

## Executive Summary

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### *The “water crisis” is largely a governance crisis*

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It is now widely acknowledged that there is enough water on Earth for all, even in areas where temporary shortages may exist. Clearly, the current water “crisis” is not a crisis of scarcity but a crisis of mismanagement, with strong public governance features. Key obstacles to improve water management are institutional fragmentation and badly managed multi-level governance, in a context where local authorities are most often in charge of water resources management and service delivery.

Water policy involves a range of public stakeholders across ministries, departments and public agencies, and between various levels of government. In addition to the policy makers, citizens, private actors, end users, investment banks, and infrastructure and service providers have a stake in the outcome. The water sector is also affected by numerous external drivers. The water cycle is inherently complex, and generates important externalities in many domains that are critical for development, including health, poverty alleviation, agriculture and energy. Inherently, water policy therefore induces a high degree of complexity, given the multiplicity of actors, motivations and stakes. This raises crucial considerations for effective governance.

Indeed, whether in developed or developing countries, and whether water is scarce or plentiful, *water governance* remains in a state of confusion. Across a diversity of contexts, common challenges occur. They include fragmented institutional structures, limited capacity at the local level, unclear allocation of roles and responsibilities and questionable resource allocation. Patchy financial management and the lack of long-term strategic planning are also to blame, together with poor economic regulation and poorly drafted legislation. Insufficient means for measuring performance have contributed to weak accountability and transparency. These obstacles, across boundaries and within countries, are more or less acute, but are often rooted in misaligned objectives and poor management of interactions between stakeholders.

Improving water governance is a key topic in the political agenda worldwide. It is a prerequisite for sustainable and innovative water policies that can “do better with less” and involve all relevant actors to achieve the Millennium Development Goals. Effective public governance is critical for regulation and for the mix of economic instruments (including pricing, subsidies, or compensation mechanisms) that offer incentives to different groups of users to engage in water-sustainable practices. It is also crucial to reconcile the long-term financial needs of the sector with the revenue streams available (3Ts – taxes, transfers and tariffs), taking into account the need for efficiency of fund use and the importance of strategic financial planning. Finally, integrated public governance is

also an opportunity to overcome the typical disjuncture between water policies and planning on the one hand, and engineering and infrastructure investments on the other, both of which affect water quantity and quality.

To clarify the “black box” that governs water, ways of designing and implementing water policy must be addressed, including setting priorities and formulating strategies to solve the problems that have been identified. Co-ordination and consultation mechanisms must be devised to overcome the barriers to effective implementation on the ground. In particular, adopting a “systemic” approach to water policy requires overcoming critical multi-level governance challenges. This implies managing the explicit or implicit sharing of policy-making authority, responsibility, development and implementation at different administrative and territorial levels, meaning: i) across different ministries and/or public agencies at central government level (upper horizontally); ii) between different layers of government at local, regional, provincial/state, national and supranational levels (vertically); and iii) across different actors at the sub-national level (lower horizontally).

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#### *Difficulties in implementation are an obstacle to water reforms*

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Well-managed water systems are a fundamental policy goal for all countries and can be an important driver for economic development and welfare. Yet significant “gaps” persist. Identifying appropriate policies and approaches for integrative water policy is only a first step: implementation is essential. Making reform happen in the water sector requires ensuring that the actions of all stakeholders contribute to the long-term objectives of environmental sustainability and enhancing social welfare. Learning from the experience of past and ongoing water reforms can help throw light on the process and increase the chances that future water reforms will succeed.

In the past four years, the OECD has accumulated data and analytical work on water policy in a series of OECD and non-OECD member states. The *Managing Water for All* report (OECD, 2009a) provides policy recommendations on the economic and financial aspects of water resources management and water service provision. It studies underlying investment needs, and analyses the economic, social and environmental benefits of integrated water policies and improved regulatory oversight. The report considers both developing and developed countries, addresses the problems of distribution and competitiveness, and offers concrete guidance and a Checklist for public action. In particular, it emphasises the need for mutually supportive policies, as well as the necessary understanding of the exercise of political, economic and administrative authority for effective and integrated water policy.

Building on existing OECD work on water, the present report further explores the obstacles to effective water policy, particularly with respect to the challenges presented by multi-level governance. Multi-level governance of water policy is a source of major difficulties in water policy design and implementation and the question of *how* appropriate policies and approaches can be implemented is of paramount interest.

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*Better management of multi-level governance  
can help address complexity in the water sector*

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The report argues that in most countries, regardless of the level of decentralisation, water public governance is fragmented and would benefit – from an economic and environmental point of view – from a stronger rationale for efforts to co-ordinate water policy. Given the importance of local actors, stakes and specificity in the water sector, policy makers should not avoid *complexity* by favouring traditional top-down policies but instead, find ways to maintain coherence while preserving diversity, so as to reflect the heterogeneous concerns of stakeholders on the ground. A multi-level approach integrating international, national and local actors can help diagnose inherent governance challenges in water policy making and formulate possible policy responses.

Understanding of the processes that result in improvements or deterioration of water governance is limited at present because scientific disciplines use different concepts and terms to describe and explain complex socio-ecological systems (SESs). Without a common framework to organise findings, knowledge cannot accumulate. The objective of this report is therefore to provide a “reading template” to: i) map the allocation of responsibilities in water policy design, regulation and implementation; ii) identify common multi-level governance bottlenecks for integrated water policy; iii) recommend the main policy responses for managing mutual dependencies across levels of government in water policy design and implementation; iv) promote decision-making that integrates actors at international, national, local, basin and sub-basin levels; and v) encourage the adoption of relevant capacity-building, monitoring and evaluation tools.

The multi-level approach used in this analysis aims to identify good practices for managing interdependencies between the many stakeholders involved in water management. It takes a close look at the processes through which public actors articulate their concerns, decisions are taken and policy makers are held accountable. It considers water governance as the political, institutional and administrative framework for Integrated Water Resources Management (IWRM). Both high-level decision making and actions taken at local and regional levels are studied, including the ability to: i) *design* public policies whose goal is the sustainable development and use of water resources, and to mobilise the social resources to support them; and ii) ensure that the different actors involved in the process *implement* them successfully.

The report focuses on obstacles to co-ordination as well as the instruments available to public actors (as water policies are mostly managed by public entities) as a means to encourage effective multi-level governance and integrated implementation of water policy. It deals principally with public governance issues, and only to a lesser extent on how private citizens and civil society can be enlisted to address these challenges. Landowners, private and community-based actors, all of whom play an important role in water management planning, practices and processes, are not covered as such in the analysis, except through their interaction as end users, clients or co-designers with policy makers.

Data collection was based on responses to a Survey on Water Governance, in an attempt to gather a new baseline of institutional information for the water sector. A 20-page questionnaire available in five languages ([www.oecd.org/gov/water](http://www.oecd.org/gov/water)) was sent to OECD countries' policy makers from central and sub-national administrations, regulators and river basin organisations. Half (17) of the OECD countries participated in the survey (see list

and details of respondents in Annex 5.A1), thus providing qualitative and quantitative information based on perception indicators on their respective governance challenges and instruments. This allowed for creating a platform for comparison across the OECD region, given the diversity of institutional settings and the differing degrees of decentralisation in water policy they present, sensitivity to water scarcity, ongoing policy reforms and consensus on the need to improve water policy.

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### *Key messages from the report*

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The main findings of the report are fourfold (see Chapter 5).

#### **The institutional organisation of the water sector varies widely across and within OECD countries**

An analysis of the allocation of roles and responsibilities in water policy in 17 OECD countries has resulted in a matrix that permits “institutional mapping” of water policy (Chapter 2). Country profiles were designed (see Annex 5.A1) to identify *who* does *what* in water policy making (design, regulation, implementation) at the central and sub-national levels, and different general categories of institutional organisation in water policy have been distinguished. Several conclusions can be drawn from the results:

- *First*, it is not possible to identify a master plan generally adopted for assigning competencies across ministries and levels of government in the water sector. However, common trends across OECD countries are noticeable, especially regarding sub-national actors and their responsibilities as most OECD countries have largely decentralised their water policy making.
- *Second*, no systematic correlation can be found between a given country’s institutional organisation (unitary or federal, for example) and the institutional mapping of water policy. Geographical, environmental and economic factors also have a considerable impact.
- *Third*, river basin management has been encouraged in both federal and unitary countries, thanks to institutional factors but also to hydrological parameters and international incentives or regulations.
- *Fourth*, based on comparing the allocation of responsibilities at the central and sub-national levels, the report presents a tentative typology of three categories with different governance challenges: i) implementing an integrated and place-based approach at the territorial level; ii) integrating the involvement of different actors at central and sub-national levels; and iii) integrating multisectoral and territorial specificities at the central level. Further research into the advantages and disadvantages of each category should be undertaken by in-depth studies at national or sub-national level.

#### **Multi-level governance “gaps” in water policy design, regulation and implementation affect all OECD countries, but to varying degrees**

The next objective of the report is to identify the principal co-ordination and capacity challenges across ministries and public agencies, between levels of government, and across local actors involved in water policy, based on the OECD *Multi-level Governance Framework* (Chapter 3). The degree to which effective co-ordination and implementation of

water policies is compromised by multi-level governance gaps varies widely in the OECD region, but common challenges have been identified:

- In two-thirds of OECD countries surveyed, the *funding (or fiscal) gap* (i.e. the mismatch between administrative responsibilities and available funding) is the main obstacle to vertical and horizontal co-ordination of water policies.
- Despite the well-developed infrastructure and the regular transfer of expertise, the *capacity gap* is still the second most important challenge in OECD countries – especially at the sub-national level.
- Two-thirds of OECD countries surveyed still face a *policy gap* (i.e. the sectoral fragmentation of water related tasks) because of the fragmentation of responsibilities at national and sub-national level and the lack of institutional incentives for horizontal co-ordination between different policy fields.
- The *administrative gap* (i.e. mismatch between hydrological and administrative boundaries) still has a significant impact on water policy implementation, even after the adoption of river basin management principles.
- Last but not least, *information and accountability gaps* are major obstacles to integrated water policy in half of the OECD countries surveyed.

Three aspects of institutional management have been recognised throughout the report. *First*, style of government, traditions and values influence the institutional organisation of the water sector together with economic, environmental and geographical factors. *Second*, divided jurisdiction, shared responsibility, overlaps and even duplication within organisations inevitably exist in all countries, given the intrinsic characteristics of the water sector, but to a greater or lesser degree. *Third*, a mix of strategies is called for to reduce the obstacles inhibiting integration. Recognising these realities is fundamental to any reform that aims to create favourable conditions for effective, fair and sustainable water management.

### **Most OECD countries have made significant efforts to co-ordinate water policy across ministries and between levels of government**

A third contribution of the report is to identify existing governance instruments for building capacity and co-ordinating water policies at horizontal and vertical levels (Chapter 4). OECD experience shows that there is no panacea for integrating water policy, but that a wide variety of options exist:

- All OECD countries surveyed have set up co-ordination tools at the central government level. These mainly consist of line ministries, interministerial bodies or mechanisms, or specific co-ordinating bodies. Most countries have also made efforts to co-ordinate water with other policy areas, including spatial planning, regional development, agriculture and energy (OECD, 2011a).
- Where they exist, river basin organisations, performance measurements, water information systems and databases, financial transfers, intermunicipal collaboration, citizen participation and experimentation of water policies are important tools for co-ordinating water policy at the territorial level and between levels of government.

Fourth, the governance challenges and instruments identified in the report are interrelated, and since they are likely to interact with each other, they should be approached in a holistic way. In the absence of a “one size fits all” model, assessing how far

specific governance tools succeeded in bridging identified gaps is a difficult task, and calls for further information, analysis and case studies at different territorial (cross-border, national, urban, rural, basin, sub-basin) levels. The question of co-ordination is not merely an instrumental issue. The effectiveness of co-ordination and collaboration is also the result of many more general factors, such as the pre-existing degree of social capital, the general governance culture, interpersonal trust, etc. Incentives to foster collaboration need therefore to be incorporated within this wider framework, and have a good “fit” with local governance cultures and norms.

### **Guidelines can help manage complexity in water policy and maintain coherence while preserving diversity**

As already noted in the OECD 1989 Council Recommendation on *Water Resource Management Policies: Integration, Demand Management and Groundwater Protection*, existing institutions, policies and management practices in each country reflect cultural and social systems. For orderly trade and internationally consistent allocation of resources, a certain uniformity in pricing policies, charging practices and environmental standards is desirable. But cultural traditions, and differences in the assimilative capacity of the environment, need to be taken into account in implementing the Recommendations.

The report ends with tentative guidelines (Chapter 5) intended to serve as a tool for policy makers to diagnose and overcome multi-level governance challenges in the design of water policy. Such guidelines are interdependent and should not be considered in isolation. However, they can help enhance the prospects for crafting successful water reform strategies in the future. They are intended as a step towards more comprehensive guidelines (to be developed at a later stage) based on in-depth policy dialogues on water reform with countries and recognised principles of water policy (e.g. “the polluter pays” principle), economic bases (e.g. sustainable cost recovery) and good *governance* practices.

Preliminary guidelines for integrated public governance of water policy:

1. Diagnose multi-level governance gaps in water policy making across ministries and public agencies, between levels of government and across sub-national actors. This will help clearly define roles and responsibilities of public authorities.
2. Involve sub-national governments in designing water policy, beyond their roles as “implementers”, and allocate human and financial resources in line with responsibilities of authorities.
3. Adopt horizontal governance tools to foster coherence across water-related policy areas and enhance inter-institutional co-operation across ministries and public agencies.
4. Create, update and harmonise water information systems and databases for sharing water policy needs at basin, country and international levels.
5. Encourage performance measurement to evaluate and monitor the outcomes of water policies at all levels of government, and provide incentives for capacity building.
6. Respond to the fragmentation of water policy at the sub-national level by encouraging co-ordination across sub-national actors.
7. Foster capacity-building at all levels of government. This implies combining investment in physical water and sanitation, or “hard” infrastructure, and providing “soft”

infrastructure, *i.e.* mainly the institutions upon which water outcomes rely and their ability to fulfil their duties in an effective and co-ordinated way.

8. Encourage a more open and inclusive approach to water policy making through public participation in water policy design and implementation.
9. Assess the adequacy of existing governance instruments for addressing identified challenges and fostering co-ordination of water policy at horizontal and vertical levels.