

## Critical Issue: Socio-economic Factors

### Do socio-economic factors matter? <sup>1</sup>

A common challenge in setting up and managing marine conservation projects throughout the world is the difficulty of competing against fisheries and other marine resource sectors that offer tangible economic benefits such as employment and revenues to both governments and local stakeholders. Unless decision-makers and stakeholders face social and economic incentives that appropriately reward them for conservation, conservation will likely not be achieved.

Given this, a principle criterion for selecting a conservation agreement project is *value*. How do the costs of a potential marine conservation agreement applied at a particular site compare with other sites of similar ecological importance, and to other possible conservation approaches? Are donors willing to cover these costs? An economic evaluation helps answer these questions.

#### *Understanding Context*

An economic evaluation begins with an assessment of the alternatives available to resource owners or users. Some resource owners may be predisposed to conserving the resources but lack the financial ability to do so. Their perception of alternatives may focus on varying levels of conservation management or may include some limited resource use. Others may view the resource in purely economic terms, and weigh their alternatives in terms of potential returns from exploiting it – this relates to the direct use values of Total Economic Value.<sup>2</sup> Although global demand for conservation derives from several components of Total Economic Value, the financial value to resource owners is rarely associated with anything other than direct use. Accordingly, the relevant components of direct use value are usually the only part of TEV that need to be addressed by compensation packages provided under conservation agreements.

An incentive to conserve the resource will need to be attractive in the context of the resource owners' or users' perceived alternatives, or opportunity cost. The opportunity cost of conservation refers to the benefits foregone by conserving a resource rather than putting it to its next best use. For example, if the next best use is fishing, the opportunity cost of conservation is the income foregone by not fishing an area. A distinction between real and perceived opportunity cost may be relevant here – even if the known opportunity cost of conserving an area is low (for instance, if we know that potential income from fishing is negligible due to high transportation costs), the resource owners may believe the value to be high and demand generous compensation. Alternatively, resource owners may be unaware of the high opportunity cost, creating an opportunity to get a 'good deal' but raising the risk that the true opportunity cost reveals itself at a later date and that the agreement then requires expensive renegotiation or falls apart. In short, the feasibility assessment must explicitly address the question of resource owners' perceptions of opportunity cost, and consider the impact of those perceptions on the potential for reaching an affordable, equitable, and durable agreement.

Fundamentally, the private agreement approach acknowledges that conservation may impose two kinds of costs on resource owners: an opportunity cost related to foregone income from resource use (which can range from zero in extremely remote areas devoid of economically viable resources, to extremely high such as in the case of areas with high-value mining potential), and the cost of conservation

---

<sup>1</sup> Largely adapted from: Conservation International. 2007. Draft - Conservation Incentive Agreements: An Introduction and Lessons Learned to Date. Guidance Manual. Washington, D.C. pp 51, and from: Niesten, E and H. Gjertsen. 2008. Revised Methodology for Economic Incentives Project. Project Proposal.

<sup>2</sup> Natural habitat and biodiversity represent several forms of value, which together comprise Total Economic Value, or TEV (Barbier 1991; Pearce & Moran 1994). Many components of TEV, such as indirect use values associated with environmental services like watershed protection and biodiversity maintenance, are not reflected in market prices that influence resource use – hence the 'missing market'. For instance, since market prices for forested areas typically do not reflect their value as biodiversity habitat, this value is often disregarded by decision-makers, leading to insufficient habitat protection (Niesten *et al.* 2004a).

management. For an agreement to be attractive to resource owners, the incentives offered usually will have to be at least as great as the sum of these two costs.

In some cases an appropriate incentive will be limited to financial assistance for conservation management, helping resource owners to achieve their conservation goals. In other cases, resource owners may depend on the financial returns from exploiting the resource and will perceive economic losses from conservation.

### *Assessing Potential Incentives/Compensation under the Agreements*

A number of considerations should go into identifying appropriate incentives, and in all cases that process should be built upon stakeholder consultation. An assessment of investment opportunities, their costs and practical implications, and potential partner organizations that can assist in their implementation will be instrumental in constructing a viable and effective compensation package.

In most cases a private agreement will include funding or technical assistance that is directed towards conservation management. Any conservation agreement should ensure that there is adequate funding for proper monitoring and enforcement of the site. Many communities appreciate the income, training, and responsibility that can come from local employment in these activities.

Estimating the costs of management is highly dependent on site-specific factors such as local threats to the site. In contrast to parks, private conservation agreements directly benefit the owners and users of the site, so the local pressure to exploit resources is mitigated. However, there may be external threats such as poaching that also need to be monitored and managed. The presence of enforcement personnel and demarcation of conservation areas go a long way towards ensuring successful management. An estimate of these needs, as a function of external threats, is probably a fair basis for developing management costs. However, the addition of other monitoring expenses, e.g., remote sensing and population sampling, can increase a management budget by multiples. The level of desired scientific monitoring will therefore be an important factor in assessing the overall cost of management.

When incentives include social and economic investments, it will be important to assess which investments are actually possible given technical capacity, available infrastructure, and funding. It is also important to consider the kind of impact that different investments will have in terms of building a stronger and more sustainable agreement. Direct cash payments, for example, may be simplest and most appropriate where resource owners are completely integrated into local cash economies, whereas social service investments may be more appropriate in contexts involving non-cash economies and where social services are lacking. Common social and economic investment options include education, health, and enterprise development. The range of possible social and economic incentives is quite broad given the variety of potential contexts, making partnerships with organizations that specialize in social and economic projects an important and attractive option in many projects.

In summary, the economic evaluation of a potential site considers the affordability of a conservation agreement, in terms of the incentives required and project financing prospects. However, such analysis can only provide an initial indication, as ultimately negotiation will determine the incentives needed to reach an agreement. An assessment of the resource owners' and users' alternatives will greatly inform one's negotiating position, and help to determine whether an agreement is likely to be affordable in the first place. Factors that will affect the negotiation may reach beyond a financial analysis and include the ability of a conservation group to coordinate other players to assist in developing an incentive package that meets stakeholder objectives. Finally, practitioners must recognize that in some situations, the opportunity cost of conservation may simply be too high, or funding prospects too weak, to make a conservation agreement affordable. In these instances, other strategies will be required. Nevertheless, regardless of the strategy selected, an understanding of the opportunity costs and incentives driving biodiversity loss will benefit the design of appropriate interventions.

<b>Discussion Leaders</b>	<b>Discussion Participants</b>
Eddy Niesten (CI)	Jacques White (TNC)
Heidi Gjertsen (CI)	Patricia Zurita (CI)
	Chris Jameson (CI)
	Sarah De Belen (CCA)
	Susan Bernstein (TNC)
	Enrique Sanjurjo (WWF)

**Discussion Questions and Findings**

1. Under what conditions are socio-economic assessments necessary versus unnecessary before entering into a MCA?

While projects should not spend their entire budgets on assessments, these are needed – it’s more a matter of how deep the assessments go.

Conclusion: The question should be changed to when an assessment doesn’t need to go deep? For example, a cursory assessment (or not assessment at all) is likely appropriate in an area with no people, where there are all the conditions are perfect for having an MCA. But, project managers should always consider law of unintended consequences, e.g. future conditions, downstream communities, excluded people (like in Chile). Conversely, where there are more market failures or more people, then deeper economic assessments are needed.

2. What are the critical issues to account for and/or avoid when undertaking a project-specific socio-economic assessment?

Socioeconomic assessments don’t need to include the kitchen sink. Instead, they should be targeted, such as:

- Defining appropriate benefit packages as well as getting a baseline for human well-being outcomes.
- Determining property rights and use of resources, and whether they are enforced.
- Determining how illegal activity fits into designing agreements.
- Determining market failures.

Manage expectations - do trial and make it transparent to community that we are at assessment level so we may want to do long term agreement but it depends on trial and funding available

Get good assessment team

3. What are the distinctions between and differences in applicability of economic evaluations versus property appraisals when determining the value of incentives (i.e., land/resource values, lease payment values)?

What you need to measure depends on context and what you are purchasing or leasing. Rarely do we need to do a total economic valuation (focus on opportunity cost)

Economic evaluations: value of resources (could be use and non-use).

Property appraisals: value of land (market price).

The answer depends on the strategy: In a leasing system, need to value opportunity cost to stakeholders. In purchasing land, need to value price of land.

## A Private Sector Approach – Conservation Agreements in support of Marine Protection

June 16 – 19, 2008

---

4. What socio-economic characteristics of local communities make them especially good candidates for MCA projects?

- Clear property rights.
- Quality of governance.
- Enforceability: social norms, social cohesion, someone in community can make and enforce rules, strong government.
- Stability with migration—don't want this to act as magnet.
- Local champion.
- Economic opportunities: limited economic opportunities can make it cheap since there is nothing else to do, also this will be better than other approaches; many economic opportunities means you may just need to purchase rights and they can go do something else.
- Prior experience with conservation project.
- Bad experience with extractive companies.
- Size, cohesion of resource user group.

5. What incentives are most commonly applied under MCAs (i.e., direct payments, social services, physical infrastructure, employment)?

ALL OF THE ABOVE

6. What are the conditions under which specific socio-economic incentives appear to be most successful?

Needs to fit in bigger picture strategy of project goals (i.e., the benefits package is in line with goals of project, such as training, education, or equipment that also benefits project). What does the community want/demand?

Direct payments:

- Accountability (money is used for what it supposed to).
- Well organized, transparency, governance systems to report back on how cash payments have been spent (i.e.. are they distributed how they are supposed to?).
- Cash economy, urban, large.
- With restrictions (i.e., don't want them to be able to buy chainsaws; make sure regulations are in place so that other destructive things won't happen).

Social services:

- When it is identified as a need by community (e.g. because local government is not providing).
- Income, education, health, then think about sanitation, transportation, etc.

Physical infrastructure:

- Having something that lasts that people will associate with conservation.
- Early investment is visible, but over long term you'll want something that can be turned on and off depending on compliance.
- Can have co-investment from community (e.g., labor provided).

Employment

- There are usually some conservation-related jobs.
- Propose in communities where there might not be other options (in some places employment benefits from these types of jobs are not better than other jobs).
- Otherwise very situation-specific.

Other incentives that could be applied:

- Helping with certification
- Taxation systems (tax relief, but this can create distortions—may or may not have positive side effects)
- Relief from regulations (but may want “no net loss”)

## A Private Sector Approach – Conservation Agreements in support of Marine Protection

June 16 – 19, 2008

---

- Helping establish management rights
- Helping with enforcement
- Empowerment/status/pride (i.e., those that report to Navy, policymakers)
- Creating access to policymakers, development orgs, etc.
- Cultural preservation (empowerment to protect sacred land, reviving conservation traditions such as sasi)
- Formalizing property rights through recognition given by an agreement
- Helping community to organize to be able to enter into an agreement

To date, the situations that have the most successful MCAs have organizations that put people on the ground for a long time, maybe indefinitely.

- But this may not help to scale up, is there a way to do this more efficiently?
- Depends on context (in some contexts, e.g. US, may not need this).
- Can we have institutionalized entity that will help us scale up

7. What are other socio-economic factors affecting MCAs that we should be aware of and work to resolve?

- Threats that lie beyond community (e.g. mining companies)
- Governance: corruption, policy, local and national
- State of resource—to what extent there is a crisis
- How high do benefits need to be relative to cost of living
- To what extent does MCA provide an incentive for everyone to get organized and for everyone to come to the table and make it happen

### Recommendations (Strategy to scale up)

#### 1. Standardization

- Using a best-practices model (manual with clear steps, give easy recipe for field staff to follow, standards of implementation (ethics and methods))
- Standardizing language we use
- Clear, simple model/message

#### 2. Monitoring outcomes (conservation and socioeconomic)

- Be able to demonstrate impacts, learn/adapt from experience, sell the tool (e.g., clear statistics that show improvements in what trying to protect and improvements in human well-being)
- Find the right way to articulate how these projects have conservation and human well-being impacts (access other sources of funding)
- Disseminate this information to stakeholders and the public

#### 3. Collaboration of implementing organizations

- Develop information tools/message/marketing of tool

#### 4. Attractive benefit packages

- Allows method to sell itself

#### 5. Get development community on-board

- Approach as collective unit promoting this approach
- Access additional funding opportunities and delivery mechanisms for benefits
- Look at development strategies—how do they reach so many people in such a short time

#### 6. Establish field implementation units

- Centralized unit in appropriate geographical units that can provide services to MCAs on the ground (economies of scale)

**Outstanding issues:**

- Necessary vs. sufficient conditions
- This marine conservation approach vs. another