

PES Design and Policy Issues – Part II

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Abstract: Issues for suppliers of PES include whether they should be paid more than the minimum required for the service and whether there is a tradeoff between benefits to the ecosystem and poverty alleviation. Price discovery mechanisms are important but still rudimentary in practice. Issues for buyers are bundling of services, incentives among buyers, and tradeoffs in service provision. Coordination among buyers may not be straightforward, and they may be unaware of benefits. Property rights are important, as in all natural resource management programs, but are unlikely to be a substantial barrier in many PES cases. Enabling legislation can facilitate PES, but it is not a necessary condition in many cases. Programs are operating without enabling laws in Ecuador and Colombia, and with laws in Costa Rica and Mexico. The more important issue is whether buyers have incentives to make payments in the absence of PES laws. Intermediaries can gather and disseminate information and help build social capital, which reduces the cost of contract formation and monitoring.