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# NATURAL CAPITAL ACCOUNTING FOR BETTER POLICY

## WAVES NCA Policy Forum

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**WAVES**

*Wealth Accounting and the  
Valuation of Ecosystem Services*

## Background Paper

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## 1. Introduction to the NCA Policy Forum

The NCA Policy Forum aims to improve our understanding of the links between natural capital accounting and policy – so that natural capital accounts (NCA) are policy-relevant and timely. The Forum’s first meeting will bring together NCA developers and policy-makers from high-, middle- and low-income countries. Forum participants will share and explore country experiences of using natural capital accounts, with a view to developing guidance on NCA for better decision-making.

This note is intended to set the scene for the Forum, so that all participants are ‘on the same page’. It offers an initial perspective on the challenges of getting good natural capital information to influence real-life policy decisions. However, it is neither comprehensive nor intended to constrain debate.

The Forum is sponsored by the Netherlands Ministry of Foreign Affairs and the World Bank-led WAVES Global Partnership. The sponsors share an ambition to improve the uptake, use and effectiveness of NCA. They recognise that, to achieve this, NCA work needs to shift from its current supply-side activities (generating accounts) towards a more decision-centred approach:

| From...   | To...   |
|---|---|
| Technical focus – get NCA methods and data right  | → Decision focus – get natural capital policy right   |
| Supply side – NCA production is separate from policy production; and NCA struggles to get ‘policy uptake’ | → Demand side – policy players engage with NCA players, and so shape NCA purpose/focus                |
| Government focus on policy – as government domain i.e. ‘what government wants’                            | → ‘Political’ view of policy – ‘what business, civil society and government want’, and how they agree |
| Focus on formal policy decision – NCA trying to change one policy decision or plan                        | → Enable policy discourse by many – NCA helping debate and review as well as making decisions         |
| Data provision – NCA producers putting NCA raw data ‘out there’ hoping it will be used                    | → Information demand – ‘policy entrepreneurship’ getting policy-relevant information to many users    |
| NCA is a ‘magic bullet’ – promoted on its own   | → NCA works with complementary tools  |
| Experimental – one-off approaches   | → Mandated – comprehensive and routine NCA system   |



## 2. The policy context – what is ‘policy’ and what does it do?

*Policy: A set of ideas or a plan of what to do in particular situations – agreed to officially by a group of people, a business organization, a government, or a political party. (Cambridge ED)*

**Policy can be viewed through four ‘lenses’:**

1. **Policy content** – this may range from a broad narrative (the ‘policy discourse’), to a general course of action or aspiration (vision or trajectory), to precise decisions on what to do or not do
2. **Policy process** – the ‘machinery’ of informing, developing, agreeing, enforcing and reviewing policy content; usually government-led e.g. regular policy/plan reviews or one-off commissions
3. **Policy stakeholders** – the policy leadership, authority and capacities of government; plus, the demands, inputs and validation by others with a ‘stake’ in the policy content (e.g. communities and business), who may or may not be involved in policy processes
4. **Policy knowledge** – the set of values, norms and assumptions behind decisions, *plus* evidence brought to bear to either support or challenge them – all of which may be in competition

Too often only the first two ‘lenses’ are considered – resulting in a false view of policy, or one which only works on paper (impotent “planners’ dreams”). In practice, real-world policy is very much a product of context – which is political, dynamic, and rooted in a country’s institutional settings.

**Policy is inherently political:** It is not only about policy as written on paper, but how it is interpreted and the weight it has. These ‘political’ issues can be deeply entrenched. *Power structures* determine who gets to decide what policies, and in what ways. Powerful players are often from business and finance, and can resist scrutiny or change. Weaker players are often dependent on natural capital for their livelihoods, but their voice is not heard. Discourse is often subject to myth, haste or obfuscation, and cries out for better information – of the type NCA can provide:

- **Hot issues** – crises, events, big investment opportunities, or enduring needs like jobs and economic growth may drive decisions more than formal written ‘policy’ and routine plans
- **Contested values** – balanced decision-making criteria (e.g. SD) are rarely used in practice; powerful players push for efficiency and profit, weaker for fairness or sustainability
- **Trade-offs** – the specific fall-out of who wins, who loses, when, where, and how, may matter to stakeholders more than the main policy intention

To handle such ‘political’ issues better, there is usually a need for:

- **Government leadership plus effective societal demand** – policy decisions have real traction and impact if both are able to work together
- **Embracing effective informal mechanisms** – many operating at local levels, these can be more accessible and rapidly deployable than formal policy procedures
- **Distributional issues to be clear and handled well** – rather than broad national decisions alone

**Policy is dynamic:** *Effective policy will anticipate and respond to change* – especially political, economic, social and environmental tipping points. But in too many countries, out-of-date written policy remains on the books. This can be damaging if enforced without review of its impacts, of the type that NCA can support. In such circumstances, informal interpretations of policy often prevail. *There is therefore a need for:*

- **Responsive administrative machinery** – *effective policy establishes a feasible trajectory or set of long-term outcomes e.g. national ‘2030 visions’; and specifies mechanisms for adaptive strategy*



*e.g. development of scenarios and back-casting from agreed outcomes*

- **Policy reform ‘space’ that enables continuous improvement** – with opportunities for stakeholders to inform and be informed, debate, explore, and change position e.g. green economy accords, SD Councils, etc.

**The overall institutional framework may or may not support an integrated approach to natural capital:** In the last 20 years or so, the institutional framework in most countries tends to have progressed towards integration, if not always very far. The progression is from:

1. *Siloed* separate policies (still the case in some countries); to
2. *Safeguards* between policies e.g. environmental assessment of development policy and social assessment of environmental policy (most countries are at this stage); to
3. *Synergies* between policies e.g. win-wins between NC conservation and development, if current governance and financial rules enable this (progressive countries are here); to
4. *Sustainable, integrated* policy – tackling structural constraints to achieve SD at scale (a few countries are reforming governance and financial rules to enable this)
  - Improved coherence vertically (geographic/hierarchical) and horizontally (cross-sector)

This shift towards institutional integration is helped by innovations of the type that NCA can provide:

- **Evidence-based policy** – beginning to replace static policies or elite opinion-based policy; treating policy as a hypothesis to be kept under review through adaptive strategy

**Knowledge management systems** – bringing together scattered data and one-off studies

- **Transparent, participatory processes** – now a norm, rather than closed governmental processes

**Although policy is ‘messy’, that ‘messiness’ offers many levers for change.**

On the one hand, it is important for NCA players to understand policy in its many guises. On the other hand, it is also important not to get paralysed by its complexity. That complexity means there are plenty of entry points for information on natural capital, and diverse players who care about NC issues. A policy analytical framework could be generated to guide NCA development. It might include, e.g.:

- **Mapping** policy content, processes, stakeholders and knowledge (the four lenses above); understanding the dynamic political and institutional context
- **Identifying leverage points** e.g. NR crises preoccupying political attention; NR risk management; national plan revision cycles; and new paradigms such as green growth and SDGs

### **3. How can NCA be fit for purpose in shaping and implementing good policy?**

**NCA attributes can drive good policy.**

From section 2 above, it is clear that NCA needs to effectively inform policy content and knowledge; work well with diverse policy processes and their stakeholders; and be responsive to the dynamic political and institutional context. Various attributes of NCA enable this, as shown in the table below:

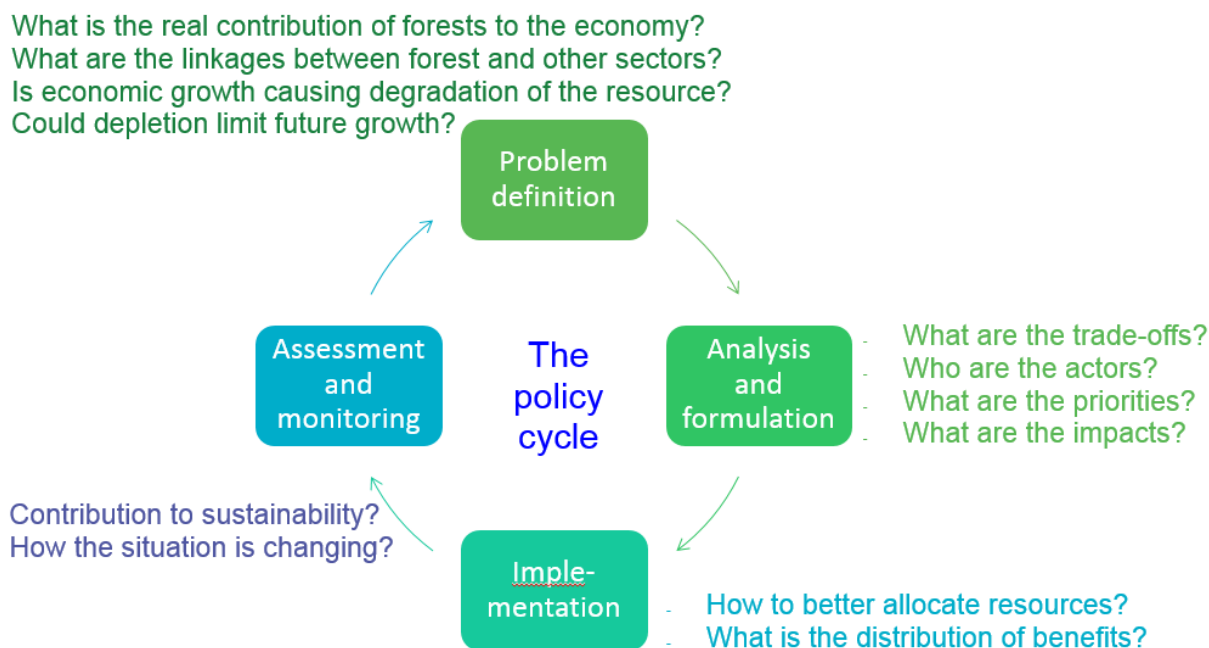


| Good policy  | How NCA fits   |
|--|--|
| Content: effective decision on course of action  | Decision-focused NCA enables the formation of both <i>evidence-based</i> NC strategy and specific decisions  |
| Process: inform, develop, and review decisions   | <i>Integrated</i> NCA accounting logic, standardised and regular outputs, and <i>knowledge management</i> – encourage systematic use of NC data in national development plan processes, policy reviews, etc. |
| Stakeholders: engagement, identifying or encouraging societal demand, and validation   | Ownership – NCA draws data from, and makes information useful to, many stakeholders  |
| Knowledge: validated baselines, trends, assumptions  | Comprehensive and rigorous – NCA’s baseline and changes in NC assets, flows, benefits/costs, plus data quality assessment, helps NC strategy/review  |
| Politics – power structures: improving equity in who decides and how   | Inclusion – <i>transparent, participatory</i> NCA processes invite participation beyond government alone   |
| Politics – values: policies reflect wide range of society’s values and achieve a better balance of efficiency, fairness and sustainability | NCA is neutral – but can incorporate data reflecting multiple values (if often limited on <i>equity</i> issues)  |
| Dynamics: keeping track of env, econ, social trends and tipping points, and handling change  | NCA time series – NCA is there when new problems are identified. It can reveal trajectories, and can be used in modelling and scenarios  |
| Institutional integration: systematic approach to linking institutions affecting NC  | NCA system – ‘wires together’ NC information, suppliers and users in a purposive way for decisions   |



## Policy uses of NCA

NCA can play roles at almost every stage in a country's 'policy cycle'. It is increasingly accepted that effective policy results from an evidence- and stakeholder-driven 'cycle' of continual improvement. For example, the illustration below shows the policy questions that forest accounts can address:



A more comprehensive look at the notional 'policy cycle' suggests several stages where NCA can add value:<sup>1</sup>

- 1. Analysis:** NCA supports quantitative and qualitative NC policy analysis – e.g. feeding modelling, to ensure decisions are based on the best possible information.
- 2. Dialogue:** NCA supports stakeholders reflecting on NC progress and futures – e.g. feeding projections, scenarios and the like that draw the larger policy picture out from all the data, and that focus discussion on high-level issues and directions.
- 3. Policy choice:** NCA supports the detailed design and assessment of policy options – ensuring a well-informed business case, and policy coherence.
- 4. Budget and finance:** by integrating environmental and economic information, and tailoring that information to policy analysis, NCA helps to select cost-effective options. For example, NCA can support the setting of carbon, pollution and resource taxes and fees by identifying the environmental impact of economic activity.

<sup>1</sup> Such a policy cycle is rare in practice, in large part because it is not driven by stakeholder engagement and information. NCA can help to serve that engagement and information need



5. **Implementation:** NCA can target policy towards specific localities, times, stakeholders or resources, through its flexibility to change or add accounting units to suit the policy goals
6. **Monitoring and baseline:** Through its systemic approach, and the standardisation and consistency it delivers, NCA supports regular monitoring of policy goals e.g. reducing resource intensity, decoupling, value added, and improving net savings – informing dialogue
7. **Engagement:** NCA supports integrated and multi-stakeholder approach to policy – to both serve policy and drive policy change.

In playing roles at potentially all stages of a continual improvement policy cycle, NCA could become a central ‘navigational’ feature of good national governance of natural capital – offering much of the ‘wiring’ that links institutions better together, as required by e.g. the SDGs.

However, this is not to say that NCA is a ‘magic bullet’ on its own. There are many other policy tools that are both effective and consistent with NCA. While none is a direct substitute for NCA, some are good complements to NCA on either the demand side or the supply side. For example, many developing countries have recently conducted public environmental expenditure reviews (PEERs). These have drawn high-profile attention to NC physical and revenue losses and the potentials for investment. NCA can provide the kind of information needed for regular PEER.

It may therefore be helpful to ‘map’ the NC policy tools currently in place in a country, and the information and decision flows between them. This will pinpoint gaps in both information and decisions, enabling an assessment of whether and how NCA could fill these gaps.

| NC policy tool   | How tool creates demand for NCA, uses NCA, or helps it to work  |
|--|---|
| Public environmental expenditure review (PEER)           | <ul style="list-style-type: none"> <li>- PEER can draw attention to NR investment and revenues</li> <li>- NCA data supports regular PEER</li> </ul> |
| Natural capital budgeting                                | <ul style="list-style-type: none"> <li>- Budgets directly use NCA data both physical and monetary</li> </ul>  |
| Environmental fiscal reform                              | <ul style="list-style-type: none"> <li>- NCA data analysis with environmental-economic models</li> </ul>  |
| Royalties on natural resources                           | <ul style="list-style-type: none"> <li>- Monetary accounts</li> </ul>   |
| State of environment reporting                           | <ul style="list-style-type: none"> <li>- Indicators derived from NC Accounts</li> </ul>   |
| Policy instruments to achieve SDGs, Green Growth targets | <ul style="list-style-type: none"> <li>- Physical and monetary account data integrated into economic models</li> </ul>                              |

### Principles of effective NCA

The NCA Forum’s deliberations may find that effective NCA follows certain principles. The Forum might wish to identify these based on sharing experiences of NCA-policy interactions to date. They might draw from the nature of policy, from science, from accounting, and from information systems. For example, on the information side, the principles might include *ensuring NCA information is policy-responsive and policy-influential, in other words:*



- **Credible** – authoritative, verifiable, consistent, transparent, trusted and believable information – *via* data quality assessment processes <sup>2</sup>
- **Relevant** – salient and meaningful to stakeholders and the decisions they must make
- **Legitimate** – reflects the perspectives, concerns and values of stakeholders
- **Focused, interpreted and timely** – not raw data simply dumped near decision-makers

#### 4. Engaging government with other stakeholders to develop decision-centred NCA

*Government runs most of the policy-making ‘machinery’.* Finance or development authorities or central agencies (e.g. President’s Office) tend to be in charge of policy-making (although this is not always the case, and there are various ‘parallel tracks’ as section 2 noted). So it is important to:

- **‘Map’** current policy ‘machinery’ (processes and tools, see 2 above), and those who run it

*However natural capital is usually marginalised from the mainstream government policy machinery.* NCA tends to fit better in supportive, SD-oriented policy contexts. So it is important to:

- **Learn** from the experiences of SD-oriented policy initiatives, and engage those challenged to deliver future approaches (notably the SDGs, INDCs and the 2030 SD Agenda)

**Encourage** finance/development authorities to ‘co-own’ NCA with NR/env and stats authorities

*There will be no NCA uptake until Government and wider stakeholders are clear about NCA, convinced of it, and confident that it can work.* Engagement activities to consider may include:

- **Make a business case** for NCA as a good and practicable *governance* mechanism
- **Communicate case studies** of NCA’s past roles in policy change and impact to government and other actors in the NC ‘value chain’ (from other countries, too, where relevant)
- **Deploy an iterative approach** – going back to earlier NC accounts, learning lessons, and improving them; and/or using NCA on a shadow (trial) basis in parallel to existing systems until satisfied that it is working as it should
- **Deploy recognised government participatory processes** to get to non-government and decentralised players, so they can input to NCA purpose and use. Engagement partners might include:
  - NCA users – potential users, actual users and resisters – separately, together
  - NCA suppliers – data sources, integrators, NCA producers – separately, together
  - Actors who pressure government – business, business associations, NGOs and academics
- **Use knowledge intermediaries** to offer policy-relevant information, not unprocessed NCA data
- **Network** with countries that are at different NCA stages – to share experiences, lessons, solutions and realise the potentials of peer review.

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<sup>2</sup> NCA developers tend to over-emphasise principle a). The others are as important!





## 5. Towards an NCA Policy Guidance Package from the NCA Policy Forum?

The NCA Forum – at its first meeting in The Hague and potentially beyond – will pool experience and knowledge of the issues discussed above and more, and in particular:

1. **Evidence** – Cases of NCA influencing key NC and sectoral policy. For example, it would be good to understand and later write up convincing ‘stories of change’ in energy, forests, biodiversity, minerals, water, climate and SD. Those might be synthesised, and drawn on for 2-4 below.
2. **Process guide** – Steps needed to build policy-relevant NCA, perhaps with a focus on: analysing policy content, processes, stakeholders, knowledge and context; engaging stakeholders; and continual improvement on both supply- and demand-side
3. **Key messages and principles** – How to describe effective policy-fit NCA
4. **Work needed by the forum** – What networking, research, guidance and advocacy is needed to scale up and speed up policy-fit NCA? How could the NCA Policy Forum and partners provide the leadership and collaboration required?

