

PUBLIC PRIVATE PARTNERSHIP IN WASTE MANAGEMENT

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Abstract: *PPP projects represent large-scale investment projects of building infrastructure. These projects are implemented in the public interest, but with the use of private sector's financial resources. It is also used his knowledge, organizational and innovative potential. The financial performance of such projects is so high that the sectors within the partnership may request a contribution from the Structural Funds of the European Union. But combining the two systems (PPP principles and rules of utilization of EU funds) is not easy, as will be shown at the end of article on the specific example of the environment. The aim is therefore to prove that there are barriers to the participation of EU resources in PPP projects in the environmental field.*

Keywords: *Cohesion Fund, the Environment, Public Private Partnership, Waste Management.*

1. Introduction

The man produces a lot of waste during his lifetime, so it is necessary mainly because the citizens to solve this problem. The area of waste is so serious that it is also primary in the sector of the environment. Cooperation between public and private sectors (PPP) may be part of the solution. This cooperation in practice looks like so that the company will provide know-how and finance and the municipality will ensure land and markets.

Public Private Partnerships are generally indicates the abbreviation PPP, consisting of initial letters of the term. PPP is a general term for public-private partnerships, created for the purpose of the use of resources and capabilities of the private sector in public infrastructure or public services. If they are professionally and successfully applied the PPP options enhance the quality and efficiency of public services, including the performance of government and speeding up the implementation of major infrastructure projects with positive impact on the development of the economy.

The essence of successful PPP is the assumption that a greater contribution to public sector (in proportion to the resources made it) can be achieved by using the skills and experience of the private sector and the distribution of risks between the interested parties so that each party shall bear such a risk, which can best manage. PPP is usually shared participation in both sectors' "Special Purpose Vehicle" (SPV), a specially created solely for the purpose of the project, which is governed by the Commercial Code. [7]

PPP is a form of public-private partnerships in which the two sectors combine forces and resources for the purpose of the project on the basis of the divided responsibilities and risks so that both sectors have done what they can best. The aim of cooperation is to obtain value for money for the public sector and greater efficiency and the quality of public services.

The result of a well-prepared PPP project is mutually satisfied long-term cooperation between the two sectors of the resulting benefits to both sectors. The private sector acquires the possibility of long-term income from interesting projects and public sector higher value for their money, higher quality for the same cost or the same quality at a lower cost. It is undesirable that the project developed in the imbalanced relationship where one party gains at the expense of another. A key prerequisite for a successful PPP project is to prepare qualified and mutually beneficial flexible contractual relationship.

The decisive condition for a suitable PPP project is economically advantageous for the public sector. The private sector must provide for the costs of public sector lower than in the case that the same project will ensure public sector itself from its resources. If there aren't assumptions that this condition is met, the project does not make sense to take the form of PPP. [8]

There is a significant increase of PPP projects in the processing of municipal waste in recent years. Public administration more limits land-filling from the economic and ecological reasons and increasing the use of solid waste for energy and recycling purposes. It requires considerable investment, as well as specialized technical innovation.

The criteria for selecting a particular type of PPP in this area are the size and scope of the project, the rate of payment options to charge user and the extent of the necessary risk transfer. In this area there is space for more developed forms of PPP with an important level of operational risk transfer to the private partner. If there is more complex concession contract, the private partner (concession) can ensure the financing of the project, collect user's payment based on principle "polluter pays" and accept the risks associated with changing the volume of waste. This is confirmed by the new experience of Great Britain. [6]

The proof of the success of projects in waste management is the project "East London Integrated Waste Management". This project is one of the largest projects of integrated waste management system. It even won the competition "Best Local Government Project in the Public Private Finance Awards 2003". The project includes services related to waste disposal and subsequent recycling and saving and its authority is East London Waste Authority (ELWA). ELWA combines four boroughs of London – Barking & Dagenham, Havering, Newham and Redbridge – their position in the context of London is clear from Fig. 1. [2]



Fig. 1: Map of London [2]

Private partner of the project is Shanks Waste Services Ltd., which is part of the Shanks Group plc, the UK's largest independently owned waste management company. Shanks Group provides every waste management service with the exception of door-to-door municipal waste collection and has businesses throughout the UK, Belgium and Holland. The preparatory phase of this project began in 2000 and the investment costs were 103 million pounds. Now the project is already in the process of implementing and operating since 2002. The total duration of the partnership agreement is a 25 years. [3]

The project is carried out through joint venture company between ELWA and Shanks Waste Services Ltd. New company ELWA Limited trades as "Shanks.east london", because

this better reflects the identities of the two partners. Joint venture structure creates a close cooperation between ELWA, the four city councils and Shanks and allowing the authority responsible for waste management in East London (ELWA) to substantially influence the decision related to the project strategies. The primary objective of the project is to enlarge the scope of waste recycling in four London boroughs and reduce the amount of waste sent to landfill. Range of recycling compared with the defined aim is showing in Fig. 2.

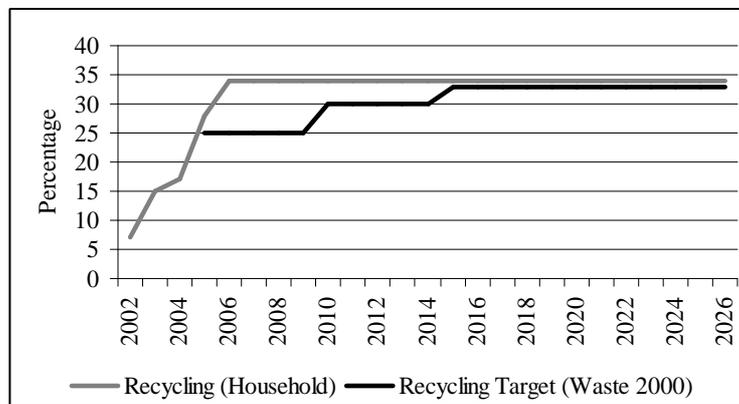


Fig. 2: Confrontation of range of recycling and defined target [1]

The success of the project is also in the secondary activities associated with the project. These activities include an information campaign, focusing on publicizing the possibilities of recycling and building new devices to stabilize the waste, separating materials suitable for recycling or using of biological processes for waste treatment. Another side effect is the creation of new information and educational center. [1]

2. Financing under the Cohesion Fund

The European Union implemented a policy of social cohesion, whose principal objective is a gradual reduction of disparities between regions of Member States as well as Member States. After the Czech Republic joined the European Union, it is possible to draw funds from the general budget through the Structural and Cohesion Funds in the context of structural policy. Although the general objective of the Cohesion Fund is to promote economic and social cohesion of the European Union, it does not number among mentioned structural funds, it is a separate chapter. The Cohesion Fund is intended for direct co-financing large infrastructure projects in the sectors of environment and transport.

States may draw financial resources from this fund if their gross national income (GNI) at purchasing power parity is less than 90% of the EU average. The Cohesion Fund provides resources directly to individual projects, which cannot be simultaneously financed by the Structural Funds. Projects can be grouped or single project may be divided into several phases. The total project cost (project stage or group of projects) must be at least EUR 10 million (c. CZK 300 million). For most projects, the amount of aid from the Cohesion Fund is ranging from 50–85 % of the public or equivalent expenditure. Specific amount of aid is determined by the type of project to be implemented. [5]

There are only a few cases of waste management financing from the Cohesion Fund (or from pre-accession fund ISPA). This case highlights the problems arising in an uneven playing field in Municipal Solid Waste Management, particularly when the private enterprises face different market entry conditions than public ones.

Targoviste is a town of round 100,000 inhabitants situated 70 km north of Bucharest. Targoviste is the county seat of Dambovita, which has a population over half a million, about

one third urban and two thirds rural. Targoviste is by far the largest town in Dambovita County and the combined population of the next five largest towns is less than 100,000.

There are currently two service providers in Targoviste: a private company "Prescom" and a municipal department "Salubrita". Prescom services about 80% of Targoviste's population and five nearby communes, thus its clientele is near to 100,000 people. In Targoviste they charge households on the basis of 14,000 lei (0.45 Euro) per month per person. In the communes the charge is less than 25,000 lei per household. About 80% of the clients pay their bills on time. Billings are collected and administered by a small staff, and the accounting is computerized. Collections are entirely in the hands of Prescom, without any intervention or support from the Municipality. Prescom is profitable with annual revenue of about 20 billion lei (about 650,000 Euro), of which three fourths come from household billings and one fourth from industry. The gross profit margin is about 20%.

Salubrita is a department of the municipal government and has only recently (in 2001) entered the waste management business, when it obtained required vehicles and plastic bins with EU PHARE support. The original intention of the PHARE grant was meant to provide Targoviste Municipality with equipment for servicing its own municipal facilities: schools, hospitals, and public buildings. Initially, Salubrita wanted to sell most of the bins for which it had no use, however a PHARE condition that the equipment could not be sold before a certain period, prevented the sale. Thus Salubrita started to build up a household clientele, mainly in the large blockhouses, many of which are municipal property. At present Salubrita services about one fifth of Targoviste's population. It charges a fee of 12,000 lei per person, thus somewhat lower than Prescom. In addition it receives fees from the Municipality for its services. Salubrita is self-financing and has a positive cash flow. As a municipal department it is obliged to reinvest its profits. The management of Salubrita plans to invest profits into more equipment so as to increase its market share in Targoviste. Asked about the business strategy, the management said that it opts for privatization via a management buyout of Salubrita.

There is no PPP structure in place yet. The two service providers, one private the other public, compete for market share in Targoviste. However their operations are not comparable. While Prescom is carrying out the service at its own risk and invests its own money, Salubrita's operation owes a good deal to an initial PHARE grant.

Under Romanian Law, Municipalities may directly engage in carrying out waste management services and many municipalities have a department for Municipal Solid Waste Management and related services. However, if the service is contracted out, it must be tendered, which is also in compliance with EU Directives. Until 2002 there was no such requirement, and companies were free to engage in municipal waste services with the direct authorization of the Municipality without tendering. In addition, there is now a legal requirement in place for service providers to be licensed by a national agency. Prescom neither has a license to operate, nor has there been a tender for service provision. Thus Prescom operates informally, without legal sanction and authority, though it does have some formal contracts with communes it serves outside Targoviste. Prescom faces the uncertainty implicit to operating without being in full compliance with the law. On the other hand Salubrita operates as a municipal department with the Municipality's implicit authorization.

Prescom is apprehensive about a planned EU ISPA Project. It fears that the transport equipment will be granted to the municipality (or the county) and, will in effect displace its operation. From Prescom's point of view such an apprehension is not unreasonable, given the precedent of the PHARE grant of vehicles and equipment being used by Salubrita to enter the local waste management market. This apprehension has prompted a legal challenge which is still unresolved.

In March 2002, Prescom formally petitioned the Municipality of Targoviste to issue a call for a competitive tender for the transport and collection service, as such a tender is now legally required. Municipal authorities conducted an internal investigation and decided, on April 30, 2002, to go ahead with a competitive tender. However, this act was countered by an intervention of the Prefecture, i.e. the representative of the Central Government, which declared the municipal decision void. This was based on the grounds that the Ministry for European Integration would withdraw its application for ISPA support for the project “Rehabilitation of the Collection, Transport and Disposal of Solid Household Waste in the County of Dambovita” if the financing of this project could be done under private operator control.

The proposed ISPA project now appears as a serious threat to the survival of Prescom, which fears that if a new outside contractor is awarded the concession for the entire county (as now proposed); they will be out of business. However it should also be noted that Prescom is in a strong position to win any future tender for services. Indeed, if it is found that the collection and transport of waste is carried out in a reasonably cost effective manner, managed by local enterprises (some of which private companies who are able and willing to invest in the modernization of the equipment), the wholesale replacement of vehicles and containers via an ISPA grant may be an unnecessary.

Though Prescom has a good chance to be the winner of a single countywide concession, as members of a consortium or as subcontractors to the concessionaire, the management regards this eventuality with some skepticism, and would rather maintain their independent operations in Targoviste by expanding its service to nearby communes where profits can be made. Fig. 3 shows “Radar diagram”, that highlights the qualitative conclusions of the project according to the following criteria – investment value, contract duration, responsibility transfer, demand risk and availability risk. [4]

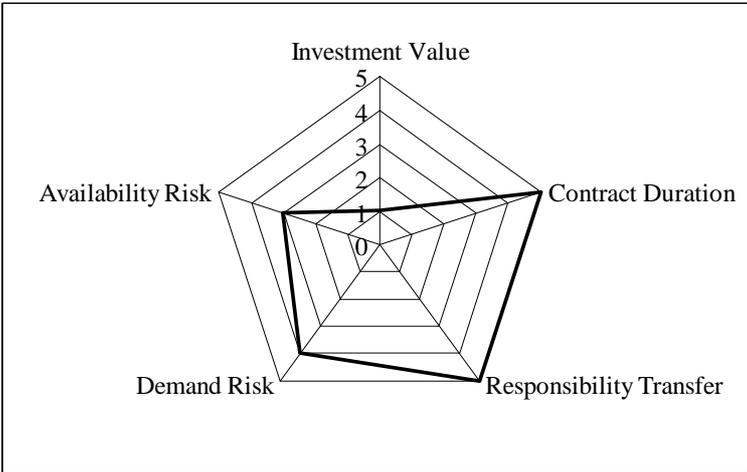


Fig. 3: Radar diagram of the project Prescom Targoviste [4]

3. Conclusion

Financing on the basis of PPP and EU funds are unable to interconnect each time. General obstacle is mainly that the percentage of contribution from EU funds (including the Cohesion Fund) shall not exceed 50% if the private entity receiving resources from European funds. Contributions from the Cohesion Fund for the public sector may be up to 85% of the public or equivalent expenditure. In addition, the Cohesion Fund pays only selected expenses of the investment (design, land acquisition, construction, project management ...). Recipient of EU assistance must first expend eligible costs and then only can apply for their payment. Due to

the lack of certainty if the aid from EU funds will be achieved or not, domestic public sector is more likely to combine the efforts of private funds with their own funds than with resources from EU funds.

The case demonstrates the possible mixed signals that may be created by conflicting objectives in uncertain legal environments. While the present Prescom concession is not perfect, it is a working example of a viable undertaking. Grant financing may not result in an optimal solution if other viable alternatives exist in the market. This solution should be duly considered and analyzed before private sector participation and development is negatively affected. The need for a coherent legal environment is clear and essential to support the development of effective PPPs. This should also be coordinated with a strategic approach to PPP development and overall financing of infrastructure and service provision.

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