



Public Private Partnership Development Program

PILOT PPP CASE STUDY:

Simferopol City Park



IMPROVING PUBLIC
SERVICES,
INFRASTRUCTURE, THE
ENVIRONMENT AND
THE ECONOMY
THROUGH
PUBLIC-PRIVATE
PARTNERSHIPS

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Simferopol City Park

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ABOUT THE PUBLIC-PRIVATE PARTNERSHIP DEVELOPMENT PROGRAM

The goal of the Ukrainian Public-Private Partnership Development Program (P3DP), implemented by FHI 360 and funded by the United States Agency for International Development (USAID), is to broaden the use of PPPs in Ukraine and expand the role of private sector finance, expertise, and modern technology to improve infrastructure, the quality of public services, and the environment. The program provides assistance to the Government of Ukraine at national, regional and municipal levels to improve the legal and institutional framework, enhances the capacity of individuals and organizations to design and engage in PPP activities, and supports the implementation of pilot PPP projects. Importantly, P3DP assistance is developing the capacity of government to work effectively with the private sector in building or rehabilitating infrastructure, improving or restoring public services, and developing the economy.

Beginning operations in October 2010, the Program is pursuing the achievement of four interrelated, mutually-reinforcing objectives, each contributing to the development of PPPs in Ukraine in full alignment with USAID's Country Development Cooperation Strategy for Ukraine:

1. **Create a Legal and Regulatory Framework Conducive to PPPs** by improving legislation, regulations, and policies that support PPP initiatives at national and municipal levels.
2. **Strengthen the MOEDT's Capacity to Guide and Support PPPs** so that it serves as valuable resource for municipalities and government agencies seeking to improve the efficiency and quality of public services and infrastructure through private sector participation. The MOEDT coordinates much of its PPP support work through the recently established PPP Unit.
3. **Develop PPP awareness and capacity** of municipalities to create and implement PPPs while improving local governance practices. Training, workshops, seminars, conferences, and study tours contribute to the growing body of knowledge on PPPs at the local level. P3DP also demonstrates how strategic communication programs that reach out to the general public and media provide valuable input during the PPP development process.
4. **Implement Pilot PPPs in key sectors** by providing technical assistance to selected municipalities in all phases of development, from initial concept through the transparent, competitive tendering process. Practical experiences and lessons learned provide valuable feedback to further improve the PPP environment and processes in Ukraine.

P3DP CASE STUDY SERIES

P3DP assisted efforts of municipal leaders to introduce pilot PPP projects to improve infrastructure and public services. The practical insights and lessons learned through these experiences guided the work to improve Ukraine's PPP regulatory and legal environment and were fed into the Program's training events. The efforts also resulted in creating replicable PPP models for improving infrastructure and public services.

P3DP has created a series of case studies – each with complementing videos, sectoral briefs, guidance notes and other knowledge tools – to share these experiences and lessons learned for future PPP practitioners in Ukraine. The series includes:

- Parks & Recreation
 - Kyiv Hydropark Sports Facility
 - Simferopol City Park

- Municipal Waste Management
 - Ivano-Frankivsk and Vinnytsia SWM and Landfill Gas Energy Production

- Municipal Heating
 - Malyn Biofuel Heating

- Healthcare
 - Zaporizhia Health Care Facilities and Services

- Education
 - Kyiv Education Facility Maintenance and Management

- Urban Transportation
 - Lviv Parking

Each case describes the problem being addressed, steps taken by municipalities with P3DP support to resolve the problem, the anticipated benefits, and the result. Key lessons learned and insights gained from pursuit of the pilot PPP projects are described.

Government and city officials, private firms, and other stakeholders with an interest in developing PPPs will benefit from the many lessons of P3DP's experience. Several Ukrainian municipalities are already adapting the processes, diagnostic tools, and contracts to replicate PPPs in key sectors of education, parks & recreation, municipal heating and solid waste management.

PROJECT SUMMARY

<p>Simferopol City Park</p> <p>Sector: Parks & Recreation Type: Finance-Build-Own-Transfer (FBOT)</p> <p>The municipal government of Simferopol, on the Crimean peninsula, sought to enable a private operator to manage its Gagarin Park, which was to be divided into commercial and green zones and managed by a private operator under agreement with the City. The PPP was expected to improve the quality of the park at no cost to the city, attract up to \$27 million in investment, create 60 new jobs and 15 new facilities for public use.</p>	<p>Processes Completed:</p> <ul style="list-style-type: none"> • MOU signed with the Autonomous Republic of Crimea Council of Ministers; • Concept paper completed April 2012; • Environmental Assessment completed; • Feasibility Study completed in Autumn 2013 and approved by the City; • Working group successfully resolved land use issues and drafted terms of a PPP contract. • The City completed an inventory audit of the park; • Public opinion survey completed; • The MOEDT’s PPP Unit and the Ministry of Finance approved the project in February 2014, with the tender expected in mid-2014; • P3DP was unable to continue the project because of the Russian occupation of the Crimean peninsula in late February 2014.
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SECTOR SUMMARY

Ukraine is rich in natural and urban recreational areas. In addition to lakes, rivers, seas, and forest areas, it has numerous parks and sports facilities largely managed by government agencies. The country, however, has had difficulty with the maintenance and development of recreation areas in the 25 years since independence, which in turn has led to a marked decline in their quality. The problem is especially marked in its urban areas. Today, Ukraine has an average of 16m2 of inner-city green recreation zones per person, compared to 20m2 in developed countries. Many Ukrainian municipalities – especially mid-sized ones with populations between 100,000- 500,000 – provide less than 12m2 of inner-city green recreation areas per inhabitant.

Parks are the biggest and most-visited recreational areas in Ukrainian cities and towns. They are typically underfinanced, operated in non-transparently ways, possess certain semi-legal temporary trading and food-courts, are not safe at night, have poor lighting, and are poorly equipped with fences, benches,

trails. Bodies of water are often polluted, infrastructure and facilities are insufficient for public use. Insufficient funding, low awareness about environmental issues, and uncontrolled development of urban green zones have been major contributors to the problem.

Open-air and in-door sports facilities, including playgrounds, are also in demand. Sports facilities require a greater amount of maintenance than green areas. Many of these fell into disrepair because of a lack of funds, one of the consequences of the post-independence economic transition. Demand for quality sports facilities has outpaced supply.

Municipal governments typically lack the financial or managerial resources to rehabilitate and administer sports and recreation facilities. This opens the door for private sector participation in the sector.

BACKGROUND

Simferopol's Gagarin Park, located in the center of this city of 350,000, had been poorly maintained and had few facilities. A lack of municipal funding prevented the City from maintaining the park's green areas and facilities, or introducing new services. It was open, therefore, to private sector participation in managing and improving the park and was receptive to P3DP's involvement.

The City sought to transfer management of the park to a private operator, which would add many new services and facilities, for example, cafes, amusement rides, stages, mini-zoo, and playgrounds. It would make use of some of the real estate in the park (mostly cafes and restaurants) to realize a return on its investment, and maintain and develop the park for the long-term. Finally, it would rehabilitate certain parts of the park, such as the War Memorial and green areas.

P3DP'S ROLE

The City worked with P3DP and regional officials to develop a PPP model to attract a private operator to manage both commercial and green areas of the park, thereby creating an environmentally and commercially sustainable recreational space.

The Simferopol PPP Pilot made solid progress in moving towards the PPP tender stage and was, at one time, expected to be the first successful PPP in Ukraine. The Feasibility Study, Environmental Assessment and Public Opinion Survey were completed.

A key problem lay in land use and ownership issues. Park objects, for example, benches and trees, were on the books of different government bodies, such as the City or Regional Administrations. Before a PPP

could be executed, these objects would have to be put under a single administration. A Working Group, however, successfully resolved these issues, enabling an audit to be completed and terms of a PPP contract drafted.

In February 2014, the MOEDT's PPP Unit approved the project. This gave the Simferopol City Council a green light to proceed towards tender. P3DP was in the process of assisting the city in preparing the tender documents when the Russian Federation asserted control over the peninsula. City officials attempted to continue the PPP even after Russia had asserted control over the government functions of Crimea. P3DP, however, was unable to provide further services to the City.

The tender was expected in mid-2014, and was expected to attract approximately \$27 million in private investment. However, after consultation with USAID, P3DP suspended its technical assistance activities in Crimea on March 17, 2014.

CHALLENGES

The occupation of Crimea was a challenge that could not have been foreseen or prevented by P3DP risk mitigation measures. Being a unique event, it does not bear on lessons learned for pilot PPPs in Ukraine.

However, Simferopol Park was a pioneering project in Ukraine that brought numerous issues to light – including legislative, financial and bureaucratic challenges – that could be faced by other municipalities seeking private sector participation in their park and recreation facilities.

- The private partner would be expected to operate the park according to a set of benchmark criteria prepared at PPP procurement stage. Defining these in such a way that the private operator would still find the project attractive from a business standpoint while maintaining transparency would be difficult in Ukraine's environment.
- Municipal capacity for developing, documenting, and preparing the project for tendering was low.
- Market interest was low, which required significant additional time in the project design stage to make the project bankable.
- Land and asset ownership problems issues, where different objects in the park were subject to different owners or under rental agreements, mean that all the assets had to be transferred to the Municipality and be inventoried before the PPP procurement phase could begin.

OUTCOMES

Some key project achievements prior to the reporting period included:

- **Legislative:** clarifying ownership of park assets and transferring them to the city;²

- **Land issues:** identifying the best possible legal structure so that the municipality spends the least time for land audit procedures and land allocation.
- **Financial:** constructing a financial model specifying all objects to be constructed, costs of construction and operation through the period of the contract. The model was tested with interested operators, which demonstrated that the project was realistic and achievable.
- **Strategic communications:** conducting an on-site survey to gauge public opinion and determine what services were desired by the public. PPPs were not well understood in Simferopol, meaning that the public would have to be informed of the process and benefits of the project to avoid public dissatisfaction.
- **Procedural:** Approval by the Simferopol City Executive Committee, which approved the PPP Appraisal Opinion and submitted the PPP package for consideration to the Ministry of Finance of Ukraine and the PPP Unit.

The Simferopol Urban Park Renewal PPP has been put on hold indefinitely because of the Russian occupation of Crimea. This occurred weeks from the project going to tender.

LESSONS LEARNED

The Gagarin Park in Simferopol is a typical case for Ukraine and other cities will likely face same issues while trying to develop parks and recreation PPPs.

- **A thorough legal due diligence** should be conducted and ensure good coordination of all stakeholders and authorities.
- **A thorough assets inventory** should be conducted up-front to identify potential land and asset ownership issues.
- **Increasing awareness of citizens about the benefits** of the PPP project to the community is critical. It can take a year for the population to form positive attitudes towards such projects.
- **Market sounding** is also critical to ensure sufficient private sector interest. Essentially, this model provides business opportunities on park land that are sufficiently profitable to subsidize maintenance or green and other public areas, such as monuments.

Other Ukrainian cities also explored using PPPs for similar uses. For example:

- Ternopil proposed to develop its water sports infrastructure on a lake in in the city center suitable for active water sports and tournaments;
- Zaporizhia was interested in developing kayaking and beach infrastructure on river Dnipro;
- Fastiv Municipality failed to run a successful park PPPs (incorrect procedure of PPP procurement led to canceling the procurement and signed agreement).

However, in these cases the project owners did not conduct sufficient due diligence: market interest was lacking; subsidies for operating or construction would have been necessary to make the project attractive to potential private partners. The project owners failed to obtain sponsors or corporate donations to support the project financially.

These issues demonstrate that such projects are rarely profitable enough to be fully self-sustainable long-term, especially in Ukrainian post-socialist economy, where many citizen benefit from free services instead of striving for better quality public space and public services.