Introduction to

Payments for Environmental Services and the Global Environment Facility

A STAP advisory document

Payments for Environmental Services (PES) are a new model of 'conditional conservation' that promises to be more efficient and equitable, and which can also help raise additional environmental funding. As such, PES are of interest to GEF's mandate and objectives for natural resource management and climate change mitigation. In this 20-page report, STAP reviews the theory of PES and the evidence for its effectiveness, and provides advice on how to use PES to deliver Global Environmental Benefits (GEBs).

PES can be defined as (1) voluntary, (2) contingent transactions between (3) at least one seller and (4) one buyer (5) over a well-defined environmental service, or a land use likely to secure that service. This simple five-criteria definition can serve as a 'lens' or 'template' through which specific proposals can be evaluated.

The "E" in PES has been used both for "environmental" or "ecosystem" services. The former assumes a separable nature of different services while the latter implies that multiple services cannot always be broken up into additive components.

Four potential threats to PES effectiveness are: (1) non-compliance with contractual conditions; (2) poor administrative selection, where contracts are offered to areas or individuals who are not in the best position to supply environmental services cost-effectively; (3) spatial demand spillovers, or "leakage", where protecting a resource in one location pushes pressure onto resources elsewhere; and (4) adverse self-selection, where people would have supplied the contracted PES service or activity even in the absence of a payment. **Every GEF PES project proposal should describe design choices to minimize these four threats and specify indicators that will permit one to evaluate the importance of these threats in the project.**

The GEF's current focus is to fund short-term, start-up costs of PES interventions. However, most biodiversity degradation worldwide is due to permanent market failures that undervalue GEBs. Conservation faces ongoing opportunity costs and there are no quick fixes to make conservation more profitable than alternative GEBs-degrading land uses. Thus payments need to come from external sources like the GEF and need to be long-term. Only in exceptional cases, such as when high fixed start-up costs are key barriers to PES development, will short-term enabling investments effectively reverse degradation pressures. **As the only multilateral fund committed to the sustained flow of global environmental benefits, the GEF should consider longer-term funding of PES payments and carefully examine the assumed causal mechanisms underlying its current emphasis on short-term funding.**

Who is the report for?

The report is for use at several levels in the GEF, since its release it has been used to:
1. Update the GEF Council on the science of PES
2. Inform the development of GEF-5 focal area strategies and programming
3. Inform the design of projects by GEF agencies
4. Assist the GEF Secretariat and Science Panel in assessing and screening project proposals.

Scientific and Technical Advisory Panel

The Scientific and Technical Advisory Panel, administered by UNEP, advises the Global Environment Facility

Why has STAP investigated PES?

The GEF has funded more than 30 PES projects and agencies are increasingly promoting PES as one of the ways to mainstream conservation practices into production landscapes and seascapes, or to improve the financial sustainability of protected areas. Examples include:

- Establishing and testing a system for farmers in Uganda to receive payments for maintaining forest cover on their land, which produces quality water for downstream users.

- Private sector payment systems for water and/or carbon sequestration and/ or tourism are being developed in Indonesian Protected Areas.

- Demonstrations of readiness for payments for Reducing Emissions from deforestation and forest Degradation (REDD) are being supported in several countries.

- Establishing national models of payments for environmental services such as fisheries protection and REDD generated by community Protected Areas in Papua New Guinea.

There are three potential points of entry and any GEF PES proposal should clearly indicate which of these three points of entry is being proposed and why.

1. Set up and pilot direct payments:
The GEF should fund direct payments: a) in special cases when short-run payments are likely to shift land use, b) when tests of payment effectiveness can persuade pre-identified long-term ES buyers, or c) when long-term payments through trust funds are the most promising way to secure valuable biodiversity.

2. Co-finance multiple-service strategies:
The GEF should continue to support government-financed multi-service PES, but try to leverage what emerges as 'best PES practice'. Co-financing start-up costs in user-financed PES (piggy-backing) can deliver GEBs synergies, but combining this with explicit payments for GEBs to complement other flows of environmental service payments (layering) will yield better outcomes. Leveraging biodiversity considerations in REDD design will be particularly important.

3. Financing PES start-up costs:
The GEF will sometimes have a rationale for subsidizing high PES start-up costs, but will need to carefully scrutinize the feasibility of PES proposals (in particular who will make recurrent payments), and assess if the start-up costs are truly the only binding constraint on project implementation.

Learn more

This brief highlights the key points from a STAP advisory document published in March 2010. The full report is available on the STAP website at http://stapgef.unep.org/