

Is Eastern Europe out of the woods?

A new survey of private water operations in Eastern Europe and Central Asia suggests that the worst may be over for private operators in the region – as long as they learn from past mistakes.

The private water sector in Europe and Central Asia (ECA) is no longer in retreat according to a survey of 110 international and domestic companies taking part in a market development survey sponsored by the World Bank and the OECD. The survey also highlights successful strategies for private sector participation (PSP) in the region.

The private water sector was badly bruised by its experience in the ECA region during the decade following the fall of the Iron Curtain. International companies poured into the former Soviet Union and Eastern Bloc 15 years ago seeking their share of this new market which was said to be worth \$55 billion per year (nobody knew at this stage how much of an overestimate this was).

These rosy expectations were quickly dashed by unstable and unprofitable market settings. Most international companies left, many before they had actually managed to settle, while domestic companies, lacking a tradition of private enterprise, had not emerged as a major force in the market. Many ECA communities felt abandoned.

A new approach seemed necessary if the private sector was to help attain the water and environment-related Millennium Development Goals (MDGs) by 2015. Accordingly, the World Bank and OECD undertook a “dialogue with the private sector” (which culminated in two market development studies funded by the Bank-Netherlands Water Partnership) to focus on the most serious criticisms levelled at PSP. To regain acceptance and opportunities in the community water & wastewater markets, PSP had to tackle two key issues:

- Provide benefits to less populated and poor markets, not just large, affluent cities
- Attract a wide range of international and domestic companies, in addition to large, international operators, for dynamic and competitive markets

Yet, how can this be done, considering that only a few water companies are willing to assume investment responsibilities (preferring management contracts instead), on the one hand, and ECA communities are reluctant to entrust private companies with their “public good”, on the other? The experiences of several companies demonstrate options for successful PSP application.

Some companies develop

complementary partnerships tailored to market realities and their own market strategies. For example, to implement a performance-based service contract in Dushanbe, Tajikistan, an established operator teamed with a consulting firm. At first glance, nothing especially noteworthy – except that the operator, MVV Energie AG, had limited international experience (provided by a consultant – not a direct competitor – Hydroplan GmbH) and that consultants provided over 90% of the person-month inputs for the “operations” contract (actually led by MVV Engineers & Consultants, an independent subsidiary of the lead company).

This clever arrangement resulted in a win-win arrangement for both sides. The beneficiary feels secure, having hired a reputable operator, while the contractors are pleased to have gained entry to new market segments (international arena for the operator and operations arena for the consultants). The operator and consultants are each positioning themselves for future activities in these areas.

Beneficiaries and financing institutions also reap the advantages of a more competitive marketplace with greater participation by a wider range of company sizes (big or small) and types (operator or consultant). The World Bank was delighted with the diverse interest in its Albania Municipal Water and Wastewater Project. Although a traditional operator won the management contract, a team led by a consulting firm (with an operator, again of limited international experience) placed a close second out of four shortlisted companies. The key for private companies is to regularly monitor project pipelines, understand the local markets and seek a complementary partner before the bidding process starts.

Another example, in Korca, Albania, demonstrates a consultant entering the realm of water utility management. The beneficiary selected ILF Consulting Engineers for the commercialisation of the water & wastewater utility in a technical assistance project. While a larger company may not have been interested in a town of 80,000 inhabitants, this was a suitable challenge for a medium-sized company. As illustrated next, compatible pairings of service provider to service area can also increase the domestic market.

International and domestic companies suggest innovating with the PSP model to, at once, create more viable markets and expand the sphere of private sector activity. In the Czech Republic, one domestic operator now serves several towns in the region of East Bohemia. Starting with a single contract in the largest town, VHOS a.s., successively added other smaller communities over several years. Operations for only one small town alone would likely have been economically prohibitive.

Some international financing institutions also use such an approach. The World Bank combined four medium-sized towns in the Albania Municipal Water and Wastewater Project. The challenge for the private sector is to develop cost-effective ways to satisfy multi-faceted systems, clients and customer-bases.

A key barrier to PSP remains the ability to progress from a “social” to a more “commercial” market. Yet, some markets show promise. In the Russian Federation, some domestic operators have assumed investment requirements in lease or concession contracts. Some of these domestic operators report they are looking for partnerships with international players to expand in these markets.

The Czech operator in the example above has progressively assumed a greater proportion of investment responsibilities over the course of its contracts. Over time, as the operator successfully provided services, PSP was gradually demystified – and expanded – to the neighbouring communities, which had deliberately taken a wait-and-see approach.

After a lengthy downturn, opportunities for PSP appear to be re-emerging in the ECA region, especially for companies making a concerted effort to adapt to specific community markets. These opportunities, once taken advantage of, can support an expansion of PSP into new market niches and attract a wide range of companies back to the ECA region.

● This article is based on work by Andreas Rohde (The World Bank), Peter Borkey, (OECD) and Christophe Schmandt (Water & Environment Consultancy). The complete report “Strategies for International/ Domestic Private Sector Inputs in the Water Utility Markets of the Europe and Central Asia Region” is available at worldbank.org, oecd.org or waterconsultancy.com.



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