

# Report from a Workshop on Payment for Ecosystem Services

Fridtjof Nansen Institute, Polhøgda, Lysaker (Oslo)

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*G.Kristin Rosendal, the Fridtjof Nansen Institute*

The workshop on compensation and incentives for the maintenance of ecosystem services was organized by the Fridtjof Nansen Institute (FNI) on behalf of the Norwegian Ministries of the Environment and of Foreign Affairs. Its aim was to highlight the most relevant experiences, preconditions and best practices with PES, and to provide operative suggestions for Norwegian involvement in such themes. The workshop was chaired by FNI Director Peter Johan Schei, and was attended by approximately 50 experts, stakeholders and policy-makers.

This report summarizes the discussion that followed the two main bulks of presentations at the workshops, each building on the presentation of new publications. The first concerned *'The economics of ecosystems and biodiversity'* and the second was about *'PES and current knowledge and implications of REDD'*. In addition, the report summarizes the introduction by Mari Sæther, the Ministry of the Environment and the closing remarks by Jon Heikki Aas, Ministry of Foreign Affairs. The third session was a book launch, *'The Natural Fix? The Role of Ecosystems in Climate Mitigation'* and *'Vital Forest Graphics'*; presentations for this part were made by the Minister of the Environment and International Development, Erik Solheim and Peter Prokosch, Managing Director, UNEP/GRID-Arendal.

## **1. Introduction (Mari Sæther, Ministry of the Environment)**

The topic of the workshop was set with the introduction of Mari Sæther, emphasising the loss of ecosystems and how the loss itself is exacerbated by climate change, which again contributes to further greenhouse gas emissions.

## 2. The Economics of Ecosystems and Biodiversity

In the first session, Patrick ten Brink, Institute for European Environmental Policy, presented information about and had updated results from *The Economics of Ecosystems and Biodiversity (TEEB)* study. The TEEB Interim Report can be downloaded from this address:

[http://ec.europa.eu/environment/nature/biodiversity/economics/pdf/teeb\\_report.pdf](http://ec.europa.eu/environment/nature/biodiversity/economics/pdf/teeb_report.pdf)

A central message in the TEEB report is that the problem of biodiversity loss must be tackled alongside climate change issues as it is the ecosystem services provided by biodiversity that ensures uptake and storage of carbon in the ecosystems. The report is a pioneer study to assess the economic, societal and human value of the benefits of ecosystems and biodiversity, and the scale of the benefits lost. The presentation was followed by two commentaries by Director Peter Johan Schei (FNI) and Professor Arild Vatn (UMB). Patrick ten Brink's presentation can be found in *Annex 1* ([http://www.fni.no/doc&pdf/090605-TEN\\_BRINK-TEEB.pdf](http://www.fni.no/doc&pdf/090605-TEN_BRINK-TEEB.pdf)).

### 2.1 Discussion

In his commentary, Arild Vatn questioned the monetary valuation of ecosystems and their services. He stressed the alternative approach of viewing biodiversity as a common good, and that this approach was not necessarily helped by being reduced to individual valuations and individual purchasing power. This commentary was followed up by Peter Johan Schei who focused on the failure of the economic approach to include the insurance value of biodiversity. He also pointed to the basic problem associated with purchasing power and whether it will be possible for any PES system to deal properly with the fact that not all people that are able to pay. A third basic problem of today's environmental agenda is the tendency to view biodiversity as a mere co-benefit of carbon markets, a bonus that may or may not be achieved along with climate change solutions. This is a conceptual problem and patently wrong, as carbon storage is itself one of the many ecosystem services that biodiversity provide.

Responding to some of these comments, Patrick ten Brink acknowledged how economic valuation of ecosystems may sometimes be a problematic strategy, but he emphasised that it should first and foremost be seen as a tool to awaken people and an incentive to better management of biodiversity. On the question of whether the TEEB report could provide specific recommendations for management, his answer was that much more work is needed for particular cases. Desmond McNeill (SUM) pointed out how economic valuation also could

increase the very problem; basic economic theory teaches how scarcity is wont to raise the price of a good or service, which may actually put added pressure on utilization of scarce land areas and ecosystems. This led to a wider debate on how the concept of value was actually being used in the PES and REDD debates again ending with some realisation of the pragmatic need for having some kind of numbers with which to move politicians and constituencies.

On a slightly different note, attention was directed at qualitative traits of biodiversity and the problem of irreversibility which is not properly grasped in economic models (Jan Thomas Odegard, Friends of the Earth, Norway). Odegard was also very concerned about the current inability of Norwegian politicians to see other environmental problems than climate issues. Ivan Bond (IIED) added that an emerging problem in the communication with politicians was a sense of immunity, as the environmental crisis had been stressed perhaps too many times.

### **3. PES – Current Knowledge and Implications for REDD**

In the second session, Ivan Bond, International Institute for Environment and Development (IIED), presented and launched the report '*Incentives to Sustain Forest Ecosystem Services. A Review and Lessons for REDD*' written by Ivan Bond, Maryanne Grieg-Gran, Sheila Wertz-Kanounnikoff, Peter Hazlewood, Sven Wunder and Arild Angelsen. The report is reviewing 13 existing PES schemes in Africa, South-East Asia and Latin America. It has been commissioned by the Norwegian Government to inform the design and implementation of its Climate and Forest Initiative. This was followed by two comments by Sjur Kasa, Center for International Climate and Environmental Research – Oslo (CICERO) and David Barton, Norwegian Institute for Nature Research (NINA). Ivan Bond's presentation can be found in Annex 2 (<http://www.fni.no/doc&pdf/090605-BOND.pdf>).

Ivan Bond emphasised the lack of knowledge about complicated systems of drivers of loss and governance. He maintained that PES was seldom found to be directly negative for livelihoods and he stressed the need for strong governance in the face of very problematic implementation and tenure issues. Bond predicted that after forestry, agriculture would emerge as another problematic management issue with significant effects and implications for the global environmental issues. Ivan Bond's presentation was followed by two comments, the first by Sjur Kasa (CICERO). Kasa focused on the limited understanding of how power and interests tend to mould the very institutions that are expected to deliver solutions for PES

and REDD, leading to a kind of optimistic unrealism. He said power was acknowledged but seldom reflected in the policy recommendations. This represents a significant problem as institutional reform so often requires political reform as well. A current example is ‘sub-prime carbon’ – where some of the most unstable and problematic governance systems in the developing countries, namely the forest management sector, is supposed to enter into a marriage with some of the most unstable and problematic governance systems in the developed countries, namely the financial sector. As such, REDD and the carbon markets are hardly a match made in heaven.

In his comments, David Barton addressed the statement that PES was seldom negative for the poor. He pointed to findings in Sven Wunder’s studies that there would often be trade-offs between efficiency and distributional equity of PES. The experience from Costa Rica tended to be that positive effects were hard to come by and there were bound to be trade-offs between land use and efficiency. Barton addressed the question of effectiveness of PES in terms of costs of reducing forest emissions. Based on evidence from Costa Rica, which is most abundant, he concluded that there is general agreement that PES is cost-efficient – ‘unless you evaluate it in the context of forest policy history and the forest transition stage at which PES is introduced’. He also stressed the aspect of complexity and the importance of keeping awareness about the context that PES enters into, as a precondition for successful designs. He added that reduced deforestation might also come about for quite different reasons than good PES designs. A central research challenge involves monitoring, which need to be included in PES schemes starting now, the results of which will only be known after a couple of project cycles.

### *3.1 Discussion*

Kasa’s argument about lack of good governance was challenged with the question of whether the solution would be to do nothing while waiting for the perfect political system to appear (Arild Angelsen, UMB). Angelsen also pointed out the problem that in areas where deforestation is reportedly the greatest, the suitability for PES in terms of good governance and reliable tenure systems is often the weakest. Kasa agreed that it was essential to go ahead with PES and REDD in the face of great political challenges, but that it was also important to keep politicians aware of problematic issues. Ivan Bond stressed the need for long-term projects in order to deal with some of the political challenges, not least the issue of underestimated costs associated with some of the efforts. This would also seem to be a central

issue with a view to deal with the problem of participation and multistakeholder approach, which tend to imply weak policy measures. Monitoring, keeping implementation in focus, and stressing capacity building were also among the answers provided for how to deal with the strong political challenges facing REDD and PES.

#### **4. Closing remarks (Jon Heikki Aas, Ministry of Foreign Affairs)**

Jon Heikki Aas welcomed the two reports as very befitting on the World Environment Day and recalled the words of Gro Harlem Brundtland during her contributing to the WCSD (1985) about how decision-makers must be approached through the language of economics. He regretted the lack of progress on these issues since then. The TEEB report is clearly a step in the right direction and there are also important progress made through the Millennium Development Goals and the Millennium Ecosystem Assessment. Aas also conveyed the hope that REDD might lead to further steps in the right direction, and argued that the success of REDD would depend on how it was able to integrate development issues.

#### **5. Book launch**

In the third session, Minister of the Environment and International Development Erik Solheim, and Managing Director of UNEP/GRID-Arendal Peter Prokosch, launched two new PES-related UNEP publications:

- *The Natural Fix? The Role of Ecosystems in Climate Mitigation*
- *Vital Forest Graphics*

The UNEP assessment report indicates that boosting investments in conservation, restoration and management of natural ecosystems will not only become important, but will provide our best and most effective way to slow down climate change and accelerate sustainable development and the achievement of the poverty-related Millennium Development Goals. The key message in the report is that it is vital to secure good management of biodiversity to safeguard existing stores of carbon, reduce emissions and to maximise the potential of natural and agricultural areas for removing carbon from the atmosphere. The priority systems are tropical forests, peat lands and agricultural lands.

Developing policies to achieve these ends is a challenge: it will be necessary to ensure that local and indigenous peoples are not disadvantaged and to consider the potential for achieving co-benefits related to other ecosystem services.

Minister Erik Solheim asked for more intellectual work to make PES work in practice and not least to find good incentive systems to achieve compensation. A three step process was envisaged for REDD with the first phase being national efforts to develop domestic REDD strategies, the second phase to develop an international system to accommodate these national plans and then third, a full scale global system linked to carbon markets. Solheim added that it was important to point out the challenges involved but equally important not to let the challenges overwhelm one. He agreed on the ideal preference not to put a price on nature but acknowledged the rationality of doing it in order to move in the right direction; seeing how the current financial incentives for the destruction of nature are so strong.

### *5.1. Discussion*

This last issue led to another debate concerning putting a price on nature, going over the same ground and again ending up with the pragmatic need for incentives. The next item for discussion concerned the minister's view on the third phase – that of linking REDD to global carbon markets. Added to this was the question of what this link would imply for the goal of aiming at reduced loss of biodiversity alongside the climate aspects of REDD. Solheim agreed that the ideal solution would be to have a performance based system linked to monitoring but said that it was politically difficult to make an international staff tell people what to do at national levels. REDD would probably be linked up to achievements and results and ideally include biodiversity, but this was not something that he could promise would be part of the final deal in Copenhagen (UNFCCC COP). Clearly, the minister concluded, these issues must continue to be part of the academic debate, but at the same time it is necessary to take action and avoid being delayed by “endless seminars” where urgent decisions are needed.