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Description

The relationship between the water and financial sectors is explored through a review of past and current policies and practices, and new needs driven by growing water insecurity (i.e., drought and floods) and climate change. This paper focuses on emerging markets and developing economies. The “conventional” agenda of providing safe drinking water supply and sanitation has met with growing success. The newer water resources agenda covering flood, drought and irrigation, in contrast, has to address rapid alterations in the landscape due to destruction of catchments, and rapid water use growth. By approximately 2045 the world will transition from a predominantly water-abundant place to a predominantly water-scarce one. Though this masks large regional differences, pressure will grow to improve water management and broaden adoption of technologies and policies for recycling, desalination and water efficiency. Climate change will exacerbate these trends. Finance for the water agenda has been dominated by public budgets. To meet the SDGs, the need for finance in emerging markets and developing economies is 2–4 times larger than current practice. National budgets have grown significantly while international development assistance has grown modestly. Commercial finance holds promise but is constrained by high-risk profiles of many water investments: deals are small or risky and creditworthiness of water utilities and municipalities is weak. Access to commercial finance can be enhanced through blended finance, intermediary institutions and, increasingly, local capital markets. However, though the capacity to access finance is constrained in many developing economies, the capacity to absorb finance and prepare “bankable” proposals proves even more constraining. Climate change is emerging as a systemic threat to corporate and financial assets. Water insecurity undercuts the financial viability of production assets, services and real estate. It is argued that the longer-term interests of the water and financial sectors will converge.

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