How can market mechanisms for rest environmental services help the poor? Preliminary lessons from Latin America
(Wunder et al, 2005)

Summary

- 8 case studies; positive local income effects in most cases, more land tenure security/socio-const strengthening in some but also some negative effects
- Recommend pro poor policy measures e.g. reducing smallholders transaction costs and removing inappropriate access restrictions

Introduction

- Four fields; carbon sequestration, watershed protection, biodiversity and landscape beauty
- Motivated by environment but development potential
- Carbon sequestration - Clean Development Mechanism (CDM) as part of tradable emissions
- Can conservation and development be achieved simultaneously through market based mechanisms?
  - WIDER QUESTIONS - CAN WE EVEN HAVE DEVELOPMENT AND CONSERVATION?

Market mechanisms and environmental services

- Economic value of forest services rarely —> land use decisions
  - Market failures; public goods and externalities
  - When farmers clear forest land - factor internals e.g. increased crop production and costs of clearing land but NOT costs to external users through loss of services unless directly incentivised to
    - Clear more forest than is desirable for society (Pagiola, 2002)
- Market = alternative to public regulation

Impact of market based mechanisms on livelihoods

- Define? sale of environmental services to generate resources to finance conservation efforts and/or change incentives of forest managers. Tax incentives, cash payments, compensations, governments, NGOs, private agents etc.
- Which poor people are we targeting? in this case - potential service providers and therefore recipients of payments
  - Landless people (poorest of the poor?) are excluded
  - Landholders with vey small plots don't have enough to set aside areas for env services
  - Landholders with insecure tenure = unreliable service providers
  - Even those non service providers can be impacted by PES
    - **Poor service users**; most vulnerable to climate change, so if this is prevented, they benefit. Access to a cleaner/more reliable water supply BUT cost of watershed payments may force them to pay more
    - **Poor landless labourers**; reduced employment areas e.g. decreased logging/agricultural land. Or increased employment e.g. agroforestry schemes or tree plantation
    - **Poor consumers**; conservation areas may reduce production of staple crops e.g. rice and drive up price.
- Payment received > opportunity cost of giving up a more rewarding but less env friendly land use
  - Benefits beyond amount of compensation/income e.g. diversification of income sources, training, better organisations, stable payments
  - Also impose costs; increased competition for land, social tension as some community members don't receive payments.
- Why might people only be marginally better off?
  - **Informal/insecure land tenure**; unreliable service providers or excluded altogether
  - **High transaction costs**; lots of small service providers is higher cost than a couple of large landowners
  - **Little voice**; eligibility rules - poor do not have a voice in lobbying for their case.
  - **Flat payment rate with differential opp costs**