

Investing in water for sustainable growth

Water security is the cornerstone of economic growth. It cuts across a wide range of sectors – agriculture, industry, mining, energy, domestic supplies, health, and education.

Sustainable development will not happen without improvements in water resources management. The risk of climate change exacerbates the situation because water is the primary medium through which climate change will threaten the livelihoods and well-being of societies. Investing in water management contributes right now to poverty reduction and longer term to climate resilience and sustainable development.

Water investments are spread across many institutions and at different levels of government. Decisions are fragmented and often conflicting. Water for productive use is covered by the related ministry – e.g., agriculture, energy or industry. But water stewardship is not their concern, making sustainable decisions unlikely unless there is an integrated approach to water resources management.

Governments may consider food and energy security as national priorities, but seldom make the link to water's role as a prerequisite for food and energy security.

Political leaders and relevant decision-makers need to act on the following:

1. **Financing water security is a requirement for economic growth and social well-being.** Almost all economic activity depends on the management and development of water resources and provision of a reliable water supply. By investing in water, governments are investing in their country's economic and social development.
2. **Good governance guides good investments.** To put in place systems that will not only facilitate investment in

water but make it more appropriate, effective and sustainable, an integrated approach is needed. This improves decision-making processes that take into account stakeholders' concerns and reduces risk. In practice, it means creating an enabling environment, setting coherent policies and strategies that improve institutions, and building knowledge and capacities.

3. **Investing in water security is investing for the future.** A balanced financing package is needed that accesses funds from many different sources for all aspects of water management and development. A wide range of financial and economic instruments and mechanisms is required to ensure sound resource management and service provision.
4. **Investment involves trade-offs.** The integrated approach provides a framework for resolving the many trade-offs in infrastructure development, social equity and environmental protection. However, the choices remain difficult and consensus has to be found on agreed values; defined water entitlements; and hydrological knowledge. The traditional fragmented supply-driven approach, the constraints of feasibility analysis and poor project preparation have to be addressed.

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A Water Secure World

The Global Water Partnership is an intergovernmental organisation of 13 Regional Water Partnerships, 79 Country Water Partnerships and more than 2,400 Partner organisations in 157 countries. The GWP network is committed to building a water secure world.

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What to finance?

Funds are needed for interventions that are both "hard" (physical infrastructure) and "soft" (governance systems).

Good governance improves access to financing. Pouring new funds into old management and governance systems will fail to provide long term sustainable solutions. Support to soft interventions – administrative and institutional capacity building in water management, education, anti-corruption efforts, communications, stakeholder engagement, and technical expertise – is crucial. Coordination is also needed across tiers of authority from central government to municipal and basin authorities to local communities.

A significant level of infrastructure investment is needed for productive and protective purposes. This has to come from banks, the private sector and government. These investments are capital intensive and have long gestation and even

longer payback periods. The overriding political nature of decisions on infrastructure investments presents a problem because the short term political cycle does not match the long term nature of infrastructure development.

Nevertheless, wise political leadership will recognize that water infrastructure needs to be planned within broader long term development strategies. This forward thinking approach can assist planners in combining investments in water with those in other sectors to yield maximum social and economic benefits. Planning for ongoing costs (operation, maintenance, and refurbishment) also have to be taken into account as well as the cost of paying back any loans. Therefore, a rigorous life-cycle costing approach is important so that the funds needed for operating costs are identified prior to making the initial capital investment.

The financing required for the three key functions listed in the box below needs to be coordinated.

Key functions that have to be financed

Governance

- Policy, strategy and priority setting
- Resource allocation and budgeting processes
- Legislation and regulation
- Coordination and planning at different levels and across different sectors
- Institutional development and reforms
- Development of skills, capacities and training
- Knowledge, assessments, studies, data collection and research
- Stakeholder engagement and consultation
- Public awareness and information
- Conflict resolution and arbitration

Protective Investments

- Flood and drought management
- Catchment/watershed management
- Environmental and ecosystem protection
- Water quality and pollution control
- Basic water needs, sanitation and health services

Productive Investments

- Water supplies for industrial and commercial activity
- Agriculture and livestock water supply
- River management for navigation
- Thermal and hydro power production
- Fisheries
- Mining
- Recreation and tourism

Rees J, Winpenny J and Hall A W. *Water Financing and Governance*, GWP Technical Committee Background Paper No. 12 (GWP 2008)

Sources of funds – the three T's

Financing for water can come from three sources: tariffs, taxation and transfers. A government will have to balance these sources – there is no silver bullet. Loans for infrastructure require repayment from tax revenues or tariffs.

Tariff revenue is perhaps the most important source for cash flows. In well-managed services with a good revenue base, tariff revenues from charges should contribute to investment costs as well as finance maintenance and operation.

Well targeted tax-funded subsidies can be used to supplement tariffs. Such subsidies must be applied predictably and transparently to support specific deserving groups or strategic sectors, and should form part of a performance-related agreement between the government

and the water provider. Raising revenues for water resources management is more complex: cross subsidies from other sectors such as hydropower can be used to fund public goods such as watershed management.

Transfers, in the form of grants from aid agencies, provide seed funding for reforms that attract investments and for improving governance and building capacity. Transfers should improve the enabling environment as a catalyst for larger inflows from other sources. There is scope to scale up philanthropic funds for community level actions, often provided through non-governmental organizations. A number of major corporations have also become active in providing water services as part of their corporate social responsibility. As water security is closely linked to climate change, the new Climate and Adaptation Funds offer considerable scope for increased support for water resources management.