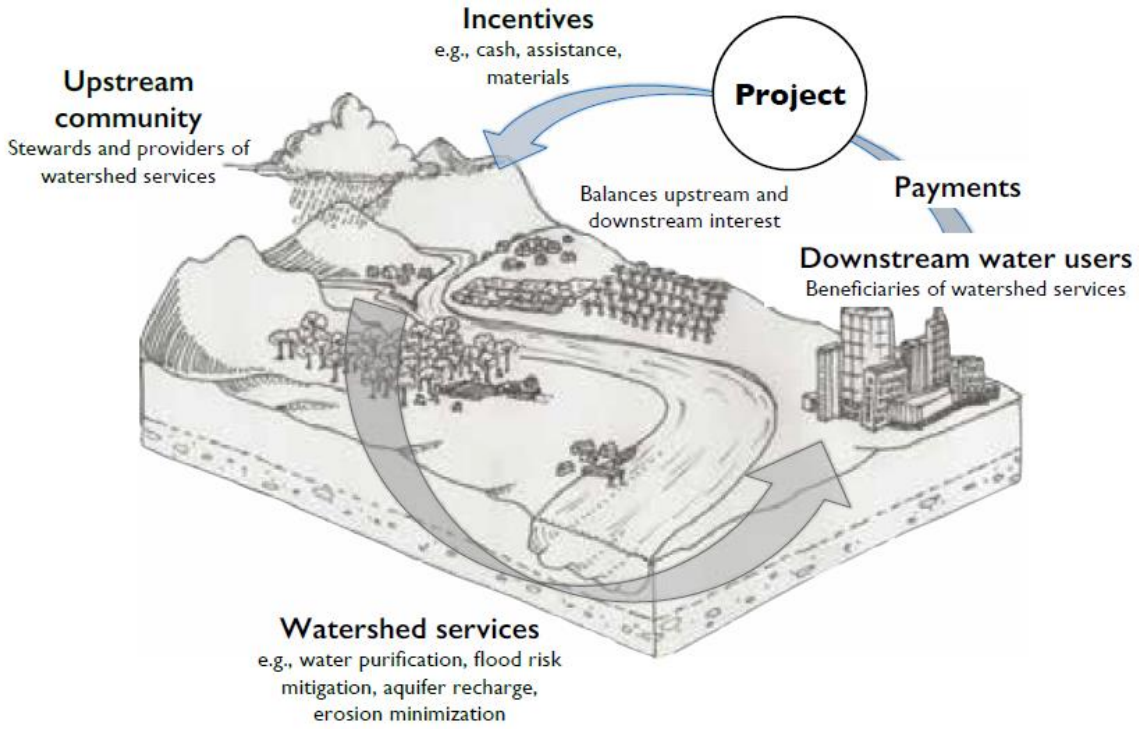
the sustainable trade initiative

Payments for environmental services: definitions and current practices

DEFINING PES

Commonly accepted definition

Voluntary transactions between service users and service providers that are conditional on agreed rules of natural resource management for generating offsite services*



Source: adapted from Smith et al. 2013

- Concept pioneered in Costa Rica, where a national payment scheme was set up in 1997 to maintain and enhance environmental service provision in the forestry sector
- In industrialized countries, large-scale incentive-based programs designed to protect agricultural soils and retire environmentally sensitive lands
- In countries in the South, various schemes have been tested but with mixed results. Well designed studies proving impact are lacking

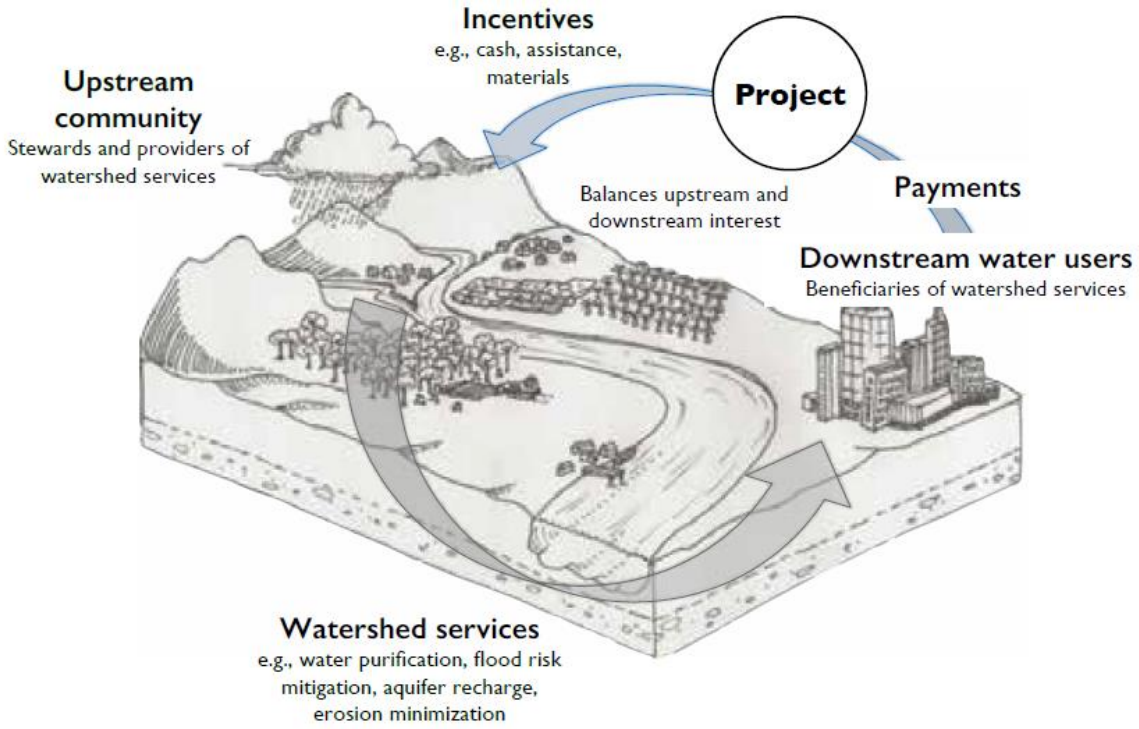
*Source: Wunder, S. (2015). Revisiting the concept of payments for environmental services. Ecological Economics, 117, 234–243.

WHY PES?

Main objective: Provide land users with an incentive to protect or enhance the provision of ecological or environmental services

Rationale

- PES was originally conceived as a **theoretically cost-effective instrument for maximizing the impact of scarce conservation funds**
- Still, PES programs—especially in low-income countries—**often have the dual objectives of conservation and improved economic and social welfare**



Source: adapted from Smith et al. 2013

Source: J. Borner et Al. (2017). The Effectiveness of Payments for Environmental Services

DEFINING PES

Classification

1. **Carbon sequestration and storage** (e.g. an energy company paying farmers for planting and maintaining additional trees);

2. **Biodiversity protection** (e.g. government paying communities for setting aside or restoring natural areas to create a biological corridor);

3. **Watershed protection** (e.g. downstream water users paying upstream farmers for adopting land uses that limit deforestation, soil erosion, flooding risks, etc.);

4. **Landscape beauty** (e.g. a tourism operator paying a local community not to hunt in a forest being used for tourists' wildlife viewing).

EXAMPLE: WATERSHED PROTECTION IN FRANCE (1/2)

Vittel mineral water in north-eastern France

Farming landscape in Vittel catchment after the programme was implemented
(Photo Credit: D. Perrot-Maître)

- **Objective:** address the risk of nitrate contamination caused by agricultural intensification in the aquifer
- **PES scheme:** Vittel is financing farmers in the catchment to change their farming practices and technology
- **Agreement that covers:**
  - Subsidy: on average about 200 euros/ha/year over 5 years (transition period)
  - Up to 150,000 euros per farm to cover the cost of all new farm equipment and building modernisation
  - Free labour to apply compost in farmers' fields
  - Free technical assistance including annual individual farm plans

Source: Perrot-Maître, D. (2006) *The Vittel payments for ecosystem services: a "perfect" PES case?* International Institute for Environment and Development, London, UK.

EXAMPLE: WATERSHED PROTECTION IN FRANCE (2/2)

Vittel mineral water in north-eastern France

Farming landscape in Vittel catchment after the programme was implemented
(Photo Credit: D. Perrot-Maître)

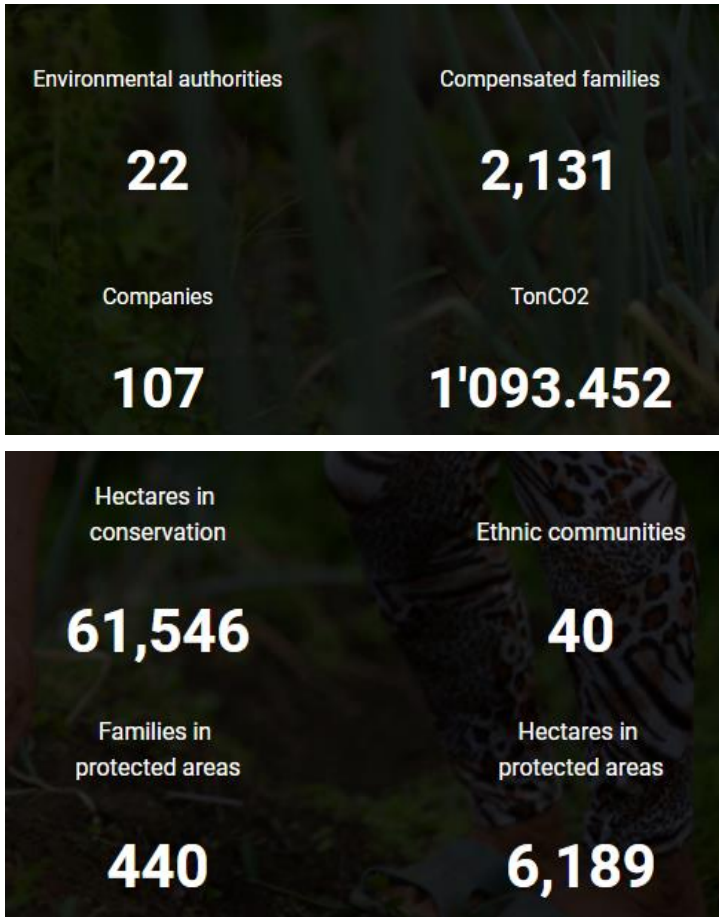
- **Payment was not the only success factor. Importance of:**
  - **Trust building** (creation of an intermediary institution, locally based, trusted by farmers)
  - **Long term participatory process** to identify alternative practices and mutually acceptable set of incentives
  - Linking of incentives to **land tenure** and **debt** cycle issues

Source: Perrot-Maître, D. (2006) *The Vittel payments for ecosystem services: a "perfect" PES case?* International Institute for Environment and Development, London, UK.

PES IN COLOMBIA : EXAMPLE OF BANCO2

- A **voluntary PES scheme** created by the Colombian Government and Corporacion Masbosques.
- Allows private companies and public entities in the domestic Colombian market to **compensate for their ecological footprint**, by making monetary payments to farmer families and indigenous communities who conserve strategic natural resources, such as water basins and forests, or who protect biodiversity hotspots within agricultural landscapes.
- Companies who wish to offset their environmental footprint can tailor their support for these conservation efforts of farmers, choosing the type of services, defining the investment, and selecting the specific location.

Banco2Bio achievements



Sources: https://www.solidaridadnetwork.org/news/solidaridad-ensures-the-first-transaction-to-pay-producers-for-their-environmental-services-within-sustainable-landscapes-in-colombia/ and https://banco2.com/que-hacemos-en-banco2/

PES IN COCOA – CÔTE D'IVOIRE

PES is one of the strategic orientations of the REDD+ strategy in Côte d'Ivoire

STRATEGIC OPTION 6: Payment-type incentive system for environmental Services

Establish a Payment-type incentive system for Environmental Services (PES) in order to involve small producers and local communities in the implementation of the National REDD+ Strategy activities.

- PM1: Establishment of four PSE modalities: Agroforestry, Village Reforestation, Assisted National Regeneration, Forest Conservation
- PM 2: Establishment of a National PSE System Governance Mechanism;
- PM 3: Establishment of a domestic funding mechanism for PSEs.

Informed by

PES IN COCOA – CÔTE D'IVOIRE

A number of studies have been carried out since 2015, including two pilots:

- The **Nawa PES pilot project**: launched in 2017, a public-private partnership established between the Ministry in charge of the Environment and the chocolate maker Mondelēz International, as part of its Cocoa Life sustainability programme, with funding through EFI.

  ➔ **Tested individual and collective PES for <u>new</u> agroforestry systems, as well as reforestation and forest conservation modalities**

- The **Mé REDD+ project** (2017-2020): implemented by the NGO Nitidæ and the Permanent Executive Secretariat for REDD+ (SEP-REDD+), and funded by the French Development Agency under C2D, the project tested an agroforestry premium for organic cocoa producers under shade. This premium is financed by the carbon neutrality target of the cocoa buyer, Alter Eco.

  ➔ **Supported <u>maintenance</u> of existing agroforestry practices**

CAPTURING LEARNINGS FROM PILOTS

- **Still early stage – not that many pilots in cocoa agroforestry**

- **Farmers to be at the heart of the mechanism**

- **Need to understand better under what conditions PES are efficient to promote cocoa agroforestry *and* enhance income**
  - In which case can payments be incentives? Under what conditions?
  - What happens when payments end?
  - What could be the potential unintended effects of agroforestry premiums?

- **Other considerations:**
  - Land use planning
  - Land and tree tenure
  - Commercial opportunities for agroforestry products

To better understand the success factors, need to design pilots in such a way that we can learn from these