



Financing infrastructure in Central Asia: water sector

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BACKGROUND AND RATIONALE

□ **Water:**

- Key driver of socio-economic development in Central Asia
- Precious, limited and non-renewable resource
- Access to water resources is a key economic, social and political priority of each riparian state
- Business as usual scenario will lead to increased competition for water resources at all levels of water systems
- Critical element to enhance and limit economic development in the region

□ **Annual total water resources-** 116 cubic km and 90% from Amu Darya and Syr Darya

□ **Impact of climate change:**

- Water shortages, equalling 8-10% of current water uses
- Per capita water availability in the region will drop from 2500 cubic meters/per capita per annum to 1400 cubic meters/per capita per annum.

□ **Sustainable and effective water systems =** Improved water infrastructure

INFRASTRUCTURE FINANCING IN CAREC REGION

- ▣ **Demand** for infrastructure investment - 5-7% of GDP per annum

- ▣ Infrastructure **investment “hunger”**:
 - Economic growth: limited due to infrastructure bottlenecks
 - High public debt levels, equaling >40% of GDP in average

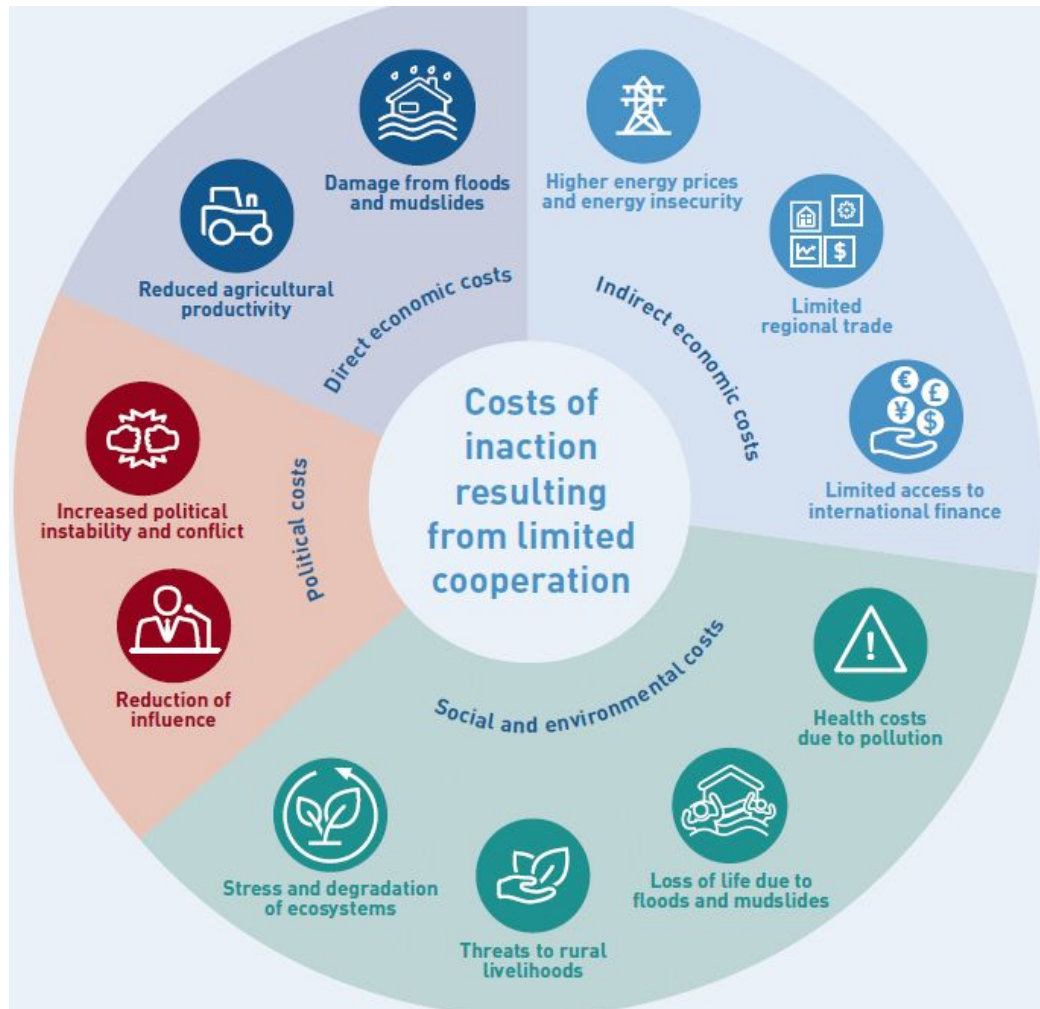
- ▣ **Major areas** of infrastructure investments:
 - Transport- 44%, power generation- 38% and water-sanitation – 6%

- ▣ Infrastructure investment needs are **emerging**:
 - Rehabilitation or extension of existing/outdated
 - New infrastructure development

WATER SECTOR FINANCING: CURRENT SITUATION

- ❑ **Water sector is a state funded** and operated by state or semi-state organizations
- ❑ Currently states not able fully fund - **infrastructure, human and transport needs are inadequately funded**
- ❑ Delayed investments in the water sector - **water infrastructure in inadequate conditions**
- ❑ Shrinking and insufficient financing - serious **delays in O&M**
- ❑ CAREC region's need for investments to rehabilitate and build new infrastructure is around **8-10% of GDP annually or \$35-40 billion per annum.**

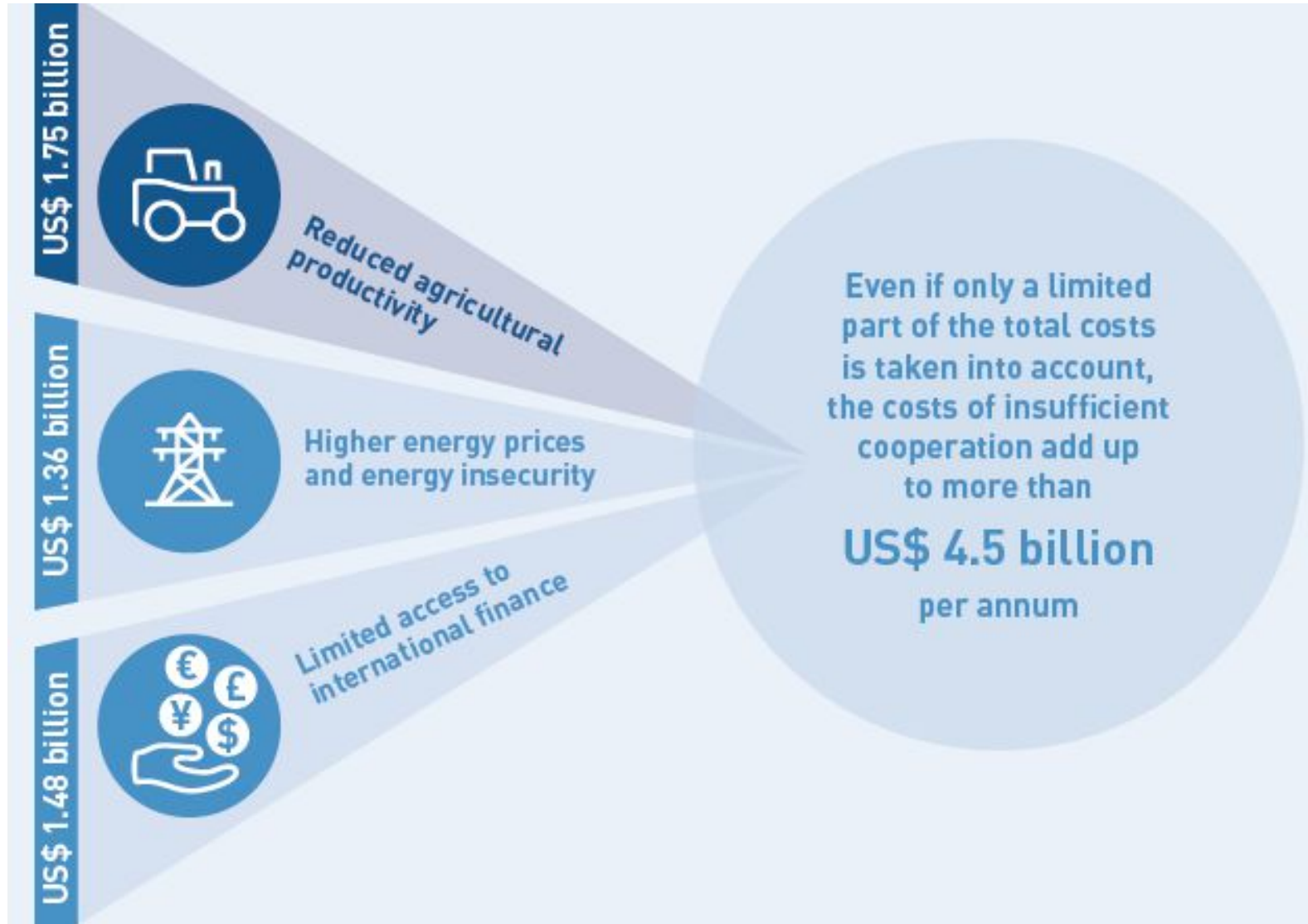
WATER SECTOR IN CENTRAL ASIA



- Due to deteriorating infrastructure, these costs will inevitably increase if (transboundary) water management remains unchanged;
- Limited cooperation is limiting access to international finance as well that could benefit transboundary water infrastructure.

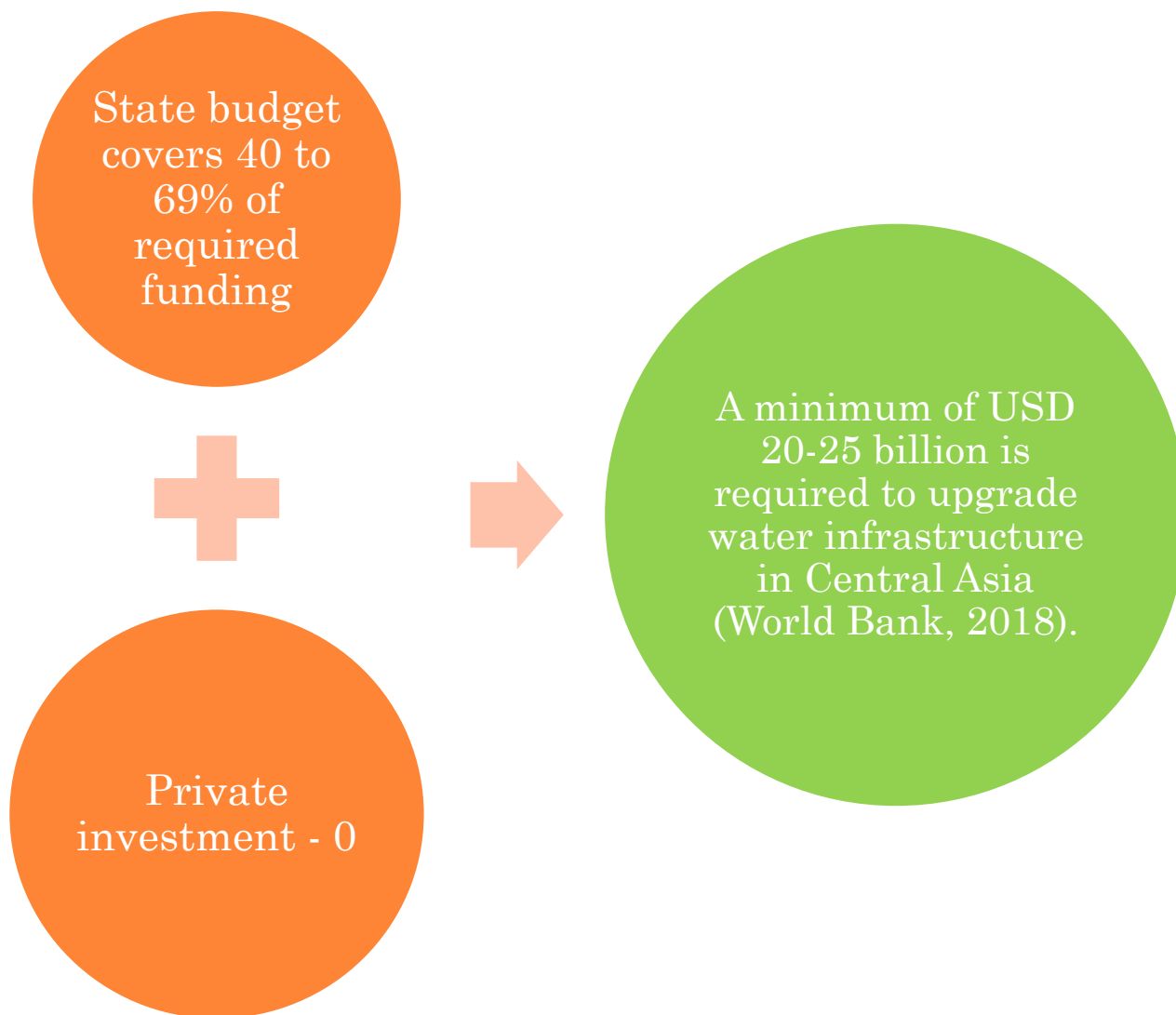
Reference: adelphi & CAREC (environmental centre) report, 2017.

WATER SECTOR IN CENTRAL ASIA



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WATER SECTOR FINANCING IN CENTRAL ASIA



WATER SECTOR FINANCING IN CENTRAL ASIA

- Agriculture land and water reforms in Central Asia -**unfinished business**
- High level of **regulations in agriculture** production systems, land ownership
- Role of state in **social stabilization**: providing food, water security to the population.
- **Downside**- tightly regulated system = reduced incentive for private financing for the sector, especially infrastructure.

POLICY RECOMMENDATIONS

- ❑ Introducing **public-private partnership** schemes into the irrigation services. Water service delivery and O&M functions to private companies. This can trigger the intensive use of technology in the sector.
- ❑ **Political commitment & enabling legislation** – a state guarantee at the policy level for involving the private sector. Without stable investment climate and business opportunities, the private sector will be reluctant to mobilize resources.
- ❑ **Improving governance and efficiency.** This increases the rationality and benefit of every dollar invested, which improves eventually credit worthiness of the sector.
- ❑ **Expertise.** State as a regulator and business as investor must have necessary financial, legal and technical skills to deal with process.

POLICY RECOMMENDATIONS

- ❑ **Reforms of agriculture policies** = more of market oriented, de-regulated policies -generate interested to invest in the water services
- ❑ Setting up more of **multi-purpose water schemes** in the irrigated areas. The concessions of infrastructure and land around the irrigation infrastructure, renting out facilities to the private uses will bring more finances to the water sector.
- ❑ Setting up **water-energy consortium** for the *Syr Darya* and *Amu Darya*. Joint financing and operation of transboundary infrastructure, benefit sharing schemes;
- ❑ **Economic frameworks** to promote cooperation and integrated planning among sectors – promote nexus approach.

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