

How to build an economic and financial environment favourable for the sustainable management of water resources: potential synergies between national and regional policies

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I am not going to repeat warnings about challenges. I would rather like to focus on possible solutions: to outline elements for a strategy that can make water the driver of sustainable economic recovery after covid-19, and put the water sector on a path towards economic and financial sustainability.

There are at least four reasons why the water sector of Central Asia has been unable to achieve its full economic potential.

- 1) Structural and institutional problems of national economies that hinder the rational and efficient management of water resources. Only an enabling economic environment would allow the sector to achieve its full potential.
- 2) Poorly maintained and dilapidated water infrastructure due to thirty years of underinvestment. The present state of the infrastructure makes it very difficult to manage water resources in an efficient, economically and environmentally sustainable manner.
- 3) Regional cooperation requires significant strengthening. There is political will to resolve disputes and strengthen cooperation, but it will need to be translated into joint strategies, concrete steps and bankable projects.
- 4) Inability to fully tap the resources offered by climate funds and green development programmes due to a slow shift to renewable energy sources and modern, environmentally friendly agriculture. Climate change mitigation and adaptation and green development can be more efficient if it is done on a regional scale.

Parallel progress in all four areas is needed to achieve economic and financial sustainability of the water sector. Coordinated action in these four areas would lead to synergies and generate a virtuous circle.

Central Asian countries need to implement post-covid recovery strategies and a shift to sustainable paths of economic development in a profoundly changed and changing economic environment:

- 4 trillion dollars have been created by central banks and pumped into the economies of developed countries
- macroeconomic policies are changing fundamentally: fiscal stimulus is replacing monetary policy and governments have become capital-allocators-in-chief
- supply chains, heavily affected by trade disputes, are becoming shorter and more secure

How these seemingly irrelevant developments influence the water sector of Central Asian countries? As any other country of the world, these countries would need significant additional resources to achieve a quick recovery and properly address the compound challenges of climate change, environmental degradation, demographic growth and the heritage of 30 years of underinvestment in water infrastructure. The state will continue playing a key role in these efforts. Some countries need to mitigate the risks created by high indebtedness, high inflation and persistent structural and institutional weakness of their economies. Policies that worked in the aftermath of recent economic crises may have to be adapted to new economic realities to make the recovery sustainable. More cautious investment in Eurasian transport corridors might free up resources for the water sector.

Well targeted economic stimulus could become the first step towards making the water sector the driver of long-term, inclusive, green development. Supply-side policies focusing on the water sector would create jobs, strengthen food security, help climate change adaptation, guarantee stable export earnings and improve the health of the population thanks to the provision of clean drinking water. Covid highlighted the close link between health and economy.

Agreement on a long-term regional action plan to move towards a green, sustainable development path would convince development partners and investors alike that the region is able to significantly increase the productivity of its water sector. The development of integrated water resources management at the regional level would accelerate growth in every country through the optimal use of factors of production - water, land, natural resources, labour, capital, entrepreneurship - and the full development of a regional market, including a capital market.

The regional action plan could include 1) sharing of best practices on economic reforms that are essential for making the water sector financially and economically sustainable, 2) development of a comprehensive economic concept of integrated water resources management at the regional level 3) elaboration of guidelines for a “smart regional investment plan” that would enable Central Asian countries to more effectively leverage concessional financing by climate and green development funds to mobilize additional public and private finance for water.

Reforms focusing on the structural and institutional weaknesses of the economy would enable the water sector to achieve its full potential.

The private sector could mobilize capital and entrepreneurship but it needs a better business and investment climate. At the same time, privatization should avoid the mistakes committed by East-European countries and Russia: the water sector, as the biggest employer, is far too important for the economic and social stability of the countries

The cooperative sector with a long history in the region, has a significant potential in the water sector but it needs enabling and stable macroeconomic policies to achieve profitability.

The state will continue to play a dominant role in the water sector: maintenance and

operation of large canals have always been the responsibility of the state. But it needs more transparency and accountability to achieve better resource allocation. Well designed fiscal policies are essential for reducing the cost of transition to modern, environmentally friendly technologies in irrigated agriculture and keep such production financially sustainable.

Institutional reforms need to address the specific problems of the water sector. Present institutions have partially been inherited from Soviet times, partially shaped by the dominant role of extractive industries, sometimes at the expense of the water sector. Extractive industries have attracted (and still attract) the bulk of foreign investment and offer greater profitability but their benefits are sometimes distributed unevenly. Thanks to reforms leading to inclusive economic institutions, the water sector would offer benefits to tens of millions of people.

Development of regional cooperation in the management of shared water resources has long been on the agenda of Central Asian governments. The creation of a water and energy consortium - that is timely water releases in exchange for the import of summer electricity - has been discussed extensively. With the commissioning of CASA 1000 in 2023 exports of summer electricity to South Asia may generate more revenue than regional exports. So the concept of a water and energy consortium needs to be expanded, so it offers benefits to all sectors of the economy linked to water.

According to the CAREC Institute Central Asian needs to invest 33 - 38 billion USD in its water infrastructure annually. A “smart regional investment plan” jointly developed by all countries would help attract significant additional resources. Volatility of the fossil fuel market is driving investors towards economically stable renewable industries. Central Asian countries could leverage climate and green finance to make it easier to mobilize public and private finance. A “smart regional investment plan” could aim to strengthen the ability of Central Asian countries to meet eligibility criteria for financing by these funds. Regional cooperation on water and energy would help increase the share of renewables in the energy mix of these countries and develop a multi-year regulating capacity to mitigate the effects of climate change. Modernization of irrigation systems would facilitate the transition to environment friendly, green agricultural technologies. An important equity offered by Central Asian countries would be a commitment to economic reforms and strengthened regional cooperation with the objective of making a positive contribution to global efforts to fight climate change and protect the environment.

In the 21st century, water is arguably the most important strategic resource of Central Asia. The decision of a country on the development and management of its water resources might affect the strategic interests of its neighbors. Replacing resource competition with cooperation would allow Central Asian countries to jointly formulate and promote their strategic interests. Multi-vector foreign policy - that is balanced, good relations with all neighbors and partners - could be underpinned by an equally balanced smart regional investment plan.