Economic valuation

The term **value** refers to the contribution of an action or object to user-specified goals, objectives or conditions. Valuation is the process of expressing a value for a particular action or object and economic valuation is used to understand how much something is worth to individuals or the whole society. **Economic valuation** is therefore based on individual preferences and choices. In a market economy, the amount of money that a person is willing to pay for something tells how much of all other goods and services they are willing to give up to get that item. This is referred to as "willingness to pay" (WTP). People will only purchase the good if their willingness to pay is equal to or greater than the price. Not all goods and services from which individuals derive wellbeing, are traded in markets: 'non-market' goods and services, e.g. many environmental resources. In order to estimate the economic value of these goods and services, and impacts on them (e.g. environmental degradation), the use of **'non-market valuation' methods** is required. In general, when we attempt to value an ecosystem service our ambition is to determine its Total Economic Value (TEV), i.e. the sum of all the relevant use and non-use values for a good or service:

1. use values, based on actual use of a given good or service:
    1. Actual value (current direct or indirect values) and Expected value (near future)
    2. Option value is the value that people place on having the option to enjoy something in the future.
2. non-use, or "passive use" values, not associated with actual use, or even an option to use, a given good or service:
    1. Existence value: non-use value that people place on simply knowing that something exists, even if they will never use it.
    2. Bequest and Altruistic values: values that people place on knowing that future or current generations, respectively, will have the option to enjoy something.

Economic valuation of ecosystem services results in the determination of a value for a particular good or service in a certain context (e.g., of decision making)[1,2,3]. The value preferred by economists is **monetary value**, which requires estimating how much purchasing power (€) people would be willing to give up to get it (or would need to be paid to give it up), if they were forced to make a choice. Ecosystem valuation can help resource managers deal with the effects of market failures, by measuring their costs to society, in terms of lost economic benefits. The costs to society can then be imposed, in various ways, on those who are responsible, or can be used to determine the value of actions to reduce or eliminate environmental impacts. Nearly all policy and management decisions imply changes relative to some baseline and most changes imply trade-offs (eg. in the TEV). The costs of implementing different options can be compared to the increased economic benefits of reduced externalities. Not always valuation ends up with a comprehensive estimation of monetary values in order to take sound economic decisions, but they are the prerequisite needed for **Cost Benefit Analysis (CBA)**. Indicator-based methods can be combined with monetary valuation and support ranking or prioritizing the expected benefits of environmental investments, for example **Cost Effectiveness Analysis (CEA)**.

Economic valuation of ecosystem services in the AlpES Project

The AlpES project does not elaborate an economic evaluation of ecosystem services. It can be a potential next step after a physical assessment of ES. In the pilot regions regional economic valuations or estimation of economic values may be carried out.

Additional Resources

Links:

- Valuing Nature:
  http://valuing-nature.net/sites/default/files/images/VNN-Demystifying%20Economic%20Valuation-Paper.pdf
- Ecosystem Valuation: http://www.ecosystemvaluation.org/index.html

[1)]

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[2)]

Maes, J.; Teller, A.; Erhard, M.; Murphy, P.; Paracchini, M. L.; Barredo, J. I. et al. (2014): Mapping and assessment of ecosystems and their services. Indicators for ecosystem assessments under action 5 of the EU biodiversity strategy to 2020 : 2nd report - final, February 2014. Luxembourg: Publications Office (Technical Report, 2014-080).

[3)]

van der Ploeg, S.; Groot, D. de & Wang, Y. (2010): The TEEB Valuation Database: overview of structure, data and results. Final report December 2010, Foundation for Sustainable Development. Wageningen, checked on 7/21/2016

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