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**IMPLEMENTATION OF
ENVIRONMENTAL-ECONOMIC ACCOUNTS
STRATEGY PAPER**

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1. Current situation

Country programs. Implementation of environmental accounts (EA) has been most extensive in developed countries, notably EU member countries, Norway, Canada, Australia and New Zealand. Developed countries largely fund their own programs, although Eurostat has funded a considerable amount of environmental accounting activity in the EU.

Implementation has lagged in most developing countries although, arguably, EA are most important in these countries because they are most dependent on natural resources. Relatively few countries have compiled EA even on a one-off basis, and even fewer have sustained EA on a permanent, self-funded basis (Mexico, South Africa). Most developing countries are funded by international agencies or bilateral donors, and rely heavily on technical cooperation for training and expertise.

Most efforts have been initiated for individual countries rather than as part of a regional program, with a few exceptions:

- Eurostat-funded pilot programs for EU member states
- Natural Resource Accounting Programme for East and Southern Africa (on-going program), established in 1995, donor funded
- Global Initiative for Environmental Accounting proposed to GEF by the Earth Institute and World Bank

Scope of environmental accounts. No country has attempted to compile all components of SEEA for all environmental and natural resources. The most commonly compiled accounts are probably subsoil assets, energy, forests and air pollution accounts. Physical accounts are more widely implemented than monetary accounts. Of all the monetary accounts described in the SEEA, only subsoil assets and the environmental protection expenditure accounts are widely implemented. Valuation of the EA for depletion and degradation, pollution damage, etc. is not widely implemented.

No developed countries compile the monetary macroeconomic indicators described in the SEEA. The one exception is the inclusion of natural capital assets in the annual Balance Sheets of Australia and Canada, from which a total national wealth including natural capital is reported. The World Bank publishes one monetary macroeconomic indicator, Adjusted Net Savings (informally called Genuine Savings), for all countries in its annual World Development Indicators, but these are World Bank rather than country estimates.

Institutional setting. The lead agency for environmental accounting is typically either the National Statistical Office or Ministry of Environment, although when a country begins EA with a case study for a single resource, like water or forestry, the lead agency may be the relevant line ministry. Within Statistical Offices, the lead agency has been either the National Accounts section or Environmental Statistics section. The choice of lead agency can be critical to the success of EA initiatives especially in developing countries with limited staff.

Policy use of environmental accounts. Certain components, such as water accounts, energy and pollution accounts, and some asset accounts are used by line ministries in planning and policy analysis. In many developing countries, policy use of EA is very weak, mainly because of the novelty of the tool, lack of expertise in environmental economics and, in some cases, weak traditions of using data and indicators to guide policy decisions. Many developing countries have expressed interest in the SEEA monetary accounts, but it is not always clear how to implement them (see below).

Obstacles to implementation. At the international level, major obstacles to implementation include:

- i. Lack of strong endorsement and mainstreaming by international agencies in their programs. Where countries are defining their development plans and priorities as embodied in PRSPs and MDG targets, EA can contribute to the underlying macroeconomic framework to make explicit the link between development and natural resources . When EA are seen as essential to assessing a country's economic performance over time, and when annual international reporting of indicators from EA becomes as essential as reporting of GDP, balance of payments, etc., countries will implement EA.
- ii. Concerns by developing countries that additional 'conditionalities' might be imposed by international agencies as a result of widespread implementation of EA.
- iii. Unclear guidelines for valuation. When the SEEA-2003 could not come to a consensus about issues, notably about valuation methodologies, it simply included all possibilities. Some issues were not addressed at all such as constant-price asset valuation or ecosystem valuation. Countries need clear guidelines, especially when EA are seen as potentially delivering 'bad news.'
- iv. Lack of an international forum for training and the exchange of experiences that would include both compilation of accounts and policy analysis, especially for developing countries. Some international agencies and bilateral donors support individual programs in countries, but efforts are not coordinated and relatively little international networking occurs.
- v. Lack of an 'umbrella framework' that combines environmental accounts and environmental statistics. The collection of independent sets of environment statistics by international agencies without an umbrella framework contributes to the lack of coordination in programs at the international level and puts strain on staff resources at the national level.

At the national level, major obstacles include

- vi. Lack of support and technical cooperation for developing countries. Implementation of the SEEA requires a great deal of resources, even where no new data are collected. The expertise required is scarce in many developing

countries; technical cooperation and extensive training is necessary, especially in the policy analysis of EA.

- vii. Institutional leadership unable to promote policy use by other ministries. There are many contributing causes to this problem stemming from lack of capacity to identify potential policy uses of EA to weaknesses in inter-ministerial institutions. Many initiatives were initiated within national statistical offices; if collaboration with agencies expected to use environmental accounts for policy, such as Ministries of Environment or other line ministries, is weak, there may be limited support for environmental accounts.
- viii. Concern among developing countries that EA deliver only ‘bad news’—that more comprehensive accounting will show that they are not meeting their PRSP goals, that more comprehensive accounting for depletion of minerals and natural resources may affect their international credit rating and cost of borrowing, etc.

2. Long-term vision/objective for implementation

Eventually, EA should be viewed as simply a more comprehensive way to do national accounts that will give policy-makers a more accurate set of tools to manage both the economy and their natural capital on which the economy depends. For each of the obstacles identified above, there are solutions proposed:

- i. Lack of strong endorsement by international agencies and mainstreaming of EA. The UN Committee should liaise with international agencies for this—perhaps at first identifying case studies in a few critical areas where the SEEA has made a major contribution to policy.
- ii. Concerns about additional ‘conditionalities’. The only real solution is a commitment that there are no ‘green conditionalities.’
- iii. Unclear guidelines for valuation. To influence policy, especially in Ministries of Finance and Development Planning, monetary accounts are essential. Ideally, all countries compile EA using the same methodology, like the SNA, or at least the SEEA should establish a hierarchy of methods with clearly indicated preferences. One approach might be to establish a group that includes both developed and developing countries willing to work with the research agenda to identify a common set of monetary accounts, indicators (and methodologies) useful to all of them.
- iv. Lack of an international forum for training and the exchange of experiences. The UN committee should establish and seek funding for a forum meeting regularly for this purpose. An easily accessible website with country case studies covering not only compilation of accounts, but also the policy applications would be very useful. It is especially important to include the ‘grey’ literature in addition to official reports and published works, that is, case studies that may not be formally published.

- v. Lack of an umbrella framework for environmental accounts and environmental statistics. Establish as part of the research agenda the development of a framework that integrates both and work with international agencies to streamline data requests.
- vi. Lack of support and technical cooperation for developing countries. An extensive program of technical support should be established that includes three components: compiling the accounts, using the accounts for policy analysis, and capacity building. Country projects should define the program in terms of how it will contribute to PRSP, MDG program, National Development Plans, sector Master Plans, or other programs that drive development, and obtain commitment of the agency in charge of that plan to work together.
- vii. Institutional leadership. This is primarily an internal issue for each country. As a general observation, the lead agency should be the user of EA (e.g., Ministry of Environment, Ministry of Finance) with strong collaboration with Statistical Office, whose expertise is in compiling accounts. Within the Statistical Office, the National Accounts section usually makes a stronger partner than the Environmental Statistics Unit. A high-level, inter-ministerial committee to guide the work and ensure its use for policy is also essential. However, the specific institutional arrangements will vary from country to country.
- viii. Concern that EA deliver only ‘bad news.’ Both country–level programs and the international forum should promote more awareness about the SEEA. The SEEA doesn’t only measure ‘bads’ (e.g., pollution damage) but equally important, it values the benefits from clean water, forest services to agriculture, tourism, water and soil protection, etc. While these values are often already included in the SNA, the values are often not attributed to the natural capital providing them. The SEEA also expands the asset accounts to include natural resources showing that countries are actually richer than they thought.

Some of the concerns of developing countries might be allayed if a group of countries decided to work together to develop a common set of accounts and indicators, such as recommended for item iii); no single country would be the ‘first.’

3. Course of action

- i. Establish committee/task force to
 - Develop a comprehensive ‘case law’ of examples where EA are used in policy, which can be used as the basis of advocacy. Case studies should target specific groups e.g., case studies addressing macroeconomic policy for Ministries of finance and macroeconomists at international agencies, case studies for sectoral resource management for line ministries, etc.

- liaise with international agencies to find out where EA can be mainstreamed in their programs
 - publicize the SEEA and their uses more generally to international agencies, NGOs, bilateral donors, etc. Establish a website that can act as a clearinghouse for environmental accounting work throughout the world.
- ii. Identify a core group of developed and developing countries willing to work on a joint set of accounts & indicators, particularly monetary accounts, from the SEEA relevant to all countries.
- iii. Designing program and raising funds to support
- large-scale, multi-country technical cooperation for developing countries (coordinate with other multi-country efforts like EUROSTAT, NRAESA and Global Initiative for Environmental Accounting).
 - regular meetings of international forum for training.