

**SCRIPT for the Seminar
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→ *Financing Watermanagement*

by

*drs. Hans Lutgens RA,
projectmanager Equilibrium
Water authority Roer en Overmaas.*

→ *Managing water for all*

Dear Excellencies,
Dear Ladies and Gentlemen

As you all know, financing water management is hot!

At the fifth World Water Forum In Istanbul last year
this was underlined by MR. Angel Gurria
introducing the OECD- report Water for All.

He was addressing more than 20.000 politicians and policy
makers from all over the world.

I recommend to take notice of this interesting research
report .

Especially when you consider to modify your financial
architecture for water management.

→ *Managing water for all*

Ladies and gentlemen,
Managing water for all concentrates on financial sources
The so called, abbreviated THREE T's.

Strategic financial planning, that blends tariffs, taxes and transfers (official development assistance grants) is our issue.

Strategic financial planning provides important means for investments and can help to leverage additional sources of finance.

→ *Managing water for all*

I will focus on one the most relevant T.
The T that stands for taxes.

→ *Equilibrium I and II*

Together with our colleagues from Romania and Hungary we compared and evaluated the **centralised** Hungarian and the **decentralised** Dutch tax system.

This project was called Equilibrium I.

We used internationally accepted criteria to compare and evaluate the different tax systems.

→ *Equilibrium I*

This slide gives you an impression of the evaluation.

Please notice the criteria for evaluation.

You will recognize worldwide accepted tax-principles like:

- cost recovery,
- the benefit and
- the polluter pays principle.

Our conclusion:

there are good reasons to apply a **local** tax system in Romania to become EU compliant and to strengthen the democratic process.

→ *The Lutgens Hypothesis*

Allow me to mention essentials of the Dutch governance system and the Dutch way of financing water management, talking about flood protection.

In the Netherlands central government manages large-scale investments in dykes and barriers, for instance the storm surge barrier.

Local water authorities oversee maintenance of infrastructurein addition to :

- investing in secondary dykes,
 - embankments
 - and the regulation of water levels.
-

All local stakeholders pay a local tax according to their benefit: **flood protection**.

60% of all expenses are covered by these local taxes, which amount to €1 billion a year.

How does this local tax system work?

First of all,
it must be emphasized
that this regional water tax is a purpose tax.

All revenue is spent only on water-related tasks.

Everyone,
who benefits from the water -infrastructure,
pays a tax.

Beneficiaries include
households, companies and farmers.

Households pay a fixed rate,
while owners of real estate pay according to the value of
their respective properties.

An average household,
in the Netherlands,
pays € 55 a year for flood protection in the case of a rented
home.

If one owns a home,
the corresponding figure is €115.

The costs and rates differ,
depending on the geographical status
of the water authority in which one lives.

Let us return to the alternative of local financing.

The advantages
of local taxes,
rather than national ones
are clear.

Local taxes provide financial **independence** for the regional water authorities.

There is no competition in terms of expenditure.

This is expressed by the so called Lutgens Hypothesis:

Neither economical nor political circumstances interfere with vital maintenance.

Local tax supplies a stable source of income every year.

Moreover,
local tax is cost-efficient.

Local decision-making
by local stakeholders
takes **both available resources and expenditure into account.**

I like to state:

“The Dutch financing system has proven that local taxes can be an effective and efficient way of financing a substantial part of the measures necessary for water management.”

→ Dutch water governance

I like to mention the main characteristics of the Dutch water governance model:

- A democratic elected council is in charge.
The council takes decisions concerning policies, investments, budgets and tax rates.
- Stakeholders like households, companies and farmers are represented in the water authority council.
- The local tax is imposed and collected by the local authority.

→ Dutch water taxes

As stated before: the Dutch water tax is a **purpose** tax. It is imposed for **specific** water management tasks.

Roughly spoken these tasks regard mainly quantitative, qualitative and protection duties.

All cost must be **covered** within the water-authority area.

Only those who **benefit** have to pay the tax.

→ Equilibrium II

This project was planned to focus on applicability of two important components of the Dutch water management tax model.

The first component concerns:

structuring of:

- activities,
- processes,
- products and
- tasks,

including the design of an adequate accounting system.

This is necessary for **appropriate expense accounting.**

The second component is about the development of three different tax scenarios and the implementation of the preferred one !

→ The accounting system (1)

Let me explain the first component :
this is about the recording of the actual spending on water task management in a structured way.

As you know,
processes are composed by activities.

Processes generate products.

And by generating products water tasks or duties are accomplished.

→ The accounting system (2)

By allocating/allotment of expenses to activities
we are able to calculate
the costs of different water management tasks.

In this way we support accounting compliance to EU directives.

We also have a better structured understanding of costs of water management in general and promote responsibility accounting.

Dear audience,
I like to make another statement:

***“Describing water management activities
in a systematical way,
improves insight into activities
and the money involved***

Surprisingly simple,
is'n it !

Any way:
the accounting system
based on these relations
is a significant component
of the Dutch water management
and the financial control system.

→What comes after adaptation of the accounting system

The second phase of Equilibrium II, is about the development of three different tax scenarios.

Of course, it is up to the Romanian government and Romanian authorities to decide which scenario will be elaborated and implemented.

We know that Romania and the Netherlands are quite different, also from the viewpoint of water management.

For example:

- The Dutch water boards and the Romanian water authorities have quite different tasks.
- In Romania, there is no such threat from the sea as there is in the Netherlands.
- The population density in many regions of Romania is considerably lower than in the Netherlands.
Do you have low density area's ?
- Romania has more hydro electric plants and reservoirs. than the Netherlands.
How many plants do you have ?
- In the Netherlands, we don't have to deal with flash floods. Do you have to deal with tis kind of floods?

Taking all these characteristics into account, one may wonder:

“Can the Dutch financing system be an asset to your country?”.

But before discussing this question I like to describe some relevant recent developments in the Netherlands.

→ Recent developments in the Netherlands

What is happening right now in The Netherlands?

Due to the worldwide financial and economic crisis the Dutch water governance model **is under fire!**

Although EU encourages decentralization of water management, some politicians in my country want the local watergovernance model to be abandoned.

To their opinion watertasks should become a immediate responsibility of the central government.

From budgetary viewpoint this water management responsibility competes with other responsibilities like

- social security,
- health care or
- defence.

In other words, from the viewpoint of watermanagement, there is a risk of insufficient funding,

- ineffectiveness and in-efficiency,
- less democratic allocation of budgets.

I don't have to explain my disapproval.

I thank you very much for your attention and look forward to our discussion.

Hans Lutgens 8 juni 2010