

Economic Valuation Workshop

Cape Town; July 2007

EVW

- **Environment and Economy : The Link**

- **Economy needs and relies on environment as:**

- *source of energy; source of materials; major element of social capital; depository for waste!*

- **‘Bad’ economic management therefore ‘degrades ‘ environment:**

- *depletes resources and energy; impacts social capital and increases waste*

- ***And hence:***

- *the environmental revolution of the 60’s, SHD of the 80’s , Agenda 21 of the 90’s and Millennium Development Goals – and to some extent the Ecosystem Based Approach*

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- But does environment management needs economics ?
 - No for two reasons !
 - Environment is not for sale ; environment is priceless and pricing environment is capitalism at its worst !
 - Environmental valuation is practically impossible and the studies carried out are often so much off the mark that are not taken seriously!

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- **But :**

- **Claim to be 'priceless' is essentially faulty because:**
 - *many environmental goods do already have market prices ; oil*
 - *for those that do not have prices one can generate and/or estimate prices*
 - *this approach can lead to zero growth excluding billions from right to materials welfare*
- *this approach can lead to environmental arrogance and can exclude environmental projects from decision making process where decisions made on costs & benefits !*
- ***But there might be red-lines not be crossed where there are irreversible damages ; quotas, Red lists etc are few examples***

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- **Yes, it does because**
- ***In our global, market based economies 'money' is the language that is understood by all. To be heard we need to talk in money terms .***
- ***Economics is the science of 'efficient' allocation of scarce resources including environmental resources. If economic principles of utility maximization within budget constraints are not followed then we simply waste our resources.***
- ***In other words we always need to look at our benefits and costs for any decision to use resources***
- ***Efficiency in this context is a Pareto Optimum where no one can get better off unless someone gets worse off .***

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■ Challenges

- The Pareto efficiency assumes 'perfect markets' , that is free and full information for all, self -centered decision makers, equal power to influence prices . It also assumes knowledge of future to ensure 'sustainability'.
- For environmental resources we often don't have 'correct prices' due to
 - externalities
 - public goods and common properties
 - Market failures and absence of markets
 - Government intervention
 - Lack of knowledge on future generations preferences

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- But it is not hopeless because:
- There is a body of economic theory and practice that can assist
 - *Environmental Impact Assessment , monetized to the extent possible*
 - *Benefit Cost Analysis (BCA); Cost Efficiency Analysis (CEA)*
 - *Total Economic Value as sum of Use Value (human based direct use , indirect use and option use)) and Non use Value (intrinsic bequest value and existence value)*
 - *Valuation techniques including Production Change, Hedonic Costing, Contingent Valuation method (Willingness to Pay) ; Travel Costing*

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- **Are we being taken seriously ?**
- *Not by a lot of planners as our numbers are often biased by personal judgment , by poor data, absent long term data etc*
 - *Not by macro economists in national accounting*
 - *Not by radical environmentalists !*
- *Yes by the World Bank , GEF and UNDP – not sure about UNEP ?*
 - *Varied in different countries /different levels*

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- Anything that we can do to be better heard ?
- Need to become convinced ourselves first!
- Be better trained !
- Build it into our projects .
- Focus on the doable, simple , understandable issues !

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