DESIGN OF PAYMENT SCHEMES AND THE ROLE OF INTERMEDIARIES IN INDONESIA

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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

Case study Lombok (Nusa Tengara Barat)

Case study Cidanau (West Java)
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

Before

Water consumers → Bestari Community Fund → External supports (UNDP, Ford Foundation)

Former voluntary payment independent from water bill

PDAM Regional public water supply company

Now

Restoration of recharging area and upstream community strengthening programs

Regional tax added on the price of water in the water bill

PDAM’s operational costs internalized in price of water

‒ 60 to 70% for activities
‒ 5 to 15% to cover IMP’s costs (new)

PDAM Regional public water supply company

25% allocated to regional budget

IMP Multi-stakeholder agency

75% to IMP

Regional district administration

― Arrows: money flows

Boxes: actors

In italic: useful information
Cidanau

Intermediary: Multi-Stakeholder Cidanau Catchment Communication Forum (FKDC)

- Farmer groups
  - Capacity building and information
- NGO: Rekonvasi Bhumi
  - Capacity building and information
- External supports (LP3ES, GTZ, IIED)

- Watershed services: replanting and conserving trees upstream

- Water collecting private company: PT Krakatau Tirta Industry (KTI)
  - Contractual payment

- Water bills
  - Regional public water supply company (PDAM)
  - Approx 120 industrial users (in Cilegon)
➤ 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


