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Water quality
Aid flow
Don't forget our coasts
Gender for development

Priceless?

Spotlight on water

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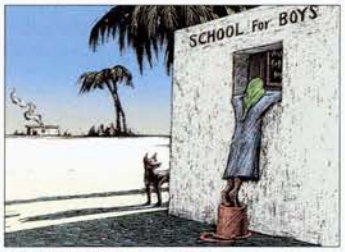

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China question

Secretary-General Donald Johnston understandably raises the question of the OECD's future relationship with China (No. 251, September 2005). But as well as focusing on China itself, both in your edition and in your organisation's impressive work on the country, what about China's presence in the global economy generally? Apart from investing in OECD countries, as one of the world's largest energy consumers, China is active in the Middle East and Latin America. In Africa, it has major interests in oil and other extractive industries, notably in Sudan and lately Angola, where its influence as a trading force, investor and aid donor seems to be growing. How China's economic influence will evolve globally is a key question.

Joseph Deng
Paris, France

***

Ángel Gurría of Mexico is soon to succeed Canada's Donald Johnston as head of the OECD (No. 252/253, November 2005). It's the first time that a man from a not-so-rich if not-too-poor country will head an organisation frequently described as the "rich man's club". Mr Gurría's appointment is a tribute to his strong international reputation and the OECD's desire to change with the times. Mr Gurría says of his own admission that a grouping which once represented three-quarters of the world's wealth is now worth about 60%.

Put simply, non-OECD countries such as China, India and Brazil are taking the world by storm, posing an inevitable question that still seems to cause more serious discomfort than debate–can the OECD and other international economic organisations remain legitimate representatives of a global economy that no longer owes its growth to a privileged few?

By its own account, China is now probably the world's fourth biggest economy. It is only a matter of decades before India has more people than the most populous country in the world. Brazil is fast becoming the world's food wholesaler.

None of these countries is in the OECD. What's the difference between them? China is still ruled by the Communist Party. Which begs question: Will the OECD's members extend a hand in the belief that it is better to have China within than without? After all, some countries have joined the OECD in the past without fully meeting the OECD requirements associated with market economies–that procedure was seen by many as the way to ensure that those requirements were one day met.

Another difficult question would have to be asked. Does China want the OECD?

Brian Love
European Economics Correspondent
Reuters

On the cover

Priceless?
By *OECD Observer*
Photo:
Darren Staples/Reuters

Water is priceless. That means it should be paid for. Even where freshwater is abundant, overuse and pollution are all too common. Investment to assure access to clean water supplies is becoming one of the daunting challenge of our time.

©OECD/Nguyen Tien

A better place

Donald J. Johnston, Secretary-General of the OECD

This is my last editorial for the *OECD Observer* before I step down as secretary-general in May 2006. Nevertheless, I will focus on the future, rather than dwell on the past.

That is not to say that we should ignore John Maynard Keynes' advice that we should examine the present, in light of the past, for the purposes of the future. But sometimes the present and the future cannot draw many useful lessons from the past. This is certainly true of the unprecedented global environmental challenges we face today.

I say unprecedented because although there have been periods of global warming in the past as evidenced by ice core analysis from Antarctica, never has the intervention of *homo sapiens* been a contributory factor. Today, there is hardly a scientist in the field of climatology who does not consider the rapid rise of carbon dioxide emissions since the beginning of the Industrial Age over two centuries ago as a major cause of the steady rise of CO_2 in the atmosphere, which now appears to have reached above 380 parts per million (ppm) and continues to climb.

Many think we are approaching a threshold, perhaps around 550ppm, when global warming will become irreversible, causing seas to rise from the flow of melting glaciers and thermal expansion, causing coastal areas to erode, flood and become uninhabitable for millions of the world's people, with the poorest regions of the world being particularly vulnerable.

Some crops will flourish, though others will wither away. Tropical diseases will migrate to once temperate climates. People too will be forcibly displaced, to access water or escape rising seas. Weather patterns will become even more erratic than today, and few will be spared from hurricanes, tornadoes, ice storms, monsoon-style rainfalls and droughts. We may already be too late to prevent some of this from happening, but we can take measures to slow the process and give ourselves greater time to adapt.

In March, Mexico hosts the 4th World Water Conference. I attended the last one in Kyoto in 2003. There is, perhaps, no issue more important than that being addressed at this event. After all, we can exist without oil; we cannot exist without water.

There are many questions to be addressed. Freshwater distribution over the planet is very uneven. As shortages become more acute, are we likely to see migration to oases? Will countries such as Canada come under pressure to share their abundant natural wealth? Will technologies bring forth solutions, such as cheaper desalination techniques? Will we be attracted to less water-intensive crops? How can genetically modified plants help?

We can exist without oil; we cannot exist without water.

In the OECD area, investment concerns are creeping up the water agenda, in part because of some rather old and creaking infrastructures, and greater attention is turning to encouraging more efficient use, particularly in farming. But in general, those of us who live in water-rich areas tend to focus on health issues. Can we drink the water? Must the distribution system be upgraded to make our water safe tomorrow? Is quality being carefully monitored for nitrates, toxins and pathogens?

Much of the world does not have the luxury of worrying too much about the quality of its water, but rather its very availability! And it appears that this worry will increase because of climate change.

Recently in China I had the pleasure of meeting a senior member of Greenpeace. He described to me the potential challenges of the infamous Yellow River. Apparently it is nourished by rapidly receding glaciers. If trends continue, these glaciers will soon be gone. And if they disappear, so too will the Yellow River as we know it. What then? Will all the world's rivers fed by glaciers go the same route? This portends catastrophic social upheaval.

Will there be mounting pressure to divert water flowing into the seas to other purposes? Enormous quantities of fresh water flow daily into the Arctic Ocean from Russia and Canada. Should they instead be diverted to the south? If not, why not?

There are many challenges lying ahead which we have not yet begun to address, perhaps because we are not yet ready to accept the horrendous consequences of global warming. My generation enjoys in most ways the same world we knew as children: one of unspoiled natural beauty; of diverse animal and plant life; of new virgin frontiers to explore above and beneath the seas. All this may now be in jeopardy.

And time is not on our side. By that, I mean *you*, the next generation. Take hold of these challenges and bring the only inhabitable planet we know to a better place. ■

• News brief •

Recovery on track


©OECD/Laurent Emmanuel

Jean-Philippe Cotis

The world economy appears to have overcome recent economic weakness in the US and euro area, and the recovery seems to be back on track. Speaking at a media briefing in March, OECD's chief economist, Jean-Philippe Cotis, said that after weakening in late 2005, economic momentum on both sides of the Atlantic had picked up. "Indeed, against the background of high and volatile energy prices but still intriguingly low long-term interest rates, activity is estimated to have reaccelerated", Mr Cotis remarked.

But he warned that some of the factors that have sustained buoyant overall growth so far "may no longer do so further out", pointing to stretched valuations in some housing markets as one source of risk that had been highlighted on earlier occasions. Nonetheless, the US should expect a firm rebound in the first quarter of 2006, while recovery in the Japanese economy appears to be broad-based. Presenting interim projections for major economies–the next main *OECD Economic Outlook* will appear in May–the chief economist warned that while rising domestic demand should underpin a rebound in activity in the euro area by the middle of this year, output remains below potential. ■

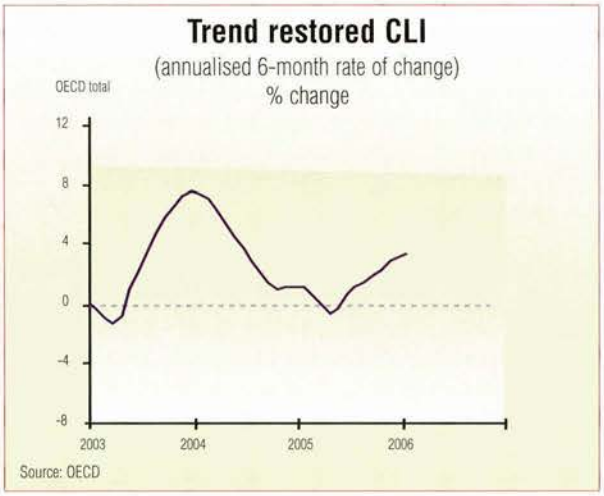
Energy fuels inflation

Inflation crept up in January when the consumer price index stood 3% higher than a year earlier, up from 2.7% in December 2005. On a monthly basis, the price level rose by 0.3% between December 2005 and January 2006 after being unchanged between November and December. In the US, the CPI increased by 4% over the twelve months to January, compared with 3.4% in December. In Japan, the index was up by 0.5% in January on a year earlier, after a year-on-year decrease of 0.1% in December. Over the twelve months to January, the national CPI rose by 2.8% in Canada, by 2.4% in the UK, by 2.2% in Italy, by 2.1% in Germany and by 2.0% in France. Apart from Turkey, where the inflation rate stood above 10%, the highest inflation rate was in Iceland, at 4.4%, followed by Spain at 4.2%.

The main driver behind these increases was energy, whose price index leapt by 16.7%. The US recorded the sharpest rise, with 24.8%; its inflation rate, excluding food and energy, came to just 2.1%. ■

Leading indicators point up–

The prospect of a recovery is borne out in the OECD's latest leading indicators, which show improved performances continuing in January 2006. The OECD Composite Leading Indicators (CLI) incorporate a wide range of indicators such as building permits, order flows, long-term interest rates and sentiment surveys in a bid to deliver early signals of peaks and troughs in economic activity. Figures out on 10 March show that moderate expansion lies ahead in the OECD area, with the six-month rate of change in the leading indicators rising for the ninth consecutive month. The most positive signals were observed in Japan, Germany and Canada, with the euro area up for the eighth consecutive month. For details on the latest trends, see www.oecd.org/statistics. ■



–but joblessness down

The OECD's standardised unemployment rate fell to 6.3% in January 2006, 0.1 percentage point lower than the previous month and 0.4 percentage point lower than a year earlier. In the euro area, the standardised unemployment rate stood at 8.3% in January 2006, which though stable compared with the previous month, was 0.5 percentage point lower than a year earlier. The US rate for January 2006 fell to 4.7%, 0.2 percentage point lower than the previous month and 0.5 percentage point lower than a year earlier. For Japan, the rate was 4.5% in January 2006, 0.1 percentage point higher than the previous month but unchanged from January 2005. For details, see news releases under www.oecd.org/statistics. ■

• News brief •

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Hungary awards Mr Johnston

The president of Hungary, Laszló Sólyom, has conferred the Commander's Cross with the Star of the Order of Merit of the Republic of Hungary on the secretary-general of the OECD, Donald J. Johnston. The award was presented at a ceremony in Paris on 10 March 2006, in recognition of the support received by Hungary from Mr Johnston over the past 10 years. Hungary became a member of the OECD in 1996. A former lawyer, politician and cabinet minister in the Canadian government, Mr Johnston was elected to the post of OECD secretary-general also in 1996. He steps down in May this year after two terms in office. ■

Smart aid

Aid to the world's poorest countries is expected to reach about US$130 billion by 2010, an increase of $50 billion from 2004 and twice the amount spent in 2000. But the aid hike in 2005-06 primarily reflects debt relief for Iraq and Nigeria and emergency aid in the aftermath of the 2004 tsunami. The OECD's annual *Development Co-operation Report*, released in February, warns that as of 2007 when these debt relief operations are complete, donors will have to increase other forms of aid by around 10% per year, double the rate of recent annual increases. For this reason, the OECD has asked donor countries to honour aid promises and spend smarter.

The *Development Cooperation Report* notes improvements in the composition of aid, for example a 13.3% increase from 2003 to 2004 in funds going directly to long term aid programmes and projects. But more must be done to improve the effectiveness of aid. "Technical co-operation" accounts for about a quarter of all funding–$19 billion in 2004–but very little is known about its effectiveness. Most technical co-operation pays for study experts from donor countries, whose overheads, such as expatriation allowances, can cost more than their professional fees. The *Development Co-operation Report* suggests giving funds directly to developing countries so they can recruit who they want. If fairly done, this would save money and help build local capacity.

The report, which calls for an urgent increase in economic growth targeted at poverty reduction, notes that the twelve indicators contained in the Paris Declaration on Aid Effectiveness, signed in 2005 by over a hundred donor and developing countries, would help make aid smarter. The *Development Co-operation Report* is available at www.sourceoecd.org/developmentreport. ■

Plus ça change…

More need–more given: Official aid contributions of member countries as a whole are likely to show further increases in 1962. In view of the vast economic gap between developing and the more advanced industrial nations, the needs are great. Equally important, the developing nations are demonstrating an increased capacity to absorb and utilise effectively a greater volume of financial aid.

From *OECD Observer* No 1, November 1962, p20.

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Value added clarity

The OECD is launching a new project aimed at providing guidance for governments on applying value added taxes, or VAT–also called Goods and Services Tax, or GST, in some countries–to cross-border trade. In today's environment of rapidly increasing international trade, particularly in the area of services and intangibles, a current lack of international "rules of the game" can lead to double taxation or unintentional non-taxation. What is more, businesses may be discouraged from making decisions because of the uncertainties in the application of these taxes. For their part, tax administrations struggle with applying the tax on international transactions where there are no internationally agreed rules.

The immediate focus of the new guidelines will be on services and intangibles. The project will subsequently consider issues such as fair taxation and double taxation. The OECD's Committee on Fiscal Affairs, which has overall responsibility for this project, has integrated the setting of standards and the provision of guidance in the consumption taxes area as part of its core work. See *International VAT/GST Guidelines*, available at www.oecd.org/taxation or www.oecd.org/dataoecd/16/36/36177871.pdf. ■

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Pedalling tradition

Europe's university challenge

Andreas Schleicher, OECD Education Directorate

When European Union heads of state and government met at a summit in Lisbon in 2000, they set the goal of making Europe "the most competitive and dynamic knowledge-based economy in the world." That goal is far from being met, not least in tertiary education.*

The time when Europe competed mostly with countries that offered low-skilled work at low wages is long gone. Today, countries like China and India are starting to deliver high skills at low costs–and at an ever increasing pace. This is profoundly changing the rules of the game. There is no way for Europe to stop these rapidly developing countries from producing wave after wave of highly skilled graduates. What economists call "barriers to entry" are falling. Individuals and companies based anywhere in the world can now easily collaborate and compete globally. And we cannot switch off these forces except at great cost to our own economic well-being.

The challenge for Europe is clear. But so is the solution: evidence shows–consistently, and over time–that countries and continents that invest heavily in education and skills benefit economically and socially from that choice. For every euro invested in attaining high-skilled qualifications, tax payers get even more money back through economic growth. Moreover, this investment provides tangible benefits to all of society–and not just to the individuals who benefit from the greater educational opportunities.

[...]In short, if Europe wants to retain its competitive edge at the top of the global value-added chain, the education system must be made more flexible, more effective and more easily accessible to a wider range of people.

OECD studies show that money spent on obtaining university qualifications pays dividends higher than real interest rates, and often significantly so. The difference in the amount of money that someone with tertiary education (i.e. college level or higher) can expect to earn compared to the amount someone with only secondary education (i.e. schooling that finishes at ages 16-18) can expect to earn grew on average by one percentage point per year between 1997 and 2003 in 18 of the 22 OECD countries with available data. Moreover, the earnings differential between workers with secondary and tertiary education ranged from around 25% in Denmark and New Zealand to between 50% and 119% in the Czech Republic, Finland, France, Germany, Hungary, Ireland, Italy, Portugal, Switzerland, the United Kingdom and the United States. Countries that give individuals one additional year of education can boost

productivity and raise economic output by 3% to 6% over time. Meanwhile, people without basic qualifications face a significantly higher–and growing–risk of unemployment and poverty.

OECD data also shows that more and more people are gaining higher educational qualifications around the globe. Today, almost all of the OECD's 30 members are producing more college graduates than they did in 1960, but the rate of increase has varied widely. In the 1960s, Korea had the same gross domestic product as Afghanistan and was ranked No.21 out of 30 OECD countries in terms of the number of adults as a proportion of society with tertiary qualifications. Today, Korea is No.3 among the 30 OECD countries in the ratio of 25- to 34-year-olds with educational qualifications as a proportion of society.

Some European countries–including Ireland, Portugal and Spain–improved their relative standing as well. But most of Europe's major economies–including France, Italy and the United Kingdom–only held their ground or, in the case of Germany, significantly fell. In Germany, growth in the number of people with high-skill qualifications has been so limited that Germany's relative position declined to No.23 in the 1990s among the 30 OECD countries, down from No.14 in the 1960s (though Germany's strong vocational education system does help to make up for some of this gap). A look towards the future suggests that differences in educational achievement between countries could widen in years to come.

Traditionally, the US has led in tertiary-level enrolment, and it remains strong. But in the Nordic countries, more than two-thirds of today's school-leavers now enter higher education institutions, leaving the US behind in this indicator. France and Germany, meanwhile, boast little more than half of the tertiary-level enrolments per capita of the leading countries–a sign that France and Germany, which make up 35% of the European Union's €11.6 trillion economy, are no longer among the world's leaders in developing knowledge and skills. One might imagine that with educational opportunities expanding like this, there will be massive inflation and ultimately a decline in the value of degrees and qualifications. However, the evidence points to the opposite. With the exception of Spain, earnings and other variables which tell us something about the labour-market value of education have risen faster than supply since 1998, the earliest point with comparable data. This suggests that demand for high skills is increasing faster than our current institutions can deliver them.

No longer leading

Only two European universities make global top 20

Rank	University	Country
1	Harvard	USA
2	**Cambridge**	**UK**
3	Stanford	USA
4	California (Berkeley)	USA
5	MIT	USA
6	California Institute of Technology	USA
7	Columbia	USA
8	Princeton	USA
9	Chicago	USA
10	**Oxford**	**UK**
11	Yale	USA
12	Cornell	USA
13	California (San Diego)	USA
14	California (Los Angeles)	USA
15	Pennsylvania	USA
16	Wisconsin	USA
17	Seattle	USA
18	California (San Francisco)	USA
19	Johns Hopkins	USA
20	Tokyo	Japan

Source: The Lisbon Council

The world is indifferent to tradition and past reputations.

It is indeed hard to assess issues of the quality of Europe's tertiary education, but the latest ranking from Shanghai Jiao Tong University, the most widely cited but not undisputed ranking of universities, finds that Europe may have boasted world-class universities before America even appeared on European maps but today it is running behind in the quality of the graduates it produces (see table). Of the 20 top ranked universities, 17 are in the United States and only two are in Europe, according to the Shanghai study. What's more, nearly 40% of all foreign students in the world go to the US to study–a sign that the US remains the No.1 choice for global consumers of education.

[...] Europe's universities are unlikely to catch up unless our governments succeed in creating and maintaining a system of diverse, sustainable, and high-quality institutions with the freedom to respond to demand and be accountable for outcomes they produce. The OECD's Programme for International Student Assessment (PISA) studies have focused attention on the outcomes of schooling–we have no comparable tool for higher education.

Europe must ensure that the growth and development of tertiary educational systems are managed in ways that improve access and enhance quality. And we must implement financing and student support policies which mobilise public and private funding in ways that better reflect the social and private benefits of tertiary education. Beyond that, Europe's universities will have to evolve so that their leadership and management capacity matches that of modern enterprises. Appropriate strategic, financial and human-resource management techniques should be introduced to ensure long-term financial sustainability and meet accountability requirements. And the university system itself must be governed by bodies that reflect a much wider range of stakeholder interests than the academic community.

[...]The world is indifferent to tradition and past reputations, unforgiving of frailty and ignorant of custom or practice. Success will go to those individuals and countries which are swift to adapt, slow to complain and open to change. ■

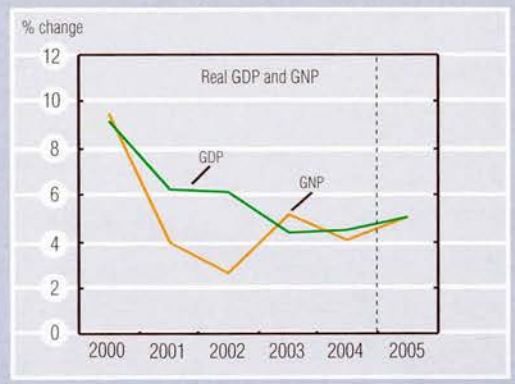
* This article is an extract from Schleicher, Andreas (2006), *The economics of knowledge: Why education is key for Europe's success*, Lisbon Council Policy Brief, Brussels. The complete 20 page pdf version, including graphs, tables, and special focuses on Finland and Korea, is available at www.oecd.org/pisa.

Booming on

Ireland's economic boom is into its second decade. Can it last?

The Irish economy has transformed in recent years. It grew by 5.1% in 2005, half a percentage point faster than in 2004, driven by strong domestic demand and positive net exports. This continued the remarkable performance of the past decade, during which Irish incomes per capita have caught up with the OECD average. The forecast is for more strong growth in 2006-2007, with unemployment (4.2%) to remain relatively low.

Still buoyant
Ireland´s growth trend, 2000-2005



Source: *OECD Economic Survey of Ireland*, 2006

The debate about the causes and durability of Ireland's booming economy is not new (see references) and the latest OECD *Economic Survey of Ireland* also devotes space to the question, pointing to the business-friendly regulatory environment, a flexible labour market, moderate tax rates and sound fiscal policy. It highlights not only the economy's unprecedented growth in incomes, but its resilience too–it rode out the slump in the new economy remarkably well after 2000, for instance. Still, the OECD report sees risks, as well as areas for improvement.

Remaining competitive will be a challenge for a start. Competition policy should be stepped up in a bid to dampen prices, remove bottlenecks and promote productivity and growth. The network industries, such as electricity, telecoms and transport, are in particular need of reform, as are retail services, including pharmacies.

Also, productivity must be improved, the report urges. This may sound surprising, especially since Ireland's labour productivity has recorded faster growth than any OECD economy since 1995. Also, its labour market has been highly flexible on the hiring and firing side, allowing labour to shift into dynamic services with impressive ease.

But it is precisely that shift that will make further productivity gains harder to achieve. More investment will be required in skills and innovation, for instance, and the labour supply will have to be raised even more, particularly among women. Already the increased presence of young women in the workforce has helped boost growth. Though recent figures from Ireland's Central Statistics Office (CSO) show female employment is still rising, the potential is still considerable, since as the report notes, female participation remains below the OECD average. Improved childcare would help.

As a very open economy, Ireland's export competitiveness will become a major challenge. Successive social pacts have played a part in making the business environment attractive, but wage growth has still been fast. According to the OECD report, centralised agreements must not prevent the economy from adjusting to external shocks, such as a sharp fall in the dollar. (Ireland is more exposed to the US dollar than most other EU countries, thanks in part to US business investment there.) One solution the report suggests would be for agreements to run for shorter periods, or to have built-in circuit-breakers, such as an "ability to pay" clause.

The country's infrastructure, which has creaked a little under the pressure of Ireland's demographic and economic dynamism, also needs attention. At the same time, the construction industry has been booming, with 80,000 houses built last year alone. House prices have tripled in real terms since the mid-1990s. Demographics, increased wealth and low European interest rates help explain much of this upsurge, and though the report's authors believe a property market collapse is unlikely, a slowdown in the sector would nonetheless hurt government receipts and affect employment.

One card Ireland has been able to exploit effectively in recent years is its strong relationship with both Anglo-Saxon markets and the euro area, of which it is a member. For instance, its European dimension helped it cushion the effects of a falling dollar in 2002-2003. Investing in infrastructure, while boosting productivity and the labour supply, as well as creating room in public finances, would help Ireland's economy retain such flexibility and strengthen its resilience further still. ■ *RJC*

- OECD (2006), *Economic Survey of Ireland*, Paris. The full survey can be ordered at www.oecd.org/bookshop. See summaries and Policy Brief at www.oecd.org/economics. For more commentary, contact Dave.Rae@oecd.org.
- McAleese, Dermot (1999), "Ireland's economic boom: the true causes", in *OECD Observer* No. 217/218, available at www.oecdobserver.org.

Securing tomorrow's water

Kiyo Akasaka
OECD Deputy Secretary-General

This spotlight was especially prepared for the 4th World Water Forum, held in Mexico, 16-22 March 2006.
See www.oecd.org/worldwaterforum4

Every Thursday at noon the *Tribunal de las aguas* (water court) meets outside the cathedral in the city of Valencia along Spain's Mediterranean coast. For more than a thousand years, it is believed, the court has ruled on disputes affecting the irrigation of the arable lands known as *huertas*, which nourish the lemon trees, the oranges and other crops that give this region its distinctive scents and flavours, and for many, livelihoods as well.

Water is basic to life: it is essential for health, agriculture, industry, and the maintenance of key ecosystems. Today access to and the management of water resources have become global issues, affecting social and political relationships across the world.

UN estimates suggest that by 2025 some 1.8 billion people will be struggling to make a living in countries or regions afflicted by "absolute water scarcity". This means without action, water shortages will worsen and there will simply not be enough water available, particularly in more arid areas, to maintain food production, or to meet household, industrial or environmental needs.

Most countries in the Middle East and North Africa already fall into this category. Rising populations, growing industrial production and consumption in emerging and developing countries look set to lengthen the list of countries experiencing such scarcity, with Pakistan, South Africa and large parts of India and China set to join it by 2025. Climatic variability, particularly in many semi-arid regions, further complicates the situation.

Then, there is also the very pressing issue of health. Take diarrhoea. In a developed country, this disease is easily cured with a little salt in a glass of water. In many developing countries, however, it is the number one killer of children, due mainly to a lack of clean water.

It is against this background that the job of achieving the water targets under the Millennium Development Goals and agreed in 2002 at the World Summit on Sustainable Development must be set: halving the proportion of people without sustainable access to safe drinking water and sanitation by 2015 will be no mean feat.

While access to water in poor countries is a very grave concern, the challenge of providing safe water is also a major issue in developed countries. In fact, the OECD Environment Strategy to 2010,* adopted by

Uneven access

% of population served by water supply and sanitation services 2002

		World	Developed countries	Developing regions
Water supply	Urban	95	100	92
	Rural	72	94	70
	Total	**83**	**98**	**79**
Sanitation	Urban	81	100	73
	Rural	37	92	31
	Total	**58**	**98**	**49**

Source: OECD (2006, forthcoming), Futures Project on Global Infrastructure Needs, Paris

OECD environment ministers in May 2001, also identifies freshwater as a priority issue for OECD countries, and with good reason. Safe water has been compromised by pollution of our water basins, while water supply and sanitation infrastructures in many urban centres are ageing and in need of repair or replacement. In North America some urban water systems are nearly 200 years old! The financing required to meet these challenges is enormous, and a solution has to be found.

Scarcity is also a problem. Groundwater has reached new lows in many regions, for example in the US and France, largely reflecting over or inefficient water use in farming, as well as groundwater pollution, salination, and so on. Recently, the BBC reported that because their drinking water reserves have not recharged this winter, the inhabitants of the county of Kent in the UK, which is hardly an arid place, will face severe restriction measures this year. Other OECD countries face similar problems.

The good news is that indefinite water scarcity is by no means a *fait accompli*. It is true that freshwater is a fragile resource–just over 2% of total water reserves on the planet are freshwater, and most of that is ice. Yet despite this, overall water supplies will probably remain plentiful as long as they are managed properly. Not only must the right policies be put in place, but these then have to be implemented thoroughly and coherently.

As a natural resource, water is obviously influenced by major forces, not least the possible effect of climate change on rainfall. At the same time, water continues to be used inefficiently almost everywhere, while inadequate or poorly maintained infrastructure leads to remarkable levels of leakage. This is not nature's fault, and it is our common responsibility to put it right.

Much of the problem comes down to economics: water is a fragile resource subject to competing demands. As a basic economic principle, it should be treated as a valued resource and charged for in a way that encourages efficiency and prevents needless overuse. At the same time, water is a social good: safe water is a basic need for us all, and so affordable access must be a priority, particularly for the poorest and the vulnerable.

Moreover, water is inherently political: for policy to work, co-operation and agreement are needed at every level, from international operators and industry all the way down to local villages and private users. Popular participation–as illustrated in user associations in many developing countries and public-private partnerships–can help to bring relevant stakeholders together to address water management challenges.

Work carried out in the OECD shows that price-based policies work when user charges are set on a full cost recovery basis, which reflects the actual costs of water abstraction and delivery, including operation, maintenance and capital costs. This approach would provide an incentive for people to use water efficiently, while generating revenues to support necessary investment in infrastructure. Consequently, both efficiency and overall welfare require that all users–households, industry and agriculture–should pay for the water they actually use.

Even policies targeting poor users must provide incentives to be efficient with their water use; no-one can afford to ignore this principle. Water, unlike many other commodities, is a public good. Hence, some will argue for providing cheap water services across-the-board. The trouble with this view is that even where prices are cheap, access is still denied to many, or at an unfair price. There is also the risk that the loudest interest groups will receive more equal treatment than others.

Across-the-board cheap water supplies are both inefficient and subsidise wasteful water use by rich and poor alike. However, pricing must clearly be bolstered by measures to ensure equitable access to water services by the poor. To achieve this, many countries have developed specific targeted measures to support affordable access to essential water services by the poor, while still providing incentives for efficient water use. Such targeted measures include various types of income support, including through general increases in social welfare support, like those in Chile, or tariff-based systems designed to reduce charges specifically for low-income households, such as those operated in Greece, and some Asian countries, like Indonesia. Rallying stakeholders can also pay off; in France, in addition to legislation and a charter on water solidarity, a national convention from 2000 stipulates that no water disconnection should occur when a baby or an elderly dependent person is part of the household, whatever its financial situation.

In most countries, including the OECD area, industrial or household users pay over a hundred times more for their water than farmers. Yet, agriculture is by far the biggest single user of water. Is that fair? True, the quality needed for irrigation may be lower and the delivery systems less sophisticated than for households, but water usage is still effectively

cross-subsidised by other, sometimes poorer, users. Paradoxically, in cases where water restrictions are in operation, farmers may be exempt.

In general, if water usage reflected the true price of water, farmers would face a choice: either to get tough on their water consumption or shift into producing something less water-intensive. Some arid countries are already doing this, and are even ceasing cultivation of some crops that generate less added-value.

Raising prices or reducing subsidies is not easy politically or socially, particularly in farming, where strong historical, cultural and political factors come into play. There may also be concerns to maintain national food security, though there are probably more efficient ways of addressing those concerns than subsidising water. Ultimately, the need to manage water resources sustainably gives us little choice but to activate reforms; at the very least, the status quo cannot be allowed to continue.

There are of course places where available water supply is below the minimum recharge levels or has become polluted, affecting reliable supplies. Sometimes piping or shipping water in from neighbouring regions is a solution. Technology might also help, such as for desalination.

Whatever the solution to the water challenges, political will and economic instruments are no good without financing. Financing needs to be mobilised to create new water projects and upgrade infrastructure. For most countries a combination of locally raised finance and private investment supported by strategic public investment is the answer. Developing countries will also look to aid. While taxation may have a role to play in some cases, for sustainable water security, a robust financing system should rely primarily on water charges, with provisions for affordable access by the poor.

However, in all but the very poorest places, Official Development Assistance (ODA) for water has been squeezed in relation to other sectors of aid in recent years and has become concentrated on a handful of countries. Water supply and sanitation accounted for only 6% of total sector-allocable aid of OECD DAC countries in 2004, down from 9% in 1999-2000. Sub-Saharan Africa has not benefited much from any new water aid. Foreign direct investment into water and sanitation has had to compete intensely with sectors offering higher returns, such as energy. Extra political effort will be needed to mobilise resources and boost ODA for water, and policymakers could do more to improve the framework conditions for investment.

The international dimension of water lends all of these challenges extra urgency. Transborder water basins and sources, from rivers and lakes to groundwater and ice caps, cover some 40% of the world's population and 60% of the earth's freshwater volume. Water is both strategically vital, as well as geopolitically sensitive. Countries and regions that share water sources will need to ensure together that proper management practices are in place, particularly if water is scarce or vulnerable to pollution, or vital for trade.

As a basic economic principle, water should be treated as a valued resource and charged for in a way that encourages efficiency and prevents needless overuse.

The only way to achieve this is for concerned parties to talk, and the earlier the better. As an organisation created to bring once-conflicting countries together, the OECD understands this more than most. Negotiations can deliver agreements on the likes of information and notification, water abstraction levels and common emission standards for water pollution.

Cross-border agreements can help improve joint management of whole water basins, and are now in place for many transboundary water resources. Financial compensation can also be used to support such agreements. For example, compensation is used between Mexico and the US in the case of the Tijuana waste water treatment plant, and there are agreements in place to oversee waste water discharges into the Baltic Sea and pollution loads in the Rhine and Danube. Also, UN bodies have contributed to an initiative on water and security in Central Asia, a zone of potential water-related conflict. Forums for dialogue and co-management can help prevent disputes over water from spreading or spinning out of control.

Water is set to become a more important issue in all our lives. In this global village, we must work together to secure the future of this basic resource for everyone. Valencia's ancient *Tribunal de las aguas* holds timeless lessons for us all. ■

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*Note: The OECD Environmental Strategy points to the need to manage the use of freshwater resources and associated watersheds in a way that maintains an adequate supply of freshwater of suitable quality for human use, while still supporting aquatic and other ecosystem needs. In adopting this strategy, OECD countries pledged to undertake national actions aimed at meeting this challenge, and adopted three broad indicators for measuring progress: reduced intensity of water resource use; improved ambient water quality; and a larger share of the population connected to secondary and tertiary wastewater treatment systems. For more information, visit www.oecd.org/env.

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Water and farms

Towards **sustainable** use

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Both consumption and pollution of water by agriculture are becoming serious concerns. Yet, water resources can be used much more efficiently in producing food and fibre, while minimising pollution and supporting ecosystems. How to achieve this depends on mindsets and societal goals, as well as institutional systems and structures. And that means government.

A widely held view is that developed countries are water-abundant and farmers need pay little attention to issues like water management or quality. If only that image were true. Rising production of thirsty crops and livestock have brought severe strains on water resources everywhere, including the richest countries.

Consider the US, which is one of the world's largest agricultural producers. There, irrigated agriculture has been depleting groundwater resources beyond natural recharge rates for several years in some regions. For example, in the High Plains (Ogallala) aquifer, which irrigates more than 20% of US cropland, the water level has fallen, and is close to depletion in parts of Kansas. In the Texas Panhandle, water depletion now poses a serious threat to the sustainability of the agricultural and rural economy.

The US is by no means the only developed economy faced with such a problem. In France, also one of the world's leading agricultural exporters, farming's share in groundwater use rose from 10% in the mid-1980s to 17% by mid-1990s. In fact, OECD agricultural water use has increased more rapidly than for other uses over the past decade, accounting for 45% of total water use. This reflects a 6% expansion in the irrigated area in agriculture, in particular for cereals, horticultural crops like vines, and improved pasture.

Projections over the next decade suggest that demand for water from irrigators will continue to rise, notably in countries where irrigated farming provides the major share of agricultural production, such as Australia, Mexico, Spain and the US. This means stiffer competition for water among other users, too. Moreover, the growing incidence and severity of droughts over the past decade, perhaps related to the impact of climate change, is raising the pressure on irrigated farming in many drier and semi-arid areas.

Agriculture's share in total groundwater utilisation is above 30% in some OECD countries, and farming now draws an increasing share of its supplies from deeper underground aquifers. Use of groundwater by irrigators is well above recharge rates in some regions, which is threatening the economic viability of farming in those areas.

While farms can act as guardians of the environment, in too many cases the opposite is happening.

The dilemma is that farming can be a boon and a bane for the environment. Over-exploitation of water resources by agriculture has damaged some aquatic ecosystems, and has harmed recreational and commercial fishing. On the other hand, farming systems can bring environmental benefits to water catchments by providing habitats, replenishing groundwater reserves and helping to control flooding through provision of

riparian buffer strips, tree planting, terracing and good management.

But while farms can act as guardians of the environment, in too many cases the opposite is happening. In some countries the low uptake of water-efficient irrigation technologies, such as drip emitters, and the poor maintenance of irrigation infrastructure has led to inefficiencies in water use. This results in water losses, as well as higher water application rates for every hectare irrigated. But there are encouraging signs that in other countries like Australia, per hectare water application rates have fallen with improvements in water management practices. In short, with proper techniques and incentives to take up the right technology, the stress on groundwater resources can be relieved.

Pollution on the cheap

But use is only part of the challenge. Farming is also a major source of groundwater pollution in many countries. Over a fifth of groundwater monitoring sites in agricultural areas of Denmark, the Netherlands and the US record nitrate levels that exceed drinking water standards. This is a particular concern where groundwater provides the main source of drinking water supplies for both people and livestock. Moreover, the situation is likely to deteriorate, since phosphates put into the soil even a few years ago will, because of particular physical properties, take many years to seep into the groundwater.

The impact of agriculture on water quality has improved slightly over the past decade, reflecting reductions in livestock waste, fertiliser, and pesticide run-off and leaching in response to public concerns and policies. But despite the improvement, *absolute* levels of agricultural pollution remain high in many regions. Nitrogen and phosphorus sources of water pollution are relatively more important, too, as industrial and urban sources of pollution have decreased.

The question is how to tackle these issues. The financial costs of agricultural pollutants, such as nutrients and pesticides in rivers and lakes, are high.

Who pays?

Water prices per cubic metre, selected countries, late 1990s

Water prices (US$/m³)	Agriculture	Industry	Households
Netherlands	1.44	1.075	3.16
Austria	1.005	..	1.05
France	0.0813	0.95	3.11
Greece	0.0515	..	1.14
Spain	0.0485	1.075	1.07
US	0.0459	0.505	1.25
Hungary	0.029	1.535	0.45
UK	0.0205	1.675	2.28
Australia	0.0195	..	1.64
Portugal	0.0175	1.255	1.0
Turkey	0.005	1.675	1.51
Canada	0.00185	1.59	0.7

Note: Some caution is needed in comparing these figures, because water for agriculture is generally of lesser quality than for households, while infrastructural and conveyance costs may be lower.

Source: OECD

Farmers often pay very low prices for water delivered and used compared to households or industry.

According to the UK Environment Agency, agricultural water pollution costs around €345 million per year, affecting drinking water and aquatic ecosystems. This accounts for about 40% of total water pollution costs in the UK.

The costs of bringing water quality in agricultural areas up to standard for environmental and recreational uses would obviously be higher than for drinking water in many OECD countries, given the widespread eutrophication of rivers and lakes in farming regions, and the damage to aquatic organisms from pesticides. Agricultural nutrient pollution of estuaries and coasts is also becoming a more pressing issue, as this causes algal blooms that damage marine life.

Regulations can limit water pollution, but they are not enough. Policies that provide subsidies linked to production misalign farmers' incentives, aggravating overuse and pollution of water in most OECD countries. Although the quality of farm water is usually inferior, farmers often pay very low prices for water delivered and used compared to households or industry. In the US, for instance, farmers pay on average around $0.05/m³, compared with $0.50/m³ paid by industry; in France the respective figures are $0.08/m³ and $0.95/m³; and for Spain $0.05/m³ for farms and 1.08/m³ for industry. At least on price, farmers have little if any incentive to become more efficient in their use of water.

Even if the incentives were created, there is a question of who pays. Property rights to water are often ill-defined in agriculture–a well on a farmer's land might belong to a village, for instance. This makes the polluter pays principle hard to enforce.

In short, for many OECD countries, agriculture's impact on water resources is not sustainable. Policies and actions are beginning to place a high priority on new management approaches, using better regulation as well as instruments like market-based water trading. There is wide recognition of the need for better pricing structures that reflect the costs and benefits of water in agriculture. And there is a need for all countries to reinforce the monitoring and evaluation of their reform initiatives to ensure that they are moving in the right direction.

Non-OECD countries face similar concerns, even if there is the difficulty in more arid economies of providing even a very basic supply of water to cultivate crops and rear livestock to feed their growing (richer) populations. In general, however, countries are at different stages in reforming their water policies.

An OECD workshop on agriculture and water held in Australia in November 2005 under the banner of "Sustainability, Markets and Policies", recommended a number of actions for consideration by policymakers. First, they should use a mix of cost-effective and coherent measures, ranging from

watershed to national levels, to improve the management of water both for farming and to support aquatic ecosystems. Second, they should turn to scientific research, water-use accounts and water-quality indicators to underpin their policymaking. A third recommendation is to identify the precise property rights attached to water withdrawals, water pollution and ecosystem provisions.

Also, clear lines of responsibility in water management should be established, with a commitment from governments to resource the necessary actions properly, especially given the challenges related to climate change and climate variability. Policymakers should strengthen reforms with instruments like water pricing and trading, water service competition or benchmarking performance where competition is limited. And they should enhance the capacity for farmers, industry and community groups to participate in the design and delivery of policies for water management.

Developed countries are at last waking up to the realisation that, far from being abundant, water is a fragile resource and that the right market and policy signals must be put in place. They are starting to address the issues, but for many countries there is still a long way to go. ■

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Safe water

A quality conundrum

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Achieving the Millennium Development Goal on water should not only require extension of access, but proper maintenance of existing infrastructure, too. It is a long-term challenge.

When world leaders agreed upon the United Nations Millennium Declaration in 2000, and then staged the 2002 World Summit on Sustainable Development, they set themselves some ambitious world poverty reduction goals: the Millennium Development Goals (MDG). One of the MDGs is to "halve, by 2015, the proportion of the people without sustainable access to safe drinking water and basic sanitation". That goal is turning out to be a more complicated proposition than many expected.

Since the 2000 summit, a UN structure known as the Joint Monitoring Programme (JMP), created to check progress on implementing the various targets set, has come under repeated criticism on the grounds that the indicators used provide a distorted picture of the challenge faced. Quite remarkably, they fail to take account of whether the water to which people have access is really safe to drink and whether access is sustainable.

Most minds focused on access pure and simple, but perhaps in the rush to act, overlooked the monitoring of the MDG on water supply and sanitation in situations where infrastructure already exists, but is deteriorating. This is a problem, since not only does it affect the safety of drinking water, but many developing countries, particularly their larger towns and cities, already have some kind of infrastructure in place. Questions abound: why is the drinking water deteriorating and what can be done to fix the situation?

Consider the countries of the former Soviet Union. The JMP finds that the share of people in the group of countries known as Eastern Europe, Caucasus and Central Asia (EECCA) having access to an improved drinking water source has increased since 1990, with 93% of the population having access in 2002 and about 70% having access to improved sanitation. From these figures, the JMP concludes that the EECCA region is essentially on track to meet the internationally agreed drinking water targets.

However, these indicators paint an overly optimistic picture. Extensive urban infrastructure built in the Soviet era provides a large share of the population with in-house tap water connections. But today much of it is in such a serious state of disrepair that it does not provide sustainable access to safe drinking water to very many people. Also, data gathered by the OECD and other bodies suggest that the situation has been deteriorating significantly over the past 15 years.

Leakage, continuity of supply and actual water quality are all problem areas. The water distribution network shows high leakage, reflecting the poor condition of pipes, as well as perhaps illegal water abstraction. Similarly, continuity of supply has been deteriorating. And while water quality tests at intake into the network may show only a limited number of samples that are below sanitary standards, that water eventually becomes contaminated as it flows through the distribution network. What comes out of the tap is not necessarily what goes into the system.

In extreme cases, policymakers may have to consider the trade-off between providing better water for some, or some quality water for all.

The main reason for discrepancies between the official UN statistics and other available data on this subject in the EECCA and elsewhere lies in the fact that the statistics used for monitoring only measure whether people have access to an "improved" water source, rather than whether the water from such sources is actually safe. Nor do the indicators ask whether access is sustainable. Improved sources are defined as in-house tap connections, water from stand pipes, protected wells, etc.

The trouble now is that the situation exemplified by the EECCA countries is having a serious negative impact on public health. For instance, the World Health Organization (WHO) estimates that more than 13,000 children under the age of 14 die every year in the ECE (Economic Commission for Europe) region, mainly in the EECCA countries, because of poor water conditions. This crucial issue is likely to be replicated in many other parts of the world, too, unless new approaches are adopted to address it adequately.

What can be done? As a starting point, there is a clear need to develop complementary indicators quickly as an aid to sound policymaking, such as on leakage and quality of water at the tap. These would be added to official MDG data about access to water supply and sanitation. Building the data would require additional financial resources, of course, particularly since adequate information in these respects is not normally available in developing countries. On the other hand, not collecting the data will make the goal of clean water far more difficult to achieve.

A much trickier financial question is how to stop and reverse the decline of existing water infrastructure. For example, in the case of the EECCA countries, between 50 and 90% of water utility revenue is currently generated by user charges, and the remainder mostly comes from public budgets. But these funds are not enough to cover operational costs, let alone maintenance and capital expenditure. Also, significant up-front investment will be needed to improve operational efficiency in many cases.

Improving the collection of user charges is one approach that would help boost funds. In the case of the EECCA countries, amounts collected can currently be as low as 30 to 40% of sums billed. Those unpaid bills are another serious leakage from the system to be plugged.

At the same time though, water tariffs for households are often too low and will have to be increased, sometimes sharply. The good news is that in many cases those increases can take place without causing major affordability problems. In

others, especially where poverty is widespread, tariff changes would need to be accompanied both by improvements in service quality to generate sufficient willingness to pay and by social measures to support the poor, such as direct subsidies to consumers.

However, even retrieving unpaid bills and raising prices will not be enough to circumvent the need for higher public spending on the water sector. In some countries, this may mean devoting 3 to 4% of public budgets to the urban water sector alone. Competition for funding from other social and economic sectors will often make this difficult to achieve. In extreme cases, policymakers may have to consider the trade-off between providing better water for some, or some quality water for all.

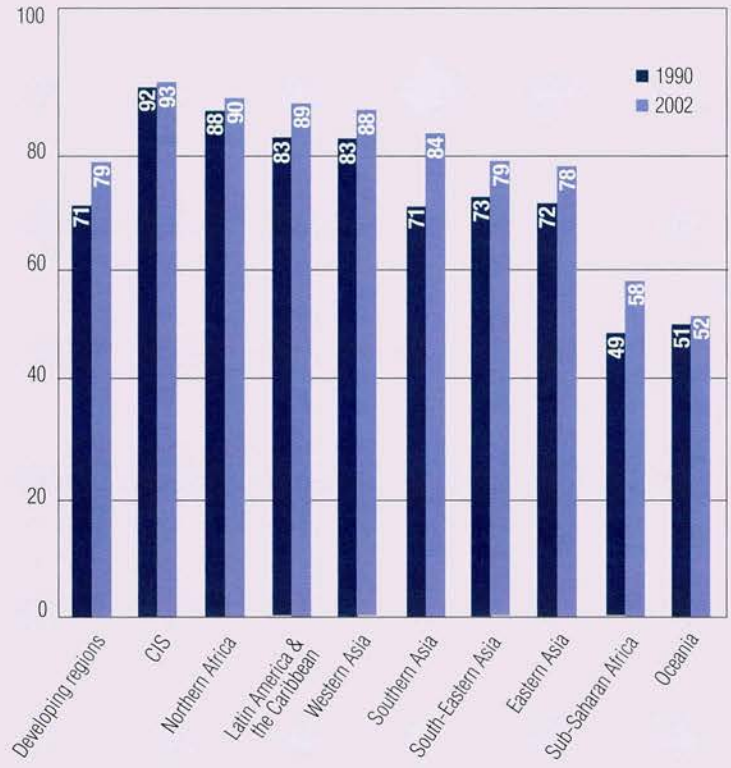
In the former Soviet state of Georgia, where 50% of the population lives below the poverty line and 17% in extreme poverty, the MDG targets on water could be achieved if the existing urban infrastructure were scaled back. That might mean that city dwellers currently connected to an in-house but low-grade water supply may be better served if they could fetch water from safe municipal standpipes.

Except in a few very poor countries, domestic rather than external resources will continue to be the dominant source of finance. Official development assistance for EECCA countries is presently at just US$100 million per year, and even if increased significantly, would still remain a small part of the US$8 billion in overall funding that is needed for operation, maintenance and investment. On the other hand, care must be taken to avoid crowding out domestic financial sources, as has happened in the new EU accession countries. Private operators are generally keen to become involved in water and sanitation projects where they can contribute know-how, management and leasing contracts, but they have been reluctant to bring in the needed finance.

Nonetheless, even at low levels, external finance can underpin financial and governance reforms in the water sector, build capacities, and bring in internationally accepted disciplines and good practices.

Safe to drink?

% of population using improved drinking water, 1990 and 2002



Source: United Nations (2005), The Millennium Development Goals Report, New York

Multilateral organisations can also step up their efforts, such as the Environmental Action Programme Task Force set up by environment ministers from a UN body, the Economic Commission for Europe, in 1993 for EECCA countries. Action undertaken in this framework, and supported by the OECD, includes the development of practical tools and approaches to support legal and institutional reforms, as well as assistance to improve the financial situation of the water sector.

With a range of committed players involved and the right focus, much can be done to achieve the development goal that really counts–that of the sustainable quality and delivery of healthy water. ■

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Aid flow

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The downward trend in aid to water supply and sanitation has been reversed. Or has it?

Three years ago, before the 3rd World Water Forum in Kyoto, we wrote that while the Millennium Development Goal of halving the population without access to safe drinking water by 2015 was feasible, it would be a tall order, particularly against a background in which bilateral development aid from OECD countries had stabilised or fallen. Have matters improved as we move closer to the deadline? There are some encouraging signs, but probably not where it matters most.

Some of the difficulties with water aid have been outlined before, notably at a seminar called "Water for the Poorest", held during the Stockholm World Water Week in August 2004. For a start, water supply and sanitation had not been incorporated in the UN's poverty reduction strategies, and could therefore not attract financing through this mechanism. Another problem was a lack of viable projects, mainly because water projects were generally considered as risky, causing reluctance among programme managers in donor agencies, accountable for their portfolios. Furthermore, funding of projects in countries most in need had been constrained as aid was conditional on governance reforms. Aid had been targeted, not to the poorest communities where the water needs were greatest, the Stockholm seminar heard, but rather to areas where the criteria for donor success were in place.

The latest data from the Development Assistance Committee (DAC) of the OECD tend to reflect this pattern. There is some positive news, insofar as these data show a sharp increase in the allocation of Official Development Assistance (ODA) to water supply and sanitation in 2004. DAC members' bilateral ODA commitments to the water sector amounted to US$3 billion that year. Multilateral donors' commitments also increased, with a total of US$1.8 billion in 2004, reversing the downward trend since the middle of the 1990s (see graph).

A closer look at the trend in aid to the water sector shows that allocations are in fact set by a handful of large donors and are targeted at a relatively small number of countries. As much as three quarters of total bilateral aid to water supply and sanitation in 2000-04 was extended by Japan, Germany, the United States, France and the Netherlands (see table). More than half of those allocations were directed to

There is no sign that donors have been stepping up their efforts for water compared with other sectors.

Asia. The share of recipients in Sub-Saharan Africa was just 15%, a modest increase at best over the last few years.

An even closer look at the trend reveals that much of the 2004 increase in aid is largely explained by the US programme of reconstruction in Iraq. In 2003 Japan reported large new commitments to China, Vietnam, FYROM (Macedonia) and Kazakhstan.

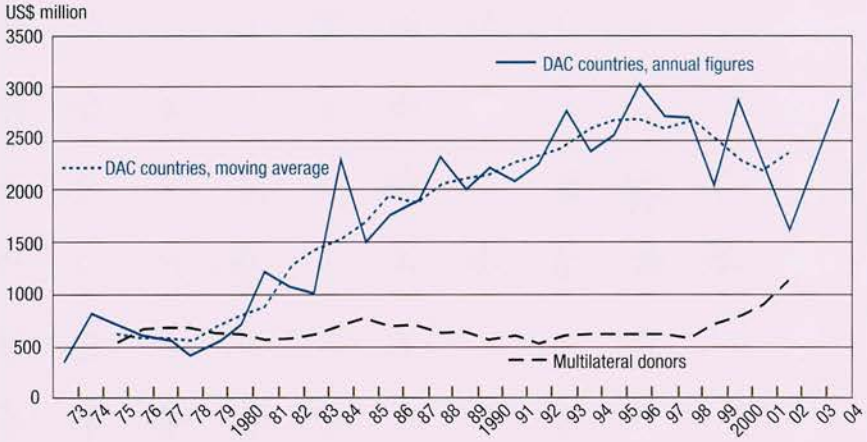
Nor is there any sign that donors have been stepping up their efforts for water compared with other sectors. In fact, the share of aid to water supply and sanitation in DAC members' total sector-allocable ODA dropped from 9% in 1999-2000 to 6% in 2001-02, where it remained in 2003-04.

Still, every drop counts and, in fairness, DAC members' bilateral ODA disbursements to water supply and sanitation have increased slightly, from US$1.9 billion in 2003 to US$2.2 billion in 2004. On the other hand, over a half of these amounts relate to projects committed before 2000. The main recipients include many of the countries listed in the table, as well as Egypt, Turkey and the Philippines. There, large infrastructure projects started in the second half of the 1990s are still ongoing. They have not received any notable new commitments since then.

But there is a final note which policymakers must take seriously. In the water sector, most aid is used to finance investments in infrastructure. Projects are large and on average take at least eight years to implement. That is a long lead time, particularly as the deadline for the MDG on water has been set for nine years from now. Any strategy and possible reorientation of aid to water supply and sanitation to reach the Millennium Development Goal on water must take this urgently into account. ■

Watering development

Trends in ODA to water supply and sanitation, 1973-2004: 5-year moving averages (except where marked annual), constant 2003 prices



Note: Non-concessional flows
Source: OECD DAC, *Creditor Reporting System on Aid Activities*

Main donors and recipients of bilateral ODA to water supply and sanitation, 2000-04, annual average commitments in US$ millions, constant 2003 prices

	Japan	Germany	US	France	Netherlands	Other DAC donors	**Total DAC countries**
China	222	5	1	6	4	37	**275**
Iraq	0	1	170	-	0	10	**181**
Vietnam	52	10	0	17	7	30	**117**
Palestinian adm. areas	2	23	72	5	1	9	**113**
India	39	8	2	3	18	32	**102**
Jordan	6	24	45	-	0	12	**87**
Malaysia	80	-	-	-	-	1	**81**
Morocco	24	26	2	16	0	7	**75**
Peru	55	11	0	-	1	6	**74**
Tunisia	28	12	-	26	-	1	**68**
Other recipients	326	254	52	100	93	420	**1245**
Total	**835**	**375**	**344**	**173**	**124**	**567**	**2417**

Source: OECD DAC, *Creditor Reporting System on Aid Activities*

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H_2 eau

Bordeaux is known everywhere for its fine, if expensive, wines. But what about its drinking water? According to a recent survey of water charges in France by the Federal Union of Consumers, the drink that well-to-do diners discreetly order as "chateau de la pompe" is no longer that cheap in the city of Bordeaux either. In fact, at €3.20 per m³ (less than half a cent per litre), the typical household water bill there is higher than in Paris, at €2.35/m³. Some water authorities charge less than €2/m³, but others charge higher. As value-added tax is just 5.5% of the water price, the authors wonder if such charges simply reflect profits flowing back to private operators. As the survey then shows, the answer is not that simple.

Consider the costs that most users do not see. First, there is capturing water from sources and then treating it. This is on the cheaper side of the ledger, at some €0.14-0.23/m³. Likewise, standards testing is estimated at some €0.03/m³, while storage in reservoirs, water towers and the like might cost just €0.04/m³.

Distribution network costs are higher, at as much as €1.20/m³. While pipelines may have a life span of 140 years, investment and replacement costs can nonetheless reach €300,000 per km. Moreover, replacing lead joints in pipes, as is legally required by 2013, costs about €1,000 per job, with some communes, including the Paris suburbs, seeing that bill rise to €2,500. Meanwhile, it costs some €50 to install a new water meter, which is being encouraged to improve accuracy.

Sanitation is another easily overlooked cost; the sewage network can account for the equivalent of €1.80/m³, the survey finds, with sewage treatment plants at some €0.45/m³.

Against this background, France's water charges might not seem too high. For low-income families, strict measures are in place to help with affordability and to prevent vulnerable households from being cut off. But otherwise, some experts argue that most users could pay even more, for instance, for sanitation.

Making water safe is a constant battle, not least in rural communities facing run-off from agriculture. Official test results are often issued with household water bills. One for 2004 in a village in Picardy stated that while the water standards were met for nitrates, they were near alert levels for toxic contaminants, such as pesticides. Cleaning this up will demand new investment, the local authority says.

Most households would probably agree that if the outcome of that investment was a reliable supply of safe drinking water, a reasonable water bill would be a small price to pay. "Château de la pompe" seems set to remain an excellent bargain for some time to come. ■ *RJC*

"Eau", in *Que Choisir*, No. 434, February 2006, L'Union fédérale des consommateurs, www.quechoisir.org.

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Salt of the earth

As the ocean covers three quarters of the surface of the earth, little wonder people see it as a possible source of freshwater. That basically means desalinating it to make it at least clean enough for agriculture and even good enough to drink. How does it work? Distillation is the cheap option, responsible for most desalinised water, but a newer filtering process using membranes, called reverse osmosis, now accounts for nearly half the world's capacity to turn ocean into freshwater.

Desalination is not a new process. Since Kuwait's first large-scale desalination plant in the 1960s, it has spread into use in over a hundred countries, with Saudi Arabia accounting for about 24% of total world capacity. The world's largest desalination plant in Ashkelon, Israel, uses reverse osmosis to produce 100 million m³ of water per year. The industry is mature, so few if any subsidies will be needed to develop it further, experts say. Also, the cost of desalinisation has declined to less than US$2 per thousand gallons (less than US$0.50 per m³), making it competitive with, say, shipping surface water over long distances. ■ *AB*

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Don't forget the coastal waters!

Martha Crawford Heitzmann
OECD Environment Directorate

Most public debate about water concerns freshwater. Yet coastal zones are coming under increasing pressure, too. Time for renewed action.

Most people know the story of the Dutch boy who saved his country by plugging a leaking dyke with his finger until help arrived. For the Dutch, the story had a happy ending, but millions of people living on the world's coastlands were not so lucky in the past year. First, the tsunami in December 2004 killed over 180,000 people in southern Asia, devastating coastal communities in Indonesia, Sri Lanka, Thailand and the Maldives. Then hurricane Katrina struck the south coast of the US in August 2005, bringing with it a storm surge that caused catastrophic damage along the coasts of Louisiana, Mississippi and Alabama, and flooded about 80% of the city of New Orleans. Although Katrina was the costliest (US$75 billion damages, and counting) and deadliest (1,417 deaths) hurricane in US history, there may well be more like it in the future.

How much these increasingly destructive coastal weather patterns can be attributed to

global warming is a major debate. But beyond that, there is the issue of sea level rise–by over 19cm since 1870, according to recent Australian research–which scientists confirm may be accelerating. Moreover, recent British research has raised the spectre of a collapse of the polar ice sheets, causing a possible further sea level rise of 5-6m.

In other words, water challenges do not just concern freshwater. Indeed, in the future, many coastal populations will likely face a greater threat from sea water encroachment and storm flooding than restricted water supplies. The world's coastline stretches to 1.63 million kilometres, and nearly half (46%) of it is located in OECD countries, mostly reflecting the long coastlines of Canada, the US, Mexico and Australia. Most importantly, coastal zones (i.e. areas within 100km of a shoreline and 100m of sea level) are home to 1.2 billion people, or a fifth of the world's population. Overall, average population density in coastal zones is three times higher than the world average, and in recent decades the overall growth of coastal populations has outstripped that of inland populations.

Such a concentration of people in coastal areas brings with it three major challenges. First, how to manage growing environmental pressures from land-use change, pollution, aquaculture, etc., so that they do not compromise the natural buffering capacity of coastal areas? Second, how to organize coastal settlements in order to minimize the population at risk from sea level rise, massive storms and other projected effects of climate change? Third, how to balance the often conflicting demands for use of the marine coastal zone for a range of economic activities, including shipping, mineral extraction, tourism, fishing and aquaculture?

Oceans cover 71% of the world's surface, but as human populations continue to grow, what once appeared to be a limitless resource is now in need of more responsible management. Two-thirds of the world's fossil fuels are transported by tanker, and maritime cargo shipping has been growing for decades. The risk of accidents or illegal discharges has climbed proportionately. Meanwhile, cruise ships carry a greater number of tourists every year, and produce millions of litres of sewage and wastewater, and tons of solid waste. Mounting evidence links the dumping of ship waste at sea to harmful algae blooms, oxygen-depleted "dead zones", shellfish bed closures, and the destruction of animal life. Also, as offshore oil and gas fields reach the end of their lives, pollutant discharges per unit of production are rising, introducing the risk of damaging fisheries stocks through exposure to endocrine disrupting chemicals.

In short, nowhere are the environmental pressures associated with climatic, demographic and economic trends felt more strongly than in the nexus of our coastal zones–both on land and offshore.

Nowhere are the environmental pressures associated with climatic, demographic and economic trends felt more strongly than in the nexus of our coastal zones.

What, if anything, can policymakers do to manage these intensifying pressures and help people to adapt to them? Difficult questions need to be answered. For example, should coastal communities devastated by storm surges be rebuilt as before? If not, what constraints should be imposed? To what extent are major investments in coastal protection justified? Can we "internalise" more of the environmental costs of shipping, fishing, aquaculture and tourism for polluters and users to pay, rather than leaving the tab for others to pick up? Finding answers to such questions will require being as forthright about coastal management objectives as we are about, say, labour standards.

As long ago as 1993, an Agenda for Action was issued at the World Coast Conference in the Netherlands. It called for coastal states to identify their objectives for coastal zone management, and begin implementing programmes to achieve them. It also called for strengthening the capacity of developing countries to manage coastal resources, through development assistance. Twelve years on, recent events have illustrated that there remains considerable room for progress.

If we were to hold a World Coast Conference today, what might a new Agenda for Action contain? Technical experts might call for improved prediction of major storms and tsunami, with freer flow of information across borders. Emergency management experts might call for strengthened regional capacity to respond to large-scale coastal disasters. Policy experts might call for innovative economic or regulatory measures to encourage more sustainable development of our coastal settlements and resources.

Twenty-four OECD countries hold a major direct stake in the future of coasts, and even the six landlocked member countries are concerned, through their foreign assistance or trade. Indeed, three of these –Switzerland, Luxembourg, and Slovakia–operate small merchant marines! Is it not time we mobilised our collective energies and expertise to put a new agenda into action?

Recent events have demonstrated that coastal zones are on the front line when it comes to dealing with the consequences of climate change and sea level rise. With so many people living on that front line and so many economic activities rooted there, will we find the sense of urgency we need to develop innovative policy approaches, nationally and internationally? The price of inaction would be destruction on a scale that no little Dutch hero could stop. ■

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Water business

Gérard Payen, President of AquaFed

The private water sector is larger than many people think, with thousands of businesses working every day, for the most part, to implement government policies. Are those businesses doing enough and how might they do more?

The challenges involving clean water and sanitation have to be addressed locally or regionally at the watershed level. Transporting fresh water is just too costly for any other option. And yet, with achievements falling short of the mark and difficulties intensifying in a great many places, international organisations and intergovernmental conferences are growing increasingly concerned about water and wastewater issues.

AquaFed–the International Federation of Private Water Operators–was set up in 2005 to facilitate dialogue between the international community and companies in the water industry. It brings together over 200 water service providers operating in 38 countries worldwide. Its members are eager to play an active role in meeting common challenges by making their experience in the field available to international organisations. Because water supply and wastewater treatment are public services that inevitably give rise to multifaceted policy debates, AquaFed members are also keen to enhance understanding of what private companies actually do, and of what governments can ask of them.

There is a vast number of private operators involved in the area of water, some with international stature, such as RWE Thames Water or Aguas de Barcelona.

Large companies are only the tip of the iceberg, though. Local operators, while less well-known internationally, are more numerous. The World Bank has identified some 10,000 small enterprises in developing countries. Between the two extremes lies a full spectrum of local businesses of all sizes. The smallest among them manage the water supply of a few hundred people in a single place, while the largest handle water or wastewater for a population of millions spread over multiple locations.

Even if projects involving water are complex and take a long time to develop, there is strong demand in what is now a very dynamic sector. Each year governments commission private operators to handle some parts of water management tasks in new urban areas. This has happened recently in many areas of China, as well as in Tenerife in Spain, Selangor in Malaysia, and Algiers in Algeria, etc. In Ghana, the winner of an international tender for a public-private water management partnership was a Dutch firm that conducts business as a private operator, even though its shareholders are public entities.

The structure of these markets is not cast in stone; it is evolving dynamically with regular new business creations, shareholder turnover and new stock market listings. Among the major local businesses that have been set up or expanded are Manila Water in the Philippines, Puncak Niaga in Malaysia and Aguas Nuevas in Chile. Firms that were once owned by international shareholders have become predominantly local in their shareholder base; LYDEC in Morocco, Tallinna Vesi in Estonia, and ESSBIO in Chile, are some examples.

In the case of the strongest companies, this gradual development of local businesses can spawn new international players. Manila Water has now moved into the Chinese and Indian markets, and Aqualia of Spain has just gained a foothold in Italy.

Today, delivering safe drinking water to the entire world population is still one of humanity's greatest challenges. It is rightly the focus of one of the UN's Millennium Development Goals. Despite all the advances in the field, more than a billion people still have no satisfactory access to drinking water. There are not enough water access projects to reduce this backlog. Current progress is just able to keep pace with population growth.

What is needed urgently is to devise public policies that target the groups in need of improved access, to develop more water access projects and to speed up the actual implementation of current programmes.

Against this background, arguments over the respective merits of the public and private sectors are meaningless. There is an emergency on, and the status quo is unacceptable. Those who are waiting for access to water need all the stakeholders to become involved, both public and private.

Businesses are keen to take up this challenge, not least because developing access to water is central to their mission. Each day they enable more people to access water or sanitation services and effectively exercise their right to access to water. In countries where governments have commissioned them to develop public water services, local private businesses have been able to improve the access to water of millions of people: 400,000 in La Paz/ El Alto; 200,000 in Gabon; several million people in South Africa, etc. I for one will never forget the beaming smiles on the faces of people in a shantytown near Manila the day they saw drinking water flowing to their homes for the first time.

Properly designed, public-private partnerships are an excellent means of implementing public policy on access to water, with the local operator becoming an instrument for executing government policy. Experience has shown that as long as the partners keep sight of a common goal and overcome any obstacles together, results will come. Most difficulties have arisen in cities where the government has changed its water policy or could not deliver on its share of the partnership. Today's private operators have learned to approach this kind of risk with caution.

There is an emergency on, and the status quo is unacceptable.

How to finance access to water for everyone is still an unresolved question. The report, *Financing Water for All*, widely referred to as the "Camdessus Report", estimates that to achieve the Millennium Development Goals would entail a doubling of all existing financial flows that contribute to water infrastructure investments. (This is a rough estimate, the precise figures are unknown.) This simple message–a doubling in financial flows!–has yet to be grasped.

The fact of the matter is that a distinction needs to be made between short-term financing, such as public or private loans or private financial investment, and long-term funding, provided by users, taxpayers or grants. Insofar as loans and investments must eventually be repaid by the revenues of the water utility, short-term financing cannot double unless long-term funding grows as well. Where grants are not available, water rates and taxes must be set at levels that allow the necessary increase of short-term finance. This is not related to the presence or the absence of a private operator.

This fact has been understood in China, where the central government decided to increase the water rates in most large cities a few years ago in order to finance investment programmes. However, it has not been understood everywhere. Those who know that international public aid will never account for more than just a fraction of what is required to supply everyone with safe water make stirring appeals at international meetings for additional financing from private banks and investors. They will be listened to only if governments can deliver a vital prerequisite: confidence that their projects will be capable of ultimately repaying debt and providing returns on investment. That confidence depends largely on their ability to mobilise payments from water users as a group (individually users may benefit from cross-subsidies that aim at making water rates fair and affordable) and from taxpayers. It also depends on the country's political and legal climate, which needs to be stable and predictable.

Allowing all to benefit from a satisfactory access to safe water and sanitation is a global challenge that requires the involvement of all stakeholders. Businesses have played an important role in helping to improve access to safe water for many people over the last decade or more. Given the right conditions, that role could, and should, continue to make a significant contribution. ■

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Assessing the risks

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A better place?

Barrie Stevens
OECD International Futures Programme

Scarcity, pollution, investment, geopolitics: however murky the challenges ahead may seem, meeting them will require the utmost lucidity. And because the future of water is at stake, everyone is involved.

The county of Kent, known romantically as the "Garden of England", has suffered its worst winter drought since the 1920s. In response, the UK Environment Agency warned in February 2006 that, unless serious water conservation measures were brought in by April, the county could within months witness scenes of people queueing in the streets for water as domestic supplies were being cut off.

Other western and southern European countries face similar water shortages, with all that this implies not only for hosepipe bans for gardeners, but also for farmers, tourists, electricity generation, food processing, the production of semiconductors, and many more industries. Moreover, the fact that "rainy" Britain is forced to consider tough conservation measures shows just how common the issue of water scarcity and management has become.

What needs to be borne in mind is that, while the earth's surface consists mainly of water, most of that is sea water. Just 2.3% of the total endowment is freshwater, and two thirds of that is permanently frozen. Freshwater sources, mainly from precipitation, stored temporarily in natural or man-made reserves, come to some 8,000 km^3. That seems quite a modest quantity for an expanding global village of some 7 billion people. With growing populations and rising incomes, expanding irrigation agriculture and rapid rates of industrialisation, the 20th century has seen total water withdrawals and levels of water consumption rise roughly sevenfold. The stresses on this vital natural resource are serious and mounting.

Providing safe water for all is but one side of the challenge ahead. There has been enormous progress in recent decades in improving access worldwide to freshwater supplies and sanitation. For example, between 1990 and 2000, access to adequate water supply in developing countries rose from 73% to almost 80% of the population. But there is still a long way to go.

The Millennium Development Goal on water seems in danger of being missed for a start, particularly if we take as given the WHO/UNICEF view that reasonable access means at least 20 litres per person per day, accessible within 1 km of that person's dwelling. For comparison, per capita consumption rates in the OECD area are 100-400 litres, depending on the country. Over 1 billion people in the developing world still do not have access to safe water and over 2.5 billion people have no access to sanitation. About three quarters of all diseases in developing countries are water-related and it has been estimated that each year this leads to 1.7 million deaths.

The other side of the coin is management and investment, and this challenge concerns everyone. In the developed world, access to fresh water and sanitation is generally not a problem, but infrastructures are all too often old and decaying, and leakage rates are often high, ranging from 10% of the total in Austria and Denmark to 33% in the Czech Republic. In London leakage rates from the mains are reported to be up to 40% of total water supplied.

Then there is pollution. Some 2 million tonnes of waste is discharged daily around the globe, polluting some 12,000 km^3 of receiving waters. Agriculture, which is the largest user of water in most countries, is also responsible for run-off that seeps down into fragile groundwater resources, which must then be cleaned up at great expense. Water companies are quite transparent about the problems. In France, for instance, water bills provide details on "undesirable" substances, such as nitrates, contained in drinking water and state whether official health thresholds are being respected.

Ageing infrastructure can also affect quality, bringing its own pollutants, such as lead. In other words, providing safe water means upgrading local water systems and domestic pipes, as well as fixing reservoirs and improving treatment plants.

Uneven waters

% world's	North and Central America	South America	Europe	Africa	Asia	Australia and Oceania
Water	15	26	8	11	36	5
Population	8	6	13	13	60	<1
Ratio (%)	1,9	4,3	0,61	0,84	0,6	5

Source: OECD, see references

But while we know many of the problems, political and public determination is needed for action. Without this, the risks associated with water can only increase. In the decades ahead, supplies of fresh, safe water will be subject to ever greater pressures. Some will originate from natural causes, others will be man-made. Climate change in the form of sea level rise, flooding, storm damage and the accentuation of seasonal effects such as winter flooding and summer droughts, will reduce the certainty and increase the vulnerability of water resources, posing severe challenges to the resilience and management of water services not only in developing but also in developed countries. Moreover, rising levels of pollution as well as threats from terrorist activity, physical disruption of supplies, and cyber attacks on critical infrastructures will bring greater focus to water security issues in some countries.

World population will continue to rise, almost all of it occurring in the developing world and accounted for almost entirely by urban growth. By 2025, global water withdrawals and water consumption look set to rise by up to 30% in developing countries and over 10% in the developed world. Added to this, many major water resources are shared among countries. There are now more than 250 international transboundary basins that cover some 45% of the world's land surface, 40% of the world's population, and 60% of the earth's freshwater volume. A good illustration is the hydroconflictual zone along the Tigris-Euphrates which is shared by Turkey, Syria and Iraq.

Water wars are not an immediate prospect, but if competition for scarce resources and diminishing water quantity and quality intensifies, this can at the very least exert a destabilising influence on a region's development.

Stored freshwater sources represent a modest quantity for an expanding global village of some 7 billion people.

In sum, the population living in water-stressed areas is set to double over the period 1995-2025, and by 2030 some two-thirds of the world's inhabitants may experience moderate to high water stress. Regions of particular concern are the Middle East, North Africa, southern Africa, South Asia and parts of China. Many countries in these regions are ill-equipped to deal with these pressures.

However, no country can be complacent about water supply, and certainly not from a financial point of view. For many developing countries the requirements are stark–many more millions of people quite simply need to have access to safe water and sanitation. This raises key questions around financing, ODA, private sector involvement and appropriate technologies. But equally important, it raises issues of governance, of the institutional changes required to create, modernise and strengthen the legal, policy and administrative arrangements that govern the sector.

Many of the transition countries face similar governance problems (see article by Peter Börkey). But in terms of infrastructure investment, the challenge for them is not so much to extend existing networks and systems, but rather to maintain and/or replace them. Timely action would allow developing countries to capitalise quickly on the huge socio-economic gains that could be achieved through expansion of provision and basic improvements. It is estimated, for example, that the benefits of halving the proportion of people without access to improved water sources by 2015 would be 9 times the costs incurred achieving that target. Universal access to improved water and sanitation services by 2015 would generate an even higher benefit/cost ratio.

Understandably, much of the policy interest in recent years has focused on meeting the basic needs of developing countries and the transition economies. But the rapidly accumulating problems in the water sector of OECD countries must now be taken seriously. While supply networks and treatment systems are largely in place in OECD countries, many of them are ageing quite quickly. In North America, for example, many urban water supply systems were built from 1830 to 1880! Without action, the costs of water leakages and pollution can only increase. To keep pace with the deterioration of water infrastructures, it is estimated that they need to be replaced at a rate of about 2% a year, but actual rates are usually far lower, at just 0.01% in London and 0.8% in Munich, for instance.

In addition, the cost of meeting increasingly stringent environmental regulations is set to grow sharply, and for some countries water security will remain high on the agenda because it is a potentially vulnerable critical infrastructure. As well as regulation and encouraging better management practices, full cost recovery through appropriate water pricing will also help.

This is a heavy agenda and needs to be tackled quickly. With water scarcity challenges now facing such places as the lush Garden of England, more than ever, no one can say they were not warned. ■

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- Visit www.oecd.org/futures.

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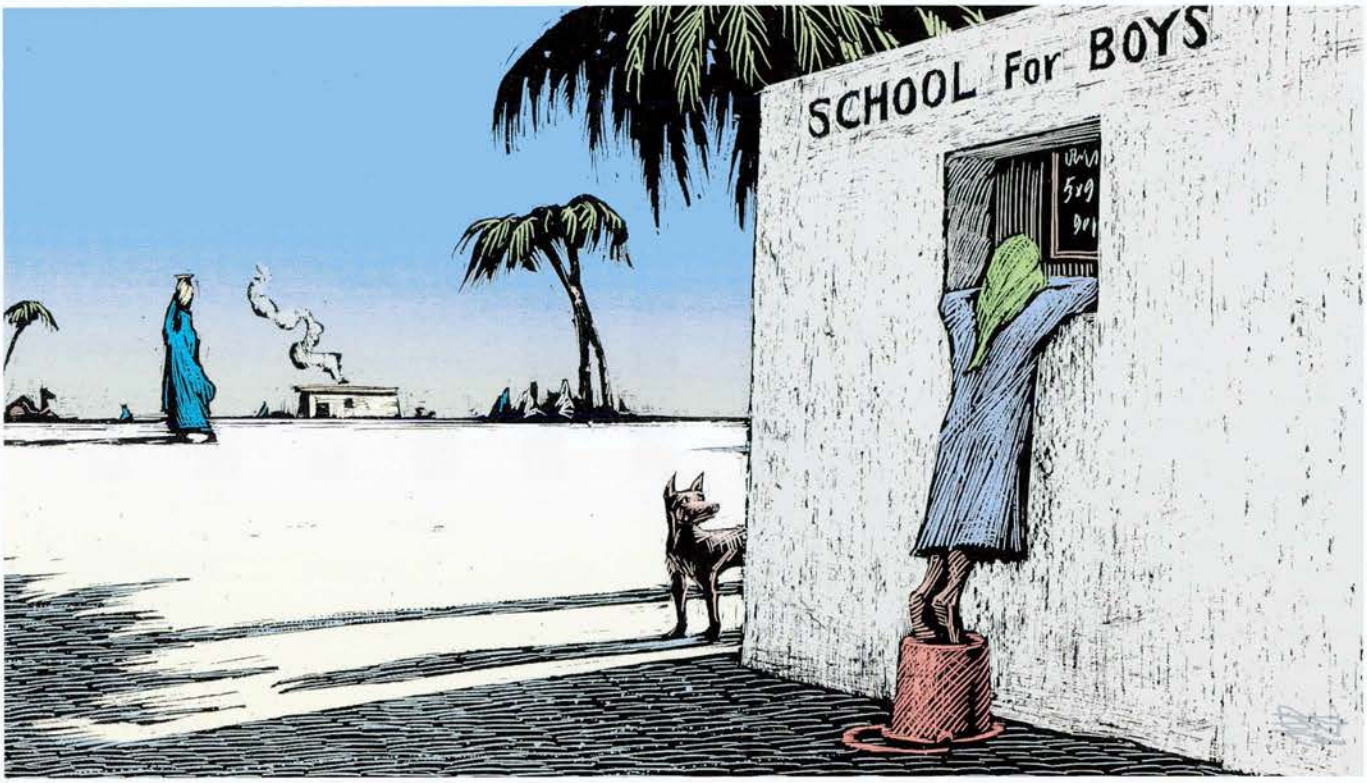

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Development and discrimination

Winning the battle

Johannes Jütting and Christian Morrisson, OECD Development Centre*

"Tradition is a guide and not a jailer", wrote W. Somerset Maugham. Could it be that some traditions, however rooted in great histories and cultures, are now trapping countries in poverty? This certainly appears to be the case when it comes to the influence of social and cultural norms on the status of women.

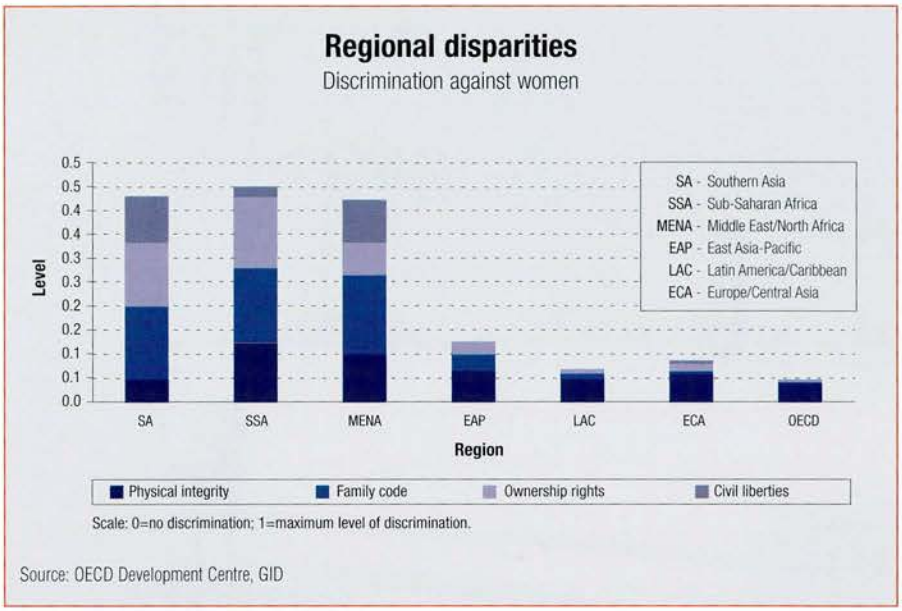
For many people, especially in the developed world, discrimination is mostly a moral issue and must be resisted as a matter of principle. What is often overlooked, however, is the economic impact of preventing women from participating actively in the economy. If the issue is starting to attract attention in OECD countries and has been written about in these pages (see references), it has been sorely neglected in poorer parts of the world, where discrimination and repression often have deep cultural and religious roots. Yet, the success with which developing countries integrate female workers into the labour force will be a key factor in building their competitiveness in the global economy!

The first step is to understand the causes. That is why the OECD Development Centre has developed a new tool, the Gender, Institutions and Development Data Base (GID–accessible at www.oecd.org/dev), whose aim is to determine and analyse obstacles to the economic development of women. The GID covers a total of 162 countries and comprises a comprehensive array of 50 indicators on gender discrimination from various sources. Its true value-added is the innovative inclusion of institutional variables that range from intra-household behaviour to social norms that determine endemic discrimination in poor countries. Examples are young (mainly forced) marriages, genital mutilation, and restrictions on inheritance as well as property rights.

Take the breakdown of discrimination by region and levels of development. The GID shows that persistent discrimination and repression are most marked in southern Asia, sub-Saharan Africa and the Mediterranean and North African region (see graph). Some of the richest countries in the world, such as Saudi Arabia, show a high level of discrimination. On the other hand, there are also quite a few countries in Latin America that are much poorer and where the level of gender discrimination is considerably lower. In other words, merely raising incomes or spending more money will not be enough.

What the GID shows is the important influence social institutions have on the economic role of women. The more discriminatory the social institutions are, the lower the rates of female participation in the workforce, for example. Add to this the fact that women without ownership rights cannot easily take on an entrepreneurial role, and the problem becomes clear.

The depth of discrimination against women can also be calculated according to religious affiliations. Underdevelopment and strong attachment to customs and religious beliefs can go hand in hand, of course,



Merely raising incomes or spending more money will not be enough.

but what really matters is how rules and norms are applied and become institutionalised. For instance, while according to our research social norms discriminating against women are less important in Christian and Buddhist countries, some predominantly Christian countries in Africa and Latin America might still have a few customs that affect women's rights.

Conversely, some Muslim countries, such as Malaysia, Turkey, Tunisia and Morocco, have changed within the overall institutional framework, granting women more rights with respect to marriage, authority over children, divorce, freedom of movement, dress and access to property than in the past. This suggests that persistent discrimination can be removed without undermining religious customs or beliefs.

From Morocco and Tunisia to some states in southern India, efforts are under way to change the institutional frameworks that limit women's employment and skills, and thereby their contribution to growth. These efforts are paying off: in Tunisia, 30-50% of judges, physicians and schoolteachers are now women. In India women have risen to the highest levels of politics and business in recent years. However, these are relatively isolated cases, and there have been setbacks. Even in India, there are strong pockets of resistance, particularly in the north of the country and among migrants to major cities, with women being murdered in some states over disputes about dowries. In short, change remains a daunting challenge for most.

Some development experts have called for more funding, to build schools, for instance. The trouble is, many shiny new classrooms would remain empty because girls of 12 and over are simply not allowed to attend them. Extra spending, while badly needed, will generate real returns only if the fundamental causes of discrimination are dealt with, too.

That may mean institutional and legal reforms, as well as better enforcement of existing laws. For instance, the police in India have been accused of failing to investigate the killings over dowries and in Kenya, the local judiciary has reportedly not applied laws designed to give women equal treatment with respect to property inheritance. Clearly, investing in institutions and training to improve enforcement will be vital if other

initiatives in promoting gender equality are to work.

Fighting gender discrimination must involve men, too. Too many reform programmes fail because of their overly heavy focus on women's needs, overlooking the fact that societies based on persistent discrimination generate advantages that men will not sacrifice easily. Engaging men in reform, providing incentives and perhaps even financial compensation are important. Such a debate is now taking place in Kenya in view of reforming discriminatory inheritance laws there.

Some countries are not willing to change, but many countries are. Most have signed up to the 1979 UN Convention on the Elimination of All Forms of Discrimination against Women and, more recently in 2000, agreed to the UN millennium goal of empowering women and combating discrimination. Helping countries that want to fight discrimination is therefore not only important, but an international commitment as well. The question is where to begin, and how?

Investing in high quality data is a good starting point. Thanks to the likes of the GID, we are now at least coming to grips with the scale of female discrimination. Too often we have had to rely on anecdotal evidence or data from household surveys that are not set up to measure female discrimination. Sometimes discrimination starts before girls are even born: a recent article in *The Lancet* reported that an estimated 10 million women in India were "missing" from the population figures due to selected abortion in the last 20 years. More effort needs to be put into collecting such data.

In the meantime, lasting change has to be coaxed from within the communities themselves. That is why donors must work with workers' unions, businesses, associations and teachers, for instance. These local allies can help build pressure for change, as well as garnering wider public support and dispelling inevitable fears of change among ordinary people. Only by using people with knowledge of local laws, customs, etc, can persistent discrimination be ironed out. With local help, donors can encourage the creation of women's associations, and provide free training to those who manage them. Reading courses could be financed, and micro-credit schemes set up for women in all activities, from farming and crafts to services.

Fighting gender discrimination must involve men, too.

Building local networks can help break down stubborn social attitudes and mindsets, while enabling donors to tailor their strategies to particular circumstances. In rural communities, for instance, women face extreme workloads, while high costs in communication and trading act as further barriers to development. Targeting investment on labour-saving technology, including communications, would bolster local efforts to fight discrimination even in remote areas.

Encouraging greater openness can also help tackle the prejudice and distrust that underpin persistent discrimination. Donors could finance cultural, educational and professional exchanges, on condition that recipient governments guarantee a large female participation. They can invest in wider access to international media, too, though the local media can also be encouraged to promote gender issues, as can the likes of street theatres and publicity campaigns, perhaps backed by home-grown movie stars, singers and other celebrities.

There is more OECD countries could do at home, too, to further the economic chances of women in the developing world, particularly through their policies on trade, investment, and migration. Buying products with a high female labour content can help, especially as some studies show that women's working conditions in the export sector tend to be far better than those in businesses aimed at the domestic market. Governments can promote more foreign direct investment, too–multinational enterprises tend to follow corporate governance rules that discourage gender discrimination. And they could encourage more tourism to developing countries, both to generate welcome revenue and foster greater openness.

Reducing gender disparities may not be easy, but it is feasible. For the UN goal to be met, donors must find ways beyond money to harness the tremendous changes that are taking place. With coherent, sensitive and inclusive strategies, the kind of wasteful discrimination that denies women their rights and blights the development potential of whole countries, can one day be removed for good. ■

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Presenting the programme: Chile's new president, Michelle Bachelet

Latin America's public finances

Luiz de Mello, Economics Department

Governments in Latin America have made enormous progress in improving their fiscal management in recent years. But what are the next steps?

Fiscal responsibility is no longer a taboo in Latin America. Just look at Mexico. Once a country with burgeoning budget deficits, it is now a stable global economic player. But this OECD member is not the only example. New governments have been elected in Brazil and Chile, each promising fiscal rectitude. The countries that have achieved economic stability in the region have gone a long way to put their public finances in order and appear to share the view that fiscal discipline is a prerequisite for the sustained growth and resilience needed in today's global economy. But some Latin American countries are still grappling with chronic budget deficits and high public debts, the so-called imbalances that were at the root of so much market disarray in the region during most of the 1980s and part of the 1990s. What can they learn from the experiences of their more robust neighbours?

Quite a lot, according to a recently released monograph on public finances in Latin America from the OECD Economics Department. It argues that fiscal adjustment was more than just a key aim. It was a central part of a concomitant effort by the region's more reform-minded governments to strengthen the institutions for fiscal management, reining in excess at subnational level, enhancing transparency and boosting market confidence. For example, Brazil's Fiscal Responsibility Law from 2000 is the outcome of a long institutional process to introduce binding budget constraints at all levels of government. The framework has been put to the test in times of financial duress and has been working well, thereby anchoring expectations.

Then there is Chile's structural budget surplus rule which calls for a surplus of 1% of GDP, taking account of the effects on revenue of the business and copper price cycles. Though not set in law, the rule works well and is expected to be adhered to by the recently elected administration. Another feature of these relatively robust economies has been structural reform, including the deregulation of product markets, such as utilities. Pension reforms, too, have helped to underpin the overall fiscal adjustment process. Despite these remarkable achievements, several challenges remain. Many governments have delivered an impressive upswing in their fiscal accounts, even in difficult times, often on the back of tax hikes and cutbacks in public investment, rather than a retrenchment of current spending commitments.

As the report shows, fiscal effort needs to lead to a sustained reduction in public indebtedness so that fiscal policy can play more of a stabilising role in the economy, instead of creating vulnerabilities. Everyone accepts that high debt takes a toll on the government's ability to pull the economy out of a recession with higher spending and tax cuts. This is true of more developed countries, but is especially so in emerging market economies in general, not least in Latin America, where access to international markets for budget financing can never be taken for granted, particularly in difficult times.

The experience of several OECD countries also suggests that fiscal adjustment is more sustainable when achieved by cutting spending, particularly outlays on the likes of public-sector wage bills, rather than

raising taxes. In other words, the quality of fiscal consolidation measures counts, too.

How can high-quality adjustments be kept up? The to-do list is long. Budgets should be more flexible, for a start. Revenue from a given tax should not be automatically earmarked to a pre-determined programme, for instance, as still happens in some countries, because it constrains the ability of governments to respond to changing macroeconomic conditions. It also makes it hard to reallocate resources in the budget to finance more meritorious programmes where funding may be in short supply.

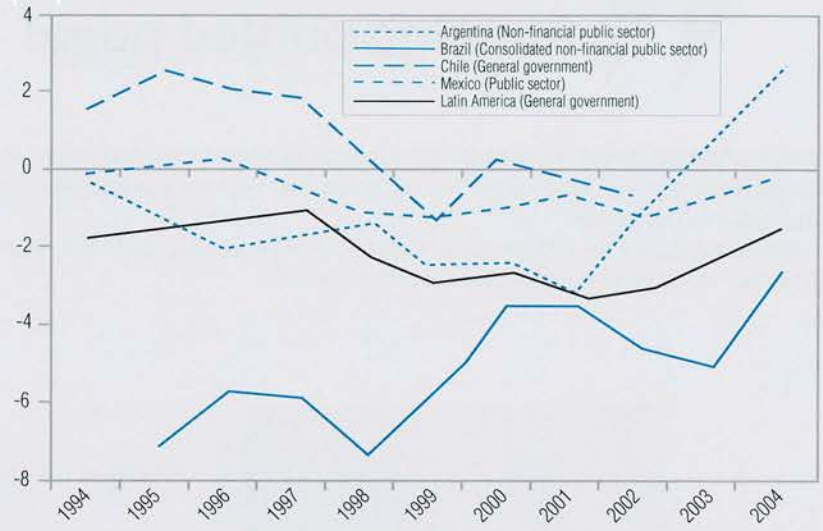
Another job on the list is to improve Latin America's skewed distribution of income. Many countries already spend a lot of their national income on social programmes, but the outcomes are rarely commensurate with high spending. Again, this points to a quality problem. True, some innovative programmes are paying off, including efforts to improve the targeting of social programmes, as in Brazil's *Bolsa Família*, Chile's *Chile Solidario* and Mexico's *Oportunidades*, and to ensure people have access to vital services. But in general, a sharper focus on results is needed.

At the same time, the need for public investment in infrastructure should not be underestimated. In fact, Latin America still suffers from a large "infrastructure gap", which weighs on its growth potential, as well as budgets. Some countries, including Chile and Mexico, are relying on public-private partnerships to finance infrastructure. By the end of 2002, Chile's most important highways, ports and airports had been franchised, with investments to the tune of US$5 billion. In general, for these joint ventures to work, they should be based on judicious project evaluation, a fair sharing of risk between the government and the private sector, and strong governance to safeguard the budget.

On the revenue side, the main challenge is to broaden tax bases, reducing reliance on the most distorting taxes, such as on exports in Argentina. Bank debits are still taxed in Brazil, as well as in several other countries in the region, discouraging financial intermediation in most cases. On the other hand, Brazil's federal levies on enterprise turnover, which lead to the cascading of taxes, have been converted into value-added taxes. This is a positive development.

Budget outcomes, 1989-2003

Headline budget balance in % of GDP



Source: *Secretaría de Hacienda*, Argentina; *Secretaria do Tesouro Nacional*, Brazil; *Dirección de Presupuestos*, Chile; *Secretaría de Hacienda y Crédito Público*, Mexico.

Another contingency to address is the heavy reliance of some countries on natural resource-related revenue. This can be managed, however, as Chile has shown, by insulating its public finances from copper price fluctuations through a well-functioning price stabilisation fund. Then there is the issue of raising more tax revenue. Brazil's tax-to-GDP ratio, at 36% of GDP in 2004, is already closer to the OECD average than that of the other Latin American countries. But in some countries, such as Peru or Mexico, government revenue is much lower, usually in a range of 15-20% of GDP. This reflects the inability of the government to bring more dynamic sectors of the economy into the tax net.

The consolidation of fiscal adjustment naturally has political dimensions. Policymakers may understand that fiscal rectitude pays off, and that short-term largesse can actually do lasting damage. Yet, public support for reform has waned in some countries, leading to a wave of populist measures. But most genuine reforms, because they require institutional and cultural change, take time to bear fruit. They can also cause short-term pain.

Policymakers must therefore build solid constituencies in support of reform; they must embrace such measures as the introduction of affordable, cost-effective safety nets for vulnerable social groups. Communicating the benefits of reform effectively to society at large and other stakeholders would also help. For instance, they might ask how many Latin Americans today would like to return to the days of rampant inflation?

People know that reform can be a long, hard job to get right. Shortcuts may be tempting but, in a competitive world, fiscal mismanagement is a luxury Latin America can no longer afford. ■

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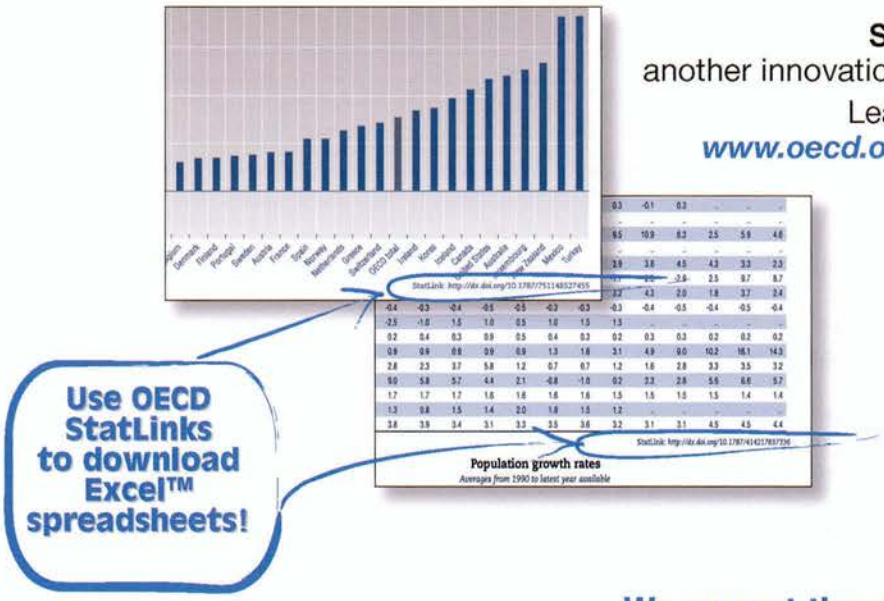

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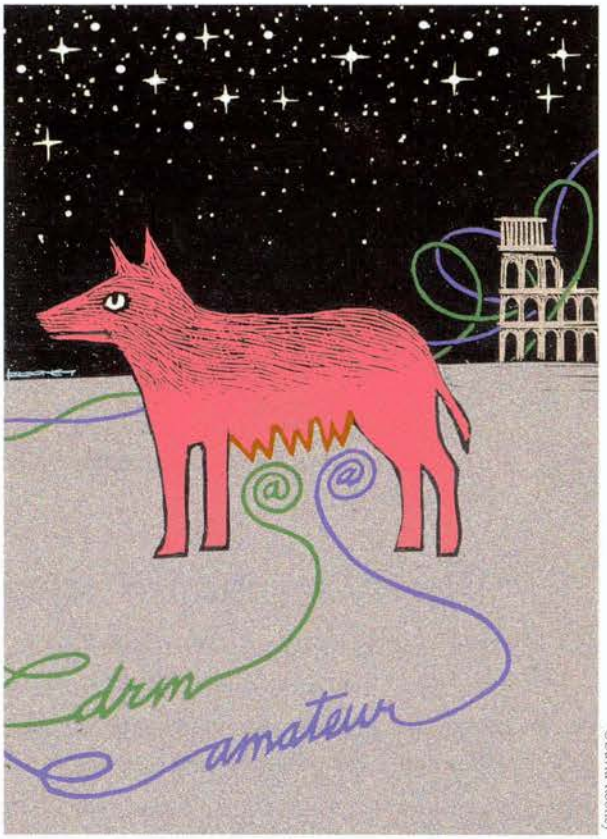
Mapping the digital future



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Michael Geist*

All digital highways led to Rome last January, as hundreds of government officials, policy experts and companies descended on the Italian capital for a conference on the future of the digital economy. Jointly hosted by the OECD and the Italian government, the meeting marked a turning point in the digital content debate as several long-simmering concerns emerged as mainstream issues.

The discussion pointed to two competing approaches for the creation and distribution of digital content in the Internet era. One approach, advocated by conventional content companies such as the movie and music industries, as well as by US government officials, emphasised the need for digital rights management (DRM) technologies to "lock down" content. They argued that DRM allows them to set specific limitations on the use of content, thereby facilitating commercial models such as individual downloads or full subscription services.

DRM supporters assured delegates that their models were gaining marketplace acceptance as the content owners claimed that they stand ready to license their content for distribution on multiple platforms such as the Internet and wireless devices.

While the emphasis on digital rights management was not unexpected, the alternative approach, which focused on user-generated content, took many delegates by surprise. Described as "amateur" content, the conference featured numerous presentations on how the combination of easy-to-use technologies and widespread Internet access has unleashed an unprecedented array of new creativity.

These included discussions on Creative Commons, a non-profit organisation whose alternative licensing system has enabled individuals to make more than 60 million works available to the Internet community; Flickr, the Canadian photo sharing site that now features millions of digital photographs; and the BBC Creative Archive, which allows UK residents to re-use original content from that country's public broadcaster.

The popularity of web logs, or blogs, also attracted considerable interest. Jason Sifry, the founder and CEO of Technorati, a blog search engine, reported that his company now tracks more than 27 million blogs, with 75,000 new blogs created every day. Moreover, the popularity of blogs is no longer a strictly North American phenomenon; in January 2006 Technorati tracked more blog postings written in Japanese than in English. Blogs are also booming in Europe, notably in France.

Notwithstanding the support for the DRM and user-generated approaches, both face threats that could hamper their development.

DRM supporters seemed ready to acknowledge that the technology has created consumer concerns. Nevertheless, there was little discussion of the privacy and security problems that were typified by a controversy last year after Sony distributed CDs that featured DRM and caused security vulnerabilities in individual personal computers. Sony eventually issued a recall on the affected CDs and agreed to a class action settlement in the US that provides consumers with new privacy and security protection. Many speakers admitted that the lack of compatibility has made it difficult for consumers to transfer lawfully acquired content from one device to another. One often cited example is the Napster music subscription service, which has been hurt

by the inability to transfer songs to an Apple iPod.

Rather than addressing the problem by reducing their reliance on DRM, however, the content owners lay the blame on the consumer electronics makers. The aim should be "content neutrality" and the DRM backers would be looking to legislators to require the electronics makers to reconfigure their devices to allow the locked content to work on all devices.

While the content owners battle the electronics makers over DRM solutions, the growth of user-generated content faces two threats. One threat comes from the limitations of DRM-enabled content, which can severely limit or prohibit legal modification of content. For instance, public domain material that was locked behind a DRM would become inaccessible to many users. Or take the case of someone who wants to take a small clip from a DVD purchased abroad. Even if the clip is covered by fair use rules at home, the user might not be able to get at it, since DRM would limit the ability even to play the DVD. These concerns were raised recently at a UK parliamentary committee hearing on DRM by well-respected organisations such as the British Library.

A lack of compatibility has made it difficult for consumers to transfer lawfully acquired content from one device to another.

User-generated content also faces the threat of the two-tiered Internet, which has attracted increasing attention in recent months. This concerns plans by Internet service providers (ISP) to restrict subscriber access to potentially band width-heavy (and therefore costly) software applications such as BitTorrent, which is widely used to distribute user-generated content, such as independent films or open-source software.

The two-tier Internet could also hamper the growth of tools used to locate user-generated content, since ISPs such as BellSouth, Verizon and Telus have all raised the prospect of charging websites and services for the right to deliver content to their subscribers. While established major websites may pay such tolls, many smaller sites could be forced out of business by these demands.

Could the Internet's age of innocence soon be smothered by more "e-mature" businesses? Certainly, the message from the conference about the future of the digital economy was mixed. The Internet has sparked a remarkable outpouring of new creativity and provided all kinds of conventional content owners with exciting new marketplace opportunities. However, legislators may have to intervene to ensure that consumers are protected from onerous digital rights management restrictions and that ISPs are prevented from using their positions as Internet gatekeepers to stifle innovation. ■

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Future Digital Economy: Digital Content Creation, Distribution and Access, conference jointly organised by the OECD and the Italian Ministry for Innovation and Technologies, Istituto San Michele, Rome, Italy, 30-31 January 2006.

See www.oecd.org/sti/digitalcontent/conference. Visit http://creativecommons.org.

Healthy technology

New guidelines agreed for the licensing of genetic inventions

Biotechnology and genetics research have been the subject of extensive investment by both the public and private sectors, with a growing impact on healthcare. Advances in medical genetics promise faster, better, diagnosis as well as a new generation of targeted therapies. Major applications include diagnostic tests for certain types of cancer and for genetic diseases such as cystic fibrosis and Huntington's Disease, as well as therapies to treat diseases with a proven genetic component, including many metabolic diseases and types of cancer.

The possibilities are enormous, yet governments, patient groups and healthcare providers have become concerned about how certain genetic inventions have been licensed and exploited, particularly for diagnostic genetic services in human healthcare. A particular worry is that the patenting of genetic inventions and restrictive licensing of their use is reducing access to the benefits of the technology and discouraging new research.

In response to such concerns, the OECD member countries have adopted an agreed set of Guidelines for the Licensing of Genetic Inventions used in healthcare, in a move designed to help people benefit more widely from advances in genetics while making research and innovation faster and more efficient. By setting out principles and best practices for businesses, researchers and health systems that enter into license agreements for genetic inventions, the guidelines aim to encourage broad licensing and timely dissemination of biotechnological innovation.

The new guidelines were developed by a broad group of experts from diverse backgrounds and were subject to wide public consultation prior to adoption. They are not legally binding, but nevertheless represent an important political and moral commitment on the part of OECD countries to the future of healthcare. Governments have agreed to report back in four years time on progress in their diffusion and implementation of the guidelines. ■

The full text of the Guidelines for the Licensing of Genetic Inventions and additional information are available on the OECD web site at: www.oecd.org/sti/biotechnology/licensing.

Shared goals

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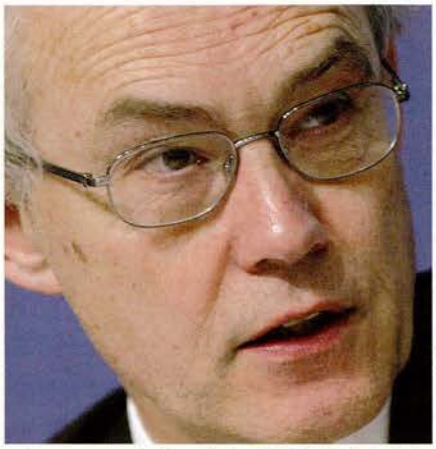

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Ms Sommestad and Mr Manning are co-chairs of the 2006 Ministerial Meeting of the Environment Policy Committee (EPOC) and the DAC.

Lena Sommestad, Minister of the Environment, Sweden
Richard Manning, Chair of the OECD Development Assistance Committee (DAC)

On 4 April OECD development and environment ministers meet in Paris. The aim is to push for more progress on the many areas that link the environment and development.

So what, you might ask? After all, international meetings on development and the environment are hardly rare occurrences these days. Conferences on the likes of climate change, deforestation and health feature heavily on the international political calendar, as witness the World Water Forum in Mexico this March. And as the OECD's development and environment ministers have not formally met together since 1991, why should they meet now?

There are several good reasons. For a start, though we all know that development can bring environmental degradation, which in turn can damage the interests of the poorer countries, the scale and urgency of the challenges we face have increased.

Fifteen years ago, the concept of climate change was not widely accepted. Today it is acknowledged by most people to be one of the greatest potential threats mankind has ever faced. OECD work shows that a large proportion of development aid is directed at activities potentially affected by climate risks.

Moreover, we now know that the essential services provided by ecosystems, from food production and water to disease management and climate regulation, are being sadly eroded. Many millions of the world's poorest people depend on basic natural resources for survival. In fact, such resources account for a quarter of national

Investing in the Middle East

OECD efforts to help boost investment in the Middle East and North Africa (MENA) took a significant step forward in February with the announcement by 16 Arab nations of their intention to pursue reforms aimed at improving the environment for business in the region.

In a 19-point declaration, ministers and senior representatives of MENA countries set out common principles and good practices for encouraging investment. In particular, participants in a ministerial meeting in Jordan of the MENA-OECD Investment Programme acknowledged the need for transparency and predictability of national policies, laws, regulations, administrative practices and statistics affecting foreign and domestic investment.

"To achieve higher levels of investments, policymakers in MENA countries are challenged to rethink their priorities in accordance with investors' needs," Sharif Ali Zu'bi, Jordan's Minister of Industry and Trade and the Chair of the MENA-OECD Investment Programme, told participants at the meeting.

Private sector investment has been identified as one of the keys to the economic dynamism that many MENA countries are looking for. In the face of expanding populations, between 80 and 100 million new jobs are likely to be needed between now and 2020. Economic growth in the region has risen from 3.7% in the period 1998-2002 to 5.4% in 2005 and is forecast at around 5.6% in 2006. But growth will need to rise to at least 6-7% per year to absorb new labour market entrants.

A number of MENA countries have already embarked on privatisation programmes and other efforts to make themselves more attractive to investors. Reflecting these trends, 2005 saw an increase in investment in the region, particularly in the natural resources and infrastructure sectors. Stock markets in several MENA countries have risen sharply in recent years.

wealth in low income countries, compared to barely 4% in the OECD area.

Poor people are also increasingly vulnerable to the side-effects of accelerating economic expansion, including urbanisation and pollution. They bear the brunt of pressures from climate change, sea level rise and extreme weather conditions, such as the recent hurricanes that struck Central America, as well as catastrophes like the tsunami in 2004.

Together environment and development ministers can make a difference.

The OECD members of the Development Assistance Committee handle over 90% of bilateral aid, and it is not surprising in the light of these circumstances that donor interest in the environment should intensify. In fact, the 2005 *Paris Declaration on Aid Effectiveness* calls upon all countries to deepen progress towards harmonising environment impact assessment approaches in development co-operation, "including addressing implications of global environmental issues such as climate change, desertification and loss of biodiversity".

Unlike 15 years ago, developing countries today take a firmer lead in setting priorities for development assistance, with donors playing a supporting role. Development aid is at last rising again, and many recipients, development agencies and civil society groups insist that environmental considerations form a coherent and integral part of development strategies. However, many are understandably anxious that excessive environmental criteria should not hold back development. This adds urgency to our discussions in Paris.

We know that together we can make a difference. Our colleagues' work in 1991 led to the systematic integration of environmental impact assessments into projects and programmes supported by official development assistance. This advance made an important contribution to the UN Conference on Environment and Development, the so-called Rio Earth summit, the following year.

Thanks to this work, we now know that linking the environment and development can facilitate sustainable growth. The OECD has documented the results. In Ghana, for example, an environmental assessment helped to relieve pressure on primary forests and fragile river ecosystems while generating new timber resources. A similar Strategic Impact Assessment on the new hydropower facility in Lao People's Democratic Republic helped avoid damage to precious environmental resources there. Other impact assessments have highlighted the development and environmental risks in China.

It is our belief that such lessons help in the broader battle to reduce global poverty too. Call it "sustainable development" that binds economic, social and environmental objectives together. That notion was just gaining currency in 1991. Today it is everyone's priority. In Paris, environment and development ministers must set up a clear framework for common action and shared goals. The time has come to push the agenda forward. ■

Visit the special website at www.oecd.org/epocdacmin2006.

As a demonstration of their commitment to fostering private investment, participants in the Jordan meeting selected 21 companies in the region as recipients of awards for significant job creation and entrepreneurial innovation.

The MENA-OECD Investment Programme is part of a two-pronged initiative on "Governance and Investment for Development", led by the governments of the MENA region with support from the countries of the OECD. A parallel initiative for "Good Governance for Development" aims to achieve improvements in public governance as a major element in fostering a positive climate for investment. ■

For more detail, including the 19-point declaration, the company awards and the chair's speech, please visit www.oecd.org/mena.

Trusting governments


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Minister Pechtold

"Trust comes on foot, but leaves on horseback." This old Dutch saying was evoked by Alexander Pechtold, Netherlands minister for Government Reform and Kingdom Relations, as both a warning and a challenge in his concluding remarks as chair of the OECD ministerial meeting, "Strengthening Trust in Government: What Role for Government in the 21st Century?", held in Rotterdam on 28 November 2005.

Before the meeting, Mr Pechtold stated in the *OECD Observer* that "to find a therapy that works, we will need the right diagnosis." A dialogue with students about confidence in government was a key feature at the event, thanks to a "parallel summit" held in association with Erasmus University. Among Mr Pechtold's key messages from the discussions was the need for government to better engage with citizens, to constantly improve their performance and to recognise that involving the public service is key to the success of any reform. "If government employees are not on board, reforms will not happen," said one delegate to the meeting. The statement concluded with a call on the OECD to continue working with member countries on public governance issues to help them in their efforts to strengthen citizens' trust. ■

For more detail, including the full text of the chair's closing remarks, visit www.modernisinggovernment.org. See also, www.oecdobserver.org/gov2005.

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Finance business

Better Financing for Entrepreneurship and SMEs
Brasilia, Brazil, 27-30 March 2006

Access to financing continues to be a significant impediment to the creation, survival and growth of small and medium-sized enterprises (SMEs). Although the role of smaller firms in innovation and employment cannot be underestimated, from a bank's point of view SMEs tend to have a high risk profile, especially innovative ones. Track records are patchy or short, while assets and collateral may not be big enough to underwrite credit. Management skills, not least in handling company finances, are often rudimentary. Yet administration costs for financiers may be as high for SMEs as for many larger firms. The only way to overcome this is to charge higher interest, and so risk squeezing, if not killing, the goose. Little wonder SMEs have such difficulty finding long-term credit and risk capital, even for expansion.

In short, there is a gap between small business needs and those of financiers. This was recognised in a declaration by ministers following the second OECD Ministerial Conference on SMEs in Istanbul, Turkey, in June 2004. It stated that, as well as policies "to ensure that markets can provide financing for credit-worthy SMEs", measures were also needed to increase "the managerial and technical expertise of those intermediaries whose role is to evaluate and monitor companies with a view to matching expanding small firms with investors".

The question is which measures and how to introduce them. To discuss this, a summit organised by the OECD Working Party on SMEs and Entrepreneurship, in co-operation with the Committee on Financial Markets, will be held at the invitation of the Brazilian Ministry of Development, Industry and Foreign Trade in Brasilia on 27-30 March 2006. Under the banner of "Better Financing for Entrepreneurship and SME Growth", this global conference, which will be opened by President Lula, may not produce all of the answers, but will set about finding some innovative solutions to help SMEs stay on their feet. ■

- For more on the conference, as well as details on the OECD **Bologna Process**, see: www.oecd.org/cfe.
- OECD (2005), *SME and Entrepreneurship Outlook*, Paris.
- Schlögl, Herwig (2004), "Small and medium enterprises: seizing the potential", in *OECD Observer*, No. 243, available online at www.oecdobserver.org.

New chief development economist

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Javier Santiso

The OECD Development Centre has appointed Javier Santiso as their new chief economist. Mr Santiso, a Spanish and French national, took up his post on 1 December 2005. Educated at the Institut d'Études Politiques de Paris (Sciences Po) and St Anthony's College, Oxford, and later at the HEC School of Management in France and the IESE Business School in Spain, he worked at the Latin American Centre at Oxford University in 1995 before becoming research fellow at the Centre d'Études et de Recherches Internationales at Sciences Po. He has also served as a senior expert on Latin America for Crédit Agricole Indosuez (now Calyon) before becoming chief economist for Latin America and emerging markets at the Madrid-based Banco Bilbao Vizcaya Argentaria (BBVA) in 2002.

Mr Santiso has edited journals, including *Problèmes d'Amérique latine*, and is the author of over 30 articles on international economic and political relations. His most recent book is *Latin America's Political Economy of the Possible: Beyond Good Revolutionaries and Free Marketeers* (also published in French, *Amérique latine : révolutionnaire, libérale, pragmatique*, Paris, Autrement, 2005). ■

Man of interest

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Alan Greenspan

Alan Greenspan, who stepped down after almost two decades as chair of the US Federal Reserve on 31 January 2006, was by no means a stranger to the OECD. Indeed, as chair of the US Council of Economic Advisers between 1974 and 1977, he played a leading role in the OECD's Economic Policy Committee in 1975 and 1976 (our photo). The EPC, which was set up in 1961, reviews the economic and financial situation and policies of OECD member countries "with a view to attaining the goals of the OECD Convention". ■

The Convention can be read at www.oecd.org/convention. For more on the EPC, go to http://webnet3.oecd.org/OECDgroups/ and view under Economic Policy. For further information on historical documents, contact Archives@OECD.org

Calendar of forthcoming events

Please note that many of the OECD meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For a more comprehensive list, see the OECD website at www.oecd.org/media/upcoming, which is updated weekly.

MARCH

13-16 **OECD/BIAC consultations** with business representatives. Tokyo, Japan and Seoul, Korea.

16-22 **World Water Forum**. Mexico City, Mexico

19-21 **China Development Forum**. Beijing, China.

21-23 **Measuring the Progress of Societies: A Key Policy Challenge**, conference on the World Forum project, jointly hosted by the US Key National Indicator Initiative and the OECD. Bellagio, Italy.

23-24 **Measuring the Social Outcomes of Learning**, meeting organised by the Centre for Educational Research (CERI). Copenhagen, Denmark.

27-30 **Better Financing for Entrepreneurship and SME Growth**, high-level conference organised by the Centre for Entrepreneurship, SMEs and Local Development, and the Brazil government. Brasilia, Brazil.

29-30 **Private Pensions in Latin America**, conference organised by IOPS and the Directorate for Financial and Enterprise Affairs. Santiago, Chile.

30-31 **Deepening Voice and Accountability to Fight Poverty**, workshop organised by the UK Department For International Development, the World Bank and the OECD Development Centre.

APRIL

4 **The Development Assistance Committee** and the **Environmental Policy Committee meet at ministerial level**.

5 **High-level meeting of the Development Assistance Committee**.

22-23 Spring meetings of the **International Monetary Fund** and the **World Bank**. Washington, D.C., USA.

24-25 **Policy Coherence for Development in Fisheries**, workshop organised by the Directorate for Food, Agriculture and Fisheries.

24-26 **International Investment Statistics**, workshop organised by the Directorate for Financial and Enterprise Affairs.

27-28 **Governing Universities in the Knowledge Society**, seminar organised by the Generalitat Valenciana and the OECD's Programme on Institutional Management in Higher Education. Valencia, Spain.

28-30 **Social Innovation in the 21st Century: a Dialogue**, conference organised by the OECD Local Economic and Employment Development (LEED) Programme. Sydney, Australia.

MAY

16-17 **Global Forum on Agriculture**, organised by the Directorate for Food, Agriculture and Fisheries.

17-18 Ministerial session of the **European Conference of Ministers of Transport** (ECMT). Dublin, Ireland.

22-23 Balancing Globalisation: **OECD Forum 2006**.

23-24 **OECD Council meets at ministerial level**.

29-2/6 **Promoting Dialogue with Russia on Sectoral Policy in Water Supply and Sanitation**, conference organised by the Environment Directorate under the auspices of the Russian authorities. Moscow, Russia.

JUNE

19-21 **Environment, Resources and Agricultural Policies in China**, workshop organised by the Directorate for Food, Agriculture and Fisheries, the Environment Directorate, and the China Ministry of Agriculture. Beijing, China.

27-28 **OECD Education Ministers meet**. Athens, Greece.

Further ahead

OCTOBER

25-27 **World Congress on Communication for Development**, organised by the World Bank, the FAO and the Communication Initiative. Rome, Italy.

NOVEMBER

9-11 RIO 6, **World Climate and Energy Event**. Rio de Janeiro, Brazil.

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Why growth counts

Going for Growth 2006: Economic Policy Reforms

OECD governments have been more effective at bringing in reforms to raise labour productivity than at helping increase the number of people in work, according to this progress report on action taken over the past year to enhance economic growth in each of the 30 OECD member countries.

The OECD's second *Going for Growth* report assesses the extent to which governments have followed the policy recommendations it published a year ago (see below). By using a number of benchmark indicators ranging from labour costs and levels of educational attainment to obstacles against business start-ups and foreign direct investment, the first report, issued in 2005, identified areas of weakness and outlined policy priorities for each country.

The 2006 edition of *Going for Growth* shows mixed results. To raise labour productivity, many governments have recently introduced, or initiated, laws to ease restrictions on business activity and boost competition. In the EU, for instance, a draft directive to allow businesses to sell their services in any other EU country, though controversial, is currently under negotiation. In Japan, the competition law has been reinforced. In Germany, nation-wide educational standards have been agreed in some fields, while most other countries identified as needing to strengthen some aspect of their education system are taking relevant measures.

But there has been less progress in increasing the number of people in the workforce, identified in the last report as a priority for many OECD countries. Reforms to remove tax incentives for retiring early have been limited, while legislators have shown little enthusiasm for easing employment protection in those countries where it is seen to hamper job creation. However, the report notes greater progress in reforming sickness and disability benefits in Australia, Britain, Denmark, Hungary, Netherlands, Norway, Sweden and Switzerland.

The new *Going for Growth* report extends the scope of its surveillance of government policy by introducing benchmark indicators in the area of innovation, considered by the OECD to be one of the main engines of long-term economic growth. The indicators allow comparisons in areas such as the intensity of research and development with the more advanced economies, like the US. Where specific weaknesses are identified in a country, the report recommends what steps the government should take.

In a separate chapter the report also investigates whether GDP per head is an effective measure of well-being, a question which has previously been touched on in this magazine and which has stimulated considerable debate in the media. (See "Is GDP a satisfactory measure of growth?", interview with François Lequiller, Head of National Accounts at the OECD, No 246/247, December 2004-January 2005, available at www.oecdobserver.org). ■

ISBN 92-64-03591-5 (2006 edition).
ISBN 92-64-00836-5 (2005 edition).
www.oecdbookshop.org for ordering details.

Live Longer, Work Longer

Are older workers denied choice about when and how they retire? Certainly, the average number of years that workers across the OECD can expect to spend in retirement has risen sharply, from less than 11 years in 1970 to just under 18 years in 2004 for men, and from less than 14 years to just under 23 years for women. Some of this increase may reflect personal decisions, but a closer look suggests that employment and social practices in most countries actually discourage older workers from staying on the job. This obviously results in a waste of valuable resources, not least in terms of skills and productivity, which business, the economy and society can ill-afford. For *Live Longer, Work Longer*, prepared under the leadership of the OECD's Employment, Labour and Social Affairs Directorate, the message is clear: this present situation must stop.

Policy reforms are needed to reverse the trend towards ever-earlier retirement, but what can governments do to bring about changes that are often unpopular with many voters? How can workers, employers and governments work together to secure a prosperous future? This report seeks to answer these questions. It is the final report in the OECD's thematic review of policies to improve employment prospects for older workers. Altogether 21 countries participated in the review over a four-year period.

Drawing on the lessons learned from the country reviews, the report focuses on policies to remove obstacles and improve the employment potential of all older workers, whether those that want to stay on working longer or those wishing to come back into the job market.

In proactive fashion, the report promotes a new agenda of reform: that while population ageing is a challenge, it is also a tremendous opportunity for growth and social betterment. If seized, then longer and healthier lives will be matched by more fruitful, fuller, working lives for those that wish it. In other words, encouraging older workers is not just about easing the burden on pension costs, but boosting welfare and choice too. ■

ISBN-92-64-035877.
www.oecdbookshop.org for ordering details.

Agua, por favor!

Mexico: Progress in Implementing Regulatory Reform

In Mexico, 80% of the population lives in relatively dry and hot areas and subterranean resources are being slowly exhausted. Access to water is increasingly becoming an issue in some of the most active and industrialised parts of the country. Yet, says the OECD's 2004 review of regulatory reform in Mexico, rapid demographic growth and industrial development have increased the overall demand for water.

Mexico, which joined the OECD in 1994, has made progress towards the targets set in the 1995-2000 plan to improve supply, sanitation and wastewater management. Still, the current level of investment stands at half of that required to achieve a sustainable supply. Water losses, mainly from irrigation and drinking water supply systems, remain high and over-exploitation of groundwater resources continues.

With rapid urbanisation, population growth has been greater in the semi-arid and arid north, northwest and central regions. These regions account for three-quarters of the population, but provide only 28% of the water resources.

Furthermore, water consumption in Mexico is relatively high, at around 730 m^3 per capita, slightly lower than the OECD average of 920 m^3, but higher than the European or Japanese averages.

Who is using all that water? The report casts the light on farmers. Mexico is among the world's largest irrigation countries, with almost a third of the country's cropland under irrigation. As a result, 80% of water use is for agriculture, including livestock, which represented only 5.5% of GDP in 2004.

The National Water Commission (CNA) is the major player in regulating water supplies, and therein lies the challenge. In theory, the purpose of a water regulatory authority nowadays, in a country such as Mexico facing acute shortages of water, should be to act as a national water watchdog, safeguarding the future of the country. In practice, the CNA is caught between that aim and the original mission of its predecessors, which was to provide water for free to poor farmers in order to foster the agricultural development of the country. These two objectives now appear to be in conflict, the report suggests, particularly as the CNA should also oversee urban needs.

As in other OECD countries, most of Mexico's wealth now comes from services and industry, which pay a larger share of the water fees than farming, while consuming a far smaller share of the water.

Supporting farmers via cheaper water is by no means unique to Mexico, and even if water for farms tends to be of a lesser quality than for drinking, with lower infrastructural costs, the low price does not provide an incentive to farmers to become more efficient (see also article by Messrs Legg and Parris). Many wells are being exhausted, and the major urban centres and developed regions of the country face a long-term risk of water shortages.

The report urges Mexico to establish a clear focus for the CNA's mission, as a federal watchdog for national waters, in charge of environmental and safety matters, with a strong scientific and technical base. It says the CNA should be given clear leadership at the national level, while forging partnerships with the water commissions established at the level of the various states. ■

ISBN 9264017526. See the New Publications pages or www.oecdbookshop.org for ordering details.

HNEW01A

New OECD Publications, December 2005-February 2006

HIGHLIGHTS

OECD Economic Outlook No. 78
OECD's latest economic projections and outlook to end-2007. Together with a wide range of cross-country statistics, the *Outlook* provides a unique tool to keep abreast of world economic developments. In addition to the themes featured regularly, this issue contains an analytical chapter addressing the recent run-up in house prices.
www.sourceOECD.org/periodical/04745574/econoutlook

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HNEW01A

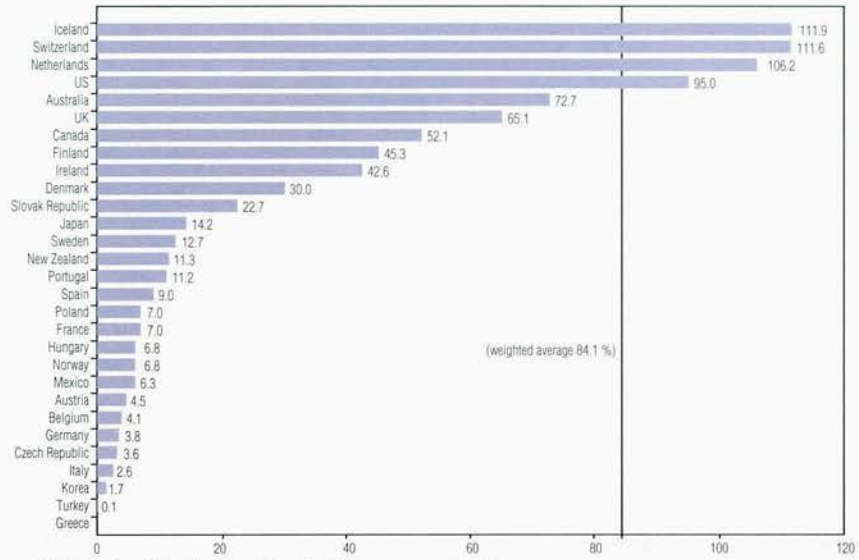
Pension funds

Pensions funds in the OECD area have grown sharply over the last decade, from US$5.9 trillion in 1994 to US$15.6 trillion by 2004, representing a compound growth rate of 10.2% per annum. According to the second edition of OECD's new bulletin, *Pension Markets in Focus*, the ratio of total OECD pension fund assets to GDP increased from 81.9% to 84.1% in 2004, driven by the growth of assets in the largest market, the US. Some countries like Poland, Spain and France recorded fast growth, albeit from a low base.

As *Pension Markets in Focus* shows, the main types of funded pension systems in most OECD countries are occupational or employer-based plans. In Mexico, Poland, and the Slovak Republic, mandatory personal plans predominate. Fourteen OECD countries have mandatory or quasi-mandatory funded pensions. In the Netherlands and Sweden, these systems cover some 90% of the workforce, reflecting collective bargaining there. In the countries where funded pension systems is voluntary, 40-60% of the workforce is covered in eight of them, and under 20% of the workforce in a further nine. The largest voluntary pension funds are in the US, the UK and Canada. These funds are in the 40-60% coverage range, but because those funds are mature, they are large in GDP terms (see graph). By contrast, Sweden's pension fund has wider coverage, but as it is relatively new, accounts for just 12.7% of GDP. ■

How mature?

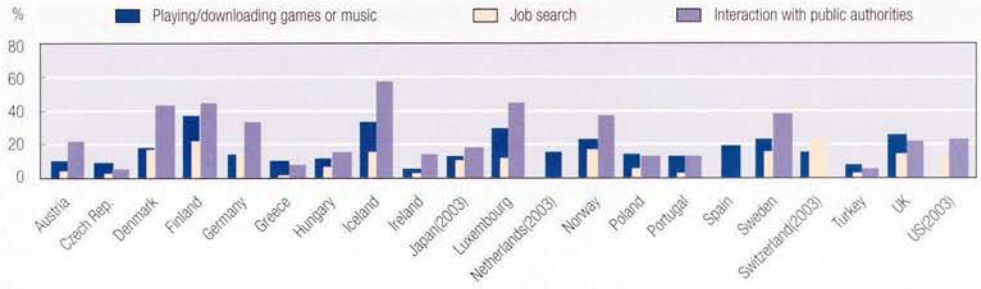
Pension fund assets as % of GDP, 2004



Source: *OECD Pension Markets in Focus December 2005*; see www.oecd.org/daf

Game on

Internet use by type of activity, as % of adults, 2004



Source: *OECD Science, Technology and Industry Scoreboard 2005*

Note: Available data only. Japan figures refer to playing/downloading music only, not games.

Games world

Playing computer and video games is a booming industry, but in only a few countries is it the main reason why people go online. For instance, many Danes click online for government information, while the Swiss use the net more for job hunting. Still, games are becoming more popular, with mobile delivery showing fastest growth. Online games include extensions of small-group games that are possible to play off-line, to "Massively Multiplayer Online Role Playing Games", with many thousand concurrent players logged in to fantasy games like World of Warcraft or Dark Age of Camelot. These attract a market reaching into the tens of millions worldwide.

Intensive computer game players are relatively few in number: usually male, aged 15-28, playing more than 20 hours per week. Mass-market consumers, on the other end of the scale, prefer playing games that are easy to learn and last a short time. Meanwhile, the market continues to evolve as players get older and tend to have higher incomes. Also, more and more women are starting to play multiplayer games online. In fact, although in most OECD countries men are more likely than women to use the Internet, significantly more women than men use it in the US. ■

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q4 05	0.5	2.7	Current balance	Q4 05	-10.74	-12.25
	Leading indicator	Jan. 06	-0.2	0.9	Unemployment rate	Feb. 06	5.20	5.10
	Consumer price index	Q4 05	0.5	2.8	Interest rate	Feb. 06	5.61	5.63
Austria	Gross domestic product	Q4 05	0.7	2.0	Current balance	Q3 05	0.71	0.05
	Leading indicator	Jan. 06	1.1	6.2	Unemployment rate	Jan. 06	5.20	5.10
	Consumer price index	Jan. 06	-0.2	1.2	Interest rate		*	*
Belgium	Gross domestic product	Q4 05	0.6	1.4	Current balance	Q3 05	0.09	2.72
	Leading indicator	Jan. 06	1.0	4.2	Unemployment rate	Dec. 05	8.50	8.50
	Consumer price index	Jan. 06	0.0	2.6	Interest rate		*	*
Canada	Gross domestic product	Q4 05	0.6	2.9	Current balance	Q4 05	11.32	4.32
	Leading indicator	Jan. 06	0.7	0.8	Unemployment rate	Jan. 06	6.60	7.00
	Consumer price index	Jan. 06	0.5	2.8	Interest rate	Feb. 06	3.74	2.58
Czech Republic	Gross domestic product	Q3 05	1.0	4.8	Current balance	Q4 05	0.03	-0.95
	Leading indicator		..	..	Unemployment rate	Jan. 06	7.80	8.10
	Consumer price index	Jan. 06	1.4	2.9	Interest rate	Feb. 06	2.00	2.25
Denmark	Gross domestic product	Q3 05	1.4	4.7	Current balance	Q3 05	2.24	0.58
	Leading indicator	Jan. 06	1.7	9.7	Unemployment rate	Dec. 05	4.40	5.20
	Consumer price index	Jan. 06	-0.4	2.1	Interest rate	Feb. 06	2.61	2.14
Finland	Gross domestic product	Q4 05	0.9	2.9	Current balance	Dec. 05	0.88	1.92
	Leading indicator	Jan. 06	0.1	1.3	Unemployment rate	Jan. 06	8.20	8.60
	Consumer price index	Jan. 06	-0.3	1.2	Interest rate		*	*
France	Gross domestic product	Q4 05	0.2	1.2	Current balance	Dec. 05	-5.34	-1.53
	Leading indicator	Jan. 06	0.2	2.0	Unemployment rate	Jan. 06	9.20	9.60
	Consumer price index	Jan. 06	-0.1	2.0	Interest rate		*	*
Germany	Gross domestic product	Q4 05	0.0	1.6	Current balance	Q4 05	24.56	25.44
	Leading indicator	Jan. 06	0.7	4.6	Unemployment rate	Jan. 06	9.10	9.70
	Consumer price index	Jan. 06	-0.5	2.1	Interest rate		*	*
Greece	Gross domestic product	Q4 05	-0.2	3.7	Current balance	Dec. 05	-1.95	-1.38
	Leading indicator	Jan. 06	1.1	3.2	Unemployment rate	Sept.05	10.10	10.50
	Consumer price index	Jan. 06	-0.2	3.2	Interest rate		*	*
Hungary	Gross domestic product	Q3 05	1.1	4.4	Current balance	Q3 05	-2.29	-2.43
	Leading indicator		..	..	Unemployment rate	Feb. 06	7.40	6.70
	Consumer price index	Jan. 06	0.1	2.7	Interest rate	Feb. 06	5.94	8.71
Iceland	Gross domestic product	Q3 05	1.9	4.0	Current balance	Q4 05	-0.85	-0.53
	Leading indicator		..	..	Unemployment rate	Jan. 06	1.40	2.60
	Consumer price index	Feb. 06	-0.1	4.1	Interest rate	Jan. 06	10.30	7.23
Ireland	Gross domestic product	Q3 05	0.3	5.2	Current balance	Q3 05	-0.75	-0.93
	Leading indicator	Jan. 06	1.2	14.0	Unemployment rate	Jan. 06	4.30	4.30
	Consumer price index	Jan. 06	-0.3	3.0	Interest rate		*	*
Italy	Gross domestic product	Q3 05	0.3	0.1	Current balance	Sept. 05	-2.77	-1.08
	Leading indicator	Jan. 06	0.0	-0.7	Unemployment rate	Sept. 05	7.50	7.90
	Consumer price index	Feb. 06	0.2	2.1	Interest rate		*	*
Japan	Gross domestic product	Q4 05	1.4	4.5	Current balance	Dec. 05	17.10	16.48
	Leading indicator	Jan. 06	0.5	1.3	Unemployment rate	Jan. 06	4.50	4.50
	Consumer price index	Jan. 06	0.1	0.5	Interest rate	Jan. 06	0.04	0.02
Korea	Gross domestic product	Q4 05	1.7	5.4	Current balance	Jan. 06	-0.57	3.05
	Leading indicator		..	..	Unemployment rate	Jan. 06	3.30	3.70
	Consumer price index	Jan. 06	0.8	2.8	Interest rate	Jan. 06	4.20	3.50

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Luxembourg	Gross domestic product	Q1 05	-4.9	3.1	Current balance	Q3 05	0.86	0.90
	Leading indicator	Jan. 06	1.7	8.3	Unemployment rate	Jan. 06	5.50	4.90
	Consumer price index	Jan. 06	-0.5	2.9	Interest rate		*	*
Mexico	Gross domestic product	Q3 05	2.1	3.3	Current balance	Q4 05	-0.90	-2.94
	Leading indicator	Jan. 06	0.4	4.8	Unemployment rate	Sept. 05	3.50	3.90
	Consumer price index	Jan. 06	0.6	3.9	Interest rate	Feb. 06	7.57	9.31
Netherlands	Gross domestic product	Q4 05	1.0	2.1	Current balance	Q4 05	10.63	15.14
	Leading indicator	Jan. 06	0.2	3.8	Unemployment rate	Jan. 06	4.60	4.90
	Consumer price index	Jan. 06	-0.3	1.3	Interest rate		*	*
New Zealand	Gross domestic product	Q3 05	0.0	2.0	Current balance	Q3 05	-2.63	-2.03
	Leading indicator		..	..	Unemployment rate	Q4 05	3.60	3.60
	Consumer price index	Q4 05	0.7	3.2	Interest rate	Feb. 06	7.53	6.83
Norway	Gross domestic product	Q3 05	0.8	3.7	Current balance	Q3 05	12.24	8.89
	Leading indicator	Jan. 06	1.3	9.2	Unemployment rate	Nov. 05	4.50	4.50
	Consumer price index	Jan. 06	-0.3	1.8	Interest rate	Feb. 06	2.57	1.92
Poland	Gross domestic product	Q4 05	12.0	4.7	Current balance	Dec. 05	-0.29	-0.46
	Leading indicator		..	..	Unemployment rate	Jan. 06	17.20	18.10
	Consumer price index	Dec. 05	-0.2	0.9	Interest rate	Jan. 06	4.40	6.61
Portugal	Gross domestic product	Q3 05	-0.9	0.2	Current balance	Nov. 05	-1.35	-1.19
	Leading indicator	Jan. 06	1.0	2.4	Unemployment rate	Jan. 06	7.70	7.20
	Consumer price index	Jan. 06	-0.5	2.6	Interest rate		*	*
Slovak Republic	Gross domestic product	Q4 05	1.8	6.7	Current balance	Q3 05	-0.84	-0.62
	Leading indicator		..	..	Unemployment rate	Jan. 06	15.80	16.90
	Consumer price index	Jan. 06	2.0	4.1	Interest rate	Dec. 05	6.12	7.44
Spain	Gross domestic product	Q4 05	0.9	3.5	Current balance	Nov. 05	-7.82	-6.54
	Leading indicator	Jan. 06	0.1	1.1	Unemployment rate	Jan. 06	8.40	10.10
	Consumer price index	Jan. 06	-0.4	4.2	Interest rate		*	*
Sweden	Gross domestic product	Q3 05	1.0	2.8	Current balance	Q3 05	7.85	7.08
	Leading indicator	Dec. 05	-0.9	3.2	Unemployment rate	Mar. 05	6.30	6.30
	Consumer price index	Jan. 06	-0.8	0.6	Interest rate	Feb. 06	1.93	1.97
Switzerland	Gross domestic product	Q4 05	0.5	2.8	Current balance	Q3 05	11.84	12.84
	Leading indicator	Jan. 06	0.3	5.3	Unemployment rate	Q3 05	4.50	4.40
	Consumer price index	Jan. 06	-0.2	1.3	Interest rate	Jan. 06	1.02	0.75
Turkey	Gross domestic product	Q3 05	31.6	7.0	Current balance	Q3 05	-6.34	-3.07
	Leading indicator	Jan. 06	0.5	1.9	Unemployment rate	Q3 05	9.40	9.50
	Consumer price index	Feb. 06	0.2	10.3	Interest rate	Dec. 05	14.00	19.87
United Kingdom	Gross domestic product	Q4 05	0.6	1.8	Current balance	Q3 05	-18.23	-16.39
	Leading indicator	Jan. 06	0.2	-0.1	Unemployment rate	Nov. 05	5.00	4.60
	Consumer price index	Jan. 06	-0.4	2.4	Interest rate	Feb. 06	4.52	4.82
United States	Gross domestic product	Q4 05	0.4	3.2	Current balance	Q3 05	-195.82	-166.98
	Leading indicator	Jan. 06	-0.1	1.9	Unemployment rate	Jan. 06	4.70	5.20
	Consumer price index	Jan. 06	0.8	4.0	Interest rate	Feb. 06	4.72	2.77
Euro area	Gross domestic product	Q3 05	0.6	1.6	Current balance	Dec. 05	-6.31	4.25
	Leading indicator	Jan. 06	0.5	2.9	Unemployment rate	Jan. 06	8.30	8.80
	Consumer price index	Jan. 06	-0.5	2.4	Interest rate	Feb. 06	2.60	2.14

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted except for Iceland, Luxembourg, Poland and Turkey; ***Leading Indicators:*** A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series,etc.), which signals cyclical movements in industrial production from six to nine months in advance; ***Consumer Price Index:*** Measures changes in average retail prices of a fixed basket of goods and services. ***Current Balance:*** Billion US$; seasonally adjusted; ***Unemployment Rate:*** % of civilian labour force — standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey; ***Interest Rate:*** Three months. *refer to Euro zone. ..=not available.

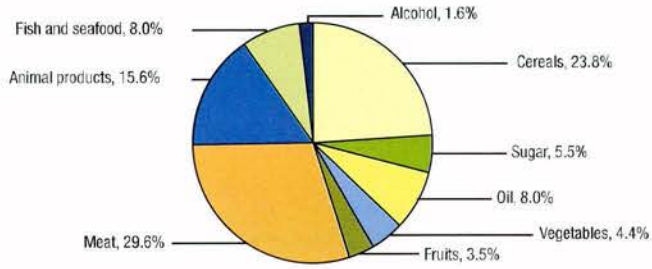
Source: *Main Economic Indicators*, March 2006

Virtual solution

Should water-scarce countries import water-intensive products and cultivate less water-intensive ones? After all, since all goods contain a certain amount of water in their production, exporting farm produce is rather like exporting water, albeit in virtual form. A thousand litres of water may be needed to produce a kilo of wheat, but five to ten times more is needed for a kilo of meat. According to Lester Brown, president of the Earth Policy Institute, the overall water required in the farm products imported into the Middle East and North Africa is equivalent to the annual flow of the river Nile upstream at Aswan. Some countries are adopting policies to reduce stress on water resources, with Israel and Jordan cutting back exports of less lucrative water-intensive crops, for instance.

Water world

Distribution of global water embedded in food products, assuming a required water budget of 5,200 km^3 for 2000



Source: Zimmer, Daniel and Renault, Daniel (2004), "Virtual Water in Food Production and Global Trade", World Water Council. See: www.worldwatercouncil.org

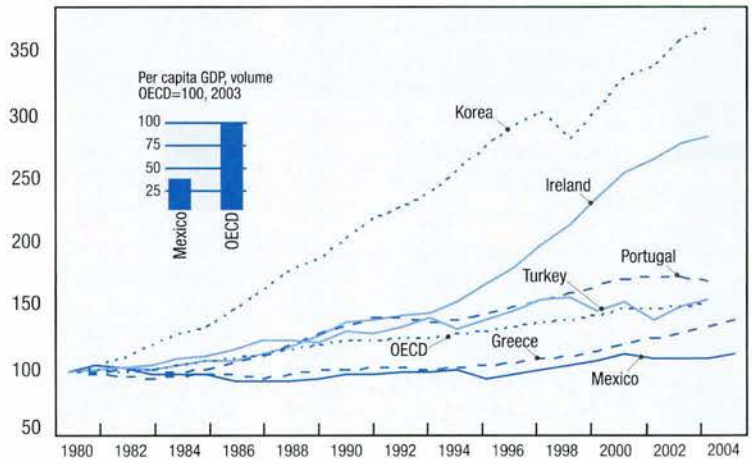
Overall, however, world trade in water-intensive produce reflects the global market, rather than any deliberate evaluation of water scarcity. For this reason, any effective policy to encourage efficient use of scarce water resources must be based on pricing. If irrigators in water-scarce countries are charged for their true water use, some crops might become uncompetitive. Those countries would then import water intensive produce from water-rich countries, which would increase output of water-intensive exports. However, a key question is whether the market can guarantee water security for poorer countries, particularly as long as global trade, which is dominated by water-abundant countries anyway, remains distorted by farm support. ■

Raising potential

Mexico's economic performance has improved, but not by enough, according to the *OECD Economic Survey of Mexico* released late last year. Since the 1995 financial crisis, Mexico has made progress in terms of economic stability, and the economy is far more open, too. But while poverty has fallen, it remains widespread. Productivity is also low. True, GDP will grow by 4% or more for the third year in a row in 2006, the report expects. But although this is better than in several other OECD countries, it is barely enough to keep per capita living standards in Mexico rising at the same rate as the OECD average, let alone close the income gap with the more advanced economies.

Growth performance

Per capita GDP, 1980=100, constant prices and constant PPPs



Source: *OECD Economic Survey of Mexico* (2005)

How to raise potential growth and deliver that convergence are major challenges. A combination of faster growth in the quality of labour inputs, more and better physical capital, and more advanced technology are needed. The markets can deal with some of the issues, and the report praises reforms of recent decades, even if it says that labour and product markets could be further liberalised. But the government must also act on several fronts, to improve human capital for instance, notably by lifting performance in Mexico's education system, which has been among the OECD's laggards, and strengthening the country's public finances, including at sub-national level.

OECD Economic Survey of Mexico (2005) can be ordered at www.oecd.org/bookshop, ISBN 92-64-01340-7.
See also www.oecd.org/economics and www.oecd.org/mexico. ■