



System of
Environmental
Economic
Accounting

Is a revision of COFOG needed to better address the need for better environmental expenditure data?

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Main use of COFOG

- Developed to understand the structure of government expenditures, to support the SNA
- Provide a wide range of statistics pertaining to expenditures by governments, which permits trends in government outlays on particular functions or purposes to be examined over time
- Provide users with the means to recast key aggregates of the system for particular kinds of analysis on government expenditure
- Allow intercountry comparison of the extent to which governments are involved in economic and social functions.

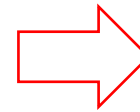


Relevant to the
environmental-economic
accounting community

COFOG – Current structure

The first level of classification (i.e. 2-digit Division) of COFOG is structured in a way that are grossly common to the other purpose classification of the same family (i.e COICOP, COPNI and COPP), where the identified expenditure category are regarded as important in most countries in the closing years of the twentieth century.

01. General public services
02. Defense
03. Public order and safety
04. Economic affairs
05. Environmental protection
05.1 - Waste management
05.2 - Wastewater management
05.3 - Pollution abatement
05.4 - Protection of biodiversity and landscape
05.5 - R&D Environmental protection
05.6 - Environmental protection n.e.c.
06. Housing and community amenities
7. Health
08. Recreation, culture and religion
9. Education
10. Social protection



Broad environmental category in COFOG

Drivers for COFOG revision from the environmental perspectives

- Since the last adoption of COFOG in 1999 the demand for information on government expenditures on the environment has increased
- The System of Environmental and Economic Accounting Central Framework was published in 2012 and new issues related to climate change, biodiversity, conservation and restoration of ecosystems and natural resources management have come to the forefront
- The revised COFOG should better reflect and present information on public expenditure on the environment to ensure that policy demands are met
- This leads to the following suggestions:
 - A need to update the structure to reflect emerging users needs
 - A need to make the breakdowns more granular to specifically cover important environmental expenditure

Some issues for consideration

- Issue 1: Alignment with the Classification of Environmental Functions
- Issue 2: Mapping to policy targets and international reporting requirement
- Issue 3: Alignment with taxonomies on biodiversity finance, climate change finance and sustainable finance
- Issue 4: Secondary purpose environmental expenditure
- Other issues – from FAO

Issue 1: Alignment COFOG and CEF

- The Classification of Environmental Functions (CEF) is a generic, multi-purpose, functional classification used for classifying activities, products, expenditures and other transactions related to environmental protection and management of natural resource
- Links between COFOG and CEF should be further explored

COFOG Division 05
05. Environmental protection
05.1 - Waste management
05.2 - Wastewater management
05.3 - Pollution abatement
05.4 - Protection of biodiversity and landscape
05.5 - R&D Environmental protection
05.6 - Environmental protection n.e.c.

Classification of Environmental Functions
1. Air, climate and energy
2. Wastewater and water resources
3. Waste and materials recovery
4. Soil, surface and ground water, biodiversity and forest
5. Noise and radiation
6. Research and development
7. Cross-cutting and other activities

Issue 2: Mapping COFOG to policy targets and international reporting requirement

- There is an increasing demand from the international monitoring framework to track government expenditure on emerging environmental protection issues.
- Examples:
 - Public expenditure on climate change mitigation and adaption (Data Gap Initiatives)
 - Public expenditure on conservation and sustainable use of biodiversity and ecosystem (Post-2020 Global Biodiversity Framework)
- COFOG revision should address these needs by: (a) providing specific classes; or (b) providing alternative aggregation to meet users' demand

Data Gap Initiative – Climate change

- The new G20 Data Gaps Initiative calls for the International Monetary Fund (IMF), in close cooperation with the Financial Stability Board and the Inter-Agency Group on Economic and Financial Statistics (IAG) to improve data availability and provision on climate change.
- Recommendation 7 is on climate change mitigation and adaptation expenditures, where the objective of this recommendation is to develop first estimates of current and capital expenditure on domestic and national climate change mitigation and adaptation.

Recommendation
Rec. 1 Greenhouse Gas Emission Accounts and National Carbon Footprints
Rec. 2 Energy Accounts
Rec. 3 Carbon Footprint of Foreign Direct Investment
Rec. 4 Green Debt and Equity Financing
Rec. 5 Physical and Transition Risk Indicators
Rec. 6 Government Climate-Impacting Subsidies
Rec. 7 Mitigation and Adaptation Current and Capital Expenditures

Proposed way forward

- Methodological Guidance
 - The methodological and compilation guidance outlined in the SEEA-CF, the GFSM 2014, the SNA and the Classification of Environmental Activities will form the basis for the methodological guidance and reporting template for recommendation 7.
- Source data requirements
 - **Government Expenditures by Function**, Environmental Goods and Services Account, and SUTs with significant product detail

Post-2020 Global Biodiversity Framework Target 19

- COP-15 in December 2022 is expected to adopt the post-2020 global biodiversity framework and associated monitoring framework.
- The headline indicator for Target 19, which calls for an increase of financial resources from all sources for biodiversity monitoring, is the public and private expenditure on conservation and sustainable use of biodiversity and ecosystems.

Proposed Target	Proposed indicator	Methodological basis
<p>Target 19. Increase financial resources from all sources to at least 200 billion per year, including new, additional and effective financial resources, increasing by at least 10 billion per year international financial flows to developing countries, leveraging private finance, and increasing domestic resource mobilization, taking into account national biodiversity finance planning, and strengthen capacity building and technology transfer and scientific cooperation, to meet the needs for implementing the post-2020 global biodiversity framework implementation, commensurate with the ambition of the goals and targets of the framework</p>	<p>19.0.2 Public expenditure and private expenditure on conservation and sustainable use of biodiversity and ecosystems</p>	<p>Existing methodologies and research by the CBD, BIOFIN and SEEA. Data can be collected through national biodiversity finance plans</p>

Issue 3: Mapping with other taxonomies on biodiversity finance, sustainable finance and climate change finance

- Public and private investment are increasingly integrating biodiversity and climate change and broader sustainability concerns into their investment decisions and portfolio allocations
- A number of taxonomies/tagging on biodiversity, climate change and sustainable finance have emerged outside the statistical community in an uncoordinated manner
- COFOG has a role to play to provide an agreed classification to respond these emerging needs

Examples of biodiversity and sustainable finance taxonomies

BIOFIN	EU sustainable finance taxonomy	Climate Bonds Taxonomy	China sustainable finance taxonomy	Japan sustainable finance taxonomy
Biodiversity awareness and knowledge	Climate change mitigation	Energy	Energy savings	Renewable energy
Green economy	Climate change adaption	Transport	Pollution prevention and control	Energy conservation
Pollution management	The sustainable use and protection of water and marine resources	Water	Resource conservation and recycling	Pollution prevention and management
Sustainable use	The transition to a circular economy	Buildings	Clean transportation	Sustainable management of nature resources and land use
Biosafety	Pollution prevention and control	Land use & marine resources	Clean energy	Biodiversity conservation
Protected areas and other conservation measures	Protection and restoration of biodiversity and ecosystem systems	Waste & pollution control	Ecological protection and climate change adaption	Clean transportation
Access and benefit sharing		ICT		Sustainable water resource management
Biodiversity development planning and finance				Adaption to climate change
				Environmentally friendly manufacturing technologies and processes
				Green buildings

Issue 4: Environmental expenditures as a secondary purpose

- Currently COFOG has a broad environmental category called environmental protection. At first glance, a user may interpret environmental protection category as a recording of the entire set of environmental expenditures undertaken by a government.
- Unfortunately, this is not the case since many of the expenditures of government have environmental protection as a secondary purpose.
- This issue has already been well documented in the current COFOG document

There will often be practical problems in identifying expenditures on environmental protection because those expenditures may appear as relatively minor items in the expenditures of administrative bodies that have quite different functions. Such problems could occur in connection with, for example, a ministry of agriculture that may have a programme to monitor the impact of chemical pesticides on the environment, a department of transport that may carry out a study of the consequences for the environment of a new road development or an energy ministry that may appoint a committee to study emissions of greenhouse gases. It is likely that in many countries total government outlays on protecting the environment are currently quite low, but as they may well grow in importance over the coming decades, compilers of COFOG statistics should make special efforts to allocate correctly all such expenditures to Environmental protection (para 22)

Example – possible treatment of environmental expenditures as a secondary purpose in COFOG.

✓ This is an example of how we could retain the current structure of COFOG (primary purpose) and add environmental specific classes to obtain and more complete picture of government spending on environmental protection.

Division	Environmental Expenditures as a secondary purpose		
701- General Government Services		10	
Of which: Environmental Protection and Enhancement	Spending on environmental governance such as environment ministers, support for special environmental bodies etc..		2
702-Defence		50	
Of which: Environmental Protection and Enhancement	Purchase of electric vehicles, Use of defence services to address environmental disasters		5
703-Public Order and Safety		25	
Of which: Environmental Protection and Enhancement	Purchase of electric vehicles, Use of Public Order and Safety services to address environmental disaster.		2
704-Economic Affairs		30	
Of which: Environmental Protection and Enhancement	Expenditures related to the operation of an Environment Ministry.		5

Other issues to be considered from FAO

- FAO collects data through the annual Government Expenditure on Agriculture and Environmental Protection Questionnaire (GEAQ) related to Divisions 04 - Economic Affairs, specifically 04.2 - Agriculture, forestry, fishing and hunting and 05 - Environmental Protection.
- There is underreporting of R&D on Agriculture likely due to the fact that R&D is in Class 04.8 - R&D Economic affairs (4.8.2 for Agriculture) and not 4.2
- FAO would be interested in exploring how Class 04.8.2 - R&D Agriculture, forestry, fishing and hunting could be incorporated directly under Group 04.2 - Agriculture, forestry, fishing and hunting
- Also, review of Class 04.7.4 - Multipurpose development projects, that currently fall under Group 04.7 - Other industries, could be take into account as many GEAQ compilers have complained that projects that are also but not primarily designed to impact Agriculture are not adequately captured under code 04.2. The original GEAQ included a section for reporting Multipurpose development projects of which Agriculture but it was removed some years ago and maybe the best solution is to re-incorporate it into an updated GEAQ.
- FAO collects data through GEAQ also on Division 05 - Environmental Protection, but only in relation to Groups 05.4 - Protection of biodiversity and landscape and 05.5 - R&D Environmental protection interested to get involved in the discussion of modifying COFOG in relation to Division 05, as that may impact any future revision of the GEAQ - including supporting SEEA.

Proposed way forward

- There is a need to revise COFOG:
 - Update the structure of the classification of meet new users' needs
 - Make the breakdowns more granular to specifically cover important aspects related to environmental expenditures
 - A broad review of the underlying principles of COFOG, in particular on issue related to classifying expenditure as a secondary purpose
- Ensure relevant users and producers are involved in the revision and consultation process
- Linking the COFOG revision process with the future update of the SEEA Central Framework (under discussion)

THANK YOU

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