



Engineering
Applied research
Public-private partnership

No alternative to PPP schemes in the water and sanitation sector in Russia

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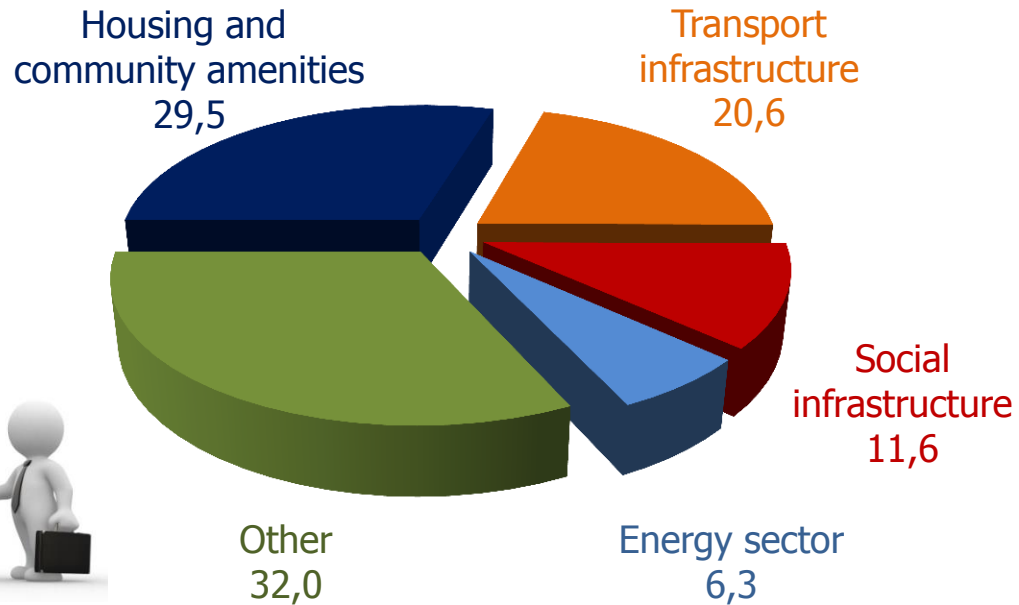
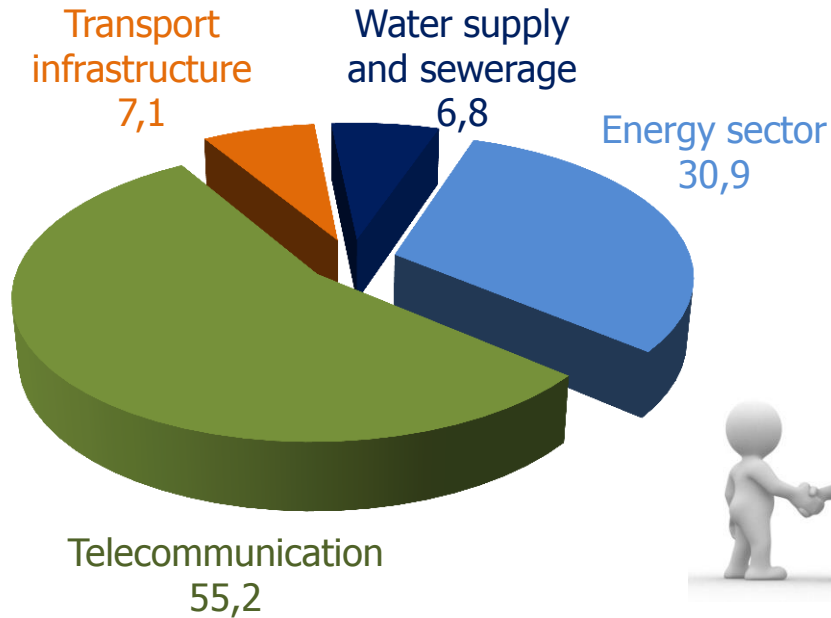
International Conference «Public-Private Partnerships in the water and sanitation sector best practices and lessons learnt: an exchange of experiences among Europe, Central Asia and the Middle East and North Africa», Geneva, Switzerland



21-22 October 2014 r.

Implementation of PPP projects in Russia by industry

At the moment, there are about 300 PPP projects underway in Russia



The percentage of PPP projects in Russia by industry, %

According to the World Bank

According to the Ministry of Economic Development

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Background for the implementation of PPP projects in wastewater sector in Russia

«About 60% of fixed assets (in the housing and utility sector) have served their term of service. This means a high accident rate, transmission and distribution losses, enormous operational costs. Available funds are being spent to keep the system operational, and little capital is available for the modernization of the system. This may well be one of the major challenges that we have to face»,

Chairman of the Government of the Russian Federation Dmitry Medvedev.



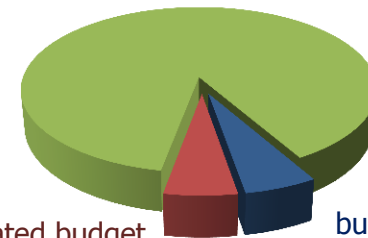
Federal Target Program «Chistaya voda» 2011 – 2017

Program Objectives:

- ✓ Creation of favorable conditions for attracting long-term private investments in water supply, disposal and sewerage projects by improving the legislation of the Russian Federation in the PPP sphere and in the tariff regulation for long-term tariff formation in housing and utility sector.
- ✓ Modernization of water supply, disposal and sewerage systems by supporting Russian Federation subjects in their programs aimed at the development of the above-mentioned water and wastewater systems.

Funding for the program

Non-budgetary sources,
\$8,5 bn.



Funds of the consolidated budget of the Russian Federation subjects,
\$250 m.

The federal budget, \$250 m.

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Public-private partnership is the tool for the development of wastewater infrastructure

Insufficiency of budget funds and widening of budget deficit

Disparity between the level and rate of development of public infrastructure on one hand, and consumer demand and overall economic growth on the other

Insufficient qualifications of some employees of state-funded organizations

Lack of up-to-date technologies, equipment, machinery, etc

CHALLENGES TO LOCAL AND CENTRAL GOVERNMENTS

Lack of effective incentives for employees to improve quality of their work



Realization of long-term projects with the benefit of a stable market

INTEREST OF THE PRIVATE INVESTOR

Commitment to the standards and criteria of high operational performance

Administrative and political assistance in the implementation of PPP projects, risk-sharing with the executive authorities

Guarantees provided by the executive branch of the government of the minimal profitability, partial or full refund in case of the failure of the project

Utilization of personal experience and professional expertise in achieving objectives set by municipalities



Wastewater disposal

A comparison of organizational and legal arrangements

New construction only

New construction is possible as well as reconstruction (modernization)

BOLT

Concession

Rent with investments

Ownership

Private

State

Private

Operation

Authorized municipal company

Private investor

Features of the models

Units to be constructed form a separate property complex.
New private investor

Implementation of the project is based on an existing property complex.

Current private investor

The source of return on investment for the private investor

Lease-redemption payment

Tariff revenue

The law does not prohibit a private investor from owning wastewater facilities. Structuring of tenders for the selection of private investors as well as closing deals is done based on the regional law «On participation of subjects in PPP», Civil code of Russia.

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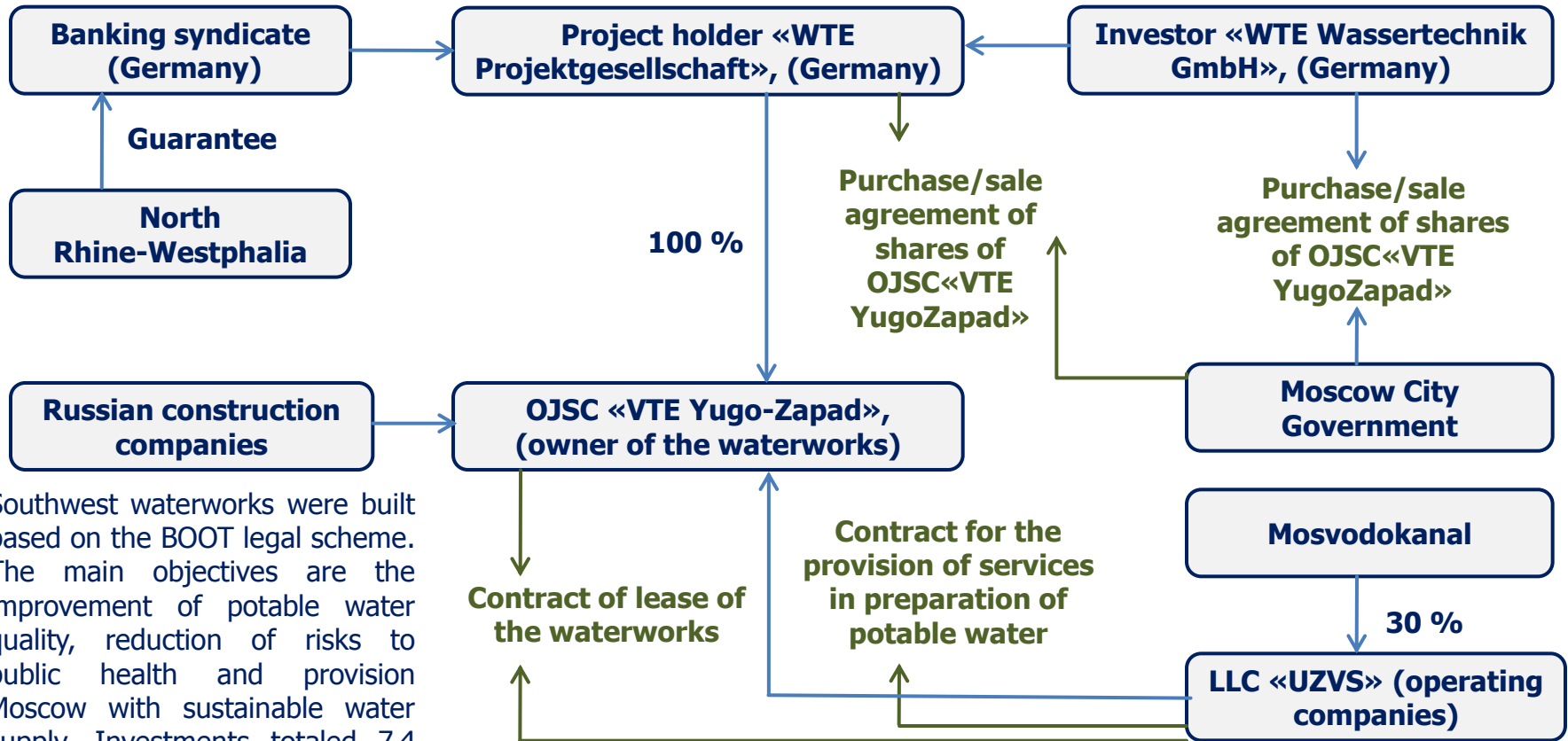


Experience of successful implementation of PPP projects in Russia

Southwest waterworks (Moscow)

Loan 75%

Shareholders' equity 25%



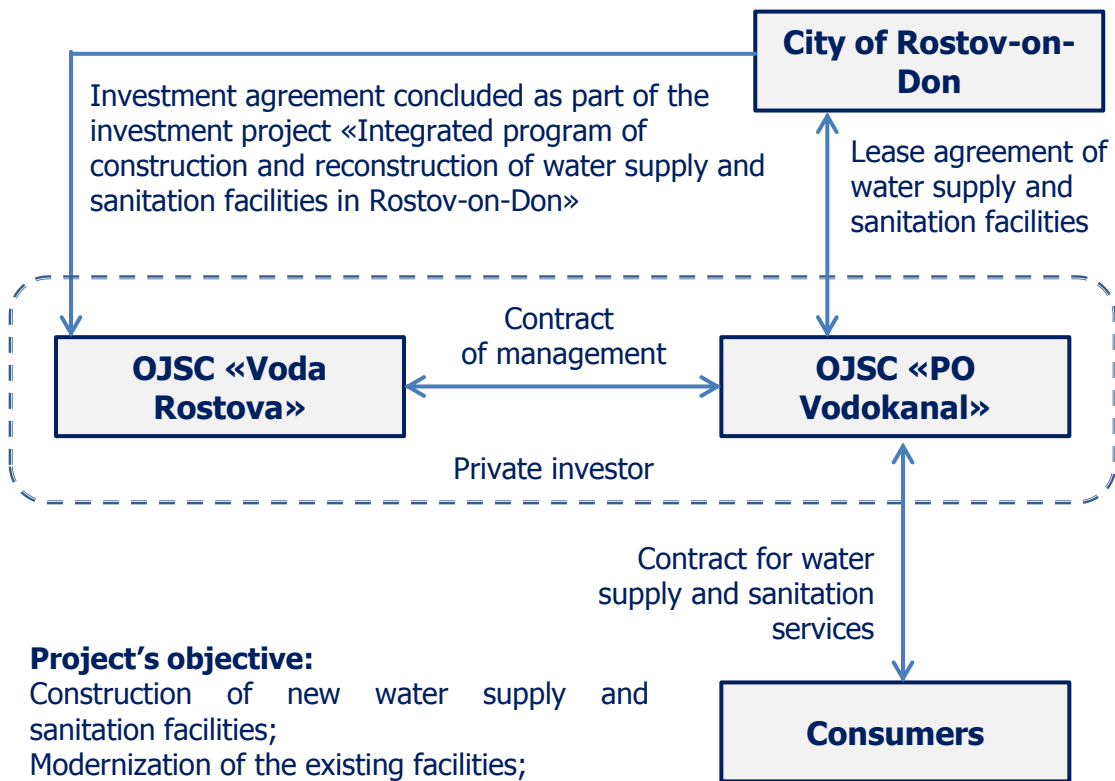
Southwest waterworks were built based on the BOOT legal scheme. The main objectives are the improvement of potable water quality, reduction of risks to public health and provision Moscow with sustainable water supply. Investments totaled 7,4 bn rb.

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Experience of successful implementation of PPP projects in Russia

Development of water and sanitation sector in Rostov-on-Don



Project's objective:

- Construction of new water supply and sanitation facilities;
- Modernization of the existing facilities;
- Expansion of centralized water supply in rural areas and improving quality of water and sanitation in these areas.

Organizational chart

Municipal Unitary Enterprise «Vodokanal» was converted to a joint-stock company without infrastructure and incorporated into a joint venture of the municipality and the private investor, selected on a competitive basis.

OJSC «PO Vodokanal» is a specially created operating company which operates water and sanitation infrastructural objects in Rostov-on-Don. The company provides its services to consumers under 25-year lease.

Property rights:

Municipal infrastructure is under long-term lease to Vodokanal;

The new infrastructure built at the investor's expense remains investor's property and is leased to Vodokanal. At the end of the contract of lease, it is transferred to the city at residual cost;

The new infrastructure built at the expense of the city's budget is a property of the city and also is a subject of a long-term lease.

Value of the project:

35 bn rb: investor's funds – 25 bn rb, co-financing by the municipality – 0,3 bn rb, co-financing by the region– 2 bn rb, Investment fund of the Russian Federation – 7 bn rb.

Source of refund: Tariff revenue.



Negative experience of unsuccessful PPP projects in Russia



«Neva Water» project in St. Petersburg

The Government of St. Petersburg (represented by GU «Agency for Strategic Investments») announced a tender for the construction, renovation and operation of real and personal property forming part of the Northern Waterworks. The project was to utilize a two-stage water purification technology and to be based on PPP schemes. The tender was held in compliance with the law of the participation of St. Petersburg in public-private partnership. In June 2011, all four bids submitted for the tender successfully passed pre-selection procedures. However, on 27.12.2012 the organizers of the tender chose not to enter into a PPP agreement with the only participant in the tender.



Water supply development program in the Krasnodar region

In March 2010, a concession agreement was signed between the Government of the Krasnodar region and LLC «Yugvodokanal». The agreement concerned water supply and sanitation facilities in the area of five cities (including Novorossiysk, Yeysk, Gelendzhik) and 140 settlements with the total population of about 1 million. Under the terms of the development program in 2010-2039, LLC «Yugvodokanal» was supposed to attract investments amounting to 7,38 bn rb. Because LLC «Yugvodokanal» has been steadily evading the fulfillment of the conditions of the agreement (due to the lack of funding), the agreement is now in the process of termination.



Maintenance and repair of the heating systems in Tver

In May 2011, LLC «Tverteplo» was established on the basis of concession (based on Federal law «On Concession Agreements») and according to the decision of the Tver City Duma. LLC «Tverteplo» was a joint venture by OJSC «Territorial Generating Company №2» and the administration of the city of Tver. LLC «Tverteplo» supplies heat and hot water to homes, maintains and repairs the heating network. Under the lease agreement, it has control over nearly all the heating network in Tver which is more than 435 km long. LLC «Tverteplo» is currently undergoing bankruptcy proceedings.

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Main reasons for the revision and termination of PPP Projects

Reasons for the revision of terms and termination of PPP projects

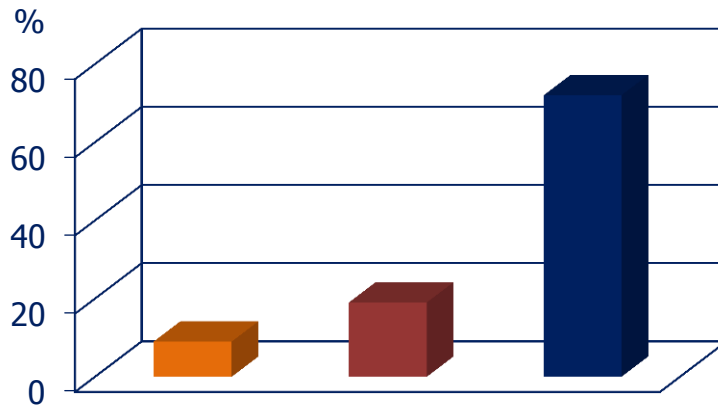
- ❌ Lack of experience in producing quality projects
- ❌ Inefficient interactions between the authorities and private investors
- ❌ Failure of many PPP projects to meet the requirements of the financial institutions
- ❌ Incorrect assessment of the effective demand (setting of non-optimal tariffs)
- ❌ Ineffective information policy concerning future realization of the PPP project
- ❌ Poor preparation of tender documentation, arbitrary choice of a private investor
- ❌ Lack of competition among potential private investors in some industries
- ❌ Violation of tender procedures
- ❌ Arbitrary criteria for the evaluation of private investors



Results of a sociological survey of municipal and regional governing bodies

In a sociological survey conducted by TRANSPROEKT Group as part of a state contract, members of various ministries and agencies in 50 subjects of the Russian Federation were interviewed on the development of public-private partnerships in their regions and the country as a whole. The most interesting responses to the questions from the questionnaire are presented below.

How would you assess the degree to which the regulatory system in your region is developed?

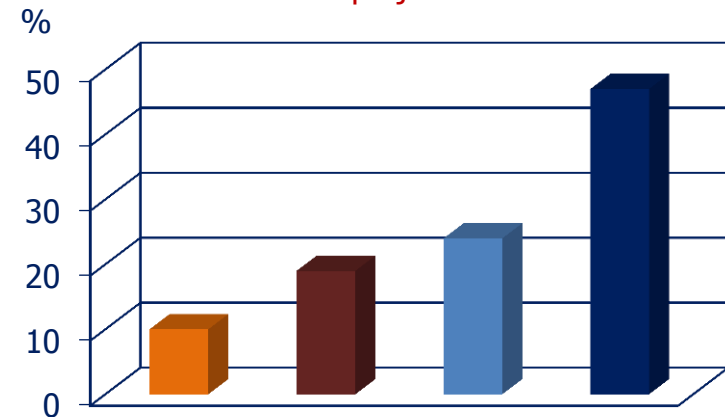


The existing regulatory system is sufficient for the implementation of PPP projects.

The existing regulatory system is insufficient, and it requires a major modification/adaptation.

The existing regulatory system is insufficient for the implementation of PPP projects, but nevertheless such legislation can still be of use.

What are the challenges to the implementation of PPP projects?



Lack of skilled private investors who is ready to invest in PPP projects.

Unclear mechanism of return on investment.

Deficiencies in the existing regulatory system.

Inability of municipal and regional governing bodies to make PPP projects attractive to investors, unwillingness of governments to participate in PPP projects and bring in professional consultants.

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Despite the growing number of regional PPP projects in the Russian Federation, it has been shown that **in nearly half the cases** in various sectors of the economy, due to the failure of private investors to fulfill their obligations, **there had to be revisions** of the feasibility studies and other documentation. Procedures for new tenders had to be activated in order to find new private investors, and the time required for the implementation of the projects was prolonged considerably. Because of this, **success of a PPP project largely depends on the quality** of the tender documentation, on the elaboration of the criteria for the competitive selection of private investors, and on the selection of a concession or investment agreement which will allow for a balanced relationship between the public and the private partner.

In order to implement PPP projects successfully and effectively and to attract private investors and financial institutions, it is imperative to develop high quality financial and economic, organizational and legal models of a PPP project; technical feasibility study of the viability of the project based on the evaluation of different technical approaches. Therefore, it is customary during the preparations at the pre-investment stage of the PPP project to enlist the help of professional consultants in order to resolve various issues in financial, economic, institutional, engineering spheres.



About TRANSPROEKT Group

TRANSPROEKT is an engineering and consulting group specialized in the development of integrated transport systems and engineering infrastructure, social and cultural facilities, municipal services and public works construction.



TRANSPROEKT Group utilizes a unique integrated approach by being the sole consultant on financial, economic, organizational, legal and engineering issues thus guaranteeing a high quality “package” for the project, excellence in the preparation and conduct of tender proceedings, engagement of domestic and foreign investors, banks and financial institutions. The integrated approach of TRANSPROEKT Group ensures top expertise in each and every task and is vital for the effective preparation and implementation of all projects from basic to the most complex ones.

The fine blend of practical experience and research has been the cornerstone for all the company’s activities for years since the very beginning. It helped to shape the key areas of interest, such as engineering, technical consulting and public-private partnership which complemented each other in the successful implementation of dozens of major infrastructural PPP projects with total investments totaling more than 1,7 trillion rubles in the Russian Federation and the CIS countries.



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The largest projects of TRANSPROEKT Group

- Construction, modernization and operation of toll bridges across the river Chusovaya in the Perm region
- Construction of a bridge over the river Volga near the town of Podnovye
- Construction of a dry cargo area in the sea port of «Taman»
- Construction of an extension of Dzerzhinski Metro-line from the station «Zolotaya Niva» to the station «Voločayevskaya» in the rapid transit system of Novosibirsk – Novosibirsk Metro
- Construction of Dmitrov interregional multimodal logistics center
- Construction of multimodal logistics center at the aerodrome «Yefremov»
- Construction of railway parks, and development of the railway station «Novorossiysk» North-Caucasian railway
- Construction of Sviyazhski interregional multimodal logistics center
- Construction of the regional communal highway in the Bashkortostan «Sterlitamak – Kaga – Magnitogorsk»
- Integrated development of the Murmansk Transport Hub
- Integrated development of the Novorossiysk Transport Hub
- Integrated development project of the toll highway M-4 «Don» (Moscow, Tula, Voronezh, Rostov, regions and Krasnodar Territory)
- Reconstruction of the highway M-8 «Kholmogori» from Moscow via Yaroslavl, Vologda, to Arkhangelsk at the MKAD-Pushkino section
- Runway reconstruction of the international airport «Tolmachevo»

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