

CLARIFYING TERMINOLOGY ISSUES WITH BIODIVERSITY FINANCING INSTRUMENTS

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AICHI TARGET 3
ON POSITIVE INCENTIVES:

**CAN
MARKET-BASED
INSTRUMENTS
MAKE A
DIFFERENCE?**

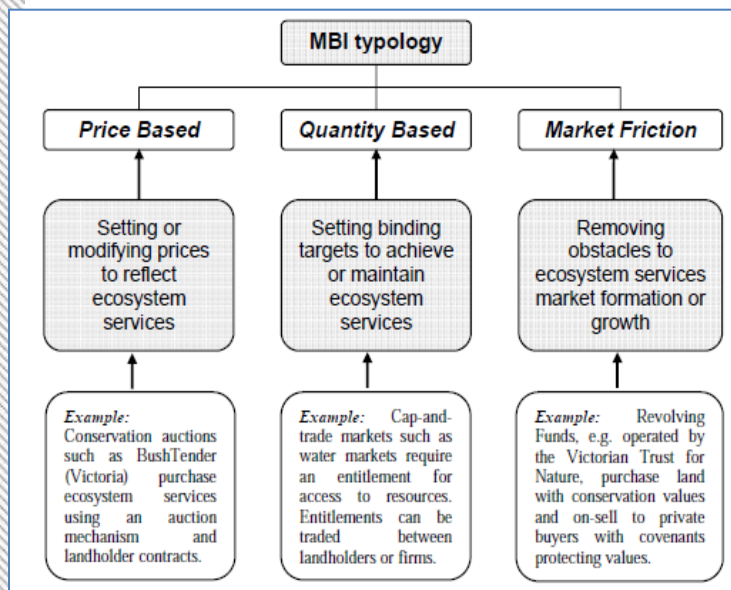
RESULTS FROM
THE INVALUABLE PROJECT

THURSDAY, 9 OCTOBER 2014,
PYEONGCHANG (REPUBLIC OF KOREA)



Context

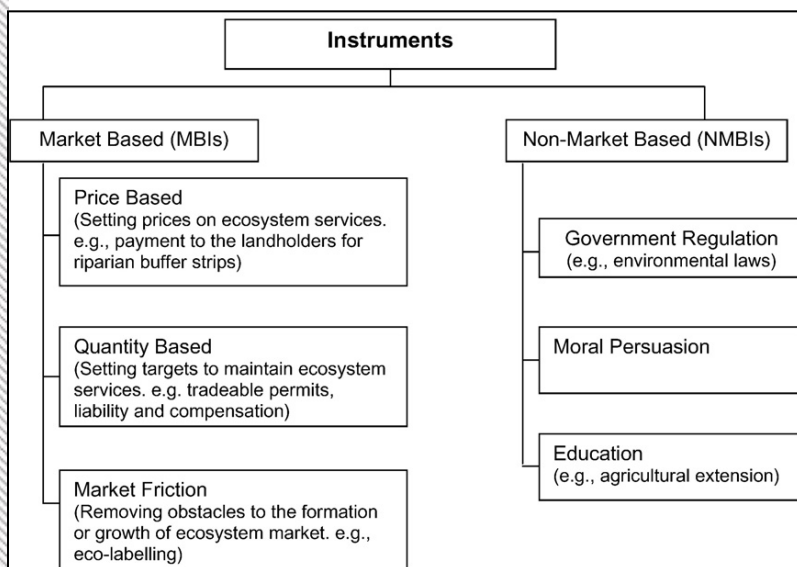
- Institutional and political push to explore the potential of economic instruments in terms of biodiversity regulations and funding for biodiversity conservation.
- There is no consensus concerning definition and classification about MBI for biodiversity and ES
 - See for instance Quito I (2012) and II (2014)
 - More than 25% of scientific articles cite MBIs in general without detailing the instrument they talk about
 - 50 different names to designate 'MBIs' (several different names for the same instrument)



Source: Coggan et al., 2009 (CSIRO)

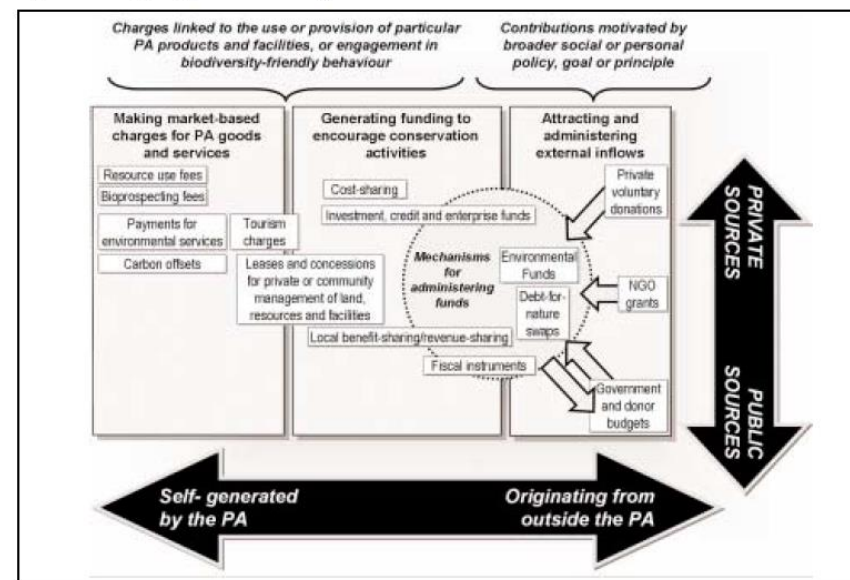
	Direct market (between seller and buyer)	Market with intermediaries	
		Complete (all transactions – a) and b) – trade based)	Incomplete (combination of trade-based and non-trade based transactions)
Non-liability based (voluntary)	Vitel case (PES)	Some market PES systems - water, biodiversity, carbon Certification schemes	Most market PES systems - water, biodiversity, carbon
Liability based (cap-and-trade)	EU ETS – bilateral trades	EU ETS CDM (private buyers) Biodiversity offsets	Some CDM projects (public buyers)

Source : Vatn et al. (2012)



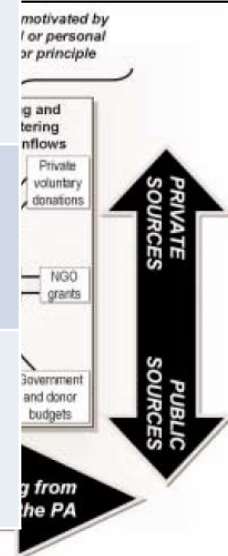
Source : Sarker et al. (2008, p.464)

Figure 3. A typology of PA financing mechanisms



Source: Emerton et al., 2006 (IUCN)

MBI typology		Direct market	Market with intermediaries
<p>Price Based</p> <p>Setting or modifying prices to reflect ecosystem services</p> <p><i>Example:</i> Conservation auction such as BushTender (Victoria) purchases ecosystem service using an auction mechanism and landholder contracts.</p> <p>Market Based (M)</p> <p>Price Based (Setting prices e.g., payment for riparian buffer)</p> <p>Quantity Based (Setting targets for services, e.g., timber liability and conservation)</p> <p>Market Friction (Removing obstacles to the formation or growth of ecosystem market, e.g., eco-labelling)</p>	Direct markets	e.g. cork stoppers for sustaining Mediterranean cork forests	Incomplete combination of traded and non-traded transactions)
	Tradable permits	e.g. mitigation banking, REDD+	at market PES systems for water, biodiversity, carbon
	Reverse auctions	e.g. BushTender and EcoTender programs in Australia	e.g. CDM projects (public buyers)
	Coasean-type agreements	e.g. PES (Wunder), conservation easements	
	Regulatory price changes	e.g. agro-environmental subsidies, land taxes	
	Voluntary price signals	e.g. eco-labelling in organic farming, shade coffee certification	



Objective

- Deconstruction of terms
 - Historical background of Market based Instruments (MBI)
 - Bibliometric outputs
- Recommendations for policy makers
 1. Be careful with classifications
 2. Distinguishing 3 different characteristics
 3. Talking about *Economic incentives* and not about *MBI* ...

Historical analysis

Step 1

- MBI appeared in the 1970s (mainly in US) to show that environmental policy would be more effective if monetary incentives were adopted, rather than **C&C instruments (standards and laws)**.
- While no clear definition exists, the MBI concept is based on **economic incentives**: to send price signals to stakeholders to induce changes in behavior...
- Tools promoted through this theory are all economic incentives (including taxes and subsidies).

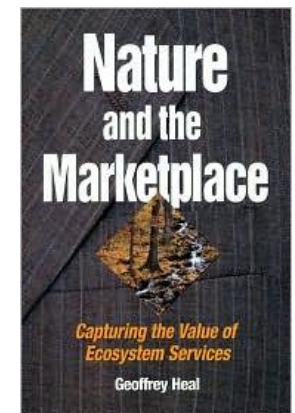
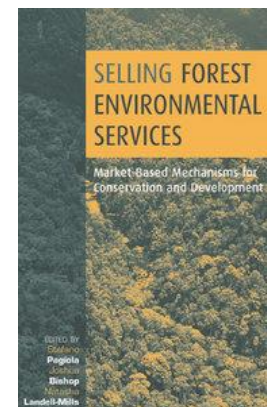
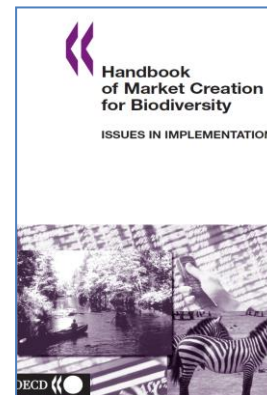
Historical analysis

Step 2

- Later, in the 1990, MBI have been promoted because economists considered that decentralized tools are **more cost-efficient** compared to the regulatory change prices (taxes, subsidies)
- MBI are viewed here more for their market components than for their incentive component. “Let’s the market play”
- Cap & Trade > Taxes (Climate change)

Step 3

- This view has been developed in the field of biodiversity very quickly (from the end of 90’s)
 - Due to the preexistence of these debates in the field of climate change
 - Due to the specificity of biodiversity ; e.g. public goods and invaluable.
- Creating markets for biodiversity : incentive, cost-efficient, and valuable



Historical analysis

Step 4

- Emergence of the concept of Ecosystem Service (mid 2000) and new keywords like PES or MES
- Emergence of financial dimension of the biodiversity agenda
- MBI are viewed as a promising tool because they enable to raise private funds...

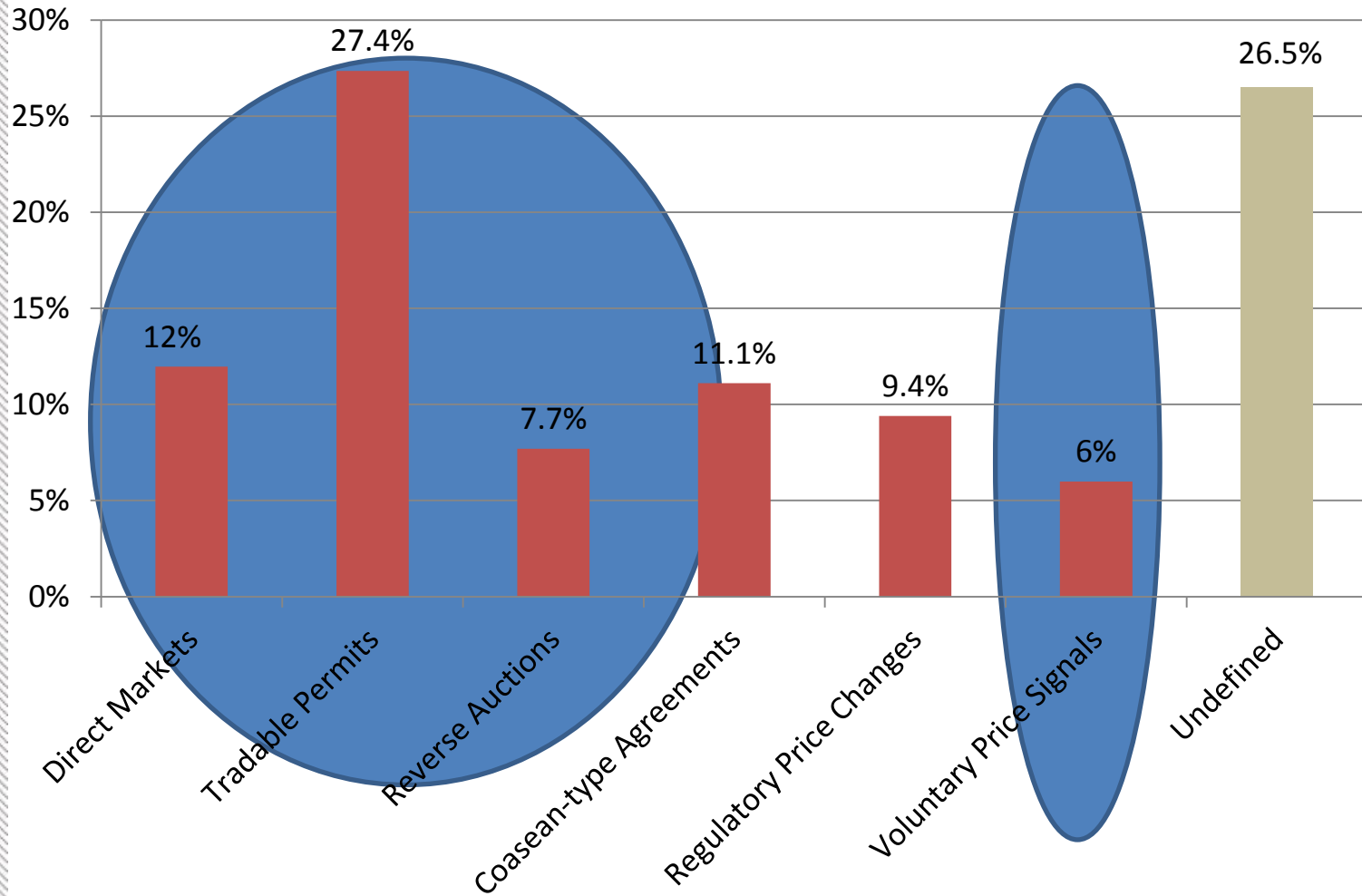
Finally,

- As time passes, economic instruments are justified on several different arguments.
- It creates confusion between terms.

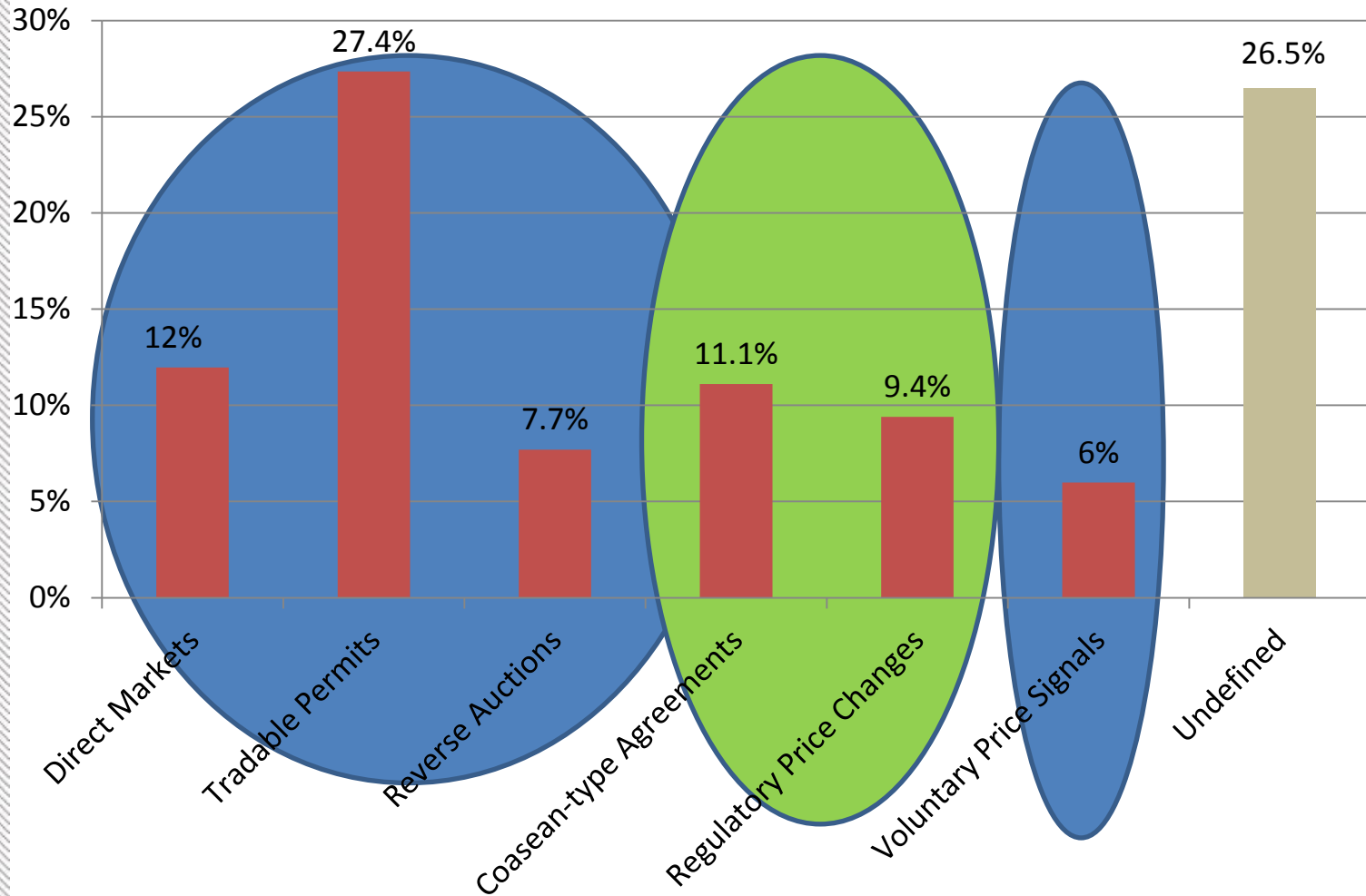
Historical analysis

- One of the most significant confusion concerns PES / MBI-MES
 - Because it is a new concept which contains (in theory) the different components of what people imagine about MBI : incentive, cost-benefit, financing conservation...
 - Because they refer both to the main concept of Ecosystem Service.
- Actually, PES are not MBI/MES, i.e. a place where buyer(s) and seller(s) exchange a well-defined (homogenous) good/service and where the price is defined through the confrontation of demand and supply.

Bibliometric analysis



Bibliometric analysis



Recommendations for policy makers

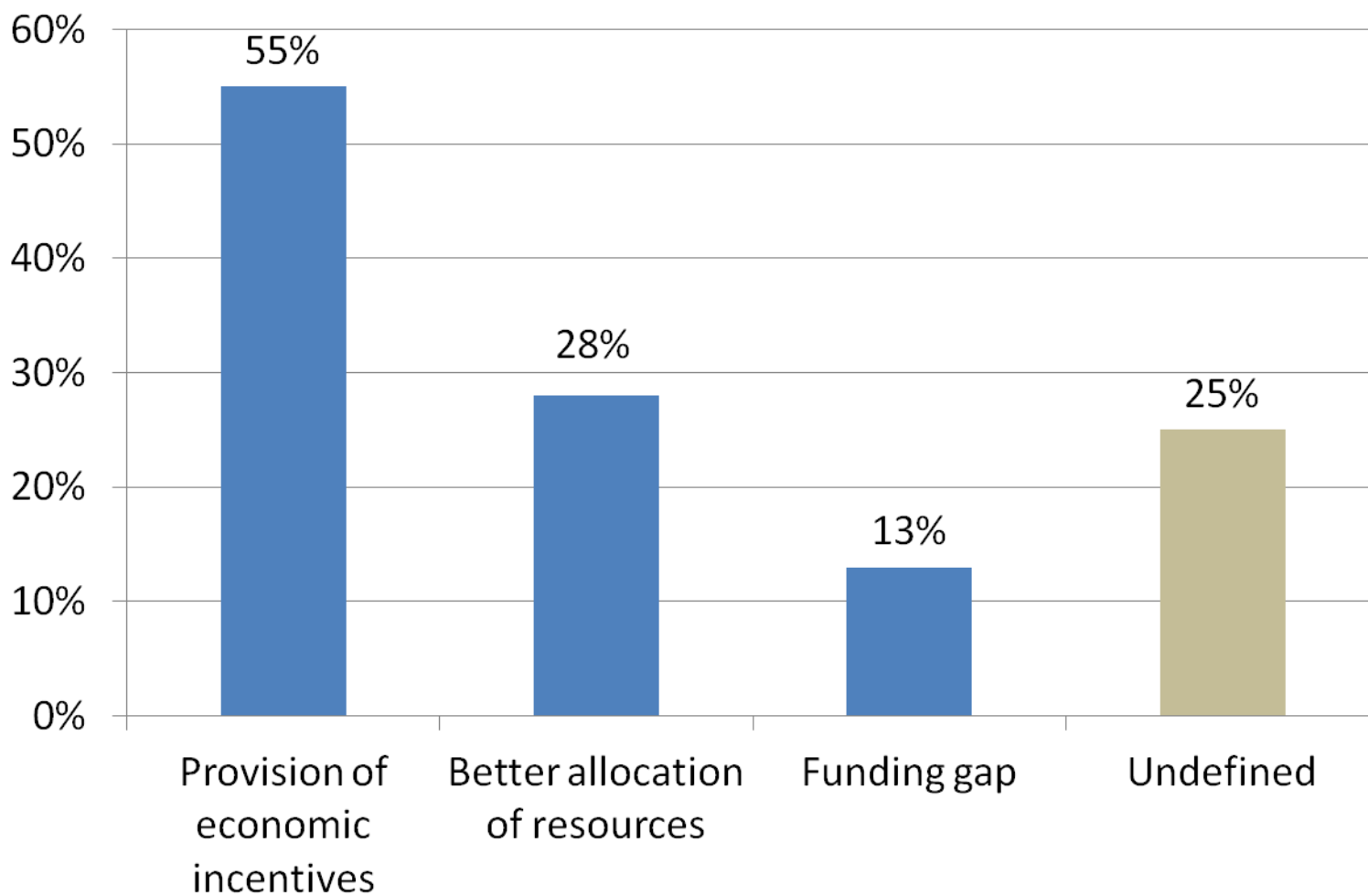
- **Be careful with classifications**
 - Most of time, these instruments are combined: Any given instrument may possess many characteristics that simultaneously relate to several category. For instance:
 - (i) mitigation banking ('tradable permits' category) provides a **regulatory framework** for exchanging biodiversity offsets,
 - (ii) these biodiversity offsets can be produced through contracts with land owners ('**Coasian Type Agreements**' category), and
 - (iii) the selection of the service providers can rely on **reverse auctions** for the sake of cost-effectiveness.

Recommendations for policy makers

- **Be careful with classifications**
 - Classifications lead to imagine homogeneous instruments : ex. PES or Biodiversity Offset.
 - PES : distinction between nature/cash payments ; individual/collective payments ; law/small project...
 - BO: distinction between public/private banks ; non-commercial / commercial banks ...
 - One can not assume the superiority of one tool (compared to another) in terms of efficiency or effectiveness. The design of the tool, its governance structure and institutional context are key points.

Recommendations for policy makers

- **Are you talking about the same issue? Distinguishing 3 main objectives of economic instruments:**
 - Changing behavior (all economic instruments)
 - Optimizing allocation of resource (prices are defined by economic actors and not by administration) (all except taxes, subsidies ; e.g. Market for B&ES)
 - Financing biodiversity conservation
 - Financing / funding / finance sector?
 - Innovative ?
 - » Innovative in terms of (new) instruments ?
 - » Innovative in terms of (new) goals for the use of economic instruments?



Recommendations for policy makers

- **Avoiding *Market-based Instruments* category which contribute to create confusion and false hope / fear**
 - About belief that market is cost-efficient,
 - About belief that State regulation should be avoided
 - About belief that all MBI commodify Nature
- **Talking about *economic incentive* is better.** It encompasses all economic instruments ; it is based on the main idea: *changing economic actors behaviors through monetary incentives.*
- **Restricting the use of Market Ins. to instruments that provides economic incentives based on the confrontation of demand and supply of ES:** carbon markets, green markets...