



Municipal Infrastructure Support Programme

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Annex 3.3



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Contacts with Strategic Investors in Waste Management

The private sector activity in waste management has until recently been mostly confined to waste recovery and recycling - much of it by the informal sector of small scale operators, many of them Roma. The core municipal service, i.e. the collection, transport, and disposal of household waste, has been traditionally the exclusive domain of PUC's. However, over the past two years there has been an upsurge of private sector activity, resulting in the take-over of the core service by private operators in a number of municipalities. This is an important development which promises to have a positive impact on municipal waste management and indirectly on PUC transformation.

Three companies in the forefront of this development are (in alphabetical order)

- ASA, a major waste management company which has made a number of important strategic investments in Eastern Europe since the transition. (ASA used to be a subsidiary of Electricite de France but is now owned by a Spanish interest. ASA has a joint venture with Kikinda municipality and also with a group of five municipalities in central Serbia
- Brantner Abfallwirtschaft, an Austrian waste management company. Brantner has concluded long terms concession contracts with Novi Bečej and Kovačica municipalities
- Porr Werner and Weber, a consortium of Austrian companies Weber has established joint ventures (JVs) with Jagodina and Leskovac in which it has a majority shareholdings
- Trojon and Fisher EKO, a mixed Serbian-German which carrying out waste management services in several municipalities in East Serbia.

ASA

ASA has been a major strategic investor in Central and Eastern Europe in the early years of the transition. Based in Austria, ASA has pioneered joint ventures with major municipalities in the Czech Republic, Slovakia, Poland and Hungary. In Hungary ASA developed and financed the first two major landfills built to European standard in joint ventures with Debrecen and Hodmezovasarhely municipalities respectively. ASA has major investments in Prague and Bratislava. It is the first strategic investor in Croatia where it is developing the first regional landfill of the country.

ASA has recently launched two joint ventures with municipalities in Serbia

The first was with Kikinda in the northern part of the country. The second was with a group of five municipalities in central Serbia: Lapovo, Batočina, Rača, Despotovac and Velika Plana. ASA has an 80% majority stake in both joint ventures. In both cases it takes over the collection, transport, and disposal of waste from the municipal PUC's, but not other waste related services



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such as street cleaning, park maintenance, cemetery management, and other services traditionally carried out by the PUC's.

In both cases ASA took over that staff of the PUC's who are engaged in transport and collection. In both cases the municipalities contributed in kind their vehicles, containers, workshops and other premises. New vehicles, containers and landfill construction are financed by ASA.

In both cases the method of payment from households has been changed from the traditional fee which is levied on the surface area of the residence to a per capita charge. ASA provides individual households with 120 or 240 liter bins.

In both cases ASA has launched selective collection of PET bottles and paper, for which it provides separate bins. The material collected is sold to local companies already engaged in waste recovery. At a later stage ASA plans to develop collections yards for the recovery of recyclables.

In **Kikinda**, ASA constructed a new landfill which meets EU standards. Construction has been completed and was commissioned in July 2008.

ASA took over the transport service in October 2007. It took over several vehicles (three or four of relatively recent vintage) and furnished three new vehicles. It also contributed more than 20,000 bins for households, (240 liter bins for larger households and 120 bins for small households). In addition it brought in some larger 1.1m³ and larger bins to serve commercial clients, and some 400 bins for separate collection in the town.

There are 11 settlements in the Municipality in addition to the town of Kikinda. ASA is extending the service to cover the whole municipality. Individual households in the settlements receive the 120 or 240 liter bills. So far it is not compulsory for households in the settlements to subscribed to the service, but most do, and the coverage is increasing gradually.

ASA has a two-fold contractual arrangement with Kikinda for billings:

1. It bills households and commercial establishments directly and collects the fees itself from the individual customers
2. It charges the Kikinda a tipping fee for disposal

There are some 17,000 households in Kikinda municipality, and there are some 9,000 commercial clients. ASA sends out over 25,000 invoices every month (but would like to change this to a quarterly or even yearly billing, in view of the large administrative expense of collections.) The overall collection rate since ASA took over the collection service is about 80%.

As mentioned above, the fee charged to households is 67 dinars per person. The average household has 2.5 people, so on average the monthly bill amounts to about 170 dinars, or approximately 2 Euro. Commercial customers are either charges on the basis of the traditional fee calculated on the basis of floorspace, or on the basis of individual contracts (a lump-sum fee, or a fee based on volume/weight of waste collected).



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In addition, Kikinda Municipality pays the joint venture a tipping fee of 16.9 Euro per ton for household waste, to be adjusted for inflation. (There are other charges for different kinds of waste and for different categories of customers, industrial customers).

This dual fee structure, one fee for collection and transport charged to the users, and another fee charged to the municipality has two important new features:

- It circumvents the government's policy of capping fees to the inflation rate
- It institutionalizes a substantial subsidy for the end-users of the service, as fee for disposal is not charged to the end user

(Also, it is to be noted the ASA purchased the land-use rights for the landfill for 25 years, for a substantial amount. As per the agreement between the shareholders, the municipality will assume the responsibility for after care.)

With regard to subsidies to “vulnerable groups” , there is a register of people who are exempt from paying the fee and the municipality is to pay the fees on behalf of these people to the joint venture.)

ASA is interested to extend its services to municipalities neighbouring Kikinda municipalities. (In fact these municipalities were planned to be served by a regional landfill according to the national Waste Management Strategy.) Negotiations seem to be at an early stage. It is noteworthy that there are marked differences in the status of waste management in these municipalities and consequently also in their approach to frame a contract with ASA. For example, one of these municipalities has a joint venture for waste management with a private (Hungarian) company. In this case the municipality's main interest is only to dispose waste at the Kikinda regional landfill. In another case, a threadbare PUC operation provides grossly inadequate service, so that the Municipality is interested for ASA to take over the service (see Box on Žitište below). However in this case an alternative that the Municipality is considering is to engage ASA only for the collection of waste and continue to use the local dumps. This alternative is (understandably) not ASA's preferred way of doing business, but it is not ruled out as an interim solution to the Municipality's problem. (This alternative is of course also inconsistent with the objective of regionalization and closure of non-compliant dumps.)

Alternatives for Žitište Municipality

Žitište (population 21,000) is one of the municipalities in the Kikinda regional landfill's “catchment area”..

Žitište has a multipurpose PUC which handles gas distribution, water supply, waste management and other miscellaneous services. Gas distribution is profitable but the gains are drained by losses of water services and waste management. (The PUC is not the only provider of water supply in the municipality.) The PUC provides only a skeleton waste management service, operating with only one 7m³ truck and 18 employees engaged in waste management and related services. Although the waste fee is very low (about 120 denars/month per household) relative to neighboring municipalities, the collection rate is only about 30%.



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Žitište is considering entering into a contract with ASA for taking over its waste management service. Alternatives are

- ASA takes over collection in the main town only
- ASA also extends the service to the villages in the municipality
- ASA continues to use the local landfills
- ASA also transports the waste to the regional landfill in Kikinda

These are the options with regard to a possible contract with ASA. Other options include

- Purchasing at least one higher capacity truck for the PUC, upgrading the service, (and dispose the waste either locally or to the Kikinda landfill)
- Entering a contract with a small operator who would take over the collection (and dispose the waste either locally or to the Kikinda landfill).

The decision is hard for Žitište, as each option would mean a substantial increase in the cost. With regard to the ASA options, it would of course be less costly for Žitište if the waste continued to be disposed of in a local dump, but that option is contrary to ASA's philosophy (in terms of conducting the operation according to EU-conform practices) and contrary to its interest (in terms of increasing the capacity utilization of landfill). What complicates matters is that the fee in Žitište for transport and collection would have to be higher than for the Kikinda households, because of the greater distance to the landfill. In any case, if the service is upgraded, e.g. by providing individual households with bins and by regularizing the service, the move would need to be accompanied by a public outreach program to help increase the fee-collection rate.

In **Central Serbia**, the five municipalities (Lapovo, Batočina, Rača, Despotovac and Velika Plana) first formed a joint venture among themselves, contributing to it in kind their vehicle fleets and the staff engaged in transport and collection. Then this joint venture formed another joint venture with ASA, retaining 20% of the shares of the JV. The JV thus formed won a public tender for carrying out the service.

The combined population of the five municipalities is about 120,000. ASA has purchased two new vehicles and these are now operating in two of the five municipalities (Lapovica and Batovica). The operation started just recently in April 2008.

It would appear that the structure of this second ASA project has an advantage over the Kikinda one in that ASA will be in a position to consolidate the collection and transport of waste in one operation, i.e. unlike it Kikinda, it does not have to engage in separate contracts with the municipalities around the host municipality of the landfill. This will make it easier for the joint venture to charge the same fee to clients in all five municipalities from the start. In the Kikinda region, if and when the ASA concludes a contract with individual municipalities, the fees for collection and transport will need to be individually negotiated with the surrounding municipalities, and take into account distance from the central landfill. (As long as the tipping fee is the same for all, the greater the distance traveled the more has to be charged for collection and transport.)



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Porr, Werner and Weber

The Company is a consortium between Porr, a construction company with major interests in Serbia (Porr) and Werner and Weber, a specialized waste management company.

Porr Werner and Weber (henceforth PWW) formed joint ventures with two municipalities, Jagodina and Leskovac, with a controlling share of 80% and 70% respectively. In both cases, PWW contributed new imported trucks (mostly 15m³ capacity or above) to the venture. It also provides containers to households. (In most places single households are provided with 140 liter containers. In some cases several households use one 1.1.m³ container.)

Leskovac and Jagodina contributed the (still usable parts of its) vehicle fleets and other operating assets to the respective joint venture (five vehicles in Leskovac).

In both cases, PWW is committed to build a landfill. The Jagodina landfill is already under construction. Each landfill is to be equipped with some recycling facilities.

Similar to ASA's contract, PWW also has two-fold contractual arrangement for collecting its revenues: (i) the joint venture bills households and commercial establishments directly and collects the fees itself from the individual customers and (ii) the municipalities pay the tipping fee directly to PWW.

The fee for households for collection and transport is set at 0.80 Euro per person perm month (as per the tender). However, should the municipalities set the fee lower, the difference is to be made up by the municipality. The tipping fee is set at 19Euro per ton for Jagodina .

The contractual agreement between the shareholders is rather complex. The joint venture in Jagodina handles the collection and transport of waste. The landfill operation however is more like a BOT construct whereby PWW is committed to construct and finance the landfill and related facilities, operates the landfill for 25 years, after which the landfill reverts to the Municipality. The contract contains profit sharing clauses between PWW and Jagodina:

- the agreed tipping fee (at the start of the operation) will be 19.5 Euro per ton for Jagodina municipality, however it will be higher at 21 Euro for the other municipalities. The difference will be a revenue to Jagodina municipality. (The justification for this difference is that the other municipalities did not contribute to the initial investments in the landfill; however this type of fee is similar to a royalty.)
- the municipalities share in the profits of the landfill operation after waste received surpasses 250,000 tons per year
- profits from recycling are shared 50-50 between PWW and the municipality

(Before commenting on these arrangements, the details of how costs and profits are calculated would need to be better understood.)



Municipal Infrastructure Support Programme

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Fee collection has been improving and is now about 70%. Fees to households will be adjusted for inflation, but not more. PWW has already significantly extended the coverage of the service to settlements outside the main towns of the two municipalities.

In Leskovac of a total of 144 settlements now 55 are served, instead of only 10 before.

PWW recovers PET bottles, metal cans, and paper. It will also compost and believes that there are good markets for compost, both in Serbia (e.g. by flower growers) and abroad (e.g. Greece).

PWW would like to expand its operation throughout the Southeast of Serbia, which may include taking over the operation of existing landfills.

The Company plans to expand its operation to neighbouring municipalities, by establishing branches of the (two) joint ventures and concluding contracts for the waste service.

Brantner Abfallwirtschaft

Brantner participates in 55 companies in 8 countries, mostly as a majority shareholder in joint ventures with municipalities. It operates 17 landfills. The two concessions in Serbia are the Company's latest ventures. Both were won by tender and are for 20 years.

Unlike ASA and Porr Werner and Weber, Brantner opted for concession agreements rather than joint ventures.

As part of its capital contribution Brantner furnished its two local companies with vehicles and containers. Brantner also took over staff of the municipal PUC's engaged in waste management. (Not all such staff transferred to Brantner, as public sector employees cannot be forced to go to a private company under the Law. The staff get at least the same salary as before.

In Kovacica Brantner extended the waste collection service to all the settlements in the municipality. (Several of the minor settlements had not received organized service before.) Fees are collected directly by the Company. The fee was changed to a per-inhabitant basis – instead of the traditional fee calculated on the basis of the surface area of the dwelling. The municipality was persuaded that this was a more rational way of levying fees.

Instead of disposal in several dumps, the Company is using one central landfill only. While this is still a rudimentary disposal site, Brantner has improved the operation by limiting the area used on any day (instead of the indiscriminate dumping all over the landfill). Earth cover is provided periodically, and light compacting is used to build height. However, Brantner has no plans at this time for investing in landfills.



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Trojon and Fischer EKO is a mixed Serbian/German private company operating in Eastern Serbia.¹ The Company has concluded 25year concessions for handling waste with the municipalities of Žabari, Žagubica, Malo Crniće, Smederevska Palanka, and the settlement of Rabrovo² within a municipality of Kučevo.

The Company brought second hand vehicles from Germany. It distributes containers to households, mostly 120 and 240 liter bins. It also makes available 1.1M³ and 5.0m³ and 7.0m³ containers to larger customers.

The fee charges to households depends on the size of the bin. For households using 120 liter bins the fee is 3Euro per bin per month. For 240 liter bins the fee is 5 Euro per month (only a minority of households request the bigger bins). The Company services people who are officially registered as exempt from charges, however these are not to exceed five 5% of the population served, under the contract with the municipalities.

The Company was the first to introduce separate collection for glass, PET, paper and aluminum cans. PET and glass are collected in transparent plastic bags which are also provided by the company. Paper is separately bundled after collection. The company sells the separately collected materials to local dealers. Paper is sold for 4-4.5 RSD per kg, plastics at 180 to 200 Euro per ton, including VAT. While currently there is no market for glass bottles, they are still separately stored.

Trojon and Fischer has no plans to invest in a landfill.

Unlike the other three companies whose activities focus on waste-collection, transport, and disposal, Trojon and Fischer delivers more comprehensive services to the municipalities. It carries out street-cleaning, street washing, removal of waste from illegal dumpsites, servicing septic tanks, bulk waste removal, and some other services. Annexes to the concession agreement set forth the fees and the terms and conditions for rendering these services to the municipalities. (Cemetery management, park maintenance, and the management of car-parks remain with the municipalities.)

¹ The Company was founded in 2001 and in 2004 started a collaboration with the German Gesellschaft fuer technische Zusammenarbeit (GtZ)'s "Modernization of Municipal Services Project" . Public outreach campaigns focus on raising public awareness about economic and environmental aspects of waste management; they include TV and radio broadcasts, school campaigns, and dissemination of promotional materials.

² In this case Rabrovo settlement got an agreement from the municipality of Rabrovo to engage in a contract on its own.