

# Water sector economics, politics and accountability for policy choices

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# Agenda

- ◆ **What is the political economy of reform?**
- ◆ **The relevance of the initial sector specific conditions**
- ◆ **The trade-offs in the reform choices**
- ◆ **The choices will reveal preferences not always declared**
- ◆ **How much do we know about the basic facts?**
- ◆ **Next steps**

# The political economy of reform?

- ◆ Who will pay what and how for the changes
  - Today's users...according to what criteria?
  - Today's tax payers
  - Tomorrow's users
  - Tomorrow's tax payers
- ◆ This session takes a “today's” user perspective on the debate and on the priorities...
  - Households
  - Industries
  - Agriculture
- ◆ ...but recommendations cannot ignore the context which drives and constraints the policy options
  - ... and hence their economic costs and benefits

# The initial sector specific conditions

- ◆ **Not every country or region is equal**
  - **Production structures vary**
    - ◆ => demand varies
  - **Water resources vary**
    - ◆ => supply varies
  - **Income levels vary**
    - ◆ => ability to pay varies
  - **Income distribution vary**
    - ◆ => % of poor in total users and concentration of poor varies

# The initial sector specific conditions (2)

- ◆ Instruments options will also vary because
  - Fiscal capacity varies
  - Legal environmental varies
  - Degree of decentralization varies
  - Institutional capacity varies
- ◆ => one size reform/recommendation will not fit all members of this audience
  - ◆ Serious risk that adjustment requirements will be toughest for the poorest

# Criteria to assess the effects of reform?

## ◆ Allocative efficiency

- price = costs, including high fixed costs & opportunity costs

## ◆ Productive efficiency

- cost must be minimized

## ◆ Financial sustainability

- the right for operators and investors to make a return that is:  
(i) fair and (ii) consistent with the costs of financing its contractual commitments

## ◆ Enforceability

- ◆ From both the viewpoint of operators and of users

## ◆ ***BUT DO NOT FORGET FAIRNESS!!!***

- ensure that: (i) the poor are not out-priced; (ii) any redistributive concerns are addressed (iii) intergenerational consequences are addressed

# Do we have the basic data do make fair policy decisions? (1)

- ◆ We need:
  - Production data
  - Consumption data (“cadastros”)
  - Expenditure data
  - Cost data
- ◆ The EU seems to have all the data
- ◆ LDCs and Economies in transition do not!

# Do we have the basic data do make fair policy decisions? (2)

*How much do we know about water and the poor?*

<u>Indicator</u>	<u># of Household surveys</u>
◆ Source ('improved')	55
◆ Distance to water	55
◆ Expenditures on water	55
◆ Quality	24
◆ Hhld treatment of water	9
◆ Presence of diarrhea (0-5)	36
◆ Anthropometrics (0-5)	40

# **Tell me how well you know the facts ... and I'll tell you what you care about!**

- ◆ **The details on the information collected reveals how pressure groups direct the policy priorities**
  - **For now, the evidence seems to suggest that the producers, the investors and non-residential users...are the most effective lobbyists...**
- ◆ **...for the poorest countries, how well today's poor and tomorrow's users and taxpayers come out of these reforms will reveal how fair the reforms will have been**

# Next Steps

- ◆ Listen to the summaries: 5 minutes each
- ◆ Open the debate: 30-40 minutes
- ◆ Wrap up 5 minutes
- ◆ Reality checks:
  - Do the viewpoint of households, farmers and industrial users....add up!
  - Are the ideas politically viable and economically sound implementation ideas....