

# DESIGN OF PAYMENT SCHEMES AND THE ROLE OF INTERMEDIARIES IN INDONESIA

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AICHI TARGET 3  
ON POSITIVE INCENTIVES:

## CAN MARKET-BASED INSTRUMENTS MAKE A DIFFERENCE?

RESULTS FROM  
THE INVALUABLE PROJECT

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# Objective

What are the governance challenges for PES to deliver on resource mobilization and incentivizing?

## Policy relevance

(Resource mobilization + Positive incentives)

- Item 12: “Understanding behavioral change and the **performance of economic instruments**, as well as improved guidance and tools to develop positive incentives”; “exploration of innovative financial mechanisms, inter alia **payments for ecosystem services**”
- Item 14: “mobilization of all sources to increase international and domestic financial flows, inter alia from private sources, public sources and **innovative financing mechanisms**”

# Indonesian case studies



## Lombok

3 successive PES: voluntary, tax, internalization

Focus on evolution of the scheme governance

## Cidanau

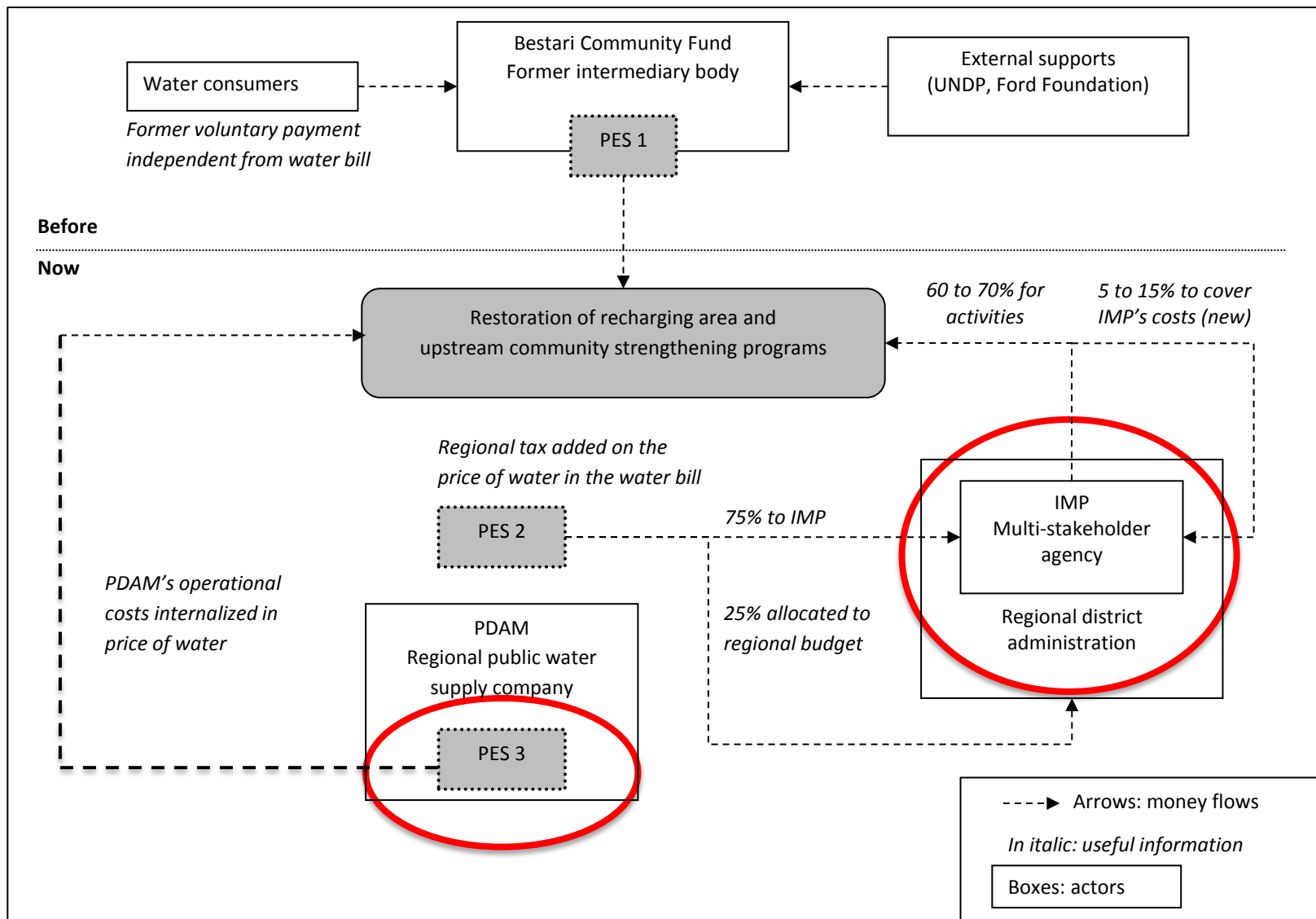
One water company as funder, heavy support by donors

Extensive household surveys on governance, analysis of incentives (theory of signals)

# **Multi-stakeholder Agencies**

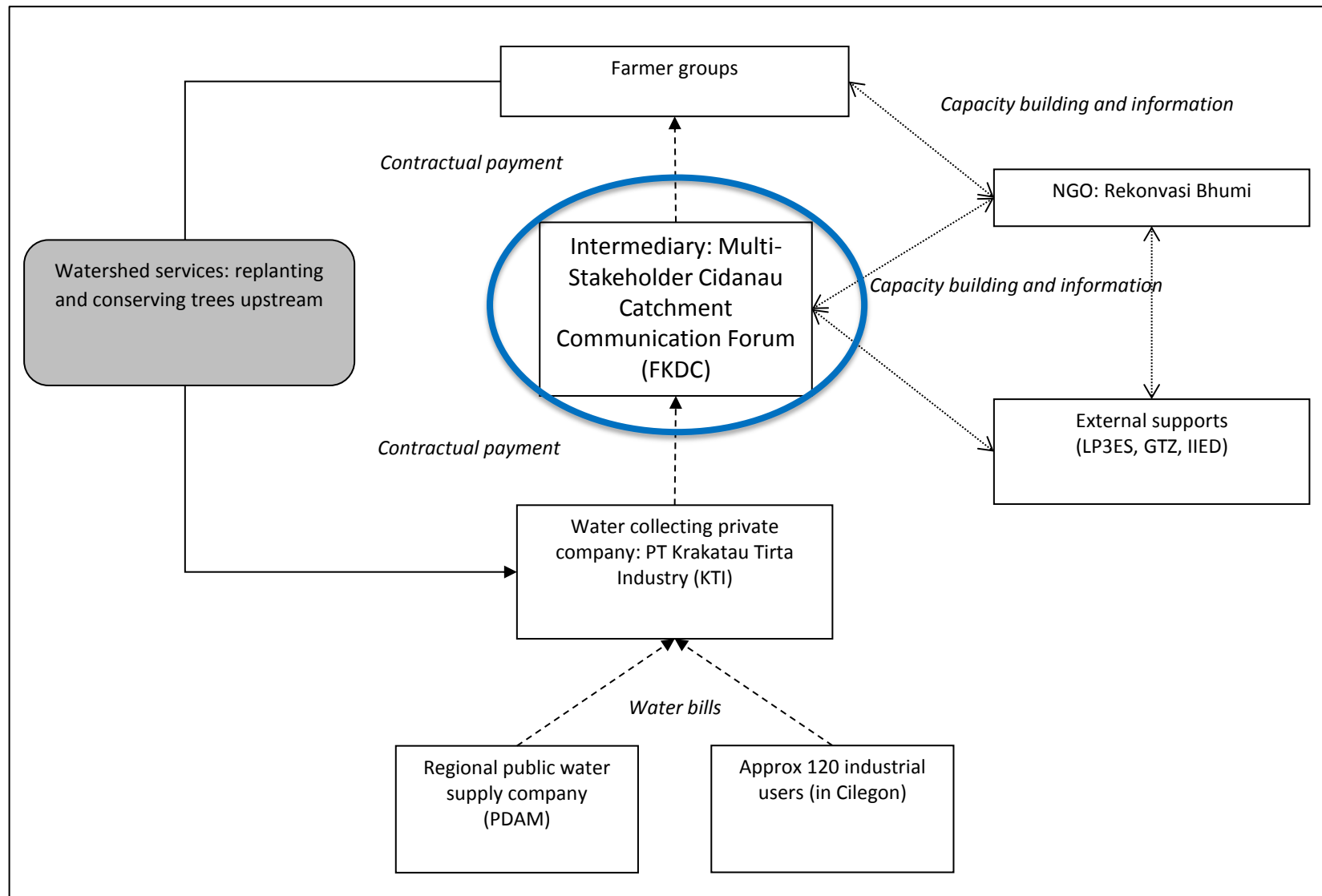
## **as intermediaries**

# Lombok





# Cidanau



- No **guarantee of equal power** in decision making
- Effectiveness affected by **political purposes**





# Targeting of service providers

- ☐ Social connections as most decisive factor  
(e.g. through farmer group leader and previous schemes)
- ☐ Hydrological studies are not used at full potential  
(selection more on practical reasons)
- ☐ Additionality is unlikely  
(e.g. 88% had previous motivations such as productive trees)

# Is signal lost in translation?

## ☐ Motivations much more than financial

(e.g. 35% display social motivations: pressure, external choice, do like neighbor, good reputation...)

## ☐ Significant problems of information sharing

(Rules are partially known, but payment aspects remain confused)

## ☐ What about procedural equity?

(Lack of ownership, responsibilities associated to farmer group leader)

# LESSONS

- Local PES complex and expensive... a credible source of funding?
- Qualified market-based... yet governance is a great challenge for implementation
- Mandatory approaches prove valid... but innovative approaches not to be dismissed



# Further reading

Pirard R., de Buren, and R. Lapeyre, 2014, Do PES improve governance of forest restoration?, *Forests*, 5 (3), pp. 404-24.

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Lapeyre, R. and R. Pirard, 2013, Payments for environmental services and market-based instruments: next of kin or false friends? *IDDRI Working Paper N°14/13*, Institute for Sustainable development and International Relations (IDDRI), Paris.

Pirard, R., 2012, Payments for Environmental Services (PES) in the public policy landscape: “Mandatory” spices in the Indonesian recipe, *Forest Policy and Economics*, 18, pp. 23-29.

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