CASE STUDY

Involving Private Investment and Management to Improve Public Property: A Concession to Manage a Municipal Park and Beach in Balykchi, Kyrgyzstan

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INVOLVING PRIVATE INVESTMENT AND MANAGEMENT TO IMPROVE PUBLIC PROPERTY: A CONCESSION TO MANAGE A MUNICIPAL PARK AND BEACH IN BALLYKCHI, KYRGYZSTAN

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Background

The city of Ballykchi (population about 41,500) is located on Lake Issyk-Kul, a major vacation spot in the former Soviet Union. After Kyrgyzstan became independent in 1991, the number of tourists visiting the lake dropped precipitously, but in the early 2000s the region has seen a comeback with increasing numbers of vacationers arriving from Kyrgyzstan, Kazakhstan, and Russia. The city of Ballykchi itself was developed in Soviet times as an industrial and transportation center, located on the western corner of the lake and oriented to transit to Bishkek and the rest of Central Asia. The breakup of the Soviet Union led to a collapse in this industrial base. Both the city government and private sector realized that the city’s economic future lay in developing the tourism-oriented service industry. A new land use zoning approved by the City Council supports these plans, allowing for a wide range of recreation-related uses at lands adjacent to the lake.

One promising area for development was a municipally owned 16-hectare park, which includes a 500-meter-long beach. This area, known as the park-beach zone (PBZ), contained several recreational facilities, including rides, summer eateries, an open summer disco club, and a guarded parking lot. However, despite substantial public investment as recently as 2000, the PBZ was in poor, deteriorating condition. By the spring of 2004, only three out of nine rides were in operational or repairable condition, and a survey of citizens and tourists revealed that only 30 percent of the local respondents and 10 percent of visitors assessed its condition as “good,” while the rest gave lower marks, including “bad” or “very bad” in the opinion of 24 percent of locals and 30 percent of visitors.

The major factor in the PBZ’s decline was the poor performance of the municipal service company charged with managing the park, and the absence of any investment in the park’s infrastructure in the past four years. An analysis conducted by the Urban Institute (UI) team demonstrated that the company had no incentives for performing its management functions or maintaining the municipal assets, let alone contributing to the long-term development of the park. In fact, the entity was siphoning cash revenues from the park to the pockets of employees, while complaining that operating the PBZ was not profitable and required cross-subsidies from other, more profitable activities. Thus, the city budget was subsidizing the operation of a poorly run park and beach,

1 Implemented by the city government and the Urban Institute in 2004, under the USAID Central Asian Republics Local Government Initiative Phase II.

2 This finding is applicable, to a large extent, to all the company’s operations (street cleaning and lightening, garbage removal, greening, cemetery maintenance, etc.) and to most municipal service companies in Kyrgyzstan. This is explained, at least partly, by defects in the legal framework for municipal enterprises and
which should have been a source of revenue to the budget, a catalyst for local economic development, and a service to its citizens.

Some local officials, most notably the head of the city’s Property Management Department and the City Council chair, were willing to try to change the situation. These factors led to the local government’s decision to participate in a pilot project offered by the Urban Institute of placing the PBZ under private management. For its part, the Urban Institute was keen to identify areas in which local governments could work with the private sector for better delivery of services; the case of the Balykchi PBZ was clearly an area were rapid, tangible improvement was possible.

Project Concept

The project was based on several assumptions:

- **A “win-win” situation for the city and operator.** Improving and operating the PBZ can be a profitable business if requirements of the operator and entrepreneurial activities permitted to the operator are reasonably balanced (this was later confirmed by a financial feasibility study). Project parameters, such as duration, the mandatory amount of private investment, and maintenance and service requirements, should leave sufficient room to make the project profitable for a private investor/operator. At the same time, the structure of the management contract and the element of competition should provide positive incentives for the investor/operator to build improvements and properly maintain the PBZ, leading to better service for residents and visitors to Balykchi.

- **Citizen involvement.** End users’ needs and suggestions, identified by a citizens’ satisfaction survey, should be the basis for the requirements to bidders about the improvements and services in the PBZ. This will build public support for the project and recognition of the local government’s intentions to serve the population, which in turn improves overall trust in government.

- **Private sector investment.** Involvement of the private sector is critical for a local government to secure capital investment in and improved management of municipal assets. Kyrgyz local governments realistically cannot borrow funds or run a budget surplus that would allow for independent capital investment planning.

- **Competition.** The operator should be selected competitively, based on several factors, including past experience, financial stability and capability, and the quality of its plan for improving and operating the PBZ. The right to benefit from the asset should be earned rather than given.

- **Local government discretion.** The city government had the authority to reorganize utilization of an asset and provision of a public service without interference from central or regional bodies. The risks and the benefits of the concession would be those of the local government and the project alone.
Steps in Preparing and Conducting the Competition to Select an Operator

The project was prepared by a joint Working Group that included eight representatives of the city and four experts from the UI offices in Bishkek and Washington. The Working Group was supported by additional specialized technical expertise provided by local Kyrgyz engineers, business expertise provided by Kyrgyzstan’s operators of private amusement parks, and U.S.-based advisers on procurement and performance management. The whole preparatory process and key documents, such as request for proposals (RFP) or Rules for Proposal Evaluation, drew substantially upon British and Canadian manuals on public-private partnerships.

There were nine key steps in preparing the concession, which are outlined below in approximate chronological order.

1. **Secure up-front political commitment to conduct the concession.** The Urban Institute discussed at length with the mayor, the City Council chair, and the head of the municipal Property Department what was anticipated in organizing the concession. The Urban Institute signed a partnership agreement with the Mayor’s Office outlining the pilot project concept and the obligations of the two parties to fulfill the project. This agreement was signed on December 18, 2003.

2. **Conduct citizens’ satisfaction survey.** In order to ensure that the city would be responsibly protecting citizens’ interests in the public asset, a survey was commissioned to rate current management and citizens’ priorities for the use of the asset.

3. **Conduct engineering studies.** It was important to assess the current condition of the PBZ and improvements that would be required in order to preserve its value as well as improvements that the city desired in order to enhance its value. The cost of these improvements would then be used in the financial model for the concession, which served as the basis for setting the parameters of the concession itself.

4. **Draft local normative acts and contract to govern the competition and concession itself.**
   The key documents were—
   - City Regulation on the Concession Competition Procedure
   - Rules for Proposal Evaluation and Winner Selection
   - Concession Agreement

   In particular, the competition was designed as a one-stage process, in order to simplify participation for inexperienced bidders. However, the process had all the important features of a two-stage process, including the right of the Competition Commission to disqualify participants on the basis of credentials before going to a quantitative evaluation of proposals. The evaluation of proposals involved scoring four different technical criteria and five different financial criteria on a scale of 1 to 10; the average scores of the technical criteria and the financial criteria yielded the final score. The evaluation by each of these criteria was based on specific documents or distinctive parts of the proposals. Out of these nine criteria—

   - Two were about applicant’s capability and stability (business and financial),
   - Two were about the technical proposal, and
   - Five were about the financial proposal.
5. **Develop a financial model as the basis for estimating the concession’s feasibility.** This step was critical in order to ensure that the terms of the concession would indeed yield a win-win situation. Expenses needed to improve and operate the property were estimated, along with expected revenues for the operator (a restaurant, rides, other items). These were then compiled into a spreadsheet to calculate a time frame for the concession that would allow for the operator to make a reasonable profit after making the required capital investments and operating expenses.

This financial model was presented and discussed in detail with city officials. This discussion led to a reduction in desired capital improvements on the part of the city. This same model was then provided to all bidders; providing this information reinforced confidence in the competition process because it showed understanding on the part of the city government of the need to allow the operator to turn a profit, as well as the overall seriousness of the local government’s intentions.

6. **Formulate the request for proposals, with specific, detailed Terms of Reference.** The latter included three main sections:

   A. A list of mandatory improvements of the PBZ infrastructure, including improvement of the drainage system, new sand on the beach, and installation of equipment for a children’s playground, with their technical specifications and estimated costs;

   B. A list of mandatory operating activities (such as cleaning of the territory, waste removal, operation of the toilets, plants and landscape maintenance, operation of at least three rides), with their estimated annual cost, and a quality control mechanism defined in a draft Concession Agreement and quality parameters to be further developed jointly by the city and manager.

   C. A list of mandatory services to PBZ visitors and the pricing policy (such as the guarded car parking, functioning rides, side shows, eateries, toilets, free access to the PBZ, beach, and children’s playground).

7. **Prepare and run competition to select an operator.** This involved the following:

   o Preparing an information package for participants, including city resolution to hold the concession competition, the regulation of the competition itself, the RFP, forms for the bidders, examples of completed forms, the “passport” of the property, a detailed map of engineering information, and a copy of the concession agreement.

   o Organizing competition logistics, including publishing the announcement, organizing the provision of the information package, procedures for submission, and the public opening of the bids.

   o Conducting two precompetition conferences for bidders, which presented the concession concept, competition rules and procedures, rules for proposal evaluation, and requirements to bidders and their proposals, and provided a formal opportunity for bidders to ask questions and receive clarifications.
Conducting a special training for the Competition Commission on proposal evaluation, which overviewed the concession concept, the City Regulation on Concession Competition Procedure, Rules of Proposal Evaluation, and draft Concession Agreement, along with the documents that bidders would include in their proposals, and ended by a practice run of evaluating mock proposals.

8. **Run public information campaign.** City officials informally, through meetings with citizens and advertising in local media, and formally, through a public hearing, explained the purpose of the concession to secure wide public support for the project.

9. **Market the project to the private sector.** This was critical to generate interest and competition, particularly outside of the relatively small city of Balykchi. The project helped to place advertisements in leading Bishkek and Almaty publications as well as on television. Journalists were encouraged to attend all public events related to the concession (e.g., the hearing for citizens and the precompetition conferences) in order to promote coverage.

The studies and documents developed during this process are listed in the annex.

**Results of Competition**

The project generated unexpectedly intense competition. Initial inquiries were posted by seven or eight different groups of entrepreneurs, with four of them remaining in the proposal preparatory process until the deadline. One of those four candidates dropped out at the last moment after this group decided that it had no chance to compete with two large-caliber participants that had shown interest. Financial proposals of the three participants and the minimum set estimates from the feasibility study are shown in the table below (in U.S. dollars, the total for 15 years), along with final scores that the proposals received.

<table>
<thead>
<tr>
<th>Financial Characteristic</th>
<th>Estimates for a Minimum Set of Improvements and Services</th>
<th>Bidder # 1</th>
<th>Bidder # 2</th>
<th>Bidder # 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital investment</td>
<td>$7,160</td>
<td>$7,220</td>
<td>$54,325</td>
<td>$69,117</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$48,560</td>
<td>$68,950</td>
<td>$156,920</td>
<td>Not provided</td>
</tr>
<tr>
<td>Total rent to the city</td>
<td></td>
<td>$24</td>
<td>$5,428</td>
<td>$6,048</td>
</tr>
</tbody>
</table>

As clear from this table, the Competition Commission faced a challenge of scoring two very attractive proposals with unexpectedly high financial commitments (proposed investments were 760 percent to 960 percent of what the city had expected). To the Commission’s credit, it demonstrated an outstanding dedication to the quality of its own performance and the resulting decision (see examples in the next section). As a result, the highest sum score—16.22 out of a possible 20—was given to a bidder from Bishkek, the country’s capital, which won the concession contract. This decision was taken on November 1, 2004, and soon afterward the city signed the contract with the winning bidder.
The challenge expected for the coming 15 years was that the city had to demonstrate its ability to control contract compliance with the same rigor the Competition Commission applied to the proposal evaluation.

Factors of the Launch Success

To make the experience of this case more transferable to other circumstances, the Working Group presents below its reflections on the factors that were critical for the project success.

1. **The project had local champions.** A project of this scale and complexity cannot succeed without strong support and drive from inside a local government. In addition to the “blessing” of the mayor, several of Balykchi’s local officials demonstrated a sincere dedication to the idea of improving the situation with the PBZ while simultaneously saving scarce budget resources, and this group became a collective champion of the project. Moreover, due to their positions—head of the Municipal Property Department (MPD), chief architect, chief accountant of the MPD (all three were the members of the Working Group), and chairman of the City Council (he became a Chair of the Competition Commission)—they possessed an ideal combination of technical knowledge and skills and decisionmaking power. Other distinctive qualities of this group, which certainly played a positive role, were (i) their open minds, ability and interest to learn and try new ideas and approaches and (ii) consistency and political will to have this project done, and done well. Particular credit is due to the Council chair for providing the political leadership to the project.

2. **The local government developed a strong sense of project ownership.** Initially, most of the project conceptual ideas suggested by the UI team were new to local members of the Working Group: Never before had the city issued a serious RFP, based its investment or operational intentions on a citizen satisfaction survey, or thought in advance about profit for a private partner. However, from the very beginning, the UI team consciously focused on transferring ownership of the project to the local counterparts by educating them on the meaning and implications of each step and leaving to them the responsibility of making numerous choices and decisions. Most important was the decision of the UI team to remove itself from any position that would allow it to play a role in city decisionmaking outside of providing information and framing options. This included refusing to sit on the Competition Commission, which was to decide on the winning bid, although this was something that Balykchi’s officials would have welcomed. In the end, both the risks and the potential benefits of the concession were borne by the local government.

The local government determined from the outset that its primary goal was not to increase revenue for the city, but to save a municipal asset and provide better service for the city. Hence, the emphasis was on the more complicated task of attracting desired investments rather than simply awarding lease rights to the highest bidder.

An example of how the officials took over ownership of the project was in the selection of mandatory investments. The initial “wish list” of starting capital improvements suggested by various specialized experts and local government staff would cost about $50,000, while a purposefully conservative estimate of what the project could bear while still generating a profit for a private partner led the UI team to an estimate on the order of $10,000. Then, the members of the Working Group had to reduce the wish list to the $10,000 level, including the retained
items in the RFP as mandatory and listing the rest only as desirable but not required “extras.” This process ensured that the city’s leadership was making a conscious decision about what investments were most important, rather than acting on the advice of others.

In the end, Balykchi’s officials demonstrated creativity in performing their many functions in the project. For example, shortly before a proposal submission deadline, some concerns surfaced that bidders who attended the precompetition conference did not receive a sufficiently clear signal about city’s political will to run this competition honestly. The chair of the City Council and Competition Commission took the unusual step of personally calling each attendee and gave his word regarding the integrity of the competition. Another example is when, during the proposal evaluation, the Competition Commission faced a difficult choice between two strong, attractive proposals, they dispatched two members to Bishkek to visit a bidder’s warehouse and verify his claims that he had rides ready for installation.

3. The private sector’s contributions and advice were sought regularly during project preparation. At the outset of the project, the UI team identified four private operators of various parks (three in Bishkek and one in another city) and discussed with them the project’s intention and initial concept. One of these operators turned out to be a team of young, well-educated professionals running a successful private amusement park in Bishkek. They agreed to become pro bono advisers to the project and later provided enormously useful reviews of key draft documents, such as the financial feasibility study, draft RFP, and draft Concession Contract. They also prepared mock bids that were used in training the Concession Commission.

4. Formulating the improvement/service requirements for a private operator based on the results of the citizens’ satisfaction survey created a fundamentally solid platform for the project. Service improvements had never been planned based on what people wanted in Kyrgyzstan, at least for parks. This approach gave the Working Group a strong sense of the project’s political and psychological justification. Most important, it served as a focal point for turning around initially negative public opinion and securing support of the general public, local nongovernmental organizations, and the City Council.

In practical terms, this approach boiled down to including the specific improvement suggestions cited most often in the survey—improving the quality of sand on the beach, improving cleanliness in toilets and elsewhere, installing equipment for a playground, and improving the quality at eateries—into the Terms of Reference as mandatory. In order to make such an approach an ongoing practice, a private operator would also have a contractual obligation to conduct a visitors’ satisfaction survey annually. In addition, bidders had access to a survey report, so they were able to incorporate other, less frequent suggestions into their proposals.

5. Balancing interests of all parties was consistently recognized as a sine qua non of the project. From the very beginning, the UI team systematically promoted the idea that the project should be mutually beneficial and acceptable to all three parties involved—the general public, local government, and a future private operator of the PBZ. In particular, the public and the local government came to accept that unless profit making was openly permitted and economically feasible for the private operator, nobody would bid for the concession. Private sector actors, in turn, were informed that privatization of the PBZ is out of question, the property will irrevocably stay in municipal ownership, and basic “public good” functions of the PBZ, such as entrance to the PBZ or access to the beach and children’s playground, should remain free of charge, and this would be written in the contact and enforced by the local government.
This balancing of interests took multiple forms. A public hearing on the project (see photo), which explained the concept and how public interest would be met and protected, played a key role in overcoming initial reservations and suspicions of the public and the City Council (“they are going to sell our park,” “you’ll have to pay to get in and we won’t be able to go to the beach,” etc.). Another central piece was a draft Concession Agreement, which takes a very balanced view on protecting the interests of the city as the property owner, the private operator, and PBZ visitors.

6. The project’s marketability was purposefully maximized by eliminating uncertainties. It is well known that even in developed countries, property-related public-private projects are often plagued by inability of a public sector partner to provide information needed for private investors, formulate conditions clearly enough, and avoid changing them after bidders began preparing proposals. All these uncertainties create additional risks for the private sector and result in both a lower interest from the private sector and lower financial offers (this way, private sector participants mitigate the risks related to the uncertainties). The UI team convinced its local government partners that these risks can and should be eliminated, and this was achieved in a systematic way:

   o A special City Regulation on Concession Competition Procedure approved by the City Council and included in the information package for bidders explicitly prohibited the local government from changing the Term of References and draft Concession Agreement after the RFP was published.

   o All competition procedures were clearly formulated in writing, including Rules for Proposal Evaluation and Winner Selection.

   o The assessment of various aspects of the PBZ condition was prepared by the country’s best technical experts and made available to bidders (see annex).

7. Broad comparative experience was utilized in finalizing the project’s concept, documents, and process. The project team recognized that this project would be complicated even under the best of circumstances and hence built in a process of multiple internal and external reviews of documents to ensure that international best practices as well as the specifics of doing business in Kyrgyzstan were considered.

   o First, while making initial drafts of key documents, such as RFP or Rules for Proposal Evaluation, the Washington-based part of the team used the results of recent research on international experience in property-related public-private partnerships sponsored by the Urban Institute for other purposes.
Second, for adjusting these drafts to realities on the ground, the drafts and/or underlying assumptions were reviewed by several UI staff at the UI Washington office and in Kyrgyzstan. The main challenge was to simplify the whole process down to a level of complexity bearable for an inexperienced local government and local bidders in Kyrgyzstan and still ensure that the interests of the local government, bidders, and the local community would be protected. For example, should the competition have two stages or could it be reduced to one? Which procedure of proposal evaluation and scoring should be used? To find reasonable solutions, the drafts were filtered through the Urban Institute’s own experience as a bidder for U.S. Agency for International Development and World Bank contracts, on the one hand, and the procurement experience of the central government of Kyrgyzstan, on the other.

Third, the project’s private sector advisers in Kyrgyzstan, mentioned above, reviewed the drafts, which led to further adjustments.

Last but not least, a high priority was given to the quality of all documents and procedures from the viewpoint of Kyrgyz law. Given its high visibility in the country, the goal was to make project’s legal validity unchallengeable.

8. The marketing campaign was important for generating strong competition. The marketing campaign had two main components: formal, through mass media, and less formal, through professional networks and word of mouth, accompanied by targeted informal contacts with everybody who indicated an interest in the project. It turned out that these contacts, along with comprehensive information packages for bidders and special precompetition conferences for them, played an important role in raising and maintaining interest in participation. A formal advertising campaign through mass media alone would not have produced this level of participation.

Project Preparation: Time and Level of Effort

The project preparation and competition itself, from first discussions with the city until the moment the city signed the Concession Agreement with the competition winner, took 11 months. Because this was the first project of its kind in Kyrgyzstan, there was a learning curve. The next such concession project would require perhaps half this level of effort. At the same time, the political realities of engaging in a high-profile endeavor of turning over the operation of a significant municipal asset to private management would likely require a comparable amount of calendar time from the initial decision, to the organization of the concession, to selecting a bidder.

Level of effort for the project by the UI team and associated consultants are estimated as follows (assuming 20 workdays per person-month):

- UI project director in Kyrgyzstan – 1 person-month
- Public-private partnership and asset management expert (a Washington-based UI staff member) – 3.3 person-months
- Four UI local staff members in the Bishkek office (an asset management expert, lawyer, financial analyst, and public relations expert) – total of 9 person-months
- Local technical experts (infrastructure, plant, and rides engineers) – 2 person-months
- Specialized sociological research and survey company – fixed fee

What Happened After the Launch
The project implementation started with a fair effort by the operator: For the summer of 2005, he installed new rides and repaired some existing ones, delivered new sand for the beach, and improved services and cleanness in the park (see photos).

However, the operator’s investments during the first season of 2005 lagged behind the schedule stipulated in the contract. Moreover, it turned out that he did not own the rides he had shown to the Commission in storage in Bishkek during the proposal evaluation, and he did not install them. The local government, for its part, was not as systematic in monitoring and evaluation the quality of park operation and maintenance as it was supposed to be. For example, protocols of inspection visits were not filled on a regular basis. After the end of the 2005 season, the operator declared that income from the park was substantially lower than expected (which had some objective explanation: Tourism activity during the 2005 season was substantially lower on Lake Issyk-Kul than in 2004), and requested termination of the contract. The local government agreed, and it was terminated in the spring of 2006. Since 2007, the city government, without any assistance from the Urban Institute, has rebid the contract to other private operators for one-year leases. Later the city took the PBZ back under municipal management. The park and beach continue to deteriorate.
Annex: Documents Developed During Project Preparation

1. Statement of cooperation between city administration and Urban Institute/Bishkek
2. Action plan and schedule for project preparation
3. Memorandum by Urban Institute/Bishkek that summarized an assessment of current issues of PBZ operations by the municipal service company, with conclusions and recommendations
4. City resolution on placing the PBZ for a concession through a competition and on establishment of the Working Group for a competition preparation
5. “PBZ Passport” consisting of the inventory list of the PBZ assets, a map, and zoning specifications on permitted land uses
6. Property title (state registration document) for the PBZ
7. Results of a sociological survey of the citizens’ satisfaction and expectations regarding PBZ improvements and services
8. Expert assessment of the PBZ landscaping and plants condition and recommendations for their improvement
9. Expert assessment of the PPZ engineering infrastructure and recommendations for its improvement
10. Expert assessment of the PPZ rides condition and recommendations on rides repair and maintenance
11. Results of a formal chemical/sanitary analysis of drinking water
12. City Regulation on Concession Competition Procedure, including Rules for Proposal Evaluation and Winner Selection
13. Draft Concession Agreement
14. Terms of Reference for a PBZ operator, which include specifications on capital investments, operating and maintenance, and services in the PBZ
15. Financial feasibility study, including—
    o A cash flow model for the PBZ for 15-year concession based on estimates of capital expenditures, operation expenses, and expected revenues from paid services in the PBZ
    o Conclusions regarding expected profitability of the project for a private operator
16. Request for proposals, which included, as an annex, the Terms of Reference for a PBZ operator
17. City Resolution on establishing a Competition Committee
18. Draft City Resolution on a concession winner
19. Public relation articles in local mass media about the forthcoming competition and the concession
20. Concession competition announcement and press release
21. Instructions for applicants on a proposal preparation

A subset of the above documents was included in the information package for competition participants. Specifically, the information package included the following:
- City Resolution on placing the PBZ for a concession competition
- Request for proposals, including the Terms of Reference for a PBZ operator
- “PBZ Passport”
- Financial feasibility study
- List of documents required from participants
• Instructions for participants on a proposal preparation
• City Regulation on Concession competition Procedure, along with the Rules for Proposal Evaluation and Winner Selection
• Draft Concession Agreement