



Seventh “Environment for Europe” Ministerial Conference

**Astana, Kazakhstan
21–23 September 2011**

Managing Water for All: An OECD Perspective on Pricing and Financing

Executive Summary

Information document submitted by
the OECD/EAP Task Force Secretariat



EXECUTIVE SUMMARY

Sustaining human and economic development and maintaining ecosystems require more effective management of water resources. Poor governance and inadequate investment result in billions of people not having access to water and sanitation services.

The OECD has been working for many years to address these challenges. The results of recent work are summarised in this report, which emphasises the economic and financial aspects of water resources management and water service provision, the need for an integrated approach, and the importance of establishing a firm evidence base to support policy development and implementation.

This report examines: strategic financial planning for water supply and sanitation that balances the key sources of revenues for the water sector – the “3Ts” of taxes, tariffs and transfers; the design and implementation of water pricing strategies that balance financial sustainability with other policy objectives; recent developments in private sector participation in the water sector; and trends and the future outlook of water use in agriculture. It considers both developing and OECD countries and offers concrete recommendations and checklists for action.

The full version of this book is available from OECD Library: www.oecd-ilibrary.org.

Water is a key prerequisite for human and economic development, and for maintaining ecosystems. Poor governance and inadequate investment, however, are resulting in large populations not having access to the water services they need. Failure to manage water resources effectively is also resulting in increased pressure on these resources, mounting competition for their use among different economic activities, and, in some regions, conflict.

Major economic benefits potentially accrue from improved water resource management and water services, especially for agriculture, industry, and water and sanitation. The World Health Organization (WHO) estimates that the health benefit/cost ratio for investment in water supply and sanitation (WSS) alone is between 4 and 12. But these benefits are not adequately quantified, nor communicated in a way that could inform public and political debate. This results in water resources management institutions being unable to carry out their functions, and in insufficient funding for investment and maintenance of water infrastructure. The outcome is that the potentially large benefits of investing in water are not being realised in practice, and the social costs linked to poor water management continue to increase.

In OECD countries, access to safe water supply and sanitation has largely been ensured following substantial investment over many decades. Access to water by agriculture and industrial users is generally ensured. However, significant investments will still be required to rehabilitate existing infrastructure, to bring it into conformity with more stringent environment and health regulations, and to maintain service quality over time.

In non-OECD countries, the challenges are more daunting. Large parts of the population have no access and many others suffer unsatisfactory services. Water services for agriculture and industry are also inadequate. The international community is committed to achieving the Millennium Development Goals (MDGs) that aim, inter alia, to halve the proportion of people without access to safe drinking water and basic sanitation by 2015. The costs of not meeting these objectives are very significant, and it is important to recognise that meeting them would still leave millions of people without access to adequate services. Inadequate access to water, sanitation and poor hygiene account for 1.8 million child deaths per year – the second largest cause of child mortality after malnutrition – in addition to having other health impacts.

The challenges of providing access to safe water and basic sanitation are further underlined by increasing demands from other uses of water. The increased demand is linked with a variety of factors: population increase, pressures for food production, rapid urbanisation, degradation of water quality, and increasing uncertainties about water availability and precipitation regimes, in part due to climate change. In 2005, 2.8 billion people lived in areas under severe water stress.¹ By 2030, the OECD Environmental

Outlook to 2030 estimates that this number will increase by about 1 billion, to 3.9 billion (47% of the world population), without taking climate change into consideration. Despite strong calls for action at the international level, and considerable efforts at local, national and international levels, the world is still off track with respect to achieving internationally agreed water-related targets. Few countries have defined water resources management strategies, as called for in the Millennium Declaration. With regard to the water-related MDGs, the 2008 World Health Organization-United Nations Children's Fund (WHO-UNICEF) Joint Monitoring Report states that, while the world globally is on track to achieve the drinking water target, a number of regions will not reach this goal, and the world as a whole is off track with regards to the sanitation target.

Substantial additional finance is required to meet these challenges. A recent WHO report² estimates that USD 18 billion will be needed annually to extend existing infrastructure to achieve the water-related MDGs, roughly doubling current spending. But what is also growing clear is that the cost of maintaining and modernising existing systems will grow steeply and already greatly exceeds the annual costs of extending the networks. WHO estimates that an additional USD 54 billion per year will be needed just to ensure continued services to the currently served population. This does not include the additional needs generated by new infrastructure.

Additional financial resources are a necessary, but not sufficient, condition for achieving internationally agreed, and other, water policy objectives. There is also considerable scope to improve the cost-effectiveness of expenditures on water. These two issues dovetail each other and are linked to the way institutions are established and their policies are implemented. This is particularly challenging in the water sector as it usually cuts across the responsibility of several ministries, and requires the involvement of national, regional and local authorities. In addition, the implementation of effective water policies is often hindered by political and public opposition to increasing the price of water, which impinges on the establishment of effective financing arrangements and efficient system performance.

Thus realising the benefits of improved water policies requires not only more finance, but also improved governance of the sector, as well as effective strategies that can overcome the vested interests and opposition that often block reform. Effective communication of fact-based analysis can contribute to informed policy debates and transparent decision making.