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**Water: How to Manage a Vital Resource**

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Access to reliable and safe water represents one of the greatest challenges facing humanity in the 21<sup>st</sup> century. Indeed, the demand for water is unprecedented and it is expected to increase by 50% in the next 30 years. Besides, by 2025, about 3.5 billion people could be living in water scarce or water stressed areas, compared to 1 billion in 2005, according to the World Water Council.

Most of the increased demand for water will occur in the developing world, and especially the countries we call the BRICS – Brazil, Russia, India and China – which are growing rapidly. One of the Millennium Development Goals is to cut in half by 2015 the proportion of people without access to safe drinking water and adequate sanitation. Actually, access to clean water is one of the indicators that could well serve as a proxy to measure how much progress we do in the other Development Goals.

But it is also a serious challenge for the developed world, where in many countries there is significant water wastage due to failure to reinvest in water supply systems to keep them in good working condition, underpricing of water leading to wasteful use, and failure to improve water systems management and technology. A recent OECD report estimates that France and the UK will have to increase their spending on water as a proportion of GDP by about 20 percent just to maintain water services at their current levels, while Japan and Korea may have to increase their water expenditures by more than 40 percent. Improving its use in the agriculture sector, that accounts for more than 80% of water usage, is also a test for all of us.

In Africa, according to the OECD Development Centre's African Economic Outlook to be launched later today, the abundance of water on the continent remains unexploited through a deplorable lack of infrastructure. The situation in sanitation is even worse. On present trends 370 million people in sub-Saharan Africa will lack access to safe drinking water by 2015 and 550 million to improved sanitation. Even if sub-Saharan Africa were to meet the Millennium Development Goal on this matter, some 230 million people would still lack access to safe drinking water by 2015 and 320 million to improved sanitation.

This situation is unacceptable and fortunately also avoidable. With an approach that emphasizes the need for economic viability many of the obstacles to providing African people with these basic facilities can be overcome.

On top the current challenges for all regions, the prospects of climate change are imposing increasing pressures, as changes in the global environment will also mean acute scarcities of water in some regions, due to increased evaporation, and increased

precipitation in others. Indeed, the recent impact report of the Intergovernmental Panel on Climate Change points to an alarming future.

The need to ensure access to water will test our ability as policymakers, farmers, industrial leaders, and consumers to work together, not only within our individual countries but among countries around the world, to prevent this grim possibility of serious water shortages, and water conflict, from becoming a reality. The participation of the private sector is of the utmost importance. I welcome the presence of Nestle's CEO, Peter Brabeck-Letmathe, as one of the leaders in the private sector who wants to contribute to the solution, and congratulate him for his achievements to significantly reduce water consumption in its manufacturing process. This commitment could well be followed by other actors not only in the private sector, but in all areas of society.

The reality is that water is a global challenge. At the OECD we have made it a priority and are working to develop policy ideas and identify best practices to assist developed and developing countries meet future water needs in a sustainable way and thereby help avert a global crisis. As an economic organization, we emphasize the use of economic tools to manage this good, and also of economic incentives for its best utilization. We also work with developing countries, including the BRICS, and donors to develop strategic financial plans for water supply and sanitation, which supports efforts to favour sector-wide approaches (SWAPs) and can lead to a strengthened link of sector planning into Medium-Term Expenditure Frameworks.

There is also an urgent need to adopt coherent policy principles to deal with the main water challenges, as well as a parallel need to invest significantly in new water and sanitation systems both directly and, where this is preferred, through public-private partnerships.

The first requirement is to make better use of market mechanisms, both to ensure the most efficient use of water supplies and to help finance water infrastructure to encourage greater supply.

This means pricing water so that there is full cost recovery and capacity for reinvestment. Making consumers of water pay for the full cost of water supplies is an effective public policy instrument to encourage responsible use. It is critical for effective demand management.

True pricing of water also provides an incentive for the development of new technologies and for greater participation by private investors in helping to build and operate water supply systems. This is particularly important in agriculture, where the use of water for irrigation, which accounts for the greatest use of water in the world, is generally underpriced and hence leads to wasteful use.

I should note, though, that while this objective can be attained in most OECD countries in the short term, for many developing countries a longer transition, involving significant public budget spending, may be needed in order to help overcome affordability constraints that exist in the population. In any event, a measure needs to be set in place to ensure affordable access by the poorest to adequate water supply and sanitation.

Eliminating wasteful uses of water and giving users, especially industry and agriculture, a greater incentive to find ways to use less water, is an essential part of any effective water management strategy. Over a decade Denmark reduced per capita consumption of water by 20 per cent through real cost pricing. Through effective demand management we can reduce the level of investment needed to provide additional water supplies.

There is also a need to pursue more effective systems of water management, including the adoption of new business models and greater use of private financing to build and operate water systems. Pension funds and other institutional investors are seeking opportunities where they can put their capital to work on projects that generate assured income streams. Such financing can play an important role in meeting future water supply needs, consistent with safe water standards and pricing procedures set out by public authorities. The OECD has recently launched the OECD Principles for Private Investor Participation in Infrastructure that provides guidance to governments that wish to increase private participation in these sectors.

New technologies are also important. For example, advances in sensors and wireless technologies will allow a much improved monitoring of water systems. This is especially important in detecting waste and abnormal demand, as well as regulating irrigation. Likewise, the biosciences offer the opportunity to develop genetically modified crops that can deliver high yields in drier soils, as well as the possibility of processing waste water. Similarly, the world will need to develop more cost-effective systems of water desalination.

Ladies and gentleman. The reality is that we know what we must do. We have the opportunity to avert a potentially huge human crisis, and even potential conflict, by acting now. Water must move to centre stage in the global debate.

Thank you.