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Municipal Infrastructure Support Programme

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Program podrške razvoju infrastrukture lokalne samouprave

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Workshop on Cooperation in Waste Management Projects

13/14 September, Divcibare

Legal and Organizational Structure of Regional Waste Management Projects in the Public Sector

by Paul Dax





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Issues discussed in this presentation

- Risk and Risk Sharing
- Tariff Policy and Cost Recovery
- the use of Cash Generation from Depreciation



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I. Risk Sharing:

the usual structure in Europe is

- End users pay the tariff to the municipality
- Nonpayments and late payments are the municipality's risk
- Service providers have direct contract with municipality
- Service providers have no commercial risk from non-payment/late payment by end-users



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I. Risk Sharing:

with the above usual structure, in most cases in Europe

- The transport company and the landfill operator are one and the same
- End users pay one fee to the municipality: there is no separate tipping fee for municipal waste
- Municipality pays a global fee determined by contract to the service provider



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Risk sharing in ex-Yugoslavia, nor just in Serbia is the exception

- End users pay tariffs to the PUCs
- PUCs bear the risk of non-payment/late payment
- Municipalities did not pay directly for waste management services before new regional landfills were built (except by paying for PUC investments)
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How does this work in PPPs and the public sector regional projects?

- in PPPs the landfill is 100% private, the collection and transport is a regional joint venture, municipalities pay tipping fee, end users pay tariff for collection and transport, end users are subsidized as the tipping fee is not recovered from end users
- In the three public sector projects, the landfill operator is a joint regional company, the collection and transport is not regionalized. The municipalities also pay the tipping fee to the joint company, and the end user is subsidized the same way as in PPPs.



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The Issue of Subsidized Waste Disposal an Unsolved Problem in Serbia

I. In the private sector: no obvious mechanism to transfer tipping fee to end user

- municipalities are under contract obliged to pay tipping fees to private landfill operators: subsidy is institutionalized
- one way out: disposal tax as recommended by the National Waste Management Strategy: municipalities would directly tax end users to recover tipping **fee**





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The Issue of Subsidized Waste Disposal an Unsolved Problem in Serbia

II. In the public sector:

- Duboko mechanism as per Municipal Support Agreement signed by municipalities:
- PUCs, not municipalities pay the tipping fee to the regional landfill
- Municipalities are committed to ensure that their PUCs have enough money to pay tipping fee: will make up shortfalls: separate contract between municipalities and their own PUCs





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The Issue of Subsidized Waste Disposal

In the public sector, continued

- Duboko mechanism makes subsidies transparent
- Puts pressure on PUCs to increase tariffs to end-users
- But: will Municipalities in fact raise tariffs by 60-70% or more???
- Government objections to tariff increases exceeding inflation ???
- Tripartite Service Agreement in Sremska Mitrovica/Sabac
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The Depreciation Charge on the Landfill as a source of Cash Generation

I. In private sector

➤ if landfill financed as equity cashflow returns the investment, if financed by loans it services the loan

II. In public sector

➤ Landfills financed as a grant generate very large positive cashflows

(Exception: Duboko: loan service has first claim on cash generation.)



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How to Use the Cashflow from the Cash Generation Charge in Public Grant-funded Projects?

Principle:

- the cash generation doesn't belong to the host municipality, it belongs collectively to all the beneficiary municipalities
- The example of a Municipal Development Fund, as in Romanian water projects.



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QUESTIONS AND ASSISTANCE

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Thank you for your attention!