



# Market-ish instruments and other strange beasts

A personal wrap-up view

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ZEF-CIFOR workshop:

*Payments for environmental services*

*Methods and design in developing and developed countries*

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# What's in a name?

- Market-ish instruments
  - Market-based instruments
    - Payments for environmental services
    - Certification of environmentally-friendly activities (joint production)
    - Cap-and-trade
    - ...
  - Non-market instruments
    - Command and control
    - ...

# Choosing an instrument

- Understand the objectives (eg clean water)
- Understand what is preventing them from being reached (market failure? what kind? policy distortions?)
- Choose instruments appropriately
  - Choice of instrument depends on objective and on context

Do not, do not, do *not* start from the instrument and decide whether it applies

# Defining Payments for environmental services

Leslie Lipper:

Any payment aimed at generating an environmental service

- Very general, not very useful

Sven: PES is

- 1) a voluntary transaction where
  - 2) a well-defined service (or land use that provides it) is
  - 3) bought by at least one buyer,
  - 4) from at least one seller,
  - 5) in a conditional transaction
- Descriptive, but includes too much

# Defining Payments for environmental services

Modified Sven:

PES is a mechanism by which

- 1) service user(s) pay
  - 2) service provider(s)
  - 3) to provide a well-defined service (or land use that provides it)
  - 4) in a conditional and
  - 5) voluntary transaction
- Focus on services that bring benefits *off-site* (indirect use value in TEV sense)
    - On-site benefits can be captured with very different mechanisms because can control access
  - If government/donor is financing, call this 'supply-side' PES

# Defining Payments for environmental services

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Very little  
attention

Huge amounts  
of attention

# 'Supply-side PES' applications

Tool to make use of given budget more cost-effective

- More bang for conservation buck

But

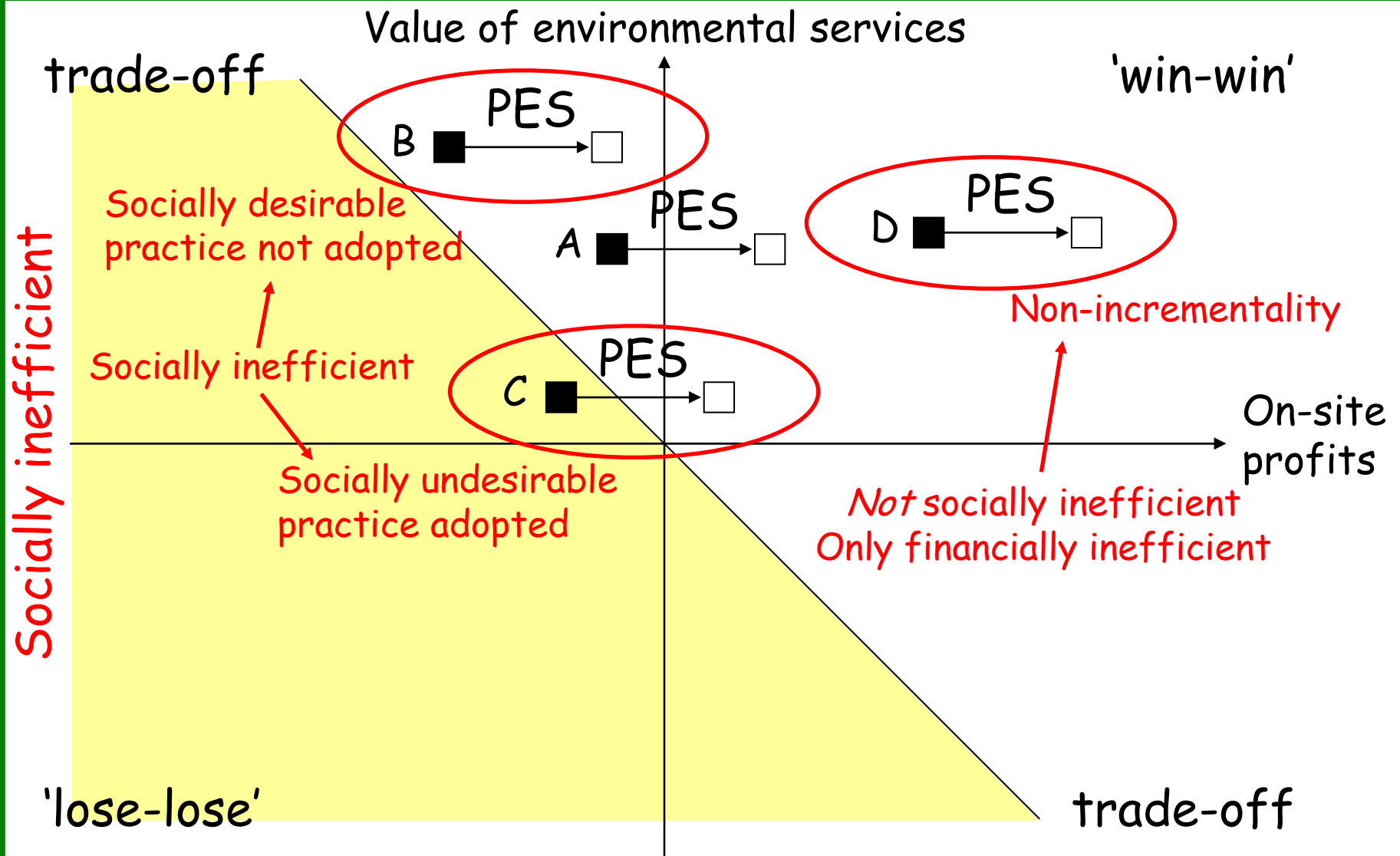
- No additional financing
- No additional information on value of service
- Only as sustainable as the financing
- If get it wrong, it may stay wrong
- Susceptible to political pressures

# Benefits of bringing in service users

- Additional information on value of service
  - No WTP, no PES
  - Instrument that can discriminate between cases where conservation is worth doing and cases where it is not
- Additional financing
  - Current conservation budgets pathetically inadequate - Making their use more efficient important, but doesn't go very far
- Bring into system a constituency with vested interest in getting it right
  - Help withstand political pressures
  - Adjust to problems

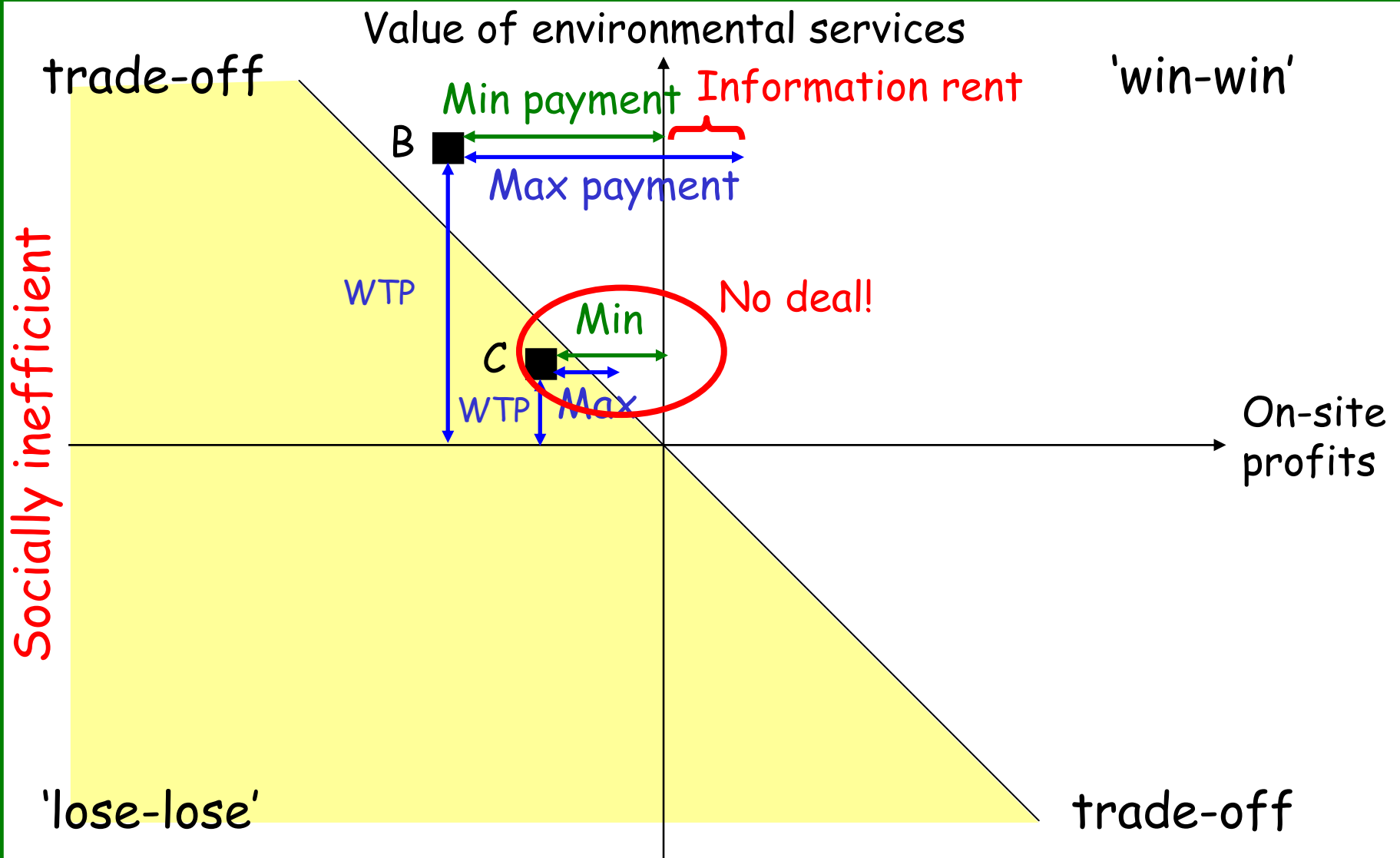
# Efficiency of PES programs: Sources of inefficiency

Workshop on market-ish instruments



# Basing payments on user WTP improves efficiency

Workshop on market-ish instruments



# When is PES potentially useful?

- When land use choices have a substantial impact on others (ie have an *externality*)
  - Socially optimal land use differs from privately profitable land use
  - Externality may be a public good, but not always
- Know how land use affects that impact
  - Too often just assume that have positive impacts
- Have institutions that can act as intermediaries between buyers and sellers
  - Technical capacity
  - Trusted by buyers and sellers

# Paying providers: issues

- Based on what?
  - Specific action taken (eg EU agri-environment prog)
  - Expected outcome of action (eg CRP)
  - Monitored outcome of action (eg Mexico PSAH)
  - Actual service provision (La Manguera, Costa Rica)
- Setting payment level
  - Flat rate (Costa Rica, Mexico, EU agri-environment)
  - Bidding (US CRP, Australia salinity program)
- Cheapest
- More cost-effective
- More effective
- Best, but difficult and costly
- Lower transaction cost
- More bang for buck

# Paying providers: issues

- **Additionality**
  - How important?
    - Very, if have fixed budget
    - Politically/practically, if need to convince users to pay
  - How to achieve?
  - Risk of perverse incentives
- **Avoiding leakage**
  - Conditions on participants
    - Monitoring, enforcement
  - Indirect impacts
- **Permanence**
  - Of contract
  - Of action/impact
  - ~~Need for long-term payment~~