

Payments for Ecosystem Services

Opportunities and Challenges in AFoCO Member Countries

BACKGROUND

A healthy ecosystem provides diverse benefits, including provisioning services such as the supply of food, water, productive soil, and timber; regulatory services for climate and air quality; and other cultural and supporting services. To value those ecosystem services, a market-based incentive system called Payments for Ecosystem Services (PES) offers farmers or landowners a way to generate income in exchange for managing their land to provide some ecological services for society or end-users.

Under the Sendai Resilience Framework, PES is considered a nature-based solution contributing to disaster risk reduction and climate change adaptation with socioeconomic benefits. The “UN Decade on Ecosystem Restoration 2021-2030” declared by the UN General Assembly in 2019 highlighted the value of PES as a new financial instrument. At the 25th Session of the FAO Committee of Forestry in 2020, PES was emphasized as an innovative financing method to increase restoration and conservation of forest resources, ensure sustainable use, and address deforestation. As part of this passionate call to action, immediate efforts to speed up the restoration of degraded ecosystems have played a significant role in combating global warming, improving food security, providing clean water, and conserving the planet’s biodiversity.



Training on forest resources assessment in Yogyakarta, Indonesia ©AFoCO

Key Messages

1. PES increases ecosystem resilience, contributes to sustainable forest management, and improves the wellbeing of the landowners or local community.
2. Clear legal guidelines with strong policy supports, effective governance systems, and proper institutional capacities are prerequisites for the well-defined market, payment, and benefit-sharing mechanism of a viable PES scheme.
3. Promotion of public awareness and interest through all possible means plays an essential part in PES development.

PES READINESS IN 2021

A summary of country readiness for PES in 2021 is shown in Table 1. Five of the 15 Member Countries have a relatively stable and balanced environment for advancing the PES mechanism (i.e., Bhutan, ROK, Mongolia, Philippines, and Viet Nam), while three are ready to implement the PES activities at a nationwide scale (i.e., Indonesia, Lao PDR, and Thailand).

The remaining eight countries still require PES enabling conditions considering respective readiness stages (i.e., Brunei Darussalam, Cambodia, Kazakhstan, Malaysia, Myanmar, Singapore, and Timor-Leste).

Yet, during the workshop, the majority of participant countries shared the view that PES in their countries was limited or not implemented at a nationwide level, with an unclear PES definition or concept, absence of national PES development guidelines, and lack of national experts.

Table 1. PES Readiness in 2021

CATEGORY	BT	BN	KH	ID	KZ	LA	MY	MN	MM	PH	ROK	SG	TH	TL	VN
1. Valuation Study	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y
2. Pilot Project and Outcomes	Y	N	Y	Y	N	Y	Y	Y	N	Y	Y	N	Y	N	Y
3. Policy Advocacy and Awareness Raising	Y	N	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y	N	Y
4. Stakeholder Consultation	Y	N	Y	Y	N	Y	N	Y	N	Y	Y	Y	Y	N	Y
5. Enabling Legal Framework	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
6. Nationwide Implementation	Y	N	N	N	N	N	N	Y	N	Y	Y	N	N	N	Y

Source: Country reports from the Member Countries at the AFoCO Short-Term Training Course on Payments for Ecosystem Services, July 19-23, 2021, including the information of the ROK from the source of the PES workshop in 2014

Y=Yes; N=No / NA

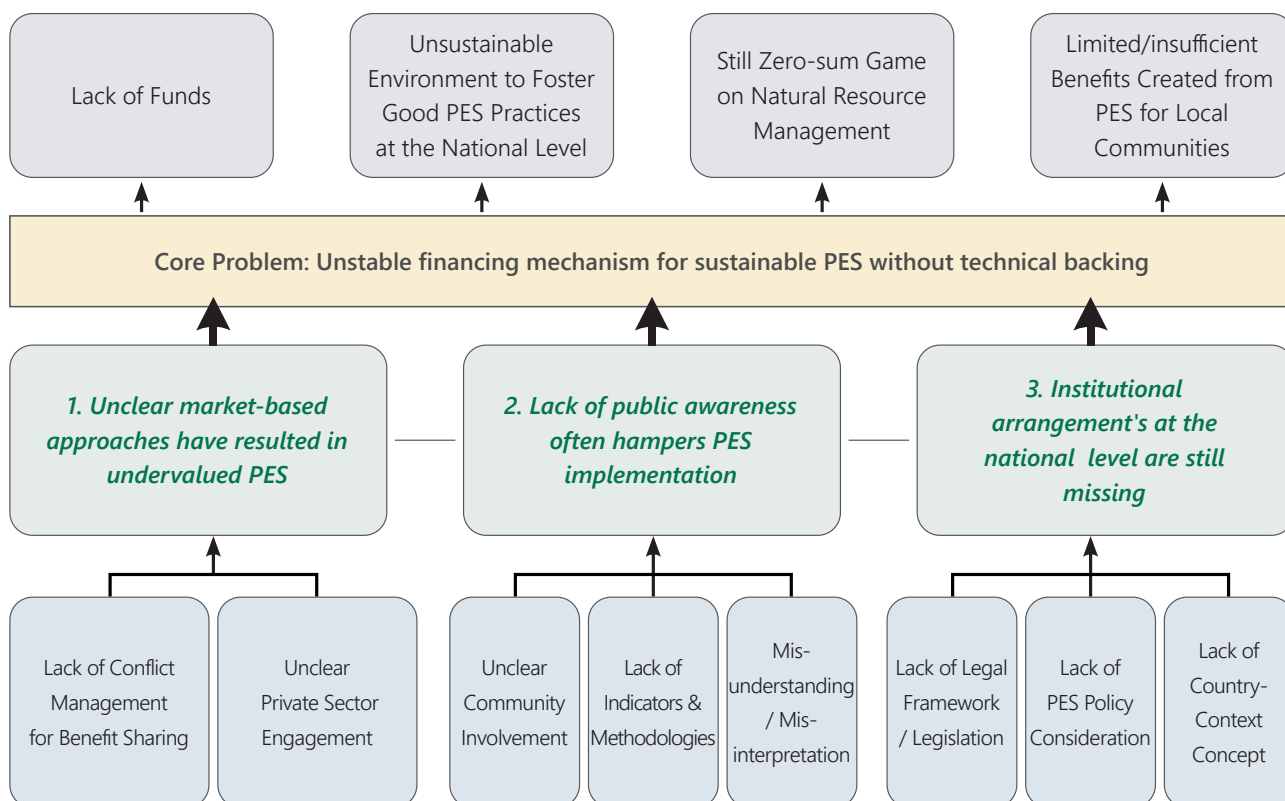
BT=Bhutan; BN=Brunei Darussalam; KH=Cambodia; ID=Indonesia; KZ=Kazakhstan; LA=Lao PDR; MY=Malaysia; MN=Mongolia; MM=Myanmar; PH=Philippines; ROK=Republic of Korea; SG=Singapore; TH=Thailand; TL=Timor-Leste; VN=Viet Nam

POLICY HIGHLIGHTS ON PES IN THE REGION

According to the PES Readiness in 2021, the concept of PES is recognized as a new financial mechanism to compensate for the ecosystem deterioration as well as increase the social welfare of environmental services (ES) providers, especially participating farmers and communities. However, the nationwide application of PES is still limited in most Member Countries, which face a vast number of challenges

in terms of technical expertise, financial awareness, legal frameworks, and high-level commitment. Likewise, the core problem at the regional level was “Unstable financing mechanism for sustainable PES without technical backing,” under which three challenges were highlighted as major causes to address (Figure 1).

Figure 1. Problem tree on PES in AFoCO Member Countries



Source: Interventions from 14 Member Countries at the AFoCO Short-term Training Course on Payments for Ecosystems Services, July 19-23, 2021

1. Unclear market-based approaches have resulted in undervalued PES.

The PES scheme has been reported to provide direct and significant financial, ecological, and socio-economic benefits to the participating communities in countries where PES is mainstreamed into the national policy. Their financial source or demand comes from government funds, the private sector, or international and bilateral agencies.

However, many PES initiatives in countries without clear guidelines and/or strong legal and institutional support are still struggling and unsustainable without regular and strong external support. As a result, despite significant recognition of the benefits of ecosystem services, their economic value is underestimated due to the lack of a well-defined market scheme, payment mechanism, and clear benefit-sharing under PES.

2. Lack of public awareness often hampers PES implementation.

Key elements in the deficient environment for PES include a lack of community awareness and limited organizational capacity. Most Member Countries highlighted that the PES concept is not widely known among the stakeholders, and high-level commitment is still lacking.

Moreover, local people who are potential ES providers have limited knowledge of the important role of ES. They don't have an adequate understanding of ecosystem services, especially what is being sold, where to sell, and its long-term implications for local livelihoods and resource rights. The communities still lack the technical capacity and proper organizational management to initiate PES. Additionally, a lack of intermediaries who can negotiate between providers and beneficiaries is often a hurdle. Lack of attention and appropriate government support also plays a part in hampering PES development and its nationwide implementation.

3. Institutional arrangements at the National Level are still missing.

Strong legal and political support, a good governance system, and proper institutional capacities are prerequisites for a successful PES scheme¹. However, case studies and the experiences of participating Member Countries indicate that a lack of consideration about PES policy and how to mainstream it into the existing legal framework is one of the key challenges to address in order to scale up PES initiatives.

Mainstreaming the PES scheme into a national priority remains a huge gap, although most Member Countries have the legal framework necessary to support starting up PES. But the vast amount of government budgets spent on reforestation activities, supportive measures for PES activities, and assessment is still inefficient. Moreover, institutions, including local communities, government bodies, and intermediary societies, are not well equipped with sufficient administrative and technical capacity to manage and sell ecosystem services.

The role of the government also plays an important part not only for advocacy and commitment but also in providing the financial support to do necessary PES assessments. Yet, many countries still demand an efficient legal framework and clear guidelines to initiate PES schemes between ES providers and beneficiaries. An incentive mechanism is not that attractive to the private sector for securing their support and engagement.



Bamboo processing in Thailand ©AFoCO

THE WAY FORWARD

PES schemes can be a viable financial mechanism with strong political support, effective governance systems, and adequate administrative and institutional capacity. Viable PES schemes can make a tremendous contribution to sustainable forest management, ecosystem resilience, and the improvement of ES providers' social welfare, particularly the landowners or local community.

Finally, the following interventions are recommended for AFoCO Member Countries to achieve such sustainable and successful PES initiatives in the long run:

1. Mainstream PES in national planning and financial decision-making to ensure political advocacy and high-level commitment.
2. Build trust, dialogue, and commitment among the stakeholders and involve them in decision-making (e.g., Free, Prior, Inform, Consent (FPIC) is a useful framework)²
3. Promote local communities' interests and their active participation through all-inclusive policies framed by equitable stewardship and benefit-sharing¹.
4. Strengthen the necessary capacities of institutions to enable them to establish PES schemes.
5. Develop a platform for sharing lessons and success stories of national, regional or global PES.
6. Include in the legal framework efficient and clear guidelines to initiate the PES scheme between ES providers and beneficiaries and an incentive mechanism to attract the private sector and secure its support and engagement.

¹ FAO. 2014. Payment for ecosystem services for forests (PES) and forest financing. Committee on Forestry (COF) Twenty-Second Session Meeting Document, 23–27 June 2014. FAO, Rome, Italy.

² Fripp E. 2014. Payments for Ecosystem Services (PES): A practical guide to assessing the feasibility of PES projects. Bogor, Indonesia: CIFOR.

BOX 1. Training Summary

The training course on “Payments for Ecosystem Services: How PES services as a financial instrument or mechanism in the UN Decade on Ecosystem Restoration 2021-2030” to examine and share experiences and knowledge about PES applications to support future planning of PES programs and initiatives at the regional level. The training was organized virtually from July 19-23, 2021, and joined by a total of 60 participants from 14 AFoCO Member Countries: Bhutan, Brunei Darussalam, Cambodia, Indonesia, Kazakhstan, Lao PDR, Malaysia, Mongolia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam.

Eight lectures and case studies were fruitfully contributed by the lecturers from various organizations including AFoCO Secretariat, CIFOR, National Institute of Forest Science of the ROK, Department of Forest and Park Services in Bhutan, Multilateral Cooperation at the Bureau of International Cooperation, Ministry of Environment and Forestry, Republic of Indonesia, Royal Forest Department of Thailand, and Viet Nam Forest Protection and Development Fund.

The course aimed to:

- Provide a comprehensive understanding of PES to support practical strategies in planning and the development of programs and projects;
- Explore risks and challenges for the progress of PES; and
- Find practical and sustainable solutions by sharing cases and experiences in Asia.



Asian Forest Cooperation Organization (AFoCO)

AFoCO is a treaty-based intergovernmental organization that is committed to strengthening forest cooperation and taking concrete actions to promote sustainable forest management and address the impacts of climate change.

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