

## Crossfire debate ‘Enterprise Development and Microfinance’

**“Are we using Payments for Ecosystem Services (e.g. carbon credits) to transfer our responsibility for overconsuming natural resources onto MFI clients in the global South?”**

Gert Van Hecken & Kahlil Baker (1200 words each – 600 words per statement)

July-August 2015

**Gert Van Hecken** ([gert.vanhecken@uantwerpen.be](mailto:gert.vanhecken@uantwerpen.be)) is a post-doctoral researcher funded by the Flemish Fund for Scientific Research (FWO) and affiliated to the Institute of Development Policy and Management, University of Antwerp, Belgium and the research and development institute Nitlapan-Universidad Centroamericana, Nicaragua. His research mainly focuses on the nexus between environment and development, and more particularly on market-based instruments for environmental governance.

**Kahlil Baker** ([kahlil@takingroot.org](mailto:kahlil@takingroot.org)) is the executive director of Taking Root, a not for profit that works with smallholder farmers in Central America to make reforestation economically viable. He is also a PhD candidate in forest economics at the Faculty of Forestry in the University of British Columbia, Canada where he researches the design of smallholder forestry development interventions.

---

Dear Kahlil,

We have met several times in Nicaragua, where you are coordinating a fascinating and well-intended project which supports poor small-scale farmers in reforesting parts of their degraded land. In exchange for the reforestation efforts, the farmers receive cash payments - often also termed as Payments for Ecosystem Services (PES)- financed through the sale of carbon credits or offsets on international voluntary markets. The core premise of this and other similar projects is that farmers tend to gain few private benefits from ecologically-sound land uses. Conditional cash transfers directed to the supply of global ecosystem services (such as carbon sequestration or biodiversity protection) would then create win-win outcomes in terms of poverty alleviation and environmental improvements. It is an extremely attractive and popular idea, and it lies at the heart of current global initiatives such as international payments for Reducing Emissions from Deforestation and Forest Degradation (REDD+), in which the global community pays developing countries for forest conservation and management. The creation of new financing instruments (through the use of carbon markets and ‘green microfinance’, for example) that capitalize on private interests is hailed as a promising way to achieve ‘green growth’ and a more efficient allocation of scarce conservation funds. I argue, however, that an over-enthusiastic adoption of PES programmes for resolving complex social-environmental problems raises a range of often-overlooked ethical and political concerns.

From a global environmental justice perspective, the lower opportunity cost argument underlying most international ecosystem services (ES) trading mechanisms, entails an apparently purely technical opportunity for developed countries to buy conservation more

cheaply in developing countries. Indeed, this would make conservation cheaper, and more efficient. However, this logic also amounts to payments for renouncing development, with local populations being compensated according to their current poverty level. On one of my field visits to an internationally-funded PES project in Nicaragua, a farmer who had just received his first carbon payment told me that he was extremely grateful for the money he had received, but that he found it morally disturbing that he was being paid for 'cleaning the polluted air' produced by the very same country that he had received the money from. 'So why are they paying us?', he asked me, and he concluded himself that 'probably because they know we're poor and willing to accept whatever deal'. These ethical concerns have also been voiced at international policy fora such as the UNFCCC, where PES and the underlying market rhetoric have faced substantial political resistance. For instance, grassroots organizations such as *Vía Campesina*, and countries belonging to the 'Bolivarian Alliance for the Peoples of Our America' (ALBA), renounce such approaches as a promulgation of neoliberal policies in which rich countries are allowed to continue polluting.

Indeed, at a fundamental level PES narratives stimulate the image that political and moral decision-making -which every decision on 'sustainable development' or conservation-development trade-offs inevitably is- can be guided by simple economic trade-offs in the form of standard cost-benefit analyses. PES builds on discursively constructed ideas of 'equivalence' and 'spatial fixes' (the illusion that a produced ton of carbon anywhere is somehow the same): suddenly environmental crises are situated far from our over-consumptive society model and they are spatially relocated to the forest frontiers in developing countries. This further fuels beliefs that the ecological contradiction of our capitalist society model can be resolved through ecological fixes in the global 'South', without a need of major structural changes in the 'North'. In sum, I fear the type of project you coordinate, unwillingly reinforces the illusion that economic development and environmental sustainability can be jointly addressed without the need to question the underlying power asymmetries that contribute to the reproduction of existing inequalities in access to and use of natural resources.

Best wishes,

Gert

---

Dear Gert,

PES projects in the Global South are no silver bullet for the environmental and economic challenges that our world faces. However, well-designed PES initiatives can help make a difference while supporting those that are the most harmed by climate change. These initiatives often embody the acceptance of responsibility and not the transfer of it. In your letter you state the contrary based on two sets of populist arguments that breakdown under further scrutiny.

**Financing instruments like carbon markets and PES in the Global South are a substitute for making changes to our over-consumptive society.**

While PES projects are commonly funded through the sale of carbon credits, they are not the same thing. Carbon markets are designed to put a price on carbon specifically to induce behavioural change, not so that the rich can keep on polluting. Empirical research has also found that companies that purchase carbon credits are also more likely to reduce their carbon footprint (Ecosystem Marketplace, 2015). PES are conditional financial incentives offered in exchange for the supply of ecosystem services (ES). The PES mechanism is essentially a contract between two parties designed to insure that the ES are actually delivered. Contrary to traditional conservation finance that rewards environmental behaviours (e.g. plant trees), PES rewards environmental outcomes (e.g. carbon sequestered), which has proven to be much more effective use of funds.

**PES projects take place in the Global South to take advantages of its low opportunity-cost (OC), which keeps people poor and is therefore unethical.**

The statement in your letter "*the lower opportunity cost argument...amounts to payments for renouncing development*" is a misconception; the opposite is actually true. More wealth is created when economic opportunities are realized with assets that have a low OC. If a farmer that earns \$5 for their time (the OC of time) is now offered an opportunity to earn \$10, wealth is created.

Beyond this, smallholder PES projects like the ones that Taking Root manages take place in the Global South for a variety of reasons other than that of a lower OC. First, global deforestation primarily takes place in tropical countries with high valued biodiversity so it makes sense to prioritize these areas. Second, trees in the tropics grow much faster than in northern climates and are therefore a much more efficient mitigation measure. Third, we have an ethical obligation to do so. The Global North is mostly responsible for climate change and those in the Global South are the most harmed by it. Climate change increases the frequency of extreme weather events such as droughts and floods that can completely destroy agricultural crops. For smallholder farmers that do not have access to crop insurance and cannot afford risk-mitigating technologies such as irrigation systems, simple weather changes destroy livelihoods. When properly implemented, growing trees on farms help mitigate climate change while playing an important role for smallholders in climate change adaptation. This is in part because trees are much more resistant to extreme weather events once they have taken root. When these same trees provide an extra source of revenue (e.g. through PES projects), livelihood risks are greatly reduced. Nowhere is this more apparent than in Nicaragua where the smallholder PES projects that Taking Root manages are located. Abnormally long droughts in recent years have completely destroyed harvests resulting in a humanitarian crisis. Participants in our PES project are now drastically better off demonstrating the importance of such initiatives in our changing climate.

In sum, I fear that the thinking behind your well-intended but misguided arguments impede the urgent action that is needed now more than ever.

Yours,

Kahlil

## **References:**

Ecosystem Marketplace (2015). The Bottom Line: Taking Stock of the Role of Offsets in Corporate Carbon Strategies. Forest Trends, Washington, DC.

---

Dear Kahlil,

Thank you for your reply, and for voicing the type of concerns and arguments that are quite common in a (first) reaction to my critical position. I fear, however, that sweeping away my arguments as ‘populist’ is an unfortunate dismissal of what I think are legitimate political and ethical concerns. You are right in emphasising that the North has an ethical obligation to take up responsibility and support climate change mitigation and adaptation actions in the South. Of course we do. But the key issue is whether the mechanisms that we are currently so fiercely promoting really lead to the kind of structural behavioural changes that are so desperately needed. I am afraid they do not.

### **Do carbon markets really induce behavioural change in the North?**

You argue that '*carbon markets are designed to put a price on carbon specifically to induce behavioural change, not so that the rich can keep on polluting*'. While this is a common –and by now endlessly-repeated argument-, I fear the little behavioural changes these markets are bringing about in the North, are becoming painstakingly clear. Of course, prices can provide incentives for change, but does this mean that emission trading schemes (ETS) are really an appropriate way for conducting us to a low carbon economy? ETS mostly stimulate cheap (cost-efficient) changes, and not the more structural (and often costlier) innovations our society desperately needs. Over the past decade we have witnessed how some of the world’s biggest greenhouse gas emitting companies have even managed to generate windfall profits from trading schemes by not changing anything. Given the current extremely low carbon prices, I think it is hard to maintain that these mechanisms create credible incentives for inducing change in the industrial North. I fear these mechanisms rather have paved the way to new forms of financial speculation “combining continued fossil-fuel lending with speculation in a market that supposedly ‘cleans up’ the resulting mess” (Lohman, 2011: 656). I cannot resist then the temptation to compare the particular ‘embodiment of responsibility’ underpinning carbon markets to the idea of indulgences of the Catholic Church in the Middle Ages (Goodin, 1994). Just as then, the environmental ‘sins’ (mainly of the developed nations) could then be pardoned through the purchase of PES-indulgence. It might sound like a ‘populist’ discourse, but it is one shared by many social (farmer) movements around the world: international emission-trading markets cannot restore environmental imbalance without first restoring fundamental economic and political imbalances. For the same reasons as the Catholic Church came to understand the immorality and injustice of the paid indulgences, we might have to abandon the whole idea of carbon markets.

### **Can PES induce long-term behavioural change in the South?**

You also argue that '*PES rewards environmental outcomes (e.g. carbon sequestered), which has proven to be much more effective use of funds*', and that the extra source of revenue

created by PES projects would then reduce farmers' livelihood risks. However, evidence from ongoing PES projects often points to doubtful results both in terms of environmental and development outcomes (e.g. Adhikari and Agrawal, 2013). One of the particular concerns is the long-term sustainability of these mechanisms. Planting trees, for example, is a form of temporary carbon sequestration. In order to mitigate the effects on climate change, it requires the carbon not to be released afterwards. So although annualized payments make sense, as gradually more net carbon is stocked away in vegetation and soil, these payments more fundamentally refer to a carbon sequestration service that stretches well beyond the year in which it is initially sequestered. Obviously, this raises the question of the long-term sustainability of the investment in the changes which are paid for. If payments become the primary cause for behavioral change (as you suggest to be the case in your particular project), the discontinuation of this incentive is likely to become a cause for reversal. Moreover, there is growing evidence that the use of financial mechanisms that appeal to economic self-interest may undermine the moral and inherited social values people hold for acting collectively-responsible (e.g. Bowles, 2008). Once we institute a new logic that stresses the merits of economic self-interest, it might be difficult to reverse it. This might then, paradoxically, cause more harm than good to nature, and would mean that there is a need for infinite payments to avoid these potentially negative effects.

So, Kahlil, are you willing to take that risk? And, more importantly, how can we make sure that such important decisions are taken in a more deliberative way, rather than on the basis of the imbalances in global purchasing power?

Yours,

Gert

**References:**

- Adhikari, B. and Agrawal, A. (2013) Understanding the social and ecological outcomes of PES projects: a review and an analysis. *Conservation and Society* 11: 359-374.
- Bowles, S. (2008) Policies designed for self-interested citizens may undermine 'the moral sentiments': evidence from economic experiments. *Science* 320: 1605-1609.
- Goodin, R.E. (1994) Selling environmental indulgences. *Kyklos* 47(4): 573-596.
- Lohman, L. (2011) Capital and climate change. *Development and Change* 42(2): 649–668.

Dear Gert,

I am glad that we agree that the North is morally obliged to take responsibility and support climate change mitigation and adaptation in the South. Therefore, the parameters of our debate are restricted to: 1) whether funding PES initiatives that reward poor farmers represent an unfair transfer of responsibility; and 2) whether PES is an effective mechanism to support behavioural change.

Before I respond to your arguments, a distinction needs to be made between ETS and PES. ETS is a type of pollution pricing mechanism (taxes being another) designed to modify the behaviour of polluters; it is a stick used to discourage production. What is done with the revenues it generates is secondary from the functioning of the mechanism. PES is “a voluntary transaction between service users and service providers that is conditional on agreed rules of natural resource management for generating offsite services” (Wunder, 2015); it is like a carrot used to incentivize the production of ES. How PES is funded is secondary to the functioning of the mechanism. With that distinction, my responses are as follows.

### **Is funding PES initiatives an unfair transfer of responsibility?**

Since the North is mostly responsible for climate change and because farmers in the South are the most vulnerable to its effects, it only seems faire that the North provides some form of compensation when dealing with this problem. Funding PES initiatives is one way of doing that. However, we should not expect PES to change the behaviour of polluters; it is not designed for that. It should therefore be thought of as a compliment and not a substitute to pollution pricing mechanisms. If PES mechanisms are funded through pollution pricing mechanisms, all the better.

I mean no offense by characterizing your arguments as populist but comparing the funding of PES to indulgences exemplifies my point. The stated popularity of your argument does not make it true. Unlike indulgences, PES creates a direct link between the problem that it seeks to address (the undersupply of ES) and a solution (the increased provision of ES). This has nothing to do with paying to be forgiven for a sin.

### **Is PES an effective mechanism to support behavioural change?**

In your letter you talk about the dangers of using financial mechanisms to change behaviour because of the risk of undermining moral and social values. While this concern has merit, it is not an argument against the use of financial mechanisms but rather the importance of recognizing them within their cultural context. For example, a similar phenomenon is commonly debated regarding payments for blood donations (Rapport and Maggs, 2002). Some worry that payments will degrade the willingness of those that donate for altruistic reasons and thus total supply, especially if payments end. However, the net effect on supply will ultimately depend on how many people altruistically contribute in the first place and the cultural perceptions of the payments. If a culture does not donate blood, there is no risk that payments will diminish people's willingness to contribute.

Financial mechanisms can be particularly effective when they leverage moral and social values. As stated in the very article that you cite by Bowles (2008), good institutional design can channel self-interest to enhance social goals when leveraging moral values. For example, most of the farmers that Taking Root works with in Nicaragua recognize the environmental importance of forests but cannot afford to sacrifice income-generating opportunities to sustain forests on their farms. By designing PES mechanisms that provide income-generating opportunities, we are likely leveraging moral values that increase the effectiveness of the payments.

To conclude, the underlying premises of your arguments seem to be based on two misguided concepts. First, funding PES initiatives is a substitute for pricing polluters; and second, incentivizing behaviour through financial mechanisms is a substitute for moral and social values. PES initiatives need to be viewed as complimentary to pollution pricing mechanisms and designed according to culturally specific contexts. The Global North is mostly responsible for climate change and poor farmers are some of the most harmed by it. Therefore, I argue that there is a moral case for supporting well-designed PES initiatives that support farmers in the Global South.

Yours,

Kahlil

**References:**

Bowles, S. (2008) Policies designed for self-interested citizens may undermine 'the moral sentiments': evidence from economic experiments. *Science*, 320: 1605-1609.

Rapport, F.L. and Maggs, C.J. (2002), Titmuss and the gift relationship: altruism revisited. *Journal of Advanced Nursing*, 40: 495-503.

Wunder, S. (2015). Revisiting the concept of payments for environmental services. *Ecological Economics*, 117: 234-243.