**Statement at the webinar “Identifying essential structural and institutional reforms to achieve economic sustainability of the water sector of Central Asia”**

**Introduction of the background paper**

Marton Krasznai, Scientific Director, Center for Central Asia Research, Corvinus University, Budapest

Let me briefly highlight some of the points in the background paper that are particularly important for our discussion today.

The four webinars and the planned face to face workshop are to generate a coherent discussion process. Achieving economic and financial sustainability of the water sector at the national level is the basis for more efficient cooperation at the regional level - the topic of our third webinar - and strengthened regional cooperation would provide a solid basis for strategic cooperation on water - the topic of our fourth webinar.

Speakers of the first webinar warned of a drain on capacities and resources by the pandemic that reduces fiscal space when governments design and carry through recovery programmes. This increases the urgency to implement long overdue economic reforms. The background paper explains that structural and institutional reforms are not only conducive to better growth and productivity in the water sector: the improving business and investment climate, competitive markets for private, cooperative and government actors, better resource allocation by the state, more transparency and accountability create a solid economic basis for regional cooperation too, making it possible to aim for integrated water resources management at the river basin and regional level and develop a smart regional investment concept.

Such a comprehensive approach to water resources management requires the involvement of experts and researchers from many areas: hydraulic engineering, irrigated agriculture, environment protection, economy, finance, investment, foreign affairs and strategic research. Our webinars are designed to foster a dialogue among these experts. It is not easy. They may not speak the same language. Hydraulic engineers may not know what structural reforms mean and economists may have no idea about multi-year regulating capacity.

Tha background papers explain in simple terms the main issues to be discussed today, thus facilitating a dialogue among participants with different backgrounds. We hope that by the time we convene the first face to face workshop, participants will be prepared to engage in a substantive dialogue on interrelated economic, institutional and strategic aspects of water resources management.

The background paper argues that only comprehensive economic reforms would empower the countries to effectively deal with the consequences of thirty years of under-investment in the water ector. Slow progress in strengthening regional cooperation is aggravating existing problems. Estimates of the cost of inaction for the region range between USD 3 - 6 billion annually. According to the CAREC Institute, the countries of the region would need to invest USD 33 - 38 billion annually in the water sector to achieve its proper maintenance and modernization. Adaptation to climate change may require significant additional investment to develop robust, multi-year regulating capacity for the region. Comprehensive strategies at the national and regional levels would offer a hope that the spiralling costs of inaction and action do not overwhelm the capacities of Central Asian economies.

The background paper explains why policy makers should focus on the water sector, when implementing economic reforms in support of sustainable recovery.

* The sectors dependent on water (first of all irrigated agriculture) are the biggest employer in Central Asia, play a key role in food and energy security and in improving public health through the provision of clean drinking water: their improved performance would benefit broad segments of the population and contribute to poverty reduction.
* The pandemic increased inequalities all over the world. Broader access to clean drinking water would address an important source of inequality.
* Turning the water sector into the driver of sustainable recovery would mitigate risks posed by an unpredictable external environment, as it is less exposed to market volatilities than many other sectors of Central Asian economies (e.g. export of hard commodities, especially fossil fuels).
* 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 strengthen regional stability and security.
* The water sector plays a leading role in climate change adaptation and mitigation. It is in a good position to attract “green investment”. At the same time, it is hardly possible to achieve environmental sustainability of the sector without making it financially and economically sustainable.

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.

Structural reforms would facilitate foreign direct investment in the water sector too. Competitive markets and transparent regulations would allow governments to open sectors dependent on water to those foreign investors who bring innovative technologies and guarantee the involvement of local actors into their global value chains. At the same time, the social and economic effects of the reforms need to be carefully monitored, as the fate of millions of farmers should not depend entirely on the vagaries of the market.

Thirty years after the beginning of political and economic transition, key water infrastructure in Central Asia - large and medium sized irrigation canals, hydropower stations, reservoirs, pumping stations - 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 has further increased the importance of the state: governments became the capital-allocators-in-chief all over the world. Private investment in large water infrastructure is likely to remain modest in the foreseeable future, due to illiquid markets, low profitability and in some cases an uncertain legal environment. FDI and ODA is forecast to drop in the coming years as a consequence of the crisis.

The countries of the region need to develop more efficient, inclusive economic institutions that are conducive to achieving economic and financial sustainability of the water sector. Changing institutions is a highly complex process, as it implies the redistribution of costs and benefits and may hurt vested interests. Policy makers need to design and implement institutional reforms that are rooted in the rich institutional heritage of the region and shaped by modern economic science. For three thousand years, being aware that irrigation canals were crucial for their prosperity and in fact survival, the peoples of the region paid the utmost attention to their development, operation and protection of water infrastructure. The water sector remained a key sector of the economy during the last century. The unprecedented scientific achievements of many world famous scholars of Central Asia in mathematics and geodesy were developed while building and maintaining irrigation canals.

Institutional reforms should focus on better resource allocation, reduced transaction costs and greater transparency and accountability. More open, inclusive institutions would spread the benefits of a thriving water sector evenly among the population and facilitate the gradual handover of certain tasks of the public sector to private or collective players and the civil society.