

PROJECT ABSTRACT¹

Project number	EC0208
Project name	Interagua - Guayaquil Water and Sanitation project
Country	Ecuador
Sponsors	International Water Services (Guayaquil) B.V.
Total project cost	Up to approximately US\$146 million
IDB participation	IDB A-Loan: US\$40-50 million
Department	Private Sector Department
Status	Due Diligence
Date	January 24, 2003

I. Project Description

- 1.1 In October of 2000 the Government of Ecuador, with the assistance of the Inter-American Development Bank (IDB), through Empresa Cantonal de Agua Potable y Alcantarillado de Guayaquil (ECAPAG), publicly tendered the administration, operation, rehabilitation and expansion of the potable water, sewage and drainage system for the Canton of Guayaquil (the Concession Area), with approximately two million inhabitants².
- 1.2 On December 22, 2000, ECAPAG awarded the concession to International Water Services (Guayaquil) B.V. and on April 2001, the 30-year concession contract between ECAPAG and International Water Services (Guayaquil) Interagua C.Ltda. was signed.
- 1.3 On August 2001, International Water Services (Guayaquil) Interagua C.Ltda. ("Interagua" or the "Company"), the special purpose company constituted in Ecuador to operate the concession, commenced operations. Interagua is a subsidiary of the International Water Group of Netherlands, a leading developer and operator of private sector water and wastewater systems around the world. Interagua now operates the potable water, sewage and drainage system in accordance with the Concession Contract and has started necessary rehabilitation and expansion projects.
- 1.4 The capital expenditure program contemplates investments of about US\$500 million over the 30 years of the concession. The concession term is divided into six five-year periods. Based on the information gathered during the first year of operations, Interagua has been able to assess the capital expenditure program needed to improve quality of services and to achieve the requirement of 55,238 new water and wastewater connections by 2006. As a result, the capital expenditure

¹ This Abstract was last updated on February 03, 2003.

² Interagua is also providing bulk treated water to certain neighboring municipalities (i.e. Duran, Daule, Nobol, Playas and Samborondon).

program currently contemplated is estimated to reach approximately US\$146 million for the period of 2002-2006 (the “Project”).

- 1.5 The Company has requested IDB’s financial support to cover a portion of the Project. The contemplated financing will be made through an IDB A-loan of approximately US\$40-50 million and the rest will be financed through sponsor equity contribution and internally generated cash flows.

II. Project Benefits

- 2.1 In order to improve the quality and range of the water and sewerage systems in Guayaquil, the Ecuadorian authorities have concluded that the concession of the services to the private sector was the most suited instrument for mobilizing financing for all required investments and to accelerate the incorporation of technology and know-how in order to improve the quality of the services.
- 2.2 The priority of the concession is to rehabilitate and expand the potable water and sewerage networks thereby improving the coverage and the quality of service and reducing health hazards. In addition, The Company’s current investment program includes significant investments that will have an overall positive impact in terms of sanitary and health-related benefits, that will increase the efficiency and quality of the water and sewerage services provided, and will facilitate the expansion of the service to poorer areas. It is expected that all this would result in socio-economic benefits to the region served.

III. IDB Participation

- 3.1 The Project is consistent with IDB’s country and sector strategies. In particular, the proposed program is in line with the Bank’s upstream work done in ECAPAG, and also in line with the Bank’s strategy for Ecuador
- 3.2 The participation of the IDB in this project provides strong additionality benefits. Long-term sources of financing in Ecuador are practically non-existent without the presence of a multilateral institution. It is also always very difficult to attract international funds to water projects in areas with socio-economic characteristics such as this one.