

Impediments to the Adoption of Market Based Instruments and Incentives

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Funding and Project Team

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What we aim to achieve

- Provide the best market intelligence about product preferences, promotion and market segments prior to implementation
 - Understand how to design MBIs and incentives to encourage participation
 - How preferences for design features change across farmer segments/types
 - The most effective mix of MBIs and incentives for different sub-catchments
 - Appropriate communication strategies for introducing MBIs and incentives



Research Questions

1. What are the characteristics of MBIs and incentives that will lead to increased participation?
2. How can MBIs and incentives be communicated and delivered to encourage greater participation?
3. Who are the individuals/farmers that are most likely to participate in MBIs and incentives?

What we have accomplished so far

- Literature review (two working papers)
- 20+ Expert interviews (researchers, regional practitioners, government officials, consultants)
- Pilot survey of 560 farmers in the South Australian Murray Darling Basin

1. What are the characteristics of MBIs and incentives that will lead to increased participation?

- ❑ Extent of compensation payments
- ❑ Contract flexibility – requirements, outcomes, methods of achieving outcomes
- ❑ Contract length – preferably shorter
- ❑ Simplicity – easy to understand, minimum paper work and administration
- ❑ Trust in the organisation delivering the program
- ❑ Clarity and transparency
- ❑ Ongoing technical assistance
- ❑ Group contracts
- ❑ Benefits in addition to the monetary incentive eg assistance with property management

1. What are the characteristics of MBIs and incentives that will lead to increased participation?

TECHNICAL ADVICE

say, there was an invasion of some sort of ... weed ... they would be expected to do something about it. And they might not have the knowledge ... and they're worried about that... because it's ... for a long period of time, they're worried about [what] is required ... in ... time or money. So, they want ... some clarity about the availability of technical advice. And that's worth quite a lot to them.

1. What are the characteristics of MBIs and incentives that will lead to increased participation?

ADDITIONAL BENEFITS FOR MANAGEMENT

...the MBIs had to help them with their farm management, not just be seen as something nice to do for the environment ... because the major constraint that comes up time and time again is ... time and labour – ‘ok, you give me this money, and I can buy all this material, but when am I going to get the time, and who’s going to do the fence? ... I’m flat out getting my crops in...’

2. How can MBIs and incentives be communicated to encourage greater participation?

Importance of direct contact

- Important at two stages
 - Creating initial information and awareness
 - Developing and submitting bids

- Reduces costs of involvement, reduces ambiguity and increases probability of a successful bid

- Farmers often get basic facts about programs incorrect - contact reduces misinformation

Direct contact

- Need experienced and trusted staff

Another option ... that's very worthwhile is to ... make your field officers skilful enough so that they can actually almost do all of the paperwork for landholders, so landholders really have to explain their interest and their ideas, and then sign on the dotted line ...

..the response varies enormously between whether you're cold-calling them... to whether you are somebody, say, working in a catchment group or a NRM group ... perhaps knows some of the people.

Direct contact

- But finding and keeping them can be hard...

...sound technical advice and someone who's experienced is really important. And the problem we have at the moment...is a lot of the people who deliver these MBIs tend to be fresh graduates or maybe one or two years out ... but a lot of the farmers ... want someone who's got a few more years under their belt...

And the other problem we've found ... is there's a high turnover of staff – they're only employed for two or three years, on very low salaries, so of course after three years they're going to want to go ... and the farmers have to start with someone who's young and inexperienced again.

Networks

- Both formal networks (eg Landcare, agricultural associations) and natural networks (school, church, footy club etc)
- Can be persuasive and a low cost option, can provide legitimacy but limited to those connected to a network

Workshops

- Seminars can be effective when farmers who have credibility are involved in facilitation
- Experimental economics has potential as a demonstration tool

Advertising

- Direct advertising not as effective as other methods – but useful for reaching people that are outside of existing networks

- Approaches that can be helpful:
 - Direct contact via phone and mail
 - Stalls at field days
 - Local newspapers (articles rather than ads)
 - Advertising through regional businesses

Selecting a communication strategy

- Selection of an appropriate communication strategy depends on the characteristics of the farming community and organisational constraints eg
 - Size of the market
 - Budget and time constraints
 - Farmer receptiveness

Program Characteristics and Choice of Communication Strategy

| Program Conditions | | Education and Outreach | Third-Party Facilitation | Existing Networks |
|-------------------------------|---|------------------------|--------------------------|-------------------|
| Size | Small (X) Large (XX) | X | X | XX |
| Time constraints | Low (X) High (XX) | X | X | XX |
| Initial farmer attitudes | Less receptive (X) More receptive (XX) | XX | X | X |
| Long-term program flexibility | Less important (X) More important (XX) | XX | XX | X |
| Minimising transaction costs | Less important (X) More important (XX) | X | XX | XX |
| Reaching broad set of farmers | Less important (X) More important (XX) | XX | XX | X |

Source: Breetz *et al* (2005)

3. Who are the individuals/farmers that are most likely to participate in MBIs and incentives?

□ Sociodemographics

- Younger, dependent children

□ Farm characteristics

- Potential to gain more or lower opportunity costs from participation
- Bought property in preceding two years

Attitudes and Behaviours

- More than a positive environmental attitude
 - Already undertake environmental actions
 - Recognition of need to do something on their property eg salinity, weeds on farm
 - Positive attitude to the program
- Trust in and experience in working with government and non-government agencies
- Business oriented behaviour (business plan, computer skills, recording methods for business transactions)
- "Awareness" - information seekers, connected to networks, government
- Confident/progressive - innovative farmers



Preferences across Segments

- Evidence that different kinds of farms and farmers prefer different programs
 - Tenders more suited to smaller farms where farmers have substantial off-farm income
 - Full-time farmers prefer stewardship payments

Preferences across Segments

...there'd be differences between the sorts of people who'll go for something like an auction approach to a fixed grant incentive scheme ... the auction approach is more novel and so it'll tend to be those ... more confident, more literate ... capable of making decisions that are informed, have confidence in ... the groups ... offering these things...

...you often only get those who are really altruistically minded... initially ... The harder line farmers, or the harder to convince ones, come usually in the third round, or the fourth round of a program, where they're starting to see things across the fence

Segmentation results from pre-test

- Segmentation exercise conducted using four attitudes
 - profit seeking, innovator, information seeker and environmental attitude

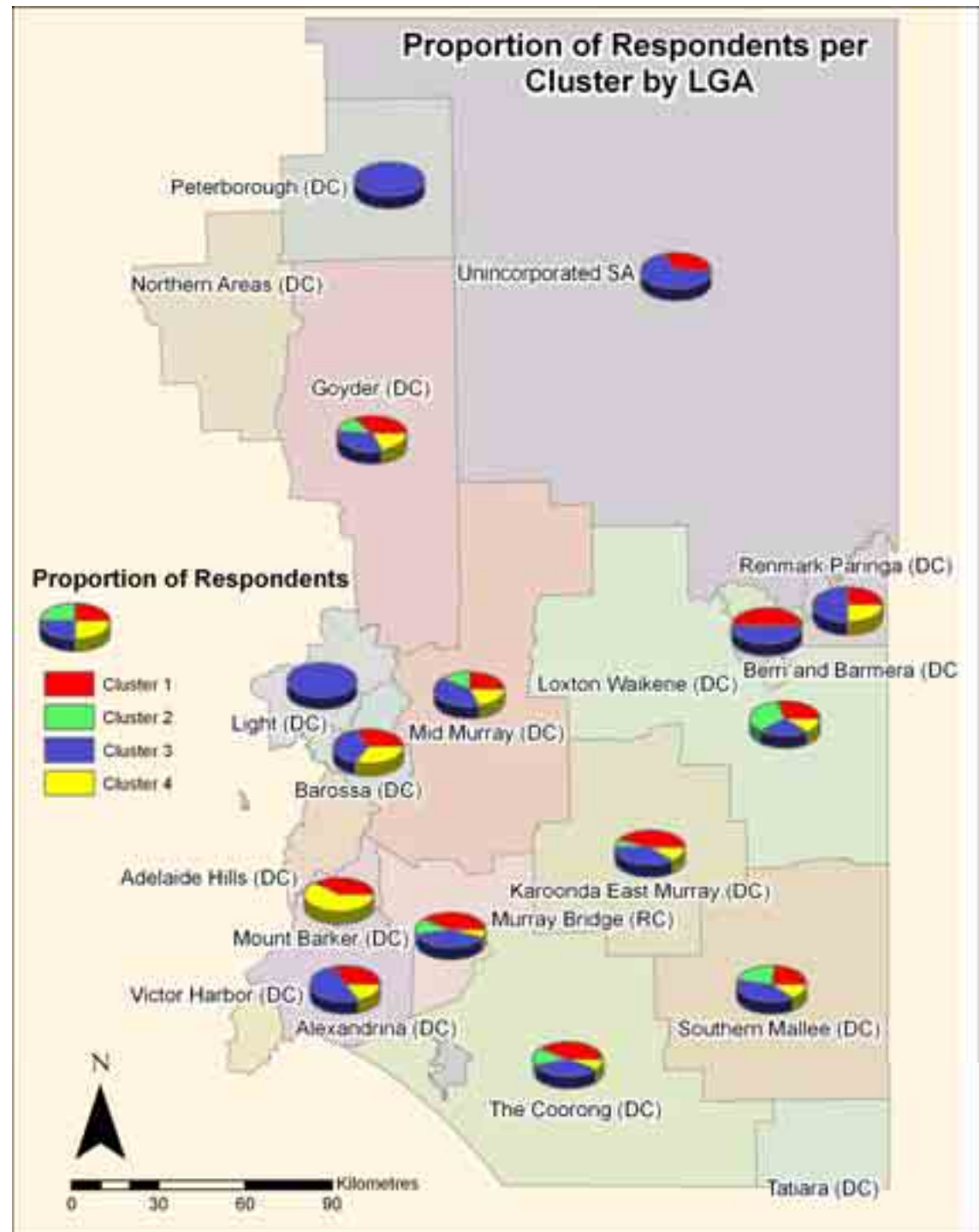
- Four clusters identified
 1. Profit only (29%)
 2. Quality operators (19%)
 3. Mainstream farmers (27%)
 4. Hobby farmers (16%)

Segmentation results

| Segment | Profit only | Quality operators | Mainstream farmers | Hobby farmers |
|-------------------------|--------------------|--------------------------|---------------------------|----------------------|
| Profit focus | 3.99 | 4.57 | 3.99 | 3.18 |
| Innovator | 3.55 | 4.50 | 4.18 | 3.70 |
| Information seeker | 2.96 | 4.13 | 3.56 | 3.14 |
| Environ. Attitude | 3.73 | 4.57 | 4.28 | 4.12 |
| Participated Landcare | 0.22 | 0.47 | 0.37 | 0.26 |
| Participated any scheme | 0.4 | 0.64 | 0.56 | 0.38 |
| Full time farmer | 68.3% | 82.7% | 66.8% | 50.6% |
| Area (acres) | 2453 | 3816 | 2313 | 1342 |

GIS Mapping

- Allows us to understand the distribution of segments across sub-catchments



Next steps

- Conduct focus groups and try and identify the most appropriate attitudinal constructs for segmentation
- Refine questionnaire and conduct surveys in four catchments (two in NSW and two in Queensland)
 - Identify two Regional Bodies in QLD who would like to participate
- Research to be completed by October 2007