

> Case study no 4:

Economic Policy Instruments for Water



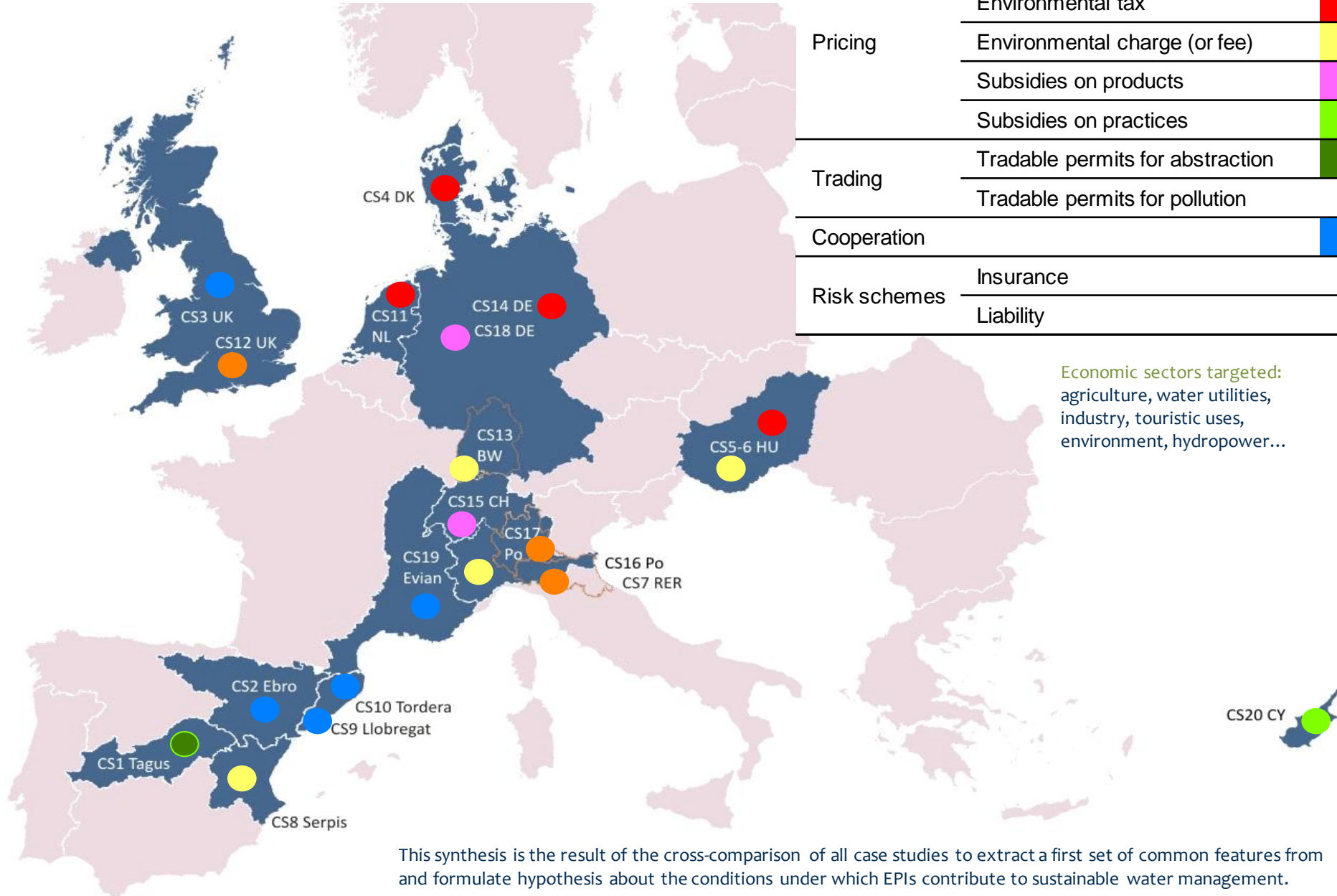
MARSEILLE, FRANCE '12

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Aims and objectives

- To assess the **effectiveness and efficiency** of EPIs in achieving water policy goals;
- To identify the **preconditions** under which economic policy instruments deliver a sustainable use of water resources and achieve efficient and equitable water supply;
- **To compare the performance** of single economic instruments or their combinations with the performance of alternative, regulatory interventions, persuasive instruments or voluntary commitments.
- ***Economic Policy Instruments (EPIs) for water policy are those incentives designed and implemented with the purpose of adapting individual decisions to collectively agreed goals.***

EU ex-post case studies



This synthesis is the result of the cross-comparison of all case studies to extract a first set of common features from and formulate hypothesis about the conditions under which EPIs contribute to sustainable water management.

Non-EU ex-post case studies

Type of instrument

Pricing	Water tariff	Orange
	Environmental tax	
	Environmental charge (or fee)	
	Subsidies on products	
Trading	Subsidies on practices	Light Green
	Tradable permits for abstraction	Dark Green
Cooperation	Tradable permits for pollution	Cyan
	Insurance	Blue
Risk schemes	Liability	Yellow

CS27
California, USA

CS22
Colorado, USA

CS25
Ohio, USA

CS26
New York, USA

CS29
North Carolina, USA

CS24
Israel

CS28
China

CS30
Chile

CS21
Australia

CS23
Australia

EPIs and the transition towards the Green Economy

💧 *What is the right balance between using water and preserving water providing ecosystems*

💧 **The traditional perspective:** the end of water policy consists in **providing sufficient water** to meet the demands of a growing economy.

> **Do not forget that:** water is still an integral part of the necessary conditions to break up poverty traps in many regions.

💧 **The emerging paradigm:** Water policy is a mean to coordinate all water uses within the range of available resources. It implies improving and **protecting water ecosystems**.

> **Do not forget that:** welfare gains in rich countries and the potential benefits of development in poor ones can only be maintained if the ability of water assets to provide society with critical water services is adequately protected.

Lessons learnt 1 > EPIs to the goals of water policy

🔹 *EPIs have made a real contribution to:*

- 🔹 Raise revenue for valuable public aims.
- 🔹 Make the provision of water services financially sustainable.
- 🔹 Supporting the development policies in strategic areas such as agriculture, energy, land settlements, manufacturing.

🔹 *EPIs have a real Green Growth potential by:*

- 🔹 Converting payments on the use of water into working incentives for **water conservation**.
- 🔹 Increasing **cost recovery** in particular of environmental and resource costs.
- 🔹 **Coordinating all water use** in the economy within the range of renewable water resources available.
- 🔹 Promoting individual actions to **save water**, increase water **efficiency**, improve water **quality** and reduce water associated **risks**.

Lessons 2 > When promoting an extended use of EPIs one needs to be aware of:

- **EPIs** are not bad or good on their own but they may help aligning **individual decisions** with goals of improving and protecting water resources.
- Different purposes deserve different instruments. A **proper balance** needs to be found between financial, developmental and environmental objectives.
- **EPIs** are useless in isolation. But they may become a powerful ingredient in the **Water Policy Mix**
- The real key issue in EPIs effectiveness relies on its **delivery mechanism**.
- EPIs can be said to be especially effective for water policy goals when they create **incentives** for behavioural changes of economic agents (water users).

Lessons 3 > EPIs can become break-out instruments to cope with existing environmental challenges in particular regarding:

Coping with **water scarcity** and to improve **resilience** to extreme events and climate change by:

- Improving water allocation (THROUGH: water trading)
- Promoting water efficiency (THROUGH: water pricing, subsidies, fines, etc.)
- Fostering planned responses to water risks (THROUGH: Cooperative agreements, income stabilization insurance, water preservation funds,...).
- Cooperating to share the benefits of preserving water resources (THROUGH: PES schemes, self-enforceable agreements among users, etc.).

Reversing **water quality degradation** trends by:

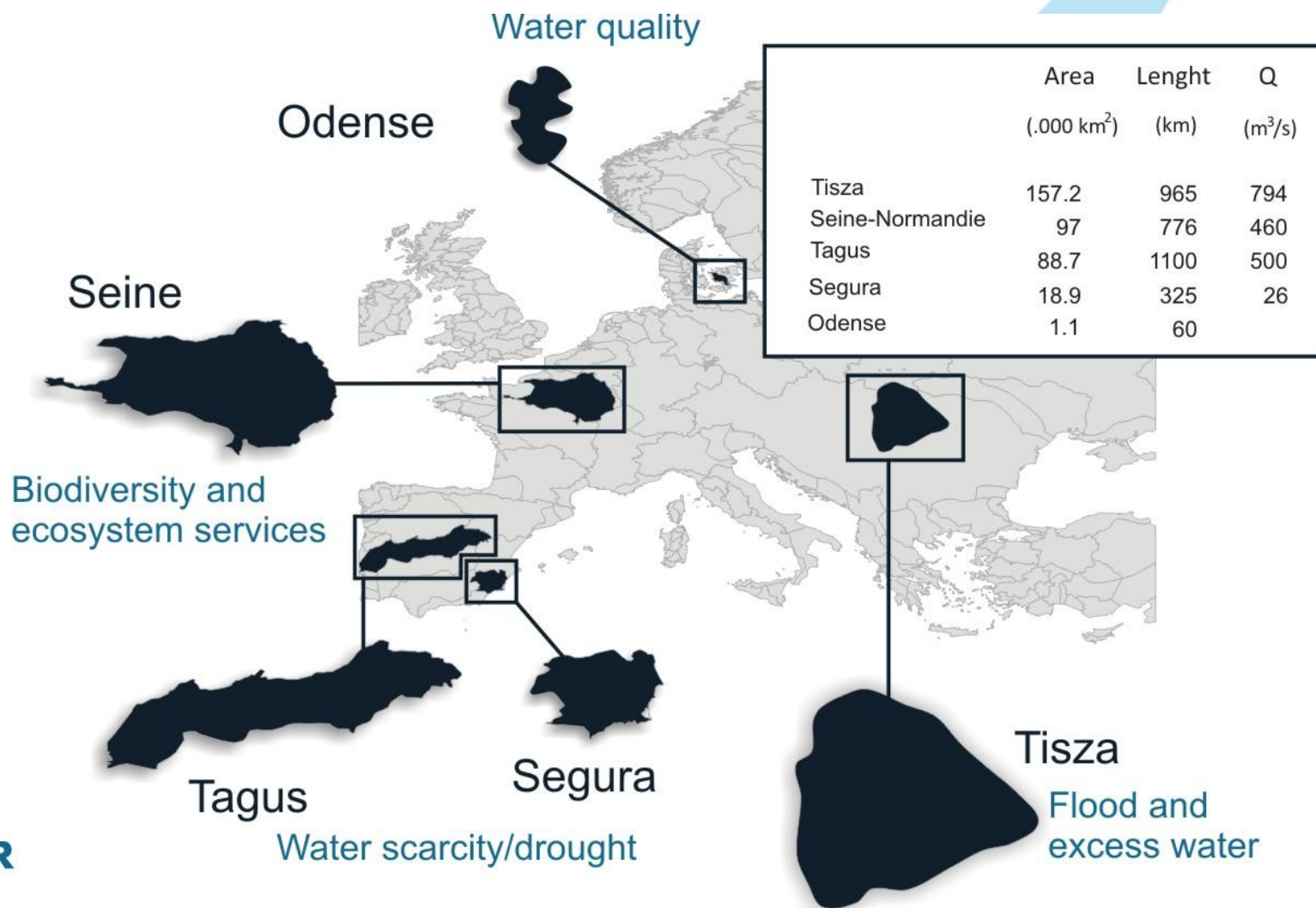
- Reducing point-source pollution. (THROUGH: pricing).
- Controlling diffuse pollution. (THROUGH: incentives for good farming practices and proper land use)

Reverse degradation trends of **critical water ecosystems** by:

- Restoring ecosystems (THROUGH: mutually beneficial agreements).
- Empowerment over natural assets (THROUGH: corporate social responsibility, preservation funds, etc.)

Road ahead: ex-ante in-depth analysis

- Since January, 2012 to August, 2013: ex-ante evaluation of innovative EPIs in Denmark, France, Hungary, Spain, and Greece (System of Environmental-Economic Accounting for Water).





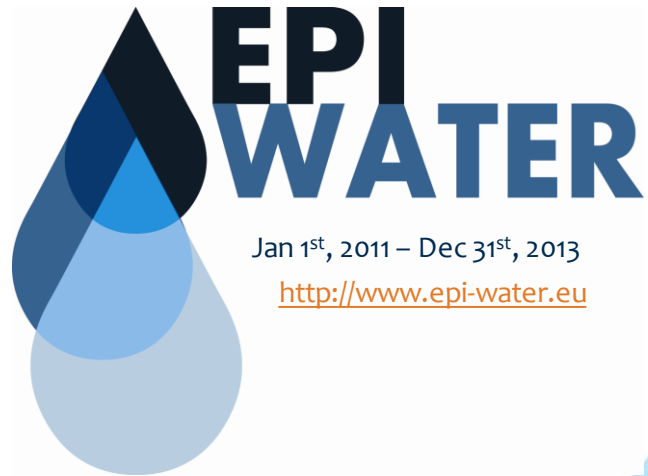
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TIME FOR *SOLUTIONS*

MERCI / THANK YOU

worldwaterforum6.org
solutionsforwater.org





EPI WATER

Jan 1st, 2011 – Dec 31st, 2013

<http://www.epi-water.eu>

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