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PES SCHEMES AND THEIR APPLICATION IN ALBANIA

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ABSTRACT

Payments for Environmental Services (PES) have gained traction in recent years, primarily in Latin American countries. These payments involve a transaction between land users and environmental service providers for a specified fee. The purpose of this paper is to assess the current level of PES development in Albania and the measures taken by the Albanian government to promote their creation and advancement. To achieve this goal, several objectives have been defined: to present the history of PES creation and development, to establish the theoretical framework for their implementation, to evaluate the current state and progress in Albania, and to draw conclusions and recommendations for the government. Currently, PES in Albania are in the experimental phase, with a pilot project implemented in the Ulza watershed. The World Bank conducted interviews with 100 stakeholders in the lower part of the Ulza Basin, and this paper analyzes and presents the results of those interviews. A central conclusion is that interviewees believe the development of PES schemes is an important tool for addressing environmental issues, emphasizing the government's responsibility to promote their advancement and growth.

Keywords: Environmental Services, Payment for Environmental Services, Transaction, Design, Watershed.

1. INTRODUCTION

This paper explores the concept of Payments for Environmental Services (PES) and their implementation, with a focus on experimentation in Albania. The third section addresses the

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meaning of the PES concept, providing definitions from various authors. It highlights the similarities and commonalities among these definitions, citing major contributors such as Wunder (2005), Karsenty (2011), and DEFRA (2013). The fourth section categorizes the different types of PES, establishing the connections between types of environmental services and the functions they provide. The fifth section examines how the application of PES schemes can alleviate poverty. PES schemes have gained popularity because they serve a dual purpose: they not only aim to have a positive impact on the environment but also seek to improve the socio-economic conditions of PES providers, who are often poor farmers. The sixth section focuses on the experimentation of PES schemes in the Ulza watershed in Mat area of Albania. Conclusions are drawn from the analysis of a questionnaire conducted by the World Bank in this region. The seventh and eighth sections presents the results and discussion of the questionnaire, while the ninth section outlines the conclusions and recommendations based on the findings.

2. MATERIAL AND METHODS

To assess the development of the PES schemes, the results of the questionnaire conducted by the World Bank were analyzed. The World Bank conducted a partial survey, i.e., interviewed 100 stakeholders in the Lower Ulza Basin. The survey was conducted individually, i.e., face-to-face. The sample was selected randomly, which means that each individual had the same probability of being included in the survey. Due to the lack of data, it is impossible to build hypotheses and determine the relationship between variables, so an econometric analysis cannot be performed. For this reason, graphical analysis was used, i.e., the author, for each response received from the interviewees, constructed the corresponding graphs to analyze the survey results and provide recommendations for the government. The relevant literature regarding the meaning and implementation of PES schemes was also extensively analyzed.

3. CONCEPT OF ENVIROMENTAL PAYMENTS

Payments for Environmental Services (PES) have primarily developed over the last two decades, yet a clear definition remains elusive. Author Iskra Konovska has researched various definitions related to PES.

One notable definition by Wunder (2005) describes PES as *"a voluntary transaction in which a clearly defined environmental service, or land use that can provide an environmental service, is purchased by at least one environmental service buyer, provided that the service provider delivers this service on a continuous basis."* Wunder's definition employs market terminology (seller, buyer), implying that services must be identified prior to the transaction since only those specified services can be sold. Additionally, it emphasizes the economic aspect of environmental services, which involves direct payments from the environmental service buyer to the provider, minimizing

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transaction costs.

Marianne Meijboom and Peter Kampen offer another definition, stating, *"A PES scheme is a transparent system for providing environmental services through conditional payments to voluntary providers."* In practice, PES schemes vary significantly, making them challenging to define. To clarify the PES concept, the following principles are helpful:

- *Voluntary Participation***:** The transaction is voluntary, meaning all parties engage in PES agreements by their own choice.
- *Beneficiary Payments***:** Payments are made by beneficiaries of environmental services, which may include individuals, communities, businesses, or governments acting on their behalf.
- *Direct Transactions***:** Payments are made directly from service beneficiaries to environmental services providers, often facilitated through a broker or intermediary.
- *Conditional Transactions***:** Payments are contingent upon the provision of environmental services benefits.
- *Leakage Avoidance:* PES schemes should be designed to avoid leakage, meaning that the provision of an environmental services should not result in the loss or degradation of that service elsewhere.

The aforementioned authors also categorize PES schemes into two main types:

- *PES Schemes Related to Common Material Goods***:** This category is advantageous for a limited number of beneficiaries, often involving agreements between a farming community and entities such as water associations or municipalities. In these cases, the service user typically handles the agreements, with the direct beneficiary of the service serving as the payer.

- *PES Schemes Related to Public Goods***:** This category benefits a broader audience, including future generations. It provides institutional mediation between global beneficiaries and local service providers. An example of this second category is the carbon trading market (Karsenty, 2011). This category often involves schemes run by the government. Wunder (2009) discusses both the advantages and disadvantages of these two categories.

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4. PES TYPES

Author Iskra Konovska from Wageningen University has not only addressed the definition of Payments for Environmental Services (PES) but has also explored the various types of PES and their associated aspects. These services are categorized based on their functions, as established in the "Millennium Ecosystem Assessment" in 2005. In the literature, these are referred to as environmental services as well as environmental services. According to this assessment, the types are as follows:

- *Supply Services***:** These include food, water, wood, and fuel.
- *Regulatory Services***:** These services help regulate floods, droughts, soil degradation, and diseases.
- *Support Services***:** These encompass land formation and nutrient cycling.
- *Cultural Services***:** These provide recreational, spiritual, religious, and other non-material benefits.

In the literature on environmental services payments, these categories are often grouped differently, depending on their content. The literature on PES distinguishes between:

- *Carbon Collection and Sequestration***:** Activities aimed at preventing deforestation and promoting reforestation, particularly in tropical regions.
- *Methane Level Reduction on Farms***:** This includes practices such as fertilizer management, changes in animal feed, and conservation practices in agriculture to mitigate soil carbon emissions.
- *Pool Protection (Including Land Protection):* Activities such as restoring, creating, or enriching wetlands to compensate for damage, as well as preserving forest cover.
- *Reforestation***:** Often focused on native forest species.
- *Adoption of Sustainable Land Management Practices***:** This includes practices like sustainable agriculture or forestry, utilizing forest cover to reduce soil erosion and nutrient loss.
- *Transition to Alternative Agricultural Practices***:** This may involve conservation practices or the protection of natural water courses to prevent erosion and maintain soil health and overall fertility.
- *Biodiversity Protection***:** Activities such as creating biological corridors between protected areas, establishing new protected areas or strengthening existing ones, reforesting degraded areas with local species, removing invasive species, and managing biodiversity to enhance agricultural production.

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- *Landscape Management***:** This includes preserving natural landscapes, restoring landscapes to their natural state, preventing landslide degradation, and imposing restrictions on land use and hunting in certain areas to promote tourism.

Classifications in PES literature can vary. Some literature emphasizes the close relationship between the type of environmental services being traded and the project scale. For instance, a PES case study in South America links watershed protection with local PES initiatives and carbon sequestration.

5. PES AND THE POOR SUPPORTING

Payments for Environmental Services (PES) schemes have gained rapid popularity due to their dual objectives. They aim not only to enhance nature conservation and create a positive impact on the environment but also to improve the socio-economic situations of environmental service providers. By doing so, these providers can generate additional income sources. PES programs, particularly in poorer regions, are seen as a means to achieve both social and environmental goals. The positive environmental impacts resulting from the implementation of PES schemes can lead to improved living conditions for local communities. This presents a unique opportunity to achieve dual objectives, which attracts the attention of governments and donors. As a result, it is essential to understand how PES specifically affects the poor. Being a relatively new mechanism, it is challenging to find definitive evidence of both success and failure. However, there are already cases demonstrating the positive impacts of PES on poverty alleviation.

Payments for Wet River Basin Services currently exist in countries such as Costa Rica, Ecuador, Bolivia, India, South Africa, Mexico, and the United States. In many cases, the increasing number of services in watersheds through payment systems has contributed to poverty alleviation. While there is a clear opportunity for synergy between poverty reduction and watershed services, policymakers worldwide have demonstrated their capability to prepare and implement PES programs that effectively minimize trade-offs.

PES initiatives are voluntary and often involve transferring resources from wealthier urban areas to poorer rural areas. They empower the poor by recognizing them as valuable service providers. PES schemes tend to have a more beneficial impact on the poor compared to many other environmental management interventions (Asquith et al., 2007; La Bruijnzeel and Meine von Noordwijk, 2007; Agarwal and Ferraro, 2007, cited by the Katoomba Group, 2008).

However, not everyone is convinced of PES's ability to deliver social benefits alongside environmental improvements. In their analysis, Bulte et al. express skepticism about whether PES

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programs can effectively address both poverty alleviation and environmental quality enhancement. They suggest that linking PES to poverty alleviation might reduce efficiency in meeting objectives. Critics of PES schemes point out several disadvantages, including:

- The potential for creating inequality and exacerbating poverty in developing countries.
- The marginalization of communities with legitimate aspirations for land development due to unequal resource distribution.
- The exclusion of poor community members from programs due to economic and political constraints.
- Insensitivity to existing inequalities in resource usage.
- The erosion of cultural values related to nature that do not align with economic benefits (Corbera et al.,2007; Landell-Mills and Porras, 2002; To et al., 2012; Wunder, 2005).

The specific characteristics of both the PES programs and the areas in which they are implemented are likely to play a crucial role in the relationship between PES and poverty. Many of the potential hazards associated with PES can be mitigated through careful design that considers the relevant context. A critical factor influencing the impact of PES on livelihoods is the realization of PES opportunities. Pagiola et al. identify three factors that affect the level of PES realization:

- *Eligibility Barriers***:** Requirements for PES admission may exclude particular groups or individuals. For example, if land ownership is a prerequisite, residents without land in rural areas will not be eligible for PES benefits.
- *Willingness to Participate:* If the expected benefits of participation are not attractive, some individuals or families may choose not to engage.
- *Ability to Participate***:** Some families may lack the financial resources or human capital needed to fulfill the requirements of an agreement, hindering their ability to benefit from the scheme.

Tacconi reminds us that PES was initially designed primarily to offer environmental services rather than to alleviate poverty. Meanwhile, other mechanisms specifically aimed at poverty alleviation, such as direct payments to the poor, exist. He suggests that a more effective approach would be to design cost-effective PES schemes that free up resources for targeted programs benefiting the poor, complementing the PES initiative. This is preferable to attempting to achieve multiple outcomes through a single PES scheme, as there are often limited opportunities for successful realization. However, implementers should strive to design cost-effective SHPP schemes that conform to best practices to positively impact households' livelihoods.

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The above theoretical framework is based on Latin American countries, where PES schemes are emerging. Of course, not all types, participants, and benefits of PES schemes described above are appropriate for Albanian context. Albania's full adaptation to EU environmental requirements requires considerable investment. In the context of a low GDP compared to other countries, financial resources are low and the population's ability to pay more is limited. For this reason, environmental development cannot be based solely on the benefits brought by PES schemes. They are one of the paths to environmental development. In this context, the development of new and sustainable means of financing environmental development constitutes a further challenge for Albanian government. Although a number of EU funds have been foreseen for this purpose, the majority of the funds will have to come from domestic sources, i.e. from increased economic growth rates.

6. PES IN ALBANIA

6.1 The Economic and Social Context

Albania is an economy in transition, not very integrated into world capital. But, regardless of this, a sustainable economic performance was achieved. Euro zone countries are the biggest investors, and meanwhile they are the countries in which Albania realizes 80 percent of its exports. Due to the consequences of the pandemic and the war in Ukraine, according to the IMF in 2023 the economic growth is 3.6 percent compared to the growth of 4.8 percent in 2022. The IMF foresees a further slowdown in economic growth, specifically to 3.3 percent in 2024. But the IMF emphasizes that the economy will be sustainable, due to strong private consumption, the development of tourism and the growth of the construction sector. The Government of Albania has undertaken the significant efforts for fiscal consolidation after the pandemic Despite the slowdown in economic growth, public debt in 2023 is 63 percent of GDP, and is expected to be stable in the medium and long term. The IMF has predicted that in 2025 public debt will be 59.7 percent of GDP. Inflation in 2023 is at 4.8, mainly due to the increase of the price of Russian gas imported from Euro zone countries. The IMF predicts that at the beginning of 2025 inflation will be 3 percent, which is the objective of Bank of Albania. The unemployment rate in 2023 is 11 percent and according to IMF forecasts it will be at this level for a considerable period. National Employment and Skills Strategy of Government aims to strengthen professional training and up skilling. The increase of the digitalization of public services and the improvement of the fiscal system have reinforced the economy formalization. However, a large part of the GDP, nearly 40 percent, has its source in the informal economy, which prevents the successful implementation of economic reforms. In this context, the development of PES schemes will help economic growth and strengthen the formality of the economy.

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6.2 The Design of PES Potential Schemes in Ulza Water Basin

The Ulza watershed, including its sub-basin, is situated in the Mat River basin, approximately 70 km from Tirana. It encompasses nearly the entirety of the Mat and Dibra districts. The main cities in the area are Burrel and Klos, while other communes include Martaneshi, Xiber, Gurre, Komsi, Baz, Ulza, Kurdari, Lis, Derjan, Macukull, and Rukaj. The communities of Selishta and Kthella have partial stretches within the watershed. The total area of the Ulza watershed is 122,434.94 hectares (1,224.34 km²), with Ulza Lake at its center, as well as the Mat River valley. The altitude decreases gradually along the Mat valley, ranging from about 500 meters above sea level (m asl) to approximately 80-120 m asl. Surrounding mountains in the basin rise to over 2,000 m asl, with the highest point reaching 2,245 m asl.

The Ulza watershed feeds the Ulza hydropower plant, located in the upper reaches of the Mat River, near the confluence with the Fan River and close to the villages of Ulza and Burrel. The concrete dam stands 64 meters high, with a collection volume of 240,000 m³. The reservoir created by the dam serves as the primary flow source for the Mat River.

As mentioned, the study area is the Ulza reservoir catchment, which is part of the Mat River basin, encompassing a total area of 2,441 km². The main tributary of the Mat River is the Fan River, which flows northeast before the Mat River continues southeast from their confluence. The Ulza hydropower plant is situated on the Mat River, upstream of the Fan River's mouth, near the village of Ulza and the town of Burrel. The concrete dam at the Ulza hydropower plant stands 64 meters tall and has a collection volume of 240 million m³. The reservoir created by this dam serves as a key component of the Mat River cascade. Downstream of the Ulza Dam is the Shkopet Dam, which

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has a height of 50 meters and a capacity of 40 million m^3. The Ulza Dam was constructed between 1952 and 1958 and features a straight-axis concrete design. The impermeability of water at the dam's base is ensured by a padded curtain. The dam itself has a volume of 0.26 million m^3.

There are three potential PES schemes that could be implemented in the Ulza watershed:

Version 1: Government-Run Scheme

- The government taxes the energy produced by the Ulza hydropower plant.
- The revenue generated is used to subsidize sustainable practices for forest and pasture management.

Version 2: User-Managed PES Scheme

- Payments are made directly from the hydropower plant to farmers in the upper catchment for adopting sustainable forest and pasture management practices.
- The initiative would begin with a small number of farmers in critical areas and expand based on lessons learned from initial interventions.

Version 3: Water Funds

- A water fund is established, managed by interested representatives, to handle payments and donations from the private sector, government, associations, and other donors.
- The fund would facilitate payments for sustainable land management practices through small projects aimed at enhancing land management.

As mentioned above, in Albania, PES schemes are in the experimental phase. Stakeholders have limited knowledge and experience in negotiating of PES contracts. This is because the main obstacle for the PES development is the lack of the legal framework and the governmental mechanisms. The government should draft the respective legal framework which should include all the specifics of PES schemes, including cases where the state itself is a market actor, and acts as a buyer of environmental services. Since the development of legal instruments requires a certain amount of time, the government should make efforts to stimulate the start of PES schemes. Also, to ensure the successful development of PES schemes, stakeholders must participate in an early stage of its development. Good communication and involvement of stakeholders in all stages of the process would contribute to the successful development of PES schemes.

7. RESULTS

To gain insight into perceptions regarding Payments for Environmental Services (PES), 100

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stakeholders were interviewed in the lower part of the Ulza Basin by

World Bank. The results of this questionnaire, whose data were analyzed by the authors, are presented below.

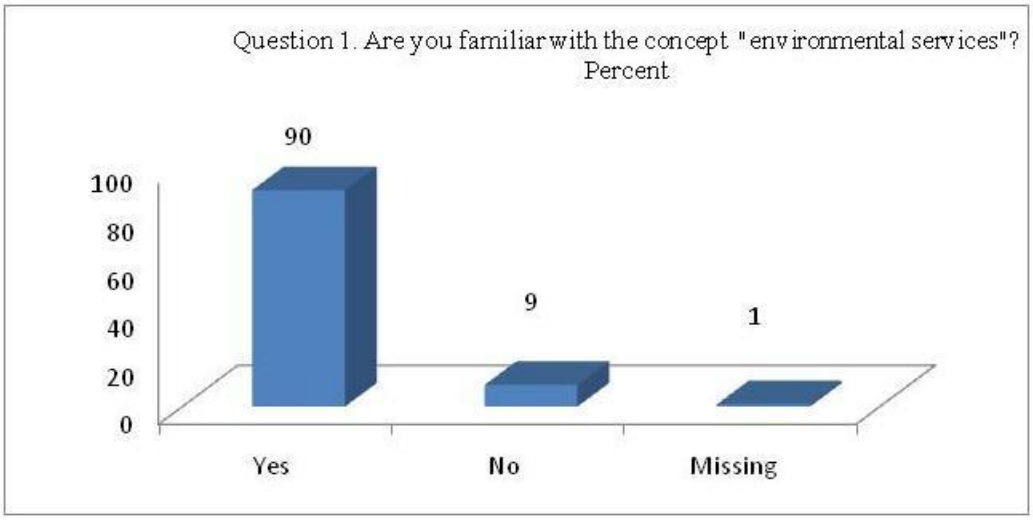

Figure 1: Familiarity with the concept of "environmental services"

Graph 1, shows that 90 percent of the interviewees had a concept for environmental services. This underlines the importance of the government's role in organizing these services as efficiently as possible.

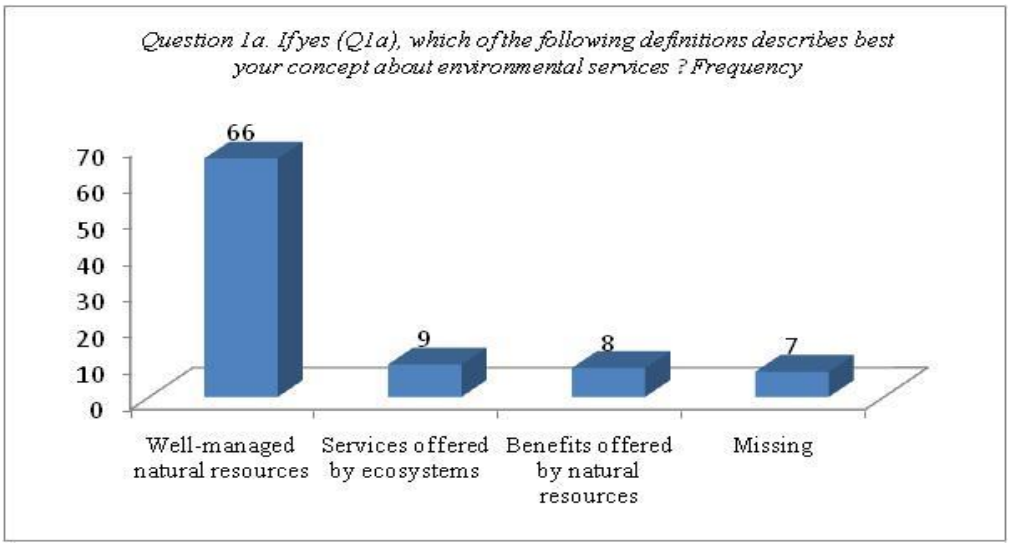

Figure 1a: The best definition for concept of environmental service.

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Graph 1a, shows that 66 percent of the interviewees who were aware of environmental services, considered them the same as the effective management of natural resources.

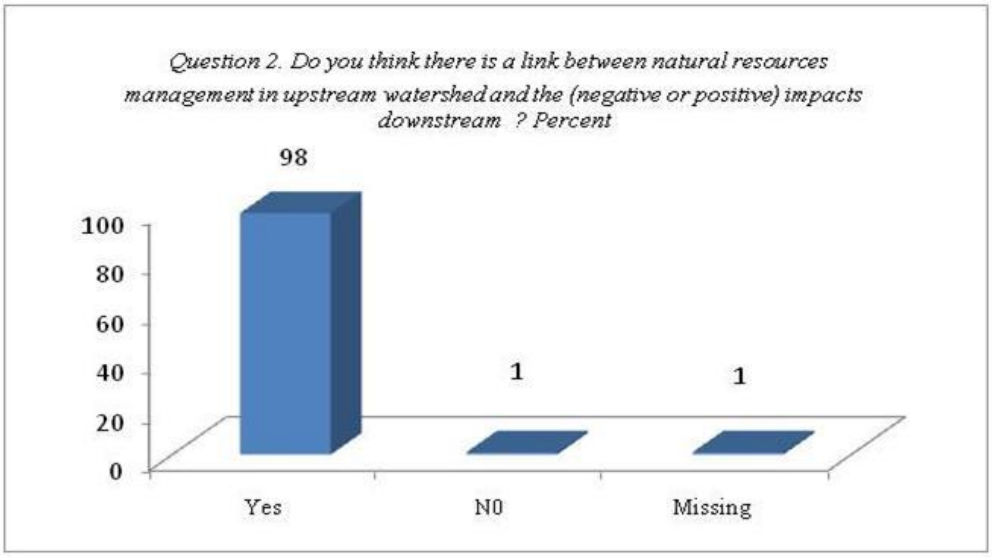

Figure 2: The connection between natural resources management in upstream watershed and the downstream watershed.

Graph 2, shows that the majority of respondents, 98 percent, believe that there is a direct link between natural resource management in the upstream watershed and its impacts downstream.

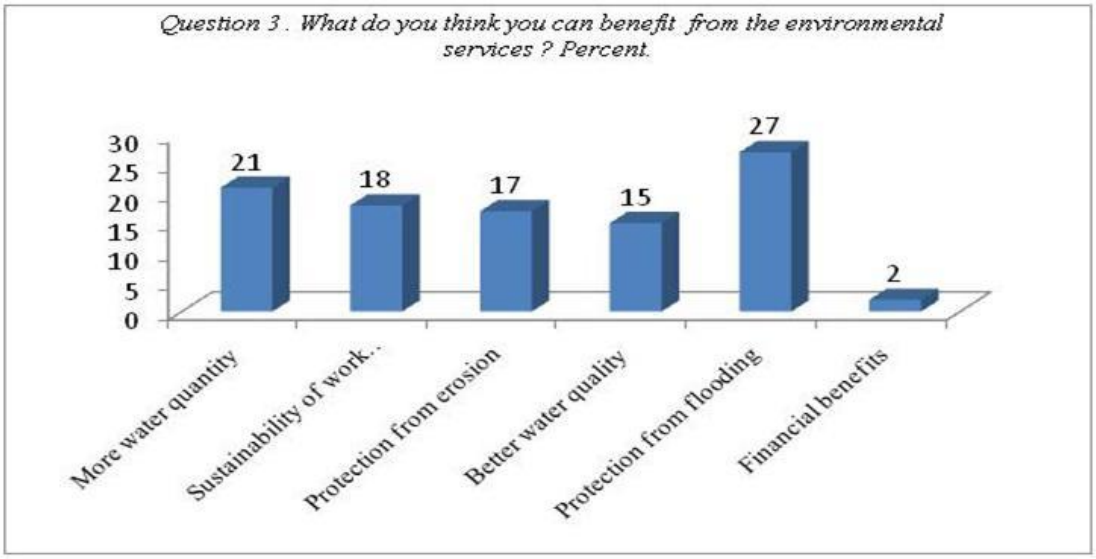

Figure 3: The benefits from the *environmental service*.

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Graph 3, shows that the respondents identified environmental services that bring more benefits: *"Flood protection", "More water", "Sustainability of work activities: and "Erosion protection".*

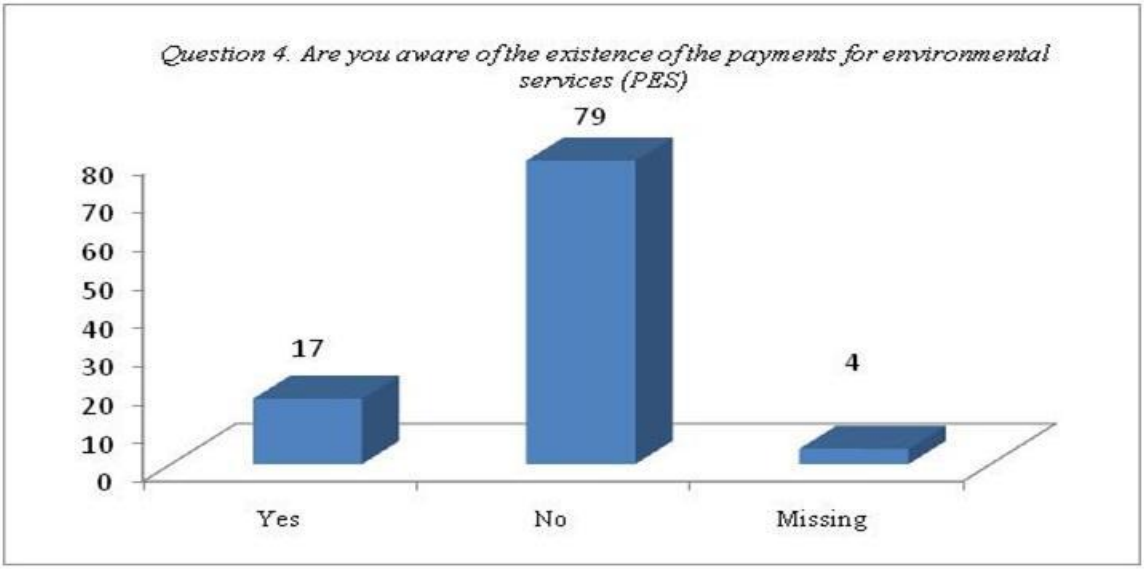

Figure 4: Knowledge of the existence of PES.

Graph 4 shows that the majority of respondents, 79 percent, are unaware of the existence of Payments for Environmental Services. However, implementers need to design cost-effective PES schemes that are in line with best practices to positively impact household livelihoods. Therefore, it is the responsibility of the relevant authorities to promote and inform the population about PES schemes. The government should determine ways to make known PES schemes, and their benefits. Thus, it should organize awareness-raising seminars on PES in areas where they can be applied. It should also create specialized teams to promote PES schemes to stakeholders.

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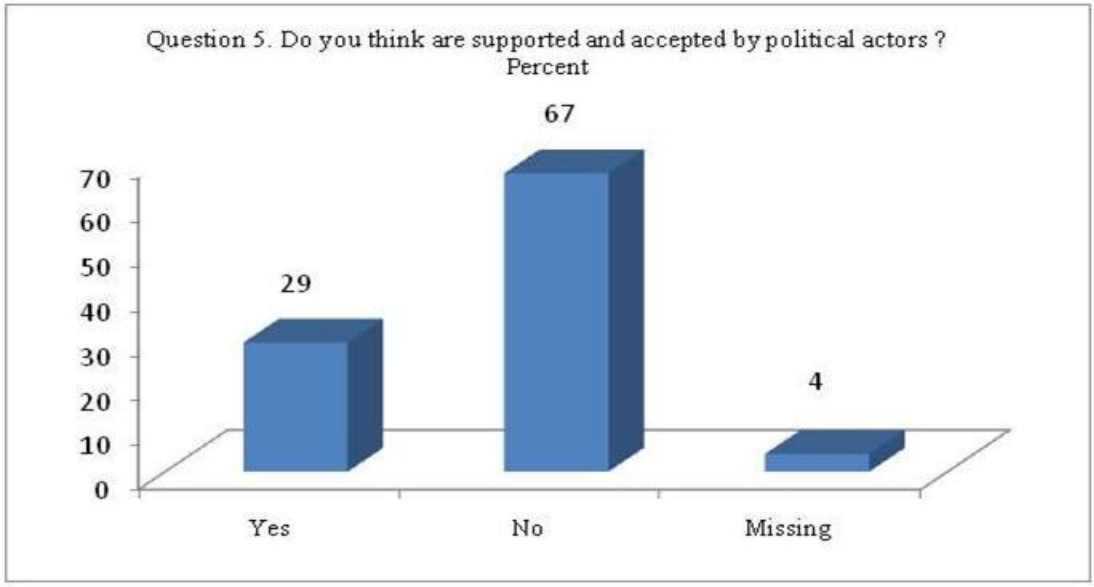

Figure 5: The support of PES from political actors.

After clarifying the meaning and existence of Payments for Environmental Service (PES), the interview continued with additional questions. Graph 5, shows that the majority of respondents, 67 percent, indicated that they do not believe PES is supported by the government. Therefore, it is the government's responsibility to provide support and initiate PES programs. The government should solve this problem through several ways; as mentioned above, the first step of the government is to organize the legal framework for the functioning of PES schemes. The government should prepare in-depth technical studies for the suitable areas for the development of PES projects. The government should also identify, and organize the development of mechanisms for the services for which PES schemes can be applied, such as payments for watershed services, for the development of carbon projects, as well as the development of a model for linking the practice of land use with the generation of ecosystems.

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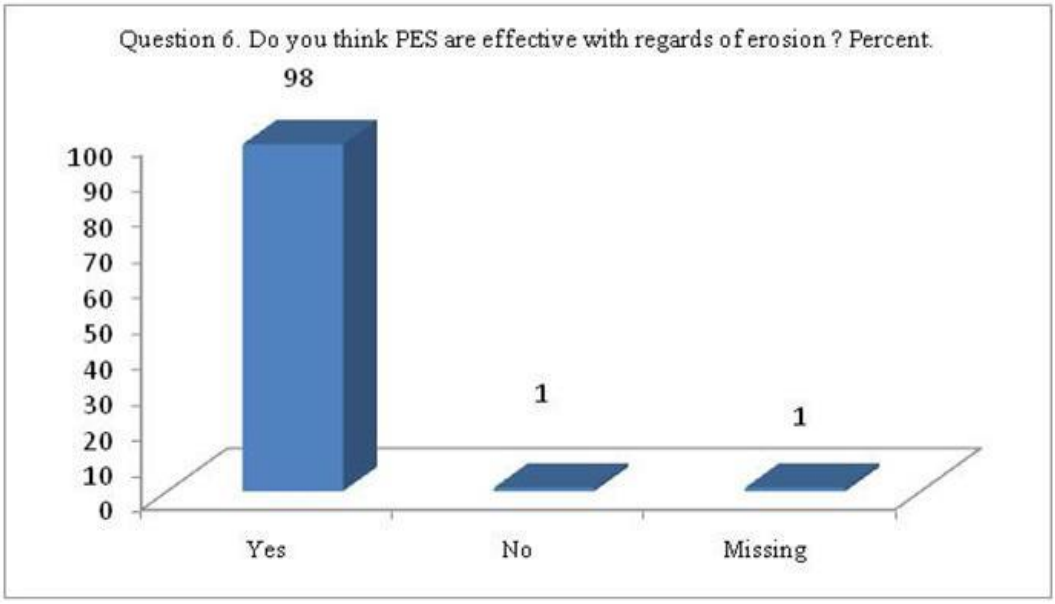

Figure 6: The effectiveness of PES in relation to erosion.

Graph 6, shows that the majority of respondents, 98 percent, expressed a positive belief that the application of Payments for Environmental Service (PES) for erosion reduction is effective.

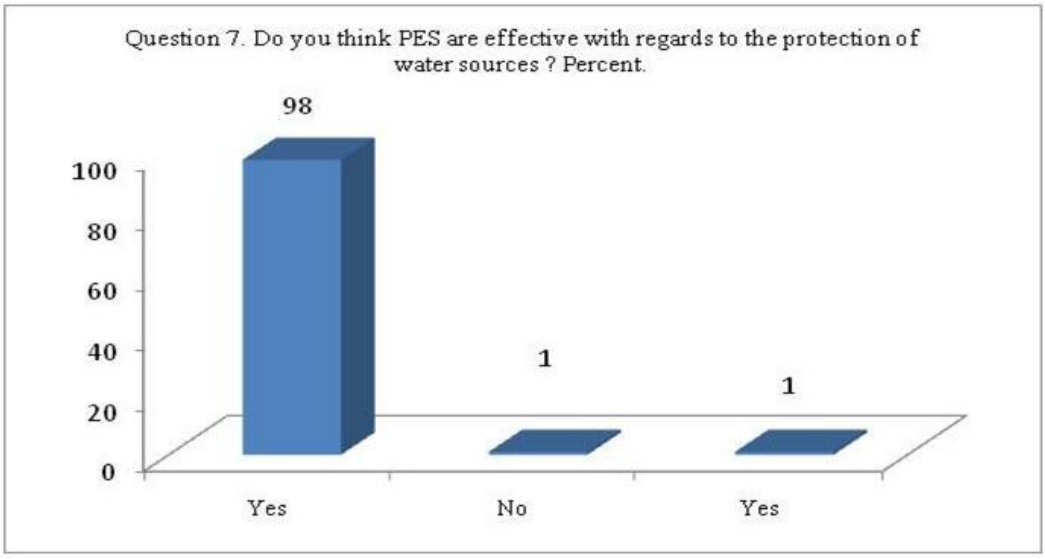

Figure 7: The effectiveness of PES in relation to protection of water sources.

Graph 7, shows that the majority of respondents, 98 percent, believe that the application of Payments for Environmental Service (PES) is effective in protecting water resources.

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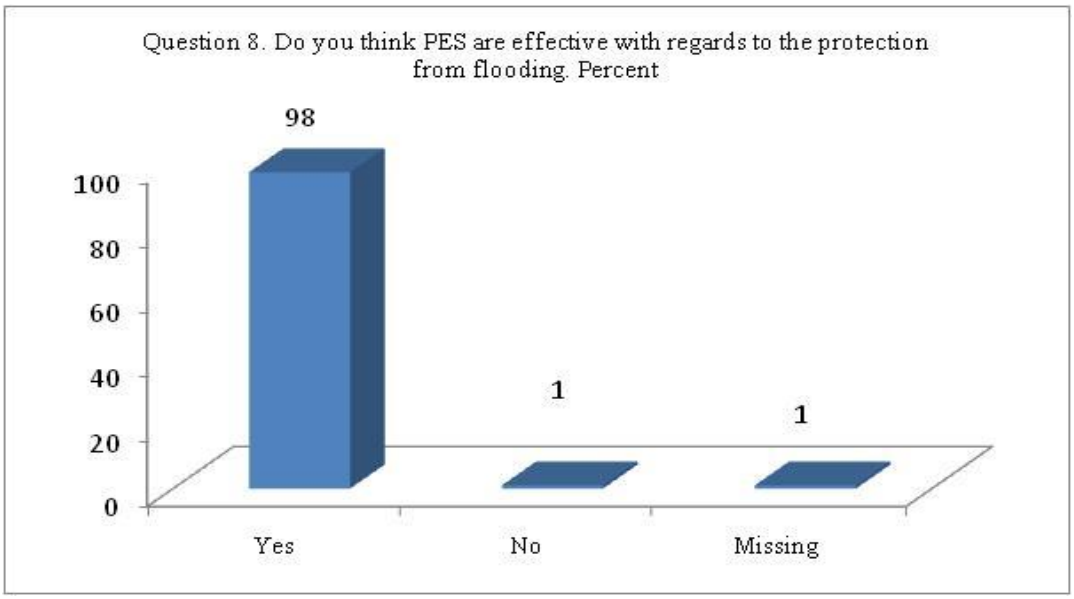

Figure 8: Effectiveness of PES for flood protection.

Graph 8, shows that the majority of respondents, 98 percent, expressed a positive belief that the application of Payments for Environmental Service (PES) is effective in flood protection.

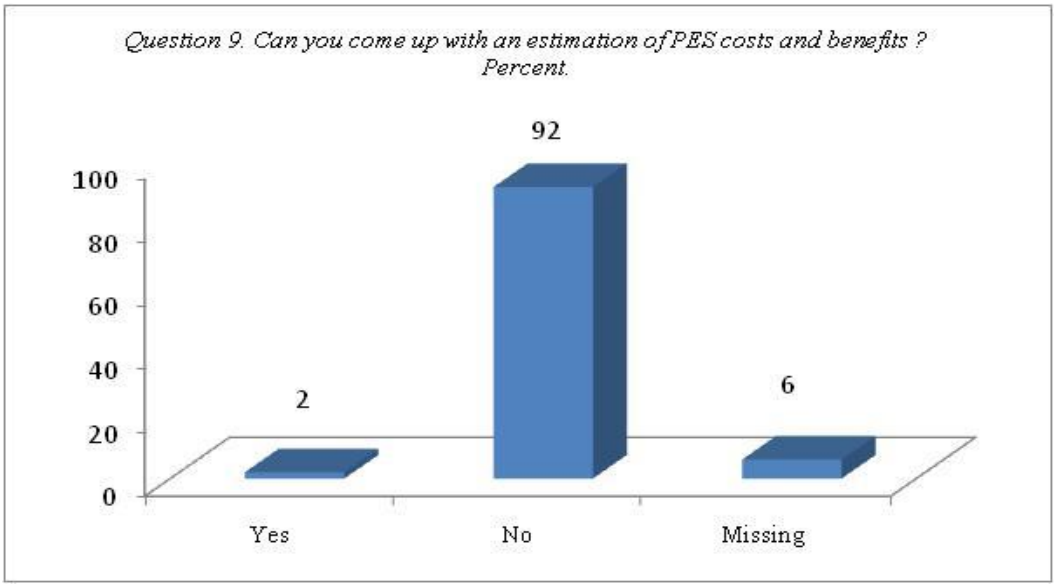

Figure 9: Evaluation of costs and benefits of PES schemes.

Graph 9, shows that the majority of respondents, 92 percent, indicated that they are unable to calculate the costs and benefits of Payments for Environmental Service (PES). The government

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should provide accounting expertise on the income and expenses of PES schemes, as well as organize seminars in pilot areas so that interested parties can be informed about the financial accounting method.

8. DISCUSSION

The majority of interviewees are familiar with the concept of environmental services. They identify several key benefits of these services, including “protection from flooding, ”increased water quantity,” “sustainability of work activities,” and “protection from erosion.” Based on these findings, it is the government's responsibility to manage and subsidize the organization of environmental services.

While most respondents understand the concept of environmental services, they are unaware of the existence of Payments for Environmental Service (PES). Therefore, it is crucial for the relevant authorities to promote and inform the public about PES. During the interviews, the meaning of PES was explained to the respondents. Following this clarification, 67 percent of respondents indicated that they believe PES is not supported by the government. Thus, it falls to the government to provide support and initiate PES programs.

9. CONCLUSION

Environmental Services Payments (PES) is a relatively new concept still in the testing phase and has not yet reached its optimal implementation stage. However, it offers numerous opportunities for nature conservation.

PES can be defined in various ways, but in practice, PES schemes differ significantly, making classification challenging.

Different types of services are categorized based on their functions, as outlined in the "Millennium Ecosystem Assessment" published in 2005. These services are referred to as both ecosystem and environmental services.

PES schemes have gained rapid popularity due to their dual objectives: they aim to preserve nature, thereby positively impacting the environment, and also seek to improve the socio-economic conditions of ecosystem service providers.

The local context is crucial for the success of PES schemes. Local land ownership rights and socio-political dynamics are essential for the effective implementation of PES.

The former communist countries of Southeast Europe, including the Western Balkans, present a

unique context, particularly concerning property rights, community characteristics, and institutional complexity.

To gain insights into perceptions of PES, a survey was conducted with 100 stakeholders in the lower part of the Ulza Basin in Albania. The central conclusion from the questionnaire is that PES schemes are relatively unknown, highlighting the government's responsibility to design programs for the recognition and implementation of these schemes. The government should determine ways to make known PES schemes, and their benefits. Thus, it should organize awareness-raising seminars on PES in areas where they can be applied. It should also create specialized teams to promote PES schemes to stakeholders.

The government should draft the respective legal framework which should include all the specifics of PES schemes, including cases where the state itself is a market actor, and acts as a buyer of environmental services. Since the development of legal instruments requires a certain amount of time, the government should make efforts to stimulate the start of PES schemes.

Furthermore, the government should establish a system of financial and non-financial incentives to create the necessary motivation for the application of PES schemes. The government should provide accounting expertise on the income and expenses of PES schemes, as well as organize seminars in pilot areas so that interested parties can be informed about the financial accounting method.

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