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# USAID Mekong Adaptation and Resilience to Climate Change (USAID Mekong ARCC)

## Valuing Ecosystem Services in the Lower Mekong Basin:

### *Country Report for Cambodia*



Credit: Shannon Dugan/DAI

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# I. INTRODUCTION

Ecosystem services are the benefits people receive from nature. They have immense economic value. A case in point is the ecosystem services provided by the Ream National Park.<sup>1</sup> The Park is located in Sihanoukville Province on the southwest coast of Cambodia, and covers an area of approximately 21,000 hectares. Ream is dominated by the estuary of the Prek Toek Sap, featuring extensive areas of mangroves and mudflats. Lowland and dwarf evergreen forests inhabit the low hills rising west of the river. The northern and eastern portions of the Park contain freshwater marshes in association with mangrove and rear mangrove formations. Ream also encompasses the uninhabited islands of Koh Thmei and Koh Ses (totaling 6,000 ha) situated to the southeast. Beaches, rocky shores, seagrass beds and coral reefs are found along its islands and mainland coastal areas.

Ream's native ecosystems provide various goods for the local community, many of which are consumed directly. Others are sent to the market to generate cash income. Most household income is generated from farming, fishing and forest products collection, and almost all of these resources come from the Park. It is estimated that up to 84 percent of these fishing and farming households gather firewood from the Park, 25 percent are involved in timber harvesting and 18 percent collect wild plants for food, medicines and handicrafts. In total, farmers gather more than 50 different wild products from the area and use more than 200 species of plants for medicines. Nearly 30 species of marine fishes, crustaceans and shells, and 8 species of freshwater fish, are also harvested from Ream. The economic value of these mangrove products can be estimated using well-established techniques.

For products sold in the marketplace, prices can be used as a basis for their value. For those gathered directly and consumed by households, their value can be determined by asking what a household would have to spend in the market to replace the food gathered for free in Ream National Park. Household and village-level surveys determined a net value of some US\$ 1.2 million a year or an average for these products, which translates into US\$ 220 for every household living in and beside the Park. This value was a significant share of median income, “[i]n an area where the median family income is estimated at only US\$ 316 a year, a third of families earn less than US\$ 200, and where half of households can barely provide for their own subsistence” (De Lopez et al. 2001).

Local communities also benefit from the Park's important ecological functions and services. For example, without mangrove forests in Ream, local communities would suffer economic losses to homes, infrastructure, and farmland from damaging floods and storm surges. The value of Ream's 1,800 hectares of mangroves for storm protection and coastal erosion protection was found to be nearly US\$ 839,000 per year. As the Ream National Park case study suggests, ecosystem services can be categorized into those that provide direct benefits, such as food consumption, and those like shoreline protection that are indirect but nonetheless have important economic values.

This report begins with a description of what ecosystem services are and how they can be categorized. The Millennium Ecosystem Assessment is the most ubiquitous and comprehensive categorization of ecosystem services, which fall into four broad categories: provisioning, regulating, supporting, and

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<sup>1</sup> The following description of the Ream National Park and the ecosystem service values reported are taken from Emerton et al. (2002).

cultural (MEA 2005). However, more recently, the European Environmental Agency (EEA) has been sponsoring development of the Common International Classification of Ecosystem Services (CICES) to help negotiate the different perspectives that have evolved around the ecosystem service concept since that time and assist in the exchange of information about them (Haines-Young and Potschin 2012). The CICES classification system groups ecosystem services into three categories: provisioning, regulation and maintenance, and cultural. These are the categories adopted for this report.

The case study also touches on three valuation techniques—market prices, market substitutes, and avoided costs. There are several more. After reviewing categories and examples, the report discusses each major valuation technique in detail.

The report then highlights several policy venues in Cambodia where ecosystem service valuation can play a role. An example is the controversy over the Lower Sesan 2 dam, which would inundate seven villages and affect the livelihoods of 30,000–50,000 people who rely on the river for food, water, and farming. Incorporating the value of the river’s ecosystem services could help the government determine whether the value of the electricity and flood control functions provided by the new dam are canceled by the damages to ecosystem services. For example, a 2012 study by the Proceedings of the National Academy of Sciences found that the Lower Sesan 2 dam would cause a 9.3 percent drop in fish stocks basin-wide, while threatening more than fifty fish species (Ziv et al. 2012). Ecosystem service valuation could determine what the annual cost of this lost fish production could be both for fish that are marketed and for fish consumed directly for subsistence.

Next, the report turns to a seven-step process for ecosystem service valuation. Best practices are drawn from internationally recognized guidelines, such as those summarized by the World Wide Fund for Nature (Emerton 2013). The report then offers some concluding thoughts and underscores the important role ecosystem service valuation will play as Cambodia makes the transition to a green economy.

## 2. ECOSYSTEM SERVICES TYPOLOGY AND EXAMPLES FROM CAMBODIA

Gretchen Daily is credited with having offered the first formal definition of ecosystem services in 1997: “[e]cosystem services are the conditions and processes through which natural ecosystems, and the species that make them up, sustain and fulfill human life” (Daily 1997). The most ubiquitous definition of ecosystem services used today is a more generalized one: “[e]cosystem services are the benefits people obtain from ecosystems” (MEA 2005). But the concept is rich, and one of its key dimensions is an economic one. It is intertwined with the concept of natural capital—one of the essential forms of capital required for a properly functioning economy (Goodwin 2003). Just like built capital (piped water systems), natural capital (forests) yields annual services (water purification) that have immense economic values because if they were lost, society would have to spend enormous sums of money to replace them. Framed as such, ecosystem services are the services provided by stocks of natural capital such as forests, wetlands, estuaries, marine ecosystems, grasslands and other ecological communities.

One of the earliest efforts to estimate the value of ecosystem services was the seminal study by Costanza et al. (1997), which put ecosystem services on the map in a big way by estimating their annual contribution to the global economy in the order of US\$ 33 trillion/yr. In 2014, this study was updated with new unit ecosystem service values and land use change estimates between 1997 and 2011 (Costanza et al. 2014). The authors also addressed some of the critiques of the 1997 paper. Using the same methods as in the 1997 paper but with updated data, the estimate for the total global ecosystem services in 2011 was US\$ 125–145 trillion/yr. in 2007 dollars. The magnitude of the economic values reported in these studies as well as those reported in the vast ecosystem service literature spawned by them has provided the impetus for an increasingly focused international effort to better define what ecosystem services are, how to measure them, and how to incorporate this information into policy decisions.

While the concept is still evolving, one of the leading efforts to synthesize the research and develop standard classifications schemes is the European Environmental Agency’s (EEA) Common International Classification of Ecosystem Services (CICES), a process developed to help negotiate the different perspectives that have evolved around the ecosystem services concept over time and assist in the exchange of information about them (Haines-Young and Potschin 2012). The CICES classification system groups ecosystem services into three categories: provisioning, regulation and maintenance, and cultural, described as such:

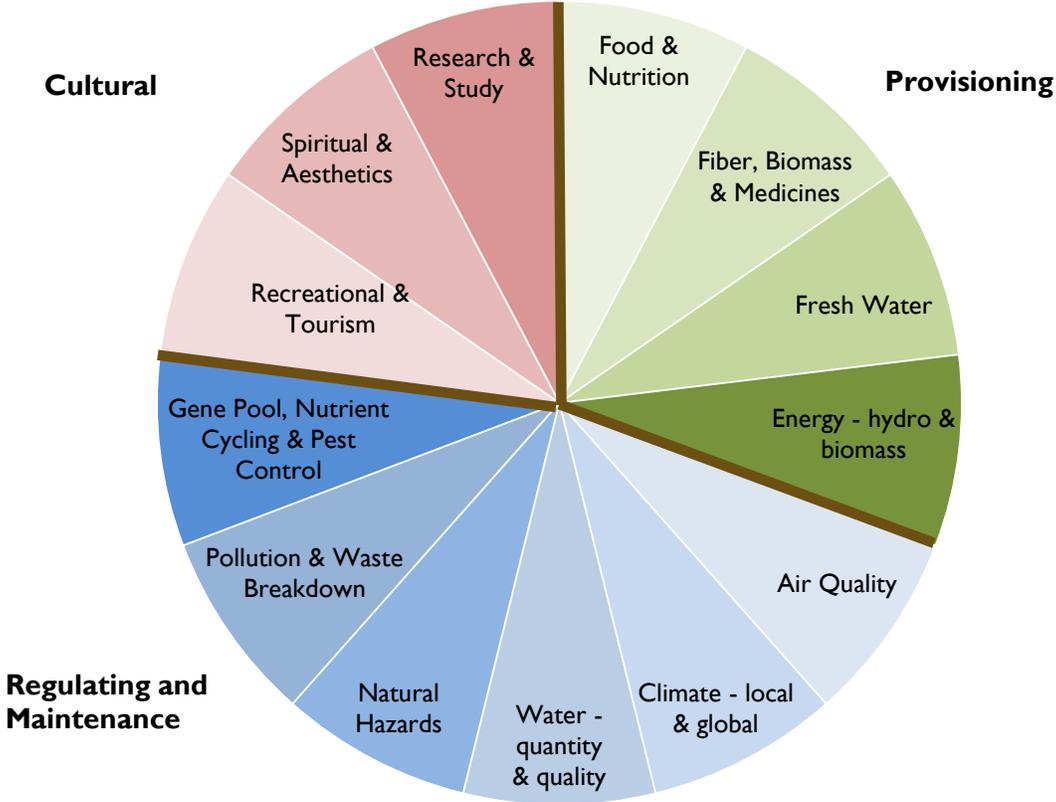
- **Provisioning services** - Defined as all nutritional, material, and energetic outputs from living systems. They are tangible things that can be exchanged or traded, as well as consumed or used directly by people in manufacturing. Foods and medicines are some of the most ubiquitous. In Cambodia, there have been many studies attempting to place values on provisioning services of natural ecosystems. As one example, the value of non-timber forest products such as wild tree

fruits to local villagers in the Cardamom Mountains was estimated to be around US\$ 350 per household per year, or at least half of the average household cash income, a figure based on similar research throughout Cambodia (Soussan and Sam 2012).

- **Regulating and maintenance services** - Includes all the ways in which living organisms can mediate or moderate the ambient environment that affects human performance. It includes such services as the breakdown of wastes and toxic substances, flood control, maintenance of biological diversity, carbon sequestration and purification of wastewater. As an example, Dararath et al. (2011) used a benefits transfer approach (which calibrates values from multiple studies in the same region) to determine per hectare conservation values for forests threatened by conversion to rubber plantations in Cambodia. Annual water conservation value was found to be US\$ 70/ha, the value of soil conservation was US\$ 60/ha, the value of carbon sequestration was US\$ 759/ha and the value of biodiversity conservation was US\$ 300/ha.
- **Cultural services** - Includes all the non-material, and normally non-consumptive, outputs of ecosystems that affect physical and mental states of people. They include recreation, scenic and spiritual uses of the land and waters as well as the existence and bequest values people assign to places and species even from afar. The tourism industry is one of the prime beneficiaries of such services, and is increasingly being called on to pay its fair share of the costs of protecting lands and waters it showcases. As an example, De Lopez et al. (2001) used a contingent valuation survey that found foreign tourists are willing to pay on average US\$ 10.4 per person for a boat ride in Ream National Park. Studies like this help set the stage for fee programs to maximize the Park's revenues and help it protect its natural resource base.

Within these major categories (called "Sections"), the CICES system further refines them into additional subcategories. Figure 1 below offers an illustrative example of the types of services within each category. The CICES system is more formally organized into divisions, groups, classes, and class types (see **Annex A**). The increasingly granular classification system, while complex, is designed to provide a uniform, standardized and comprehensive system for the valuation of ecosystem services.

**Figure 1: Types and Classification of Ecosystem Services**



# 3. ECOSYSTEM SERVICE VALUATION METHODS

Over the past three decades economists have developed a wide range of methods for assigning monetary values to ecosystem services. The choice of method depends upon the general type of ecosystem service (provisioning, regulating, cultural), whether the service provides direct or indirect benefits to those affected, and whether the economic value is associated with use of the ecosystem or associated with its non-use values. The distinction between direct and indirect use values and non-use values is illustrated in Table I, adapted from the US National Research Council (2005).

Direct use benefits of ecosystem services are those that involve some kind of physical interaction, such as the extraction of fish or fresh drinking water from a river or most forms of recreation. Indirect use benefits are those that do not necessarily involve physical interaction but nonetheless represent a beneficial use; for example, the flood control benefits of wetlands that protect certain properties downstream even though the property owners who may benefit may not actually visit the wetlands providing this service.

**Table I: Major Classification of Ecosystem Service Values and Some Examples**

Use values		Non-use values
<i>Direct</i>	<i>Indirect</i>	
Commercial and recreational fishing	Flood control	Existence value for imperiled species
Aquaculture	Water purification	Existence value for outstanding scenic areas
Hunting	Storm protection	Cultural heritage values for spiritual sites
Fuelwood and timber	Wildlife and fish habitat	Cultural heritage values for national landmarks
Recreation	Pollination of crops	Bequest values for aquifer protection
Genetic material	Carbon sequestration	Bequest values for farmland protection

Non-use values (also referred to as ‘passive use values’) on the other hand, are intrinsic values people may hold for preservation of a resource even though they may not receive any direct or indirect benefits from it (Kaval 2010; Boardman et al. 2001), but they are willing to pay for such protection. Non-use values include those associated with protecting biodiversity or natural landmarks for their own sake (existence values), preserving indigenous cultures (cultural heritage values) or the desire to pass on resources for future generations (bequest values).

The concept of total economic value (TEV) is used to describe the sum of all of these values—use, non-use, direct and indirect. TEV provides the most comprehensive measure of ecosystem service benefits and thus represents the “gold standard” when conducting valuation studies. For example, the TEV framework is now widely used to identify the costs and benefits associated with protected areas (ICEM 2003). However, it is also widely understood that certain values—especially non-use values—may be

too difficult to obtain and too subjective in many situations. As a result, some researchers have argued for an exclusive focus on use values.

When original valuation studies are undertaken methods for quantifying these values are generally grouped into three major categories: revealed preference approaches, stated preference approaches, and cost-based approaches (Liu et al. 2010; De Groot et al. 2002; Freeman 1993). When budgets do not allow for original valuation studies, researchers use what is known as benefits transfer method. Below is a brief description of these groupings and methods within them.

### 3.1 REVEALED PREFERENCE APPROACHES

Revealed preference methods of measuring ecosystem service values are based upon actual behavior in organized markets. In other words, value is revealed through direct market purchases of ecosystem goods or services or purchases of other goods or services whose prices are influenced by environmental quality. Specific techniques include:

- **Market prices:** Valuations are directly obtained from what people actually pay for the ecosystem good or service in formal markets. Examples include the prices paid for fish, game, non-timber forest products, or recreational access.
- **Travel cost:** Valuations of site-based amenities are implied by the travel costs people incur to enjoy them. For example, average purchases of fuel, food, and airline tickets to visit a particular natural area can be used to derive the value of a recreational visit.
- **Hedonic pricing:** The value of a service is implied by what people will be willing to pay for the service through purchases in related markets, such as housing markets. A typical example of a situation amenable to use of hedonic pricing is the premium people are willing to pay for houses that are adjacent to parks and open space or which have scenic vistas. This price premium can be translated into a corresponding ecosystem service benefit per hectare.
- **Factor income:** Ecosystem service values are derived from their impact on yields and income from marketed products. For example, agricultural yields have been shown to be greater in fields that retain more biodiversity (e.g. Shelley et al. 2014). The increase in farmers' income is thus a signal of the underlying value of biodiversity.

### 3.2 STATED PREFERENCE APPROACHES

Stated preference methods of measuring non-market values use surveys or interviews to ask people directly about their willingness to pay for some good or service or to rank alternative management scenarios and ecological attributes. The surveys typically involve a choice about a hypothetical or proposed situation. A distinct advantage of stated preference methods is that they allow researchers and policy makers to target preferences for specific components of environmental changes, such as existence value (Raheem et al. 2006). A disadvantage is that survey results can be affected by strategic responses, or responses that are designed to influence the outcome of the research, rather than by honest responses. Researchers have also found that some people are not willing to trade money for a loss in environmental quality. Specific techniques include:

- **Contingent valuation:** People are directly asked their willingness to pay or accept compensation for some change in an ecosystem service or environmental quality. For example, the survey would ask respondents to state their maximum willingness to pay each year into a fund to acquire and protect habitat for an endangered species.
- **Choice experiments:** Asking a series of questions about a respondent's relative preferences for various management strategies and associated ecological conditions. For example, respondents choose between various levels of water quality with different management strategies and associated costs of achieving those levels. There will typically be three or four alternative strategies with similar attributes (per question) presented.
- **Conjoint analysis:** A variant of choice experiments where people are asked to rank (rather than choose one) ecological conditions created by various management strategies. For example, respondents would assign ranks to various scenarios for wetlands management that involve tradeoffs between flood control benefits and fishery yields.

### 3.3 COST-BASED APPROACHES

Cost-based methods use historical cost data or projections to quantify the costs society would incur if an ecosystem were lost or what it would take to replace an ecosystem service with a technological solution. There are three primary methods:

- **Avoided cost:** This method assigns values to ecosystem services based on costs that would be incurred in their absence. For example, forests, wetlands, and mangroves provide many flood control benefits. If they were lost, loss of life, property, and damage to infrastructure would increase.
- **Replacement cost:** Valuing ecosystem services by calculating the cost of replacing them with technological solutions. For example, replacing natural fisheries with a system of hatcheries or wild pollinators with industrial bee hives.
- **Restoration cost:** Restoration cost is a method used to calculate the cost of restoring an ecosystem to its natural state after it has experienced some environmental damage, such as an oil spill (Kaval 2010). Or it involves calculating the cost of restoring ecosystems on damaged landscapes—such as promoting the natural regeneration of woodlands on areas that have been overgrazed by livestock. The cost of restoration is then used as a proxy for its ecosystem service values.

### 3.4 BENEFITS TRANSFER

All of the methods discussed above are appropriate when analysts have the resources and time to complete original valuation studies. However, in many situations budgets for these studies or the requisite amount of time to complete them do not exist. In these situations, economists use a technique known as benefits transfer to use values obtained from original studies in other, similar settings.

For example, the annual value of fisheries provided by a particular river segment can be approximated by the value calculated for another nearby segment of similar length in the same watershed. Or the per

hectare value of non-timber forest products in one area can be applied to the same forest type elsewhere in the region. In using the benefits transfer technique, great care must be given to ensure that (1) both sites are as identical as possible, ecologically speaking; (2) there are no major differences in use patterns—i.e. one in an urban area, one in a rural area; (3) the same service is valued in both situations, and (4) values that are transferred in are calibrated to account for inflation, changes in exchange rates, purchasing power parity, and other economic and demographic factors that may influence the relevancy of the original valuation estimate to the new analysis area (Johnston and Rosenberger 2010; Eftec 2009).

# 4. POLICY APPLICATIONS

In Cambodia, as in all other countries in the Lower Mekong River Basin (LMB), there are a variety of policy settings that can be informed by ecosystem service valuation. In general, valuation can play a role in any policy change that has a demonstrable effect on environmental quality—beneficial or adverse. Without valuation, economically important impacts may be overlooked, such as the loss or contamination of food and medicinal plant supplies for populations that directly obtain these from native ecosystems. Excluding ecosystem service valuation in these situations can distort economic analyses that otherwise seem to support new infrastructure or development decisions.

For example, in a recent re-analysis of several dam-building scenarios for the Mekong that incorporated ecosystem service values associated with lost fisheries and wetlands, Costanza et al. (2011) found that the net economic benefit of each scenario was substantially reduced. At a one percent discount rate (discounting puts future impacts in terms of today's dollars) for example, the benefits from dam building were reduced from positive US\$33 billion to a negative US\$274 billion because of the loss of critical ecosystem services (Costanza et al. 2011). The magnitude of this change underscores the importance of accounting for ecosystem services in economic impact assessments of public policy decisions. Below are examples of ongoing policy settings in Cambodia where ecosystem service valuation can play an important role.

## 4.1 PROTECTED AREAS AND CONSERVATION

One of the most obvious policy venues for ecosystem service valuation is in the context of decisions to protect lands and waters by designating them as off limits to most forms of intensive uses. In Cambodia, major protected areas include national parks, habitat conservation areas, and areas protected with sustainable use of natural resources. A total of 42,592 square kilometers in Cambodia is officially protected according to the most recent estimates (ASEAN 2009).

Decisions over the extent to which new protected areas should be established, if at all, often involve an economic analysis of “opportunity costs,” which are simply the economic value of uses forgone—i.e. without protection, can the land be used productively for agriculture, urban expansion, minerals, or energy? Ecosystem service valuation asks the reverse—i.e. what is the economic value of existing uses that would be displaced if no protection were put in place and do these benefits exceed those from new development? In this way, ecosystem service valuation helps balance an economic analysis that may otherwise fail to capture the benefit stream associated with ecosystems in their natural state.

Valuing the ecosystem services of protected areas also sets the stage for economic development opportunities based on conservation rather than extraction of resources. For example, in the northern plains region of Cambodia, pilot programs involving payments for ecosystem services (PES) are being used to help compensate communities, farmers, and landowners for biodiversity protection (Clements et al. 2010). Payments are being made to support ecotourism (US\$ 30 payment if tourists see wildlife), adopting wildlife-friendly agricultural techniques (50 percent price premium) and for bird nest protection (US\$ 120 per person per nest on average). Ecosystem service valuation studies are critical for

determining whether or not markets can be sustained for these innovative PES initiatives into the future as well as what optimal payments should be.

## 4.2 AGRICULTURE AND AQUACULTURE

The clearing of forests, grasslands, wetlands, mangroves and other natural ecosystems to make room for growing export crops, industrial tree plantations and fish farms has historically been the primary driver of ecosystem loss and degradation. For example, 80 percent of tropical deforestation has been caused by conversion of forests to cropland.<sup>2</sup> Ecosystem services are not only lost as a result of direct conversion. Ecosystem services on residual patches of native habitats are often lost or degraded as a result of fragmentation, invasive species, pollution from fertilizers and pesticides and other stresses caused by adjacent land uses.

Ecosystem service valuation can be used to understand the tradeoffs between the benefits of ecosystems in their natural state and the benefits of converting land to more intensive uses. In Cambodia, for example, there has been a rapid increase in large economic land concessions (ELCs) to promote export agriculture and industrial tree plantations.<sup>3</sup> Conflicts arise with the ELCs because existing ecosystem services—including direct provision of food and fiber as well as cultural and spiritual uses—are overlooked in the decision making process according to human rights advocates (UN 2007). In the context of decision making over ELCs, engaging local communities to identify and quantify important ecosystem services of natural grasslands, wetlands, and forests can help decision makers more fully understand the tradeoffs between proposed industrial uses and leaving intact resources that are already used to enhance livelihoods in their natural state. The valuation process can also lay the groundwork for establishing “community forests” and similar types of reserves for protecting existing uses even if ELCs are ultimately approved (CHRAC 2009).

## 4.3 URBAN GROWTH AND GREEN INFRASTRUCTURE

Cambodia is rapidly urbanizing. By 2030, Cambodia’s urban population is expected to double, while the urban share of the national economy is estimated to rise to 70 percent.<sup>4</sup> Like many urban areas throughout the developing world, Cambodia’s urban areas are facing the challenges of low quality housing, high densities, poorly maintained infrastructure, health and environmental hazards, frequent flooding due to poor drainage, and inadequate social services (Solon and Chen 2004). To this end, the country is cooperating with international agencies on sustainable urbanization projects such as the ASEAN Initiative on Environmentally Sustainable Cities.

Within the context of these projects and programs, there is increasing interest in exploring “green infrastructure” solutions such as green alleys, green rooftops, urban forestry, and open spaces including

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<sup>2</sup> See, e.g. Mongabay Bay “Agriculture causes 80 percent of tropical deforestation.” Available online at: <http://news.mongabay.com/2012/0927-drivers-of-deforestation.html>.

<sup>3</sup> According to the Ministry of Agriculture, Forestry, and Fisheries there have been 118 ELCs granted between 1996 and 2012 totaling 1,204,750 hectares.

<sup>4</sup> See Sidgwick, Eric and Hiroshi Izak. 2013. “Urbanization and growth.” Phnom Penh Post. Available online at: <http://www.phnompenhpost.com/analysis-and-op-ed/urbanisation-and-growth>.

parks and wetlands to better cope with floods and coastal storm surges than conventional or “gray” infrastructure technologies such as conveyance channels or sea walls. Ecosystem service valuation can play a vital role in these contexts by helping to establish whether or not green infrastructure approaches are more cost effective than gray infrastructure, especially in light of ecosystem service benefits they provide such as enhanced property values, carbon sequestration, water filtration, and recreation (Talberth et al. 2013).

## 4.4 HYDROPOWER DEVELOPMENT

In Cambodia, as in other LMB countries, hydropower development is an area where ecosystem service valuation can play an important role in the decision making process. Most new large dams proposed in Cambodia are analyzed under an environmental impact assessment (EIA) framework that includes formal benefit-cost analysis.<sup>5</sup> As previously noted, failure to incorporate ecosystem service values can tip the balance in favor of a project that would otherwise be shown to create more costs than benefits (Costanza et al. 2011).

For example, Ziv et al. (2011) modeled the loss of fish biomass and biodiversity that would occur under a number of dam-building scenarios in the Mekong Basin. They found that if all 11 main-stem Mekong dams and 78 tributary dams were built as planned between 2015 and 2030 fish biomass would decrease by over 51 percent and that 100 new species of fish would be placed on the critically endangered status. Cambodia’s Lower Sesan 2 dam was identified as the most disruptive. They conclude that a cost-benefit analysis that puts value both on the hydropower generated and the value of fish biomass to both commercial and subsistence fishing would help identify which tributary dams should be built and which should be avoided.

In this context then, ecosystem service valuation studies that capture the provisioning (fish) and cultural (societal willingness to pay to avoid species loss) services of undammed river and tributary segments would make a critical contribution to a cost-benefit analysis needed to fulfill Cambodia’s EIA guidelines and help ensure that hydropower development decisions are more firmly grounded in the public interest.

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<sup>5</sup> Cost-benefit analysis is a required step in the EIA process as set forth in the 2009 *Declaration on General Guidelines for Conducting IEIA/EIA Reports*.

# 5. BEST PRACTICE GUIDELINES FOR CONDUCTING ECOSYSTEM SERVICE VALUATION

Now that the importance of ecosystem service valuation has been recognized, there is a rapidly proliferating body of literature that provides guidance on the step-by-step process and principles for best practice. The World Wide Fund for Nature has published a useful compendium of 49 separate best practice guidelines for valuing ecosystem services in general as well as particular services associated with biodiversity, forests, marine and coastal ecosystems, protected areas and wetlands (Emerton 2013). The compendium also provides links to analytical tools and data sources, and was designed to help guide valuation research in the LMB. Because the valuation guideline literature is relatively new, the processes outlined vary considerably from source to source. Nonetheless, there are several key steps that are common. Seven of these are highlighted below, in sequential order (Figure 2):

Figure 2: Key Steps in Ecosystem Service Valuation



## 5.1 CHOOSE THE APPROPRIATE VALUATION OBJECTIVE

The first important step in the ecosystem service valuation process is to be clear about the valuation objective (NRC 2005). As discussed in further detail below, this is because the scope of any valuation exercise is largely defined by its objective. There are three common objectives discussed in the valuation literature.

### 5.1.1 Measuring sustainable economic wellbeing taking nature's benefits into account

Economic wellbeing depends not only on the consumption of goods and services provided by formal markets but on the quality and quantity of goods and services provided by natural ecosystems. As previously noted, ecosystem services are especially important for economic wellbeing in the LMB. It has been reported that roughly 80 percent of the Greater Mekong's 300 million people depend directly on the goods and services its ecosystems provide (WWF 2013). As such, one useful objective of valuation is to measure the contribution of ecosystem services to economic wellbeing in a given country, province, or city and to provide a basis of comparison with the economic wellbeing derived from formal market systems (Liu et al. 2010; NRC 2005).

Relatedly, valuation can also be used to measure *sustainable* economic wellbeing—in other words, how much of the economic wellbeing measured by a valuation exercise is likely to persist over time? This depends on how well the underlying stocks of natural capital are managed. Goodwin (2003) described five types of capital on which a healthy economy depends: built capital, financial capital, human capital, social capital, and natural capital. An economy that maintains or builds its capital stocks on a per capita basis over time meets at least one important criterion for sustainability. Natural capital consists of the stocks of forests, wetlands, grasslands, mangroves and other natural ecosystems. Ecosystem services are the annual benefits of this natural capital stock. If natural capital is being depleted, it will be reflected in declining levels of ecosystem service provision over time either in terms of the quantity of provision or its value. Thus, ecosystem service valuations can be used in conjunction with data on the trends and management status of natural capital to help determine whether or not an economy is on a sustainable growth path.<sup>6</sup>

### 5.1.2 Informing policy decisions

One of the most ubiquitous and important objectives for ecosystem service valuation is to help evaluate the benefits and costs of public agency programs, policies, and projects that have the potential to either degrade or enhance natural capital and ecosystem services. In this context, “ascribing values to ecosystem goods and services is not an end in itself, but rather one small step in the much larger and dynamic arena of political decision making” (Daily et al. 2009). To the extent that benefit-cost analysis (BCA) or cost effectiveness analysis (CEA) is required by laws, regulations, or operating procedures as

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<sup>6</sup> For an overview of natural capital accounting projects worldwide and their importance to sustainable development, please visit the World Bank's Wealth Accounting and the Valuation of Ecosystem Services (WAVES) project website at: <http://www.wavespartnership.org/en/natural-capital-accounting-0>.

part of that political decision making process, failure to include ecosystem service benefits and costs will distort the results (Liu et al. 2010).

The overall framework for incorporating ecosystem service valuation into BCA or CEA is the “with and without” framework that answers the following question: what will be the value of ecosystem services over time in a particular nation, province, or city with and without the policy change? Typically, this is calculated as the present value of the stream of ecosystem service benefits over a specified time period. As one concrete example of this in the LMB, Emerton (2013) forecasted the ecosystem service values of four types of natural capital and five specific ecosystem services over a 25-year timeframe with and without a suite of green economic growth policies. The green economic growth scenario depicts what will happen if the region’s protected area system is expanded and re-categorized to include a more representative range of critical ecosystems and management systems, and also if renewed efforts are made to better fund and conserve ecosystems and biodiversity outside these protected areas. Results are provided for Cambodia, Lao PDR, Thailand and Vietnam in **Annex B**.

While the study is based on very coarse-level estimates of ecosystem service values per hectare for each ecosystem type, the results strongly suggest that green economic growth is a tool for enhancing ecosystem service values and associated economic wellbeing. In Cambodia, green economic growth policies have the potential to enhance the net present value of ecosystem services from natural forests, freshwater wetlands, mangroves and coral reefs by US\$ 2.63 billion, an increase of 15.6 percent over a business as usual economic growth scenario. In terms of specific services, the biggest gains would be associated with carbon sequestration. Green economic growth may boost the value of this ecosystem service in Cambodia by over 21 percent.

### **5.1.3 Establishing the basis for market-based solutions**

As discussed previously, ecosystem service valuation is playing a role in the emergence of payments for ecosystem services (PES) markets in Cambodia. Ecosystem service valuation is critical in helping determine beneficiaries’ willingness to pay (WTP) for the services provided by those who influence the provision of ecosystem services from any particular ecosystem type. Conversely, ecosystem service valuation can be used to determine providers’ willingness to accept (WTA) payments to forgo a particular land use or practice (i.e. overfishing or overgrazing) that may be degrading ecosystem services. Ecosystem service valuation studies in support of PES can also be used to estimate the overall size of the market—demand and supply quantities—to help determine whether or not PES schemes are likely to be big enough to have an impact on environmental quality.

### **5.1.4 Place-based ecosystem service valuation**

One of the most common objectives is to hone in on a particular ecosystem in a specific area—such as the Ream National Park—and use ecosystem service valuation to develop estimates for the total economic value (TEV) of both market-based and non-market goods and services these ecosystems offer.

## **5.2 SELECT BOUNDARIES FOR THE ANALYSIS AREA**

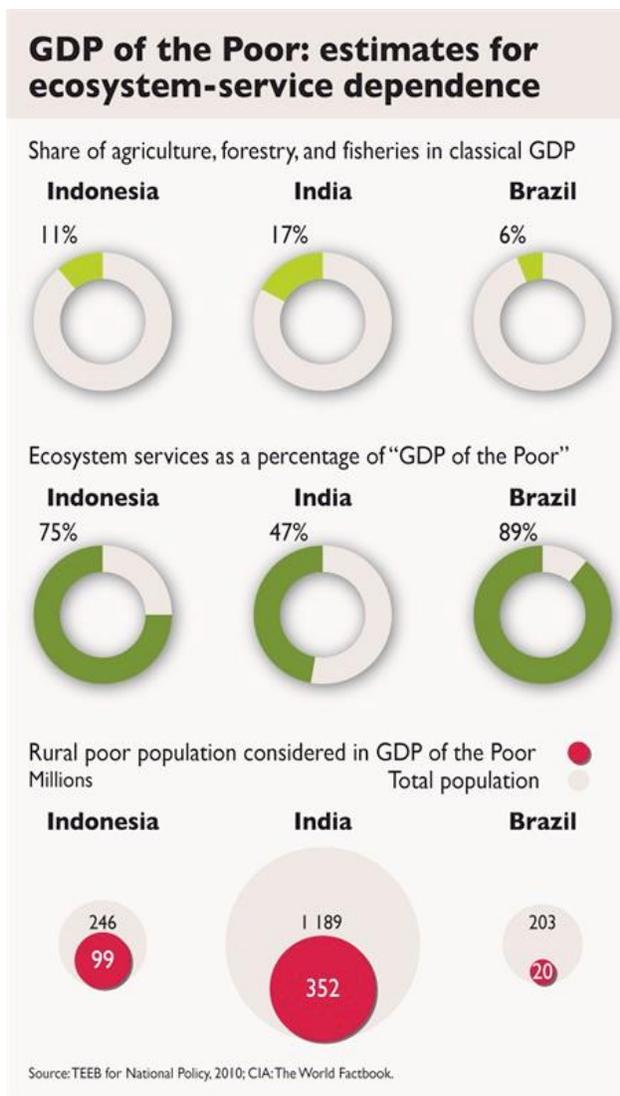
The spatial boundaries of an ecosystem service valuation exercise depend upon the valuation objective. For the most part, valuation studies carried out for purposes of economic performance evaluation should be set at the appropriate political boundary—a nation, state, province, or city or regional

aggregations of these jurisdictions. Within these boundaries, the goal is to measure the contribution of ecosystem services to the resident population. While this may seem inconsistent with the notion of capturing the economic value of a particular ecosystem that confers benefits to people who may reside in multiple jurisdictions, it is consistent with how national accounts and other economic performance metrics are reported. And so setting the boundaries of an ecosystem service valuation exercise to these political boundaries is essential for making comparisons with these metrics.

As an example, work conducted under the auspices of *The Economics of Ecosystems and Biodiversity* (TEEB) project found that ecosystem services and other non-marketed goods make up between 50 and 90 percent of the total source of livelihoods among poor rural and forest-dwelling households—the so-called ‘GDP of the poor’ (TEEB 2010a). This contrasts with various national GDP figures where, for the most part, agriculture, forestry and fisheries account for between 6 and 17 percent of overall GDP (Figure 3).

When ecosystem service valuation is used for policy analysis, boundaries need not conform to political boundaries or project boundaries. This is because the impacts of a policy change may extend well beyond these boundaries. As an example, changes in agricultural policies that result in the expansion of intensive agriculture into natural forests or other native ecosystem can adversely affect the productivity of downstream freshwater and marine ecosystems. The conversion of natural ecosystems to cropland, pastureland or aquaculture has immediate and local ecosystem service impacts, but improvement of yields through the increased use of fertilizers and pesticides also can lead to the growth of hypoxic “dead zones” in freshwater and marine ecosystems far away. Globally, the extent of these dead zones has increased more than nine-fold since 1969 and now encompasses more than 245,000 km<sup>2</sup> (Diaz and Rosenberg 2008).

**Figure 3: Share of Ecosystem Services in the National Economy**



Recent global modeling by FAO suggests that fertilizer consumption could increase from 166 million tonnes in 2005/2007 to 263 million tonnes by 2050 (Alexandratos and Bruinsma 2012). This could be accompanied by a 2.4- to 2.7-fold increase in nitrogen- and phosphorus-driven eutrophication of terrestrial, freshwater, and near shore marine ecosystems along with “unprecedented ecosystem simplification, loss of ecosystem services, and species extinctions” (Tilman et al. 2001). Thus, an

important part of any ecosystem service valuation exercise used to evaluate the impacts of agricultural policies should also consider the downstream impacts on aquatic ecosystem productivity and biodiversity.

Ecosystem service valuation studies that are designed for use in emerging PES schemes should not be constrained by political boundaries either. Rather, the spatial configuration of the study should be defined by the linkages between the beneficiaries of ecosystem services and those who have rights to use and manage the ecosystems that provide them. The two groups may be far removed. For example, PES schemes associated with tourism in national parks are often informed by studies that take into account international visitors' WTP for protection of biological diversity and scenery (Brander and Eppink 2012). As another example, hydroelectric facilities may be willing to participate in a PES scheme to protect water quality and flow that involves landowners and governments located well upstream (Scheufele et al. 2014). So in the context of PES, the geography of ecosystem service valuation studies should be more aligned with beneficiaries and providers rather than the ecosystem boundaries or the boundaries of the relevant political jurisdiction.

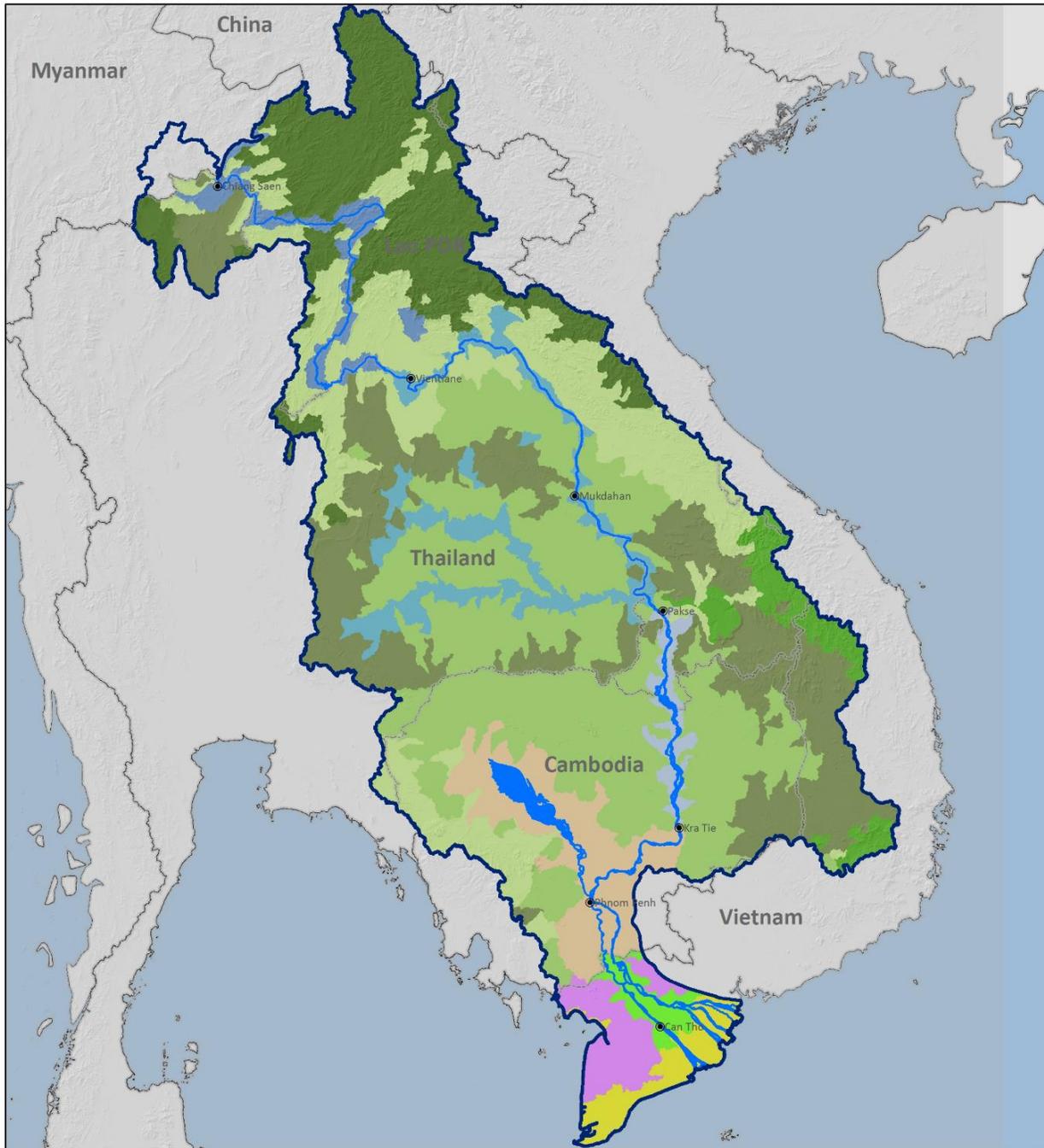
Valuation studies that are designed to fulfil the last objective—valuing particular ecosystems in a particular place—should, of course, be bounded by the extent of those ecosystems unless there is a good reason to further constrain the boundaries. For example, a study's objective may be to generate ecosystem service values for a particular forest type in a particular watershed, but data on use patterns by local villages may be limited to a few places. Rather than extend the results broadly throughout the watershed, the analyst may wish to constrain the boundaries of the study to just those portions of the forest where ecosystem use data is reliable.

### **5.3 IDENTIFY IMPORTANT ECOSYSTEM TYPES, SERVICES, AND VALUES FOR MEASUREMENT**

The next major stage in ecosystem service valuation is to identify the ecosystem types relevant to the study. For purposes of economic performance monitoring, best practice is to consider the services from all major ecosystems in a nation, state, province or city. Aggregating a large number of ecosystem types into a few broad categories may help make the valuation exercise more tractable. Emerton (2013) followed this approach for the four LMB countries by consolidating ecosystems into four categories: natural forests, freshwater wetlands, mangroves and coral reefs.

However, to be more precise, analysts should select a fine-grained classification scheme that is as consistent across province or country boundaries as possible. Fortunately, in recent years, there has been excellent progress on this front. In the late 1990s, the World Wildlife Fund (WWF) developed a useful classification scheme based on ecozones—areas of similar climate, ecosystems and agricultural characteristics and potential. More recently, ICEM refined the ecozone classification system for use in the USAID Mekong ARCC project (Carew-Reid 2013). ICEM's classification includes twelve ecozones that are organized along the Lower Mekong Basin's elevation gradient (Figure 4). Still others are developing additional refinements. For example, in 2014, researchers from several German institutes produced Mekong LC2010—the first specific land cover product covering both the lower and the upper Mekong Basin (Leinenkugel et al. 2014).

**Figure 4: ICEM Ecozone Classification Scheme for the Lower Mekong River Basin**



**ECOZONES IN THE LOWER MEKONG BASIN**

- |  |                 |  |   |  |   |
|--|-----------------|--|---|--|---|
|  | National border |  | High-elevation moist broadleaf forest Annamites           |  | Mid floodplain, wetland, lake (Vientiane to Pakse)          |
|  | LMB boundary    |  | High-elevation moist broadleaf forest North Indochina     |  | Lower floodplain, wetland, lake (Pakse to Kratie)           |
|  | Water body      |  | Mid-elevation dry broadleaf forest                        |  | Tonle Sap swamp forest & lower floodplain (Kratie to delta) |
|  |                 |  | Low-elevation dry broadleaf forest                        |  | Delta freshwater wetlands                                   |
|  |                 |  | Low-elevation moist broadleaf forest                      |  | Delta acidic swamp forest                                   |
|  |                 |  | Upper floodplain wetland, lake (Chiang Saen to Vientiane) |  | Delta mangroves and coastal wetlands                        |

0 25 50 100  
 Kilometers  
  
Data Source: ICEM 2012, WWF 2002-2006 MRC GIS Database

Once ecological communities have been identified and classified in a study area, analysts should identify which of the many ecosystem services will be included in the valuation exercise. As previously discussed, CICES is emerging as one of the most ubiquitous classification schemes for these services and thus to maximize consistency with other valuation projects, this system can be used. Obviously, without considerable resources, the analyst should be selective in choosing which of these ecosystem services to address. Often, the research goal is to quantify a particular service that may have been overlooked in previous studies. Or the analyst may want to focus on a particular service or set of services—like carbon sequestration—that may be adversely affected by a project or policy or which may serve as the basis for a future PES program.

## **5.4 INCORPORATE EXISTING HIGH QUALITY INFORMATION THROUGH BENEFITS TRANSFER**

As noted in Section 3.4, one of the most commonly used ecosystem service valuation methods employed when resources for original valuation work are limited is benefits transfer. With benefits transfer, all existing sources of information on ecosystem service values are reviewed, and those that can be reliably transferred to the study site are then calibrated. If existing studies are reliable, there is no need to replicate them and so using benefits transfer early on in a valuation exercise is always a good idea. Regardless of whether or not benefits transfer methods are ultimately used, they should at least be reported in a valuation exercise as a basis of comparison with values from new, original studies.

When benefits transfer is used, there are several sources that provide guidance on best practices. One of the most useful for valuation studies that are conducted to inform policy is the detailed guidance published by Eftec (2009). These guidelines walk analysts through an eight-step process that includes establishing the policy context, defining the appropriate good or service and the affected population, defining and quantifying change in ecosystem service provision, selecting relevant monetary valuation evidence, transferring that evidence, aggregating values for all services addressed and conducting sensitivity analysis.

For Southeast Asia, an extremely useful database of valuation studies was recently compiled by Brander and Eppink (2012). They compiled 787 separate value estimates drawn from 182 studies, many of which can be reliably transferred into ecosystem service valuation studies in the LMB. Of particular importance are studies related to mangroves, wetlands, and swamp forests in the coastal zones and studies that address ecosystem service values of upland tropical forests.

## **5.5 CONDUCT ORIGINAL VALUATION STUDIES WHERE GAPS EXIST**

Once benefits transfer has been completed, gaps should be filled with original valuation studies when time and resources allow. The natural question at this stage is what valuation methods to use. This all depends on the particular ecosystem service being addressed. As discussed in Section 3.0, the choice of method depends upon the general type of ecosystem service (provisioning, regulating, cultural), whether the service provides direct or indirect benefits to those affected, and whether or not economic value is associated with use of the ecosystem or associated with its non-use values. The distinction between use and non-use values is illustrated in Table 1. Another important distinction is between ecosystem goods

and services that leave either a direct or indirect signal in organized markets (i.e. property values, agricultural yield, non-timber forest products market value) and those that are primarily non-market in nature (i.e. flood control, existence value).

As a general rule, methods for quantifying use values employ one or more of the revealed preference methods reviewed in Section 3.1 since a population's pattern of use of a particular ecosystem forms the basis for assigning values. In contrast, all non-use values are generally quantified through either stated preference or cost-based approaches reviewed in Sections 3.2 and 3.3. De Groot et al. (2002), later updated by Kaval (2010) published a useful table identifying relevant ecosystem service valuation techniques for 22 ecosystem services. The information is reprinted in slightly modified form (excluding some services) in **Annex C**.

## **5.6 QUANTIFY THE ANNUAL BENEFITS STREAM OVER TIME AND REPORT PRESENT VALUES**

There are two general ways to report the results of ecosystem service valuation studies. The first is to report what annual ecosystem service benefits are now and, if the valuation study is policy driven, what they will be as a result of policy changes for the ecosystem types studied. The latter approach is simply the “with and without” approach discussed in Section 5.1.2. The second is to report the present value of this benefit stream over a specified time period. Best practice is to report both figures.

### **5.6.1 Annual ecosystem service benefit values**

With respect to annual values, an important issue is to be able to aggregate values that are reported per person, per household, or per hectare from either benefits transfer or original valuation into a total value for the entire ecosystem or population affected. While this may seem straightforward, the complication is that values may vary spatially and over time, so care must be taken to avoid over- or under-representing the benefit stream.

As one example, coastal storm protection benefits of a particular mangrove ecosystem may be much higher near shorelines with expensive infrastructure in place, but much less so in sparsely populated areas. This is a problem generally labeled as “distance decay.” Aggregation of values across sites without accounting for distance decay may result in serious over-estimation of total values (TEEB 2010b). As another example, existence values (measured as household willingness to pay) for establishing a new protected area for endangered species will inevitably rise or fall as a given population's willingness to pay adjusts to changing economic conditions and changes in preferences (Ervin et al. 2014). Accounting for changes over time is most relevant to benefits transfer, where the analyst may be using values developed ten or more years in the past.

### **5.6.2 Present value of the stream of ecosystem service benefits over time**

Calculating the “present value” of a stream of benefits is a standard technique involving the use of a discount rate to account for the fact that future benefits may be weighted differently than benefits accruing to the present generation. Two issues involve the selection of a time period and selection of an appropriate discount rate.

In policy impact settings, time periods selected for analysis are typically pegged to the analysis period associated with a proposed project—i.e. a new dam, whose expected useful life is 50 years. However, impacts on ecosystems and their services could extend well beyond a standard time period taken for the policy appraisal. Effects on ecosystems can take considerable time to develop, and this fact should be taken into account in valuation studies. This also requires incorporation of scientific data and models that provide a basis for estimating how these changes will develop over time (DEFRA 2007).

Although in general positive discount rates are used in ecosystem service valuation studies, arguments have been made for either a zero discount rate, signaling that the benefits of ecosystem services to future generations should be given just as much weight as the benefits enjoyed by today's generation, or negative, signaling that the benefits that accrue to future generations are even more important (NRC 2005). But when the idea is to calculate the present value of consumption benefits within just one generation the general approach is to assume a social time preference for consumption benefits now, which justifies a positive discount rate. The rate itself is typically set at the prevailing consumption discount rate.<sup>7</sup>

## 5.7 SENSITIVITY ANALYSIS

As with most economic analyses, an important final step is to test the sensitivity of results to changes in key assumptions (DEFRA 2007; NRC 2005). Sensitivity analysis is a technique for doing this. In sensitivity analysis, the focus is on values and assumptions used in the studies that are uncertain. TEEB (2010b) provides an in-depth discussion on sources of uncertainty, and highlights three main sources: supply of ecosystem services, preference uncertainty (an issue with survey-based methods) and technical uncertainty (i.e. inaccuracies in the methods). Analysts should be aware of these general sources of uncertainty and be able to identify specific values and assumptions that should be incorporated into sensitivity analysis.

In the context of ecosystem service valuation studies, the most common parameters to vary in sensitivity analysis are the underlying assumptions over the physical quantities of the good or service provided, the efficiency of an ecosystem's regulation function and how it may change in response to policy, prices and/or willingness to pay values and how they change over time and in response to changing economic conditions, discount rates and analysis periods.

For example, with respect to the quantity of ecosystem goods and services provided, a given ecosystem type—say upland tropical forests—will typically have a range of yields for non-timber forest products much like agricultural yields vary from region to region based on soil types, elevation, slope, precipitation, and other factors. Therefore, sensitivity analysis can use upper and lower bound values to provide a likely range of ecosystem service benefits rather than relying on just one average figure.

With respect to the efficiency of ecosystem service provision and how that may change in response to policy, consider the example of wetlands and storm surge damages in coastal areas. One key piece of information that needs to be estimated by underlying scientific models is the centimeters of storm surge reduced as a result of a marginal increase in wetland extent and the resulting impact on the probability

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<sup>7</sup> Also known, conversely, as the consumption rate of interest. It represents the interest one would have to receive in order to defer consumption of a given basket of goods and services to a later date.

and severity of economically damaging storm events (TEEB 2010b). The key here is to express the storm surge reduction benefits as a probability, not as a certainty, and in sensitivity analysis the assumed probability can be varied.

Another common approach in sensitivity analysis is to vary the discount rate. As discussed previously, a case can be made for a wide range of rates including zero, a negative rate, or a positive rate. Arguments have also been made for reducing discount rates over time rather than leaving them static to account for changes in economic growth and changes in the certainty of ecosystem service benefit streams over time (Costanza et al. 2011).

# 6. CONCLUSIONS AND RECOMMENDATIONS

In this document, WRI has provided guidance on standard typologies for classifying ecosystem services, methods for valuation, policy venues where valuation can play an important role, and a generalized seven-step process for best practice. As decision makers in Cambodia consider use of ecosystem service valuation studies in the years ahead, there are three key points to keep in mind:

1. First, the importance of ecosystem services cannot be underemphasized. As previously noted, it has been reported that roughly 80 percent of the Greater Mekong's 300 million people depend directly on the goods and services its ecosystems provide (WWF 2013). Therefore, if decision makers want good information about economic wellbeing in the LMB, inevitably they must employ the tools of ecosystem service valuation.
2. Secondly, there are many policies and investments that have the potential to affect the quantity and quality of ecosystem service provision. Here, we reviewed several examples, but in reality, any policy and/or investment that affects the extent or functioning of intact native ecosystems will also affect the services they provide. And in considering the benefits and costs of such policies and investments, impacts on the flow of ecosystem services must be considered for the analysis to be credible.
3. Third, while the field of ecosystem service valuation is relatively new, it has now matured to the point where there is a wealth of detailed technical guidance manuals from which to draw on as well as a rich portfolio of ecosystem service valuation studies in the region that can be helpful. Many of them have been cited or reviewed here. Thus, when the need for valuation arises, lack of information should not be a significant barrier.

As Cambodia further embraces a green economic growth pathway, ecosystem service valuation can play a role in ensuring that the flow of goods and services that nature provides will be protected, restored and managed to enhance livelihoods, especially for those who are most vulnerable and lacking in resources.

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# ANNEX A

**Table I: Common International Classification of Ecosystem Services (CICES) – Major Ecosystem Service Classifications**

Type of service	General type of output or process	Specific type of output or process
Provisioning	Nutrition	Biomass
		Water
	Materials	Biomass
		Water
	Energy	Biomass-based
		Mechanical energy
Regulating	Mediation of wastes	Mediation by biota
		Mediation by ecosystems
	Mediation of flows	Mass flows
		Liquid flows
		Gaseous/air flows
	Maintenance of conditions	Habitat and gene pool
		Pest and disease control
		Soil formation and structure
		Water quality
	Atmosphere and climate	Greenhouse gases
Micro and regional climate		
Cultural	Physical interactions	Experiential
		Intellectual
	Spiritual and symbolic	Spiritual and emblematic
		Other cultural outputs

**Table 2: Common International Classification of Ecosystem Services (CICES) – 4-digit Classification System for Provisioning Services**

Section	Division	Group	Class	Class type		
<i>This column lists the three main categories of ecosystem services</i>	<i>This column divides section categories into main types of output or process.</i>	<i>The group level splits division categories by biological, physical or cultural type or process.</i>	<i>The class level provides further sub-division of group categories into biological or material outputs and bio-physical and cultural processes that can be linked back to concrete identifiable service sources.</i>	<i>Class types break the class categories into further individual entities and suggest ways of measuring the associated ecosystem service output.</i>		
Provisioning	Nutrition	Biomass	Cultivated crops	Crops by amount, type		
			Reared animals and their outputs	Animals, products by amount, type		
			Wild plants, algae and their outputs	Plants, algae by amount, type		
			Wild animals and their outputs	Animals by amount, type		
			Plants and algae from in-situ aquaculture	Plants, algae by amount, type		
			Animals from in-situ aquaculture	Animals by amount, type		
		Water	Surface water for drinking	By amount, type		
	Ground water for drinking					
	Materials	Biomass	Fibres and other materials from plants, algae and animals for direct use or processing	Material by amount, type, use, media (land, soil, freshwater, marine)		
			Materials from plants, algae and animals for agricultural use			
			Genetic materials from all biota			
		Water	Surface water for non-drinking purposes		By amount, type and use	
			Ground water for non-drinking purposes			
		Energy	Biomass-based energy sources		Plant-based resources	By amount, type, source
					Animal-based resources	
Mechanical energy	Animal-based energy		By amount, type, source			

**Table 3: Common International Classification of Ecosystem Services (CICES) – 4-digit classification system for regulation and maintenance services**

Regulation & Maintenance	Mediation of waste, toxics and other nuisances	Mediation by biota	Bio-remediation by micro-organisms, algae, plants, and animals	By amount, type, use, media (land, soil, freshwater, marine)
			Filtration/sequestration/storage/accumulation by micro-organisms, algae, plants, and animals	By amount, type, use, media (land, soil, freshwater, marine)
		Mediation by ecosystems	Filtration/sequestration/storage/accumulation by ecosystems	By amount, type, use, media (land, soil, freshwater, marine)
			Dilution by atmosphere, freshwater and marine ecosystems	
			Mediation of smell/noise/visual impacts	
		Mediation of flows	Mass flows	Mass stabilisation and control of erosion rates
	Buffering and attenuation of mass flows			
	Liquid flows		Hydrological cycle and water flow maintenance	By depth/volumes
			Flood protection	By reduction in risk, area protected
	Gaseous air flows		Storm protection	By reduction in risk, area protected
	Ventilation and transpiration		By change in temperature/humidity	
	Maintenance of physical, chemical, biological conditions	Lifecycle maintenance, habitat and gene pool protection	Pollination and seed dispersal	By amount and source
			Maintaining nursery populations and habitats	By amount and source
		Pest and disease control	Pest control	By reduction in incidence, risk, area protected
			Disease control	
		Soil formation and composition	Weathering processes	By amount/concentration and source
			Decomposition and fixing processes	
		Water conditions	Chemical condition of freshwaters	By amount/concentration and source
			Chemical condition of saltwaters	
		Atmospheric composition and climate regulation	Global climate regulation by reduction of greenhouse gas concentrations	By amount, concentration or climatic parameter
			Micro and regional climate regulation	

**Table 4: Common International Classification of Ecosystem Services (CICES) – 4-digit classification system for cultural services**

<b>Cultural</b>	Physical and intellectual interactions with biota, ecosystems, and land-/seascapes [environmental settings]	Physical and experiential interactions	Experiential use of plants, animals and land-/seascapes in different environmental settings	By visits/use of plants, animals, ecosystem type
			Physical use of land-/seascapes in different environmental settings	
		Intellectual and representative interactions	Scientific	By use/citation, plants, animals, ecosystem type
			Educational	
	Heritage, cultural			
	Entertainment			
	Spiritual, symbolic and other interactions with biota, ecosystems, and land-/seascapes [environmental settings]	Spiritual and/or emblematic	Symbolic	By use, plants, animals, ecosystem type
			Sacred and/or religious	
		Other cultural outputs	Existence	By plants, animals, feature/ecosystem type or component
			Bequest	

# ANNEX B

**Table 5: Ecosystem Service Values in the Lower Mekong Basin With and Without Green Economic Growth Policies**

(All values reported in 2013, net present value, US\$ billions)

Source: Emerton (2013)

	Cambodia		Lao PDR		Thailand		Vietnam	
	ESV w/o	ESV with						
Natural forests	\$6.78	\$8.18	\$26.34	\$28.23	\$12.81	\$13.66	\$18.26	\$19.80
Freshwater wetlands	\$9.92	\$11.13	\$12.54	\$13.96	\$13.34	\$14.46	\$10.03	\$10.87
Mangroves	\$0.16	\$0.18	-	-	\$0.58	\$0.64	\$0.35	\$0.38
Coral reefs	\$0.01	\$0.01	-	-	\$0.39	\$0.44	\$0.23	\$0.26
<b>Total:</b>	<b>\$16.87</b>	<b>\$19.50</b>	<b>\$38.88</b>	<b>\$42.19</b>	<b>\$27.13</b>	<b>\$29.19</b>	<b>\$28.87</b>	<b>\$31.31</b>
Harvested products	\$4.36	\$5.16	\$6.98	\$7.54	\$6.03	\$6.44	\$9.02	\$9.77
Watershed protection	\$0.61	\$0.73	\$14.68	\$15.73	\$2.14	\$2.28	\$7.92	\$8.59
Carbon sequestration	\$2.99	\$3.61	\$6.18	\$6.63	\$6.00	\$6.40	\$3.97	\$4.30
Water quality & flow	\$8.76	\$9.84	\$11.05	\$12.29	\$12.11	\$13.13	\$7.46	\$8.09
Coastal protection	\$0.13	\$0.15	-	-	\$0.74	\$0.83	\$0.44	\$0.50
Coastal tourism	\$0.02	\$0.02	-	-	\$0.10	\$0.11	\$0.06	\$0.06
<b>Total:</b>	<b>\$16.87</b>	<b>\$19.50</b>	<b>\$38.88</b>	<b>\$42.19</b>	<b>\$27.13</b>	<b>\$29.19</b>	<b>\$28.87</b>	<b>\$31.31</b>

# ANNEX C

**Table 6: Ecosystem Services and Commonly Used Methods for Assigning Dollar Values**

Ecosystem Service	Market or Non-market	Use or Non-use	Valuation Methods
<b>Science and education</b>	Market	Use-direct	Market valuation, benefit transfer
<b>Recreation</b>	Market Non-market	Use-direct	Market valuation, contingent valuation, travel cost, choice experiments, factor income, hedonic pricing, avoided costs, restoration costs, benefits transfer
<b>Genetic and medicinal resources</b>	Market Non-market	Use-direct Use-indirect	Market valuation, factor income, benefits transfer
<b>Raw materials</b>	Market Non-market	Use-direct Use-indirect	Market valuation, factor income, contingent valuation, choice experiments, benefits transfer
<b>Food production</b>	Market Non-market	Use-direct Use-indirect	Market valuation, factor income, contingent valuation, choice experiments, benefits transfer
<b>Nursery function</b>	Market Non-market	Use-direct Use-indirect	Market valuation, contingent valuation, avoided cost, replacement cost, factor income, choice experiments, restoration costs, benefits transfer
<b>Plant and animal refugia</b>	Market Non-market	Use-direct Use-indirect Non-use	Market valuation, contingent valuation, choice experiments, restoration costs, benefit transfer
<b>Soil formation</b>	Market Non-market	Use-direct Use-indirect Non-use	Market valuation, avoided cost, benefits transfer
<b>Air and water quality</b>	Market Non-market	Use-indirect	Market valuation, avoided cost, replacement cost, factor income, contingent valuation, choice experiments, benefits transfer
<b>Pest control</b>	Market Non-market	Use-indirect	Market valuation, replacement cost, factor income, restoration cost, benefits transfer
<b>Recycling of wastes</b>	Non-market	Use-indirect	Contingent valuation, replacement cost, choice experiments, benefits transfer
<b>Stabilizing climate</b>	Non-market	Use-indirect	Avoided cost, benefits transfer
<b>Erosion control</b>	Non-market	Use-indirect	Avoided cost, replacement cost, restoration cost, benefits transfer
<b>Plant pollination</b>	Non-market	Use-indirect Non-use	Avoided cost, replacement cost, factor income, benefits transfer
<b>Aesthetic beauty</b>	Non-market	Non-use	Contingent valuation, choice experiments, benefits transfer
<b>Human culture</b>	Non-market	Non-use	Contingent valuation, choice experiments, benefits transfer
<b>Preservation</b>	Non-market	Non-use	Contingent valuation, choice experiments, benefits transfer
<b>Biodiversity maintenance</b>	Non-market	Non-use	Contingent valuation, choice experiments, restoration costs, avoided costs, benefits transfer