

INTERVIEW

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“Water governance in the Netherlands: fit for the future?”

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The last five years OECD published an impressive number of high quality “water” reports. Why is water so important for OECD?

Since 2007, under the leadership of our Secretary-General Angel Gurría, we have devoted increasing attention to water policy and produced evidence-based assessment, but also benchmarks, overarching principles, indicators, and tailored advice in the framework of country policy dialogues. Our organisation is devoted to economic cooperation and development, and we all know that water can be a major driver or obstacle to economic development. As such, it is a policy area of key interest to decision-makers. One of our roles, when advising governments to design better policies for better lives, is to build the *economic* case for effective water management. The work on water *governance* started in 2009 when we realised that many OECD tools and principles were facing implementation bottlenecks because of governance “gaps”. The OECD work has therefore shown that the water crisis the world faces today is mainly a governance crisis. If managed wisely, there is enough water on earth for all. Catalysing financial resources (both from the public and private sector) also requires sound governance frameworks. Coping with future challenges requires a better understanding of who does what, at which level and how. There are pragmatic tools to assess institutions’ effectiveness in delivering water policy outcomes, such as the OECD’s

multi-level governance framework. Though governance is of course context-dependent and requires place-based solutions, lessons can be drawn from reforms, and *effective* governance can bring *economic* benefits to the sector and beyond.

How many people work for OECDs water department? Who of them were involved in this Dutch report? What was your experience in making this report and in the cooperation with the international peer reviewers?

The OECD work on water is horizontal, integrated and multidisciplinary. This allows to bring in different perspectives and analyses to a sector that is, by essence, different from other natural resources or infrastructure areas. About 15 colleagues work on water across different policy areas including the environment, public governance and territorial development, trade and agriculture, financial affairs, as well as cooperation and development. The team is extremely dedicated and produces an impressive amount of evidence, specific guidance, policy briefs, country reports, statistics, and indicators. We advise policy design and implementation, and contribute to the Global Agenda. We recently took part in hearings of the French government in the framework of their evaluation of water policy for example; we also provide evidence and international comparisons in support of international processes such as the World Water Forum or the post-2015 agenda.

A delegation of 10 people was involved in the OECD/Netherlands policy dialogue on water governance. In addition to the OECD staff with expertise on economics and governance of water policy, the delegation comprised 4 high-profile ‘peer-reviewers’ that had been facing similar challenges and managed ambitious reforms in their respective countries as policymakers. They included a former minister of Environment of Portugal, a commissioner from the Planning Commission of South Africa (and former DG for water), the Head of Water and Land at the UK Environment Agency, as well as a senior adviser on water from the US Environment Protection Agency.

We also had a French expert with thorough knowledge on water policy in Europe in the delegation. All have shared, throughout the process, critical experience drawing valuable lessons from success stories and failures. A big team for a big and fascinating project, in a word!

After Mexico (2013), the Dutch report is the second country report. What's the worth of these specific reports? Do other countries also use these reports? What can other countries learn from the Dutch report?

The Netherlands is indeed the second country, and we have recently started the water governance policy dialogue with Brazil. The major benefit for the country concerned is of course the “mirror effect”, the outsider view from a neutral and independent platform, on how the system is performing and whether adjustments are needed. This type of report is used as an input in the country’s policy debate. By “opening the books” to the OECD, the Netherlands has been very forward-looking and I hope the OECD contribution can feed into current consultations and future decisions about water policies in the Netherlands.

But I have to say that the report is the ‘downstream’ result of a year-long process, which matters as much as the final result. The report itself is used by other countries because it identifies a wide range of good practices to address critical challenges, which can also apply to other countries. Also, a report on water governance in the Netherlands certainly triggers interest from other countries because of the long-standing performance and role model of the Dutch in the field of water management. The *process* is also beneficial to other countries not only through the “peer-reviewers” involved in the policy dialogue, but also during the “peer-review discussion” of the findings and recommendations of the report with all OECD (and beyond) member states. This is when the OECD “convening power” plays fully its role as a Policy Forum to exchange views, lessons and practices across a wide range of stakeholders and country representatives. The OECD Water Governance Initiative provided a great forum to share with many more stakeholders (outside the Netherlands) the highlights of the dialogue, and I trust many of them brought home valuable lessons from this specific case.

How do you qualify Dutch water management in terms of administrative organization, performance and transparency? What are strengths and what are weaknesses?

The Netherlands is globally known for its excellent track record in many areas of water management. In this country largely below sea level or flood-prone, the water system has managed to “keep Dutch feet dry”, and to develop a strong economy, a robust industry and a high-value agriculture. This performance has been achieved through a sophisticated “natural infrastructure” but also distinctive multi-level governance arrangements, century-old institutions, and consensus-based decision-making through the Dutch “polder approach”. The system has also significantly evolved and adjusted over time. In particular, national authorities have been reorganised to improve their strategic capacities; regional water authorities have been consolidated into a smaller number of larger entities, and have gained new functions; drinking water companies have been aggregated at the regional level; water legislation has been consolidated; innovative contractual agreements have been signed to foster efficiency gains across the water chain through improved coordination; and major strategies such as the *Delta Programme* have been adopted to address current and future challenges regarding water safety and freshwater supply.

However, there is always a risk that excellence could lead to complacency. Expected future trends generate uncertainty about whether water management is able to cope with changing conditions and whether there is a need to reduce path dependency and strengthen resilience. Climate change will affect water availability and the resilience of water infrastructures. Economic and demographic trends will drive water demand and affect the capacity to address such challenges. Rising regional disparities also mean that regions will have unequal capacities to cope with water governance challenges. The report points to persistent and emerging challenges in Dutch water management. *Water quality* and the resilience of freshwater ecosystems recently gained traction in the country, but continue to be pressing issues. Water governance relies on a system of many *checks and balances*, which presents some limitations (such as the absence of independent monitoring) and the reliance

on voluntary agreements and measures, which may or may not make the best of available resources. *Economic incentives* to efficiently manage water are sometimes weak. Water management and spatial development are closely connected, but those who benefit from spatial development, such as municipalities and property developers, do not necessarily bear the costs of water management; as a consequence, ongoing spatial development at times increases exposure to flood risk, leading to the escalation of the costs which will be borne by the community. This raises *equity issues* today and in the future.

OECD notices a striking awareness gap of Dutch citizens. That's on the one hand not a totally surprising conclusion, because when the water managers do their job properly people won't notice any problems. On the other hand: what is the problem with this awareness gap and how can we bridge it?

It was striking indeed to discover that Dutch citizens take current levels of water security for granted! Many are not aware of the basics about evacuation policy, the origin of the water they drink or whether their property is built on a flood plain. This awareness gap is clearly a result of a high level of trust in government and the successful avoidance of major flood disasters since 1953. It can be analysed as the “cost of success” but it also has important consequences. Dutch citizens tend to be less involved in water policy debates because of this “no news good news syndrome”. Their willingness to pay for a service they take for granted may also erode in the future, at a time when EU policies put an increased emphasis on water quality, cost recovery and stakeholder engagement. The awareness gap therefore raises challenging questions for policy makers: how to increase the awareness of the risks, to influence decisions of property owners, businesses and municipalities about exposure and vulnerability to risk, and thereby reduce the expected cost of damages in a flood event? How to make the public more aware of what is needed to keep the country dry and habitable, and to secure willingness to pay for flood safety? The report points at several options, which relate to sharing information about water-related risks and the cost of water management, in particular on flood protection. We also think it is important to revive the

link between Dutch citizens and their water institutions, which have gradually evolved towards a more technical and managerial dimension to the detriment of social and political aspects. This has generated more distance between water managers and the general public, which can be addressed through a renewed focus on stakeholder engagement. Some actions have recently been suggested by the Dutch minister of Infrastructure and the Environment following the launch of the OECD report, such as a national bottom-up “wake-up call and campaign” to address the awareness gap. This goes in the right direction.

Why does OECD stress so strongly on the use of economic and financial instruments like abstraction charges and pollution taxes (see also OECD's recent Financing Water Resources Management report)?

There are two key principles underlying the economic management of water – efficiency and equity. *Efficiency* aims to maximise the welfare that is obtained from a resource by allocating it to its most valuable economic use. *Equity* concerns the distribution of resources across a given population. In light of uncertain future trends, such as climate change, adaptive efficiency is also important to address the least cost path to maximise social welfare over the long term in the context of complex resources, unpredictability, feedback effects and path dependencies.

In practice, the OECD advocates for an appropriate policy mix employing a combination of regulatory, economic and information-based instruments.

While only one part of the policy toolkit, economic instruments can be particularly effective in contributing to achieving the dual objectives of efficiency and equity. These are policy tools that influence behaviour through their impact on market signals rather than explicit regulation. Economic instruments can also be used to achieve adaptive efficiency required for dynamic, decentralised and flexible responses to changing circumstances and deal with increased variability and uncertainty.

In the Netherlands, economic incentives could be strengthened. For example, there is an absence of incentives for the majority of water users to proactively manage the risk of shortage. Similarly, while there are numerous technical measures in place to reduce

sources of pollution, the economic incentives to do so are generally weak. A water governance system fit for the future requires that those who generate liabilities with regards to water management also bear the costs. The allocation of costs (among households, farmers, industries and government authorities) needs to be more transparent and subjected to informed public debate. Specific measures could include putting in place *abstraction charges* to provide incentives for more efficient water use; their impact on the competitiveness of businesses would be monitored. While there is an abstraction licensing system for large abstractions, it is not clear that this is monitored or that sanctions for non-compliance are consistently applied. Putting in place a *robust water allocation regime* that allows for consistently controlling and monitoring abstractions would be a basic step towards managing the risk of shortage more effectively. A bolder option would be to establish *water-sharing arrangements* in areas vulnerable to shortage. Before undertaking such measures, a comprehensive *study of the economic costs of water pollution* would contribute to policy coherence between water, agriculture and nature. It would inform targeted and tailored approaches to reducing emissions, which would take into account the opportunity costs in specific regions. Economic instruments such as *water quality trading* and *pollution taxes* could improve the cost-effectiveness of measures to address non-point source pollution, possibly in combination with policies regarding polluting substances.

The current development of the Environmental Planning Act provides an opportunity to put renewed emphasis on freshwater systems and ensure a better balance among various water policy objectives. Recent efforts to re-naturalise waterways, make room for the river and consider the multi-functionality of water management infrastructures that can improve environmental benefits are steps in the right direction. *Valuation of ecosystem services* should be included in the assessment of policy options when possible, as it can ensure ecosystem services are thoroughly considered in planning decisions.

What do you think of the 2011 Administrative Agreement on Water?

This agreement is a right step towards better interconnectedness across institutions and water functions and to foster bottom-up and voluntary

search for efficiency gains, especially when willingness to cut public expenditure has implications for the organisation of the sector. But to make the most of it, this agreement has to be thoroughly monitored to track progress and, above all, used to guide decision-making and foster greater transparency on the much embedded, dispersed water costs in the country. The agreement assumes that structural savings (up to 750 million euros per year by 2020) are possible by a more efficient co-operation and co-ordination between organisations and levels of government, learning and knowledge sharing, and clear agreements about the division of tasks, including transfers of roles and responsibilities when other organisations are able to perform the same tasks better or at a lesser cost for society. This highlights the capacity of different agencies involved in water management in the Netherlands to reflect on their performance and to set objectives for efficiency gains by better managing their interdependencies.

There are two areas where the Agreement can guide potential adjustment of institutions while shedding greater light on comparative advantages of water institutions and drill down into absolute and relative efficiency. First, the potential advantage of municipalities in the delivery of urban drainage only materialises when this function is well co-ordinated with urban planning on the one hand, and with management of the sewage system on the other. The monitoring of the Agreement provides a unique opportunity to report on performance targets and efficiency gains achieved, and make sure opportunities in both areas are fully exploited, especially as huge investments are foreseen in the coming decades to replace aged sewage infrastructure. Second, the OECD argues that the governance and financing model of regional water authorities (functional democracy, specific taxation regime) is adequate for flood protection. It is less so to invest in and operate wastewater treatment services. Regional water authorities could eventually retain the wastewater treatment function, if it is managed and financed in a distinctive way, more in line with the needs for such services. A robust assessment of the progress achieved towards efficiency gains across authorities and the water chain is critical to determine whether economies of scale and scope had been reaped. But further comparative assessment of the best cost-effective way of delivering this service is also needed, including to consider alternative models (or frameworks, structures) if needed.

OECD is quite critical about the Dutch ambition in water quality and reaching the standards of the European Water Framework Directive.. Can you give a further explanation on this judgement?

The WFD is a well-established landmark in European water policies. It sets particular emphasis on water quality and ecosystems, and aims to restore ecological status of water and reduce hydromorphological pressure in river basins, relying on green infrastructures as appropriate. Noting difficulties and possible delays in the implementation of the WFD, the European Commission developed the Blueprint to help member countries implement and mainstream this approach.

The traditional Dutch approach to water safety, based on built infrastructures to remedy liabilities and institutionalised stakeholder consultation, is at odds with this new perspective on water management.

The Netherlands has shown a low level of ambition in this domain, claiming that most of its waters are artificial systems and that restoration possibilities are limited. In the Netherlands, standards agreed under the WFD for water quality of regional surface waters are not achieved, nor will they likely be met in 2015 (as in many other EU member countries).

Water quality of the national scale surface waters is, in general, sufficient or approaching sufficient water quality (except for the Meuse River). Overall, it is estimated that even after the implementation of the WFD programme of measures, a maximum of 40% of the Dutch water bodies will meet the WFD objectives in 2027. Despite significant progress on a number of agri-environmental indicators, emissions from agricultural practices inside the Netherlands also contribute to insufficient water quality.

Transboundary flows of insufficient water quality are an issue for some water bodies to the impact of water management on ecosystems are also significant in an “anthropocene” environment.

Despite significant progress achieved in recent years, there is a risk that the European Commission calls for a revision of Dutch policies in this domain. In the short to medium term, a more ambitious attempt to align with the shift in European policies regarding water may require some adjustments in Dutch water governance. These policies call for increased reliance on place-based, territorial water management that takes into account regional differentiation (in terms

of impacts and capacity), and active participation of water users. At the same time, there may also be some pressure for European policies to better acknowledge diversity. In 2013, an amount of EUR 100 million was added to the Dutch Delta Programme period 2016-18 for WFD measures in the main water system, which may help improve water quality.

Why is the relation between water management and land use/spatial planning so important? In the report the snowball-effect is addressed and attention is given to the Westergouwe case. What do you mean by that effect? Is the Netherlands different from the rest of the world? How can it be overcome?

Significant efforts have already been undertaken in this area and should be further pursued. The *Room for the River Programme* was undoubtedly a turning point in combining innovative architecture, urbanisation and landscape solutions to build *with* nature and live *with* water. This paradigm shift has much been consolidated with the recent adoption of the Dutch Delta Programme. Efforts to better connect water and spatial planning have also relied on legal instruments, integration of water and spatial legislations, better coordination of tasks between regional water authorities, municipalities and provinces, as well as knowledge sharing and information exchange.

However, the relationship between water policy and spatial planning still needs to be clearly articulated in terms of its impact on the financial sustainability of the Dutch system. At the moment, those who benefit from spatial development (cities or property developers who build on a flood plain) do not fully cover the costs that this development generates for the community. This is what we call the “snowball effect” because decisions taken today, by certain actors, generate future “cascade” liabilities for today and tomorrow and for the society at large.

There are therefore huge opportunities to increase water security and minimise its costs by strengthening the coordination between land use, spatial planning and water. The Environmental Planning Act under preparation provides a great opportunity to pursue integration of water and spatial planning legislation; create incentives for shedding better light (e.g. in

planning systems) on the costs for water management of spatial development; make the “water assessment” more effective (e.g. binding), as an instrument to assess the impact of spatial development on water management; and provide a stronger role in spatial planning for provinces to enhance complementarity with water management and ensure alignment with overall policies;

Why does the OECD advocate the independent oversight? Do you mean that a balanced supervision system is lacking in our country?

Future trends related to climate change, demographics and regional development have raised essential public debates on Dutch water management. These debates concern issues of who pays for what, who bears the risks, and where/why institutions may need to be adapted. This is why we emphasise *accountability* as an important driver for future-proof water governance in the Netherlands. Accountability mechanisms are already well developed in the country. Some of them rely on decentralised assemblies of regional water authorities, provinces’ oversight, shareholders of drinking water companies (municipalities and provinces), the minister, and Parliament. Existing benchmarks also helps inform the quality, performance and financial obligations of water managers. But, looking more into details, we see room for improvement to ensure that decisions with significant infrastructural and economic consequences are shielded from short-term political considerations, and guide policy and operational decisions. For example, benchmarking of regional water authorities provides little information on the balance between overhead and administrative costs and the costs of technical operations, and presents only few metrics that would enable a reader to determine whether, for instance, unit wastewater treatment costs varied significantly between regional water authorities, and even fewer data on how such costs compared with other jurisdictions. We suggest several options in the report to complement the current self-assessing arrangements and address the current absence of a third-party mechanism in order to provide greater transparency on water management expenditures, as well as relative and absolute efficiency and financial performance of water managers; facilitate stakeholders’ access to this *independent*

information on water costs and risks; ensure oversight and monitoring at an arm’s length from water institutions (e.g. through national observatory, an independent committee, a regulator, etc.); encourage balanced and action-oriented stakeholder engagement that addresses over-representation of certain categories of stakeholders and does not override the interests of the “unheard voices”

What should our country ideally do with all your recommendations? Do you have trust in that? We live with many people on a lousy place, will we ever be fit for the future?

I praise the Ministry for Infrastructure and the Environment and the Association of Regional Water Authorities for calling upon the OECD to lead such a policy dialogue and inform whether prevailing policies and governance arrangements are fit for future challenges. This was a bold and exemplary initiative, which should inspire other countries. I hope that the process has contributed to frame a water policy reform agenda for the Netherlands to become an “improved version of itself”. Now is the critical step to *make reform happen*. Our experience in political economy of reform shows that there is no one-size-fits-all toolkit. Bundling and unbundling is important. Sequencing and prioritisation are crucial. Low hanging fruits have to be grasped first. Losers need to be compensated and incentives are required to transition to new regimes. But above all, consensus-building is essential. Today, there is both a momentum and framework conditions for the effective implementation of OECD recommendations in the Netherlands. Political commitment and leadership are high; consultation of stakeholders has been taking place; the letter sent by the minister to Parliamentarians today is a testimony of the inclusive approach to build ownership of reform. The Dutch *Delta Programme* and the forthcoming *Environmental Planning Act* provide windows of opportunity to continue the discussion and converge towards well-informed measures. We hope the OECD has made a significant contribution to this process, and that the policy dialogue does not stop here. The letter recently sent by the minister to Parliament is an excellent political signal to make OECD recommendations happen, and we stand ready to support you in the next steps. ■