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Mainstreaming Eco-Compensation into Development

-The ADB Vision



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OUTLINE

- I. Key Environment and Development Issues in the Region
- II. Eco-compensation: What is it all about?
- III. ADB's Eco-compensation Journey with the PRC
- IV. Remaining Challenges and the ADB Vision on the Eco-compensation agenda in the PRC

I. Key Environment and Development Issues

Key Environmental Challenges

- ◆ High growth, high resources consumption, high pollution
- ◆ 高增长、高资源消耗、高污染
- ◆ Long-lasting haze/smog pollution occurrences
- ◆ 长时间持续的雾霾污染
- ◆ Frequent water pollution incidents
- ◆ 水污染事故频发
- ◆ Rising concerns of soil pollution on food safety
- ◆ 土壤污染对食品安全的影响备受关注
- ◆ Increasing pollution-related social unrests
- ◆ 由于污染问题引起的社会问题



Watershed Management Issues

- Fast-paced economic growth--severe stress on the environment and water resources.
- Poor watershed management--hindered by a complex institutional, legal, regulatory, and regional conflicts.
- Over-extraction of water that leave insufficient remaining flows for ecosystem demands.
- Insufficient investment in protection of the ecological components of watersheds that provide important ecosystem services and functions.



A Major Turning Point

The summer of 1998, massive floods along the central Yangtze River and in the Songhua rivers in the northeast

- killed 3,000-4,000 people,
- left 14 million people homeless, and
- caused \$26 billion in damages.



II. Eco-compensation and PES: What Is It All About?

Payments for Ecosystem Services

- A scheme that create direct contractual arrangements between ecosystem service beneficiaries and service suppliers for provision of a targeted set of ecosystem services/ land use/ land-use changes associated with the provision of these services.



- 2013: at least **\$7.3 billion** paid globally to compensate landowners for sustainably managing their lands - majority from the PRC.

Source: G. Bennett and N. Carroll. 2014. Gaining Depth: State of Watershed Investment 2014. Washington, DC: Forest Trends.

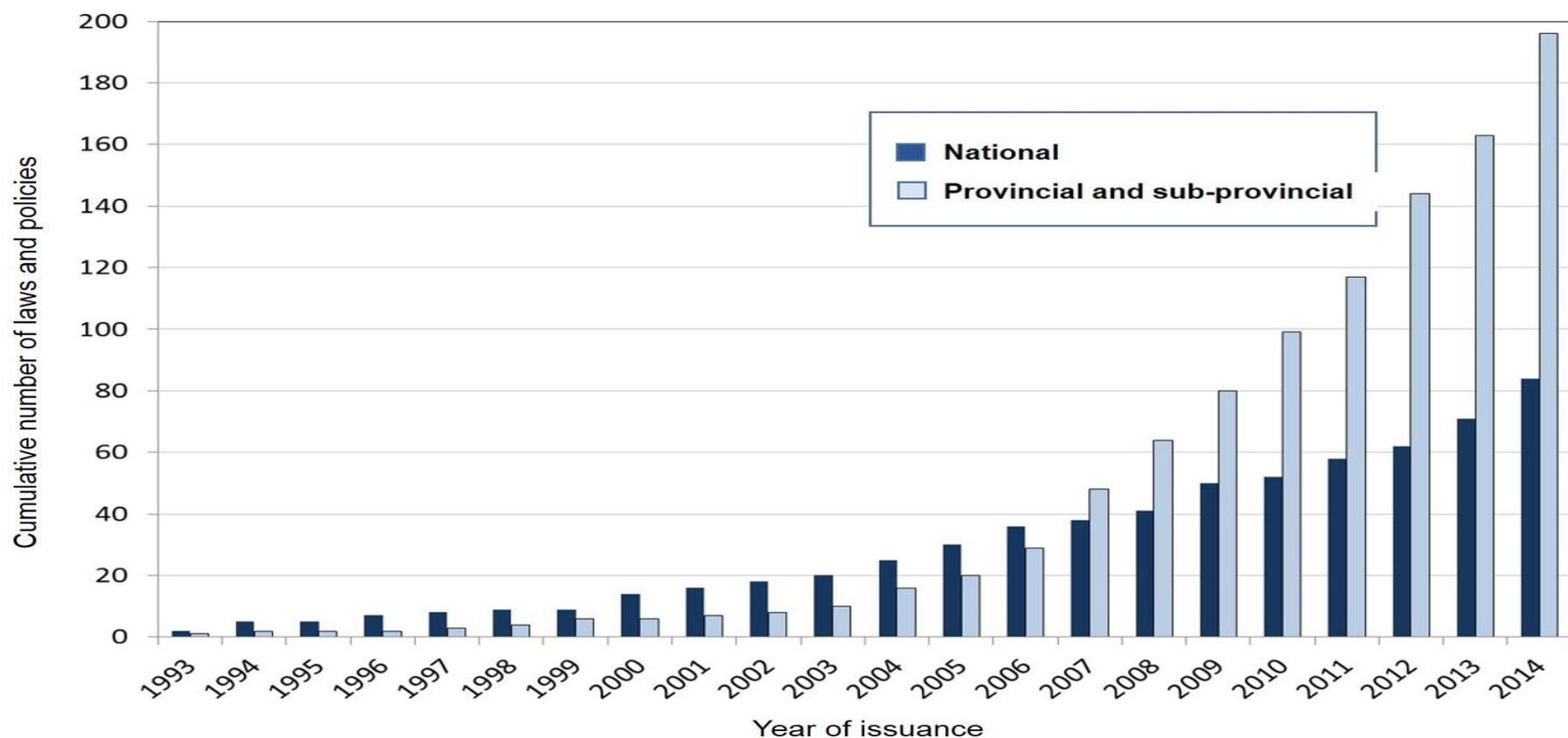
What is Eco-compensation?

- A direct payment from government to supplier of ecosystem services to ensure their protection and provision;
- Frameworks of cooperation and financial transfers between different regional governments to incentivize ecosystem service maintenance and provision;
- Adjusted or added fees, levies, taxes, tax-breaks or subsidies to increase funding for or to incentivize conservation, environmental management, and/or restoration.

The Enabling Environment: Ecological Civilization High on PRC's Agenda

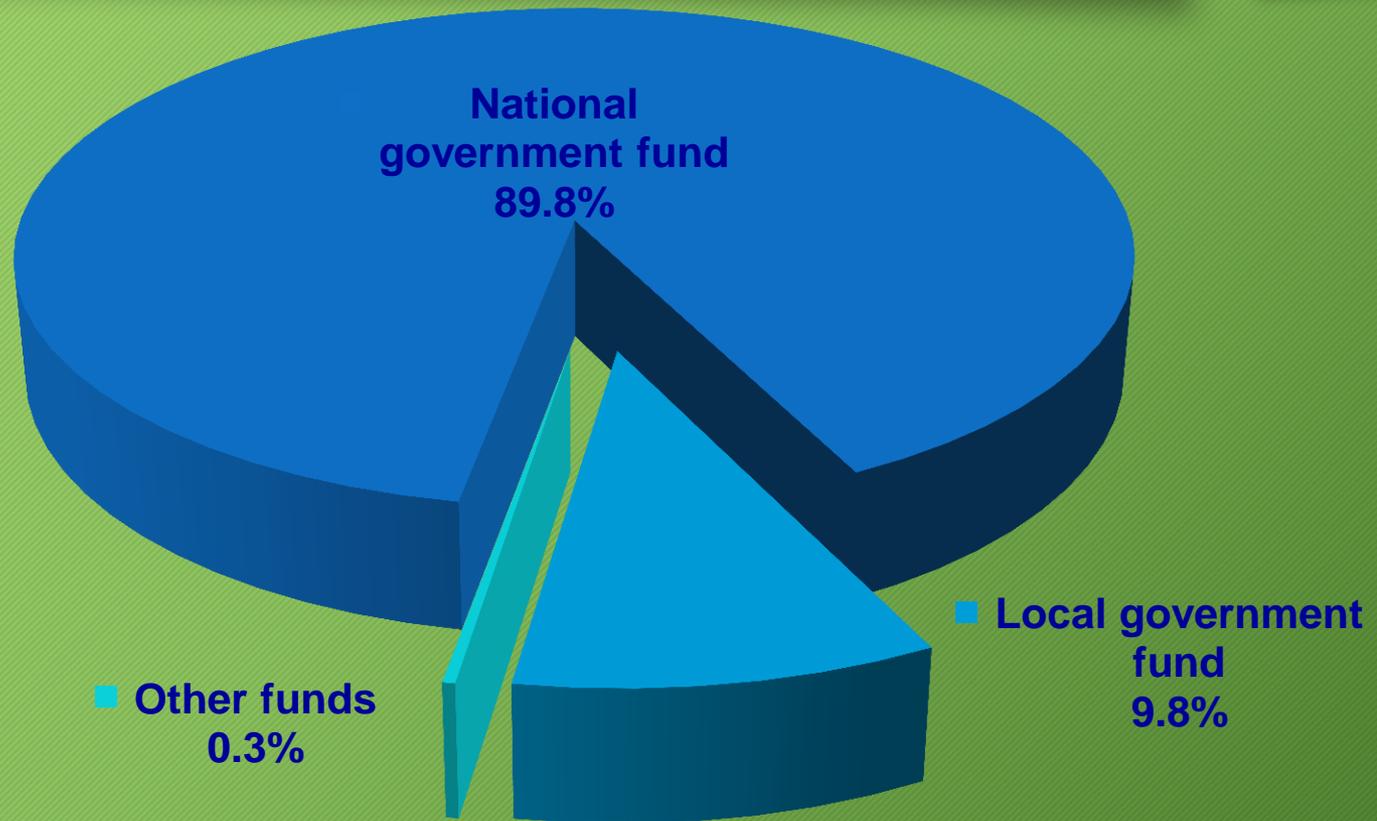
- Why? Because it is too late...(air, water, soil).
- Ecological civilization master plan issued by State Council in September 2015.
- Environmental Protection Law revised and came into force in 2015.
- The enabling environment:
 - strong political will and ongoing diverse policy experimentation;
 - ‘eco-compensation’ being explored as an approach to address the country’s watershed management challenges;
 - commitment to address competing demands and improve finance for conservation and restoration for improved management outcomes.

Relevant Eco-compensation Regulations and Policies



Source: ADB (in prep.). Status of Eco-compensation in the PRC.

Financing eco-compensation



Source: ADB (in prep.). Status of Eco-compensation in the PRC.

III. The ADB-PRC Eco-compensation Journey

1st International Conference on Eco-compensation and PES in Ningxia

Mutual Learning: Eco-compensation vs. PES



2nd International Conference on Eco-compensation Legislation and PWS



3rd International Conference on Eco-compensation: Lakes, Wetlands and Eco-compensation Legislation



Operationalize the PES/Eco-compensation through Lending Projects

- Guiyang Integrated Water Resources Management Sector Project
- Anhui Chao Lake Environmental Rehabilitation Project
- Sanjiang Plain Wetland Protection
- Jiangsu Yancheng Wetland Protection
- Hunan - Dongjiang Dongjiang Lake Ecological Environmental Protection & Integrated Utilization



Operationalize the PES/Eco-compensation through Technical Assistance Projects

- National Eco-compensation Regulation Development
- Eco-compensation Policy Framework in Gansu
- Study on Beijing Forest Carbon Sequestration and Market Based Mechanisms
- Managing water resources in Poyang Lake
- Study of Eco-compensation Mechanism and Policy for the Hunan Chang-Zhu-Tan City Cluster
- National Guidelines for Eco-compensation in River Basins

Eco-Compensation Knowledge Hub Launch



Knowledge Hub - 3 Modes of Operation

1. **Collaborate** with global green-growth institutes, ecosystem marketplace, other regional water knowledge hubs, international organizations, and national research centers.
2. **Facilitate** information, research, training, partnerships for capacity development and knowledge sharing.
3. **Coordinate** annual conference, annual report, and website.

IV. Remaining Challenges and the ADB Vision

Key Challenges Remaining

- Countries are at different stages of development
- Intended to address conservation, poverty and economic development.
- Willingness to pay: Unclear property rights and weak coordination with existing sector policies
- Challenging to determine the compensation rate
- Scientific uncertainty for valuing ecosystem services (GEP)

Key Challenges Remaining

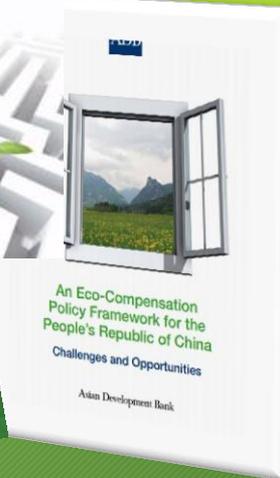
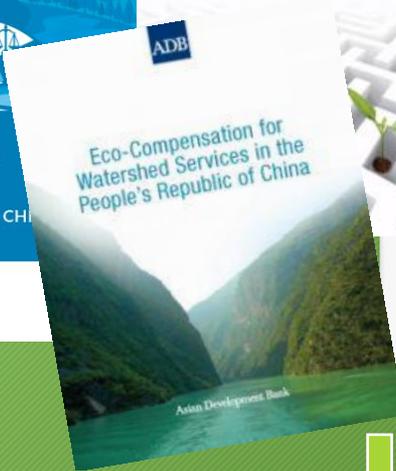
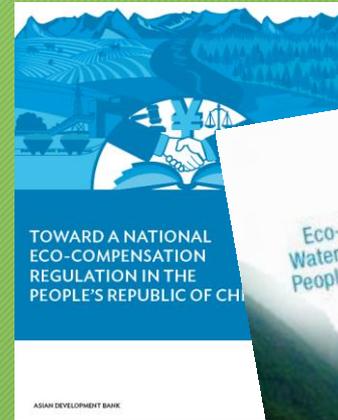
- How to strengthen the role of markets and the private sector?
- How to strengthen the policy and regulatory framework enable success of market mechanisms?
- What are the challenges in transboundary and trans-provincial eco-compensation? (e.g. in YRB)

ADB-PRC Eco-compensation Cooperation

CONFERENCES



PUBLICATIONS AND POLICY SUPPORT



An innovative financing mechanism for environment and natural resources management in the PRC



REGIONAL ECO-COMPENSATION K-HUB ESTABLISHMENT

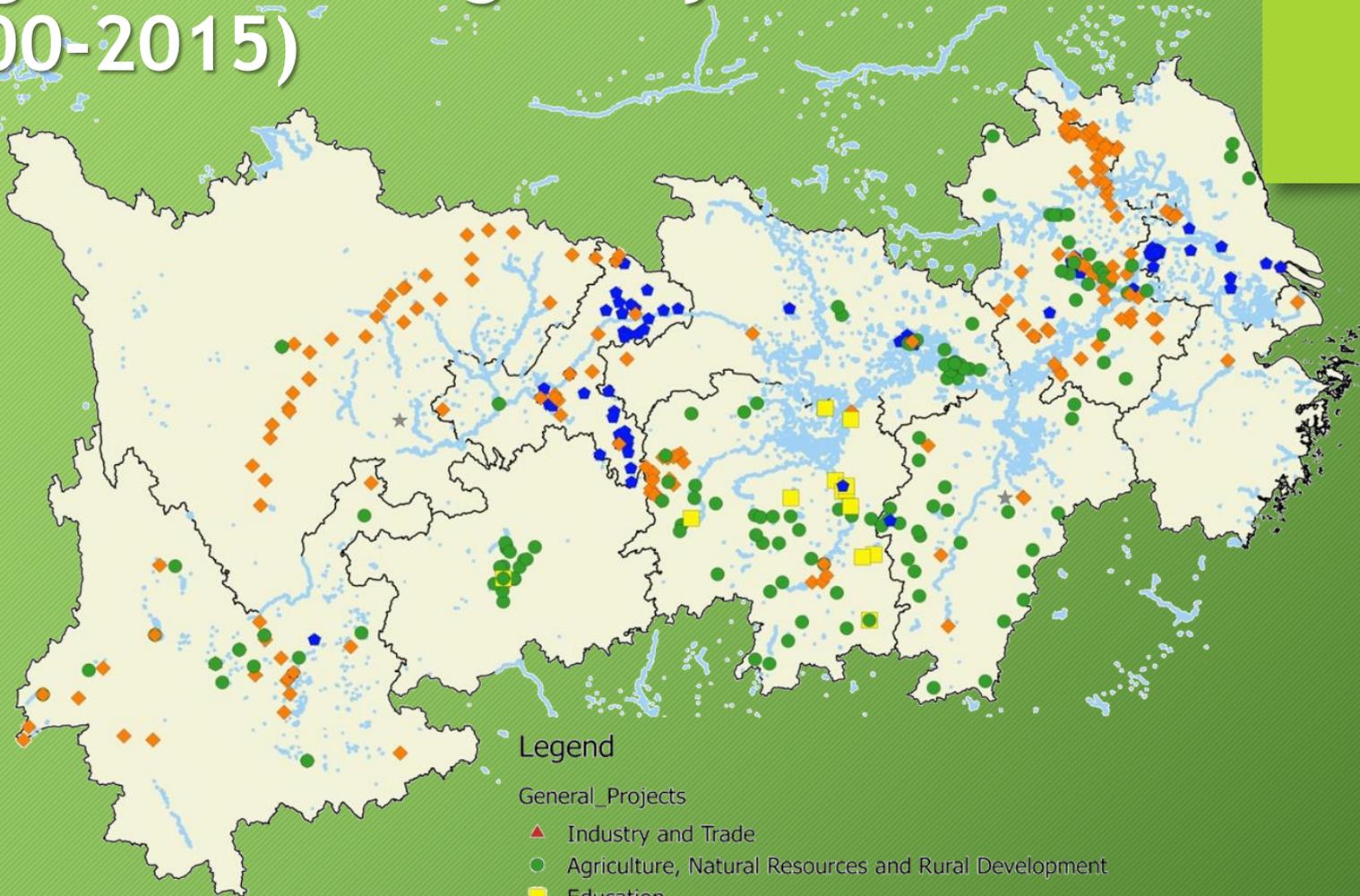


ECO-COMPENSATION IN LENDING AND TA PROJECTS

Focus on the the Yangtze River Economic Belt



ADB's Previous Assistance in the Yangtze River Region by Six Sectors (2000-2015)



Legend

General_Projects

- ▲ Industry and Trade
- Agriculture, Natural Resources and Rural Development
- Education
- ★ Energy
- ◆ Transport and ICT
- Urban Infrastructure and Services
- Surface Water Body
- YREB-Province

The YREB Master Plan

By 2020,

- **Ecological environment:** 75% of water bodies achieved class III water quality standard, forest cover rate achieved 43%, and eco-compensation mechanism established.
- **Golden waterway:** connectivity and function significantly improved.
- **Innovation-based industrial transformation:** R&D investment achieved 2.5% of GDP & industries upgraded.
- **New type of urbanization:** urbanization rate achieved or exceeded 60%, and absolute poverty eliminated.
- **Yangtze River integrated management mechanism:** coordinated, unified, and highly efficient.
- **Quality of economic development:** significantly improved.

Proposed ADB's Assistance for the YREB

- **Period:** 2017-2020
- **Budget:** \$2.0 billion
- **Financing modality:** combination of different modalities depending on the nature of projects and borrowers' needs
- **Geographical areas:** 7 provinces and 1 municipality in the middle and upper reaches of the YREB
- **Thematic areas:**
 1. Rehabilitate the ecological environment and mitigate flood risks
 2. Strengthen industrial transformation
 3. Improve waterways' transport and logistics

What next on ADB's eco-compensation agenda?



- Continue partnership with the PRC on the eco-compensation agenda.
- Further mainstream eco-compensation into ADB's investment projects, especially in the YREB
- Explore and support development of trans-provincial eco-compensation initiatives, particularly in the YREB
- Support and expand partnerships and knowledge sharing platforms for eco-compensation to the wider region beyond the PRC.

Thank You!

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