Addressing incentives that are harmful for biodiversity

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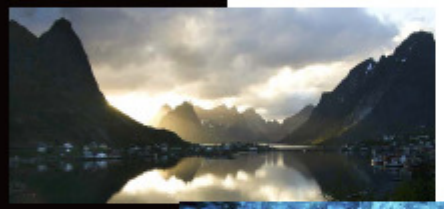
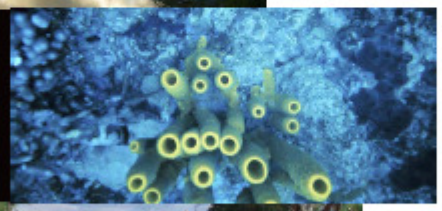
56

Incentive measures for the conservation and sustainable use of biological diversity

Case studies and lessons learned





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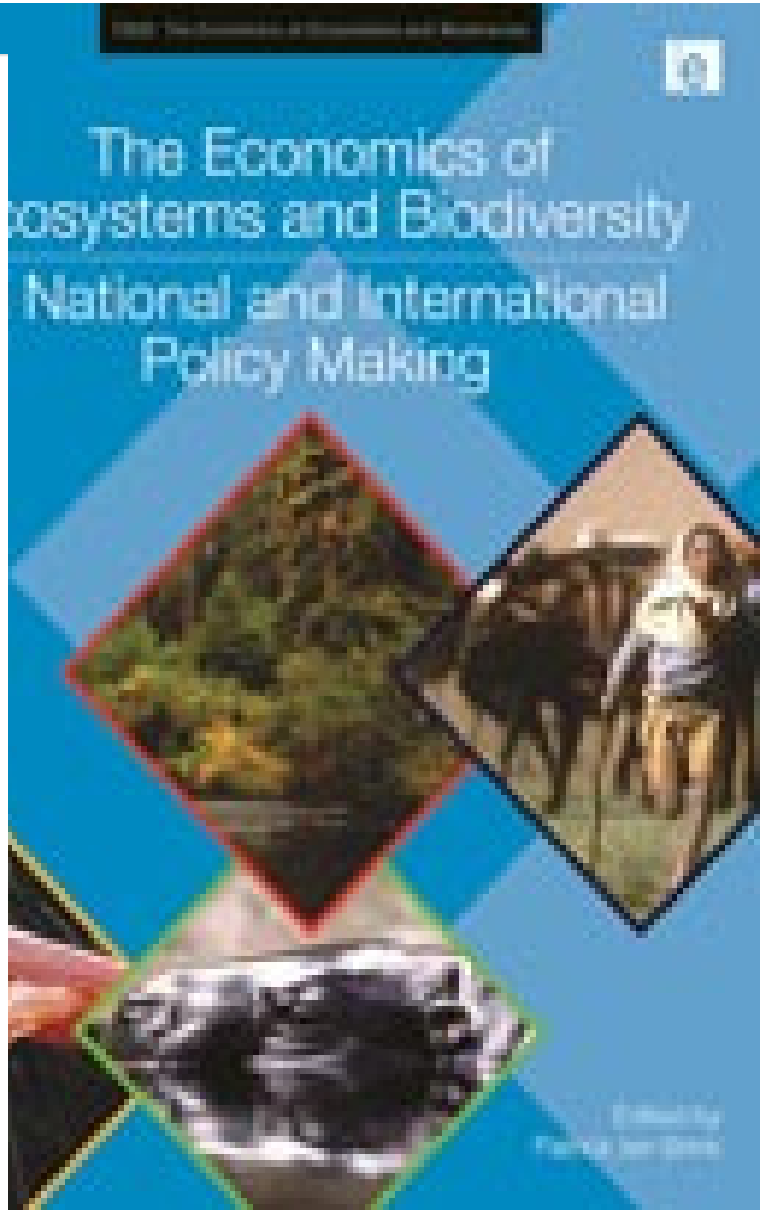

Target 3 of the Strategic Plan

“By 2020, at the latest, incentives, including subsidies, harmful to biodiversity are eliminated, phased out or reformed in order to minimize or avoid negative impacts, and positive incentives for the conservation and sustainable use of biodiversity are developed and applied, consistent and in harmony with the Convention and other relevant international obligations, taking into account national socio economic conditions.”

Aichi target 3 of the Strategic Plan

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What are incentives harmful for biodiversity? Concepts

Incentives

the opportunities and constraints that influence the behaviour of individuals and organisations in a society, deriving from a wide range of societal factors, including, but not limited to, from measures taken by governments

Incentive measures

"…economically and socially sound measures that act as incentives for the conservation and sustainable use of components of biological diversity." (Article 11 CBD)

A specific inducement designed and implemented to individuals to conserve biological diversity or to use its components in a sustainable manner

Incentives harmful for biodiversity (or 'perverse' incentives)

emanate from policies or practices that induce unsustainable behavior that is harmful to biodiversity, often as unanticipated (and unintended) side effects of policies designed to attain other objectives

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What are incentives harmful for biodiversity? Examples (exercise)

Detect the "perverse" (or harmful) incentive:

A land use policy prescribes "productive" use of land.

- May discourage sustainable use practices or private conservation

A programme assigns strict protection status to wildlife living adjacent to agricultural communities.

- "Shoot, shovel, and shut up" of nuisance wildlife

A rat extermination programme pays people per rat pelt handed in.

- People may start farming rats! (Vann 2003)

A rural development programme provides subsidized chemical fertilizer to farmers.

- May lead to fertilizer overuse and/or discourage other, more sustainable methods to improve soil quality

Government discusses introduction of a payment programme for farmers who adopt more sustainable agricultural practices.

- Farmers may increase their use of harmful practices so as to enhance their eligibility for receiving payments

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What are incentives harmful for biodiversity? Types

- Environmentally harmful subsidies
  - Two general mechanisms:
    - production subsidies reduce input costs or increase revenue;
    - consumer subsidies leading to the below-cost pricing for the use of natural resources

    → incentives for the increased use of subsidized resources

    → increased production and consumption levels

    → increased environmental damage.
  - Agriculture: US$261 billion/year in OECD countries, out of which 51% increase production (OECD 2009)
  - Fisheries: US$ 30-34 billion/year globally, out of which at least 20 billion contribute to overcapacity (Sumaila and Pauly 2007)
  - Energy: US$ 500 billion/year globally, 310 billion in the 20 largest non-OECD countries in 2007 (IEA 2008)
  - Water: US$ 67 billion, out of which 50 billion harmful (Myerson and Kent 2002)

What are incentives harmful for biodiversity? Types

- Environmentally harmful subsidies (cont.)
  - Not every subsidy is environmentally harmful
  - The size of the subsidy is not necessarily related to the size of the damage
  - Some subsidies may not be (very) cost-efficient and/or effective against their stated objectives
- Policies and laws governing resource use with harmful effects
  - Elements of land and tenure systems ('beneficial use' laws)
  - Certain trade policies/preferences
  - Sometimes environmental or resource management policies or programmes (possibly in conjunction with weak enforcement capacities)

Types of subsidies

- **Direct transfers of funds** (e.g. fossil fuels, roads, ship capacity) **or potential direct transfers** (e.g. nuclear energy and liability)
- **Income or price support** (e.g. agricultural goods and water)
- **Tax credits** (e.g. land donation/use restrictions)
- **Exemptions and rebates** (e.g. fuels)
- **Low interest loans and guarantees** (e.g. fish fleet expansion/modernisation)
- **Preferential treatment and use of regulatory support mechanisms** (e.g. demand quotas; feed in tariffs)
- **Implicit income transfers by not pricing goods or services at full provisioning cost** (e.g. water, energy) **or value** (e.g. access to fisheries)

Context matters; different definitions used in different contexts (eg state aid, WTO etc)

Opportunities

"While findings would vary from sector to sector and country to country, because of other resource endowments and social outcomes, there is a significant number of examples on environmentally harmful subsidies not just in OECD countries, but also in many non-OECD countries – in particular subsidies to fertilizers and irrigation water. This includes cases of successful identification and removal or reform. Further identifying and removing or mitigating the perverse effects associated with these subsidies is an important area for further work."

Third CBD workshop on incentive measures, Paris, October 2009

What to do?

*"…**urges** Parties and other Governments to prioritize and **significantly increase their efforts** in actively identifying, eliminating, phasing out, or reforming, with a view to minimizing or avoiding negative impacts from, existing harmful incentives for sectors that can potentially affect biodiversity,…"*

COP-10, decision X/44, paragraph 9

(emphases added)

1. Identification

"(…) while acknowledging that doing so requires then:

- ✓ the conduct of careful analyses of available data and
- ✓ enhanced transparency, through ongoing and transparent communication mechanisms on:
  - the amounts and the distribution of perverse incentives provided, as well as
  - of the consequences of doing so, including for the livelihoods of indigenous and local communities"

COP-10, decision X/44, paragraph 9

Enhancing transparency and enabling informed public debate is helpful in addressing the issue of entrenched stakeholders

1. Identification

- Distribution: Some subsidies may turn out to not be very effective/targeted against stated socio-economic objectives
- Energy subsidies example (from TEEB report for national and international policy-makers, chapter 6)

Box 6.2: Estimated distributional impact of energy subsidies in four developing countries

- In **Bolivia**, the poorest 40 per cent of house-holds receive 15% of the total benefits from fuel subsidies; the richest 60% of households get 85%.
- In **Gabon**, it is estimated that the richest 10% of households capture 33% of fuel subsidies, while the poorest 30% (below the poverty line) receive merely 13%.
- In **Ghana**, the poorest 40% of households get 23% and the richest 60% capture 77% of the benefits of fuel subsidies.
- In **Ethiopia**, the highest-income 20% of the population capture 44% of fuel subsidies, while the lowest-income 20% get less than 9%.

Source: Rijal 2007

1. Identification

"The assessment of subsidies and their effects should not just address environmentally harmful effects, but rather take a multi-criteria, holistic approach, which should also include the cost-effectiveness and the social effects of subsidies. This aim for a more comprehensive review process is useful because:

- *the identification and reform or removal of ineffective and inefficient subsidies, even if not environmental harmful as such, can free up considerable funds which could be used for more pressing environmental needs;*
- *For subsidies that are provided to support environmentally-friendly activities, ensuring that these subsidies are targeted and cost-effective will strengthen their case in the eternal tug-of-war over scarce public resources.*

Assessments also need to be extended to new, proposed policies in order to prevent further adverse effects on biodiversity and ecosystem services (strategic impact assessments). "

CBD Paris workshop on incentives, October 2009

2. Removal, phase-out, reform

General success factors

1. Strong leadership and broad support coalition involving key stakeholders
2. Use 'Whole-government' approach
3. Identify relevant interests; design and implement adequate responses
4. Need to design adaptation policies: analyse possible distributional/social impacts of reform policies and implement (offsetting) policies, e.g., compensatory packages, as appropriate

For instance, when Ghana eliminated fuel subsidies in 2005, mitigation measures included the elimination of school fees and a programme to improve public transport.

(See Technical Series 56, page 25)

2. Removal, phase-out, reform

General success factors (cont.)

5. Funding for offsetting policies/compensatory packages
   - Removing subsidies also saves money!
6. Improve transparency and enable informed public debate
   - See case study from Ghana (also: Indonesia)
7. Use political windows of opportunity (e.g. budgetary or economic crises)
8. (…)

In Ghana's elimination of fuel subsidies, effective government communications on the need for reform were an important success factor.

(See Technical Series 56, page 25)

2. Removal, phase-out, reform

Removal

- Is rare in its pure form but does exist; political windows of opportunity matter

Phase out

- Set out ambitious end points and more cautious but credible time tables
- Allows stakeholders to adapt gradually
- Transitional support with firm sunset clauses

Reform

- re-design programmes to enhance cost-effectiveness and targeting while reducing environmental harm

  Assigning/strengthening (property) rights, rights-based management

  Compensatory measures to mitigate perverse incentives in environmental policies

2. Removal, phase-out, reform

Words of caution

- Reform efforts may not be sufficient, in particular in highly dynamic environments – but this does not necessarily speak against the reform as such.
- A limited environmental recovery does not necessarily indicate ineffective reform policies, but rather a need for more comprehensive assessments of all relevant policies and their interactions, and more comprehensive policy action.
- It is an ongoing exercise!

For new policies

- Introduce or strengthen SEA
- UNEP minimum criteria for subsidies (UNEP 2008):

Targeted: Subsidies should go only to those who they are meant for and who deserve to receive them;

Efficient: Subsidies should not undermine incentives for suppliers or consumers to provide or use a service efficiently;

Soundly based: Subsidies should be justified by a thorough analysis of the associated costs and benefits;

Practical: The amount of subsidy should be affordable and it must be possible to administer the subsidy in a low-cost way;

Transparent: The public should be able to see how much a subsidy programme costs and who benefits from it;

Limited in time: Subsidy programmes should have limited duration, preferably set at the outset, so that consumers and producers do not get 'hooked' on the subsidies and the cost of the programme does not spiral out of control.

Select reading

- CBD Technical Series No. 56 (2011)
- Short guide on target 3 (1)
- TEEB for International and National Policy-makers, chapter 6