

# Payments for Ecosystem Services -an overview-

**Katia Karousakis**

Climate Change, Biodiversity and Development Division  
OECD Environment Directorate

*Financing Mechanisms for Biodiversity: Examining Opportunities  
and Challenges*

Montreal Workshop, 12 May 2012

# 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*

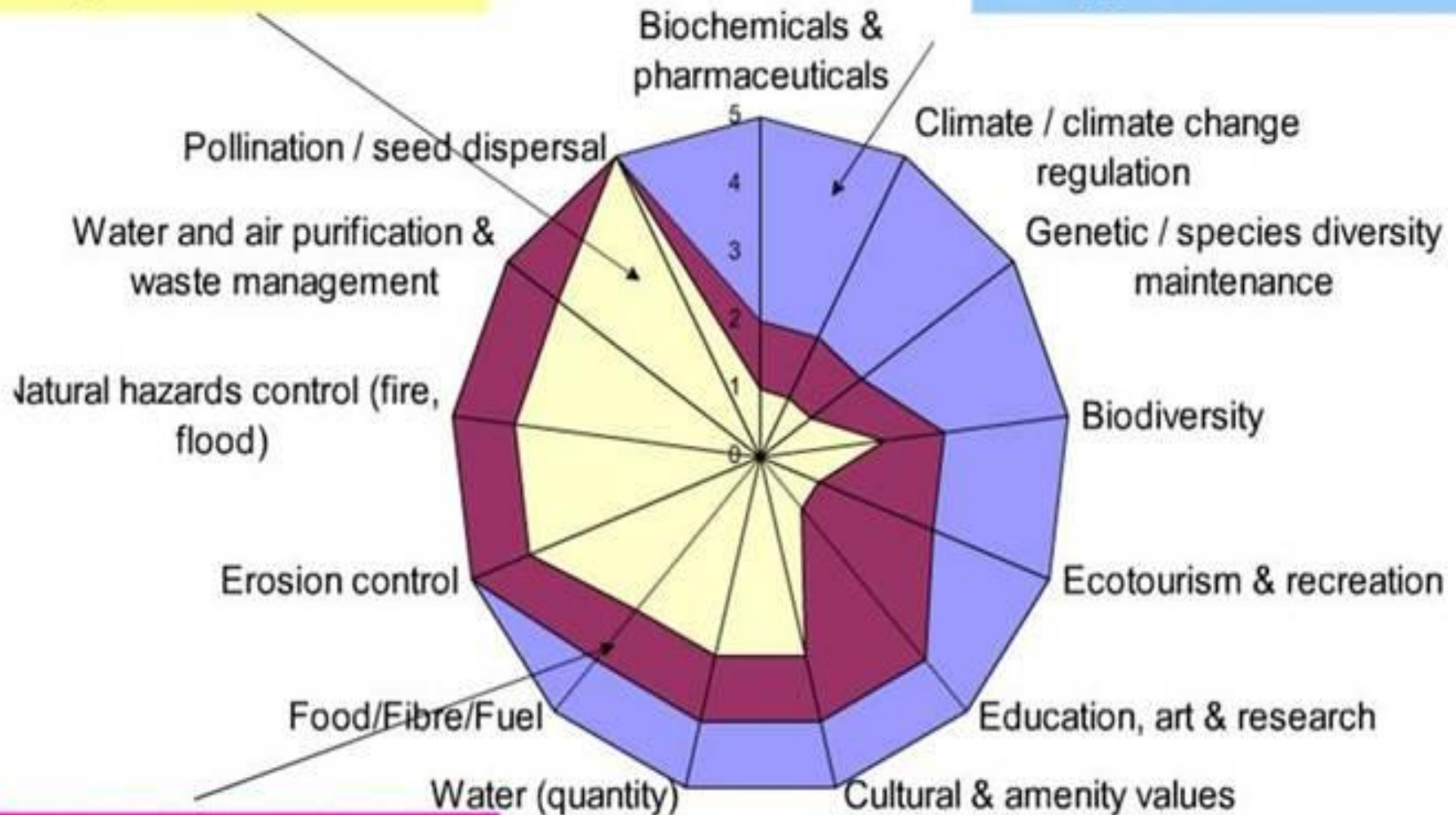
# Why are PES important?

- 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

Mainly local benefit

Mainly global benefit



Additional national benefit

# 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)

<b>Positive</b>	<b>Negative</b>
Promote land tenure	Elite capture
Increase household income	Unequal benefit distribution
Improved local organisation	Exclusion from project and local development decisions

# Thank you!

For further information on OECD work on the economics and policy of biodiversity, visit:

**[www.oecd.org/env/biodiversity](http://www.oecd.org/env/biodiversity)**

## ***Key policy areas:***

- ❖ Biodiversity Indicators, Valuation and Assessment
- ❖ Economic Instruments, Incentives and Markets
- ❖ Biodiversity Finance, Development and Distributional Issues

Contact: [katia.karousakis@oecd.org](mailto:katia.karousakis@oecd.org)

- *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)