



The Voice of OECD Business

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## **BIAC Views on the OECD Horizontal Water Project**

### **Overall context**

BIAC welcomes the high priority that the OECD has given to water and sanitation. We appreciate the OECD horizontal water project, which is underway, and are pleased to provide these additional suggestions for broadening the scope of the program as OECD is having initial discussions on next steps. The horizontal project is a key opportunity to move the vital issues posed by water and sanitation up the scale of attention and contribute to finding solutions to serious challenges ahead. We believe that the OECD is an economic and multi-disciplinary organization that produces high-quality analysis and reliable data that can provide clear added value to the international discussion.

BIAC believes that the OECD horizontal water project is playing a major role in raising the profile of water and sanitation issues both at the level of national governments and intergovernmental organizations. BIAC believes that more will remain to be done after the completion of the current phase and stands ready to contribute constructively to these discussions.

In OECD countries, addressing ageing infrastructure and under-investment, climate change and pollution, as well as meeting the needs of growing populations and responding to new trends, such as biofuels, will require significant replacements and upgrades of water and sanitation infrastructure. This is needed in order to ensure secure water supplies and preserve essential natural resources. In these countries continued economic and social development will only be possible with more focused attention on water allocation and management.

In developing countries, about 1.1 billion people do not have access to safe drinking water, and roughly 2.4 billion are without adequate sanitation. In order to achieve the UN Millennium Development Goal to halve the proportion of people without access to safe drinking water and basic sanitation by 2015, annual investments in water supply and sanitation in developing countries would likely need to double from the historical levels.

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Water, sanitation and related issues underpin all the other MDGs. The alleviation of poverty will only be possible with the alleviation of water poverty.

In a sustainable development context, these major issues have social, environmental and economic costs. It would be useful for the OECD to bring its expertise to bear on quantifying all these in economic terms. The objective of this would be to show Finance Ministers and economic managers in country administrations the real importance of the current level of neglect suffered by the sector. This level of neglect and the economic impacts that this has on the business environment are real and serious issues for business. Business can make a contribution to meeting these challenges, but depends on the lead and direction from policy makers and governments at many levels.

## **The multiple roles of business**

The business sector plays a key role both as a supplier and as a user of water and related services. Water is a key natural resource that is vital to businesses for their own survival and for their contribution to society's needs. There are different kinds of businesses and industry, all of which provide widely differing products and services to society. Where water is concerned, these businesses include those that:

- use (or consume) water directly in the products and services that they sell (e.g. food products, paper and pulp, etc.),
- use (or produce) water in their processes and need subsequently to discharge it without harming the environment and ecosystems,
- supply materials and equipment for water management (e.g. water pipes, pumps, chemicals, etc.),
- manage water and sanitation services delivery (water operators),
- provide finance and risk cover, construct essential infrastructure, provide professional services linked with these activities.

The location, continuity and future success of any business, and the societies they support, are impacted by the availability, cost, and quality of water at many points along the 'value chain', including 'upstream' (in the production and supply of raw materials, in particular, agricultural products where 70% of water withdrawal occurs), 'midstream' (in the manufacturing and production process), and 'downstream' (consumers need water to be able to use most products and everyone needs their used water to be treated and recycled). BIAC therefore considers water as a priority issue and stands ready to provide broad-based business input as the project develops.

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## Key challenges for business

Working with multiple stakeholders<sup>1</sup>, the World Business Council on Sustainable Development has identified three specific challenges related to water that businesses must address. BIAC would like to stress the importance of each of these challenges, which can be described as follows:

The **efficiency challenge** requires business to make the very most of every available drop of water. It calls for the business response of innovation – in producing new products and services, as well as avoiding or addressing the legacy constraints (e.g. established infrastructure and technology standards, social habits and attitudes, and standard business practices).

The **security challenge** is to ensure that water is allocated and managed effectively and that there is enough (in volume and quality) to meet all needs. Allocating a scarce resource inclusively and fairly to ensure security for more people raises issues of representation (*Who participates in the decision-making process and how?*), legitimacy (*What forms of data, evidence and judgments are acceptable?*), competency (*How effectively are decisions taken and implemented? How to face sudden crises, or changing circumstances?*).

The **interconnectivity challenge** requires consideration of the interconnectivity of larger contexts and many diverse stakeholders. Human security and development cannot be isolated from the health and viability of the earth's underlying life support systems. The challenge to business in a global environment of increasing accountability is to understand better its role in water governance.

Although the aforementioned challenges all need to be addressed by the business community, business cannot develop the solutions alone. The business community expects from the OECD that the organization advances the international discussions on how to develop policy frameworks that allow business together with other parts of the society to address effectively the vital issues posed by water and sanitation. The strengths of OECD and its ability to engage countries on a political level should be used through the "horizontal project" and beyond to raise the importance and effectiveness of water policy and management. After the current phase, the project could concentrate on how to stimulate policy implementation.

## Suggestions from business for inclusion in the ongoing OECD work in the Horizontal Water Project

BIAC suggests that, when broadening the scope of its current program in future work, OECD takes more account of the roles and concerns of business in both the supply side and demand side issues of its work. The business community has a keen interest in water because this vital resource can either enable or limit business opportunities and also because businesses offer many solutions to water challenges.

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<sup>1</sup> See Business in the world of water: WBCSD water scenarios to 2025 – WBCSD 2006 \_  
<http://www.wbcd.org/plugins/DocSearch/details.asp?type=DocDet&ObjectId=MTk2MzY>

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The OECD water initiative and future work in this area offer the unique opportunity to implement practical actions at a large scale. Urban growth and risks to urban/rural ecosystems need to be evaluated economically. Under the Bali plan of action, climate change needs similar economic evaluation for both adaptation and mitigation programs.

As the OECD is discussing next steps concerning its horizontal project on water, we recommend that the following issues be given due attention:

- **Foster a broad approach** to strengthen the general political commitment at international, national and local levels to water and its governance issues, including planning, long term allocation of resources, efficient management, improved ethics and elimination of corruption. In far too many places, water in its many facets does not receive adequate political attention, which leads to severe constraints on social, economic and environmental progress. BIAC believes that the OECD can play a major role in this area both through the horizontal water project and by highlighting the water dimension in committee work on the above-mentioned issues.
- **Foster a broad understanding** of who is withdrawing water (agriculture industry and services, leakage losses in water distribution, households) and what is driving the growth in water withdrawals. Consideration should be given to providing possible suggestions and solutions to entrepreneurs and consumers on how to reduce water usage, especially in the agricultural sector.
- **Consider the interaction between water and other sectors and objectives.** Water is not an isolated sector but interacts with many other sectors, infrastructures and objectives, such as transport, food supply, rural urban linkages, biofuels, to name just a few. The reinforcement of, for example, infrastructure related to water could lead to better water management. Water has social, economic and environmental implications and therefore needs to be addressed from a sustainable development perspective. The interactions between various objectives and sectors should be an integral part of OECD analysis as they will provide considerable weight in terms of cost-benefit analysis.
- **Place more emphasis on water "afteruse".** The current phase of the horizontal project has placed relatively little emphasis on the important aspects of the full chain of systems and impacts of water afteruse. These include: sanitation and sanitation systems; pollution prevention, control and mitigation; resource recovery.
- **Include and reflect the concerns of water providers, users and the financial community** in the OECD horizontal water project. Similar to the area of energy, BIAC believes that finding effective solutions to the challenges posed requires the contribution and expertise of both water service providers and consumers. In view of the enormous investment requirements that lie ahead of us, it is becoming increasingly important to also closely involve the financial community in these discussions (i.e., consider water supply and demand in financing decisions). The role of public-private partnerships should be given due attention.

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- **Consider the interaction with other policy areas**, for instance agricultural policies (liberalization could have a positive impact on water efficiency) and problems from subsidies (for example for biofuels).
  - **Encourage** cooperation between different governmental and non-governmental organizations specializing in topics such as biodiversity, governance or intellectual property to improve water management at all levels.
  - **Focus not only on the quantity but also the quality of available water.** Water quality should be an integral part of any discussion on water management. The OECD devotes a lot of attention to pricing with a view to encourage efficient use of scarce water resources. BIAAC believes that water policy recommendations should consider pricing to address water scarcity as one important policy challenge, but also give due attention to policies addressing the quality of water. Such policies should seek to mobilize political, financial and technological innovations that will allow increased access to water of sufficient quality and quantity to meet the needs of population growth, industrial development and be compatible with climate change adaptation.
  - **Assess future investment requirements and ways to meet them.** Recognizing that the UN has already produced figures that demonstrate the lack of available water and sanitation infrastructure, and that the OECD has published figures on water and sanitation infrastructure investment in the next 25 years, the OECD could reflect on what kind of additional research should be carried out to fill knowledge gaps and refine research about investment needs and ways to meet them.
  - **Remain focused and produce tangible results.** The resources of the OECD water project being limited, BIAAC believes that priority setting is of utmost importance. On the one hand, it is important that the OECD takes a broad approach and considers the concerns of member governments, different business sectors and stakeholders. On the other hand, we believe that it is crucially important that the results that are to come out of this project remain focused, tangible and of concrete value to governments and business. Involving OECD communication experts to ensure that results are presented in an attractive and user-friendly way is essential.
  - **Visibility:** The OECD may want to reflect about ways that can bring the results of its work and the policy messages to the attention of policy-makers at the highest political level. For example, the IEA World Energy Investment Outlook, which was published in 2003, gained a high degree of attention, both at political level and by the general public. Water would merit receiving at least the same level of attention.

## Concluding remarks

Attracting additional investment in water infrastructure, addressing availability, quality and sustainability concerns, and raising awareness of the importance of the water challenge should be top priorities for international organizations and national governments. Very often it is sub-national governments that must do the implementation and frequently these need

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additional support. In aiming at the suggestions and recommendations of the horizontal project, BIAC believes that it is essential that OECD bears in mind the need to provide practical help and guidance to local governments. This should include:

- Provide information and methods that help politicians with the difficult task of making complex tradeoffs and long-term decisions.
- Take a realistic view of what is feasible in various different developing and developed country situations.
- Recognize that there are many interconnections between water in agriculture, business and urban services as well as the environment and ecosystem.
- Underline the complex interrelationships between agriculture, urbanization, urban and land use planning, fiscal and financial management, and the sustainable management of water.

BIAC congratulates the OECD on having launched a horizontal water project, which responds to the calls within the international community for strengthened efforts to ensure adequate provision of water services for improving management of water resources to maintain an adequate supply of water. Close cooperation with the business community will be essential to reflect and benefit from the practical experience of the private sector. We are pleased to provide these additional suggestions for broadening the scope of the program, as OECD commences its initial discussions on next steps. We hope that the above-mentioned considerations can be taken into account as the project further develops and stand ready to provide input whenever possible.