



Paying for Ecological Goods and Services

Ecological goods and services (EGS) provide many varied and essential services, including nutrient cycling, erosion control, maintenance of biodiversity, and air and water purification. EGS solutions to environmental problems offer society the opportunity to capture significant economic efficiencies.

These efficiencies are gained through improved land stewardship, and can be achieved without financial burden on the supplier or the end user. In some cases, financial savings may result. The City of New York, for example, saved billions by restoring a natural area surrounding its water supply instead of building a new water treatment facility.

EGS instruments include economic incentives or market inducements structured primarily to “internalize” EGS in the marketplace. EGS instruments also include taxation, programs, policy change, etc. To be most effective, these instruments should send clear market signals to the producer of EGS. The producer’s decision to supply the EGS is linked to the market’s willingness to pay for them.

EGS are sometimes supplied as a result of a conservation program (e.g. expanding riparian areas, or converting erodible land from annual cropping to forage production) designed to decrease a negative impact like water pollution or soil erosion. Supplying EGS (e.g. habitat for fish, increased carbon sequestration, etc.) is often an indirect outcome of such programs.

EGS instruments are generally positive for stakeholders and for society, because:

- the landowner is recognized and rewarded for his/her contribution to the public good;
- rural communities benefit from better environmental health and increased income;
- interest groups (e.g. conservation agencies) enjoy the benefits of healthy ecosystems (wildlife, aesthetics, recreation opportunities);
- the public benefits from the sustained production of essential EGS at a lower cost than artificial substitutes like water treatment or man-made flood control structures.



Source: AAFC-PFRA

Types of EGS instruments:

Direct Payments

Public – These usually involve payments from consumers or users (e.g. tax payers) through institutions (e.g. governments) to producers in exchange for production of EGS.

Private – Some EGS instruments involve privately directed stakeholder investment in EGS production. For example, stakeholder agencies may provide financial incentives to producers in exchange for improved stewardship of agricultural lands.

Tax and Policy Incentives

EGS production may be indirectly encouraged through government tax and policy programs by removing disincentives (e.g., Crow Rate) or providing incentives (e.g., reduced capital gains for donated easements).

Market Premiums

Instruments (such as labeling) can provide direct market incentives for sustainable management of natural capital and production of EGS without the use of intermediate institutions, external subsidies, regulations or incentives. Consumers and producers of EGS are directly linked through the market system.

EGS instruments have potential to contribute to the reduction of the conversion of natural lands to other uses. They recognize the land manager’s contributions to society, and make it more financially viable for producers and other land managers to retain natural landscapes.