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Additional Information

1 Using ecosystem services to represent the environment in hydro-economic 2 models.

3

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11

12 Abstract

13 Demand for water is expected to grow in line with global human population growth, but
14 opportunities to augment supply are limited in many places due to resource limits and expected
15 impacts of climate change. Hydro-economic models are often used to evaluate water resources
16 management options, commonly with a goal of understanding how to maximise water use value and
17 reduce conflicts among competing uses. The environment is now an important factor in decision
18 making, which has resulted in its inclusion in hydro-economic models. We reviewed 95 studies
19 applying hydro-economic models, and documented how the environment is represented in them
20 and the methods they use to value environmental costs and benefits. We also sought out key gaps
21 and inconsistencies in the treatment of the environment in hydro-economic models. We found that
22 representation of environmental values of water is patchy in most applications, and there should be
23 systematic consideration of the scope of environmental values to include and how they should be
24 valued. We argue that the ecosystem services framework offers a systematic approach to identify
25 the full range of environmental costs and benefits. The main challenges to more holistic

26 representation of the environment in hydro-economic models are the current limits to
27 understanding of ecological functions which relate physical, ecological and economic values and
28 critical environmental thresholds; and the treatment of uncertainty.

29

30 Keywords: Water resources management; Hydro-economic models; Environmental impacts;
31 Ecosystem Services Framework

32

33 Highlights:

- 34 • Representation of the environment in hydro-economic models (HEMs) is limited
- 35 • There is no systematic inclusion of the environmental costs and benefits in HEMs
- 36 • The ecosystem services approach identifies the full range of environmental values
- 37 • Accurate ecological functions and uncertainty analysis are key challenges for HEMs

38

39 1. Introduction

40 Adequate flows of fresh water in rivers support food and energy production, other economic
41 activities such as river navigation and productive fisheries, as well as clean water provision through
42 processes such as dilution and biological degradation (Momblanch *et al.*, 2015). All these uses
43 compete for water resources with diverse use rights (Babel *et al.*, 2005), and different opportunities
44 and costs associated with adapting to less water availability (Booker, 1995).

45 The 1972 amendment to the US Clean Water Act established national water quality standard to
46 preserve aquatic life, recreational uses, and their values (Copeland, 2010). Since then, there has
47 been an increased focus on understanding the environmental and socio-economic benefits of
48 leaving water in streams, rivers and aquifers rather than extracting it for consumptive use. For
49 example, in the Murray-Darling Basin in Australia, Connor (2008) found that additional flows in the
50 river could significantly reduce costs of salinity damage through dilution, and Crossman *et al.* (2015)
51 documented substantial carbon sequestration, tourism, and freshwater quality values, among
52 others, from reducing water extraction. Grossmann and Dietrich (2012) assessed carbon
53 sequestration, boating, habitat and biodiversity values of different water management options for
54 the Spreewald Wetland in Germany. These studies used the ecosystem services (ES) concept to
55 report on the benefits. The core ES notion is that a wide range of natural ecosystem processes help
56 sustain and fulfil human life (Daily *et al.*, 1997), and that these services can be translated into
57 economic values. Many ES are only substitutable at high economic costs, and in some cases cannot
58 be replaced (Brauman *et al.*, 2007; Costanza *et al.*, 1997). For example, wetlands have the capacity
59 to purify water by means of biochemical processes (Turner *et al.*, 2008) with capacity being a
60 function of wetland condition and health. The degradation of wetland ecosystems could increase
61 treatment costs of the water extracted for consumptive use (Maltby and Barker, 2009) and/or a
62 reduce the recreation potential (Kahil *et al.*, 2015) leading to loss of income for the tourism industry.

63 According to the 5th assessment report of the Intergovernmental Panel on Climate Change (2014),
64 renewable fresh water resources are likely to decrease over the 21st century, most significantly in
65 arid and semi-arid regions where increased frequency of drought occurrence is expected (Schwabe
66 *et al.*, 2013). Additionally, water demand is expected to grow with global population growth (UN
67 2015), resulting in more waste generation, pollution and land use expansion, which increases the
68 pressure on land and water resources (Shama, 2004). Less water availability and lower quality,
69 together with larger water demands, has led to increasing conflicts among water uses. Examples
70 include conflicts between hydropower production and fisheries in the Mekong River in China (Ringler
71 *et al.*, 2004); irrigation and urban water uses in the Jucar and Vinalopó rivers in Spain (Andreu *et al.*,
72 2009); and environmental and irrigation water uses in the Murray Darling Basin in Australia (Qureshi
73 *et al.*, 2007) and the Colorado River Basin in the United States (Booker and Young, 1991).

74 Integrated water resources management, defined as the coordinated development and
75 management of water, land and related resources to maximise economic and social welfare without
76 compromising the sustainability of vital ecosystems (GWP 2000), can inform decisions about water
77 sharing in the face of competing water demands and increasing scarcity (Booker *et al.*, 2012). Hydro-
78 economic models (HEMs) are one of the main tools used for integrated water resources
79 management (Booker *et al.*, 2012; Harou *et al.*, 2009). HEMs combine hydrological and water
80 infrastructure representation of water resources systems with economic demand functions for key
81 water uses in order to allocate water subject to physical and institutional constraints (Heinz *et al.*,
82 2007). HEMs typically use a node network structure with nodes representing points of diversion,
83 inflow, outflow, storage or treatment and links between nodes representing river reach processes
84 (Harou *et al.*, 2009). HEMs can use optimisation or simulation approaches, but typically have the
85 goal of allocating water among multiple uses to optimize economic value (Brouwer and Hofkes,
86 2008). HEMs have been used to solve water management problems for more than 50 years, and
87 have evolved from analysing single-water use problems at water supply scale (Lefkoff and Gorelick,
88 1990; Wilchfort and Lund, 1997) to integrated multiple-demand and multiple-source problems at

89 single river basin scale (Davidson *et al.*, 2013b; Divakar *et al.*, 2011) and multi-basin scale (Bekchanov
90 *et al.*, 2015c; Fisher *et al.*, 2002). Groundwater representation and its connection to the surface
91 water system have also featured in HEMs (Daneshmand *et al.*, 2014; Pulido-Velazquez *et al.*, 2006;
92 Pulido-Velazquez *et al.*, 2008a).

93 Several studies have reviewed HEMs. For example, Harou *et al.* (2009) focus on methodological
94 aspects of HEMs, such as model formulation and design, economic valuation methods for the
95 different water uses, and major applications. Heinz *et al.* (2007) discuss the role of economic
96 approaches in water management to address the European Water Framework Directive (EC 2000)
97 objectives, analysing diverse assessment and performance criterion, water policies and management
98 options. Booker *et al.* (2012) review the advances in economic representation, policy objectives and
99 water institutions, and level of integration and complexity of HEMs.

100 Consistent across reviews of HEMs is the conclusion that representation of environmental costs and
101 benefits in HEMs is patchy and limited. For example, Harou *et al.* (2009) conclude that
102 environmental water uses are rarely represented with economic value functions in HEMs, although
103 minimum-flow constraints are included more often. They also highlight the importance of
104 incorporating water quality processes and values which are mostly lacking in HEMs. Booker *et al.*
105 (2012) argue for the expansion of HEMs to jointly tackle environmental, economic, hydrologic and
106 institutional water resources management problems. Other reviews highlight the limited
107 representation of environmental in-stream uses and processes in HEMs (Ringler and Cai, 2006; Ward
108 and Pulido-Velazquez, 2009; Ward and Pulido-Velázquez, 2008), and the dearth of HEMs which
109 account for water management changes on non-market values provided by ecosystems (Griffin and
110 Hsu, 1993; Kragt, 2013).

111 There has not yet been any attempt at systematic cataloguing and critical assessment of the range of
112 environmental impacts and values included in HEMs. Here we address this gap by: i) reviewing the
113 range of environmental impacts included in HEMs; ii) documenting the methods used to represent

114 the economic value of environmental impacts in HEMs, and; iii) making recommendations to
115 improve the inclusion of environmental impacts and values in HEMs.

116 We use ES as an organising framework because it offers a systematic way to analyse the potential
117 environmental impacts of changes to water management using the environment-economy
118 connection. This connection is best demonstrated by the ES cascade (Potschin and Haines-Young,
119 2011) which shows the causal links from a change in biophysical state as a result of altered
120 management, to the ecosystem change and then the change to ES, economic values and human
121 well-being (Figure 1). In recent years there has been a proliferation of ES frameworks (Haines-Young
122 and Potschin, 2013; MA 2005; TEEB 2008; UK NEA 2011). Common to all ES frameworks is the
123 *provisioning* category, which are directly consumed ES products. An example is fish production in
124 rivers that people value as food. All ES frameworks also include the *regulating* category for ES that
125 arise from maintenance and moderation of environmental conditions. The capacity of wetlands to
126 purify water by means of biochemical processes (Turner *et al.*, 2008) is an example. Also common to
127 ES frameworks is a category for non-consumptive values such as recreational, educational, aesthetic
128 and spiritual. The major difference between ES frameworks is how intermediate ecosystem
129 processes are treated. Some frameworks only include end-products or services consumed or valued
130 directly by humans (MA 2005; Wallace, 2007), while other frameworks include environmental
131 processes which only indirectly contribute to human welfare, such as decomposition and nutrient
132 cycling (Boyd and Banzhaf, 2007; Costanza, 2008; Fisher and Turner, 2008). We use the Common
133 International Classification of Ecosystem Services (CICES) (Haines-Young and Potschin, 2013) as the
134 reference framework to classify the environmental impacts addressed by our reviewed studies.
135 CICES supports the System of Environmental-Economic Accounting (United Nations *et al.*, 2012) and
136 includes only final ES (Haines-Young and Potschin, 2013) which leads to clear environment-economy
137 links consistent with the need of HEMs to include economic demand functions.

138 2. Methods

139 Our review involved four stages: 1) identifying a comprehensive set of HEM studies that included
140 representation of the environment; 2) cataloguing the selected studies according to a set key
141 summary attributes; 3) applying the CICES to classify the types of environment representation in the
142 HEMs, and; 4) cataloguing the methods used to value the environment in the HEMs.

143 2.1. Literature search and selection

144 We started with the set of papers reviewed by Heinz *et al.* (2007), Brouwer and Hofkes (2008) and
145 Harou *et al.* (2009) (n = 124). These were supplemented with papers from 2009 to the present using
146 a SCOPUS search containing the key words 'hydro-economic model', 'water management',
147 'optimization', and 'network flow' (n = 877). We then refined the scope to case studies dealing with
148 economic analysis of water management, including environmental aspects, at river basin scale (n =
149 144). For environmental aspects we considered environmental flows, water quality in water bodies,
150 nature related recreation activities, flood control, and broader concepts such as habitat or
151 vegetation. We screened the titles, abstracts and journals to remove irrelevant papers (n = 135), and
152 then downloaded and read the full papers in order to select the final collection of papers (n = 95).

153 We classified all papers by year of publication and identified the water use sector to which each
154 HEM was applied. We also documented the spatial scale of analysis, the major water management
155 problem addressed based on the categories established in Harou *et al.* (2009), the assessment
156 criteria used according to the proposal by Heinz *et al.* (2007), and how uncertainty was treated. We
157 assessed whether the environment was considered as a constraint or valued in economic terms. For
158 the papers in the latter group, we extended the review as described in sections 2.2 and 2.3.

159 2.2. Classifying representation of the environment

160 We used CICES to classify the representation of the environment in the reviewed studies. CICES uses
161 the three main ES categories of provisioning, regulating and maintenance, and cultural services. Each
162 of these broad ES types is successively split into divisions, groups and classes, following a hierarchical
163 structure. The elements within a level of hierarchy are conceptually similar to one another according

164 to the ways they are used by people (Haines-Young and Potschin, 2013). We identified which ES in
165 CICES are potentially provided by freshwater bodies (Table 1).

166 2.3. Economic valuation methods

167 The next step was to identify the economic valuation methods used to estimate environmental
168 values included in the HEMs. We classified valuation methods into the standard typologies common
169 throughout the literature (Costanza *et al.*, 2011; Chee, 2004; de Groot *et al.*, 2002; TEEB 2010;
170 Tietenberg and Lewis, 2009). The typologies we used are:

- 171 • Market value: Used when the valued ES is a good that has a market price, e.g. cultivated crop.
172 However, for the ES whose price does not include the impact of abstraction/use on their
173 availability for other users and the environment, e.g. drinking water, the value is derived from
174 the marginal willingness-to-pay using econometric approaches.
- 175 • Production-based: Used when the valued ES is a factor of production for a good or service
176 traded on the market, e.g. water for agricultural production. Value is estimated as the
177 contribution to the net revenues obtained from the produced good or service in the market.
- 178 • Cost-based: This method approximates the value of the ES based on the costs of replacing it
179 (replacement cost method). This approach is applicable to ES such as mediation of waste. The
180 method can also consider the avoided mitigation damages given the presence of the ES (avoided
181 cost method), e.g. flood protection.
- 182 • Revealed preference: Often used to value recreation and amenity values of water. The travel
183 cost method assumes that the value of an ES can be approximated with the expenses incurred to
184 enjoy it. This method is applicable to ES such as aquatic recreation by considering transportation
185 expenses, on site spending and protected area entrance fees. The hedonic price method relates
186 the value of an ES with the price variation of associated goods for different production levels or
187 quality of the ES. A common example is the difference in market prices for real estate with more

188 and less aesthetic water related amenity, assuming all other variables influencing real estate
189 sales are equal.

- 190 • Stated preference: Surveys designed to elicit the values people ascribe to an ES. Respondents
191 are usually asked how much they would be willing to pay for a specific improvement in the ES
192 (contingent valuation method), or they are asked to select one among a number of alternatives
193 for improvement of the ES, where price or cost required to pay for improved ES condition is a
194 key attribute (choice experiment method). This method is applicable to non-consumptive ES
195 such as aquatic biodiversity.
- 196 • Benefit transfer (or meta-analysis). Takes estimates of ES value from one site and applies them
197 to another site.

198 In HEMs, these valuation methods are used to produce a value function for the different water uses
199 and environmental benefits and costs, given the variation in the physical variables such as water
200 flow or volume. In the studies we assessed, these functions are estimated using econometric or
201 statistical methods, or by combining mathematical representations of an ecological production
202 function with a unit production value obtained with one of the valuation approaches.

203 3. Results

204 3.1. General features of the studies

205 As a result of the literature search and selection, 95 papers were reviewed. Table 2 cites the final set
206 of papers which was assigned unique ID numbers for easy citation.

207 The 95 papers covered the period 1984 to 2015, with less than 2 papers published per year on
208 average prior to 2002 (Figure 2). About 6 papers were published per year on average after 2002,
209 with the most studies in 2013 (n = 13).

210 We found that the water use sectors most represented by HEMs were urban, agricultural, industrial,
211 and hydropower sectors (Table 3). Other sectors such as livestock, tourism, navigation, and industry

212 were rarely included except within the twelve studies that included five or more sectors. The river
213 basin was the most common spatial scale of the papers we reviewed. We also found that HEMs have
214 been applied to administrative regions (15 papers: 1, 18, 21, 22, 24, 26, 28, 32, 35, 36, 44, 45, 51, 55,
215 and 81), water supply systems (7 papers: 11, 12, 29, 31, 65, 84, and 91), and international regions (5
216 papers: 17, 86, 88, 89, and 90).

217 The major water management problems tackled by the HEMs we reviewed were resource allocation,
218 with emphases on inter-sectoral allocation (n = 48), water institutions (n = 13), and water supply
219 infrastructure (n = 13). Other water issues such as drought or climate change management, trans-
220 boundary water management, conjunctive surface-groundwater use, and land use management
221 were less common. The HEMs used different types of assessment criteria to design and test water
222 management solutions. We identified 58 papers which used a net benefit maximisation approach.
223 Table 4 presents the number of papers addressing each major issue and the type of assessment
224 used.

225 We found that there were very few studies that treated uncertainty in physical variables and
226 parameters. Uncertainty was analysed by means of probabilistic approaches (2 and 11) and
227 sensitivity analyses in deterministic models (17 and 77). Only two studies (6 and 34) assessed
228 uncertainty of economic parameters.

229 We distinguished between HEMs that included economic valuation of the environment versus those
230 that accounted for the environment using only biophysical units. We found that 61 papers
231 considered environmental uses as constraints (e.g. 12, 33 and 93) or as decision variables in the
232 optimisation function via ecological functions (e.g. 66 and 72). These studies mainly included
233 minimum flows and, occasionally, water quality as environmental aspects. Some calculated the
234 opportunity costs of environmental constraints, which provided useful economic information for
235 decision making but did not allow comparison of environmental and other water use values.

236 3.2. Environmental impacts classification

237 Among the reviewed studies, 34 defined environmental benefits and costs and used economic
238 functions to value these within water management analysis (2, 3, 5, 6, 7, 8, 9, 10, 11, 16, 27, 28, 29,
239 30, 34, 37, 49, 53, 57, 60, 65, 67, 68, 71, 73, 74, 75, 77, 84, 88, 89, 90, 91, and 94). The aspects of the
240 environment considered were diverse and broadly covered vegetation and fauna, water quality and
241 flood control. Most studies analysed only one (2, 3, 5, 8, 9, 16, 30, 37, 49, 53, 57, 60, 68, 73, 74, 75,
242 77, 84, and 91) or two (i.e. 6, 7, 11, 27, 28, 29, 34, 65, 71, and 94) environmental aspects, and only
243 five papers covered more than three (10, 67, 88, 89, and 90). Table 5 uses the CICES framework to
244 summarise the environmental impacts included in the HEMs we reviewed. Some HEMs included
245 components of ecosystems which could not readily be allocated to the CICES framework, such as
246 wetlands and environmental flows (16, 27, 28, 29, 34, 60, 73, 74, 88, 89, 90, and 94).

247 We found no systematic approaches to valuation of the environment and ecosystems in HEMs
248 although there were some recurring methods (Table 6). Production-based valuation methods were
249 more commonly applied for provisioning ES such as commercial fishing. Water quality improvement
250 (e.g. salt dilution and nutrients abatement) was most often valued using cost-based methods (e.g.
251 agricultural production losses due to salinity, and treatment for drinking water). Flood control and
252 carbon sequestration valuation were also valued with cost-based methods. Recreation activity
253 related values were mainly estimated using the travel cost method. When valuing impacts on habitat
254 and biodiversity, in general, or for specific natural vegetation types and native animals, stated
255 preferences techniques were used, but in some cases results were obtained through the benefit
256 transfer method rather than with case specific studies. Among the impacts which cannot be
257 categorised according to CICES, benefit transfer was the main valuation technique for wetlands, and
258 other non-specified or bespoke valuation methods were used for the environment as a general
259 concept. The greatest diversity in valuation methods was found for environmental flows in rivers or
260 volumes in aquifers.

261 HEMs require demand functions which relate the value of the impacts to water supply. For most in-
262 stream use studies, the values were dependent on river flows (3, 10, 27, 34, 77, 88, 89, and 90),
263 whilst for uses in lakes and reservoirs values relied on the water level or the stored volume (49, 65,
264 84, and 91). Finally, there were few examples of more complex demand functions which captured
265 the relationship between the value and the ecological response using more than one hydrological
266 variable (67, 71, and 94).

267 4. Discussion

268 We selected 95 HEM studies which cover environmental aspects of water management at river basin
269 or comparable scales. The majority of HEMs analysed inter-sectoral water allocation between two or
270 three water use sectors, including environmental, agricultural and urban uses, with the aim of
271 maximising net benefits. The consideration of uncertainty issues was rare. From the initial 95
272 studies, about two thirds considered environmental aspects in physical terms, mostly as constraints
273 to realising other use values. The third which valued at least one environmental impact in economic
274 terms were mostly limited to a single environmental aspect, or included very broad or vague
275 environmental aspects. Recreation, commercial fishing and salt dilution were the most frequently
276 valued in HEMs. We also found that established and traditional valuation methods were used to
277 assign economic value to the environment, with little deviation from methods recommended in the
278 ES literature (Banerjee *et al.*, 2013; de Groot *et al.*, 2002; TEEB 2010).

279 We found that the use of the ES framework to identify the aspects of the environment likely affected
280 by alternative water management actions is a systematic and thorough way to select relevant
281 impacts and values. The ES framework should more comprehensively capture the ecological
282 processes, values and interactions in HEMs. To some extent, the ES approach is already influencing
283 the inclusion of environmental and economic values in HEMs. For example, Bryan *et al.* (2013)
284 selected environmental impacts based on the main water demands and the important river
285 ecological and ES components were identified using river basin mapping.

286 A reason for the poor representation of the environment, especially in economic terms, in many
287 HEMs is the limited availability of data and models characterising relevant environmental processes
288 and associated economic values (Dandy *et al.*, 2013). Although good quality information is complex
289 and costly to obtain, we think that in well studied river basins omissions may be a result of the single
290 issue focus of many studies. Many river basins have a good knowledge base which can be used to
291 include more environmental values. For example, water quality processes related to flow are
292 reasonably well understood and they are not difficult to value using cost-based methods (Keeler *et*
293 *al.*, 2012; La Notte *et al.*, 2015; Terrado *et al.*, 2016). Similarly, it is possible to estimate values of
294 recreational opportunities related to flow or water level (Grossmann and Dietrich, 2012; Hurd *et al.*,
295 1999), and obtain values of provisioning services such as fisheries using production functions and
296 market values (Mullick *et al.*, 2013; Ringler and Cai, 2006), although for these ES the difficulty relies
297 on having reliable data about underlying biophysical processes for water bodies in the basin.
298 Environmental impacts can be valued with more than one method and, in agreement with de Groot
299 *et al.* (2002), we suggest that following a rank ordering of valuation methods for each type of ES
300 adds rigour and value comparability. Selection of the appropriate method depends on the data
301 available and on the type of ES. Market valuation methods are generally more suited to provisioning
302 ES or use values, cost-based methods to regulating ES, and revealed and stated preferences methods
303 to cultural ES (TEEB 2010; Turner *et al.*, 2008).

304 Uncertainty in ES values can be a consequence of the valuation approach and of the quality of the
305 economic data. For instance, revealed and stated preference valuation methods have been criticised
306 for their subjectivity and bias (Bateman *et al.*, 2006; Chee, 2004; La Notte *et al.*, 2015), while market
307 value, production and cost based valuation techniques are more objective. Benefit transfer can
308 increase the range of values included in HEMs when local valuation studies are absent. However,
309 transferring values introduces additional uncertainty if there is inadequate correspondence between
310 the original and new studies (Plummer, 2009). This uncertainty may lead to highly variable results
311 that would prevent decision makers from using HEMs to support decisions.

312 Expanding the representation of the environment and its values in HEMs will likely increase model
313 uncertainties. Since the number of ES values associated with environmental impacts can be the
314 greatest source of uncertainty (Boithias *et al.*, 2016), there will need to be more systematic
315 incorporation of uncertainty analyses into HEMs, including assessment of implications of uncertainty
316 in decision making (Cai *et al.*, 2002). We show that very few HEMs currently treat uncertainty, a
317 conclusion drawn by a number of other studies (Bateman *et al.*, 2006; La Notte *et al.*, 2015; Lund
318 and Ferreira, 1996). We suggest that Monte Carlo based analysis, an approach used more often in
319 integrated analysis such as integrated assessment of global climate change impacts and adaptation
320 (Gao *et al.*, 2016), be also used to assess uncertainty in HEMs. Monte Carlo analyses consider non-
321 linearities and are probabilistic, which is in line with actual measurement processes (Papadopoulos
322 and Yeung, 2001).

323 Although there are arguments for expanding the number of monetised environmental values in
324 HEMs, not all the potential environmental values impacted by water management need to be
325 included to support good decisions. It may be the case that inclusion of additional environmental
326 values does not influence the decision path. For example, in the case of a decision that has high net
327 benefit based on the social, economic and environmental benefit values that are already quantified,
328 quantifying additional benefits in monetary terms may add little to the conclusion (Kandulu *et al.*,
329 2014). It may also be the case that monetised environmental values, such as those characterising
330 productivity of wetlands or environmental flows (e.g. €/ha and €/m³, respectively), disguise the
331 diverse pluralistic values of the environmental assets. These aggregated values are incompatible
332 with ES classification and valuation, though in some cases they may provide information that could
333 be unpacked into distinct components that could be valued in an ES framework.

334 Something that is rarely dealt with explicitly in HEMs, despite many studies noting its importance, is
335 the role of critical thresholds and system irreversibilities in the ecosystems response functions (Folke
336 *et al.*, 2002; Folke *et al.*, 2004; Scheffer *et al.*, 2001; Spangenberg *et al.*, 2014). An exception is Kahil

337 *et al.* (2015) who use a piecewise function to consider the shifts in the benefits provided by a
338 wetland depending on inflow critical thresholds. Another aspect, not often considered in valuation
339 functions in HEMs, is the correlation between ecological functions and other biophysical variables
340 apart from water flows and volumes. Water quality has an important bearing on environmental
341 aspects such as fauna and flora, and so water quality should be represented with environmental
342 processes and linked to valuation functions. Although none of our reviewed studies consider the
343 impact of water quality on environmental uses of water, some studies do consider impacts on
344 traditional uses. For instance, Hurd *et al.* (1999) account for the impact of salinity on agricultural,
345 urban and industrial uses. We suggest water quality variables (e.g. salinity, temperature) should be
346 sufficiently detailed in HEMs to assess environmental impacts.

347 5. Conclusion

348 We used an ES framework to catalogue how HEMs have represented and valued the environment.
349 Even though water management affects many environmental values, the HEMs we reviewed did not
350 apply any systematic approaches to identify potential environmental impacts. This unsystematic
351 approach to inclusion of the environment in HEMs risks over-looking potential trade-offs (between
352 environment and economy) and unintended ecosystem impacts from water management decisions.
353 The ES framework can be used to screen many environmental impacts that could be more widely
354 applied in setting scope of analysis for water management actions.

355 Some important challenges remain. Firstly, the biophysical variables impacted by water
356 management should be better understood in order to undertake a proper impact assessment and
357 valuation. Aggregated environmental indexes which lose information about relevant detailed
358 environmental impact values should then be avoided. Secondly, environmental functions which
359 capture non-linearities and thresholds in ecological processes should be better defined, as should
360 the role that water quality plays in broader aspects of environmental quality. Finally, uncertainty in

361 both biophysical and economic variables should be more often addressed to improve the decision-
362 support capabilities of HEMs.

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788 **Table 1. CICES framework for ecosystem accounting (v4.3) modified with the inclusion of the potential services provided**
 789 **by water bodies.**

| Section | Division | Group | Class | Water bodies* | |
|--|--|---|--|---|---|
| Provisioning | Nutrition | Biomass | Cultivated crops | | |
| | | | Reared animals and their outputs | | |
| | | | Wild plants, algae and their outputs | ✓ | |
| | | | Wild animals and their outputs | ✓ | |
| | | | Plants and algae from in-situ aquaculture | ✓ | |
| | | Animals from in-situ aquaculture | ✓ | | |
| | | Water | Surface water for drinking | ✓ | |
| | Ground water for drinking | | ✓ | | |
| | Materials | Biomass | Fibres and other materials from plants, algae and animals for direct use or processing | ✓ | |
| | | | Materials from plants, algae and animals for agricultural use | ✓ | |
| | | | Genetic materials from all biota | ✓ | |
| | | Water | Surface water for non-drinking purposes | ✓ | |
| | | | Ground water for non-drinking purposes | ✓ | |
| Energy | Biomass-based energy sources | Plant-based resources | | | |
| | | Animal-based resources | | | |
| | Mechanical energy | Animal-based energy | | | |
| Regulation & Maintenance | Mediation of waste, toxics and other nuisances | Mediation by biota | Bio-remediation by micro-organisms, algae, plants, and animals | ✓ | |
| | | | Filtration/sequestration/storage/accumulation by micro-organisms, algae, plants, and animals | ✓ | |
| | | Mediation by ecosystems | Filtration/sequestration/storage/accumulation by ecosystems | ✓ | |
| | | | Dilution by atmosphere, freshwater and marine ecosystems | ✓ | |
| | | | Mediation of smell/noise/visual impacts | | |
| | | Mediation of flows | Mass flows | Mass stabilisation and control of erosion rates | ✓ |
| | | | | Buffering and attenuation of mass flows | ✓ |
| | Liquid flows | | Hydrological cycle and water flow maintenance | ✓ | |
| | | | Flood protection | ✓ | |
| | Gaseous / air flows | | Storm protection | | |
| | | | Ventilation and transpiration | | |
| | Maintenance of physical, chemical, biological conditions | Lifecycle maintenance, habitat and gene pool | Pollination and seed dispersal | ✓ | |
| | | | Maintaining nursery populations and habitats | ✓ | |
| | | Pest and disease control | Pest control | | |
| | | | Disease control | | |
| | | Soil formation and composition | Weathering processes | | |
| | | | Decomposition and fixing processes | | |
| | | Water conditions | Chemical condition of freshwaters | | |
| | | | Chemical condition of salt waters | | |
| | Atmospheric composition and climate regulation | Global climate regulation by reduction of greenhouse gas concentrations | ✓ | | |
| | | Micro and regional climate regulation | ✓ | | |
| | Cultural | Physical and intellectual interactions | Physical and experiential interactions | Experiential use of plants, animals and land-/seascapes | ✓ |
| | | | | Physical use of land-/seascapes | ✓ |
| Intellectual and representative interactions | | | Scientific | ✓ | |
| | | | Educational | ✓ | |
| | | | Heritage, cultural | ✓ | |
| | | | Entertainment | ✓ | |
| Spiritual, symbolic and other interactions | | Spiritual and/or emblematic | Aesthetic | ✓ | |
| | | | Symbolic | ✓ | |
| | | Other cultural outputs | Sacred and/or religious | ✓ | |
| | | | Existence | ✓ | |
| Bequest | ✓ | | | | |

790 * They comprise all the river basin elements that can be affected by water management (quantity and quality): rivers
 791 including riverbed and riverbanks; wetlands considering the different types (e.g. US Hydrogeomorphic classification or
 792 the simplification proposed by Turner et al. (2008)); aquifers; reservoirs.

793

794 Table 2. Final selection of papers reviewed.

| ID | Citation | ID | Citation | ID | Citation |
|----|---------------------------------|----|-------------------------------------|----|-----------------------------------|
| 1 | (Vaux and Howitt, 1984) | 33 | (Pulido-Velazquez et al., 2006) | 65 | (Yang and Cai, 2011) |
| 2 | (Brown et al., 1990) | 34 | (Ringler and Cai, 2006) | 66 | (Ahmadi et al., 2012) |
| 3 | (Booker and Young, 1991) | 35 | (Schoups et al., 2006) | 67 | (Grossmann and Dietrich, 2012) |
| 4 | (Diaz et al., 1992) | 36 | (Tanaka et al., 2006) | 68 | (Ward and Pulido-Velazquez, 2012) |
| 5 | (Booker and Young, 1994) | 37 | (Ward et al., 2006) | 69 | (Yang et al., 2012) |
| 6 | (Booker, 1995) | 38 | (Houk et al., 2007) | 70 | (Blanco-Gutiérrez et al., 2013) |
| 7 | (Lund and Ferreira, 1996) | 39 | (Mainuddin et al., 2007) | 71 | (Bryan et al., 2013) |
| 8 | (Ward and Lynch, 1996) | 40 | (Medellín-Azuara et al., 2007) | 72 | (Connor et al., 2013) |
| 9 | (Ward and Lynch, 1997) | 41 | (Qureshi et al., 2007) | 73 | (Davidson et al., 2013a) |
| 10 | (Hurd et al., 1999) | 42 | (Cai et al., 2008) | 74 | (Davidson et al., 2013b) |
| 11 | (Watkins Jr and McKinney, 1999) | 43 | (Harou and Lund, 2008) | 75 | (Divakar et al., 2013) |
| 12 | (Jenkins and Lund, 2000) | 44 | (Medellín-Azuara et al., 2008a) | 76 | (Geng and Wardlaw, 2013) |
| 13 | (Rosegrant et al., 2000) | 45 | (Medellín-Azuara et al., 2008b) | 77 | (Mullick et al., 2013) |
| 14 | (Bielsa and Duarte, 2001) | 46 | (Pulido-Velazquez et al., 2008b) | 78 | (Pulido-Velazquez et al., 2013) |
| 15 | (Tisdell, 2001) | 47 | (Reynaud and Leenhardt, 2008) | 79 | (Riegels et al., 2013) |
| 16 | (Cai et al., 2002) | 48 | (Volk et al., 2008) | 80 | (Roozbahani et al., 2013) |
| 17 | (Fisher et al., 2002) | 49 | (Ward and Pulido-Velázquez, 2008) | 81 | (Wan et al., 2013) |
| 18 | (Newlin et al., 2002) | 50 | (Li et al., 2009) | 82 | (Yang and Yang, 2013) |
| 19 | (Cai et al., 2003a) | 51 | (Medellín-Azuara et al., 2009) | 83 | (Daneshmand et al., 2014) |
| 20 | (Cai et al., 2003b) | 52 | (Ward, 2009) | 84 | (Debnath, 2014) |
| 21 | (Draper et al., 2003) | 53 | (Ward and Pulido-Velazquez, 2009) | 85 | (Erfani et al., 2014) |
| 22 | (Knapp et al., 2003) | 54 | (Alcoforado de Moraes et al., 2010) | 86 | (Hasler et al., 2014) |
| 23 | (Burke et al., 2004) | 55 | (Harou et al., 2010) | 87 | (Yang and Yang, 2014) |
| 24 | (Jenkins et al., 2004) | 56 | (Zoltay et al., 2010) | 88 | (Bekchanov et al., 2015b) |
| 25 | (Letcher et al., 2004) | 57 | (Divakar et al., 2011) | 89 | (Bekchanov et al., 2015c) |
| 26 | (Pulido-Velazquez et al., 2004) | 58 | (George et al., 2011a) | 90 | (Bekchanov et al., 2015a) |
| 27 | (Ringler et al., 2004) | 59 | (George et al., 2011b) | 91 | (Debnath et al., 2015) |
| 28 | (Assimacopoulos et al., 2005) | 60 | (Grafton et al., 2011) | 92 | (Erfani et al., 2015) |
| 29 | (Babel et al., 2005) | 61 | (Munoz-Hernández et al., 2011) | 93 | (Girard et al., 2015) |
| 30 | (Booker et al., 2005) | 62 | (Grafton and Jiang, 2011) | 94 | (Kahil et al., 2015) |
| 31 | (Marques et al., 2006) | 63 | (Riegels et al., 2011) | 95 | (Roozbahani et al., 2015) |
| 32 | (Null and Lund, 2006) | 64 | (Varela-Ortega et al., 2011) | | |

795

796 Table 3. Water use sectors considered in the reviewed HEM studies indicating the number of papers and their ID.

| Sectors | | Num. papers | ID papers |
|---------------|--|-------------|--|
| Single sector | Environmental | 2 | 65, 71 |
| Two sectors | Environmental and agricultural | 23 | 15, 22, 23, 25, 31, 35, 38, 39, 41, 48, 60, 61, 62, 64, 66, 67, 70, 72, 76, 80, 88, 90, 92 |
| | Environmental and hydropower | 2 | 8, 9 |
| | Environmental and urban | 3 | 12, 50, 81 |
| Three sectors | Environmental, agricultural and hydropower | 2 | 14, 89 |
| | Environmental, agricultural and industrial | 3 | 82, 85, 86 |
| | Environmental, agricultural and navigation | 1 | 77 |

| Sectors | | Num. papers | ID papers |
|----------------------|---|-------------|---|
| | Environmental, urban and agricultural | 23 | 1, 18, 21, 24, 26, 28, 33, 37, 40, 43, 45, 46, 47, 49, 51, 52, 53, 55, 68, 69, 78, 93, 94 |
| | Environmental, urban and hydropower | 2 | 84, 91 |
| Four sectors | Environmental, urban, agricultural and hydropower | 13 | 2, 6, 13, 16, 19, 20, 27, 32, 36, 42, 44, 58, 59 |
| | Environmental, urban, agricultural and industrial | 9 | 5, 17, 30, 73, 74, 79, 83, 87, 95 |
| Five or more sectors | | 12 | 3, 4, 7, 10, 11, 29, 34, 54, 56, 57, 63, 75 |

797

798 **Table 4. Cross relationship between major issues and assessment criteria in the reviewed papers indicating the number**
799 **of papers and their ID. See Heinz *et al.* (2007) for description of assessment criteria.**

| Assessment criteria | Cost-Benefit | Cost-Effectiveness | Net Benefit maximisation | Total Cost minimisation | Multi-criteria | Priority based optimisation and post-economic valuation | Total |
|---|--------------------|--------------------|---|---------------------------|---|---|-----------|
| Major water management problems | | | | | | | |
| Conjunctive use of surface and groundwater | 0 | 0 | 4 (26, 31, 35, 83) | 1 (33) | 0 | 0 | 5 |
| Drought/climate change management | 0 | 0 | 4 (10, 30, 37, 94) | 3 (36, 44, 55) | 0 | 1 (6) | 8 |
| Inter-sectoral water allocation | 4 (52, 58, 59, 67) | 3 (38, 64, 93) | 28 (3, 4, 8, 9, 13, 14, 15, 20, 25, 39, 41, 42, 47, 50, 54, 56, 57, 60, 61, 62, 69, 70, 77, 79, 84, 89, 90, 91) | 1 (46) | 11 (29, 65, 66, 71, 75, 76, 80, 81, 82, 87, 95) | 1 (28) | 48 |
| Land use management | 0 | 1 (48) | 0 | 0 | 0 | 0 | 1 |
| Trans-boundary management and conflict resolution | 0 | 1 (86) | 5 (16, 17, 19, 27, 34) | 1 (40) | 0 | 0 | 7 |
| Water institutions (prices, markets, rights) | 0 | 0 | 12 (1, 5, 18, 22, 23, 49, 53, 63, 78, 85, 88, 92) | 0 | 0 | 1 (72) | 13 |
| Water supply, engineering infrastructures and capacity expansion | 1 (45) | 0 | 5 (24, 43, 68, 73, 74) | 6 (7, 11, 12, 21, 32, 51) | 0 | 1 (2) | 13 |
| Total | 5 | 5 | 58 | 12 | 11 | 4 | 95 |

800

801 **Table 5. Classification of environmental and non-environmental impacts included in HEM studies (and papers ID)**
802 **according to the CICES framework.**

| Section | Class | Number of papers |
|--------------------------|--|---|
| Provisioning | Wild animals and their outputs | Commercial fishing (11, 27, 34, 77, 88, 89, and 90) |
| | Surface water for drinking | Urban demands (2, 3, 5, 6, 7, 10, 11, 16, 27, 28, 29, 30, 34, 37, 49, 53, 57, 68, 73, 74, 75, 84, 91, and 94) |
| | Ground water for drinking | |
| | Surface water for non-drinking purposes | Agricultural and/or Hydropower and/or Industrial and/or Navigation and/or Livestock and/or Commercial (2, 3, 5, 6, 7, 8, 9, 10, 11, 16, 27, 28, 29, 30, 34, 37, 49, 53, 57, 60, 67, 68, 74, 75, 77, 84, 88, 89, 90, 91, and 94) |
| | Ground water for non-drinking purposes | |
| Regulation & Maintenance | Filtration/sequestration/storage/accumulation by micro-organisms, algae, plants, and animals | Water quality (28) + Wastewater treatment (10) |
| | Filtration/sequestration/storage/accumulation by ecosystems | |
| | Dilution by atmosphere, freshwater and marine ecosystems | Salt dilution (2, 3, 5, 6, 10, 57, and 75) + Waste heat (10) |
| | Flood protection | Flood control (7, 10, and 65) |
| | Global climate regulation by reduction of greenhouse gas concentrations | Carbon sequestration (67) |
| Cultural | Experiential use of plants, animals and land-/seascapes | Tourism (88, 89, 90, and 94) |

| Section | Class | Number of papers |
|---------|---------------------------------|---|
| | Physical use of land-/seascapes | Recreation (6, 10, 11, 29, 30, 65, 84, and 91) + Recreational fishing (8, 9, 37, 49, 53, and 68) + Boating (67) |
| | Symbolic | Habitat (67) + Biodiversity (67) + Natural vegetation (71) + Native animals (71) |

803

804

Table 6. Valuation methods used in HEM studies for the considered environmental and non-environmental impacts.

| | | Consumer Surplus | Production-based | Cost-based | Revealed preferences | Stated preferences | Benefit transfer | Other |
|--------------------------|----------------------|------------------|------------------|------------|----------------------|--------------------|------------------|-------|
| Provisioning | Commercial fishing | | +++ | | | | | |
| | Urban demands | +++ | | | | | | |
| | Agricultural demands | ++ | +++ | | | | | |
| | Hydropower demands | | +++ | | | | | |
| | Industrial demands | +++ | ++ | + | | | | |
| | Navigation demands | | +++ | | | | | ++ |
| | Livestock demands | | +++ | | | | | |
| Regulation & Maintenance | Water quality | | | +++ | | | | |
| | Wastewater treat. | | | +++ | | | | |
| | Salt dilution | | | +++ | | | | |
| | Waste heat | | | +++ | | | | |
| | Flood control | | | +++ | | | | ++ |
| | Carbon sequestration | | | +++ | | | | |
| Cultural | Tourism | | ++ | | +++ | | | |
| | Recreation | | | | +++ | | + | ++ |
| | Recreational fishing | | | | +++ | | | |
| | Boating | | | | +++ | | | |
| | Habitat | | | | | | +++ | |
| | Biodiversity | | | | | | +++ | |
| | Natural vegetation | | | | | +++ | | |
| | Native animals | | | | | +++ | | |
| Not in CICES | Wetlands | | ++ | | | | +++ | |
| | Environmental flows | | | +++ | | +++ | +++ | +++ |
| | Environment | | | | | | | +++ |

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* The most used method on which the calculation was based is indicated with +++, the second most with ++, and the third most with +; empty values mean that the method was not used. Based on de Groot *et al.* (2002).