

August 25, 2008

*East & Southern Africa Katoomba Group
Scoping of Potential Payment for Ecosystem Service Sites*



THE EAST & SOUTHERN AFRICA KATOOMBA GROUP

**PAYMENTS FOR ECOSYSTEM SERVICES (PES) IN EAST AND SOUTHERN AFRICA:
ASSESSING PROSPECTS & PATHWAYS FORWARD**

A BRIEF SUMMARY OF THE FINDINGS

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INTRODUCTION

Between January 2008 and June 2008, The East and Southern African Katoomba Group embarked on an assessment of:

- (1) Existing payment for ecosystem service (PES) deals that could be expanded or replicated in other sites, and
- (2) Promising potential sites for broadening and deepening either:
 - (a) Engagement in environmental markets (most notably international carbon markets) and/or
 - (b) Application of the payments for ecosystem services (PES) in the region.

The purpose the assessment was to improve the understanding of the development and potential for PES initiatives in select countries within the East and Southern Africa region and to explore “proof of concept” related to PES applications within the region. The end goal is to contribute both to conservation and rural economic development, including poverty alleviation objectives.

METHODOLOGY

The methodology was comprised of four primary steps, which included:

- Updating previous Katoomba Group-commissioned PES inventories, conducted in 2005 and 2006, by revisiting all of the projects to provide a record of performance
- Documenting details of new PES deals, or previously undocumented projects
- Identifying promising, potential PES deal sites in the coming years and documenting the rationale for why these sites have potential
- Applying a value chain analysis to between one and three promising potential PES sites, in order to understand the site-specific dynamics associated with a particular possible PES site

Building on this work, a July 2008 synthesis workshop was convened to focus on:

- Conducting a demand analysis, based on a synthesis of the country-level inventories and an exercise to disaggregate the market by product to determine where the greatest opportunities for PES lie from a demand side
- Exploring potential country-specific pathways for proving the PES “concept” in specific countries as well as across the region, based on insights within the country-level inventories and associated analyses

KEY FINDINGS

The survey catalogued a total of 68 PES and PES-like initiatives split between bio-diversity, carbon, water and other. Of these projects 29 were considered to be new projects or previously undocumented projects. The current set of inventories has revealed the considerable diversity of projects and the different types of payments that are being made across the four countries, as depicted in table 1 below.

The overall findings of the assessment are as follows:-

- **Long gestation period and lack of assurance on projects moving from design to implementation.** There is evidence that some PES projects have not developed beyond the inception phase. The reasons for discontinuation vary, but the lesson is that preliminary work does not promise full, successful implementation.
- **No ‘one size fits all’ approach throughout the region, as the focus of PES projects and approaches varies from country to country.** There is strong evidence that regional differentiation exists across the types of projects that are developing in the different countries. For example, in Uganda there is a strong emphasis on carbon while in South Africa there is strong emphasis on water.
- **Few legal and policy changes have been made throughout the region to accommodate PES, however, this has *not* been a major constraint to the development of pilot level**

projects. This finding underscores that legal and policy support, while important particularly with regard to public programs, may be a later issue in the stage of development of PES and therefore should not be the focus of significant resources prior to addressing other obstacles.

- **Lack of clarity on trends in terms of total number of PES projects in region.** The inventories were inconclusive on whether there has been a real increase in growth in the numbers of PES projects since the last inventory, due in part to adaptations in methodologies and definitions applied in the two assessments as well as different personnel undertaking the studies.
- **Most countries found that demand for ecosystem services actually exists now, however organising sellers and being able to provide the “quality of credits” that meet the buyers requirements is still a problem.** Most buyers want certification to certain standards (VCS, CCBS, etc) which sellers cannot afford.

Table 1: Key Ecosystem Services, Attributes, & Issues to Address for Increased Buyer Demand

| KEY ECOSYSTEM SERVICES AND FOCUS OF PES DEALS | UNIQUE ATTRIBUTES RELATED TO ECOSYSTEM SERVICES | ISSUES TO ADDRESS FOR INCREASED BUYER DEMAND |
|---|---|---|
| Biodiversity <i>(and related domain of landscape beauty)</i> | <ul style="list-style-type: none"> • Unique mega-herbivores • Wildlife based tourism / eco-tourism history and economic importance • Joint, collaborative or co-management frameworks vibrant | <ul style="list-style-type: none"> • Domestic stability • State of the international economy (OECD countries) • Price of international travel (related to price of oil) |
| Carbon | <ul style="list-style-type: none"> • Not Applicable – as carbon is an internationally fungible commodity • Developed markets and deals exist • Countries benefiting voluntary markets (e.g., Plan Vivo in Uganda and Malawi) • Growing interest in the potential of payments for avoided deforestation (i.e., Norwegian Government has given US\$100 million to Tanzania Government) | <ul style="list-style-type: none"> • Ongoing need for high levels of assurance around additionality, leakage, and longevity of projects • In addition, with regard to REDD, concerns around baselines exist |
| Water | <ul style="list-style-type: none"> • Evidence that suggests that climate change will be a real and substantive issue in water restrictions for many of the countries involved • 1 precedent of an extended public works program that is effectively a buyer of watershed services (i.e., South Africa’s Working for Water Programme) • Outside of South Africa, there is little direct evidence that water is perceived as a ‘critical resource’ | <ul style="list-style-type: none"> • Ongoing need for high levels of assurance and “proof” from payment for watershed services projects |

Finally, one of the cross-cutting issues is that for many PES deals, there is little evidence to support the ecosystem service that is being ‘sold’ as truly providing the services for which buyers are paying. The reasons are linked to both ecological challenges associated with monitoring, as well as the reality that there is very little robust monitoring and evaluation underway with existing PES projects.

The future of PES in the region will depend upon growing demand from interested “buyers.” For buyer interest and ongoing engagement with PES in the region to build, this issue of assurance that buyers are indeed getting what they are paying for must be addressed. Absent credible “proof”—that carbon is being sequestered, water quality or quantity is improving, and biodiversity conserved—there

is a real danger that PES will not grow beyond the pilot stage and serve as an underdeveloped potential for both conservation and additional rural economic development sources of income.

WAY FORWARD

The Incubator Approach will create an opportunity for the E&SA KG to transition from a purely learning forum into a more pro-active approach in which it provides support directly to projects. This approach needs to be tempered by the understanding that rural communities in the region face a hierarchy of challenges and that there are very few quick fixes.

The inventories show that there is growing awareness and interest in carbon payments in the selected countries, which is highest in the tropical countries like Uganda and Kenya. Being an international product as well as being fungible, means that in many cases the expertise developed can be transferred between countries. This is often not the case for water and bio-diversity services that tend to be more location or at least country specific.

The rapidly developing REDD agenda does provide the E&SA KG with a massive opportunity in the near future to be a nexus of information exchange, learning and a disseminator of best-practice.

In order to take advantage of the above opportunities, the ESA KG should continue to:-

1. Identify and enter into strategic partnerships with existing networks in order to achieve policy leverage and impact.
2. Hold regular meetings and events at national and regional level- giving them stronger focus on thematic or technical issues.
3. Ensure that best practice from within the region is shared more effectively with stakeholders dealing with environment and development problems.
4. Facilitate the process of developing a set of understanding and skills in the region about the opportunities and limitations of payments for ecosystem services.

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The report was written by Ivan Bond with input from Sissel Waage and Alice Ruhweza. It is based on findings from country-level PES inventories that were conducted by: James Bilgnaut, Christo Marais (South Africa), Nirina A. Randimby (Madagascar), Dosteus Lopa (Tanzania), Samuel Mwangi (Kenya), Sosten Chiotha (Malawi), Byamukama Biryahwaho & Charlotte Kalanzi (Uganda). The report also synthesizes discussions at a Uganda workshop that included both the country PES inventory consultants (listed above) as well as: Dennis Kayambazinthu (Director of Forestry in Malawi), Bill Farmer (Uganda Carbon Bureau) and Sarah Namirembe (Katoomba Group).