

Payments for Environmental Services

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The World Bank

- Main focus: help people in developing countries raise their standards of living
- Largest provider of development assistance to developing countries and countries in transition
- About \$20 billion in new loan commitments each year



Environmental Role

- ‘Mainstreaming’ environmental considerations
- Targeted environmental assistance



Environmental Services

Different land uses can generate many environmental services

- Hydrological benefits
- Reducing sedimentation
- Disaster prevention
- Biodiversity conservation



**ENVIRONMENTAL ECONOMICS
and INDICATORS**

The problem

- Land users typically receive no compensation for environmental services
- Make land use decisions based solely on on-site benefits
- Leads to socially sub-optimal land use



Past responses have largely failed

- Direct government intervention
- ‘Demonstration’ approaches
- Regulatory approaches
- Subsidies (in cash or in kind)
- Low adoption rates
- Adoption followed by abandonment



Why the poor track record?

Key factor: fundamental misunderstanding of incentives faced by land users

- Assumption that all conservation is in farmers' interest
- Assumption that high off-site damage correlates with high on-site damage
- Top-down approach
- Policy distortions



New approaches

- Participatory
- Removal of policy distortions
- Good results at field level
- Limited results at generating environmental services



Key lesson

- If we want people to ‘grow’ flood protection we need to buy it from them



How do we do this?



Decomposing the problem

1. Identifying and quantifying environmental services
2. How do we pay land users?
3. Financing the payments
4. Institutional issues
5. Political economy issues



1. Identifying and quantifying environmental services

- What environmental services does a given land use generate?
- How much of that service is generated?
- How much is the service worth?



2. How do we pay land users?

- Motivate the desired behavior
- Avoid perverse incentives
- Achieve sustainable land use change



2. How do we pay land users?

Key principles:

- Payments must be on-going, not up-front
- Payments must be targeted



3. Financing the payments

- Charging beneficiaries
- Indirect taxes



4. Institutional issues

- Institutional preconditions for payments to be possible?
- Rights to resources

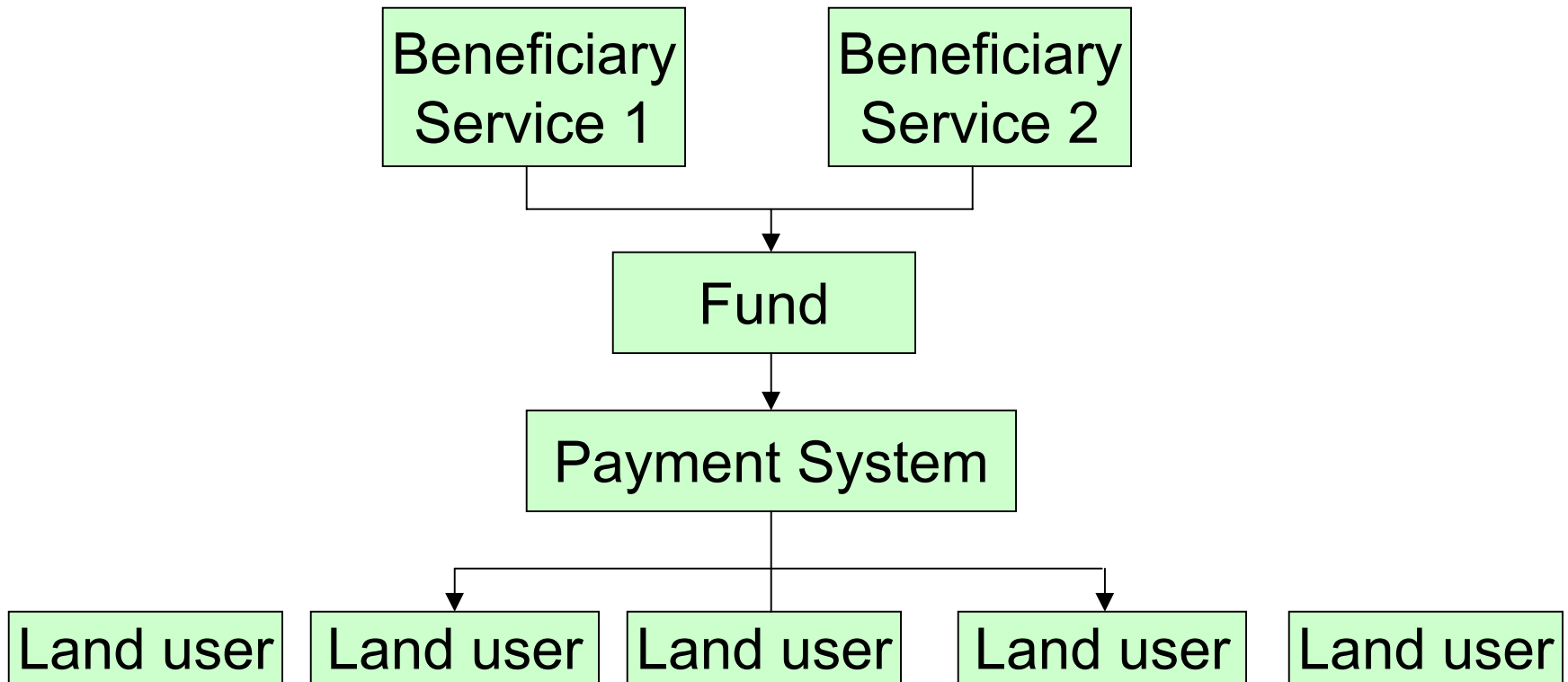


5. Political economy issues

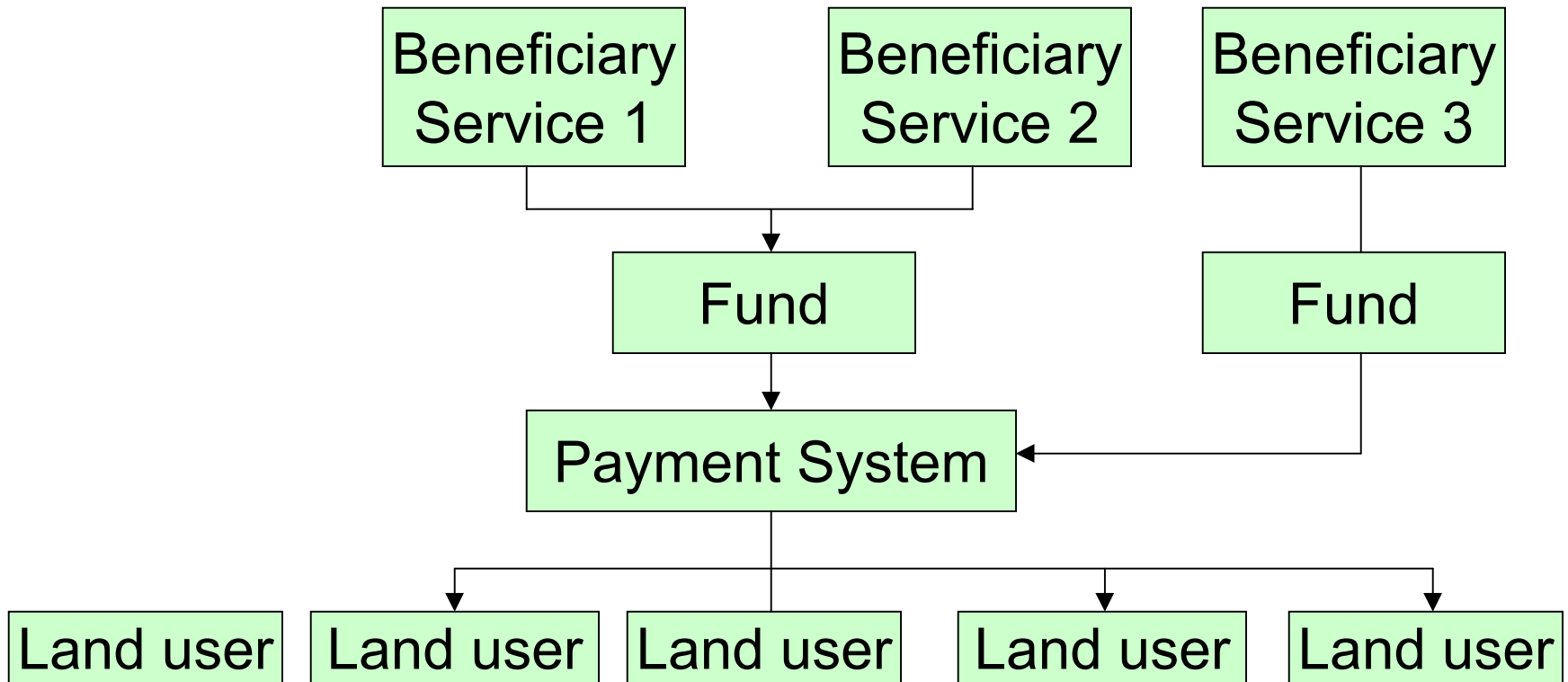
- Dealing with winners and losers
- Equity issues



Structure of a System of Payments for Environmental Services



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Current work

Projects are under preparation in

- **Costa Rica** - Ecomarkets project
- **El Salvador** - Natural Resource Management project
- **Guatemala** - Western Altiplano Project
- **Honduras**
- **Panama**

