

Understanding the role of economic instruments in water management

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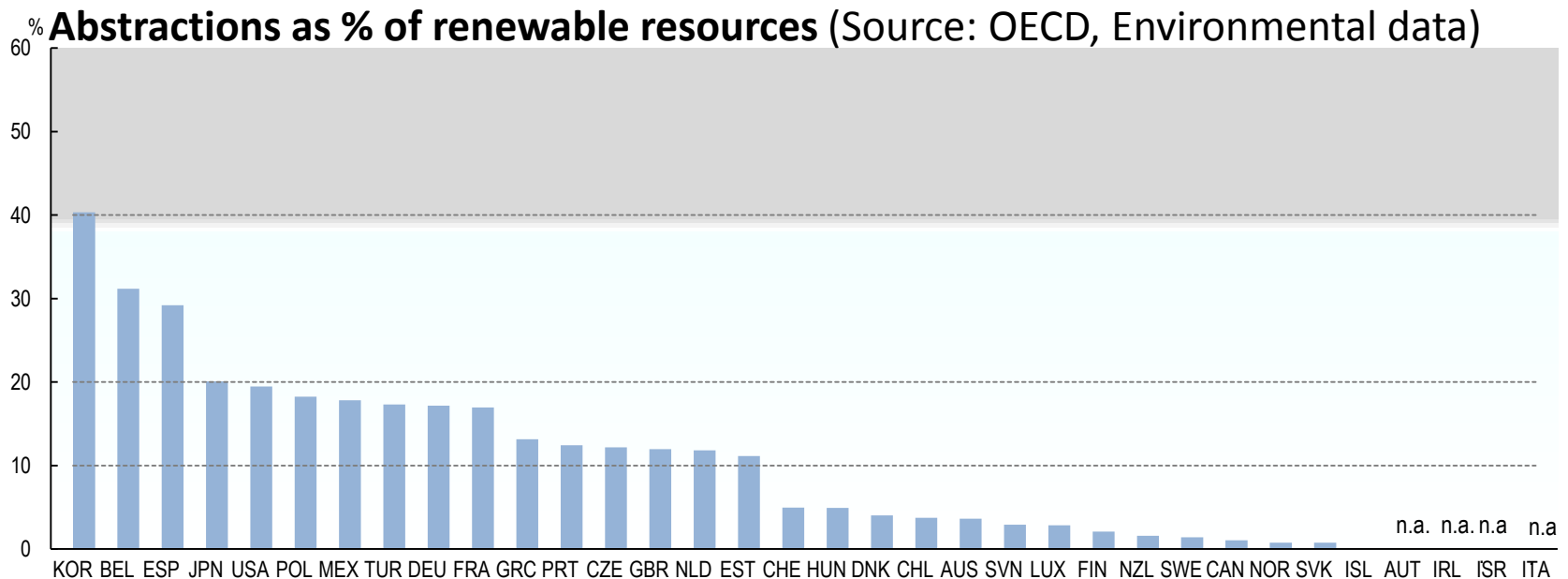
Outline

- Setting the scene
 - Water-related challenges
 - Policy responses
- The rationale for EI in WRM
- Challenges for EI in WRM
- How to use EI for WRM
- Ways forward

Setting the scene

Water-related challenges

- Water stress => resilience
- Water demand => competition
- Water quality
- Water supply and sanitation



Setting the scene

Policy responses

- Water efficiency
- Water allocation
- Investment in green infrastructures
- Coherence across policy areas

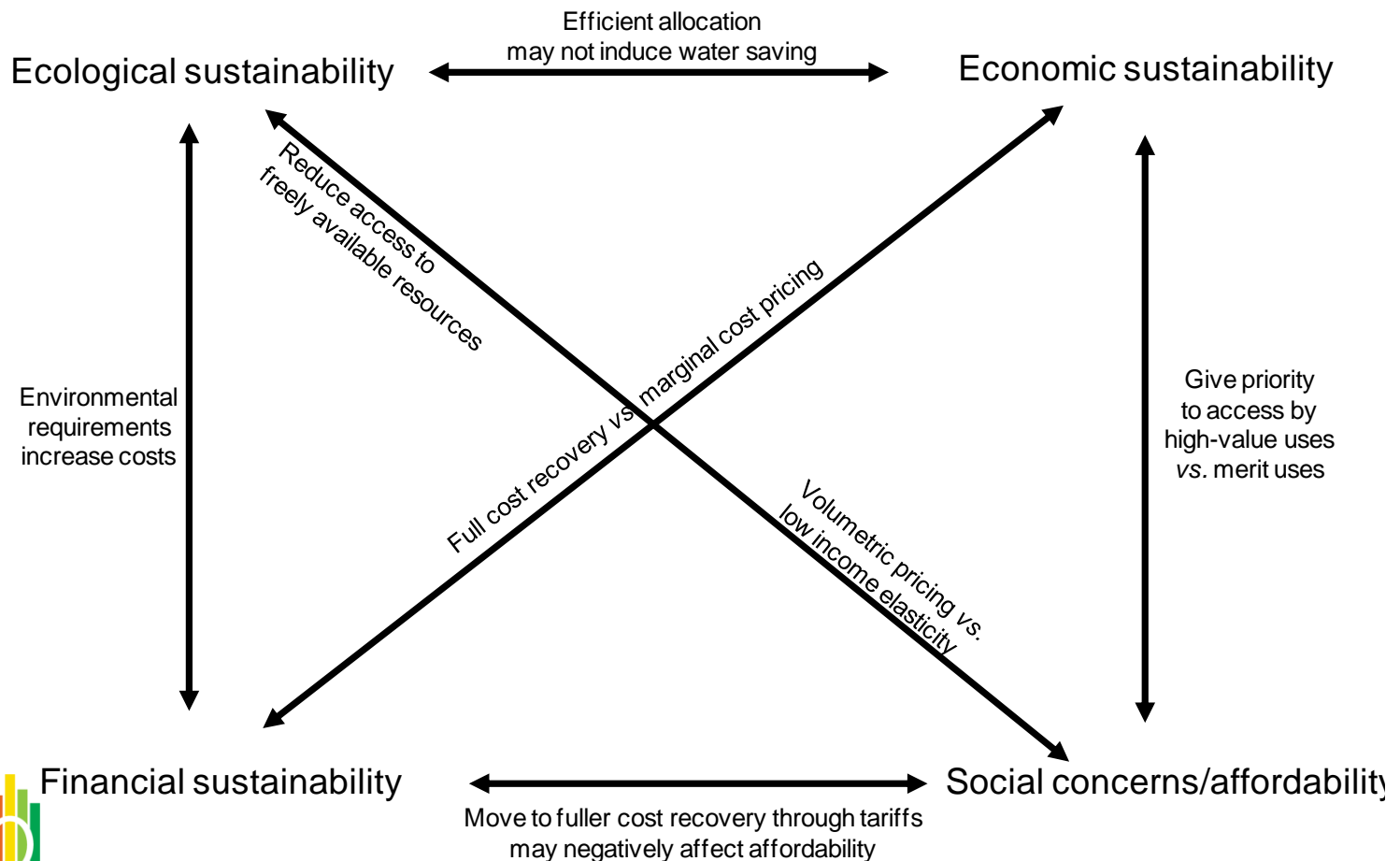
- Crosscutting issues
 - Financing (investment, O&M, institutions)
 - Innovation
 - Uncertainty on water availability

The rationale for economic instruments

- Enhance water efficiency
- Allocate water where it creates most value
- Signal timing for investment
- Generate revenues to operate water services
- Promote low cost options
- Make innovative approaches competitive

Challenges related to EI for WRM (1/2)

- Potentially conflicting objectives



Challenges related to economic instruments for WRM (2/2)

- Indiscernible private/public good dimensions of water services (3Ts)
- Lack of awareness of the benefits of WRM
- Affordability/competitiveness issues
- Inconsistent signals
- Design
- Transaction costs

How to use economic instruments for WRM

- Consider the level and structure of tariffs + the process of tariff setting
- Combine EI with other instruments
 - Standards, licences, land management...
 - Accompanying measures to address affordability/competitiveness issues
- Align incentives (perverse subsidies)
- Acknowledge the political dimension of water pricing

Ways forward

- Adjust institutions (water rights)
- Assess the value of water-related services
- Review empirical evidence

OECD work on water

- www.oecd.org/water
 - [Water resources management](#)
 - [Drinking water supply and sanitation](#)
 - [Water use in agriculture](#)
 - [Water and multilevel governance](#)
 - [Private sector participation in water infrastructure](#)
 - [Aid for water](#)

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