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### **MODALITIES AND MILESTONES FOR THE FULL OPERATIONALIZATION OF AICHI BIODIVERSITY TARGET 3, AND OBSTACLES ENCOUNTERED IN IMPLEMENTING OPTIONS IDENTIFIED FOR ELIMINATING, PHASING OUT OR REFORMING INCENTIVES THAT ARE HARMFUL FOR BIODIVERSITY<sup>1</sup>**

*Note by the Executive Secretary*

#### **I. INTRODUCTION**

1. In paragraph 8 of decision XI/4 (review of implementation of the strategy for resource mobilization, including the establishment of targets), the Conference of the Parties, mindful of the potential of Aichi Biodiversity Target 3 to mobilize resources for biodiversity, decided to consider modalities and milestones for the full operationalization of Aichi Biodiversity Target 3 at its twelfth meeting, with a view to their adoption. While the paragraph did not spell out a particular process for the preparation of such modalities or milestones, other inter-sessional work commissioned by decision XI/4 will be considered by the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention (Working Group) at its fifth meeting. The Executive Secretary, in consultation with the Bureau, therefore undertook to do preparatory work as spelled out below, and to submit the result of this work to the Working Group for its consideration.

2. As Aichi Target 3 calls for the elimination, phasing out or reform of incentives that are harmful for biodiversity, together with the promotion of positive incentive measures, the topic addressed by paragraph 8 of decision XI/4 relates to the issue addressed in paragraph 4 (d) of decision XI/30 (incentive measures). In this paragraph, the Conference of the Parties invited Parties, other Governments and relevant international organizations to submit to the Executive Secretary information on obstacles

\* UNEP/CBD/WGRI/5/1.

\*\* UNEP/CBD/SBSTTA/18/1.

<sup>1</sup> In light of the close linkages between WGRI 5 item 6.4 (see UNEP/CBD/WGRI/5/1/Add.1) and SBSTTA 18 item 7, this note considers both items in an integrated manner.

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encountered in implementing options identified for eliminating, phasing out or reforming incentives that are harmful for biodiversity. In paragraph 12 (a) of the same decision, the Conference of the Parties requested the Executive Secretary, with a view to supporting progress towards the achievement of the Aichi Biodiversity Targets, in particular Targets 2, 3 and 4, and to mobilizing resources for biodiversity, to compile the submissions received pursuant to paragraph 4 (d), make them available through the clearing-house mechanism of the Convention, and prepare a synthesis report on obstacles encountered in implementing options identified for eliminating, phasing out or reforming incentives that are harmful for biodiversity for consideration by the Subsidiary Body on Scientific, Technical and Technological Advice at a meeting prior to the twelfth meeting of the Conference of the Parties.

3. These two issues are closely related; information on obstacles encountered in implementing options identified for addressing harmful incentives may provide useful input into the development of modalities for full operationalization of Aichi Target 3.

4. The Executive Secretary, by notifications 2013-022 (Ref. no. SCBD/SEL/ML/GD/81348) of 12 March 2013 and 2013-049 (Ref. no. SCBD/SEL/ML/GD/81348) of 21 June 2013, therefore conveyed the invitation to submit information on obstacles encountered in implementing options identified for addressing harmful incentives together with an invitation to also submit views on the development of modalities and milestones for the full operationalization of Aichi Biodiversity Target 3.

5. Submissions were subsequently received from Bolivia, China, Cuba, Estonia, European Union, Grenada, Guatemala, India, Kuwait, Myanmar, Nigeria, Sao Tome and Principe, and Switzerland. Submissions were also received from the Organisation for Economic Cooperation and Development (OECD) and the Institute for European Environmental Policy (IEEP). The submissions are available at <http://www.cbd.int/incentives/perverse.shtml>. Moreover, the document also reflects comments provided by Argentina, the European Union, Japan, Mexico, and New Zealand, as well as by the World Wild Fund for Nature (WWF) Sweden, through the review process established for documentation for the Subsidiary Body on Scientific, Technical and Technological Advice.

6. Section II below provides a synthesis and analysis of information received on obstacles encountered in implementing options identified for addressing harmful incentives. Section III provides draft elements of modalities and milestones for the full operationalization of Aichi Biodiversity Target 3, for possible consideration by the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention at its fifth meeting, building *inter alia* on the information in section II as well as on earlier work under the Convention (as referenced), including earlier decisions adopted by the Conference of the Parties, and in order to facilitate the consideration of modalities and milestones for the full operationalization of Aichi Target 3 with a view to their adoption by the Conference of the Parties at its twelfth meeting (COP 12). Section IV suggests a number of supportive activities that could be undertaken by relevant organizations and initiatives as well as the Executive Secretary. Section V provides suggestions on how to move ahead.

## **II. INCENTIVE MEASURES: OBSTACLES ENCOUNTERED IN IMPLEMENTING OPTIONS IDENTIFIED FOR ELIMINATING, PHASING OUT OR REFORMING INCENTIVES THAT ARE HARMFUL FOR BIODIVERSITY**

### **A. *Statistical analysis***

7. Notification 2013-022 of 12 March 2013 provided, for completion, a matrix containing a list of possible obstacles, based on question two of the Third National Report questionnaire.

8. The Secretariat received a total of nine completed matrices, from eight Parties and one organization (the Institute for European Environmental Policy). Due to the small sample and associated concerns regarding the robustness of results, caution has to be exercised with regard to a stand-alone interpretation of results. On the other hand, the sample is reasonably balanced geographically and some general conclusions can be drawn in conjunction with earlier, more comprehensive analyses, in particular the analysis undertaken for the in-depth review of the programme of work on incentive measures by the Conference of the Parties at its ninth meeting.<sup>2</sup>

9. The matrix contained in notification 2013-022 provided a list of 27 potential obstacles in implementing options identified for addressing incentives that are harmful for biodiversity, and requested Parties to score the respective importance of the obstacles faced by them in implementing options identified for elimination, phasing out, or reforming incentives, by using a scale from 0 to 3 (0 = challenge has been successfully overcome; 1 = low importance; 2 = medium importance; 3 = high importance). The table in the annex below provides the statistical mean of the scores assigned to each potential obstacle. Based on this table, the following general conclusions can be drawn.

10. Addressing harmful incentives faces many important obstacles. Out of the 27 obstacles suggested in the list, 24 provided an average score higher than 2. The five obstacles that scored highest are:

- (a) Lack of financial, human, technical resources;
- (b) Lack of mainstreaming and integration of biodiversity issues into other sectors;
- (c) Loss of biodiversity and the corresponding goods and services it provides not properly understood and documented;
- (d) Lack of political will and support;
- (e) Inadequate capacity to act, caused by institutional weakness.

11. As part of the preparations undertaken for the in-depth review of the programme of work on incentive measures (Article 11 of the Convention on Biological Diversity), the Executive Secretary prepared an analysis of challenges and obstacles in implementing Article 11 of the Convention as identified by Parties in their third national reports.<sup>3</sup> The five obstacles that scored highest in that analysis were, in decreasing order:

- (a) Lack of financial, human, technical resources;
- (b) Lack of mainstreaming and integration of biodiversity issues into other sectors;
- (c) Inadequate capacity to act, caused by institutional weakness;
- (d) Limited public participation and stakeholder involvement;
- (e) Lack of public education and awareness at all levels.

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<sup>2</sup> See document UNEP/CBD/COP/9/12/Add.1, in particular section VIII.

<sup>3</sup> Question two of the questionnaire for the third national reports provided an identical list of potential obstacles and challenges and requested Parties to provide a ranking of these across the various articles of the Convention.

12. In that analysis, “loss of biodiversity and the corresponding goods and services it provides not properly understood and documented” scored at the sixth place, while “lack of political will and support” scored at sixteenth place.

13. There is significant overlap between the above two lists. The lack of financial, human, and technical resources ranks first in both lists, showcasing, in the context of decision X/2, paragraph 10, the particular importance of such resources for implementing the aspect of Aichi Target 3. Differences between the two lists could be attributed to the small sample size underlying the first list, but they could also be due to the fact that the first list addresses a particular aspect of the work under Article 11 while the second list addresses implementation of Article 11 in its totality. For instance, one may conclude that the lack of political will and support, within the various elements of the programme of work on incentive measures, plays a particularly important role in addressing harmful incentives – as it ranks 16<sup>th</sup> with regard to the overall programme of work but 4<sup>th</sup> with regard to addressing incentive that are harmful for biodiversity. Taking into account these considerations, the results of the smaller sample, to a large extent, seem to reconfirm the results of the earlier analysis.

14. For many obstacles identified, there is a notable gradient in the intensity, assigned by respondents, between the different options to address harmful incentives (elimination, phase out, or reform). Many obstacles are seemingly perceived to be most challenging for removing harmful incentives and least challenging for reform harmful incentives. For those obstacles that are associated with the political sphere, a possible explanation is that, as incentives harmful for biodiversity, in particular subsidies, typically generate benefits for some stakeholders, their reform might enable taking measures that would alleviate the potential loss of benefits of those stakeholders, and would thus generate less political resistance than their outright removal.

15. This interpretation may however not be applicable in all situations nor in all countries. For instance, the European Union, in its submission, considered that no distinction is needed between obstacles to eliminating, phasing out or reforming incentives. The European Union, as well as Switzerland, also noted that some of the listed obstacles seem rather to be consequences of the environmentally harmful subsidies, or factors of biodiversity degradation.

16. Switzerland also noted that obstacles faced and their intensity could vary across different economic sectors. In the context of explaining its position on incentive measures and decision XI/4 (further referenced in section III below), China noted that there are many incentive policies carried out in different economic sectors and for different purposes, and cautioned against one-sided approaches that could, to some extent, constitute a constraint for targeting a wider range of industries where biodiversity-unfriendly incentives exist.

17. Many of the most important obstacles identified seem to be interrelated. For instance, the fact that the loss of biodiversity and of the goods and services it provides is not properly understood (obstacle “1”) may explain a lack of political will (obstacle “a”) and institutional weakness (obstacle “e”), as well as the lack of mainstreaming and integration of biodiversity into other sectors (obstacle “c”).

18. In the same vein, participants of the Global Workshop on Reviewing Progress and Building Capacity for the National Biodiversity Strategies and Action Plans Revision Process, held in Nairobi, from 11-15 November 2013, also made strong linkages between identifying and highlighting the manifold values of biodiversity and the mobilization of resources for implementation of the Strategic

Plan.<sup>4</sup> This suggests that linkages can also be identified between obstacle “l” and the lack of financial, human and technical resources (obstacle “m”). In conclusion, these interrelationships seem to point to the importance of implementing Aichi Targets 1, 2 and 3 in an integrated, well-coordinated manner.

### ***B. Other relevant information on obstacles***

19. In the context of explaining its position on incentive measures and decision XI/4 (further referenced in section III), Bolivia provided a case example that underlines the importance of potential social impacts, and associated political resistance, as an obstacle to the removal of subsidies. In 2010, the Bolivian government sought to abolish a subsidy on liquid fuels with a view to having the prices of these products reflect their actual costs. This measure resulted, however, in intense popular protests and growing demands for resignation, and the government eventually withdrew the decree.

20. China pointed to a number of additional important obstacles, with scores assigned as shown: (i) administrative coordination mechanism of different departments (3, 3, 3);<sup>5</sup> (ii) lack of incentive mechanisms (3, 3, 2); (iii) inadequate system and evaluation mechanism of governmental and social responsibility (3, 2, 2); (iv) GDP-guided development mode (3, 3, 3). It seems that obstacles (i) and (iii) above correspond with, and further specify, the lack of mainstreaming and integration of biodiversity issues.

21. Cuba pointed to recent progress made in applying environmental taxation to address the contamination of national relevant rivers, basins and bays. With the recent amendments, the system now comprises (i) taxes on the use and exploitation of bays, and the extension of the Havana Bay User Tax, to other important bays like Matanzas, Santiago de Cuba, Cienfuegos, Mariel; (ii) tax for the use of forest resources and wildlife, extending taxation to protected areas; (iii) tax for wastewater spills in watersheds, and in a group of selected bays; (iv) tax for the right of use of groundwater; (v) tax on the uses of beaches.

22. The European Union provided a list of additional obstacles as follows: (i) the strength of special interests and rent-seeking behaviour; (ii) false perceptions and fear of change; (iii) lack of political will and concerns related to competitiveness and social impacts; (iv) lack of transparency, information and awareness; and (v) legal, administrative and technological constraints. The European Union also pointed to other important obstacles listed in the matrix, namely (i) the lack of mainstreaming and integration of biodiversity objectives into other sectors’ policy; (ii) the lack of synergies at national and international levels; (iii) the fact that loss of biodiversity and the corresponding goods and services it provides (and its economic and societal values) are not properly understood and documented; and (iv) the lack of knowledge and practice of ecosystem-based approaches to management. While not assigning scores to the individual obstacles suggested in the matrix, the lists provided by the European Union show substantial overlap with the lists presented in the previous paragraphs.

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<sup>4</sup> See the final report of the workshop, available at <https://www.cbd.int/nbsap/workshops/global/default.shtml>, paragraphs 18-19.

<sup>5</sup> Importance for eliminating, phasing out, or reforming harmful incentives, respectively (3 = high, 2 = medium).

23. The European Union pointed to a number of solutions to address obstacles identified, also referring to a recent study commissioned by the EU.<sup>6</sup> Such solutions focus on (i) increased transparency; (ii) changing the terms of the policy debate by challenging misconceptions; (iii) making heard the voices heard of those who are disadvantaged by the status quo (e.g., foreign competitors or other sectors); (iv) recognition that a range of options is available to meet societal objectives; (v) diffusion of innovative schemes; (vi) better targeting of existing subsidies and improved subsidy design (including possible conditional subsidies); (vii) seizing and creating windows of opportunity (e.g., policy reforms, legal and international obligations); (viii) accompanying or transitional measures.

24. According to the submission, accompanying or transitional measures can include (i) packaging reforms with other measures; (ii) “second best” options such as partial reforms (e.g., introducing flat fee instead of a road pricing scheme); (iii) economic diversification (e.g., measures that support people to find other jobs or activities); (iv) compensation for those who are negatively impacted by the subsidy reform or earmarking the revenues for purposes that are related to those of the subsidy; (v) reliance on existing social assistance (for the reform of subsidies that aim at protecting low-income households).

25. Guatemala provided information on its economic incentive programmes for increasing forest cover and promoting good forest management, with an allocation of one per cent of the State budget revenue. These programmes also provide financial support to farmers who grow alien forest species. Work is currently under way to address this issue and reform the incentive programmes accordingly. The submission notes that this process will require a strong commitment by the top political and legislative organs.

26. In its National Policy on Biological Diversity and its updated National Biodiversity Strategy, Guatemala committed to develop a national incentive programme for the conservation, sustainable use and restoration of biodiversity and ecosystem services. The National Council of Protected Areas, through a LifeWeb project, started a five-year pilot phase in the highlands of the country. Replication and long-term consolidation will be a major challenge.

27. In its submission, OECD provided an overview of its recent publications pertinent to Aichi Target 3.<sup>7</sup> A joint report by IEA, OPEC, OECD and World Bank on fossil-fuel and other energy subsidies, providing an update of the G20 Pittsburgh and Toronto Commitments, contains observations that are pertinent to the topic of this section, bearing in mind the conceptual and analytical differences between fossil-fuel subsidies and subsidies that are harmful for biodiversity and the fact that this work is still ongoing in other fora. The study cautions that *“those countries that decide to phase-out subsidies may face challenges in implementing reform, and the reforms may lead to some restructuring of the*

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<sup>6</sup> Final report: Withana et al. 2012. *Study supporting the phasing out of environmentally harmful subsidies*. A report by the Institute for European Environmental Policy (IEEP), Institute for Environmental Studies – Vrije Universiteit (IVM), Ecologic Institute and Vision on Technology (VIT) for the European Commission – DG Environment. Final Report, Brussels. 2012. The study analyses examples of good practices in the reform of environmentally harmful subsidies in EU Member States and the lessons that can be learned from these cases. Finally, it addresses obstacles to the reform of environmentally harmful subsidies and develops practical recommendations on phasing out and reforming environmentally harmful subsidies to support the objectives of the Europe 2020 Strategy and the resource efficiency agenda, which include biodiversity objectives. It is available at: [http://ec.europa.eu/environment/enveco/taxation/pdf/report\\_phasing\\_out\\_env\\_harmful\\_subsidies.pdf](http://ec.europa.eu/environment/enveco/taxation/pdf/report_phasing_out_env_harmful_subsidies.pdf).

<sup>7</sup> Namely (i) Joint report by IEA, OPEC, OECD and World Bank on fossil-fuel and other energy subsidies: An update of the G20 Pittsburgh and Toronto Commitments (2011); (ii) The Political Economy of Environmentally Related Taxes (2006); (iii) Scaling-up Finance Mechanisms for Biodiversity (2013); (iv) Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services (2010); (v) Biodiversity Offsets: Effective Design and Implementation (forthcoming, 2014); Policy Response Indicators for Biodiversity (forthcoming, 2014).

*economy that will need to be carefully managed.*” The study concludes that “*any reform has to be carefully designed and will need considerable time*”, and that no one-size-fits-all model exists.<sup>8</sup>

28. The study points of a number of general lessons that can be learned from a review of case studies of past experiences in developing countries on the phase-out or reform of fossil-fuel subsidies, undertaken by the World Bank and OECD. Three of the specific challenges facing countries are (i) strengthening social safety nets and improving targeting mechanisms for subsidies; (ii) informing the public and implementing social policy or compensatory measures in order to mitigate negative effects on the poor of subsidy phase-out or reform; and (iii) implementing the reform in the context of broader energy sector reform.

### **III. RESOURCE MOBILIZATION: MODALITIES AND MILESTONES FOR THE FULL OPERATIONALIZATION OF AICHI BIODIVERSITY TARGET 3**

29. In paragraph 8 of decision XI/4, the Conference of the Parties, mindful of the potential of Aichi Biodiversity Target 3 to mobilize resources for biodiversity, decided to consider modalities and milestones for the full operationalization of this Target at its twelfth meeting, with a view to their adoption. In order to facilitate such consideration and eventual adoption, this section provides draft elements of such modalities and milestones for possible consideration by the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention. In what follows, modalities are understood as ways or methods for doing something; in this case, achieving full operationalization of Aichi Target 3.<sup>9</sup>

30. Past decisions of the Conference of the Parties, taken under the programme of work on incentive measures,<sup>10</sup> already contain significant elements of guidance on how to implement Article 11 of the Convention and the various elements of the programme of work, including on incentives that are harmful for biodiversity and positive incentive measures. The modalities below seek to bring together and consolidate, as appropriate, this rich *acquis*. Detailed references are provided below.

31. In addition, the elaboration of the draft elements of modalities and milestones is also based on:

(a) Information provided by Parties, other Governments, and organizations on obstacles encountered in implementing options identified for eliminating, phasing out or reforming incentives that are harmful for biodiversity, as summarized in section II above;

(b) Views expressed by Parties in the same submissions on the development of modalities and milestones for the full operationalization of Aichi Target 3, as further referenced below;

(c) Existing policy support tools and methodologies for implementation of Aichi Target 3, as identified in the pertinent section of the note of the Executive Secretary on the identification of the scientific and technical needs for the attainment of targets under Strategic Goal A of the Strategic Plan

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<sup>8</sup> See *ibid.* (joint report), page 8. The adverse macroeconomic effect in this case is a negative GDP effect for OPEC countries, primarily triggered by a significant increase in inflation, which negatively affects the competitiveness of the manufacturing sector as it lifts input prices for the non-oil sector and puts pressure on real income and consumption levels. In its review, Argentina also pointed to the importance of tailoring reform policies in accordance with its development policies and the associated objectives such as social inclusion and the eradication of poverty.

<sup>9</sup> This understanding was inspired by [http://www.wto.org/english/tratop\\_e/dda\\_e/modalities\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/modalities_e.htm).

<sup>10</sup> The programme of work on incentive measures was adopted by the Conference of the Parties at its fifth meeting (decision V/15) and reviewed at its ninth meeting (decision IX/6).

for Biodiversity 2011-2020, for consideration by the Subsidiary Body on Scientific, Technical and Technological Advice at its seventeenth meeting,<sup>11</sup> and further referenced below.

### ***Modalities and milestones for the full operationalization of Aichi Biodiversity Target 3***

#### ***A. General considerations***

32. The elimination, phase-out or reform of incentives, including subsidies, that are harmful to biodiversity, and the development and application of positive incentives for the conservation and sustainable use of biodiversity, need to take place in a manner that is consistent and in harmony with the Convention and other relevant international obligations, and need to take into account national socioeconomic conditions.

33. Aichi Biodiversity Target 3 is an element of a flexible framework for the establishment of national or regional targets. Parties are invited to set their own targets within this flexible framework, taking into account national needs and priorities,<sup>12</sup> while also bearing in mind national contributions to the achievement of the global targets, and the potential of Aichi Biodiversity Target 3 to mobilize resources for biodiversity.<sup>13</sup> The modalities presented here provide indicative ways and methods for the full operationalization of Aichi Target 3. They provide a flexible framework for the development of national targets and associated policy measures related to Aichi Target 3 and for their effective implementation, taking into account national circumstances and priorities.<sup>14</sup>

34. Raising awareness of the values of biodiversity among policy-makers and other decision makers (see Aichi Target 1) and integrating these values into national and local development and poverty reduction strategies and planning processes, as well as their incorporation in national accounting, as appropriate, and reporting systems (see Aichi Target 2), can support the effective implementation of Aichi Target 3.<sup>15</sup>

#### ***B. Identifying policy options***

35. Identifying existing harmful incentives for sectors that can potentially affect biodiversity requires the conduct of careful analyses of available data on the amounts and the distribution of harmful incentives provided, as well as of the consequences of doing so, including for the livelihoods of

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<sup>11</sup> UNEP/CBD/SBSTTA/17/2/Add.1, paragraphs 49-68.

<sup>12</sup> Strategic Plan for Biodiversity 2011-2020 (annex to decision X/2), paragraph 13.

Bolivia, in its submission, explained that it lodged a formal reservation to paragraph 225 of the Rio+20 outcome document “The Future We Want”, on rationalizing inefficient fossil fuel subsidies, as it would affect decisions of a strict sovereign nature. Bolivia also provided a list of thirteen overarching national priorities.

<sup>13</sup> See decision XI/4, paragraph 8.

<sup>14</sup> For instance, Switzerland pointed to objective 5 of the Swiss Biodiversity Strategy, which relates to Aichi Target 3: “By 2020, the negative impacts of existing financial incentives on biodiversity are identified and avoided, if possible. Where appropriate, new positive incentives are created.” Switzerland is currently developing its action plan for the Swiss Biodiversity Strategy, with validation of measures foreseen by 2014 and implementation by 2020. Subsidies for touristic infrastructures (e.g., ski lifts) are among the areas in which the potential for better addressing biodiversity concerns are currently discussed.

<sup>15</sup> See the analysis presented in paragraph 17 above. See also Proposals for the Design and Implementation of Incentive Measures (decision VI/15, annex I), paragraph 22.



indigenous and local communities.<sup>16</sup> Enhancing data transparency, through ongoing and transparent communication mechanisms, will support such analytical studies.<sup>17</sup>

36. Incentives harmful for biodiversity are frequently not cost-efficient and/or not effective in meeting social objectives, while in some cases use scarce public funds.<sup>18</sup> Eliminating, phasing out or reforming incentives, including subsidies, harmful for biodiversity may therefore have multiple benefits. It stops encouraging environmentally harmful behavior, may remove wider economic distortions, and may free up scarce public resources. The analysis of incentives, including subsidies, may therefore not just address their harmful effects, but take a multi-criteria, holistic approach which could also include their effectiveness, cost-efficiency, and their social effects.<sup>19</sup> National analytical studies should identify candidates for elimination, phase-out or reform, and make suggestions on how to achieve this, including the identification of possible obstacles and how to address them.<sup>20</sup>

37. National analytical studies could also be undertaken to identify opportunities to promote the design and implementation of positive incentive measures for the conservation and sustainable use of biodiversity that are effective, transparent, targeted, appropriately monitored, cost-efficient as well as consistent and in harmony with the Convention and other relevant international obligations, and that do not generate perverse incentives, taking into account, as appropriate, the range of positive incentive measures identified in the report for policymakers of the TEEB initiative, the “polluter pays principle” and the associated “full-cost recovery principle”, as well as the livelihoods of indigenous and local communities.<sup>21</sup>

38. These studies should build on an evaluation of the respective and mutually reinforced impacts of any underlying pressures on biodiversity and its components, as this is a prerequisite for the selection of the appropriate measure to stop or reverse degradation.<sup>22</sup> It is important that each country implement incentive measures that are targeted at specific causes relevant to its circumstances.<sup>23</sup>

39. These national studies could be undertaken as a stand-alone exercise or, as appropriate, they could also be undertaken in the context of existing or planned efforts by a number of Parties to prepare

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<sup>16</sup> Decision X/44, paragraph 9. See, as examples, the aforementioned study commissioned by the European Union. In its submission, the European Union also pointed to a similar study undertaken by France ([www.strategie.gouv.fr/system/files/rapport\\_43\\_web.pdf](http://www.strategie.gouv.fr/system/files/rapport_43_web.pdf)). This study as well as subsequent policy action taken was summarized in UNEP/CBD/COP/11/INF/10, paragraphs 33-35. Switzerland, in its submission, noted that several reports related to issues of environmentally harmful subsidies are currently being undertaken.

<sup>17</sup> Decision X/44, paragraph 9. See also the submission from the EU, referenced in paragraph 23 above.

<sup>18</sup> Ibid.

<sup>19</sup> See SCBD (2011): *Incentive Measures for the Conservation and Sustainable Use of Biodiversity. Case Studies and Lessons Learned*. CBD Technical Series No. 56, Montreal, pp. 7-13. In this connection, Mexico, in its review, pointed to the importance of Aichi Biodiversity Target 14.

<sup>20</sup> See, as an example, the submission of the European Union and the study referenced therein (paragraphs 22 and 23, and footnote 6).

<sup>21</sup> Decision X/44, paragraph 10.

<sup>22</sup> Proposals for the Design and Implementation of Incentive Measures (decision VI/15, annex I), paragraph 4. The proposals were endorsed by the Conference of the Parties at its sixth meeting, as far as they are consistent with Parties' national policies and legislation as well as their international obligations (decision VI/15, paragraph 2); however, the Conference of the Parties also recognized that further work has to be undertaken on positive incentives and their performance, as well as on perverse incentives and ways and means for their removal or mitigation (decision VI/15, paragraph 4).

<sup>23</sup> Decision VI/15, paragraph 6.

national studies on the economics of ecosystems and biodiversity,<sup>24</sup> national ecosystem assessments, or similar approaches. Given that policy options, and associated obstacles to implement them, may differ across key economic sectors, the studies could take a sectoral approach.<sup>25</sup>

40. The national studies could make use, as appropriate, of:

(a) The findings of the international studies on The Economics of Ecosystems and Biodiversity (TEEB) and of similar work at the national or regional levels;<sup>26</sup>

(b) The considerable analytical work that has already been undertaken on the elimination, phase out, or reform of harmful incentives, and the development and application of positive incentives, by international organizations and initiatives such as the United Nations Environment Programme, the Organisation for Economic Co-operation and Development, the International Union for Conservation of Nature, and the World Trade Organization;<sup>27</sup>

(c) The information and the compilation of good practice cases from different regions on incentive measures, based on the report of the international expert workshop, as contained in CBD Technical Series No. 56, bearing in mind that the possible impacts of incentive measures could vary from country to country in accordance with national circumstances.<sup>28</sup>

### *C. Policy planning*

41. The national studies above will provide in-depth analysis and suggestions amenable for policy planning. It is important to feed the results of these studies into national policy development and implementation in a systematic and coherent manner. There is a need to ensure that these studies and the revised national biodiversity strategies and action plans are mutually supportive.<sup>29</sup>

42. Conducting studies for the identification of incentives, including subsidies, harmful for biodiversity need not delay immediate policy action in cases where candidates for elimination, phase-out or reform are already known, taking into account national socioeconomic conditions; appropriate action should be taken in these cases, in the form of their elimination or initiation of their phase-out or their reform.<sup>30</sup>

43. Eliminating, phasing out or reforming incentives, including subsidies, harmful for biodiversity will make positive incentive measures for the conservation and sustainable use of biodiversity more effective and/or less costly.<sup>31</sup> Therefore, policy planning, including in revised national biodiversity

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<sup>24</sup> Decision XI/30, paragraph 2.

<sup>25</sup> See decision X/44, paragraph 10, and the submissions from China, the European Union, and Switzerland. As one particular example, Argentina, in its review, pointed to the importance of fisheries subsidies, referring also to the pertinent paragraph 173 of the Rio+20 Outcome document and the pertinent work undertaken at the World Trade Organization (WTO). In this connection, Japan, in its review, noted that there is still no global agreement on a definition of fisheries subsidies.

<sup>26</sup> Decision XI/30, paragraph 2.

<sup>27</sup> See decision XI/30, paragraph 4. Argentina, in its review, underlined the importance of using information from organizations with broad memberships, which includes views from a variety of countries and regions.

<sup>28</sup> Decision X/44, paragraph 2. This work took into account work from the organizations and initiatives referenced in the previous sub-paragraphs. See document UNEP/CBD/COP/10/24.

<sup>29</sup> See decision XI/30, paragraph 3.

<sup>30</sup> Decision XI/30, paragraph 4 (b) and (c).

<sup>31</sup> Decision XI/30, paragraph 5.

strategies and action plans, should take into consideration the linkages between the elimination, phase-out or reform of harmful incentives, including subsidies, and the promotion of positive incentive measures for the conservation and sustainable use of biodiversity.<sup>32</sup>

44. Based on the studies above, national policy planning could (i) identify those harmful incentives that are candidates for removal, phase-out, or reform; (ii) provide for a prioritized list of measures leading to their eventual removal, phase-out, or reform; (iii) provide for a prioritized list of measures leading to the introduction, or strengthening, of positive incentives for the conservation and sustainable use of biodiversity; (iv) provide for associated timelines and milestones.

45. Measures that eliminate, phase out, or reform incentives, including subsidies, that are harmful to biodiversity need to be consistent and in harmony with the Convention and other relevant international obligations and take into account national socioeconomic conditions. Other criteria that could inform the design of the measures and their prioritization include, but are not limited to:

(a) The extent of harm to biodiversity and its components avoided by the elimination, phase-out, or reform of incentives, including subsidies, harmful to biodiversity;

(b) Resources mobilized from the elimination, phase-out, or reform of incentives, including subsidies, harmful to biodiversity, in line with indicator thirteen for monitoring the implementation of the strategy for resource mobilization;<sup>33</sup>

(c) The effectiveness and cost-efficiency of incentives, including subsidies, harmful for biodiversity;<sup>34</sup>

(d) The social effects of the elimination, phase-out, or reform of incentives, including subsidies, harmful to biodiversity, including on the livelihoods of indigenous and local communities.<sup>35</sup>

46. Measures that introduce, or strengthen, positive incentives for the conservation and sustainable use of biodiversity need to be consistent and in harmony with the Convention and other relevant international obligations and take into account national socioeconomic conditions. Incentive measures should be effective, transparent, targeted, appropriately monitored, cost-efficient, and should not generate perverse incentives, while taking into account, as appropriate, the “polluter pays principle” and the associated “full-cost recovery principle”, as well as the livelihoods of indigenous and local communities.<sup>36</sup>

47. The prioritization of measures leading to the elimination, phasing out, or reform of harmful incentives identified should seize opportunities arising within the review cycles of existing sectoral

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<sup>32</sup> Decision XI/30, paragraph 6.

<sup>33</sup> Decision X/3, paragraph 7. See also decision X/44, paragraph 9, and decision XI/4, paragraph 8.

<sup>34</sup> Decision X/44, paragraph 9.

<sup>35</sup> Ibid.

<sup>36</sup> Decision X/44, paragraph 10. In its review, the European Union pointed to the importance of the private sector in this regard, as private sector action on positive incentives, and associated reporting, can help mobilize funds for biodiversity protection.

policies, both at national and regional levels.<sup>37</sup> Consideration should also be given, where appropriate, to integrating biodiversity incentives into the incentives of other sectors,<sup>38</sup> in a manner that is consistent and in harmony with the Convention and other relevant international obligations, and taking into account national socioeconomic conditions.

48. Improving transparency, through ongoing and transparent communication mechanisms, on the amounts and the distribution of harmful incentives provided, as well as of the consequences of doing so, including for the livelihoods of indigenous and local communities, can help to better assess how funding allocations affect biodiversity loss, and to mobilize support for policy reform.<sup>39</sup>

49. Policy planning on implementation of Aichi Target 3 should involve all relevant stakeholders. In order to ensure that plans are developed in a manner that is participatory and promotes effective policy integration and stakeholder participation, processes should be established to facilitate intragovernmental dialogue as well as dialogue with relevant stakeholders, including indigenous and local communities and representatives of civil society.<sup>40</sup> Effective stakeholder involvement is also critical for identifying, understanding and adequately responding to, the possible short-term social impacts of eliminating, phasing out, or reforming incentives, including subsidies that are harmful for biodiversity.<sup>41</sup>

50. Raising awareness among all stakeholders of the values of biodiversity and of the ecosystem services it underpins, their integration into national and local development and poverty reduction strategies and planning processes, and their incorporation into national accounting, as appropriate, and reporting systems,<sup>42</sup> improves the chances for successful policy planning and implementation of Aichi Target 3. The approach of indigenous and local communities in determining the values of biodiversity should be taken into consideration. The dissemination of pertinent information among stakeholders, administrative and policy authorities and civil society can play a key role in building support for eliminating, phasing out, or reforming incentives that are harmful to biodiversity, and for introducing positive incentive measures for the conservation and sustainable use of biodiversity.<sup>43</sup>

#### ***D. Provision of capacity and building of support: facilitating implementation***

51. Undertaking analytical studies and implementing policy plans above will require adequate capacity. This includes scientific and technical capacity, as well as capacity related to administrative, educational, training and communications issues. In many cases, in the implementation phase of incentive measures, there will be an ongoing need for technical support, training of trainers, managers and other workers, public-education programmes and other forms of human capacity-building. In other

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<sup>37</sup> Decision XI/30, paragraph 4 (c). The European Union, in its submission, noted that the ongoing reforms on the EU Common Agricultural Policy and the Common Fisheries Policy should be finalized by the end of 2013, and that this should yield additional benefits for biodiversity. In addition, the submission informed that the EU has committed to phasing out coal subsidies by 2018, again with indirect benefits for biodiversity. The submissions of China and Switzerland also pointed to incentives provided in other sectors. WWF Sweden, in its review, underlined the importance of including the unintended effects on biodiversity into sectorial policy reviews.

<sup>38</sup> Proposals for the Design and Implementation of Incentive Measures (decision VI/15, annex I), paragraph 12.

<sup>39</sup> See decision X/44, paragraph 9; CBD Technical Series No. 56, page 12.

<sup>40</sup> See decision X/44, paragraph 8.

<sup>41</sup> CBD Technical Series No. 56, page 11.

<sup>42</sup> See Aichi Biodiversity Target 2.

<sup>43</sup> See Proposals for the Design and Implementation of Incentive Measures (decision VI/15, annex I), paragraphs 21-29. See also the analysis provided in paragraph 17 above and the submission of Guatemala, underlining the importance of political commitment.

cases, there may be a need for physical capacity-building, including the installation of monitoring equipment or other infrastructure needs.<sup>44</sup>

52. Strengthening institutional mechanisms could encourage dialogue and communication between policymakers within government and stakeholders outside of government at the national and local levels, in order to promote policy integration and policy coherence. Ensuring that avenues exist for intragovernmental dialogue between relevant ministries and agencies with an interest in biodiversity is important, as government agencies will often share responsibilities in the implementation of incentive measures. Community institutional structures should be developed to make indigenous and local communities equal partners in the implementation of incentive measures.<sup>45</sup>

53. Even after the design of the measures, stakeholders should be involved to ensure that incentive measures are implemented effectively on the ground. Relevant stakeholders should play a role in building the capacity of local institutions and individuals in order to enhance their awareness of the importance of biodiversity conservation measures and facilitate their capacity to participate in all stages of the process, from design to implementation.<sup>46</sup>

#### *E. Milestones, timelines, and reporting*

54. Milestones, and associated timelines, could include:

(a) By 2015: Development and inclusion of a national target reflecting Aichi Target 3 in revised national biodiversity strategies and the inclusion of pertinent action items in revised national biodiversity action plans. Action items may include:

- (i) Undertaking national analytical studies that identify candidates for elimination, phase-out or reform of incentives, including subsidies, harmful for biodiversity, and that identify opportunities to promote the design and implementation of positive incentive measures;<sup>47</sup>
- (ii) Based, as appropriate, on the analytical studies above, developing policy plans that (i) identify those harmful incentives that are candidates for removal, phase-out, or reform; (ii) provide for a prioritized list of measures leading to their eventual removal, phase-out, or reform; (iii) provide for a prioritized list of measures leading to the introduction, or strengthening, of positive incentives for the conservation and sustainable use of biodiversity; (iv) provide for associated timelines and milestones for implementation;
- (iii) In cases where incentives, including subsidies, are already known to have harmful effects and are already identified as candidates for elimination, phase-out or reform, foreseeing immediate policy action in form of their elimination or initiation of their phase-out or their reform.

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<sup>44</sup> See Proposals for the Design and Implementation of Incentive Measures (decision VI/15, annex I, paragraph 27). China, in its submission, called for the provision of adequate support to Parties with capacity-building needs in this regard.

<sup>45</sup> See Proposals for the Design and Implementation of Incentive Measures (decision VI/15, annex I, paragraph 28). The European Union, in its review, explained that private sector involvement is also crucial with respect to reporting on positive incentives (e.g. related to biodiversity financing) and innovative financing mechanisms.

<sup>46</sup> See Proposals for the Design and Implementation of Incentive Measures (decision VI/15, annex I, paragraph 30).

<sup>47</sup> In its review, the European Union suggested adding a reference to innovative financing mechanisms such as PES, offsets as well as private sector reporting on biodiversity investments.

(b) By 2016 (COP 13): In cases where candidates for elimination, phase-out or reform are already known, immediate policy action is taken, in the form of their elimination or initiation of their phase-out or their reform;

(c) By 2016 (COP 13): Finalization of national analytical studies that identify candidates for elimination, phase-out or reform of incentives, including subsidies, harmful for biodiversity, and that identify opportunities to promote the design and implementation of positive incentive measures;

(d) By 2018 (COP 14): Finalization of policy plans, in line with revised NBSAPs, that (i) identify those harmful incentives that are candidates for elimination, phase-out, or reform; (ii) provide for a prioritized list of measures leading to their eventual elimination, phase-out, or reform; (iii) provide for a prioritized list of measures leading to the introduction, or strengthening, of positive incentives for the conservation and sustainable use of biodiversity; (iv) provide for associated timelines and milestones.

55. The table below summarizes these milestones and the associated timelines. It reflects the possibility that a country may already know some candidates for immediate policy action (as per (a) (iii) above) but may also wish to engage in the preparation of analytical studies (as per (a) (i)), in order to get a more comprehensive picture.

Timeline	Milestone
2015	National target reflecting Aichi Target 3 and associated action items included in revised national biodiversity strategy and action plan (NBSAP)
2016	Policy action taken on incentives, including subsidies, already known to have harmful effects and already identified as candidates for elimination, phase-out or reform, in form of their elimination or initiation of their phase-out or their reform
2016	Finalization of national analytical studies that identify candidates for elimination, phase-out or reform of incentives, including subsidies, harmful for biodiversity, and that identify opportunities to promote the design and implementation of positive incentive measures
2018	Finalization of policy plans that (i) identify those harmful incentives that are candidates for elimination, phase-out, or reform; (ii) provide for a prioritized list of measures leading to their eventual elimination, phase-out, or reform; (iii) provide for a prioritized list of measures leading to the introduction, or strengthening, of positive incentives for the conservation and sustainable use of biodiversity; (iv) provide for associated timelines and milestones.

56. Parties are invited to report progress in achieving these milestones, as well as any additional milestones and timelines established at national level, through the online reporting framework on implementing the Strategic Plan for Biodiversity Targets 2011-2020 and the Aichi Biodiversity Targets, as well as through their national reports.

#### **IV. SUPPORTIVE ACTIVITIES BY THE EXECUTIVE SECRETARY AND RELEVANT INTERNATIONAL ORGANIZATIONS AND INITIATIVES**

57. In order to implement the milestones above, relevant international organizations, such as the Food and Agriculture Organization of the United Nations (FAO), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the United

Nations Environment Programme (UNEP) and its initiative on the Economics of Ecosystems and Biodiversity (TEEB), the Organisation for Economic Co-operation and Development (OECD), the International Union for Conservation of Nature (IUCN), the World Trade Organization (WTO) as well as other international organizations and initiatives, could provide capacity-building and technical support to the preparation of the analytical studies and the development and finalization of policy plans as referred to in section II above, and national, regional and international funding institutions and the Global Environment Facility could provide financial support to these activities, based on needs expressed by Parties.

58. Moreover, the Executive Secretary could support achievement of the milestones by (a) compiling and analysing existing analytical studies as well as policy case studies, with a view to identifying good practices and lessons learned and disseminating them through the clearing-house mechanism of the Convention and other means; (b) continuing and further strengthening his cooperation with relevant organizations and initiatives, with a view to catalysing, supporting, and facilitating the work spelled out in paragraph 57 above; (c) continuing holding, in cooperation with relevant organizations and initiatives, workshops on incentive measures and realizing the potential of Aichi Biodiversity Target 3 to mobilize resources for biodiversity; (d) compiling and analysing reports, submitted by Parties through the online reporting system, on achieving progress in implementing Aichi Target 3, and providing a progress report to the sixth meeting of the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention.

59. These supportive activities are referred to in the all-inclusive recommendation of the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention at its fifth meeting, on the review of the strategy for resource mobilization (UNEP/CBD/WGRI/5/4), and can be further detailed, as appropriate, into the draft Pyeongchang 2020 Roadmap for consideration by the Conference of the Parties at its twelfth meeting.

## **V. SUGGESTED WAY AHEAD**

60. The Ad Hoc Open-ended Working Group on Review of Implementation of the Convention at its fifth meeting may wish to consider, and review as needed, the draft elements of modalities and milestones for Aichi Target 3, as contained in section III above, and to forward the revised draft modalities and milestones to the Conference of the Parties at its twelfth meeting, together with a recommendation for its adoption and for further supportive activities, based on section IV above. Paragraphs to this effect were included in the draft recommendation contained in document UNEP/CBD/WGRI/5/4.

61. The Subsidiary Body on Scientific, Technical and Technological Advice at its eighteenth meeting may wish to take note of the synthesis report on the information received on obstacles encountered in implementing options identified for eliminating, phasing out or reforming incentives that are harmful for biodiversity, as contained in section II of the present note, and may also wish to take note of the recommendation of the fifth meeting of the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention, on modalities and milestones for the full operationalization of Aichi Target 3.

*Annex*

**SURVEY RESULTS**

Statistical mean of scores assigned to importance of obstacles faced in implementing options identified for eliminating, phasing out, or reforming incentives that are harmful to biodiversity.

<b>Obstacle</b>	<b>Eliminating harmful incentives</b>	<b>Phasing out harmful incentives</b>	<b>Reforming harmful incentives</b>
	Mean of scores assigned <sup>48</sup>		
a) Lack of political will and support	2.67	2.44	2.44
b) Limited public participation and stakeholder involvement	2.25	2.38	2.12
c) Lack of mainstreaming and integration of biodiversity issues into other sectors	2.78	2.67	2.44
d) Lack of precautionary and proactive measures	2.11	2.11	1.88
e) Inadequate capacity to act, caused by institutional weakness	2.62	2.75	2.50
f) Lack of transfer of technology and expertise	2.33	2.56	2.22
g) Loss of traditional knowledge	1.62	1.62	1.62
h) Lack of adequate scientific research capacities to support all the objectives	2.62	2.62	2.11
i) Lack of accessible knowledge and information	2.00	2.12	2.00
j) Lack of public education and awareness at all levels	2.44	2.33	2.33
k) Existing scientific and traditional knowledge not fully utilized	2.11	2.00	2.22
l) Loss of biodiversity and the corresponding goods and services it provides not properly understood and documented	2.78	2.67	2.44
m) Lack of financial, human, technical resources	2.78	2.67	2.67
n) Lack of economic incentive measures	2.50	2.38	2.38

<sup>48</sup> Scale: 3 = high importance; 2 = medium importance; 1 = low importance; 0 = challenge has been successfully overcome.



<b>Obstacle</b>	<b>Eliminating harmful incentives</b>	<b>Phasing out harmful incentives</b>	<b>Reforming harmful incentives</b>
	Mean of scores assigned <sup>48</sup>		
o) Lack of benefit-sharing	2.11	2.11	1.89
p) Lack of synergies at national and international levels	2.22	2.22	2.11
q) Lack of horizontal cooperation among stakeholders	2.26	2.26	2.26
r) Lack of effective partnerships	2.26	2.13	2.00
s) Lack of engagement of scientific community	2.50	2.26	2.12
t) Lack of appropriate policies and laws	1.89	1.89	1.56
u) Poverty	2.38	2.38	2.38
v) Population pressure	2.45	2.00	2.00
w) Unsustainable consumption and production patterns	2.50	2.50	2.50
x) Lack of capacities for local communities	2.11	2.33	2.00
y) Lack of knowledge and practice of ecosystem-based approaches to management	2.33	2.22	2.22
z) Weak law enforcement capacity	2.44	2.44	2.44
aa) Natural disasters and environmental change	1.57	1.71	1.71
	Scores assigned (one respondent)		
bb) Other: administrative coordination mechanism of different departments	3	3	3
cc) Other: lack of incentive mechanism	3	2	2
dd) Other: inadequate system and evaluation mechanism of the governmental and social responsibility	3	3	2
ee) Other: GDP-guided development mode	3	3	3