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Rapid Public-Private Partnership Deployment in Kazakhstan: Enablers and Implications

Nikolai Mouraviev[1]

Abstract

Public-private partnerships (PPPs) are a relatively new phenomenon in Kazakhstan – their development began in 2005 in the transport and energy sectors. Initially sluggish growth transformed into rapid PPP deployment from 2016 to 2019 when hundreds of PPPs were launched in many industries (infrastructure, hospitals, schools), which was in sharp contrast to just a handful of PPPs formed prior to 2016. Rapid PPP deployment raised deep concerns whether the government's supporting schemes and PPP launch procedures are appropriate and whether they may backfire for the government in the form of increasing debt. This paper aims to investigate the enablers and implications of accelerated PPP formation. The study is based on semi-structured in-depth interviews with a range of actors in the field, including PPP operators (railroad, energy company, kindergarten), regional and local governments, national and regional PPP centres, lawyers and private investors, which afforded an opportunity to mitigate bias in opinions. The study has identified three principal enablers: simplified procedures for a PPP launch, pressure exerted on regional governments, and extensive government financial support to PPPs. By making use of agency theory, property rights theory and the value-for-money concept, the paper offers a conceptualisation of rapid PPP growth in Kazakhstan in recent years and argues that growth was disproportionally fast and unintended. Policy implications include a need to re-establish the value-for-money approach to PPP formation, a significant increase in government liabilities to PPPs, and a misconception regarding the role of PPP collaborative governance.

Keywords:
Kazakhstan, public-private partnership, public services, direct negotiation

1 Abertay University, Dundee, United Kingdom.

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1. Introduction

Public-private partnership (PPP) development in Western Europe is often associated with New Public Management (NPM) (Grimsey and Lewis 2004; Wettenhall 2005). Within the NPM movement that aimed to reform the State and improve its efficiency, active PPP deployment shows significant interest of many European nations toward the greater use of the private sector's funds, its technology and its management expertise for the provision of traditional public services in infrastructure (toll roads, railroads, seaports, energy generation and transmission, waste utilisation, water purification) and the social sphere (hospitals, childcare facilities, stadiums, spas) (Osborne 2000).

Aligned with the NPM, partnerships, in the form Private Finance Initiative (PFI), have become an important part of the government's strategy for delivering modern, high quality services and lowering the costs in the United Kingdom since the early 1990s (Akintoye et al. 2003, Wettenhall 2005). Since the beginning of the 1990s, hundreds of PPPs, with the investment amounting to billions of pounds, were deployed in the UK, followed by many European economies, including Germany, France, Ireland, Italy, the Netherlands, Portugal and Spain (Akintoye et al. 2003; Yescombe 2007). PPPs also became popular in Eastern European nations, such as Bulgaria, the Czech Republic, Hungary and Poland, who started deploying PPPs at the end of the 1990s. "Triggered by the disintegration of the Soviet Union in 1991, the economic transition of these nations to a market system naturally incorporated PPP deployment as part of a pro-market agenda aimed at free enterprise development, wide use of market tools and reversing historical government dominance" (Mouraviev and Kakabadse 2017, 57). A shortage of budget funding became the single most important reason for engaging private firms in public-service delivery (Urio 2010).

In Kazakhstan, an ex-Soviet nation in Central Asia, PPPs are a relatively new phenomenon, having grown out of the transport and energy sectors in 2005. A number of projects were launched on an experimental basis, as back then there were no legal provisions governing PPP implementation. While a range of PPP meanings and approaches as to how to understand partnerships are available (Mouraviev and Kakabadse 2016), this paper views a PPP as a contractual type of "cooperation between public and private actors with a durable character in which actors develop mutual products and/or services and in which risks, costs and profits are shared" (Klijn and Teisman 2003, 137). The PPP principal features include resource- and risk-sharing, asset construction or renovation by a private-sector partner using private-sector funding, and subsequent public-service provision with the use of this asset over the long term, during which a private operator recovers its capital costs and operating expenses (Mouraviev and Kakabadse 2016). Another important PPP feature is that upon project completion an asset (a constructed or renovated facility, such as a bridge or a stadium) should remain in the public domain, rather

than in private hands. Output specifications in the form of the volume and quality parameters of a public service, rather than input specifications (e.g. what materials should be used or how work should be organised) are also features that distinguish PPPs from other forms of government-business collaboration. These features show that a PPP is very different from a service contract, when the government hires a private firm to build and maintain a facility and pays service fees according to the signed contract. While a PPP is a form of public procurement in its broad meaning, partnerships are substantially different from government purchasing, as asset construction and public-service provision using this asset are at the partnerships' core.

In 2006, the law on concessions was passed, marking an important step forward in creating the legal framework for PPPs in the nation (Law of the Republic of Kazakhstan "On Concessions" 2006). This law's integration with others in Kazakhstan's legislation was not always successful, although undoubtedly the law gave an impetus to the country-wide effort to promote the PPP concept.

This work was largely driven by the national PPP Centre created by the government in 2008 under the auspices of the Ministry of the National Economy. The centre facilitated PPP development by identifying opportunities for PPP formation in different sectors, assisting interested parties with preparing project documentation, designing standardised agreements and other documents for future projects, and consulting government staff and investors on how to arrive at decisions on prospective PPPs (Kazakhstan's PPP Centre 2020). Over several years, the centre created a large volume of template documents that could be used in PPP formation, conducted training on a regular basis, compiled a database of projects suitable for implementation in the PPP form, and put forward many suggestions for the government regarding improving the national PPP legislation and regulatory regime.

A host of new contracts was signed between 2007 and 2011 to launch PPPs in the energy sector, railroad transportation sector, and one in the social sector for the construction and operation of kindergartens. All projects were in the concession form, making use of the 2006 concessions law, with project terms ranging from 14 to 28 years (Mouraviev and Kakabadse 2017). However, lacking feasibility for successful implementation, most of these projects were then put on hold and subsequently shut down, although the exact reasons were never disclosed (Mouraviev et al. 2012).

Kazakhstan's PPP development was relatively slow. Over the decade from 2005 to 2015, the nation designed PPP legal, regulatory, and institutional frameworks. In addition, the country developed its approaches at approximately the same time as neighbouring Russia, although at a slightly slower pace, which allowed Kazakhstan to assess the Russian experience. While in 2005 Russia did not have any PPPs, in 2011 their number increased to 204, and in 2015 to 595 (Mouraviev and Kakabadse 2017). The Russian experience showed that PPP deployment could be accelerated and accomplished at a much faster pace, particularly at the regional and local levels.

In contrast, Kazakhstan's PPP development appeared sluggish, with only three ongoing concessions by the end of 2015. These include a railroad in East Kazakhstan, an inter-regional electrical grid in the Northern part of the country, and an international airport in the city of Aktau. All three projects were and still are highly visible, as they are the first set of projects in operation since the beginning of PPP formation in the period 2005–2008.

The stalled growth of partnerships in Kazakhstan led to the commonly shared view that an existing 2006 concessions law could not effectively serve the country's needs for PPP development. A new, more general law that would cover many aspects of PPPs was required. In 2015, amid embedded expectations of changes needed to facilitate the nation's PPP development, Kazakhstan passed a law on PPPs (Law of the Republic of Kazakhstan 'On Public-Private Partnership' 2015), while the 2006 law on concessions remains in effect.

Subsequently, the growth of PPPs in the nation significantly accelerated. From 2016 to 2019, more than 700 PPP contracts were signed, with 166 in 2017, 304 in 2018, and 277 in 2019 (Atameken 2019; Matayev 2020). In contrast with the three PPPs successfully deployed prior to 2015, this impressive progress requires explanation and reflection.

Although an accelerated PPP development rate from 2016 to 2019 is generally associated with the adoption of the 2015 PPP law, the details of what exactly triggered widespread formation are missing. This paper aims to investigate the drivers that facilitated extensive PPP formation and to identify implications of these drivers and the large-scale PPP growth. The paper intends to answer the following research questions:

RQ1: What are the enablers of extensive widespread PPP deployment in Kazakhstan in the period 2016–2019?

RQ2: What are the implications of rapid PPP development for the government and investors?

Shedding light on what facilitated accelerated PPP deployment in Kazakhstan would allow policymakers, government workers, investors, and the academic community to learn from the nation's experience and assess where Kazakhstan's changes in PPP development stand in relation to best practice.

The paper is organised as follows. The next section offers the literature review, after which a section provides details of the conceptual lens through which the paper views PPP deployment. This is followed by a section on methodology. There is then an outline and discussion of the study's results, before the concluding part draws insights into the application of theories and the implications for the government, investors and PPP governance.

2. Literature review

This section reviews the literature on PPP development in parts of ex-Soviet space, particularly drawing on the context similar to that of Kazakhstan. The review's focus is explained by the significant impact of economic, political, cultural and budget realities in selected countries on the policy decision to use PPPs as a method of public-service delivery by the private companies. From this perspective, it is most appropriate to compare Kazakhstan's PPP experience with that of Russia as the contexts of these two ex-Soviet nations have many commonalities (Mouraviev and Kakabadse 2017). Russia is Kazakhstan's neighbour and economic partner, and the pathways of PPP development, as well as the general economic transformation in both nations, have been aligned with each other since 1991, when the Soviet Union disintegrated. Another ex-Soviet nation that aims to advance PPPs is Ukraine (Soloviov 2017), although it used a different pattern of economic development, and therefore the context and the progress in building legal and institutional frameworks for partnerships are difficult to compare with those in Kazakhstan and Russia.

Other ex-Soviet nations also attempted to create a legal framework and set up governing institutions, but the actual PPP deployment is still in its infancy (Urio 2010). This refers to Moldova, where the Concessions Law was passed in 1995 and the PPP Law was adopted in 2008, although progress is slow and limited, and the active, operational PPPs are hard to find; Georgia, where the PPP law was approved in 2018; and Armenia, where a new PPP legislation was approved in 2019 (PPP Knowledge Lab 2021). Other nations, including Azerbaijan, Kyrgyzstan, Tajikistan and Uzbekistan, have not yet adopted any PPP-specific legislative acts and are at the stage of the initial discussions about whether PPP is a suitable mechanism for them.

The literature on PPP development in ex-Soviet countries elucidates two principal themes, including (a) the meaning of a PPP and (b) the reasons for PPP deployment.

(a) The meaning of a PPP: As PPP is a novel concept for these countries, to which they turned their attention only at the beginning of the 21st century, defining a PPP appeared to be a challenging task that the literature debate reflects.

(b) The reasons for PPP deployment: This theme comprises two parts: one focuses on the general rationale behind the PPP use, and the other investigates selected contextual reasons that justify PPP deployment in a country.

In addition to these two broad themes, the literature sheds light on a range of narrowly focused topics in the specific settings of a country. These topics include risk management (Mouraviev and Kakabadse 2013), stakeholder value management (Mouraviev and Kakabadse 2015a), methods of PPP launch (Charman and Narbaev 2017), PPP contractual arrangements (Urio 2010; Maslova 2015), aspects of the legal and institutional frameworks (Maslova and Yushkov 2017; Soloviov 2017), and

sectoral matters, such as case studies in transport, the energy sector and healthcare. There is also an emergent literature that discusses PPPs that work across national borders (e.g. Maslova and Sokolov 2020). While these publications are an important contribution to the body of knowledge about PPPs in ex-Soviet space, a review of these context-specific matters is beyond this paper's scope. Literature appraisal in relation to two principal themes is provided below.

The meaning of a PPP. Within this theme, the literature offers a wide spectrum of opinions that could be categorised by the definition's scope. The first, prevailing, category is an all-inclusive perspective on a PPP as any form of collaboration of the public and private sectors (Kabashkin 2010; Varnavskiy et al. 2010; Pankratov 2010; Firsova 2012). The underpinning argument is that a PPP concept, in the view of many authors, emerged as a range of methods to overcome the historically formed lack of trust between the government and private business, which in turn stems from the government dominance in the Soviet economy that allowed almost no private property and private enterprise (Kabashkin 2010; Varnavskiy 2011). As a result of this broad conceptualisation, many kinds of cooperation between the public and private sectors are considered to be a PPP including special economic zones and investment contracts with participation of the federal government agencies (Varnavskiy et al. 2010). Since the beginning of the 21st century, this perspective was adopted by the Russian government and reflected in the 2005 law on concessions (Federal Law #115-FZ of the Russian Federation "On concessionary agreements" 2005). A decade later this perspective was also enshrined in Kazakhstan's legislation in the form of the 2015 PPP law (Law of the Republic of Kazakhstan "On Public-Private Partnership" 2015).

The second category includes opinions that, regardless of the nature of an activity, a PPP is a contract between two or more parties and, therefore, has to be considered chiefly from the legal perspective, i.e. as a set of rights and obligations of each party. This perspective was and still is popular in both Kazakhstan and Russia, particularly among those academics and practitioners who have an educational background in law (Chikanayev 2015; Popondopulo and Shevelyova 2015). The implication of this approach is that scholars contend that any kind of issues with PPPs is a result of legal omissions in a partnership contract or a reflection of imperfections in the existing national legal framework (Maslova 2015; Chikanayev 2017). Due to focusing on PPP contractual terms, these authors do not usually investigate the management aspects, such as incentives, risk mitigation or partner interaction.

The literature in the ex-Soviet space does not pay proper attention to the criterion used for PPP formation in the industrialised economies, which is value-for-money (VfM) (Osborne 2000; Hodge and Greve 2005). Although this criterion does not directly define a PPP, it explains why a PPP exists and what it needs to achieve (Grimsey and Lewis 2004). In the UK, the government defines VfM 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 quality of service must be factored in the assessment of PPP costs to make sure that lower cost is not accompanied by lower service quality (Hodge et al. 2010; Delmon 2013).

In contrast, much of the literature in Kazakhstan and Russia is silent on the situation that PPPs need to deliver VfM, and authors replaced the VfM criterion with another parameter – the project's social significance as a criterion for its approval as a PPP (Azizov 2009; Yeshimova 2019). However, what exactly social significance means and why one project (e.g. the construction and operation of a stadium) may be viewed as more significant than the other (e.g. the construction and operation of a school) remains unexplained. To summarise, the gap in the extant literature about Kazakhstan and Russia is in the way how PPPs are conceptualised – either as a broad range of almost any forms that allow the public and private sectors to collaborate, or as a legally binding contract between the parties. Only a small number of publications discuss a PPP as a set of arrangements complemented by management practice and partner interaction (Mouraviev et al. 2012; Mouraviev and Kakabadse 2017), while much of the literature is silent about this perspective on partnerships.

The reasons for PPP deployment. The second theme illuminated in the literature overlaps with the first and often draws on the PPP definition that a researcher adopts. This theme focuses on the reasons underpinning PPP deployment (Varnavskiy et al. 2010). As most academics and practitioners in Kazakhstan and Russia adopt a stance that PPPs contribute and strengthen public-private collaboration, rather than having to deliver value-for-money, they often justify PPP deployment (and the overall government PPP policy) by pointing to the shortage of specific public services (Kabashkin 2010). Many developing economies including Kazakhstan and Russia are characterised by the outdated infrastructure that requires a major overhaul and significant investment, and the authors draw on these needs by emphasising two principal reasons that facilitate PPP deployment: (a) an acute lack of public services, which governments cannot overcome at the present time or even in the long term, and (b) an opportunity to attract the private sector funding for investment in infrastructure and, ultimately, for the private delivery of public services (Pankratov 2010; Mouraviev 2012).

The perspective adopted by most researchers, which appears to be narrowly focused on the context-specific reasons for PPP deployment and which pays little or no attention to VfM that a PPP has to deliver regardless of the contextual needs, reflects a certain bias in the literature – lack of appreciation of the VfM concept. An unbalanced view of PPPs, in which disadvantages (particularly the higher cost of public services to society in those cases when VfM cannot be achieved) are downplayed or sometimes completely disregarded, leads to the acceptance of PPPs as

a universal mechanism to solve any kinds of economic problems (Mouraviev and Kakabadse 2014a).

There is no doubt that in developing nations there is high demand for a larger volume and better quality of public services at the local, regional and/or national levels, such as demand for clean water, healthcare or transportation services (Urio 2010). However, the argument emphasising context-specific needs for essential services cannot automatically override the fundamental reason for PPP deployment used in other, mainly OECD, nations, i.e. value-for-money. This is because VfM ensures (or at least aims to ensure) efficient resource allocation by comparing the PPP cost with the cost of government in-house public-service delivery. Extensive experience across the world shows that, without using VfM as a main criterion for PPP deployment, PPPs are more expensive to society than government public-service provision, which means that efficient resource allocation is compromised (Mouraviev and Kakabadse 2014a; 2017).

To summarise, the literature about Kazakhstan and Russia is silent about the links between the context-specific PPP drivers and the principal driver, which is the PPPs' ability to deliver value-for-money. It is not surprising that this gap in the literature has led to a view that public policy should focus on accelerated PPP deployment because this way partnerships might deliver the much-needed public services faster (Firsova 2012). To reiterate, the literature's emphasis on the context-specific PPP drivers was (unfortunately) echoed by the policy perspective in which accelerated PPP advancement was adopted in Kazakhstan, at least for a few years, as its developmental priority. This is why, having identified gaps in the literature and aiming to investigate whether this policy was grounded in a sound theoretical approach, the study's conceptual framework, which the next section delineates, rests on the VfM criterion.

3. A conceptual framework for analysing PPP deployment

This study's approach to PPPs includes three complementary elements – the value-for-money concept, property rights theory and agency theory. This section discusses each element.

The VfM concept implies that an assessment of all PPP costs over the entire length of a project should be compared to the cost of government-provided public service. Applied to PPPs, the VfM concept means that a PPP could be deployed only when total PPP costs are lower than the government in-house provision, provided that both options deliver the same service quality (Boardman and Vining 2010). A PPP could be used as a method of private delivery of public services "only if a PPP can deliver public sector services cheaper and better, meaning with smaller costs as opposed to other options, and with improved quality (and other enhanced output features) as opposed to other options" (Mouraviev 2012, 35). In many industrialised

countries, VfM has become the most important, although not the only, criterion for PPP deployment. In addition to financial reasons (i.e. aiming to economise on budget expenses and attract private funding), governments also pursue a broader political agenda by trying to get a better deal for the taxpayers (Hodge et al. 2018). Colman (2000) warns that if VfM is dropped as a critical criterion, the public-sector partners might focus on the process and reaching an agreement that is deemed acceptable, rather than the one that delivers the best deal to the taxpayer.

While researchers commonly recognise that VfM is the most important criterion, they also note a range of other factors that governments should consider, for example the public sector's own capability to deliver services (Morallos and Amekudzi 2008), reduction of government borrowing (Sadka 2007), and the need to attract private finance to public infrastructure projects (Hodge et al. 2018). Nonetheless, most researchers agree that other factors should not override VfM (Dewulf et al. 2012; Greve and Hodge 2013).

As part of this study's conceptual framework, VfM is useful for assessing Kazakhstan's recent accelerated PPP deployment against the VfM criterion, which would help to understand what the country has achieved and whether certain adjustments are required.

In addition to VfM, this paper's conceptual lens includes property rights theory. Property rights refer to stakeholders' rights to use and/or earn income from, and to transfer or exchange different kinds of resources or assets (Libecap 1989). Distribution of property rights focuses on creating economic incentives to various parties (owners) for effective use of property or a part of it (Grossman and Hart 1986; Libecap 1989; Hart and Moore 1990). Parties involved in a transaction negotiate the initial assignment of property rights in the view that this negotiation will yield each party the benefit in the form of (a) the scope and extent of individual effort that corresponds, in the party's perception, to its welfare maximisation, and (b) to the expected distribution of income (Libecap 1989; Kim and Mahoney 2002). Transferring some attributes of resources (which is also called partitioning of property rights) from one party to another is at the core of property rights theory, and it argues that this should be done efficiently (Pejovich 1995; Kim and Mahoney 2005). In relation to PPPs, discussions between the government and a private-sector partner refer exactly to property rights and how they could be transferred from one party to another. These discussions focus on each party's contribution to a proposed partnership and what the income distribution from the service provision might be. Therefore, property-rights theory becomes a useful part of this paper's conceptual framework as it affords an opportunity to assess the expectations that the parties have in negotiations about launching a PPP in terms of their rights to use resources and their rights to receive income from certain resource allocation.

The paper's conceptual framework also incorporates the third element – agency theory, which aims to explain how contracts can be designed to minimise agency

costs (Jensen and Meckling 1976; Arrow 1985; Pratt and Zeckhauser 1985). Agency theory appears useful because it focuses on how the principal-agent relationship is structured ex ante, i.e. making predictions in the form of expectations from a contract (Mahoney 1995; Kim and Mahoney 2002). As for PPPs, when parties negotiate a contract that is inevitably incomplete (because contracts are for 10 to 30 years), the interaction between the government (principal) and private firms (agents) is explained by agency theory by arguing that parties are seeking to minimise the contractual problems (Jensen and Meckling 1976). Given that each party has considerable constraints (e.g. the governments across the globe run persistent budget deficits, while private firms face inflexible tariffs and all kinds of risk, from construction risk to revenue risk), minimising agency costs can be considered a legitimate task for all parties involved (Miller 1992). Therefore, the application of agency theory allows assessing how this task was implemented in Kazakhstan, if ever.

Adding to each other's qualities, the three elements of the study's conceptual framework afford an opportunity to avoid bias in the selection of a theoretical lens for the study of PPPs. Furthermore, their complementarity is useful for analysing Kazakhstan's progress and evaluating whether the nation's experience could and/or should be borrowed by other economies seeking best practice in PPP development.

4. Methodology

As the study aims to draw insights into the reasons and implications of Kazakhstan's accelerated PPP development, a qualitative approach was adopted (Patton 2015). A qualitative approach is deemed most appropriate for this study as it afforded the researcher opportunities to investigate varying perspectives of actors in the PPP field by capturing their opinions, perceptions and views in their own words (Flick 2018). Rather than putting forward a certain theory, concept or assumptions upfront, a researcher sought to receive a broad range of data, in the form of interview narratives, on topics related to how PPPs were launched in Kazakhstan during the years of rapid deployment; what role regional governments played in the deployment; and what forms of financial support to PPPs were made available by the government and how easy it was for the private firms to secure this support. The interviews were semi-structured, guided by the list topics, to ensure consistent data collection across the whole sample. In-depth interviews (each lasting 45 to 55 minutes) were conducted in 2019 and 2020 with 24 participants. As Russian is widely spoken in Kazakhstan, all interviews were carried out in Russian, which allowed using the researcher's native language skills. Some interviews were also conducted by the researcher's counterparts, who reside in Kazakhstan.

Interviewees were from a range of organisations including:

- PPP operators (railroad, energy company, kindergarten) – 4

- Regional and local governments – 5
- National PPP Centre – 2
- Regional PPP centres – 5
- Lawyers working in law firms – 3
- Private investors – 5

A broad range of organisations was useful and necessary for this study as it allowed avoiding potential bias in opinions or a dominant perspective, should the participants from one or two organisational networks form the majority.

Purposeful sampling and snowballing methods were employed to engage those actors who are knowledgeable in the PPP field and willing to share their views (Atkinson and Flint 2004; Neuman 2013). Some interviewees were recruited via the researcher's personal contacts, although most participants joined the study as a result of referral by other participants, i.e. by snowballing sampling (Patton 2015). Most of the interviewees were mid-level managers in their organisations as those in management positions usually possess broader views on the field in which they work (see Table 1). The most important interviewee selection criteria were expert knowledge and/or practical experience in the PPP field and willingness to discuss their experience.

After a few initial interviews, the principal subthemes started shaping up. Interviews focused on these subthemes, while at the same time allowing study participants to share their additional perspectives to make sure that important details and other views were not lost (Denzin and Lincoln 2008; Creswell and Poth 2018).

Semi-structured interviews were guided by broad topics, and all interviewees were asked about both the government perspective and the private investors' perspective on PPP development in the country to avoid a one-dimensional (and possibly biased) view. The interview data were complemented by document analysis of Kazakhstan's laws and regulations, statements of the public officials, and the websites of the national and regional PPP centres, which allowed ensuring data triangulation. The relatively small sample size may be viewed as a limitation of this study (Miles and Huberman 1994). However, the sample size appeared appropriate as the researcher reached data saturation after approximately 20–21 interviews, when it became clear that additional interviews were unlikely to bring new findings (Patton 2015; Flick 2018). A thematic analysis was performed, making use of the chosen conceptual framework, which facilitated a consistent investigation of findings, giving consideration to whether interview data permit to answer the stated research questions (Neuman 2013).

Table 1
Interviewee profiles

Interviewee	Position	Organisation
1	Manager	Regional government
2	Manager	PPP operator
3	Lawyer	Law firm
4	Expert	National PPP Centre
5	Director of department	PPP operator
6	Manager	Regional PPP Centre
7	Expert	Regional PPP Centre
8	Owner, entrepreneur	Private investor
9	Entrepreneur	Private investor
10	Expert	Regional PPP Centre
11	Senior expert	Regional government
12	Manager	PPP operator
13	Lawyer	Law firm
14	Expert	National PPP Centre
15	Head of department	Regional PPP Centre
16	Senior manager	PPP operator
17	Expert	Regional government
18	Manager	Local authorities
19	Senior expert	Regional PPP Centre
20	Owner, entrepreneur	Private investor
21	Manager	Local authorities
22	Lawyer	Law firm
23	Manager	Private investor
24	Manager	Private investor

5. Results and discussion

Findings were grouped around three themes. They emerged naturally, representing the three principal enablers of rapid PPP deployment in Kazakhstan from 2016 to 2019:

1) availability of simplified procedures for a PPP launch;
2) pressure exerted on regional governments;
3) extensive government financial support to PPPs.

These enablers and entailed implications are discussed in detail below.

5.1 Streamlined and simplified procedures

Procedures for PPP deployment, which were in place up to and including 2015, drew significant criticism owing to the lack of clarity and rigidity. Legal and regulatory barriers, such as the government's tight tariff regulation and regulation of PPP workers' wage rates, served as an impediment to private investment, and the number of PPP projects remained very small (Mouraviev and Kakabadse 2015b).

While by 2015 there was a marked negative impact of tangled PPP procedures on investors, the impact on the government was less noticed. An interviewee explained how managers and staff in regional governments perceived unclear procedures set for the PPP formation:

> *Some workers in regional and local authorities did not see [prior to 2016] any problems with the procedures. Gaps gave them flexibility, and they could design their own procedures. But others in regional governments were reluctant to do something that was not spelled out in the guidelines. That was because of the fear to make a mistake for which they could lose a job or opportunity to be in the good books. And, in fact, the majority were indeed reluctant, rather than enthusiastic, to initiate a PPP in their region. (Interviewee 18)*

The above excerpt shows the dual impact of procedures set for a PPP launch prior to 2016. An intent to facilitate PPP formation by offering a standard procedure appeared incomplete and inconsistent. Procedural gaps and lack of clarity backfired for the government, and PPP-related procedures were not viewed as useful by both private investors and the government workers. This explains, at least in part, why the progress made with PPP deployment in the years prior to 2016 stalled.

There were multiple calls for changes in the PPP-related procedures, and amendments were made and aligned to the new law on PPPs adopted in 2015, which went into effect in 2016 (Law of the Republic of Kazakhstan "On Public-Private Partnership" 2015). The overall change was dramatic, resulting in hundreds of approved projects (Chikanayev 2019a). By 1 June 2020, the total number of PPP contracts reached 786, out of which only 10 are at the national level (Matayev 2020).

Study participants identified a number of reasons due to which PPP deployment in Kazakhstan from 2015 to 2019 became frequent, and the principal reason were the simplified procedures designed for the approval process. These include procedures for preparing, submitting, and reviewing PPP project proposals, organising tenders, selecting the winning bid, and many other details that facilitated the whole process – from an idea about a potential partnership project to its approval

and, ultimately, its launch. An interviewee shared his understanding of how investors perceived PPP-related procedures before and after 2016:

> *Prior to 2016 the procedures were quite unclear. Apparently, investors saw gaps and ambiguity. I remember my conversation with an investor who complained about the vagueness of some guidelines, and he noted that he was aware of other investors who also were unhappy with the procedures. Investors don't like to see some surprises in the form of additional requirements or unexpected interpretation of how unclear procedures should be followed. Then, in 2016, the procedures were streamlined, and it appeared to many that a PPP launch had become much easier. (Interviewee 7)*

A similar opinion was expressed by another study participant:

> *I know a few companies that were interested in PPPs, this was in 2014–2015. But they told me that the criteria for selecting a winner in a tender were vague, which was to their disadvantage. Later on, the process of PPP formation was improved, became much clearer. Investors liked clarity and more certainty, and from the beginning of 2016 partnerships mushroomed tremendously. (Interviewee 16)*

Another quote shows an important detail of exactly how a critical element of the PPP approval process was streamlined. It appeared that, as an alternative to selecting the private sector partner via a tender, the government additionally offered an option of what was called *direct negotiation*. A study participant explains:

> *Many investors took advantage of direct negotiation, which seemed like a way to avoid competition with other companies in an open tender. In direct negotiation there were no bids, and everything was negotiable – what an investor agrees to do, what kinds of financial support an investor expects from the government, the time frame for completing different stages of a project. (Interviewee 4)*

Another study participant highlights a controversy related to direct negotiation:

> *One can argue that bypassing tender procedures allowed launching PPPs easier and faster. Yes, that's true. But is it always good? If there are no competing bids for a PPP contract, how do we know that direct negotiation allowed selecting the best investor, the one who offered the largest value for money? The public sector partner may simply hand-pick an investor for unknown reasons. (Interviewee 11)*

Without focusing on opportunities for corruption and whether or not they were used, another interviewee emphasised macroeconomic, society-wide consequences of streamlined procedures, including direct negotiation for PPP deployment (broadly used from 2016 to 2019):

> *I'm not sure that it was a good idea to deploy so many PPPs so quickly. PPPs create significant liabilities for the government as it has to reimburse most costs to private investors over a very long time – up to 30 years, depending on each project's length. Direct negotiation further facilitated this process of rapid PPP deployment, meaning that it facilitated significant increase in government obligations to pay. (Interviewee 22)*

Here, the interviewee refers to the extensive budget outlays to partnerships, which make many PPPs in Kazakhstan more expensive to the government compared to the government's in-house provision of public services. In many of Kazakhstan's concessions all PPP expenses – both capital and operating – are reimbursed from the budget over many years, while citizens pay nothing (Mouraviev and Kakabadse 2017). This is in sharp contrast to the common practice in industrialised nations, where the private-sector partners' costs are reimbursed by user fees, rather than by the government (Sadka 2007; Hodge et al. 2010; Reeves 2015). In Kazakhstan, direct negotiation as a method of PPP deployment, alongside other streamlined procedures, have led to an exponential growth of PPPs, but also considerably increased overall budget liabilities for years to come. These liabilities will need to be budgeted for, raising concerns about whether revenue will be available to pay for the rising government obligations.

5.2 Pressure on regional governments

Another reason for frequent PPP deployment after 2015 was pressure on regional and local authorities, exerted by the national government. In particular, interviewees emphasised that for each regional government a task to deploy a minimum of five PPPs per year was set and was made a key performance indicator (KPI) for the regions and their heads. The following excerpt explains the significance of this KPI for a region:

> *Once the task [i.e. the KPI] was set for each region, it was viewed as an order that came from the top. After that there was no room for thinking hard whether to deploy PPPs. It was not optional any longer. (Interviewee 3)*

Another study participant confirmed that setting a KPI has had a strong impact on the regional governments:

> *Beginning in 2016, the regional authorities changed their position on PPPs. From being cautious and often reluctant to launch*

> *a PPP, they switched to another extreme and kind of started to compete with each other as to who can form more partnerships. They knew that the central government wanted many more PPPs than the handful that we had earlier. (Interviewee 19)*

This is confirmed by the data of the National Chamber of Entrepreneurs, which states that Kazakhstan regions were assessed based on a number of deployed PPPs (Atameken 2019).

The policy framework for active PPP development was set earlier by the *Kazakhstan-2050 Strategy* (Nazarbayev 2012), which is Kazakhstan's comprehensive long-term ambitious plan to become one of the 30 most developed world economies. Announced by the country's then President, Nursultan Nazarbayev, this document indicates Kazakhstan's commitment to use PPPs for achieving its strategic developmental goals. Subsequently, pressure on regional governments was also exerted via public statements from senior officials, including Kazakhstan's President and Prime Minister. For example, in October 2019 at the national government's meeting on PPPs, Prime Minister Askar Mamin pointed out the need to intensify work on PPP deployment, emphasising that this is one of the government's priorities (PPP news 2019).

Assessing the pressure on regional governments, it is worth emphasising that this pressure contradicted the fundamental reason due to which a PPP is normally chosen as a method of public service delivery (Morallos and Amekudzi 2008). This reason is that a PPP should yield VfM, that is, a PPP should be deployed when the PPP's total whole-of-life cost is smaller than the cost of in-house public service delivery by the public sector (Colman 2000; Mouraviev 2012). Pressure to deploy a certain number of PPPs without regard to each PPP's cost effectively means that VfM was not used as the principal justification for PPP deployment. This raises concerns about the actual cost of partnerships for the nation and its population. Furthermore, departure from the VfM criterion raises questions about what reasons, from the government's perspective, drove extensive PPP deployment.

When asked about these reasons, interviewees pointed out two overlapping motives: use of the private sector's funds, rather than the government's budget, and the government's unjustifiable expectations associated with PPP deployment. The findings about these two drivers are presented and discussed below.

Reliance on private-sector funding

Referring to the period 2016–2019, an interviewee explained the thinking behind making use of the private funding:

> *The government's thinking about PPPs switched to the discussion that the construction of a facility, such as a stadium, will be financed by a private investor, rather than from the budget. And*

> *after that the details of how exactly a PPP should be launched, tender procedures and other things became kind of technical, not really important. (Interviewee 14)*

This opinion is shared by another study participant:

> *I heard many times from the government staff that PPPs are not the main object of their attention because these projects are much like private business. Of course, there is a public sector's contribution. But a project is viewed as essentially private investment. It seems that there are no serious concerns about how good the procedures are as long as they lead to a PPP launch. (Interviewee 2)*

Yet another study participant provides a different perspective that shows a change in the level of PPP governance, highlighting a shift from the national level to the regional:

> *Prior to 2016, we [the country] had a small number of PPPs, and they were national-level projects, where a national ministry played the role of the public-sector partner. Of course, these projects attracted lots of government attention, and the government will keep monitoring them. But then [since 2016] the task was largely shifted to the regions. And PPPs became mostly their concern. (Interviewee 21)*

A shift to the regional level and its implications for a de-facto change in PPP deployment criteria were also pointed out in the following citation:

> *When a number of PPPs started growing fast [in 2016–2019], the way how each PPP was launched and whether or not it would deliver value-for-money became a lot less important. What was more important was the sheer fact that so many PPPs per year were launched. (Interviewee 8)*

This confirms the intentional nature of pressure and a change in governance, where the central government refocused PPP deployment from the national level to the regional and local levels.

Unjustifiable expectations

The government's unjustifiable expectations associated with PPP deployment could be found in a few areas. One opinion emphasises a limited effort that the government needs to make to ensure that PPPs are running successfully:

> *The government believes that it contributes land or some outdated facility, and its efforts stop there. Then the government expects a private investor to take care of the rest, and in a year or two the*

> *services will be provided without any government involvement. (Interviewee 6)*

Similarly, another study participant explains:

> *Many in the government are unaware that quite a few PPPs receive generous financial support from the budget, in addition to land. So, a PPP looks like an easy and convenient option when the government does not contribute much, and most effort is required by the private investors, who will deliver public services instead of the government. (Interviewee 13)*

Other interviewees also confirmed that the prevailing mindset in government was that it does not need to do much to manage a PPP once it is launched. This misconception among government workers perhaps emerged due to the relative novelty of PPPs in Kazakhstan and the limited experience in their implementation. In reality, governance is required throughout the whole length of a project term, as PPPs tend to renegotiate tariffs, often do not meet the deadlines, and their service quality may deteriorate (Hodge et al. 2010; Dewulf et al. 2012; Mouraviev and Kakabadse 2014b).

Another unreasonable expectation was about alignment with the world best practice, such as that of members of the Organisation for Economic Co-operation and Development (OECD). An interviewee explains:

> *Best practice of the Western nations was and is often used as justification for PPPs. If we don't have many PPPs, this creates an impression that our country is kind of lagging behind. And the thinking is that we need to do the same, launch PPPs, so that we can catch up to become much like many developed nations. (Interviewee 9)*

It is worth noting that the PPP experience of many economies (e.g. Australia, Ireland, UK, US) has been controversial, and a number of PPPs around the world have not been successful, leading to the misuse of public funds (Hodge et al. 2010; O'Nolan and Reeves 2018). Therefore, pointing to the positive international experience without also showing problems and failures means an unbalanced assessment that favours PPPs and downplays their disadvantages, which might have created a distorted picture of PPPs among some government officials and staff.

The opinion about embedded government expectations is shared by another study participant who identified "a certain pattern":

> *The laws on concessions [of 2006] and on PPPs [of 2015] have been adopted but where are the PPPs? It looks like the government follows a certain pattern – first, it passed the laws, designed regulations, and created PPP centres in each region. Second, it*

> *tested the market conditions with a few pilot PPP projects and also by making use of Russia's experience. Third, it now wants all of that to work – the government expects a large number of PPPs to be launched, and this is exactly what we see. (Interviewee 5)*

This participant's insight highlights what could be described as euphoria stemming from successfully created legal, regulatory, and institutional frameworks for PPPs, accumulated experience (since 2006), and the expectation that PPPs will dramatically improve the situation with public services in Kazakhstan. As by 2015 it seemed that all preparations had been made by the government, the expectations for large-scale PPP deployment were embedded in the noted governance pattern and then materialised in the period 2016–2019.

5.3 Extensive government support to PPPs

Another reason explaining the large number of PPPs deployed in Kazakhstan from 2016 to 2019 is the high availability of government financial support to partnerships. The 2006 law on concessions offers a large variety of forms of state support to concessions including: government subsidies; compensation of concessionaires' investment costs and operating expenses; payment of a rental fee for the use of a facility owned by a concessionaire; availability payment that is made to a private operator for keeping a facility up and running; government guarantees on private partners' loans and infrastructure bonds; in-kind grants to a private partner; co-financing of concession projects; and guaranteed consumption by the state of a certain amount of goods and services produced by a PPP during project implementation (Law of the Republic of Kazakhstan "On Concessions" 2006). Similar forms of state support are specified in the 2015 PPP law, article 27 (Law of the Republic of Kazakhstan "On Public-Private Partnership" 2015).

Interviewees confirmed that the vast majority of PPPs deployed from 2016 to 2019 enjoyed one or more forms of government support, effectively decreasing the private investors' costs. A study participant argued that:

> *Many PPPs received government financial support and used as many forms as they could. The PPP law allows this. In fact, the law allows that all expenses, absolutely everything, could be reimbursed by the government. It would be simply foolish to not draw financial support – the more a PPP receives, the less it has to pay itself. (Interviewee 12)*

Another interviewee expressed his opinion that was commonly shared by the study participants:

> *The financial support seemed abundant. It's not surprising that there was a rush to launch PPPs for a few years since 2016. Some investors were so encouraged by the newly passed PPP law that*

> *they thought it was the opportunity of a lifetime. Not only could the government pay some, or most, or even all project expenses, but it could also guarantee that it would buy all PPP services. This means that the PPP's revenue stream could be guaranteed. No need to worry about selling the services or problems with revenue generation in a long-term project. (Interviewee 2)*

This excerpt explains that for some PPPs the principal kinds of risk, such as revenue risk and risk of non-payment, could be eliminated to a large extent or even completely. The larger the government's payments to a PPP, the lower the private-sector partner's risk. The sheer existence of an opportunity given by the concessions law that the government could offer a contractual guarantee to purchase a certain volume of PPP services encouraged many private investors to make use of this legal provision to their advantage, thereby reducing their risk but also increasing the government's obligations.

Extensive support to PPPs is also linked to the simplified procedures for partnership formation already discussed as another reason for a large-scale PPP deployment. As many projects were approved by direct negotiation between an investor and the government, rather than by the outcomes of competitive bidding, it is likely that direct negotiation played a notable role in how much financial support was extended to partnerships from 2016 to 2019. In the following comment an interviewee argues that:

> *If an investor presents compelling arguments that some parts or stages of a PPP project will cost more than the proposal says, there is a good chance that the government will agree to a re-designed proposal, with higher costs. The same logic applies to requests for government support. Prove that without certain injections [to a PPP] a project becomes unprofitable or simply unattractive, and the government will have no choice but to pay. (Interviewee 20)*

A similar view is expressed by another interviewee:

> *Once the public-sector partner chooses direct negotiation, it effectively gives up an opportunity to run a tender. But in direct negotiation the government locks itself in to a degree. Talking to just one investor may take a long time, and if this investor walks away, the project goes nowhere. The same might happen negotiating with another investor. In these conditions the government has to agree, at least in part, to many requests that come from an investor. I think in direct negotiation an investor has very high chances to get what it wants. (Interviewee 17)*

Many interviewees observed how various sources indicate that more than 50 % of all PPPs were formed by direct negotiation, although official statistics are unavailable. While it is likely that the prime goal of direct negotiation was/is to speed up the PPP formation process, it had an unanticipated impact on the government contribution to PPPs and on the overall PPP costs. In the PPP contract negotiation, a private investor might be able to convince the public-sector partner to raise the overall project cost and the government's contribution, such as by explaining certain difficulties and risks facing an operator or by promising a higher quality of services. The larger the project's cost, the greater the government's reimbursement of costs might be, although this link is not necessarily straightforward. Therefore, due to limited competition and lack of transparency, direct negotiation has a significant potential to (a) increase the project's cost and/or (b) increase the volume of the government's support to a PPP.

All forms of government support to partnerships are still available as they are spelled out in both the law on concessions and the PPP law. Many interviewees confirmed that financial support played a very controversial role in rapid PPP deployment in the country.

6. Conclusions

What happened in reality was not exactly what the government had expected. While in its three peak years (2017–2019) more than 700 PPP agreements were concluded, the vast majority of them are small and/or service-type PPPs in education (e.g. kindergartens) and healthcare (Chikanayev 2019b). Compared to just five concessions approved by Kazakhstan's government from 2007 to 2011 (while none of them has been launched) and just three ongoing PPP projects as of early 2016 (Mouraviev and Kakabadse 2017), the number of PPP contracts signed during the peak looks remarkable. However, was it an intended result? In a service contract, a private company does not make an investment, as the contract does not require the construction or renovation of a facility but rather requires management and maintenance. Therefore, service-type contracts raise concerns about the possible misunderstanding and/or misuse of Kazakhstan's 2015 PPP law and the entire PPP concept. As the newly concluded PPP contracts were based on the 2015 law (keeping in mind that the law on concessions was passed a while ago, in 2006), this suggests that the PPP concept was stretched and was embedded in the adjusted legal framework, after 2015, in a form that includes all kinds of collaboration between the private and public sectors.

By itself, a stretched understanding of PPPs does not necessarily lead to their quick and easy formation. Certain additional factors – direct negotiation, pressure on regional governments, unjustifiable expectations associated with PPP deployment, and misconception about PPP governance – played a role. This quick and

easy formation created problems: experts argue that some of the earlier PPP tenders are likely to be challenged in the courts in the near future, owing to errors and possible misuse of the PPP mechanism (Chikanayev 2019c).

6.1 Lessons from the application of agency theory and property-rights theory

Applying agency theory to Kazakhstan's rapid PPP deployment, it is worth emphasising the misalignment of economic incentives, likely in the pursuit of the public-policy goal to make progress in PPP advancement (Miller 1992). While the government's expectation was that its gains would exceed those of private firms (i.e. that public services are provided at a cost that the government deemed acceptable), this has not materialised. Rather, the understanding grew that the government payments to PPPs formed a large and rapidly increasing part of the budget, when some analysts raised serious concerns whether the government would be able to meet its obligations to PPPs in the near future, should this fast PPP deployment continue.

The principal-agent relationship rests on the effectiveness of the economic incentives of the contracting parties (Pratt and Zeckhauser 1985). In this relationship, these incentives are structured chiefly (and naturally) by the principal. While in Kazakhstan bargaining positions of the government and of private firms were initially similar, allowing reaching agreements on PPPs relatively easily and quickly, it is worth emphasising that it was due to the government's willingness to pay more, i.e. to increase its contribution to PPPs. Once the government altered its position in mid-2019, arguing that the private-sector partners need to count mostly on their own resources, which would ensure reliable revenue stream for them, the PPP deployment in the country stalled. This allows concluding that there was a misalignment of economic incentives in the first place, leading to unjustifiably speedy PPP development in the country. Even with monitoring in place (although monitoring PPP work is likely to be costly due to the high degree of complexity of their business; Arrow 1985), the misalignment of economic incentives leads to economic and also societal loss (Levinthal 1988). This loss may manifest itself in a variety of situations. For example, the larger budget outlays to PPPs will lead to inevitable budget cuts for other social, educational, economic and all other projects and expenses. In the case of PPP failure (e.g. when a project remains uncompleted), citizens might not be able to receive the required quantity and quality of public services. In the case of project-cost overrun, the government and citizens are likely to face the need to pay more for public services (and for related inefficiency). In some extreme cases, when a private-sector partner walks away in the middle of a project, citizens might not receive public services at all. The lesson from the application of agency theory is that Kazakhstan's initial emphasis on minimising agency costs has backfired in the form of the rapidly emerging need to correct the original misalignment of economic incentives. This was accomplished in Kazakhstan in 2019 by re-focusing

agents' efforts on making efficient use of their own resources, rather than relying on government contributions.

The study allows drawing a similar conclusion from the application of property-rights theory. A very large number of PPP contracts concluded in Kazakhstan during its three peak years means that a very large volume of property rights have been transferred to private hands, which can be viewed as government failure to reach satisfactory (for the government) economic outcomes (Libecap 1989; North 1990; Kim and Mahoney 2002). Keeping in mind that property rights' transfer also means transfer of control (Grossman and Hart 1986; Hart 1995), it is unlikely that this was an intended outcome for Kazakhstan with its highly centralised political structure and authoritarian governance (see, e.g., Fauve 2015; Furstenberg 2018). Furthermore, as property-rights theory requires a look at the expected distribution of income, a large number of concluded PPP contracts means that income distribution shifted significantly toward private companies in the form of guaranteed government payments to PPP operators for many years to come. This is an ongoing problem in Kazakhstan. Although since mid-2019 the government shifted the policy and started allowing only those PPPs where investment is fully provided by private firms, it mitigates this problem only in part – the PPP contracts already concluded in 2017–2019 still have to be honoured, and the government must meet its financial obligations. In practice it means that a large and growing part of the government budget will have to be earmarked for payments to PPPs in the coming years, which sets significant constraints for social programmes and economic development in general.

Inefficient initial allocation of property rights (Kim and Mahoney 2002), when the government was prepared to reimburse most of the private investors' costs and which peaked in 2017–2019, has led to contracting outcomes that the government itself viewed as suboptimal by mid-2019. Subsequently, it completely departed from its own views on how property rights and, particularly, distribution of income should be arranged in the proposed PPPs. This means that the government (a central party in contracting negotiations) made a change toward reallocating property rights to increase its own benefit, which is consistent with property-rights theory (Miller 1992).

This conclusion drawn from the application of property-rights theory echoes with insights into the misalignment of economic incentives, which were drawn from the application of agency theory. Thus, although two theories are concerned with different goals (property rights theory – with improvements in social welfare; Coase 1960; Alchian and Demsetz 1973; North 1990; and agency theory – with minimising agency costs; Jensen and Meckling 1976), their application allowed arriving at conclusions that closely align with each other. These conclusions are also in agreement with the application of the value-for-money concept, which is discussed

below, focusing on identifying implications for the government, policy and investors.

6.2 The implications of rapid PPP deployment for the government and policy

The implications of Kazakhstan's swift PPP development include a significant increase in the scope and size of government liabilities; the need to reinstate the VfM approach to PPP formation; and the need to replace government support schemes to PPPs by a new project selection process. This section provides further details.

One implication is that overused financial support to PPPs, facilitated by the direct negotiation of partnership contracts, led to the significant increase in government obligations to pay. It is likely that in the foreseeable future the government will have to balance the need to pay PPPs with other social and economic needs, and allocating money to pay PPPs means that other budget expenses, including those for public services, may need to be reduced. At the very least, the national government needs to pay special attention to managing its long-term liabilities to private investors (e.g. by collecting information in a timely manner and making sure that budget revenue will suffice to pay for the government obligations). The need to pay its liabilities may put the government in a challenging situation in the not-too-distant future.

Another implication is that the VfM approach appeared largely abandoned. Pressure on the regional governments was perceived by them as an institutionalisation of the government's commitment to deploy PPPs on a very large scale. Study findings show that setting a KPI for the regions to annually deploy a certain number of PPPs along with other kinds of administrative pressure on the regions crowded out the VfM approach. Pursuing PPP deployment, the use of the VfM criterion gave way to government's opportunism, where the government's perspective was that the private sector's engagement in PPPs outweighs their costs. Here the private sector's engagement refers to the use of private funding and private firms' expertise for building and/or upgrading infrastructure and for public-service delivery. To conclude, VfM needs to regain its importance as the principal criterion for PPP formation.

In mid-2019, Kazakhstan's government overhauled its PPP governance. President Tokayev stated that PPP development went in the wrong direction, as 90 % of all PPP costs are government liabilities (Tokayev 2019). The government became reluctant to grant financial support to partnerships, and only those PPPs that did not require any compensation from the budget could be deployed (Yeshimova 2019). The revised approach is aligned with the VfM criterion as the approach aims to significantly reduce budget expenses (Colman 2000).

Furthermore, it would be useful to make changes to the legal and regulatory provisions that offer a large variety of forms of financial support and reimburse-

ment to the private investors. This would limit the potential scope and size of government liabilities and would reduce opportunities for corruption (OECD 2008).

In addition, yet another implication for the government refers to the need to replace its own support schemes to PPPs with a new project-selection process. As prior to mid-2019 extending many kinds of financial support to partnerships was the government's routine practice based on what the PPP legal framework spelled out (and these provisions are still in the law), phasing out the support schemes means a significant change in governance, when the government organisations need to evaluate, select and approve PPP projects differently, using a fundamentally different approach where standardised procedures and contracts are replaced by assessment on a case-by-case basis. To do this efficiently, the government needs to develop a set of new criteria, focusing on value-for-money in the PPP projects.

6.3 The implications for investors

As rapid PPP deployment has quickly transformed into a policy shift characterised by the termination of government-support schemes to PPPs, there are at least three implications for investors, which refer to the impact on their ability to mobilise the private-sector funding for investment; their ability to implement a project without government financial support; and the disincentivisation of private investors due to a lack of trust. These three implications are discussed below.

The first implication refers to the investors' ability to secure financing from the private, rather then government, sources, which means that investors have to come up with their own funds and, likely, with the letters from the banks certifying an agreement in principle to lend money to finance a future PPP project. Securing funding may be extremely challenging, as PPP projects are long-term (often 15 to 20 years or longer), which entails a much higher risk for a PPP investor and for a bank compared to a short-term investment (e.g. five years). This is because the payback period is quite lengthy, and also because risks of changes in the regulatory environment, exchange rate and all other business conditions are very high.

The second implication for investors refers to their ability to implement a PPP project without government financial support. As without this support the risk of project failure significantly increases, at the project screening and approval stages investors are likely to be subjected to scrutiny by the public-sector partners in relation to their ability to implement a project (a) in partnership with the government and (b) within the project's stated terms and conditions. Extensive checks might occur in all areas critical for successful performance including: financial statements; tax returns; profiles of the senior management team; technical expertise of an investor and its key staff; completed projects; and many other details depending on a proposed PPP project. Although this scrutiny might produce useful data for the public-sector partner, private investors might view it as excessive and as an undesirable infringement in privacy and simply might walk away from PPPs.

The third implication is in the area of incentives for private investors, looking at the bigger picture of private-public collaboration. As some (and many) investors already have embedded expectations of extensive financial support for the PPP projects from the government, investors might be disincentivised by the sharp decrease of government funding and might turn away from even thinking about investing in the infrastructure projects. Furthermore, the government reputation, as perceived by investors, may be tarnished due to the policy shift from extensive support to no support at all. As investors typically do not welcome withdrawal of government support schemes, this might be viewed by investors as an indication of a more profound shift within the government policy that encourages private participation in the public infrastructure projects and private investment in general. In other words, investors might view the sharply reduced financial support to the PPP projects as a signal of the broader changes that they (investors) have to anticipate. Lack of trust between the government and the private sector, which stems from the government dominance in the Soviet time, is unlikely to be reduced by changes in the PPP deployment mechanisms that underwent radical transformation – from benefitting due to the extensive government support to receiving no financial support at all.

The broader implication – both for the government and investors – refers to the need to reconsider the overall concept of PPP governance (Steijn et al. 2011; Alam et al. 2014). Reliance on a contract, whether it is viewed as successful or less so, between the public and private-sector partners is unlikely to suffice, given that long-term contracts are inevitably incomplete, and problems between the partners emerge over time. To rectify these deficiencies, moving from contractual to collaborative governance might deliver better results of PPP projects (Van Gestel et al. 2012; Klijn and Koppenjan 2016; Flyvbjerg 2017).

Assessing Kazakhstan's experience from the international perspective, a lesson could be drawn for those nations that are considering PPPs and might be looking for the ways to accelerate their deployment. This applies to ex-Soviet nations, such as Armenia, Kyrgyzstan and Tajikistan, as well as other developing economies in Asia and Africa. The lesson elucidates the need for governments to take a cautious stance regarding how property rights are allocated and partitioned, adopting a long-term perspective that would ensure that economic incentives of the contracting parties are balanced. Kazakhstan's experience showed that if one set of incentives in PPPs prevails (e.g. when private firms receive disproportionally more benefits than the public sector), improvements in social welfare may be significantly compromised (i.e. may come at a high cost for society) or not received at all. Drawing on the stages of Kazakhstan's slow (prior to 2017), then fast (2017 to 2019), and then again slow (mid-2019 to present) PPP development, policy makers, particularly in developing countries, would appreciate that unbalanced economic incentives inevitably lead to policy shifts, aiming to alter property-rights allocation in the direction that would satisfy the public interest. Therefore, policy-making would benefit from the appli-

cation of a balanced approach to setting economic incentives to the contracting parties in PPPs.

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