

NATURAL CAPITAL ROUNDTABLE: SUMMARY NOTES

JAKARTA, 5th DECEMBER 2017



On Tuesday 5th December 2017, the Natural Capital Coalition, the IFC, and Indufor supported the Indonesian Business Council for Sustainable Development in a roundtable discussion on integrating natural capital considerations in business decision making by Indonesia's private and financial sectors. The roundtable convened some 40 important actors in Indonesia across public, private, and civil society sectors, all of whom have a stake in how businesses interact with nature.

The discussion was organized into four sessions, beginning with an overview of natural capital approaches globally, followed by a detailed discussion of the application of the Natural Capital Protocol by Olam in its coffee supply chain in Northern Sumatra. The third session explored the enabling environment for furthering natural capital uptake in Indonesia, with a specific focus on the role of the financial sector and government (including linking to the WAVES program). The final session addressed how stakeholders could work together to find solutions to challenges facing firms in adopting natural capital approaches and help obtain a common understanding of natural capital, and defined potential entry points for next steps. Each session was structured around a set of guiding questions. Key discussion points along with key takeaway messages are briefly summarized below.

SESSION 1: BUSINESS AND NATURAL CAPITAL

What is happening globally? In what ways are businesses reliant on natural capital, and how can they ensure that their inputs are sustainability sourced? How might understanding the landscape and value of natural capital inform business decisions?

Definitions and background

- Natural capital is the stock of renewable and non-renewable resources that yield a flow of services and benefits to people. These include soil, air, plants, animals, water, minerals, oil and gas, and many others. The stock of natural capital yields services and benefits that are commonly referred to as ecosystem services e.g. pollination, water regulation, soil health, nutrient cycling, provision of timber, provision of water, provision of food and fuel, among many others.
- The Natural Capital Protocol helps companies understand their impacts and dependencies on natural capital, value it in business terms, and find solutions where risks might be identified. The Protocol can be used for many different purposes, from guiding operational decision-making to identification of potential regulatory or reputational risks.

- Materiality and business relevance are foundational aspects to natural capital approaches. Olam’s application of the Protocol in its supply chain provides important lessons on the types of information that is useful for business decisions.

Public sector role

- Natural capital considerations will benefit both the private and public sectors. The Indonesian government aims to work together with the private sector on natural capital issues. Participants noted that in the past, Indonesia consumed natural resources in an unsustainable manner, generating economic growth but at a very high cost in terms of depletion of its natural capital. Now is the time to consider natural capital in a more holistic manner.
- The World Bank supported initiative, Wealth Accounting and Valuation of Ecosystem Services (WAVES), is an important reference point through which the public sector gets involved in natural capital accounting and related natural capital considerations. The focus of WAVES in Indonesia is the development of natural capital accounts for land, water, and air.

Private sector role

- Every business interacts with natural capital. Consideration of natural impacts and dependencies can help companies understand the business implications and find solutions. These in turn can deliver positive environmental and social outcomes. For instance, understanding potential risks and impacts associated with natural capital may lead to measures to protect watersheds, and companies may work together in the watershed to reduce erosion and to improve water quality.
- Understanding the natural capital impacts and dependencies of their operations may help companies access finance. There are new financing options for sustainable projects and products and consideration of natural capital is one avenue, including for example the rapidly growing landscape-based finance.
- The Protocol is particularly relevant for agribusiness’s rapid adoption due to their global value chains and heavy dependencies on natural capital.

Small and medium enterprises (SMEs)

- The Protocol is currently being used mainly by large companies. However, SMEs are often more immediately impacted by natural capital dependencies and often with less ability to find solutions that they can implement alone.
- SMEs are important actors, often part of the supply/value chain of larger companies and thus included in those companies’ natural capital assessments. Efforts to support SME’s natural capital approaches are being developed.
- The Olam application of the Protocol demonstrates that changes in the value chain aimed at integrating natural capital approaches often occur at the smallholder level, and thus there is a need to translate some of the principles and approaches of the Protocol to local applications. SMEs may often be part of the solution when larger companies adjust business practices to account for their impacts and dependencies on natural capital.

SESSION 2: FINDINGS FROM THE OLAM CASE

What were the results of the analysis and how was the work done? What was learned from the Olam experience? How can Indonesia strengthen the enabling environment for natural capital consideration and who are the key players and stakeholders that might lead to a national platform on natural capital?

Olam Presentation

- For many decades the agribusiness sector has provided products at affordable prices even in an environment where the supply chains can be quite complicated. Olam aims to bring positive benefits to people, contribute to prosperous communities and a healthy environment. Through measuring and valuing natural capital, Olam wants to better understand its impacts and dependencies on nature and incorporate this knowledge into its decision making.

Key findings of the application of the Protocol

- Both Olam and farmers benefit from adopting affordable semi-organic fertilizer application practices, reducing farmer's costs and uncertainty;
- Farmers benefit from more efficient use of water and the systematic collection of rainwater, reducing water dependency and value chain vulnerability; and
- Agroforestry systems provide greater long-term value and increase value chain resiliency and security through diversified and stable net incomes.

Comments from participants

- Water stewardship is important but must be considered at the landscape level, natural forests can't be overlooked. Forest protection should be looked at in the next phases of the project.
- Solutions require knowledge of other water uses in the catchment. This will help find solutions that address the problem holistically, as opposed to only a small portion of the issues. The analysis is a good start and can be built upon.

Key findings from enabling environment

- The Indonesian government wants to link natural capital assessment to the national level, and government support might improve firm level sustainability interventions. In the long-term, the private sector would like to see companies that maintain and perhaps even augment natural capital benefit from lower taxes or other subsidies.
- There is high awareness that agribusiness is heavily dependent on natural capital whilst being vulnerable to climate change and other shocks. There are laws and regulations in place, but law enforcement is rather weak.
- Although some data exists, data availability is a challenge in natural capital assessments.
- Indonesia lacks a single platform that brings together all stakeholders in the natural capital sectors, but one can be developed with the help of the organizations present today.

SESSION 3: WHAT DOES IT TAKE TO DO MORE?

This session explored the role of the financial sector in supporting green growth, sustainable finance, sustainable agricultural finance, landscape/watershed-level finance, and the connections with natural capital. In particular, the session discussed current trends in sustainable finance in Indonesia as well as the opportunities, and gaps, that might exist in the financial space to finance operations that have a positive impact on natural capital.

- The government has limited capacity to finance natural capital projects and the private sector has a critically important role to play in achieving Indonesia's development objectives.
- Indonesia is progressive in terms of natural capital. There are many provisions already in effect dealing with natural capital with central government support. Consideration of natural capital has recently become a standard part of the development process in Indonesia.
- There are investments related to natural capital being promoted by international organisations in Indonesia. There should be a common market place to bring people with ideas and those with funding together.

SESSION 4: WAY FORWARD

This final session considered ways to expand the dialogue on natural capital. What are the critical entry points to further uptake? What are the key messages tailored to IFC, the WB, or other development partners that need to be delivered? How can your organization/network support to take forward recommended actions?

- Companies need to understand the business case for natural capital and have the courage to try something new and apply the Protocol. The government and NGOs will support the private sector as they explore this new space. These discussions should be taken outside of the meeting room and awareness of other players in the private sector built-up.
- Natural capital is new in Indonesia and banks have only now started to train their staff to better understand ecosystem services. Banks have strict rules for mitigating risks that may not always fit smallholders.
- Communicating sustainability is a challenge for the participants and there are many CEOs still struggling with explaining sustainability to their stakeholders.
- There is a menu of opportunities coming out of this session. Participants will now have a better sense of the stakeholders and what kind of platforms there can be in the country.