

1 Title  
2 Policy lessons from spatiotemporal enrollment patterns of Payment for Ecosystem  
3 Service Programs in Argentina

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31

32 **Abstract**

33 Over the last 50 years, payment for ecosystem services schemes (PES) have been  
34 lauded as a market-based solution to curtail deforestation and restore degraded  
35 ecosystems. However, PES programs often fail to conserve sites under strong long-  
36 term deforestation pressures and allocate financial resources without having a sizeable  
37 impact on long-term land use change. Underperformance, in part, is likely due to  
38 adverse selection as landowners with land at the lowest threat from conversion or loss  
39 may be most likely to enroll or enrollment may be for short time-periods. Improving  
40 program performance to overcome adverse selection requires understanding attributes  
41 of landowners and their land across large scales to identify spatial and temporal  
42 enrollment patterns that drive adverse selection. In this paper, we examine these  
43 patterns in Argentina's PES program in the endangered Chaco forest ecoregion, which  
44 was established in 2007 under the National Forest Law. Our study area covers 252,319  
45 km<sup>2</sup>. Among our most important findings is that large parcels of enrolled land and land  
46 owned by absentee landowners show greater evidence of spatiotemporal adverse  
47 selection than smaller plots of land and land owned by local actors. Furthermore, lands  
48 managed for conservation and restoration are more likely to be associated with adverse  
49 selection than lands that provide financial returns such as harvest of non-timber forest  
50 products, silviculture, and silvopasture. However, prior to recommending that PES  
51 programs focus on land uses with higher potential earnings, a greater understanding is  
52 needed of the degree to which these land uses meet ecological and biodiversity goals of  
53 PES programs. Because of this, we posit that a PES incorporating a market-based  
54 compensation strategy that varies with commodity prices, along with approaches that  
55 provide incentives for conservation and restoration land uses and enrollment of local  
56 landowners, could promote long-term conservation of endangered lands.

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59 Keywords (Max 6): payment for ecosystem services, market-based strategies, natural  
60 resource policy, forest conservation, Chaco, ecosystem services.

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## 63 1. Introduction

64

65 Current deforestation levels threaten biodiversity and provision of ecosystem  
66 services such as CO<sub>2</sub> storage and mitigation of climate change. Incentive-based  
67 strategies such as Payments for Ecosystem (or Environmental) Services (PES)  
68 programs have been championed as a means to preserve forests by providing financial  
69 incentives to forest owners who voluntarily enroll in payment schemes and, in exchange  
70 for payments, commit to continued provision of ecosystem services (Wunder et al.,  
71 2008). However, effectiveness of PES may be hindered when participants enroll land  
72 with low threat of deforestation (i.e., lands that would likely remain forested regardless  
73 of PES), thus increasing the budgetary cost of the program while having only a minimal  
74 impact on deforestation (adverse selection; Ferraro, 2008). An analogous situation  
75 occurs when land under high deforestation threat is enrolled for short time periods.  
76 These projects may provide little return for conservation but still increase the cost of the  
77 PES program (adverse selection in time, Drechsler et al., 2017; Núñez-Regueiro et al.,  
78 in review). Temporal and spatial enrollment patterns are critical for understanding this  
79 issue because they drive adverse selection, one of the greatest challenges for PES  
80 (Ferraro, 2008; Sims et al. 2014; Pagiola et al., 2016; Drechsler et al., 2017).

81 Factors that may contribute to spatial or temporal enrollment patterns and result  
82 in adverse selection are diverse, including characteristics of landowners and  
83 landholdings, and restrictions on land uses under the PES program. For example,  
84 landowners who depend primarily on agricultural production for their livelihood might be  
85 less likely to enroll highly productive lands, and thus lands under higher threat of  
86 deforestation, than landowners who either have other sources of income or manage  
87 land for purposes other than income generation (Alix-Garcia et al., 2015; Robinson et al.  
88 2016; Silva et al., 2016). Similarly, local landowners closely involved with agricultural  
89 production may be less willing to enroll lands for long periods of time than absentee  
90 landowners, who generally have other sources of income (Miranda et al., 2003;  
91 Arriagada et al., 2009; Petrzalka et al., 2013). Landholding size also may influence  
92 enrollment. Large landowners may have smaller agricultural production cost, higher  
93 profits per unit of land, and thus less incentive to enroll land with high potential for

94 agriculture than small landowners (Cushman, 2006; Arriagada et al., 2012). The land  
95 use allowed on a property under PES also could influence spatial and temporal patterns  
96 of enrollment, and thus probability of adverse selection (Arriagada et al., 2009; Miteva et  
97 al., 2012). More restrictive land uses may reduce profits and limit the ability of  
98 landowners to track markets, and thus discourage long term enrollment of highly  
99 productive lands.

100 To date, studies of adverse selection have focused on whether participants enroll  
101 lands that are threatened, but the importance of contract length has received little  
102 attention (Arriagada et al., 2009; Alix-Garcia et al., 2015; Sims and Alix-Garcia, 2017),  
103 possibly because most PES programs have a fixed contract length (e.g., four-five years,  
104 Schomers and Matzdorf, 2013; Ezziene-de-Blas et al., 2016; Pagiola et al., 2016; Sims  
105 and Alix-Garcia, 2017). However, even with fixed contracts, renewable contracts  
106 provide opportunities for variable enrollment times for landholdings. Moreover, studies  
107 of PES that include information on attributes of landowners and their land are rare  
108 (Miteva et al., 2012; Schomers and Matzdorf, 2013; Ezziene-de-Blas et al., 2016). Thus,  
109 understanding of how characteristics of the landholding, landowner attributes, and land  
110 use relate to adverse selection remains limited.

111 In this paper, we identify predictors of spatial and temporal enrollment patterns in  
112 Argentina's PES scheme. We focus on the PES program in the Chaco dry forest in  
113 northwestern Argentina, a forest with one of the highest levels of deforestation  
114 worldwide fueled by rapid expansion of soybean and livestock production (Grau et al.,  
115 2008; Hansen, 2013; Volante et al., 2016; Nolte et al. 2017a; Fehlener et al., 2017).  
116 Like other PES programs, this one aims to avoid deforestation through voluntary  
117 enrollment of threatened land (Schomers and Matzdorf, 2013; Ezziene-de-Blas et al.,  
118 2016; Pagiola et al., 2016; Sims and Alix-Garcia, 2017). A key characteristic that  
119 distinguishes the Argentine PES program from others is that contract lengths vary  
120 among participants (Garcia Collazo et al., 2013). This, in combination with readily  
121 available information on agricultural potential and other characteristics of landholdings,  
122 economic activities of landowners, and land use, provides a rich platform to identify  
123 factors that contribute to both temporal and spatial adverse selection.

124 We hypothesized that the primary economic activity of landholders would be a  
125 strong driver of temporal and spatial enrollment patterns linked to adverse selection.  
126 Participants in this PES program range from private landowners with large agricultural  
127 operations to real estate agents, indigenous communities, and local governments  
128 managing public land (Graziano Ceddia and Zepharovich, 2017; le Polain de Waroux et  
129 al., 2017; Marinaro et al., 2017). In addition to primary economic activity of landowners,  
130 we examined three other factors that could influence enrollment patterns related to  
131 adverse selection: 1) whether landowners were local or absentee, 2) size of enrolled  
132 property, and 3) type of land-use allowed at the site under PES, which ranged from  
133 partial forest removal for silvopastoral management to strict conservation.

134 Overall, we found that primary economic activity was not the most parsimonious  
135 predictor of adverse selection, though this was related to other factors. Alternatively, the  
136 land uses allowed, whether landowners were local or absentee, and size of enrolled  
137 parcels were better predictors of observed spatial and temporal adverse selection. Our  
138 findings suggest that the Argentine PES program will have stronger chances of enrolling  
139 land with high agricultural potential and longer contracts if it targets local landowners  
140 who submit small parcels and land-use plans that have the potential to provide  
141 additional earnings, such as silviculture, silvopasture, or non-timber forest products.  
142 Relatively few large parcels were enrolled, particularly in areas of high deforestation  
143 threat, and enrollment was shorter for large parcels, which represents a fundamental  
144 challenge for both this program and environmental conservation of the threatened Chaco.

145

## 146 **2. Methods**

147

### 148 *2.1. Study Area*

149 The Chaco forest of Argentina, Bolivia, and Paraguay is the second largest  
150 forested ecoregion in South America, after the Amazon, and a key global conservation  
151 area because of high levels of biodiversity and endemism (Fehlenberg et al. 2017;  
152 Kuemmerle et al., 2017). The Chaco suffers from record-high land-conversion driven by  
153 large-scale agriculture (Grau et al., 2008; Gasparri et al. 2013; Kuemmerle et al., 2017).  
154 Sixty percent of the Chaco occurs in Argentina, and many rural and indigenous

155 communities rely on the natural resources of this region. Our study focuses on the four  
156 provinces in Northwestern Argentina that hold the largest tracts of Chaco forest: Chaco,  
157 Formosa, Salta, and Santiago del Estero (252,319 km<sup>2</sup>, Fig. 1). This landscape consists  
158 of remnant forest strips, small forest patches, and some larger forest blocks embedded  
159 in a matrix of large farms primarily used for soybeans or cattle pasture (Núñez-Regueiro  
160 et al., 2015).

161

## 162 2.2. Program Description.

163 In recognition of the need to curb high rates of deforestation, Argentina's legislature  
164 passed an innovative law (Native Forest Law 26331; henceforth Forest Law) in 2007  
165 that established a minimum annual federal budget for environmental protection,  
166 enrichment, restoration, conservation, and sustainable management of native forests  
167 and the environmental services they provide (Garcia Collazo et al., 2013, Aguilar et al.  
168 2018). Under the Forest Law, the federal government sets general requirements for  
169 environmental protection and funds a national-level PES program that distributes funds  
170 to the provinces. Each province defines its own conservation priorities and management  
171 objectives, and decides how to allocate the funds (Nolte et al., 2017a). The Forest Law  
172 required national-level land-use planning to identify, prioritize, and protect important  
173 land for local communities and biodiversity conservation. Each province with native  
174 forest was responsible for classifying forest into three categories (Fig. 1): Category I  
175 (red zone) designates areas of very high value that cannot be deforested or selectively  
176 logged. Lands in this zone can be used for conservation, restoration, collection of non-  
177 timber forest products, or eco-tourism. Category II (yellow zone) contains areas of  
178 medium or high value that should not be deforested but can be used sustainably.  
179 Landowners can choose any land use in category I as well as silviculture and  
180 silvopasture. Category III (green zone) represents areas of low value that can be  
181 cleared of forest. If landowners with land in this category choose to enroll in the  
182 program, they have the same land-use choices as landowners with land in the other two  
183 categories. The Forest Law stipulates financial compensation for each participating  
184 province based on the amount of land in each land-use category and to individual  
185 program participants who voluntarily enroll their land in the payment program (Garcia

186 Collazo et al., 2013). The administrative unit for this program is the cadastral parcel. A  
187 landowner can own several parcels but only enroll one or a few parcels, or even part of  
188 a single parcel. Participants first enroll each parcel, or portion of a parcel, for one year  
189 by submitting a “formulation project” aimed at collecting baseline biodiversity  
190 information. Then, participants submit a plan (in Spanish, “certificado de obra”) for each  
191 parcel where landowners commit to conduct activities to maintain or enhance  
192 ecosystem services, according to the land uses allowed under each zoning category,  
193 and define the contract length for the parcel. Payments are conditional on landowners  
194 providing this plan.

195 Arguably, establishing payments in areas with high land-use restrictions provides  
196 little additionality (i.e., payments might be redundant given that the Forest Law already  
197 protects land in red and yellow categories), and evidence regarding effectiveness of this  
198 program as a mechanism to decrease deforestation is the subject of current debate  
199 (Nolte et al., 2017a and 2018; Volante and Seghezzo, 2018). Untangling relative  
200 contributions of land-use restrictions and payments schemes for reducing deforestation  
201 is difficult. However, recent studies show that under the Forest Law, deforestation  
202 occurs in restricted areas (i.e., red and yellow zones; Camba Sans et al., 2018) and  
203 provincial governments have difficulties enforcing the law (Volante and Seghezzo,  
204 2018). Offering payments in areas with land-use restrictions could serve two purposes:  
205 1) to compensate landowners for provincially-mandated land-use restrictions and thus,  
206 increase overall acceptance and likelihood of compliance with the Forest Law, and 2)  
207 provide enrollees with financial resources to sustainably manage their land (Native  
208 Forests Law 26331).

209 Between 2010 – 2015, the PES program allocated over US\$45 million to 1,341  
210 projects in the four Chaco provinces (Núñez-Regueiro et al., in review). This investment  
211 resulted in almost 43,000 km<sup>2</sup> of land enrolled (equivalent to 17% of available land that  
212 could potentially be enrolled in all zoning categories). The geographic scope of  
213 Argentina’s PES program in the Chaco is among the largest in the world (Ezziene-de-  
214 Blas et al. 2016; le Polain de Waroux et al., 2017). See Supporting Information for more  
215 details.

216

### 217           2.3. *Data Sources and Variables*

218           To assess how characteristics of enrollees and the land enrolled relate to  
219 spatiotemporal enrollment patterns, we first obtained a list of geo-referenced properties  
220 enrolled in the first five years of the PES program in Chaco (n = 1,341; 2010-2015) from  
221 the PES database of the Argentine Ministry of Environment. This dataset also provided  
222 the length of contractual obligations, parcel size, size of land enrolled (i.e., part or all of  
223 the parcel), proposed land-use activity under PES, and individual participant  
224 identification number. Using this identification number, we then searched on an open-  
225 access governmental database with self-reported information on the primary revenue-  
226 generating activity of individuals or organizations (henceforth, primary activity). Although  
227 self-reported information can introduce bias into datasets, this problem should be  
228 minimum in our study because the Federal Administration of Public Income requires  
229 individuals to document their claims and monitors for accuracy.

230           We classified participants into one of seven categories. The first category  
231 included governmental and other non-profit organizations that primarily manage land for  
232 conservation (e.g., parks and reserves), rather than for commercial purposes, but also  
233 manage other fiscal lands that may be leased to private individuals or companies for a  
234 fee. The second category comprised indigenous and campesino (peasant) communities  
235 that own a mix of revenue-generating lands (e.g., lands for agriculture and cattle  
236 ranching) and forested land used for subsistence-level natural resource extraction. The  
237 remaining landowners (individuals or companies) were divided into five categories  
238 based in their primary economic activity as follows: row crop agriculture (hereafter  
239 agriculture), cattle ranching, silviculture, legal/real estate, and other non-agricultural  
240 businesses ([https://seti.afip.gob.ar/padron-puc-constancia-](https://seti.afip.gob.ar/padron-puc-constancia-internet/ConsultaConstanciaAction.do)  
241 [internet/ConsultaConstanciaAction.do](https://seti.afip.gob.ar/padron-puc-constancia-internet/ConsultaConstanciaAction.do), <https://www.cuitonline.com>). This database also  
242 provided information on city of residence for each landowner. We defined absentee  
243 landowners as participants with a PES project in a province different from the  
244 landowners' province of residence. For our final database, we discarded all projects  
245 without information on the primary activity of participants and projects listed as  
246 "formulation projects," as these projects are one-year projects that are meant to lead to  
247 longer contracts (final number of projects used = 762).



248           Then, we defined spatial and temporal adverse selection for program participants  
249 based on contract length and agricultural suitability of enrolled properties. Spatial  
250 adverse selection can increase as productivity of enrolled land decreases (Ferraro et  
251 al., 2011). For analysis, we defined high spatial adverse selection as enrollment of land  
252 in sites with less than median regional potential agricultural productivity, based on  
253 enrolled and non-enrolled lands (Hi-SAS, Fig. 2). Sites in Chaco forest with low  
254 productivity potential for agriculture are less likely to be deforested than high-  
255 productivity sites (Grau et al., 2008; Fehlenberg et al., 2017) and thus, may be more  
256 likely to remain forested in the absence of program interventions (Ferraro et al., 2011).  
257 We obtained agricultural suitability for enrolled areas from a raster grid database of the  
258 land-use suitability of the region for soybean and pasture for cattle (Fig. 1; data from the  
259 National Institute of Agricultural Technology; see Supporting Information for details).

260           Temporal adverse selection is evidenced when threatened land is enrolled for  
261 short time periods, thus, reducing funds for long-term contracts (Núñez-Regueiro et al.,  
262 in review). We defined high temporal adverse selection as enrollment of land in PES for  
263 less than the median regional enrollment length (Hi-TAS, Fig. 2). Considering the high  
264 deforestation levels in Chaco and the long time-periods required for forest regrowth,  
265 short-term contracts likely provide little protection and thus are unsuited to secure long-  
266 term provision of environmental services (Grau et al. 2008, Lennox and Armsworth  
267 2011, Drechsler et al. 2017, Fehlenberg et al., 2017; Núñez-Regueiro et al., in review).  
268 The Argentine PES program allows participants to re-enroll (Garcia Collazo et al.,  
269 2013). However, the degree to which participants will choose this option is unknown.  
270 Because the program is fairly new (Forest Law passed in 2007; first participants  
271 enrolled in 2010), insufficient data were available to include re-enrollment in our  
272 analysis. If substantial re-enrollment occurs, temporal adverse selection could be lower  
273 than reported in our study.

274           Depending on the agricultural production potential where a given PES project is  
275 located and its contract length, a participant was categorized as only having high spatial  
276 or high temporal adverse selection (Hi-SAS or Hi-TAS, respectively), both high spatial  
277 and high temporal adverse selection (WORST), or low spatial and temporal adverse

278 selection (BEST). Avoiding both temporal and spatial adverse selection would require  
279 enrolling land under high threat of conversion for long periods of time (Fig. 2).

280

#### 281 *2.4. Data Analysis*

282 To test our hypothesis and understand other factors that may contribute to spatial  
283 and temporal enrollment patterns, we built a series of multinomial logistic regression  
284 models (MLRM) with spatiotemporal adverse selection as a response variable with the  
285 four categories (Hi-SAS, Hi-TAS, BEST, and WORST). To understand the relationship  
286 between adverse selection and primary activity of participants, we used a categorical  
287 predictor variable: levels one through five corresponded to the five revenue-generating  
288 activities listed above, level six to land management by governmental and non-  
289 governmental organizations, and level seven to land management by peasant and  
290 indigenous communities. To test competing hypotheses, we also included the following  
291 predictor variables: absentee or local landowner (binary variable), size of land enrolled  
292 (continuous numerical variable), and type of land-use plan enrolled (categorical variable  
293 with four levels: conservation plan, restoration plan, silviculture and collection of non-  
294 timber forest products, and silviculture and silvopastoral activities). The government  
295 database did not separate silviculture from non-timber forest products and silvopastoral  
296 activities or list ecotourism as a land use. The size of the land enrolled corresponds to  
297 the size of the parcel or portion of parcel that was enrolled. For convenience we will  
298 refer to this as parcel size. The total landholding size of landowners was not recorded in  
299 the PES database, and thus is unknown. To reduce multicollinearity in our model set,  
300 we tested for associations between variables and only included variables with no  
301 statistical evidence of associations among potential predictors in the same model (see  
302 Table 1 for list of models and Table S-1 for correlations among variables).

303 We ranked each model based on Akaike's information criterion adjusted for finite  
304 sample sizes (AICc). We considered models with the lowest AICc as the most  
305 parsimonious. Modeling and data manipulation were done in program R (R version  
306 3.4.2, R Development Core Team, 2008) with the package "nnet" for building MLRM  
307 (Venables and Ripley, 2002), and package "MuMIn" for model selection (Barton, 2018).  
308 With these models, we identified land-use plans, local versus absentee landownership,

309 and parcel size as important predictors of adverse selection. Determining contributions  
310 of different types of landholders to adverse selection is important for targeted revision of  
311 policy and program implementation. Therefore, post-hoc we examined the relationship  
312 between primary activity of participants and 1) type of land-use plans they submitted, 2)  
313 local versus absentee landownership, and 3) parcel size. Seventy-five percent of  
314 program participants enrolled land smaller than 500 ha (median = 146 ha  $\pm$  SD =  
315 9,439.9 ha); parcel sizes in the upper quartile ranged from 500-150,000 ha (median =  
316 1,310 ha  $\pm$  SD = 18,564.5 ha). Therefore, we also tested whether the odds of adverse  
317 selection differed between small and large parcels. We built a MLRM with  
318 spatiotemporal adverse selection categories as response variables and a binary  
319 predictor variable for parcels smaller or larger than 500 ha.

320

### 321 **3. Results**

322

323 Primary activity of participants was not the best predictor for adverse selection  
324 (Table 1). Proposed land use under PES, whether participants were local or absentee  
325 landowners, and the size of enrolled land were stronger predictors of spatial and  
326 temporal enrollment patterns (Table 1, Fig. 2, Fig. 3), although these factors were  
327 correlated with the primary activity of participants (Table S-1). On average, agricultural  
328 suitability and contract length were lower for parcels with land-use plans for restoration  
329 and conservation than land parcels with silviculture, non-timber forest products, and  
330 silviculture plans, resulting in lower odds of adverse selection in landscapes subject to  
331 resource use than in landscapes under restoration and conservation (Fig. 2, Table S-2).  
332 For example, compared to land parcels with conservation plans, land parcels with  
333 silviculture - silvopastoral land-use plans had 193% lower odds of incurring combined  
334 temporal and spatial adverse selection (i.e., the WORST scenario of lands with low  
335 agricultural potential enrolled for short periods of time), 252% lower odds of incurring  
336 high temporal adverse selection, and 138% lower odds of experiencing high spatial  
337 adverse selection. Similarly, parcels with land-use plans for silviculture or non-timber  
338 forest products had 151% lower odds of incurring the WORST scenario, 133% lower

339 odds of incurring high temporal adverse selection, 76% lower odds of incurring high  
340 spatial adverse selection than parcels with conservation plans (Fig. 3, Table S-2).

341 Governmental and non-governmental organizations (NGO) organizations and  
342 indigenous and campesino communities enrolled a larger proportion of their projects,  
343 and a greater total amount of land, with conservation and restoration plans (Tables S-3  
344 and S-7), as compared to participants who were directly engaged with production  
345 activities or non-agricultural businesses (i.e., agriculture, ranching, silviculture, legal and  
346 real estate firms, and non-agricultural business; Tables S-3 and S-7). However, the  
347 number of conservation and restoration plans, as well as the total number of projects,  
348 submitted by participants engaged in production activities and non-agriculture  
349 businesses were much greater than the number submitted by governmental and NGO  
350 organizations and indigenous and campesino communities (Table S-3). Thus, 71% of  
351 the total conservation and restoration projects were submitted by participants that were  
352 engaged in agricultural and cattle ranching activities (44%) or non-agricultural  
353 businesses (27%, Table S-3). For all participants, lands enrolled with conservation and  
354 restoration plans had lower agricultural potential and shorter enrollment times compared  
355 to lands enrolled in production-oriented land-use plans (Tables S-4 and S-5).

356 Lands enrolled by absentee landowners had lower agricultural suitability than  
357 land enrolled by local land owners, and contracts were shorter for absentee landowners  
358 (Fig. 2). As a result, absentee landowners had 143% higher odds of incurring spatial  
359 and temporal adverse selection, 51% higher odds of Hi-TAS, and 96% higher odds of  
360 Hi-SAS than local landowners (Table S-2). Absentee versus local status of land owners  
361 was correlated with their primary activity (Table S-1). All indigenous and campesino  
362 communities were local landowners. The proportion of landowners dedicated to  
363 silviculture and cattle ranching was greater for local than absentee landowners (Table  
364 S-6). Landowners with a legal or a real-estate related practice were more common  
365 among absentee landowners (Table S-6). Participants dedicated to agriculture,  
366 businesses outside the agriculture industry, and governmental and NGO organizations  
367 were evenly distributed among local and absentee landowners.

368 The probability of enrolling in BEST and Hi-TAS increased with decreasing size  
369 of parcel enrolled and the probability of enrolling in WORST and Hi-TAS increased with

370 increasing parcel size, although these relationships were not significant (Fig. 3, Table S-  
371 2). However, parcels >500 ha had 155% higher odds of incurring both spatial and  
372 temporal adverse selection (WORST), 116% higher odds of Hi-TAS, and 204% higher  
373 odds of Hi-SAS, in comparison to land <500 ha (Fig. S-1).

374

#### 375 **4. Discussion**

376 Market-based strategies like PES have the potential of becoming important policy  
377 tools to conserve ecosystem services and reduce deforestation. However, overcoming  
378 adverse selection, a key limitation to the effectiveness of PES programs, remains a  
379 critical challenge (Ferraro, 2011; Arriagada et al., 2012; Pagiola et al., 2016; Alix-Garcia  
380 et al., 2015; Börner et al., 2017; Wunder et al., 2018). We hypothesized that the primary  
381 activity of participants, particularly whether participants were engaged in agriculture,  
382 would be a strong predictor of spatial and temporal adverse selection in forested  
383 landscapes undergoing conversion to agriculture. However, other factors related to  
384 whether landowners were local or absentee, the type of land-use plan for the property  
385 under the PES program, and the size of the parcel of land enrolled were more  
386 important. Local landowners that submitted land-use plans related to production  
387 activities (non-timber forest products, silviculture, or silvopasture) were the least likely to  
388 incur spatiotemporal adverse selection (Fig. 2, Fig. 3). Absentee landowners with  
389 conservation and restoration projects were the most likely to enroll land with low  
390 agricultural potential and to enroll for short periods of time. Thus, under the current  
391 program structure, land uses that allow higher potential financial earnings and lands  
392 owned by local landowners are better suited to avoid spatial and temporal adverse  
393 selection as compared to land uses that have lower potential earnings, such as  
394 conservation projects, and are owned by absentee landowners.

395 Absentee landowners generally submitted land with lower agricultural potential  
396 for shorter time periods than local landowners across all categories of participant activity  
397 (Fig. 2). Other studies have found that absentee landowners both own land with lower  
398 productive potential and are less engaged in land-management activities than local  
399 landowners (Miranda et al., 2003; Arriagada et al., 2009). In Costa Rica's PES program,

400 absentee landowners are wealthier than local landowners and a main motivation for  
401 enrollment is lack of a better alternative use of land (Miranda et al., 2003; Arriagada et  
402 al., 2009). Studies have shown that absentee landowners of forest lands in the  
403 northeastern United States are less interested in forest management or conservation  
404 than local landowners (Petrzelka et al., 2013), characteristics that might be shared with  
405 absentee landowners in the Chaco region (le Polain de Waroux et al., 2017; this study).

406 In our study area, governmental and NGO organizations and indigenous and  
407 campesino communities submitted a large proportion of their projects with conservation  
408 and restoration plans (Table S-3). In Chaco, as in other regions, public lands and  
409 indigenous territories often are located in marginal lands with low agricultural  
410 productivity (Korovkin, 1997; Kareiva et al., 2007; de la Cadena, 2010; Marinaro et al.,  
411 2017; Murdock et al., 2007; but see Sims and Alix-Garcia, 2017). If most conservation  
412 and restoration plans in our study were submitted by governmental and NGO  
413 organizations and indigenous and campesino communities, a priori we might expect an  
414 association of spatial adverse selection with conservation and restoration plans.  
415 However, the total number of projects submitted by these groups was small, and  
416 landowners engaged in economic activities with high earning potential, such as  
417 agriculture or ranching, submitted most conservation and restoration projects (Table S-  
418 3). The agriculture potential of lands in conservation and restoration projects submitted  
419 by these participants was, on average, 12% lower than the agricultural potential of lands  
420 submitted as projects with collection of non-timber forest products, silviculture, or  
421 silvopasture (Table S-4).

422 Contract duration for conservation and restoration plans was less than half the  
423 median length of contracts with silviculture-silvopastoral land-use plans, the land use  
424 with the longest contracts time. In recent years, some participants have pushed for a re-  
425 categorization of land under high land-use restrictions (i.e., yellow and red zones) to the  
426 category that allows land conversion and land-use practices such as agriculture (i.e.,  
427 green zone; le Polain de Waroux, 2017). Thus, some participants may enroll for short  
428 time-periods in conservation and restoration projects while waiting for downgrading of  
429 their land towards a zone with lower land-use restrictions. Shorter contracts also allow  
430 landholders to adapt in the face of changing market conditions by providing the flexibility

431 to change land uses upon contract end (Roberts and Lunowski, 2007; Engel, 2016). In  
432 our study area, a short-term contract with a conservation or restoration plan also could  
433 be a strategy of some private landowners who are not currently involved in production  
434 activities but may wish to use these lands for production in the future (e.g., lands in  
435 green and yellow zones). In the case of Chaco, short enrollment contracts do not  
436 necessarily imply deforestation. The Argentine PES program allows re-enrollment of  
437 participants (Garcia Collazo et al., 2013). Short term enrollment followed by re-  
438 enrollment could be used as a strategy to obtain inflation-adjusted payments if  
439 payments have the potential to increase over time.

440 Small parcels enrolled in PES in the Chaco have a lower likelihood of incurring  
441 adverse selection than large parcels. This pattern might be explained, at least partially,  
442 by disparities in opportunity costs associated with different size parcels. Land owners  
443 may be more likely to enroll small parcels for long periods of time and in areas with high  
444 agricultural suitability because of potentially lower profit margins from agriculture on  
445 small parcels. All else being equal, larger farms have a smaller cost of production per  
446 unit of land than smaller lands (e.g., returns to scale) and thus higher profit margins that  
447 must be offset by PES payments (Duffy, 2009). However, in the Chaco, enrolled parcel  
448 size may not always reflect opportunity costs because these parcels may be part of  
449 much larger landholdings that are managed as a unit. Understanding factors that limit  
450 enrollment of large parcels, particularly those with high agricultural suitability, deserves  
451 more attention. Presently, in the Chaco and elsewhere, large tracts of lands, which may  
452 be the most valuable from a biodiversity conservation perspective, likely are the most  
453 difficult to protect from deforestation through long-term enrollment in the PES programs  
454 (Salzman et al., 2018).

#### 455 4.1. *Implications for natural resource policy and conservation*

456 The Forest Law through land-use zoning and PES aims to improve and maintain  
457 ecological and cultural processes that occur in native forest, and enrich, conserve, and  
458 restore Argentine native forests (Garcia Collazo et al., 2013). Perhaps the most startling  
459 trend from this study for long-term biodiversity conservation is that only 10% of the  
460 parcels >500 ha were enrolled in areas under high threat of deforestation (i.e., areas

461 with high agricultural potential), compared to 90% of the smaller parcels enrolled in  
462 these areas. If small patches of fragmented forests are disproportionately conserved  
463 with PES, long-term species persistence, and the ecological services offered by these  
464 species, will be hampered. This is especially true for wide-ranging wildlife species  
465 dependent upon large expanses of habitat and dispersal-limited species that cannot  
466 move across fragmented landscapes (Fahrig, 2003; Cushman, 2006; Quiroga et al.,  
467 2016). Small fragments also consist primarily of edge habitat where altered  
468 microclimate can induce high tree mortality and degrade the forest within the fragment,  
469 resulting in further loss of forest and forest-dependent species over time (Laurance et.  
470 al., 2011).

471 Enrollment of conservation and restoration plans in areas with low deforestation  
472 pressure and for short time-periods challenges the long-term effectiveness of this PES  
473 program. If government, indigenous people and local community lands have lower  
474 agricultural potential than lands dedicated to agriculture, and thus lower potential for  
475 deforestation, then spatial adverse selection is unavoidable if these lands are enrolled in  
476 PES. At current payment levels and based only on looking at adverse selection, the  
477 conservation value of investing PES funds in these lands may be questionable.  
478 However, such funds could be key in supplementing small budgets for historically  
479 marginalized communities and public land management. This is especially important in  
480 cases like in our study area where most of the total land extension was submitted by  
481 government and NGO entities and by campesinos and indigenous people (Table S-7).  
482 Furthermore, if enrollment times could be increased, commitments to PES potentially  
483 could help retain public ownership of lands during periods when government authorities  
484 support sales of public land (Schmidt, 2012).

485 Enrolling lands with high opportunity costs for long periods of time in PES is  
486 challenging, and few models exist for PES programs that address rapid expansion of  
487 industrial-scale agriculture and prevent deforestation. Despite this, PES-induced forest  
488 conservation has been observed in projects that aim to increase adoption of production  
489 activities that provide for carbon sequestration and some benefits for biodiversity  
490 conservation rather than adoption of stronger conservation practices with limited  
491 potential for financial gains beyond direct payments (Wunder et al., 2008; Bohlen et al.,



492 2009; Zabel and Engel, 2010; Arriagada et al., 2012; Alix-Garcia et al., 2015, Pagiola et  
493 al., 2016, Jayachandran et al., 2017). These two scenarios mirror land-use categories  
494 under the Forest Law that allow for lower-impact economic activities like silviculture or  
495 silvopasture, (e.g., yellow zone) and land-use categories that prohibit these practices  
496 but encourage conservation and restoration projects (e.g., red zone) of the Argentine  
497 PES. In a PES program in Mexico, the greatest additionality was found when land close  
498 to park edges enrolled in PES (Sims and Alix-Garcia, 2017). Similarly, the greatest  
499 additionality in the Argentine PES may occur where enrolled lands are in yellow zones  
500 adjacent to protected areas or other lands in the red zone.

501 In the short term, PES in the Chaco may be most successful in enrolling private  
502 lands with projects focused on land uses with earning potential (e.g., silviculture or  
503 silvopasture) in areas with intermediate protection levels (i.e., yellow zones). These land  
504 uses reduce opportunity costs and increase the chances that a given payment will  
505 match or exceed minimum acceptable payment threshold for supplying environmental  
506 services (Börner et al., 2017). In our study area, a larger proportion of land in the red  
507 zone is public land (in comparison to other land-use zones), occurs on lands with low  
508 agricultural suitability, and already has some form of protection. In contrast, most lands  
509 in the yellow category are private landholdings with higher agricultural suitability.  
510 Because regional land-use plans prohibit deforestation but allow limited production  
511 activities in the yellow category, payments constitute incremental income above income  
512 generated by low-intensity production activities (e.g., cattle ranching) rather than a  
513 replacement for all income generated by conversion to large scale agriculture.

514 In the long term, PES projects with conservation and restoration plans, which  
515 restrict production activities on private lands, should provide the best management  
516 strategies to accomplish the goals of the Argentine PES. Private lands have high  
517 potential for land conversion or degradation with production activities, and these land-  
518 use plans offer considerably more protection than plans that allow production. For  
519 example, a silvopasture approach called “Forest Management with Integrated Cattle  
520 Ranching” (MBGI - Manejo de Bosques con Ganadería Integrada), which allows for tree  
521 removal and planting of introduced grasses, is being promoted as a compatible strategy  
522 for both biodiversity conservation and cattle ranching (FVS, 2016). MBGI is widely

523 supported across some government and non-government organizations, as well as by  
524 private land-owners, and could be used in the largest stretches of remnant Chaco forest  
525 (i.e., yellow and green zones). However, whether MBGI will meet the Forest Law's  
526 objectives of conserving biodiversity is unknown. Specialists have raised concerns  
527 about potential negative effects on biodiversity such as increases in forest  
528 fragmentation, reduction in the quantity and quality of wildlife habitat, and synergistic  
529 increases in hunting pressure (FVS, 2016). These specialists also point out that  
530 implementing corridors and promoting sustainable hunting practices could mitigate  
531 some effects of silvopasture activities such as MBGI (FVS, 2016). However, the  
532 success of such a mitigation strategy still will depend on having extensive forest blocks  
533 to link with corridors, suitable habitat within corridors, and new strategies for managing  
534 hunting. Increasing incentives for long term enrollment of threatened land under  
535 conservation and restoration projects might be a more parsimonious strategy to meet  
536 the program's goals.

537         The degree to which economic development and conservation goals can be met  
538 simultaneously with PES will depend on the compatibility of silvopasture practices, as  
539 well as extraction of timber and non-timber forest products, with forest and biodiversity  
540 conservation. Considerable effort has focused on development of management options  
541 for sustainable use of humid and seasonally dry tropical forests that meet conservation  
542 goals (Putz et al., 2008). However, much less is known about compatible management  
543 for semiarid, subtropical forests such as Chaco (Trigo et al., 2017). The challenges are  
544 significant, ranging from climate extremes that limit forest productivity and necessitate  
545 long rotation cycles for ecologically sustainable harvest to severe ecosystem  
546 degradation from decades of unmanaged grazing (Grau et al., 2008). Furthermore,  
547 although the largest amount of land in the Chaco is in the yellow category slated for  
548 sustainable use, some very critical pieces for long-term regional conservation, such as  
549 forest corridors that link protected areas and safeguard riparian areas, occur on private  
550 lands in the red category where use is restricted (Núñez-Regueiro pers. obs.). If PES  
551 cannot engage these landowners in long term contracts that conserve these regions,  
552 then the limits of PES need to be recognized and other strategies need to be identified  
553 and implemented.

554

## 555 **5. Conclusions**

556

557 Maintaining native forests with low human intervention is critical for supporting  
558 the world's ecosystem services, however wild places continue to disappear (Potapov et  
559 al., 2017). Developing strategies to encourage conservation and restoration projects  
560 that avoid adverse selection under PES in forested areas is fundamental to the success  
561 of these programs in addressing forest loss. Understanding predictors for spatial and  
562 temporal enrollment patterns may help improve effectiveness of PES programs,  
563 incentivize protection of forests, and address critical environmental challenges such as  
564 deforestation and climate change (Ferraro, 2011; Alix-Garcia et al., 2015; Chazdon,  
565 2017).

566 Under the current PES structure in Chaco, the most feasible means of achieving  
567 enrollment for threaten lands is through land-use activities that simultaneously promote  
568 sustainable forest use and conservation (e.g., silvopasture), as opposed to practices  
569 that restrict land use to conservation or restoration alone, and by encouraging active  
570 participation of local landowners. However, ecological impacts of land use on  
571 biodiversity, as well as forest cover, need to be assessed to recommend land-use  
572 practices under PES. Furthermore, although PES contracts for production-related land-  
573 use plans were less likely to be adversely selected than conservation-oriented plans,  
574 enrollment periods for all participants and land uses were short compared to the  
575 timeframe needed for sustainable forest management and biodiversity conservation.  
576 Providing bonus lump sum payments for long-term contracts or linking payments to  
577 commodity prices could incentivize long-term contracts by counteracting decreasing  
578 marginal benefit for landowners remaining in the program for long time-periods  
579 (Juutinen et al., 2014). Additionally, offering the highest-tiered payment levels for  
580 conservation and restoration lands in yellow and green zones could maximize the  
581 program's additionality by incentivizing land-use practices highly aligned with the  
582 program's goals in areas with high threat of land-use conversion.

583 Our results also indicate that large land parcels are least likely to achieve long-  
584 term enrollment in highly productive areas, which could accentuate already alarming

585 levels of habitat fragmentation and biodiversity loss (Núñez-Regueiro et al., 2015;  
586 Quiroga et al., 2016). Thus, strategies need to be developed and implemented that  
587 promote enrollment of large parcels of forest under high threat. One potential approach  
588 is offering payments proportional to the land's agricultural value. Spatial targeting of  
589 PES also is fundamental to avoid spatial adverse selection and to increase the overall  
590 size of contiguous protected forests through enrollment of adjacent land parcels and  
591 parcels bordering protected areas. Finally, monitoring PES program's performance  
592 under an adaptive management framework, as well as identifying where conservation  
593 objectives and the PES program are poorly matched from the outset, will be key for land  
594 management that supports the goals of PES and for improving conservation outcomes  
595 of PES (Sims et al., 2014; Alix Garcia et al., 2015).

596

597

Table 1. Multinomial logistic regression model comparison for spatiotemporal adverse selection. Predictors included in our models relate to our main hypothesis (i.e., primary activity of landholders) and alternative factors explaining spatiotemporal adverse selection [ i.e., 1), whether landowners are local or absentee, 2) parcel size, and 3) type of land use allowed at the site] and additive effects of these factors.

Hypothesis	D.F	logLik	AICc	Delta AICc	Model weight
L.U. plan type + Local/Absentee	15	-927.59	1885.80	0.00	0.95
L.U. plan type + Local/Absentee + Size	18	-927.33	1891.60	5.76	0.05
L.U. plan type	12	-942.59	1909.60	23.79	0.00
L.U. plan type + Size	15	-942.18	1915.00	29.18	0.00
Primary activity	21	-958.96	1961.20	75.36	0.00
Primary activity + Size	24	-958.80	1967.20	81.41	0.00
Local/Absentee	6	-989.83	1991.80	105.96	0.00
Size + Local/Absentee	9	-988.84	1995.90	110.09	0.00
Null model	3	-1004.58	2015.20	129.38	0.00
Size	6	-1003.20	2018.50	132.69	0.00

Abbreviation codes:

L.U. plan type = Land-use type (conservation, restoration, non-timber forest/silviculture, or silviculture/silvopasture)

Local/Absentee. = Local or absentee landowner

Size = Size of parcel enrolled in PES

Primary activity = Primary economic activity (Government/nonprofit, campesinos or indigenous communities, row crop agriculture, cattle ranching, silviculture, real estate or other non-agricultural business).

DF = Degrees of freedom

logLik = Log-Likelihood

AICc = Akaike Information Criterion corrected for finite sample sizes

Delta AICc = difference in AICc between best model and each individual model

Weight = model weight (Akaike weight)

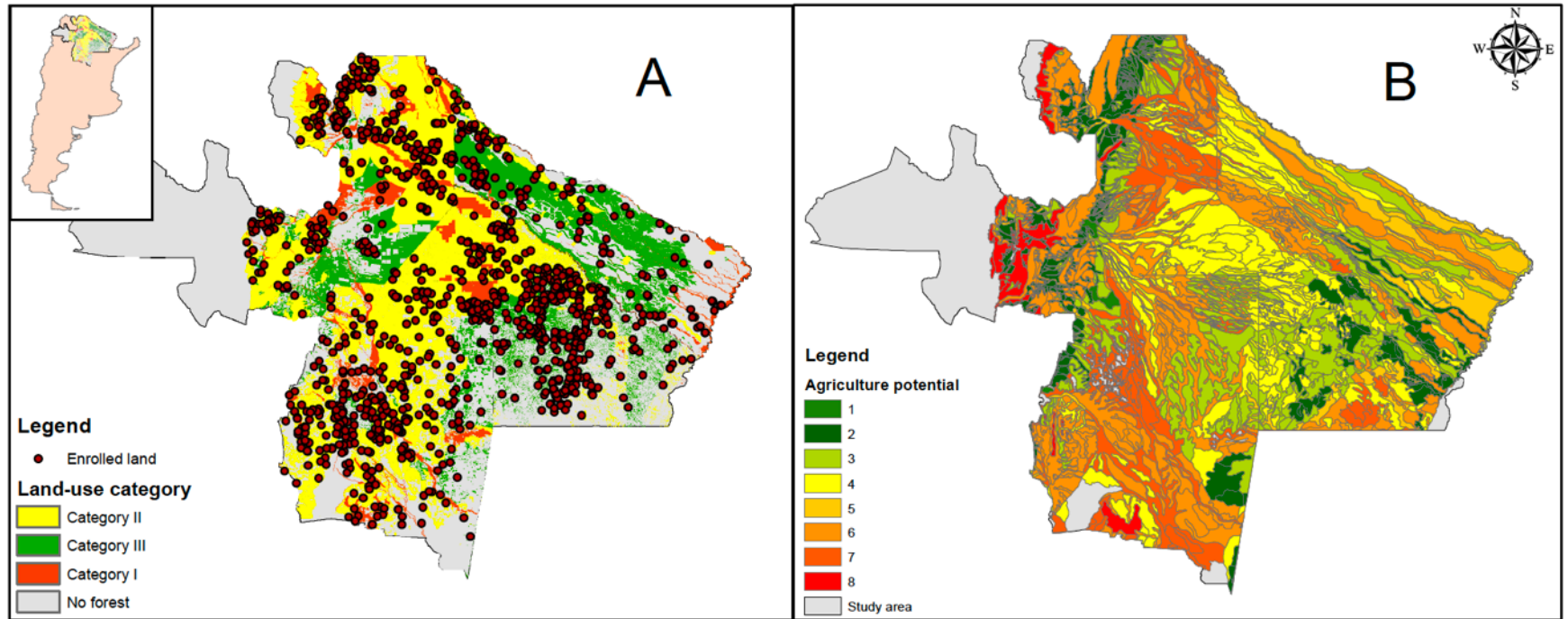


Fig. 1. A. Study area comprised of the four provinces that contain most of the Chaco forest in Argentina and corresponding land-use zoning categories for this forest, ranging from high protection to low protection (red, yellow, and green). B. Agricultural suitability index for the study area. Highest suitabilities are presented with darker red colors.

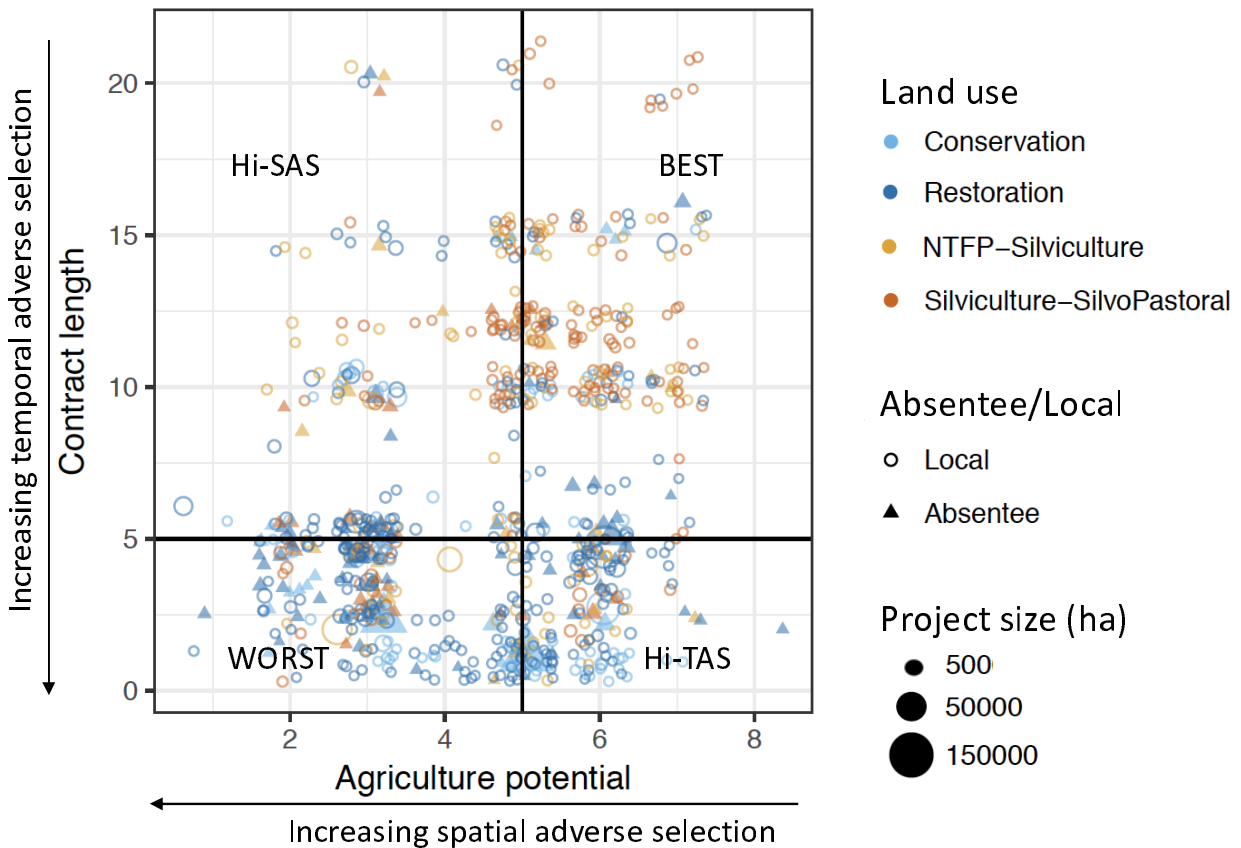


Fig. 2. Distribution of enrollment of land with different land-use plan types along axes of increasing temporal and spatial adverse selection. Vertical and horizontal lines represent median agricultural potential and median contract length, respectively. The four quadrants defined by these median values correspond to the four categories of spatiotemporal adverse selection used in our analysis: spatial and temporal self-selection (WORST), primarily high spatial adverse selection (Hi-SAS), primarily temporal adverse selection (Hi-TAS), and no adverse selection (BEST).

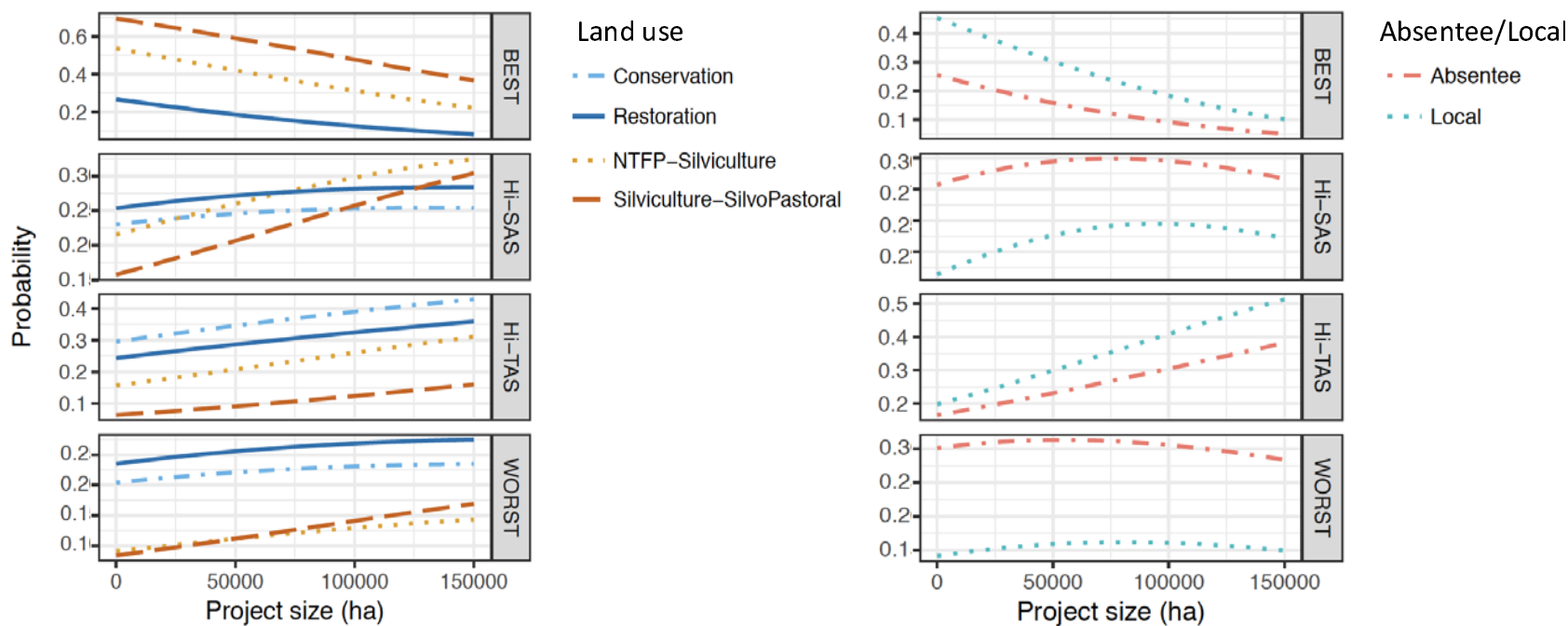


Fig. 3. Relationships between probabilities of incurring adverse selection under WORST, Hi-TAS, Hi-SAS, and BEST and project size for (A) different land-use plans under PES and (B) local or absentee landowners.



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