

Opportunities and challenges from the emergence of new private operators in developing countries

Philippe Marin

Senior Water & Sanitation Specialist

Energy and Water Department, The World Bank

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The growing presence of “new” operators: examples of recent/current transactions

Some recently short-listed tenders:

- ◆ West Manila concession:
 - ~ Manila Water, plus 3 others Filipinos teaming with Hong Kong, Malaysian, Singapore
- ◆ Argentina - Catamarca concession (renewal):
 - ~ Spanish FCC
 - ~ LatinAguas (Salta, Rioja, Corrientes), Roggio (Córdoba), Sielecki (Formosa),



The growing presence of “new” operators: examples of recent/current transactions (2)

- ◆ In Sub-Saharan Africa:
 - ~ **Cameroon:** Veolia, SAUR & **ONEP** (Morocco)
 - ~ **Ghana:** won by consortia **Vitens (NL) + Rand Water** (South Africa)
- ◆ Algeria (management contracts, 3 cities)
 - ~ Veolia, Saur, Suez
 - ~ **Acea & Amga** (Italy), **Gelsenwasser** (Germany)
- ◆ Peru: Tumbes concession won by LatinAguas

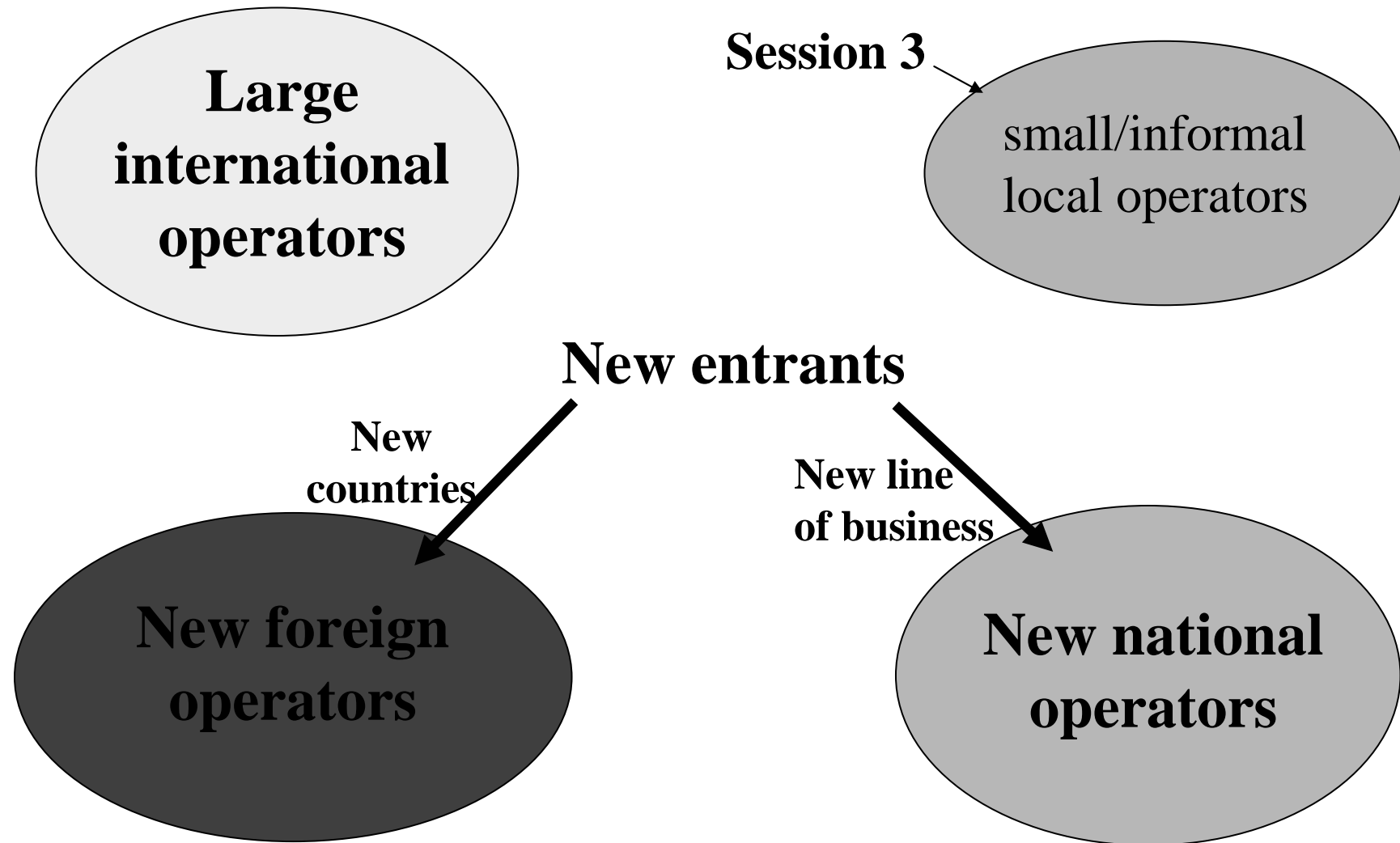


Water PPPs: the end of the Oligopoly

- ◆ During 1990-97, five operators **concentrated 53%** of projects awarded
 - ~ Suez, Veolia, Thames, Agbar, Saur
- ◆ 2002-2005: their share **dropped to 23%** of projects awarded
- ◆ New players come from two origins:
 - ~ Other water utilities from Western Europe
 - ~ **New entrants from developing countries**



Water PPPs: the new Supply Side of the business





New players from developed countries

- ◆ Already established water utilities from W. Europe, private or publicly owned:
 - ~ Germany (e.g. Gelsenwasser), Italy (e.g. Acea, Amga), Netherland (e.g Vitens), Portugal (Aguas de Portugal), Sweden (e.g. Stockholm)
- ◆ Typically little interest in private investment
- ◆ Issue: **which contracts/countries do they target?**

Management Contracts, leases/affermages, or new innovative approaches (twinning)?

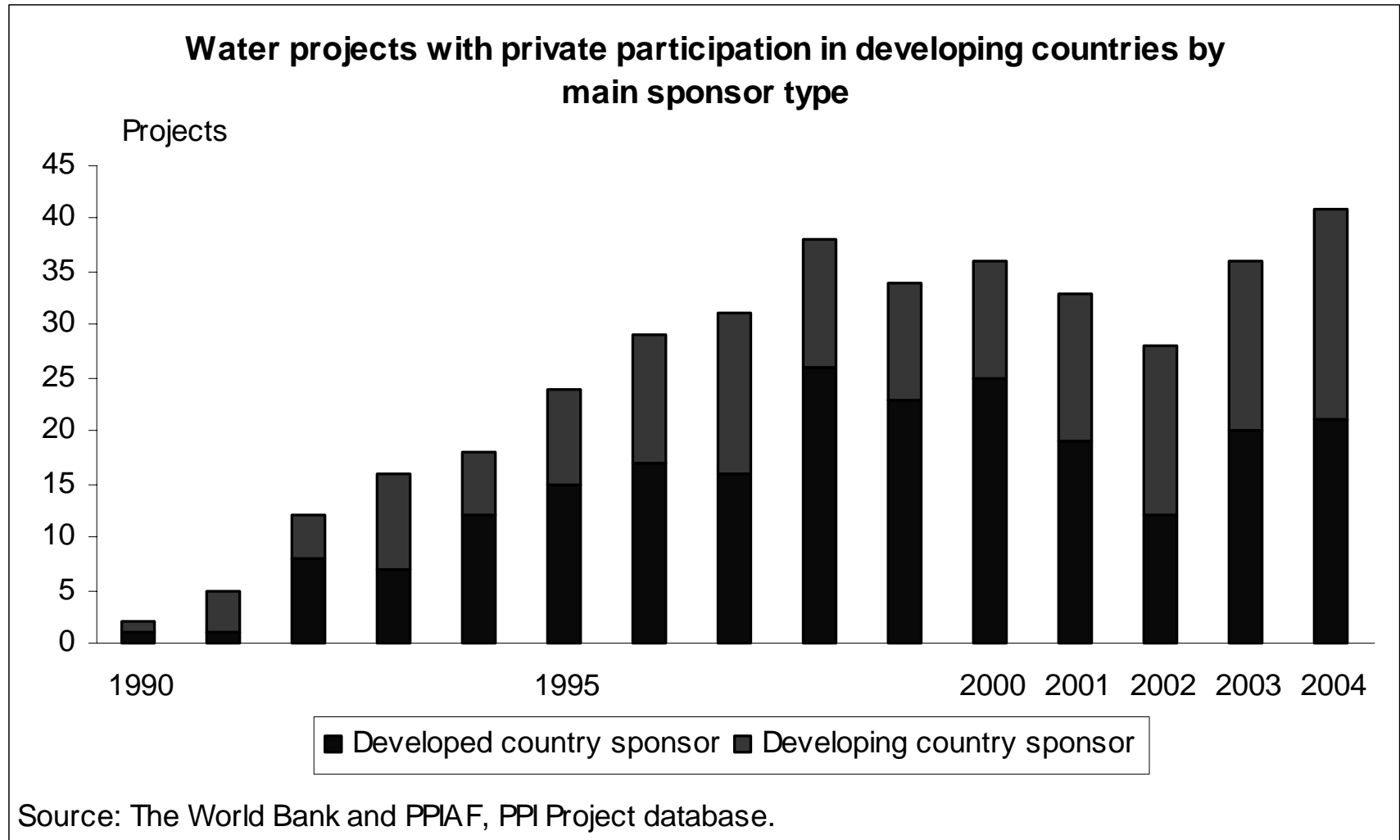


New operators from developing countries: coming from a wide diversity of backgrounds

- ◆ Diversification of industrial conglomerates: access to finance, credibility and political connections
- ◆ Vertical integration by companies involved in water sector through construction (can be large firms), manufacturing or consulting/engineering
- ◆ Takeover from foreign operators (Latin America)
- ◆ Well performing public utilities going regional: ONEP, Rand Water, Singapore, now São Paulo...

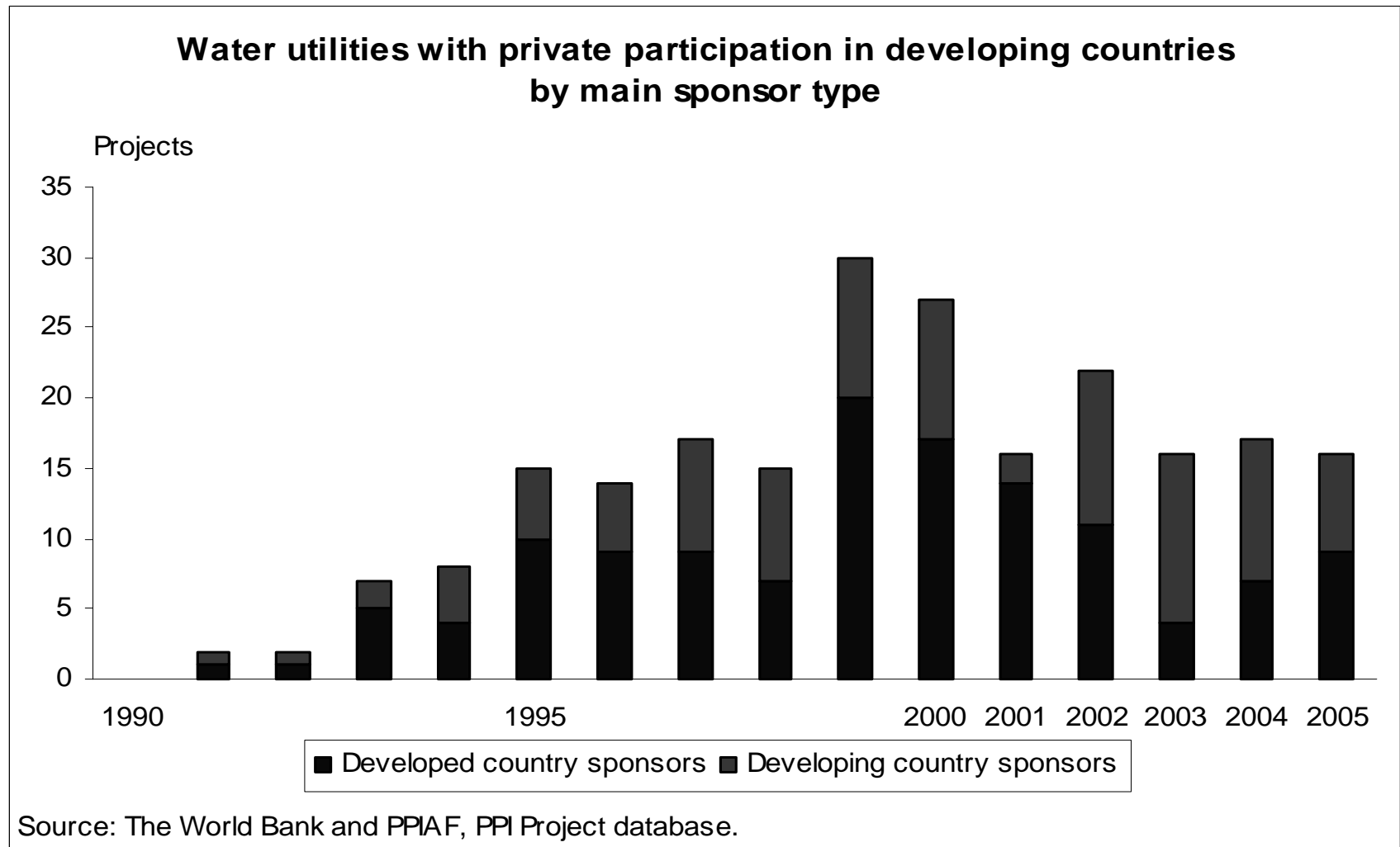


Number of water PPP project: the growing share of **developing countries** sponsors



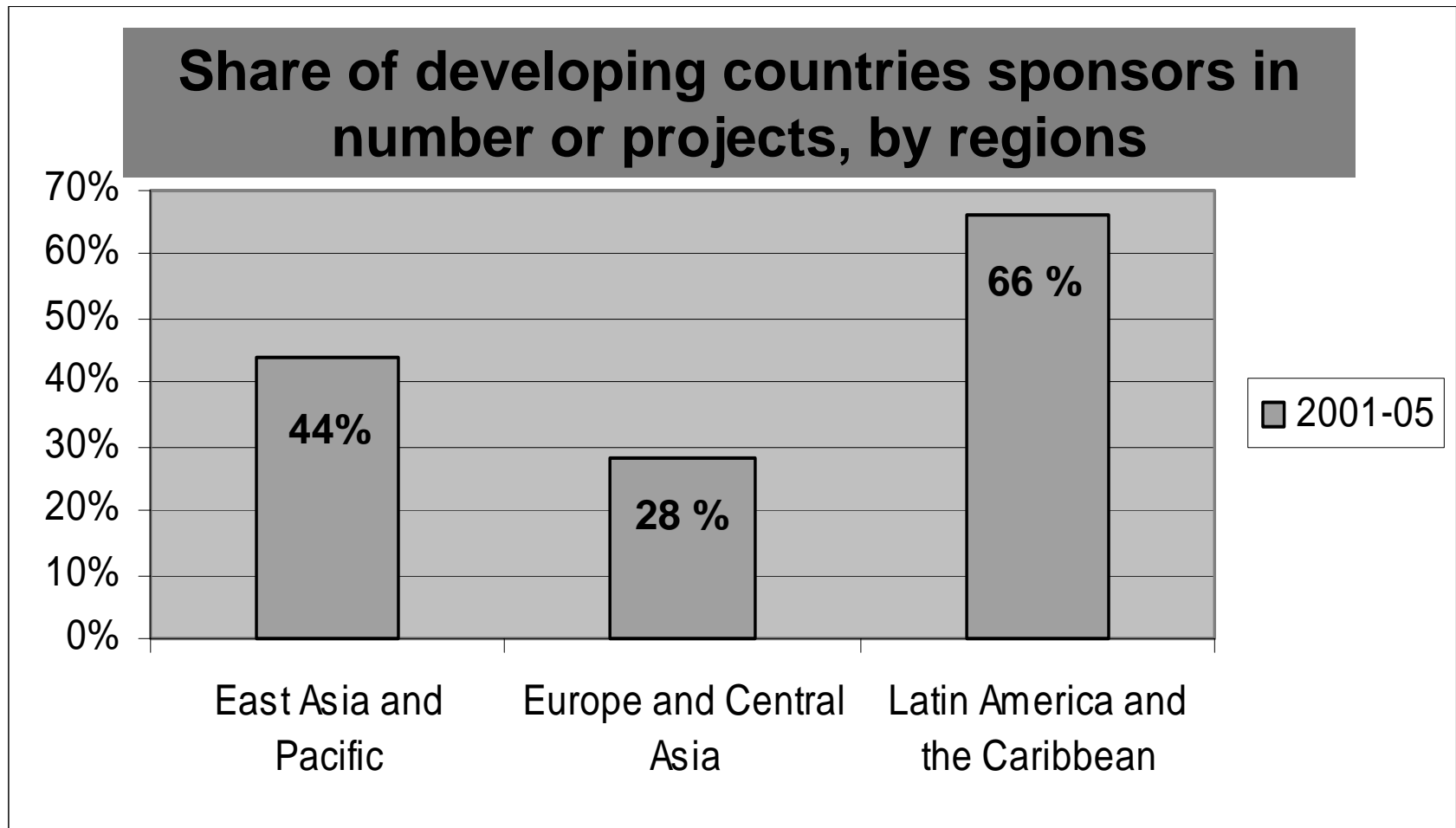


Water utilities: developing countries sponsors are the driving force since 2002





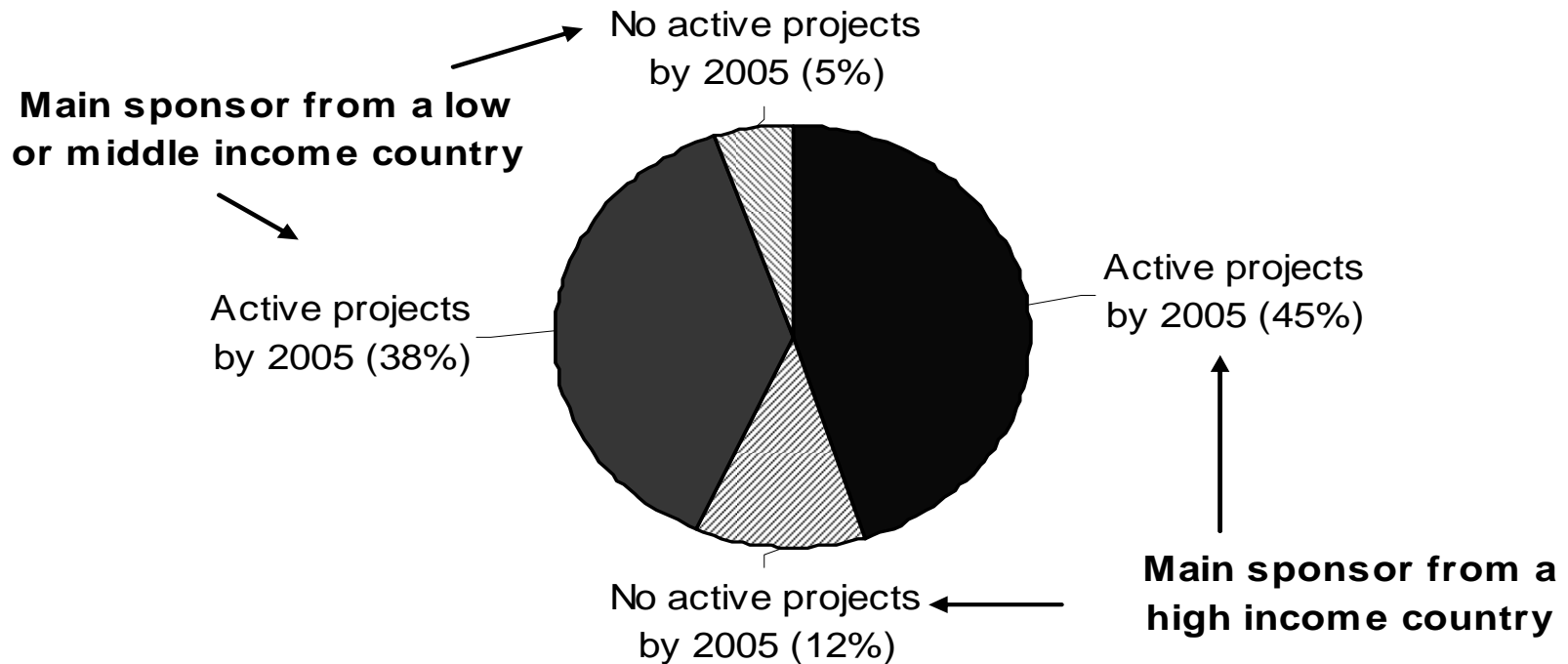
Present mainly in **3 regions**: Latin America, East Asia and Eastern Europe





Rate of non-active projects by sponsor's origin: developing vs. developed country

Share in water utilities with private participation in developing countries by sponsor type and project status, 1990-2005*

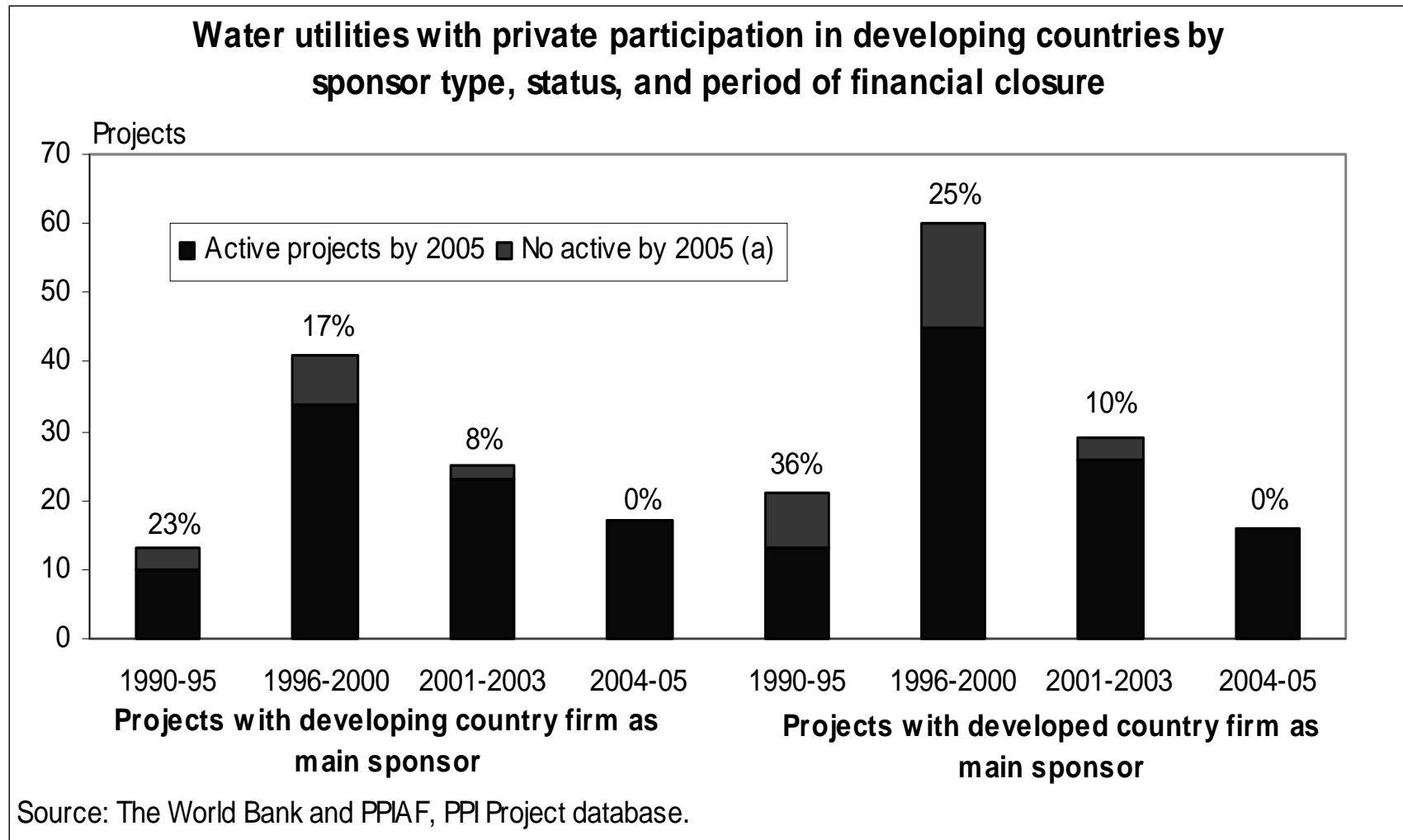


Source: The World Bank and PPIAF, PPI Project database.

Total = 222 projects



Comparing the rate of non-active projects: the gap increases with age of projects





What do these new national operators bring?

- ◆ Their experience of doing business in the country
 - ~ Knowledge of political environment (volatile)
 - ~ Adapting to customers needs & social conditions
- ◆ ... and potentially: money for investment !
 - ~ Cash and access to local financial market
 - ~ Interest in local currency exposure
 - ~ Long term view (portfolio approach)



What about previous sector expertise?...

- ◆ Some had experience in running other utility services (Russia)
- ◆ Many are coming already from the water sector:
 - ~ Civil works and engineering
- ◆ **But they typically started with no previous experience in operating water systems!**



What are the minimum requirements to become a water utility operator?

- ◆ The “dogma”: you need to be already an operator
- ◆ Why? “An essential service, public health...”
 - ~ Same excuse used by many countries to deny entry to foreign operators...!
- ◆ What happens in other sectors?
 - ~ E.g. food industry (highly regulated)

We already have a monopoly in the market, we do not need on top of that an oligopoly for the market...



How the new entrants acquired expertise?

- ◆ By doing... and often through partnerships with international operators
 - ~ Argentina (exit of foreign partner)
 - ~ Joint ventures: China, Philippines, Malaysia
- ◆ By buying existing companies (Chile)
- ◆ Hiring water experts:
 - ~ Colombia
 - ~ (...what international operators typically do...)



How do they actually perform?

- ◆ Rate of non-active project less than half the one for foreign operators (5% vs.12%)
- ◆ Philippines: Manila water
 - ~ Major success in coverage expansion for the poor (more than double number of connections)
- ◆ Argentina:
 - ~ Weathering the economic crisis
- ◆ Colombia, China, Malaysia...

Evidence so far is hardly unfavorable...



Opportunities from these new entrants: they are **many and obvious...**

- ◆ **Limited “supply side” has been a major bottleneck** so far for water PPPs in developing countries
- ◆ **More competition is great news:**
 - ~ More pressure on cost efficiency
 - ~ Working in difficult countries (Africa)
- ◆ **Large potential with new national/local operators:**
 - ~ Private financing in local currency
 - ~ Sustainability over long term



Challenges for Governments and IFIs: adjusting to a new “supply side” paradigm

- ◆ Project design: understand these new players
 - ~ Risks & responsibilities they are willing to take
 - ~ Contract types and targets countries
- ◆ How to support the growth of national operators?
 - ~ Pre-qualification criteria (Colombia)
 - ~ Foster partnerships with foreign operators

next

→ Session 4



We need to listen and learn from
these new players

- ◆ 5 short presentations by:
 - ~ Ranhill (Malaysia)
 - ~ Manila Water (Philippines)
 - ~ ONEP (Morocco)
 - ~ Eurasian Water Partnership EWP (Russia)
 - ~ Beijing Capital (China)
- ◆ What they currently do, what kind of deals they are looking for, how they learned the business



Thank you !