Payments for Ecosystem Services
-an overview-

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Payments for Ecosystem Services

• PES definition:
  – A voluntary, conditional agreement between at least one “seller” and one “buyer” over a well-defined environmental service – or a land-use presumed to produce that service (Wunder, 2007)

• PES are agreements whereby a user or beneficiary of an ecosystem service provides payments to individuals or communities whose management decisions influence the provision of ecosystem services (OECD, 2010)

Source: OECD (2010) Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services
Why are PES important?

- Flexible, incentive-based instruments, applied to internalise local and national public good benefits of biodiversity and ecosystem services
  - National scale examples: Canada, China, Costa Rica, Estonia, Mexico, South Africa, US
  - Many more local scale PES programmes

- Large proliferation of PES... More than 300 programmes to date
  - 5 national programmes estimated to channel over USD 6 billion per year

- Potentially large gains in cost-efficiency from PES compared to indirect payments or other regulatory approaches (Engel et al. 2008) >> Environmental and cost-effectiveness of PES depend crucially on programme design and implementation
Mobilising and Scaling Up Finance for PES

Source: TEEB
Effective design of PES

- Clearly identify PES goals and objectives
- **Remove perverse incentives** - coherent PES policy requires other prevalent market distortions to be removed
- Clearly define and enforce **property rights**
- Ensure **sufficient and long-term financing** for PES
- **Target and differentiate payments** (via spatially explicit CBA) to enhance cost-effectiveness -- rather than uniform payments
- **Additionality**, **leakage** and **permanence** should be addressed
- **Performance-based payments** are preferable to effort-based payments
- **Monitoring, reporting** and **performance evaluation** is key
The need for safeguards

- PES are voluntary so assumed to benefit poor. But can have high transaction costs, tenure insecurity, other entry barriers such as high investment costs (lack of access to start-up capital)

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
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<tbody>
<tr>
<td>Promote land tenure</td>
<td>Elite capture</td>
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<tr>
<td>Increase household income</td>
<td>Unequal benefit distribution</td>
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<td>Improved local organisation</td>
<td>Exclusion from project and local development decisions</td>
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For further information on OECD work on the economics and policy of biodiversity, visit:

www.oecd.org/env/biodiversity

Key policy areas:
- Biodiversity Indicators, Valuation and Assessment
- Economic Instruments, Incentives and Markets
- Biodiversity Finance, Development and Distributional Issues

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Recent and on-going work: OECD Environmental Outlook to 2050 (chapter on biodiversity); Green Growth and Biodiversity; Finance Mechanisms for Biodiversity
Insights for International PES

• IPES = same concept of direct transfers between buyers and sellers at the international level

• Promoting biodiversity co-benefits in REDD
  – Target and prioritise REDD activities in areas with both high carbon and high biodiversity benefits
  – Voluntary initiatives to bundle carbon and biodiversity benefits in REDD-plus are already emerging (e.g. CCBA)
    > *green* REDD-plus credits on voluntary carbon markets

Source: Karousakis (2009), *Promoting Biodiversity Co-Benefits in REDD*

• International payments for biodiversity
  – Example of layering payments: Los Negros valley in Bolivia
    2 ecosystem services: watershed protection (downstream irrigators); protection of habitat for migratory bird species (US Fish and Wildlife Service)