

Water as a driver of sustainable recovery: economic, institutional and strategic aspects of water resources management in Central Asia

Proposed topics of the three webinars scheduled for the first half of 2021

Background

The two year programme “Water as a driver of sustainable recovery: economic, institutional and strategic aspects of water resources management in Central Asia” in the first half of 2021 consists of webinars and a face to face workshop, supported by research by Central Asian experts and scholars. The programme was inaugurated on 3 November 2020 at the webinar “Post-covid-19 recovery strategies: putting the water sector of Central Asia on an economically and financially sustainable path: Lessons, problems, opportunities”. Three more webinars are planned in the first half of 2021 and - if travel restrictions are lifted - a face to face workshop in Almaty. The programme is supported by the Blue Peace Central Asia initiative (BPCA) of SDC, the Stockholm International Water Institute (SIWI), the Center for Central Asia Research of Corvinus University Budapest (CUB) and the Central Asian Regional Environmental Center (CAREC)

Topics of the three webinars planned in 2021

Second webinar (proposed date: 25 February)

Identifying essential structural and institutional reforms to achieve economic sustainability of the water sector of Central Asia

According to participants of the first webinar the pandemic highlighted the critical importance of the water sector for Central Asia and at the same time exposed its vulnerabilities. Speakers warned of a drain on capacities and resources by the pandemic that limits the fiscal space of governments when designing and carrying through recovery programmes, and increases the urgency to implement long overdue economic reforms. **The first session will discuss structural reforms that directly impact upon the water sector, while the second session will focus on institutional reforms.**

The water sector, due to 30 years of underinvestment and insufficient funding for operation, maintenance, research and development, was in a particularly vulnerable situation when the pandemic struck. While fiscal measures to alleviate the impact of the pandemic may differ country by country depending on available resources, every Central Asian government needs to implement structural reforms in order to make the recovery sustainable. The deep social and economic crisis presents a unique

opportunity to launch or accelerate reforms that empower the water sector to achieve financial and economic sustainability.

Recovery strategies will need to be implemented in a complicated and unpredictable economic environment. The pandemic crisis is part of a global crisis, from climate change to trade wars, growing inequality and new social tensions. Turning the water sector into the driver of sustainable recovery would mitigate risks posed by an unpredictable external environment, as the sector is less exposed to market volatilities than many other sectors of Central Asian economies (e.g. export of hard commodities, and especially energy). It is the biggest employer in Central Asia, plays a key role in food and energy security and in improving public health through the provision of clean drinking water. Its improved performance would benefit broad segments of the population and contribute to poverty reduction (especially if combined with classic supply-side economic policies). Structural and institutional reforms in support of the water sector would facilitate the development of a solid economic basis for regional cooperation on water resources management - thus indirectly strengthen regional stability and security. The sector plays a leading role in climate change adaptation and mitigation and is well placed to attract significant climate and green funding.

Piecemeal reforms focusing on segments of the water sector (e.g. irrigated agriculture, hydropower, communal and industrial water supply) are important. But the water sector is an integral part of the economy as a whole. Targeted, sectoral reforms need to go hand in hand with structural and institutional reforms of the whole economy to bring sustainable results.

Keynote speakers will outline structural reforms that in combination with fiscal stimulus could make recovery sustainable.

The second session will focus on institutional reforms. Thirty years after the beginning of political and economic transition, key water infrastructure in Central Asia - large and medium sized irrigation canals, HPS, reservoirs - remains overwhelmingly in state ownership. Participants of the first webinar pointed to the central role of governments in managing and financing the water sector. The pandemic made governments the capital-allocators-in-chief all over the world. Central Asian countries would need to spend USD 33-38 billion annually on the modernization, proper maintenance and operation of water infrastructure. Adaptation to climate change would require significant additional investment to develop robust, multi-year regulating capacity for the region. Private investment in large water infrastructure is likely to remain modest in the foreseeable future, due to illiquid markets and low profitability. FDI and ODA is forecast to drop in the coming years as a consequence of the crisis. Enabling governments to close the gap between investment needs and actual capacities of their economies is of crucial importance for the long-term stability and prosperity of the region. Accelerating institutional

reforms is a sine qua non for increasing the ability of the state to shoulder the burden of maintaining and modernizing water infrastructure and cover its operational costs, thanks, among others, to more efficient resource allocation.

Central Asia's water sector has a rich institutional heritage: for three thousand years oasis states, aware that irrigation canals were crucial for their prosperity and in fact survival, paid the utmost attention to their development, operation and protection. Speakers of the first webinar reminded that in the Soviet period a stable economic basis guaranteed the sustainability of the Central Asian water sector. Central Asian countries need to design and implement institutional reforms that are rooted in their institutional heritage and shaped by modern economic science. Reforms aiming to develop inclusive economic institutions would allow the water sector to offer increased benefits to tens of millions of people.

Keynote speakers will outline institutional reforms in support of the water sector and analyze lessons offered by China, Russia and Central-Europe.

Third webinar (proposed date: 15 April)

Outlining the economic foundations of regional cooperation on water

The unprecedented droughts of recent years increased the vulnerability of the water sector to the crisis caused by the pandemic. The compound crisis is a dramatic reminder that national solutions might be insufficient to alleviate the consequences of climate change. **The first session** will examine the high level of interdependence of the water sectors of Central Asian countries: problems (including structural and institutional weaknesses) of the economies of individual countries may limit their ability to operate regionally important water infrastructure in an economically and environmentally optimal way. Important synergies can be identified as a result of closer regional cooperation.

Improving water and energy cooperation at the regional level would generate extra resources and improve the investment climate, creating, in turn, favourable conditions for and broad support to economic reforms directly affecting the water sector. Expanding the concept of integrated water resources management to the regional level would offer opportunities to accelerate growth in every country through the optimal use of factors of production and support the full development of a regional market. While political will to resolve disputes and strengthen cooperation exists, it will need to be translated into joint strategies, concrete steps and bankable projects.

Developing a comprehensive economic concept of regional cooperation on water would facilitate efforts to strengthen and modernize the legal and institutional basis for regional cooperation, to develop and broaden the initiative on a water and energy

consortium, and to translate the existing political will to improve regional cooperation into concrete joint action.

Keynote speakers will outline how defining shared, long-term economic interests would facilitate progress in other areas of regional cooperation, including legal and institutional strengthening.

The second session will explore the possibility of outlining a “smart regional investment concept” that could attract much needed financing to the water sector. Such a concept, jointly developed by all countries, would identify infrastructure projects that serve the interests of more than one country or of a river basin as a whole, and offer multiple advantages: e.g. increase the share of renewables in the energy mix of Central Asian countries, develop multi-year regulating capacity and reduce water losses during transport and storage. Such a concept would identify regional solutions when they are more efficient than national ones. Thanks to such a regional investment concept, Central Asian countries could more effectively leverage climate and green finance to mobilize public and private investment in strategically important regional water infrastructure. It would strengthen their ability to meet eligibility criteria of climate and green development funds. An important equity offered by Central Asian countries would be a commitment to strengthening regional cooperation with the objective of making a positive contribution to global efforts to fight climate change and protect the environment.

Keynote speakers will outline regional strategies to attract climate and green financing.

Fourth webinar (proposed date: 20 May)

Water as a strategic resource

The first session will focus on the strategic challenges brought about by climate change, which is making water arguably the most important resource of Central Asia. A decision by a country concerning its water resources inevitably affects the strategic interests of other countries. There is no silver bullet to solve the problems of the water sector within a short period of time: the sector is facing accumulated problems as a result of thirty years of under-investment. According to some studies, large parts of the irrigation infrastructure of Central Asia may become inoperational in four decades if the present rate of investment continues. Estimates of the cost of inaction on climate change adaptation for the region range between USD 3 - 6 billion annually. According to a study by the CAREC Institute countries of the region would need to invest USD 33 - 38 billion annually in the water sector to achieve its proper maintenance and modernization. The present state of the infrastructure is already making it difficult to manage water resources in an efficient and economically and

environmentally sustainable manner and there is a danger that spiralling costs of inaction and action may soon overwhelm the capacity of Central Asian economies.

Closing the gap between investment needs and the actual capacity of the economies should become a strategic objective of all Central Asian countries that requires close cooperation, joint action and mutual support. It is of crucial importance for the sustainable economic development, resilience and stability of every country and the region as a whole. Strengthened regional cooperation on water would greatly enhance the ability of Central Asian governments to design and implement long-term strategies to address the problems brought about by climate change.

Keynote speakers will outline the strategic advantages offered by closer regional cooperation on water resources management to Central Asian countries.

The second session will analyze ongoing geopolitical and geoeconomic changes that directly affect the water sectors of Central Asian countries. Some of these changes pose challenges and open up opportunities at the same time. E.g. difficulties with debt repayments triggered by the pandemic and the emerging trend to make supply chains shorter and more secure are likely to influence investment flows within strategic frameworks, like the Belt and Road Initiative. Part of government and private investment may be shifted from Eurasian transport corridors to production, opening up new opportunities for the water sector to attract additional financing.

The session will describe the advantages of moving from resource competition to strategic cooperation on water. Strengthened regional cooperation on the management of shared water resources would empower Central Asian countries to jointly define and more effectively promote their strategic interests, including within larger cooperation frameworks.

Keynote speakers will demonstrate on historic examples how replacing resource competition with cooperation facilitated stability, economic development and at a later stage, economic integration in other geographical regions.

At the end of the fourth webinar, the outcomes of the process of joint thinking and exploration in the framework of the four webinars will be summarized, preparing in-depth discussions during the face to face workshop planned in Almaty (when travel restrictions are lifted). The possibility of continuing the discussions in workshops during the Stockholm World Water Week in August and the Budapest Sustainable Development Summit planned in the fall of 2021 will be examined too, depending on the timely easing of travel restrictions.