

# **How to implement the OECD work more effectively – A view from Business & Industry**

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Group**

**OECD Expert Meeting on  
"Sustainable Financing for Affordable Water Services:  
From Theory to Practice"**

**Paris 14 – 15 November 2007**



**Business and Industry Advisory Committee to the OECD  
Comité Consultatif Economique et Industriel Auprès de l' OCDE**

# Water Issues are Vital to Business

***Business cannot succeed in societies that thirst***

- Business is **part of** society not apart from society
  - Cottage industry, SMEs, Local, National, International
- Water is essential throughout the value chain
  - Upstream                      Raw materials, Labour, Suppliers
  - Mid-stream                      Process, Product, HS&E, Energy
  - Down-stream                      Markets, Customers, Society
- Many types of business involved
- No water - No business

# The OECD "Horizontal" Project is Important for Business

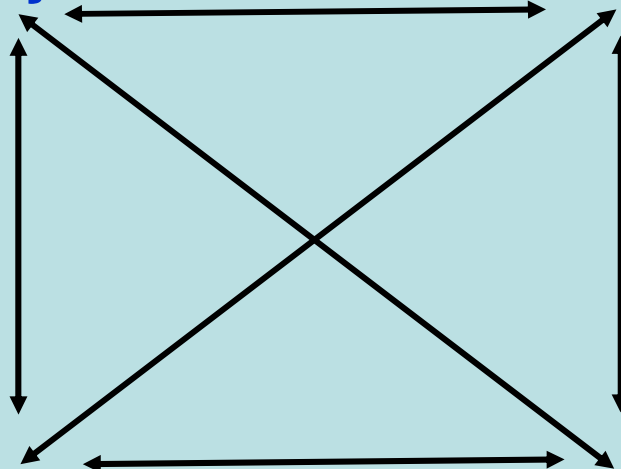
- Strength of OECD is to link **Politics** with **Economics**
  - Two key areas of water management that are frequently neglected
- Need for sustainable **economic** basis for water management
- Need for sustained **political** commitment to water
- Business community is ready to make its contribution to **social, economic** and **environmental** water **sustainability**. We can only do so by working with others
- Links between agricultural, industrial & domestic water

# Four Vital Securities

4 interconnected vital securities are interlinked and interrelated

Water security

Food Security



Energy Security

Territorial Security

- Minimum security of all of these four is essential for an individual's life & for a business's existence.
- Adequate security is essential for a reasonable lifestyle / business
- Excessive security leads to unsustainable lifestyle / business

# Opportunities to be Unlocked by the OECD Project

- Political commitment to water issues
  - Governance
  - Sustainable Finance
  - Societal Engagement
- Get the basics right
- Provide stability
  - Clarify approaches to enhance sustainability
  - Improve confidence
- Attract investment into the sector
- More water projects
- Mobilise the wider externality benefits of water & sanitation

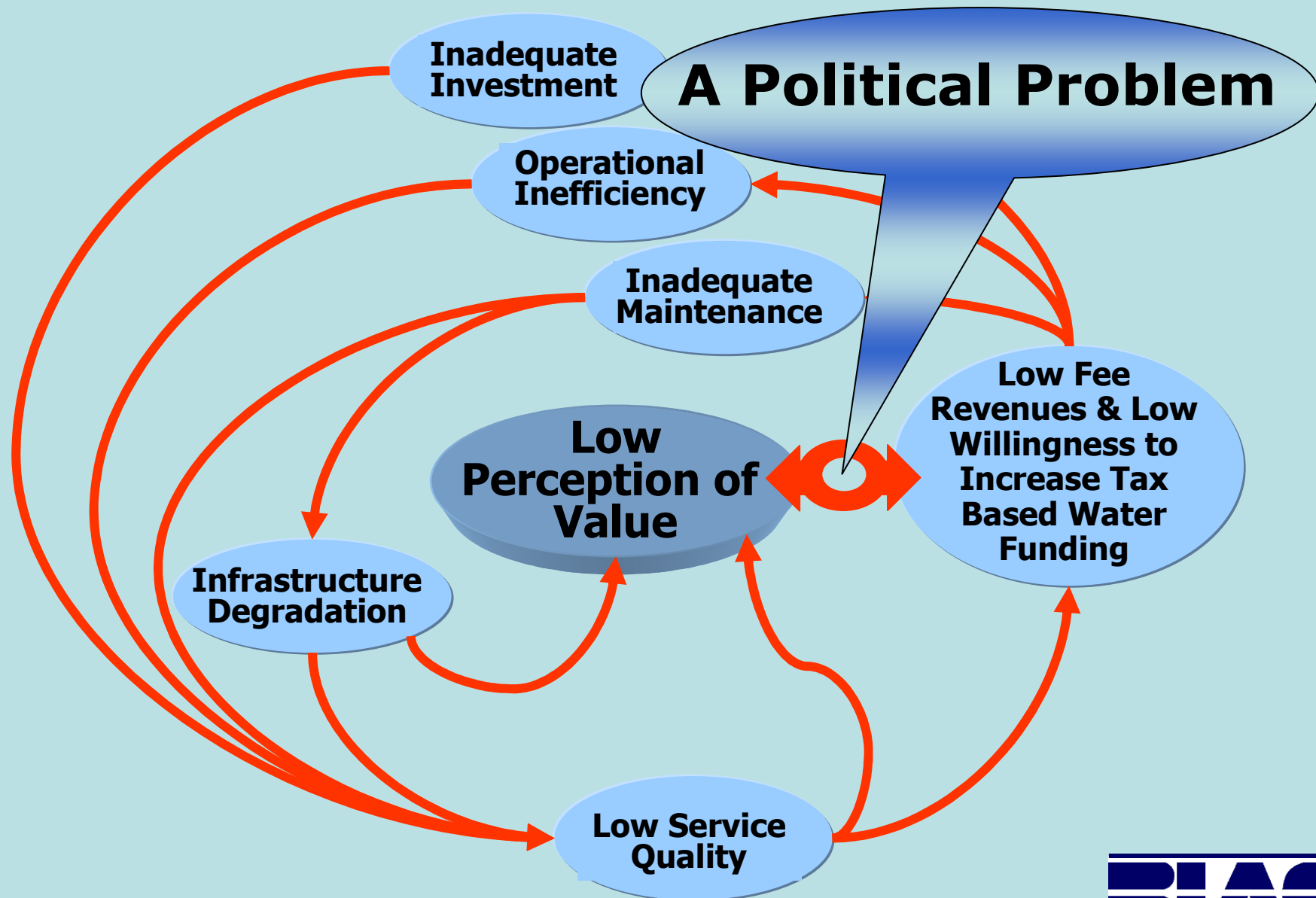
# Take a Practical Approach

- Realism in the policy advice on tariffs & pricing
- Policy Principles recognising sector specifics
- Recognise the legitimacy of business
- Involve business and be fair with it
- Recognise and support Local Government
- Encourage "progressive" approaches
- Beware of unintended consequences

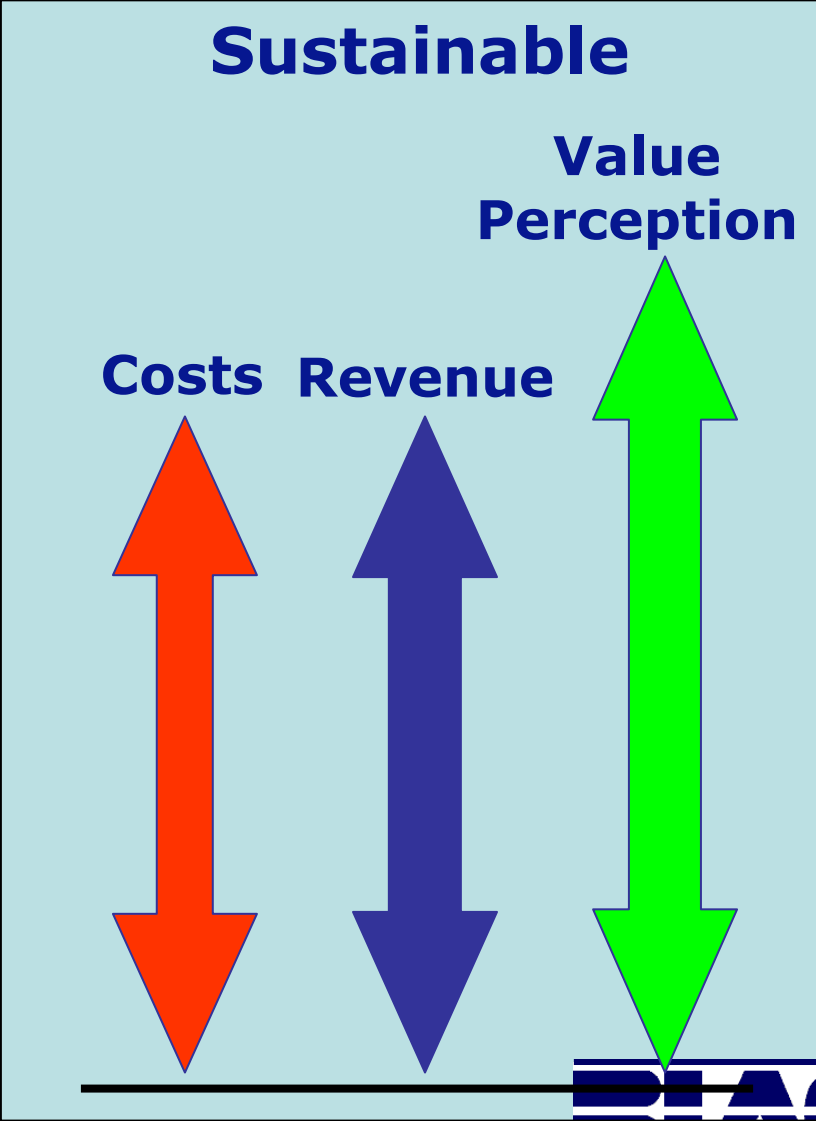
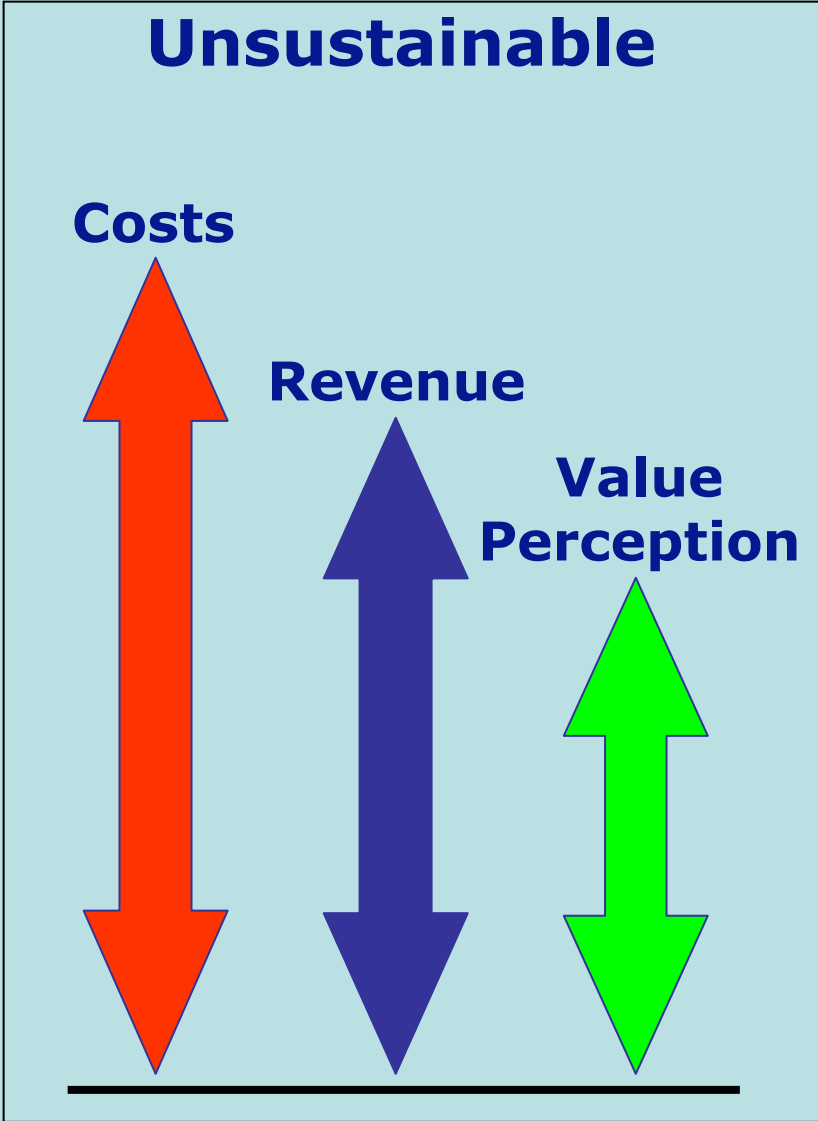
# Sustainable Water & Sanitation Services, Irrigation etc...

- Long-term business needs stable and predictable long-term finance
- Investments and cost management for long life assets
- Revenue streams sufficient and predictable
- Charges that are adequate, equitable and affordable
- These are fundamentally **political** matters

# The Vicious Spiral of Low Funding

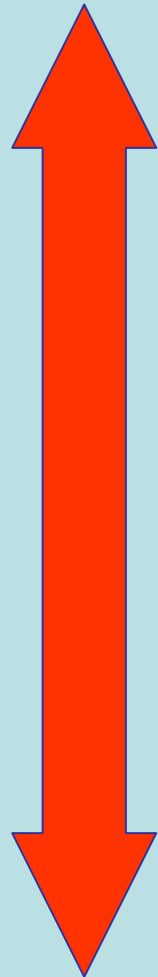


# Unsustainable VS Sustainable



# Constituent Components

## Costs



**Internal  
Operating  
Costs**

**Maintenance  
&  
Refurbishment**

**Capital  
Costs –  
Infrastructure  
& Depreciation**

## Revenue

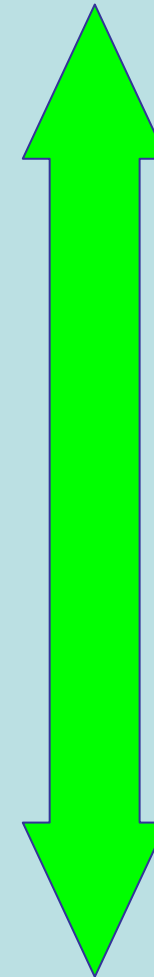


**User  
Charges**

**Subsidies  
from  
Taxation**

**Aid  
Grants**

## Value



**Direct  
Benefits**

**Externality  
Benefits**

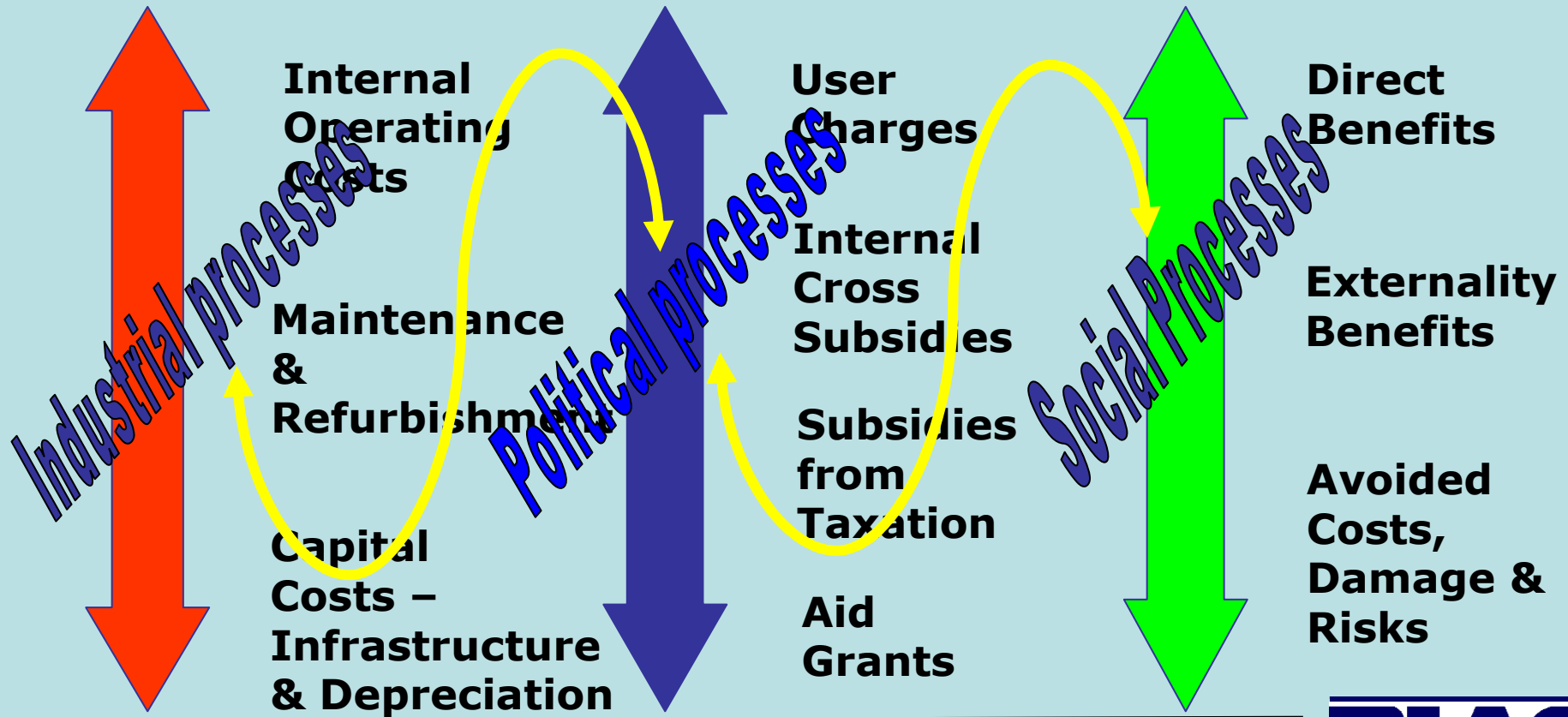
**Avoided  
Costs,  
Damage &  
Risks**

# The Dominant Processes

**Efficiency to  
Compress  
Costs**

**Socio-economic  
Optimisation  
of  
Revenue**

**Societal  
Maximisation  
of  
Value**



# Sustainable Financing = Stable Revenues

## Income from charges

To be based on economic affordability (for whole community)

Not to be based on "Political Affordability"

Provides good visibility as "market signal"

Gives good collection efficiency & cost

## Income from taxes

Requires consistent allocation (but is often short-term)

The challenge of budgetary competition

Is invisible as "market signal"

Administrative processes can be complex

## Grant aid

Beneficial but not sustainable

# Sustainable Cost-Recovery

“Camdessus”  
recommendation

- ◆ Long-term cost-recovery policy anticipating needs
- ◆ Subsidies from public budgets secured well in advance
- ◆ Revenues from users as a group with cross-subsidisation to ensure affordability

Recommendations endorsed by  
"Gurria" & UNSGAB

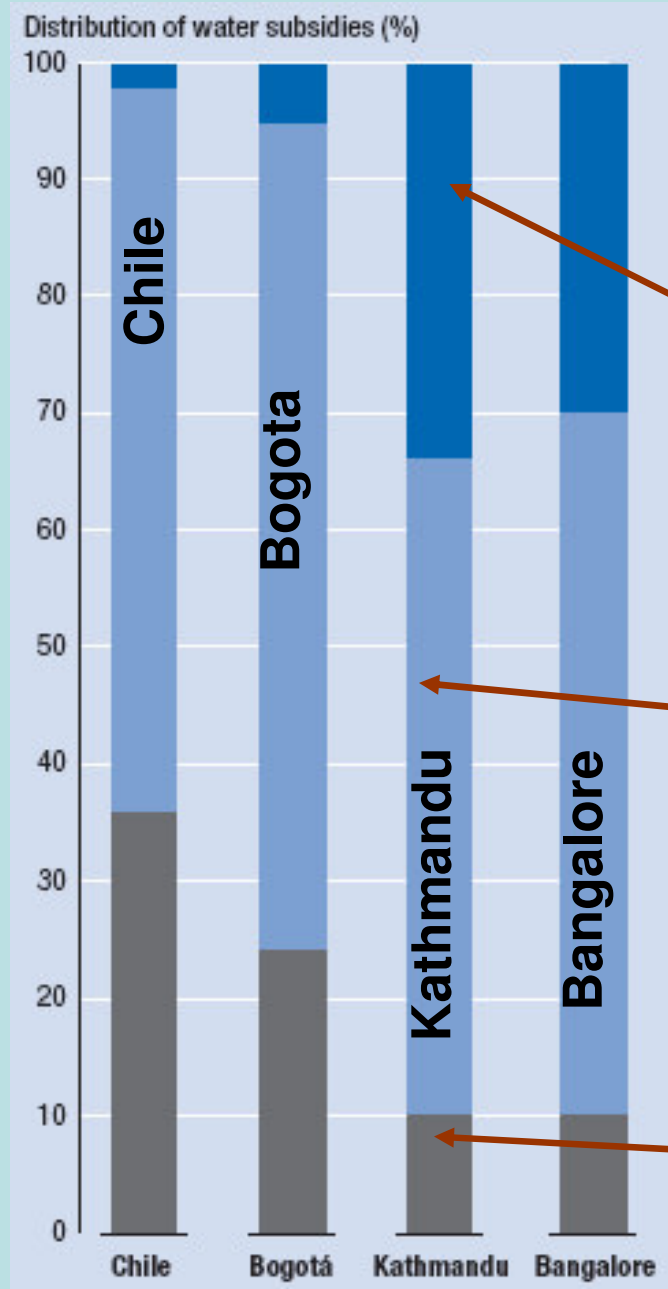
# Predictability of Subsidies

- Subsidies from taxation are fine, but must be predictable and fixed in advance
  - Pre-allocated predictable subsidies allow long term planning and efficient investment
  - Post-loss subsidies do not provide any incentive for efficiency nor ensure perenniality of service

# Affordability for all user categories

- Differentiated service provision:
  - a realistic approach (Some for all)
- Cross subsidies are acceptable
  - Cost recovery should be collective not individual (i.e. not determined by payment ability of the poorest)
  - Special low tariffs for the very poor compensated by a mean tariff that ensures cost recovery (i.e. positive discrimination)
  - Targeting with cross subsidies requires regular review
  - Beware of perverse effects

# "Where do the water subsidies go?"



Richest 20%

Middle 60%

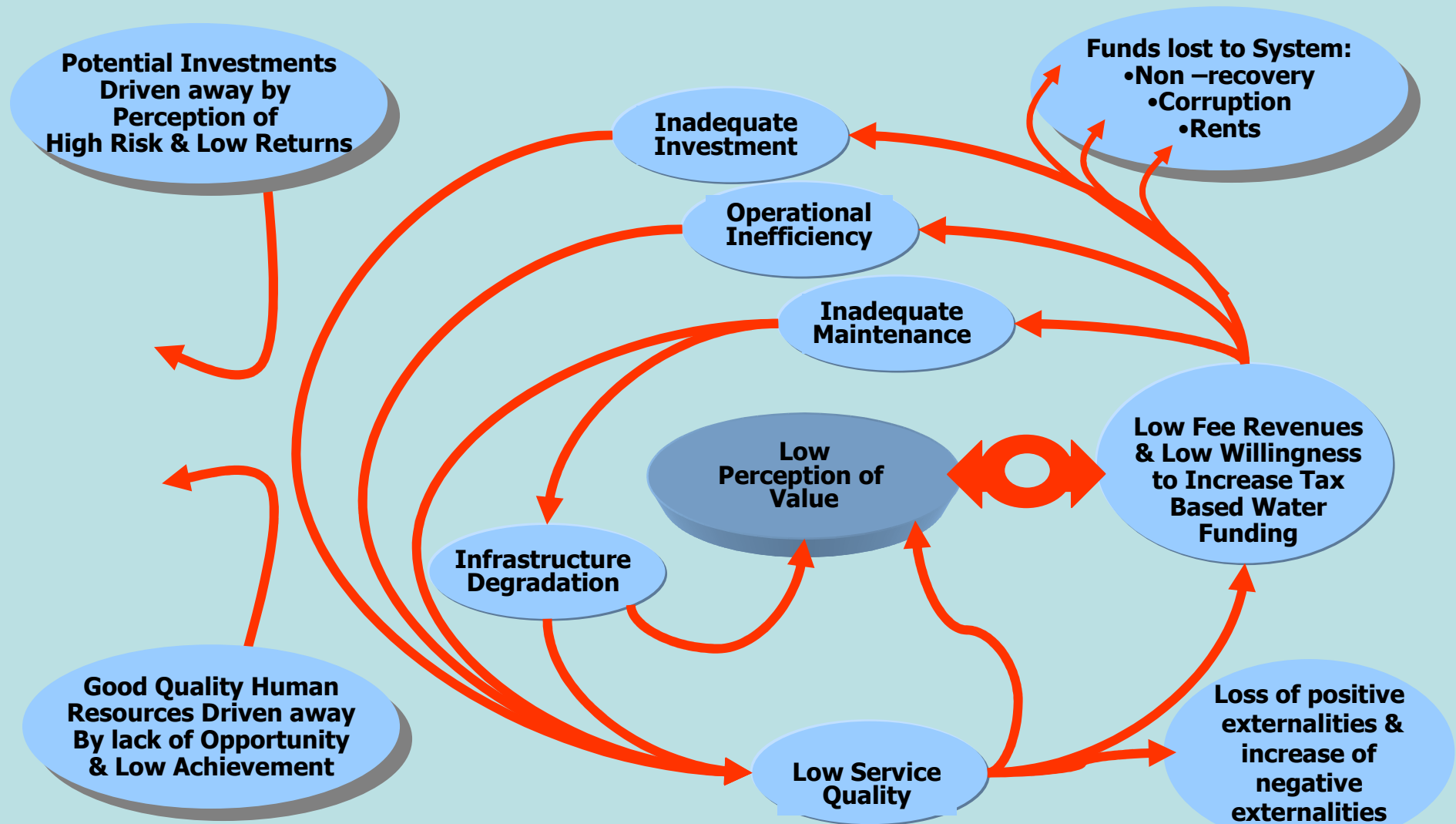
Poorest 20%

*Source: Komives and others 2005, reported by Human Development Report 2006*

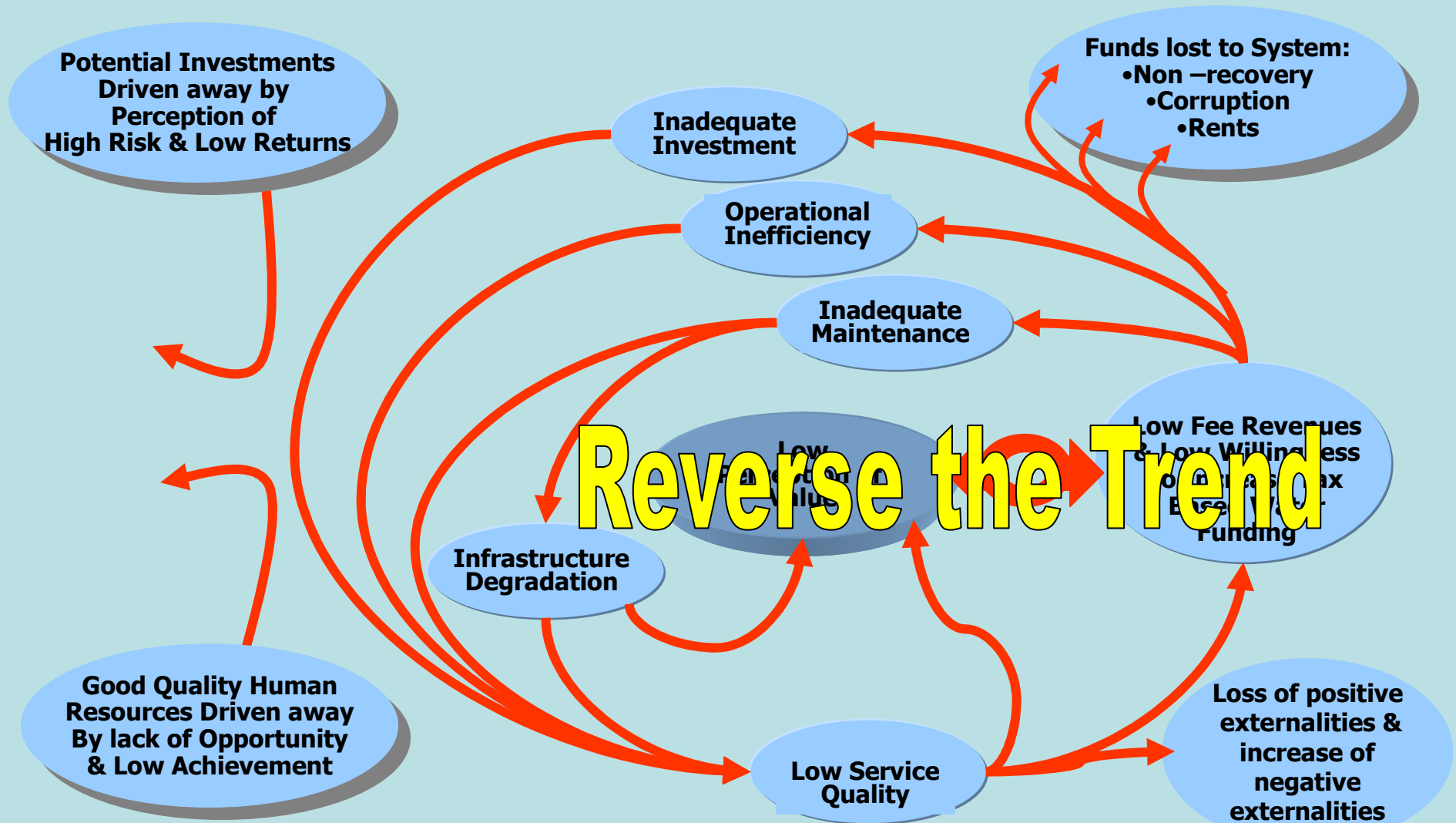
# Sustainable Financing Works

- Financial predictability of subsidies enabling long-term investment
  - **Europe & USA** Development of infrastructure with subsidised funds (US Municipal Bonds)
  - **European Union** – Regional Development & Structural Funds – e.g. Spain, Accession Countries
  - **Basin Agencies in France** – Strategic subsidy for a fixed percentage (typically 50%) of capital infrastructure is a rule that gives predictability and incentives to investment
- Also works for agriculture, hydro, etc...

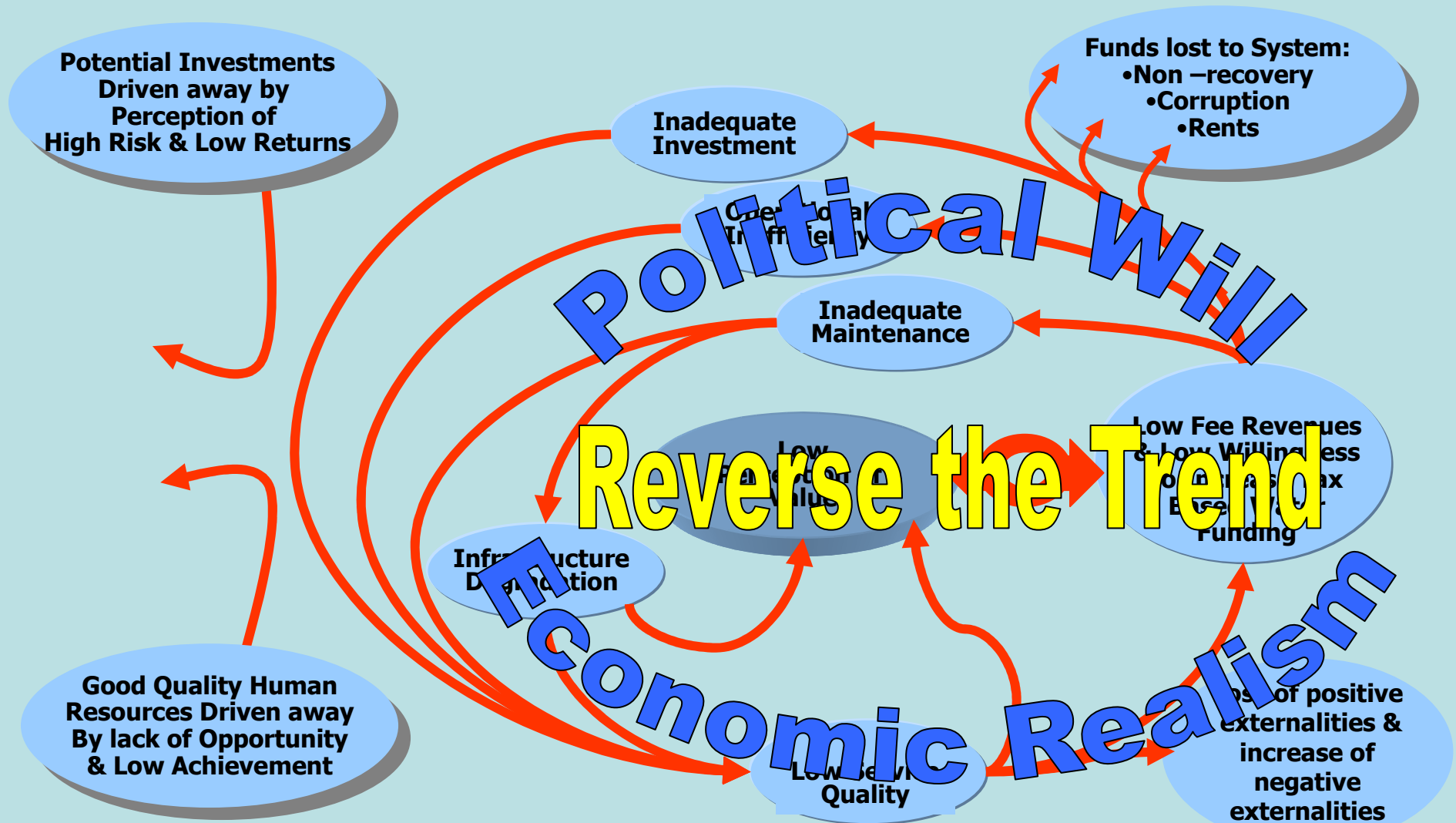
# Reverse the Vicious Spiral the Benefits for Society will be Huge



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# Playing to the strength of OECD

- Aim to mobilise political support and societal understanding
- Build on OECD recognised expertise in economic analysis and data
- Long-term social, environmental and economic stability are dependant on sound water resource allocation and water services provision
- Business strongly supports the "Horizontal" project



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