

## EARTH SCIENCES

## Institutional shifts and sustainable water use of the Yellow River Basin

Shuang Song<sup>1,2</sup>, Huiyu Wen<sup>3</sup>, \*Shuai Wang<sup>1,2</sup>, Xutong Wu<sup>1,2</sup>, Graeme S. Cumming<sup>4</sup> and Bojie Fu<sup>1,2,5</sup>

## ABSTRACT

Increasing competition for water is leading to depletion of freshwater globally and calls for an urgent transformation of the governance system. To quantitatively analyse how institutions contributed to water governance, we focus on institutional shifts of the Yellow River Basin (YRB), one of the most anthropogenic interfered large river basins overburdened in water use, then drying up, but finally successfully restored. Our results suggest that two institutional shifts, the Water Allocation Scheme since 1987 (87-WAS) and the Unified Basinal Regulation since 1998 (98-UBR), framed different structures of social-ecological systems (SESs) in regional and basinal water use. During the decade after the 87-WAS, the observed water use of the YRB had an 8.57% increase than an expectation. However, the 98-UBR significantly decreased total water use by 4.9 billion  $m^3/yr$ . Specifically, the 87-WAS stimulated water use in provinces with more water uses (e.g., Inner Mongolia, Henan, and Shandong), but the 98-UBR regulated nearly all provinces. Linking our results to a mathematical marginal benefits model, we suggest that the outcomes with regional variations come from the effects of SES structural changes. These quasi-natural experiments of the YRB deepened insights on SESs structures and outcomes, thus providing a valuable guideline for SESs worldwide facing water depletion.

**Keywords:** Yellow River, water use, water governance, social-ecological system, institutional fit

## INTRODUCTION

Widespread freshwater scarcity and overuse challenge the sustainability of large river basins, resulting in systematic risks to economies, societies, and ecosystems globally [1–4]. With steadily increasing demand, competition for water causes depletion of freshwater globally and calls for an urgent transformation of the governance system by considering water use conservation [5–7]. Despite worldwide trying to govern water, however, degradation of large river basins is not easily reversible because of few alignments between practice and theory in successful water governance cases. [8–10].

The Yellow River Basin (YRB), the fifth large river worldwide, is known for its irreplaceable role in the social-economic development of China, and thus also drastically interference by anthropogenic stress. Supporting 35.63% irrigation and 30% population with only 2.66% water resources of China (data from

<http://www.yrcc.gov.cn>, last access: May 4, 2022), the overburdened Yellow River dried up in consecutive years, resulting in substantial ecological, economic and social crisis (e.g., wetland shrink, agriculture reduction, and scramble for water). Intense water use, accounting for about 80% of Yellow River surface runoff in the 1980s, was remarked as the significant reason for the degradation. Furthermore, human interferences such as soil conservation and water conservancy project boosted water withdrawal and then stressed the water scarcity of the Yellow River. In the context of future climate change, the contradiction between supplies and demands of water resources in the YRB will become more prominent. Therefore, balancing ecological and developing demands in such a human-dominated basin is a problem for China in terms of water governance throughout and for large rivers worldwide.

Chinese authorities implemented several ambitious water management practices in the YRB

<sup>1</sup> State Key Laboratory of Earth Surface Processes and Resource Ecology, Faculty of Geographical Science, Beijing Normal University, Beijing 100875, P.R. China;

<sup>2</sup> Institute of Land Surface System and Sustainability, Faculty of Geographical Science, Beijing Normal University, Beijing 100875, P.R. China;

<sup>3</sup> School of Finance, Renmin University of China, Beijing 100875, P.R. China;

<sup>4</sup> ARC Centre of Excellence for Coral Reef Studies, James Cook University, Townsville 4811, QLD, Australia;

<sup>5</sup> The research for this article was financed by..... The authors thank..... for insightful comments and ..... for expert research assistance. A supplementary online appendix is available with this article at the *National Science Review* website.

\*Corresponding authors.

Email: [shuaiwang@bnu.edu.cn](mailto:shuaiwang@bnu.edu.cn).

Received: XX XX Year;

Revised: XX XX Year;

Accepted: XX XX Year

in the last century to relieve the water stress, such as reservoir regulation, South-to-north Water Diversion Project (WDP), and Water Allocation Scheme since 1987 (87-WAS), and the Unified Basinal Regulation since 1998 (98-UBR). Through those efforts, ecological restoration of wetland and estuary delta in the YRB without drying up for over 20 is widely considered a considerable river management achievement. Different from the engineering of WDP provides further water supply or reservoir matches water supply and demands, institutional strategies like the 87-WAS (assign water quotas for provinces in the YRB) and the 98-UBR (the provinces had to be allowed to use water by the Yellow River Conservancy Commission, YRCC) mainly focused on limiting demands of water use. Such institutions (policies, laws, and norms) can influence regional sustainability by changing the structure of the coupled human and natural system, including interplays between social actors, ecological units, or between social and ecological system elements [11–14]. Understanding those complex interlinkages, therefore, is crucial for developing strategies to effectively manage natural resources and enhance the resilience of social-ecological systems (SES) [15]. However, while literature had well evaluated and quantified the effects of engineering solutions beforehand, there are few attempts to assess institutional contributions to successful water governance.

In addition to widespread recognition of the rising importance of institutions as an approach to water sustainable use within large river basins (especially transboundary rivers like the YRB), their specific effects are still in open discussion [16–18]. Effective (“matched” or “fit”) institutions operate at appropriate spatial, temporal, and functional scales to manage and balance different relationships and interactions between human and water systems, therefore, supporting (but do not guarantee) sustainability of SES [7,19]. Some institutional shifts have desirable water governance outcomes (e.g., the Ecological Water Diversion Project in Heihe River Basin, China [7] and collaborative water governance systems in Europe [20]). However, shifting institutions in a large, complex river basin may create or destroy hundreds of different connections between social agents and ecological units, where matched social-ecological structures are not ubiquitous. Therefore, the role of institutional shifts in the water governance achievement of the YRB and their impacts on water use is still uncertain without an understanding of

SES structures. Here, by abstracting changes in official documents following institutional shifts (the 87-WAS and the 98-UBR), we depicted the SES structures of the YRB from 1975 to 2008. Then, we use Differenced Synthetic Control (DSC) method, which considers economic growth and natural background, to estimate theoretical water use scenarios without the institutional shifts (**Methods** and *Appendix S2*). By further interpreting the differences of the effects in the YRB, we explored the mechanisms linking SESs structure and outcomes for a deeper understanding of institutions’ role in water governance worldwide.

## RESULTS

### Institutional shifts and structures

The institutional shifts in 1987 (87-WAS) and 1998 (98-UBR) were two widely recognized milestones in restricting water use among national water governance practices (*Appendix S1*). Until the 87-WAS, stakeholders (the provinces in the YRB) had free access to the YR water resources for development, but there were geographic and temporal differences between freshwater demand and availability. As a compounded result of development, the provinces such as Shandong, Henan and Inner Mongolia used more water resources in the YRB with larger economies (primarily for irrigation agriculture). For shrinking water deficits, national authorities proposed in 87-WAS allocating specific water quotas between 10 provinces (or regions) along the YR basin. However, the controversial scheme helped little in turning the water depletion around until another strategy attempted to strengthen the responsibilities of the YRCC in integrated water management in 1998 (the 98-UBR). Therefore, our analysis period spans from 1975 (emergence of river depletion) to 2008 (a further polish of the 98-UBR), with the SESs shifted between three varying institutions (Figure 1).

We selected institutional regulatory documents on water use issued by national ministries (for validation to both watershed and regional agents) and extracted the interactions between the agents involved (*Supplementary Material S2*). Before 1987, the YRCC had no links to the provinces regarding water use, and the provinces could link to the Yellow River reaches directly (Figure 1). However, according to the extracted information from the 87-WAS, the YRCC started to report water use from the provinces. Furthermore, information from the 98-UBR docu-

ments demonstrated that the provinces had to apply their plan for an annual water use licence instead of direct access to the Yellow River water. Thus, there have been links between the YRCC and the provinces since the strengthening responsibilities of the YRCC in 1998.

[Figure 1 about here.]

### Institutional shifts impact on water use

Our estimation of theoretical water use suggests that the institutional shift in 1987 (87-WAS) stimulated the provinces to withdraw more water than would have been used without an institutional shift (Figure 2A). From 1988 to 1998, on average, while the estimation of annual water use only suggests 956.38 billion  $m^3$ , the observed water use of the YRB provinces reached 1038.36 billion  $m^3$  in sum, 8.57% increased. However, after the institution shifted again in 1998 (98-UBR), the trend of increasing water use appeared to be effectively suppressed. From 1998 to 2008, the total observed water use decreased by 4.9 billion  $m^3/yr$  per year, while the estimation of water use still suggests 10.3 billion  $m^3/yr$  increases (Figure 2 B). The increased water uses after 87-WAS aligns with the fact that badly drying-up of the surface streamflow from 1987 to 1998, which was an obvious touchstone of river degradation and environmental crisis (Figure 2C). On the other hand, the 98-UBR ended river depletion, despite the intensity of droughts still increasing for decades (from 0.47 after 87-WAS to 0.62 after 98-UBR on average) (Figure 2C).

[Figure 2 about here.]

### Institutional effects on regulating differences

Our results also suggest differences between patterns of provinces in their responses to the two institutional regulating. During the decade after the 87-WAS, the major water-using provinces (e.g., Inner Mongolia, Henan, Shandong) had apparent accelerations (Figure 3). The proportion of increased (or decreased) water use for each province (over the estimated water use by the model) has a significant correlation (partial correlation coefficient is 0.84,  $p < 0.05$ ) to the actual water use from the Yellow River. In particular, Inner Mongolia and Shandong, both provinces that exceeded the prescribed water uses of the 87-WAS, used 44.25% and 25.69% more water uses than the prediction from 1987 to 1998, respectively. By contrast, after the 98-UBR, except Shanxi (whose water quota has al-

ways been far abundant over its actual water use since the 87-WAS) had an evident (17.53%) increase in water use, almost all provinces have seen evident declines in water use (−12.5% on average). Furthermore, the regulated water use of provinces was not correlated (partial correlation coefficient is −0.03,  $p > 0.1$ ) with their water use from the Yellow River in proportions.

[Figure 3 about here.]

## DISCUSSION

In addition to quantitatively demonstrating the regulatory effect of 98-UBR by previous studies, our study also found that 87-WAS would increase overall water use of the YRB. The results challenged the previous analyses suggesting that the 87-WAS “has little effect” because the difference between prediction and observation will be trivial when the institutional shift was just a blank policy by applying the DSC method. Fixing the environmental background, the forecast by DSC takes economic factors into account under the assumptions that the production function between economic volume and water uses remained unchanged (*S2 in Supplementary Material*). As the accumulations of economy volume (GDP in different sectors) in the YRB maintained a parallel trend with other regions throughout (*Appendix S3 Figure ??*), differences after the institutional shifts suggest water use changing per unit of production, especially in agriculture (*S3 in Supplementary Material Figure ??*). This fact is in line with the sigh from then: although the key to alleviating the drought is saving water in the irrigated areas, the tragedy of frequently scrambling for water appeared in some provinces. Since the 98-UBR improved tragedy of water competition greatly, many studies attributed the restoration from river depletion mainly to the successful institutional shift.

Although previous studies summarised reasons for the non-ideal effect of 87-WAS, few improvements in the 98-UBR indicate that they underestimated influences from the structural changes (*Appendix S3 Figure ??*). As we have depicted (Figure 1), the institutional shifts twice framed the structure of SESs in the YRB and led to different building blocks, which were also reported in various types of SESs worldwide. The empirical studies in many different fields also indicate that the structure before 98-UBR (i.e., fragment ecological units are linked to separate social actors) is likely to be mismatched as isolated stakeholders struggle with holistically

maintaining interconnected ecosystems [21–24]. On the contrary, the YRCC, whose authority matched the YRB in scale after the 98-UBR, led to a well-recognized structure for institutional alignments to social-ecological fit and good outcomes. The effect of the institutional shifts once again demonstrated that it is not easy to have a win-win situation of environment and interests in complex coupled human-nature systems [25] which calls for exceptional understanding and caution to the structure of hampering sustainability [22,24].

Differences in the pattern of the response by provinces can demonstrate the influence of social-ecological structures led by the institutional shifts. We analyzed mathematically why the mismatched structure made limited water use holistically elusive in the institution shift of the 87-WAS but finally achieved by the 98-UBR (*method and Supplementary Material S4*). By taking the structure before and after the two institutional shifts as different basic assumptions (before 87-WAS: free access to water; after 87-WAS but before 98-UBR: decisions on water use under quotas; after 98-UBR: unified regulation), we use the marginal benefit model to analyze the theoretical optimal water consumption of stakeholders in each scenario. The analysis of the model also shows that 98-UBR can reduce the overall water use of the basin while 87-WAS can increase the water use of the basin when the same parameters are guaranteed but the institutional structure changes. Before the 98-UBR, the model assumes that the separated ecological units (river reaches) link to stakeholders (related provinces) who use water to pursue their marginal benefits but have a potential political cost if they exceed the quota 87-WAS. Our model suggests that for users who are already economically efficient (who are already using more water), greater marginal returns from water induce the acceleration of extracting resources for future economic growth (*Supplementary Material S4*). Therefore, isolated stakeholders reacted to the similar marginal cost, and smaller water users have a threshold because of the political cost, so 87-WAS triggered an increased water use for the significant users. On the contrary, the presence of central management (by the YRCC in this case, after 1998) can effectively reduce marginal ecological costs holistically as stakeholders only take corresponding responsibilities (follow the quota as possible as they can) to the YRCC (*Supplementary Material S4*). As a result, unified regulating acted the core role after the 98-UBR and reduced water use of

all stakeholders (provinces) by irregular ratios.

The alignments of differences in institutional structures and outcomes here echo the hypothesis that successful governance of SES emerged by indirectly (or vertically) creating links between different stakeholders (in the YRB cases, through administration). When links The water quotas of 87-WAS (or the initial water rights) in our case studies went through a stage of “bargaining” among stakeholders (from 1982 to 1987) [7,26], where each province attempted to demonstrate its development potential related to water use. The bargaining itself was also a process towards matches between their economic volume and water shares, as studies show that the large water users (like Shandong and Henan) need more water than their quota (in the 87-WAS) if only considering the economic equity when designing the institution. Furthermore, with information asymmetry between upper-level decision-makers and lower-level stakeholders in water use allocation, those with more current water use might have greater bargaining power. In practice, therefore, although the affected provinces may not have directly encouraged excessive resource use because of the institutional shift, they had a more considerable incentive to show their economic potential That aligns with the historical records that, even after the 87-WAS had already confirmed the quotas, provinces, especially water-intensive ones, challenged it by appearing to the higher central government for larger quotas. On the contrary, after YRCC as governing agent coordinated between stakeholders since 98-UBR, the external appeal of provinces for larger quotas turned into internal innovation to improve water efficiency (e.g., drastically increased water-conserving equipment, *Supplementary Material S3*) [27,28]. Then, the YRCC, the authority for approving water applications from all stakeholders, could adjust water use quotas according to the river conditions of the whole basin. The 98-UBR led to a structure for achieving social-ecological fits in both basins (between YRCC and the YRB) and regions (between provincial economy and their water shares).

## LIMITATION, INSIGHTS AND IMPLICATIONS

Matching social and ecological scales appears widespread as building blocks (or motifs) in successfully governed SES, whether in fisheries, forests, or groundwater management. Since the building blocks introduced by 87-WAS and 98-UBR are recurring motifs in many SES, our proposed mechanism is crucial to understand-

ing such coupled systems. We explored these causal linkages between the SES structures and sustainability (outcomes) by quasi-natural experiments (the institutional shifts) of the YRB, which provides an informative case study for two main reasons. First, different from gradual changes following bottom-up emergence, the top-down institutional shifts induced sharp changes in SES structures in the YRB, enabling us to estimate their net effects quantitatively. Second, as few basins experienced such radical institutional shifts more than once, the YRB provides comparable settings for understanding the impacts of structural changes in SESs. However, one of the inevitable limitations of our method is that it is difficult to rule out the effects of other policies over the same time breakpoints. Since scholars have reached a consensus on the importance of the two institutional shifts of 87-WAS and 98-UBR, the differences in their results still provide important insights for understanding water governance.

Our results and discussion deepen the understanding of SES structure and strengthen the basic understanding that the mismatched structure (isolated stakeholders with the fragmentation of ecology) is not conducive to institutional solutions. Moreover, we report how another institutional shift contributed to successful water governance -the subsequent success of 98-UBR has proved the importance of social-ecological fit again, theoretically and practically. For sustainability in the future, therefore, it is necessary to emphasize the necessity of strengthening connections between stakeholders by agents consistent with the scale of the ecological system (in this case, the basinal scale and the YRCC). From these starting points, several other scenarios given by a marginal benefit model (see *Supplementary Material S4*) can provide plausible insights into water governance. For example, water rights transfers can be another way to emerge horizontal links between stakeholders that also have the potential to result in better water governance. In addition, the policymakers can propose more dynamic and flexible institutions to increase the adaptation of stakeholders to respond to changing SES context.

Calls for a redesign of water allocation institutions in the YRB in recent years also illustrate the importance of institutional solutions to sustainability (see *Supplementary Material S1*) [29]. Given recent changes in the YRB, outdated and inflexible water quota can no longer meet the new demands of economic development [26]. As a result, the Chinese government has embarked

on a plan to redesign its decades-old water allocation institution (see *Supplementary Material S1*). These initiatives can benefit from our analysis by actively incorporating social-ecological matched building blocks when developing a new institutional shift toward sustainability. Moreover, our research provides a cautionary tale of how institutions can be double-edged, while insights from the YRB can be a valuable guideline for SESs worldwide [12,30–32].

## MATERIALS AND METHODS

We first abstract the SES structures of water using in the YRB from 1975 to 2008, where two institutional shifts split the period into three pieces. We then estimated the net effects of two institutional shifts on total water uses, changing trends, and differences of the YRB's provinces, by Differenced Synthetic Control (DSC) method [33]. Finally, for discussion, we created an economic model based on marginal revenue to provide a theoretical interpretation for the observed water use outcomes.

### Portraying structures

#### Differenced Synthetic Control

Synthetic control is an effective identification strategy for estimating the net effect of historical events or policy interventions on aggregate units (such as cities, regions, and countries) by constructing a comparable control unit [34–36]. In this study, we used a comparative event approach and compared actual post-institutional shift induced water use changes with an appropriate counterfactual of what the water use change would have been. The counterfactual was built as the optimally weighted average of provinces not exposed to the institutional shifts. The synthetic control method generalizes the difference-in-differences estimator and allows for time-varying individual-specific unobserved heterogeneity [37,38]. In practice, each of the units (i.e., provinces) in the treated group were affected by institutional shifts in 1987 and 1998, each of which was taken as the “shifted” point  $t_0$  and the two steady institutions as  $t$  for analyzing in each shift. The synthetic control method generates the control unit by assigning a weight matrix  $W$  to units of the potential control group, so that the treated unit and its control unit are similar in each variable before  $t_0$ , i.e.,

$$\min(V_i^{t < t_0} - W_i * F_{control}^{t < t_0})$$

where  $V_i$  is a vector that indicates all features

of a unit  $i$  of the treated group, and  $F_{control}$  is a matrix that consists of all features and units of the potential control group.  $W_i$  is the weight matrix for target unit  $i$ . We minimized the root mean square error (RMSE) by using the SyntheticControl package in python3. All codes are accessible in the repository.

In accordance with the idea of dimensionality reduction, we constructed a series of comparable control units that were most similar in characteristics to the treated units. Because the units of the control group were not affected by the institutional shifts, after giving the same weight to the total water use of the control group  $M_i * WU_{control}$ , the result  $W_i * WU_{control}$  could be considered a reasonable estimation of the untreated situation. The net effect of the water allocation institutional shift was then estimated by calculating the difference of water uses after the institutional shift between the treated group and the control group, compared with the water use difference before the shift.

### Dataset and variables

We used China's provincial annual water consumption dataset from 1978 to 2012. This publicly available dataset was obtained from the National Water Resources Utilization Survey; details are accessible from Zhou (2020) [39]. A total of 10 provinces or regions have been directly affected by the water allocation institutional shifts in the YRB, accounting for 8.6% of the total population of China (in 1990). Eight provinces have been particularly affected because of their greater dependence on the water resources from the Yellow River (see *Supplementary Material S2*). Therefore, we divided the dataset into a "target group" and a "control group", treating provinces that were greatly affected as the target group ( $n = 8$ ) and provinces that were not affected by the institutional shifts as the potential control group ( $n = 20$ ).

We focused on total water use in the YRB. The actual water uses are given by the dataset, but when the synthetic control method is used to predict the water use of the control group, other independent influences need to be considered. Thus, we used economic features that are highly related to water use to extrapolate demand (e.g., agriculture, industry, service industry, and domestics, see *Supplementary Material S2, Table 1*

### Economic model

In order to understand the mechanisms underlying the empirical results, we developed a dynamic economic model to analyze how institutional change could have led to the sprint effect in water use. Specifically, we modeled individual provincial decision-making in water resources before quota execution. The analysis result implied that the underlying driver of CPR overuse was incentive distortion.

In developing the model, we highlighted the main features of the YRB, as well as the water use institutions of 1987 and 1998. We proposed three intuitive and general assumptions.

**Assumption 1.** (*Water-dependent production*) For simplicity, water is assumed to be the only input of the homogenous production function  $F(x)$  of each province because of its irreplacability.  $F(x)$  is continuous and satisfies the Inada Conditions, i.e.,  $F'(x) > 0, F''(x) < 0$  (the diminishing marginal returns assumption),  $F'(0) = \infty, F'(\infty) = 0$ . The production output is under perfect competition, with a constant unit price of  $P$ .

**Assumption 2.** (*Ecological cost allocation*) Under the assumption that the ecology is a single entity for the whole basin involved in  $N$  provinces, the cost of water use is equally assigned to each province under any water use. The unit cost of water is a constant  $C$ .

**Assumption 3.** (*Multi-period settings*) There are infinite periods with a constant discount factor  $\beta$  lying in  $(0,1)$ . There is no cross-period smoothing in water uses.

Under the above assumptions, we can demonstrate three cases consisting of local governments in YRB to simulate their water use decision-making and water use patterns.

**Case 1.** *Decentralized institution:* This case corresponds to a situation without any high-level water allocation institution (i.e., before 1987, see Figure 1 B).

When each province independently decides on its water use, the optimal water use  $\hat{x}_i^*$  in province  $i$  satisfies:

$$F'(x) = \frac{C}{P \cdot N}$$

When the decisions in different periods are independent, for  $t = 0, 1, 2, \dots$ , then:

$$\hat{x}_{it}^* = \hat{x}_i^*$$

**Case 2.** *Mismatched institution* This case corresponds to a mismatched institution (i.e., 1987 ~ 1998, see Figure 1 C).

The water quota is determined at  $t = 0$  and imposed in  $t = 1, 2, \dots$ . The total quota is a constant denoted as  $Q$ , and the quota for province  $i$  is determined in a proportional form:

$$Q_i = Q \cdot \frac{x_i}{x_i + \sum x_{-i}}$$

Under a scenario with decentralized decision-making with a water quota institution, given other provinces' water use decisions remain unchanged, the optimal water use  $\tilde{x}_{i0}^*$  of province  $i$  at  $t = 0$  satisfies:

$$F'(x_{i,0}) = \frac{C}{P \cdot N} - \frac{\beta}{1-\beta} \cdot f(Q \cdot \frac{x_{i,0}}{x_{i,0} + \sum x_{-i,0}}) \cdot Q \cdot \frac{\sum x_{-i,0}}{(x_{i,0} + \sum x_{-i,0})^2}.$$

When future water use is constrained by a water quota, the dynamic optimization problem of province  $i$  is shown as follows:

$$\begin{aligned} \max \quad & P \cdot F(x_{i,0}) - \frac{C \cdot \sum x_{i,0} + x_{-i,0}}{N} + \beta P \cdot F(x_{i,1}) + \beta^2 P \cdot F(x_{i,2}) + \dots \\ & = P \cdot F(x_{i,0}) - C \cdot \frac{x_{i,0} + \sum x_{-i,0}}{N} + \frac{\beta}{1-\beta} P \cdot f(Q \cdot \frac{x_{i,0}}{x_{i,0} + \sum x_{-i,0}}) \end{aligned}$$

$$\text{First-order condition: } P \cdot F'(x_{i,0}) - \frac{C}{N} + \frac{\beta}{1-\beta} [P \cdot f(Q \cdot \frac{x_{i,0}}{x_{i,0} + \sum x_{-i,0}}) \cdot Q \cdot \frac{\sum x_{-i,0}}{(x_{i,0} + \sum x_{-i,0})^2}] = 0$$

where  $f(\cdot)$  is the differential function of  $F(\cdot)$ .

$$\begin{aligned} \text{The optimal water use in province } i \text{ at } t=0 \text{ satisfies } P \cdot F'(x_{i,0}) &= \frac{C}{N} - \frac{\beta}{1-\beta} \cdot P \cdot f(Q \cdot \frac{x_{i,0}}{x_{i,0} + \sum x_{-i,0}}) \cdot Q \cdot \frac{\sum x_{-i,0}}{(x_{i,0} + \sum x_{-i,0})^2}, \text{ i.e., } F'(x_{i,0}) = \\ &= \frac{C}{P \cdot N} - \frac{\beta}{1-\beta} \cdot f(Q \cdot \frac{x_{i,0}}{x_{i,0} + \sum x_{-i,0}}) \cdot Q \cdot \frac{\sum x_{-i,0}}{(x_{i,0} + \sum x_{-i,0})^2}. \end{aligned}$$

### Case 3. Matched institution

This case corresponds to the institution under which the YRCC centrally managed water allocation between provinces (i.e., 1998 ~ 2008, see Figure 1 D).

When the  $N$  provinces decide on water uses as unified whole (e.g., the central government completely decides and controls on the water use in each province), the optimal water use  $x_i^*$  of province  $i$  satisfies:

$$F'(x) = \frac{C}{P}$$

We propose Proposition 1 and Proposition 2:

**Proposition 1:** Compared with the decentralized institution, a matched institution with unified management decreases total water use.

Because  $F'$  is monotonically decreasing, based on a comparison of costs and benefits for stakeholders (provinces) in the three cases,

$$\tilde{x}_i^* > \hat{x}_i^* > x_i^*$$

The result of  $\hat{x}_i^* > x_i^*$  indicates that individual rationality would deviate from collective rationality when property rights are unclear, because of the common-pool characteristics of water.

The difference of  $\tilde{x}_i^*$  and  $\hat{x}_i^*$  stems from two parts: the marginal returns effect and the marginal costs effect. First, the “shadow value” provides additional marginal returns of water use in  $t = 0$ , which increases the incentives of water overuse by encouraging bargaining for a larger quota. Second, the future cost of water use would be degraded from  $\frac{P}{N}$  to an irrelevant cost.

The optimal water use under the three cases implies that mismatched institutions cause incentive distortions and lead to resource overuse.

**Proposition 2:** The quota determination of the mismatched institution increases the incentives of current water use.

The intuition for this proposition is straightforward in that all provinces would use up their allocated quota under a relatively small  $Q$ . As  $Q$  increases, the quota would provide higher future benefits for a pre-emptive water use strategy. Since the provincial water use decisions are exactly symmetric, total water use would increase when each province has higher incentives for current water use. This situation corresponds to a “sprint” effect, where the total water use dramatically increases in the “sprint” period.

Extensions of the model are shown in *Supplementary Material S3*.

## CONCLUSION

Intense water use in one of the most anthropogenic interfered large river basins, the Yellow River Basin (YRB), once led to overburdened drying up but finally had a successful restoration by sequential water governance practices. Focusing on two water-demand institutions, 87-WAS and the 98-UBR, we quantitatively analyzed how institutional shifts played a role in the water governance achievement of the YRB. Shifting throughout different SES structures framed by them, the observed water use of the YRB provinces had an 8.57% increase than expected during the decade after the 87-WAS. Then, water use significantly decreased by 4.9 billions  $m^3$  per year since the 98-UBR, while the model still suggests a 10.3 billions  $m^3$  annual increase in expectation. Finally, as differences in stakeholders' response to the institutional shifts, water use rises after the 87-WAS in

provinces with more water uses (e.g., Inner Mongolia, Henan, and Shandong) while shrunk in nearly all provinces after the 98-UBR. Since the above results closely align with interpretations from a mathematical marginal benefits model, we can link the structures (widespread building blocks) and outcomes (goals of the institution, i.e., limiting water demands) by these quasi-natural experiments of the YRB. We demonstrate that social-ecological fits lead to successful governance where reducing independent stakeholders linked to fragmentation is an essential primary mechanism for good SES outcomes.

### Appendix S1: Institutions' contexts

Water allocation schemes are widespread in large river basin management programs throughout the world (see *Appendix Figure 4*) [40]. This was the first basin in China for which a water resource allocation institution was created, and institutional shifts can be traced through several documents released by the Chinese government (at the national level) [26]:

- **1982:** The provinces and the Yellow River Water Conservancy Commission (YRCC) are required to develop a water resource plan for the Yellow River [26,41].
- **1987:** Implementation of the Allocation Plan. (<http://www.mwr.gov.cn>, last access: May 4, 2022).
- **1998:** Implementation of unified regulation. (<http://www.mwr.gov.cn>, last access: May 4, 2022).
- **2008:** Provinces are asked to draw up new water resources plans for the YRB to further refine water allocations [26,41].
- **2021:** A call for redesigning the water allocation institution (<http://www.ccgp.gov.cn>, last access: May 4, 2022).

Since 1982, administrations attempted to design a quota institution, and the 2008 document marked the maturity of the scheme (complete establishment of basin-level, provincial, and district water quotas). Between the period, two significant institutional shifts can be analyzed by using the 1987 (87-WAS) and 1998 (98-UBR) documents.

The official documents in 1987 (<http://www.mwr.gov.cn>, last access: May 4, 2022) clearly convey the following key points:

- The policy is aimed at related provinces (or regions in the same administrative level).
- Depletion of the river is identified as the first

consideration of this institution.

- Provinces are encouraged to develop their own water use plans based on a quota system.
- Water in short supply is a common phenomenon in relevant provinces (regions).

The official documents in 1998 (<http://www.mwr.gov.cn>, last access: May 4, 2022) clearly convey the following key points:

- The document clearly points out that not only provinces and autonomous regions involved in water resources management (see *Article 3*), the provinces' and regions' water use shall be declared, organized, and supervised by the YRCC (*Article 11 and Chapter III to Chapter V, and Chapter VII*).
- Creating the overall plan of water use in the upper, middle, and lower reaches is identified as the first consideration of this institution (*Article 1*).
- With the same quota as used in the 1987 policy, provinces were encouraged to further distribute their quota into lower-level administrations (see *Article 6 and Article 41*).
- They emphasize that supply is determined by total quantity, and water use should not exceed the quota proposed in 1987 (see *Article 2*).

[Figure 4 about here.]

Based on the above documents, we abstracted the structural changes of SES (see *Appendix S2*) after the two institutional changes, as shown in Figure 1 C.

[Table 1 about here.]

### Appendix S2: Methods in details

### Appendix S3: Supplementary figures

### Appendix S4: Marginal revenue model

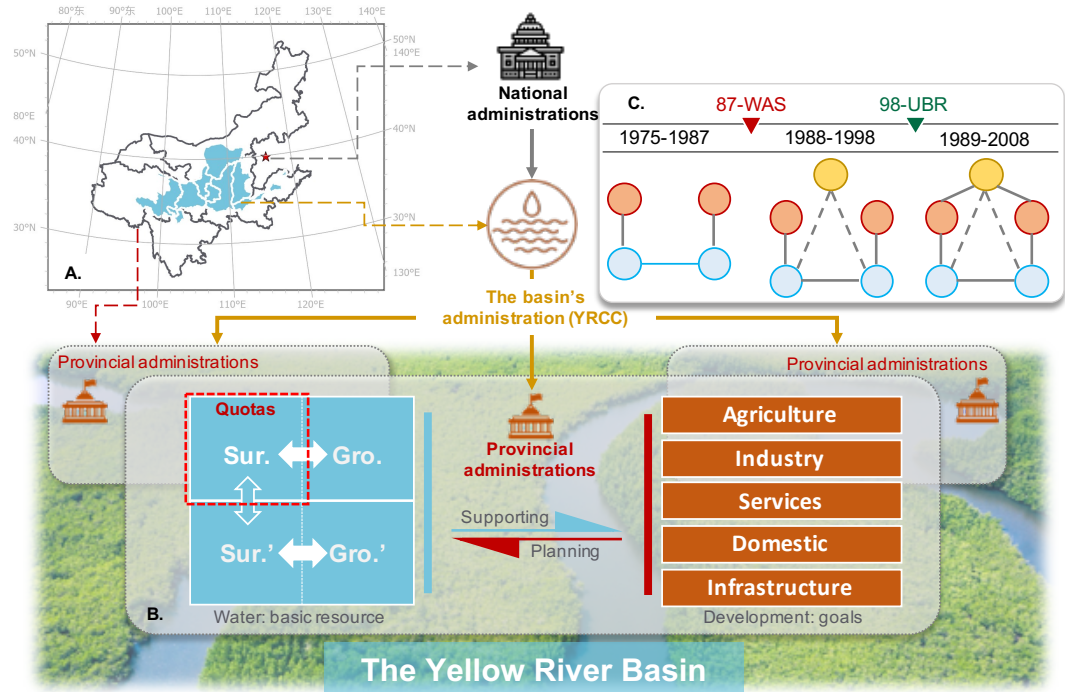
### Appendix S5: Theoretical scenarios

### REFERENCES

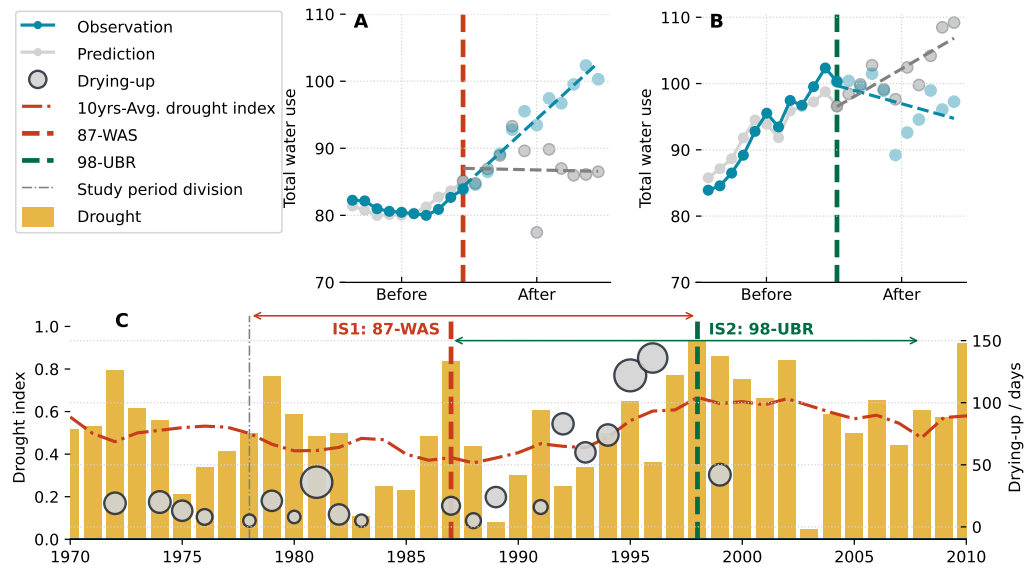
1. Distefano T and Kelly S. Are we in deep water? Water scarcity and its limits to economic growth ; **142**: 130–147.
2. Dolan F, Lamontagne J, Link R *et al.* Evaluating the economic impact of water scarcity in a changing world ; **12**: 1915.
3. Xu Z, Chau SN, Chen X *et al.* Assessing progress towards sustainable development over space and time ; **577**: 74–78.
4. Mekonnen MM and Hoekstra AY. Four billion people facing severe water scarcity ; **2**: e1500323.
5. Gleick PH and Palaniappan M. Peak water limits to freshwater withdrawal and use ; **107**: 11155–11162.
6. Ziolkowska JR and Peterson JM. *Competition for Water Resources: Experiences and Management Approaches in the US and Europe* (Elsevier).



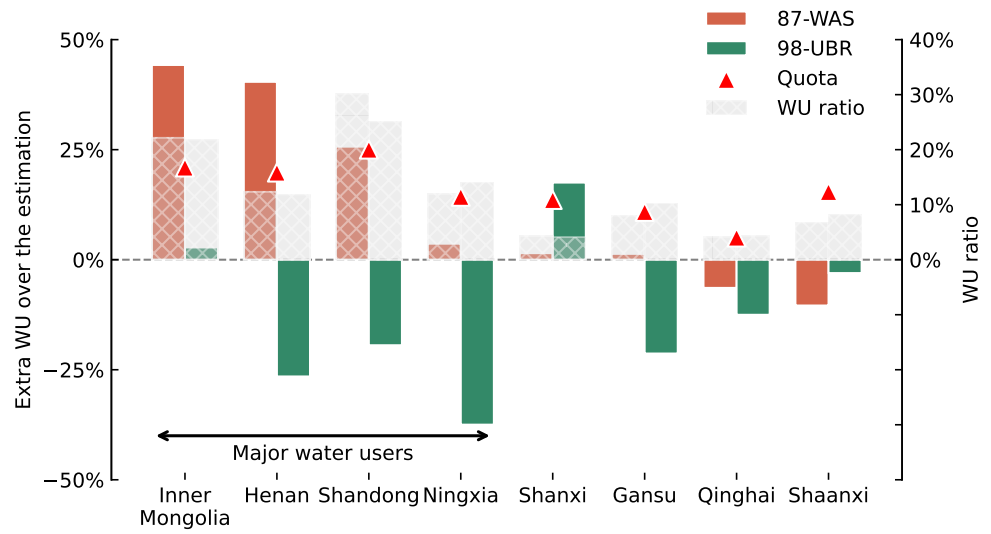
7. Wang S, Fu B, Bodin O *et al.* Alignment of social and ecological structures increased the ability of river management ; **64**: 1318–1324.
8. Giuliani M and Castelletti A. Assessing the value of cooperation and information exchange in large water resources systems by agent-based optimization ; **49**: 3912–3926.
9. Falkenmark M, Wang-Erlandsson L and Rockström J. Understanding of water resilience in the Anthropocene ; **2**: 100009.
10. Jaeger WK, Amos A, Conklin DR *et al.* Scope and limitations of drought management within complex human-natural systems ; **2**: 710–717.
11. Young OR, King LA and Schroeder H, editors. *Institutions and Environmental Change: Principal Findings, Applications, and Research Frontiers* (MIT Press).
12. Cumming GS, Epstein G, Anderies JM *et al.* Advancing understanding of natural resource governance: A post-Ostrom research agenda ; **44**: 26–34.
13. Lien AM. The institutional grammar tool in policy analysis and applications to resilience and robustness research ; **44**: 1–5.
14. Bodin O. Collaborative environmental governance: Achieving collective action in social-ecological systems ; **357**: ean1114.
15. Kluger LC, Gorris P, Kochalski S *et al.* Studying human–nature relationships through a network lens: A systematic review ; **2**: 1100–1116.
16. Agrawal A. Sustainable Governance of Common-Pool Resources: Context, Methods, and Politics ; **32**: 243–262.
17. Persha L, Agrawal A and Chhatre A. Social and Ecological Synergy: Local Rulemaking, Forest Livelihoods, and Biodiversity Conservation ; .
18. Agrawal A. Common Property Institutions and Sustainable Governance of Resources ; **29**: 1649–1672.
19. Epstein G, Pittman J, Alexander SM *et al.* Institutional fit and the sustainability of social–ecological systems ; **14**: 34–40.
20. Green O, Garmestani A, van Rijswijk H *et al.* EU Water Governance: Striking the Right Balance between Regulatory Flexibility and Enforcement? ; **18**.
21. Sayles JS and Baggio JA. Social–ecological network analysis of scale mismatches in estuary watershed restoration ; **114**: E1776–E1785.
22. Sayles JS. Social-ecological network analysis for sustainability sciences: A systematic review and innovative research agenda for the future ; **19**.
23. Cai H, Chen Y and Gong Q. Polluting thy neighbor: Unintended consequences of China's pollution reduction mandates ; **76**: 86–104.
24. Bergsten A, Jiren TS, Leventon J *et al.* Identifying governance gaps among interlinked sustainability challenges ; **91**: 27–38.
25. Hegwood M, Langendorf RE and Burgess MG. Why win–wins are rare in complex environmental management ; **1–7**.
26. Wang Y, Peng S, Wu j *et al.* Review of the implementation of the yellow river water allocation scheme for thirty years ; **41**: 6–19.
27. Krieger JH. Progress in Ground Water Replenishment in Southern California ; **47**: 909–913.
28. Ostrom E. *Governing the Commons: The Evolution of Institutions for Collective Action*. Political Economy of Institutions and Decisions (Cambridge University Press).
29. Yu W, Shaoming P, Xiaokang Z *et al.* Adaptability assessment and promotion strategy of the Yellow River Water Allocation Scheme ; **30**: 632–642.
30. Muneeppeerakul R and Anderies JM. Strategic behaviors and governance challenges in social-ecological systems ; **5**: 865–876.
31. Cumming GS and Dobbs KA. Quantifying Social-Ecological Scale Mismatches Suggests People Should Be Managed at Broader Scales Than Ecosystems ; S2590332220303511.
32. Leslie HM, Basurto X, Nenadovic M *et al.* Operationalizing the social-ecological systems framework to assess sustainability ; **112**: 5979–5984.
33. Arkhangelsky D, Athey S, Hirshberg D *et al.* Synthetic Difference In Differences.
34. Abadie A, Diamond A and Hainmueller J. Synthetic Control Methods for Comparative Case Studies: Estimating the Effect of California's Tobacco Control Program ; **105**: 493–505.
35. Abadie A, Diamond A and Hainmueller J. Comparative Politics and the Synthetic Control Method: Comparative Politics and the Synthetic Control Method ; **59**: 495–510.
36. Hill AD, Johnson SG, Greco LM *et al.* Endogeneity: A Review and Agenda for the Methodology-Practice Divide Affecting Micro and Macro Research ; **47**: 105–143.
37. Billmeier A and Nannicini T. Assessing Economic Liberalization Episodes: A Synthetic Control Approach ; **95**: 983–1001.
38. Smith B. The resource curse exorcised: Evidence from a panel of countries ; **116**: 57–73.
39. Zhou F, Bo Y, Ciais P *et al.* Deceleration of China's human water use and its key drivers ; 201909902.
40. Speed R and Asian Development Bank. *Basin Water Allocation Planning: Principles, Procedures, and Approaches for Basin Allocation Planning* (Asian Development Bank, GIWP, UNESCO, and WWF-UK).
41. Wang Z and Zheng Z. Things and current significance of the yellow river water allocation scheme in 1987 ; **41**: 109–127.



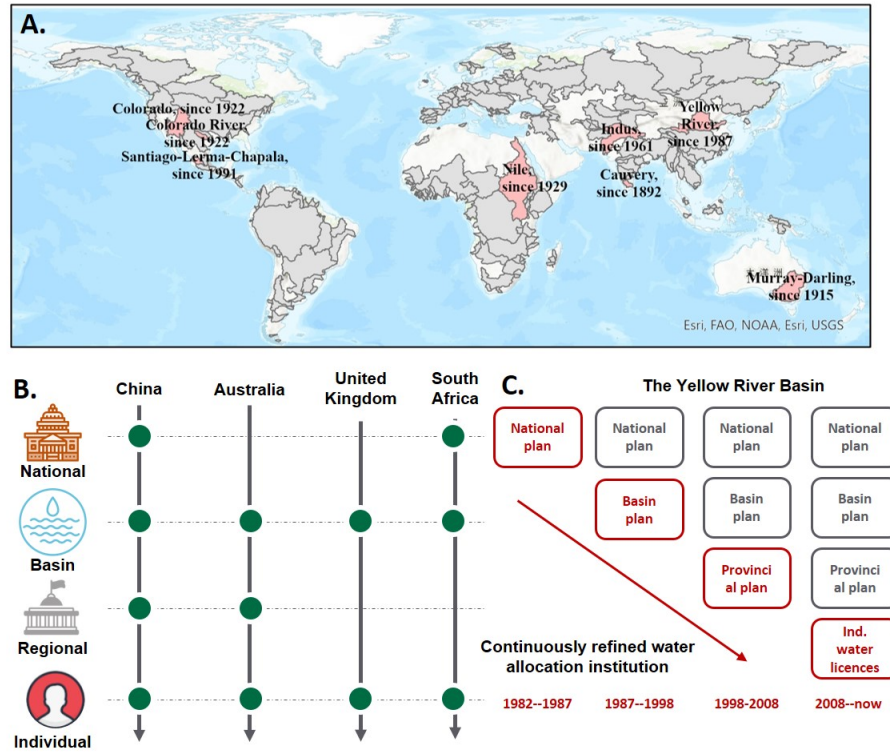
**Figure 1.** Institutional shifts and related SES structures in the Yellow River Basin (YRB). **A.** The YRB crosses 10 provinces or the same-level administrative regions, 8 of which are highly relying on the water resources from the YRB (see *Appendix S1* Table 1). The national administrations are the ultimate authority in issuing water governance policies, which are often implemented by basin-level agency (the Yellow River Conservancy Commission, YRCC) and each province-level agency. **B.** Since the YRCC does not use but monitor water, the provincial administrative agencies are the major stakeholders. Since the 87-WAS, with surface water withdraw from the Yellow River restricted by specific quotas, each stakeholder separately develop by planning and using fundamental water resources. However, the natural hydrological processes are connected. Although the institutions focus mainly on the surface water (Sur.), it can also influence groundwater inside (Gro.) or water resources outside (Sur. and Gro.), through systematic socio-hydrological processes within the YRB. **C.** Institutional shifts and following structures changes (details in *Appendix S1*). (1) From 1975 to 1987, water resources were freely accessible to each stakeholder (denoted by red circles) from connected ecological unit (the reach of Yellow River, denoted by the blue circles). (2) After 1987-WAS, the YRCC (the yellow circles) was monitoring (the dot-line links) river reaches with the water use quota. (3) Since the 98-UBR, stakeholders have to apply water use licences from the YRCC (the connections between the red and yellow circles).



**Figure 2.** Effects of two institutional shifts on water resources use and allocation in the Yellow River Basin (YRB). **A.** water uses of the YRB before and after the institutional shift in 1987 (87-WAS); **B.** water uses of the YRB before and after the institutional shift in 1998 (98-UBR). While the blue lines are statistic water use data, the grey ones are the estimation from the Differenced Synthetic Control method with economic and environmental background controlled. **C.** Drought intensity in the YRB and drying up events of the Yellow River. The size of the grey bubbles denotes the length of a drying upstream.



**Figure 3.** Regulating differences for provinces in the YRB. Red and green bars denote actual water use over the estimation from the model in a decade after the institutional shift -the 87-WAS and the 98-UBR, respectively. The grey bars indicate the proportions of actual water use for each province to total water use of the provinces in a decade after the institutional shift. The triangles mark the water quotas assigned in the institution, scaled into ratios by the same total actual water use, too.



**Figure 4.** Overview of water allocation institutions. **A.** Major river basins in the world with water resource allocation systems (shaded red); the YRB first proposed a resource allocation scheme in 1987 (designed since 1983) and then changed to a unified regulation scheme in 1998 (designed in 1997 but implemented in 1998) [40]. **B.** Different water resource allocation system design patterns; the YRB is typical of a top-down system. **C.** The four periods of institutional evolution of water allocation of the YRB.

**List of Tables**

1	Water quotas assigned in the 87-WAS . . . . .	15
---	---	----

**Table 1.** Water quotas assigned in the 87-WAS

Items (water volume, billion $m^3$ )	Qinghai	Sichuan	Gansu	Ningxia	Inner Mongolia	Shanxi	Shaanxi	Henan	Shandong	Jinji
Demands in water plan	35.7	0	73.5	60.5	148.9	115	60.8	111.8	84	6
Quota designed in 1983	14	0	30	40	62	43	52	58	75	0
Quota assigned in 1987	14.1	0.4	30.4	40.0	58.6	38.0	43.1	55.4	70.0	20
Average water consumption from the Yellow River from 1987-2008	12.03	0.25 <sup>a</sup>	25.80	36.58	61.97	21.16	11.97	34.30	77.87	5.85 <sup>a</sup>
Proportion of water from the Yellow River in total water consumption	48.12%	0.10 <sup>b</sup> %	30.79%	58.45%	47.82%	73.55%	44.39%	24.77%	34.41%	3.11% <sup>b</sup>

[a]Calculated by data from 2004 to 2017.

[b]The share is too small, thus the provinces (or region) Sichuan and Jinji not to be considered in this study.