



PROCEEDINGS OF THE NATURAL CAPITAL DIALOGUE

Event name:	Natural Capital Dialogue	Date: 28 Jan 2015
Event session(s):	Morning: WELCOMING REMARKS PLENARY SESSION 1: Setting the Stage – The Role of Natural Capital in Sustainable Development and Inclusive Growth PLENARY SESSION 2: Investing in Natural Capital for Green Growth and Sustainable Development – Good Practice and Experiences Afternoon: PARALLEL SESSIONS: Mainstreaming Natural Capital in Decision Making Session A Mainstreaming natural capital into public policies and systems Session B Mainstreaming natural capital at the grassroots level Session C Mainstreaming natural capital into business investment decisions PLENARY SESSION 3: From Dialogue to Action – Priorities for Promoting Investments in Natural Capital in the GMS PLENARY SESSION 4: Strengthening Collaboration and Coordination to Increase Natural Capital Investment Closing Session	
Participant details:	Main organizations represented: GMS country governments, United Nations agencies, development cooperation agencies, civil society groups, research institutes and universities, private sector (companies and business associations) Main sectors represented: Environment, energy, agriculture, transport, forestry and planning	No: participants 150
Note taker:	Shannon, Pomme, Iain, Jiao Xi, Lothar, Sebastian, Naeeda	
NOTES		
Synopsis	The Natural Capital Dialogue brought together senior GMS government officials, international experts and a wide range of stakeholders to discuss the significance of natural capital in the context of inclusive and sustainable development in the Greater Mekong Subregion (GMS). Occurring ahead of the 4 th GMS Environment Ministers’ Meeting (EMM4), the Natural Capital Dialogue presented an important opportunity to draw public and business sector attention to the need to increase investments in the Subregion’s natural capital.	

Objectives	The objectives of the Natural Capital Dialogue were to: • Raise awareness about the value of natural capital within the context of inclusive and sustainable development in the subregion. • Exchange global and regional good practices on promoting investments in natural capital. • Build consensus on the need to integrate natural capital considerations into subregional and national development planning. • Identify opportunities and priority actions to increase natural capital investments. • Identify effective and efficient partnerships for cross-sector and stakeholder coordination and collaboration to increase investments in natural capital at the subregional and national level.
Key Messages	Plenary Session 1 • Natural capital interact with other types of capitals (human, built, social) to support human wellbeing. Natural Capital needs to be placed along with other forms of natural capital for its importance. Natural capital valuation can be used to promote sustainable natural capital management through raising awareness and political interest; conducting national income and wellbeing accounts; supporting policy analyses and investment decisions; informing land use planning, payment for ecosystem services (PES), and forecast accounting; and establishing common asset and trusts. (Robert Costanza) • There is a growing consensus that GDP is not the right measurement for society's progress and wellbeing because it does not completely reflect the contribution of natural capital to growth and development. There is a need to find alternative indicators which can capture genuine progress. (Robert Costanza) • The contribution of natural capital to wellbeing is perhaps more important in the GMS than in other regions, if the role of soil fertility is accounted for in addition to forests and water. In countries like Indonesia, India and Brazil, even though natural capital does not constitute a large proportion of national GDP, it contributes to a significant amount of income of the poor ("GDP of the poor"). (Pavan Sukdev) • Good development needs to be built around sustainable management of natural capital. Sustainable agriculture, focusing on small-scale farms, is an effective way to simultaneously tackle the problems of poverty and food security (Pavan Sukdev) • We do not have a widely used index to account for ecosystems. The Gross Ecosystem Product (GEP), which accounts for the total value of ecosystem goods and services supplied to human well-being, is being developed for this purpose. Within this context, ecosystem mapping plays a very important role in identifying areas that need absolute protection, for example, the upper Mekong (Zhiyun Ouyang). • Three principles must be used for sustainable management of natural capital: i) natural capital belongs to the people; ii) those who destroy natural capital must pay; iii) natural capital has value and must be conserved. (Erik Solheim) • To implement the three principles, countries must set the law right and provide adequate economic incentives. Partnership is essential and leadership has to come from both the top and bottom. (Erik Solheim) • Managing natural capital can create jobs (for example, almost 900,000 jobs were created in South Korea to restore ecological infrastructure). Plenary Session 2 • Countries are consuming beyond their ecological means. Natural capital Per capita is declining fast, undermining future growth. We must make invisible values of natural capital visible. Methodologies and examples on how to do this exist. The challenge is to bring valuation exercise from academic study to actual policy design and investment decisions, including investments carried out by the ADB. To do so we need vision from top leaders. (Kaveh Zahedi) • Poor people in Viet Nam are heavily dependent on natural capital, necessitating that natural capital values be better integrated into decision making. Lessons learned from current natural capital accounting projects in Viet Nam include the importance of carrying out more capacity building exercises on recognizing and assessing the role of natural capital; the need to involve various government departments and establish steering body; and the need to establish country partnerships to guide and coordinate support for natural capital. (Nguyen Van Tai) • Developing countries are working towards meeting the Aichi biodiversity targets, including Cambodia. What's still needed is to further build knowledge about our natural capital and raise awareness about it; address direct and underlying causes of biodiversity loss; support measures that maintain or improve biodiversity status and value; and enhance enabling environment. Key challenges that remain are inadequate financing

Nay Pyi Taw, Myanmar: 27–29 January 2015

- availabilities, limited commitment, policy gaps and limited cooperation. (Somaly Chan)
- Costa Rica has demonstrated that there is a business case in investing in natural capital through both eliminating perverse incentives such as land concessions and promoting a beneficiary pays model such as a nationwide payments for ecosystem services. Political stability and policy consistency are the two pillars of the success in Costa Rica in natural capital management. (Carlos Rodriguez)
- There are time gaps (returns are only evident in the long run) and price gaps (gaps between ecological price and market price) on returns of investment for natural capital. There is an important role for the public sector to play in bridging these gaps (Rae Kwon Chung)

Parallel Working Groups

Working group A – Public Sector

- Investments in natural capital need to go hand in hand with human capital, including youth. Awareness of the role of natural capital needs to be increased through education.
- We need a new way of thinking to promote long-term investments in natural capital. The current economic systems and GDP-dominated paradigm have such a short term focus, creating a vicious cycle of underinvestment in natural capital.
- National capital must be mainstreamed into national level socioeconomic development plans. Both Viet Nam and Lao PDR have done this.
- In the GMS, a number of legislations and regulations at the sectoral level are also in place which relate to the management of natural capital. We don't necessarily need new natural capital specific laws. Utilizing existing law can be a starting point
- We need more involvement of planning, finance and line ministries. To do that, we need to identify mechanisms to bring them together with environmental officials, such as through the institutional set up of the National Development and Reform Commission (NDRC) in China.
- All investments in the GMS need to incorporate natural capital considerations. Within the Regional Investment Framework, all of the new sectorial projects (transport, energy etc.) should use part of its investment budgets to address negative impacts on natural capital from these activities. This could be achieved through better use of strategic environmental assessment and other safeguards systems. For investments we have already mobilized, we need to identify priority actions to improve the efficiency and effectiveness of these investments.
- Environmental fiscal policies reforms are needed. We need right incentives for good investments and tax bad ones.

Working group B – Grassroot Levels

- In Lao PDR, the Sustainable Natural Resource Management and Productivity Enhancement project promotes mainstreaming of natural capital considerations at the grassroot level through an approach of decentralised planning and investment, which applies the principles of the "3-Built" policy. What was critical for the success was the leadership of provincial government, the emphasis on capacity building, and farmers' access to finance. A remaining challenge is the creation of agricultural markets and the commercialization of new crops for small farmers. For these aspects, support is needed from ADB and other agencies.
- Sustainable management of natural capital is for communities' benefits. Local people hold the key to sustainable forest management. If these people are not put at the heart of the solution, no sustainable solution for forestry can be reached. Innovative approaches are required, like the ASEAN Social Forestry Network. Social and environmental safeguards need to be part of investments of World Bank, ADB and other lending agencies and private investors.
- Youth are highly affected by environmental changes and climate change. Youth development is fundamental for sustainable development in Asia. Involving the Youth can help resolve key development issues, including sustainable management of natural capital. ADB invests in many of such initiatives and supports the involvement of Asia's Youth.

Working group C - Business

- 1 **Many actions on promoting sustainable natural capital value chain focus on the wrong part of the value chain:** Too much focus lies on the production stage while too little on stages such as growing, extraction, and sourcing. The Natural Capital Business Forum took place on 27 January identified potential in business cooperation between

large corporations and Small and Medium Enterprises (SMEs) to green their value chains.

- 2 **Businesses called for public actors to support natural capital investment on three levels:** First, by building enabling conditions (long term). Second, via sharing risks with investors for testing innovative approaches via *Participatory* PPPs aiming at SMEs (mid term); third, by putting a natural capital filter on their own spending in public procurement and public projects (short to mid term).
- 3 **Early investors active in the field of natural capital need partners.** The Land Neutrality Fund by UNCCD (public-private), Oryx Impact Investment by FFI (philanthropic), Yunnan Shenyu New Energy (private) used the NC Business Forum to develop specific actions together with businesses and stakeholders. Together with other participants, these investors looked into ways to increase the sustainability and enable the scaling up of their investment concepts. They will revise their and improve their approaches in the aftermath of the meeting in Naypyidaw to enable more effective investment in Natural Capital in the GMS and elsewhere in Asia.
- 4 **The high percentage of SMEs in the GMS is a challenge and an opportunity for promoting natural capital investment.** For instance, fragmentation in the freight market hinders scaling up fuel efficiency solutions – the Natural Capital Business Forum discussed a large-scale of approaches to overcome this barrier. On the other hand, the SMEs sector is a major source of innovation and locus of risk taking. The GMS clearly needs both to find answers to natural capital challenges.
- 5 **To close the investment gap in the field of natural capital in the GMS we cannot wait for perfect metrics and regulations to be in place.** We need public and private actors to start testing what may work today, even if testing is risky. However, at the same time we must not reduce our efforts to create an ideal environment for natural capital management and investment in the long run. It is not about either or. We will need both.

Plenary Session 3

Celia Reyes – civil society group

- Identify and communicate farmer's benefits from green land use practice. Need to focus on smallholder farmers
- Participatory research needs to be conducted, and community involvement in planning promoted.
- Facilitate investments in infrastructure to increase productivity
- Promote land titling and land rights to establish ownership and resource responsibility and investment
- Strengthening monitoring and evaluation
- Link village with private sector – PPCCommunityPartnership
- Microcredit facility – access to credit is important
- Investment in social capacity for forest capital management
- Train national and provincial authorities on high resolution resource mapping and database management
- Keep the concept as simple as possible

Dr. Khang (Public Sector)

- Investments in natural capital needs to go hand in hand with human capital, including strengthening the role of youth – increase awareness to all people
- Need a new way of thinking and need to think long-term
- We don't necessarily need new natural capital specific laws – too many laws and regulations cause confusion.
- We need more involvement of finance, planning and line ministries – we need new mechanisms to bring people together to work cross-sectoral, such as the NDRC in China.
- All investments need to incorporate natural capital consideration,. . Within the RIF, we need to ensure safeguard system works but also ensure good natural capital management practices are applied.

Saumil Shah (Business Sector)

- Business is most challenged at the base of supply chain, it is important therefore to work with SMEs to build better business at Tier 4 level
- USD250 million of funding needed from private sector actors
- Work with SMEs to identify innovative solutions in natural capital friendly activities and provide high risk capital at preferential rates to encourage SMEs to undertake projects with positive outcomes for biodiversity.

Sanath Ranawana, ADB

- 2014-2018 – USD30.1 bn will be invested through RIF in the GMS
- All investments in RIF are about improving physical capital, some on human capital but only 0.3% on natural capital
- Why RIF is an opportunity? Rolling out this year, significant implications on natural and social capitals (largely unknown), sustainability of investment depends on how natural capital is maintained; co-benefits of RIF projects if natural capital is well managed.
- Identify entry points for integrating natural capital – eg. Supply chain at community level
- We need to develop an action plan for influencing RIF collectively

Summary

- Ensuring that the benefits of sustainability flows everywhere can't be just the role of environment ministry. We need to make sure Ministry of Planning and Investment and line ministries have a stronger role
- We need natural capital accounts to promote mindset change.
- Size of funding gaps is huge, unless there is a business case can deliver profits in short term so we need to identify the business case.
- Countries need to recognize externalities from bad investments and stop financing public bads
- We can not just do safeguards; we need to do more good projects
- Green economy is the only way.
- We need to engage business in the Regional Investment Framework

Plenary Session 4

Erik Solheim

- UN REDD Initiative provides an example of how to promote sustainable natural capital management and investment in a collaborative manner. It represents coalition of the willing towards forestry conservation. How to replicate the REDD experience in the GMS? This needs political leadership, involvement of the private sector and the people-centered approach. This will produce much larger impacts than small programs here and there
- To green global investments and ensure its pro-poor effects, fiscal intervention can be used, such as increasing tax by 1% on revenues generated from these investments. Doing so we could generate tax revenues much larger than today's global Official Development Assistance.
- We need to bring together environment and development for sustainable development. We must avoid of what we have done wrongly.

Prof San Win

- Public budget is important
- We need to understand what businesses are demanding from the public
- New mechanism – no project is funded unless environment is considered

Nguyen Tuan Anh

- National level – natural capital partnership as discussed in plenary 2. Vietnam is already participating in a range of initiatives
- Meeting with line ministries to identify entry points to integrate RIF
- Improve collaboration among GMS countries on transboundary natural capital – CEP can support GMS countries with this task

Five key take way messages from the Natural Capital Dialogue are:

1. We need to **take stock of our natural assets, understand what's happening to them and factor this information into our policies and decision-making**. To do this, approaches including natural capital accounting and green GDP should be promoted. There is a growing body of tools and experience that we can draw upon now, we do not need to wait for perfection in order to act.
2. We need to secure **cross-sectoral buy-in and support** for scaling up investments in natural capital. This cannot be the work of Ministries of Environment alone - the importance of investments in natural capital needs to be translated into language that effectively communicates with key decision makers in each sector, be it managing supply chain risks for businesses, or protecting local livelihoods for communities.

3. We need to **identify appropriate investment frameworks, financing modalities and funding strategies**. We have heard a few cases of successful business models of integrating natural capital. However, these are still few and far between in the GMS. We need to identify incentive structures to facilitate stronger private sector involvement and mobilize civil society and youth groups more effectively. Governments will need to provide the enabling policy, regulations and economic incentives to drive natural capital investments at scale.
4. We need to have the commitment to **reform our fiscal systems, remove perverse incentives, and shift government budgets to focus on** benefits from natural capital. Recent events, such as falling fuel price provides the fiscal space to reconsider redirecting the savings towards investments in clean technologies, sustainable land use management and building climate resilience. These investments can simultaneously protect and enhance natural capital while creating jobs and improving local livelihoods.
5. The GMS Regional Investment Framework will roll out investments of more than \$30 billion in the next five years. **These investments provide a timely opportunity for us to work collaboratively to** deliver inclusive and sustainable development outcomes through the GMS Regional Investment Framework.