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GREATER MEKONG SUBREGION CORE ENVIRONMENT PROGRAM

Mainstreaming natural capital into business decisions feedback from the

Natural Capital Business Forum

The 4th GMS Environment Ministers' Meeting (EMM4)

27 January 2015 Nay Pyi Taw, Myanmar

Working Group on Value Chains

The Business Challenges

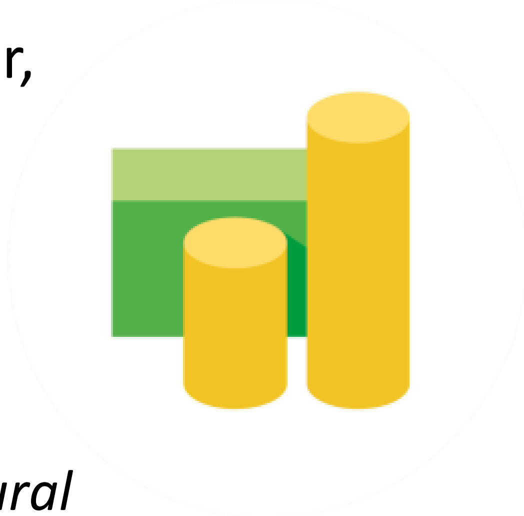
- All sectors are affected by natural capital decline, but in different ways and some more immediately (water, soil, energy dependence)
- Most risks and dependences - and the opportunities to address them - are at the upstream growing phase of the value chain
- This part of the value chain is the most difficult to manage and no one business can address these challenges alone

Commercial opportunities from investment in natural capital

Business opportunities lie in collaboration between different actors along value chains and through investment in managing natural capital e.g. water, soil and biodiversity

Proposed soft commodity focused projects:

e.g. food crops, bamboo/rattan:



- *Inventory of commodity status*
- *Shift production to improved management of natural capital*
- *Building links and technology transfers between companies/SME/farmers along value chain*
- *Innovative mix of private and public funding models*
- *SME network across GMS to build capacity*

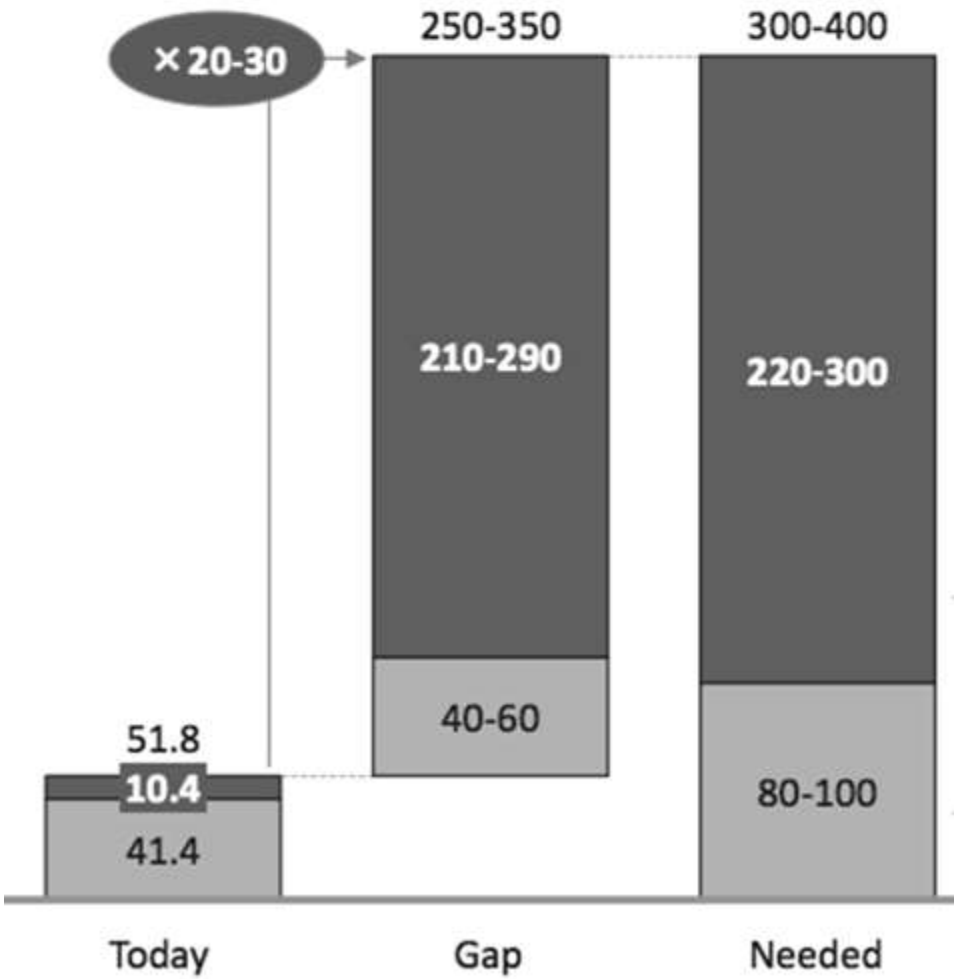
How could government support business to better manage natural capital?

- Promote efforts to **demystify** natural capital concepts
- Government should have an **assessment of their natural assets** and account for natural capital
- Use their **public procurement** to source from suppliers that can demonstrate better management of natural capital
- Work with private investors to **combine public and private financial streams** directed towards natural capital enhancement at the growing and local processing phase of the value chain

Working Group on Finance

What does business need?

Conservation Finance Gap



Source: Conservation Finance (Credit Suisse, McKinsey, WWF – Jan 2014)

– **Champions**: both from the public and private sector (small and large businesses and financial intermediaries need clear and supportive regulatory frameworks)

– **Innovations**: are needed to go beyond Business As Usual, to invest in natural capital while being financially viable and scalable

– **Finance**: is a key enabler of transition to a natural capital-smart economy, and businesses should be able to access the necessary financial instruments (debt, equity, guarantees, etc.)

– **Other enabling conditions**: knowledge, capacity and a conducive regulatory framework to inform and empower both the demand (consumers) and supply side (producers)

What is there already? Current innovations

1. **The Land Neutrality Fund** seeks to use public funds to leverage large-scale private investments for land rehabilitation.

Land Degradation Neutrality (LDN) Fund

2. **Oryx Impact Investments** provides high-risk capital at preferential rates to SMEs with positive impacts on biodiversity conservation.

FAUNA & FLORA INTERNATIONAL

ORYX Impact Investments

3. **Shenyu New Energy** uses patient private capital to combine reforestation and biofuel production on their own forest land.

Yunnan Shenyu New Energy Co.

Moving forward: what can we do?

Public sector:

Inclusive approach: need to reach out to SMEs, not just large multinationals (e.g. 4Ps: Participatory PPPs)

Incentives: set good examples (e.g. green public procurement), accounting/ internalization of global benefits (metrics, valuation, etc.), creating markets for eco-commodities (e.g. other ecosystem services beyond carbon, water, biodiversity)

Land tenure: policies and regulations needed to secure access to land over a long time, as well as standards for sustainable use

Safeguards to protect investments in natural capital in the long run

Private sector:

Financial intermediaries: Develop investment models that are fit for different risk/returns profiles, and can be replicated at large scale and generate the expected impacts and returns while mitigating unique transaction risks from investments into natural capital (political, operational, climate, liquidity, etc.)

Businesses: Develop innovative business models for sustainable natural capital use that are investable (i.e. demonstrate economic viability and acceptable time to ROI, etc.)

Working Group on Green Freight

What is the business challenge?

90%

of all truck operators own 1- 3 trucks (>1 million operators in Asia)

0.1%

Own more than 100 trucks

The crux of the fuel efficiency issue:

- The freight market is highly fragmented
- The industry is asymmetric: shipping lines > 3PLs > large national operators > SMEs

What are the opportunities to improve fuel efficiency?

- Green freight / energy efficiency solutions exist and have been tested in the region:
  - Industry lead labelling and certification (Green Freight Asia's work with 3PLs)
  - Corporate lead efficiency initiatives (Nittsu Japan's work with subcontractors in Malaysia)
  - Association lead capacity building (Federation of Thai Industries' logistics project, GMS Freta's capacity building work)
  - International agency lead demonstration projects (GMS Green Freight Initiative)
- However, uptake in the sector is still low and such initiatives require enabling conditions to scale up

What joint action is needed?

- Level the playing field which includes Green Freight
  - Develop voluntary **industry led** Green Freight Standards (e.g. Green Freight Asia Label)
  - Improve **public policy**: regulations and fiscal incentives to encourage companies to improve efficiency, and better enforcement of existing regulations
- Make the business case
  - Develop, collect and share case studies and evidence to inform stakeholders about positive impacts of green freight **(public, private and not profit)**
  - Identify and engage Green Champions **(public, private and not profit)**
- Encourage private sector investment
  - Establish **public and private financing** mechanisms to facilitate energy efficiency e.g. Thai ENCON fund, Green Freight ESCO, etc.
  - Educate and build capacity of SME transport companies **(public, private and not for profit)**

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