Payments for Environmental Services in Lao PDR
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How to Build a PES Scheme

Payments for Environmental Services (PES) schemes link people who want to be paid for producing environmental services with those who are willing to pay for them.

People who produce environmental services are paid by the people who want them. As a result, there are more environmental services.
These are the 20 steps that need to be taken to build a PES scheme.

1. Where?
Define the area where the PES scheme will be set up. The area must be suitable for producing environmental services.

2. What?
Select the environmental services (e.g. clean water, biodiversity) to be produced.

3. Does anyone want the environmental services?
Identify people or organisations who want the environmental services (e.g. hydro-electricity companies, tourists).

4. Who can produce the environmental services?
Identify people who can and want to produce the environmental services (e.g. farmers who plant trees instead of crops, villagers who patrol the forests against poachers).

5. Who can be ‘agents’?
Identify people or organisations who can be ‘agents’. Agents or ‘brokers’ bring together potential producers with people who want environmental services. They arrange the ‘trade’ (e.g. a government acts as an agent by using money raised from taxes to pay the farmers to plant trees so that everyone who pays taxes is then paying for this environmental service).

6. Who are the buyers?
Identify the buyers of the environmental services. Buyers may be volunteers or may be ‘forced’ to buy the produced environmental services (e.g. people around the world who make a donation to protect biodiversity would be voluntary buyers whereas everyone who pays taxes used to pay for biodiversity protection would be a ‘forced’ buyer).

7. How to collect the money?
Identify and collect the money used to pay the producers - either directly or via an agent (e.g. environmental taxes; tourist levy, development rights).
8. What do producers get?
Determine the types of payments made to producers (e.g. cash; in-kind payments like tree seedlings, income earned from trees planted).

9. What actions produce which environmental services?
Predict how much of the environmental services will come from different producers’ actions using a bio-physical model (e.g. how much more biodiversity would be produced through anti-poaching patrols).

10. What is the value of the environmental services?
Estimate (in money terms) the values of the environmental services that are produced. (e.g. use economic valuation techniques such as choice modelling to estimate tourists’ willingness to pay for biodiversity protection).

11. How much does it cost to produce the environmental services?
Estimate the costs of production (e.g. use a tendering process in which producers say how many hours they want to do the anti-poaching patrolling and how much they want to be paid for it).

12. How much money do the producers get?
Determine the amount paid to producers for them to provide one unit of an environmental service (e.g. improved water quality) by setting the value of that unit of environmental service (from Step 10) equal to its cost of production (from Step 11). This is converted to an amount per unit of the action taken (e.g. planting trees) by producers using the bio-physical model (from Step 9).

13. Who gets paid?
Select the producers who will be part of the PES scheme by offering a contract to eligible producers that sets out what actions are to be done and how much is to be paid. Agreeing to the contract and being part of the PES scheme is voluntary.

14. How much do the buyers have to pay?
Determine the amount to be paid for each unit of an environmental service. This is the same as the per unit amount paid to the producers (Step 12). The buyers pay this amount for as many units of an environmental service as they purchase.
15. How are the payments made?
Payments to the producers are made from money paid by buyers through a reliable, efficient, approachable, honest and trusted institution. Brokers can perform this role.

16. How is producer performance measured?
Payments to producers are only made if the contracted actions are taken (e.g. villagers are only paid if they do the anti-poaching patrols as agreed in their contracts).

17. How is producer performance monitored?
Develop a system to monitor how well the producers perform the contracted actions and how effective these actions are in producing the environmental services. The monitoring system needs to be based on robust and simple indicators that can be measured objectively and cooperatively (e.g. anti-poaching patrolling may be monitored by GPS technology).

18. What if producers do not perform the contracted actions?
Penalise producers who do not perform the contracted actions by reduced payments, withheld payments, and temporary or permanent exclusion from the PES scheme (e.g. farmers who plant fewer trees than agreed in their contracts would get a lower payment).

19. How to contract the producers and the buyers?
Specify the actions producers agree to perform, the payment amount they receive, how the performance of the actions is measured and monitored, the penalties for non-compliance, and how grievance, conflict resolution and redress are managed in contracts between buyers and producers.

20. How to assess PES scheme performance?
Assess the effectiveness of the scheme by evaluating how well the producers performed the management actions, assessing the amount of environmental services produced, and comparing the costs and benefits of environmental service production.
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