

# BHSs and IFM cautions and challenges in CBD reporting & targeting:

## *paths of sustainability*

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# Outline

1. CBD background
  2. Knowledge background
    - Problems
    - Solutions
  3. Back to the negotiating background
- Paths of sustainability?

# CBD background: we need it!

1. CBD refers to six “Innovative Financial Mechanisms” after Quito II re-defined “Biodiversity Financial Mechanisms”
  1. Environmental fiscal reform
  2. Payments for ecosystem services
  3. Biodiversity offsets
  4. Markets for green products
  5. Biodiversity in climate change funding
  6. Biodiversity in international development finance
2. CBD does not refer to some particular Environmental Harmful Subsidies
  - but more in general to **Environmental Fiscal Reforms** that remove “*incentives, including subsidies, harmful to biodiversity*”

# That is, in CBD terms

## EHS

1. COP10 DX/2.Strategic Plan for Biodiversity 2011–2020
  - **Strategic Goal A** Address the underlying causes of biodiversity loss by mainstreaming biodiversity across government and society
  - Target 3: **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.**
2. COP 11 DXI/4.Review of implementation of the strategy for resource mobilization, including the establishment of targets ...
  - 8) Mindful of the potential of Aichi Biodiversity Target 3 to mobilize resources for biodiversity, **decides to consider modalities and milestones** for the full operationalization of this Target at its twelfth meeting, with a view to their adoption;
3. COP 11 DXI/30 Incentive measures ...
  - 4) **COP invited** Parties, other Governments and relevant international organizations to **submit** to the Executive Secretary **information on obstacles** encountered in implementing options identified for eliminating, phasing out or reforming incentives that are harmful for biodiversity
  - 12) **COP requested** the Executive Secretary, supporting progress Aichi Targets 2, 3, 4 and to mobilizing resources for biodiversity, to compile the submissions received pursuant to paragraph 4 (d), make them available ... **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 SBTIA at a meeting prior to the COP 12.

# That is, in CBD terms

## BFM/IFM

1. COP 9 Decision IX/11 Review of implementation of Articles 20 and 21
  - Goal 4: Explore new and innovative financial mechanisms at all levels with a view to increasing funding to support the three objectives of the Convention**
    - 4.1. To promote, where applicable, schemes for **payment for ecosystem services**, consistent and in harmony with the Convention and other relevant international obligations.
    - 4.2. To consider **biodiversity offset** mechanisms where relevant and appropriate while ensuring that they are not used to undermine unique components of biodiversity.
    - 4.3. To explore opportunities presented by **environmental fiscal reforms** including innovative taxation models and fiscal incentives for achieving the three objectives of the Convention.
    - 4.4 To explore opportunities presented by promising innovative financial mechanisms such as **markets for green products, business–biodiversity partnerships** and new forms of **charity**.
    - 4.5. To integrate biological diversity and its associated ecosystem services in the development of new and innovative sources of **international development** finance, taking into account conservation costs.
    - 4.6 To encourage the Parties to United Nations Framework Convention on Climate Change and its Kyoto Protocol to take into account **biodiversity** when developing any **funding** mechanisms for **climate change**.
2. COP11 DX1 / 4 Review of implementation of the strategy for resource mobilization, including the establishment of targets
  - 19. Recognizing that the Convention's strategy for resource mobilization **calls for the exploration of new and innovative financial mechanisms at all levels with a view to increasing funding to support the Convention and its Strategic Plan for Biodiversity 2011–2020**, and that some of those mechanisms are already being applied, and recalling decision X/3, reiterates that any new and **innovative financial mechanisms are supplementary to and do not replace the financial mechanism established under Article 21 of the Convention**

# Knowledge background: EHS reform

The issue, inside the wider Environmental Fiscal Reform sphere, is complex and with a broad background research, *e.g.*

1. OECD: 2006, The Political Economy of Environmentally Related Taxes; 2010, Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services; 2013, Scaling-up Finance Mechanisms for Biodiversity
2. IEEP: 2012, Study supporting the phasing out of environmentally harmful subsidies

...precious in the EU context!



# using the EU example (IEEP, 2012)

One possible definition: *‘a result of a government action that confers an advantage on consumers or producers, in order to supplement their income or lower their costs, but in doing so, discriminates against sound environmental practices’* [IEEP 2007, Adapted from OECD 1998, 2005]

## EHM have different shape and forms ...

- Direct transfers of funds, (e.g. coal mining subs., limited liability for oil spills); Provision of goods or services including specific infrastructure (e.g. road servicing a single mine or factory); Provision of general infrastructure (e.g. a highway); Income or price support (e.g. price premiums for electricity from waste incineration); Foregone government revenues from tax credits, exemptions and rebates (e.g. from excise duty for fuels, favourable tax treatment of company cars); Preferential market access, regulatory support mechanisms and selective exemptions from government standards (e.g. feed-in tariffs); Lack of full cost pricing (e.g. incomplete coverage of drinking water costs); Absence of resource pricing (e.g. absence of charges on rock extraction); On-internalisation of externalities ((e.g. damage to ecosystems from bottom trawling and dredging).

# using the EU example (IEEP, 2012)

... across sectors ...

- Agriculture, Climate change & energy, Fisheries, Food, Forestry, Materials, Transport, Waste, Water

... and can be

- **On-budget:** subsidies that appear on national balance sheets and include cash transfers paid to producers, consumers and other related bodies
- **Off-budget:** transfers that do not appear as government expenditure (tax exemptions, credits, deferrals, rebates; market access restrictions, regulatory support mechanisms, border measures, etc.)

That is

- *some overlapping definitions*
- *some difficulties in categorization*



# identifying the EHS to be handled (IEEP, 2012)

Sector	EHS case	Objectives	Design	Social impacts	Environ. impacts	Eco. & fin. impacts
Agriculture	Eligibility criteria for CAP Pillar 1 payments in UK (similar: BG, EE, SE, RO, SI)					
	Reduced excise fuel duty in several MS					
	Unsustainable land use and soil sealing in FR (Several MS including AT, BE)					
Climate change & energy	Nuclear energy in DE UK (similar: BE, NL, CZ, FI, FR, BG, IT, LT)					
	Hard coal mining in PL (similar: Other MS, e.g. UK, FR, LU)					
	Support for biofuels in SE (similar: Several MS)					
	Cogeneration in EE (similar: BE)					
Fisheries	Vessel modernisation in DK (similar: ES, PT, FR, IT, BE, CY, EE, PL, SE, NL, DE, FI, BG)					
	Vessel scrapping in ES (similar: Several MS)					
Food	Reduced VAT for food in LU (similar: Most other MS except BG, DK, EE, LT, RO)					
Forestry	Peatland drainage in F (similar in SE, UK now reformed)					
	Wetland conversion in FR (similar: IE)					
Materials	Rock extraction in MT (similar: Several MS)					
Transport	Commuter subsidies in AT (similar: Several MS except EL, IE, IT, PT, ES and UK)					
	Road pricing in NL (similar: Several MS)					
	Company car taxation in BE, NL (similar: Several MS)					
	Company car taxation in UK (similar: Several MS)					
	Car fleet renewal schemes in DE (similar: BE-Wa, FR)					
Waste	Waste incineration charges in BE (FI) (similar: NL, AT, DK, UK, IT, IE, ES -Catalan region, FR, EE, PL, LV)					
	Producer responsibility for WEEE in SI (similar: BG, DK, FI, FR, GR, LT, UK)					
	Energy from waste incineration & landfill gas in CZ, HU (similar Several MS, e.g. AT, BE, BG, CY, EE, ES, FI, IE, IT, LU, NL, UK)					
	Energy from waste incineration & landfill gas in PT (similar Several MS, e.g. AT, BE, BG, CY, EE, ES, FI, IE, IT, LU, NL, UK)					
Water	Construction of waste incinerators in PL (similar: CZ and LT)					
	Reduced VAT for drinking water in EL (Several MS except BG, DK, EE, LV, LT, HU, RO, SK, FI, SE)					
	Irrigation subsidies in CY, ES, IT (similar: Several MS)					
	Nitrogen rich fertilisers in FR (similar: NL, SL, DE, BE, LU)					

There are no particular concerns relating to this aspect of the subsidy

There are some concerns with this particular aspect of the subsidy and further attention is useful. It is not however an over-riding problem suggesting a pressing need for reform.

There are significant concerns with this particular aspect of the subsidy and further attention or reform is needed.

# possible reform options (IIEP, 2012)

EHS type	Reform option	Examples
Direct and potential transfer of funds	Remove (e.g. by scaling down the level of support over time to give time to adapt) or reform (e.g. by adding <b>conditionality</b> / environmental filters, ...)	e.g. remove subsidies for decommissioning fishing vessels; CAP conditionalities, technical guidance on eligibility criteria at the EU level; require nuclear power plant operators to insure a much greater part of the risk of a nuclear accident; issue guidelines to clarify which investments on board fishing vessels are eligible for public aid and which are not.
Government provides goods or services (specific infrastructure)	Leave provision to the market and/or charge for the service	e.g. the provision of cleaning services from littering at large scale events or the building of roads to a specific mine or farm
Government provision of general infrastructure	Introduce payments for use of infrastructure, preferably differentiated so as to take into account external costs	e.g. introduce charges in accordance with the Eurovignette Directive or introduction of general <b>road charging</b>
Income or price support	Remove over time or reform / add conditionality	e.g. by adding environmental conditionalities such as cross compliance in agriculture, technical measures for fisheries
Tax credits, exemptions and rebates	Close tax loopholes, remove exemptions, add <b>conditionality</b> , with due phasing for transition management and/or compensation for social hardship	e.g. <u>remove fuel excise tax reductions for agricultural machinery</u> ; remove the exemption and use the additional income to improve (targeted) support to poor households.; apply the standard VAT rate to water supplies and to food (in general, or to the categories of food causing the most environmental problems, i.e. meat and dairy products)
Preferential market access, regulatory support, selective exemptions	Remove or reconsider conditions/criteria	e.g. set FIT rates so they do not promote the burning/landfilling of waste that could otherwise be prevented, reused, recycled or composted/treated through anaerobic digestion; only support the use of biofuels from residues and wastes with no harmful environmental / social impacts
Lack of full cost recovery	Move to full cost charging (with due integration of social considerations in design) e.g. for water, waste management, transport	e.g. introduce a fully-fledged road pricing scheme; or use congestion charges in congested areas only; modify tariffs for irrigation water so that they respect the principle of full cost recovery
Lack of resource pricing and resource rent	Move to resource charging (e.g. water, materials). This will be critical in the context of scarce	Introduce taxes and charges on rock extraction which reflect the scarcity of the resource; due pricing for tree felling,

# Obstacles, problems, solutions

## Obstacles

- lack of political will, competitiveness and social concerns
- strength of special interests and rent-seeking behavior
- false perceptions and fear of change
- lack of transparency, information and awareness
- legal, administrative and technological constraints
- culture of 'entitlement'
- lack of financial, human, technical resources
- lack of mainstreaming and integration of biodiversity issues into other sectors;
- inadequate capacity to act, caused by institutional weakness / stickiness

## Challenges

- strengthening social safety nets and improving targeting mechanisms for subsidies;
- 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;
- implementing the reform in the context of broader sector reform.

## Solutions

- increased transparency;
- changing the terms of the policy debate by debunking popular misconceptions;
- counterbalance the relative lobbying power of special interest groups
- recognition that a range of options is available to meet objectives;
- learning and diffusion of innovative schemes;
- seizing and creating windows of opportunity (e.g., policy reforms, legal and international obligations);
- accompanying or transitional measures;
- better governance of existing and improved subsidy design (**conditionality**);
- packaging reforms with other measures;
- "second best" options such as partial reforms (e.g., introducing flat fee instead of a road pricing scheme);
- economic diversification;
- 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;
- reliance on existing social assistance

# Knowledge background: BFM

- The bibliography referring to the six categories is too huge to be synthesized here
- Some of these mechanisms (*e.g.* PES, biodiversity “offsets” – compensations, EFR) have been studied and/or in use for a long time
  - *i.e.* significant time series and data are available for an overall assessment of the mechanisms

# Mini synthesis (thanking Katia Karousakis for the table structure)

BFM (IFM)	Finance scale/scope	Source	Impacts on drivers of Biod. loss	Finance mobilization estimate	Problems (for Biodiversity)	Solutions
Environmental Fiscal Reform	Local / National	Public (& Private)	Direct	☹️ only a fraction	☹️ if not implemented	😊
Payments for Ecosystem Services	Local National International	Public (& Private)	Direct	☹️	☹️	☹️
Biodiversity offsets	Local National	Private (& Public)	Direct	☹️	☹️	☹️
Markets for green products	Local National International	Public	Indirect (?)	☹️	☹️	☹️
Biod. in climate change funding	Local National International	Public & Private	Depends	☹️	☹️	☹️
Biod. in international development finance	International	Public(& Private?)	Direct or Indirect	😊 thanking CRS of DAC	☹️	😊 13

# In particular: PES problems

- Working PES systems are not really market based
  - publically driven and publically financed: less transaction cost 😊 more ill-defined services 😊
- Depend on institutions and the design of the payments cannot be “de-politized” (Muradian et. al., 2013)
- Monetary incentives vs intrinsic motivations
- The local community role
  - In the real world: **no local community** shared governance → **no biodiversity conservation!!**
- The compensation trap
- Equity problems
  - Who are the recipients
    - The landless may lose out: less availability of land for renting and higher prices
    - The poorer sections are little involved due to

## To work PES need

- an active involvement of local communities with a governance rather than government approach
- a coherence of goal and action definition with local shared knowledge and values systems
- a compensation related to the buyers and the providers expectations
- a more focused delivering



# In particular: biodiversity offsets problems

- “compensation” from an ecological point is not a solution but a damage: the last resort of the “mitigation hierarchy”
- compensation needs to take place as close as possible to the area of exploitation
- “offsets” should be avoided when talking about non-market biodiversity compensation
- compensation schemes can be a useful tool for implementing the **polluter pays principle** and for **avoiding net loss of biodiversity** but
  - could incentivize over-allocations of permits to exploit
  - could not provide new financing for biodiversity
  - could have adverse impacts on local peoples’ livelihoods
- compensation schemes need *strong public institutions* and *regulations* to safeguard biodiversity, ecosystem services, related social outcomes
  - that is, they require
    1. a complex system of regulation
    2. a state that is stronger than industry
    3. costly, transparent and public monitoring systems

*Very challenging to all countries, with errors and corruption inherent in trading schemes in both North and South!!*

# In particular: financialisation problems

- Financialisation is not in itself a policy instrument
- Green bonds can create new financial resources
  - buyers are entitled a predefined interest rate and the full value of the bond upon maturity
    - how such returns can be generated from enhancement of biodiversity?
  - the state may need to provide parts (all?) of the returns or set up regulations that ensure the necessary cash flows
    1. *why the state could not provide the necessary resources directly???*
    2. *what would be the consequences for the 'collateral' in case the expected revenue could not be delivered???*
    3. *what are consequences of secondary trading with these kinds of bonds???*
- We have to better understand all these questions
- Derivatives and 'securitisation' of biodiversity offset credits and green bonds
  - The experience of the hedge capacities of derivatives against risks in carbon market *and elsewhere* is awful and just under the eyes!

Derivatives probably are not a mean...

- reduced transparency/creation of financial risk
- kind of motivation

# General solution for the problems

- Avoiding long time errors, hypocrite fig leaves  
(‘biodiversity offset trading’ *instead* of liability to compensate biodiversity loss)  
**and wrong ways** (biodiversity derivatives?)
- Strong public institutions and regulation
- Robust legal framework
- Transparency in the processes
  - robust monitoring, reporting and verification
- But above all social and environmental safeguards!
  - grievance mechanisms
  - local communities and stakeholder participation
  - governance *vs* government approach
  - environmental and social assessment
  - standards and performance indicators

# Back to the negotiating background

## Where we are in the COP process?

- Two fundamental reference
  - UNEP/CBD/WGRI/5/4/Add.1 = UNEP/CBD/SBSTTA/18/11
    - *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*
  - UNEP/CBD/WGRI/5/INF/7
    - *Revised and expanded version of the discussion paper: safeguards for scaling-up biodiversity finance and possible guiding principles*
- One draft recommendation to the COP
  - UNEP/CBD/WGRI/5/L.11
    - *Review of implementation of the strategy for resource mobilization*

# The draft recommendation: EHM

## The Ad Hoc Open-ended Working Group on Review of Implementation of the Convention ...

...

- B. Modalities and milestones for Aichi Biodiversity Target 3
  - 6. *Welcomes the analysis of ...,*
  - 7. *Takes note of the modalities described in the note by the Executive Secretary ...;*
  - 8. *Adopts the milestones, as contained in annex I ...;*
  - 9. *Invites Parties to report progress in achieving these milestones, ... through the online reporting framework on implementing the Strategic Plan for Biodiversity 2011–2020 and the Aichi Biodiversity Targets;*



# The draft recommendation: BMF

The Ad Hoc Open-ended Working Group on Review of Implementation of the Convention ...

– *Taking note of the Co-Chair's Summary of the Second Informal Dialogue Seminar on Scaling up Finance for Biodiversity, held in Quito, Requests the Executive Secretary to develop ... proposals for concrete and effective actions ... with a view to preparing a set of practical decisions at the (COP12) ... the following:*

- ...
- (d) *Draft options for voluntary guidelines based on the challenges and possible risks of these mechanisms as identified in the document ...;*
  - (e) *Activities that encourage and support collective action, ... and non-market-based approaches for mobilizing resources ... , including such approaches as community-based natural resource management, shared governance or joint management of protected areas, or through indigenous and community conserved territories and areas;*

- ...
- [Final] targets for resource mobilization
    - *Mobilize domestic financial resources from all sources, ..., and, as appropriate, through new and innovative financial mechanisms, ...;*
- OR**
- *Mobilize domestic financial resources [...], ... and, as appropriate, through new and innovative financial mechanisms,]] ...;*

**and**





*That's all Folks!*

# And the “paths of sustainability”?

1. Distance from best knowledge to real world practice
  - *Big*
2. Distance from best knowledge to COP parties commitments
  - *Veriy big*
3. Distance from COP parties commitments to the real world biodiversity needs
  - *Rather astronomical*

# Paths of sustainability in this context...

- putting into effect the capital of best knowledge into the COP process
- guidelines, or more robust commitments.

## How?

- an idea ...  
with strong and cohered EU position on these issues at the next COP negotiate...

Could be?

*Thank you !*

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