

Privatisation and restructuring of water supply in Russia and Ukraine

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Preface by David Boys, PSI

This paper spells out the challenges facing the water sectors of Russia and Ukraine. These challenges include the weaknesses of the systems themselves, and the need to acknowledge that improvements are needed for the sake of the public and the service. The challenges also include pressure from the multinational companies and international institutions to privatise and commercialise the service, so it becomes a profitable business. These pressures threaten jobs, security and working conditions, as private businesses from home and abroad try to drive down expenses and maximise profits.

For the workers in the sector and their unions, this means a further double challenge: how to protect jobs, pay and conditions while at the same time protecting and promoting improvements to the water service. As examples from Russia, Ukraine and many other countries show, we can expect widespread support for the position that water should not be privatised or be a source of private profit. But that support has to be mobilised by working around an agenda that can be shared with the public, not only with water workers.

Trade unions need to develop a clear strategy. It needs to start from clear general objectives:

- protection of union organisation, members' employment security, conditions
- protection and development of water as public service delivered by municipalities
- minimise the impact of IFIs and MNCs on the policy process of government.

The strategy can be developed through a range of tactics, which may involve the unions in traditional types of action as well as completely new forms of activity, including:

- the use of strike action, demonstration over employment protection or privatisation
- use of national solidarity (via other unions, civil society, political processes)
- use of international solidarity, using PSI's network and resources
- publicising the problems experienced with privatisation elsewhere

There needs to be political activity in order to develop a different position on the way to improve and defend the service. This may require a union to:

- develop its own position on way forward: eg through public financing mechanisms and PUPs
- consider use of national initiatives eg conferences with sympathetic academics, other organisations,
- make systematic use of publicity, publicity

It is important to plan ways of dealing with the international bodies:

- develop a policy on what support is wanted from IFIs (development loans) and what is not wanted (conditionalities, finance for restructuring to create markets)
- identify upcoming conferences and events and projects and make public critiques in advance:
 - maybe demand platforms, maybe seek consultation via PSI
- approach banks (EBRD, WB) to get them to require union agreements before anyone is financed (this happened in Bulgaria with an EBRD loan to finance a new power station)

It is equally important to plan how to deal with multinationals:

- insist that no company can operate without signing a union agreement first
- demand representation on European Works Councils (EWCs) - use PSI and EPSU for support
- make clear that the unions can hurt the companies by campaigning against their record: use PSI

Have a strategy for dealing with the local companies (Russian oligarchs or Ukrainian opportunists):

- get organised and recognised nationally if possible and wherever they go
- but make sure this is not treated as an endorsement of privatisation
- try and get rights to discuss any proposed jv with a MNC (and use of PSI support)
- get agreements with the municipalities (and with government if possible) for protection of employment transfers (refer to EC legislation on Acquired Rights) and guarantees of re-employment if/when concessions collapse.

David Boys

Executive summary and introduction

This report contains three main sections.

The first section examines the problems and policy issues in the water sector on Russia and Ukraine. It includes a discussion of the international context, showing that water privatisation is unusual, and has failed to deliver the expected expansion and improvement of services, but the international institutions such as the World Bank continue to promote the policy. The problems of the water sector in Russia and Ukraine are then discussed, and identified as being mainly to do with demand management, and with investment in repair, replacement and maintenance of the existing networks. The financing of this investment may come from user charges but also from taxation and cross-subsidy, as is normal elsewhere. The section also looks at a number of experiences with privatisation and reform so far in Ukraine and Russia, which demonstrate not only the real risks of privatisation, but also that improvements can be made and financed by municipal vodokanals without the intervention of a private operator, and that trade unions can benefit greatly from working with civil society groups.

The second section looks at the activities of international institutions in trying to persuade Ukrainian, Russian and other governments in the region to adopt privatisation policies in this sector. The bodies doing this include the OECD, the EBRD, the EU, the World Bank, and the UNECE.

The third section looks at the multinational water companies (MNCs) and their activities in Ukraine and Russia, and also at the Russian private companies which have started to capture municipal water operations. It notes the connections between the two groups.

An annexe lists the projects under the EBRD and the World Bank which impact on water and sanitation in Russia, Ukraine and other former Soviet Union countries.

1. Russia and Ukraine: water sector policy issues and case studies

1.1. Global context

The water sector in Russia and Ukraine is experiencing problems associated with physical deterioration of systems, devolution of responsibility to municipal level, the need to improve management capacity, and weak public finance mechanisms. However, these problems are not peculiar to the former Soviet Union: nearly all countries, including the EU and North America, face the need for costly repair and renewal, and municipalities everywhere find it difficult to deal with the financial and technical issues posed by water.

In the great majority of cases these problems are addressed through municipal water operations, drawing on finance from user charges, taxation and borrowing. Over 90% of the world's water services are provided by the public sector – including 80% of EU countries, and 84% of the USA. Despite considerable marketing efforts by the MNCs and the IFIs, these proportions have changed little in the last decade. Only in France, England (not the rest of the UK), and the Czech republic is a majority of the system run by private companies.

Globally, private water is dominated by two major French companies, Suez and Veolia, which between them hold about 70% of private water contracts, worldwide; there are a few other European MNCs with much smaller market shares. Since 2002, the MNCs have been reducing their activities, because of failure to make adequate profits, experience of currency risk, economic collapse, uncertainty of demand, and widespread popular and political resistance.

The World Bank and others have vigorously promoted water privatisation as a solution to the world's water problems since 1990. The Bank has now accepted that this policy has failed. The World Bank itself published a strategic review in 2003 which admitted that private sector investment in infrastructure fell by more than 50% after 1997, and concluded that *“the recent decreases in private sector interest in infrastructure show that reliance on the private sector alone will not be sufficient to guarantee a scaling-up*

of infrastructure service provision". The paper also reported that the World Bank's own investment had suffered: "*World Bank infrastructure investment lending, especially in IBRD countries, declined by 50% between 1993 and 2002*", and noted that the reasons for this included the Bank's focus on private sector and its lack of attention to the actual needs of countries: "*a lack of clarity on the roles of the private and public sector in infrastructure service provision and under-investment in country-level infrastructure diagnostic work*".¹ The World Bank's director for water and energy, Jamal Saghir, identified some of the key problems as the declining interest of private sector and "decreasing faith in markets".²

Not only has water privatisation failed to deliver investment, the effect of profit-seeking behaviour by private companies has led to price increases which have severely hit the poorest sections of society. By seeking to avoid all forms of risk, especially currency risk and demand risk, the companies have contributed to economic problems - most obviously in the case of Argentina; in many cases they have cut staff levels severely, including attacks on trade union rights; and there have been convictions for corruption in France, Italy and the USA where public officials have been bribed by subsidiaries of the multinationals.³

1.2. Multinationals and international institutions in Russia and Ukraine

Despite this global experience of failure, the international financial institutions (IFIs) and other bodies such as the OECD are making intense efforts to create conditions favouring a private market in water and sanitation in Russia, Ukraine and the whole NIS region. Both the World Bank and the EBRD have included as conditions of some loans that the private sector be introduced.

However, the multinational water companies have not developed much business so far in Russia and Ukraine. Apart from a failed attempt by Suez in Odessa in 2002, they have not tried to obtain concessions, as part of their policy of withdrawal from areas perceived as risky: they have only gained a few BOT contracts to build and run treatment plants. In Russia, a number of Russian-owned companies have been set up by the 'oligarchs' groups, which have begun to create joint ventures with municipalities to provide water and other services. They are also seeking partnership with the multinationals, and in the medium term, the expansion of Russian companies may serve as a conduit for the MNCs.

The activities of these companies and institutions are examined in detail in later sections of this paper.

The issues facing the water sector in Russia need to be seen against this background of global experience.

1.3. Water issues and problems

According to the UNECE review in 2003⁴ and World Bank overview⁵, water systems in Russia, Ukraine and other EECCA countries suffer from some key problems:

- Excessively high consumption of water per capita;
- Deteriorating infrastructure which is inadequately maintained;
- insufficient finance devoted to the sector.

The coverage of water supply systems are relatively high; the rate of connection to sewerage is lower, but the greater problem is the deterioration of wastewater treatment plants.

Table 2.1. Water Supply and Sanitation in EECCA⁵

| Country | Centralised water supply | | | | Sanitation (%) | | GDP per capita, USD ¹ | Population | | |
|--------------------------|---|-------|---|---|-------------------------------------|----------------------------------|----------------------------------|----------------------------|------------------------------------|-----------------------------------|
| | % of population connected to the system | | average daily consumption, litre per person | % of drinking water meeting quality standards | average uninterrupted supply, hours | Population connected to sewerage | | Wastewater treated by WWTP | total population, mln ² | % of urban and rural ³ |
| | urban | rural | | | | | | | | |
| Western NIS | | | | | | | | | | |
| Belarus ⁴ | 94 | 53 | 194 | 67-95 ⁵ | 24 | 68 | 99 | 1,096 | 10.0 | 70/30 |
| Moldova ⁶ | 73 | -- | 340 | 70 | 18 | 56 | -- | 374 | 4.3 | 54/46 |
| Russia ⁷ | 84 | -- | 250 ⁸ | 75 ⁹ | 24 | 70 | 91 | 2,137 | 144.8 | 77/23 |
| Ukraine ¹⁰ | 83 | 26 | 319 | 94 | 17 | 53 ¹¹ | 97 ¹² | 781 | 49.1 | 68/32 |
| Caucasus | | | | | | | | | | |
| Armenia ¹³ | 68 | 32 | 250 ¹⁴ | 50 ¹⁵ | 2-24 ¹⁶ | 67-89 | 40-99 | 702 | 3.0 | 73/27 |
| Azerbaijan ¹⁷ | 95-83 | 11 | 270 | 70 | 4-6 | 78 | 50 | 696 | 8.1 | 53/47 |
| Georgia ¹⁸ | 95 | 35 | 530 | 70 | 6-12 | 60 | 80 ¹⁹ | 581 | 5.4 | 60/40 |
| Central Asia | | | | | | | | | | |
| Kazakhstan ²⁰ | 93 | 26 | 220 ²¹ | 74 | -- | -- | -- | 1,505 | 14.8 | 60/40 |
| Kyrgyz ²² | -- | 70 | -- | -- | -- | -- | -- | 307 | 4.8 | 48/52 |
| Tadjikistan | -- | -- | -- | -- | -- | -- | -- | 161 | 6.5 | 33/67 |
| Turkmen ²³ | 80 | 28 | 470 ²⁴ | 67 | 6-24 | 61 ²⁵ | -- | 642 ²⁷ | 5.5 | 46/54 |
| Uzbekist. ²⁶ | 65 | 64 | -- | -- | -- | -- | -- | 237 | 25.4 | 42/58 |

Source: ECE Table 2.1 www.unece.org/env/documents/2003/inf/inf.14.e.pdf

Consumption levels per capita are still relatively high in the region- average per capita consumption in Russia cities remained at around 300 litres per day in 2001 - which means that unnecessarily large volumes of water are being processed into the water supply systems. In Ukraine, water consumption fell during the 1990s as a result of collapse of industrial consumption together with the impact of some metering of households and cuts in hot water services.

The deterioration in water and wastewater networks is a result of a backlog of investment in maintenance and repair, and as a result there are problems with leakage, reliability and continuity of service. Again, these should not be regarded as peculiar to these countries: the leakage rate in English water companies, for example, is 23% on average, and 33% in the area covered by Thames Water, the leading multinational from that country.

1.4. Financial issues and the advantages of public sector borrowing

The World Bank blames the financial problems on cuts in government subsidies: "After 1991, many countries cut sharply central government subsidies. With the shortfall in finances, the maintenance of existing infrastructure deteriorated drastically, albeit to a varying extent in different countries".⁶ The Bank's proposed solution – supported by OECD, UNECE and the MNCs - is not to restore subsidies but to increase charges to users, preferably to the point of "full cost recovery", when users pay enough to cover the costs of operating the system and the costs of the infrastructure itself. The UNECE report however is aware that this creates social problems: "this is already generating and will continue to generate serious social problems. There is evidence that a large portion of the population already pays a significant share of revenues for water services. If water tariffs increase to recover a greater share of utility costs, the number of those who have difficulty in paying their water bills is likely to increase dramatically. In the case of Khmelnytsky in the Ukraine, a 50% increase in water tariffs would result in more than 40% of households having to spend more than 4% of their total expenses on water", and so UNECE advocates the use of a different kind of subsidy, in the form of welfare benefits for the poor.

The key policy questions are how to assess which repairs and improvements are needed, then determine the level of investment needed; what is the best way of raising this finance; how the cost of that finance should be paid for; and how to provide the resources needed to operate and maintain the system. The IFIs and MNCs approach is to encourage the private sector to make equity investments, supported by loans from the IFIs and guarantees from governments, and for users to be charged the full costs of this finance.

However, the approach still used by the great majority of countries – including most developed countries – is to use public finance to raise the money for investment. This is done by municipalities borrowing from banks, or issuing bonds - or central governments may do this on behalf of municipalities, as is done in the USA for example. These public authorities have the advantage of being able to borrow money more cheaply than private companies, as the IMF has recently reminded everyone: *“private sector borrowing generally costs more than government borrowing.”*⁷ The costs of public borrowing are then covered partly by charges to users – structured to provide cross-subsidies from large to small consumers - and partly by taxation, which provides subsidies to prevent the general level of charges from being too high.

The cost advantage of public sector borrowing highlights another disadvantage of using the private sector in some form of public-private partnership (PPP). The IMF again points out that *“when PPPs result in private borrowing being substituted for government borrowing, financing costs will in most cases rise ...”* and this means that PPPs have to be justified by greater operating efficiency of the private sector, in order to offset the borrowing costs. One consequence of this is that workers jobs, pay and conditions are more likely to be reduced under private sector management.

However, despite widespread assertion of the superiority of private companies, neither theory nor empirical evidence support a general assumption of superior private sector efficiency, as the IMF, once again, points out: *“While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.”*⁸ In a sector like water, monopoly is common and competition is weak, so there is little theoretical reason to expect privatisation to be more efficient. And a review of the empirical evidence by Finnish economist Johann Willner shows that public ownership is at least as efficient in more than half of the studies, and Willner even concludes that political intervention may produce **better** results in oligopolistic markets, even if it creates ‘over-manning’.⁹

For these reasons public sector borrowing is an important way of delivering investment in infrastructure like water. Again, this was recognised by the IMF in March 2004, when it acknowledged that its own rules constraining public borrowing may have caused governments to under-invest in vital services: as a result, the IMF decide to relax its own restrictions on public sector borrowing for this purpose.¹⁰

1.5. Legal developments

In Russia, the federal law on local government stipulates that the organisation, maintenance, and development of municipal water supply and sanitation are responsibilities of local governments, although the central government retains ownership of a few systems (including Moscow and St. Petersburg).¹¹ Tariffs can be set by municipalities, and rose from 2000 because of economic growth, but there remains a chronic problem of unpaid bills.

Since 1991, the previously state-owned utilities in Ukraine have been decentralised and transferred to municipalities, and the central government has ended subsidies to these utilities: by 2002, municipalities owned 61 utilities, while 4 remained owned and run by central government . Municipalities now set utility tariffs, in accordance with rules defining which costs can be covered and so on. Harmonisation with EU standards has significantly affected the reform process in the housing and utility sector. Municipalities are able to transform water and sewerage departments of city councils into autonomous commercially-oriented business entities, and also provides the possibility of concessions and leases.¹²

1.6. Case studies and experiences

1.6.1. Russia: rapid and risky privatisations

Since 2003 there has been rapid growth in the introduction of private companies to take over the management and operations of water systems. By mid-2004 private Russian operators controlled about 50 large utilities and many other municipalities were negotiating with one private financial group or another.

Operators do not usually become the owner of the assets, but take over under a lease, rent or concession arrangement running for 25-49 years. These contracts are not subject to competitive tendering or review by a federal or regional property committee - municipalities can simply announce their intention to hire an operator; there is no requirement for financial disclosure; and investment obligations are rarely clearly spelled out. There is a high risk of bankruptcy and exit by the private operator, especially as many of the companies have little or no experience in running water utilities, and in that case the liabilities will all fall on the municipality and/or central government. There are also dangers from the probability that private operators will use disconnection more freely as a method of gathering bills.

Early attempts by municipalities to privatise water supply have involved local companies being given contracts which are unclear and unregulated. In the city of Syzran, for example, in 2001 a 5-year contract was signed with a new private water company founded by local businesses that were major consumers of water supply and sewerage service. The contract does not set any targets or any rules for tariff revisions. Similar problems were observed in Otradny, Nefteyugansk, and Perm.¹³

1.6.2. Russia: St Petersburg twinning

In July 1997, the EBRD decided to issue a DM 127m (ECU 65m), 10-year loan to the municipally-owned water company St. Petersburg Vodokanal to help finance a DM 300m investment programme to overhaul the city's water supply and sanitation system. This was the first loan provided ever by a multilateral financial institution to a municipal utility on a non-sovereign basis, without any backing from a state or commercial bank guarantee. The loan was instead guaranteed by the city council as well as being "backed up by a separate project support undertaking from the Russian Government". The EBRD decided to issue the loan on this basis in the light of the company's operational performance and sound management, as well as the city council's international financial standing.

St Petersburg also has a cooperation project with Stockholm Vatten, the Swedish municipally-owned water company, together with the municipally-owned Helsinki Water Company and the UK privatised water company Severn Trent, which started in 1998. Stockholm was responsible for developing a strategy and a plan for the implementation of two projects relating to IT development and water use, and later for the implementation of the plans and the drafting of a wastewater strategy and a wastewater plan. Trade unionists from Finland and the UK have also been involved in the project.¹⁴

1.6.3. Ukraine: World Bank project in Lviv

In March 2003 the Ukrainian parliament finally ratified a World Bank loan for financing the renovation of water and sewage systems of Lviv, a city with a population of 800,000, of which 63% were receiving water for six or less hours a day during the 1990s.¹⁵ The project is aimed at the rehabilitation of pumping stations, the replacement of around 20km of pipelines, financing the purchase of repair and construction equipment to make immediate improvements to the water network, and institutional strengthening of Lviv Vodokanal through the introduction of modern management principles, new water tariff structures and cost-saving measures.¹⁶ In addition to the \$24m World Bank loan, financing will come from the local government (\$10m) and a grant from the Swedish International Development Agency (\$6m).¹⁷

The World Bank tried very hard to use this loan to force the city to privatise water, despite its own agreement that "LVK is one of Ukraine's better managed and more receptive water and wastewater companies. It has had substantial experience over a period of four years in working with USAID and other bilateral agencies to start making operational improvements through interventions needing little capital expenditure. As a result, LVK has been able to successfully internalize and adopt changes in management operating practices that have led to significant improvements."

As a result of the Bank's political objectives, the loan was delayed by wrangling over the conditions.¹⁸ The municipality strongly rejected the World Bank's attempt to make privatisation a condition of the loan; objected to the nearly \$9m of expenses for consultants and accompanying work, as well as to the obligatory loan condition of purchasing only foreign equipment; and considered that the interest rate initially proposed

by the bank was too high. During this process, in September 2002, Lviv Vodokanal director Vasyi Sklyarsky said he was inclined to obtain the loan from Ukrainian commercial banks.¹⁹

The \$24m 20-year loan is still conditional on the municipality tendering certain contracts.²⁰ The project involves a MOIA (Management and Operations Improvement Advisor) contract with “an experienced international utility operator”. The World Bank notes that “the project promotes private sector activity as the proposed contract with the MOIA may be the first step of a deeper private sector engagement in the sector in the future...and could also ease a possible later transition into a lease or concession type of arrangement when the environment becomes more conducive to acceptance of this type of PSP.” Initially, it had planned to introduce a management contract with a foreign utility operator.²¹

This process of resisting the World Bank’s proposals and ultimately negotiating a better and less restrictive deal has worked elsewhere in the world, for example the city of Recife, in Brazil, where the city also refused to accept privatisation as a condition and the World Bank backed down and offered a loan without that condition.

1.6.4. Ukraine: EBRD and Zaporizhzhia

In May 1999 the EBRD agreed to extend a €28m loan to the municipal Zaporizhzhia Vodokanal. The city of Zaporizhzhia was selected by the EBRD on the basis of its openness to reforms and its constructive approach to the financing and provision of municipal infrastructure and services.²² The municipality of Zaporizhzhia and the national government of Ukraine guaranteed the loan.

The project will help reduce the level of pollution in the Dnieper river as well as improve the efficiency and quality of water and waste-water services in Zaporizhzhia, Ukraine's sixth-largest city with a population of 900,000 inhabitants. Igor Mityukov, Ukraine’s Minister of Finance, said that the new cost-recovery-based tariff-setting system could be a model for the rest of the country. The project also includes a Corporate Partnership Programme involving western operators to enhance the financial and operational performance of Vodokanal. An explicit aim of the project is to introduce private sector participation in the municipal sector through a turnkey contract, involving the extension and operation of the company's largest waste-water treatment plant. The €20.9m contract was given to WTE Wassertechnik, which is now a subsidiary of the Austrian utility EVN: previously, and at the time of the original contract, it was owned by Berlinwasser.²³

1.6.5. Ukraine: campaign against EBRD privatisation in Odessa

In Odessa the water company needed money for investments – the system was losing water through leakage of between 45-60%. Negotiations started with the EBRD for a loan of \$64 million dollars. The EBRD then proposed a much larger loan - \$200 million dollars to the water company, but under the condition that they give a concession to the multinational company Suez-Lyonnaise des Eaux. For two years negotiations between Suez and the mayor took place in secret, including visits to Paris, but no information was given to the water company itself or to local community groups.

A women’s group, active in promoting improvements to the water system, MAMA-86, asked repeatedly for information about the conditions of the proposed loan, asked for a transparent process, public participation, an open tender, and finally organised a public meeting and told the media that the process must be made transparent or abandoned. In the end, partly as a result of this pressure, the negotiations were broken off and Suez abandoned Odessa.

MAMA-86 has since been involved in constructing a different form of public, participative planning with the municipal water company in Soledar (Artemivsk administrative unit) based on local water resource management.^{24 25}

1.7. Comments and policy issues

There are some clear policy lessons to be drawn from the experiences so far in Russia and Ukraine, both negative and positive.

The negative lessons include:

There are real dangers involved in privatisation, especially with the current ‘wild’ privatisations happening in Russia. There are real dangers of social and financial problems arising, which would create pressures on companies to cut jobs, pay and conditions as one way of solving their problems, and/or imposing unbearable price increases, or leaving the public authorities with debts and failures.

A further danger is the extent of the network of the multinational water companies. Despite their apparent lack of interest so far, they are closely connected with the international institutions – including the World Bank, the EBRD, and the EU; with the apparently autonomous Russian oligarchs; and able, when they want, to make direct appeal to mayors, as they did in Odessa. Their power to affect policy in their own interests has been demonstrated in many countries and should not be underestimated.

A third danger is the use of conditions attached to bank loans to lever privatisation. This is apparent from the cases described above – attempts were made in both Lviv and Odessa – and from experience elsewhere in the world.

The positive lessons include:

It is possible for municipally owned vodokanals to obtain loans directly from international institutions, without private partners, as shown by the cases of Lviv, Odessa and St. Petersburg. The case of St. Petersburg also shows that such loans can be reinforced by support from public sector water companies from Europe, such as Stockholm Vatten and Helsinki Water, which can provide expertise without demanding profit.

Privatisation is not necessarily the cheapest way of raising finance, and it may even be cheaper to avoid using the development banks if they insist on conditionalities, as was demonstrated in the case of Lviv.

Finally, the power of civil society groups is apparent from the effectiveness of the campaigns, especially in Odessa. This confirms the global experience, which is that not only unions but also consumer groups, women’s groups and community associations have strongly and successfully resisted privatisation.²⁶

2. International institutions

A number of international agencies are engaged in active initiatives concerning water in Russia and NIS. The most active bodies are the OECD and the World Bank. There are financial initiatives from the International Institutions, the EBRD, and the EU – through the EU water initiative, EUWI. There is also activity by UN agencies including UNECE, UNEP, and UNDP. These initiatives take the form of conferences, task forces of officials, publications and projects.

Most of the efforts of the international agencies are concentrated on promoting the introduction of the private sector. For the 2004 Moscow conference a major ‘Market development study’ was prepared by the OECD, and the World Bank, and the World Bank-Netherlands Water Partnership, which surveyed the wishes of private companies – but not of municipalities – for the future development of the sector.²⁷ The study recommended ‘key reforms’ including: a national committee and clearinghouse for PPP [public-private partnerships]; informational campaign/ PPP demonstration projects [i.e. propaganda]; and legislative reforms. It is worth noting that this study, and all these reforms, are to be financed entirely through public funds using taxes paid in donor countries, not by private investors.

The IFIs have a distinctive role in this market development. This includes providing finance for projects which attach conditions requiring the use of private companies; financing of changes to the laws and regulations on the water sector to make it easier for private companies, from any country, to participate; and preparing standard contracts and reducing transaction costs. The IFIs and donors nevertheless offer themselves as ‘Neutral advisor to municipalities/utilities in PSP conception and in negotiations with PS [private sector]’.²⁸

2.1. OECD

The OECD have organised a series of conferences and meetings on water in Russia and NIS. This began in October 2000, with a conference in Almaty (Kazakhstan) of NIS Ministers of Finance and Environment, which agreed a set of “Guiding Principles for Reform of the Urban Water Supply and Sanitation Sector in the NIS”.²⁹ Since then there has been a series of conferences of environment ministers in the region (most recently in Tbilisi, Georgia, in October 2004); ; and conferences of financing environmental and water projects (most recently in Istanbul in January 2004);³⁰ and a conference jointly organised with the World Bank in Moscow in September 2004 (see below).³¹

The OECD runs official task forces for water in the region – the Task Force for the Implementation of the Environmental Action Programme, set up in 1993 (EAP);³² and a Group of Senior Officials on Urban Water Sector Reform in the NIS, set up in 2000 following the Almaty conference (meeting most recently in Paris in February 2004).³³

OECD publications mostly advance the orthodoxy of water privatisation, for example through a general briefing on PPPs in water,³⁴ and in a booklet and briefing on financing strategies.³⁵ The EAP and Group of Senior Officials have prepared joint reports on developments in the water sector since 1993;³⁶ on progress with their general programme in the region since 2000;³⁷ on utilities performance indicators in the region³⁸ and on social issues and consumer protection in water reform.

2.2. European Bank for Reconstruction and Development

The EBRD has promoted water privatisation in various ways. In the mid-1990s, it provided loans which were tied to specific multinational companies (one tied to Suez, one tied to Veolia), so that any country could draw on the fund as long as it issued a contract to the named multinational. In 2003, it bought a 25% stake in private water operations in Bulgaria, Estonia and Poland which might have collapsed without the EBRD’s intervention as ‘privatiser’ of last resort.³⁹ The EBRD has also provided loan finance to a number of municipal water operators without privatisation as a conditionality (indeed in a number of cases without requiring sovereign guarantees).

The EBRD annual report on transition in 2004 focused on infrastructure, and indicates that the EBRD remains an unreconstructed believer that privatisation is good in its own right.⁴⁰

The EBRD runs the Project Preparation Committee (PPC), a network to coordinate international financial institutions and donors active in the region, established in 1993.⁴¹ Its report to the 2003 Kiev conference lists projects financed by all PPC members.⁴² St Petersburg is the major example of a PPC coordinated project, involving \$71million loan from EBRD, \$32million finance from donors, and \$68million from user charges raised by the St Petersburg Vodokanal itself.⁴³ The PPC membership includes international banks and institutions, and also European donor countries, and Canada, Japan and the USA. Neither Russia nor any of the NIS countries are members of the PPC.⁴⁴

2.3. World Bank

The World Bank is also active in the region in this sector. It has sponsored conferences with the OECD, most recently in Moscow in September 2004, under the title of “Private solutions for the emerging water crisis in Eastern Europe and Central Asia ?”,⁴⁵ and the previous year in Vienna, July 2003, under the title of “Private Sector Participation in Municipal Water Services in Central and Eastern Europe and Central Asia .”⁴⁶ Its stated strategy for the region includes “Promote public-private partnerships to improve delivery of services..... PSP Based Urban Water Supply and Sanitation”,⁴⁷ and the opening presentation at the Vienna 2003 conference, from Jamal Saghir, head of water and energy infrastructure at the World Bank, identified the main questions as almost entirely concerned with increasing privatisation: “What we can do to make the environment more attractive [to private companies]? Specific attention to: How to get new entrants into the sector? How to get the local private sector involved?”⁴⁸

Other semi-autonomous parts of the World Bank are also active in the region. For example, the Public Private Infrastructure Advisory Facility (PPIAF), a propaganda unit based in the World Bank which is partly funded by the Bank and partly by international aid programmes from individual countries, has run a project

in Azerbaijan to “prepare an appropriate strategy for private sector provision of water and waste water services in the Greater Baku metropolitan area”, a project in Georgia to find ways of using the private sector in water and wastewater in Georgia, projects in Kazakhstan to develop private sector solutions to water issues and to prepare a model contract “to showcase the benefits of involving the private sector in managing, operating, and maintaining the water supply systems in medium-size cities”, designed a contract for water privatisation in Uzbekistan, and a system for tendering and monitoring privatised water in Tajikistan.⁴⁹

2.4. International Finance Corporation (IFC)

Part of the World Bank group, the International Finance Corporation (IFC) invests in private sector enterprises only. It is thus by definition a promoter of privatisation in all sectors: in recent years it has taken an increased proportion of all World Bank funds, and has become more active in infrastructure and municipal services. The IFC made a presentation to the 2004 OECD/World Bank conference on how it could facilitate privatisation in utilities in the region.⁵⁰ It has invested in bottling operations in the region for both Coca-cola (Baku, Azerbaijan) and Pepsi-Cola (Samara and Yekaterinberg).

2.5. United Nations Economic Commission for Europe (UNECE)

The UNECE runs the series of ‘Environment for Europe’ conferences, starting in 1991, which created the EAP task force: the most recent conference was at Kiev in 2003, where the EU water initiative (see below) was the main item.⁵¹

2.6. EU

The EU has taken an active interest in the sector, mainly through the EU Water Initiative (EUWI) and their EU Water Facility, which is a fund of aid money from EU countries allocated to water, and targeted specifically at Africa, Asia and Russia and NIS. The EUWI is based on the principle of using public funding to encourage private sector involvement: “The idea is to use donor money to create the conditions (governance, capacity) that will allow private finance to be attracted to the sector.”⁵²

3. Companies

3.1. International water companies

The major OECD-based water multinationals (MNCs) are not at present seeking to obtain concessions or long-term leases or management contracts to operate water or wastewater in Russia or Ukraine. There are three reasons for this. First, the MNCs have performed poorly and failed to make reliable profits in many countries in recent years, and so they are in general contracting their operations and avoiding contracts where the risks are unclear. Second, the companies have encountered hostility and opposition to privatisation of water services in almost all parts of the world, and so are reluctant to expand if there is risk of encountering further political opposition. Third, the legal and policy conditions in Russia do not make it easy for foreign companies to operate in the water sector (although the legal framework in Ukraine presents no obstacles).

None of the MNCs have major contracts in Russia and none of them state that expansion into Russia or Ukraine is a priority. The MNCs activities in Russia and Ukraine are restricted to types of contract considered less risky, such as engineering build-operate-transfer (BOT) contracts, and various forms of consultancy, including in partnership with Russian companies which have started to take over water operations.

3.1.1. Suez

Suez www.suez.com (formerly Lyonnaise des Eaux) is the largest of the major multinational water companies. Apart from water, it has a waste management division (Sita) and an energy division (Tractebel) both of which are also internationally active. Suez used to be active in telecoms and media, but has now sold all its interests in those sectors. Suez operates in water services under the name of Ondeo, and in water engineering and construction under the name of Degremont. Suez has one BOT construction project in Russia, and the company failed in an attempt to get a water concession in Odessa, Ukraine.

- In 2004 Degremont was given a sub-contract for the construction of an ultrafiltration unit for a drinking water production plant in South-West Moscow, which is being constructed by WTE Wassertechnik, a subsidiary of the Austrian EVN group, under a BOT concession.⁵³
- In 2002 Suez was actively negotiating with Odessa municipality (Ukraine) to obtain a concession, after the EBRD told the city that a loan for investment would be conditional on introducing a private company. There was strong local opposition, and Suez pulled out of negotiations at the end of 2002.⁵⁴

3.1.2. Veolia

Veolia www.veolia.com is a French-owned multinational, which operates internationally in waste, water, management, heating, and public transport. Its global water operations are about the same size as Suez. It was previously part of Vivendi, - which was itself previously known as Generale des Eaux - which ran into serious problems after an expansion into movies and music that almost destroyed the company. The environmental services elements of Vivendi were broken off and recreated as Veolia. Veolia has a longstanding interest in water in Russia but only one specific contract has been reported – this is not to run municipal water services, but a BOT construction project. It has not obtained any business in Ukraine.

- In 2004 the St. Petersburg Vodokanal awarded **Veolia** a contract to build a sludge treatment plant for the North St. Petersburg wastewater treatment plant. The facility will have three incinerators, including flue gas treatment that complies with European standards and a co-generation system. Veolia will be paid €52 million for its contribution, out of a total amount of €70 million for the entire plant, which will be commissioned in 2006.⁵⁵ It is not clear if this is a delayed implementation of a contract reported in 1993 by Veolia (then known as Generale des Eaux) : *“A contract for FF108m [=approximately €17m] with French financing has just been agreed with St Petersburg for the construction of a sludge incineration oven for the principal waste water treatment plant.”*⁵⁶

Veolia is also active in Kazakhstan, where it has a 30-year concession to operate the water supply services in the capital city Almaty (1.2 million inhabitants), with drinking water and water treatment services for a 30-year period, and hopes to earn around €850m. in return.

3.1.3. SAUR

SAUR is the third French water company, part of the large French construction group Bouygues. It has been broken up by a series of partial sales, so that its former UK operations are now owned by an Australian finance company, Macquarie; Its former operations in Africa and Italy are still owned by Bouygues; but its operations in France, Poland (where it operates Gdansk’s water services) and Russia are now owned by a French financial company PAI.

- Since 1994 Saur has had a joint venture with Moscow's Mosvodokanal, **Rossa**, which is 51% owned by Saur and 49% owned by Mosvodokanal, and runs a laboratory that analyses water both for public services and industrialists in Moscow and other Russian cities.⁵⁷

3.1.4. Severn Trent

Severn Trent is one of the private UK water companies created by the Thatcher government in 1989. It has a profitable regional monopoly in the UK, but it has not been very successful in expanding its privatisations of international water supply activities, and has only a few management or consultancy contracts outside the UK. It has held two consultancy contracts in Russia.

- Severn Trent was employed in 2000 on a British Government funded project to introduce an environmental management system for St Petersburg Vodokanal.⁵⁸
- Severn Trent is advising on a strategy to improve the water network in Perm City, northern Siberia, a city of 1 million people. Perm City’s water system was privatised in July 2003 via a 49-year lease to Novogor, a subsidiary of the Russian conglomerate Interros, this being the first water privatisation in Russia.

3.1.5. Acea

Acea is an Italian water company partly owned by the municipality of Rome, where it holds the water supply monopoly.

- Acea was selected to manage the water board in Yerevan, the capital of Armenia, which has over 1 million inhabitants.

3.1.6. EVN (WTE Wassertechnik)

WTE Wassertechnik was previously owned by the German company Berlinwasser, but was sold to the Austrian utility EVN in October 2003. EVN is one of five Austrian energy and water utilities, which remain controlled by the public sector: the provincial government of Lower Austria is the majority shareholder with 51% of shares. In addition, EnBW Energie Baden-Württemberg AG owns more than 10%: EnBW itself is 34.5% owned by EdF, (the French electricity company which is 100% owned by the French state) and another 34.5% owned by the Austrian utility OEW.

EVN is not one of the big private water multinationals but is actively expanding in both water and energy in eastern and southeast Europe.

WTE designs, builds, finances and operates municipal and industrial water and wastewater plants. It operates 69 sewage plants for some 8.5 million people and has operations in both Austria and ten other EU and CEE countries. WTE has won a series of BOT contracts in Moscow since 1996. These include:

- South Butowo, Moscow : BOOT contract for the design, finance, construction and operation of the waste treatment plant; started in 1997, in operation since December 1998 till the year 2011.
- Zelenograd, Moscow: waste water treatment plant , began the construction in 1998 and started operation in December 2000 to 2013..
- Ljubrzy, Moscow region: waste water treatment plant, started in 1997 and commissioned in 2000.
- South West Moscow: new water supply plant for 1 million inhabitants; under construction, WTE will start operation in 2007 for a 10-year-period.

The financing of these BOT projects is based on a complex web of guarantees from various governments, municipalities and other public authorities.

3.2. Russian water companies

3.2.1. Russian Communal Systems (RKS)

Russian Communal Systems (RKS) is the biggest and best known private provider of communal services in Russia. RKS was created on 29 May 2003 by Gazprom and RAO UES, the two greatest Russian utility monopolies. RKS's current budget is 14 billion rubles and expected to reach one billion dollars in 2005.⁵⁹ ZAO PriceWaterhouseCoopers Audit is one of its auditors.⁶⁰

Gazprom (via its subsidiary Gazprombank) and RAO UES each own 25 % of RKS. Other founders include Interros – 10%, Kuzbassrazrezugol – 10%, Renova – 10%, EvrazHolding - 10%, and Evrofinans - 10%. Gazprombank is reported to have sold its stock to an undisclosed buyer.⁶¹ Some reports about possible changes in the list of shareholders appeared at the end of 2004. RAO UES is expected to increase its stake in this company.⁶²

RKS has 26 subsidiaries, and has signed contacts with 37 Russian public authorities in 16 Russian regions. Total number of current contracts is 52,⁶³ including 6 contracts in water supply and sanitation.⁶⁴ RKS has lease contracts with public authorities of Blagoveshchensk (Amur Communal Systems), Volgograd (Volgograd Communal Systems), Kirov (Kirov Communal Systems), Kachkanar (Sverdlovsk Communal Systems), Tambov (Tambov Communal Systems), and Tomsk (Tomsk Communal Systems). The lease contract with Volgograd City covers water supply and sanitation for 780,000 subscribers for the period from 25 February 2004 to 25 January 2005. In August 2004, RKS signed a partnership agreement with the Mayor's Office of Rostov-on-Don regarding water supply and the improvement of city's water and

sanitation systems.⁶⁵ A subsidiary of RKS started to operate in St. Petersburg.⁶⁶ RKS has also a contract with Lukoil, a major Russian oil company.

In order to finance its projects Russian Communal Systems is negotiating investments with a number of banks. According to RKS CEO Sergey Yashechkin, the company has almost secured contracts with a dozen banks. Also, RKS intends to take a three-year loan from its major shareholder RAO UES with annual interest rate of 6 percent.⁶⁷ In turn, the head office of the company invests in RKS subsidiaries. For example, at the end of September 2003, RKS allocated a 30.38 million ruble soft credit to JSC Arkhangelsk Communal Systems for purchasing essential equipment.⁶⁸

RKS has shown its interest in cooperation with foreign investors and partners. On 29 April 2004 managers of RKS met representatives of Severn Trent Water International Ltd, Veolia Environment, SUEZ, SIDA, EnPrima, EBPP, and MBPP. Suez along with other major foreign public companies is seen as a possible investor.

On 24 September 2004, RKS announced that the first phase of its development was successfully ended. The company had introduced the schemes of investments in the public sector and explored the possibilities and problems of the market of public services. From now on RKS decided to focus on regions with good economic-political situations in which RKS business projects could be most efficient: in particular, it intends to focus on regions of Altay and Amur as well as on the large Russian cities of Archangel, Vladimir, Volgograd, Voronezh, Tambov, Kirov, Saratov, Ekaterinburg, Smolensk, Tver, and Tomsk. The management intends to apply a more strict investment policy, although investments in regions would remain between \$500-700 million. During the second phase, the company aims to become profitable (or at least to not have losses). For this purpose, RKS plans to restructure its management and dismiss a number of employees.⁶⁹

RKS has nearly 6,500 employees.⁷⁰ The head of RAO UES has said that Russian Utilities Systems annually lose 117 billion rubles⁷¹ because RKS has encountered the common problem of unpaid debts to Russian communal services: for instance, the debt of consumers to RKS for heating amounts to 860 million rubles (1.09.2004). Because of that RKS, on the grounds of current legislation, terminated delivery of energy to debtors. RKS management revealed, however, that the company is ready to restart delivery of energy to the firms which express their wishes to repay their debts provided their assurances are legally and financially supported.⁷²

3.2.2. Russian Communal Investments (RKI)

Russian Communal Investments (RKI) is a subsidiary of Bazoviy Element, which is a major Russian company controlled by Deripaska, one of most powerful Russian oligarchs. It was registered in February 2004 and Evrosibenergo (the company managing assets of Russkiy Alluminiy, another of Deripaska's major companies) was expected to support and coordinate RKI projects.⁷³ Although there are some doubts about the profitability of these projects, some observers noted that Deripaska's initiative to invest in the public sector yielded him some political and economic benefit, such as the post of Russia's representative in ASEAN.⁷⁴

RKI's priorities are the regions in which Bazoviy Element has its major assets. RKI establishes subsidiaries in those regions after signing contracts with municipal authorities. The list of preliminary agreements with municipal authorities has included six regions.⁷⁵ In contrast to RKS which started its development from the West, RKI began its expansion from the East and is reported to have secured contracts with several important regions in Siberia. It is still unknown whether RKI is ready to provide large-scale investments in these regions.⁷⁶ RKI focuses on service providers in Nizhniy Novgorod oblast, Krasnodarsky Kray (including Sochi Tuapse, Anapa, Gelendgic) Krasnoyarsky Kray, Buriatia, Kaliningrad Oblast and cities Barnaul, Eisk and Novosibirsk.⁷⁷ Within these regions RKI intended to select local objects which it considers appropriate for its service.

RKI has said that it did not intend to compete with RKS and consequently would focus on regions which are not covered by RKS contracts. Spokesmen for RKI argued that the Russian market of communal services is huge and has enough room for both companies.⁷⁸ In addition, they expressed the intention to negotiate and cooperate with RKS regarding contracts in shared regions, such as Arkhangelsk⁷⁹ and Nizhniy Novgorod.⁸⁰

In March 2004, Deripaska explained that his criteria for investment are based on the estimate of competitive advantages of a possible object and its market value as well as the potential for increasing services and the possibility of restructuring and integrating the object into other his companies. He said that non profitable companies can be worth investing in only if there is a chance to make them profitable in the near future.⁸¹ RKI's commercial selection criteria can be illustrated by the example of Buriatia, the first region in which municipal authorities signed a preliminary agreement with RKI. It has been reported that after a week of calculations and inspection of various local providers, representatives of RKI decided that the Vodocanal was the only profitable municipal function in Buriatia. However, because Vodocanal was profitable without any investments, the public authorities rejected RKI's offer to take it; RKI did not find another investment opportunity, and so it left this region.⁸²

The company intends to invest around US \$500 million during the next 5 years. It expects an average rate of return in their projects from 10% to 15%.⁸³ RKI does not apparently have problems with the generally low level of profit in communal services, because it intends to take only profitable municipal enterprises with intention to make them even more profitable. The company plans to invest in the communal sector US\$ 200 million before 2010 and up to US\$ 700 million before 2015.⁸⁴

3.2.3. Rosvodokanal (Alfa Eco)

The majority shareholder is Alpha-Eco.⁸⁵ Alfa Eco constitutes important part of Alfa group which is controlled by another Russian oligarch Michael Fridman. This investment company supports a great variety of Fridman's business projects in banking, trade, oil, telecommunications and manufacturing.⁸⁶ The former President of Alfa Eco, Gleb Fitsov, later took a seat on the Federation Council. Although he has denied any involvement in business since then, it emerged in August 2004 that he holds a minority stake of approximately USD 1 billion in Alfa Telecom, another major company of Alfa Group, which mainly belongs to CTF Holdings, an offshore company registered in the British Virgin Islands.⁸⁷

The public sector attracted the attention of Alfa Eco managers in 2003 and the company primarily focuses on regions in which Alfa Group's main enterprises (oil refineries and metal processing works) are located. It includes Orenburg Oblast, Voronezhskay Oblast and Krasnoyarsk Krai.⁸⁸ Although Alfa Eco undertakes its major projects in regions of its parent company, it plans to expand into other regions. For example, Alfa Eco negotiated with municipal authorities in Pskov and participated in a bid for providing communal services in Nizhniy Novgorod.⁸⁹ Its bid for Kostroma water utilities was declined by the local Duma.⁹⁰

One of Alfa Eco's first investment projects was Rosvodokanal, the oldest Russian municipal utility which supplies water for many regions of the Russian Federation for over 50 years.⁹¹ It is a successor of Rosvodokanalnaladka Group established in 1949 with aim to provide water and sanitation services in Russia.⁹² It has branches in 10 Russian regions.⁹³ It operates subsidiaries in Russian largest cities, including Khabarovsk, Vladivostok, Ufa, Novosibirsk, Volgograd, Chelyabinsk, Rostov-on-Don, Tver, Moscow and St. Petersburg.⁹⁴ Alfa Eco aimed to transform Rosvodokanal into an efficient private provider of communal services.⁹⁵ In turn, Rosvodocanal helps Alfa Eco expand its investment projects in the public sector. For example, Rosvodokanal signed a contract with municipal authorities of Orenburg. Where, Rosvodokanal guarantees to invest annually up to 50 million rubles in a subsidiary which was established by Alfa Eco together with the Administration of Orenburg and the Congress of Municipal Utilities in Russia. After six months the mayor of Orenburg acknowledged an improvement of communal services which was partly based on a 20% decrease in the number of debtors.⁹⁶

It is reported that Rosvodokanal increased revenue to 16% and tariff payment from 85 to 97%. Water loss decreased from 27% to 21%.⁹⁷ It is also stated that Rosvodokanal intends to invest at least 1 billion Russian roubles (RUR) per target city before 2010.⁹⁸

3.2.4. Novogor-Prikamye

The sole owner of Novogor-Prikamye is New Urban Infrastructure ZAO which is a member of Interros holding, the major company controlled by one of the most powerful Russian oligarchs Vladimir Potanin.⁹⁹ It should be noted that Interros also owns 10% of RKS.

Novogor controls the housing sector in Norilsk, hires water utility Permvodokanal in Perm, and plans to expand in the Volga-Kama basin,¹⁰⁰ in particular in Nizhniy Novgorod.¹⁰¹ Like some other Potanin's projects,¹⁰² Novogor is connected with British companies. For example, Novogor-Prikamye water plant,

which is regarded as the first privately owned water utility in Russia (with technology resembling the one used in Birmingham in 1973), is linked with the Severn Trent water company.¹⁰³ Severn Trent Water advises Novogor on how to run privatised utilities. It has also been reported that Interros would like to form a joint venture with Veolia in water supply, because the French company has a wide and successful experience in the sphere, but the obstacle is Russian legislation prohibiting giving information to foreigners about water supplies in cities with a population of over 300,000.¹⁰⁴

In July 2003, "Interros" purchased 100% of "Sovremenniy Gorod" which agreed a leasing contract with Perm municipal authorities to rent Permvodokanal for 49 years. Novogor-Prikamye is part of "Sovremenniy Gorod" and it manages assets of the housing sector of Perm, one of the largest industrial cities in Russia.¹⁰⁵ In 2003, LLC Novogor-Prikamye was expected to invest 100 million rubles in the renovation of Permvodokanal. However, Novogor's representatives claimed that they had problems with finding essential investment in order to improve the quality of water supplies because they could not raise consumers bills.¹⁰⁶

Novogor is also expanding into energy services. In August 2004, Novogor, the administration of the Leningrad Oblast, and LLC Avrora-Energo-Management, linked to Lenenergo, established Leningrad Regional Managing Power Transmission Company (LOESK) and appointed the Chairman of the regional energy commission Lev Khabachev as its General Director.¹⁰⁷ The government of the Leningrad Oblast owns 52 percent of this company while the other participants own 24 percent each. LOESK is expected to manage all 22 municipal energy utilities in the Leningrad oblast and to invest 700 million roubles in the development of energy infrastructure in 2005.¹⁰⁸

It plans to invest up to US\$ 50 million.¹⁰⁹ Novogor-Prikamye's net profit in the first quarter of 2004 was RUR 33,384 million.¹¹⁰ As far as its project in Perm is concerned, it invested RUR 64,070,000 in the infrastructure from Dec 2003 to January 2004. The company is reported to have saved 13,305,000 Russian Roubles in six months due to 1.8% decrease in leaks and break-downs.

3.3. Relations between multinational water companies and Russian/Ukrainian companies

Although the multinational companies have so far not sought or obtained operating contracts in Russia or Ukraine, they still have a clear interest in such a large market, and are engaging in two ways. Firstly, they are obtaining contracts to construct and operate treatment plants – Suez, Veolia and EVN are all doing this – which gives them a position in the market and some experience. Secondly, they are all holding discussions about possible partnership agreements with the main Russian companies e.g. RKS has spoken with Suez, Severn Trent and Veolia: Novogor-Prikamye is using Severn Trent as an advisor on the Perm contract.

Longer term, the development of the market by Russian private companies could become a means of entry for the multinationals. This view was expressed by the introductory note for the OECD-World Bank conference in Moscow 2004: "The growing role of the domestic private sector in Russiacould create new opportunities for international companies as well. Co-operative arrangements between domestic operators and international operators could help domestic companies to improve their business practices and also help international companies gain more experience of operating in the markets of this region".¹¹¹

This also fits with the pattern elsewhere in the world. In Asia, for example, the development of local water companies in Malaysia and Hong Kong is largely in partnership with the multinationals, not in competition with them.

4. Annexe 1: projects

4.1. EBRD: projects in environmental services, Russia and former Soviet Union countries.

| Country | Year of signing | Op Name | Project Value €m. | Loan €m. | Equity €m. | Total EBRD Finance €m. |
|--------------------|-----------------|---|-------------------|----------|------------|------------------------|
| (company) | 2003 | International Water United Utilities | 38,355 | 0 | 17,811 | 17,811 |
| Azerbaijan | 1995 | Baku Water Rehabilitation | 82,406 | 18,034 | 0 | 18,034 |
| Estonia | 2002 | Tallinn Water Privatisation Financing | 172,800 | 55,000 | 0 | 55,000 |
| Estonia | 1995 | Small Municipalities Environment Project | 46,025 | 10,226 | 0 | 10,226 |
| Estonia | 1994 | Tallinn Water and Environment Project | 74,562 | 22,723 | 0 | 22,723 |
| Kazakhstan | 2000 | Almaty Solid Waste Management Rehabilitation | 19,524 | 15,874 | 0 | 15,874 |
| Latvia | 2000 | Riga Water Company Corporate Loan | 133,855 | 35,581 | 0 | 35,581 |
| Latvia | 1996 | Riga Environment Project | 74,635 | 13,163 | 0 | 13,163 |
| Lithuania | 2003 | City of Vilnius Municipal Infrastructure | 8,540 | 7,000 | 0 | 7,000 |
| Lithuania | 2001 | Kaunas Water and Environment - Phase II | 73,600 | 14,700 | 0 | 14,700 |
| Lithuania | 1995 | Kaunas Water and Environment | 74,545 | 11,864 | 0 | 11,864 |
| Moldova | 1997 | Chisinau Water Services Rehabilitation | 32,452 | 18,057 | 0 | 18,057 |
| Russian Federation | 2003 | St Petersburg South-West Waste Water Treatment Plant | 188,749 | 35,450 | 0 | 35,450 |
| Russian Federation | 2003 | Archangelsk Municipal Water Services Development | 24,694 | 9,394 | 0 | 9,394 |
| Russian Federation | 2003 | Treatment Plant Incinerator | 49,400 | 23,800 | 0 | 23,800 |
| Russian Federation | 2003 | Yaroslavl Municipal Water Services Devt Programme | 17,883 | 13,320 | 0 | 13,320 |
| Russian Federation | 2002 | Ostankino Tower Repairs | 27,383 | 11,112 | 0 | 11,112 |
| Russian Federation | 2002 | St. Petersburg Flood Protection Barrier | 465,986 | 194,460 | 0 | 194,460 |
| Russian Federation | 2002 | Surgut Municipal Services Development Programme | 71,650 | 36,652 | 0 | 36,652 |
| Russian Federation | 2001 | St Petersburg Toxic Waste Clean-Up Programme | 8,151 | 4,365 | 0 | |
| Russian Federation | 1999 | Kaliningrad Water and Environmental Services | 48,178 | 14,287 | 0 | 14,287 |
| Russian Federation | 1997 | St. Petersburg Municipal Support | 54,685 | 540,041 | | |
| Russian Federation | 1997 | St Petersburg Water & Env Services Improv. Program | 44,611 | 8,692 | 0 | 8,692 |
| Ukraine | 1999 | Zaporizhzhia - Water Utility Development & Investment Programme | 34,503 | 22,224 | 0 | 22,224 |
| Uzbekistan | 2001 | Andijan District Heating Improvement and Reform | 24,859 | 11,906 | 0 | 11,906 |
| Uzbekistan | 1998 | Tashkent Solid Waste Management Rehabilitation | 38,303 | 15,239 | 0 | 15,239 |

4.2. World Bank projects in water and wastewater in Russia, Ukraine and NIS

Note: All projects are IBRD/IDA or Global Environment Facility

| Country/Area | Approval Date | Project Name | Amount* | Status | Privatisation related objectives in project documents |
|--------------|---------------|--|---------|----------|---|
| Armenia | N/A | YEREVAN WATER AND WASTEWATER PROJECT | 20 | Proposed | |
| Armenia | 26-AUG-1997 | Second Structural Adjustment Credit | 60 | Closed | |
| Armenia | 11-JUN-1998 | Municipal Development | 30 | Active | |
| Armenia | 08-DEC-1994 | IRRIGATION REHABILITATION PROJECT | 43 | Closed | |
| Armenia | 04-MAY-2004 | Municipal Water and Wastewater | 23 | Active | |
| Azerbaijan | 28-JUN-1995 | Baku Water Supply | 61 | Active | |
| Azerbaijan | 12-MAR-2002 | SAC II (formerly PSRAC) | 60 | Closed | |
| Azerbaijan | 10-DEC-2002 | SUPPLEMENTAL BAKU WATER SUPPLY | 12.92 | Active | |
| Azerbaijan | 03-JUN-2004 | RURAL INVESTMENT PROJECT (AZRIP) | 15 | Active | |
| Georgia | N/A | Tbilisi Water Supply | 15 | Dropped | |

| <u>Country/Area</u> | <u>Approval Date</u> | <u>Project Name</u> | <u>Amount*</u> | <u>Status</u> | <u>Privatisation related objectives in project documents</u> |
|---------------------|----------------------|---|----------------|---------------|--|
| Georgia | 08-NOV-1994 | Municipal Infrastructure Rehabilitation | 18 | Closed | |
| Kazakhstan | N/A | Northeastern Kazakhstan Water Supply and Sanitation Project | 23 | Dropped | |
| Kazakhstan | 23-DEC-1996 | Pilot Water Supply Project | 7 | Closed | |
| Kazakhstan | 08-JUN-1999 | Atyrau Pilot Water Supply and Sanitation Project | 16.5 | Closed | |
| Kyrgyz Republic | 14-DEC-2004 | SMALL TOWNS INFRASTRUCTURE & CAPACITY BUILDING PROJECT | 15 | Active | |
| Kyrgyz Republic | 04-DEC-2001 | Rural Water and Sanitation Project | 15 | Active | |
| Moldova | 20-MAY-2003 | PILOT WATER SUPPLY AND SANITATION PROJECT | 12 | Active | |
| Moldova | 17-JUN-2004 | Social Investment Fund II Project | 20 | Active | |
| Russian Federation | 21-DEC-2000 | Municipal Water and Wastewater | 122.5 | Active | “Full recovery of costs, including operations, adequate maintenance, depreciation, finance charges and opportunity cost on invested equity from user charges is essential to ensure the long term viability of the water utilities and recovery of their ability to provide an acceptable level of service [...]. Initially, the most likely form of private sector involvement would be management type contracts with foreign or domestic partners that does not expose the operator to any large financial risk, but even these would be difficult to secure under present conditions. Therefore the project does not require any private sector involvement at this stage.” ⁵ |
| Russian Federation | 08-NOV-1994 | RUSSIA ENVIRONMENTAL MANAGEMENT PROJECT | 110 | Active | |
| Tajikistan | N/A | Tajikistan Municipal Infrastructure Development Project | 15 | Proposed | |
| Tajikistan | 27-AUG-1998 | EMERGENCY FLOOD ASSISTANCE | 5 | Closed | |
| Tajikistan | 22-JUN-2000 | RURAL INFRASTRUCTURE REHABILITATION PROJECT | 20 | Active | |
| Tajikistan | 18-JUN-2002 | Dushanbe Water Supply Project | 17 | Active | |
| Tajikistan | 15-JUN-2004 | COMMUNITY AGRICULTURE AND WATERSHED MANAGEMENT PROJECT | 10.8 | Active | |
| Tajikistan | 14-DEC-1999 | Emergency Flood Assistance Project - Supplemental Credit | 2 | Closed | |
| Turkmenistan | 27-MAY-1997 | Water Supply and Sanitation | 30.3 | Closed | |
| Ukraine | 05-JUN-2001 | Lviv Water and Wastewater Project | 24.25 | Active | |
| Uzbekistan | 21-AUG-1997 | Rural Water Supply & Sanitation | 75 | Active | |
| Uzbekistan | 19-MAR-2002 | Bukhara and Samarkand Water Supply Project | 40 | Active | |
| Uzbekistan | 12-SEP-1996 | Pilot Water Supply Engineering Project | 5 | Closed | |

Some quotes from project documents from the World Bank website; some extracted from “Will the World Bank Back Down? Water Privatisation in a climate of Global Protest”: Sara Grusky and Maj Fiil-Flynn. Public Citizen April 2004 <http://www.citizen.org/documents/worldbank2004.pdf>

4.3. PPIAF projects

[AZERBAIJAN:Private Sector Involvement in the Provision of Water and Wastewater Services in Greater Baku](#)

[GEORGIA:Private Participation in Georgia's Water and Wastewater Sector](#)

[KAZAKHSTAN:Private Sector Options in Water for Small and Medium Sized Cities.](#)

[KAZAKHSTAN:Privatisation Strategy for Water Supply Systems in Northeastern Kazakhstan](#)

[LITHUANIA:Private Sector Participation in Water and Wastewater Service Provisions](#)

[TAJIKISTAN:Private Sector Participation in Water Supply](#)

[UZBEKISTAN:Private Sector Participation in the Water Sector](#)

4.4. PPC projects

http://www.ppcenvironment.org/projects_database.asp?Sort=Country

| Title | Country | Lead |
|---|------------|------|
| Komi Municipal Water Services - Syktyvkar | RUSSIA | EBRD |
| St. Petersburg South-Western Wastewater Treatment Plant | RUSSIA | NIB |
| Novgorod Cross Municipal Rehabilitation | RUSSIA | NIB |
| Kaliningrad Solid Waste Management Project | RUSSIA | NIB |
| Murmansk District Heating Project | RUSSIA | NIB |
| Neva Direct Discharges Closure Programme | RUSSIA | NIB |
| St. Petersburg District Heating Programme | RUSSIA | EBRD |
| Ladoga Environmental Programme | RUSSIA | NIB |
| Komi-Uhta Municipal Water Services Development Project | RUSSIA | EBRD |
| Arkhangelsk Municipal Water Services Project | RUSSIA | EBRD |
| St. Petersburg Northern WWTP Incinerator | RUSSIA | EBRD |
| Kaliningrad District Heating Rehabilitation | RUSSIA | EBRD |
| Khujand Water Supply Improvement Project | TAJIKISTAN | EBRD |
| Tashkent Water Supply Improvement Project | UZBEKISTAN | EBRD |

4.5. IFI Project Status

| | | | |
|------------|--|------------------------|----------------------|
| ADB | Technical assistance in urban water supply and sanitation (Azerbaijan) | Approved 2001 | (740,000USD grant) |
| | Rural water supply and sanitation in Northern Kazakhstan (includes several small towns up to 50,000) | Disbursement | (\$35 million, 2000) |
| | Communal water supply and sanitation project (Kyrgyz Republic) | Disbursement | (\$36million, 2000) |
| | Western Uzbekistan water supply project (Uzbekistan) | Approval expected 2002 | (38M USD loan) |
| | Urban water supply (Uzbekistan) | Approved 2001 | (36M USD loan) |
| EBRD | Baku water rehabilitation (Azerbaijan) | Under implementation | (23.2M EUR loan) |
| | Almaty potable water and sewerage (Kazakhstan) | Signed 2000 | (7.5M EUR loan) |
| | Chisinau water services rehabilitation (Moldova) | Under implementation | (23.2M EUR loan) |
| | St. Petersburg water and environmental servicesimprovement programme (Russian Federation) | Under implementation | (17.9M EUR loan) |
| | Kaliningrad water and environmental services (RussianFederation) | Under implementation | (18.3M EUR loan) |
| | Yaroslavl municipal water services development programme (Russian Federation) | Board approved 2002 | (16.3M EUR loan) |
| | St. Petersburg southwest wastewater treatment plant (Russian Federation) | In development | (20M EUR loan) |
| | Zaporizhzhia water utility development and investment programme (Ukraine) | Under implementation | (28.5M EUR loan) |
| NEFCO | Completion of southwest water treatment plant in St.Petersburg (Russian Federation) | Approved 2001 | under negotiation |
| | Municipal wastewater treatment in St. Petersburg (Russian Federation) | Approved 2001 | |
| | Municipal wastewater treatment: Kaliningrad waterservices rehabilitation (Russian Federation) | Approved 2001 | |
| | Water treatment in Lovozero (Russian Federation) | Approved 2001 | |
| | Water treatment in Murmansk, Murmanvodokanalstroy | Approved 2001 | |
| | Municipal water, sewerage, energy, and waste project in Novgorod (Russian Federation) | Approved 2001 | under negotiation |
| World Bank | Armenia: Yerevan Water Supply and Sanitation | Under implementation | (IDA \$20 million) |
| | Azerbaijan Baku Water Supply (supplementary loan) | Negotiations | (\$10 million) |
| | Georgia Tbilissi Water and Sanitation | Final negotiations | (IDA \$20 million) |
| | Kazakhstan Atyrau water | Under implementation | (\$17 million) |
| | Kazakhstan Northeast Kazakhstan water (Temirtau, Karaganda and Kokshetau) | Negotiations | (\$80 million) |
| | Kyrgyz Republic Rural water project (about 10% on municipal water) | Under implementation | (IDA \$\$12 million) |
| | Moldova Pilot water and Sanitation | Final negotiations | (IDA \$10 million) |
| | Russian Federation water and sanitation project | Under implementation | (\$122.5 million) |
| | Tajikistan Dushande water project | Under implementation | (IDA \$17 million) |
| | Turkmenistan Dashhovuz water | Under completion | |
| | Ukraine Lviv water and wastewater project | Approved | \$24.25 million |
| | Uzbekistan Bukhara and Samarkand water supply | project Appraisal | \$20 million |
| | GEF | | |
| | wastewater | | |
| | related | | |
| | Rostov Nutrient and Methane Discharges Reduction Grant | Under preparation | \$10.8 |
| | Moldova Nutrient reduction Grant | Under preparation | \$5 million |

¹ IBRD and IDA lending: finance through the IFC and MIGA increased

² For more details on the World Bank's admission of failure of water privatisation policy and the multinationals retreat see "Public Solutions for private Problems" PSIRU 20033 <http://www.psiru.org/reports/2003-09-W-strats.doc>

³ For an overview of these problems see "Problems with water privatisation – an overview of experience". PSIRU 2003. <http://www.psiru.org/reports/2003-06-W-over.doc>

⁴ Urban Water Sector Reform In EECCA Countries: Progress Since The Almaty Ministerial Conference. Background Document For Fifth Ministerial Conference Environment For Europe Kiev, Ukraine 21-23 May 2003 www.unece.org/env/documents/2003/inf/inf.14.e.pdf

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