

Fiscal incentives for agriculture: compatibility with REDD+

Washington D.C.

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REDD+ READINESS FUNDING:
ANNUAL AVERAGE OF
§ 1 BILLION
US\$ A YEAR FOR THE FAST START
FINANCE PERIOD 2010-2012

 FUTURE REDD+ PAYMENTS
PHASE (ESTIMATE, AS OF 2020)
30 BILLION
US\$ PER YEAR

GLOBAL SUBSIDIES
FOR BIOFUELS
24 BILLION
US\$ IN 2011



GLOBAL SUBSIDIES
FOR FOSSIL FUELS
480 BILLION
US\$ IN 2011



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Rationale for examining fiscal incentives



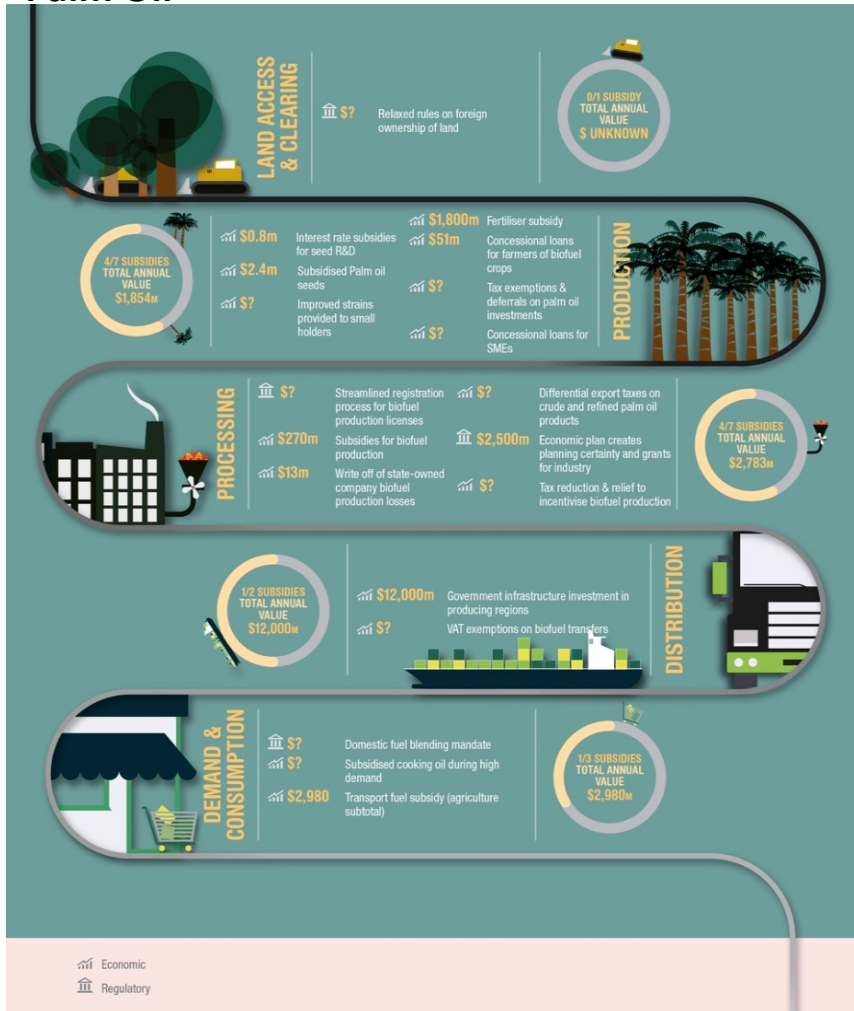
1. Fiscal policies and incentives influence drivers of land use change – but understanding of their impact on forests often lacking
2. Examining fiscal incentives will be important for the development of REDD+ PAMs to identify how policy changes can increase the efficiency and effectiveness of agricultural production & reduce GHG emissions

REDD+ as an entry point to rethink fiscal incentives for agricultural commodities

1. Public policy and related fiscal policy & incentives must seek coherence across sectors, and send the right signals to different actors. **However**, a review of 43 readiness plans shows that very few countries mention the need to review fiscal incentives
2. Fiscal incentives supporting agricultural production can be important levers to promote sustainable land use – if they are conceptualized and designed to do so. It is important to also consider economic and social objectives too though.
1. Pathways for REDD+ countries to reverse perverse incentives, reform existing ones, or design new incentives are highly context-specific, and depend on the pressures on forests, national development objectives, and many other factors.

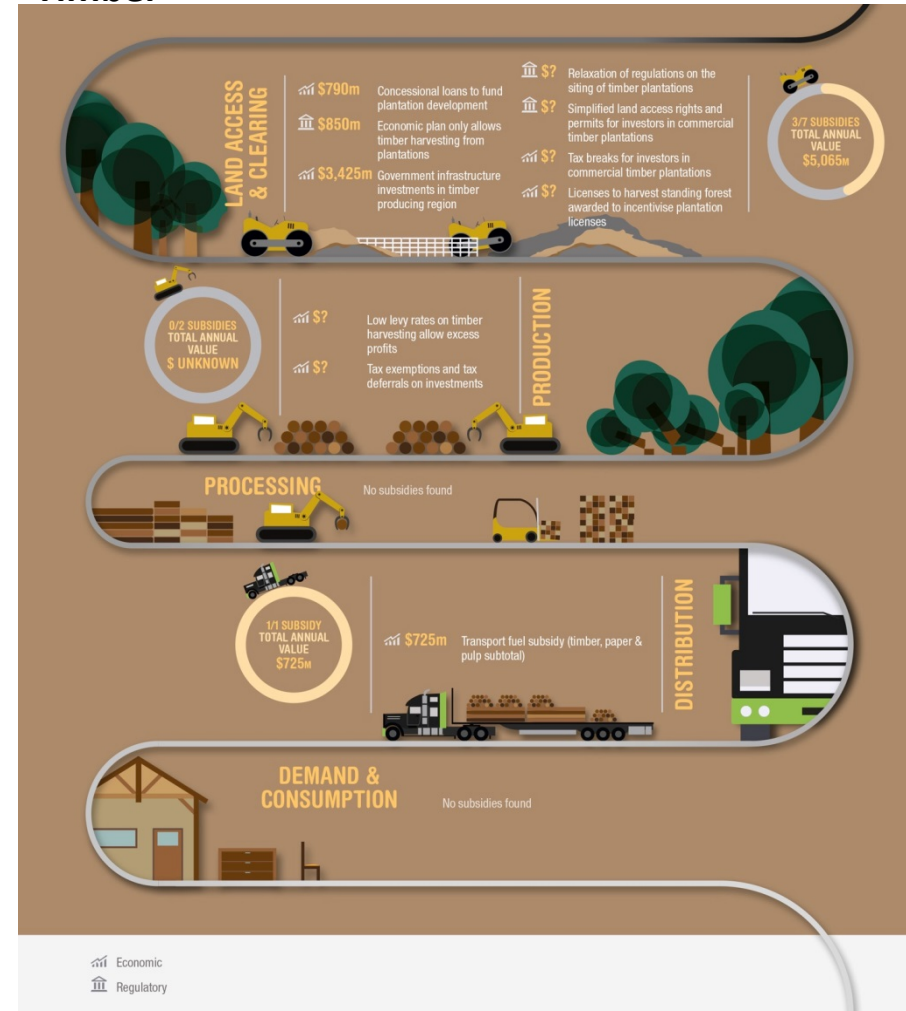
Examples of relevant fiscal incentives - Indonesia

Palm Oil



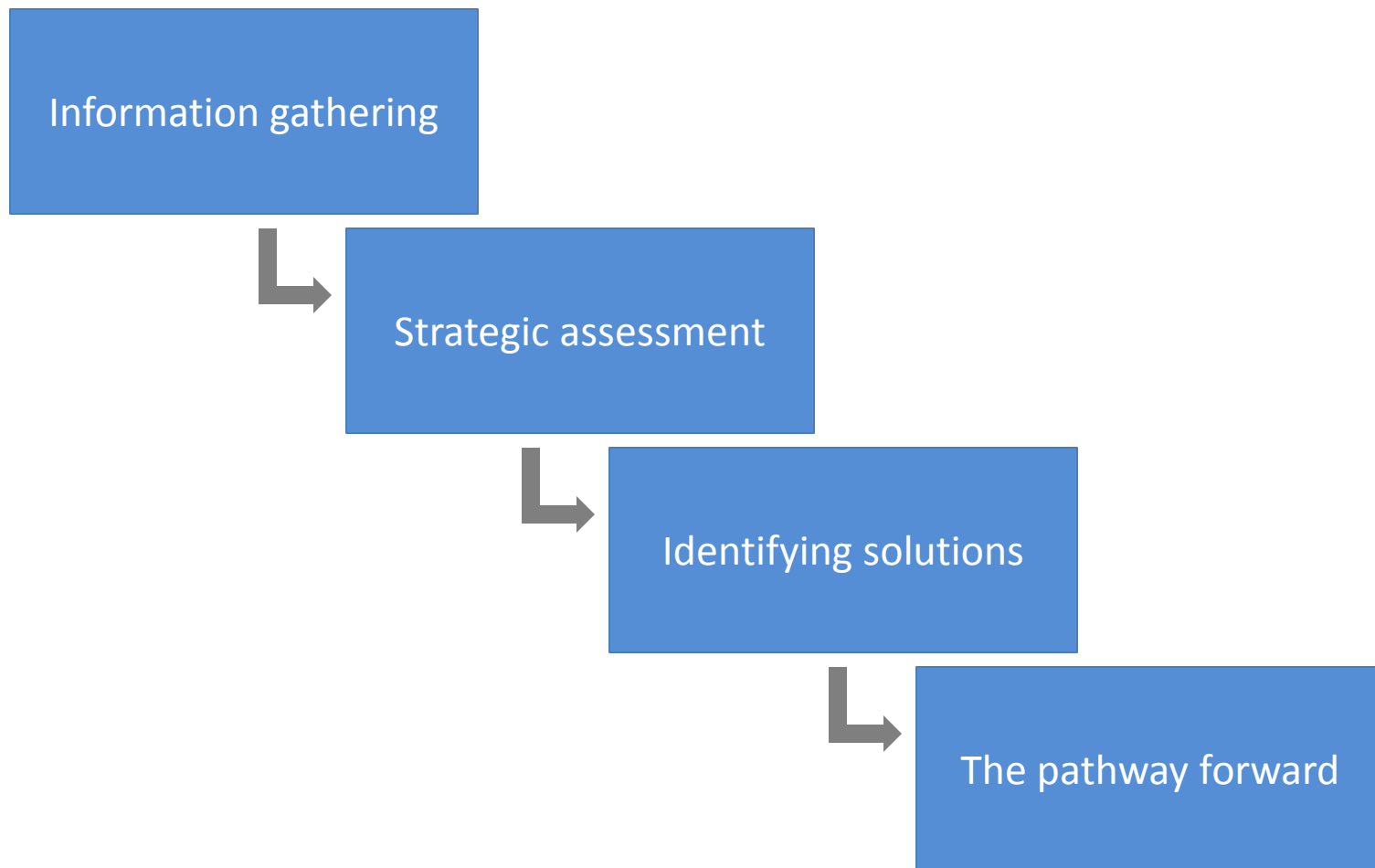
Source: ODI, 2014

Timber



Source: ODI, 2014

Sample framework for analyzing fiscal incentives



Preliminary results of analysis in Ecuador

High probability of negative impact	High probability of positive impact	Low to medium impact
Subsidies to urea	Programa Nacional de Palma Africana (National Programme for Palm)	Income tax exemptions on new investments
Socio siembra (Planting Partner Programme)	Income tax deductions available for clean technologies	Deductions for hiring staff with disabilities
Subsidies to fuel and electricity	Exonerations from payments on advances to IT for agroforestry and silviculture	The ITR generated x 4 will be deductible IR Global
Exonerations from payments on advances to IT for new investments outside of Quito and Guayaquil	Exemption from tax for rural land under 25 ha	0 % VAT rate on import of edible oils
0 % in VAT for import of seeds , bulbs, fertilizers , pesticides, etc.	Exemptions from tax on rural land communes , unions, etc.	0 % VAT rate on import of agricultural machinery
0 % VAT rate in fumigation service	Tax exemption in rural land affected natural disasters	0 % VAT rate on extraction by mechanical or chemical means to produce edible oils
Purchase of productive lands	0 % in VAT for import of agricultural products	0 % VAT rate for transfers in and imports of goods for agricultural use
	Agroforestry Credit	Emergency Programme for the Agricultural Sector
	Crédito Asociativo	Production and trade credit
	Associative credit	National Guarantee Fund
		Agro seguro (agricultural insurance)

Reflections from country analysis

1. Subsidies for agriculture are orders of magnitude greater than REDD+ finance
2. Fiscal & policy incentives supporting agricultural development were not designed with REDD+ in mind
3. Enabling environment crucial for REDD+, supply chain sustainability, and zero net deforestation commitment
4. More analysis required on understanding perverse incentives
5. Fiscal incentives will only be one part of REDD+ implementation



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Thank You

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