

# MEIF

**(Method of Evaluation of Investment needs, Financing strategies and consequences on water pricing)**



## ***WP8: Dissemination***

**Deliverables 8.1 and 8.2**

**Date: June 2004**

**Author: PricewaterhouseCoopers**

### Notice

This document contains the deliverables of Work Package 8 of the project MEIF, contract EKV1-CT-2002-80019, funded under the 5<sup>th</sup> Framework Programme (1998-2002), Energy, Environment and Sustainable Development (EESD).

Deliverable 8.1: Workshop with the European Commission (see section 1),

Deliverable 8.2: Summary of dissemination activities toward stakeholders (see sections 2 and 3).

The project MEIF (Evaluation Methods for Investments in the Water Sector: Forward-looking financial strategies and water pricing) is conducted by a consortium led by PricewaterhouseCoopers ([www.pwc.com/sustainability](http://www.pwc.com/sustainability)) in cooperation with the International Office for Water ([www.oieau.fr](http://www.oieau.fr)) and the consultancy BIPE ([www.bipe.fr](http://www.bipe.fr)).

More information on the MEIF project is available from the project website ([www.meif.org](http://www.meif.org)).

# *Content*

<b>1</b>	<b>Brainstorming of the MEIF results with the EU Commission.....</b>	<b>4</b>
1.1	MEIF Workshop on pressing water issues (Brussels 20/04/2004) .....	4
1.1.1	Agenda .....	4
1.1.2	Emerging issues debated .....	4
1.1.3	Research avenues debated.....	6
<b>2</b>	<b>Dissemination of MEIF results with the organization of a conference with stakeholders .....</b>	<b>9</b>
2.1	Objectives of the conference.....	9
2.2	Program & short description of the speeches.....	9
2.2.1	Introduction .....	9
2.2.2	Method of evaluation of water investment.....	10
2.2.3	Prospective on financial strategies .....	11
2.2.4	Prospective on water pricing .....	12
2.3	Overall conclusion of the MEIF research project. Debate on future research issues with stakeholders. ....	13
<b>3</b>	<b>Other ways of dissemination for MEIF results .....</b>	<b>14</b>
3.1	Internet site ( <a href="http://www.meif.org">www.meif.org</a> ).....	14
3.2	Participation in international meetings .....	14
3.2.1	Third World Water Forum in Kyoto (16-23 March 2003).....	14
3.2.2	European forum in Barcelona (February, 2003) .....	14
3.3	Publishable Final report .....	14

# 1 Brainstorming of the MEIF results with the EU Commission

## 1.1 MEIF Workshop on pressing water issues (Brussels 20/04/2004)

A specific workshop with the European Commission was organised by the consortium to report the research findings of the MEIF project and to discuss and brainstorm with EC representatives.

The workshop was attended by EC representatives from the following DG: DG research, DG Competition, DG Regional, DG Ecofin, DG Environment. From the MEIF consortium the following individuals presented their results: Guy Leclerc and Laurent Lhopitallier for PwC, Jean Antoine Faby for IOW and Xavier Leflaive for BIPE.

After a brief presentation of the main conclusions of the MEIF study, the main objective of the meeting was to discuss five emerging and pressing issues related to the water sector. An hour was devoted to each topic. Each topic led to a short position paper reflecting the views of the different participants.

### 1.1.1 Agenda

The following agenda was set for the meeting :

- ✓ 10.00 – 11.00 : Presentation of the main results of the MEIF project by the consortium (PwC, IOW and BIPE).
- ✓ 11.00 – 12.00 : Presentation and debate around the research avenues of the MEIF project.
- ✓ 12.00 – 13.00 : Debate on emerging issues.
- ✓ 14.00 – 16.30 : Debate on emerging issues (continued).

### 1.1.2 Emerging issues debated

#### 1.1.2.1 Financial attractiveness of the water and sanitation sector

After the boom years of the late 90's the water sector is no longer attracting financing sources as it used to. The major private operators have downscaled their operations and are reluctant to respond to new market opportunities. Financial markets and commercial markets now consider the sector to be too risky considering the possible rewards. Politically sensitive tariffs, limited scope for competition, slow asset turnover requiring long-term debt finance, and a daunting mix of currency, information, country and sub-sovereign risks all require careful handling if private participation is to succeed. These issues help explain why direct investment in water lags as much as ten years behind that of power or telecommunications systems.

Key emerging issues in the water sector are:

- What can be done to enhance the attractiveness of the water sector?

- How do we make sure that public and IFI money and requirements do not “crowd out” other sources of finance?

#### *1.1.2.2 Solidarity, cross-subsidies across territories*

Solidarity at the national level has historically played a significant role in financing water investments, across territories across time and across sectors. Nowadays, EU funds enable cross-subsidies across national boundaries through various pre-accession, structural and cohesion funds. Financial solidarity remains a key instrument in ensuring medium to long-term environmental compliance in all territories of the European Union.

Key issues are:

- What mechanisms should be developed to ensure transparent cross-subsidies?
- How do we enhance the efficiency of grant finance?
- Should specific water levies be developed to enhance European solidarity?

#### *1.1.2.3 Knowledge, information and forecasting methods and tools*

The study has shown that is very difficult to build a comprehensive picture of past and present financial flows within the water sector and between the water sector and other sectors. Furthermore, methods to evaluate investment-needs and the scope of infrastructure taken into account to consolidate accounts vary a great deal between countries.

Key issues are:

- What are the information-needs of the different stakeholders?
- What methods and tools should be developed to facilitate the financial analysis of the water sector?
- What unified investment and spending nomenclature should be developed to facilitate international comparison?

#### *1.1.2.4 Public management vs. private management of water services*

The issue of public vs. private management of water services is often a politically sensitive and controversial issue. Insufficient information is currently available to conduct an informed debate. The consortium proposed to debate on the relevance of designing proper methods to enable a proper evaluation of both public and private management services. Illustrative cases from the MEIF project were used to guide the debate. The following points have been discussed to make the comparison:

- Performance benchmarking and indicators
- Service efficiency
- Cost reduction
- Patrimonial strategy (assets...)
- Level of services
- Users’ satisfaction

#### *1.1.2.5 Full cost recovery and sustainable cost recovery*

Full-cost-recovery is not applied in any of the ten countries covered by the study, apart from England and Wales (which has received a huge subsidy in the form of debt write-off at the time of privatization). Considering the huge investment needs brought upon all countries by ageing infrastructure and environmental requirements, it is very unlikely that full cost recovery will ever be applied fully in the distant future, especially for investment costs. However full-cost-recovery remains a very useful framework to analyse the water sector accounts and determine its financial structure.

Key issues are:

- Can full-cost-recovery ever be achieved?
- How to ensure transparency and competition in a partial cost-recovery situation?
- From full-cost-recovery to sustainable-cost-recovery.

#### **1.1.3 Research avenues debated**

The main research avenues presented by the MEIF Consortium were as follows:

- ✓ Consistency of investment scope,
- ✓ Reconciling micro level and macro level approaches to investment assessment,
- ✓ Setting up a water observatory,
- ✓ Investigating methods to identify financing sources,
- ✓ Development of a prospective methodology for financing needs and their structure,
- ✓ Full cost recovery principle,
- ✓ Analysis of water demand elasticity to water prices
- ✓ Typology of territories – Small to medium towns
- ✓ Measures to increase financial attractiveness,
- ✓ Solidarity and cross subsidies

Outlined below are the main relevant reactions and comments from the attending parties.

##### *1.1.3.1 Consistency of investment scope*

DG Environment suggested we wait for the first WFD reports to deal with the nomenclature issue. It might be a source of controversy with member states as was the attempt to clarify the notion of “water services” presented in article 2 of the WFD.

However, it is acknowledged that the development of international river basins (especially the Danube basin) and the setting up of common programs (and therefore investments) will make such a nomenclature necessary.

Furthermore, MEIF has only dealt with ten countries, it may therefore have bypassed some specific investment scope elements that may occur in other countries not covered by the study.

The consortium reminded that, beyond nomenclature issue, the question of classifying repairs/upgrade as investments or not is also a pressing issue.

#### *1.1.3.2 Reconciling micro level and macro level approaches to investment assessment*

DG Regional put forward two specific questions:

- Was there a judgment/analysis on the investment strategies presented by the countries?
- Was there an audit on the relevance of the existing strategies?

The consortium reminded that investment strategies have a highly political nature as they are used in negotiation bargaining over compliance derogations and delays.

#### *1.1.3.3 Setting up a water observatory*

DG Competition considered the creation of a water observatory as a very interesting idea and thought such an instrument would be very useful. However, the advice was to steer clear of regulatory issues as they might trigger a political backlash.

DG Environment mentioned the existence of a number of “partial observatories” (OECD, Eurostat, JRC, European Environment Agency) and is wary of creating a new layer of data collection on top of existing layers. Most of these data collection facilities already send out questionnaires to member states and further questionnaires on similar subjects might not be such a good idea.

DG Eco/Fin mentioned however the unique binding qualities of the Common implementation strategy, especially in the perspective of sharing best practices.

#### *1.1.3.4 Investigating methods to identify financing sources*

DG Regio: Have you completed EX/RES tables for all countries? Have you also done it just for investment?

The EXP/RES table are available for all countries in the WP5. They detail the structure of financing of water investments only.

#### *1.1.3.5 Development of a prospective methodology for financing needs and their structure*

DG Regio:

- What specific proposals in terms of regulatory frameworks? What best practices? Five years is too long, the methodology must be operational as soon as possible.

- How do we get countries to understand that the EU is not going to finance to total amount of water investments?

#### *1.1.3.6 Full Cost recovery principle*

Art 9 of the WFD indicates dispensations in terms of cost-recovery for social reasons.

In the initial reports, countries are expected to report on:

- environmental and resource costs in a qualitative manner
- the level of financial recovery as a percentage of resources from outside the sector.

Full cost recovery is no longer even a distant objective. The EU now talks of level of cost recovery.

In the case of a request for dispensation, DG Env can appraise the level of cost recovery and can recommend an increase. The scale for reporting is the water basin.

DG Regio stresses the need of accession and candidate countries to improve the levels of cost recovery due to insufficient budgetary resources.

#### *1.1.3.7 Analysis of water demand elasticity to water prices*

Elasticity issues are very much local. A number of studies already exists. They are mostly relevant in places where water scarcity occurs.

#### *1.1.3.8 Typology of territories – Small to medium towns*

It was mentioned that, in Portugal, there exist combined municipal setups for small and medium towns.

Practically, how do you deal with small to medium towns ?

The consortium stressed the importance of looking at experiences from other world regions.

#### *1.1.3.9 Measures to increase financial attractiveness*

Attractiveness / competition.

Attractiveness, investment and competition go hand in hand.

#### *1.1.3.10 Solidarity and cross subsidies*

This issue was deemed a national issue.

The issue of cross subsidies is an internal, national issue. It is not considered a priority by the Commission.

DG. Research reminded every participant of the need to take into account externalities, the agricultural sector and the environmental costs.

## **2 Dissemination of MEIF results with the organization of a conference with stakeholders**

About 40 water experts attended the MEIF conference that was held on 10 & 11 June, 2004 in Paris. Participation in the conference was on an invitation only basis but the registration was free.

### **2.1 Objectives of the conference**

The objective of the conference was to bring together a number of key European stakeholders in the water sector and give them the opportunity to debate, exchange and advance on key issues developed during the MEIF project (the agenda is presented in the next chapter). Bringing together actors from both EU countries with people from accession and candidate countries allowed to enrich the debate and facilitate the transfer of experience.

Representatives from candidate and accession countries were provided with an array of options and alternatives in terms of investment evaluation, financial strategies and water pricing. Furthermore, they have been provided with a unique opportunity to present the problems and issues they are facing to a large and knowledgeable public.

A summary conference report and the presentations made during the conference are available from the MEIF project website.

### **2.2 Program & short description of the speeches**

#### **2.2.1 Introduction**

Introduction (09h00-09h30)

Welcome address by Thierry Raes, PwC partner for sustainable development activities

The 6th Framework Programme (2002-2006) for Research and Technological Development (Giuseppe Borsalino, EC DG Research)

*Mr Borsalino presented the main research themes and the budget for the 6<sup>th</sup> Framework Programme. His presentation included also a quick balance of the results of the 5<sup>th</sup> Framework Programme and some perspectives regarding the 7<sup>th</sup> Framework Programme that will be held between 2006 and 2010.*

Presentation of the MEIF project (Guy Leclerc, PwC)

*PricewaterhouseCoopers (PwC), the IOW (International Office for Water), the BIPE Administrations and Environment Sector have conducted a European Water Project (MEIF), on behalf of the DG research of the European Commission, under the Fifth Framework Programme. This project had 3 main topics: methods of evaluation of prospective water investments at a country level (and current status of prospective scenarios), prospective on financing strategies (National, Municipal, Private, PPP arrangements) of future water investments, prospective on water pricing (with a linking to the origin of funds, public or private). This study was*

*performed in 10 countries: five EU Member States and five Pre-accession countries (France, Germany, Italy, Spain, UK, and Bulgaria, Czech Republic, Hungary, Poland and Romania). It started in January 2003 and was completed in early 2004.*

### **2.2.2 Method of evaluation of water investment**

09h30-10h00: Diversity of evaluation methods across Europe (J-A Faby, IoW)

*This speech was prepared by the IoW (International Office for Water) that is one of the member of the MEIF Consortium. Mr Faby presented briefly an inventory of methods to evaluate investment needs and the best practices identified among the ten countries studied in the course of the MEIF project ([www.meif.org](http://www.meif.org)). Then, to define the foundation of the methodology leading to homogeneous approaches, the IOW intended to draw a guide of reference principles to apply suitable methods.*

- 10h00-10h30: Czech Republic: an empiric model (Ladislav Tuhovcak, CARE)

*The speech of Mr Tuhovcak has been divided in two parts. First, he presented the water supply sector in the Czech Republic (general data). Then, he made a detailed presentation of the CARE-W project (Computer Aided REhabilitation of Water Networks), research project supported by the European Commission under the 5th Framework Programme (<http://care-w.unife.it>).*

- 10h45-11h15: The consolidation of water accounts in France (Bernard Poupat , IFEN)

*In France, the French Institute for the Environment (IFEN) is in charge of environmental accounting issues including the national management of water expenditure. In his speech, Mr Poupat presented the main methodological aspects of the expenditure assessment, the expenditure components and its financing. He also introduced the trends over 1990-2002, the water price and the investments financing constraints observed in France.*

- 11h15-11h45: Review on urban water development programmes in Hungary (Pintér Ágnes Ilona, Ministry of Environment)

*Mrs Ilona from the Hungarian Ministry of Environment and Water presented the regulatory framework in Hungary, the future need of investments regarding the implementation of the EU directives and the financing schemes.*

- 11h45-12h15 Models to evaluate water investments in Italy (Antonio Massarutto, University of Udine)

*Mr Massarutto presented the evaluation of costs for the implementation of the Water Framework Directive in Italy: methodology and case-studies.*

*He is currently leading a study in Italy that aims at providing an operational methodology for the assessment of costs of water services in the Italian domain, before and after implementing the WFD. It might be a basis for estimating cost recovery structure of existing mechanisms for financing water services. The so called methodology is being applied in some relevant case studies Region Lombardia, Region Emilia-Romagna and river basin authority of Tevere (Region Lazio + Umbria + part of Toscana).*

- 13h45-14h15: Optimising a water investment: an operator's view (Stéphane Ebalard, Veolia Water)

*First, Mr Ebalard presented briefly the current activities of Veolia Environment and then classified the different PPP contractual frameworks in Europe (French, English and German models). On the second part of his speech, Mr Ebalard showed how a private operator could optimise water investments by developing management efficiency and thanks to its expertise. He explained finally that the optimization of water investments relies on the operator's know-how, experience and long term commitment.*

### **2.2.3 Prospective on financial strategies**

- 14h15-14h45: Financial strategies and financial attractiveness (Laurent Lhopitallier, PwC)

*Within MEIF consortium, PwC was in charge of the financial aspects. Mr Lhopitallier made a synthesis of the main lessons of the project. Some of the tools drawn during the MEIF project were presented: expenditure/resource table, evaluation of the financial attractiveness, etc...Moreover, he presented the main problems and obstacles encountered during the project regarding financing issues were presented.*

- 14h45-15h15: France: limits of the current system (Patrick Deronzier and Jean-Pierre Rideau, French Ministry of Environment)

*This intervention was separated in two parts with two different speakers. First, Mr Rideau detailed the current financing structure of water investments in France and underlined the future problems for water financing in the next year. Then, Mr Deronzier presented some options to rethink the infrastructure renewal financing through the creation of new financial tools.*

- 15h15-15h45: Principles for an optimised financing in the water sector (Thierry Noël, Suez)

*Mr Noël described the different principles to have the optimal service level taking into account cost ratios. Two detailed case studies have been presented by Mr Noël: the cities of Rostock in Germany and Pecs in Hungary, where investment plan and financial flows were optimised by Suez.*

- 15h45-16h00: UK, an overview. (Laurent Lhopitallier, PwC)

*For the UK, a short description of the main aspects studied by the MEIF consortium during the project was introduced. It concerned investment methodologies, financial aspects and water pricing policy.*

- 09h00-09h30: Poland: the role of the Environment Fund (Anna Czyzewska, National Fund for Environmental Protection and Water Management)

*Mrs Czyzewska presented the type of water projects financed by the Polish National Fund and the level of financing. Moreover, the current level of international financing for water (especially EU funds) was described and put into perspective regarding the future need of investments.*

- 09h30-10h00: Romania: a national perspective (Vasile Ciomos, Romanian Water Association)

*Mr Ciomos made a very complete presentation of the Romanian situation regarding water investment needs and the current financial structure for water. Moreover, in*

*his speech, he included the presentation of the regulatory framework and the main objectives set by regulatory authorities.*

- 10h00-10h30: Romania: an applicative case study (Guy Leclerc, PwC Paris)

*Thanks to a FASEP grant (French Ministry of Economy), PwC assisted four Romanian small and medium towns for the future financing of their water investment needs. In his speech, Mr Leclerc presented the main aspects of the project and the main results for each city regarding the future need of investment, the prospective financial strategies and water pricing.*

- 11h00-11h30: Bulgaria: new strategy and water regulatory commission (Galia Badarska, Bulgarian Academy of Science, Institute of Water Problems)

*Mrs Badarska made a very comprehensive presentation of the Bulgarian situation regarding water investment needs and the current financial structure for water. Moreover, in her speech, she included the presentation of the regulatory framework, the main data regarding water supply. She also mentioned the main existing obstacles and opportunities in the Bulgarian water sector.*

- 11h30-12h00: The FEASIBLE Model (Alexander Martoussevitch, OECD).

*The OECD developed a specific tool to evaluate investment needs by using generic costs (FEASIBLE). This is a computerized tool that is in public domain. Mr Martoussevitch presented the main methodological aspects and some example of results obtained after using FEASIBLE in Central Asian countries.*

- 12h00-12h30: Economics of the Water framework directive: progress and gaps. (Thierry Davy, Agences de l'Eau, France)

*Mr Davy was previously working in the EU Commission on water aspects relating to the implementation of the WFD. In his speech, he presented the main economic issues that exist in the WFD, the current progress and the future gaps for the implementation of this directive in the different countries. He specifically pointed out some future research avenues regarding for example, the lack of knowledge of financial costs in Europe.*

- 14h00-14h30: A private banker's perspective (Gérard Brasquet, Société Générale)

*Mr Brasquet gave an overview of the obstacles and opportunities for a private banker to finance water investments in 3 Central and Eastern countries: Czech Republic, Romania and Bulgaria. He also presented the current activities of the Société Générale in those countries.*

#### **2.2.4 Prospective on water pricing**

- 14h30-15h00: Pricing policies and prospective scenarios (Xavier Leflaive, Bipe).

*Within the MEIF consortium, BIPE was in charge of the water pricing aspects. Mr Leflaive made a synthesis of the main lessons of the project, especially regarding the relation between investment needs, financing and pricing aspect and the fact that the price of water might not be considered as an adjustment variable. Mr Leflaive also gave some features to draw a prospective analysis of water pricing.*

- 15h00-15h30: Germany: water prices and investment needs (Dr Oehmichen, BGW).

*Mr Oehmichen largely described the regulatory framework in Germany since the full cost recovery is mandatory in the country. Moreover, he also presented the future need of investments and the current financing structure in Germany.*

- 16h00-16h30: Water pricing in Spain (Jordi Molina, Fundacio Agbar)

*Mr Molina presented the situation in Spain and divided his speech in the following parts: hydraulic balance, water sector management, water charges and investment needs. He detailed the investment figures existing in the National Hydrological Plan.*

**All the presentations (electronic files) made during the MEIF conference are downloadable from the MEIF website ([www.meif.org](http://www.meif.org)).**

### ***2.3 Overall conclusion of the MEIF research project. Debate on future research issues with stakeholders.***

The members of the MEIF consortium had the opportunity to discuss with the stakeholders the different conclusions and research avenues of the MEIF project already presented in section 1.

Some of the stakeholders attending the conference underlined the following aspects:

- ✓ There is a clear demand especially in Central Europe countries, to have the final conclusions of the MEIF project translated into local languages. The different water experts that were assisting the conference showed their interest to translate the document in their own language,
- ✓ The debate on future research issues showed that the MEIF project need clearly to be continued to develop the reflection on some aspects. In the next months, PwC will be preparing a follow up project to be presented at the end of October, 2004 for funding under the 6<sup>th</sup> Framework Programme.

## **3 Other ways of dissemination for MEIF results**

### **3.1 Internet site ([www.meif.org](http://www.meif.org))**

All the following documents are downloadable on the MEIF website:

- ✓ All deliverables written during the project,
- ✓ All the presentations (electronic files) made during the MEIF conference,
- ✓ All relevant electronic files regarding investment, financing and pricing issues in the water sector are classified by country.

### **3.2 Participation in international meetings**

The MEIF consortium participated in two international conferences during the project in order to present the project and to discuss the first results of the project.

#### **3.2.1 Third World Water Forum in Kyoto (16-23 March 2003)**

Representatives of PwC, BIPE and IOW attended the Third World Water Forum in Kyoto, on 16-23 March 2003, to present the objectives, the methodology and the first results of the MEIF project.

Moreover, the Kyoto Forum was an interesting opportunity to network and to meet water experts and to gather useful information for MEIF.

#### **3.2.2 European forum in Barcelona (February, 2003)**

In Barcelona (February, 2003), PwC has participated:

- ✓ In the European forum for communication and information exchange on models and tools concerning integrated river basin management and the implementation of the Water Framework Directive (constitution of a task force inside Harmonica),
- ✓ At the closing Workshop of the projects FIRMA and GOUVERNE financed inside the 5<sup>th</sup> Framework Programme (DG research).

### **3.3 Publishable Final report**

A final report presenting key results of the MEIF project is available from the MEIF website ([www.meif.org](http://www.meif.org)).

This report is likely to be made available in local languages of eastern Europe countries included in the study (subject to availability of resources for translation). The translated reports will be made available through the MEIF website as they become available.