Solutions for less poverty and better ecosystems

Combining market-based instruments – conditional social transfers and payments for ecosystem services – to alleviate poverty and conserve ecosystems at a national level already shows potential. But what are the lessons for the future?

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SHAPING SUSTAINABLE MARKETS

In brief

Policymakers are always juggling policy objectives, budgets and votes. Protecting the environment is usually seen as important – but it continually fails to receive widespread political support and is often under-funded. In contrast, social objectives linked to poverty reduction often have more political traction. With the new Sustainable Development Goals, governments will need to tackle multiple objectives simultaneously. This provides an entry point and increased momentum which could transform how we use economic instruments to effectively address both poverty and environment challenges.

Why now?

Over 20 years, we have learnt much from using market-based instruments to improve ecosystems and reduce poverty. But these objectives have largely been pursued in isolation using separate instruments. By harnessing the extensive experience gained using these tools it is now possible – and timely – to explore how combined or 'hybrid' market-based instruments can achieve multiple objectives, particularly at the national level. From improving the natural assets of the poor to promoting food security and poverty reduction, these tools warrant greater political support – and a larger share of government and donor budgets for upscaling.

Two such instruments are payments for ecosystem services (PES) and conditional social transfers (CSTs). PES rewards ecosystem management agreements (such as improving soil conservation) expected to result in ecosystem benefits like cleaner water or reduced carbon emissions. CSTs are a form of social protection, usually cash, used by governments to help poor or vulnerable people provided they meet targets or adopt behaviours with positive social impacts or which deliver public goods (such as sending their children to school).

Our project

Over the next 1–2 years IIED's environmental economics team, under Shaping Sustainable Markets, will explore the potential of combining PES and CSTs as a form of conditional socio-environmental transfer at the national level. We will use a three-step approach:

Theory-driven research: a thorough literature review and interviews with key CST and PES researchers, identifying stakeholders and possible case studies in India, Indonesia, Bangladesh, Ethiopia, South Africa, Mexico, Brazil and Costa Rica.

'Ground-truthing' through field research: where and how have similar approaches been used and to what effect? In-depth, targeted country case studies will explore social and environmental effectiveness and financial sustainability at ministerial levels.

Stakeholder engagement: intensive engagement with practitioners, researchers and policymakers to share lessons on what works and what does not. An international workshop will enable researchers and policymakers to share lessons, while a co-publication will summarise practical lessons for upscaling.

Shaping markets to provide sustainable development solutions

By changing how market actors behave, policymakers can harness the ability of markets to deliver solutions to poverty and environmental issues. For example, by adopting 'carrots' or 'sticks' – eg subsidies to promote a switch to cleaner technology or fines for companies dumping wastewater in rivers – governments can motivate behaviour change for better outcomes. PES and CSTs are examples of 'carrots' – positive rewards – for example, to promote better ecosystem management, or encourage school attendance.

Science seeps into policy

We now have a wealth of experience from PES projects since their beginnings in the early 2000s. For example, PES can be used to improve land practices in watersheds to provide cleaner water. Or it can increase climate resilience in supply chains by planting trees in small coffee plantations.

Through PES we have challenged the myths that have haunted many environmental policies and limited their effectiveness. For example, trees do not directly produce rainfall. Felling them does not result in flooding (Calder and Aylward 2006; Bonell and Bruijnzeel 2005). A better understanding of science – and tighter purses – has seen policymakers move towards evidence-based policies like PES that have been built on the recognition that investments in land activities do in fact impact on the provision of ecosystem services.

A struggle to upscale

Despite this, with a few exceptions, PES remains a minor instrument in the policy portfolio – in terms of scale of implementation and political prioritisation – and has struggled for financial sustainability. One reason is that PES schemes lack focus on equity issues and poverty reduction (Pascual *et al.* 2014). This makes PES appear less socially acceptable and therefore less of a priority for policymakers.

'People first' approach

In contrast, most governments already allocate funding for poverty alleviation. Conditional social transfers (CSTs) are often used to increase positive social outcomes: the cash element associated with the transfer is seen as having a directly positive impact on household well-being, while the conditionality – such as sending your child to school or to be vaccinated – boosts child health and education and contributes to household human capital. Cash injections also have multiplier effects in the economy. For example, they can increase the demand for better educational facilities and therefore investments in infrastructure (Kakwani *et al.* 2005). For public works schemes, the condition for payment is to work, often on locally prioritised infrastructure and ecological improvements.

Learning from examples

Figure 1 shows several examples where policymakers have realised the importance of linking social and environmental objectives, leading to better-designed public programmes. Their experience provides invaluable lessons on how to upscale the socio-environmental agenda from individual projects to the national level.

Figure 1. National programmes that combine better ecosystems and less poverty

The PES Programme in Costa Rica makes cash payments to forest owners for conservation, reforestation, agroforestry and sustainable forest management.

The PSAH in Mexico (National Programme for Hydrological Environmental Services) makes cash payments to forest owners (individuals and communities) located in areas of hydrological importance (recharge, sediment reduction, reduction of flood risk).

Bolsa Verde in Brazil is aimed at families with low incomes. In exchange for cash payments they agree to perform sustainable management activities within their properties.

Greening the Nation in the Philippines aims at sustainable human development and economic and ecological security through the planting of 1.5 billion trees in public lands between 2011–2016.

Ecosystem services focus

High
Programme targets key ecosystem issues

Low
Ecosystems outcomes are secondary to programme

PES programme, **Costa Rica**

PSAH programme, **Mexico**

WfW, **South Africa**

Bolsa Verde, **Brazil**

Hilsa fishing bans, **Bangladesh**

Greening the Nation, **the Philippines**

MGNREGA, **India**

PSNP, **Ethiopia**

Low
Poverty alleviation is a minor/side component

Medium
Poverty alleviation is an important component but not a priority

High
Programme's entry point is poverty alleviation

Poverty focus

WfW in South Africa (Working for Water) works with local communities providing jobs to remove alien plants from rural ecosystems, especially waterways.

Hilsa fish programme in Bangladesh gives incentives (food and some support for alternative income generation) to fishers during the fishing ban period.

MGNREGA in India (Mahatma Gandhi National Rural Employment Guarantee Act) guarantees the 'right to work', by providing at least 100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work – often related to watershed and other ecological improvements.

PSNP in Ethiopia (Productive Safety Net Programme) provides transfers to the chronically food-insecure population in rural Ethiopia in a predictable way (ie not through emergency relief) so that timing of payments and planning of interventions will be improved. It is often linked to watershed and other ecological improvements.

Factors influencing success

This project seeks to analyse sub-national and national programmes linking social and environmental objectives in terms of their trade-offs. How well do they achieve their multiple objectives, and at what cost? How can they be adapted to local conditions and kept manageable in terms of administration and transaction costs at the national level?

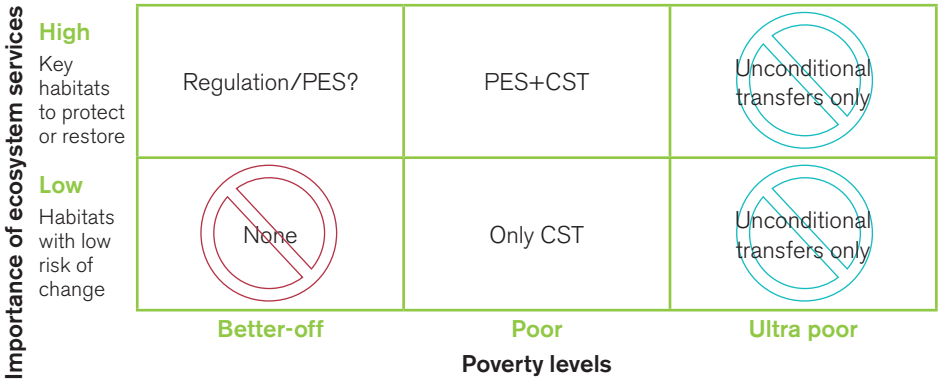
No free lunch

Combining environmental and social objectives has a mixed track record in terms of measurable impact on the poor. Researchers (see for example Rodríguez *et al.* 2011) warn that overloading agendas by combining environmental and social objectives be can counterproductive. Technical capacities can be heavily challenged, administrative costs increased and impacts weakened: eg trees planted in the wrong places or at the wrong time, or badly installed drainage systems. Geographic targeting can be a problem too – the poor may not be located where the environmental problems are (and vice versa).

Weighing up the potential

There are other challenges too. Poor people may have more pressing needs than making behavioural changes that serve certain policy objectives. They may have needs that contradict what the CST seeks to achieve. For example, poor small-scale farmers may desperately need affordable labour on their farms which may take the form of child labour, working against child educational targets. Figure 2, adapted from Rodríguez *et al.* (2011) presents a framework for contextualising policies and instruments to improve their effectiveness, rather than adopting a 'same for all' approach which has been shown time and time again to fail. To implement this framework we need to understand people's poverty in relation to their socio-economic context and their role in relation to the provision of ecosystems.

Figure 2. Targeting beneficiaries increases the potential for success



Better-off and wealthier members of society do not require social transfers. Some countries use PES as an incentive to manage their ecosystems but most often it is closely linked to regulation to make it competitive.

'Medium poor' often refers to smallholders with limited (but some) access to and control of resources. PES and CST tend to work better for this group, as transfers are more likely to be in line with opportunity costs. The level and type of transfer can be adapted depending on the environmental objectives targeted.

Ultra poor require help without conditions attached. People live in extreme poverty with very little access to support. For example, women who have to walk long distances to fetch water for trees or take their children to a clinic to be measured. Imposing conditions on help can make them worse-off and create further imbalances.

Source: adapted from Rodríguez *et al.* (2011)

Who's who?

Our work on **conditional socio-environmental transfers** is part of the Shaping Sustainable Markets initiative of the Sustainable Markets Group at IIED. Shaping Sustainable Markets is an IIED research initiative exploring the design and impact of market governance mechanisms. **http://shapingsustainablemarkets.iied.org**

The Sustainable Markets Group drives our efforts to ensure that markets contribute to positive social, environmental and economic outcomes. Find out more about our work at **www.iied.org/group/sustainable-markets**

Get involved

We are seeking contributions of practical examples and case studies of national and sub-national schemes that combine social and environmental objectives to positive effect, like those mentioned here. We will use field visits, followed by an international workshop in late 2016 to discuss lessons and experiences to co-create a publication sharing lessons and recommendations for upscaling these schemes for policymakers.

Get in touch with a member of our team to share your knowledge and find out more about how you can get involved:

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Photo credit: Ina Porras. Nomadic cattle herders in Hoima District, Uganda.

Project Materials

Sustainable Markets

Keywords:
Payments for Ecosystems Services (PES), Environmental economics, Sustainable markets, Market governance mechanisms, Conditional socio-environmental transfers

Funding for this research comes from UK aid from the Department for International Development.

However, its conclusions do not necessarily reflect the views of the UK government.

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