

THE CASE FOR VALUE-BASED WATER MANAGEMENT

Improving water management outcomes requires better decisions about investment in, allocation and use of available water resources. To this end, properly valuing water is critical. This Aither think piece highlights the benefits of incorporating the value of water to economies, communities and ecosystems in water management decisions.

The value of water is the benefit that people receive from water. This includes, for example, benefits received from using water for agricultural production, for domestic supply in cities and towns, for cultural uses, and for sustaining ecosystems, now and in the future.

Too often, those who invest in, allocate and use water do not know the value of water for different users, and so cannot reflect those values in their decisions. Valuation happens every time someone uses water or chooses not to. The extent to which these values are reflected in water management decisions varies. Today, most water resource investment and allocation decisions are made by governments. But many governments are poorly equipped to achieve optimal economic, social and environmental outcomes from water management: without a good understanding of the value of water to different users and uses, you get poorly informed, less objective decisions. The result is that administrative investment in and allocation of water often lacks transparency, is poorly communicated, and produces suboptimal results

Explicit valuation of competing uses of water provides a more objective means for decision makers to manage water resources and optimise results. There are many ways in which water valuation can inform improved water investment, allocation and use. Some prominent examples are:

- Directing investments in water-related services and infrastructure: water valuation enables a clearer understanding of the benefits of providing improved services and infrastructure. These can then be considered alongside associated costs to inform investment decisions. By basing investment decisions on objective valuations, governments and other investors enhance their ability to transparently communicate the reasoning behind these decisions to all stakeholders.



- Allocating water between users: by better understanding the benefits that different water users obtain from water, governments can make more informed decisions about how they allocate available water resources between these competing demands. Best-practice water valuation enables governments to estimate the value of water to the environment and to recreational and other non-consumptive ‘users’ or stakeholders, not just to consumptive users.
- Putting a price on water pollution: just as water valuation techniques enable improved understanding of the benefits of water, they also allow decision makers to quantify the costs of degradation and water pollution. Valuation of clean water sources can be used to inform appropriate policy responses, such as administrative permitting regimes and markets for wastewater discharge.

In countries where water scarcity threatens economies and communities, establishing water markets presents one option for revealing water user preferences. Water markets can be used to reveal the marginal value of water for different uses and users at various locations and at different times. Water markets involve an administrative decision to establish a limit on total water use, and a trading approach, helping ensure water reaches its highest-value use through voluntary transfers. Markets do not reveal the cost of infrastructure or service provision, but rather the value of access to water itself. In Australia, water markets are a game-changing innovation and have helped governments and communities to manage water scarcity, while improving agricultural, urban and environmental water outcomes.

Value is not the same as price, and valuing water is not inimical to equity, environmental sustainability or the human right to water. In fact, reflecting the true value of water can be a useful tool to progress these objectives. At the global scale, up to US\$1 trillion in water infrastructure investment is estimated to be required each year to meet water-related development goals; properly valuing water and water services can help mobilise these funds.¹ At the local scale, providing subsidies to meet the water needs of the poor or directing water for the protection of the environment are valid policy decisions; proper valuation simply provides a clearer picture of the benefits and costs involved.

¹ World Water Council and OECD 2015, *Water: Fit to finance? Catalyzing national growth through investment in water security*, report, World Water Council, Marseille.

Valuing water means changing the way we think about water, by attaching a value to water in all its uses. By properly valuing water, we can accelerate progress toward Sustainable Development Goal 6, catalysing investments in infrastructure and improved water management for the benefit of current and future generations. As water scarcity intensifies in more and more countries, and the global population continues to grow, valuing water will only become more important to sustaining and improving quality of life. Good valuation practices will equip governments, communities and individuals to make better decisions about water investment, allocation and use.

The time for action is now. Valuing water, and incorporating these values in decision making, is urgently required. Financial and technical resources are available to introduce and improve water valuation in water scarce countries. Australia has a role to play, and can contribute established methodologies and case studies drawn from the successes and missteps in its own experience. Australia has an immediate opportunity to contribute to the High Level Panel on Water’s ‘Valuing Water’ initiative, which is being led by the Netherlands. Global action such as this has the potential to rapidly scale good water valuation practices for the benefit of all.

This think piece builds on [Valuing Water](#), a framing paper for the High Level Panel on Water, prepared by Aither on behalf of the Australian Department of Foreign Affairs and Trade and Australian Water Partnership. The High Level Panel is co-convened by the United Nations and World Bank – its membership consists of ten heads of state, including the Australian Prime Minister.

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