



Market-ish instruments and other strange beasts

A personal wrap-up view

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ZEF-CIFOR workshop:

Payments for environmental services

Methods and design in developing and developed countries

Titisee, June 15-18, 2005

What's in a name?

- Market-ish instruments
 - Market-based instruments
 - Payments for environmental services
 - Certification of environmentally-friendly activities (joint production)
 - Cap-and-trade
 - ...
 - Non-market instruments
 - Command and control
 - ...

Choosing an instrument

- Understand the objectives (eg clean water)
- Understand what is preventing them from being reached (market failure? what kind? policy distortions?)
- Choose instruments appropriately
 - Choice of instrument depends on objective and on context

Do not, do not, do *not* start from the instrument and decide whether it applies

Defining Payments for environmental services

Leslie Lipper:

Any payment aimed at generating an environmental service

- Very general, not very useful

Sven: PES is

- 1) a voluntary transaction where
 - 2) a well-defined service (or land use that provides it) is
 - 3) bought by at least one buyer,
 - 4) from at least one seller,
 - 5) in a conditional transaction
- Descriptive, but includes too much

Defining Payments for environmental services

Modified Sven:

PES is a mechanism by which

- 1) service user(s) pay
 - 2) service provider(s)
 - 3) to provide a well-defined service (or land use that provides it)
 - 4) in a conditional and
 - 5) voluntary transaction
- Focus on services that bring benefits *off-site* (indirect use value in TEV sense)
 - On-site benefits can be captured with very different mechanisms because can control access
 - If government/donor is financing, call this 'supply-side' PES

Defining Payments for environmental services

PES is a mechanism by which

- 1) service user(s) pay
- 2) service provider(s)
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Very little
attention

Huge amounts
of attention

'Supply-side PES' applications

Tool to make use of given budget more cost-effective

- More bang for conservation buck

But

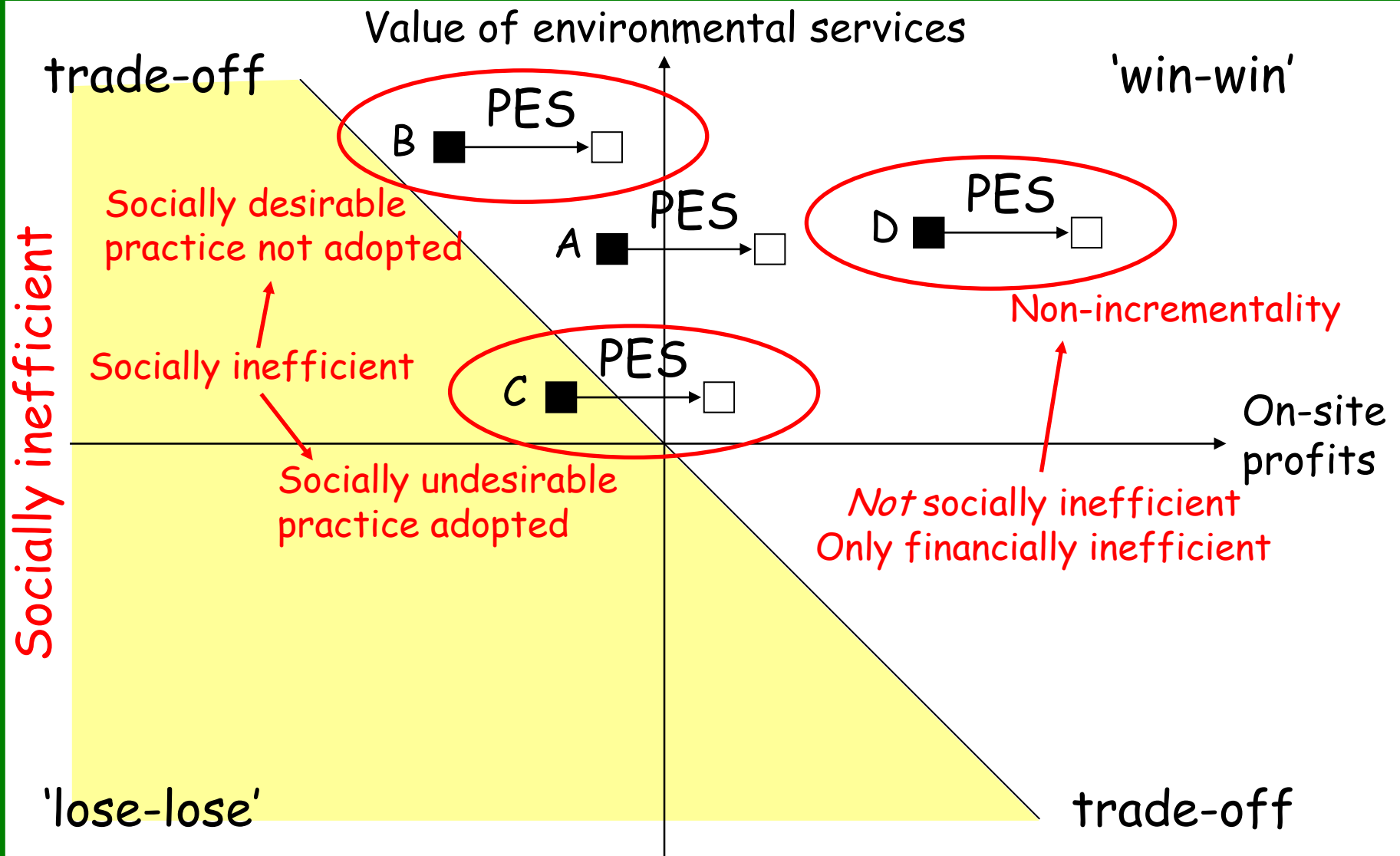
- No additional financing
- No additional information on value of service
- Only as sustainable as the financing
- If get it wrong, it may stay wrong
- Susceptible to political pressures

Benefits of bringing in service users

- Additional information on value of service
 - No WTP, no PES
 - Instrument that can discriminate between cases where conservation is worth doing and cases where it is not
- Additional financing
 - Current conservation budgets pathetically inadequate - Making their use more efficient important, but doesn't go very far
- Bring into system a constituency with vested interest in getting it right
 - Help withstand political pressures
 - Adjust to problems

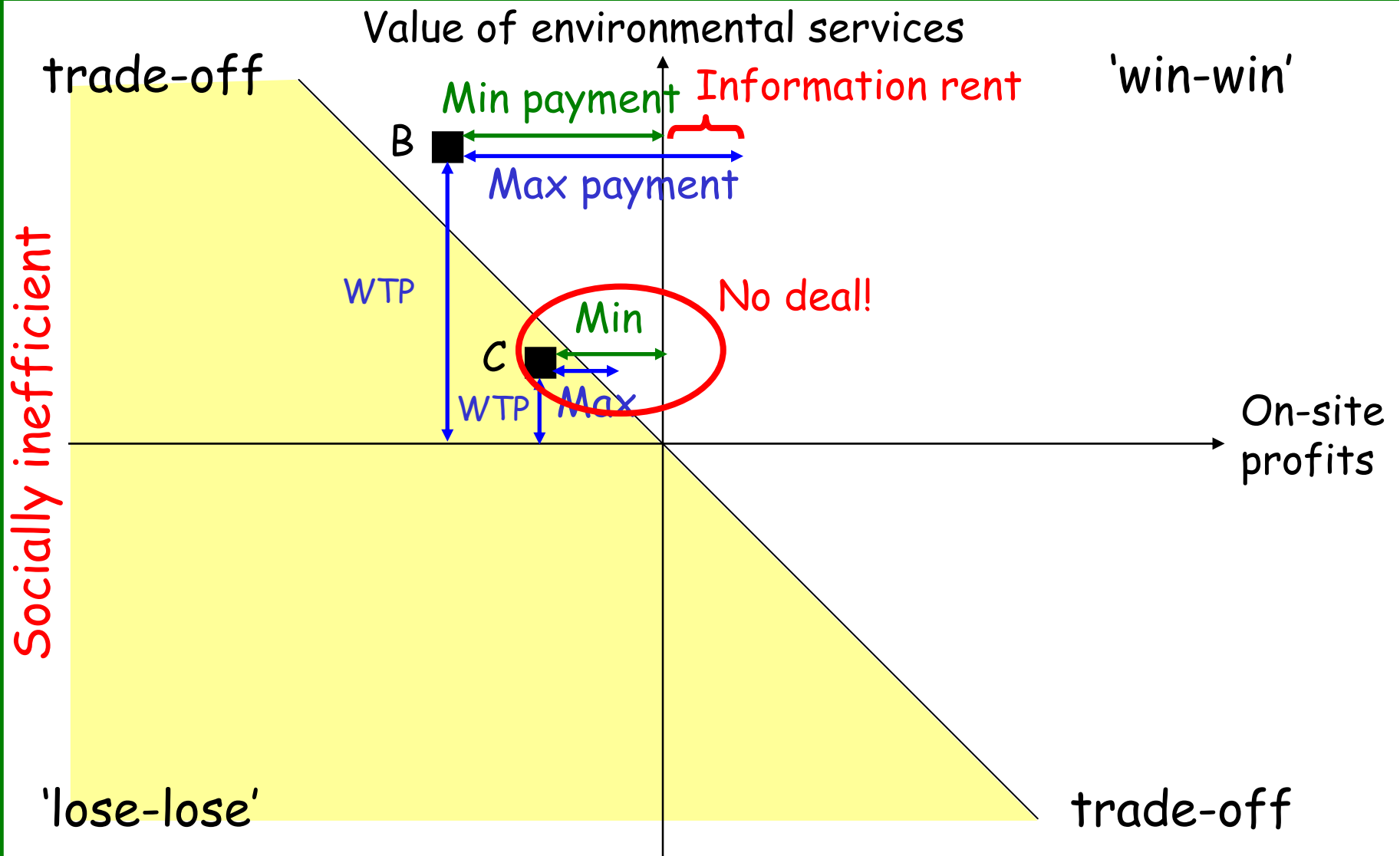
Efficiency of PES programs: Sources of inefficiency

Workshop on market-ish instruments



Basing payments on user WTP improves efficiency

Workshop on market-ish instruments



When is PES potentially useful?

- When land use choices have a substantial impact on others (ie have an *externality*)
 - Socially optimal land use differs from privately profitable land use
 - Externality may be a public good, but not always
- Know how land use affects that impact
 - Too often just assume that have positive impacts
- Have institutions that can act as intermediaries between buyers and sellers
 - Technical capacity
 - Trusted by buyers and sellers

Paying providers: issues

- Based on what?
 - Specific action taken (eg EU agri-environment prog)
 - Expected outcome of action (eg CRP)
 - Monitored outcome of action (eg Mexico PSAH)
 - Actual service provision (La Manguera, Costa Rica)
- Setting payment level
 - Flat rate (Costa Rica, Mexico, EU agri-environment)
 - Bidding (US CRP, Australia salinity program)
- Cheapest
- More cost-effective
- More effective
- Best, but difficult and costly
- Lower transaction cost
- More bang for buck

Paying providers: issues

- **Additionality**
 - How important?
 - Very, if have fixed budget
 - Politically/practically, if need to convince users to pay
 - How to achieve?
 - Risk of perverse incentives
- **Avoiding leakage**
 - Conditions on participants
 - Monitoring, enforcement
 - Indirect impacts
- **Permanence**
 - Of contract
 - Of action/impact
 - ~~Need for long-term payment~~