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„Marketing“ Environmental Services:

Lessons Learned in German Development Co-operation

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Overview

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- Background and stage of development
- Experiences in Technical Co-operation
  - Projects and Project Types
  - An Example of GTZ co-operation
  - Lessons learned and future challenges
- Outlook

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Background and Stage of Development I: „Developed World“

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- rewarding or compensating landowners for alleged or actual environmental services they perform is not new.
- Agriculture in most developed countries has enjoyed a considerable level of governmental support justified partly by environmental concerns (US, EU, Norway Switzerland, etc.)
- In EU CAP strong focus on “agri-environmental programmes” as part of “decoupling” since 1992
- Annual Financial Volume of agri-environmental programmes in Germany 870 million USD, total in EU 15 since 1992 30 billion USD.

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Background and Stage of Development II: „Developing World“

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- Interest more recent and regionally focused in Latin America and Caribbean
- Majority of practical applications at watershed level with compensation for upstream landowners
- On „supply-side“ focus on multifunctional character of forests
- Strong interest from NGOs, Partner Countries and donors at times with differing interests:
  - Mobilisation of funding sources
  - For Poverty alleviation
  - Improving efficiency efficiency and effectivenes of environmental policies
- Generally enthusiasm is higher on the supply side than on the demand side

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Experiences : Technical Cooperation

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Projects in eight countries:

Ecuador (2x), Peru (2x), Brasil, Bolivia(2x), Dominican Republic. Two under implementation, seven in different stages of preparation

Land use promoted, desired environmental benefits:

reforestation and forest conservation, biodiversity conservation, soil and water conservation, prevention of agricultural expansion

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Experiences II: Water quality and quantity in the Ambato-Watershed

Population: 310.000
(123 p./skm)

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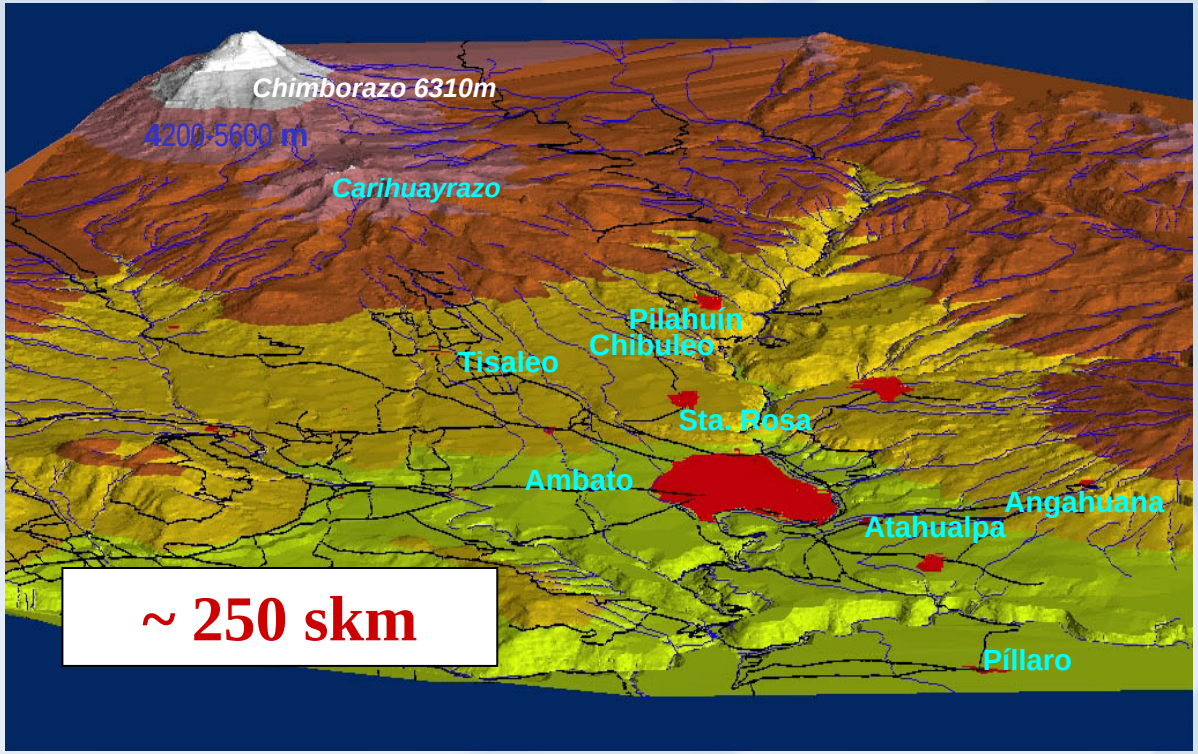
	Area	Population
Highland 3500-4200 m	47 %	5 %
Transition Zone 2800-3500 m	32 %	25 %
Lowland 2100-2800 m	11 %	70 %



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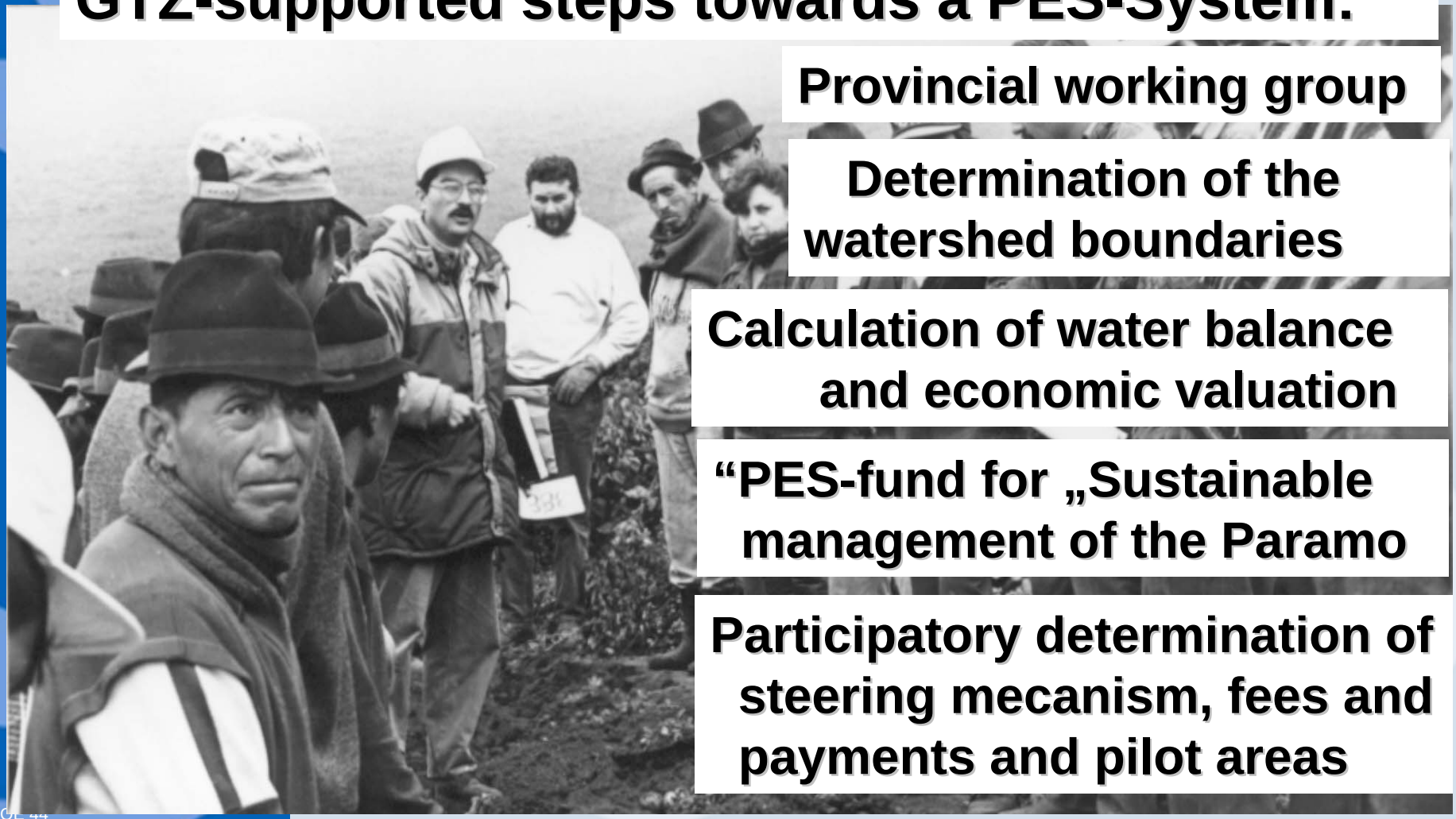
Experiences III:

GTZ-supported steps towards a PES-System:



- Provincial working group
- Determination of the watershed boundaries
- Calculation of water balance and economic valuation
- "PES-fund for „Sustainable management of the Paramo
- Participatory determination of steering mecanism, fees and payments and pilot areas

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Lessons Learned and Future Challenges I

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- **Three main ways by which in which PES Programmes can go wrong:**
- by underestimating the importance of the organisational and institutional framework in which a PES system will operate,
- by not clearly spelling out strategies to make the desired land use change sustainable in the long run, and
- by not insisting on the most efficient mechanisms to deliver environmental results

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Lessons Learned and Future Challenges II

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- **Critical factors for the Organisational and Institutional Framework:**

- To understand the “contract culture” and deal with unclear land tenure
- To consider incentives for actual compliance
- To move away from input orientation towards output oriented programmes and design them with land users
- Effective and efficient monitoring of compliance
- To make sure PES fit into socio-cultural environment – and prevent common property breaking down into open access. Recipients do not need to be individual farmers, the might as well be farmers groups or communities. Avoid the misconception that the environment is being privatised.

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Lessons Learned and Future Challenges III

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- **Critical factors for Sustainability are:**

- To start with the assessment of the demand side for environmental services;
- A clear and joint understanding about the cause – effect relationship between land use on the one hand and environmental service on the other;
- Designing PES schemes that will become financially independent from public budgets and donor contributions after a transition period as neither public budgets nor development assistance will be available permanently for most environmental services
- To expect continuous payments only in cases where the value of the environmental service is particularly high

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Lessons Learned and Future Challenges IV

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- **Critical factors for Cost Effectiveness are:**

- A clear hierarchy of objectives. PES will quickly lose its appeal as an instrument of environmental policy if it is perceived to be loaded with other objectives, especially social objectives at the expense of its environmental impact;
- Obstacles against participation of poor parts of the population should be removed/minimised – this should be an objective of development co-operation; and
- Implementation/Transactions costs have to be as small as possible in order to give potential "buyers" as much of an incentive as possible;

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Outlook

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- PES is a promising policy instrument if it is being put to use where it fits (demand orientation) and the limitations are clear
- Institutional requirements, sustainability and cost effectiveness criteria should be taken seriously for PES not to lose the current momentum and interest
- Rather than calling all incentive mechanisms in environmental policy PES, we should broaden the instrumental scope,
- From a sometimes instrument-driven discussion, we should return to a problem-solving approach

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Thank you.