



Design and Development of Economic Policy Instrument in European Water Policy

Publication

[Report](#)

Citation

Delacámara, G.; Dworak, T.; Gómez, C.M.; Lago, M.; Maziotis, A.; Rouillard, J.; Strosser, P.; 2013. EPI-Water Deliverable 5.3: Guidance on the design and development of Economic Policy Instruments in European water policy. EPI-Water - Evaluating Economic Policy Instruments for Sustainable Water Management in Europe.

Despite their successful application in other environmental domain (such as air quality and climate), the use of economic policy instruments (EPIs) to tackle water management issues has faced many challenges. This report, written by Ecologic Institute in collaboration with partners as part of the EU-funded FP7 EPI-Water project, provides practical guidance to policy-makers and interested parties on the formulation of economic policy instruments for water management. Economic policy instruments presented in the report include incentive pricing, pollution taxes, water and pollution trading schemes, payments for environmental services, and risk management schemes. The report is available for download.

Economic policy instruments can significantly improve an existing policy framework by incentivising, rather than commanding, behavioural changes that may lead to environmental improvement. They may have a number of additional benefits, such as creating a permanent incentive for technological innovation, stimulating the efficient allocation of water resources, generating revenues to maintain and improve the provision of water services, and promoting water use efficiency.

An increasing number of local, national and international EPI experiences in water management have appeared, and key legislative and policy documents, including the EU Water Framework Directive (WFD) (2000) and the Blueprint to Safeguard Europe's Waters (2012), now support their wider use.

The guidance focuses on key water management challenges relevant for the implementation of the EU Water Framework Directive and European water policy, including water scarcity, droughts, and floods. It sheds light on key concepts and definitions, and conveys the benefits, limitations, and opportunities of using economic policy instruments in water policy. It presents key steps involved in their choice, design and implementation, and illustrates them with *ad-hoc* examples and case-studies based on a wide set of implemented instruments, as well as more innovative ones, within and outside the EU.

This guidance is designed to steer interested parties through an overall policy development process that can help address specific formulation and implementation issues, taking into account the European legislative framework. It also raises awareness of economic policy instruments, so that stakeholders can engage effectively with decision-makers and experts on their development and implementation. The report also presents more specifically examples of how to:

- Create the right policy mix;
- Balance transaction costs and expected benefits;
- Account for uncertainty;
- Establish the right policy process;
- Deal with political acceptability.

Launched in January 2011 for a three-year period, the main aim of EPI-Water (standing for *Evaluating Economic Policy Instruments for Sustainable Water Management in Europe*) was to assess the effectiveness and the efficiency of economic policy instruments in achieving water policy goals. In a first *ex-post* assessment, the project studied 30 economic policy instruments in Europe and around the world (Australia, Chile, China, Israel and the United States of America). The second phase of the project carried out in-depth *ex-ante* assessments of the feasibility and the expected outcome of economic policy instruments in five EU areas (Hungary, Spain, France, Denmark, and Greece) facing different water management challenges.

Language

English

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Funding

European Commission, [Directorate-General Research & Innovation](#) (DG Research & Innovation), International

Year

2013

Dimension

55 pp.

Project

[Evaluating Economic Policy Instruments for Sustainable Water Management in Europe \(EPI-Water\)](#)

Project ID

[2707](#)

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Keywords

[EU](#)
[Evaluation](#)
[Governance](#)
[Water](#)

Water Framework Directive, water economics, water management, water pricing, water tariff, payments for ecosystem services, economic policy instruments, flood, water scarcity/drought, water pollution, full cost recovery, polluter-pays, incentive, economic assessment

Source URL: <https://www.ecologic.eu/12492>