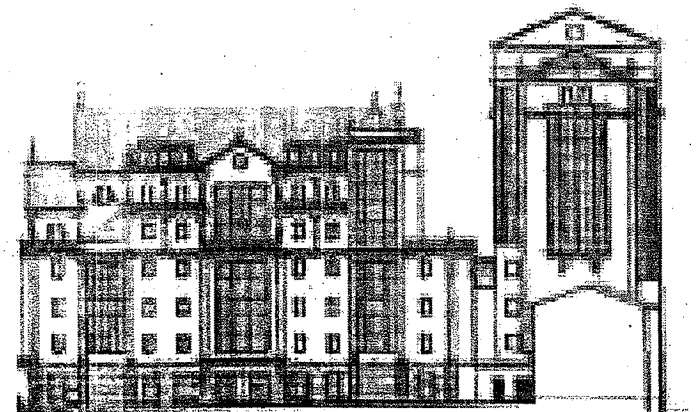
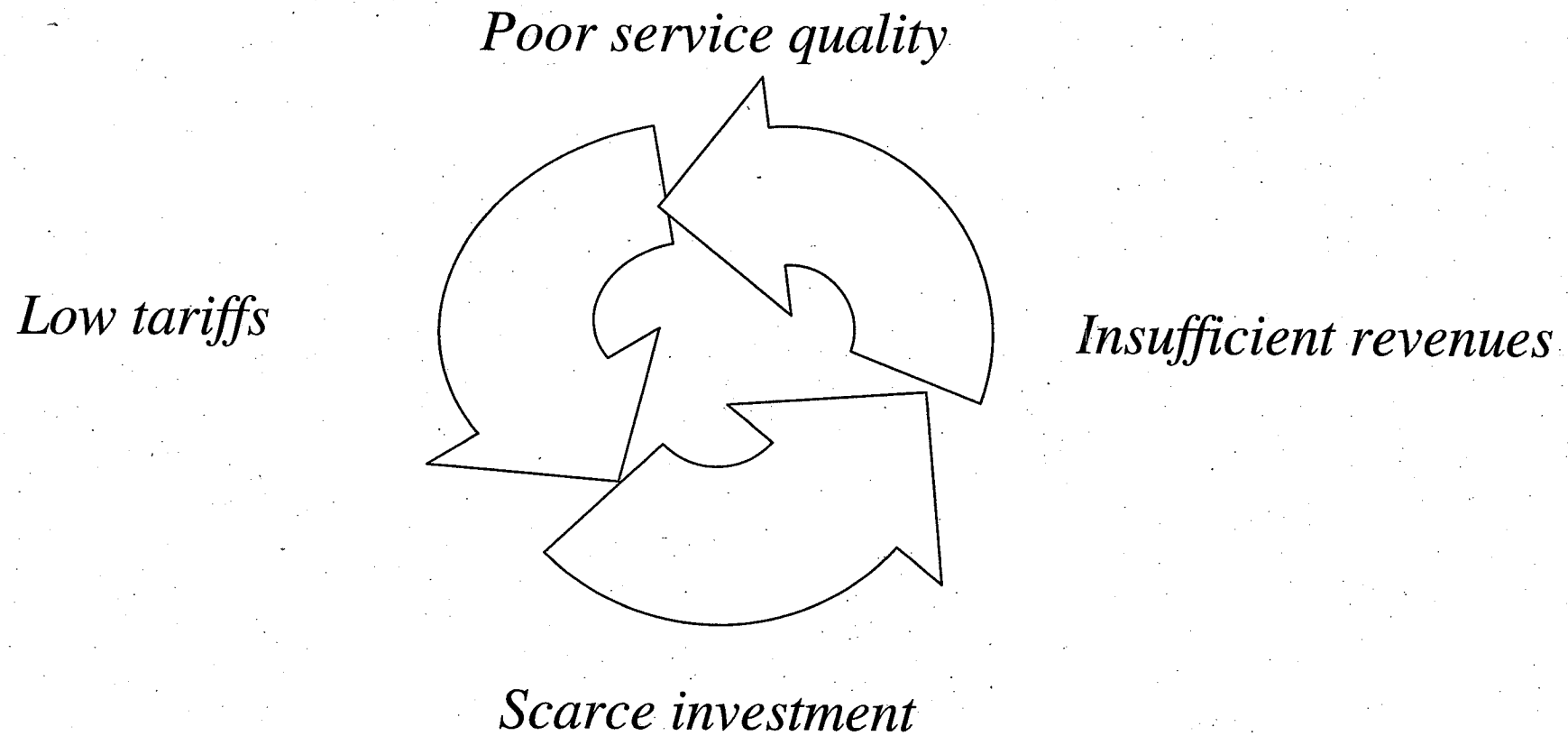

PUBLIC-PRIVATE RELATIONSHIP PROBLEMS IN THE RUSSIAN UTILITIES SECTOR

Presenter: Sergei S. Sivaev

Paris, 2004



UTILITY PROBLEM CYCLE



RESOURCES FOR TURNAROUND

- Institutional reform
- Improved management
- Investment

TRANSFORMATION MODELS FOR UNITARY ENTERPRISES

Model 1

Transformation of utility into a joint stock company (corporization) with possible partial sale of stock; the municipality retains a controlling stake

Model 2

Municipal ownership of fixed assets; private management and investment (concession)

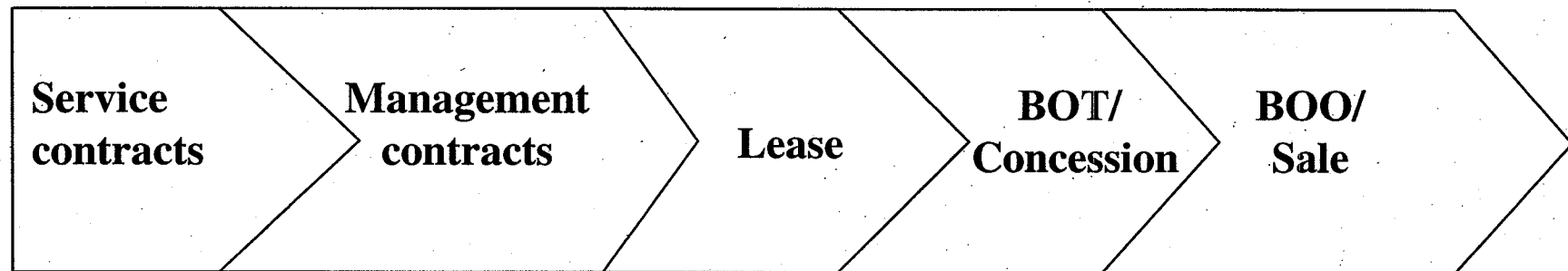
Model 3

Privatization via sale of all stock or a controlling stake in the corporized utility to a private operator

FORMS OF PUBLIC-PRIVATE PARTNERSHIPS AND RISK ALLOCATION

Form \ Risks	Management and operation	Service charges	Investments	Asset ownership
Service contract	authority	authority	authority	authority
Management contract	private operator	authority	authority	authority
Lease contract	private operator	private operator	authority	authority
Concession	private operator	private operator	private operator	authority
Privatization	private operator	private operator	private operator	authority / private operator

CHANGING ROLE OF PRIVATE SECTOR DEPENDING ON FORM OF PARTNERSHIP



*Increased private sector responsibility,
financial liabilities and risks*

KEY ISSUES AFFECTING INTERACTION BETWEEN PUBLIC AUTHORITIES AND PRIVATE BUSINESS IN THE UTILITY SECTOR

- No "common language";
- Lack of clear partnership objectives;
- Misunderstanding of private sector role:
investment vs. efficient management;

KEY ISSUES AFFECTING INTERACTION BETWEEN PUBLIC AUTHORITIES AND PRIVATE BUSINESS IN THE UTILITY SECTOR

- Legal problems:
 - regulated tariffs
 - concession laws
 - asset valuation and registration

KEY ISSUES AFFECTING INTERACTION BETWEEN PUBLIC AUTHORITIES AND PRIVATE BUSINESS IN THE UTILITY SECTOR

- **Financial risks:**
 - liabilities
 - regulated tariffs
 - budgetary payments
- **Lack of contractual practice**