



DESCRIPTION OF THE INSTRUMENT

Set of different mechanisms that permit water rights holders to **voluntarily transfer their water rights** to other economic agents or users in exchange for financial compensation.

Water markets encompass various **exchange mechanisms**, which may be subject to varying degrees of **public intervention**, allowing the voluntary exchange of water resources between different parties. Through these mechanisms, the responsibility of **reassigning water resources** from the Administration to the users themselves will be abandoned, but without making changes in the distribution of property rights and/or concessions. The users would receive **signals of the scarcity of the resource** through the **market price** and, seeking their private benefit, they would use it optimally, resulting in the transfer of water to those uses of more value and an efficient destination of the resource.

Water markets serve as effective tools for managing water demand, especially in water scarcity. Additionally, these markets increase the **value of water** by reallocating it from uses that generate low economic value to more valuable ones without altering the overall availability of water. The resulting **welfare gains** can be significant. This effect is particularly beneficial during **drought situations**, as water markets contribute to **mitigating their economic impact**.

MAP SHOWING THE LEVEL OF IMPLEMENTATION

Water markets

- Medium
- Low
- Not implemented



More information
on the economic
instrument



CONTRIBUTION TO GOVERNANCE

- **Effective valuation of water:** Can help reveal the value of water by providing an economic valuation based on supply and demand, value added from productive use.
- **Sustainability of water systems:** Create effective incentives to motivate users to use water resources in an efficient manner
- **Reduction of the economic impacts of drought**
- **Reallocation of water resources**

BARRIERS OR CHALLENGES FOR IMPLEMENTATION

- **Administrative barriers:** Many restrictions and pre-requisites before a water exchange is approved.
- **Environmental concerns:** Water scarcity can cause negative externalities such as water pollution, groundwater salinization, loss of biodiversity and loss of ecosystem services.
- **Social Impacts:** Water markets can lead to adverse social consequences, such as reduced employment in areas involved in water selling.
- **Market Failures:** The presence of market failures can result in an inequitable distribution of market benefits.
- **Lack of Regulatory Framework:** Inadequate or unclear regulatory frameworks can hinder the proper functioning of water markets.
- **Infrastructure and Transaction Costs:** High infrastructure and transaction costs can limit the practicality of water markets.
- **Water Rights and Ownership Issues:** Complex water rights and ownership arrangements

PATHWAYS FOR IMPLEMENTATION

- Transparency
- Environmental and social impact assessment
- Public consultation
- Third-party protection and administrative authorization
- Identification of water rights
- Legal framework that allows for the implementation of water markets



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