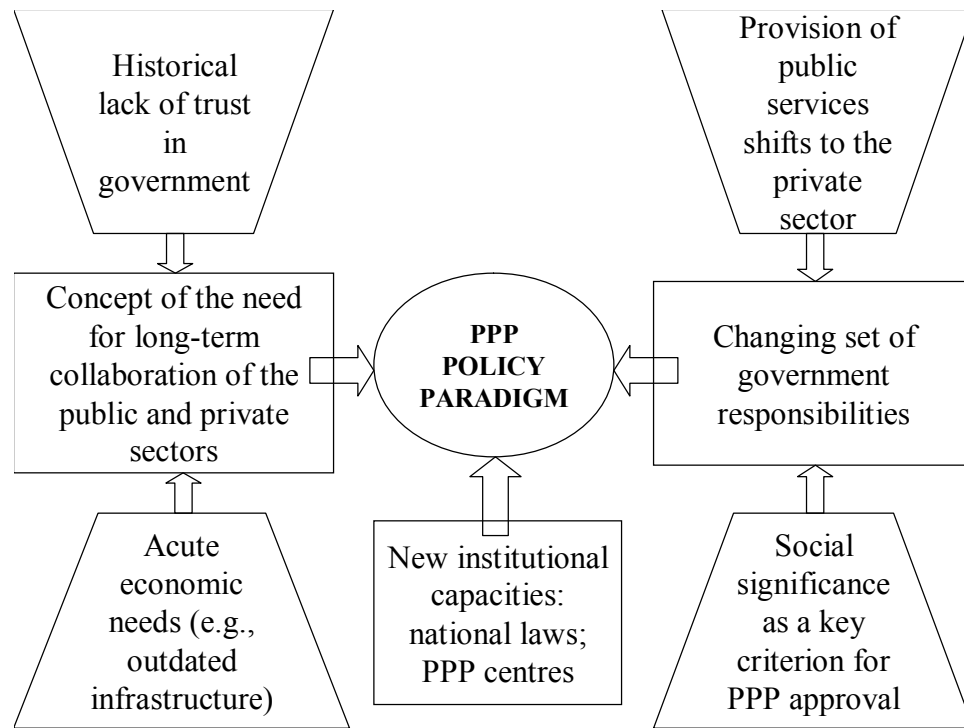
others. Once the paradigm is in place, the discussion of whether a PPP is a useful form for implementing the public sector task is largely replaced by accepted approaches, institutional processes, and instruments that the government deems undisputed and that provide vast opportunities for partnership employment. The second aspect is cognitive, i.e., consideration of multiple activities related to partnerships through the paradigm's prism permits a deeper comprehension of PPP governance in Russia.

Based on the underpinning theoretical framework, the structure of the emergent PPP policy paradigm in Kazakhstan and Russia embraces three principal elements, namely:

- 1) Ideas - i.e., the concept of the need for long-term collaboration between the public sector and the private sector. The government perceives this collaboration as necessary in order to engage private firms more widely in solving the society's issues and reverse the historical public sector dominance that stems from the Soviet era. By providing private firms with opportunities to profit in the long run, the government, at the same time, legitimises its own policy that aims at PPP proliferation.
- 2) A changing set of government responsibilities that imply an increasing provision of traditional public services (such as transportation services) by the private sector, and corresponding decrease in government delivery; and
- 3) A developing and expanding set of new institutional capacities designed for implementation of amended (and changing) government responsibilities (Fosler, 1992). From the societal perspective, new PPP institutional capacities (e.g., laws, regulations and PPP centres) aim to serve the wider economic and political goals of transitional nations, such as to create an enabled environment for more intense business development and support private participation in addressing the public sector tasks.

Figure 6.1 highlights the PPP policy paradigm structure in Kazakhstan and Russia.

**Figure 6.1 The PPP policy paradigm in Kazakhstan and Russia:
Principal elements**



Source: Compiled by the author

6.3 PPP Policy Paradigm: The Principal Elements

Figure 6.1 shows the contributing elements of the policy paradigm and the underlying drivers. The discussion of contributing elements begins with ideas, i.e., the government concept that claims that enhanced public-private collaboration is necessary. From the beginning of the twenty-first century, government calls for engaging private sector organisations to solve public sector tasks have become persistent. In particular, in the Conception for the Long-Term Social and Economic Development of the Russian Federation to 2020, which the Russian government approved in 2008, development of public-private partnership institutions and tools has been determined as a strategic direction (Alpatov *et al.*, 2010: 7). In 2008, the Kazakhstani government approved the Conception for Development of Public-Private Partnerships for 2009-2015. This policy document has assigned a priority to the expansion of sectors for PPP employment, as

well as to the need for expanded use of various partnership tools and mechanisms (Conception for Development of Public-Private Partnerships in the Republic of Kazakhstan for 2009-2015, 2008: 18–19). In addition to railroads and the energy sector, the document calls for using PPPs in such sectors as water supply, education, health care, penitentiary systems, utilities and housing infrastructure and urban transport infrastructure.

Other drivers behind the need for public-private collaboration include lack of public funding and the intent to obtain greater access to private funds; and lack of new technology and anticipation that private firms will bring along technological, management and other kinds of innovation (Alpatov *et al.*, 2010: 16–17; Kabashkin, 2010: 9–11, 18–19, 30; Pankratov, 2010: 32; Varnavskiy *et al.*, 2010: 29–30).

Additionally, the government justifies enhanced public-private collaboration by two contextual factors that highlight the acute economic needs: the need to obtain private financing specifically for the housing and utilities infrastructure and the need to increase investment attractiveness of selected industries.

Among two internal PPP drivers, the need to obtain private financing for upgrading housing and utilities infrastructure is by far the most pressing. This need is grounded in deeply outdated housing, the vast majority of which is the Soviet legacy, and in utility infrastructure that was also built often before World War II and requires massive replacement. The contextual factor that explains the acute need for obtaining private financing in this field is the colossal size of the utility infrastructure overhaul. The enormity of the task, in terms of the dollar amount required for the overhaul, forces the government in Kazakhstan and Russia to argue that PPP employment with private financing is the only feasible solution. Delays in upgrades are likely to result in more frequent breakages of power lines and pipeline systems that supply water or natural gas, in high repair costs, as well as disruption of public service delivery to customers. Thus, PPPs become an attractive solution that permits combining the interests of all stakeholders: citizens who need better housing and utilities infrastructure, governments that look for ways of financing the infrastructure renovation and private firms seeking profitable investments.

The need to increase financial attractiveness of selected sectors to private investors also carries significant value that one can describe as complementary to the need for financing the housing and utilities infrastructure overhaul. This is because private investors are needed exactly in this field, and also for other infrastructure projects, such as construction and operation of railroads, automobile roads, airports, sea ports and in the energy sector. The high cost of capital assets is a common feature in all these sectors that governments in Kazakhstan and Russia hope to upgrade with the help of private investors. Thus, one PPP driver reinforces the other, and their enhanced combined influence pushes the government to seek solutions in forming and implementing partnership projects for massive infrastructure upgrades.

To conclude the discussion of the need for public-private collaboration, the government social and economic policy has incorporated such collaboration as a strategic dimension. One fundamental reason behind this government policy stems from the limited resources, i.e., the budget constraints. The other set of reasons stems from acute economic needs. More generally, the governments in Kazakhstan and Russia focus on reversing the historical trend of the government political and economic dominance that stems from the Soviet legacy. They also aim to overcome lack of trust in the government and corresponding lack of willingness among private businesses to cooperate with the public agencies. Whilst Kazakhstan and Russia continue to build a market oriented economy, these goals are useful as they may result in sector expansion in which private firms can successfully operate and use their own, not government, funding. In summary, one may view PPPs as a strategic public-private collaborative tool for the long run. Where the government policy creates profit-making opportunities for the private firms, their more active engagement in carrying out the public sector tasks might significantly contribute to legitimising the government and its public policy.

The second contributing element of the policy paradigm - a changing set of government responsibilities - implies that the government obligations to provide public services shrink. Instead of traditional public provision of services, such as transportation infrastructure (roads and railroads, airports, sea ports, bridges and tunnels) and social infrastructure (healthcare and recreation facilities, stadiums, schools and kindergartens), citizens will witness an increasing private service delivery. This also

implies that government management and technological expertise in selected fields, such as an airport operation and maintenance, is likely to substantially decrease or may even vanish. This thesis has identified an example that illustrates the changing set of government responsibilities: a Russian PPP project that aims at constructing and operating a toll viaduct. The latter will be the first nation's toll viaduct that will replace a traditionally free older public railroad crossing. The changing government responsibilities also imply that many services will be available for a fee as this is a common way to recover private investment. Hence, the paradigm adopts a view that private service delivery will be expanding, with the corresponding decrease in the government provision, and the share of toll services will be growing. This view rests on the pro market perspective, which argues that in a privately owned economy the government assumes the facilitator's and the regulator's role, rather than that of a service provider (Stiglitz, 2000).

The third contributing element of the policy paradigm is new institutional capacities for PPP development. New institutional capacities include PPP laws and regulations that the government devised for the national level in Russia in 2005, and in Kazakhstan in 2006, and regional and municipal legislation that selected regional and city governments in Russia approved in subsequent years. Additionally, institutional capacities incorporate national and regional government PPP centres that are responsible for partnership development, and investment channels for PPP financing that the governments in both countries have established. Institutional capacities have created a network of organisations and relationships that aim at furthering PPPs. As the government designed capacities with the sole purpose to enhance PPP employment, this by itself became the policy paradigm's powerful driving force.

Finally, the interplay between elements contributing to the policy paradigm is as follows. The need for greater public-private collaboration justifies government actions aimed at expanding institutional capacities. Newly created institutional capacities (e.g., PPP centres, investment channels and national and regional regulations) feed and accelerate the changes in government responsibilities: each new partnership means that capacity has materialised in a certain partnership project, whilst it also manifests itself in the government service provision's shrinking volume and increased private sector's

delivery. The latter eases the pressure on the government budget, particularly, in the short term, and pushes the government to seek new institutional capacities to further expand the partnership employment. Hence, the policy paradigm's principal elements feed each other and, therefore, reinforce the paradigm itself.

The next section turns to the discussion of the main factors that contribute to the evolving PPP policy paradigm.

6.4 PPP policy paradigm: The underlying dynamics

The nature of PPP governance in Kazakhstan and Russia concerns reversing the government political and economic dominance that stems from the Soviet legacy. Also, the PPP governance aims at overcoming lack of trust in government and corresponding lack of willingness among private businesses to cooperate with the public sector agencies.

Although partnerships are new to both Kazakhstan and Russia (i.e., the discussion regarding PPPs began in early 2000s), a range of factors has transformed the PPP debate into the policy paradigm. They include an unbalanced government approach to perceived PPP benefits; excessive emphasis on positive PPP externalities and neglect of negative externalities; unjustifiably extensive government financial support to PPPs that private investors and the government itself deem necessary (Firsova, 2012); an unwarranted approach to risk allocation in which the government tends to accept excessive and/or unnecessary risks; and a strong emphasis on a concession regardless of availability of other PPP forms and the nature of an industry. Table 6.2 summarises the principal factors that contribute to an emerging PPP policy paradigm.

Table 6.2 PPP Policy Paradigm in Kazakhstan and Russia: The underlying dynamics

No.	Contributing Factors	Comments
1	A government approach to perceived PPP benefits is unbalanced, i.e., the focus is on benefits, whilst costs are of lesser importance.	PPP costs are not a major concern for the government. A project's 'social significance' has replaced theoretical underpinnings for PPP employment as the principal criterion for the PPP formation.
2	The government tends to inflate positive PPP externalities and downplay negative externalities.	The government unjustifiably considers technological and other kinds of innovation intrinsic to a PPP. Citizens may perceive PPPs as a government attempt to shift traditional responsibilities for public services to private firms. Increasing costs of public services shift to citizens in the form of higher tariffs or higher budget payments to a PPP.
3	The government provides extensive financial support to PPPs.	The government often assumes the role of a partnership guarantor and of an essential source of funds, inputs and various benefits to a PPP. This increasingly creates a guarantee culture among private investors.
4	A government approach to risk allocation: at least some risk should transfer to the private sector partner(s).	The public sector partner tends to accept excessive and/or unnecessary risks.
5	The government emphasises the use of a concession as a prevailing PPP form.	The government tends to disregard availability of other PPP forms and an industry's nature.

Source: Compiled by the author

Subsequent sections discuss in detail each of the underlying dynamics.

6.4.1 Perceived PPP benefits: Unbalanced government approach

A government approach to perceived partnership benefits appears unbalanced and it strongly contributes to the PPP policy paradigm development. An unbalanced approach is the one in which the government puts unjustified emphasis on PPP advantages and disregards drawbacks. The government focuses on obtaining benefits from a partnership project in terms of improved service delivery, attracting private funds and the use of private technology and expertise. However, partnership efficiency is not a

major government concern. In other words, the government may approve a PPP with a total cost higher than that of traditional government procurement or the cost of an in-house service provision. The Russian language academic literature and the government policy documents in Kazakhstan and Russia are silent about PPP efficiency, and academics and policy makers are not conducting PPP cost comparisons with those of the public sector in-house provision. If and when the government can create partnerships without much concern regarding costs, criteria for the PPP formation become loose, or the government can adopt arbitrary criteria on a case-by-case basis. A critical appraisal of the Russian language PPP literature (e.g., Kabashkin, 2010; Maksimov, 2010; Pankratov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2011b, 2012) supports this observation. In contrast, researchers and the government tend to downplay Western literature's role: they use it principally as a general justification for partnerships, whilst they disregard empirical data about failed or costly projects and the PPP criticism.

Additionally, interviews demonstrated the understated (i.e., unimportant) role that the public sector comparators play in the PPP formation (see Sections 4.4.3a and 5.4.2 for details). For example, in the schools and kindergartens' PPP project in St Petersburg, the government attempted to use the public sector comparators to determine the construction costs. However, interviewees strongly criticised the public sector comparators' validity: they likely feature significant distortions in cost estimates due to relatively high inflation (7 to 8 per cent annually) and varying terms and conditions under which private companies completed the construction in previous years. This shows the government disregard of more accurate cost determinations in favour of the swift PPP approval process. Furthermore, the governments in Kazakhstan and Russia, as interviews showed, determine the PPP project costs themselves, rather than invite investors to submit the bids that include the cost proposal. This government practice raises serious concerns as the evidence that the government aims to reduce project costs is missing. On the contrary, the government forms the project proposals in which the costs aim to be attractive to the bidders, i.e., not only do private investors find the costs acceptable, but they also intend to earn profits.

The Russian language literature is silent about transaction cost economics and PPP value for money as the government does not use these concepts as a basis for deciding whether to form a partnership (Mouraviev, 2012). This is in sharp contrast to the Western literature that emphasises that the government should employ a PPP if and when a partnership incurs a lower cost as opposed to the cost of the government's in-house provision (Sadka, 2007; Hall, 2008a; Morillos and Amekudzi, 2008). Although overall PPP costs in Kazakhstan and Russia may be higher due to extensive government financial support to a partnership, expensive technology and the higher cost of private partner borrowing, the literature claims that PPPs are a preferred form for collaboration between the public and private sectors (Kabashkin, 2010; Pankratov, 2010; Varnavskiy *et al.*, 2010; Bazhenov, 2011; Firsova, 2012). This means that the Russian language literature generally accepts a notion that PPPs incur higher total project costs (compared to government in-house service delivery), although the Western literature provides the opposite argument in support of PPPs (Mouraviev, 2012: 49). According to KPMG data, the costs of contracting out in Russia are about 6 per cent less than the PPP costs (Shabashevich, 2011: 3–4). This vividly demonstrates an evolving paradigm that provides taken-for-granted PPP acceptance, regardless of their costs.

Furthermore, after a partnership formation, the government tends to inflate its value by disregarding the cost-reduction opportunities. Interviews highlighted numerous examples where the government either explicitly or implicitly agreed to higher than planned project costs. The interview data revealed cost increases as an ongoing problem in the studied projects. Although the private sector partners should accept part of the responsibility for cost increases, the government also should assume a significant part of responsibility because its own actions lead to disregard of cost reduction opportunities. The example of the latter is a PPP project in Karaganda, Kazakhstan, where the government insisted on simultaneous, rather than sequential, construction of 11 kindergartens. A Russian PPP in St Petersburg gave a similar example where the city government insisted on simultaneous, rather than sequential, construction of schools and kindergartens.

To summarise, the government pays insufficient attention to the PPP value for money both at the time of partnership formation and during project implementation.

This demonstrates an unbalanced government approach: the government labels a PPP as an arrangement that carries significant value for money; however, justification of the actual PPP value for money often is missing.

6.4.2 Government tends to inflate positive PPP externalities and downplay negative externalities

An unbalanced approach to perceived PPP benefits is tightly integrated with yet another factor that contributes to the PPP policy paradigm in Kazakhstan and Russia, namely that partners often inflate positive PPP externalities, whilst they discount negative externalities.

Among positive externalities, the government repeatedly states that partnerships are supposed to bring along all kinds of innovation (Firsova, 2012). The Russian literature and policy documents normally associate PPPs with technological and other kinds of innovation (such as in management or service delivery) and often deem innovation intrinsic to a partnership (Varnavskiy, 2004; Pankratov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2011a, 2011b, 2012).

A private partner in a PPP has an incentive to employ innovative technology as long as it furthers the partnership's economic efficiency, i.e., reduces costs, increases productivity, maximises profit or reduces risk, such as that of technological breakdown.

However, the interview data have not identified any instances of significant innovation in the studied projects in Kazakhstan and Russia. Whilst interviewees highlighted numerous cost increases, they normally attributed higher costs not to innovation, but to the following two reasons: (a) bureaucracy, delays and overall inefficiency, and (b) partner opportunistic behaviour. The interview data did not demonstrate any innovative aspect of construction, service delivery or management. To summarise, in the four studied PPPs innovation as a distinctive project feature was missing. This shows that the government perception of a PPP as an intrinsically innovative project lacks justification. However, the government approach frames the general public perception of partnerships in a positive way: the government

unjustifiably attributes innovation to partnerships regardless of the context and, hence, promotes the PPP policy paradigm development.

Among negative externalities, scholars and policy makers downplay two most often. The first is that by using PPPs the government may increasingly shift responsibility for public services to private providers. This means that in the future the public sector expertise for service provision may become unavailable, to the disadvantage of customers. One of the studied PPP projects vividly illustrates this negative externality. Interviews highlighted the details of the viaduct that is under construction in Russia and that will become the first toll viaduct in the country as opposed to traditional free railroad crossings. In addition to the first viaduct, a PPP operator has massive expansion plans as it plans to build 50 more viaducts. This means that the country may witness rapid shrinking of traditional free public services such as railroad crossings. Furthermore, facilities such as toll viaducts or toll roads may form a distinctly separate sector in the nation's infrastructure in which both the public ownership and expertise may cease to exist. The same kind of observation applies to Kazakhstan that has extensive plans to build toll roads using private investments and private expertise. The example of the latter is a government plan to construct a toll road from Almaty, Kazakhstan's major city, to Astana, the capital, using PPPs.

The second negative externality that the government, policy makers and scholars tend to downplay is that PPP services in Russia often cost more as opposed to government in-house provision (see discussion of this factor in the preceding section). The ultimate implication of this negative externality is that the higher cost of public services shifts to citizens either in the form of higher tariffs or in the form of higher budgetary payments to a PPP, and/or greater future budget deficits due to larger government expenses in the long run. The interview data from a railroad concession in Kazakhstan illustrates these implications: interviewees revealed a large number of cases where the operator pushed for higher tariffs due to a variety of reasons, such as the need to break even or the need to pay for unplanned project expenses. Furthermore, the operator has never requested higher tariffs due to employing innovative technology. Hence, most likely higher tariffs illustrate the project's inefficiency, as well as inflationary pressure. Consequently, it is no surprise that the public anti-monopoly

agency routinely declines applications for higher tariffs in the government's attempt to reduce society's costs and curb inflation.

Additionally, the vast majority of the population in Kazakhstan and Russia has become accustomed to receiving free or low-priced public services because this is how the government provided services in the Soviet Union. In modern society, when the governments in Kazakhstan and Russia engage private firms in the public service provision, this is likely to create a perception that the government detaches itself from traditional responsibilities. The examples of a private toll viaduct in Russia, private toll roads in both countries and a privately owned railroad in Kazakhstan illustrate this point. To counter this perception, the governments in both countries put forward a persuasive argument that citizens have a choice - either purchase a service from a PPP, perhaps at a higher cost, or not receive a service at all. By framing citizens' choices and providing a standardised solution in the form of a PPP, the government swiftly intensifies the policy paradigm construction.

6.4.3 Government support to PPPs: Extensive financing

Another factor that characterises the emerging PPP policy paradigm is extensive government financial support to partnerships that the government deems necessary. This is because the interview data and the Russian language literature argue that for private investors, PPPs are often unattractive because they cannot generate profit (Pankratov, 2010; Varnavskiy *et al.*, 2010; Firsova, 2012).

In line with this, the governments in both nations have passed laws and regulations that permit various forms of government financial contribution to a PPP. First, there is a direct government payment for preparing the PPP project proposal, which at present is common practice in both Kazakhstan and Russia. Other forms include government direct financial investment in a project (e.g., at the construction phase a public agency may pay a pre-determined percentage of capital investment directly to material and equipment suppliers); a subsidy that the government can extend any time during the project to cover part of the cost (normally this takes the form of a payment to a private sector partner); government physical assets such as land, buildings and equipment (part

of them may be the government's contribution to a partnership, whilst another part may be sold to a private partner at a market price or below market price); a tariff subsidy (e.g., a tariff may be set low in order to keep the service affordable to customers, whilst the government makes periodic payments to the private sector partner in order to ensure that it recovers its investment and reaps a profit); the so called *shadow tolls* (e.g., when the government pays tolls or fees to a private partner for a pre-determined volume of service such as for a certain number of cars that use a toll road per month); government guarantees for private partner loans from commercial banks; government-issued licenses and permits for private partner activities unrelated to the main partnership service (this way the government may support additional revenue-generating private sector partner activities and restrain prices for public services from rising); approvals for tariff increases above the levels pre-determined in a PPP contract; and exemptions from fines and/or fees (e.g., the government may exempt a private party from paying a late fee for not meeting the deadline for completing a specific construction phase).

It is worth noting that the existing legislation in Russia and Kazakhstan allows governments to provide additional forms of support to a concessionaire, which makes the understanding of a concession quite different from the typical approach in OECD countries. For example, Article 14 of the Law on concessions in Kazakhstan says that government can (a) co-finance concession projects, and (b) compensate some investment expenses of a concessionaire during the concession period. This amendment to the original law occurred in 2008, to address concerns that PPP projects were financially unattractive for private companies. The same Article says that the total monetary value of government support to a concessionaire should not exceed the total cost of an asset constructed by a private company. In other words, this provision includes a possibility that the government may pay all the private partner's investment expenses, whilst the population (customers) may pay some amount or even nothing.

In Russia, contributions to partnerships result in government financial support ranging from 20 to 40 per cent of the total PPP project cost, which is significantly higher than in any other countries (10 to 20 per cent), as per KPMG data (Shabashevich, 2011: 3–4). Similar figures apply to Kazakhstan, although exact data are unavailable. However, as the author's own calculations show, in one of the studied PPP projects in

Karaganda, Kazakhstan, that aims to construct and operate eleven kindergartens, the government's direct payments to a concessionaire during 14 years (in nominal values) will constitute 47 per cent of the total PPP revenue.

One of the studied projects - a PPP in St Petersburg, Russia, that aims at constructing and subsequently operating two schools and three kindergartens during 10 years - illustrates the significant government expenses that intend to cover PPP costs. The estimated construction cost of each school for the private sector partner is \$25.7 million, as opposed to \$42.8 million that the government has agreed to pay, including the maintenance expenses. Each kindergarten's construction cost is \$6.5 million as opposed to the future government payment of \$10.9 million, including the maintenance fee (*GK 'Baltros' investiruyet 2.2 milliarda rublei v shkoly i detskiye sady*, 2011). The total government payment in nominal prices is \$118.3 million, which is 67 per cent higher than the \$70.9 million construction cost. Although a private operator's maintenance fee remains undisclosed, the high total government payment raises serious concerns regarding PPP value for money and whether these extensive government payments to a partnership are justified.

As the forms of government support to a partnership are quite comprehensive, this promotes rising expectations among private investors regarding government payments and other kinds of direct and indirect financial benefits that they may expect from public agencies. In addition to rising government costs, this increasingly creates a guarantee culture among private investors (Pankratov, 2010: 80, 88; Varnavskiy *et al.*, 2010: 26) that may consider government the source of their financial gain regardless of the project context.

This view of the government role furthers the PPP policy paradigm construction, in which the government assumes responsibility of a partnership guarantor upfront, without any specific, contextual justification. In this evolving paradigm, the government responsibility to serve as an essential source of funds and inputs for partnerships transforms into the private investors' perception of the government as a reliable source of benefits, whilst firms become increasingly risk averse.

6.4.4 Government approach to risk allocation in a PPP

An additional factor that advances the PPP public policy in Kazakhstan and Russia as a paradigm is a government approach to risk allocation in a partnership. The typical approach in OECD countries is that 'risk should be transferred to the party best able to manage it in the most cost effective manner' (European Commission, 2003: 52). In contrast, the government in Kazakhstan and Russia employs a different approach: at least some risk should transfer to the private sector (Pankratov, 2010). The thesis findings permit one to describe the underpinning logic as follows: when the government provides public services in-house, the government naturally bears all the risk. When a public agency forms a partnership and the latter provides the service on behalf of the government, some kinds of risk transfer from the public to the private sector. The government views this as an achievement and an advantage as the public sector risks decrease.

However, this inevitably implies two effects: (a) in some cases the government tends to accept larger risks than an optimal allocation requires because a private partner may not be willing to accept a certain risk, and (b) in other cases, the government transfers too much risk or transfers risk for its own sake. The latter happens where the government leaves no choice to a private partner regarding project design, and certain project design features frame risk allocation. For example, in the studied kindergartens' PPP in Karaganda, Kazakhstan, the government transferred all foreign exchange risk to the private sector partner, which is a Turkish company, although the latter is unable to mitigate it. Additionally, the government transferred construction risk to the private partner and significantly limited the latter's possibilities to mitigate it by requiring simultaneous, rather than sequential, construction of all eleven kindergartens. At the same time, the government, to a large extent, eliminated the private partner's revenue risk by providing extensive payment guarantees for an operator's services. In each of the three examples of risk allocation in the kindergartens' PPP the allocation is sub-optimal.

This is in sharp contrast with the OECD literature which describes principles of risk allocation as follows. If a greater ability to mitigate some risks and deal with them at

the least possible cost belongs to the public sector partner, these kinds of risk should remain with the public sector. If the private sector partner can mitigate these risks better and more cheaply, they should transfer to the private sector (Grimsey and Lewis, 2002; Hardcastle and Boothroyd, 2003; Klijn and Teisman, 2003).

Western literature asserts that the lowest cost is a critical factor in deciding what partner should bear a certain risk because the private party's cost has impact above and beyond the private sector: the government and/or citizens must compensate the private party's cost. The more the PPP project costs a private party, the more the government and/or citizens will have to pay. '... The degree of risk transfer to the private sector will influence the overall cost of the project to the public sector as all risk will be associated with the price premium. Therefore, the objective must be to achieve cost effective risk transfer, not simply risk allocation for its own sake' (European Commission, 2003: 52–53).

Although in reality risk allocation may be sub-optimal due to miscalculations, unforeseen circumstances or prevailing political, economic and social reasons, the government acceptance of larger risks (such as extending a subsidy to pay part of the project cost) or risks that the private sector partner normally bears (such as demand risk) should be unnecessary.

However, subsidies and other ways of government financial involvement in PPPs are common in Kazakhstan and Russia, as the preceding section described. Yet an additional example is available from the studied PPP in Eastern Kazakhstan that aims at railroad construction and operation. The national government has extended to the operator a sizeable low interest loan (with the interest rate below 1 per cent) for more than 15 years for the purpose of a bond buyback trying to minimise the overall PPP's risks. This illustrates how far the government financial involvement in the PPP support can stretch and also shows the government disregard of its own costs that include the loan's opportunity cost and lost market-rate interest. This suggests that the government is more concerned with partnerships' proliferation, rather than with financial performance and the specific project's results. An emergent PPP policy paradigm, thus, frames both parties' actions and behaviour: the government's own pursuit of

partnerships justifies greater government risks and costs, whilst private companies conveniently resort to the risk-averse model of behaviour.

6.4.5 A concession as a prevailing PPP form

Another factor that furthers the PPP policy paradigm formation is the strong government emphasis on a concession. Out of a range of forms that a PPP may take, the Russian and Kazakhstani governments have chosen a concession as a prevailing form (Zusman, 2008). Other forms, such as a private finance initiative (PFI), an asset life-cycle contract (Bovaird, 2004; Hall, 2008a; Kakabadse *et al.*, 2007) or a management contract are rare in Russia and examples are hard to find. Furthermore, as of April 2013, all of Kazakhstan's ongoing projects are in a concession form. In part, one can explain the emphasis on concessions with the existence of the relevant laws (i.e., the Russian federal law “On Concessional Agreements” was approved in 2005, with subsequent amendments in 2008, whilst Kazakhstan passed a similar national law on concessions in July 2006). However, there is no federal law that defines a PFI in the Russian context or sets the boundaries for a party’s rights and obligations in a life-cycle contract. The similar gaps in national legislation exist in Kazakhstan.

Among the four studied PPP projects, relevant national laws categorise two Kazakhstani projects and one Russian project as concessions. Additionally, one more project in Russia - a toll viaduct - claims that it is a PPP, but not a concession because it does not use the provisions of the federal law on concessions. However, the nature of organisational arrangements (such as the joint contribution of resources, constructing the facility at the investor's expense and toll collection from customers to recover the investment) permits one to categorise this PPP as a concession.

Interviews showed a variety of tangled relationships in the four studied PPPs (see Sections 4.2.2 and 4.2.3b). Additionally, interviews revealed that both partners disregard opportunities to streamline the organisational arrangements within concessions and pay little or no attention to the need to make organisational structures more effective (Section 5.2.2). This demonstrates an unbalanced, excessively high emphasis that the government and private partners place on the PPP form, i.e., a

concession, rather than on certain organisational arrangements that underpin a concession and can make it an effective service delivery method.

A powerful factor that drives the extensive employment of concessions in Kazakhstan and Russia is perceived pressure that comes from globalisation influences. The latter is an important driving force behind the PPP policy paradigm. Russia and Kazakhstan are striving for other countries to perceive them positively as they attempt to formulate policies and practices and create institutions that are in line with those of industrialised countries and Western orthodoxy of best practice. One can view this as Kazakhstan's and Russia's general intention to align their policies, processes and tools in both the public and private sectors with international trends. From the globalisation perspective, the governments in each nation perceive PPPs as a worldwide trend. Furthermore, the governments perceive a prevailing use of concessions, as opposed to other PPP forms, as the international trend as well (Mouraviev, 2012). Hence, a concession has become an essential part of a policy paradigm as a concession reflects the way in which policy makers perceive and conceptualise a PPP (Mouraviev *et al.*, 2012).

6.5 Model Propositions

Public-private partnerships are new to Kazakhstan and Russia, hence they are projects in progress. As data regarding project performance are not yet fully available, this model surveys government approaches to PPP governance and how these approaches are turning into a policy paradigm.

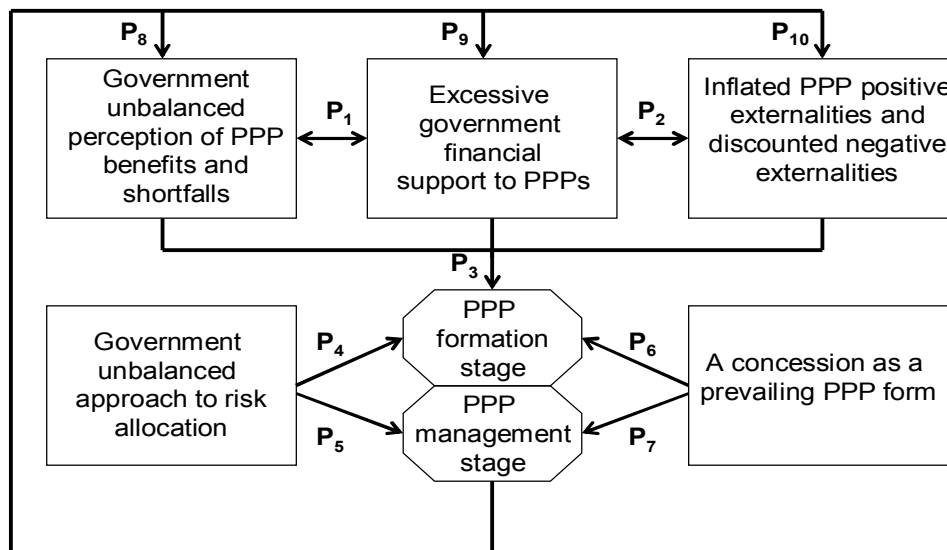
A model for understanding PPP governance features a critical assessment of the principal dynamics that contribute to changes in PPP management patterns in Kazakhstan and Russia. The most influential factors include:

- the government's unbalanced perception of PPP benefits and shortfalls, which puts unjustified emphasis on advantages and disregards drawbacks;
- the government's tendency to inflate positive PPP externalities and downplay negative externalities;

- the way that the government typically approaches risk allocation in a PPP, i.e., that the government intends to transfer at least some risk to the private sector regardless of the context;
- the government's excessive emphasis on concession usage as a prevailing PPP form; and
- excessive government financial support to partnerships.

Figure 6.2 highlights a model for deeper conceptualising PPP governance in Kazakhstan and Russia.

Figure 6.2 A model for understanding PPP governance in Kazakhstan and Russia



Source: Compiled by the author

A model delineates the influence of the principal underlying factors on PPP formation and management, which Figure 6.2 shows separately as two distinct stages of PPP governance. Arrows illustrate the direction of influence. The model captures the

interplay between lines of influence and it is reflected in a set of ten propositions (denoted by the letter P in Figure 6.2), which this section discusses below.

Proposition 1: Government financial support to partnerships and unbalanced perception of PPP benefits and shortfalls have a mutually reinforcing impact on each other.

Where the government makes excessive financial outlays to PPPs by providing subsidies or by granting free resources, such as land, this forms a perception of a partnership as a successful enterprise. However, this also puts unjustified emphasis on a partnership's advantages and disregards its drawbacks. For example, the government payment of part of the PPP project cost may make a project profitable for a private investor. Another illustration that this research has identified is the government's disregard of cost reduction opportunities, which means low PPP efficiency as the service delivery method, although the government pays little or no attention to this. In other cases, PPP value for money may be inflated because the government may absorb some costs or provide a subsidy.

Conversely, once the government has assigned a high priority to a PPP, such as to the one that addresses an acute social problem (e.g., construction and operation of schools, kindergartens or hospitals), this will likely channel more extensive government support to a PPP as opposed to, for example, a toll road project.

Hence, the government financial support often inflates and/or distorts a partnership's benefits, such as attracting private funding, whilst excessive emphasis on a PPP's benefit, such as an opportunity to launch a public service provision quickly, is likely to secure government funding.

Proposition 2: Excessive government financial support to partnerships and inflated PPP positive externalities, complemented by discounted negative externalities, have a mutually reinforcing impact on each other.

The example that highlights this proposition is where a partnership's ability to innovate justifies a larger government payment in order to deliver this innovation. Conversely, a truly innovative partnership that employs advanced technology and

features state-of-the-art service delivery methods is likely to receive additional government financial support if it is necessary.

As for discounted negative externalities, by using PPPs the government may increasingly shift responsibility for public services to private providers. In order to justify the shift, the government may claim that it intended to attract private sector funds, support private business, create jobs and achieve greater efficiency. Nevertheless, the alternative perspective argues that, by employing partnerships, the government may distance itself from traditional public sector responsibilities. For the government, one method to legitimise this distancing is to ensure higher efficiency of private operators by paying part of the project expenses in a variety of ways (e.g., by subsidising the loan interest rate). Hence, one may view extensive financial support to PPPs as a tool that discounts negative externalities and furthers PPP expansion.

Proposition 3: Three factors - unbalanced government perception of PPP benefits and shortfalls, excessive government financial support to partnerships and inflated PPP positive externalities and discounted negative externalities - are likely to have a simultaneous positive impact on PPP formation.

These three factors taken separately or all together are likely to significantly increase the PPP's value for money. In the case of Kazakhstan and Russia, the governments' perception of partnerships and extensive government financing are likely to create a much higher PPP value for money from the perspective of stakeholders such as the public agencies, private investors or customers (i.e., citizens). For a public agency, the value involves a larger volume of public services and greater citizens' satisfaction. For private investors, the value involves long-term profits that government payments largely guarantee. For customers, the value refers to an opportunity to receive a service (although for a fee), rather than receive no service at all because the government is unable to provide it without a PPP. As all principal stakeholders may benefit from the PPP formation, this furthers PPP development. However, the stakeholders disregard the key element that inflates the PPP's value for money - the excessive government payments to a PPP over the long term. This research showed that partnerships in Kazakhstan and Russia did not undergo any value for money assessment.

Furthermore, data revealed multiple cost increases with which the government was not concerned. In many cases, the government is prepared to pay more to a partnership as opposed to the cost of in-house service provision, which inflates the PPP's value. Once partners inflate the value and disregard the costs, this is likely to significantly ease the partnership formation.

Proposition 4: Government unbalanced approach to risk allocation has an impact on PPP formation.

Interview data showed that the government intends to transfer at least some risk from the public sector to the private sector, rather than follow the principle of optimal risk allocation, i.e., that risk should transfer to a party best able to deal with it at the least cost (Klijn and Teisman, 2003). As a result, in some cases the government may attempt to shift more risks to a private partner. However, this may either increase the risk premium that a private partner adds to its costs or may simply induce a private partner to not accept a PPP contract. The more typical scenario is where the government is prepared to carry much larger risk than optimal risk distribution requires. This reduces the private sector partner's exposure to risks and makes the PPP formation easier.

Proposition 5: Government unbalanced approach to risk allocation has an impact on PPP management.

At the PPP management stage, partners may need to renegotiate some risks, both anticipated and unforeseen. At this stage, not only an original contract but, most importantly, partner interaction determines risk reallocation. Since the government is inclined to financially support partnerships by the extensive range of tools specified in the Kazakhstani and Russian legislation, risk redistribution at this stage is likely to favour a private partner, whilst the government will have to accept a larger share of risk. In an opposite kind of situation, where the government asks a private partner to bear a large unforeseen risk, all or most of the private partner's profits may be erased and the government faces the risk that a private partner may abandon the project. To summarise, although the government transfers some risk to the private sector partner at

both the PPP formation stage and the management stage, the government itself has to bear most risks in order to launch a project and keep it going to completion.

Proposition 6: Government conceptualisation of a concession as a prevailing PPP form is likely to facilitate PPP formation.

To date (May 2013), Kazakhstan and Russia employed a concession as the only PPP form. The governments have adopted national legislation that aims at extensive use of this PPP form. This means that a concession reflects the only way in which the governments in the two nations conceptualise a PPP. The legislation does not define other PPP forms, such as a life-cycle contract, a management contract or a private finance initiative. Although the legislation limits the choice to one form only, the benefit is that regional and municipal governments may borrow relatively easily each other's experience in the PPP formation and may also borrow the experience of large national concessions. This simplifies and facilitates the PPP formation process by employing the typical tender arrangements and standardised contract provisions.

Proposition 7: Government conceptualisation of a concession as a prevailing PPP form is likely to simplify PPP management.

In addition to streamlining the PPP formation process, the exclusive government's focus on a concession allows all stakeholders to simplify the PPP management by employing standard administrative procedures and solutions that partners can borrow from other projects.

For example, management has to deal with similar concession issues, such as tariff setting and applications for tariff adjustments, and other projects' experience might be very useful. Another example also demonstrates the usefulness of borrowing the experience from other concessions: one project may employ an organisational structure that has proven successful in another project. Additionally, a project can borrow other management tools, such as dispute resolution techniques, that other projects have tested and that have shown their successful performance.

Proposition 8: PPP management has a reinforcing impact on unbalanced government perception of PPP benefits and shortfalls.

This proposition asserts that management may deliberately show (and inflate) exactly those PPP operation results that the government expects to see. For example, an operator may diligently follow the government plan of simultaneous, rather than sequential, construction of kindergartens or schools. This permits the government to report fast results and to associate the success with efficiency of the delivery method, i.e., a PPP. However, this research revealed that simultaneous construction lacks efficiency and misses the cost reduction opportunities that stem from economies of scale. Hence, empirical data suggest that a PPP becomes a 'hostage' of the government project design, which means that the government considerably strips a partnership's flexibility in decision-making and dominates what an operator should do. Then, the government may use the outcomes of the bounded PPP management, such as swiftly achieved results or perceived PPP efficiency, as a tool that further reinforces the government's own perception of a PPP's benefits. This stems from the government's ultimate purpose, which is to illustrate that a PPP is a viable, sustainable and beneficial alternative to the traditional governmental provision of public services.

Proposition 9: PPP management has a reinforcing impact on excessive government financial support to partnerships.

Much like Proposition 8, this proposition claims that there is a link between PPP management that intends to achieve the results in line with government expectations, on the one hand, and the government response to the achieved outcomes, on the other hand. Once PPP performance meets at least some government expectations, the government will be inclined to further support a partnership. Furthermore, should a partnership experience some difficulties, such as operating risk or revenue risk, the government may extend additional financial support to this PPP in order to keep, enhance and demonstrate the positive results that a PPP has already produced.

Proposition 10: PPP management has a reinforcing impact on inflated PPP positive externalities coupled with discounted negative externalities.

Similar to Propositions 8 and 9, this proposition argues that PPP management may have a reinforcing impact on a partnership's positive externalities by inflating what the government expects to see. This refers, for example, to technological innovation that the governments in Kazakhstan and Russia strive to develop. An example of a negative externality that PPP management may downplay is PPP impact on a regional economy's sustainability. To date, the literature and the governments have been silent about the interplay between partnerships and sustainability, which requires careful investigation, as this research demonstrated.

6.6 Model Summary

In Kazakhstan and Russia, the model has identified a number of departures from typical approaches to PPPs, which OECD countries employ. These departures frame the concepts, assumptions and actions regarding PPPs in a certain way and demonstrate that PPP governance is gradually turning into a paradigm.

The author's stance is that the PPP policy paradigm is the core of the governance model: it is a government tool for rapid expansion of partnership employment and PPP management in Kazakhstan and Russia. A paradigm assigns a specific set of features to a partnership, whilst it downplays or neglects other features. The policy paradigm, once set, does not require extensive justification of why a partnership may be necessary for implementing a specific project because the paradigm rests on the taken-for-granted ideas, i.e., the concept of the need for long-term collaboration between the public sector and the private sector, and the legitimised solution, i.e., the PPP employment regardless of its value for money. Most importantly, after the PPP policy paradigm becomes established, it legitimises a partnership as a commonly employed form of public and private sector collaboration without questioning whether the partnership is an efficient and effective collaborative tool.

Kazakhstan's and Russia's PPP policy paradigm is still emerging. It is not yet fully defined or established. Although a paradigm frames PPP governance, each partnership is unique and its success depends on certain factors. What are the principal factors that ensure PPP success? The next section addresses this question.

6.7 PPP Critical Success Factors

Researchers define Critical Success Factors (CSFs) as those few principal areas in which favourable results are absolutely necessary for achieving a manager's goals (Rockart, 1982). A similar view asserts that CSFs are a few key areas that dictate managerial success (Boynton and Zmud, 1984). Saraph *et al.* (1989) echo this view and argue that CSFs are areas of managerial planning and action that one must practice in order to achieve effectiveness. From the stakeholder management perspective, researchers view CSFs as 'those activities and practices that should be addressed in order to ensure effective management of stakeholders' (Yang *et al.*, 2009: 337).

To summarise, the core CSF definition, which this thesis adopts, focuses on the notion of crucial areas in which success or favourable results must be ensured for an organisation's effective management.

This thesis draws on the CSFs' methodology that involves factor grouping analysis (Hardcastle *et al.*, 2005). In this methodology, instead of making a list of CSFs that are all critical to PPPs, a researcher determines a relatively small number of factor groupings that represent relationships between multiple elements that each grouping embraces (Hardcastle *et al.*, 2005).

In this research, the interviewees' opinions and perceptions have determined CSFs and their groupings. Although the researcher did not ask interviewees to explicitly identify CSFs, they repeatedly highlighted many items of concern, with overlapping and complementary views regarding problems that concern them the most. These concerns became the basis for coding them as improvement opportunities, which the researcher then grouped, whilst each group represents a set of interrelated elements. The author assigned the CSF categories (groupings) broader titles as follows:

- Factor Grouping 1: Legal and Regulatory Environment;
- Factor Grouping 2: Partner Interaction; and
- Factor Grouping 3: Risk Management.

It is no surprise that the titles of two out of the three groupings coincide with the themes that the interviews have investigated (Groupings 2 and 3), and Grouping 1 includes part of yet another theme that focuses on constraints and impediments to

effective PPP governance. This demonstrates consistency between identified CSFs and the interview data and findings.

6.7.1 Legal and regulatory environment

This factor grouping includes four CSF components:

- a well-designed legal framework;
- a simplified PPP formation;
- a market discipline; and
- a clear tariff policy.

A well-designed, elaborate legal framework is a prerequisite for all kinds of PPP activity (Pongsiri, 2002). Interviewees noted the absence of the general PPP law in both Kazakhstan and Russia and drawbacks of the respective law on concessions in each country, which makes a PPP an ambiguous form of public-private collaboration. Additionally, interviewees pointed out the ambiguity in the range of privileges and responsibilities of regional and municipal governments, which manifests itself in varying forms of support to PPPs that governments are prepared to extend. Eliminating this ambiguity by adopting laws and regulations at the national level and harmonising national PPP laws with regional and local legislation would ensure legislative consistency and might considerably boost investors' interest toward PPPs. One specific area that requires legislative clarification includes defining *non-concessionary* PPP models, in addition to a concession. Yet an additional legislative task is to create a legal basis for long-term financial commitment that public agencies should be able to extend to private partners.

Simplifying the PPP formation procedures might significantly intensify PPP development in Kazakhstan and Russia. Creating a streamlined single-tender bidding process that permits granting a single PPP contract to the winner, rather than a set of different contracts with their own provisions and regulations, such as a contract for land use, a separate contract for the service provision and a separate partnership contract, could accomplish this. Interviewees expressed a number of critical opinions

highlighting excessive bureaucracy and tangled procedures in the PPP formation, which the government needs to simplify and shorten.

Ensuring market discipline is also a critical area for PPP success (Jamali, 2004). Market discipline requires either partner to honour payments, work schedules and other obligations that contracts and regulations specify. For example, either partner must make payments to a partner, sub-contractors, workers and customers fully, on time and according to contract terms and schedules. Tools such as interest payments, fees and fines applied to either partner should ensure market discipline.

The PPP regulatory environment may become more transparent and attractive to investors once they know and understand a tariff policy for a partnership's services. A tariff policy should include at least three components - conditions for setting a new tariff, regulations regarding ranges of future tariff adjustments and a clear, streamlined application process for a new tariff. The research has drawn this CSF from multiple interviewees' complaints regarding existing bureaucratic, tangled and lengthy procedures for tariff adjustments, which makes the partnership's window of opportunities obscure and does not permit effective long-term business planning.

6.7.2 Partner interaction

Grouping 2 embraces partner interaction issues and includes the following four CSF components:

- commitment of both partners to common, clearly stated project goals;
- effective governance structures and dispute resolution mechanisms;
- government preferential treatment of PPP-related tasks; and
- private partners' flexibility in business management.

A clear statement of the project's goals regarding issues such as the service quality, completion dates, priorities and organisational arrangements permits partners to avoid ambiguity in managing a partnership's tasks and adds to raising either partner's accountability. Key personnel's explicit commitment to the common, clearly stated PPP objectives should complement the partners' staff's awareness of the project's goals.

This allows partners to stick to the project plan, avoid shifting the effort and costs to another partner, stay away from exerting unnecessary pressure to complete tasks of secondary importance and avoid micro-management. From a more general perspective, a high level of commitment to a project's goals also implies that partners should not disregard cost reduction opportunities and possibilities to increase PPP value for money.

Another CSF includes creation of effective governance structures and dispute resolution mechanisms. Interviews showed that existing PPP governance structures are tangled and bureaucratic. They involve complex reporting requirements and lack effectiveness. For example, none of the studied partnerships had a joint PPP Board and none of them had a formal dispute resolution arrangement. Creation of relatively simple and clear organisational forms that provide a reliable platform for partner interaction with minimal bureaucracy and reporting may ensure greater effectiveness of the PPP management decision-making. One should pay special attention to designing dispute resolution mechanisms as the latter presently are missing from PPP governance in both Kazakhstan and Russia.

Government preferential treatment of PPP-related tasks is another CSF in the category that embraces partner interaction. Interview data revealed that the government does not distinguish between a PPP operator and any other private contractor, although a PPP implements a government delegated job with the use of public resources. Hence, among the many tasks that the government faces, a PPP currently does not receive any priority, and the partner relationship often suffers from a lack of government attention. The government needs to effectively manage the public-private relationship by continuously supporting a PPP operator's work, e.g., by extending preferential treatment to PPP-related tasks, requests and applications. This might significantly facilitate PPP work and enhance its effectiveness.

Ensuring private partners' flexibility in business management is another important component related to partner interaction. The government should avoid overregulation that constrains PPP decision-making and reduces a private party's incentives for better performance. The examples of areas that require greater flexibility include procurement and wage-rate setting. Avoiding a public sector partner's dominance in a PPP is also a critical part of effective public-private relations.

6.7.3 Risk management

Grouping 3 represents risk management and includes three CSFs components:

- appropriate risk allocation between partners;
- identification of risk-mitigation tools for each partner; and
- incentives for better private partners' performance.

A high loading success factor is an appropriate risk allocation. One should accomplish this according to the principle that 'risk should be transferred to the party best able to manage it in the most cost effective manner' (European Commission, 2003: 52). Avoiding risk transfer for its own sake is another perspective of a proper risk allocation, the overarching goal of which is reducing the long-term project costs.

Appropriate risk allocation cannot fully guarantee the PPP's success because the partnership contract may not foresee some risks, whilst some other risks may require further negotiation. To remedy these situations, partner collaboration should identify mitigation tools for each risk. Interviews showed that partners from both sectors in Kazakhstani and Russian PPPs tend to pay insufficient attention to identifying risk mitigation tools, which often leads to greater uncertainty and unplanned expenses. Identification and subsequent implementation of proper risk mitigation methods might significantly contribute to effective risk management at the least cost.

Another PPP success factor involves creating incentives for better private partners' performance. Monetary incentives to complete key assignments with pre-specified quality features and on time should back critical project deliverables that mark a project's progress. Additionally, penalties for non-completion should back performance targets. This would motivate the private sector partners to successfully accomplish the project plans. Based on enhanced private partners' motivation, the government should aim to reduce the volume and scope of government guarantees and other forms of public support to PPPs, in order to reduce a guarantee culture among private investors.

6.8 Chapter Summary

The chapter delineated the model for deeper understanding of PPP governance in Kazakhstan and Russia. The model's core requires viewing PPP formation and management as the policy paradigm that governments in both nations rapidly intensify. The policy paradigm is an interplay of three elements - ideas regarding long-term public-private collaboration, a changing set of government responsibilities that implies an increasing provision of public services by private firms and an expanding set of institutional capacities that support a new government role.

In the framework of the policy paradigm, the following five factors guide PPP governance:

- The government employs an unbalanced approach to perceived PPP benefits;
- The government tends to inflate positive PPP externalities and downplay negative externalities;
- The government exercises an unjustified approach to risk allocation by disregarding the principle of effective risk management;
- The government provides unjustifiably extensive, often excessive financial support to PPPs; and
- The government emphasises the use of a concession as a prevailing PPP form and disregards the availability of other PPP forms and an industry's nature.

The PPP governance model inevitably implies that the governments in two nations increasingly create a guarantee culture among private investors who become progressively more risk averse. At the same time, partners from both sectors tend to accept excessive and/or unnecessary risks, which results in higher PPP costs. Increased public service costs shift to citizens in the form of higher tariffs or higher budget payments to a PPP, which seriously undermines PPP value for money in both countries.

This chapter enhanced the application of the PPP governance model by identifying factors that are crucial for achieving success in managing partnerships in Kazakhstan and Russia. The interview data permitted the researcher to highlight eleven PPP critical success factors, which constituted the following three groups: legal and regulatory environment, partner interaction and risk management.

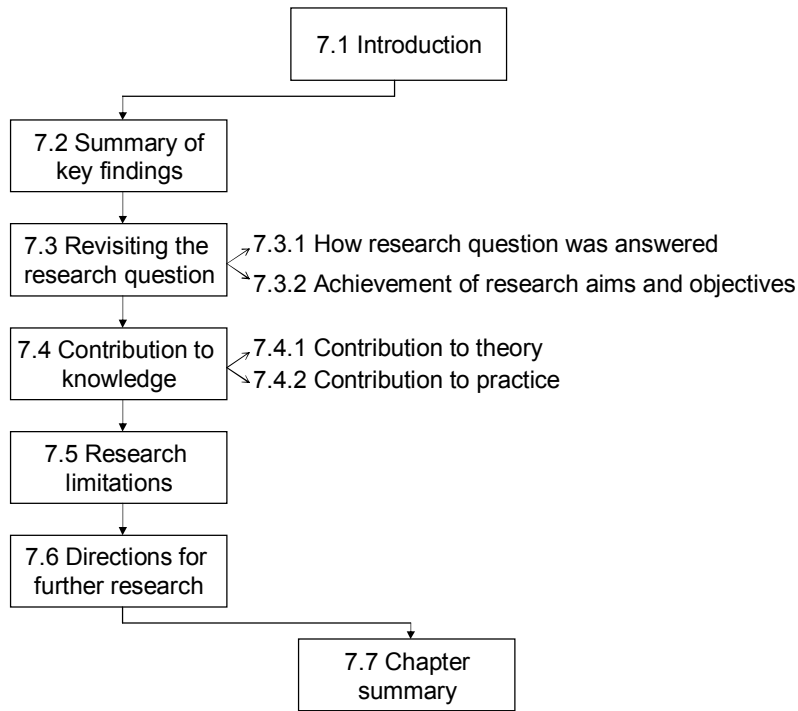
CHAPTER SEVEN: CONCLUSIONS AND CONTRIBUTIONS

7.1 Chapter Introduction

Chapters Four, Five and Six presented a comprehensive analysis and discussion of emergent themes in the field of PPP governance in Kazakhstan and Russia. This chapter will highlight the findings as they relate specifically to the primary research question. The purpose of this chapter is twofold: (a) to discuss the extent to which the thesis answered the research question and how fully the researcher has met the research objectives and (b) to outline this research's contribution to knowledge.

The chapter begins by highlighting the key research findings and then discusses how well the findings and conclusions answered the research objectives. The chapter then demonstrates how the study has contributed to existing knowledge in the areas of theory and practice. The chapter concludes by describing the research limitations and outlining directions for further research. Figure 7.1 provides the chapter outline.

Figure 7.1 Chapter Seven outline



Source: Compiled by the author

7.2 Key Findings

7.2.1 PPP partners' opportunism

7.2.1a Opportunism in the form of the public sector partner's pressure

The public sector partner's opportunism manifested itself in how the government and its private sector partner dealt with the public acceptance of a PPP project. Although both partners are interested in the greater project's public acceptance, the government behaviour appears opportunistic, whilst it elucidates an involuntary nature of a trade-off to which the private sector partner is exposed: not only does the government not want to accept any responsibility for dealing with public acceptance, but it also exerts pressure on the private sector partner, so that the latter carries out all the work and incurs related costs. One can view government behaviour as opportunistic because it neglects the private sector partner's efforts aimed at raising the project's public acceptance. Public acceptance is the common project's goal and thus partners must share the expenses related to achieving this goal. However, by exerting formal and informal pressure, the government opts out of cost sharing, and the public partner's pressure results in shifting both the effort and costs to a private party.

Additionally, the public sector partner's opportunism manifests itself in the public agency's tendency to exert both formal and informal moral pressure attempting to achieve results faster than a PPP contract specifies. The government assigns heightened priority to achieving fast results by ignoring the private partner's efforts and costs that are required to achieve these results. The outcomes of government pressure transpire in:

- (a) lost opportunities for economies of scale;
- (b) lost opportunities for knowledge transfer; and
- (c) increasing project costs.

Government pressure to achieve quick results often stems from a project structure. For example, the government designed the project that involves simultaneous, rather than sequential, construction of 11 kindergartens, which means the lost opportunity for cost reduction (e.g., economies of scale).

Lost opportunities for capitalising on economies of scale and knowledge transfer mean that the PPP project cost is higher than what it could have been. In turn, this inevitably means that a PPP carries smaller value for money for the government, the taxpayers and for society in general. A critical link exists between the government opportunistic behaviour and the PPP value for money: the larger the government disregard of the private partner's interests, as well as cost reduction opportunities, the smaller the PPP value for money for the taxpayers and the whole society, including the government itself. Findings show that the government's opportunistic intention to report results sooner than contracted undermines a natural (from the transaction cost economics perspective) goal of ensuring low cost to the budget and, ultimately, the taxpayers. This is because the accelerated construction schedule is likely to cost significantly more money than the one that a private partner originally planned. In both countries, the government largely disregards the overarching aim of obtaining a good deal for the taxpayer by PPP employment.

7.2.1b Private partner's opportunism in tariff setting

A private partner also exhibits opportunistic behaviour, in particular in tariff setting. By increasing a tariff, a private partner intends to pay for cost overruns and/or finance the newly transpired business needs, or to offset the increased costs of public partner opportunism. An operator views its own actions as legitimate, whilst it views the anti-monopoly agency's behaviour as opportunistic because the latter strictly follows its own (i.e., the government-set) rules and declines most applications for a tariff increase. However, for an operator, an increase in tariffs means no additional effort aimed at increasing the volume of service provision, quality improvements or enhancing the customer base. Hence, one can categorise the private sector partner's behaviour as opportunistic, rather than that of a partnership, because higher tariffs diminish the PPP's value for money.

In contrast, the government pursues the goal of ensuring price stability for public services and, in essence, pushes a private partner to look for ways of increasing PPP efficiency, which contributes to greater the PPP's value for money. Instead of

increasing a tariff, an operator must look for ways to cut costs and increase project efficiency.

7.2.1c Implications of partner opportunistic behaviour

Empirical data identified two short-term implications of partner opportunistic behaviour: framed private partner's flexibility in business management and cost increases. The chief reason behind lack of flexibility is excessive government regulation of private operators. Overregulation represents the government's opportunistic attempt to treat a partnership as the public sector organisation by minimising the private partner's opportunities to undertake business risk and by bounding its management flexibility. As missed opportunities for cost reduction mean relatively higher budget expenses and a greater burden for the taxpayers, they are equivalent to cost increases due to the government's opportunistic behaviour, i.e., neglect of efforts to reduce PPP costs as opposed to achieving faster results.

7.2.2 Interaction between PPP partners

7.2.2a Partner interaction

The study showed that PPP partner interaction occurs principally with regards to three categories of issues including project financing, facility construction and tariff setting.

Partner interaction that brought positive experiences and formed positive perceptions is collaboration regarding PPP project financing. The reason is that in both Kazakhstan and Russia financial support that the government can extend to partnerships is the area that is well defined by the legislation. This makes the framework for partner interaction clear and transparent. However, this also encourages both parties to use up completely all available public resources, thus contributing to a guarantee culture among private investors. Section 5.3.3 has discussed an emergent guarantee culture more fully.

Most interviewees highlighted their criticism and negative perceptions that were formed after interacting with the public agencies. Formal and informal interaction between PPP partners lacks established processes and effectiveness. Specifically, interviewees pointed out the lack of effective communication (particularly, regarding tariff setting) and lack of established administrative procedures. Interviewees argued that the government tended to not distinguish a PPP from any other private contractor that the government hires. Respondents also stated that much partner interaction occurs informally, with unpredictable outcomes for either party.

In the interviewees' view, the following aspects characterise the government's role in a PPP:

- the government has assumed a narrow role of more like a boss, rather than a partner;
- the government does not understand the PPP's business and does not acknowledge, by the way it interacts with a private partner, that the latter implements a job instead of the government, i.e., delivers a public service; and
- the government is not interested in closely interacting with the private sector partner and supporting a PPP by effectively managing the public-private relationship.

Interviewees asserted that the public sector partner tended to exhibit its dominance in those situations where the nature of the issue lacks established structure or guidelines for resolution. In the situations of uncertainty, the government normally insisted on its own ways of solving the problem, rather than giving flexibility to a private party for decision-making.

7.2.2b PPP organisational forms

The study identified three organisational forms that PPPs in Kazakhstan and Russia took. Findings showed that an organisational form that employs an SPV provides a better, more streamlined platform for partner interaction in a PPP as it reduces bureaucratic interaction, minimises reporting and permits greater effectiveness in management decision-making. The two studied projects in Russia use this form. In contrast, interviewees strongly criticised such organisational form as a joint venture and

pointed out its tangled power relations, ineffective governance structure and a lack of well-designed governance procedures. More generally, the findings illustrate a lack of formal governance structures and procedures that would permit partners to communicate more effectively and would result in well-informed and improved decision-making.

7.2.2c Tools and methods for dispute resolution between partners

Partners from both sectors clearly disregard this area of PPP governance and neglect the importance of formal dispute resolution tools. Dispute resolution as a sub-field of PPP governance does not yet exist in Kazakhstan and Russia as a recognised area of partner interaction, with established and elaborate tools, procedures and governance structures.

Furthermore, the partners' general disregard of the formal management tools significantly reduces the opportunities for more effective PPP governance. Three out of four PPP projects under investigation do not have any governance structures that reflect their partnership nature. Instead, partners tend to emphasise the importance of good relations at both formal and informal levels. However, as findings showed, the absence of effective governance structures may lead to lengthy disputes that are resolved by such dramatic actions as replacement of the operator's management team. In one of four studied PPP projects, the operator's Board of Directors plays the role of the governance structure. However, the study found many irregularities in the Board's work (e.g., poor meeting attendance; meeting cancellations due to absence of key Board members; and lack of continuous information about the project's progress), which shows considerable room for improvement in the Board's ability to effectively perform strategic management of a PPP project. Interviewees did not attach any significance to PPP governance structures: not only did participants pay insufficient attention to the structure that was already in place (the operator's Board of Directors), but they also neglected opportunities to form additional structures and employ them as an effective PPP management tool.

Another improvement opportunity for PPP management, which interviewees also disregarded, is effective dispute resolution. The latter may include the employment of better-organised and streamlined procedures, such as that for tariff adjustments, for dealing with customer complaints or for formally handling the issues regarding which PPP partners express varying opinions. Interviewees' experiences and perceptions showed a marked neglect of formal dispute resolution mechanisms, whilst respondents from the private sector emphasised informal friendly relations with government staff that, in their view, might significantly facilitate the project work. Hence, dispute resolution is yet another area in PPP management that might significantly benefit from adoption of effective governance mechanisms and administrative procedures.

7.2.3 Risk management in a PPP

The study captured the interviewees' experiences and perceptions of twelve kinds of risk. With regards to many risks, the study has not revealed any risk mitigation tools, although interviewees recognised that these risks might materialise. For certain kinds of risk, such as operating risk, environmental risk and foreign exchange risk, risk mitigation was in place and it normally involved budgeting additional funds, although its effectiveness remained unknown.

Interviewees typically viewed financial risk, which stems from errors in the estimation of project revenue streams and project financing costs, as high. In three out of the four studied PPP projects, interviewees associated financial risk with the way the government treats a PPP (i.e., much like any private contractor, with no commitment to the latter). This means that the government normally did not manifest its commitment to a partnership and, in the interviewees' opinion, a lack of commitment tended to materialise in reduced efficiency and higher project costs. Furthermore, interviewees did not identify any tools and methods that would permit mitigating financial risk.

In contrast to high financial risk, the research found that revenue (demand) risk in three out of the four studied projects was virtually nonexistent: interviewees argued that demand risk is close to zero. The finding that zero demand risk is a distinctive feature of the PPP projects in Kazakhstan and Russia shows that the government is interested in

keeping the PPPs' exposure to risks low, which inevitably enhances private operators' risk-averse behaviour. This behaviour rests on the preference for risk avoidance and on various government guarantees, including those that ensure stable, risk-free revenue stream to a contractor.

In the studied projects, the government achieved almost complete transfer of risks to the private sector partner. The findings showed that a private partner bore most risks. However, the costs of risk transfer involved extensive government financial outlays to the partnership, which seriously compromised the PPP value for money. This finding is aligned with the literature that claims that partnerships in reality often carry little value for money (Morallos and Amekudzi, 2008).

The findings showed that in order to attract private investors, the government intentionally designed PPP projects as low-risk. However, by reducing investors' exposure to risks the government encourages their risk-averse behaviour and furthers a guarantee culture. This creates a vicious circle which links private operators' risk-averse behaviour to extensive government financial support to a PPP. In summary, opportunistic behaviour of both parties regarding risk management reinforces and enhances a guarantee culture, which forms a prevailing set of rules for partnerships in both Kazakhstan and Russia.

7.2.4 Constraints and impediments to effective PPP governance

7.2.4a Legal barriers

Among legal barriers to PPPs, the study identified conceptual ambiguity that manifested itself in the lack of a legally defined partnership's meaning in national legislation in Kazakhstan and Russia. As a result, the two countries show significant variation in treating a PPP as a category. Specifically, Russia employed a much broader PPP meaning. However, in many partnership arrangements in Russia, such as production sharing agreements, the key partnership characteristics including joint contribution of resources, sharing of risk, costs and responsibility, are missing. In contrast, Kazakhstan understands a PPP exclusively as a concession. Despite the gap in

the national legislation, each country has adopted the law on concessions which defines a concession as the main PPP form. The findings showed that only by improvements in the national, rather than regional legislation, which calls for the adoption of the national PPP law in each country, the government can fill the gaps in the national legislation in both Kazakhstan and Russia.

The study revealed a non-concessionary option as a method of PPP formation, particularly in Russia. This method opens a loophole for future PPP projects. The federal legislation defines a concession as a project that partners form and operate according to the relevant law. Where partners do not use the government financial support to a PPP, this permits them to argue that a project is a partnership, but not a concession. Hence, a non-concessionary option opens an opportunity to form a partnership faster and with minimal bureaucracy.

The study identified yet another legal impediment to PPPs, which is each country's budget law that limits the length of the government financial commitment to a PPP by three years and makes the enforcement of the long-term partnerships' contracts questionable. From the conceptual standpoint, this means that the government commitment and guarantees to a partnership that are beyond three years are invalid. This implies the constrained validity of the government's own obligations, which may seriously discourage private investors. This finding underscores the significance of creating a clear legal and regulatory framework for PPP development.

7.2.4b PPP implementation issues

The study showed the need to replace a series of tangled PPP-related tenders, in which a PPP is a set of contracts with their own regulations, with a single unified tender. This would reduce bureaucracy and lengthy delays involved in the partnership formation. By consolidating all tenders in one, the government might significantly streamline the PPP formation process.

Another finding refers to the need to raise PPP bidders' awareness regarding the forms of financial and administrative support that they may receive, which is critically important for effective partnership formation. This would reduce ambiguity regarding

what resources regional governments can contribute to partnerships and would also make the requirements for the private partners' contribution clearer.

The study found excessive complexity and bureaucracy in a tariff and wage-rate setting in PPPs. However, the study identified the government tariff regulation as effective as it aims at reducing the private partners' opportunistic behaviour. Nevertheless, the government should streamline and shorten procedures for submitting and processing new tariff applications. In contrast to tariff regulation, the study found government regulation of PPPs' wage rates excessive and unnecessary, which represents government's opportunistic behaviour.

The research revealed persistent calls for permitting private property ownership for an asset that a private partner constructs or renovates. This implies a legal introduction of a new PPP model in Kazakhstan and Russia: instead of the existing build–transfer–operate model, the government might offer a new build–operate–transfer model. However, the value that interviewees assigned to the introduction of a new model seems excessive as the private property ownership is in no way a panacea for other PPP management issues such as frequent cost overruns, cumbersome tariff setting, procurement restrictions and the public sector partner dominance in decision-making.

Other identified impediments include the government requirement that PPPs must arrange purchasing by tenders; lack of preferential procedures for treatment of PPP requests; limited ability of public sector comparators to serve as effective benchmarks for PPP costs; and weak contract enforcement due to asymmetric application of financial penalties to partners (i.e., at present penalties normally are not applied to the public sector partner). Streamlining the contract terms regarding fees and penalties to either partner would permit achieving a greater degree of partners' equality and would serve as an additional incentive for more effective PPP management.

7.2.5 PPP critical success factors

The study identified critical success factors in three categories:

- Legal and regulatory environment;
- Partner interaction; and

- Risk management.

Table 7.1 summarises all critical success factors.

Table 7.1 PPP critical success factors in Kazakhstan and Russia:

The study findings

Category	Contributing success factors
Legal and regulatory environment	<ul style="list-style-type: none"> • a well-designed legal framework; • a simplified PPP formation; • market discipline; and • a clear tariff policy.
Partner interaction	<ul style="list-style-type: none"> • commitment of both partners to the common, clearly stated project's goals; • effective governance structures and dispute resolution mechanisms; • government preferential treatment of PPP-related tasks; and • private partners' flexibility in business management.
Risk management	<ul style="list-style-type: none"> • appropriate risk allocation between partners; • identification of risk-mitigation tools for each partner; and • incentives for better private partners' performance.

Source: Compiled by the author

7.3 Achievement of Research Objectives

This section intends to reflect upon the stated research question and research objectives for the study. The overarching research question was:

How do key PPP stakeholders in Russia and Kazakhstan perceive and adapt to contract regulation, risk allocation and dispute resolution challenges in PPP management?

In order to answer the research question, the author set the following research objectives.

The first research objective was:

to investigate experiences and perceptions of key PPP actors in Kazakhstan and Russia regarding the contractual environment of partnership projects and how stakeholders perceive the effectiveness of government requirements and expectations.

In-depth semi-structured interviews have permitted the researcher to investigate the respondents' experiences, views and perceptions with regard to PPPs' legal and regulatory environments in two countries. Among study areas that emerged during the interviews, legal and regulatory contractual environment was undoubtedly one of the principal themes, which the researcher included in the thematic analysis (Section 4.4 in Chapter Four) and subsequently in the discussion (Section 5.4 in Chapter Five).

Section 7.2.4 highlighted the findings regarding constraints and impediments to effective PPP governance. The study identified a number of legal, regulatory, institutional and financial barriers that form the PPP environment in Kazakhstan and Russia. In particular, the findings revealed a conceptual gap in a partnership's legal definition in the national legislation in Kazakhstan and Russia. Whilst Russia uses a much broader PPP meaning that embraces a variety of partnership arrangements (which is not in line with PPP conceptualisation in the OECD literature), Kazakhstan focuses exclusively on a concession as a PPP form. Although certain regional governments in the two countries attempted to remedy the legislative ambiguity by adopting their own laws and regulations, the research showed that only improvements in the national, rather than regional laws, can fill the legislative gaps in both Kazakhstan and Russia, which calls for the adoption of the national PPP law in each country.

Whilst Kazakhstan and Russia adopted the laws on concessions, which created the structured, although narrowly focused PPP framework, the research revealed a non-concessionary option as a PPP formation method, in the Russian context. Investors and

the government may bypass the federal legislation regarding a concession by not using government financial support to a PPP. In this case, the partners may assert that they formed a partnership, but not a concession. Hence, the research identified a non-concessionary option as a stakeholder's way to adapt to rigid government regulations that govern PPP formation. This option opens an opportunity to form a partnership faster and with minimal bureaucracy.

The study also identified interviewees' concerns regarding limited validity, due to legislative controversy, of the government financial commitments to a PPP, which makes enforcing long-term partnership contracts questionable. Another element of the PPP environment that the study revealed is ambiguity regarding the resources that regional governments can contribute to partnerships and forms of government support that the private sector partners may request. The typical stakeholder's adaptation to this uncertainty involved negotiation, with heavy emphasis on informal, rather than formal communication between partners.

Other identified regulatory impediments include a tangled PPP formation process that involves a series of tenders, in which a PPP is a set of contracts with their own regulations; excessive complexity and bureaucracy in a tariff and wage-rate setting in PPPs; the government requirement for PPPs to arrange purchasing by tenders; the non-existent opportunity to keep private ownership for a newly constructed or renovated asset; lack of preferential procedures for treatment of PPP requests; difficulties with securing loan financing for a PPP; limited ability of public sector comparators to serve as effective benchmarks for PPP costs; and weak contract enforcement due to asymmetric application of financial penalties to partners (i.e., penalties normally are not applied to the public sector partner). Interviewees often not only did identify the issues in legal and regulatory PPP environment, but also suggested the ways of adjusting the regulatory elements for ensuring better PPP governance.

To conclude, the research has addressed multiple facets of partnership projects' contractual environment in Kazakhstan and Russia in its contextual complexity and richness, which interviewees' excerpts have fully reflected.

The second research objective was:

to analyse perceptions and experiences of key partnership stakeholders (such as project managers, officials in government agencies and national and regional PPP centres) regarding risk management in a project including initial risk allocation and how these actors should manage subsequent changes.

This research thoroughly elucidated risk management as an emergent theme. The researcher investigated this theme from three perspectives. First, the study addressed risk management directly as a separate theme by investigating respondents' views and experiences regarding twelve kinds of risk. The study reflected interviewees' opinions and organised the discussion by the kind of risk, rather than by the set of risks that a certain PPP project faced. This permitted the researcher to capture the richness of experiences and opinions regarding each risk in the setting of each studied project. This perspective focused on initial risk allocation and risk mitigation tools that respondents viewed in their projects.

Second, the thesis analysed partners' opportunistic behaviour, which is relevant to how partners handled and reallocated risks in the course of project implementation. The study showed diverging partners' interests, for example, in a tariff setting, which transformed into higher revenue risk and higher financial risk for a private partner. Another example of opportunistic behaviour highlighted the partners' opposing perspectives regarding public acceptance risk that a toll viaduct PPP project faced. Additionally, high operating risk could materialise where the public sector partner exerted formal and informal pressure in order to achieve results faster than contracted.

Third, the thesis investigated the risk management theme from the perspective of PPP partner interaction. The findings demonstrated that interviewees typically viewed the project environment as rigid, which does not permit private investors to renegotiate certain risks. Interviewees assessed the private partners' flexibility in decision-making as framed and emphasised the public sector partners' dominance in PPP governance and related private operator overregulation. The research paid special attention to PPP organisational forms as a setting for partner interaction. The findings revealed that partners from both sectors tend to downplay the significance of governance structures

that would permit them to effectively interact and resolve all kinds of issues including those of risk management. Investigation of another partner interaction aspect - tools and methods for dispute resolution between partners, which is directly linked to risk management - showed that this area of collaboration is virtually non-existent. Partners largely disregard formal mechanisms for dispute resolution and excessively rely on informal relations.

To conclude, the three perspectives allowed the researcher to comprehensively investigate risk management issues in the studied projects and to fully meet the research objective.

The third research objective was:

to identify commonalities and differences in PPP management in Kazakhstan and Russia, with the focus on critical success factors.

The analysis and discussion of the four research themes included the author's comments and statements regarding PPP management characteristics that are common for both countries and features that are unique to a certain nation. Generally, the research identified a large number of commonalities in PPP management in the two countries and a small number of unique features. The findings did not show any major discrepancy between Kazakhstan and Russia with regards to PPP partners' behaviour, partner interaction and implications of partner opportunistic behaviour (such as cost increases, overregulation of operators and framed private partners' management flexibility). Additionally, research discovered similar advantages and disadvantages of PPP organisational forms in the two countries, their common reliance on informal relations between partners, rather than on formal PPP governance structures, and the common disregard to design formal mechanisms for dispute resolution. Further, the study identified similar interviewees' experiences and perceptions with regards to risk management. Specifically, both countries emphasised initial risk allocation that an original PPP contract reflected and paid little or no attention to risk management by effective partner interaction. Also, the findings showed that the two countries have very

similar legal, regulatory, institutional, managerial and financial constraints to PPP development. For example, in both countries there are similar gaps in national legislation: although laws do not define a PPP, they define a concession as a PPP form and specify what kinds of government support a concessionaire may receive. There are similar contradictions between the budget law that limits government financial obligations to three years and each country's law on a concession that permits the government to extend long-term commitments.

Only a few examples showed PPP management features that are unique to a certain country. One illustration is a non-concessionary option for PPP formation that is available in Russia, but not in Kazakhstan. Another illustration is more rigid power arrangements underpinning partnerships in Kazakhstan compared to Russia, which certain Kazakhstani features reflected, including more intense involvement of the national PPP centre, greater reporting requirements and more intense government monitoring of project implementation. The government regulation of private operators' wage rates also reflects Kazakhstan's higher degree of economic and political centralisation.

With regards to PPP critical success factors, the research has not identified any discrepancies between the findings in Kazakhstan and Russia. The researcher identified the following CSFs categories (groupings) that were common for both countries:

- Legal and regulatory environment;
- Partner interaction; and
- Risk management.

Each grouping included success factors that were common for PPP governance in both nations. Section 6.7 in Chapter Six highlights these factors in detail. Hence, the third research objective was fully met.

The fourth research objective was:

to develop a model for understanding the nature of PPP governance in Kazakhstan and Russia.

Chapter Six includes the model for more deeply understanding PPP governance in the two countries. The model's core is the emergent PPP policy paradigm that the governments in both countries use. The paradigm embraces the following three principal elements: (1) ideas - i.e., the concept of the need for long-term collaboration between the public and private sectors; (2) a changing set of government responsibilities that imply an increasing provision of traditional public services by the private sector and corresponding decrease in government delivery; and (3) a developing and expanding set of new institutional capacities designed for implementing changing government responsibilities. Chapter Six fully discussed these three policy paradigm's contributing elements.

The model for more deeply conceptualising PPP governance features a critical assessment of the principal dynamics that contribute to changes in the pattern of PPP management in Kazakhstan and Russia. The most influential factors include:

- the government's unbalanced perception of PPP benefits and shortfalls, where the government unjustifiably emphasises advantages and disregards drawbacks;
- the government's tendency to inflate positive PPP externalities and downplay negative externalities;
- the way the government typically approaches risk allocation in a PPP, i.e., that the government tends to transfer at least some risk to the private sector regardless of the context;
- the government's excessive emphasis on the use of a concession as a prevailing PPP form; and
- excessive government financial support to partnerships.

Chapter Six comprehensively discussed each of the underlying dynamics.

Finally, the model includes ten propositions that the researcher developed in order to identify and analyse the relationships between the model's variables. These propositions are useful for testing the model in further research and in different contextual settings.

Additionally, the thesis discussed the model's implications. The principal implication is that the policy paradigm is the government tool for rapid partnership expansion in Kazakhstan and Russia because the paradigm rests on the taken-for-

granted ideas, i.e., the concept of the need for long-term collaboration between the public sector and the private sector, and a legitimised solution, i.e., PPP employment regardless of its value for money. After the PPP policy paradigm becomes established, it legitimises a partnership as a commonly employed form of public and private sector collaboration without questioning whether a partnership is an efficient and effective collaboration tool.

An elaborate, comprehensively developed model for understanding PPP governance in Kazakhstan and Russia permits one to conclude that the author has met the thesis' fourth research objective.

7.4 Contribution to Knowledge

7.4.1 Contribution to theory

This research has made a number of unique and critical contributions to theory. With regards to conceptually understanding a PPP, the study augments a partnership's theoretical underpinnings by emphasising the latter's complex nature which includes not only institutional and organisational elements, but also relationships between multiple actors. The research adopted a stance that one must view typical PPP arrangements as an interplay between the public agencies, private investors, PPP centres, a special purpose vehicle, which is a project operator, contractual dependencies, and formal and informal interaction between actors. The researcher's focus should be on *PPP arrangements and relationships* that include multiple organisations and stakeholder groups (Fischbacher and Beaumont, 2003; Mouraviev and Kakabadse, 2012), rather than just a PPP operator.

Reflecting upon a more complex partnership environment as opposed to that of a single business firm, the author adopted a view on the nature of PPP arrangements as a cooperative effort to jointly create value for its stakeholders (Jiménez and Pasquero, 2005; Freeman *et al.*, 2010), although created value may benefit stakeholders unequally due to inevitable trade-offs. A principal merit of this view is that it provides a framework for analysing whether value creation happens within the PPP arrangement

because what the PPP creates must align with common stakeholder values. The researcher contributed to conceptualising a PPP by contrasting the value creation in a partnership with partners' opportunistic behaviour, which diminishes the PPP's value for money. Whilst the value creation may co-exist with opportunism, the author's view was that opportunistic behaviour essentially demonstrates the ways and methods of partners' adaptation to the government PPP regulations.

The author made a conceptual contribution to defining opportunism, particularly with regards to an organisation's behaviour in a partnership setting. Drawing on the available definition of opportunism as actors' self-interest (Williamson, 1993), the author elaborated on the significance of opportunism's key feature, namely, whether opportunism involves guile and what the guile's understanding in a PPP is. The author's stance is that guile is unimportant as opportunism's key feature: a PPP's complex nature as a set of long-term arrangements makes the relationships in a partnership multifaceted and multidimensional, and the task to determine what exactly guile is and where it takes place might be challenging. Whether a partner's action, non-action or neglect happen with or without guile is, first, extremely difficult to determine due to long-term cooperative arrangements, rather than in merely contractual bilateral obligations, and, second, unimportant for categorising a partner's behaviour: if a partner's self-interest supersedes the common value creation for a partnership (whether with guile or without it), the behaviour is opportunistic.

In order to overcome opportunism's conceptual ambiguity and apply the concept of opportunism to the PPP research, the author adopted the following operational definition of opportunism:

In a PPP, opportunism is a partner's method of pursuing self-interest with or without guile, whilst a partner directly or indirectly gives up, forgets or neglects the common partnership's interests, goals or values.

To summarise, the author's conceptual contribution includes enhancing opportunism's definition and its application in the PPP setting. This contribution highlights an important and hitherto unacknowledged dimension of PPP operation in the context of Kazakhstan and Russia, i.e., partners' opportunistic behaviour. Such insights have been absent in previous PPP conceptualisations, particularly those emerging in

Western economies. Hence, this research underscores the importance of context in considering such partnerships and makes a conceptual contribution by elucidating partners' opportunism in the contextual environment of countries in transition.

Another theoretical contribution refers to the model that the author developed for better understanding PPP governance in Kazakhstan and Russia. The model rests on the policy paradigm, to which the author has contributed insights by combining emergent ideas, defined problems, government strategies, organised actors and institutions, their capacities and expertise and interaction between all these elements (Fosler, 1992; Hall, 1993; Campbell, 2002; Burns and Carson, 2009; Carson *et al.*, 2009). As a result, the author conceptualised the PPP policy paradigm as a cognitive-normative tool that includes two major aspects: (a) a paradigm is a tool which the government uses to facilitate partnership expansion, and (b) a paradigm has cognitive usefulness as it offers a convenient and pragmatic perspective through which one should view multiple activities related to partnerships and understand PPP governance in Kazakhstan and Russia.

Further, the research develops the PPP governance theoretical model in a coherent and comprehensive way by outlining the model's contributing elements that include ideas, a changing set of government responsibilities and a new set of institutional capacities. Additionally, the study has contributed insights to the model by highlighting the underlying dynamics contributing to the emergent policy paradigm.

To summarise, the model shows the PPP policy paradigm's unique features and characteristics in Kazakhstan and Russia. It enables one to compare with more conventional approaches to partnerships based on Western orthodoxy and demonstrates the multifaceted and complex array of relationships between PPP actors. The model makes a unique and critical contribution to our understanding of the nature and scope of PPP formation and operation in a context of transitional countries. Furthermore, the model emphasises government efforts to legitimise partnerships.

With regards to the model's institutional capacities for PPPs' advancement, the study approached a policy paradigm by acknowledging a growing theoretical emphasis on actors, actions and institutionalisation in policy making, rather than on merely cognitive aspects. From this perspective, the study defined institutionalisation, in the

PPP context, as creating new organisational capacities, such as forming an agency charged with responsibility for the PPP development or establishing PPP financing channels. Hence, the research has contributed to theory by broadening the concept of institutionalism to incorporate social relationships as institutions are engaged in multiple interactions with actors and other institutions (Burns and Carson, 2009).

7.4.2 Contribution to research methods

In addition to contributing to partnership theories, opportunistic behaviour and a policy paradigm, this study makes a significant methodological contribution. Whilst research regarding PPP management in Kazakhstan and Russia is still in its infancy, the number of PPP studies is growing. However, to the best of the author's knowledge this study is the first to use a phenomenological, or an interpretive approach (Neuman, 2007) to examine the subjective experiences, views and perceptions of PPP actors regarding management issues. In contrast, the growing body of literature about Russia's and Kazakhstan's partnerships normally focuses on PPPs' macro-level government regulation, legal aspects of PPP formation and financing schemes. From the methodological perspective, the current research has adopted, for Kazakhstan and Russia, a pioneering phenomenological stance and employed an unusual data collection method (i.e., in-depth interviews) as opposed to the vast majority of the two countries' PPP studies that use documentary analysis.

This research used in-depth interviews as a principal data collection method, which allowed the author to undertake a qualitative study. The latter captured interviewees' experiences and perceptions, in their own words, and revealed previously unknown or concealed issues. For example, previously, partners' opportunistic behaviour remained undiscussed. In-depth semi-structured interviews permitted the author to unveil the PPP management themes that interested respondents the most, and this is how the researcher selected the four principal themes for investigation. Each theme (i.e., opportunistic behaviour; partner interaction; risk management; and constraints to effective PPP governance) reflects both a pioneering field and methodology for PPP management

research in Kazakhstan and Russia. The key theoretical and conceptual contributions outlined above have resulted from an innovative research design.

7.4.3 Contribution to practice

In addition to theoretical and methodological contributions, the research has contributed to practice. The study included a large number of practical elements that formed a platform for PPP managers and practitioners for their reflection, implementation and better understanding of PPP governance perspectives. The thesis contributed to practice along two dimensions. The first is the set of critical success factors, which the research has developed. This set of CSFs is the summary of conclusions and recommendations that might serve as useful guidance for all those who are involved in PPP governance. The second is the set of broader, more general conclusions and implications that also possess salient practical significance for researchers, advisors, workers, managers and policymakers in the PPP community.

The first dimension of contribution to practice includes the three groupings of PPP critical success factors:

- Factor Grouping 1: Legal and regulatory environment;
- Factor Grouping 2: Partner interaction; and
- Factor Grouping 3: Risk management.

In each grouping the study has identified critical elements that are most essential for a PPP's success in Kazakhstan or Russia. For example, with regards to the legal and regulatory environment, it is critical to build an elaborate legal PPP framework, simplify the PPP formation, institute market discipline for either partner and design a clear long-term tariff policy. In the partner interaction grouping, it is critical to ensure full commitment of both partners to the common PPP goals, design effective governance structures and dispute resolution mechanisms and ensure government preferential treatment of PPP-related tasks. In the risk management grouping, effective risk allocation between partners must be accompanied by identifying risk mitigation tools for each partner and by creating incentives for better private partners' performance. As interviewees themselves identified these CSFs, by reflecting on their own

experiences and collaboration in a PPP, the researcher has solid ground to assert that the success factors have high practical significance for all those who work in or with public-private partnerships.

The second dimension of contribution to practice includes broader conclusions and research implications. The findings permitted the researcher to draw certain insights in connection with observed partners' opportunistic behaviour. First, the discussion of opportunistic behaviour in a PPP has highlighted the need to create incentives for achieving performance targets. Ideally, these incentives should exist for either partner, not only for a private operator. Second, the findings showed that opportunism was linked to and led to the government overregulating the private partner. Overregulation resulted in constrained flexibility and reduced PPP efficiency. This permitted the researcher to conclude that the government should deregulate private operators to a significant extent, which would contribute to breaking a guarantee culture that certain operators enjoy. Third, opportunism manifested itself in cost increases: a private partner lacked incentives for cost savings, whilst the public sector partner also often neglected cost saving opportunities. Practitioners, particularly those in the public agencies, have to be concerned with ways to increase a PPP's value for money, and this concern should be incorporated in the public agencies' policies as a matter of economic principle.

The study draws yet another broader implication of practical importance from partner interaction and its significance for PPP management. The discussion of partner interaction showed that partners' interests often diverged and could hardly be reconciled after a problem has emerged. These conflicts of interest present an ongoing concern for management. The more effective approach is to manage partner interaction in order to mitigate emerging issues. The research findings demonstrated that partner interaction is a neglected area of PPP management. In contrast, practitioners would immensely benefit from paying proper attention to partner interaction by designing a formal framework for effective partners' communication on a continuous basis. An important aspect of this formal framework includes designing PPP governance structures because the latter are also neglected as the current research highlighted. The study outlined the advantages and disadvantages of organisational structures in the four PPP projects,

which permits practitioners to draw useful insights for building management structures for future partnerships. Another aspect of the formal PPP framework involves the proper practitioners' attention to creating tools for dispute resolution between partners, which is presently the disregarded area of PPP management in Kazakhstan and Russia. Although this partner interaction discussion overlaps with highlights of the relevant CFS grouping, the overall general conclusion is that PPP management should fully incorporate partner interaction as a required field.

Table 7.2 highlights the study's contributions to theory, methodology and praxis.

Table 7.2 Summary of research contributions

Contribution	Area or question	New insights
Theory	<ul style="list-style-type: none"> • PPP conceptualisation • Opportunism • The PPP governance model • Institutionalisation with regards to PPPs 	<ul style="list-style-type: none"> • PPP as a set of arrangements and relationships • PPP as a cooperative effort to jointly create stakeholder value • In a PPP, opportunism is a partner's method of pursuing self-interest with or without guile, whilst a partner directly or indirectly gives up, forgets or neglects the common partnership's interests, goals or values • The model's core is the PPP policy paradigm as a cognitive-normative tool • The model includes contributing elements, the underlying dynamics and propositions • The concept of institutionalism is broadened to incorporate social relationships
Methodology	<ul style="list-style-type: none"> • Interpretive approach, in-depth interviews for the PPP study 	<ul style="list-style-type: none"> • Application of qualitative research methods to the Russian and Kazakhstani PPP context
Praxis	<ul style="list-style-type: none"> • PPP critical success factors 	<ul style="list-style-type: none"> • Three groupings of CSFs have been outlined in the context of Kazakhstan and Russia

	<ul style="list-style-type: none"> • Opportunism's implications • Partner interaction 	<ul style="list-style-type: none"> • Creation of incentives is critical for achieving the performance targets • Private operators will benefit from deregulation • The public agencies should be concerned with a PPP's value for money as a matter of economic principle • Partner interaction should be incorporated in PPP management
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Source: Compiled by the author

7.5 Research Limitations

7.5.1 Research bias

One of the research limitations stems from the philosophical position that the author has adopted for this study. By adopting an interpretive approach, the author sought to understand the subjective reality depicted by interviewees, in their own words. The author asserted, as the methodology chapter discussed, that an interpretive approach was best suited for a qualitative study because the overarching research aim was to capture PPP stakeholder experiences and perceptions in Russia and Kazakhstan regarding PPP management challenges, rather than analyse certain quantitative variables. The study's results showed the data's richness and depth, which vividly demonstrated the high degree of appropriateness of an interpretive approach to the aims of this research.

However, an interpretive approach that was based on data collection by interviewing inevitably involved the researcher's interaction with the study's participants. The researcher became affected by the subject of the research and was influenced by interviewees, their experiences, opinions, views and perceptions. It is unlikely that the researcher remained completely independent, unbiased and unaffected during the interview process and when he reflected upon the collected data. To some extent, the researcher's own perceptions became intertwined with those of the interviewees.

Nevertheless, the researcher has made every effort to separate himself and his own views from the respondents' opinions. This was accomplished by using a semi-structured interview method, which allowed interviewees to talk freely about their experiences, motives and intentions without constraining them by a rigid set of interview questions (Saunders *et al.*, 2003). Semi-structured interviews permitted the free flow of respondents' views and perceptions because the researcher did not attempt to exert any influence on their opinions. Additionally, during the semi-structured interviews the respondents did not attempt to influence the researcher in any way because normally they elaborated on a PPP management issue, rather than argued with the researcher's views.

Another way to keep the researcher's neutral stance was to demonstrate the interviewees' voices in their original forms and shapes by including excerpts in the thesis' text. Both Chapter Four (analysis) and Chapter Five (discussion) exhibit a large number of quotes, some of which are complementary, whilst others are conflicting. This allowed the researcher to show a diversity of experiences, views and perceptions in their richness and multiplicity and avoid uniformity that might stem from some of the researcher's biases. Furthermore, the researcher's self-awareness called for and ensured diversity and richness of the interview data, whilst the author made a determined attempt to eliminate any personal bias.

Despite every effort that the researcher has made to ensure his impartiality, the full exclusion of a possibility for the author's subjectivity is hardly possible (Blaikie, 2007), which one should acknowledge as a potential research limitation.

7.5.2 Sample size limitations

The researcher has conducted a total of 30 interviews with PPP actors, which limits the study findings' validity. The researcher conducted most interviews with PPP managers and workers. The research scope included two PPP projects in each of the two countries, which highlights a certain limitation because the author derived the findings from a small sub-set of PPP projects. This may limit generalisations related to other sectors in which partnerships operate, such as health care or utilities. As a matter

of practical importance, it is worth noting that ongoing PPP projects in both Kazakhstan and Russia are scattered all across each country's territories, with extremely limited partnership availabilities in central cities. Due to the researcher's practical constraints related to time, resources and ability to travel within Kazakhstan and Russia, it was not feasible to expand the study's scope to include more partnerships. Consequently, the research project's scope also has limited the feasibility to increase the sample size, i.e., the number of interviewees.

The author has made every effort to ensure truthfulness of the study by providing a detailed account of interviewees' experiences and perceptions, which has led, in the researcher's opinion, to data saturation (Ritchie and Lewis, 2003). However, it is possible that if a much larger number of respondents had participated in the study, the researcher could have obtained different results. To limit the possibility of distortions in the findings, the author has undertaken triangulation of data sources, as the methodology chapter discussed (Neuman, 2007; Flick, 2009). As a result, the author has not identified any major discrepancies within each studied country. Furthermore, the findings revealed many commonalities in PPP management between Kazakhstan and Russia, which also speaks for reached data saturation (Strauss and Corbin, 1998). Nevertheless, the author must acknowledge research limitations due to a certain sample size.

7.6 Directions for Further Research

The research on PPP management in the setting of transitional countries, such as Kazakhstan and Russia, is far from complete. The current research features its contextual nature, which accounts for the realities of evolving PPP policy in the two nations and the beginning stage of their PPP development. Future research would be useful in order to better understand what approaches the governments in Kazakhstan and Russia use for partnership formation, management, PPP performance assessment and overall evaluation of PPPs' impact on the nations' sustainable development.

One area of study calls for investigating PPPs' value for money in transitional countries. This research showed massive disregard by the policymakers and

practitioners of the value for money concept in Kazakhstan and Russia in reference to PPP formation. From the VfM perspective, it is impossible to explain and justify why the government forms partnerships as the latter often cost more than the government in-house service provision. Hence, research needs to provide new insights into the government motivation, which is likely to lie along the lines of value creation for various stakeholder groups. By investigating how partners shape the PPP's value in transitional countries, research may be able to provide robust theoretical and practical underpinnings to PPP advancement in those nations.

Another significant line of inquiry refers to investigating partner interaction in a PPP as this is a neglected area of study in the PPP management literature, particularly in the context of countries in transition. This research investigated a limited range of organisational forms that the studied PPPs took and explored how partners approached dispute resolution. Future research might investigate how the partners' relationship quality influences the PPP performance over time. A longitudinal study examining partner interaction over a period of time would provide useful insights to whether the relationship quality is an important factor of a partnership's overall success. Furthermore, the dynamics of relationship quality also require careful study and would have both theoretical and practical significance for PPP governance.

Research also needs to address risk management in a contextual setting of specific PPP projects. Whilst all partnership projects are ongoing in both countries, the ever growing experience in many areas, including risk management, will present a broad and informative material for investigation and for subsequent learning from the best practice, as well as from failures. The current study has highlighted how PPP actors perceive certain risks and risk mitigation tools. As PPP projects are relatively new and they accumulated only a few years of experience, the study demonstrated that risk management, including risk mitigation, was underdeveloped, oversimplified and ineffective. Whilst partnerships in Kazakhstan and Russia will be acquiring more knowledge and experience, further studies need to investigate risk management from a longitudinal perspective, through the prism of partner interaction. From a broader perspective, it is time to move beyond general debates about initial PPP risk allocation

and conduct more comprehensive studies of how partners manage risks over a period of time, what drives their decisions and how they resolve disagreements.

7.7 Chapter Summary

This chapter outlined the key findings of the research and highlighted the contribution that the study made to knowledge in the areas of theory, methodology and practice. The chapter acknowledged the study's limitations and then suggested lines of inquiry for further research. The research aims have been fulfilled.

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