Institutional constraints to the utilization of auctions in PES:
A real-world case of forest conservation in Finland

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The ideas of conservation payments & auctions

- Conservation serves public interest
  → Public funding

- A need for efficient use of scarce budgets
  ○ Cost-savings
  ○ Higher impact
  → Competition
  → Possibly also liberalization

→ How to evaluate the ideas?
Scientists highlight

- Cost-effectiveness
  - required investment
  - forgone economic gain
  - Conservation improvement
  - Other benefits

- Additionality
- Connectivity

→ Comparability
→ Perhaps also design and its institutional fit?
Policy-makers highlight

- Cost-effetiveness
- Liberalization
  → Design?

→ Institutional fit?
Institutional challenges identified in literature

● **Formal institutional fit across levels**
  ○ How lower level operationalizes high level decisions
    • Young, 2002; Fairbass and Jordan, 2004, Paavola, 2007

● **Informal institutionalized practice**
  ○ Inertia (and cost-savings) from administrative and professional customs
    • March & Olsen, 1984, North, 1990; Coggan et al., 2010

● **Competencies and roles embedded in institutions**
  ○ Skills, resources, mandates
    • March & Simon, 1993; Corbera et al., 2009; Vatn, 2010

Case: Finnish forest biodiversity conservation

- Non-industrial private managed forests dominate
  - >600,000 holdings
- Valuable habitats are fragmented
  - Only 2.5% protected in Southern Finland
Southern Finland Forest Biodiversity Programme 2008

- Piloted in 2002-2007
  - The most popular instrument was a competitive PES
  - But it was amalgamated to pre-existing instruments

- One of the many instruments: *Natural Values Trading*

“Organisation of natural values trading and related cooperation”

Analysis

● Questions
  ○ What constrains application of tenders and auctions?
  ○ What role do cost-effectiveness criteria have in operationalizing an auction mechanism?
  ○ What role do formal institutional fit, informal institutionalized practice as well as competencies and roles play in operationalizing an auction mechanism?

● Data
  ○ Policy documents
    • Programmes, site selection criteria, evaluations, implementation reports
  ○ Expert interviews
    • 6 email interviews
    • comparison, criteria and site selection practice as well as multi-level coordination
The program highlighted cost-effectiveness

“The METSO Programme will be implemented through ecologically effective, voluntary and cost-effective means”

“The environment and forestry centres draw up, on an annual basis, a joint invitation to tender for natural values based on the ecological selection criteria”

“A set of ecological site selection criteria is to be drafted for the METSO Programme to ensure that measures are carried out as cost-effectively as possible and in the most appropriate way to safeguard forest biodiversity”
The idea of auctions waned away

- The first evaluation reported no auctions
  - Identified a need to have the sites compared on a competitive basis, to improve cost-effectiveness
- Implementation reporting focused on collaborative forums, intermediaries and spatial support
- A government decision to continue the program beyond 2016, until 2020
  → No auctions, trading or competitive mechanisms
Interviews pointed to standard administrative practice

- National site selection criteria
  - Used as a check-list
  - Focus on ecological features
  - Customary practice

- Annual hectare targets agreed regionally every year
  - An opportunity to discuss the criteria
Little comparison despite budgetary constraints

- Tender competition or an auction type mechanism had not been applied
- Budget just right for the number of offers
- Commitment to equal treatment
- First-come-first-serve an important principle
  - In practice, easy landowners might be dealt with faster
  - Some strategic behavior and high payment requests
Main findings and institutional constraints

- A broad program with multiple instruments could be advanced without operationalizing the auction instrument
  - Evaluations paid attention to other aspects than competition
  - Practitioners implemented the program with instruments that fitted their portfolio
- Formal institutional constraints and advances
  - equal treatment and first-come-first-serve
  - regional forums and contracting intermediaries

→ The instrument needs to be operationalized at a high level
Thank you!

- Thanks go also to
  - The interviewees
  - POLICYMIX
  - OpenNESS