Market development for water utility management by international companies in the Europe and Central Asia Region

Are the current procedures and models for international inputs in water utility management in the Europe and Central Asia (ECA) region sufficient to attract the full range of potential players? Or are new approaches necessary to entice additional participants to create a more competitive and, accordingly, effective marketplace? Not just the large and established operators, but other entities with water sector or utility experience – such as public utilities, consultants, construction companies, etc.

These questions were the premise of a two-day open workshop recently sponsored by the World Bank and Bank-Netherlands Water Partnership on 6–7 May 2004 in Washington D.C. and attended by representatives of three international financing institutions and 16 companies, from nine countries across a cross-section of different sizes (small to large) and types (operators, consultants, public, private).

Background to the workshop

The workshop constitutes the final component of a large Market Development Study being conducted by the World Bank, with support from the Bank–Netherlands Water Partnership (BNWP), which includes a direct survey of international companies – a total of 60 responded to a questionnaire – and two case studies (assessing market entry and activities by newcomers).

The Bank, with the support of the BNWP, has undertaken this initiative for two primary reasons. First, the Bank wishes to maximize open competition in the ECA marketplace, to ensure the most qualitative and cost-effective projects for its clients, a key aspect of attaining its mandate (in terms of the Millennium Development Goals), especially in secondary cities (less than 500 000 inhabitants) and economically depressed regions. Second, the Bank is responding to observations and accounts by water sector participants regarding 'international access' to the ECA water sector. The final report will be completed in early summer and will be available in electronic format.

A second, parallel study is being undertaken in similar fashion, in co-operation with the Organization for Economic Cooperation and Development, to assess 'domestic' capacities (from within ECA countries) for water utility management.

Limitations to international participatation

The workshop presentations and discussions revolved around the key areas identified by international companies in the questionnaire as 'limitations to international participation' and, especially, the corresponding suggestions for corrective action. The case studies, providing examples of newcomers' entry and execution in the ECA market for water utility management, were also scrutinized by the mixed audience.

A brief summary of the major topics of discussion, including some areas of consensus is given here.

Management contracts only, please. A key result of the workshop was the acknowledgment by international companies of the preference for non-investment type inputs, i.e. management contracts (not leases or concessions). This is supported by the realization that reducing some of the country-level barriers to international private investment requires a great deal more time (e.g. development of local finance markets to reduce foreign exchange risk) or is unlikely (e.g. many communities are wary of relinquishing tariff setting authority).

Retain pre-qualification, but tailor criteria more precisely to each project. International companies agreed that pre-qualification is an essential element of the procurement process, because it presents an opportunity to gauge bidding costs and chances of success. From their perspective, financiers are insistent that pre-qualification criteria must be met by the bidder to protect the interest of their clients; but financiers also seem receptive to an appropriate reduction in the overall number of criteria and a more flexible interpretation of the criteria (to open the market further to newcomers).

More qualitative bidding procedures may be necessary to attract more bidders. The unpopularity of the 'low bid wins' selection policy was affirmed by workshop participants, although financiers stated that more cost-effective bids had been achieved in this manner. Quality and Cost Based Selection (which includes attainment of a minimum technical competency threshold before a weighing of the bids as per qualitative and cost criteria) will be considered in some cases, to increase bid participation.

Greater transparency in bid evaluations through greater use of existing IFI procedures. Financiers indicate a willingness to utilize more regularly existing mechanisms to finance assistance for local evaluation committees.

Benefits to project structures that match market supply and demand characteristics. All workshop participants acknowledged that a likely benefit to further opening the market is greater market coverage. In particular, some 'newcomers' (smaller operators, consultants, etc.) appear ready and able to serve the smaller, more remote market segments. The case studies also appear to indicate that consultants, not just operators, are capable of executing management contracts, with an operator as backstopper or junior partner.

Financiers will consider alternative project structures (e.g. bundling of smaller cities into one project, but permitting bidding on individual city-lots) to encourage greater participation by 'newcomers', but also remain open to 'established' players.

Conclusions

The need for improved water utility management persists in the 29 countries comprising the ECA region, and the international community (financiers and water sector participants) remains keen to address these needs. Specific measures are available to the market participants to tweak existing procedures and match the diverse niches of the ECA marketplaces with an even wider spectrum of international entities, for improved market competition, coverage and, most importantly, performance.

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