

Beyond "Markets"

Why Terminology Matters

by Sven Wunder and Maria Teresa Vargas

*What is in a name? Does a rose by any other name truly smell as sweet? Aware that terms such as "markets" and "payments for ecosystem services" have encountered resistance in some parts of the world, the **Ecosystem Marketplace** asked two practitioners based in Latin America to explore how the concept of "markets/payments for ecosystem services" is being perceived in developing countries.*

It has now been more than a decade and a half since the Berlin Wall collapsed, the Cold War ended, and capitalism arguably became the Planet's dominant ideology. Surely by now, decision makers the world over have been convinced of the superiority of market institutions in securing desirable societal outcomes? Or have they?

Though it may seem that capitalism and markets reign supreme the world over, there remains much doubt, particularly in the Southern Hemisphere, about the ultimate desirability of markets. Such market skepticism may at times be conveniently coupled with hostile attitudes towards globalization, US foreign policy, the World Bank and other Bretton Woods institutions. And, while many in the North continue to insist religiously on markets as the universal remedy, this discourse -- often led by economists -- frequently ends up fostering more resistance than persuasion in developing countries.

Payments for Environmental Services (PES) are an excellent example of the case in point. Eloquent theoretical arguments have been made (including in this publication) about the superior performance of direct payments for watershed protection, carbon sequestration, biodiversity conservation, landscape beauty, and other such services as compared to more direct command-and-control or project-based approaches aimed at achieving the same goals. There is no shortage of market enthusiasts, eagerly promoting the concept of "markets for environmental services". Beyond the concepts of "payments" and "markets" for ecosystem services, an alternative branch of the literature has opted for terms such as "compensations" and "rewards" for ecosystem services, hinting at the alleged equity and entitlement aspects of service exchanges.

Moving beyond the battlefield of discourses to the real world, how have these "payments," "compensations," "rewards," or "markets" for environmental services fared so far? If we look only at the tropics, at the developing countries of the world, the implementation of these schemes has been slower than their apparent advantages would make us expect. Some of the main obstacles identified by our research for this slow adoption rate have been the lack of trust and "social capital" that exists between providers and users of these services. Also, users often lack the willingness to pay for services that they had previously received for free. Yet, part of the problem resides in the genuine difficulty that exists in communicating a complex subject that many in the real world still consider an "economist's toy".

These problems notwithstanding, we tend to share with the market optimists the belief that the increased use of markets and economic incentives for environmental protection is both desirable and promising. Indeed, while some market skepticism is sound and necessary -- especially when it relates to the equity implications of markets -- a good share of the skepticism that exists is based on irrational fears, for example when Andean peasants believe that carbon trading means "selling the oxygen to the gringos".

Further, we believe that detaching environmental service transactions from the *quid pro quo* incentive principle -- as some have suggested -- and over-burdening it with equity-driven and poverty-alleviation side objectives is likely to just reproduce the tired old project-driven approaches to conservation: old wine in new bottles. But, on the other hand, is it *adequate* or even *wise* to always talk across the board about environmental service "markets"? If we are not careful, the terminology itself could become a major stumbling block in the creation of new approaches to environmental protection.

Except for the emerging carbon markets -- it seems incorrect to constantly refer to some of these schemes as "markets for environmental services." After all, they are seldom true markets, since spatial specificities usually restrict or eliminate any of the competitive forces so fundamental to the proper functioning of markets. Certainly that is the case for watersheds, biodiversity and landscape beauty -- probably in that order of relevance. Take, for example, the case of an urban water utility: If it thinks the price for watershed protection charged by upstream farmers is too high, usually it cannot just go to the next three watersheds for better offers. Likewise, if a large private forest owner charges too much for protecting the habitat of an endemic charismatic species, it is seldom possible for biodiversity buyers to just forget about that site and turn to neighboring plots instead. In other words, the nature of highly localized environmental services, combined with structural impediments to competition in the rural tropics, severely restrict the scope for market forces.

Instead of true markets, what we mostly find in the real world -- both in developed but especially in developing countries -- are bilateral, mutually-negotiated agreements between ecosystem service users and providers. Usually, these agreements make both parties (as well as the natural resource base) better off. And, at the end of the day, isn't that what we are all looking for from these arrangements? So why insist on referring to all these agreements as "markets", something that, even analytically speaking, in many cases they are not? The over-use of the term "market" would appear to be designed to cater to a recent, post-Cold War, trend in developed countries where anything to do with markets is seen as "sexy" by donors, the media, and even politicians.

Yet in most of the developing world, "markets" -- like other labels with a clear monetary association -- may not be considered "sexy" at all; they may actually turn people off. Indeed, we have found that the notion of "reciprocal solidarity arrangements" and similar terms are seen as much more culturally acceptable in many parts of the developing world. In Pimampiro (Northern Ecuador), for example, a pilot watershed payments scheme recently changed name from "payment for environmental services" to "*retribución*" (recompense) for these services because that term was deemed more politically palatable to the urban water users who finance the monetary payment to upstream farmers. Similarly, in Vietnam, tiny payments for watershed protection are being routinely made, but to visualize them as money changing hands to buy a service was perceived as inappropriate, since it could be associated with corruption.

Perhaps the most illustrative case of the terminology problem comes from Bolivia. In February 2005, Bolivia's president, Carlos Mesa, tendered his resignation, in part because of a continued conflict over the privatization of water supplies to the city of El Alto. The trigger for the latest conflict was not poor performance on the part of the concessionaire (Aguas de Illimani, owned by the Suez Lyonnaise des Eaux), which by all accounts seemed to be doing reasonably well. Rather, it stemmed from the visceral hatred of large sectors of the campesino community for everything that terms like "markets" and "privatization" were believed to represent.

In Bolivia, it would appear that the general argument against markets is that they have seldom delivered what they were supposed to. It is doubtful, for example, whether privatization and liberalization so far have brought jobs, better incomes and better lives to Bolivians. Following the Cochabamba Water War (a conflict over similar issues that led to violence in 2000), the Bolivian social movement has argued that privatization simply serves multinational companies, allowing them to take away Bolivia's natural resources -- the continuation of a process that began almost 500 years ago. Whether this radical analysis of the impacts of privatization is fully correct or not, the discourse against its implementation has found ample resonance in Bolivian society, in particular among the indigenous groups in the highland region.



Within this context, Fundación Natura began to develop a small "Payments for Environmental Services" project in Bolivia's Los Negros valleys. Natura quickly realized that their use of the word "payments" was causing problems. Campesino groups were confused: they associated the Spanish word "*pago*" with privatization and land appropriation. Farmers unions and social groups ideologically opposed to environmental conservation quickly took advantage of the situation and began claiming that the project was simply a new form of forest privatization: a mechanism for selling Bolivia's assets to foreigners. Trying to change this popular perception has taken months. Although the agriculturalists that participate in the system now know that Natura has no

intention of appropriating their forest, doubts periodically resurface in the community. Changing the project name from payments to "compensation" has not yet reduced tensions, so participants now prefer to discuss the project simply in terms of "improved management of hydrological resources". Natura staff are convinced that if they had started the dialogue using terms other than "markets" or "payments", progress towards project sustainability would have been faster and far easier.

And yet, despite these setbacks, there is also some good news from Bolivia regarding the potential for using traditional "reciprocal arrangements" (what economists might call "market-based mechanisms") for managing watersheds for hydrological sustainability and improved livelihoods. Communities such as Chimboco, in the Sacaba valley close to Cochabamba (site of the aforementioned "water war" over privatization) maintain their customary laws and have developed many innovative institutions to manage natural resources. Such associations are often entirely autonomous and self-managed; they generally have complex rules and norms that revolve around rights (often water rights are de-linked from land rights), responsibilities, and conflict resolution. A number of the water users' unions, such as the 960-member Association of Users of the Larati Lagoon (AULL) even serve as *de facto* local governments.

Anyone who wants to use water either for irrigation or consumption in the Sacaba valley must become a member of the users' association and assume all of the responsibilities that this implies. Current water distribution is based on rules developed in 1903. Of course, as in any human societies, transactions between resource owners are common, especially as a way to maximize efficiency, but such "markets" are a small component of these integrated systems of water management, which are based largely on the concept of "reciprocity".



Beyond the Sacaba valley, the case of Tiquipaya is especially interesting since it, too, is close to Cochabamba and serves as a counter-point to the furor over water privatization in that city. The Tiquipaya watershed supports a number of functionally independent irrigation systems, each of which has developed its own approaches to allocating water usage, some of which involve water "turns" that can be bought and sold. The crucial innovation in many of these systems is that resource users have the right to a fixed amount of water, and can use it for irrigating any of their plots (even those outside the system). In this way, the systems have "disconnected" the water/land relationship and thus separated land and water rights. The evolution of this "water market" (though no-one would call it a market!) has been accelerated by prior fragmentation of land for different agricultural uses.

Even under extremely dry conditions, the systems have worked, allowing for the negotiation of complex water transfers between a variety of actors. For example, one well-known agreement is the tripartite arrangement between the National Irrigation Systems, the Saytu Kkocha community, and the SEMAPA drinking water utility (now named Aguas del Tunari), through which SEMAPA "compensates" Saytu Kkocha for its extraction of drinking water through investments in local system improvements, such as well-boiling and the purchase of heavy machinery for community use.

Now, clearly these systems revolve around access to water –rather than markets for ecosystem services—but they can still provide some interesting lessons. For one, they show that there is a considerable institutional foundation in some developing countries. Second, they show that incentive-based cooperative agreements can develop endogenously (i.e. without external interference) within local systems of natural resource management. We have yet to find examples of these locally developed systems being involved in outsider-driven environmental management programs, but it is clear that developers of projects that in developed countries would be called "payments for environmental services" could take advantage of the extensive social capital and institutional diversity that exists in developing countries for natural resource management.

Given the above, we believe that market-based resource management mechanisms and forms of "payment for ecosystem services" may be feasible in Bolivia -- but in most cases only within the larger context of community-based reciprocal agreements for water management and conflict resolution. It also has become evident that referring to these mechanisms as "markets" is likely to be highly counterproductive in places like Bolivia.

To sum up, the advance of market mechanisms, stewardship payments, and other economic incentives for environmental services is a positive trend -- one that we believe will be of benefit to service users, service providers, and the environment. But this trend is young, and requires support if it is to thrive. What is certain, however, is that calling everything a "market" does not help matters much.

One concern is that many of these arrangements are not markets in the proper sense of the term. Another is that even those arrangements that could legitimately be called "markets" may sometimes be better served by referring to them under a different label. Buzzwords are not mere semantics; they can and often do make the difference between adoption and rejection of a project or approach! And, just as we package some non-market transactions, calling them "markets" to sell them to a donor in the North, we also need to show a similar sensitivity to local perceptions when these projects take place in developing countries.

Sven Wunder is Senior Economist at the Center for International Forestry Research (CIFOR) in Belém, Brazil. He can be reached at s.wunder@cgiar.org. Maria Teresa Vargas is President of the Fundación Natura, an environmental organization in Santa Cruz, Bolivia. She can be reached at mteresavargas@naturabolivia.org

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