4.5 SESSION 5

4.5.1 Presentation of Survey and Interview Results, Part 1
(by Mr Fritz Schwaiger, Posch & Partners Consulting Engineers)

4.5.2 Presentation of Survey and Interview Results, Part 2
(by Mr Fritz Schwaiger, Posch & Partners Consulting Engineers)
Private Sector Participation (PSP) in Municipal Water Services in Central and Eastern Europe and Central Asia (ECA)

Part 1

Role of large PS Western European operators, donors and IFIs in municipal water services in ECA region

Role PS is ready to play if existing barriers were removed

Strategies of IFIs and Donors to maximise leverage of PS resources

Objectives of Study

Approach & Time Frame

Selection of Interview Candidates

• OECD & World Bank guidance

• Approached:
  • 16 Operators
  • 3 IFIs
  • 17 Bilateral donors
OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
DATA BASE

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OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
INTERNET RESEARCH

- **Country Profiles / Internet Research**
  - **World Bank**: fact sheets, country briefs, sector reports
  - **EBRD**: investment profiles
  - **BISNIS**: U.S. Department of Commerce
  - **OECD**: International Development Statistics
  - **ADB**: country profiles
  - **EU**: External relations

OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
EASTERN EUROPE AND CENTRAL ASIA

5 CEE
7 Balkan
1 Minor Asia
3 Baltic
4 EE & Russia
3 Caucasus
5 Central Asia
28 Total

THE PRIVATE SECTOR’S VIEW

- **11 Western European Operators** (responded)
  - France, Great Britain, Germany, Italy, Austria
  - With mixed long-, medium- & short term operational experience

"THE PRIVATE SECTOR’S VIEW"
### Categories:

- (I) No IFI help needed
- (II) IFI needed for regulatory reforms
- (III) IFI needed for financing
- (IIIa) IFI needed for finance & regulatory reforms
- (IV) Too risky, only management contracts
- (V) No interest

\[ n = 8 + 11 \]

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**Colour code:**

- < 25 %
- 25 - 50 %
- 50 - 60 %
- > 60 %

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### Risk assessment per country

(why was country put into relevant category)

**Risk classification:**

- (3) stands for: this is the main reason / risk
- (2) stands for: this is a main reason / risk
- (1) stands for: this is a reason / risk to some extent
- (0) stands for: no significant risk
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**Risk Mitigation**

- **National export guarantees** (export element small)
- **MIGA** (expensive, not much experience by PS)
Risk limitation by phased PS contracts

- PSP suggestion:
  - E.g. management contract => concession contr.
  - Not to be disqualified for following phase

Better is automatic mechanism e.g.:
- the “right of first refusal”
- Achievement of benchmarks triggers next phase

- When risks are in proportion to benefits
- In currently risky countries with good future PSP potential
- At least short term, if eligible for later PSP steps
- In risky country, if eligible for further PSP steps
- As market offers; only if direct inv. is too risky
- Only if direct inv. too risky; is no efficient use of our staff; min. duration 5 a; capex decision power needed; only if eligible for further PSP steps
- In secure, stable political & macro-economic environment
OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
ROLES IFI / DONORS SHOULD PLAY

First Priority (n = 9)
- Legislation / legal framework deficiencies (2 answers)
- Lack of understanding of process and funds
- PQ criteria are too high; water sector is a “closed circle”
- Availability of grant finance
- Risk of breach of contract
- Expensive tendering process for small jobs
- Constraints on tariff evolution (e.g. cost of finance must be included in a “cost + fee contract”)
- Lack of institutional capacity in central & municipal authorities & water companies

Second Priority (n = 7)
- Lack of finance
- Imbalance of risk and reward
- Inertia and protection of vested interests
- Susceptibility to macro economic risks
- Regulatory risks / lack of sound regulation (2 answers)
- Requirement to achieve Western standards immediately despite lack of affordability

Experience on twinning arrangement by PS
n = 3 (only)
- Of little value for WE company with technology and good institutional strength (1 winner only)
- Not thinking in this way
+ Can be useful vehicle for utility to gain experience with PS before entering contract with PS; could raise technical and institutional capacity; IFIs should support twinning arrangements in countries where long-term PSP is politically not yet possible
Past direct investments by operators  (n = 3 of 11)

Future direct investments: (n = 10)
- “Will you intensively pursue direct investment projects in future?” - 100% YES
- “Do you want to increase/maintain/decrease your direct investments in future?” - 80% increase - 20% maintain level
- Reasons for increase: (n = 7)
  - Just started operation / new business unit / expansion (3 answers)
  - Market chances
  - ECA presents potentially good opportunities
  - Development of pioneer projects
  - Increase profits

"THE IFIs / DONOR’S VIEW"
- 14 Organisations,
  3 IFIs + 11 Donors (responded)

Categories:
- (I) Focus country
- (II) Assistance country
- (III) No target country
- Ongoing activities (yes/no)

n = 4 ÷ 13  (13 – n = “no opinion”)

GEOGRAPHICAL COVERAGE BY IFI/DONORS (1)

GEOGRAPHICAL COVERAGE BY IFI/DONORS (2)
OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
MUNICIPAL & PSP PROJECTS IN ECA

P L O R V U LT UA AL B G C Z EE HU TR S K YU M K S I AZ M D B A HR UZ GE KG KZ AM B Y TJ TM

4/24/2002 33

OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
ATTITUDE TOWARDS PSP (1)

Comments on “Privatisation” (n=7) (6 donors+1 IFI)
- there is “concern” about private ownership (donor)
- can not give grants to private operators, but privatisation as a goal might be supported (donor)
- finances public expenditure or equivalent only (donor)
- most countries in FSU are not ready (donor)
- generally not appropriate in infrastructure sector (donor)
- If this is full transfer of ownership to PS without possibility of easy reversing, then not recommend. If reversible, then financial and political merits to be judged (donor)
- this worked in UK, until overtaken by regulatory risk & political decisions (IFI)

Comments on “Concession Contract”
(n=1 Donor)
- is one of the best options, but requires appropriate legal & institutional framework and economic conditions - which is often lacking in the region

4/24/2002 35
Comments on “BOT Contract” (n=1 Donor)
- BOT is not the main focus in this region. Priority for CEE municipal utilities is usually more in rehabilitation of existing infrastructure and the introduction of improved management practices, than capacity increase.

Comments on “Lease Contract” (n=1 Donor)
- Is an appealing option, especially when the legal framework for investment still requires improvement (property and fiscal issues).

Comments on “Management Contract” (n=2 Donors)
- There is concern about cost efficiency
- No bad option in the current context of CEE - but it draws the question, how to upgrade it to a stronger commitment (investment financing).

Comments on “Performance Based Management Contract” (n=2 Donors)
- There is concern about cost efficiency
- Deserves attention and efforts to develop suitable contractual models (incl. public support issues).
Comments on “Service Contract” (n=2 Donors)
- There is concern about cost efficiency
- Minimal form of commitment from both sides

Comments on All Contracts (n=3 IFIs)
- All types appropriate in certain circumstances, no categorical judgement possible. All require considerable “support”
- All types are in principle OK, but to decide case by case
- PS can play important role in increasing service efficiency and introducing capital, but introduction of PS has to be approached in line with situation in the country. Development of political will to bring in the PS needs time to mature. Thus PSP transactions should allow time. All contract options should be considered. A proper regulatory framework must be built for sustained PSP. In many countries, the cost of capital for the PS is too expensive. Then risk sharing between the public and PS should be considered.

DANCEE project with OECD-EAP-task force
- PSP delicate in first years (high investments, low revenues)
- PSP often costly trials, so approach through MC/PMC recommended
- Good “building blocks” exist, “true commitment” by stakeholders cannot compensate “innovative methods”
- More support to cities needed with PSP intention
- Large range of models exists, far too little ex-post evaluation done

Known Twinning Arrangements

- LV
- EE
- LT
- TR
- SK
- YU
- Total = 26
- Old fashioned approach; is out as not sustainable
- Bad experience, no mutual benefit, lack of interest; abuse for “business trips”
  - Risk that local agency gets taken away by fancy technology. Sound management structure to be in place beforehand
- Can work well, if recipient utility management & staff is competent & motivated – is mostly not
  - Mixed success; mentoring needed; can achieve considerable know-how transfer, but not overcome inherent institutional weaknesses, except with a strong commitment

Past direct investments by IFIs/donors (n = 4 of 14)

Future direct investments: (n = 7 of 14)
  - “Will you intensively pursue donation projects in future?” 3 YES; (1 will decrease, 2 maintain level in future)
  - “Will you intensively pursue lending projects in future?” 4 YES (1 will increase and 3 maintain level in future)

Barriers & obstacles IFIs/donors face:
- institutional weakness
- no geographic focus

Attitude to PS models is + with reservations

Future lending & donations: ~ remain level

If IFIs/donors are not there how to expect the PS to be there

Risks to be carried by those who can influence them

Complex role of IFIs/donors: “enabling PSP” (legal, regulation, guarantees, process understanding …)

Future investment volumes by PS ↑
Private Sector Participation (PSP) in Municipal Water Services in Central and Eastern Europe and Central Asia (ECA)

Part 2

OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA

THE MARKET POTENTIAL IN ECA

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OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
THE EUROPEAN UNION ACCESSION COUNTRIES

The 10 EU-Accession countries

- Poland
- Estonia
- Latvia
- Lithuania
- Czech Republic
- Slovakia
- Hungary
- Slovenia
- Romania
- Bulgaria

OECD/OCDE THE WORLD BANK
PRIVATE SECTOR PARTICIPATION IN ECA
THE MARKET POTENTIAL IN EU-ACC. C.
Market Entry Cost Very High

- e.g. Baltic countries considered “too small”
- Go for the capital city
- Project development cost > $300 000 (inelastic)
- Cities < 100 000 people “no chance” (also ISPA)
- Packaging (too many voices and signatures)

**ISPA—Instrument for Structural Policy for Pre-Accession**

- Based on EC regulation; 2000-2006; €7 billion
- To reduce cost of compliance with EU regulations
- €500 mil/a each for environment & transport; fixed
- Water, wastewater, solid waste, air pollution
- Grant, max. 75% (85%) of accepted project cost; practically 60%
- Co-financing by IFIs and national budget
- Rules under preparation for ISPA financing with PS involvement

**EC-ISPA ALLOCATIONS 2000/01**

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<td>8% Hungary</td>
</tr>
<tr>
<td>8</td>
<td>47</td>
<td>48</td>
<td>5% Latvia</td>
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<tr>
<td>9</td>
<td>52</td>
<td>50</td>
<td>5% Lithuania</td>
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<tr>
<td>21</td>
<td>307</td>
<td>407</td>
<td>34% Poland</td>
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<tr>
<td>14</td>
<td>239</td>
<td>246</td>
<td>23% Romania</td>
</tr>
<tr>
<td>7</td>
<td>42</td>
<td>48</td>
<td>4% Slovakia</td>
</tr>
<tr>
<td>6</td>
<td>20</td>
<td>16</td>
<td>2% Slovenia</td>
</tr>
<tr>
<td>100</td>
<td>997</td>
<td>1,109</td>
<td>100% Total</td>
</tr>
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</table>

**Advantages:**
- High leverage effect
- Affordable tariff (water bill) levels

**Conditions:**
- Grant element to be known before bidding process
- Consumers(!) have to benefit
- Bidding process to be:
  - Transparent
  - Competitive
  - Equal
Most advanced PS involvement in ECA-region

- 1992 Act of Municipalities (authority transfer)
- Strong central government PSP policy
- 795 utilities, but 114 supply 96% of population
- >15 operations with PSP (grouping of utilities)
- No clear tariff evolvement perspective (cost+fee)
- Rather high acquisition of assets, majority share in operating company

Possible PSP organisation model

1. IFI
2. Public Company ~80% publ. ~20% priv.
3. Capital investments
4. Concession contract
5. Commercial (local) banks
6. Operator Company >50% private
7. O&M, small investments
8. Revenues
9. Shareholder loans
10. Revenues

Flag ship projects

- Transparently negotiated contract (exceptional)
  + Permit “flag ship models” (Elbasan, AL)
  + Which have high multiplier effect
  + Reduce bidding cost
  + Raise PS reputation
  + PS “will go further”
  + Capacity building on recipient side (contract preparation and negotiation)
    - Equal, open, transparent competition

Moderate pace in PS involvement

- 1990 transfer of responsibility to municipalities
- Significant interest in PSP in early 1990-ies
- Reserved support and PS policy by central. g.
- First PS project brought clearly visible service improvements
- Were perceptions right? “we still have to invest”
- Flag ship effect
- “Copy” by local management with IFI finance
Slow

- 1995 / 1997 / 1998 (cc) concession law (revisions)
- only 1 concession contract (Sofia), although 9 cities > 100,000 inhabitants
- multi government level responsibility: 51% central government, 49% local government shares of utilities

- with whom to talk?

---

Market Potential in CEE Excluding EU-Accession Countries

<table>
<thead>
<tr>
<th>Region</th>
<th>Population (Mil)</th>
<th>GNI (Bil $)</th>
<th>($ per capita)</th>
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</thead>
<tbody>
<tr>
<td>CEE-excl. EU-Accession Countries</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Albania</td>
<td>3.5</td>
<td>1.4 41%</td>
<td>3.6 1% 1.120</td>
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<tr>
<td>Belarus</td>
<td>10.4</td>
<td>7.3 71%</td>
<td>28.7 5% 2.870</td>
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<tr>
<td>Bosnia and Herzegovina</td>
<td>3.9</td>
<td>1.7 43%</td>
<td>4.9 1% 1.260</td>
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<tr>
<td>Croatia</td>
<td>4.5</td>
<td>2.5 58%</td>
<td>21.2 3% 4.840</td>
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<tr>
<td>FYR of Macedonia</td>
<td>1.0</td>
<td>1.3 62%</td>
<td>3.3 1% 1.630</td>
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<tr>
<td>Moldova</td>
<td>4.4</td>
<td>2.0 46%</td>
<td>1.4 0% 400</td>
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<td>Russian Federation</td>
<td>145.5</td>
<td>113.5 78%</td>
<td>241.6 39% 1.860</td>
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<td>Turkey</td>
<td>66.5</td>
<td>49.9 75%</td>
<td>201.1 33% 3.080</td>
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<td>Ukraine</td>
<td>48.8</td>
<td>33.2 68%</td>
<td>39.3 6% 790</td>
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<td>Yugoslavia</td>
<td>10.7</td>
<td>5.5 52%</td>
<td>10.5 2% 990</td>
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<tr>
<td>All CEE excl. EU-Accession</td>
<td>300</td>
<td>218 73%</td>
<td>556 1.853</td>
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| Netherlands                     | 16               | 14          | 400 25.140     |
| European Union                  | 376              | 300         | 8.528 22.654   |

---

Market Potential in Central Asia & Caucasus

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<th>Region</th>
<th>Population (Mil)</th>
<th>GNI (Bil $)</th>
<th>($ per capita)</th>
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</thead>
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<tr>
<td>Armenia</td>
<td>3.3</td>
<td>2.3 70%</td>
<td>2 0% 520</td>
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<td>Azerbaijan</td>
<td>7.8</td>
<td>4.4 57%</td>
<td>5.1 1% 630</td>
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<tr>
<td>Georgia</td>
<td>5.0</td>
<td>3.0 61%</td>
<td>3.3 1% 610</td>
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<tr>
<td>Kazakhstan</td>
<td>16.7</td>
<td>9.4 56%</td>
<td>18.8 3% 1.260</td>
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<tr>
<td>Kyrgyz Republic</td>
<td>4.8</td>
<td>1.6 33%</td>
<td>1.3 0% 270</td>
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<td>Tajikistan</td>
<td>6.6</td>
<td>1.8 28%</td>
<td>1.1 0% 170</td>
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<td>Turkmenistan</td>
<td>4.6</td>
<td>2.1 45%</td>
<td>4 1% 840</td>
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<td>Uzbekistan</td>
<td>25.2</td>
<td>9.3 37%</td>
<td>25.2 4% 620</td>
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<td>Central Asia &amp; Caucasus</td>
<td>74</td>
<td>34 46%</td>
<td>61 824</td>
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<tr>
<td>Netherlands</td>
<td>16</td>
<td>14</td>
<td>400 25.140</td>
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<tr>
<td>European Union</td>
<td>376</td>
<td>300</td>
<td>8.528 22.654</td>
</tr>
</tbody>
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Serious legal problem regarding PSP

- respective law exists, but no implementing decree
- currently PSP impossible except management contract and BOT (see St. Petersburg WWTP)
- Water / Wastewater Laboratory joint venture with Movodokanal (Moskow)
- despite of country size only ~20 projects named, ~7 PSP projects
KAZAKHSTAN

- 1993 responsibility for water services decentralised
- 1998 law on monopolies provides general regulatory framework for infrastructure sector, but leaves full cost-recovery tariffs to specific sectoral legislation
- transparency of application of laws is weak
- ~ 5 projects named, 2 PSP projects negotiated / under preparation

UKRAINE

- Significant opposition to PSP (also management and lease contracts)
- Insufficient reforms by central government
- None-payment of water bills by large state companies
- Omnipresent bureaucracy, overregulation
- Stifling tax and customs structures
- But consumers ready to pay more for better service
- New (reform) government

Drivers for municipalities / utilities

- Crumbling infrastructure
- Poor supply/disposal
- Signal from central government, “no finance”
  - Major’s thinking is in election terms
  - Infrastructure terms are 25 – 50 a
  - PSP only called when “no way out” assets are completely run down (too late)
- Private Sector proposals
- IFI / Donors catalytic role, “enabling work”
Prepare Standard Contracts (Modules)
- *e.g.* like FIDIC (Federation Internationale des Ingenieurs-Conseils)
- Application of European law
  - Reduces bidding & transaction costs
  - Permits preparation of recipient agency for PSP
  - More equal chances for bidders
  - Improved contract quality

* a good contract has to outlive crises (a long term must)

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Reduce bidding cost –
- To be able to go below "400,000 people" tenders
- To enable PSP in smaller cities (without extensive packaging)
- To enable more operators market access
- Compensation of (best) bidders
- Standard procedures (bidding & contracts)
- Phased project implementation
  (management contract ⇒ concession contract)

Reduce transaction cost
- Procedures to merge PS money with grants / concessional finance (affordable water bills)
4.5.3 Discussion 5

1) There are 3 groups of country based on the questionnaire presentation:
   i. countries where things work out; (corresponds to approximately the ISPA countries);
   ii. countries where things are changing from worse to less worse conditions; (corresponds to approximately CEEC);
   iii. countries where no PS is present (corresponds to approximately the STAN-countries).

2) Why does this happen? What are the reasons for country groupings? IFIs /donors need feedback on individual countries in particular where operators see an important role for IFI/donors. This question will be raised during next the conference (Kiev 2003) to see whether there is a political will to do more funding in the ECA region. Apparently some donors will focus more, in the future, on Africa.

3) A donor confirms the opinion that there is a clear focus on African countries. The STAN countries do not feature on its list of poor countries.

4) EC is putting together an initiative in the water sector and focuses within this initiative, not only on water issues, but also on health-related issues that also include the ECA region.

5) But the STAN and NIS countries will not be on the international agenda from the EC’s perspective.

6) Cost related transactions need political will; there is significantly more response in Africa than in ECA region, suggesting Africa has undergone an ideological change towards PSP, which is not evident in the STAN countries.

7) There are countries which do not appear on the operators’ focus lists because there is competition for operators’ resources and they do deals elsewhere. Operators do not just look at, for example, STAN countries; they are too far down on their lists. If they start appearing on their lists, because there are more deals available and corruption is reduced, they will move in there.

8) The ECA region is composed of former communist countries where privatisation and PSP are only recently becoming accepted. The ECA region did not realize that their standards were so low, in contrast to what they have been being told for decades. And many people still do not accept a comparison with African conditions.

9) It is still unclear how a proper phasing of PSP should look. In a first phase, management and lease contracts are applied, followed by concession contracts – is the idea. But there is no real experience in such phasing so far.

10) Again the issue of some sort of standard contract, or at least standard clauses in the contract, is raised. This should increase the speed of transaction and lead to reduced costs. Further, such a standard would contribute to a greater transparency in the transaction process and a more diversified competition on the bidder’s side.

11) Municipalities and the consumers have to understand the transaction, and that it needs a lot of time. It is also necessary to nurture political support and thus gain sustainability. A successful transaction has a positive demonstration effect in the country.

12) IFI/donors have not yet supported secondary cities in terms of PSP, and this should change.
13) There is a general need for better and more intensive co-operation between all parties. IFIs should give more advice and enter more in the role of mediator during transaction. Pure observation status is not enough for many operators.

14) All operators suffer when a PSP operation fails. This creates an environment in which the municipalities might revert back to a public approach. The result of a transaction / PSP has to be essentially a win-win situation.

15) Some operators believe that the EC can kill deals due to its dogmatic approach on specific issues in PSP, and this creates the feeling that the EC might consider PSP as a step backwards.

16) Operators cannot take too many risks in several deals at the same time. They think that from the initial 28 ECA countries some 4 - 5 will offer interesting deals, as was shown recently in South America; when starting with 13 countries, only 3 were left.

17) There is a clear shortage in funding of transaction preparation, although there are Project Preparation Facilities and PIAFF. Transaction cost is an issue and affects the quality of bid.

18) IFIs approach PSP differently. EBRD and EIB go directly to the municipalities, where the deal is actually done, while World Bank lending needs a guarantee from the sovereign governments. However, day to day work takes place at municipality level and sometimes they do not feel responsible as owners of the assets. Mostly, it is the engineers who run the utilities and often they do not want advice on technical matters. It is evident that they need more management experience.

19) The World Bank recently started to work on a facility to be able to lend funds directly to municipalities.

20) Public financing comes at a cost. In Africa the municipalities do not want this debt on their balance sheet, because this is an opportunity cost. It reduces the amount of other debts they have on their balance sheet; the larger debt reduces their credit strengths to do other projects that may not have IFI/donor support. It seems that what African countries want is limited recourse financing to project companies.
4.6 BREAK-UP INTO WORKING GROUPS

4.6.1 Working Group 1: Ways to Improve Project Design and the Bid Process

Session Leader: Mr Klaus Giehr, KfW;
Rapporteur: Mr Palle Lindgard-Jorgensen, DEPA Denmark

4.6.2 Working Group 2: Methods and Tools to Lever Additional Private Finance

Session Leader: Mr Jose Frade, EIB;
Rapporteur: Mr Jan Janssens, The World Bank

4.6.3 Working Group 3: Tools to Mitigate Risks

Session Leaders: Mr Benoit Loutrel, IFC and Chris Shugart, EBRD
Rapporteur: Mr Dharman Suryanarayanan, Ministry of Economy, Finance and Industry, France

4.6.4 Working Group 4: What are Key Regulatory Reforms and Improvements Needed to Attract Increased Financial Flows into the Water Sector

Session Leaders: Mr Patrick Mousnier-Lompre, Ministry of Infrastructure, Transport and Housing, France
Rapporteur: Mr Peter Borkey, OECD

4.7 PROPOSALS FOR FOLLOW-UP

(by Mr Motoo Konishi; The World Bank)
ISSUES

• Municipal commitment/capacity
• Realistic/achievable targets in contracts
• Institutional/Stakeholder capacity
• Realistic time scale for project preparation and bidding

ISSUES – Cont..d

• Quality and availability of all background information
• Total Transaction Cost
• Role of poor/pro-poor

RECOMMENDATIONS

• Increase bid preparation and bidding time
• Contract requirements to reflect more appropriately the needs (staff qualifications, performance targets)
• Protect against underbidding (more emphasis on quality)

RECOMMENDATIONS – Cont..

• Standardized/harmonized formats of bidding documents
• Qualified transaction advisers (adequate funding)
• Improve communication during the bidding process
1. Points of Agreements and Issues Discussed

- What are main drivers for PSP: (i) management efficiency, and (ii) attracting private finance.
- What is in fact “private finance” and what is driving the private finance needs? – *contributing to poverty alleviation and reaching MDGs*
- The longer the PS will be involved, the more he will be willing to invest.
- The lack of private finance is not a main constraint for WSS sector development but the lack of efficiency which creates an affordability gap; ‘good’ projects are lacking.

2. Points of Disagreement

- None
Break-Out Session 2
Methods and Tools to Lever Additional Private Finance

3. Conclusions and Recommendations

- Often the municipalities have not the appropriate institutional framework for allowing private sector finance.
- Interesting experience (e.g. Morocco, Poland): borrow from local commercial banks in local currency at medium term (e.g. 7 to 12 years) and involve IFI (e.g. IFC) to extend the maturity of the loan;
- New tools to facilitate private finance: Output-based Aid (OBA) and Partial Risk Guarantee (PRG) (to guarantee debt service for specific periods)
- Possible tool to be explored: Partial Credit Guarantee to cover risk of failure in refinancing balloon payment a loan maturity
Gr 3 : Tools to mitigate risk

• Financial risks (esp forex):
  – Doable solutions exist for local financing or refinancing (mix local w/ IFI instruments, contingent loan) : but not used because of cost and lack of reward for using them
  – Additional cost (though affordable), but also additional benefit for end users
  – Rcd 1: award process and contract structures should include incentives/reward to mitigate financial risks
  – Rcd 2: hence more prior consultation w/ financiers & risk mitigators

• Political risks :
  – Issue for equity investor
  – Breach of contract : lack of claim history, hence some nervousness in ability to recover claims

• By the way, one-window stop would be useful
• Points of agreement  (group 4)
  – Need for a central agency to provide information function
  – Benchmarking of utilities
  – Advisory function
  – Quality of water and effluent
  – Minimum level of central regulation

• Points of disagreement
  – Role of a central regulator on tariff setting
  – Potential for economies of scale for regulation at central level

Recommendations and conclusions

• Govtl level where tariff setting essentially political decision
• Establishment of a central regulator or agency takes time – before able to assume full role
• Phased approach, starting with monitoring of public operators prior to PSP
• Need for central regulator less important in initial phase with MCs
Proposal for Follow-Up

Recording of the Results:
• Prepare a report on the outcome of the meeting consisting of three parts: (a) lessons learned from the case studies presented; (b) recommendations on four topics; (c) “market” study carried out by Posch and Partners.

Proposal for Follow-Up

Dissemination and Consultation I
• Invite clients and NGOs and have a real debate on the use of PSP (need to select a focus countries)
• Prepare a brief country report for selected set of countries and organize a forum to have consultation with clients (national and local governments) – Posch to prepare country reports and OECD to organize

Proposal for Follow-Up

Dissemination and Consultation II
• OECD Dissemination – to EAP Task Force (Environmental Action Program for Central and Eastern Europe – coordinated by OECD)
  September Workshop on models of utility reform

  • OECD Dissemination – integration of key results into the reports for the Environment for Europe Conference in Kiev, May 2003

Proposal for Follow-Up

Ways to Improve PSP – Technical Issues 1
Ways to improve project design and bid process
• No problem with implementing the recommendation
• Will benchmark our on-going operation
• Explore Output Based Aid in selected countries
Proposal for Follow-Up

Ways to Improve PSP – Technical Issues 2
Methods and Tools to Lever Additional Private Finance
• Misconception also exists in the Bank and need to be tackled (Jan Janssens)
• Two projects - Output Based Aid
• Partial Risk Guarantee seminar

Proposal for Follow-Up

Ways to Improve PSP – Technical Issues 3
Tools to Mitigate Risks
• Experiment with Partial Risk Guarantee covering financial and political risk
• One-window stop –

Proposal for Follow-Up

Ways to Improve PSP – Technical Issues 4
Regulatory Reforms Needed to Attract Further Financial Flows
• Agree in principle with the recommendations but we will need to adjust our approach depending on the maturity of the client’s legal framework
• Must be cultural and process sensitive – must evolve

Proposal for Follow-Up

Way to Improve PSP–Market Development
• Bank Program (2002-2005) – 1.2 billion; 22 projects; half of them PSP
Proposal for Follow-Up

A Reunion a year from now? Can a bilateral or another IFI sponsor?
Focus on some topics:
• Approach to small and medium size cities
• Municipality involved/invite the client
• Task manager input
Prepare for Johannesburg (with Private Operator)

Proposal for Follow-Up

Private Operator should be more aggressive in asking the IFIs and donors to help them open markets, improving legal and regulatory framework and provide financing
# 5 List of Participants

## 5.1 Operators

<table>
<thead>
<tr>
<th>Operator</th>
<th>Contact Person</th>
<th>Roles/Functions</th>
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<tr>
<td>ACEA Group - Laboratori</td>
<td>Roberto Zocchi</td>
<td>Chief Executive Officer</td>
<td>Via Vitorchiano, 165 - 00189 Roma, Italy</td>
<td>Tel: +39 06 57 99 26 64 / 26 68, Fax: +39 06 57 99 26 29, E-mail: <a href="mailto:r.zocchi@laboratorispa.it">r.zocchi@laboratorispa.it</a>, Web-page: <a href="http://www.laboratorispa.it">www.laboratorispa.it</a></td>
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<tr>
<td>AGUAS de BARCELONA</td>
<td>Manuel Navarro</td>
<td>Director General, Director General</td>
<td>Diputació, 353, 2o, 08009 Barcelona, Spain</td>
<td>Tel: +34 93 247 9708, Fax: +34 93 245 0418, E-mail: <a href="mailto:Mnavarro@Agbar.es">Mnavarro@Agbar.es</a></td>
</tr>
<tr>
<td></td>
<td>Richard Onses</td>
<td>Project Manager</td>
<td>Diputació, 353, 2o, 08009 Barcelona, Spain</td>
<td>Tel: +34 93 247 9864, Fax: +34 93 245 0642, E-mail: <a href="mailto:Ronses@Agbar.net">Ronses@Agbar.net</a></td>
</tr>
<tr>
<td>AQUAMUNDO</td>
<td>Joachim Richter</td>
<td>Managing Director</td>
<td>Richard-Wagner-Str. 75, D-68165 Mannheim, Germany</td>
<td>Tel.: +49 (0) 621- 40069-330, Fax: +49 (0) 621- 40069-333, E-mail: <a href="mailto:joachim.richter@de.aquamundo.com">joachim.richter@de.aquamundo.com</a></td>
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<td></td>
<td>Véronique bey Czachary</td>
<td>Business Development</td>
<td>Richard-Wagner-Str. 75, D-68165 Mannheim, Germany</td>
<td>Tel.: +49 (0) 621- 40069-345, Fax: +49 (0) 621- 40069-333, E-mail: <a href="mailto:veronique.czachary@de.aquamundo.com">veronique.czachary@de.aquamundo.com</a></td>
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<td>BERLINWASSER Group</td>
<td>Thomas Horvatin</td>
<td>Managing Director</td>
<td>Neue Jüdenstrasse 2, D 10179 Berlin</td>
<td>Tel: +49 30 81468-590/91, Fax: +49 30 81468-596, E-mail: <a href="mailto:thomas.horvatin@berlinwasser.net">thomas.horvatin@berlinwasser.net</a></td>
</tr>
<tr>
<td></td>
<td>Volkmar Mueller</td>
<td>Executive Director Finance</td>
<td>Neue Jüdenstrasse 2, D 10179 Berlin</td>
<td>Tel: +49 30 81468-563, Fax: +49 30 81468-519, E-mail: <a href="mailto:volkmar.mueller@berlinwasser.net">volkmar.mueller@berlinwasser.net</a></td>
</tr>
<tr>
<td>ENEL HYDRO</td>
<td>Okko Ziegler</td>
<td>Engineering and Procurement Director</td>
<td>00198 Roma, via G.B. Martini 7, Tél. +39 06 85 09 70 29, Fax +39 06 85 09 72 13, E-mail: <a href="mailto:ziegler.okko@enel.it">ziegler.okko@enel.it</a></td>
<td></td>
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<tr>
<td></td>
<td>Patrick Haillot</td>
<td>Project Finance Director</td>
<td>00198 Roma, via G.B. Martini 7, Tél. +39 06 85 09 76 08, Fax +39 06 85 09 72 13, E-mail: <a href="mailto:haillot.patrick@enel.it">haillot.patrick@enel.it</a></td>
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</tr>
<tr>
<td>INTERNATIONAL WATER</td>
<td>Scott Derby</td>
<td>Project Finance Manager</td>
<td>80 Haymarket, London SW1Y 4TE, United Kingdom</td>
<td>Tel: +44(0) 207766 5153, Fax +44(0)20 7766 5180, Mobile +44(0)7768 603253, E-mail: <a href="mailto:Sderby@Inwat.Com">Sderby@Inwat.Com</a>, Web-page: <a href="http://www.inwat.com">www.inwat.com</a></td>
</tr>
<tr>
<td>Company</td>
<td>Contact person</td>
<td>Title/Position</td>
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<tr>
<td>ONDEO</td>
<td>Patrick Babin</td>
<td>Director Europe Asia</td>
<td></td>
<td><a href="mailto:Patrick.babin@ondeo.com">Patrick.babin@ondeo.com</a></td>
</tr>
<tr>
<td></td>
<td>Jacques Letondot</td>
<td>Managing Director Central Europe &amp; Central Asia</td>
<td>+33 1 58 18 52 98</td>
<td><a href="mailto:jacques.letondot@ondeo.com">jacques.letondot@ondeo.com</a></td>
</tr>
<tr>
<td></td>
<td>Eric Moreau</td>
<td>SUEZ IFI Representative Office</td>
<td>+1 202 293 8836</td>
<td><a href="mailto:emoreau@wbusinc.com">emoreau@wbusinc.com</a>, <a href="mailto:eric.moreau@ondeo.com">eric.moreau@ondeo.com</a></td>
</tr>
<tr>
<td>SAUR INTERNATIONAL</td>
<td>Pierre-Louis Petrique</td>
<td>Director General, Development</td>
<td>+33 1 30 60 28 21</td>
<td><a href="mailto:plpr@saur.fr">plpr@saur.fr</a></td>
</tr>
<tr>
<td></td>
<td>Brieuc Le Bigre</td>
<td>Representative</td>
<td>+1 202 659 1525</td>
<td><a href="mailto:bibinti@aol.com">bibinti@aol.com</a></td>
</tr>
<tr>
<td>SEVERN TRENT</td>
<td>Mariana Iteva</td>
<td>Business Development Executive</td>
<td>+44 121 722 6127</td>
<td><a href="mailto:mariana.iteva@swt.co.uk">mariana.iteva@swt.co.uk</a>, <a href="mailto:mariana.iteva@btinternet.com">mariana.iteva@btinternet.com</a></td>
</tr>
<tr>
<td></td>
<td>Lloyd Martin</td>
<td>Regional Manager for CEE &amp; NIS</td>
<td>+44 121 722 6126</td>
<td><a href="mailto:lloyd_martin@stwi.co.uk">lloyd_martin@stwi.co.uk</a></td>
</tr>
<tr>
<td>THAMES WATER</td>
<td>Steve Baseby</td>
<td>Treasury Department</td>
<td>+44 (0)118 373 8150</td>
<td><a href="mailto:stephen.baseby@thameswater.co.uk">stephen.baseby@thameswater.co.uk</a></td>
</tr>
<tr>
<td></td>
<td>Tony Clamp</td>
<td>Head of Project Finance</td>
<td>+44 118 373 8385</td>
<td><a href="mailto:tony.clamp@thameswater.co.uk">tony.clamp@thameswater.co.uk</a></td>
</tr>
<tr>
<td>VA TECH WABAG GmbH</td>
<td>Gerald Leopold</td>
<td>Vice President Operations</td>
<td>+43 1 25105 4278</td>
<td><a href="mailto:gerald.leopold@wabag.com">gerald.leopold@wabag.com</a>, <a href="mailto:doris.chvatal@wabag.com">doris.chvatal@wabag.com</a></td>
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<th>Company</th>
<th>Name</th>
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<tbody>
<tr>
<td>VIVENDI ENVIRONNEMENT</td>
<td>Bernard Poignant</td>
<td>Financements Internationaux, Vivendi Environnement, 52 rue d'Anjou</td>
<td>Tel: +33 1 71 75 01 52, Fax +33 1 71 75 10 29, Mobile: +33 6 12 29 20 26</td>
<td>E-mail: <a href="mailto:bernard.poignant@vivendi-environnement.net">bernard.poignant@vivendi-environnement.net</a></td>
</tr>
<tr>
<td></td>
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<td></td>
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</tr>
<tr>
<td>VIVENDI WATER</td>
<td>Jean-Patrice Poirier</td>
<td>Director for South-Eastern Europe &amp; Central Asia</td>
<td>52 rue d'Anjou, 75384 Paris Cedex 08, Tel: +33 1 49 24 33 53, Fax +33 1 49 24 61 10, Mobile: +33 6 09019678</td>
<td>E-mail: <a href="mailto:jean-patrice.poirier@generale-des-eaux.net">jean-patrice.poirier@generale-des-eaux.net</a></td>
</tr>
<tr>
<td></td>
<td>Blaise Garin</td>
<td>Project Manager Europe</td>
<td>52 rue d'Anjou, 75384 Paris Cedex 08, Tel +33 1 49 24 39 53, Fax + 33 1 49 24 61 10</td>
<td>E-mail: <a href="mailto:blaise.garin@generale-des-eaux.net">blaise.garin@generale-des-eaux.net</a></td>
</tr>
</tbody>
</table>

### 5.2 IFIS, DONORS INSTITUTIONS

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Address</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander Astvatsatryan</td>
<td>Energy/Municipal Projects Procurement Officer</td>
<td>World Bank - Armenia, Republic Sq. 9 V. Sargsyan Str., Yerevan, Armenia, Tel No. +374 1 560 346, Fax: +374 1 521787</td>
<td>E-mail: <a href="mailto:Aastvasatryan@worldbank.org">Aastvasatryan@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Andreas Rohde</td>
<td>Sr. Sanitary Engineer Infrastructure and Energy Sector Unit, ECA Region</td>
<td>World Bank, 1818 H Street, N.W. 20433 U.S.A. Tel No. +1 202 473 6672</td>
<td>E-Mail: <a href="mailto:Arohde@worldbank.org">Arohde@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Brian Smith</td>
<td>Sr. Financial Analyst, Infrastructure and Energy Sector Unit, ECA Region</td>
<td>World Bank, 1818 H Street, N.W. 20433 U.S.A. Tel No. +1 202 473 2656, Fax: +1 202 477 1386</td>
<td>E-mail: <a href="mailto:Bssmith@worldbank.org">Bssmith@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Claudio Purificato</td>
<td>Consultant Infrastructure Unit, ECA Region</td>
<td>World Bank, 1818 H Street, N.W. 20433 U.S.A. Tel No. +1 202 473-1839, Fax. +1 202 614 1103</td>
<td>E-mail <a href="mailto:Cpurificato@worldbank.org">Cpurificato@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Doncho Barbalov</td>
<td>Operations Officer Infrastructure and Energy Sector Unit, ECA Region</td>
<td>World Bank - Bulgaria, INTERPRED/World Trade Center, 36, Dragan Tsankov Blvd., 1040 Sofia, Bulgaria, Tel No. +359 2 918 14 226, Fax.: +359 2 971 2045</td>
<td>E-mail <a href="mailto:Dbarbalov@worldbank.org">Dbarbalov@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Gailius Draugelis</td>
<td>Operations Officer, Infrastructure and Energy Department, ECA Region</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A. Tel No. +1 202 458-7527, Fax. +1 202 614 0901</td>
<td>E-mail: <a href="mailto:Gdraugelis@worldbank.org">Gdraugelis@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Jamal Saghir</td>
<td>Director Energy and Water</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A. Tel No.+1 202 473-2789</td>
<td>E-mail: <a href="mailto:Jsaghir@worldbank.org">Jsaghir@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Name</td>
<td>Position</td>
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<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Jan Janssens</td>
<td>Lead Specialist, Water Supply and Sanitation</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. +1 202 458-7247, E-mail. <a href="mailto:jjanssens1@worldbank.org">jjanssens1@worldbank.org</a></td>
</tr>
<tr>
<td>Jean Jacques Soulacroup</td>
<td>Urban Management Specialist, Infrastructure Sector Unit</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. +1 202 458-5578, Fax. +1 202 614 0901, E-mail. <a href="mailto:jsoulacroup@worldbank.org">jsoulacroup@worldbank.org</a></td>
</tr>
<tr>
<td>Jonathan Kamkwalala</td>
<td>Lead Financial Analyst, Infrastructure and Energy Sector Unit</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. +1 202 458-2556, E-mail. <a href="mailto:Jkamkwalala@worldbank.org">Jkamkwalala@worldbank.org</a></td>
</tr>
<tr>
<td>Kari Homanen</td>
<td>Sr. Water and Sanitation Specialist, Infrastructure and Energy Department, ECA Region</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. +1 202 458-9063, Fax. +1 202 614 0902, E-mail. <a href="mailto:khomanen@worldbank.org">khomanen@worldbank.org</a></td>
</tr>
<tr>
<td>Kishore Nadkarni</td>
<td>Sr. Financial Analyst, Infrastructure and Energy Services Department, ECA Region</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. +1 202 473 2698, Fax. +1 202 614 0902, E-mail. <a href="mailto:knadkarni@worldbank.org">knadkarni@worldbank.org</a></td>
</tr>
<tr>
<td>Manuel Marino</td>
<td>Principal Environmental Specialist, Infrastructure and Energy Sector Unit, ECA</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. +1 202 473-6692, E-mail. <a href="mailto:Mmarino@worldbank.org">Mmarino@worldbank.org</a></td>
</tr>
<tr>
<td>Marie Marguerite Bourbigot</td>
<td>Sr Water and Sanitation Specialist, Infrastructure and Energy Sector Unit, ECA</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. +1 202 458-8003, E-mail. <a href="mailto:mbourbigot@worldbank.org">mbourbigot@worldbank.org</a></td>
</tr>
<tr>
<td>Motoo Konishi</td>
<td>Sector Manager, Infrastructure and Energy Department, ECA</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No.+1 202 473-4278, E-mail. <a href="mailto:Mkonishi@worldbank.org">Mkonishi@worldbank.org</a></td>
</tr>
<tr>
<td>Rinar Iskhakov</td>
<td>Operations Analyst, Infrastructure and Energy Sector Unit, ECA</td>
<td>World Bank - Uzbekistan, 43, Academician Suleymanova Str, Tashkent, Uzbekistan</td>
<td>Tel: + 998 71 139 4988 / 120 6214, Fax. +998 71 120 6215 / 133 0551, E-mail. <a href="mailto:Risikhakov@worldbank.org">Risikhakov@worldbank.org</a></td>
</tr>
<tr>
<td>Salma Zaheer</td>
<td>Lead Utilities Specialist, Water and Sanitation Program Department South Asia</td>
<td>World Bank - Water and Sanitation Program South Asia</td>
<td>55 Lodi Estate, P.O. Box 416, New Delhi - 110 003, India</td>
</tr>
<tr>
<td>Sanyu Lutalo</td>
<td>Operations Analyst, Infrastructure and Energy Sector Unit, ECA</td>
<td>World Bank 1818 H Street, N.W. 20433 U.S.A.</td>
<td>Tel No. 473-8623, E-mail. <a href="mailto:slutalo@worldbank.org">slutalo@worldbank.org</a></td>
</tr>
<tr>
<td>Name</td>
<td>Position</td>
<td>Organization</td>
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</tr>
<tr>
<td>Sudipto Sarkar</td>
<td>Senior Operations Officer, Infrastructure and Energy Sector Unit, ECA</td>
<td>World Bank</td>
<td>1818 H Street, N.W. 20433 U.S.A. Tel No. +1 202 473-6661 E-mail: <a href="mailto:Ssarkar@worldbank.org">Ssarkar@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Takao Ikegami</td>
<td>Sr. Sanitary Engineer, Infrastructure and Energy Sector Unit, ECA Region</td>
<td>World Bank</td>
<td>1818 H Street, N.W. 20433 U.S.A. Tel No. +1 202 473-2334, Fax.+1 202 614 0902 E-mail: <a href="mailto:Tikegami@worldbank.org">Tikegami@worldbank.org</a> Web-page: <a href="http://www.worldbank.org">www.worldbank.org</a></td>
</tr>
<tr>
<td>Aki Yamaguchi</td>
<td>Urban Water Sector Reform Team, Non-Member Countries Branch</td>
<td>OECD</td>
<td>2 rue André Pascal, 75775 Paris, France, Tel.: +33 1 45 24 19 14, Fax: +33 1 45 24 96 71, E-mail: <a href="mailto:aki.yamaguchi@oecd.org">aki.yamaguchi@oecd.org</a></td>
</tr>
<tr>
<td>Alexander Danilenko</td>
<td>Urban Water Sector Reform Team, Non-Member Countries Branch</td>
<td>OECD</td>
<td>2 rue André Pascal, 75775 Paris, France, Tel.: +33 1 45 24 13 84, Fax: +33 1 45 24 96 71, E-mail: <a href="mailto:alexander.danilenko@oecd.org">alexander.danilenko@oecd.org</a></td>
</tr>
<tr>
<td>Brendan Gillespie</td>
<td>Finance Team, Non-Member Countries Branch</td>
<td>OECD</td>
<td>2 rue André Pascal, 75775 Paris, France, Tel.: +33 1 45 24 93 02, Fax: +33 1 45 24 96 71, E-mail: <a href="mailto:brendan.gillespie@oecd.org">brendan.gillespie@oecd.org</a></td>
</tr>
<tr>
<td>Olga Savran</td>
<td>Urban Water Sector Reform Team, Non-Member Countries Branch</td>
<td>OECD</td>
<td>2 rue André Pascal, 75775 Paris, France, Tel.: +33 1 45 24 13 81, Fax: +33 1 45 24 96 71, E-mail: <a href="mailto:olga.savran@oecd.org">olga.savran@oecd.org</a></td>
</tr>
<tr>
<td>Peter Borkey</td>
<td>Business and Environment, Non-Member Countries Branch</td>
<td>OECD</td>
<td>2 rue André Pascal, 75775 Paris, France, Tel: +33 1 45 24 13 85, Fax: +33 1 45 24 96 71, E-mail: <a href="mailto:peter.borkey@oecd.org">peter.borkey@oecd.org</a></td>
</tr>
<tr>
<td>Palle Lindgaard-Jorgensen</td>
<td>Head of Division, DANCEE</td>
<td>DEPA - Danish Environmental Protection Agency</td>
<td>Strandgade 29, DK-1401 Copenhagen, Tel. +4532 660100, Fax. +4532 660479 E-mail: <a href="mailto:plj@mst.dk">plj@mst.dk</a> Web-page: <a href="http://www.mst.dk">www.mst.dk</a></td>
</tr>
<tr>
<td>Rod Matthews</td>
<td>Divisional Engineering Adviser, Eastern Europe and Western Hemisphere Division; Chair, Project Preparation Committee</td>
<td>DFID - Department for International Development</td>
<td>1, Palace Str., London SW1E 5HE, United Kingdom, Tel. +44 20 7023 0552, Fax. +44 20 7023 1098, E-mail: <a href="mailto:rh-matthews@dfid.gov.uk">rh-matthews@dfid.gov.uk</a></td>
</tr>
<tr>
<td>Chris Shugart</td>
<td>Senior Banker, Municipal and Environmental Infrastructure</td>
<td>EBRD</td>
<td>1 Exchange Sq., London EC2A 2JN, United Kingdom, Tel.:+44 20 7338 7825, Fax: +44 20 7338 6964, E-mail: <a href="mailto:ShugartC@ebrd.com">ShugartC@ebrd.com</a></td>
</tr>
<tr>
<td>John Gibbs</td>
<td>Assistant Director, Corporate Finance and Recovery</td>
<td>EBRD delegation</td>
<td>PricewaterhouseCoopers, 1 Embankment Place, London WC2N 6RH, Tel. +44 20 7583 5000, 7212 3800, Fax. +44 20 7804 5455, E-mail: <a href="mailto:john.gibbs@uk.pwcglobal.com">john.gibbs@uk.pwcglobal.com</a></td>
</tr>
<tr>
<td>Simon Gordon-Walker</td>
<td></td>
<td>EBRD delegation</td>
<td>WRC plc, Frankland Road, Blagrove, Swindon, Wiltshire, SN5 8YF, United Kingdom, Tel.: +44 1793 865 000, 865 061, Fax. +44 1793 865001, E-mail: <a href="mailto:gordonwalker@wrcplc.co.uk">gordonwalker@wrcplc.co.uk</a></td>
</tr>
<tr>
<td>José Tomás Frade</td>
<td>Head of Water and Sewerage Division, Projects Directorate</td>
<td>EIB European Investment Bank</td>
<td>100 blvd Konrad Adenauer, L-2950 Luxembourg, Tel. +352 4379 2727, Fax. +352 4379 2860, E-mail: <a href="mailto:j.frade@eib.org">j.frade@eib.org</a></td>
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<td>Name</td>
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</tr>
<tr>
<td>Andrey Delchev</td>
<td>Managing Partner</td>
<td>EUROLEX-Bulgaria Ltd., 1, 11 August Str. 1000 Sofia, Bulgaria, Tel./Fax: +3592 9884212, 9867940, E-mail: <a href="mailto:adelchev@sofia.bg">adelchev@sofia.bg</a></td>
<td>Web-page: <a href="http://www.eurolexbg.com">www.eurolexbg.com</a></td>
</tr>
<tr>
<td>Wilhelm Hantsch-Linhart</td>
<td>Head, Infrastructure Group</td>
<td>FGG - Finanzierungsgarantie - Gesellschaft mit beschränkter Haftung, Gasometer A, Guglgasse 6, 1110 Vienna, Austria, Tel. +43 1 50175 311, Fax. +43 1 50175 360, E-mail: <a href="mailto:w.hantsch@fgg.at">w.hantsch@fgg.at</a></td>
<td>Web-page: <a href="http://www.fgg.at">www.fgg.at</a></td>
</tr>
<tr>
<td>Eero Kontula</td>
<td>Adviser, Department for International Development</td>
<td>Finland, Ministry of Foreign Affairs, P.O. Box 176, Katajanokanlaituri 3, 00161 Helsinki, Finland, Tel.+358 9 1341 6106, Fax. +358 9 13416100, E-mail: <a href="mailto:eero.kontula@formin.fi">eero.kontula@formin.fi</a></td>
<td></td>
</tr>
<tr>
<td>Patrick Mousnier-Lompre</td>
<td>Chargé de Mission, Public Private Partnerships, Economic and International Affairs Division</td>
<td>France, Ministry of Infrastructure, Transport and Housing, Arche Sud, 92055 La Défense, France, Tel. +331 4081 2773, Fax. +331 4081 2770, E-mail: <a href="mailto:patrick.mousnier-lompre@equipement.gouv.fr">patrick.mousnier-lompre@equipement.gouv.fr</a></td>
<td></td>
</tr>
<tr>
<td>Dharman Suryanarayanan</td>
<td>Unit of Public Financing, Economic and Trade Department</td>
<td>France, Ministry of Economy, Finance and Industry, Teledoc 542, 139 rue de Bercy, 75572 Paris Cedex 12, Tel. +331 5318 8298, Fax. +331 5318 9609, E-mail: <a href="mailto:Dharman.suryanarayanan@dree.org">Dharman.suryanarayanan@dree.org</a></td>
<td></td>
</tr>
<tr>
<td>Denis Levy</td>
<td>International Affairs Advisor</td>
<td>France, Institut de la Gestion Déléguée, 84 rue de Grenelle, 75007 Paris, France, Mobile +33 6 7388 6961, Fax. +33 1 4439 2707, E-mail: <a href="mailto:denislevy@aol.com">denislevy@aol.com</a></td>
<td></td>
</tr>
<tr>
<td>Benoit Loutrel</td>
<td></td>
<td>IFC, Paris Office, 66 avenue d'Iena, 16th arr., Tel: +33 1 40 69 33 66, Fax +33 1 47 20 77 71, E.Mail: <a href="mailto:bloutrel@ifc.org">bloutrel@ifc.org</a></td>
<td></td>
</tr>
<tr>
<td>Denise Leonard</td>
<td></td>
<td>IFC, Private Sector Advisory Services Tel: +1 202 473-5696/ 458-7533 Fax: +1 202 522-3462 E.Mail: <a href="mailto:dleonard@ifc.org">dleonard@ifc.org</a></td>
<td></td>
</tr>
<tr>
<td>Augusto Pretner</td>
<td>Managing Director</td>
<td>Italy, SGI Spa - Societa Generale di Ingegneria, 35030 Sarmeola di Rubano (Padova) Italy, Via della Provvidenza, 15, Tel. +39 049 8976844, Fax: +39 049 8976784, E-mail: <a href="mailto:augusto.pretner@sgi-spa.it">augusto.pretner@sgi-spa.it</a></td>
<td></td>
</tr>
<tr>
<td>Giovanna Agostinelli</td>
<td></td>
<td>Italy, Ministry for the Environment and Territory of Italy, Tel. +39 06 57228119, Mobile: +39 338 4529559, Fax +39 06 57228180, E-mail: <a href="mailto:gioviglova@tiscali.it">gioviglova@tiscali.it</a></td>
<td></td>
</tr>
<tr>
<td>Annika Frank</td>
<td>Project Manager, Europe</td>
<td>KfW, Palmengartenstr. 5-9, 60325 Frankfurt, Germany Tel. +49 69 7431 4327, Fax. +49 69 7431 3490, E-mail: <a href="mailto:annika.frank@kfw.de">annika.frank@kfw.de</a></td>
<td></td>
</tr>
<tr>
<td>Doris Koehn</td>
<td>First Vice President for European Countries</td>
<td>KfW, Palmengartenstr. 5-9, 60325 Frankfurt, Germany Tel. +49 69 7431 2047 (2591 secretary), Fax. +49 69 7431 3490, E-mail: <a href="mailto:doris.koehn@kfw.de">doris.koehn@kfw.de</a>, <a href="mailto:katja.bulang@kfw.de">katja.bulang@kfw.de</a></td>
<td></td>
</tr>
<tr>
<td>Klaus Gihr</td>
<td>Principal Economist, Sector Policy Department</td>
<td>KfW, Palmengartenstr. 5-9, 60325 Frankfurt, Germany Tel. +49 69 7431 2581, Fax. +49 69 7431 3746, E-mail: <a href="mailto:klaus.gihr@kfw.de">klaus.gihr@kfw.de</a></td>
<td></td>
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<tr>
<td>Name</td>
<td>Position/Institution</td>
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</tr>
<tr>
<td>Sara Brandt-Hansen</td>
<td>MIGA, Special Assistant to Director, Europe</td>
<td>Tel: +33 1 40 69 32 78, Fax: +33 1 40 69 32 76, E-mail: <a href="mailto:sbrandthansen@worldbank.org">sbrandthansen@worldbank.org</a></td>
<td></td>
</tr>
<tr>
<td>Solveig Nordström</td>
<td>NEFCO, Nordic Environment Finance Corporation</td>
<td>Tel: +358 9 180 0342, Fax: +358 9 630 976, E-mail: <a href="mailto:solveig.nordstrom@nefco.fi">solveig.nordstrom@nefco.fi</a></td>
<td></td>
</tr>
<tr>
<td>Thomas Meyer</td>
<td>Switzerland, State Secretariat for Economic Affairs (SECO)</td>
<td>Tel: +41 31 324 0793, Fax: +41 31 324 0965, E-mail: <a href="mailto:thomas.meyer@seco.admin.ch">thomas.meyer@seco.admin.ch</a></td>
<td></td>
</tr>
<tr>
<td>Robert Holländer</td>
<td>University of Leipzig, Faculty of Economics</td>
<td>Tel: +49 341 9733 871, Fax: +49 341 9733 879, E-mail: <a href="mailto:hollaender@wifa.uni-leipzig.de">hollaender@wifa.uni-leipzig.de</a></td>
<td></td>
</tr>
<tr>
<td>Friedrich Schwaiger</td>
<td>Posch &amp; Partners Consulting Engineers</td>
<td>Tel: +43-512-28 28 48, Fax: +43-512-28 28 58, Email: <a href="mailto:schwaiger@pap.co.at">schwaiger@pap.co.at</a></td>
<td></td>
</tr>
<tr>
<td>Simon Weyrer</td>
<td>Posch &amp; Partners Consulting Engineers</td>
<td>Tel: +43-512-28 28 48, Fax: +43-512-28 28 58, Email: <a href="mailto:weyrer@pap.co.at">weyrer@pap.co.at</a></td>
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