

# A thirst for investment

Investment opportunities in the Middle East's water sector will increase as demand rises sharply and governments attempt to attract private finance



The demands of the Middle East for safe water are expected to grow sharply in the coming years, driven by economic growth and huge infrastructure projects such as Saudi Arabia's five 'economic cities'. According to the Saudi government, to ensure 100% coverage in the country there will need to be US\$21bn of capital and operational investment in the water distribution sector over the next 20 years and US\$33bn invested in the sewage sector.

Saudi Arabia is the largest country in the world without running surface water and with limited underground water reserves. It is highly dependent on desalination plants. The country's water resource is less than 100 cubic metres per person, per year, compared with more than 3,000 cubic metres in France.

## PPP and private equity

The pressures facing Saudi Arabia and other Gulf states are leading to public-to-private partnerships (PPPs), which are helping create private equity opportunities. Water companies including France's Veolia and Suez Environnement have been awarded contracts in Saudi Arabia and elsewhere in the Gulf.

In March this year UK company Bluewater Bio International, which provides an innovative wastewater treatment process called HYBACS, signed an agreement with Saudi contractor Nesma to roll out the technology across the country. Bluewater Bio is part of a consortium with Bahrain-based Zero Waste Technology, bidding on a contract for a new US\$100m sewage treatment plant in Bahrain. This is the country's first private sector wastewater treatment tender and has attracted 16 pre-qualified bidders. Bluewater Bio and Nesma also intend to establish a HYBACS plant in Saudi Arabia.

Bluewater Bio is part-owned by FourWinds Capital Management through its Aqua Resources Fund. "We provide expansion capital for companies both inside and outside the Gulf who are seeking to grow on the back of water-related contracts," said FourWinds CEO Kimberly Tara.

There is a lot of technology transfer from European companies, she said, adding that FourWinds is interested in partnering with Gulf-based companies and bringing them together with portfolio companies from other regions that have technology or skills that are needed in water-related projects.

"There's a lot going on in the Middle East in waste water and recycling," said Tara, adding that desalination is a growth area thanks to the huge use of water by the oil and gas industry in the region. Desalination is not so attractive for commercial demands, she says, because of transportation problems. Another growth area is the use of recycled water for 'greenification'. "You can see the use of 'grey' water in places like Dubai, in which re-used water is applied using drip techniques," she said.

But one of the main problems in the Middle East is leakage of water, with 35%-40% lost from the Saudi network, which given the relatively high cost of desalination, is a major challenge. Wastewater treatment will be an important feature in the region's development, said David Lloyd Owen, founder of water consultancy Envisager. He said that waste water treatment plants and sewage plants will be needed so that water can be recycled. He added that religious objections to the use of recycled water have been overcome and that it has been declared halal.

One of the factors that can accelerate the development of water solutions in the region, said Lloyd Owen, is well-run utilities. Singapore, for example, has made great strides in developing its water resources on the back of a highly efficient water utility. "If one of the UAEs wanted to build up its water sector one of the steps would be having a well-run utility to have as a testing ground," he said.

But a barrier to developing more efficient utilities is the political sensitivities attached to water in the Middle East. Lloyd Owen highlighted the fact that in many parts of the region water is sold at subsidised rates. "There are question marks about the states' willingness to charge full cost," he said.

## Political considerations

Helge Daebel, a water sector specialist at Swiss VC house Emerald Technology Ventures, said that another political problem is that politicians in the region prefer to focus on high-profile projects, such as new treatment plants, rather than the less visible but equally important work of reducing leakage by improving pipe inspection.

Daebel also highlighted some particular challenges facing investment in the water sector more generally, arguing that markets tend to be fragmented, local, and it can take a long time to demonstrate the effectiveness of a particular technology. "It's not that attractive for early-stage conventional venture capital where you're normally looking for high growth within five years." But he added that issues such as climate change, demographic movements and the growing demand for water in regions such as the Gulf will attract more talent and ideas to the market, but knowing the right investment stage to enter will be crucial for VC houses.

