



The Regional Training Workshop  
*Economic Valuation of the Goods and Services of Coastal Habitats*  
March 24 – 28, 2008  
Samut Songkram Province, Thailand



# **APPLICATION OF ECONOMIC VALUATION TO POLICY FORMULATION**

**by**

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# DEFINITIONS OF POLICY

- **policy is a deliberate plan of action to guide decisions and achieve rational outcome (WEKIPEDIA)**
- ***"The term public policy always refers to the actions of government and the intentions that determine those actions". -Clarke E. Cochran, et al. \****
- ***"Public policy is the outcome of the struggle in government over who gets what". -Clarke E. Cochran, et al. \****
- **Public policy is *"Whatever governments choose to do or not to do". -Thomas Dye \****
- ***"Public policy consists of political decisions for implementing programs to achieve societal goals". - Charles L. Cochran and Eloise F. Malone \****
- ***"Stated most simply, public policy is the sum of government activities, whether acting directly or through agents, as it has an influence on the life of citizens \****

\*Definitions as quoted in Wikipedia

# POLICY DEFINED

- **Various definitions of Policy**
- **Most appropriate given our context is: “Any deliberate decision taken by the State which causes a transfer of welfare (well-being) from one group in the Society to another” (Ritson, 1987)**
- **Policy therefore deals with costs and benefits.**
- **Costs and benefits use quantitative indicators, such as monetary values of certain goods and services (which can be produced through valuation)**

# **POLICY PROCESS\***

- **PROBLEM IDENTIFICATION AND AGENDA FORMATION**
  - Issues/problems that should be addressed and how they can be brought to attention of decision makers
- **POLICY FORMULATION**
  - Alternative courses of action (policy options), various participants involved
- **POLICY ADOPTION**
  - Selection of most appropriate course of action, costs and benefits
- **POLICY IMPLEMENTATION**
  - Carry-out the chosen course of action
- **POLICY EVALUATION**
  - Effectiveness of the chosen course of action

FROM: Development Academy of the Philippines: Course on Public Policy Process

# **VALUATION AS SITUATED IN THE POLICY DEVELOPMENT PROCESS**

- **Used in identifying options/courses of action by using values in cost benefit analysis (in policy formulation stage)**
- **Used in choosing the best option/course of action based on the best set of benefits (in policy adoption stage)**

# APPLICATION OF VALUATION IN POLICY DECISION

- **What courses of action to take/options in resources management** (to ensure that resource use are consistent with achieving maximum benefits for society\*)
- **Provide policies that discourage behavior that lead to depletion/denudation of resources** (Economic policy instruments)
- **Better framework for compensation and penalties in use of resources\***

FROM: Willard Phillips: Workshop on Economic Valuation of Coral Reefs

# **APPLICATION OF VALUATION IN POLICY DECISION**

- **Others (e.g., Resources' Physical Status)**
- **Applications and illustrations not exhaustive**

# **COURSES OF ACTION/OPTIONS IN RESOURCES MANAGEMENT**

- **Best Use of Resources** where the resource can be used for different activities (e.g., industrial, food production or environmental services).
- **Illustration:**
  - A wetland area is being considered to be used either as oil refinery site, fishpond or be left alone as buffer for waves and provide other environmental services.
  - Valuation will be done on which function/use will yield the most benefits
  - Included in the analysis is the cost of providing the same level of environmental services protection from strong waves (e.g. cost of construction of infrastructure or even relocation of communities to be affected)
  - The use that will yield the most benefit shall be chosen as the course of action. If the two uses that will entail removal of the mangroves will not yield positive benefits, then the best course of action is to preserve the area for it to provide protection from waves and other environmental benefits.



# **COURSES OF ACTION IN RESOURCE MANAGEMENT**

- **Best Course of action on resources that are already degraded/denuded**
  - **Rehabilitate degraded habitats or convert them to other uses**
- **Illustration**
  - **A mangrove area has been denuded due to over-extraction of mangrove timber. There is a proposal to rehabilitate the area for it to provide environmental services with the proviso that the communities will stop extracting the mangroves. A counter proposal was made to convert the area into fishpond.**
  - **Valuation will be done on which use will provide the most benefit (value of services vs. revenues from the fishpond). Included in the consideration is the cost of rehabilitating the area (i.e., considering that it has been denuded).**
  - **The use that will provide the most benefit will be chosen as the best option.**

# **COURSES OF ACTION IN RESOURCE MANAGEMENT**

- **Prioritization of Areas for possible intervention**
  - Which habitat are to be protected/ rehabilitated if the resources are limited and not enough to protect/rehabilitate all those that need attention.
  - Extent of rehabilitation of habitats that will provide the best benefit
- **Illustration:**
  - **The South China Sea Project**

# **COURSES OF ACTION IN RESOURCE MANAGEMENT**

- **Mode of intervention to be undertaken**
  - **Assessment of options to be taken to arrest resource degradation/depletion**
- **Illustration**
  - **Control of crop infestation by either introduction of the pest's natural predator or spraying with pesticides.**
  - **Reforestation of areas (including mangrove) by introducing species that are not endemic in the area. (Which require transport cost and result to lower survival rate)**

# **DISCOURAGE BEHAVIOR THAT LEADS TO RESOURCE DEGRADATION/ DEPLETION**

- **Imposition of market-based policy instruments or policies that aim to change behavior (including consumption of resources) by using economic principles**
- **Proper resource pricing**
  - **To discourage over use of resources (some resources are not priced or subsidies are given)**
- **Illustration**
  - **Proper pricing of water to encourage people to save on water consumption**

# DISCOURAGE BEHAVIOR ...

- **Incentives to encourage good practice**
  - Incentives in terms of tax breaks in terms of added cost for people to adopt good environmental practices
- **Illustration**
  - Philippines policy on giving rebates for good practices on grazing land management
  - Full cost for leaded gas and tax rebate for unleaded gas to make people shift to unleaded fuel

# DISCOURAGE BEHAVIOR ...

- **Disincentives to discourage practices that lead to resource depletion/ degradation**
  - Economic impositions that are aimed at avoiding over-extraction/over-use of resources
- **Illustration**
  - Imposing higher fees for catching a certain volume of fish on a graduated basis

# **BETTER FRAMEWORK FOR COMPENSATION AND PENALTIES\***

- **Amount of Fees and Charges that the government may impose in exchange for the use of certain resources**
- **Illustration**
  - Government get some share for using mangrove areas for fishpond; government share when harvesting mangroves for firewood, etc.

# **BETTER FRAMEWORK FOR COMPENSATION AND PENALTIES\***

- **Penalties for destruction of resources**
  - To compensate for the destruction of areas in the process of doing activities
- **Illustration**
  - Effluent fee system where payment for discharging waste water in rivers
  - Fees to compensate communities affected by oil spills



# **BETTER FRAMEWORK FOR COMPENSATION AND PENALTIES\***

- **Entrance and facilities user fees**
  - Amount Operators of recreation sites charge for access and/or use of facilities
- **Illustration**
  - **Entrance fees for resorts and parks**
  - **Use of facilities inside the parks, resorts**

# OTHERS

- **Physical Inventory – Monitoring of available resources (consequence of valuation in that actual volume of resources is determined)**
- **Can be used to make decisions whether to impose quota system, open/close seasons or totally ban extraction**
- **Illustration:**
  - **Ban of cutting of mangrove in the Philippines**

**THANK YOU!!!  
FOR YOUR  
ATTENTION**