

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

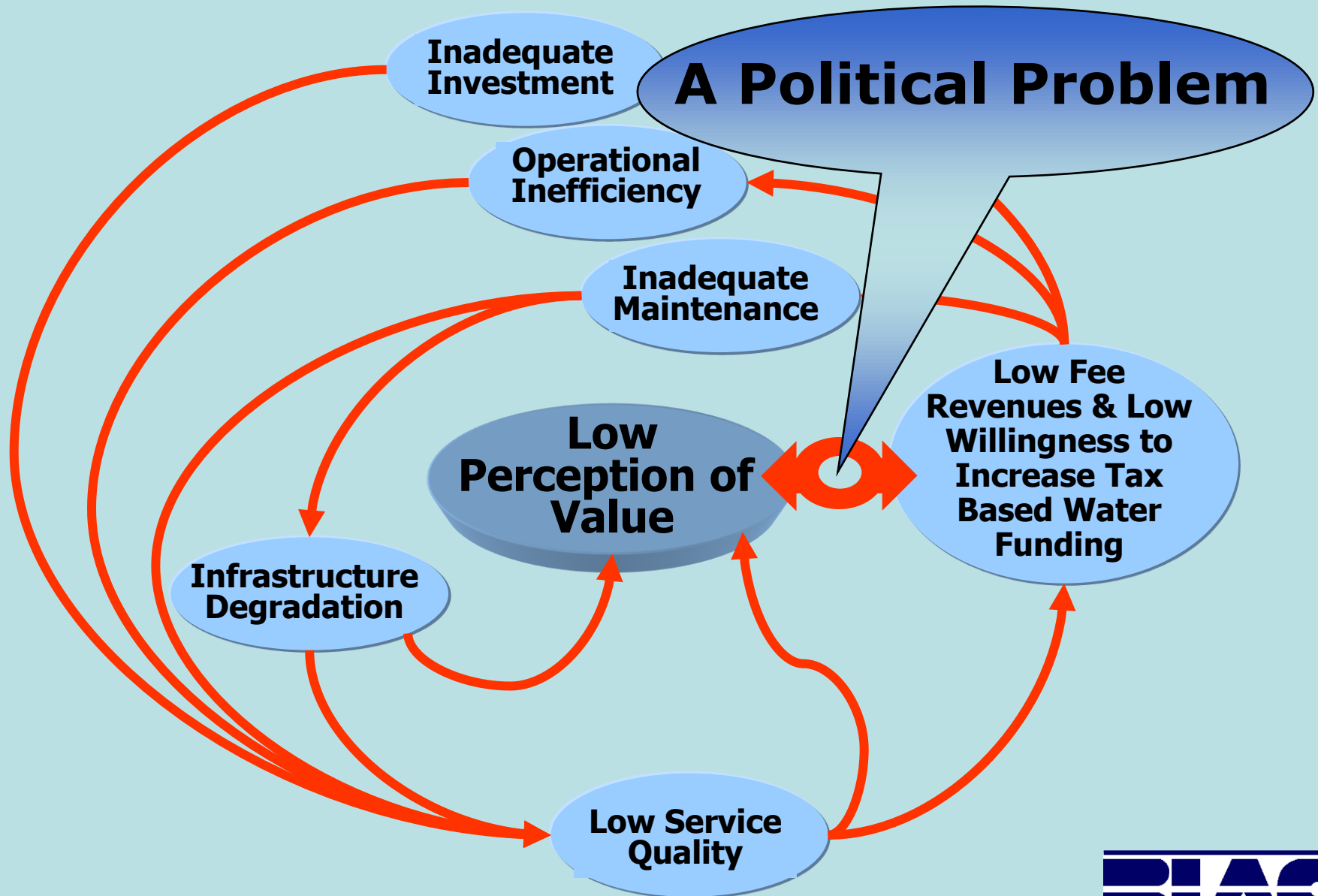
Opportunities to be Unlocked by the OECD Project

- 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

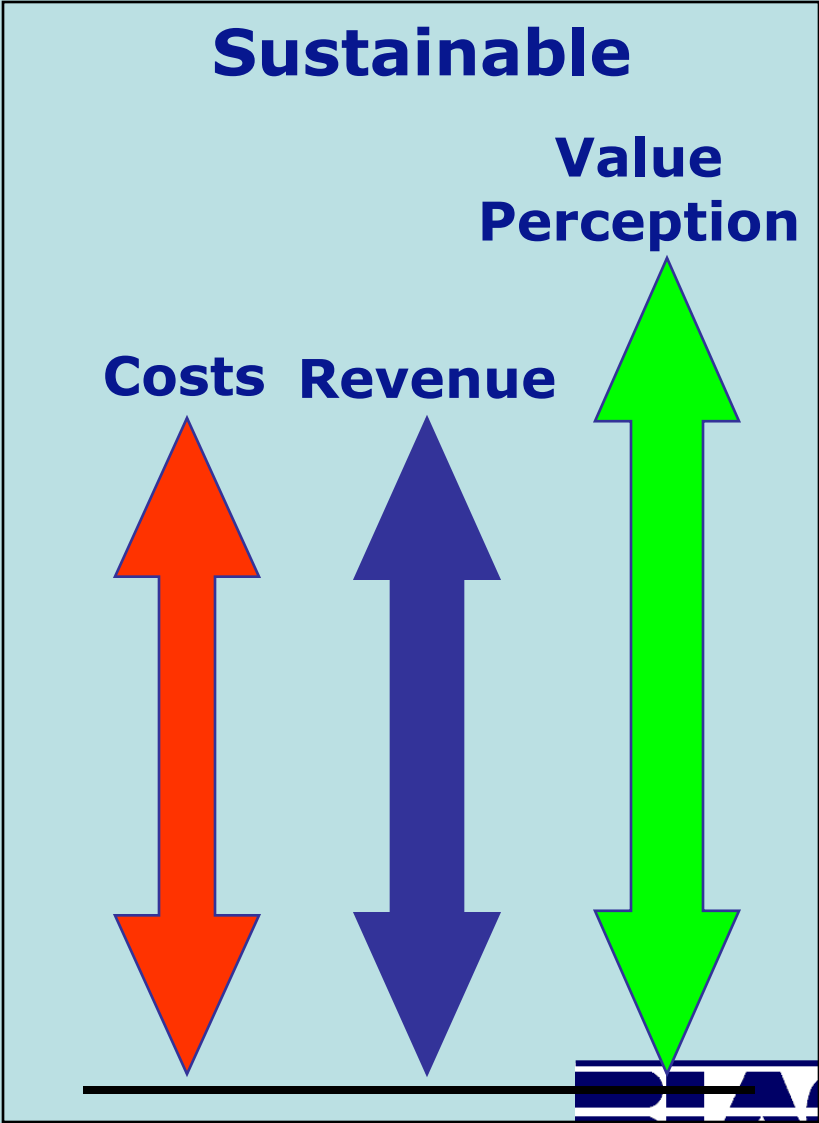
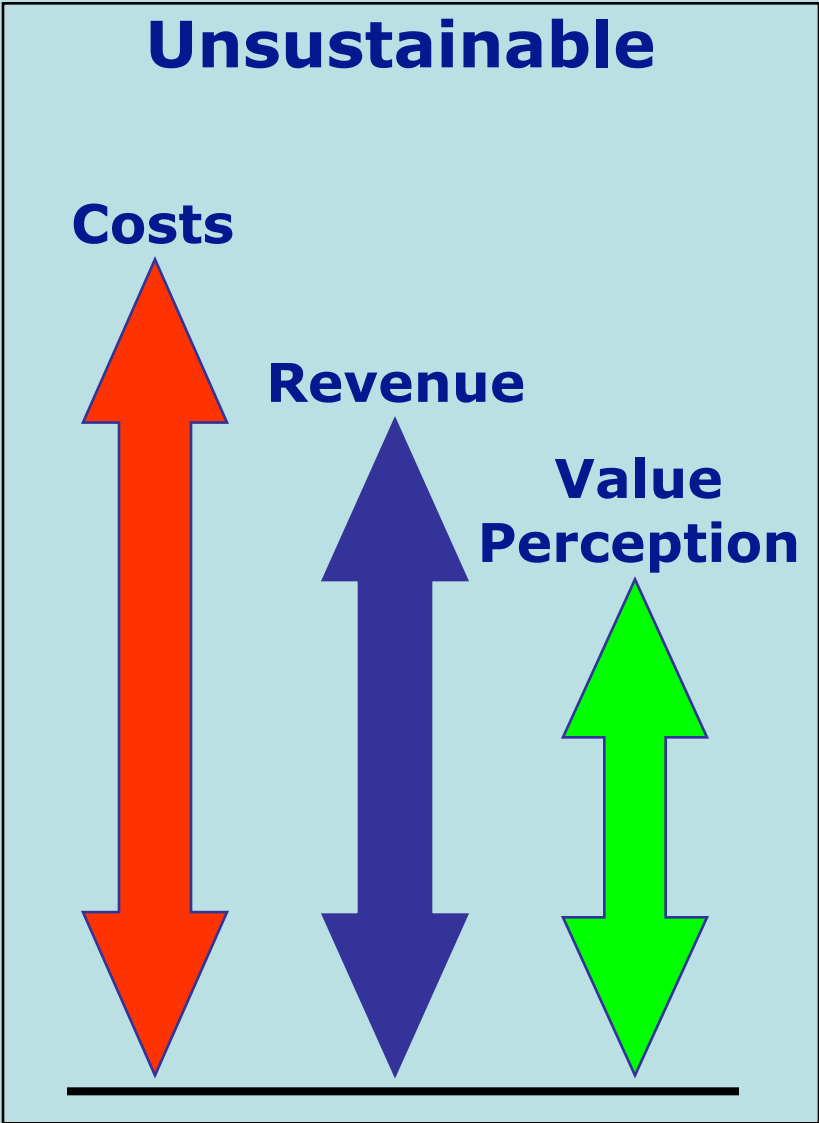
Sustainable Water & Sanitation Services, Irrigation etc...

- 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

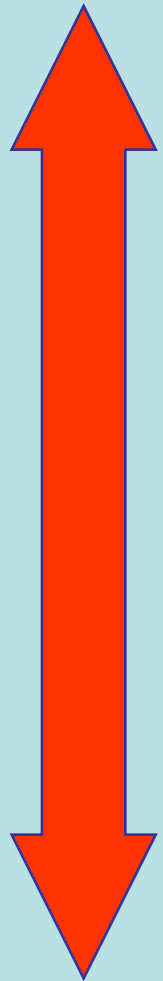


Unsustainable VS Sustainable



Constituent Components

Costs



**Internal
Operating
Costs**

**Maintenance
&
Refurbishment**

**Capital
Costs –
Infrastructure
& Depreciation**

Revenue

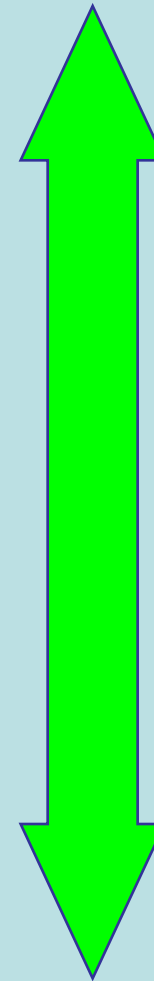


**User
Charges**

**Subsidies
from
Taxation**

**Aid
Grants**

Value



**Direct
Benefits**

**Externality
Benefits**

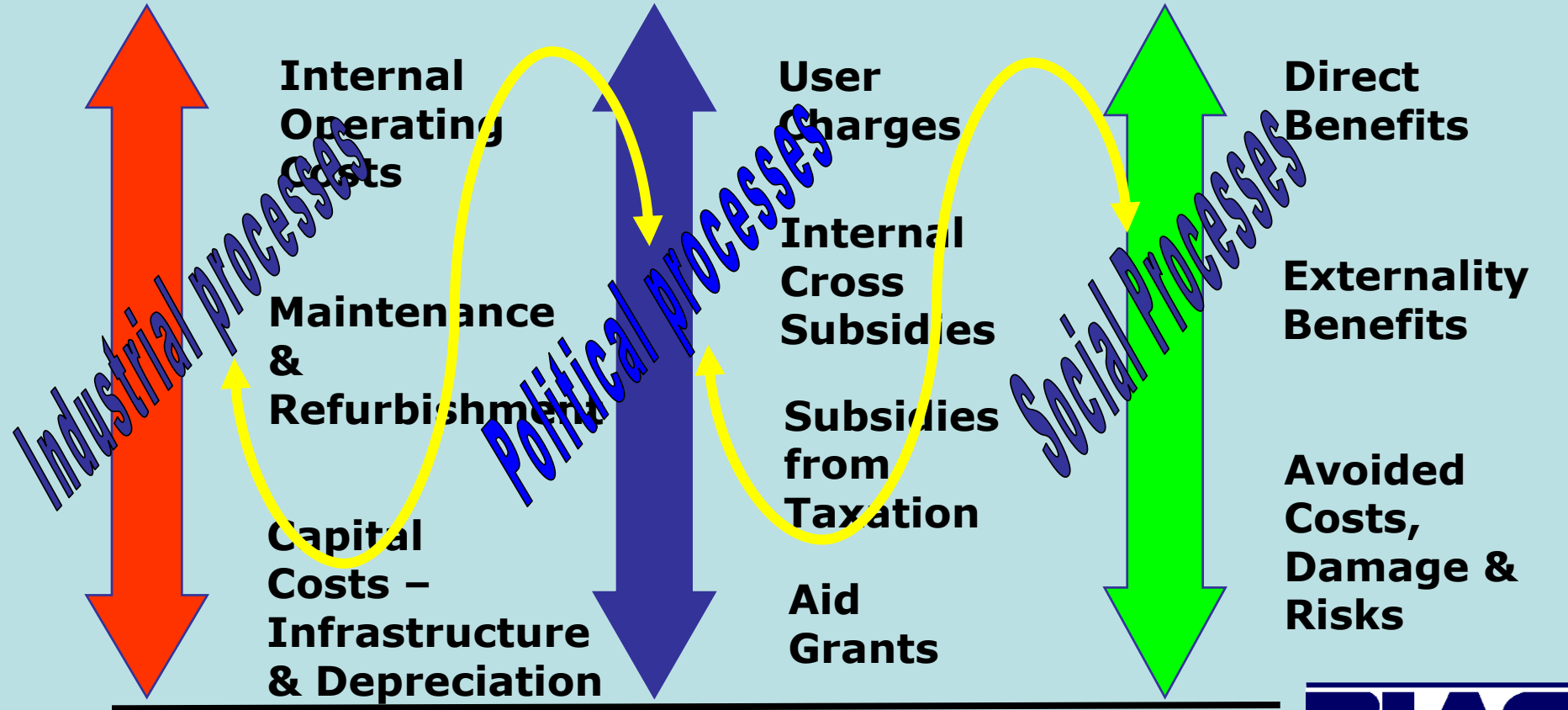
**Avoided
Costs,
Damage &
Risks**

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

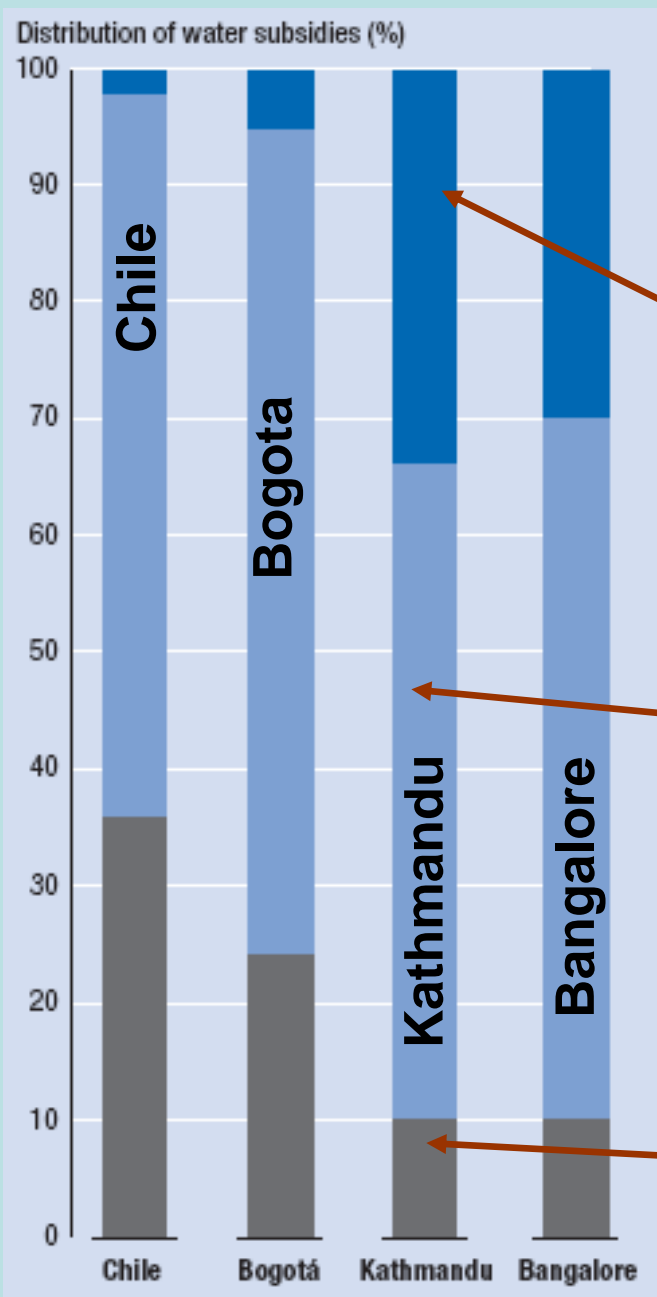
Predictability of Subsidies

- 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?”



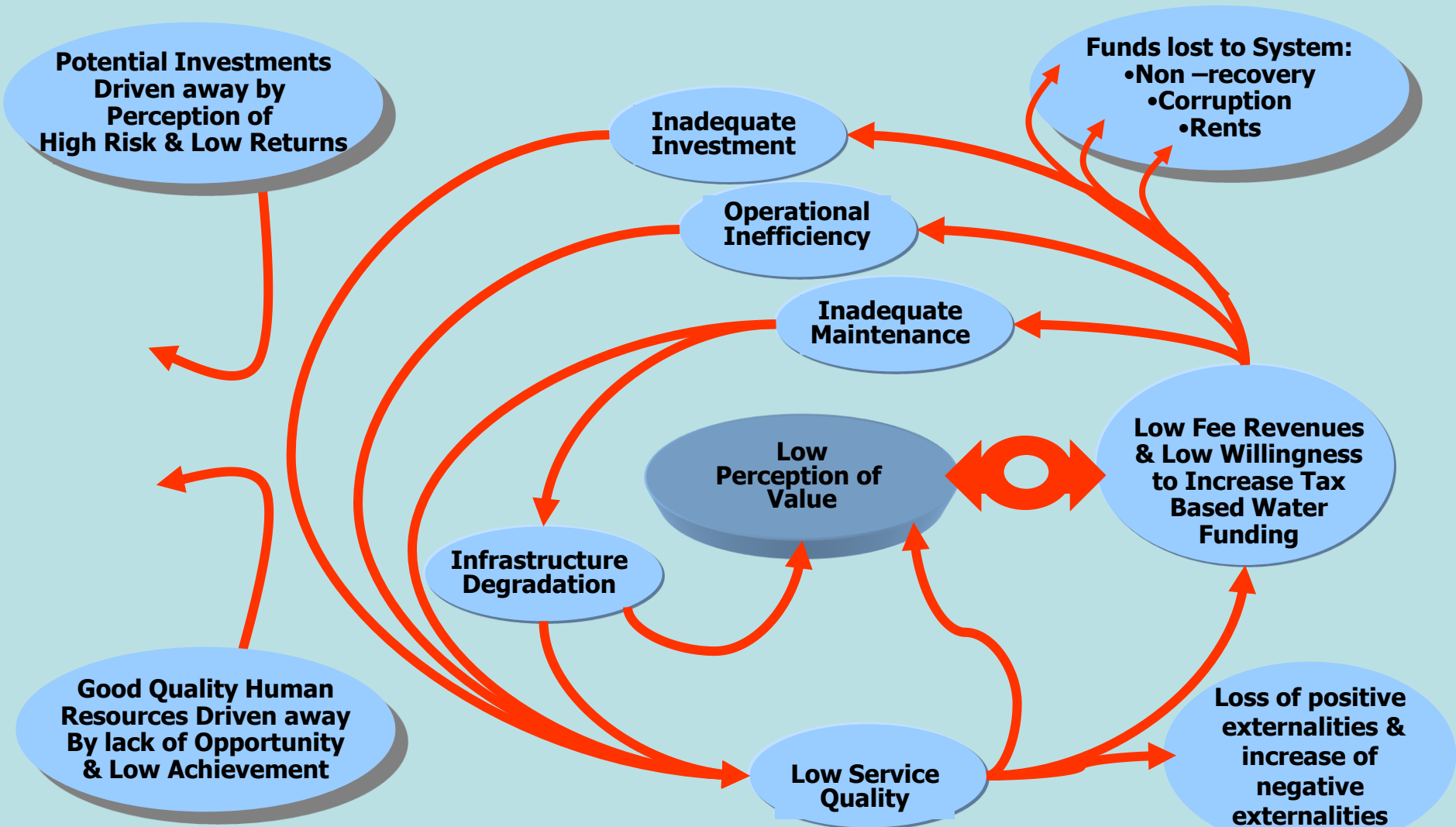
Richest 20%

Middle 60%

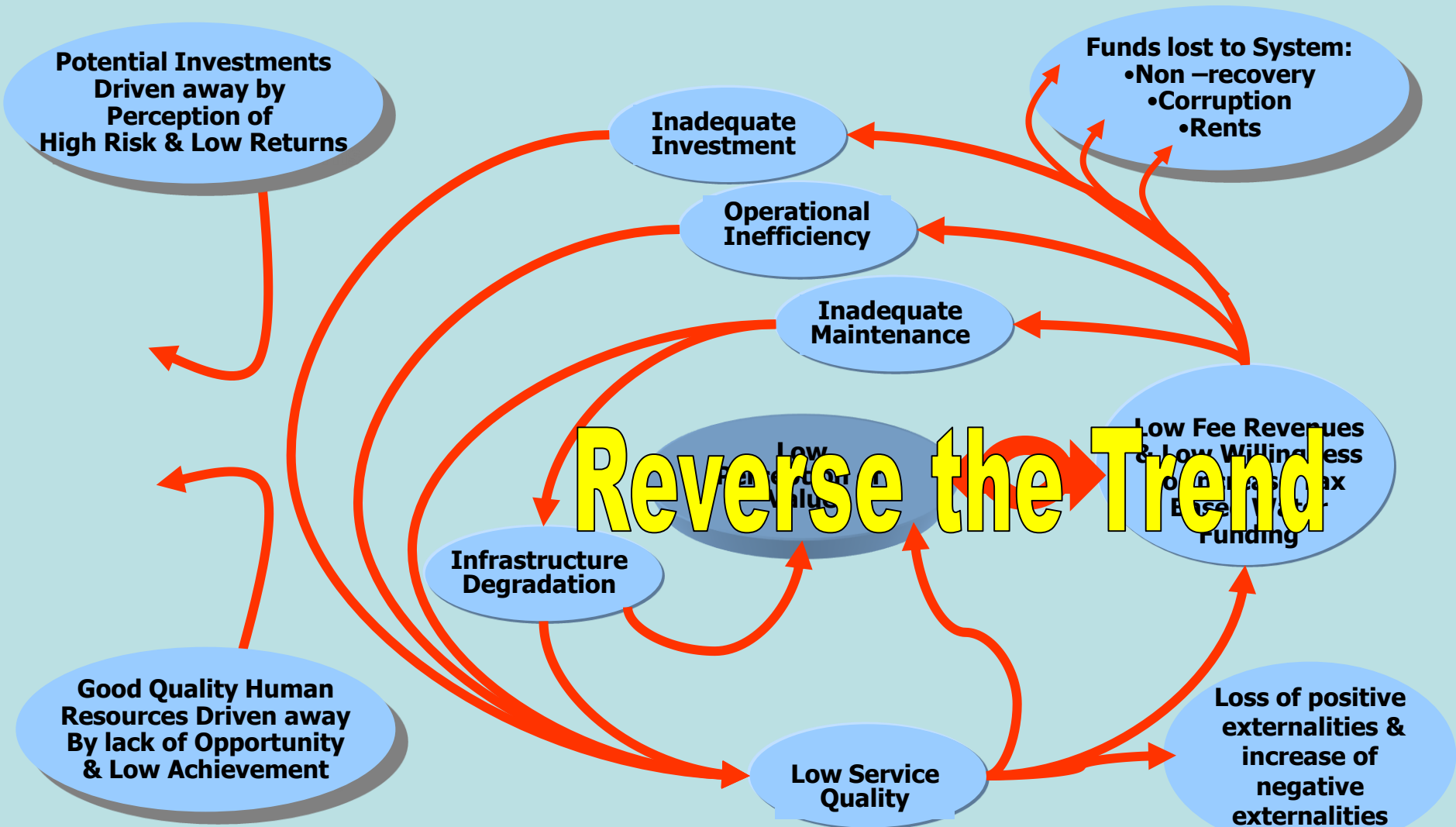
Poorest 20%

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

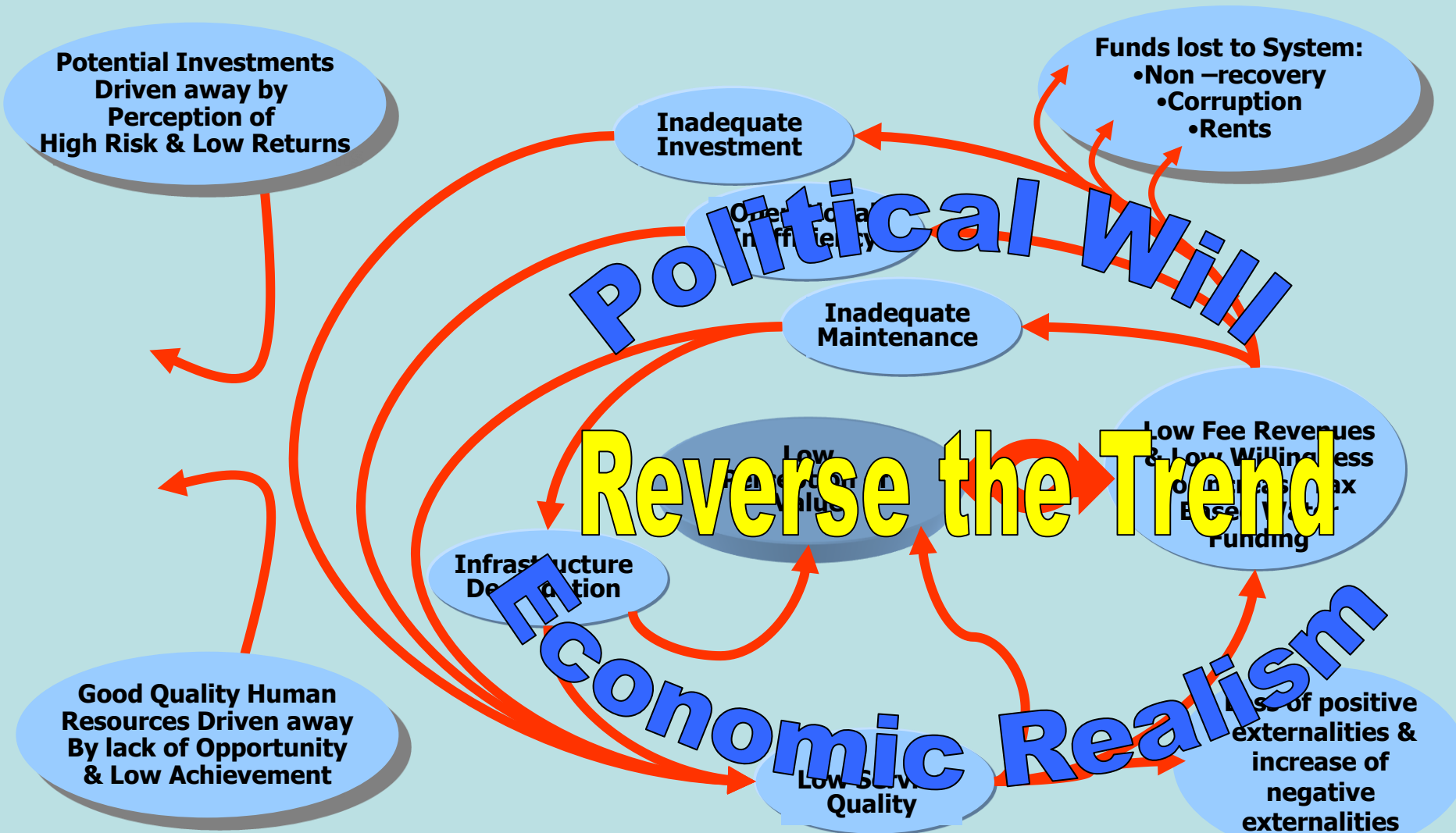
Reverse the Vicious Spiral the Benefits for Society will be Huge



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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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