

## 9<sup>th</sup> meeting of the Roundtable on Financing Water

### Ngozi Okonjo-Iweala, Director-General of the WTO, co-Chair of the Global Commission on the Economics of water

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**Key Point 1:** Water is an urgent policy issue that is fundamental to sustainable development and human well-being. But water dynamics and the economics of water are complex -- with multiple dimensions and policy goals. This reality has long stymied efforts to deliver a transformed water future – including new commitment of funding for water infrastructure.

- Our policy approach must respect this complexity. We must remember the lesson of the Nobel Prize-winning Dutch economist, Jan Tinbergen who made clear that an issue with multiple aspects -- and thus multiple policy targets – will require multiple policy instruments.
- Water has long been assumed to be provided by nature and available to all for free. But we now know that water access cannot be taken for granted. Scarcity is ever more present, and climate change threatens to produce both more droughts but also, in other places or other times, more floods.
- In many contexts, water presents a local resource management challenge. Because some places are water abundant while others face persistent water scarcity, the policy framework needs to be tailored to diverse local circumstances. At the same time, water is a critical element of the global commons – requiring carefully structured global governance.
- Water policy, economics, and finance must also be framed by the fact that water is a public good – requiring government investment to ensure optimal availability.
- Adding to this complexity, recent science has demonstrated that beyond the conventional focus on blue water -- the lakes, rivers, and streams that we can see and the liquid water in aquifers below ground -- we must also pay attention to less visible green water flows – including soil moisture, water vapor, evaporation and transpiration, and the atmospheric “rivers” that are now being recognized and mapped. This emerging science makes it clear that water must be managed as a global public good.
- The new science of water, being developed by people such as my fellow co-chair of the Global Commission on the Economics of Water, Johan Rockström, requires in parallel a new economics of water and new policy strategies that reflect and respond to the complexity of water as a critical natural resource that is fundamental to all life.
- I very much hope that the preliminary report of the Global Commission on the Economics of Water to be released in March at the UN Water Conference in New York will launch a conversation about the elements of this new economics of water and the policy framework and finance strategies that must follow from it.
- As the Commission works on its final report over the coming year, I am eager that we push forward the frontiers on a new economics of water that will inspire redoubled policy commitments and water infrastructure investments around the world.

**Key Point 2:** We need a new economics of water to promote efficient use of water and encourage investment in water infrastructure. But let me be clear: emphasis on incentives to promote water conservation and care in the management of water resources need not be – and indeed must not be – seen as in tension with a fundamental commitment to equity and water access for all.

- To the contrary, efficient water use is what makes greater water access possible. To optimize water conservation and minimize water waste, we need policy tools that incentivize everyone to use water wisely. Simply put, water leakage or inefficiency is not in anyone's interest – least of all the poor who inevitably bear the greatest burden in circumstances of water shortage.
- In some settings, such as industrial or agricultural water use, we will need to develop more refined price signals to promote efficiency. World Bank studies clearly show, for instance, that farmers in many nations pay too little for irrigation water – dulling their focus on efficient water use.
- Right alongside our use of economic incentives to promote efficiency, we must develop a separate set of policy tools to promote water access for all. Indeed, our new economics of water must be guided by a fundamental commitment to water equity. In this regard, we need a water safety net that guarantees every person on the planet access to the water required to meet basic needs.
- In sum, I very much hope that the Global Commission Report will provide a compelling analytic framework that highlights the importance of incentives for more careful water use and expanded investment in water infrastructure that translates into broader water access – and the capacity to meet the water-related sustainable development goals and water justice requirements.

**Key Point 3:** Alongside a new economics of water and creative financing strategies, we need to invest in better water data, providing an analytic framework that is methodologically rigorous and consistently tracked across countries – allowing us to spot critical problems, track trends, measure policy progress, drive efficiency, ensure equity and water access, identify best management practices, call out lagging performance -- and optimize the impact of every new increment of water finance we can muster.

- As I have noted, part of the water policy and finance challenge comes from its multiple dimensions. But adding to this complexity is the diversity of community circumstances and the urgency of addressing the wide-ranging needs of people across the world. All of this requires data and an analytic foundation on which to build cutting-edge policies that break free of the failed efforts of the past, sharpen incentives for action, and spur investment.
- In a spirit of emphasizing the value of rigorous data and clarity on the scope and range of today's water challenges, I want to emphasize a few critical datapoints with which most all of you in this room will be familiar:
  - Nearly 2.3 billion people live in water-stressed countries, out of which about 733 million live in critically water-stressed countries. (2021 UN SDG 6 Report).
  - 26% of the world's population lack safely managed drinking water services, and 29% of the world's population do not have a basic handwashing facility in their homes – making clear the need for further water infrastructure investments.
- Climate change will add further stress on water resources. Warmer surface temperatures will increase the risks of violent storms and thus floods -- and droughts leading to more high-impact wildfires. Climate change also appear likely to diminish groundwater reservoirs, which contain about 30% of the world's freshwater. World Bank (WB Report: High and Dry: Climate Change, Water, and the Economy). So water investments are a critical element of resilience strategies and national adaptation plans.
- Although I am rattling off a series of facts and figures about water needs and the human toll that arises from inadequate investment in water infrastructure, we must also recognize that our existing water

databases are entirely inadequate. So, as we push for new commitments to water finance, we must in parallel commit to better data foundations for water policy and investment decisions.

**Key Point 4:** The new economics of water must also provide incentives to change behaviour in other domains that affect water availability.

- Water resources can be dramatically affected by the policies pursued and decisions taken beyond the traditional boundaries of water management. Agricultural policy, land-use practices, water rights and land tenure law, manufacturing processes, power generation options, and economic development strategies must all be addressed to optimize water use and ensure availability for all – thus expanding the target zone that our new economics of water must reach.
- Most critically, we must recognize that water infrastructure can be very expensive to build and maintain, creating risk for those who might make water investments. This business reality means that private capital and market forces cannot be relied upon on their own to deliver an optimal build-out of water infrastructure.
- Government investment in water projects will inevitably be required – supplemented by creative finance strategies including “blue bonds,” Green Banks, and other structures of blended finance that encourage private capital to invest alongside public funds.
- Hybrid project structures that permit private sector project management of publicly funded infrastructure have already proven their value in many places. Such public-private partnerships, sometimes referred to as “affermage,” need to be expanded and tailored to local circumstances around the world.

**Key Point 5:** Coming as I do from the World Trade Organization, I want to make one last point: alongside the potential for a new economics of water to promote more efficient and equitable water management, the WTO and the multilateral trading system can help to raise awareness and address market distortions that might lead to sub-optimal water outcomes.

- Subsidies may distort, for example, a farmer’s decision about what crops to grow –leading to rice cultivation in the desert or other choices that are not just economically inefficient but also damaging to efforts to move the world toward a more sustainable future.
- The WTO’s rules and structures provide a tool for highlighting market-distorting subsidies, sharpening the focus on the requirements for sustainable agricultural practices, and creating incentives for sustainability business models more generally – thus nudging national policies and farmer choices away from growing high-water-intensity crops in low-rainfall areas or other practices that lead to mis-allocation of scarce water resources.
- In this regard, I would like to flag WTO’s work on agriculture, a sector which accounts for 70 to 80% of global water use. Harmful agricultural subsidies can distort markets, drive overproduction and over-consumption of water-intensive products, and incentivize unsustainable production in water scarce regions.
- Let me further note that negotiations are underway at the WTO on a new Investment Facilitation Agreement, which will help to create a more transparent, efficient, and investment-friendly marketplace for traded goods – all of which will benefit potential investors in the water sector.
- Trade also helps to encourage fresh thinking and spur innovation -- thus bringing new sustainability tools to bear, including digital technologies and other clean tech solutions. These breakthroughs can help us to extend the reach and protect the quality of our limited water supplies -- ensuring that investments in water infrastructure deliver maximum returns, measured both economically and in terms of human progress. Finally, trade promotes dissemination at speed and scale of the best production practices, new

technologies, and innovations more broadly. Trade policy and the WTO are thus positioned to be an important point of leverage for investment in and action on the water-related SDGs as well as climate change.

### Conclusion:

- In closing, let me say what you all know: water is life. It is our most basic and essential natural resource – fundamental to every living thing on our planet.
- Climate change, unsustainable agriculture, industrial emissions, and other sources of pollution are all affecting water quality and quantity – making our work to reshape the economic principles, policy frameworks, and financing options around water all the more critical.
- We know at the WTO that it can be difficult to get disparate parties with different interests to agree – even when the need for action and commitment is clear. I do not therefore underestimate the challenge of galvanizing a new global push on water finance. Indeed, getting consensus on the path forward on water may be even more difficult than getting parties to agree in the trade arena. But the WTO has had recent success on a number of issues – and I am eager to share with the water finance community our learning from these experiences.
- Finally, I want to offer a huge thanks to all of you here who are committed to advancing the water agenda. Please allow me to conclude with a small reminder: our work on water issues – including water economics and finance – must always remain focused on people and how we can advance their capacity to flourish.
- Thank you.