

## TRANSLATED TRANSCRIPT OF PRESENTATION

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### **Session 6: The Yangtze River Economic Belt (YREB) - Mainstreaming Eco-compensation into Potential Ecosystem Restoration Projects in the YREB Region**

*Host: Li Yuan, Director of Western Region Development Division, Yunnan Provincial Development and Reform Commission*

Ladies and gentlemen, good afternoon! My name is Li Yuan, the Director of Western Region Development Division, Yunnan Provincial Development and Reform Commission. It is a great pleasure to welcome all of you, officials and experts, to participate in this session's discussion.

The Yangtze River Basin, with the highest population density in the People's Republic China (PRC), has the largest industrial scale and the most perfect urban system in the world. The Yangtze River Economic Belt contains over 40% of the country's population and factories. Chinese government and local authorities along the River have, for a long time, attached great importance to ecosystem and environmental protection, and they have continuously increased their support to ecosystem and eco-compensation programs. Chinese President Xi Jinping hosted the forum on "Promoting the Development of the Yangtze River Economic Belt" in 2016 in Chongqing with special emphasis on every aspect involved in the development of the Yangtze River Economic Belt. Of uppermost priority is solving ecosystem issues and achieving green development. The restoration of ecosystem and environmental management along the Yangtze River should be the top priority, at present and for a long time to come, through promoting protection and avoiding large-scale development. Over the past year, provinces and municipalities along the Yangtze River have proactively changed their development ideas and adjusted to the new requirements. They have vigorously promoted green development of the Yangtze River Economic Belt which put ecosystem first, initiated ecosystem protection and green development planning, and actively carried out standardized and diversified ecosystem protection and eco-compensation.

In today's forum, we invite officials from the Development and Reform Commission of provinces and municipalities along the Yangtze River Economic Belt who attend the conference, and experts who have long been devoted to ecosystem and environmental protection in the Economic Belt, to exchange their experiences and prospects for the future. The officials who attend this forum include Zhang Qingfeng, director of Environment, Natural Resources, and Agriculture Division,

East Asia Department (EARD), Asian Development Bank (ADB); Hou Baojian, Western Region Development Division, Qinghai Provincial Development and Reform Commission; Yu Hua, Western Region Development Division, Sichuan Provincial Development and Reform Commission; Ye Chengli, Division of Economic Cooperation, Chongqing Municipal Development and Reform Commission; and Han Yaping, vice director of Ecological Research Institute of Dianchi Lake. The guests who attend this forum include Ge Chazhong, director of Environmental Strategy Department, Chinese Academy for Environmental Planning; and Jiang Yong, senior project manager of Yangtze River Program, World Wide Fund for Nature (WWF). This forum comprises two segments, the first of which is the introduction to ecological compensation mechanism of provinces and municipalities including Qinghai, Sichuan, Chongqing and Yunnan, and the progress and effectiveness for the environmental governance of Dianchi Lake presented by the representative from Kunming. Hosted by Zhang Qingfeng, the second segment of the forum will have discussions on the role of eco-compensation in the development of the Yangtze River Economic Belt.

The presentations will be given according to the order in the program agenda. On behalf of the Western Region Development Division, Yunnan Provincial Development and Reform Commission, let me start off the session by reporting to the officials and experts the information about ecosystem conservation and eco-compensation in Yunnan Province.

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## **Eco-compensation in Yunnan Province: Experiences and Future Priorities**

*Li Yuan*

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My report consists of four parts: (i) basic information of eco-compensation in Yunnan Province, (ii) main approaches and their effectiveness, (iii) existing difficulties and problems, and (iv) the next steps.

In the first part, I would like to introduce the several aspects of eco-compensation in Yunnan Province.

The first aspect is forest eco-compensation. Since 2005, Yunnan Province has implemented compensation policy for forest ecological benefit. Reforms and practices are innovated and explored to steadily promote forest ecological benefit compensation. The compensation area has been expanded from the initial 16 million *mu* to 132.07 million *mu*, while the compensation standard has been adjusted from CNY5 per *mu* per year to CNY5 per *mu* for forest of state ownership and CNY15 per *mu* for forest of collective ownership. The annual compensation payment has increased from CNY82 million to CNY1.793 billion, realizing the standardized public welfare forest management and compensation with full coverage at national and provincial levels.

Yunnan Province has achieved this goal and basically formed a forest ecological benefit compensation mechanism based on public finance investment.

The second aspect is grassland ecological compensation. The policy for grassland ecological compensation in Yunnan Province covers all the autonomous prefectures, cities and 112 counties, districts, including 2.8912 million farmers and 14.4652 million people. According to this policy, subsidies for grazing prohibition involve 27.31 million *mu*, grassland-livestock balance rewards involve 150.68 million *mu*, fine breed subsidies for forage grass involve 7.21 million *mu*, and the comprehensive subsidies of the means of production for farmers involve 34,300 homes, with total sum of subsidies reaching CNY47.915 million per year.

The third aspect of our eco-compensation situation relates to key ecological function areas. Yunnan Province has established transfer payment system of key ecological function areas. This system has clear ecological value. According to the ecological factors of forest, wetland, grassland and farmland, and the variations in their ecological values, a set of assessment index system is established in our province, which takes into account the relationship of the different ecological values of these ecological factors. This assessment index system contains relative sizes of values across the province, by which the transfer payment is distributed. Besides, this system embodies policy subsidies given to areas with significant ecological values, including plateau lakes, drinking water conservation areas, and natural reserves, whose values cannot be calculated using the same assessment method. Moreover, governments at all levels across the province have invested in environmental protection work using their own financial resources, namely, by giving incentive subsidies to lower level governments. In addition, our province has formed a quality evaluation and rewards and punishment mechanism for ecology and environment covering the whole province, which links the evaluation results to the investments in transfer payment system of ecological functional zones. From 2013 to 2016, the expenditure of Yunnan Province for transfer payment system of key ecological function areas reached CNY13.687 billion, of which CNY9.082 billion are subsidies from the central government and CNY4.605 billion from the provincial government.

The last aspect of eco-compensation covered by this report is watershed horizontal transfer payments. In 2016, Yunnan Province selected Tianshengqiao, which is in the upper reaches of Nanpan River, as the eco-compensation pilot for investigating cross-section water quality changes. On the basis of water quality monitoring results of the cross-section of several transboundary rivers, mutual compensation of ecological values is carried out between two different autonomous prefectures or cities. When the water quality reaches or surpasses the target, the downstream cities, as beneficiaries, should compensate the upstream cities. When the water quality does not meet the requirements, the upstream cities, as contaminated areas, should compensate the downstream cities. Pilot works in relevant autonomous prefectures and cities are encouraged by the province, and the indemnified parties will receive equivalent sum of counterpart funding from the provincial government. These pilot works have laid a solid foundation for the further exploration of horizontal compensation in a broader range within the province. Also, they help clarify the responsibilities for ecological protection and promote regional protection and management. These are the basic information of eco-compensation in Yunnan Province.

In the second part of my report, I will present the main approaches and effectiveness of eco-compensation work in Yunnan Province. Our province has put forward a series of approaches and I would like to introduce some of them.

The first approach is the rational layout and classification of public forests. Yunnan initiated its pilot program of ecological benefit compensation for 1.14 million *mu* provincial public forests in 2006, and established relevant provincial compensation mechanism in 2009. Its current public forests cover an area of 1.8846 million *mu*, which accounts for 51% of the province's forest land. The public forests are mainly distributed in restricted development zones and prohibited development zones in the northwest and northeast part of the province, and in key ecological protection areas in the central and southern part of the province, which basically complies with the distribution of forest resources and protection for key ecological niche.

The second approach is the establishment and implementation of relevant rules and regulations. Yunnan Province has formulated *Measures for the Management of Local Public Forests in Yunnan*, *Rules and Regulations for the Management of Forest Ecological Benefit Compensation Fund in Yunnan*, and the *2014 Measures for the Management of Forest Ecological Benefits Compensation Fund in Yunnan*, which separate and clarify the responsibilities of the regulators and indemnifying parties in the management of compensation funds. The governments at all levels have signed target duty certificates on public forests compensation, which distribute the responsibilities of key public welfare forest management and allocate compensation funds to individual units and staff.

The third approach is the timely provision of grassland ecological compensation funds. From 2011 to 2015, Yunnan Province provided all participating farmers with CNY407.05 million per year, of which CNY163.686 million are subsidies for grazing prohibition.

The fourth approach is the implementation of a comprehensive verification of grassland contracts. So far, the households, who accomplished the verification work, cover an area of 178.8913 million *mu*.

The fifth approach is the establishment of evaluation mechanism for eco-environmental quality at the county level. Yunnan Province has accomplished the annual monitoring and evaluation and assessment mechanism covering all 129 counties in the province. According to the results of the evaluation and assessment, monetary incentives and penalties are carried out. In 2015, the deducted fund for the 12 counties with decreased quality of eco-environment reached CNY98.22 million, while 21 counties with improved quality of eco-environment received ecological subsidy reaching CNY27.05 million. The purpose and results of the evaluation and assessment were made public. Meanwhile, the provincial finance department established reward and subsidy mechanism at the local level, and the total funds reached CNY64.58 million in 2015.

In the third part of my report, I will discuss several difficulties and problems met during the implementation of our ecological protection efforts.

The first issue is that eco-compensation system has not been fully established at the national level. At present, the mode of eco-compensation in the PRC is vertical compensation from central financial transfer payment, with relatively low compensation standards and non-established comprehensive compensation standards. For horizontal compensation, it is difficult to establish compensation linkage between the upstream and downstream areas along the river basin. As for key ecological function areas, the compensation is only determined by regional fiscal balance and does not embody compensation from regions outside the province for ecological values. Yunnan Province has only three counties out of 129 being included in the national transfer payment, which does not reflect the province's role as the ecological barrier in southwest PRC and as a region with significant biodiversity. It seems that, at the national level, there are some difficulties in resolving the issue.

The second issue is the lack of scientific ecological value verification system. We have made some exploration on this issue. However, we felt that accurate verification of ecological values and ownership of ecological products is a significant foundation for undertaking a series of ecological protection and implementing ecological protection compensation. The unclear verification of ecological values and unclear ownership of ecological products make it hard to measure not only the relative contributions in ecological civilization protection across the province but also the return of values. Such ambiguity can weaken the willingness to strengthen ecological protection.

The third issue is the lack of ecological conservation and compensation policies, compounded by inconsistencies of existing policies. Ecological conservation, in practice, involves multiple departments, such as environmental protection, land, agriculture, forestry, water conservancy, etc.; however, it lacks an effective linkage mechanism among them and a resultant force of policy. Besides, low compensation funds and the limited channels are also practical problems we noted.

In the final part of my report, I will present some preliminary considerations for future ecological compensation work.

The PRC has issued its implementation opinion, which our province will replicate and issue to establish and improve our ecological compensation mechanism. The preliminary consideration is initially about the mechanism and focuses on the following aspects: (i) investment in ecological compensation mechanism and the input mechanism, (ii) transfer payment mechanism in key ecological function areas, (iii) horizontal ecological protection compensation mechanism, (iv) market-oriented and socialized ecological protection compensation mechanism, and (v) ecological protection compensation to promote targeted poverty alleviation mechanism. As Yunnan has a large poverty area, especially in ecological conservation area, ecological protection compensation is envisaged to be combined with targeted poverty alleviation, which is promoted by the provincial government. Relevant matching system, policy, and coordination mechanism are proposed to realize the legalization of ecological compensation system. We will make efforts to address the above issues in ecological compensation mechanism. These are the main work we have done in these areas.

For the specific work concerning ecological compensation, we will focus on the following six areas:

- 1) To establish and develop a more comprehensive and objective evaluation system on ecological civilization construction which reflects the characteristics of our province. This evaluation system should be more targeted, effective, practical and incentive. I have introduced the basic information of the evaluation work which we should pay great attention to;
- 2) To continuously and strictly monitor the changes in ecological quality to promote serious and normalized eco-environment quality evaluation mechanism with clarified responsibilities;
- 3) To establish interview mechanism among counties that identifies deductions in the evaluation and outlines their rectifying and reform measures;
- 4) To improve the ecological value assessment index system;
- 5) To actively solicit the support from central government, adjust provincial finance expenditure structure, and increase the support for ecological compensation across the province; and
- 6) To establish linkage mechanism to promote shared resources among departments and the integration of the policy, so as to form a resultant force.

The above is the basic situation, main approaches, and future work direction of ecological protection compensation in Yunnan Province. I appreciate and welcome any suggestions and criticisms. Thank you!