

Payments for Environmental Services (PES): An Overview of the Options and Challenges for Mountain Systems and People¹

Frans Neuman, Laura Keenan, Ujol Sherchan, Klas Sander Laxman Joshi, David Huberman, Bhaskar Karky

Background

Payments for Environmental Service (PES) schemes have become a popular policy instrument for promoting sustainable natural resource management and conservation. It is now increasingly recognised that PES can also contribute to broader economic development objectives such as sustained rural development, food security and lasting poverty alleviation (Antle 2008). Accordingly, it has attracted attention in both developed and developing countries alike, and has been applied within a wide variety of upland ecosystems and landscapes for a range of purposes, including regulation and quality of water for urban supplies, biodiversity conservation and climate change mitigation. This introductory article emphasises why PES schemes are of particular relevance for mountain regions, discusses the underlying concept and summarises key factors and challenges for design and implementation.

What is PES?

Payments for environmental services (PES) are mechanisms under which those who provide environment-related positive 'externalities'² are compensated voluntarily for doing so, usually through payments from beneficiaries - those who consume the service provided - or intermediaries such as the government (see Figure 1).

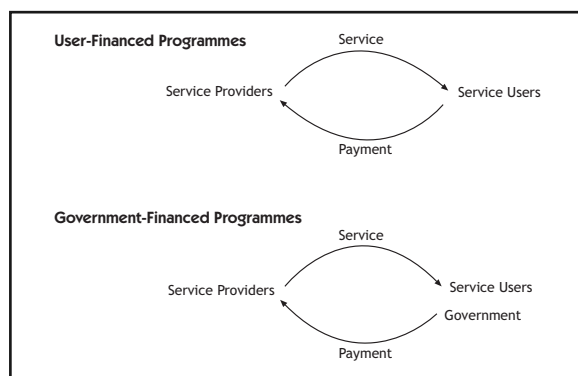


Figure 1: PES and ES Source: Pagiola, S., and G. Platais 2007.

The basic principle behind PES is that environmental stewards, or land-users, receive few (financial) benefits for sustainable resource management and conservation, which provide numerous direct and indirect services, e.g. water services (including flow and quality of water, erosion and sedimentation control, water table control and salinisation, and water habitat conservation), conservation of biodiversity, carbon sequestration, and landscape amenities (see 2.1 to 2.5) to the wider community. These benefits are often less than those received from more destructive and less sustainable management practices, such as conversion of

forests for annual crops or pasture. Payments by beneficiaries and other incentives can help make the sustainable management option more attractive, and thus sustain conservation-friendly land usage or induce necessary changes.

Why focus on mountains?

Mountain communities (some 720 million people - or 12% of the world's population) are stewards of essential environmental services and have for centuries played a critical role in maintaining a sustainable flow of resources to the plains below. For example, mountains are 'water towers', supplying freshwater to more than half of humanity; are characterised by high levels of endemism and species variety, and mountain tourism accounts for 15-20% of the world's tourism industry (Price 2004). Whilst mountain ecosystems are highly susceptible to environmental degradation from unsustainable land use practices, the primary land users are often poor and are heavily dependent on agricultural land use. Under these conditions, well-targeted and well-designed incentive schemes for sustainable land and resource management have the potential to achieve conservation and development objectives.

Meeting the criteria

a) a voluntary transaction, where b) a well-defined environmental service(s) is bought by c) a minimum of one buyer from a minimum of one seller, d) if and only if the seller secures the provision of the service.

Box 1: Defining PES Source: Wunder 2005

The literature tends to interpret PES according to a definition developed by Wunder (see Box 1). The World Agroforestry Centre (ICRAF) has identified four broad criteria for assessing and implementing PES schemes, which builds on this analysis: they should be realistic, voluntary, conditional, and, critically, pro-poor (see Leimona et. al, pg 10 for a more in depth analysis of these terms and their applications). In practice, PES schemes range from purely market based to more regulated approaches, and reference is increasingly made to "PES-like" initiatives that meet some but not all of the criteria. This Bulletin includes such cases of "unpure PES" on the basis that they provide necessary learnings about how these four conditions might be applied and integrated in mountain areas in future, particularly given the relatively recent implementation of most PES initiatives (see interview with Meine van Noordwijk, pg. 20).

"Payments" is taken to refer to any incentive (monetary or non-monetary) that encourages people to behave in a certain manner. This may take the form of support with developing infrastructure; insurance against, for example, crop depredation by wildlife; training and capacity development; securing land use rights, or more generally enhancing social organisation.

Environmental valuation and PES

A key constraint to implementing conservation strategies is that, while the benefits of non-market goods and services are increasingly recognised with regard to their monetary values, these values are often not fully accounted for by individuals and society in decision making processes. Only when these values are included in economic efficiency

1 This is a summary of the full article produced especially for the Bulletin. See www.mtnforum.org/rs/ol/browse.cfm?tp=vdanddocid=5423

2 Externality (or spillover) of an economic transaction refers to the effects arising from the economic activities of one party that impact directly on another's utility or production function, but for which no appropriate compensation is paid (see Buchanan and Stubblebine, "Externality", *Economica* 1962). A positive externality is an unintended, unpaid for benefit from production/consumption (typically leading to under-production); a negative externality is unintended harm, when part of the cost is born by someone other than the producer/consumer (typically leading to over-production).

Overview

calculations, e.g. cost-benefit-analyses, can they be fully internalised by consumers and policy makers. Different approaches have been developed over the past decades that attempt to express consumer demand, i.e. their willingness to pay for a certain good or their willingness to accept monetary compensation for the loss of the same. The challenge remains in how to translate these economic values into real resource flows (see Negi, pg. 37 and Khan, pg. 39 for further discussions on this topic).

Types of environmental services

Natural resources are the source of important ecological, economic and social functions, which provide a wide range of direct and indirect goods and services for human consumption and as inputs into production processes. Environmental Services (ES) can be provided through watershed management, biodiversity conservation, landscape beauty related to tourism, carbon sequestration, and sustainable agriculture, each of which are outlined briefly below in relation to development of markets. The term “environmental services” is used rather than ‘ecosystem services’ in order to apply the concept to a wide range of application domains, also outside of a particular ecosystem.

Payments for watershed services

Watershed services include the regulation of water flow by storing water in wetlands and lakes, slow release of rain or melt water, prevention of flooding, reduced soil erosion and reduced contamination from nitrates and soil erosion in order to ensure good quality water. Upstream-downstream payments for water services represent the basis for a PES model that people are trying to replicate in developed and developing countries, often bringing together water users including public/private suppliers of water and hydropower and government agencies. The advantage of PES in this context is that upstream/downstream linkages are apparent as a result of the natural landscape and are often readily acknowledged by downstream users. A substantial number of cases in the bulletin relate to water services. Some more unusual schemes include the wholly voluntary supplement to the water bill in Zapalinamé, Mexico which has so far raised US \$28,000 for watershed conservation (Blackaller, pg. 66), and the early example of the privately financed PES in Vittel, France, which bought off farmers’ debts and provided other incentives in return for reducing nitrate contamination from agricultural runoff (Perrot-Maitre, pg. 49).

Payments for biodiversity conservation

Several local and national conservation programmes focus on conservation of high value ecosystems such as wetlands and rare or endangered species such as snow leopards, tigers, and mountain gorillas. Some examples of reward mechanisms include a) eco-certification schemes, encouraging ethical conservation practices for a price premium as in the case of the Rhön marketing initiative (Robinson, pg. 51) and for shade-grown coffee in the Sierra Madre, Mexico (Zepeda, pg. 68); b) subsidies from governmental organisations for delivery of conservation-friendly land use practices, e.g. EU agri-environmental payments (Hovorka, pg.56); c) mitigation schemes to ensure compensation in the case of e.g. property development (Gartner, pg. 73), and d) in-kind incentives given to local communities to ensure protection of rare and endangered species and habitats (Wangchuk, pg. 22).

Payments for landscape beauty

Typically, tourism operators have been reluctant to share profits with land stewards for the services they provide to tourists, either through landscape management, conservation or avoided environmental degradation. Many protected areas have also not exploited the willingness of tourists to pay for ecosystem conservation. However, recent studies are showing that there is willingness to pay for aesthetic beauty even in relatively poor areas in developing countries, as shown in the valuations of the Margalla Hills National Park, Pakistan (Khan, pg. 39) and the Scho’llet Forest, Peru (Alva, pg. 70). Meanwhile tour operators are paying higher prices for conditional environmental services provided by local communities (Gyeltshen, pg. 29). Definite contracts with detailed and precise mutual obligations are still a relatively distant outcome in implementation of ES projects for landscape beauty, and as yet many cases manifest themselves simply as reformed entrance fees.

Payments for carbon sequestration

Most recently and probably with the strongest potential to leverage large scale resource flows, there has been a significant emergence of PES schemes in the context of climate change mitigation. The two platforms in use are a) the regulated market under the Kyoto Protocol, wherein developed countries trade emissions credits up to an overall “cap”, and b) the voluntary markets, which bring together private sector firms, international NGOs and individual consumers in the North. Under the Clean Development Mechanism (CDM) established through the Kyoto Protocol, industrialised countries with a greenhouse gas reduction commitment (Annex 1 countries) can mitigate their own emissions through investments in projects that reduce emissions in developing countries, including de-/afforestation. A case study of the first registered CDM project in China (Chen, pg. 33) assesses the sustainability of this kind of project under current regulations.

Recent discussions have focused extensively on the potential of “reducing emissions through deforestation and forest degradation” (REDD) or, simply put, avoided deforestation. This is designed to reward conservation in areas of high biodiversity and implies paying countries for not cutting down trees. Financial turnover in these kinds of PES schemes is substantial. According to IIED, the global carbon market will be worth US \$118 billion/year by the end of 2009, and to date some US \$800 million has already been invested in REDD (IIED 2009).

Payments for agricultural services

Whilst farmers are often responsible for delivering the aforementioned ES, e.g. clean water, there are also some PES schemes that specifically target the way farmers use their own farmland and production to provide ES, such as conservation of agro-biodiversity through pollination services (Partap, pg. 35); high nature value, low-intensity farming practices (shade-grown agricultural produce in Tunisia, Schoubroeck, pg. 15; agro-forestry in the Sierra Madre, Mexico pg. 68), and conservation of traditional agricultural landscapes (Robinson, pg. 51).

Learnings and recommendations

Based on the experiences of the expert networks, various reports and the cases collected in this special issue of the Mountain Forum Bulletin, the following key points are identified as being critical for designing and implementing PES programmes:

Raising awareness

Limitations in understanding and implementing PES as a rigorous and systematic methodology has led to slow uptake of PES in both the private and public sectors, although this is changing. This Bulletin provides several examples of education programmes around ES inducing willingness to pay amongst local stakeholders, especially for water (e.g. Blackaller, pg. 66)

- 1) Awareness of national policy makers, potential buyers and users, and other stakeholders can be raised through workshops, media campaigns and action research and demonstrations.
- 2) Experiences with PES implementation have been generated at a variety of levels over the last few years. It is therefore recommended that systematic learning, knowledge sharing and networking across PES schemes as in “Communities of Practice” are established to inform design and enable replication, nationally, across regions and internationally.

Using scientific evidence and valuing ES

In any given area, the flow of services has rarely been characterised in biophysical and economic terms, making it difficult to establish baselines, target providers, develop indicators and assure conditionality of the payments on the provision of the required service.

- 1) Marketable services must be clearly defined and valued, and 2) baseline studies are required to determine and quantify environmental threats at the start of the project so that the impact of the ES scheme can be assessed, e.g. the level of water pollution or sedimentation in rivers.
- 3) Monitoring of effective implementation and compliance is necessary, and should be built into the design stages. It is also recommended to integrate indicators for monitoring the effects of the scheme on poverty and gender. This Bulletin refers to the RUPES Sumberjaya experience, where community members were rewarded based on actual sediment reductions, measured using simple, low cost techniques (Huang and Upadhyaya 2007; interview, pg 20).

Ensuring meaningful participation

Land users must be meaningfully engaged in order to understand what incentives will work, and how (see Didier Orange’s proposal and conclusions for the development of a biodigester scheme in Vietnam, pg. 52). In poorer communities it may make sense to incorporate training and awareness building into the programmes to ensure longer-term sustainability, which is a highlighted learning from many of the community-led initiatives for biodiversity and watershed conservation described in the Bulletin (e.g. Pradhan, pg. 27).

Avoiding “perverse incentives” and leakages

It is clear that PES has to be fair to be effective, particularly in a developing country context: a scheme cannot succeed by rewarding only the polluters and not those already engaging in pollution-control behaviour (interview, pg. 20). ‘Leakages’ may also occur in areas outside of the focus of intervention. Examples are poachers who move out of a protected area but continue their practices in a non-protected area. Addressing such issues needs to be built into

monitoring and project design, and more research needs to be undertaken to assess impacts on people/landscapes not specifically targeted by the PES scheme. This may include indirect consequences such as higher food prices.

Assuring profitability and efficiency

Transaction costs relate to outgoing expenditure associated with managing the services, including payments, and monitoring and delivery. Dealing with a large number of scattered individuals is more complex and has higher costs than dealing with a few large service providers or representative organisations. The ‘opportunity cost’ of the ‘conventional’ land use system is the foregone income from activities that could have taken place instead of engaging in the new activity. Particularly for smallholder farmers, investment and opportunity costs can be too high to make participation worthwhile, and the benefits are often only felt over a long time frame (Huang and Upadhyaya 2007; Rasul 2009; Schoubroeck, pg 15). For example, one study found that transaction costs for a land tenure rights group in Sumberjaya, Indonesia would be approximately US \$55 per household, when the average annual farm household income is under US \$109 (Huang and Upadhyaya 2007; Arifin 2005).

- 1) Benefits for the service providers must be adequate to sustain the proposed practices, and combining the monetary benefits of various PES and other productive income generating activities, e.g. agroforestry, may be relevant (see interview, pg. 20; Zepeda, pg. 68).
- 2) Rather than incentivising individual services or aspects of the landscape, an approach is now emerging that recommends co-ordinating reward mechanisms to provide a meaningful and complementary set of incentives for locally and globally important environmentally services (Zepeda, pg 68; Huberman, pg 12), which may address high opportunity and transaction costs for local farmers. Typically, this “landscape” or “ecoregion” approach combines water and carbon, but has significant potential for assimilating tourism and other agriculture related services. This may involve integrating eco-certification schemes, for example, as an incentive to boost productivity and profits in landscapes that are conserved for carbon and/or water services.
- 3) Research suggests that in-kind rewards can be an effective mechanism especially when combined with payments, as farmers gain the potential for supplementary income through receipt of trainings and other technical assistance (Huang and Upadhyaya 2007). There are also cases where land tenure or secure usage rights have been granted as an incentive: in the Vittel case in France (Perrot-Maitre, pg. 49), and in Sumberjaya, Indonesia, where coffee farmers were given conditional tenurial rights as part of their benefits through the RUPES programme (interview, pg 20).
- 4) In poorer areas, finance can be provided to cover initial start-up costs and investments through e.g. pro-poor microfinance initiatives (Kollmair, pg. 10 and Orange, pg 45). It may be advisable to follow the example of the Costa Rican PES design and stagger payments, providing the bulk of funds in the early years.
- 5) It is likely to be more cost-effective to transfer payments through community funds rather than making time consuming individual transfers to households, particularly in densely populated areas. In Costa Rica,

Overview

small farmers join the programme through a system of collective bargaining to disperse transaction costs (Pagiola et al. 2004; RECOFTC 2009).

Role of intermediary organisations

Intermediaries can help in building trust between buyers and suppliers, reducing transaction costs and providing seed funding, and are also key in designing and facilitating pro-poor markets (see the LI-BIRD case in Nepal, Pradhan, pg. 27). In many instances, it is clear that PES schemes would not have been developed without their presence. However, there is often limited stakeholder outreach and dialogue, assessment of impact in the design and monitoring stages, and weak financial management (Chen, pg. 33); as such, there is a need to enhance capacity in this regard.

Securing land rights

The lack of clearly defined or secure tenurial rights is a significant impediment to both equitable distribution of benefits and ecological conservation. Similarly if stewards do not feel secure, either because of illegal resource usage or because of interference from regulatory or government bodies, they may not be willing to invest in long-term resource management techniques (see Wendland, pg. 17 and Schoubroeck, pg. 15). The process of formalising rights, meanwhile, is a complex process - particularly if the stewarded environmental services have suddenly become a valuable commodity. In these instances, it may be cheaper (more "efficient") to clear people from the land and seize the resources (see interview, pg. 20).

- 1) Land ownership must be clear, and national and local authorities should formalise customary land claims where necessary. Temporary tenure arrangements may be a possibility.
- 2) To avoid incursions onto land, institutional strengthening should be a key aspect of the planning and budgeting stages. For more on this, see Wendland's article on land tenure issues in Ecuador and Indonesia (pg. 17).

Sustainability of funding

Funding for PES schemes often comes from parties not directly benefitting e.g. governments, donors, or NGOs. Many instances have shown that sustainability is a concern when core services are being paid from external sources and not by the service users themselves. To assure sustainability it is therefore recommended to see that:

- 1) Core costs of the system are covered from national / local sources.
- 2) The use of external funding is exclusively used for capacity development, research and providing infrastructure, transparency and start-up activities.

Conclusions

The cases collected in this Bulletin from the five regions show that PES have the potential to align economic development with ecological resiliency in mountain areas, building capacity from the ground up. This is particularly relevant for community-based approaches to environmental management, where local communities have been given the rights and responsibilities to manage resources for supporting their livelihoods.

To some extent, however, this means disengaging from the purely economic definition of PES that has emerged. Very few cases, if any, exist that are 'pure' financial transactions

between ES buyers and sellers, particularly in a developing country context. Such an approach may also not be acceptable to providers and/or beneficiaries. In order to ensure conditionality and meaningful participation from upland service providers, evidence from the regions suggests that there is a need and an emerging opportunity to develop a co-investment paradigm which recognises shared responsibility, trust, respect and shared benefits along with financial arrangements. The effective functioning of PES will require reinterpretation of its "conditions", better regulation and enhanced awareness and consideration of local needs, thereby ensuring that access to the markets promotes and does not hinder sustainable rural development in mountain regions.

References

- Antle, J; Stoorvogel, J (2008): Agricultural carbon sequestration, poverty, and sustainability; Environment and Development Economics, Vol. 13, Issue 03, June 2008, pp 353 - 373
- Carroll, N ; Fox, J; Bayon, R (2008) Conservation and Biodiversity Banking: a Guide to Setting up and Running Biodiversity Credit Trading Systems, EarthScan Publishing House
- Huang, M., and Upadhyaya, S. (August 2007), Watershed-based Payment for Environmental Services in Asia
- IIED (March 2009), Briefing: Financing REDD: Meshing Markets with Government Funds
- Lee, E. and Mahanty, S., (2009) "Payments for Environmental Services and Poverty Reduction: Risks and Opportunities," RECOFTC Issues Paper
- Pagiola, S. et. al. 2004. Paying for Biodiversity Conservation in Agricultural Landscapes. The World Bank, Washington, D.C.
- Pagiola, S; Platais, G (2007) Payments for Environmental Services: From Theory to Practice. Washington: World Bank.
- Price, M. (2004), Conservation and Sustainable Development in Mountain Areas, IUCN
- Rasul, G (2009) Ecosystem services and agricultural land-use practices: a case study of the Chittagong Hill Tracts of Bangladesh, ICIMOD
- Wunder, S(2005) Payments for Environmental Services: Some Nuts and Bolts. CIFOR Occasional Paper 2. Bogor, Indonesia: Centre for International Forestry Research.
- Xiaoyun, L; Leshan, J; Ting, Z (2006) Payment for watershed services in China: Role of government and market, a diagnostic study, College of humanities and development, China Agricultural University
-
- Frans Neuman (f.neuman@mtnforum.org) is Executive Secretary, Ujol Sherchan (usherchan@mtnforum.org) is Senior Programme Officer and Laura Keenan (l.keenan@mtnforum.org) is Programme Officer at the Mountain Forum Secretariat, Kathmandu, Nepal. David Huberman (david.huberman@iucn.org) is a Junior Professional Associate at the Economics and Environmental Department, IUCN, Switzerland. Klas Sander (ksander@worldbank.org) is a Natural Resource Economist at the Environment Department, World Bank, USA. Bhaskar Karky (bkarky@icimod.org) is a Research Fellow at ICIMOD, Nepal. Laxman Joshi (L.Joshi@cgiar.org) is a Natural Resource Management Expert at ICRAF-SEA, Indonesia.

Payments for Environmental Services: The Need for Redefinition?

Beria Leimona and Rudolf de Groot

Evolution of PES

As an alternative to the “command-and-control” approach, increasing enthusiasm for market-based instruments (MBI) in environmental management arose in the early 80s. It was hoped that MBI, including packaging taxes, effluent taxes and charges, capital or operation subsidies, tradable permits, deposit-refund schemes, performance bonds, liability instruments, and many others, would reduce the cost of achieving environmental goals and distribute resources in more efficient ways. The 1992 Rio Declaration on Environment and Development endorsed the use of MBIs as an important component of sustainable development.

The principles behind MBI attempt to capture the financial value of environmental services through so-called ‘payments for environmental services’ (PES). Four types of PES schemes can be distinguished and differentiated by the degree of government intervention in administration of the schemes, by characterising the buyers and sellers, and by the source of payments: (1) private payment schemes; (2) cap-and-trade schemes, under a regulatory cap or floor; (3) certification schemes for environmental goods; (4) public payment schemes, including fiscal mechanisms. Over the past decades, a range of payment mechanisms for environmental services have been operating in Latin American, the US and Europe.

In the early 2000s, the Payment for Environmental Services (PES) concept was tested as an efficient for solving environmental problems in Asian and African developing countries. Advocates of effectiveness and efficiency of the PES approach tend to see “environmental service transactions” in economic terms and generally prefer the term “payments” (Wunder 2005). However, the application of PES mechanisms should balance effectiveness and efficiency with fairness and pro-poor characteristics, with transaction costs as obstacles to both. Proponents of fairness and equity dimensions tend to prefer the use of the broader concept of ‘rewards’ (RES).¹

Van Noordwijk et al (2006) mention four criteria with indicators in developing RES schemes. They should be realistic, voluntary, conditional and pro-poor. Very few active programmes strictly follow these criteria due to social, political and natural factors affecting transactions and the system in which they operate. Because of this, a list of sub-criteria is presented for quality control (van Noordwijk et al 2007) (Table 1).

Table 1: Key criteria and sub-criteria for effective, efficient, sustainable and equitable PES

Criteria	Sub-criteria
A. Effective, efficient and sustainable:	
- Realistic	<ul style="list-style-type: none"> ✓ Shared common perspective of the issue ✓ Value to beneficiaries is substantial ✓ Opportunity costs can be covered and access to resources improved ✓ Threats can be monitored and evaluated

- Voluntary	<ul style="list-style-type: none"> ✓ Legitimacy at individual level ✓ Free and prior consent applied ✓ Adaptiveness of mechanism
- Conditional	<ul style="list-style-type: none"> ✓ Trust is enhanced ✓ Sanctions exist ✓ Environmental change is taken into account
B. Equitable	
- Pro-poor	<ul style="list-style-type: none"> ✓ Aligned with MDGs and sustainable development objectives ✓ Rewards reduce vulnerabilities of the poor

The first three indicators capture ‘market’ and ‘economic’ aspects of the scheme related to the effectiveness, efficiency and sustainability of the RES institutions. A scheme is effective when the reward slightly exceeds the amount land managers are willing to accept to take actions in providing ES, but less than the willingness and ability of ES beneficiaries to pay. Special attention is given to the ecological basis of environmental service agreements: the mechanism should be based on real cause-effect relations between land use and environmental services to ensure its sustainability (van Noordwijk et al 2005; de Groot et al 2006). The last two indicators relate to the equity dimension of the schemes to understand the relations between poverty and ES provision and to develop pro-poor mechanisms.

The pro-poor nature of a RES scheme can be interpreted from either a design or a poverty impact perspective. RES strategies can be deliberately designed to be biased in favour of the poor when considering tradeoffs between the efficiency and fairness of the mechanisms employed. From a poverty impact perspective, a RES can be assessed by its contribution to poverty reduction through payments that actually reach poor land users or poor ES providers (Hope et al. 2005; Noordwijk et al. 2007).

Furthermore, a conditional RES must ensure transparency. In designing a RES, solving problems at local levels related to voluntary participation and conditionality can help make the whole process more effective. Beyond that, the roles of intermediaries and buyers are also very important in ensuring that the RES is realistic and pro-poor.

Some lessons from RES initiatives in Asia

An ICRAF study on RES initiatives in Asia showed that these schemes were quite heterogeneous in the types of poverty, landscape characteristics and environmental services provided (Leimona et al 2009^a). The implementation of RES differed according to socio-cultural backgrounds in the study area, and in their models for involvement of local communities. ICRAF also assessed local people’s perspective of factors influencing poverty in view of developing a RES payment approach.

One requisite of pro-poor RES design is to identify rewards that match with people’s needs and expectations. From our analysis, we concluded that rewards in the forms of human capital, social capital and physical capital - or what are often

¹ In this paper, we consistently use ‘rewards for environmental services (RES)’ for our concepts and findings and ‘payment for environmental services (PES)’ for other special cases focused on financial transactions.

referred to as non-financial incentives - are very often the most preferred and also the most feasible. This supports our proposition on how non-financial incentives can make important contributions to local livelihoods, which was especially clear in the case of conditional land tenure in one of our pilot sites.² Moreover, literature on collective action in natural resource management indicates that social capital of community members influences the magnitude of transaction costs. Higher levels of social cohesion and trust within the community and its external linkages are associated with lower transaction costs. This suggests that investments providing non-financial benefits to communities, such as strengthening social capital, can help reduce overall costs of RES implementation.

Another ICRAF study on the impact of PES highlights the need for awareness of the social dynamics between participants and non-participants and to design benefit packages that minimise jealousy and conflict (Leimona et al 2009^b). The case studies reveal that the role of the intermediary is very important and dominant in any PES scheme in developing countries, mostly because of the limited capability of the ES providers for managing direct payments. Honest and trusted intermediaries are therefore one of the key factors of success. Furthermore, the role of government as regulator should be more pronounced and explicit. Indeed, the PES concept was new to all relevant stakeholders, including government and buyers, which created a challenge in gaining their commitment.

In conclusion, the application of payments for environmental services in developing countries has experienced shifting perspectives, from legitimating cost-efficient and effective natural resource management to concerns about equity and fairness of the scheme. Practitioners in this field have experienced that markets alone cannot solve the problems of environmental services degradation. The effective functioning of PES mechanisms requires redefinition of its rules, government regulation and better enforcement.

Acknowledgements

This paper benefits from the ideas and research conducted by Meine van Noordwijk, Laxman Joshi and many other ICRAF SEA scientists. Some parts of this research are funded by the International Fund for Agriculture and Development (IFAD) and European Union (EU).

References

- De Groot, R., Tassone, V and Buijnzeel, S., 2006. Valuing and Managing Watershed Services. Ch 2 in: Smith, M., de Groot, D., Bergkamp, G. and Perrot-Maître, D. Pay: Establishing Payments for Watershed Services. IUCN, Gland, Switzerland, (82 pp).
- Hope, R. A., I. T. Porras, M. Miranda, C. Agarwal, and J. M. Amezaga. 2005. Are the upland poor benefitting from environmental service reward st.info/PDF/Outputs/Forestry/R8174AretheUplandPoor.pdf.
- Leimona, B., L. Joshi, L., M. van Noordwijk. 2009a. Can rewards for environmental services benefit the poor? Lessons from Asia. *International Journal of the Commons* 3, 82-107.
- Leimona, B., R. Pasha, N P Rahadian. 2009b. The livelihoods impacts of incentive payments for watershed management in West Java, Indonesia. Australian National University (a draft of a book chapter).

Smith, M., D. de Groot, D. Perrot-Maître, and G. Bergkamp. 2006. Pay - Establishing payments for watershed services. Gland, Switzerland: IUCN.

Van Noordwijk, M., B. Leimona, L. Emerton, T. P. Tomich, S. J. Velarde, M. Kallesoe, M. Sekher, and B. Swallow. 2007. Criteria and indicators for environmental service compensation and reward mechanisms: realistic, voluntary, conditional and pro-poor. Nairobi, Kenya: World Agroforestry Centre.

Wunder, S. 2005. Payments for environmental services: some nuts and bolts. CIFOR Occasional Paperw.cifor.cgiar.org/publications/pdf_files/OccPapers/OP-42.pdf.

Beria Leimona (l.beria@cgiar.org) is working at ICRAF SouthEast Asia, Indonesia. Rudolf de Groot (Dolf.deGroot@wur.nl) is based at Wageningen University, the Netherlands.

Addressing Equity and Poverty Concerns in Payments for Environmental Services

Michael Kollmair and Golam Rasul

Introduction

The success of achieving the social goals of Payments for Environmental Services (PES) programmes, i.e. reduction of poverty, depends directly on the equitable distribution of benefits to poor mountain communities, who are the primary custodians and managers of environmental services. Although PES programmes are not designed for poverty reduction, they can create substantial synergies when programme design is well thought through. Recent literature indicates that in general PES programmes are not very sensitive to equity issues and are governed in such a way that may even exacerbate existing inequalities and trigger social tensions (Karr 2002; Miranda et al. 2003). It is therefore important to investigate the governance and equity aspects of PES, which are critical for sustainable development and environmental conservation (WCED 1987).

Equity in PES can be understood from three perspectives: equity in access, equity in decision-making and equity in outcome (Corbera et al. 2007). Equity in access refers to the governance mechanism which determines an individual participant's access to environmental resources, including land and forest. Equity in decision-making refers to the procedural fairness of the PES framework, which ensures that all sections of the community have an equal voice in decision making processes. Equity in outcomes refers to the distribution of cash and in-kind benefits across participants. In view of this, this paper briefly examines the challenges of governance mechanisms of PES in relation to poverty and equity.

² http://www.worldagroforestrycentre.org/Sea/Networks/RUPES/download/SiteProfiles/RUPES-Sumberjaya_FINAL.pdf

â€¢ Payments for Environmental Services (PES): An Overview of the Options and Challenges for Mountain Systems and People 1 more. by Ujol Sherchan. and Bhaskar Karky. Publication Date: 2010. Research Interests: Payment for Environmental Services. View on europe.mtnforum.org. Save to Library. â€¢ Payments for Environmental Services (PES): An Overview of the Options and Challenges for Mountain Systems and People 1 more. by Klas Sander. Research Interests: Payment for Environmental Services. Save to Library.Â An underlying and often amplifying challenge that results from this situation is the lack of reliable, consistent, and comparable data on the charcoal sector which would form a necessary baseline for robust decision making. Further, clarifying misconceptions and debunking of myths is paramount for demonstrating the contribution that charcoal could have in addressing energy access and economic challenges in developing countries. We present five commonly held myths about charcoal that are perpetuated by different stakeholders and actors in the sector.