UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

SUSTAINABLE DEVELOPMENT GOAL 9
INDUSTRY, INNOVATION AND INFRASTRUCTURE

Training Session on Economic Valuation – Session 2 Subsession 1 „Aim and Scope of a Tier 1 Economic Valuation"

Training on the systematic integration of economic valuation of "wet" ecosystem services into the TDA/SAP process

Context

- Two Guidance Documents, less resource-intensive („tier 1 projects“) and more resource-intensive („tier 2 projects“), combined into one document (including an introduction).
- The Tier 1 Guidance Document contains:
  - a **step-by-step guidance** for conducting an EV in a tier 1 IW project area, including a proposal for an **outline of a tier 1 EV report** (www.iwlearn.net/valuation);
  - a **repository of valuation studies** (to be used for benefit transfer) (www.iwlearn.net/learning/manuals/economic-valuation-of-wet-ecosystems/the-repository-of-economic-valuation-studies);
  - a **Checklist** to work with (www.iwlearn.net/learning/manuals/economic-valuation/accompanying-documents-and-training-materials); and
  - a **ToR-template** for an economic expert to conduct such a valuation (same www-link).

Context

- In this Subsession, we will speak about the possible aims of a tier 1 EV, its scope, the methodologies used, and outcomes.
- But first: overview of the tier 1 EV approach…

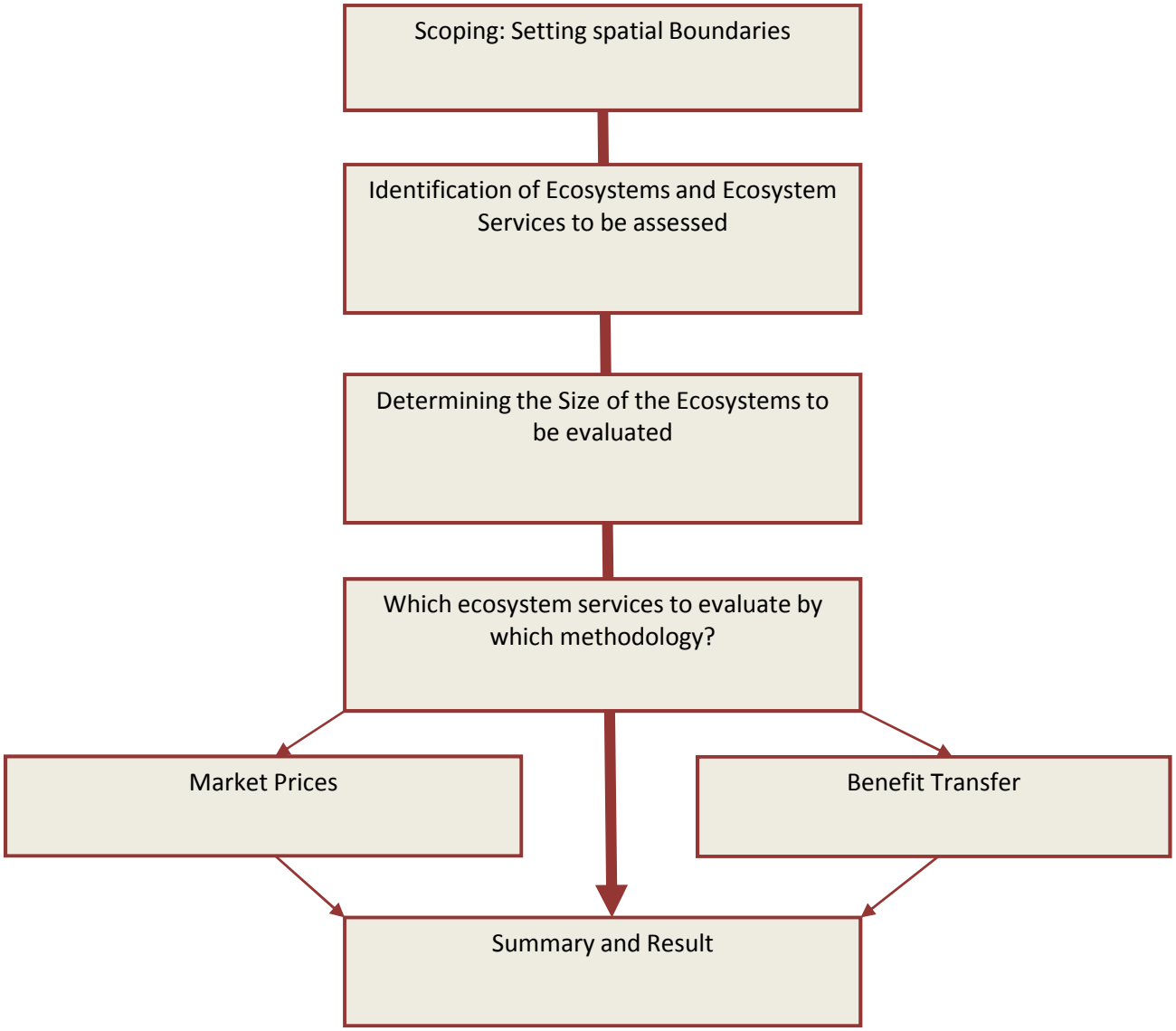
Source: Aulia Erlangga/CIFOR[1]

Overview of the Tier 1 EV approach

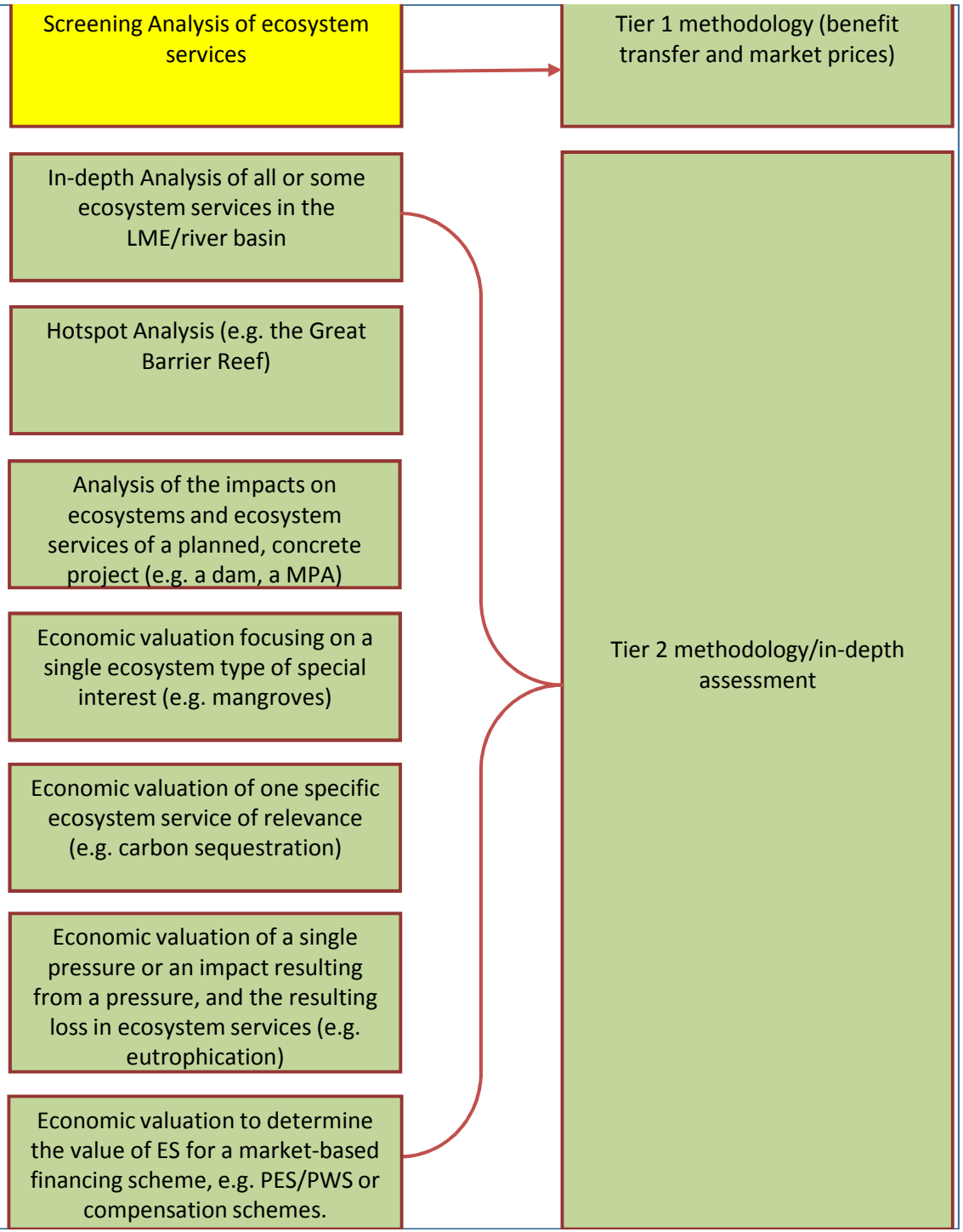
The tier 1 step-by-step guidance entails the following steps:

- **Determination of the spatial boundaries of the area to be studied**, i.e. deciding on whether to focus some areas or not.
- **Identification of ecosystems and ES** present in the area to be studied/assessed.
- Determination of the **size of the ecosystems** present in the area under investigation.
- Identification of which ES can be assessed **directly via (local) market prices, and which need a benefit transfer**.
- Assess the **values of provisioning services** via local market prices.
- Assess the values of other ES using the **simplified Benefit Transfer approach**.
- **Summing up the values** and determining the Total Value, indicating assumptions & uncertainties.

Overview of the Tier 1 EV approach



- In terms of content: different policy appraisal contexts covered by tier 1 and tier 2 methodologies.



Approach and methodologies used

- As the average tier 1 projects will only be able to dedicate limited resources towards an economic valuation…
- …the methods used need reflect this.
- Hence, the Guidance for Tier 1 projects uses two methods to valuate the value of ecosystem services:
  - A simplified “benefit transfer” approach
  - Valuation of ES with “market prices” (also simplified).

Benefit Transfer

Transferring a value from studies already conducted in another location and/or context:

- Identify ES to be valued
- Identify existing "original valuation studies" of the ES
- Assess transferability (socio-economics, demographics)
- Adjust values of existing original valuations based on:
  - Differences in population
  - Differences in site characteristics
  - Inflation, exchange rates etc.

Benefit Transfer – pros and cons

Pros:

- Less costly, less time consuming => can be done as part of IW project.
- Easily applicable to obtain gross estimates.

Cons:

- Less accurate, esp. if applied in a “quick and dirty” way (resources!).
- Time consuming to find good original valuation studies and make them “fit”/adjust the results.
- Expertise and guidance necessary.

→ Ideal for tier 1 projects, in order to obtain an approximation of the economic value of ES, when market prices do not exist.

Market prices

Money paid for ES that are traded in commercial markets, e.g., timber, fish:

Source: Van Beukering, 2011[2]

Market prices– pros and cons

Market prices pros:

- Easy to grasp and communicate.
- Mostly good data situation.
- Quick and relatively easy to conduct.

Market prices cons:

- Limited application (few ES).
- Market distortions (subsidies, different costs etc.).

Questions?

Source: Dalibor Ballian/EUFORGEN

Discussion

- Which steps of the tier 1 approach do you consider as most challenging?
- What overall opportunities, but also what risks do you see with a tier 1 valuation?
- Reflecting on the “pros” and “cons” of the two methodologies used: where do you see the strengths of the overall approach, where the weaknesses?

Thank you!

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2. Source: Van Beukering, 2011
3. Genetic resources as provisioning ES - Pinus heldreichii young cones, photo by Dalibor Ballian/EUFORGEN / Creative Commons Attribution 2.0 Generic | Flickr