

Summary of the workshop “Water as a catalyst of regional cooperation in Central Asia”

organized by the Corvinus Center for Central Asia Research, the “Blue Peace” initiative of the Swiss Agency for Development and Cooperation and the Stockholm International Water Institute on 18 October 2019 in Budapest

According to its concept note, the objective of the workshop was to “analyze the complex economic, financial, social and strategic issues that influence decision making and actual progress in water and energy cooperation” in Central Asia.

The representative of the Office of the President and the Ministry of Foreign Affairs and Trade of Hungary in their opening statements emphasized the importance of calling the attention of decision-makers to the depth of the water crisis. Research can improve our understanding how the integrated impact of investment, new technologies, scientific progress and improved institutions can be used most efficiently to prevent water crises. Water diplomacy and water management should support each other: adapting the experience of the Visegrad Four to the conditions and needs of Central Asia can improve decision-support at the regional level.

The representative of the Corvinus Center in his opening statement reminded that for almost three decades international partners put principles of integrated water resources management and international water law in the focus of technical assistance to Central Asia. While general principles of IWRM and international water law provide useful overall guidance, there are no “one size fits all” solutions. Water resources management is a highly capital intensive business. Countries with strong and dynamic economies and low levels of external debt have different options than countries with small and vulnerable economies that need to scale back infrastructure spending to avoid debt distress. Political will alone would not solve water disputes either. Stumbling blocks to regional cooperation in Central Asia were often attributed to the lack of sufficient political will. While the recent warming of political relations provided a boost to regional trade, it did not automatically result in significant improvement of regional cooperation in the water and energy sectors. An in-depth analysis of the economic, financial and strategic issues linked to and influencing water cooperation could help the countries of the region and their international partners better understand the root causes of disputes and accelerate progress towards the rational and efficient use of transboundary water resources: it could improve high-level decision support and direct international assistance to areas where it would be the most efficient.

The representative of the European Union noted that new Central Asia Strategy of the European Union was developed through a series of consultations: it takes into account the needs and suggestions of Central Asian countries. While earlier Central Asian governments preferred to follow national approaches and showed little enthusiasm for regional cooperation, today the situation has changed. As the meeting of the presidents in March 2018 in Astana demonstrated, political will to improve regional cooperation has strengthened, resulting, among others, in increased trade among the countries of the region. Every international

partner is playing its role: the EBRD provides more money to the region, UNRCCA brings together countries, and Germany plans a new meeting of the Berlin Water Initiative in 2020.

The representative of SDC's Blue Peace initiative reminded that according to the World Bank, implementation of better water policies in Central Asia would result in the biggest gains in comparison with other regions of the world. There is plenty of room for improvement: the water productivities of the five countries are among the lowest in the ECA region. The Blue Peace initiative of SDC in Central Asia, a Swiss water diplomacy initiative, treats water as an enabling factor for sustainable economic development and stability: it focuses on benefit sharing from the systemic and trustful water resource management of the shared transboundary river basins, which would lead eventually to better economic integration and services for water quality and quantity. The initiative endeavours to identify common building blocks in the proposed regional agreements by the riparian states and use them to achieve common agreements. Suggested operational path includes: (i) the development of river basin services for water quality and quantity; (ii) the use of open source data by the latest remote sensing technologies which increases transparency and provides a solid basis for confidence building; (iii) thinking "out of the water box" using, a.o. the brain power of the new generation and developing a strategic approach to the water-energy-food nexus at the (sub-) basin level. While the UN and other international frameworks are useful, regional ownership and concrete and flexible action built on experience promise sustainable progress. Countries should start thinking "out of the water box" and develop a strategic approach to the water-energy-food nexus. They could team-up with international partners to receive assistance. In particular countries, development partners and experts of various sectors and ages should work together for a sound mix of water diplomacy, expertise and financing resources.

The representative of Afghanistan pointed out that while his country and its Central Asian neighbors share transboundary water resources, they lack institutions that would provide a common space for discussion and negotiations. Inaction may cost lives: it may lead to crises and negatively influence economies and societies. There were many meetings, workshops but without agreement on action plans among the countries. Afghanistan and Central Asia should create institutions that would provide frameworks for joint climate action and better river basin management. The water sharing memoranda with Tajikistan and Turkmenistan, and hopefully soon with Uzbekistan, provide a good basis for further progress.

The representative of the International Water Management Institute believed that at times it seems there is too much attention paid to water productivity: while it is important to introduce water saving technologies, it is not less important to explore possibilities for the more efficient use of transboundary water infrastructure. Transboundary infrastructure projects have a demonstration effect for the whole basin. IWMI can provide assistance not only to the introduction of new water saving technologies but also to improving technical cooperation, governance systems and research.

The representative of CAREC noted that crisis situations tend to push partners to closer cooperation. In Central Asia indirect losses from inaction are much bigger than the quantifiable losses caused by the inefficient management of water resources. This means that a broad range of stakeholders would gain from better cooperation. After 1991 Central Asian countries witnessed the disintegration of a highly integrated water infrastructure. Each country followed its own path, which resulted in the inefficient use of water and energy resources. Reversing

this process and improving cooperation is a must in the face of the challenges of climate change. The study by CAREC and Adelphi factored climate change into its calculations, realizing that it will affect the whole economy.

The representative of Tajikistan emphasized the importance of water diplomacy as the countries of the region are linked by shared challenges. Irrigated areas are increasing in Central Asia: the water withdrawal limits agreed in Soviet times don't correspond any more to the needs of downstream countries. But new, higher limits for Kazakhstan or Uzbekistan alone would not solve the problems: there is a need for a comprehensive, rational approach, including the spread of new technologies that would increase water efficiency. But institutions where governments could work together are either weak or are missing. As a result, water resources of the region have not been surveyed / assessed for 50 years. There is a need to make the first steps: joint surveys and research. This workshop is to agree on future work to lay the groundwork for the introduction of further reforms in the water sector and strengthen institutions.

The representative of the Water Policy Group demonstrated on the example of the Murray river, well known for the huge differences in its flows in low and high water years, how economic and legal arrangements can help riparian water users cope with extreme levels of unpredictability. Well designed policies to deal with water scarcity situations have huge economic benefits: they generate confidence within the investment community and help manage demand and supply through economic instruments. Such arrangements bring significant benefits for the society. A solid economic foundation is the basis for successful water sharing agreements.

Professor Chengang Xu gave a deep analysis of the risks brought about by the emergence of China as the dominant economic player in the Central Asian region, among others by massive investment in infrastructure in the Belt and Road framework. The total control of economic actors and assets by the government (e.g. land is owned by the government) is aggravating economic problems. When state owned companies make losses, they tend to borrow from banks, which are also owned by the state. This is a classical case of "soft budgetary constraints" described by Professor Kornai, a phenomenon that led to poor efficiency and later collapse of communist economies. As a result, an economic crisis is in the making in China. Central Asian countries with a high proportion of government ownership in their economies are not immune to the curse of "soft budgetary constraints" either. Massive lending by Chinese banks may further increase risks.

The representative of the World Bank pointed to the fact that Central Asia, thanks to economic corridors that are crossing boundaries, is rapidly becoming an economically interconnected region, with value and production chains linking countries. In order to achieve more rapid progress, countries should look at water cooperation as a positive sum game. They need to invest in infrastructure and in institutions. More efficient management ensured by better institutions would facilitate structural reforms too, including the transferring of water from agricultural use to more productive industrial and service sector use. While today agriculture provides employment to large parts of the population, Central Asian countries need to adopt diversified growth models, moving away from too heavy reliance on the old resource model.

The representative of EBRD analyzed the close inter-linkage between sustainable infrastructure policy, in particular regulation of water utilities and the business practices of private companies, including investment in infrastructure development and maintenance.

The representative of the Kazakhstan Institute of Strategic Studies under the President of the Republic of Kazakhstan emphasized the urgency of taking decisions on key issues of regional cooperation. Degradation of the environment and water resources, including drinking water reserves, is a serious challenge. Strategic analysts of the region have met several times, first in October 2018 in Tashkent and then on 5-7 September this year in Nur Sultan. The meeting of heads of institutes of strategic studies resulted in a frank and useful exchange of opinions. The Kazakh hosts presented a proposal on the establishment of a water and energy consortium. The proposal is still being examined by governments. A more detailed description of the proposal and a report on the discussions at the Nur Sultan workshop will be available after the reactions by governments will be received and studied.

The representative of the Institute for Strategic and Regional Studies under the President of the Republic of Uzbekistan stated that institutes of strategic studies need to provide an urgent answer: where does the region go till 2030? There is no time to waste: water diplomacy and work on technical solutions should go hand in hand. In principle, upstream and downstream countries are ready to accept each others' interests, but this has not yet been translated into cross-border agreements. He reminded participants that in recent years there was a flurry of activities at the regional level, organized by various international partners. It would be time to summarize the outcomes and results of these meetings in one document in order to make this dialogue process more focused, structured and result oriented. Based on the basis of these meetings prepared a draft Regional programme on the rational use of the water resources of Central Asia. It will be discussed by water management experts of the countries of the region during the high level conference "Priaralya - zone of ecological innovations and technologies" in Nukus on 24-25 October this year. The countries of the region need to leave behind dogmatic approaches, seek compromises and have a serious look at all proposals on the table, including the mechanisms proposed by Kazakhstan in the framework of a water-energy consortium.

The Director of the Water Institute of North-Carolina emphasized the need to act: start with confidence building, then the negotiation of legal agreements and the creation of an economic basis. IFAS, as the only surviving regional framework should be supported. He analyzed the complex relationship between upstream and downstream countries: on the long run, the latter have only a limited possibility to prevent the building of dams by their upstream neighbors. In the ensuing discussion it was pointed out that in Central Asia exists a more balanced situation: downstream countries have much bigger economies and their financial situation is more stable than that of their upstream neighbors. This gives them a significant leverage when it comes to negotiations on upstream infrastructure development. The good news is that downstream countries don't regard the joint management of transboundary water resources as a zero sum game: on the contrary, they offer their assistance to the building and operation of large HPS.

Participants discussed the interrelationship between institutions and the economic aspects of water resources management. While some believed that strong, well-functioning institutions provide a framework for riparian countries to agree on economic, financial and strategic issues linked to water cooperation, others believed that a agreement on shared economic interests

is a precondition of successful negotiations on the strengthening and modernization of the legal and institutional basis for regional water resources management. The role of developing and strengthening trust (or the consequences of the absence of trust) between riparian countries has also been discussed in this context.

The representative of the UN Regional Center for Preventive Diplomacy for Central Asia gave a broad overview of the activities of the Center. Support to the management of transboundary water resources is high on the agenda of UNRCCA: it offers a neutral platform for the 5 countries with the participation of Afghanistan to exchange views and to enhance cooperation. The next meeting will take place in mid-November in Dushanbe. Recently, the Centre came up with the new strategy to support regional cooperation of water and energy in Central Asia and Afghanistan for 2019-2020, coordinated and agreed with the Central Asian states. The Strategy would be focused on creating an environment conducive to regional cooperation on trans-boundary water in Central Asia. This would be done thorough preventive diplomacy and confidence building, strengthening institutions and legal frameworks, enhancing transparency and promoting partnerships in the region. An ad-hoc working group on strengthening cooperation on transboundary water management in Central Asia consisting of experts of five states of the region and Afghanistan will be reestablished.

The representative of the National University of Public Service of Hungary made a presentation of the possible use of the huge reserves of clean water in Lake Sarez to generate electricity and alleviate possible water shortages during the period when large, newly built reservoirs are being filled up.

The representative of the Stockholm International Water Institute gave a short account of a recent meeting of representatives of institutes of strategic studies and water ministries of Central Asian countries during the Stockholm Water Week and expressed readiness to further support the dialogue that was continued in Nur Sultan in early September and now in Budapest.

Summarizing the discussions, the representative of the Corvinus Center proposed to launch a research programme on the economic, financial and strategic aspects of regional water cooperation in Central Asia, focusing on the challenges of the next decade (up to 2030). The Corvinus Center could develop by the end of the year a “baseline document” outlining the problems, and defining the methodology and objectives of such a programme. It would be open to institutes of strategic studies of Central Asian countries as well as water experts, economist and other scientists as necessary. International researchers could join the programme too.

The programme could analyze how market based solutions - e.g. private investment into irrigation and energy infrastructure or improved water productivity in the private sector - could contribute to more efficient water resources management at the national and regional levels. A better understanding of the impact of the business and investment climate (well functioning institutions and the rule of law, in particular enforceability of contracts, recovery of loans, infrastructure, price stability, workforce skills, etc.) on water resources management would allow researchers to develop proposals for policies that would allow governments to reduce the budgetary burden of maintenance and modernization of water infrastructure or subsidies to irrigated agriculture. Such an analysis would provide a solid basis for the assessment of

proposals for partially or fully market based solutions at the regional level, like a water and energy consortium.

Due to less than perfectly functioning markets, especially capital markets, governments continue playing a dominant role in water resources management. Researchers could analyze how interest groups and stakeholders influence resource allocation, how it's efficiency could be improved and how international partners could foster the efficient use of scarce resources through strengthened regional cooperation, e.g. in the development of regional infrastructure and regional markets.

The research programme could analyze how geopolitical and geoeconomic change (driven by the Belt and Road initiative and the expansion of the Eurasian Economic Union) and growing political support to climate action at the global level influence decision making on water in Central Asia, and how decisions by one country may affect the strategic interests of others. Such a strategic analysis would underline the urgency of finding regional solutions: replacing resource competition with cooperation would considerably broaden the choice sets available for decision makers.

The research programme could provide analytical support to Central Asian governments and their international partners. Due to its informal, open and flexible character it would not require participants to present or defend specific policies or positions. Instead of insisting on "best solutions" or "best practices", it would present choice sets and explain their consequences. It's outputs could be used by a number of partners:

Institutes of strategic studies could channel it into top-level decision-making at the national and regional levels;

it would empower governments to better coordinate donor support and other forms of international assistance;

The "Blue Peace" Initiative of SDC, as well as other international and bilateral development partners could use it to plan their activities and increase the efficiency of their intervention;

It would help increase coherence and synergy among various regional and international events and activities by helping to avoid repetitions and parallel action;

It would provide a solid basis for the development of the next Aral Sea Basin Programme, so it could more effectively address the most pressing economic, social and health problems of the region;

It would inspire spin-off research by universities and research institutes of Central Asian countries;

Students of Central Asian countries (e.g. scholars studying at Corvinus University or other universities) could participate in research on the economic, social and political aspects of water resources management and environment protection. Having studied together regional problems of water resources management, understanding better the problems of each other's

countries and societies, these student could form the core of a new generation of water experts, well-equipped to tackle future challenges.