WATER PPP’S. EASTERN EUROPE

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Aqualia New Europe.
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ANE

✓ A 61 m.€ Equity Joint Venture between FCC Aqualia & EBRD (European Bank for Reconstruction and Development).

✓ Established in 2009 in Holland, managed from FCC Aqualia Offices in Madrid and Prague.

✓ Scope: Invest in Water & Wastewater projects in EBRD’s countries of Operation.

✓ EBRD’s role as financial partner, with a 10 Year exit strategy. ANE follows EBRD’s Concession, Social and Environmental Criteria.

✓ Type of projects participated to date:
  • Concession Contracts (Balkan region),
  • BOT Contracts (Russia, Egypt)
  • Management Contracts (Romania, Moldova, Hungary)
  • Acquisitions (Russia).
Current Outlook
WWT: Majority Regions in East Europe below EU Average

3 Region Categories:
- More Developed Regions
- Regions in Transition
- Less Developed Regions

Source: Eurostat
WWT: Significant Regional Gaps

% of population connected to wastewater collection and UWWTPs

Source: Eurostat
# Significant Funding Gaps

## Recommended scenario - debt funding, increased efficiency and use of individual appropriate systems

<table>
<thead>
<tr>
<th>Period</th>
<th>Investment needs</th>
<th>Investment financed</th>
<th>Investment cost of debt</th>
<th>EU grant</th>
<th>National contribution</th>
<th>Government grant</th>
<th>WSSCs Loans</th>
<th>Internally generated funds</th>
<th>Investment gap (postponement)</th>
<th>Gov't Income Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2023</td>
<td>11,734.0</td>
<td>11,734.0</td>
<td>238.6</td>
<td>3,684.1</td>
<td>2,247.2</td>
<td>390.7</td>
<td>1,271.1</td>
<td>4,141.0</td>
<td>-</td>
<td>91.2</td>
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<tr>
<td>2024-2028</td>
<td>4,157.9</td>
<td>4,157.9</td>
<td>327.2</td>
<td>-</td>
<td>-</td>
<td>163.9</td>
<td>262.2</td>
<td>3,731.8</td>
<td>-</td>
<td>79.2</td>
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<tr>
<td>2029-2038</td>
<td>8,315.7</td>
<td>8,315.7</td>
<td>472.9</td>
<td>-</td>
<td>-</td>
<td>70.3</td>
<td>50.0</td>
<td>8,195.5</td>
<td>-</td>
<td>117.1</td>
</tr>
<tr>
<td>TOTAL, MBGN</td>
<td>24,207.6</td>
<td>24,207.6</td>
<td>1,038.8</td>
<td>3,684.1</td>
<td>2,247.2</td>
<td>624.8</td>
<td>1,583.3</td>
<td>16,068.3</td>
<td>-</td>
<td>287.5</td>
</tr>
</tbody>
</table>

*Source: MRDPW. BG. May 2014*
Challenges
The Reform Cycle

- Deliver Services more Efficiently
  - Reduce OPEX
  - Increase Revenue
  - Internalize Externalities
  - Keep up with Inflation
  - Conservation

- Improve Public Expenditure
  - Strategic Planning
  - Budget Execution
  - Subsidy Targeting
  - Transparency
  - Independence
  - Accountability
  - Procurement
  - Internalize Externalities
  - Keep up with Inflation

- Price Water Correctly
  - Strategic Planning
  - Budget Execution
  - Subsidy Targeting

- Improve Sector Governance

Source: World Bank 2012
ROLE OF SERVICE PROVIDER

How can a SP improve a Water System?

- Removing technical inefficiencies
  - Reduce NRW levels

- Improving Management inefficiencies
  - Improve Metering, Billing, Collecting, Asset Management, Education, Leadership....

- Choose the right Technology
Main Challenges in Eastern Europe

- Improvement of Legal Framework
- Increase Management Skills
- Shorten Implementation Periods new projects
- Adjust Tariffs to Cost of Service, including Environmental Costs
CONCLUSIONS
An increased number of PPP can help bring Private Finance to bridge the financial gap in required Investments,

A strong and healthy PPP culture can be a vehicle for management know-how transfer,

It can bring the adequate technological solutions to a given Municipality or Company,

PPP’s can help foster Flexible, Efficient and Benefit driven Utilities,

By implementing a Cost Recovery Focus mentality, it helps Administrations and Regulators establish sustainable Water Infrastructure.