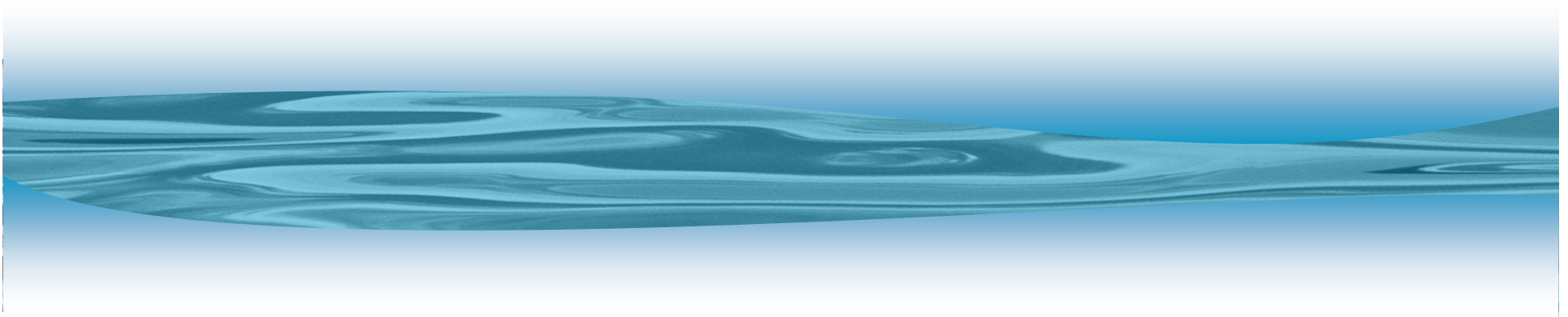


**Some impressions on the evolution of
the “de facto market structure”
in the water and sanitation sector**



Antonio Estache

Background



- ◆ **Strong perception of high concentration in the water sector**
- ◆ **Fairly bundled deals so far...**
- ◆ **Concern with the number of repeated actors in standard procurement contracts awarded by governments**
- ◆ **New sample of data for developing countries**
 - ~ **Used to assess how much scope there is to improve efficiency in procurement**
- ◆ **Data good enough to compare efficiency of firms bidding alone with joint bids (quasi-mergers)**
- ◆ **Some useful policy results emerge**

Basic question in procurement



- **How much scope is there to improve procurement efficiency in regulated industries?**
- **Main focus:**
 - ~ **Relevance of types of bidders showing up at auctions for the efficiency of the auction**

Overview of a new dataset on procurement contracts

Expected Contract Size

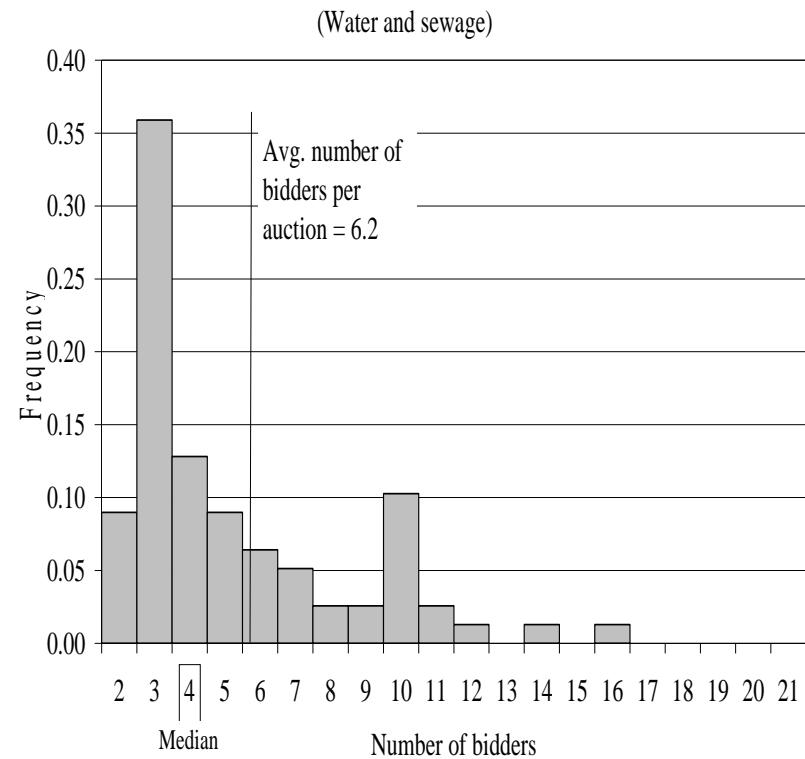
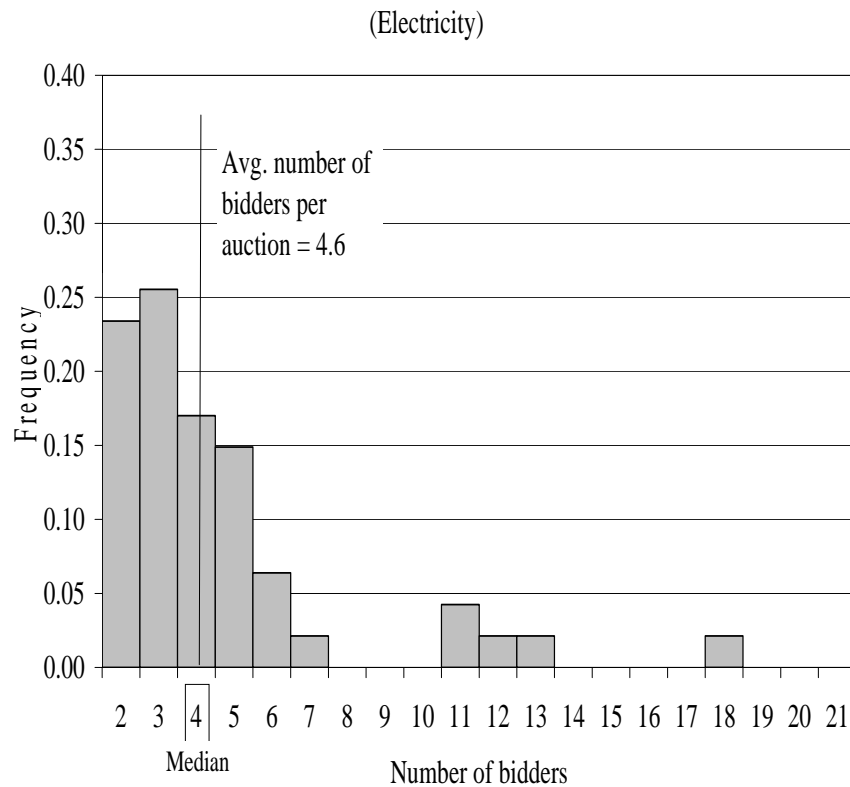
	No. of contracts	Contract amount 1/				Total contract amount
		Mean	Std.Dev.	Min	Max	
Road	86	26.8	27.9	0.3	146.0	2,020
Water	78	15.9	21.7	0.3	154.3	1,217
Electricity	47	55.2	94.7	0.2	406.6	2,934

1/ The figures are calculated on the engineering cost estimate basis.

Number of Firms Participating in Competitive Bidding

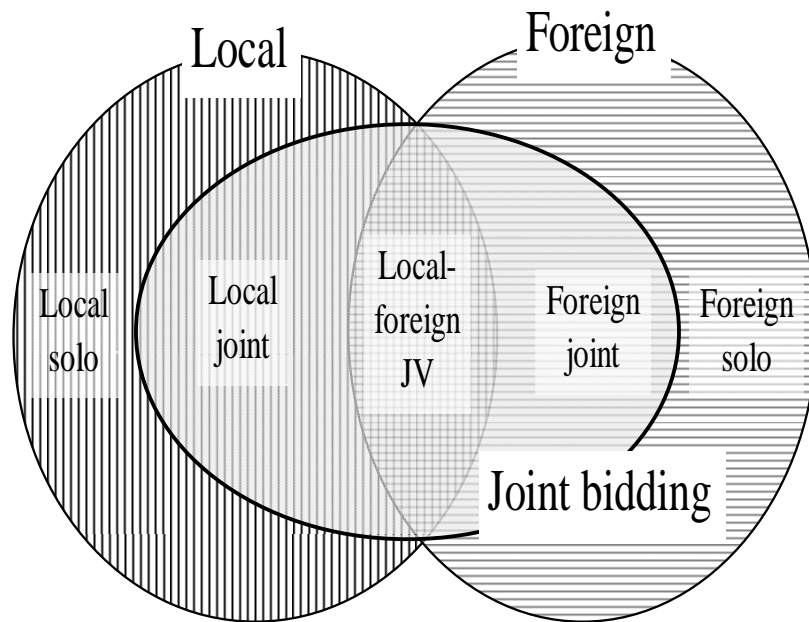
	Number of firms	Share of local (%)	Share of foreign (%)
Road	778	60.0	40.0
Water	546	74.9	24.2
Electricity	313	31.9	68.1
Total	1,637	59.6	40.4

Competition in infrastructure procurements seems limited...especially in the water (and electricity...) sectors.



What coalitional form is common in infrastructure procurements?

Classification of Joint Bidding



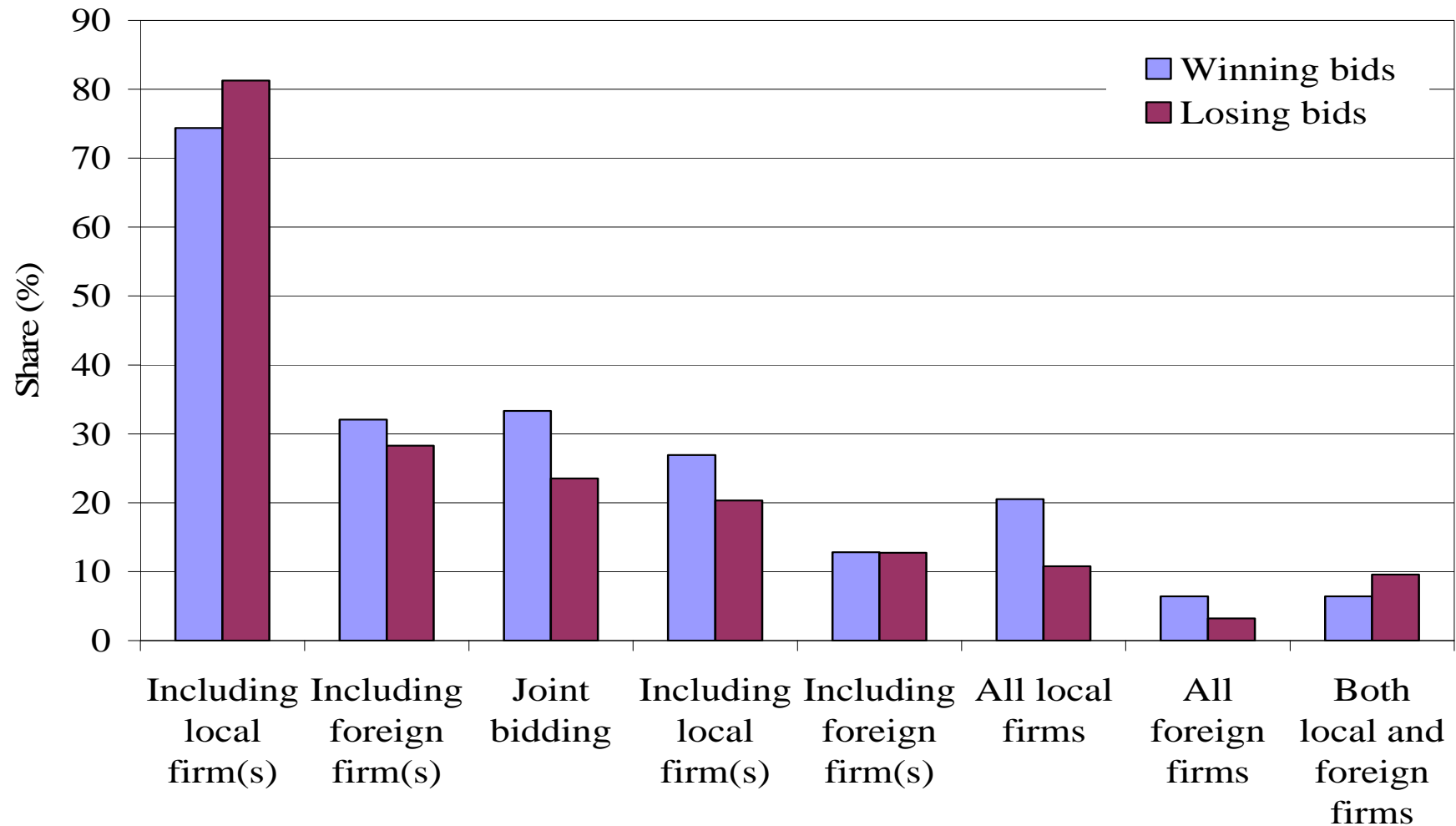
Joint Bidding Practices at Bidder Level

	Roads		Water		Electricity	
	Obs.	Share	Obs.	Share	Obs.	Share
Including local firm(s)	394	70.3	329	79.6	139	35.3
Including foreign firm(s)	394	37.6	329	29.2	139	71.2
Joint bidding	394	23.4	329	25.8	139	31.7
Including local firm(s)	394	19.5	329	21.9	139	9.4
Including foreign firm(s)	394	11.7	329	12.8	139	28.8
All local firms	394	11.7	329	13.1	139	2.9
All foreign firms	394	3.8	329	4.0	139	22.3
Both local and foreign firms	394	7.9	329	8.8	139	6.5

What joint bidding is best?

Purely local JV... for the water sector in LDCs

JV in Water and sewage



=>Towards the end of the big 5?



- 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**

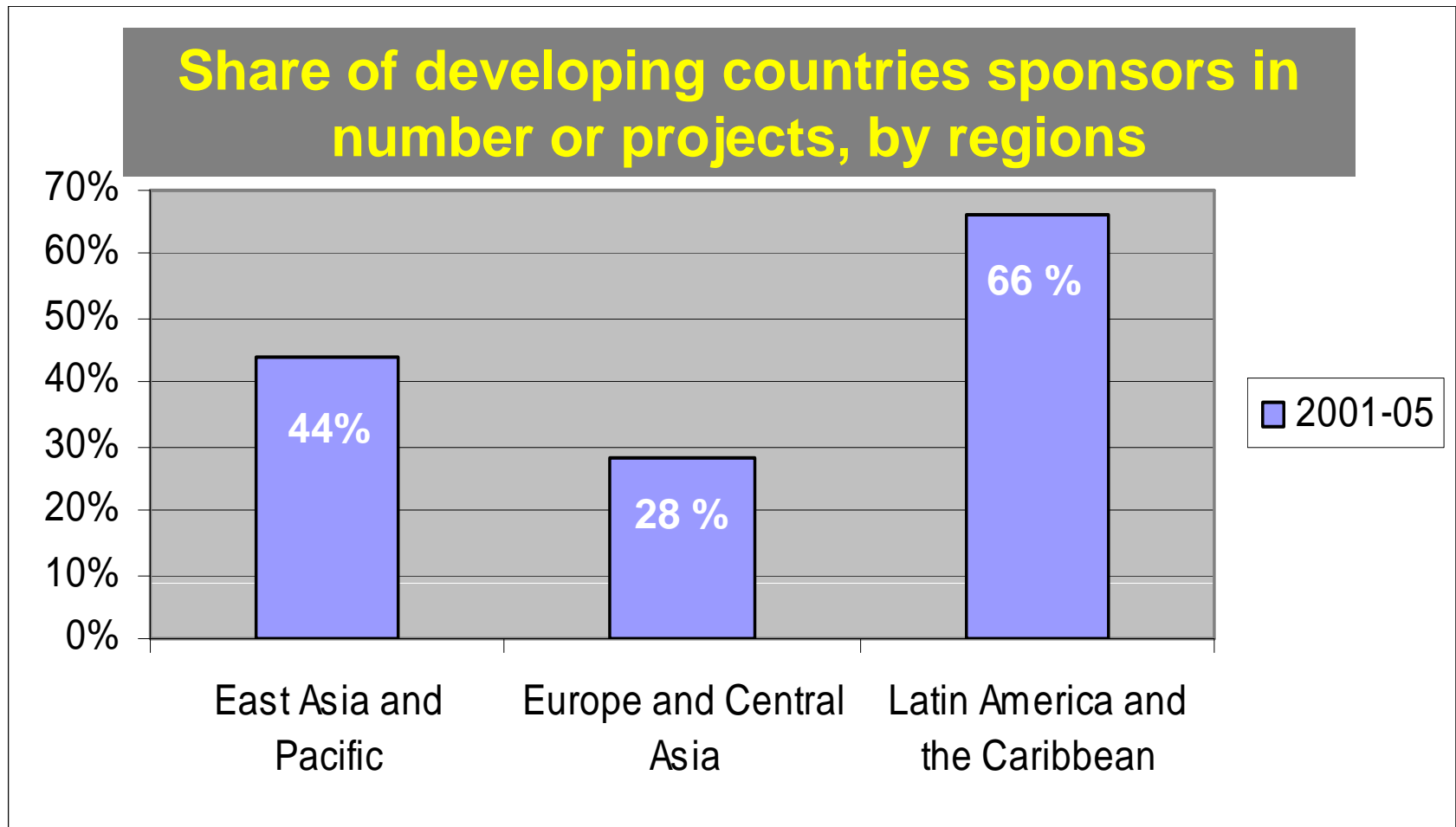
New players in developed countries



- ◆ 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)?

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



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...

How do they actually perform?



- ◆ Rate of non-active project less than half the one for foreign operators (5% vs.12%)
- ◆ *Evidence so far is hardly unfavorable...*

So what's the issue?



- **Which contracts do the operators want?**
 - ~ *Management Contracts,*
 - ~ *leases/affermages,*
 - ~ *new innovative approaches (twinning)*
- *... and as we saw, more often than not in a JV which reduces the number of players!*
 - ~ *3 bidders in 1 out of 3 deals*

Summing up



- ◆ **New players**
- ◆ **New forms of contract...**
- ◆ **Large potential of JV with new national/local operators:**
 - ~ **Private financing in local currency**
 - ~ **Sustainability over long term**
- ◆ *Short term payoffs in terms of transactions possibilities, but long run impact in terms of investment delivery and efficiency outcomes of these various forms of quasi (temporary but recurring) mergers?*
- ◆ **Moreover, need to assess the scope for more unbundling which could lead to a new type of quasi mergers is a necessary step for this sector**
 - ~ **Learning from the UK...**