

Municipal PPP (waste, water): case study



Arzinger 

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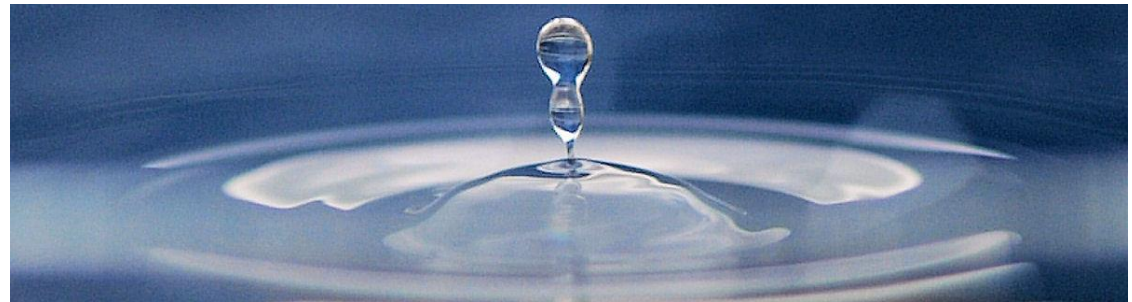
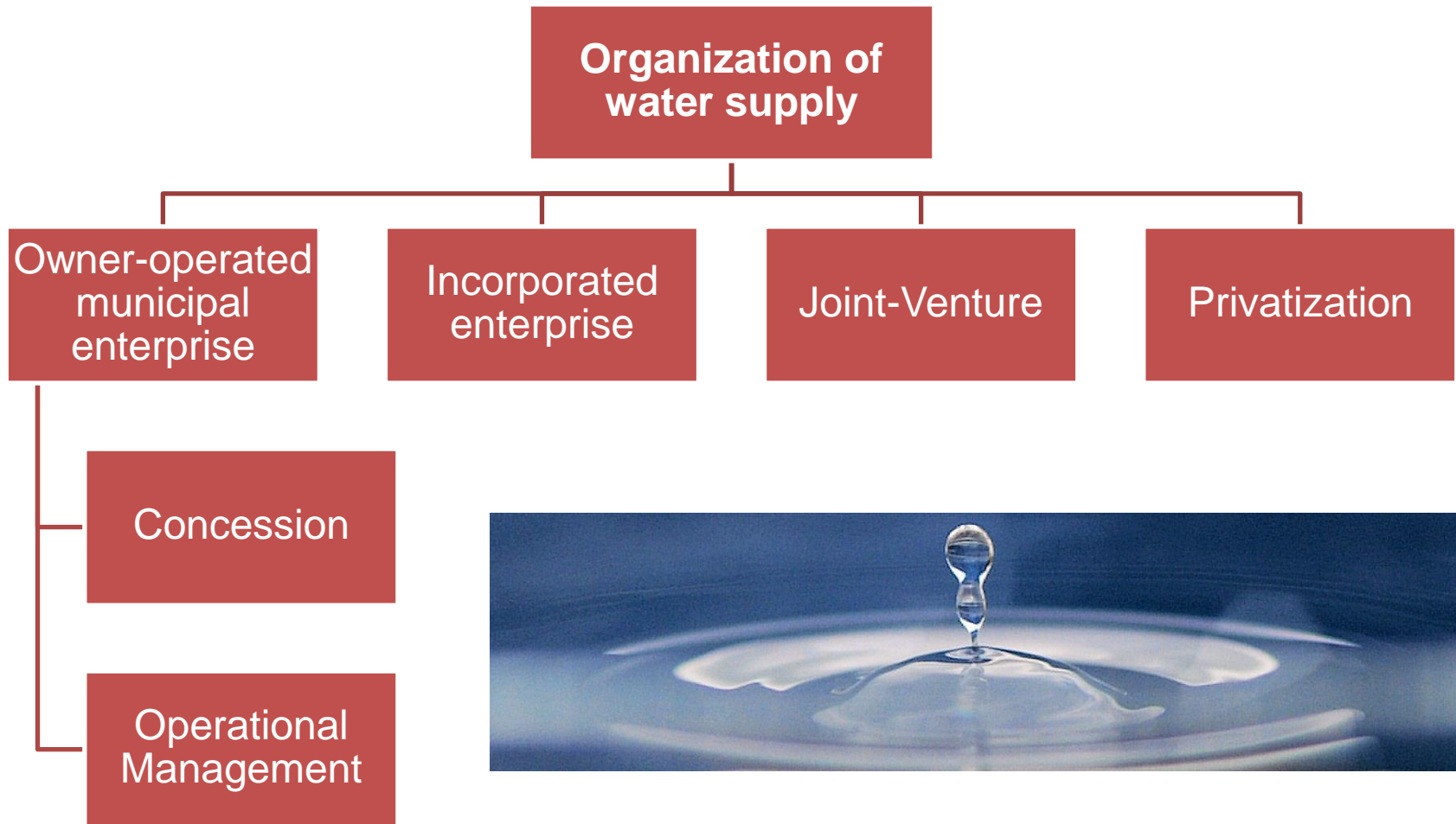
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I. Water supply/Sewage treatment

Organization of water supply



1. Korsun-Shevchenkovskiy – water supply (1)

➤ Description of the project

- Particular difficulties of municipality in the pre-tender phase (concession):
 - Lack of communication skills;
 - Lack of technical facilities (computer, internet);
 - Inventory taking (lack of information);
 - Municipal land via state owned land;
 - Servitudes on private land plots;
 - Transactions/preparation costs for interested parties (foreign companies);
 - Elaboration of tender documents and related costs (including translation).



Korsun-Shevchenkovskiy – water supply (2)

➤ Reasons for failure of tender

- Huge investment needs in order to firstly avoid water losses (“investment jam”);
- Uncertain water price development;
- No guarantees by city major/municipal council due to their term in office;
- Country risk/financial costs;
- Lack of compulsory connection to and use of central water supply system.

Korsun-Shevchenkovskiy – water supply(3)

➤ Lessons learnt

- Proper preparation of PPP object by public partner necessary (“consumable”);
- Calculation certainty over the lifecycle of the project;
- Non-viable projects never find a private investor.



2. Luhansk – water supply (1)

➤ Description of the project

- March 2008 - Luhansk regional council passed "Luganskwater" into concession to "Rosvodokanal";
- UAH 756.7 mln. investment – by 2032 (UAH 500 mln. of which - in the first 5 years of operation; in fact during 4 years – UAH 100 mln.);
- Aim of the project - to stabilize the position of the company (in particular, by reducing energy costs) and to get profit.

Luhansk – water supply (2)

➤ Problems of the water utility before concession:

- Significant deterioration of water networks (70-100%);
- 40% of water pipelines and networks, with a total length of 2.2 thousand kilometers, require replacement or rehabilitation/sanation;
- Conflicts with "Lugansk Energy Association" (debts for electricity).

Luhansk – water supply (3)

➤ Shutdown of the project

- 28.02.2013 – termination of the concession agreement (non-fulfillment of investment obligations by the concessionaire);
- Regional Council returns "Luganskvoda" into the municipal property;
- Judgment of the court dated 10.07.2013: "Luganskvoda" shall reimburse to the Luhansk Regional Council UAH 46.8 mln. (delay of concession fees payments).

Luhansk – water supply (4)

➤ The reasons for failure. Lessons learnt: .

- Different understanding of the initial aims by the parties;
- No political support - as a result - the opposition of the local population;
- The investor calls "imbalance" tariff for water supply (economically not viable) as a reason for non-fulfillment of the investments obligation.



3. Odesa – water supply (1)

➤ Description of the project

- 18.01.2004 - Agreement on the transfer of KP "Odesavodokanal" into lease for 49 years to LLC "Infox", (provided full upgrade of the existing system);
- Rents - 3% of the residual value of fixed assets of "Odesavodokanal" (annual rent - 8,566,986 USD excluding VAT); *there is information that the rent was 1 UAH.*
- "Infoxvodokanal" ensures 24 hours water supply in the city.

Odesa – water supply(2)

➤ Investment program was not fulfilled

- 30/06/2006 - Mayor's Office sent a **lawsuit demanding termination of the lease agreement** and recovery of UAH 3.9 mln. by "Infox";
- *The main arguments of the mayor's office:* failure by the tenant to comply with its obligations;
- *Arguments LLC "Infox":* investment plan is obsolete; political factor; 7 years is not a sufficient term for investing of UAH 500 mln.

Odesa – water supply (3)

- 2008 – **amicable agreement** between investor and municipality;
- 25.09.2008 - Odessa City Council approved higher tariffs on water supply and drainage for "Infoksvodokanal";
- USD 10,140 mln. - loan granted by the World Bank and the Swedish International Development Agency for modernization of water and wastewater systems secured by bail of Municipal enterprise "Odesvodokanal".



II. Waste treatment

1. Donetsk.

STRABAG

➤ Description of the project

- Construction of waste combustion plant (**Strabag**);
- Processing 470 tons of waste per year;
- EUR 350 mln. investment.

➤ Shut-down of the project, reasons:

- No guaranteed amount of raw materials by the local authorities (requirement of the loan provision by Austrian banks);
- No domestic market of secondary raw materials (recycles) in Ukraine.

2. Lviv and Western Ukraine . AVE(1)



➤ Description of the project

- **AVE** operates in Western Ukraine since 2006
- Form of cooperation - a joint venture with the local administration;
- AVE Group enterprises, based on the PPP model: AVE Lviv (2010), AVE Mukachevo (2010), AVE Colomyia (2008), AVE Vinogradovo (2006).

Lviv and Western Ukraine. AVE (2)

- **Problems of development based on the experience of PPP AVE:**
 - Contribution of the public partner into the statutory fund (The contribution of the public partner to the JV statutory fund is considered by the Constitutional Court as hidden privatization);
 - Limited powers of the local government in small cities.



3. Remondis Ukraine: Kyiv, Zaporizhzhya, Odesa, Cherkasy, Melitopol, Donetsk (1)

➤ Description of the project

REMONDIS®

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- **Remondis Ukraine** (since 2008).
- **Remondis Ukraine services for municipalities:**
 - Collection and disposal of recyclable and residual waste;
 - Sorting and preparation of raw materials for recycling;
 - Construction and operation of waste processing facilities;
 - Street cleaning (winter and summer), maintenance of green areas.

Remondis Ukraine(2)

➤ «Remondis Zaporizhzhya»



- Joint venture with Zaporizhzhya municipal enterprise "Kommuntransekologiya" (2008);
- "Remondis Zaporizhzhya" provides services for removal of solid and liquid wastes, operates a major complex for sorting resource-valuable components of municipal solid waste and landfill.

Remondis Ukraine(3)



➤ Remondis in Cherkassy

- 2010 - a joint venture with municipal enterprise "Cherkasy Service of cleanness";
- Innovation of "Remondis" – adoption of the system of separate collection of waste (wet waste and dry waste);
- It is planned to launch construction of waste sorting line.

Remondis Ukraine (3)



➤ «Remondis» in Pavlograd (2010 - 2011)

- **Conflict** between Pavlograd administration and «Remondis Ukraine»
- *Investor's argument:*
 - inconsistent behavior of the city (in 2009 - signed preliminary agreement on establishment of a joint venture, in October 2010 - the new major of the city did not support the establishment of PPP);
 - pay level for the services provided tumbled;
- *The argument of the city:* "Remondis" demanded increase of the tariffs and 51% of the charter fund of "Pavlogradavtotrans".

Remondis Ukraine (4)

➤ «Remondis» in Odesa

- 11.01.2010 - "LLC" Remondis Ukraine "and KP Odeskommuntrans" signed a subcontract for the provision of services for the collection and disposal of solid waste from central part of the city (for 5 years);
- 11.01.2011 - early unilateral termination of the contract by the city;
- Kyiv Economic Court ordered "Remondis" to pay "Odeskommuntransa" UAH 614.074,61 for storing and disposal of municipal solid waste for the period from January 2010 to January 2011.

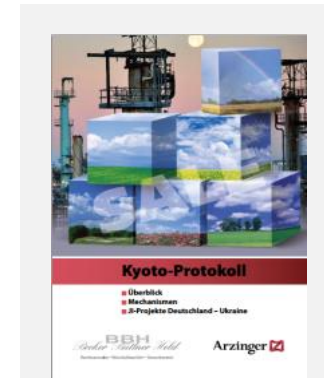
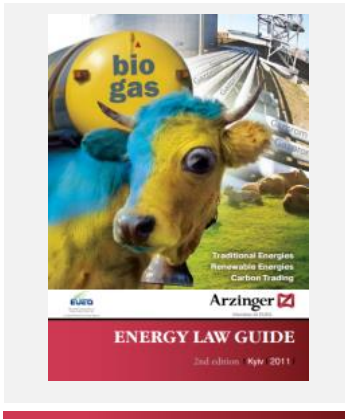
4. National project “Clean city”



➤ Description of the project

- National project "Clean City" of the State Agency for Investment and National Projects;
- Establishment on the basis of public-private partnership of new modern facilities for processing of domestic solid wastes in 10 pilot cities;
- Estimated term for return of investments - 7 years;
- December 2013 - National project received offers from potential investors on 5 cities: "Corporation" Ukrvtorresursy" - in Kiev and Chernivtsi, LLC "PB-Invest"- in Ternopil, "Eco-Engineering"- in Khmelnytsky and "Konler"- in Kirovograd. Partner companies – "VEOLIA Umweltservice GmbH" and LLC "Remondis Ukraine".

Books



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We are looking forward to our future cooperation!

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Thank you!