

NATURAL CAPITAL ACCOUNTING:

Frequently asked questions

What is natural capital?

Natural capital includes all of the resources that we easily recognize and measure, like minerals, energy, timber, agricultural land, fisheries and water. It also includes the ecosystem services that are often “invisible” to most people, such as air and water filtration, flood protection, carbon storage, pollination of crops, and habitats for wildlife. These values are not readily captured in markets, so we don’t really know how much they contribute to the economy. We often take these services for granted and don’t know what it would cost if we lost them.

Why does natural capital matter for economic growth? Isn’t GDP enough?

Gross Domestic Product (GDP) measures the value of goods and services produced over one year. This is an incomplete assessment of a country’s economic wellbeing because GDP only looks at one part of economic performance—output— but tells us nothing about income in the long term. GDP doesn’t take into account the wealth underpinning this output. For example, when a country exploits its minerals, it is actually using up its finite mineral wealth.

A full picture of a country’s wealth – obtained through a methodology called ‘wealth accounting’ – includes all assets that contribute to our economic wellbeing, from buildings and factory machines, to infrastructure, human and social capital, and natural capital.

Natural capital is especially important to many developing countries because it makes up a large share of their total wealth – some 36 percent – and the livelihoods of many subsistence communities depend directly on healthy ecosystems. But currently GDP ignores natural capital. In forestry, for example, timber resources are counted, but forest carbon sequestration is not. Other services, like water regulation that benefits crop irrigation, are hidden and the value is (wrongly) attributed to agriculture in a country’s GDP.

What are natural capital accounts? How are they different from the accounts that countries keep now?

Natural Capital Accounts (NCA) are sets of unbiased data for material natural resources, such as forests, energy and water. NCA follow an international standard approved by the United Nations Statistical Commission, called the System for Environmental-Economic Accounts (SEEA).



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Countries already produce datasets based on the internally agreed System of National Accounts (SNA). These datasets describe a country's economic performance, and form the basis for calculating GDP and other well-known economic indicators, such as balance of trade and household consumption. While national accounts are limited to the production boundary of the economy, natural capital accounts go beyond that, to account for natural goods and services that aren't subject to market transactions and don't necessarily have well established market prices.

It is in the interest of all countries to move beyond traditional GDP. Incorporating natural capital into national accounts will reveal the interactions of economic activity with the environment, and support better economic decisions.

How are natural capital accounts used?

Incorporating natural capital into national accounts can support inclusive development and better economic management. For example, land and water accounts can help countries interested in hydropower to assess the value of competing land uses and find the optimal solution. Ecosystem accounts can help biodiversity-rich countries manage the tradeoffs between ecotourism, agriculture, subsistence livelihoods, and ecosystem services like flood protection. In this way, ecosystem accounting is a tool for maximizing economic growth while identifying who benefits and who bears the cost of ecosystem changes, helping governments gauge whether their growth is inclusive.

The concept of accounting for natural capital has existed for over 30 years, but little has been done to implement it. The challenge now is to build capacity for countries to implement the SEEA and to demonstrate its benefits to policymakers.

What is the role of WAVES?

The Wealth Accounting and Valuation of Ecosystem Services (WAVES) is a global partnership, announced by World Bank President Robert B. Zoellick in Nagoya, Japan, in 2010. It supports countries preparing to implement Natural Capital Accounting based on the SEEA.

WAVES comprises the United Nations Environment Programme, the UN Development Programme, and the UN Statistical Commission; the countries of Botswana, Colombia, Costa Rica, Guatemala, Indonesia, Madagascar, the Philippines and Rwanda; as well as donors and supporters, including Australia, Canada, France, Japan, Norway, the United Kingdom, and several NGOs. These partners want to take Natural Capital Accounting beyond just material resources, such as timber and minerals, as approved by the SEEA. They also want to include ecosystem services - such as forests for pollination and wetlands for reducing flooding - and other natural resources that are not traded or marketed, and are therefore harder to measure. A Policy and Technical Experts Committee, following the processes set up by the UN Statistical Commission, was established to take this forward.



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What results have WAVES countries achieved so far?

As recently as 2010, NCA was mostly limited to high-income countries. Since then, WAVES has demonstrated that it is possible to do accounts in developing countries and to use them to inform national development plans and policies. Many partner agencies and middle-income countries have now started their own NCA initiatives.

In all eight of the WAVES countries (Botswana, Colombia, Costa Rica, Guatemala, Indonesia, Madagascar, the Philippines and Rwanda), NCA work is guided by a high-level National Steering Committee chaired by a Ministry of Development Planning or Finance. In most of the WAVES countries, governments have dedicated resources and staff in key agencies to implementing NCA, and results from these accounts are influencing national strategies. For example, water accounts in Botswana have been identified as an important tool for water sector reforms, while mineral accounts are helping to develop fiscal rules on management of mineral revenues.

WAVES also contributes to the development of NCA methodologies, notably by leading a process of testing ecosystem accounting, and providing guidance and capacity building for implementation. In terms of building awareness and understanding of NCA, the WAVES newsletter and website report NCA activities globally, and the recently launched Knowledge Center provides resources for individuals and countries.

Isn't valuing natural capital really about privatizing nature?

better government decision-making. Knowing the total value of natural capital can also help to address poverty issues. Conversely, not knowing the value of natural capital can result in losses that negatively affect the poor. For example:

- Failing to value the coastal protection services provided by mangroves can lead to massive conversion of mangroves into shrimp farms, at the cost of livelihoods (from loss of fish habitat and other mangrove products) and increased damage from storms.
- Lack of information about the value of forests for maintaining downstream water resources, grazing for livestock, and soil retention, can lead to clear-cutting and the loss of these services.

The key is to measure not just the total value of natural assets, but also how these benefits are distributed, how much goes to each stakeholder group, and the extent to which each group – especially the poor - depends on them.



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