

# GOLDEN OPPORTUNITY?



Ministers are encouraging the water sector to look beyond these shores. But working overseas is far from plain sailing.

Water minister Rory Stewart recently highlighted to the UK water industry that there is a £50bn water export market ripe for the picking. He gave the anecdote that water and sanitation was the number one priority for Indian prime minister Modi when he visited here late last year. The message was echoed last month by trade and investment minister Lord Maude of Horsham at the World Water Tech event in London. Lord Maude spied even greater opportunity, speaking of a \$8.6tn market to provide global access to water and sanitation by 2050.

Neither politician pinned down detail – for instance, whether they saw the main opportunity in exporting UK water technologies, consultancy, services, investment or operations. But if water companies’ previous experience is anything to go by, this is a growth route fraught with difficulty. Water suppliers would even have a hard job getting out of the starting blocks, observed Verity Mitchell, director of utilities research at HSBC. She said companies were “capital constrained” whereas the the French regulatory system, for instance, allows Suez and Veolia to recover enough profit to invest in “world beating” research and development. The French, she noted, are already working in India.

Stewart said high bills to fund companies to generate profit abroad would not be palatable here – “I don’t think that’s a real

option for us” – but that the industry could pull together more and collaborate with, for instance, universities, research funds and UK Trade & Investment to grow exports.

### Working in emerging markets

But even for those who are very well versed in working in emerging markets, the going can be tough. Thierry Mallet, executive vice president at Suez, listed the following observations of working in developing world:

**Tariffs:** the idea that water users must cover all service costs is unworkable – “flat schemes are dead”. Rates need to acknowledge that some costs are sunk and offer payment solutions that blend subsidies, user charges and developer charges.

**Good governance is key.** Co-governance with partner organisations can work. Transparency – for instance on costs and revenues – is valuable.

**Investment is long term:** noting the wastewater systems of Paris took 150 years to build, Mallet said anyone who believes much can be achieved in a short time is mistaken. But projects need milestones – e.g. at the two, five and ten year points – to keep them on track.

**Flexibility:** structures have to be flexible enough to “get through a crisis” – for instance, mixed capital companies are good and alliances should be with a variety of contractors.

However, Julio Schreier, senior waste and water specialist at the European Bank for Reconstruction and Development (EBRD), said difficulties investing in water can be overcome with the right approach. “We invest,” he said. “I go to bankrupt companies and we make bankable deals.” He agreed with Mallet that you have to be in it for the long haul: “We are happy to get returns in 15-20 years, not five.” On the tariff issue, Schreier said recognition of the true cost of water is a “minimal requirement” for the EBRD, but that it treats who pays that cost as a different question. Finally he called for global giants like Suez and Veolia to be more yielding in their costs to help countries access their services. “You have to be prepared to give a bit, to take on more risk, to put money in,” he said.

### Governance and channels to market

Mallet noted that water often receives less investment than other forms of infrastructure and attributed this in part to the fact that it is commonly treated as a local rather than a national issue – consequently governance arrangements can be challenging. This theme was also raised at World Water Tech by Trevor Hill, CEO of specialist water sector software-as-a-service provider Fathom. Hill said it wasn’t a shortage of technology that hindered global water advancement but a shortage of accessible channels to market for those who want to invest – and this is largely a function of the multitude of local players involved. He said the UK is unusual in having so few organisations responsible for water; in Germany for instance there are 10,000 water utilities and 1,600 in Texas alone. For a company trying to sell into such a market, this proliferation of players commonly translates as few resources, low levels of IT sophistication and “incredibly long” sales cycles. He suggested cloud technology and the development of business models for risk averse utilities could help address these issues.

### OECD – WATER GOVERNANCE IN CITIES

In February, the OECD launched its *Water governance in cities report*, which questions whether cities are prepared for the future in water and wastewater terms. Forty-eight cities across 17 countries volunteered to take part in a survey including, from the UK, Edinburgh, Glasgow and Liverpool. Cities were asked to rank which challenges, from a list of 65, were the five most critical to them in terms of managing water. The highest ranking were: infrastructure, efficiency, customers, investment and accountability. Aziza Akhmouch, head of the

OECD’s water governance programme, commented: “Maybe we need to fix the institutions that can fix the infrastructure first.”

The study grouped and analysed the city data in various ways, including by population size and by where roles and responsibilities for urban water policy making sit (centrally, locally or both). It identified seven multi-level governance gaps: capacity gaps, funding gaps, accountability gaps, policy gaps, objective gaps, administrative gaps and information gaps. The first two of these were the most

prominent, and specific issues in each area are shown in the charts.

The OECD’s policy response is to foster coordination in three key areas:

**People:** the sector is fragmented and engagement levels between cities and the various stakeholders in water is patchy. Cities have very frequent contact with water service providers and regional governments, for instance, but infrequent contact with lots of other parties including irrigators, financiers, academia and workers. The OECD believes better engagement will build trust, help with willingness to pay, raise awareness of risk, foster accountability, help manage any conflict over water allocation, encourage buy in on reform, and set convergent targets across policy areas.

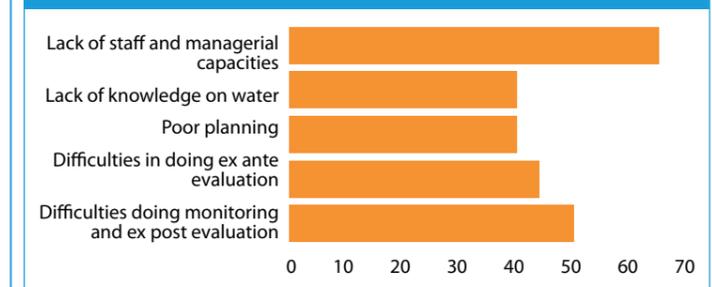
**Places:** the focus here is on creating linkages between urban and rural areas which could help with many water aspects including quality, wastewater treatment and flood control. Akhmouch cited as examples contracts Paris and Munich have with farmers to reduce pollution levels.

**Policies:** many strands of policy influence urban water management, including: land use, spatial planning, energy, housing, agriculture and transport. The OECD proposes a number of coordination mechanisms which it believes will improve the efficiency of resource allocation and increase capacity. Among the suggested mechanisms are: financial incentives, partnerships, joint programmes and coordination groups.

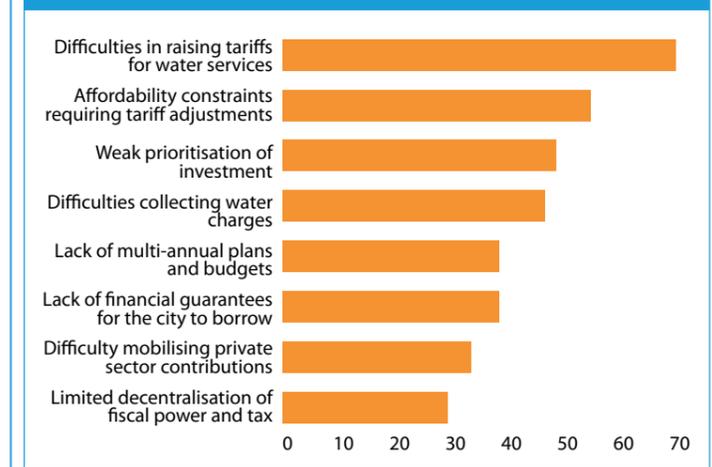
The OECD is now planning to implement its previously published Principles on water governance at city level.

**The report and the 48 individual city profiles are available at <http://bit.ly/1RfQG8J>**

### CAPACITY GAPS – PROPORTION OF SURVEYED CITIES REPORTING THE FOLLOWING ISSUES



### FUNDING GAPS – PROPORTION OF SURVEYED CITIES REPORTING THE FOLLOWING ISSUES



Even in the world’s big cities, water governance arrangements can hinder investment and leave important social and economic centres ill prepared for the future. Last month, the Organisation for Economic Cooperation and Development (OECD) launched the latest in a series of reports on water governance, *Water governance in cities*. Key findings are detailed in the box.

Arup has launched the *InDepth Water Yearbook*, a comprehensive review of the global water industry, and has made it available for free download at [www.indepthwateryearbook.com](http://www.indepthwateryearbook.com).