

Investment planning and cost recovery

Introduction to the workshop

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Waste Framework Directive Article 14

- In accordance with the polluter-pays principle, the costs of waste management shall be borne by the original waste producer or by the current or previous waste holders
- Member States may decide that the costs of waste management are to be borne partly or wholly by the producer of the product from which the waste came and that the distributors of such product may share these costs



Waste Framework Directive. Preamble

- It is appropriate that costs be allocated in such a way as to reflect the real costs to the environment of the generation and management of waste.
- Member States may also take action to recover the costs of non-compliance and remedial measures, without prejudice to Directive 2004/35/EC of the European Parliament and of the Council of 21 April 2004 on environmental liability with regard to the prevention and remedying of environmental damage



Landfill directive. Article 10

- Member States shall take measures to ensure that all of the costs involved in the setting up and operation of a landfill site, including as far as possible the cost of the financial security and the estimated costs of the closure and after-care of the site for a period of at least 30 years shall be covered by the price to be charged by the operator for the disposal of any type of waste in that site.



Main principles

- The Polluter Pays Principle - costs of pollution should be borne by those who cause it
- The User Pays Principle - costs related to the use of a natural resource or the treatment of pollution should be covered by revenue generated by users



Cash flow (1)

- Good solid waste management requires reliable, regular and adequate cash flow
- Adequate cash flow allows to:
 - Ensure sustainability of investment done in the sector,
 - Borrow funds from IFIs for capital investment,
 - Attract private sector to invest or (and) operate waste management infrastructure



Cash flow (2)

- If adequate cash flow through cost recovery is not possible because of affordability or political acceptability, other sources shall be involved
- For example state budget, local budgets, funds, EU and other donor support



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Developing infrastructure

- The polluter pays and user pays principles require, that polluters and users should cover all costs, including the costs of environmental infrastructure
- In line with good practices investments from the users shall be maximized
- Only what is not possible shall be covered from support funds
- Tariffs for environmental services are constrained by affordability and political acceptability

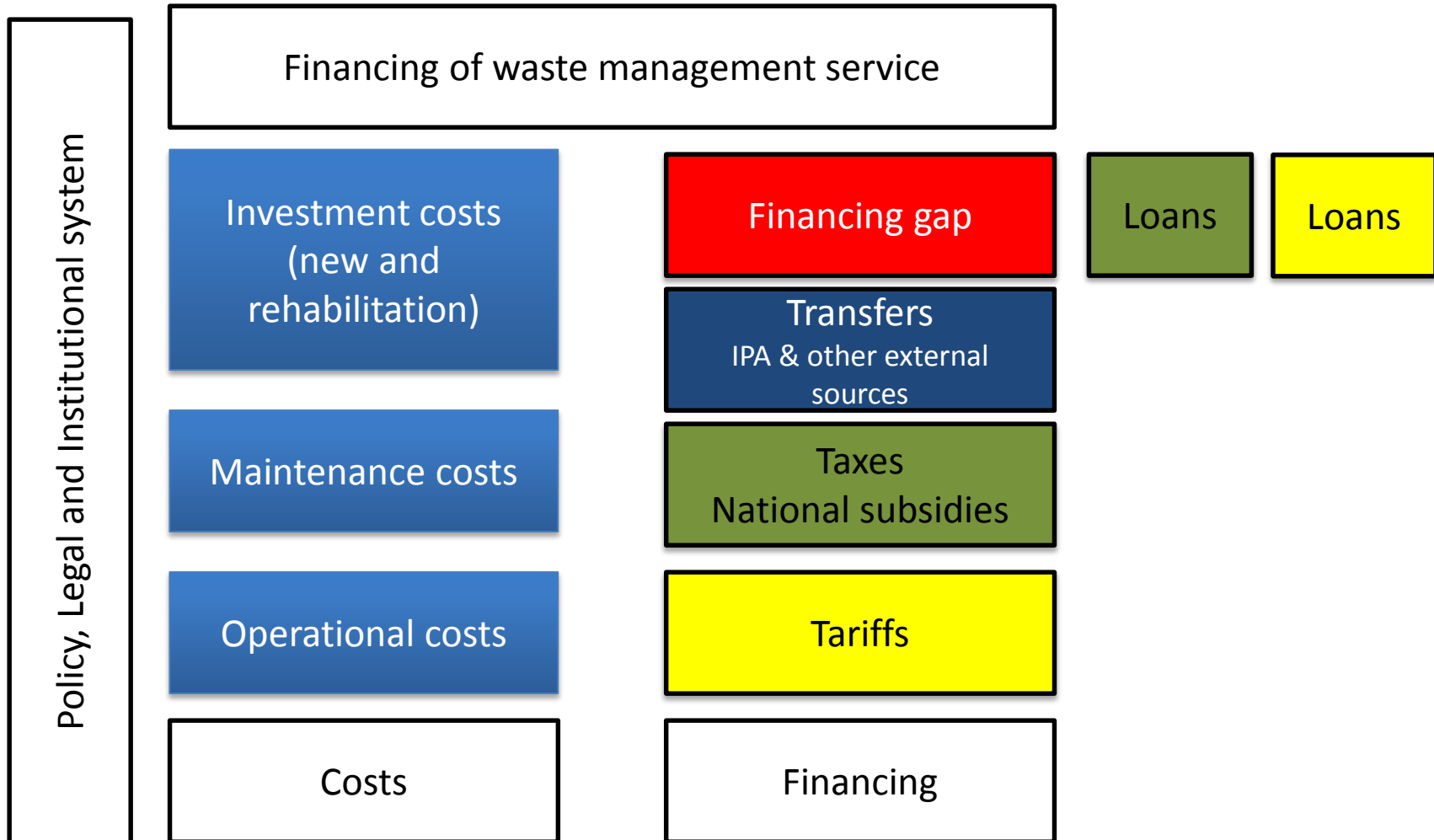


Cost recovery

- Service charges shall cover full costs of the services provided
- Tariffs in long term shall reflect the costs associated with providing the service, including:
 - Operating and maintenance,
 - Capital,
 - Replacement,
 - Financing costs.
- At least, in short term, tariffs must reflect operating and maintenance costs



Financing costs of project implementation



Supporting investment

- Grants can serve important positive role in the financing of municipal services in order to achieve governmental targets
- Grant support policies shall come together with clear targets - 50% recycling, biodegradable, ...
- How much to support?
- In some cases authorities may have an incentive to keep tariffs low to maximize EU grants
- What is role of Cost-Benefit Analysis (CBA) and how to read these complicated studies for large infrastructure projects?

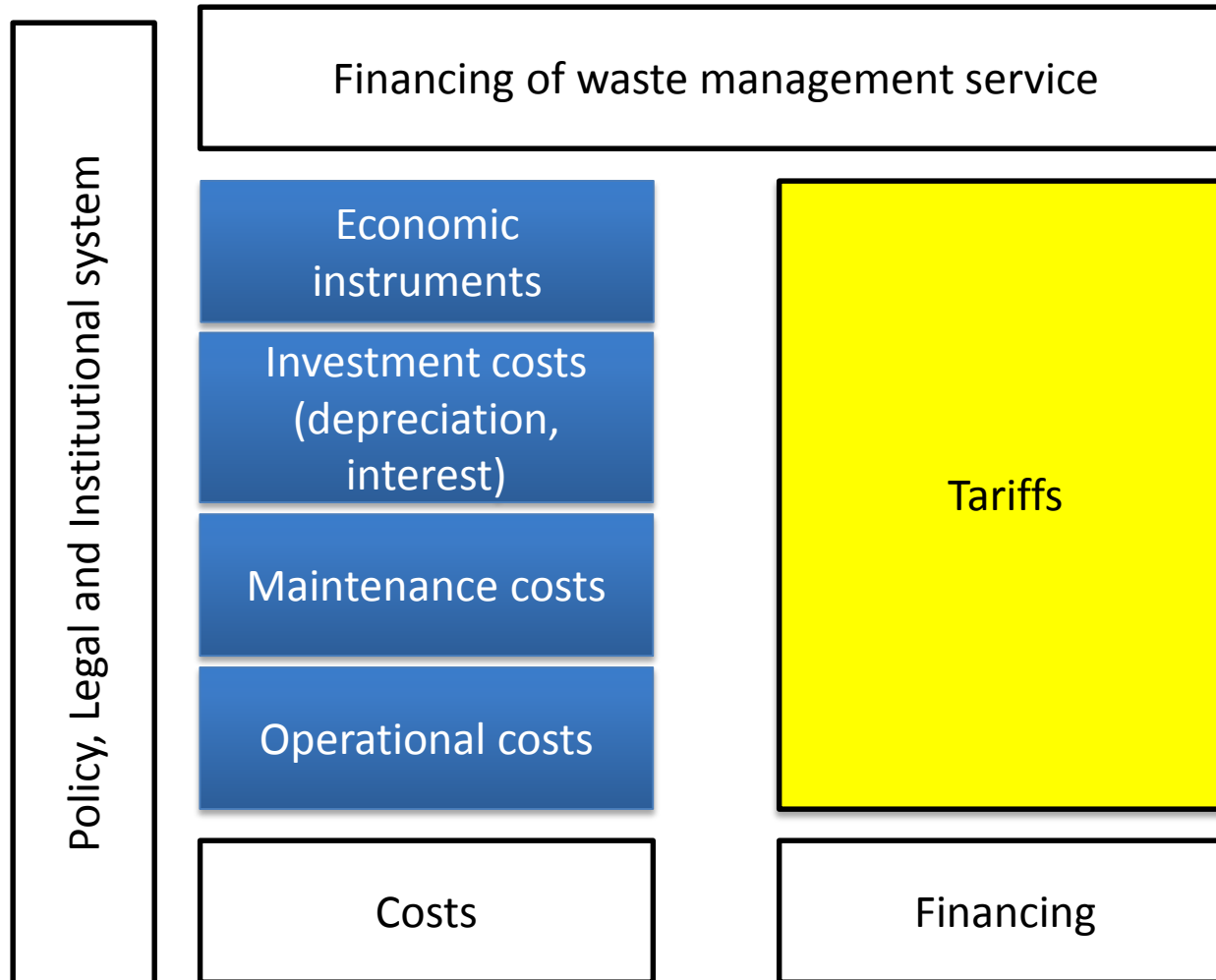


Tariffs related issues

- How to levy charges:
 - Tariffs versus taxes
- Which mechanism to use:
 - Flat, not depending on volume
 - Depending on volume - PAYT:
 - Per container
 - Bag
 - Weighted, ...
- PAYT most effective when fees high enough
- PAYT efficiency:
 - Weight-based PAYT schemes
 - Volume and frequency-based/sack-based systems
 - Volume- based systems



Financing costs of policy implementation



Landfill taxes / charges

- 19 Member States have a tax
 - Taxes vary from €3 to €107.49 per tonne
 - Gate fees vary from €17.50 to up to €155.50
 - Higher landfill charge = less waste to landfill
 - All MS with charge < €40 landfill 60% of waste
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- USE OF ECONOMIC INSTRUMENTS AND WASTE MANAGEMENT PERFORMANCES. Final Report, 10 April 2012



Landfill charge effects

- Member States appear much more likely to meet a 50% recycling target once landfill charges (or the cost of the cheapest disposal option) approach €100 per tonne
- Such charges will tend to drive the economics of recycling and composting (which are dominated by the avoided costs of residual waste management)
- USE OF ECONOMIC INSTRUMENTS AND WASTE MANAGEMENT PERFORMANCES. Final Report, 10 April 2012

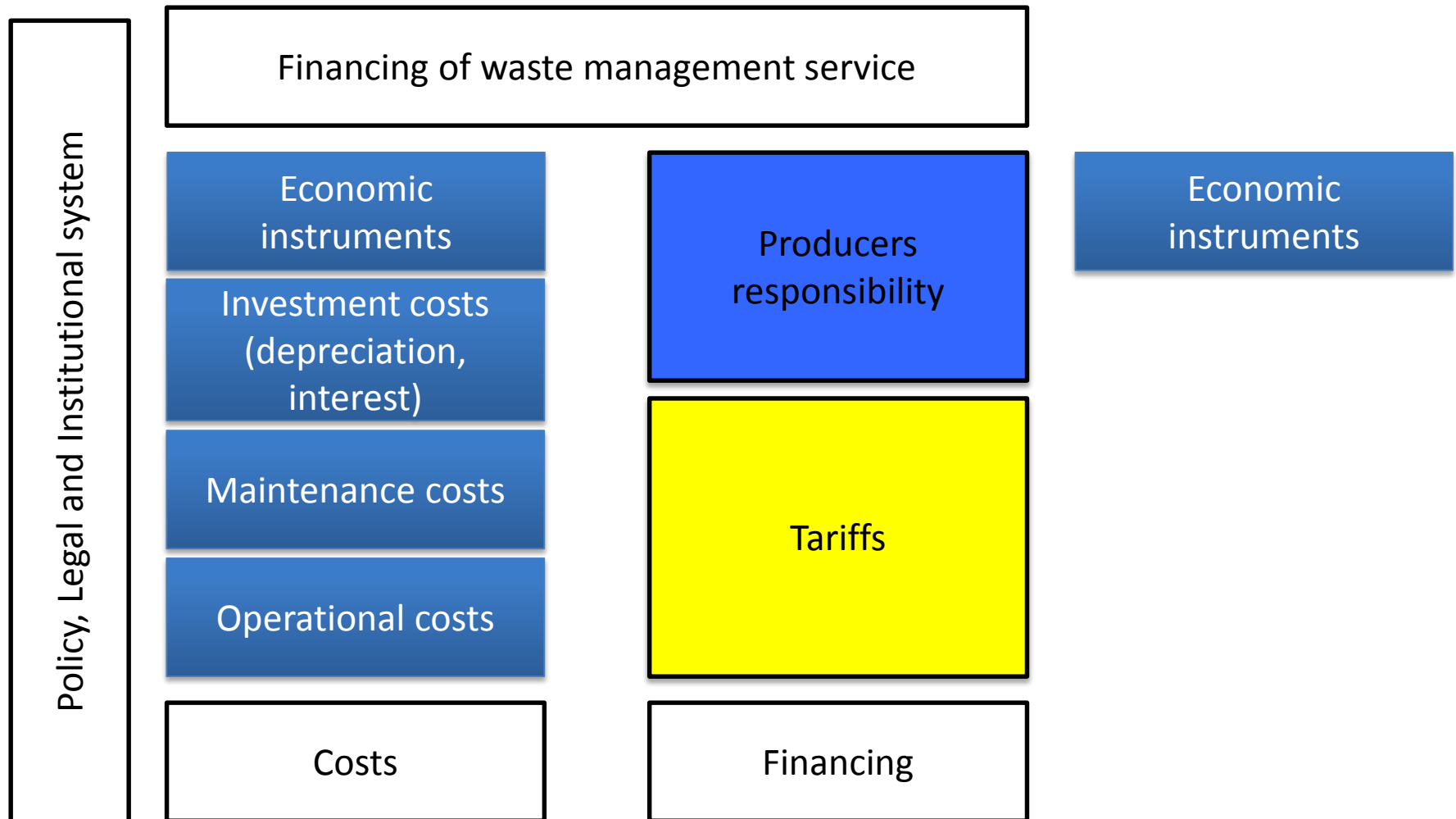


Economic instruments

- Can be used as a tool to:
 - reduce the amount of waste generated
 - minimize adverse environmental impacts related to solid waste collection, transport, treatment and disposal systems
 - encourage recovery, reuse and recycling of wastes
 - Encourage to use preferred treatment methods
 - reduce the proportion of hazardous waste in the waste generated
 - generate revenues to cover costs



Financing costs of policy implementation



Private sector involvement

- Private sector participation in waste management across the EU is increasing
- Government policy shall be to “crowd in” market sources of finance
- Transaction costs of participation in waste infrastructure investments co-financed by EU funds are high
- Uncertainty in political priorities in local and regional authorities
- PPPs need to correspond to well-prepared strategic-level waste plans, rather than individual perceived project opportunities
- Administrative capacity to deal with PPP shall be well developed



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First day agenda

- Three countries experience:
 - Investment financing mechanisms
 - Cost recovery system – what shall be recovered?
 - Tariffs setting
 - Institutional system for cost recovery
- Cost benefit analysis:
- Revenue generating projects
 - Assessing projects for financing from IPA
 - Cost benefit analysis of investment projects in waste sector: where to pay attention
 - Impact of tariffs on sustainability of project



Second day agenda

- Three countries experience:
 - Economic instruments used to support achievement of targets
 - Management of generated revenue
- Financial analysis:
 - Principles of the financial analysis of a project – identification of project costs and revenues
 - Theoretical background – discounting, calculation of financial indicators
 - Calculation of net revenue for revenue generating operations
 - Determination of EU grant rate
 - Financial sustainability

