

MARKET INSTRUMENTS AND ENVIRONMENTAL SERVICES: THE FUTURE OF PES

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Organized by: Asia-Pacific Forest Policy Think Tank

INTRODUCTION

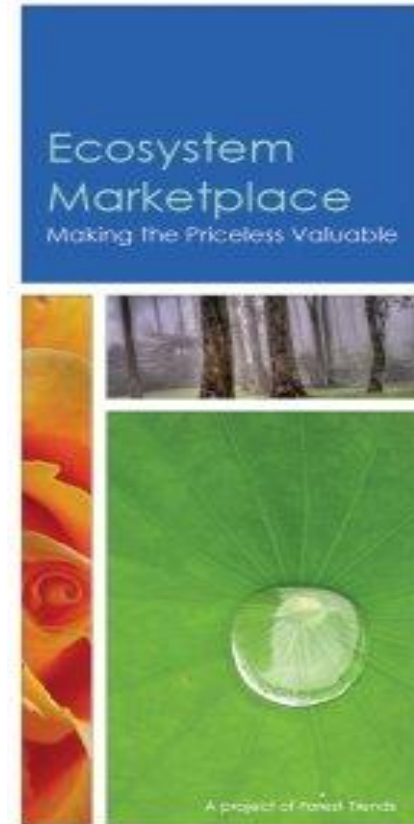
- ❑ Increased awareness about forest derived ecological services like watershed protection, carbon sequestration, biodiversity conservation, combating desertification and provision of amenity values.
- ❑ Trees and forests in tact are becoming more valuable than when they are harvested.
- ❑ A shift away from wood production - For example logging bans in response to environmental catastrophes.
- ❑ Yet society and governments are unable to invest adequately to manage forests for the provision of ecological services and willing to forego income from various uses.

BACKGROUND

Two key issues.

- ❑ How do we ensure that society pays increased attention to the role of forests in the provision of ecological services.
 - Assess the value of ecological services provided by forests.

- ❑ How do we mobilise more resources for forest management for the provision of ecological services
 - Develop systems of payment so that forest owners have incentives to manage forests for environmental services.



PURPOSE OF THE SESSION

- **Outline the issues relating to the valuation of and payment for ecological services and their implications and relevance in forest policies.**
- **Discuss the experience in enhancing resources for forest management through payment for ecological services.**
- **Indicate the opportunities and challenges for PES in contributing to sustainable forest management in the Pacific and their implications on future land use/ forest policies.**

Valuation of ecological services

Payment for environmental services

- Watershed protection
- Carbon sequestration and storage
- Biodiversity conservation
- Amenity values

**Bring
nature into
the equation**

CONTRIBUTION OF FORESTRY TO GDP

❖ The share of the forestry sector in national income has been declining .

❖ Two issues:

❖ Does the GDP estimates provide a realistic picture.

❖ If we come up with a more realistic and correct assessment will it lead to improved allocation of resources to the sector?

Country	Contribution of forestry to GDP (in %)	
	1990	2011
Bangladesh	2.3	1.3
Cambodia	5.5	3.2
China	1.9	1.7
India	4.2	1.7
Indonesia	2.8	1.7
Lao PDR	3.1	2.1
Malaysia	6.3	2.0
Myanmar	2.0	0.5
Nepal	3.5	0.6
Philippines	1.6	0.2
Thailand	1.5	0.9
Vietnam	2.1	1.7
Asia	1.5	1.1
World	1.4	0.9

CONTRIBUTION OF FORESTRY TO GDP

❖ **The reported low contribution of forestry is largely due to:**

- ❑ **preponderance of informal sector, the transactions of which are not captured in the national income accounts,**
- ❑ **misclassification of some of the products and services.**
- ❑ **Exclusion of the environmental services from GDP estimates.**

❖ **It is argued that if we set right the problem of assigning the correct value to forests, many of the problems stemming from undervaluation will be resolved.**

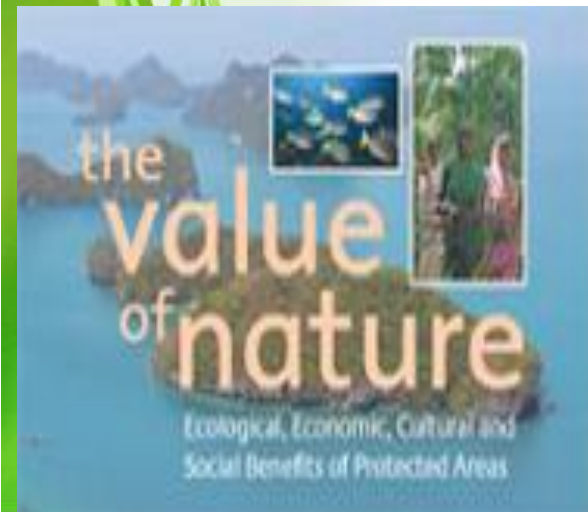
PUTTING A VALUE TO NATURE

❖ Two opposing schools as regards putting a price tag to nature (including forests).

❑ Those who argue that if we don't put a price tag, society will not understand the importance of nature (including forests) and therefore there will be no commitment to conserve and protect nature.

❑ Those who argue that putting a price tag is unethical and nature being a creation of god, assigning a value is immoral.

❖ Ongoing efforts towards natural capital accounting.



STEPS IN VALUING FORESTS

Two key steps in assessing the contribution of forests:

- Estimation of the quantity of products and services obtained/ obtainable from forests; and
- Assessment of their value to society.

STEPS IN VALUING FORESTS



Several challenges exist in both the steps:

- 1. Estimating the quantity of wood and other products that could be obtained sustainably.**
- 2. Measurement of environmental services – watershed protection, biodiversity conservation, carbon sequestration, prevention of land degradation, amenity provision –**
- 3. Identifying mutually exclusive goods and services.**
- 4. Putting a value to services which have no market prices.**

PAYMENT FOR ENVIRONMENTAL SERVICES

- ❑ **Systems for payment for environmental services created through policy interventions or through the direct interaction between sellers and buyers.**

- ❑ **Invariably in most cases policy interventions – in varying degrees- have been responsible for creation of markets for environmental services and they are therefore highly vulnerable to changes in policies.**

PAYMENT FOR ENVIRONMENTAL SERVICES

□ Environmental services that have been brought under the purview of PES:

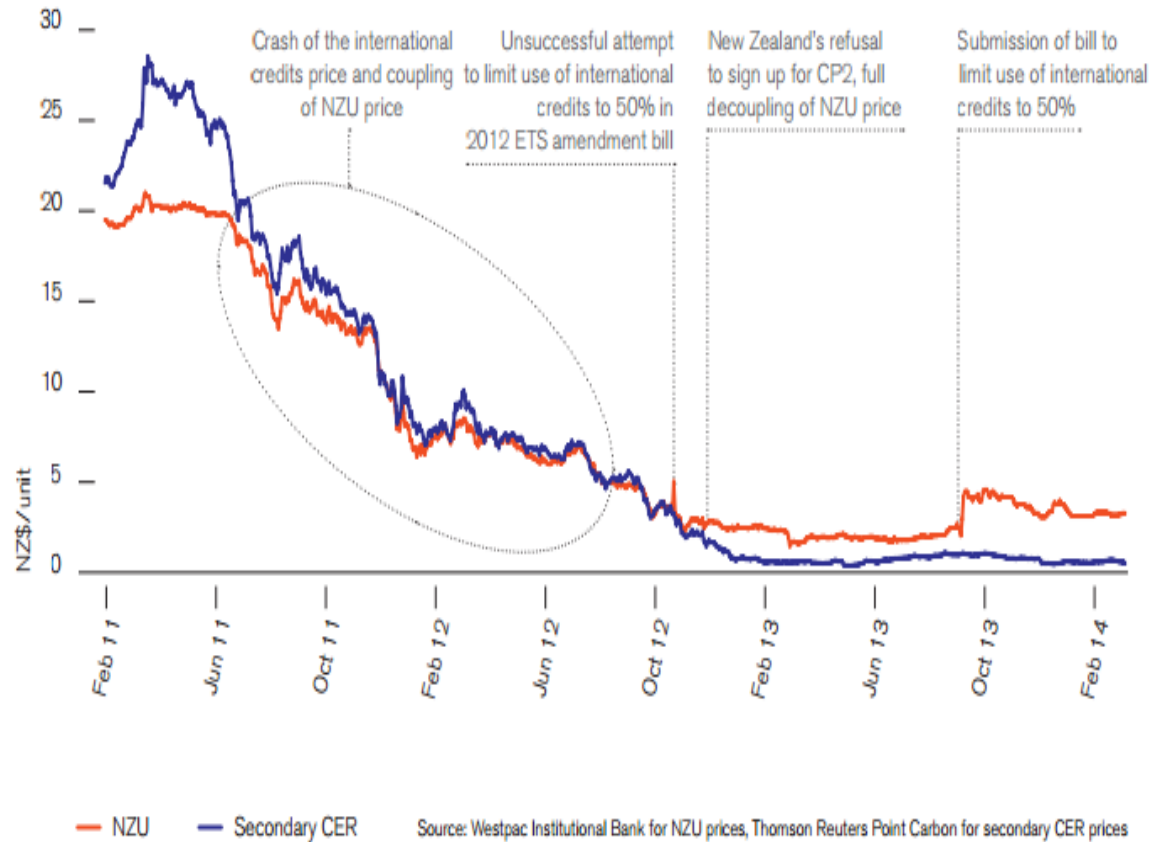
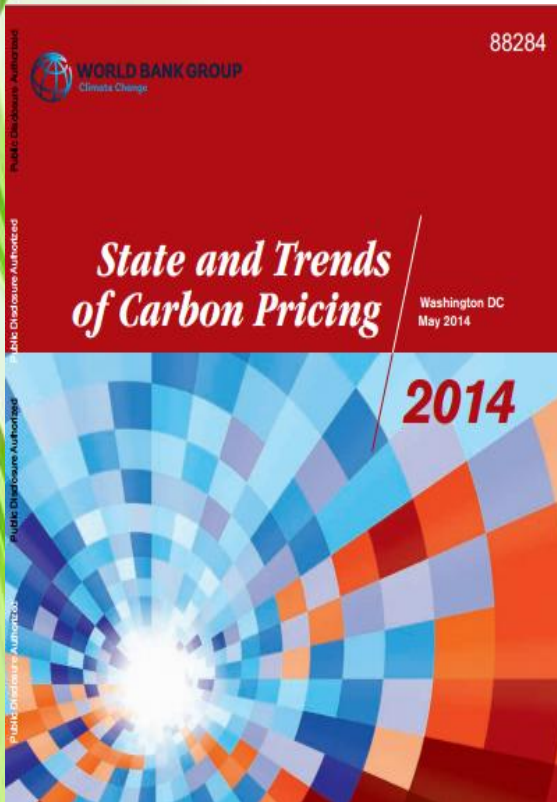
- ❖ **Watershed protection:** Largely local market
- ❖ **Carbon sequestration:** Global / national market
- ❖ **Amenity values:** Local, national or global
- ❖ **Biodiversity conservation:** Future markets

There have been a number of initiatives for PES with varying outcomes. On the whole PES is relatively easy if there is a direct link between providers and users of environmental services and the services can be quantified..

CHALLENGES IN THE DEVELOPMENT OF PES

- Development of ecosystem services markets are related to the overall social and economic development.
- Even in many industrial and post-industrial societies PES markets remain undeveloped.
- So can we expect the development of PES in developing countries, enhancing resources for SFM and alleviating poverty?
- Challenges in the development of PES:
 - Policy, legal and institutional issues
 - Technical problems
 - Economic issues – Will PES generate income commensurate with the transaction costs.
 - Potential for aggravating poverty, when environmental services are brought under the purview of markets.
 - Potential of PES to accentuate forest related conflicts.

STATE OF CARBON MARKETS



CHALLENGES IN THE DEVELOPMENT OF PES: CIFOR ON REDD

“Despite this progress over the past 6 years, the proponents seeking to implement REDD+ on the ground have concerns about its future. Most fundamentally, the failure to reach an international climate agreement has undermined the original motivation for REDD+ as a quick, inexpensive, and ‘no-regrets’ strategy to meet internationally agreed targets for emissions reductions. Because there is no agreement, there is no regulatory framework that can support a global compliance market for carbon offsets and no guaranteed global funding for long-term, conditional, performance-based contracts. Weaknesses in existing compliance markets, such as the European Trading System and the Clean Development Mechanism, have depressed price expectations in the voluntary market . The lack of strong compliance markets has also meant that foreign aid, both bilateral and multilateral, which was initially envisioned as a temporary measure to propel REDD+ into existence, has become an increasingly important funding source for REDD+, leading to its ‘aidification’ and away from long-term, conditional, performance-based contracts.”



CHALLENGES IN THE DEVELOPMENT OF PES

- Overall, PES schemes are not having the desired impacts in the vast majority of tropical forests that are vulnerable to deforestation and degradation, and they are benefiting only a few of the many millions of forest peoples and other owners and managers.
- Currently there are more sellers than buyers of the environmental services provided by tropical forests. There is a need to increase demand, develop formal markets with the engagement of the private sector, and increase the availability of secure, sustainable financing by creating an enabling environment.
- Indigenous peoples, local communities and private forest owners should be able to participate in schemes to pay for tropical forest environmental services as entrepreneurs rather than simply as passive receivers of compensation.
- To be successful and sustainable, PES schemes should use inclusive processes and sustainable practices, be transparent and accountable, and have robust and transparent institutional frameworks and enabling policies, and their benefits should be accounted for.

TAKE HOME MESSAGES

- ❑ Although still in the early stages of development, the outcomes from the PES initiatives have not been that satisfactory.**
- ❑ Most of the PES are not market driven and are largely policy directed, enhancing vulnerability to policy changes.**
- ❑ At the end what really matters is building up a strong social, cultural and political commitment to the provision of ecological services.**

Thank You

