HOW PUBLIC-PRIVATE PARTNERSHIPS IN KYRGYZSTAN CAN BE DEVELOPED MORE EFFECTIVELY: A CASE STUDY APPROACH

By

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Abstract

The purpose of this study is to develop policy recommendations on how public-private partnerships (PPP) in Kyrgyzstan can be developed more effectively, transparent and beneficial for the society as it is the final beneficiary of PPP, as well as for the public and private partners and involved investors. The research idea is to select and analyze case studies of PPP infrastructural projects with completed construction and ongoing operations from post-socialist countries, gain an understanding of these projects' experience, successes and mistakes and develop relevant policy recommendations for PPP projects in Kyrgyzstan. The research is implemented using the case studies method. The case studies of two PPP projects from Poland and Russia are selected for the thesis: paid underground parking "Immo Park" at the Nowy Targ square in Wroclaw, Poland, and Western High-Speed Diameter (toll highway) in Saint-Petersburg, Russia. Information about the projects is collected from various online sources, including academic papers, annual thematic reports issued by government authorities, and news reports in English, Russian and Polish languages. The study makes a point to notify the readers that PPP can become a source of problems for the public sector, depending on the project area and if the PPP agreement is not balanced and was not developed in favor of the people's welfare. Policy recommendations to Kyrgyzstan regarding PPP concern several areas: (1) strengthening the work around PPP legislation, (2) deeper engagement with local communities and civil society, (3) stronger local governments, (4) environmental compliance and (5) improvement of specific PPP preparation and implementation processes.

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Table of contents

List of Figures, Tables or Illustrations

List of Abbreviations

ADB: Asian Development Bank

EBRD: European Bank for Reconstruction and Development

EDB: Eurasian Development Bank

JSC: Joint Stock Company

KR: Kyrgyz Republic

LLC: Limited Liability Company

PPP: Public-private partnership

RF: Russian Federation

VEB: VneshEconomBank

VTB: VneshTorgBank

WHSD: Western High-Speed Diameter

Chapter 1. Introduction

Since the Soviet Union collapse, Kyrgyzstan has been undergoing deficit in infrastructure which is manifested in poor condition of roads, healthcare and education facilities, as well as water and energy supply systems. The Global Competitiveness Index reflecting countries' infrastructure quality finds that among 141 countries in 2019, Kyrgyzstan was ranked 96th overall, 103rd in infrastructure quality, 129th in transport infrastructure, and 115th in electricity supply quality (Schwab 2019). Low-quality infrastructure places a heavy burden on society leading to low productivity and competitiveness and lower life quality of population.

According to Kalikova and Rahmidinova (2010), the state budget does not cope with the task of timely and full-fledged financing of infrastructure facilities. Private investments in infrastructure attracted through public-private partnership can be of great support to the economy. Given the critical condition of infrastructure and inability of the republican budget to finance it, PPP development is considered as a vital necessity in Kyrgyzstan.

Public-private partnership in Kyrgyzstan is a novel attribute in the economy with ascertained legislation basis. The new law on PPP has been accepted in July 2019 and has come into force in October 2019. However, it is disputed that the Development program of public-private partnership in Kyrgyzstan 2016-2021 does not correspond to reality, goals are unattainable, and the action plan has lost relevance (Kalikova and Rahmidinova 2019). It is necessary for the government to develop a new Program that sets real and measurable goals, as well as specific actions, deadlines and responsible persons for its implementation.

Kyrgyzstani entrepreneurs show general interest in PPP, however they do not consider it as a trustworthy mechanism of cooperating with the state. They acknowledge that engagement with the government entails political, economic, environmental, social and many other risks

(Kalikova 2018). There is also mistrust towards the government regarding its ability to shield private partner's investments, as Kyrgyzstan's public administration system is characterized by frequent turnover of senior political personnel.

The general main goal of PPP is to ease the burden (including financial burden) of infrastructure building for the government. However, when the infrastructure starts operating, the government starts making regular payments within a defined period to the private partner who constructed and operates the infrastructure in order to compensate his construction and other costs. This can place significant pressure on the government budget. In some cases, total payments from the government to a private partner can considerably exceed the expenses that government would bear if it would build the infrastructure on its own without involving a private partner. Therefore it is important to learn from past experience of others in order to develop better PPP projects which are beneficial for public and private partners and, more importantly, for the general population.

The research idea underlying the thesis is to select and analyze case studies of PPP infrastructural projects with completed construction and ongoing operations from post-socialist countries, gain an understanding of these projects' experience, successes and mistakes and develop relevant policy recommendations for Kyrgyzstan PPP projects. The case studies of two PPP projects from Poland and Russia are selected for the thesis: underground parking "Immo Park" at the Nowy Targ square in Wroclaw, Poland and Western High-Speed Diameter (toll highway) in Saint-Petersburg, Russia. The thesis attempts to contribute to bridging a gap in the literature and draw more understanding of how PPPs are currently run in post-socialist countries on the example of these two cases. The research is directed by the following research questions:

- What stages, financing arrangements and risks were in the considered PPP case studies?

- What problems occurred during development process of the considered PPP case studies?
- How public private partnerships in Kyrgyzstan can be developed more effectively?

In the next chapters of the thesis, I present the literature review covering key aspects and processes of PPP, various advantages and disadvantages of PPP, with a closer view on risk allocation in PPP (Chapter 2), provide an overview of PPP in Kyrgyzstan highlighting target areas for PPP and the PPP legislation issues (Chapter 3), present research methodology with explanation of using case study method and the research stages (Chapter 4), introduce to the readers the case studies of two PPP projects from Poland and Russia covering various aspects, stages, financials and issues of the projects (Chapter 5), discuss the limitations (Chapter 6) and provide concluding remarks and policy recommendations (Chapter 7).

Chapter 2. Literature Review

2.1. Introduction to the concept and features of PPP

Zhang et al. (2015) observe that the PPP is an umbrella term, as it has different roots depending on a country or organization: for instance, it is private finance initiative (PFI) in UK, concession in France and many other countries worldwide, and private participation in infrastructure (PPI) at the World Bank. It can be complex to grasp the public-private partnership (PPP) concept and provide systematized review because the concept is not straightforward in its essence and involves many various aspects and backdrops.

HM Treasury (2000) of the United Kingdom Government defines a PPP as "a long-term agreement between public and private sectors for mutual benefit". Gray et al. (2010) provide the following definition of PPP: "A PPP is a contractual arrangement between government and the private sector, usually for the delivery of a piece of social infrastructure or a social service".

Demirag et al. (2011) note that in the PPP, services are delivered by utilizing private finance and the public partner signs a PPP contract with a special purpose vehicle (SPV), or the private sector consortium, which in its turn "sub-contracts the finance, design, construction, maintenance and soft services to companies that are often related to its shareholders". Thus, Demirag et al. (2011) conclude that a PPP project is provided by a substantial chain of connected companies. For better understanding of the concept, the following note adds to the researchers' argument: SPV is usually a company created by the members of the private sector consortium which will be further responsible for the project construction. According to Jamali (2004), public partner controls major legal and regulatory resources needed for a project development, whilst private partner involves technical experience and capital. Thus, public and private partners play a complementary role to each other during PPP.

Alfen (2009) notes that the countries worldwide have embraced PPP on different levels and have utilized PPP procurement in its different forms. Researchers and practicing specialists (Abdel (2007), AECOM Consult Team (2007) and Mallet (2008) recognize many contractual agreements as PPP, for instance, design–build–operate–maintain, build–own–operate and even design–build schemes, as well as fee-based contract services. Zhao (2011) notes the most commonly used models of PPP are Design-Build-Finance (DBF), Build-Operate-Transfer (BOT), Design-Build-Finance-Operate-Maintenance (DBFOM), etc.

According to Alfen (2009), industrialized countries implement PPPs in provision of public services among which are health services, education, public buildings and waste management; whereas developing countries with lack of necessary infrastructure have a demand for PPPs in the water, power and road segments which reinforces the countries' faster economic growth. From a list of projects published by the PPP Center under the Ministry of Economy of the Kyrgyz Republic (2020), it is observed that out of total 29 PPP projects, there are 13 public building, 5 healthcare and 4 education projects in Kyrgyzstan. Whilst, all Kyrgyzstani projects published by the World Bank's PPP Knowledge Lab are in natural gas, water and ICT sectors. Relying on Alfen's (2009) argument, the first breakdown of projects provided by the Ministry of Economy features Kyrgyzstan as an industrialized country, while the World Bank's information shows Kyrgyzstan as an industrializing country. The respond to this can be that for full-fledged development, the country needs infrastructural projects aimed at both economic and human capital development.

Literature provides analysis on the features attributed to PPP agreements. Gray et al. (2010) notes the first feature is that a PPP contract is associated with a private sector consortium consisting of at least one bank (responsible for financing), construction companies (responsible for design and building) and an operation company (responsible not only for operations, but

also for maintenance and revenue collection). The second feature is that a PPP contract includes regular cash payments made by government to the private partner throughout a concession period which typically lasts at least 20 years, and during the concession period the private sector consortium owns the asset after which it is transferred to government (Shen et al. 2006, Nisar 2007). Pollock & Price (2004) add that private partner uses the revenue stream received to pay back debt, finance operations and make profits to investor, and generally it is an annual revenue stream. Third feature is that government and private consortium share project risks in the PPP agreement (Gray et al. 2010). This demonstrates general and major components which are shared by all PPP projects across the world and will later be reflected in the case studies.

2.2. Advantages and disadvantages of PPP

As any kind of cooperation method, PPP has both advantages and disadvantages. Jamali (2004) finds one of the advantages for public partner is that financial burden on public resources diminishes and this is particularly important for economies with limited budgets. Spackman (2002) and Nijkamp et al. (2002) find that when government cooperates with a private partner, there are generally new ideas generated, objectives are more definite, planning is better, and most importantly, there is a greater value for money. Jamali (2004) observes that international financial institutions, e.g. World Bank and IMF, use financial provision to PPP projects as a mechanism to push developing countries to make their governments efficient and cooperative. A government finds PPP mechanism attractive mainly because it allows to create infrastructure without burdening the budget at first.

Pongsiri (2002) assumes that the public partner gains benefits from PPP in the form of reasonable and suitable allocation of responsibilities and risks, better provision of service, and cost-efficiencies. It can be challenged that cost-efficiency is always the case in PPP: in some

cases, a project launched on the grounds of PPP agreement will leave government to spend more funding that if it would build the facility by itself. Miller (2000) and Leitch and Motion (2003) point out that when working in fair conduct and good conscience, it is proven that participation of a private partner leads to lower costs and less amount of risk for the public partner. On the other hand, Scharle (2002) acknowledges that the private partner expects to make appropriate profits and have a good return on investment and thus boost its investment potential and expand business activities by being able to access more opportunities.

The World Bank (2011) states that in PPP, public partner benefits a lot from private sector's participation in the agreement and also from the opportunity to outsource risk to private partner who also administers and funds public service provision. Chowdhury et al. (2011) and Hwang et al. (2013) agree that plenty of countries have utilized PPP because it enhances working efficiency, stimulates innovations in managerial and technological skills and rises engagement of private sector in public services.

As for more advantages, Moreno (2010) discovers that PPP cuts down the existing infrastructure gap in a country without highlighting tight budget restrictions that a country most probably has. Risk sharing is an indispensable part of PPP which, according to Cruz and Marques (2011) and Li et al. (2005), reduces the likelihood of the budgetary and time slippage issues. Grimsey and Lewis (2002) add that a private partner brings strict control measures and management competences into a PPP which advance the project efficiency and lead to costs reduction.

As for disadvantages, Mota and Moreira (2015) indicate that the possible problems which can emerge during PPP will impact the public sector, as a whole. Tsybine (2003) says that PPP contracts have a long-term nature which wrecks the idea of competition: a private partner with a 30-year contract has a 30-year monopoly on the service provision, consequently the public is

shut in the long contract and cannot opt for better proposals. On contrary, if the contract is short-term, this motivates a private partner to establish and maintain good relationships with local government and fulfil agreements in order to have the contract extended (Tsybine 2003). Maskin and Tirole (2008) suggest that if the same private partner constructs and operates the infrastructure, the service quality may deteriorate because the best constructor is not necessarily the best in service operation and delivery. It is observed that Mota and Moreira (2015) highlight the most important argument: PPP may negatively impact future generations of citizens, as over time the project may have higher compulsory expenses and latent debt.

Vitorino (2005) thinks that a negative feature of PPP is potentially higher costs of capital, while Cowen and Parker (1997) refer to higher transaction costs which will be proportional to the duration and multiplicity of a PPP contract. Colverson and Perera (2012) and Shaoul et al. (2012) point out that there may be loss of transparency if it will be hard to access information from the private partner. Lastly, Abadie and Howcroft (2004) acknowledge that while private partner performs service delivery, public sector may lose management control over the project. Moreover, PPP is not insured from the conflicts of interests which may potentially arise. Sharma et al. (2010) claim that it is not always the case when public interests ideally align with private partner's interests: while government strives to produce the maximum of social benefits from a PPP project, the private sector is bound to create economic profits and return on investments.

2.3. Risks and risk allocation in PPP

Shen et al. (2006) identify 13 categories of risks affecting performance in PPP: "site acquisition risk (R-1); unexpected underground conditions (R-2); pollution to the land and surroundings (R-3); risk of land reclamation (R-4); development risk (R-5); design and construction risks

(R-6); changes of market conditions (R-7); inexperienced private partner (R-8); financial risks (R-9); operation risks (R-10); industrial action (R-11); legal and policy risks (R-12); force majeure (R-13).” A number of researchers (Baldry 1998, Chou et al. 2012, Grimsey and Lewis 2002, Zhao 2011) agree that PPP projects in infrastructure building encounter somewhat eight basic risks: “political risk, legislative risk, administrative/regulatory risk, financial risk, revenue risk, design and construction risk, operating and maintenance risk, and contract risk”.

Risk allocation is a fundamental process of assignments measurement between private and public partners of PPP, and if both parties carry a specific consequence of risk, that is a mechanism of shared risk allocation (Bing et al. 2005). Wang et al. (2004) highlight that it is essential for risk management processes of a project to determine preferences for risk allocation in a speedy manner. The main rule for risk allocation in PPP is to designate project risks to the parties who can manage them in the best way, as each of the parties posesses a certain level of risk tolerance and ability to manage specific risks (Bing et al. 2005, Van Ham and Koppenjan 2001). Alfen (2009) adds that in theory these rules and standards are common sense, however in practice the process of risk allocation is quite challenging, because negotiating potential of the parties highly impacts risk allocation.

Gray et al. (2010) believe that the PPP project risks are shared between public and private partners in the following way: private partner usually carries demand risk, for instance, uncertainty of the traffic volume at a freshly built toll road or construction risk, e.g. a sub-contractor will face a loss and will have to be substituted which may cause delay; as for government, it will bear at least residual delivery risk – if the private consortium fails for any reason and is not capable to complete its contractual obligations, then government probably will have to make an action to arrange that the project outcomes can be delivered. Shen et al. (2006) find that legal, site acquisition and policy risks should be allocated to the public partner,

whilst private partner is more effective at bearing design, construction, operation and industrial action risks. However, development, financial, market and force majeure risks are recommended to be shared between public and private sectors (Shen et al. 2006).

Wang (2015) proposes that risk allocation between the parties is one of the partnership-related factors within the critical success factors of PPP. Mota and Moreira (2015) claim that appropriate risk allocation is crucial for a PPP to be lucrative. Shen et al. (2006) specify that appropriate risk allocation in PPP projects is a principal requirement to attain value for money. Suitable risk allocation is one of the key critical success factors of PPP (Chou et al. 2012), but the opposite does influence "private participation and the PPP success rate" (Chou and Pramudawardhani 2015).

The literature review has achieved its aim in covering major characteristics and processes within PPP. It also provides various advantages and disadvantages of PPP, thus informing that, while claimed by many countries to be a beneficial way to build new infrastructure, it also may have negative features for the public sector, if PPP agreement contains aspects that are not in favor of the government and the welfare of citizens.

Chapter 3. Overview of PPP in Kyrgyzstan

Implementation of PPP projects in Kyrgyzstan remains limited. The website of the PPP Center under the Ministry of Economy of the Kyrgyz Republic (2020) shows that out of total 29 PPP projects, only one PPP project is currently in operation stage, another one project is in construction stage, and another one project has finished private partner selection and signed PPP agreement. Those projects are:

1) In operation stage: hemodialysis centers in Bishkek, Osh and Jalal-Abad. Ministry of Health of KR is the state partner. Fresenius Medical Care (Germany) is the private partner.

2) In construction stage: reconstruction of the children's cinema Kyzyl-Kyrgyzstan. The Ministry of Culture and Tourism of KR is the state partner. Burana Grant (Kyrgyzstan) is the private partner.

3) Completed process of private partner selection: electronic ticketing of public transport. Bishkek City Hall is the state partner. The private partner is not announced yet, although a tender for the selection of a private partner was held and the PPP agreement has been signed.

The remaining 26 projects are at various stages: project preparation, feasibility study and private partner selection. An additional note is that of all projects declared at the Kyrgyzstan PPP Center's website, there are 13 public building, 5 healthcare and 4 education projects.

The main provisions on PPP are presented in the "Program for the development of public-private partnerships in the Kyrgyz Republic for 2016-2021". PPP is considered as an effective institution of interaction between the government and business for the formation of economic policy, increased innovation activity, and development of economic and social infrastructure.

PPPs in Kyrgyzstan are under the responsibility of three authorities: Ministry of Economy of KR (responsible for PPP policy), Ministry of Finance of KR (risk management in PPP projects) and the Agency for Promotion and Protection of Investments under the Government of KR (assistance in preparation and implementation of PPP projects) (Kalikova 2018).

In Kyrgyzstan, PPP was mentioned for the very first time in the Country Development Strategy for 2008-2011. In spring 2009, the Ministry of Economic Development and Trade of KR presented the PPP law draft to the Government which complied to internationally recognized standards. The law draft provided a definition of PPP, described various models of partnership between the state and private sector, prescribed tender holding and winner determining procedures, as well as many other provisions. However, in 11 May 2009, the Parliament passed the law on PPP which had none of these provisions prepared by the Ministry of Economic Development and Trade (Kalikova and Rahmidinova 2010). While it can be called as a birthdate of PPP in Kyrgyzstan, the law did not meet basic PPP criteria. Some of many inconsistencies were lack of clear rules for private partner selection, lack of mandatory terms of PPP agreement, and lack of PPP models descriptions and risk allocation procedures. Moreover, the law permitted direct negotiations that is inappropriate in international practice (Kalikova and Rahmidinova 2010). However, in 2012, the PPP law was edited (BizNews 2017).

On October 2019, the new Law "On Public-Private Partnership" has come into force. The new Law has brought in the following innovations: the list of entities designated as a "public partner" has been expanded; harmonization of tender documents has been simplified; the procedure for initiating PPP projects by private sector has been settled, etc. (Kalikova and Rahmidinova 2019).

The reason behind changes in PPP legislation since 2009 is that the government has been attempting to establish PPP in Kyrgyzstan. However, lack of political will from state and municipal authorities (according to many officials, PPP projects are too complex and too long to prepare) and lack of knowledge and experience among state authorities, as well as private sector explain why PPP is underdeveloped (Kalikova and Rahmidinova 2019).

Chapter 4. Research methodology

4.1. Justification for using case study method

Zaidah (2007) characterizes case studies as a method which considers and probes present-day actual experience via accurate contextual analysis of a bounded number of episodes or circumstances and their links. Case study as a research format utilized in the thesis is a means for answering the research questions. Case study is chosen to be an appropriate method for this research, as the study is to examine and comprehend the ways how other countries approach the process of implementing a public private partnership project. The goal of the research is to gain a practical perspective on the various aspects, stages, successes and mistakes of the PPP case studies. In the thesis, descriptive case studies are presented to depict universal situations which appear within the data as questions – what stages, financing arrangements and risks were in the PPP case studies and what problems occurred during development process of the PPP case studies.

Much literature on public private partnership uses case study as a research method (Alfen et al. 2009, Wang 2015, Jamali 2004, Chen and Hubbard 2012, Shen et al. 2006), and these studies present case studies on PPPs in China, UK, USA, etc. However, the author supposes that a smaller number of researches focuses on studying PPP experiences of former socialist countries, and this is explainable. PPP is a complex market mechanism and, in those countries, the projects which are claimed as "public private partnership", in fact, utilize only some of the features but are not pure PPPs. Thus, the thesis attempts to contribute to bridging a gap in the literature and draw more understanding of how PPPs are currently run in post-socialist countries on the example of cases from Poland and Russia.

The research does not imply that that all proposed policy recommendations should be enforced at once – it is hardly possible. But rather it suggests the gradual and systematic policy implementation and demonstrates a range of areas in the public administration system of Kyrgyzstan which require quite imminent start of working on their enhancement. Also, the research serves as an intellectual nourishment for policy makers who are in search for new ideas. The research is directed by the following research questions:

- What stages, financing arrangements and risks were in the considered PPP case studies?
- What problems occurred during development process of the considered PPP case studies?
- How public private partnerships in Kyrgyzstan can be developed more effectively?

4.2. Discussion on alternative research methods for the study

Alternative research methods can be utilization of quantitative methods, as well as a combination of both qualitative and quantitative methods. Quantitative methods would consist of conducting a questionnaire survey among government representatives managing units which are involved in PPP projects development. Representatives of the private companies acting as legal and financial consultants of PPP projects could also be potential survey participants. Alternative qualitative method is follow-up semi-structured interviews with representatives of government units and consulting companies.

The alternatives were not selected as research methods for the study, as PPP projects in Kyrgyzstan are currently in the early stage of development: only one PPP project is in operation stage and has the facilities constructed, whilst other projects are in ongoing stages of project preparation, feasibility study and private partner selection (PPP Center under the Ministry of Economy of the Kyrgyz Republic). Therefore, the government of Kyrgyzstan, as well as consulting companies have not yet accumulated experience which would be sufficiently broad

and insightful. Moreover, COVID-19 outbreak in Spring 2020 has made travelling to the field impossible. Additionally, due to the pandemic, activities on PPP projects might be put on hold in Spring 2020 until further notice, as other urgent priorities emerged for the government. Moreover, it is likely that in 2020 investment attractiveness of PPP projects in Kyrgyzstan declines, due to the political crisis which started after the Parliamentary election results in October 2020. And lastly, the government units may have weak public relations, as the author contacted the PPP Center under the Ministry of Economy of the Kyrgyz Republic via email in a professional, detailed and accommodating way, however it was left with no response.

4.3. Advantages and disadvantages of the selected research method

Detailed qualitative reports which often serve as the ultimate product in case studies not only assist in studying or portraying the data in actual medium, but also seek to clarify the multiplicities of real-life occurrences which may not be nailed though empirical or questionnaire research (Zaidah 2007). Additionally, a case study report is very explanatory and aimed at a wide range of readers; it bridges a gap in the literature and helps future researchers to conduct new studies based on the previously generated case study reports. And lastly, case study method can be done as a desk research that can be most suitable in specific circumstances, such as the realities of 2020.

Despite the advantages, case study method has been subject to criticism. First, Yin (1984) reviews case study method as lacking thoroughness and accuracy, and observes the reason for this is ambiguous data collected and researcher's preconceived notions. Second, a case study-based research typically involves a small number of cases, hence the method is considered "microscopic" (Yin 1994) and the research results cannot be scaled to a larger number of the similar real-life experiences.

The criticism can be responded in the following ways: first, the researcher makes every effort and dedicates sufficient amount of time to provide holistic research of secondary sources, collect data on an ongoing basis and provide as many unique and credible details of the case studies as possible. Second, the real-life context has been impacted by COVID-19 pandemic and the follow-up restrictive measures which have obstructed travelling to the field and primary data collection. And lastly, when it comes to the primary data collection in Kyrgyzstan, PPP project development is presently in nascent state there, hence it is assumed that the experiences accumulated would not be ample and didactic yet. Therefore, the author believes that the thesis and the case studies based on secondary data could be the only viable option, taking into account the natural circumstances and specifics of the study.

4.4. The research stages

Cases selection. Cases selection process was not straightforward. The initial idea of the researcher was to select case studies of PPP infrastructural projects solely from former Soviet Union countries. Another condition was to select the projects which have construction of the infrastructure facility completed and are currently in operating stage. More importantly, the researcher's aim is to select those PPP projects from other ex-Soviet countries where the same infrastructure facilities were built that are currently planned to be built in Kyrgyzstan within the PPP framework. As conceived by the author, this allows learning from other countries' experience, successes and mistakes and drawing specific policy recommendations for Kyrgyzstan PPP projects.

In fact, it turned out that many other former Soviet countries have the similar projects also in planning stage and the facilities have not been yet constructed. It served as a stimulus to broaden the scope of the considered countries and go beyond the ex-Soviet region. Moreover, the initial search for PPP projects shows that almost all of them have received financing from

the international financial institutions, e.g. European Bank for Reconstruction and Development (EBRD), International Financial Corporation (IFC), Eurasian Development Bank (EDB), etc. This was also a helpful aspect to find suitable projects for the case studies. As a result, the case studies of two PPP projects from Poland and Russia are selected for the thesis:

- PPP Project 1. Wroclaw parking "Immo Park" (Poland)
- PPP Project 2. Western High-Speed Diameter (toll highway in Saint-Petersburg, Russia)

Data collection and analysis. Information about the selected PPP projects is collected from the secondary data. i.e. from various online sources including academic papers, annual thematic reports issued by government authorities, and news reports in English, Russian and Polish languages. During the collection process, all sources of information for each case study are thoroughly examined to ensure accuracy and consistency between each other. If inconsistencies are found in informational sources, additional sources and other types of them are further reviewed to determine evidence. The following features of the selected PPP projects are highlighted as the most important for consideration within the case studies:

- Brief description of the facility and construction works conducted
- Parties to the PPP agreement and their roles
- The project stages and concession term
- Important facts and events related to the process of selecting a private partner
- Financing arrangements and amount of financing with breakdown
- Risks encountered and risk allocation between public and private partners
- Other specific events and facts about the PPP project

Reflection on the researcher's role in the research. Author supposes that in qualitative research, personality and competencies of a researcher effect on how the final version of the

research is presented and it will vary from researcher to researcher. In this research, one of the determinants were knowledge of Russian language in order to collect and analyze information for the case study, as well as basic understanding of the logic of Polish language which shares the same language group as Russian.

Chapter 5. The case studies of PPP projects

Case study 1 – Underground parking at the Nowy Targ square (Wroclaw, Poland)

Public-private partnership project of the underground car parking at the Nowy Targ square in Wroclaw, Poland, has been selected as a case study for the thesis because it has been already constructed in 2013 and is currently in operation stage. It is the first car parking facility in Poland built under PPP agreement (Mota-Engil 2013), the first car parking concession under the Concession Act of 2009 (Sobiech-Grabka et al. 2018) and received financing from the European Bank of Reconstruction and Development. Moreover, the private consortium leader Mota Engil Group signed another contract in March 2020 with Warsaw for designing and building an underground car park at the Powstańców Warszawy Square (Mota-Engil 2020). This demonstrates effective cooperation since 2011 between public partners represented by various Polish authorities and Mota Engil Group. And lastly, infrastructure projects implemented in Poland under the PPP scheme are the future for the government authorities, because sooner or later EU funding will be reduced, and local governments will search for new sources to implement investment projects (Mota-Engil 2020).

Idea of building the parking lot was born after the Wroclaw city government adopted a new transport policy which prescribed reduction of car traffic from the city center. Consistent implementation of this policy required creation of parking spaces including construction of new parking lots. The PPP agreement of the underground car parking at Nowy Targ Square of Wroclaw contains building of a car park for 332 vehicles, restoration of the old square including replacement of the square surface, installation of small architecture elements, new benches, trees and lighting.

The private sector consortium directed by the Mota Engil Group, a Portuguese company which is a leader in transport and environmental infrastructures concessions, built the car parking. Specific feature of the project is that the European Bank for Reconstruction and Development participated in its financing, and it is the first case of this bank's involvement in a PPP project in Poland.

The main reasons for the decision to implement the construction of an underground car park under the Nowy Targ square in Wroclaw were:

- the obligation to meet collective needs of the community in managing municipal roads, streets, bridges, squares and the organization of road traffic (Act on the local government),
- lack of funds from the City budget to finance investment and operating costs of this project.

Stages of construction

The car parking was built in less than three years. July 2013 was the estimated completion date of the construction works[1] and, indeed, the facility inauguration took place in 25 July 2013 in Wroclaw. Polish Agency for Enterprise Development reports that the idea to build the parking lot under the PPP formula was born before 2005, before the PPP Act of 2005 appeared (Herbst and Jadach-Sepioło 2012). In 2007, the final decision to implement the project under PPP scheme was made. The city performed analysis of the demand and the optimal payback time for outlays incurred by the private partner (40-50 years). At the same time, geological surveys of the area were commissioned and a decision on development conditions was requested. Below is the detailed timeline showing the dates and the construction stages.

[1] EBRD. "Wroclaw Parking PPP." Accessed November 23, 2020. https://www.ebrd.com/work-with-us/projects/psd/wroclaw-parking-ppp.html.

Table 1. Construction stages of the parking at the Nowy Targ square, Wroclaw

Date	Stage	Number of applicants / consortia
Q2 2007 – 28 Nov 2008	**1. The procedure:**	4 applications submitted
• Q2 2007	• Decision on choosing the procedure to be followed (PPP) was made	
• Q3 2007 – Q1 2008	• Development of Functional and Utility Program (PFU), geology, agreements	
• March 2008	• Announcement of the procedure based on the Public Procurement Law (PZP)	
• May 2008	• Submission of applications (4 applications received)	
• May - August 2008	• Supplementing applications, protests, cancellations	
• August 2008	• Invitation to submit initial offers	
• October 2008,	• Negotiations with 2 bidders	
• 25 November 2008	• Submission of final offers	
• 28 November 2008	• Cancellation of the procedure (no offers)	
April 2009	Announcement (pre-qualification, invitation of interested parties)	7 applications submitted
June 2010	Choosing the best offer	Selection of a consortium consisting of: 1. Mota - Engil Central Europe S.A. - Consortium leader 2. Mota – Engil, Engenharia e Construcao, S.A. 3. EMSA – EMPREENDIMENTOS E EXPLORACAO DE ESTACIONAMENTOS, S.A.
16 July 2010	Signing a contract	

		4. ESLI – Parques de Estacionamento, S.A. 5. IMMO Park Sp. z o.o
June 2011	Financial close	
July 2011	Commencement of the construction phase	
July 2013	Commencement of the operational phase	

Source: Herbst and Jadach-Sepioło 2012

In November 2008, the first procedure was canceled due to the impossibility to consider the contractors' requests under the applicable provisions of the Public Procurement Law. The contractors' requests concerned the following matters: reducing the number of parking lots from 800 (initial number request by the city government) to approximately 400, extending the concession period to approximately 70 years or reducing horizontal parking spaces near the construction area. The contractors also demanded a written declaration from the city authorities that no other municipal car parks would be built within a radius of 400 meters and the bank loan guarantee would be provided by the city.

The second procedure was announced based on the new PPP regulations, particularly on the Act on concessions. The second procedure's assumptions considered the lessons learned and mistakes of the previous procedure. As a result, they were much more flexible, as the city authorities provided both the maximum and expected values regarding the project. Proposals regarding the number of parking places were left to discretion of the bidders. The changes in relation to the first procedure's conditions were the following:

1. The number of parking places was allowed to be negotiated (between 300 and 800).

2. The final duration of the concession was left to discretion of the bidders by specifying the maximum period of 40 years.

3. Partial participation of the city government in financing the project was introduced.

4. The share of the city government 's participation in financing the project depended on the number of parking places.

5. The city government decided to commit to implementation of parking policy around the car park which was friendly to the concessionaire.

The second procedure was successful. On July 16, 2010, the concession contract was signed. In October 2010, the concessionaire took over the construction site and began archaeological research. In December 2010, the concept was approved, and design documentation was prepared. In January 2011, the final decision of the Regional Directorate for Environmental Protection (RDOŚ) on the project's environmental impact was obtained. In July 2011, building permits for stages I and II were issued.

EBRD[2] reports that the members of the private sector consortium are:

- Mota Engil Central Europe S.A.
- Mota Engil Engenharia e Construcao S.A.,
- Empreendimentos e Exploracao de Estacionamentos S.A.,
- ESLI – Parques de Estacionamento S.A., and
- IMMO Park Sp. z o.o.

Immo Park is a special purpose vehicle (SPV) created by the private sector consortium and, after winning the tender process, has been provided the rights to develop, build, operate and maintain the parking under a 40-year concession (Pyrkalo 2011). The car park is the city's property, but the private partner earns from parking fees for 40 years. Immo Park is owned by

[2] EBRD. "Wroclaw Parking PPP." Accessed November 23, 2020. https://www.ebrd.com/work-with-us/projects/psd/wroclaw-parking-ppp.html.

the Mota Engil Group, a head of the consortium. Mota Engil Central Europe S.A was an ultimate entity responsible for the parking construction.

While constructing the project, the private partner Mota Engil Group noted that the biggest barriers faced by a private sector in car parking PPP projects are insufficient preparation at the pre-negotiation stage, lack of understanding of the private sector's limitations and ineffective allocation of risks, and this often leads to situation when it is not possible to obtain financing (Pronińska 2013).

The project's law consultant, CMS Cameron McKenna, points out that the financing bank spotted a chance of the project's success and financial profitability. Location and commercial elements of the project have predetermined the high probability of a sufficient stream of revenues to ensure profit and pay off debts. However, in many cases, either the location of a parking project is poorly selected, or facility is poorly structured, hence the entire burden of responsibility ends up being shifted to the private partner (Pronińska 2013).

Financing structure

The investment costs were about 9.5 million euros (Mota-Engil 2013), out of which the EBRD provided a 7.8 million EUR loan to Immo Park (Pyrkalo 2011). The remaining amount of funds came from the private partner.

11.2 million EUR equivalent is the estimated amount of total project costs[3]. The private partner's remuneration consists of collecting the parking fees and payments from provision of other services, together with payments from the city budget (up to 3.8 million euro in equivalent). The contract includes the local government's obligation to pay the equivalent of approximately 3.8 million euro to the private partner after completion of the construction stage.

[3] EBRD. "Wroclaw Parking PPP." Accessed November 23, 2020. https://www.ebrd.com/work-with-us/projects/psd/wroclaw-parking-ppp.html.

Thus, the public partner participated in this financial assembly because it imposed high standards of the square's new surface and requested for very specialized archaeological works around the area, as the old traces of settlement dated back to the end of 12th century were found. It should be emphasized that the economic risk borne by the public partner was strictly defined - it could not exceed the amount of the 3.8 million euro in equivalent declared in the contract.

Risk allocation

Table 2. Typical risk allocation in the parking sector

Category	Responsibility		
	Public	Private	Shared
Planning risk	+		
Design risk		+	
Build risk		+	
Operational risk		+	
Demand risk		+	
Financial risk		+	
Macroeconomic risk		+	
Political risk	+		
Legislative risk	+		
Force majeure risk			+
Environmental risk	+		
Risk of dispute resolution			+
Risk of social acceptance			+
Residual value risk	+		

Source: Sobiech-Grabka et al. 2018

The risk breakdown presented in the table is modeled and not imposed by law. In practice, risk allocation is often different, especially regarding the risks listed first in the table - allocation is conditioned both by the project specifics, as well as ability and readiness of both parties to take on certain types of risk.

The actual risk allocation between public and private partners in this project was the following: all risks related to the contract implementation are borne by the private partner, particularly,

the risk of proper design and construction of the facility, risk of availability and demand, as well as economic risk related to construction of the new facility.

The public partner bears a part of the economic risk regarding payment a part of the remuneration to the concessionaire and the risks associated with private partner selection procedure. The government also bears political and social risks during the construction phase. In addition, it bears all the risks related to the final costs of the facility, as well as the economic and operational risk related to its further operation.

Concluding remarks on the project

In the opinion of the Wroclaw city government representatives, the PPP projects implementation procedure based on the order established by the Concession Act is more flexible than on the Public Procurement Law regulations (Herbst and Jadach-Sepioło 2012). The Concession Act offers a better chance of successful selection of a private partner and successful project completion.

Preparation of both procedures encountered difficulties, related particularly to the tax law provisions. The problems concerned determining the moment when tax obligations of the private partner for the service provision arose and payments between the parties of the partnership. Moreover, it was problematic to carry out the payment of VAT. Representatives of the public partner pointed to the instability of tax regulations as one of the most significant obstacles to commercial and financial closing. In addition, there was a problem with the write-off of depreciation and uncertainty in the real estate tax payment.

The case of the car park in Wroclaw demonstrated two interesting situations for the entire PPP market in Poland:

- the initiative to implement the project came from the private sector, not the public (Serbeńska 2011);
- the European Bank for Reconstruction and Development played an important role in financing the project.

Case study 2 - Western High-Speed Diameter highway (Saint Petersburg, Russia)

Public-private partnership project of the Western High-Speed Diameter (WHSD), a toll road in Saint Petersburg, Russia, has been selected as a case study for the thesis for many reasons. Firstly, WHSD is the world's largest toll road PPP project, and one of the first and largest (in terms of investments) PPP projects in Russia (PPP Knowledge Lab). The road section constructed under PPP agreement has started operating in 2016 (Makarov et al. 2018), thus the project is currently in implementation stage. The project received financing from European Bank for Reconstruction and Development, Eurasian Development Bank, as well as from the Russian commercial banks – VneshEconomBank-VEB, VneshTorgBank-VTB and Gazprombank.

Western High-Speed Diameter is a unique project of an almost 47-kilometer intracity multi-lane toll highway which allows to drive through the city of 5+ million people in less than 20 minutes. WHSD provides the transport accessibility of the Saint Petersburg Seaport, unloads the historic center, Ring road, street and road network of the city districts and becomes a part of the international transport corridor “North-South” (Investment portal of St. Petersburg).

Development of a construction project for the Western High-Speed Diameter highway started in November 2004 (Western High-Speed Diameter JSC). By October 2010 the traffic was opened on the Southern and Northern road sections which were financed from St. Petersburg

city budget, subsidies from the federal budget and a bonded loan placed by Western High-Speed Diameter JSC (Western High-Speed Diameter JSC 2013). However, for building the Central road section, in 2011 the St. Petersburg government announced an open tender and, based on its results, entered into a 30-year concession agreement with the private sector consortium, and consortium members are:

- Northern Capital Highway LLC – consortium leader and the toll road operator;
- VTB Capital, Gazprombank – banks;
- GPB Infrastructure Projects Limited (Cyprus) (Municipal District Morskoy 2012);
- Astaldi (Italy) and Içtaş Inşaat (Turkey) - construction contractors;
- Mega Yapi Inşsaat ve Ticaret (Turkey) - technical consultant (Rambler 2019).

Thus, the St. Petersburg government and "Western High-Speed Diameter" JSC together are a public partner of the PPP project. "Western High-Speed Diameter" JSC belongs to the St. Petersburg government; until 2013, it acted as the client for the road construction, and currently it owns land plots under the highway (Rambler 2019). The consortium led by the Northern Capital Highway LLC is the private partner of the PPP project. Northern Capital Highway LLC was responsible for finding the financing and organizing construction of the Western High-Speed Diameter's Central Section and accepted the entire highway for operation under a 30-year concession. At the end of the established period, the operating facility with the given technical and economic parameters is returned to the state.

Financial closing of the project took place in December 2012 (Western High-Speed Diameter JSC). On December 20, 2012 in Moscow, the Act on Achieving Financial Closure, as well as an updated version of the Agreement on establishment and operation of the WHSD highway on PPP basis were signed. Moreover, the following documents were signed: the Work Agreement, documents for obtain access to financing including an updated version of the

Credit Agreement, the direct contract between all the agreement parties, as well as other financial documentation.

Amount of construction investments is 212.7 billion RUB, of which 50.7 billion RUB is from the Investment Fund of RF, and 54.1 billion RUB is from the regional budget (City information portal "St. Petersburg.ru.").

Structure of financing attracted by the North Capital Highway LLC:

- VneshEconomBank - 25 billion RUB (Grebenyuk 2012),
- Eurasian Development Bank - 10 billion RUB (Izotov 2012),
- VTB and Gazprombank - 17 billion RUB (Grebenyuk 2012),
- European Bank for Reconstruction and Development loan - 194 million EUR which was purchased in 2012 by VTB (Makarov et al. 2018),
- Equity of the North Capital Highway LLC – 9 billion RUB (Gordeeva 2016).

Terms of the PPP agreement include the minimum income guaranteed by the Government of St. Petersburg to North Capital Highway LLC for operating the WHSD road in the annual amount of 9.6 billion RUB. It implies that the St. Petersburg government subsidizes to the concessionaire the whole difference between the actual annual income and the guaranteed amount of 9.67 billion RUB; if the concessionaire's annual income is higher than 9.67 bln RUB, than the concessionaire pays 90% of the difference between actual and guaranteed income to the city budget (Manylov 2020).

Western High-Speed Diameter: 2016-2020

St. Petersburg city government did not budget funds (the subsidy covering short-received revenue of the road operator) to Northern Capital Highway LLC for 2020 (Fontanka.ru 2019), as both city authorities and the road operator (concessionaire) planned that the growing traffic

and higher user tariffs would allow receiving sufficient revenue. However due to COVID-19, traffic on the WHSD fell sharply, and the issue of compensation to the road operator appeared at the agenda again.

The compensation mentioned is the "maximum reimbursable costs" concept which means the difference between the minimum guaranteed revenue of the road operator and the actual money collected from the road users. Before 2020, maximum reimbursable costs varied between 3.7 billion to 5.2 billion rubles per year – these amounts were paid directly from the St. Petersburg budget. Each time discussion of these payments at the St. Petersburg Parliament led to a scandal. According to a number of MPs, the city should not pay the concessionaire who already receives tolls from drivers.

Nevertheless, the city government came up with a new idea in 2020: payment to the concessionaire will be made not directly from the city budget, but via the Western High-Speed Diameter JSC owned by St. Petersburg. The Government of St. Petersburg, Western High-Speed Diameter JSC and Northern Capital Highway LLC signed an additional agreement to the concession contract. The essence of the document is that St. Petersburg imposes on the Western High-Speed Diameter JSC the fulfillment of obligations to the Northern Capital Highway LLC to pay the compensation, the JSC said in an official statement (Lobanovsky 2020b).

The city government will pay the compensation to the Northern Capital Highway LLC through the bank loan. In July 2020, The Board of Directors of WHSD JSC decided to apply to the Eurasian Development Bank for the first tranche of 1.6 billion rubles within the previously approved loan of 6 billion rubles. The City MP Oksana Dmitrieva, one of the critics of WHSD financial model, supposes that in case of money shortage, the WHSD JSC will borrow under

the city's guarantees so that the debt does not fall on the budget, but eventually it will be on the budget (Lobanovsky 2020b).

Payment of the maximum reimbursable costs is one of the most controversial aspects of the concession agreement: the opposition in the St. Petersburg Parliament constantly draws attention to the fact that not only the drivers pay tolls, but the rest of the city, including pedestrians (Lobanovsky 2020a). Before 2020, the amount of annual payments varied from 3.7 billion to 5.2 billion rubles, and in 2016-2019 total payments are 17.5 billion rubles. Moreover, besides paying the maximum reimbursable costs to the concessionaire, the City buys stocks of the WHSD JSC for 10 billion rubles each ransom, so that the company can pay coupon yield to its bondholders, because the company itself does not have sufficient earnings (Lobanovsky 2020a). However, the major payments are ahead in the future. The bonds mature in 2031–2032, and this is 25 billion rubles which WHSD JSC will have to find somewhere (Lobanovsky 2020a).

Environmental and social impact

The project has had negative impact for environment and affected well-being of the city residents living in areas adjacent to the road. The residents noted in 2012 that construction equipment was working almost 24/7, raising clouds of dust; the contractor did not water the construction site with water, and the gas pollution of the adjacent quarters sharply increased ("Parliamentary inquiries. About the negative impact of the construction of the Western High-Speed Diameter's 72nd section on houses 23-27 on Morskaya emb." 2012).

The social feasibility of the project has been subject to criticism as none of the private consortium companies conducted any sociological research on this issue (Krykanov 2017). Social inaction can hide difficult-to-mitigate or even insurmountable risks in the future. Additionally, the population's willingness to pay for the road usage was not examined by

sociological services, which is why the St. Petersburg government is liable to pay the minimum guaranteed income to the road operator.

Risks

The project has the following risks:

Political risks that can affect the project effectiveness include the risks of changes in legislation, tax rates and taxation. Speaking about the tax system, it can be noted that in Russia it is quite stable and the consequences of changes in taxation rules are relatively predictable (Kovaleva 2014). However, in case of increase in rates and change in conditions for paying taxes, the private partner may lose part of its profit. However, provided that the activities of the concessionaire are carried out in accordance with regulatory standards and timely tracking of changes, together with the fact that political risks are borne by the government, the magnitude of this risk is minimized.

The competition risk in all its manifestations is also not significant. WHSD has no analogues being the first toll motorway in Russia. There is also no competition within the private sector, since the non-competitive economic environment is one of the barriers to the PPP development in Russia.

Economic risks. Speaking about economic risks, it is necessary to note ambiguity of the inflation impact. In case of a strong annual growth of prices, price growth of consumer goods can lead to a decline in population's real income which can reduce the demand for a toll highway due to insufficient funds of the population (Kovaleva 2014). A drop in the demand will negatively affect the financial results of the private partner, which will reduce the project's rate of return. Nevertheless, the Russian government takes measures to curb and reduce inflation, as well as applies programs to increase household income. Therefore, this risk can be attributed to average level.

Risk of the interest rate fluctuations for the project is quite high. Changes in monetary policy in Russia may lead to a significant increase in the project costs (Kovaleva 2014). The private partner may get exposed to the risk of loss if the cost of servicing financial obligations rises.

Since the area of public-private partnership is not sufficiently researched in Russia, lack of experience in implementation of such projects, their scale and problems in selecting a private partner (usually, there is an insufficient number of those willing to participate in the project competition) – all these intensify risks of surge in the project costs and preparation time (Kovaleva 2014). These risks are also high.

Technical risks are the ones which are most affecting the project implementation. The risk associated with availability of building materials is minimal, since it is assumed that materials and carcasses are mined in official quarries located in the St. Petersburg region, and building mixtures are produced at the St. Petersburg factories (North Capital Highway LLC).

Risks of the highway operation include, first, risks of excessing actual operating costs over planned ones. Operating costs include the road maintenance and repair costs, rental costs, maintenance of toll collection points, etc. In general, changes in the amount of expenditures are associated with inflation. This risk is associated with exceeding construction and design deadlines - the more deviations from the planned schedule, the more likely that the cost of the entire project increases which may lead to increase in the project payback period. These factors can be defined as high risk factors.

Risks of the land plot location are significant due to the soil specifics, its location and other factors. Nevertheless, the project construction plan includes operations that automatically minimize amount of this risk. Force majeure and loss risks caused by third parties are also significant. To minimize them, these risks should be insured by the contracting companies. Quality assurance and quality control risks are associated with the risk of increased

construction costs. However, this risk can be considered quite low, as it is expected to conduct a full control over materials, suppliers and the construction process throughout the entire project.

Concluding remarks on the project

Western High-Speed Diameter is one of the most striking examples of government financial support, and the share of the government capital grant in the total project costs is 41% (Maslova and Yushkov, 2017). However, the city budget is under significant pressure from the implementation its obligations under the WHSD agreement, as it has embraced the mechanism of a minimum guarantee income (Krykanov 2017). The mechanism for paying the minimum guaranteed income to the Western High-Speed Diameter operator sparked protests from citizens who believed the city was paying too much (Adamchuk 2018). Additionally, the road operator North Capital Highway LLC has been increasing toll tariffs: another jump in toll prices at the WHSD took place at the end of the New Year holidays in January 2020 (Manylov 2020). Two major problems of the project are rising fares and continuous injections of the city budget money into the project.

Chapter 6. Research limitations

The research results should be interpreted with caution, as there are two major limitations in this study that could be addressed in future research. These limitations may have influenced precision of the findings and conclusions. They are as following:

1. **Insufficient sample size**: first, the study focused on a very small sample size - only two case studies of PPP projects were selected and analyzed. This hardly allows us to identify the patterns inherent in PPP projects, if such exist, and come to results which can be generalized. Second, together with a small sample size, also comes narrowness of observations – one case in road construction and one case in car parking construction were considered in the research. If projects from other sectors of economy would be considered, other results would be anticipated in the research. Third, the way how PPP projects are implemented greatly varies from country to country, and different legislation, expertise, financing mechanisms and social contexts contribute to that.

2. **Limited access to data**: besides case studies, conducting interviews would be complementary to the research and enrich its results. However, force majeure in the form of a COVID-19 pandemic has imposed travelling restrictions, as well as restrictions on the public places use. These caused a limited access to data, as it was impossible to travel to the field to collect interviews, and communication with potential contact persons for interviews has become difficult. Additionally, as the information for the case studies was collected from the secondary data sources, it affects the precision of the findings, as it may contain inaccurate information spread by media.

Chapter 7. Concluding remarks and policy recommendations

7.1. Concluding remarks

This study examines the current overview of PPPs in Kyrgyzstan, demonstrating that the government has considerable needs in new infrastructure, such as roads, schools and kindergartens, healthcare and sport facilities, etc. It lays high hopes on implementing PPP mechanism in order to fill these needs – obtaining new infrastructure with less pressure on the state budget. However, the local private sector has concerns about cooperating with the public sector through PPP; the state currently lacks credibility within the local business community.

Attempts to approximate PPP legislation base in Kyrgyzstan to internationally recognized standards is considered as a vital and imperative step to have more of the projects implemented till the end of the concession period in a beneficial way for all parties to the agreement, as well as for the end-users and taxpayers.

The study makes a point to notify the readers that PPP can become a source of problems for the public sector, depending on the project area and if the PPP agreement is not balanced and was not developed in favor of the people's welfare. The case of Western High-Speed Diameter might be an example of the project where the agreements between the St. Petersburg government and the road operator North Capital Highway LLC could have corrupt nature, as road construction usually may lack transparency, due to impossibility to transparently calculate the costs of building one kilometer of the road.

Analysis of the "Wroclaw car parking" case study demonstrates that disagreements between public partner and tender participants occur, whereupon the 1st procedure was cancelled in November 2008. These disagreements came from the unrealistic requirements of the public

partner, as well excessive requests from the private sector participants. It is indicative that by the start of the 2nd procedure, the public partner came up with reformulated conditions which made the procedure completed and the private partner was selected.

7.2. Policy recommendations

7.2.1. Toolkit to guide PPP legislation

Considering that infrastructure PPP projects presumably have incomplete contracts and novel risks and problems might emerge regularly, it is most critical for Kyrgyz public institutions to build legal system in the way that leads to an organized and efficient operating environment for successful PPP development. Development of effective PPP legislation according to international standards and its enactment is crucial, as it shapes a supporting and advocating legal and regulatory environment to govern PPP implementation. Following the practice from USA, any institution dealing with PPP – be it public, non-governmental or private consultancy – can publish a toolkit for legislators, which provides a framework to guide PPP legislation.

7.2.2. Population survey

In order to decrease potential civil concerns regarding effect of PPP projects on people's welfare, it is recommended for the PPP related institutions to survey population: conducting social feasibility studies (e.g. sociological studies) and public hearings to collect people's opinions and get civil proposals. Thus, the users (citizens) should have formal means to obtain accurate information and consultations regarding PPP projects and what long-term obligations it can incur on their behalf.

7.2.3. Environmental compliance

Government should play a greater role in handling regulatory requirements of PPP projects. Construction process should always have environmental compliance. At pre-construction stage, responsibilities for meeting environmental obligations regarding water, soil, air quality, noise, waste management, management of hazardous materials should be distributed between public and private partner.

7.2.4. Stronger local governments

Many local governments should invest in specialized expertise at the start of the PPP project to be able to analyze their options and make informed decisions. They need sufficient amount of resources to manage, monitor, and enforce these contracts. Long-term contracts demand long-term commitments of resources to administer them. Local governments that are unwilling or unable to make such commitments are not viable candidates for long-term contracts.

7.2.5. Development finance institutions should engage more

Broader engagement of development finance institutions (e.g. EBRD, IFC, ADB, EADB, etc.) in the project development process is a good practice. For instance, provision of support letters by these institutions for PPP projects can increase private partner's chances to attract additional financing faster. Or the government can ask these institutions to participate in negotiation process – their support and opinion regarding critical clauses of a PPP agreement can be beneficial.

7.2.6. Independent auditor and risk consultants for mega PPP projects

An independent Big4 auditor is required for mega PPP projects with heavy financing to ensure transparency and compliance of all regulatory procedures and guidelines. Additionally, mega PPP projects are subject to considerable financial and political losses, therefore project risks should be thoroughly assessed with involvement of experienced consultants.

7.2.7. The Guidelines for PPP preparation

In order to boost the quality of PPP preparation processes, it is important to develop and approve, at the state level, The Guidelines for evaluation of potential PPPs, preparation of tender documentation, negotiations with the tender winner and concluding agreement with him.

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