Addressing incentives that are harmful for biodiversity

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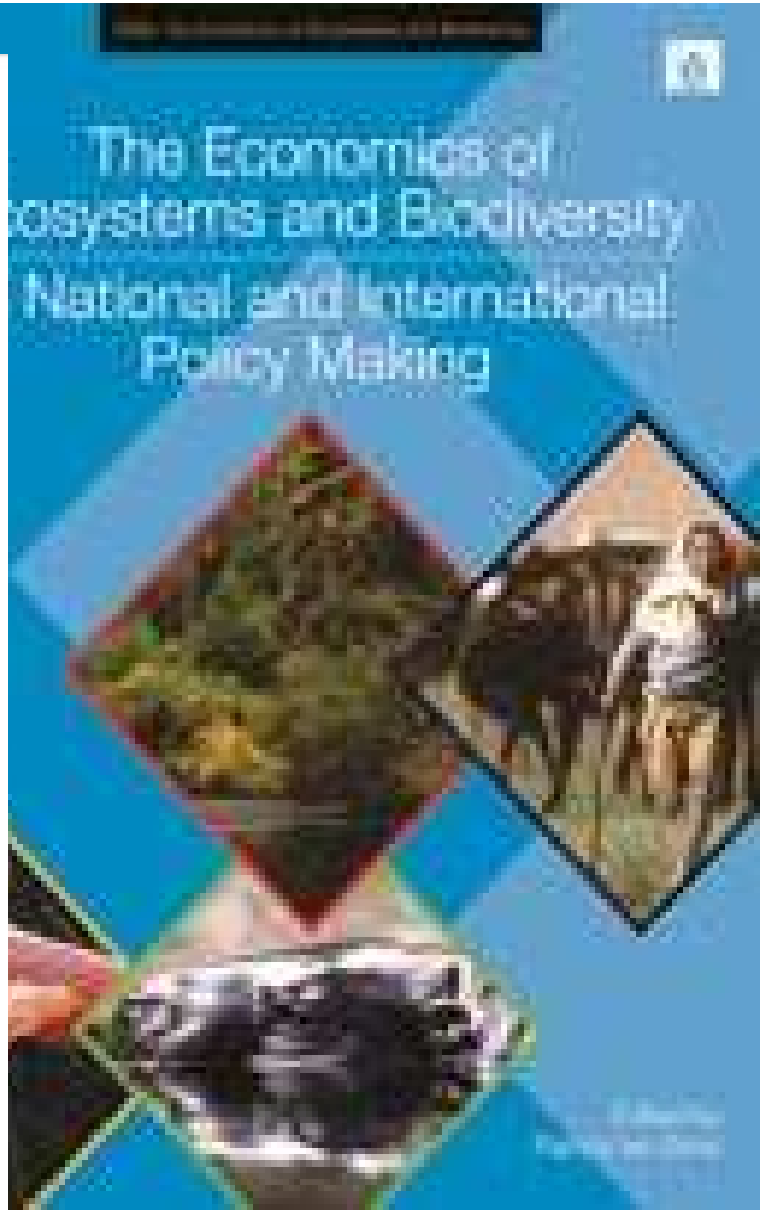
Incentive measures for the conservation and sustainable use of biological diversity

Case studies and lessons learned

Convention on Biological Diversity

UNEP



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 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 land use policy prescribes "productive" use of land.

- May discourage sustainable use practices or private conservation

Government introduces fees for the extraction of natural resources.

- Encourages illegal resource extraction

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

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

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

Requires:

- ✓ 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

- Not only environmentally harmful: Look for policies that don't work (therefore waste money)
- 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)
- Ensure that environmentally friendly subsidies that are to be introduced are well designed.

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

- In **Bolivia**, the poorest 40 per cent of households 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

A quick exercise (10 minutes) for country teams:

- First phase (5 minutes): please work separately and in parallel:
  - Assignment for one country representative: please identify 3 programmes or policies in your country which you believe generate (the most) important harmful incentives for biodiversity and the environment.
  - Assignment for the other country representatives: please identify 3 programmes or policies which you believe are not very (or even: the least) effective/targeted.
- Second phase (5 minutes): Please compare notes. Do you have some overlap?
  - If yes: congratulations! You found *natural* candidates for prioritized removal or reform.
  - If no: please have a look at, and discuss, each other's notes (5 minutes):
    - Are there cost-ineffective programmes with environmentally harmful effects?
    - Are there environmentally harmful programmes which are not very cost-effective?
    - If yes: these could be interesting candidates for prioritized reform.

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. Analyse possible distributional impacts of reform policies and implement offsetting policies, e.g., compensatory packages, as appropriate
5. Improve transparency and enable informed public debate
6. Use political windows of opportunity (e.g. budgetary or economic crises)

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
  - *Indian fertilizer reform focussed on re-calibrating fertilizer components with a view to better meet nutrient needs*
- Assigning/strengthening (property) rights, rights-based management
  - *Cambodia strengthened forest concessions and increased royalty fees.*
- Compensatory measures to mitigate perverse incentives in environmental policies

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.

Towards implementing Aichi target 3

- Consider undertaking concrete action on any ‘natural’ candidates for removal, phase out, or reform.
- Undertake transparent assessments of programmes and policies examining their effectiveness against stated objectives, their cost-efficiency and their environmental impacts, starting with the ‘suspicious’ candidates.
- Based on these assessments, develop prioritized plans of action for removal, phase out or reform of incentives harmful for biodiversity by 2020.
- Revised NBSAPs could include a timetable for the preparation of the assessments, and for the development and implementation of the action plan.

Questions

Identification

- Are there natural or interesting candidates for prioritized removal, phase out or reform (see group work above)?
- Is there public debate on the effectiveness and/or social or environmental impacts of some programmes/policies?
- Are there opportunities to enhance transparency?

Removal, phase out, reform

- Which stakeholders are relevant? Are there stakeholders who could act as champions for removal, phase out, or reform?
- How could stakeholders' interests be addressed (compensation, gradual phase out, …)? What are the pros and cons of the different options?
- Are there opportunities for enhancing effectiveness while reducing environmental damage?
- Are there opportunities to mitigate harmful impacts?

Questions

Per table:

Please develop an ambitious while realistic ‘mock’ national target which ‘translates’ the first element of Aichi target 3 into a revised NBSAP, and identify associated activities and timelines.

For your support, please see the identified options and guiding questions on page two of the short guide to Aichi target three (element on harmful incentives).