

SUMMARY

How to Mainstream Natural Capital Accounting



Some countries in Asia are using eco-compensation programs to help poor communities while protecting the environment. Photo credit: ADB.

The People's Republic of China's efforts to integrate natural capital accounting into its national policy development process may encourage mainstreaming of the practice in other parts of the world.

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Overview

Natural capital is defined as the world's stock of natural assets that include forests, agricultural land, atmosphere, ocean ecosystems, and minerals. These natural capital resources provide a number of services (often referred to as ecosystem services) essential to the survival of humans, such as source of food, water, energy, and shelter. Natural capital is an important resource especially for developing countries, where it makes up a significant share of their total wealth. As the livelihoods of many citizens in these countries depend on natural capital, there is a need to better manage these resources to ensure the sustainability of these countries' economic growth.

Currently, there are different approaches on how to measure and account for natural capital. One of them is the United Nations System of Environmental Economic Accounting (UN-SEEA), a framework that integrates economic and environmental data to provide a more comprehensive and multipurpose view of the interrelationships between the economy and the environment and the stocks and changes in

stocks of environmental assets. The framework contains internationally agreed standard concepts, definitions, classifications, accounting rules and tables for producing internationally comparable statistics and accounts.

This is a summary of Inna Porras's presentation at the *6th International Conference on Eco-Compensation and Payments for Ecosystem Services*.

Global experience using the United Nations System of Environmental Economic Accounting framework

In 2010, the World Bank launched the Wealth Accounting and the Valuation of Ecosystem Services (WAVES), a global partnership that promotes sustainable development by ensuring the mainstreaming of natural resources in development planning and national economic accounts. Based on their experience, the extent to which countries have used natural capital accounting using the United Nations System of Environmental Economic Accounting framework to develop policy varies greatly:

- Guatemala is fully implementing the framework;
- Botswana institutionalized natural capital accounting within the Department of Water Affairs;
- Costa Rica institutionalized natural capital accounting within the Central Bank, and has established collaborative mechanisms between producers and users of accounts;
- Colombia institutionalized natural capital accounting within their National Statistics Office, and is also explicitly mentioned in their National Development Plan;
- Indonesia is aligning its existing natural capital accounting to meet the needs of climate change;
- Rwanda is developing a formal process for sharing data among its government agencies, especially with regards to water.

The onus of preservation and monitoring of natural capital does not lie with governments alone. There is also ongoing work to integrate the United Nations System of Environmental Economic Accounting framework for capital accounting with the Natural Capital Protocol, a framework which provides trusted, credible, and actionable information to help the private sector evaluate the impact of their business operations on natural resources. In doing so, businesses can make better decisions that benefits not only their bottom line, but also the sustainability of the world's natural capital.

Natural capital accounting in the People's Republic of China

The concept of natural capital accounting is not entirely new to the People's Republic of China. In 2004, the government attempted to calculate the country's Green Gross Domestic Product (GDP) to quantify the cost of environmental damage caused by the country's economic growth. While the study was indefinitely suspended in 2006, the government has since included the performance monitoring of environmental investments as part of the ecological reforms to establish an "ecological civilization" at the 18th National Congress of the Communist Party of China. As a result, various agencies are now working towards monitoring systems to measure environmental performance.

The government also launched a programme on Gross Ecological Product (GEP), which aims to establish metrics to measure the economic value of ecosystem products and services provided by nature. The program has been piloted in 3 provinces and is slated to be upscaled to evaluate eco-compensation investments. With the People's Republic of China anticipated to implement the United Nations System of Environmental Economic Accounting framework, the Gross Ecological Product can offer viable information and suggestions that can feed into the continuous development of the framework's ecosystem accounts, which is lagging behind from the rest of the world.

The People's Republic of China's National Bureau of Statistics (NBS) have also been working on the compilation of a natural resources balance sheet that focuses on land, water, and timber assets. This effort is mandated by the central government and the result of this may be used to evaluate the performance of provincial government officials on their effort for environmental protection.

Next steps for the Asian Development Bank on natural capital accounting

- Avoid overloading of indicators by directly targeting those that are most needed.
- Consider multidimensions of poverty and well-being in indicators. Environment investments have huge potential to help people but also make them worse-off, especially the most vulnerable.
- The supply of information must go hand in hand with demand for information. Thought and work should go towards ensuring that information feeds into the United Nations Sustainable Development Goals, Nationally Determined Contributions, Green Growth, and in the case of the People's Republic of China, the One Belt, One Road strategy. Perhaps the most direct use is how these indicators should inform environmental impact assessments of all investments, as a way to mainstream environmental and social performance indicators.
- The Asian Development Bank can support the mainstreaming of the supply and demand for information related to natural capital investments to support not only the People's Republic of China, but the rest of Asia and beyond.
- The Asian Development Bank should also engage with other institutions working on natural capital accounting, such as the United Nations and the World Bank.

Resources

[Natural Capital Coalition](#)

The World Bank. [Natural Capital Accounting](#)

[United Nations System of Environmental Economic Accounting \(UN-SEEA\)](#)

[Wealth Accounting and the Valuation of Ecosystem Services \(WAVES\)](#)

[Toward a National Eco-compensation Regulation in the People's Republic of China](#)

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Ina Porras has 22 years of experience working in environment economics in developing countries. Her current focus is on natural capital and ecosystem services (valuation, accounting, and impacts on policy processes), environmental fiscal reform, and upscaling conditional incentives for poverty alleviation and improved ecosystems (payments for ecosystem services). She is also a guest lecturer on economic valuation methods at the University of Edinburgh, and sits in the Board of Trustees of Plan Vivo Foundation as its Chair. She also previously held research roles at the University of Massachusetts in the USA, and the Tropical Science Center in Costa Rica.



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