

Ecosystem service course

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Take aid as an example. Is aid good?



The curse of aid

- Aid can support inefficient governments and remove the pressure to reform
- Aid creates a 'moral hazard' problem – governments can spend money without a firm budget constraint
- Aid siphons skilled workers away from government
- In a situation where focusing on priorities is important, recipients may prefer to expand their operations to cover whatever projects donors wish to fund
- Aid fuels patronage and sparks fights over rents

Agenda

- Introduction
- Towards a global system of PES
- Lessons learnt with paying for the provisioning service (resource curse)
- Is there a risk of an ecosystem service curse?
- Policy implications
- Conclusions

Introduction

- So far PES developed mostly on a local or regional level
- PES scale remained limited, no significant impacts on economies of countries in which they were implemented
- Scale likely to grow – rapid development and suggestions to create a global system of PES
- ‘to what extent is PES compatible with an economically viable development trajectory for economies as a whole’?
(Bulte et al. 2008) – question asked but not answered yet
- Some suggest that the key problem with PES so far has been their limited scale...
but a bigger scale may lead to bigger problems

Obstacles to the development of PES

- Limited demand
- Limited experience
- Limited knowledge on how to design and establish PES
- Inadequate legal framework
- Insufficient communication

Wunder 2007, Ferraro 2009

- Are they still as important as they were in the past?

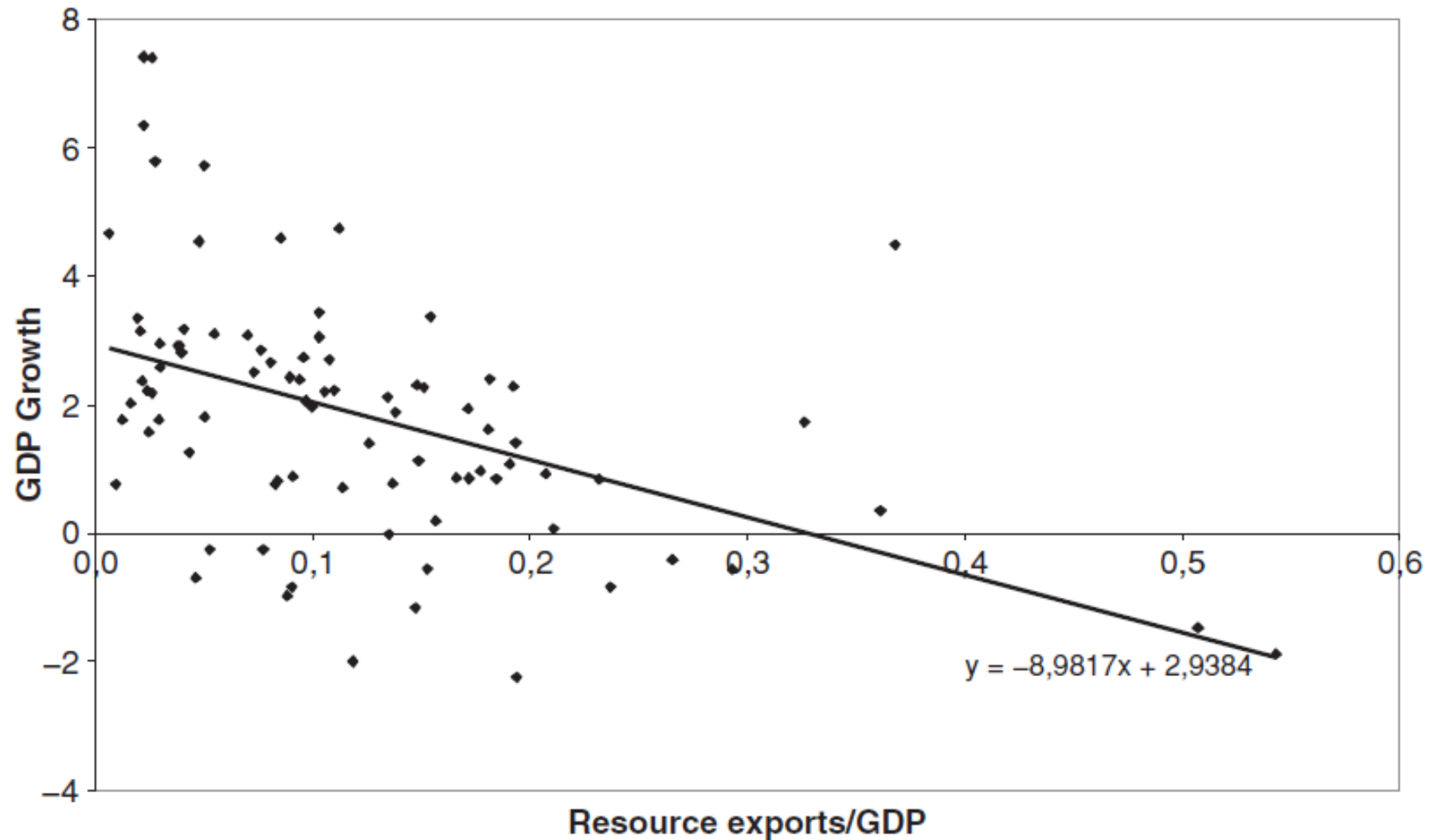
Towards a global system of PES

- PES-related initiatives at a global level, e.g. REDD and afforestation component within the CDM
- TEEB recommends to policy makers at various levels to make more use of PES, where appropriate
- Heredia Declaration (2007): 'The spatial and temporal scale of the institutions to manage ecosystem services must be matched with the scales of the services themselves'
- Rationale for a global system of PES?

Rationale for a global system of PES

- International or even global dimension of many ES
- Higher WTP for ES in developed countries
- Even payments relatively small from the Northern perspective might significantly improve the protection of ES in the South
- The North has contributed to making it difficult for the South to manage its ecosystems in a sustainable manner
- PES as an opportunity to alleviate poverty and to solve the North–South income disparity problems
- Negotiations over PES might improve regional and global collaboration and environmental governance

Resource curse



Resource curse

- Dutch disease, falling competitiveness of other sectors
- Volatility of: commodity prices, resource export earnings, rates of extraction, timing of payments by extractors to states
- Poor institutions, including corruption
- Weak democracy
- False sense of security leading to underinvestment
- Rent seeking and conflicts
- Unequal expertise
- Grievances for local populations

Curse depends on type of resources

- Appropriability or 'lootability'
- Point resources vs. diffuse resources
- Capital-intensive (e.g., oil)
vs. labour-intensive (e.g., agricultural products)
- Renewable vs. non-renewable
- How do other ecosystem services compare?

Ecosystem service curse so far

- PES might keep poor communities in a poverty trap
 - they would receive payments for refraining from some types of activity that might harm ES
 - they would become passive 'conservation rentiers', and would lose any dynamism and innovation potential they might have had, had they pursued their traditional development path
- The negative social phenomena related to extra financial flows related to ecosystem services had not occurred because so far these payments have not been big enough to change the situation in this way

Effects of PES on non-participants

- Lower accessibility of land and other services of ecosystems, such as provisioning of non-timber forest products, because of exclusion of land from agriculture and other uses
- Lower availability of jobs in industries that would harm ES (however, jobs may also be created with the use of PES)
- Lower availability of capital related to curbing the above activities (and higher availability because of the payments themselves, combined with technical assistance that can help to initiate new economic undertakings)
- Higher prices of commodities

Ecosystem service curse explanations

1. Rent seeking and conflicts
2. Unequal expertise and differences in bargaining power
3. Crowding out of other economic activities
4. Volatility of payments
5. Poor institutions and moral hazard

Rent seeking and conflicts

- Increased value of land important from the perspective of ES, currently mostly marginal, as an incentive for stronger stakeholders to dispossess smaller landowners or those without property rights to the land
- Already identified as a problem in an internationally financed carbon sequestration project in Madagascar (Pollini 2009)
- If small scale providers are ruled out of the land they have been using, they will have to move somewhere else, probably to pristine areas that have not been exploited so far and thus encroach on other ecosystem services
- Conflicts and perceived inequalities

Unequal expertise

- Limited experience and understanding of novel mechanisms or poor enforcement of legal contracts
- New socio-economic hierarchies, re-positioning some actors, adding others and often reproducing unequal power relations in access to wealth and environmental resources
- Problems of equity and legitimacy
- PES buyers may expect to make a deal paying relatively little for conservation in poor countries where the current opportunity costs of protection are low
- Intermediaries sometimes have major influence on the price and conditions of the transaction

Crowding out of other activities

- Payments directly prevent some forms of economic activity and they permit others
- Those that are prohibited may have actually been more labour intensive (Pagiola et al. 2005) or related to higher innovation and learning-by-doing gains (Karsenty 2004)
- New economic incentives may led to the erosion of local rules and social norms which may also affect preferences towards different forms of economic activity (Clements et al. 2010)

Volatility of payments

- Stability of income of ES providers depends on the financial sustainability of the PES scheme
- One cannot ensure that the scheme will last in the long term
- When funding ends, the local population may not find it easy to identify and pursue new development prospects
- Changing perceptions on the value of different ES
- The sustainability of payments depends on whether protecting the service is perceived as successful
- Had a given community specialized in one type of ES, their vulnerability increases

Poor institutions and moral hazard

- Institutions dealing with PES often have limited knowledge either on the functioning of ecosystems and economy–society–environment interactions, or of financial mechanisms
- Difficulties to ensure fair division of payments among ES providers
- If institutions are weak and stakes are high, various forms of rent seeking become more attractive (moral hazard)
- Often, PES schemes are not monitored well enough

Policy implications

- Different risks related to
 - different types of PES
(user-financed vs. government-coordinated)
 - different type of ES
(diffuse – substitutable vs. point – unique)
- The situation changes – take dynamics into account
 - pressure on ES changes and so does their value
 - properties of ecosystems change and so do preferences
 - ES price fluctuations affect the PES market

Policy implications

- Reinvesting rents
- Educational component – revenues should be invested in development opportunities that would not harm ecosystems (focus on irreversibility of changes introduced to ES)
- Attempt to ensure sustainability of PES, but perceive PES as temporary (to avoid 'addiction')
- Consider trade-offs and opportunity costs for ES providers
 - opportunity costs may change
 - ES providers can manipulate with their opportunity costs

Lessons learnt with the resource curse

- Saving resource revenues and investment in other forms of capital, including skilled workforce and entrepreneurship
- Strong institutions, obeying the law, ensuring transparency
- Decentralization of resource revenues
- Make governments accountable, introducing democracy and conditional international transfers
- Economic diversification
- Macroeconomic policy that would stabilize exchange rates
- Mineral revenue stabilization fund

Lessons learnt with PES

- Capacity building in communities to ensure that they can absorb the funds, to bring about external benefits
- Development of local institutions, including associations of ES providers, local governments, NGOs
- Ensuring clear property rights and their execution to avoid ruling the poor out of the land where ES emerge
- Relying on diversified sources of revenue, ensuring that PES are sufficient and sustainable over time. Ensuring flexibility that would allow PES to adapt to changing conditions
- Ensuring proper monitoring and supervision, but keeping monitoring and other administrative expenses to minimum

Conclusions

- Not against PES but in favour of a precautionary approach
- The risk of ES curse should not be neglected
- Draw lessons from other types of services
- Not letting the payments dominate local economies and thus expose them to excessive shocks related to changes in PES or distort those economies
- 'For every Nigeria or Venezuela there is a Norway or a Botswana' (Torvik 2009, p. 241)