Rethinking financial incentives for habitat protection

Habitat conservation in developing countries can be supported using the incremental cost (IC) principle, according to new research. However, the research highlights a number of changes needed to make the IC principle an effective tool in the battle to protect globally important habitats.

Habitat protection could play an important part in the fight against climate change. A fifth of all greenhouse gas (GHG) emissions come from deforestation, more than is emitted by the global transport sector. Protecting these habitats makes economic sense: on average it costs just 1-2 dollars per ton of CO₂ emissions averted when deforestation is prevented. In contrast, the cost of reducing CO₂ emissions from fossil fuels is 30 times higher. However, developing financial mechanisms that provide incentives for the conservation of globally important habitats has proved elusive.

Pioneered by the Global Environmental Facility (GEF), the existing IC principle is the financial basis of funding for projects under international instruments such as the Convention on Biological Diversity (CBD), the Framework Convention on Climate Change (FCCC), the Convention to Combat Desertification (UNCCD) and projects in international waters including coastal management. The IC principle involves a comparison, at the start of a project, of the costs and benefits of the current scenario with the costs and benefits of changes that would result in global environmental benefits. The objective is to provide developing countries with financial incentives to undertake domestic policy measures that would benefit the global environment.

Research identified a number of problems in the application of the IC principle by the GEF, including:
- complexity in computing
- pressure from donor nations resulting in cost distribution being skewed against developing nations
- estimation of the costs is made at the project preparation stage, with no opportunity for recalculation
- difficulties of forecasting costs
- subjectivity
- lack of consistency from project to project
- not taking local variations or normal ‘portfolio’ investment decisions into account.

Recommended changes to strengthen the principle include: treating it as a contract in which the cost of achieving local sustainability can enter the IC calculations, something at the moment not allowed by the GEF, tackling problems with enforcement and the problem of asymmetric knowledge. There is also a need for flexibility, renegotiation over time, and taking into account transition costs and differing political, economic and cultural factors, within countries and across time.

Although the IC principle can support habitat conservation, its particular application by the GEF ill-serves the dual objective of well-designed interventions and alignment of interests between developed and developing countries. It needs to be developed into a tool that can do this in an efficient manner, by including the costs and benefits of local sustainable resource use into the calculation of the incremental transfer, arriving at the cost from an open exchange of ideas and proposals between contractual parties and regarding IC not as a donation but as a bargaining framework.


Contact: Gabriel.Labbate@pnuma.org

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