Economic Instruments for Water Allocation

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Xavier LEFLAIVE
High degree of water stress in several countries
Overwhelming share of agriculture in several EECCA countries

Freshwater use by sectors in %, 2009

- **Domestic**
- **Agriculture**
- **Industry**

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<tr>
<th>Country</th>
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<th>Industry</th>
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The use of economic instruments for water allocation

• Water as a driver for green growth
  – Competition across users
  – From supply augmentation to demand management and allocation

• Principles for economic management of water resources
  – Efficiency
  – Productivity
  – Equity
  – Flexibility
Policy issues regarding economic instruments for water allocation (1/2)

• Abstraction charges and efficient water prices
  – Efficiency level
  ➢ Reflect scarcity of the resource
  – Affordability (equity)
  ➢ Tariff structure and targeted social measures

• Subsidies
  ➢ Review water harmful subsidies, phase out

• Tradable water rights
  – Over-allocation, third parties (environment)
  – Transaction costs
  – Balance between productivity and equity
  ➢ A prerequisite: the reform of water rights
Policy issues regarding economic instruments for water allocation (2/2)

- **Pollution charges**
  - The cost of pollution is location-specific
  - The impact on emissions is unknown
  - Enforcement and compliance
    - Focus on a limited number of pollutants
    - Control

- **Emission trading**

- **The issue of non-point sources of pollution**
To conclude

• Flexible mechanisms to face uncertainty
• Design and implementation
• Stakeholder engagement
• Regular assessments
• Combine economic instruments with command-and-control measures