Remote Meeting
March 29–31, 2023

SNA/M1.23/14

WS.12 Environmental Classifications:

Outcome of Global Consultation

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The global consultation[2] sought to ascertain the views of compilers on the proposed inclusion of several environmental classes in the various System of National Accounts classification systems.

Classification systems provide statisticians a way to organize and present data to users in a clear, consistent, and analytically useful manner. The System of National Accounts, 2008 (2008 SNA) utilizes 13 classification systems to present information to users. Of the 13 classification systems used, 4 are specific to the SNA with the remaining 9 'inherited' from other statistical frameworks. The 4 classification systems specific to the SNA include the classification of institutional sectors, classification of transactions, classification of other economic flows and classification of stocks.

Since the release of the 2008 SNA there has been increased demand for statistics that highlight the interplay between the economy and the environment. The current set of SNA environmental classes included in the 2008 SNA classifications (either germane or inherited) focus on environmental protection, resource management and natural resource assets. While important, the scope of the classifications do not fully address emerging issues related to sustainability, biodiversity management, climate change, renewable energy, climate finance, waste and recycling activities, environmental, social progress, governance, or environmental degradation.

Themes such as waste management, biodiversity, renewable energy, and natural resource management are being addressed in the update of the ISIC, CPC, and various functional classifications heavily utilized by the SNA. Given these on-going initiatives this guidance note has been limited to a discussion on possible updates to the 4 classification systems specific to the SNA: namely the institutional sector classification system (S), the classification of transactions (P, NP, D, F), the classification of other flows (K) and the classification of stocks (AN and AF). Moreover, the recommended updates have been further limited to (1) reflect the new and/or refined wellbeing-environment-economic concepts reflected in the various SNA update guidance notes already endorsed by the ISWGNA/AEG and (2) suggested additional classes that could be added to the SNA specific classification systems which have not yet been addressed in the update process.

The consultation showed that most respondents agreed with the need to include introduce new environmental classes into SNA classification system. Some respondents suggested that the additional classes be added as "voluntary" classes and therefore be left out of the classification system proper to illustrate the "voluntary" nature of the recommendation. The remaining part of this note summarize the feedback received for each recommendation in the guidance note.
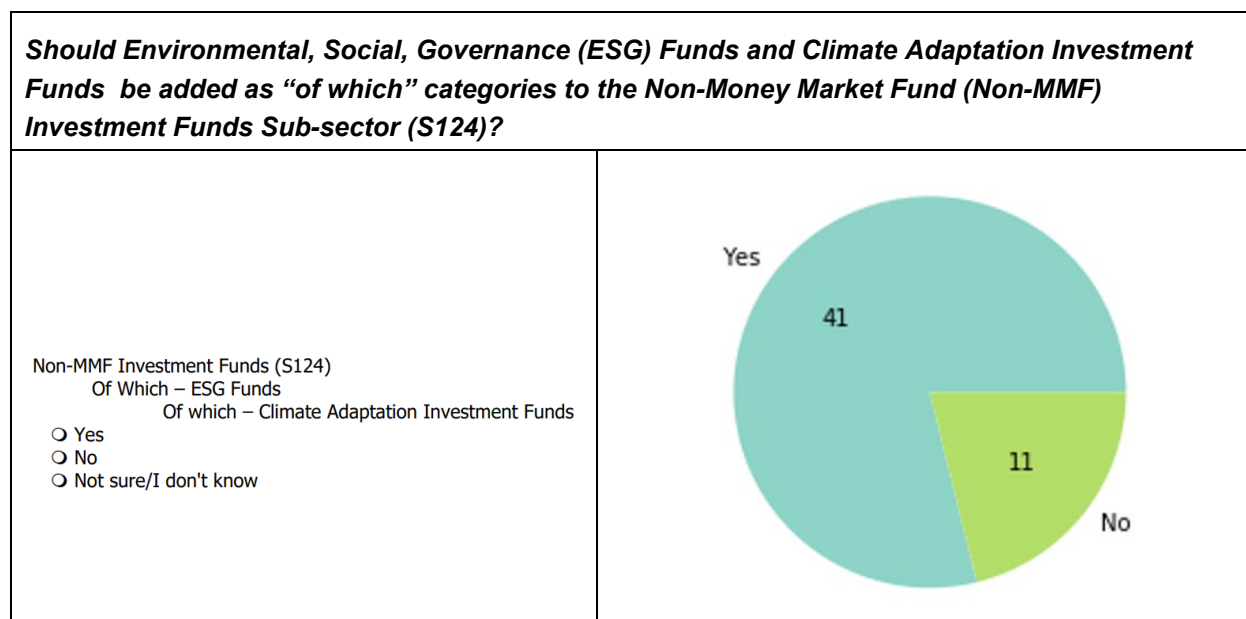
In this meeting, the outcome of global consultation is presented so that the Advisory Expert Group on National Accounts (AEG) can take a final decision on the proposed recommendations in the guidance note Guidance Note (GN).

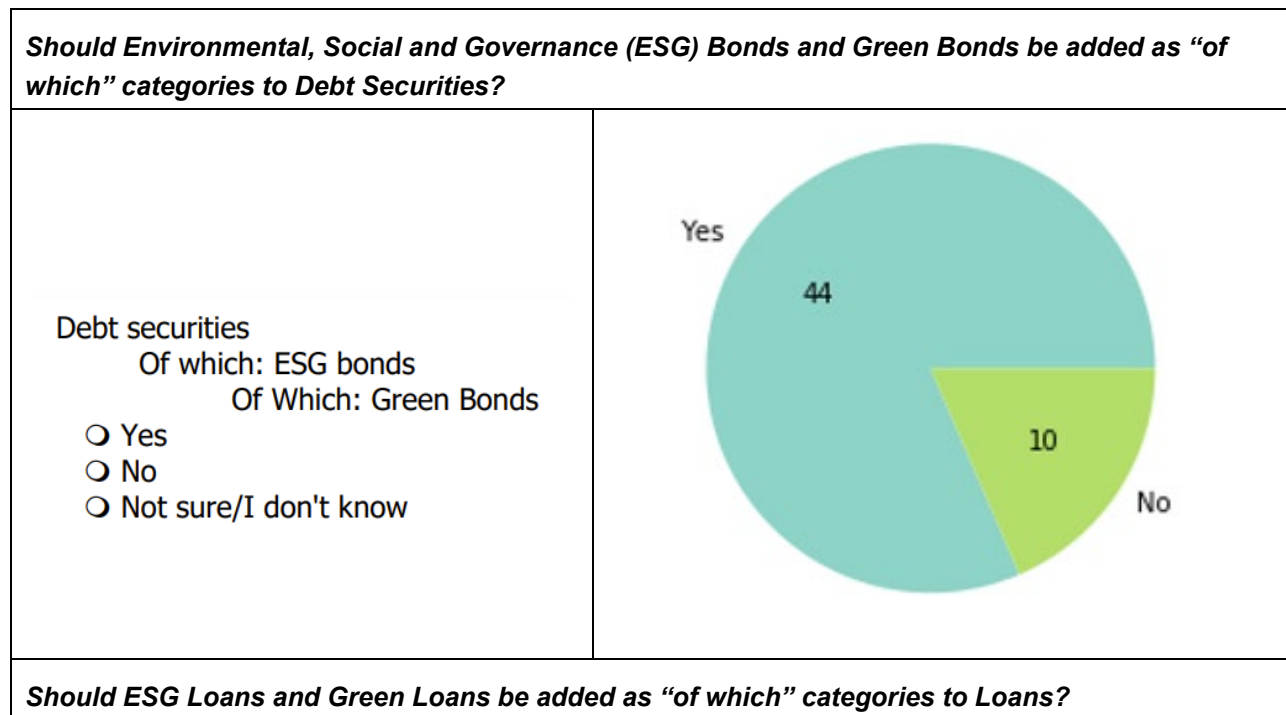[1] Prepared by Mr Jim Tebrake (IMF).
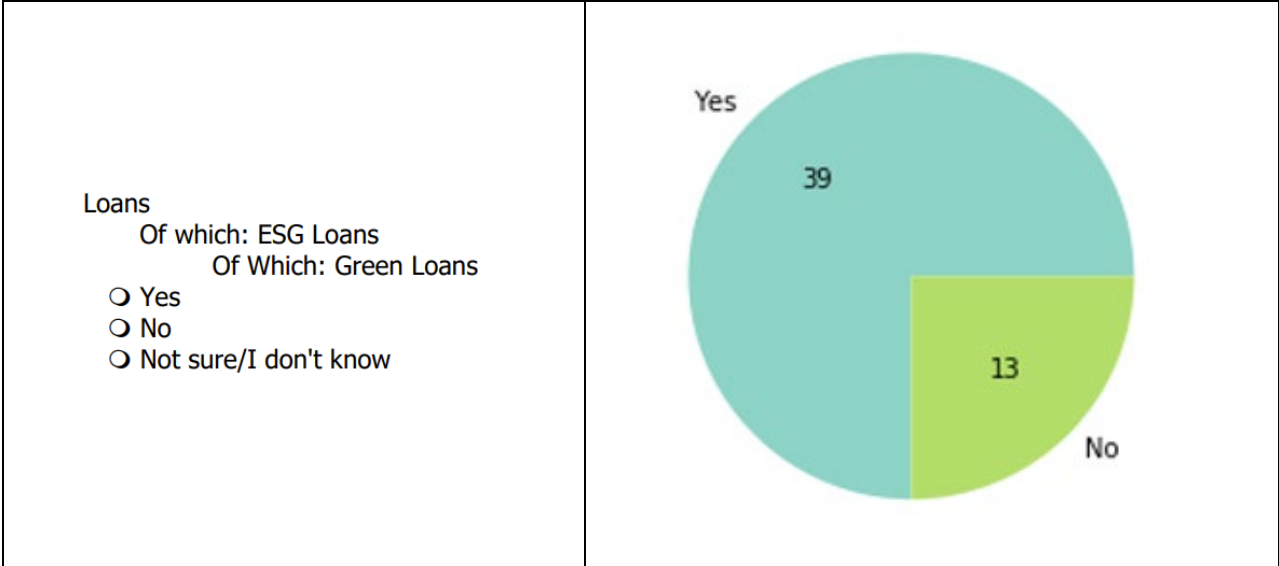
SUMMARY OF GLOBAL CONSULTATION

1.   **The consultation received a total of 71 responses.** Fifty-five countries responded to the questionnaire. In some cases, multiple responses were received from the same country. Responses were mainly received from National Statistical Institutions and Central Banks. Most responses were received from North and South America and Europe. There was limited response from African and Asian economies.

2.   **The guidance note includes 14 recommendations.** For each recommendation respondents were asked if they agreed to include new environmental classes in the various SNA classification systems. Respondents were also provided an opportunity to provide comments to elaborate their choice. Significant detailed responses were provided for each question. Comments where individuals responded "no" were significantly more elaborative than comments where individuals responded "yes". In total 112 pages of comments were received.

3.   **The first question asked respondents if they agreed that an ESG institutional sub-sector should be added to the SNA institutional sector classification system.** The guidance note proposed adding the ESG sub-sector as an "of which" category to the non-MFF sub-sector. Most respondents agreed with this recommendation. Respondents who disagreed indicated that it is not appropriate to add functional classes to an activity-based classification system. They also noted that this would only provide a partial picture of ESG funding and therefore would not be that useful for users of Financial Flow Account (FFA) and Balance Sheet Account (BSA) statistics.

Should Environmental, Social, Governance (ESG) Funds and Climate Adaptation Investment Funds be added as "of which" categories to the Non-Money Market Fund (Non-MMF) Investment Funds Sub-sector (S124)?

Non-MMF Investment Funds (S124)
    Of Which – ESG Funds
        Of which – Climate Adaptation Investment Funds
  ○ Yes
  ○ No
  ○ Not sure/I don't know

Yes 41

No 11

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4.   **The second, third and fourth questions asked respondents if they agreed that an ESG Bonds / Loans / Equity and Green Bonds / Loans / Equity be added as "of which" categories to the**

SNA transactions and asset classification systems. The guidance note proposed defining ESG Bonds as "*negotiable financial instruments serving as evidence of debt in which the use of the bond is restricted to finance or refinance activities that sustain or improve the condition of the environment or society. These include green bonds, social bonds, sustainability bonds, and sustainability-linked bonds*" The guidance note proposed defining ESG Loans as "*funds lent by creditors to debtors who agree to restrict the use of the funds (in whole or in part) to finance or refinance activities that sustain or improve the condition of the environment of society. These include green loans, social loans, and sustainability loans*." The guidance note proposed classifying ESG Equity and investment funds as "*equity investments by creditors to institutional units who agree to restrict the use of the funds (in whole or in part) to finance or refinance activities that sustain or improve the condition of the environment or society. These include green equity and social equity*." Most respondents agreed that these classes should be added to the SNA classification system. Respondents who disagreed with the proposal indicated that it is too early to add these categories because there currently is no agreed definition for these instruments and it would be difficult to obtain credible estimates even if they were clearly defined. They also noted that it is not desirable to mix functional classes in the SNA classification systems.

Should Environmental, Social and Governance (ESG) Bonds and Green Bonds be added as "of which" categories to Debt Securities?

Debt securities 　　Of which: ESG bonds 　　　　Of Which: Green Bonds 　〇 Yes 　〇 No 　〇 Not sure/I don't know	

Should ESG Loans and Green Loans be added as "of which" categories to Loans?

Loans
       Of which: ESG Loans
              Of Which: Green Loans
      ○ Yes
      ○ No
      ○ Not sure/I don't know

Should ESG Equity and Investment Fund Shares and Green Equity and Investment Fund Shares be added as "of which" categories to Equity and Investment Fund Shares?

Equity and Investment Fund Shares
      Of which: ESG Equity and Investment Fund Shares
            Of which: Green Equity and Investment Fund Shares
  ○ Yes
  ○ No
  ○ Not sure/I don't know
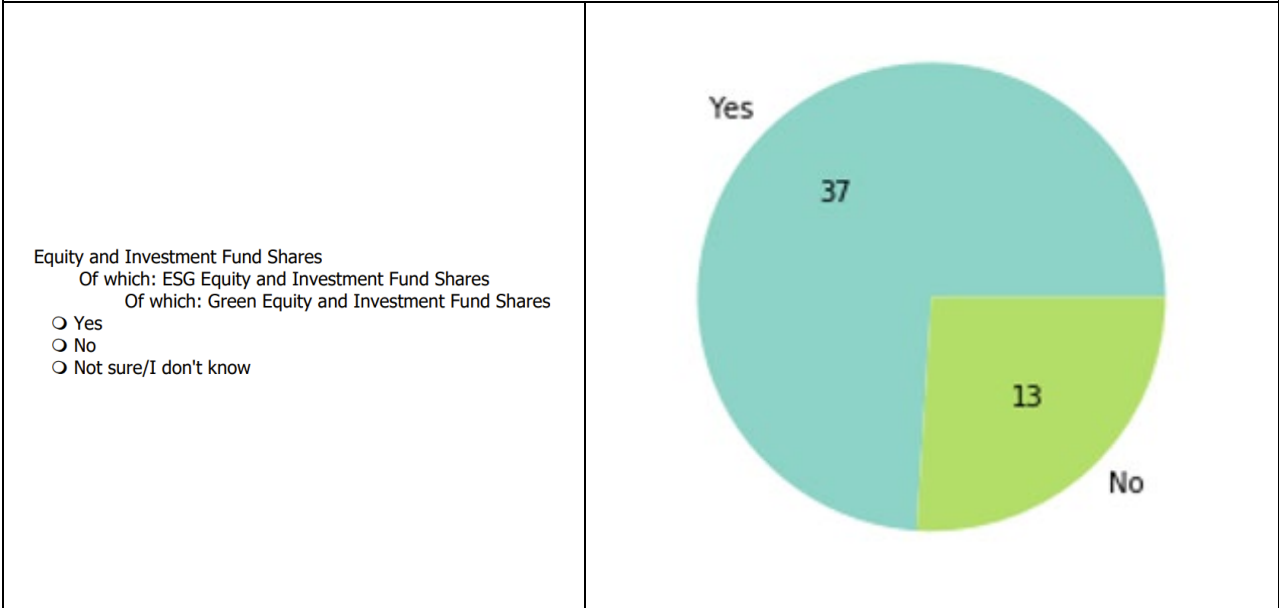
5.   **The fifth question asked respondents if they agreed that separate classes of resource rent should be established for each natural resource asset recognized within the SNA asset boundary.** Most respondents indicated that this would be beneficial for users and agreed separate classes should be included and countries should be encouraged to publish data at this level. Respondents who did not agree with this proposal indicated that they did not feel they could produce credible estimates. They also noted that the proposed classes did not align with the SEEA classification of individual assets. Several respondents did not understand the class "non-natural resource rent" which was included to address the recommendation from the "Data as an asset" guidance note.

> *Should separate classes of resource rent be established for each natural resource asset recognized within the SNA asset classification?*

Natural Resource Rent
   Natural Resource Rent – Land
   Natural Resource Rent – Non-renewable energy resources
   Natural Resource Rent – Renewable energy resources
   Natural Resource Rent – Mineral resources
   Natural Resources Rent – Biological Resources
   Natural Resources Rent – Water Resources
   Natural Resources Rent – Other natural resources
   Non-natural resource rent
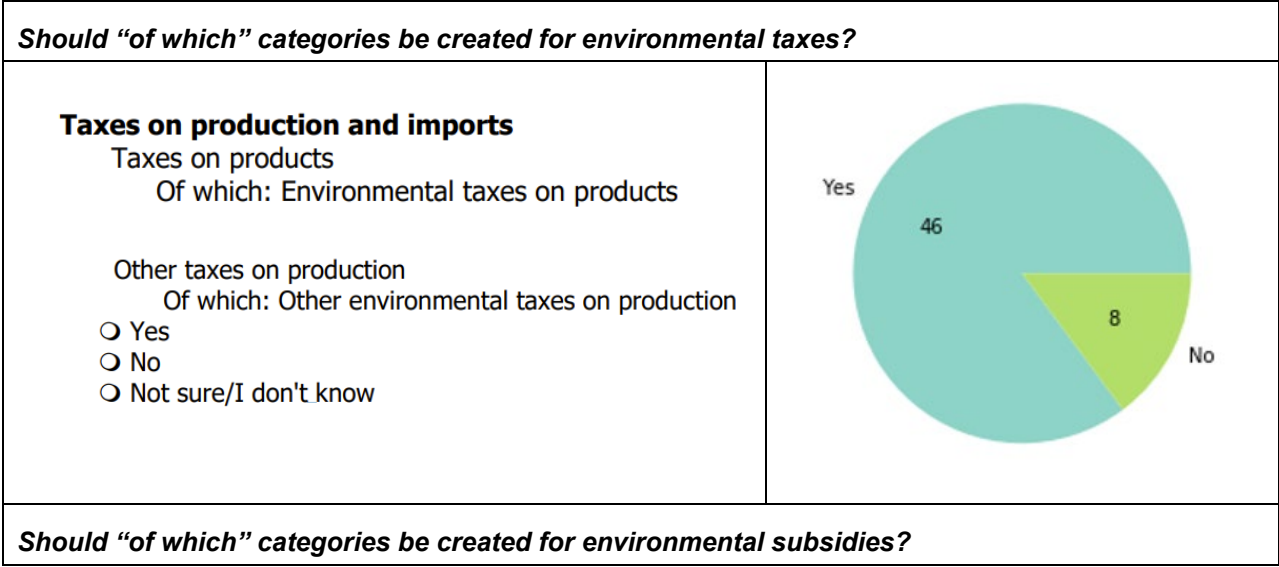   ○ Yes
   ○ No
   ○ Not sure/I don't know
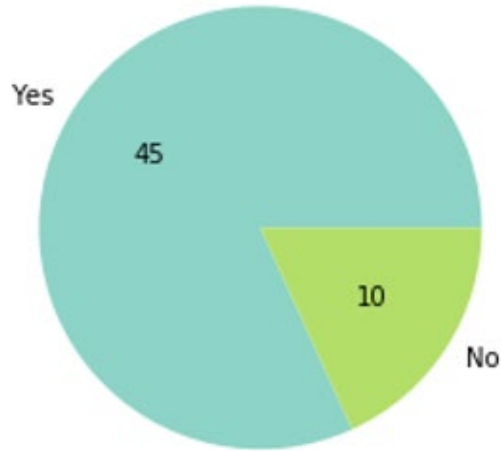
6.　　**The sixth question asked respondents if the revenue that governments receive from carbon pricing mechanisms should be separatel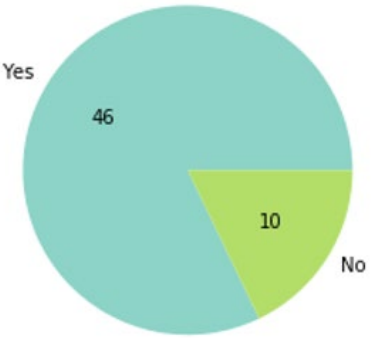y identified in the System of National Accounts.** Most respondents agreed with this recommendation. Several responds noted that their decision depends on the treatment of emissions permits. This indicated a lack of clarity in the guidance note. The guidance note proposed developing this aggregation regardless of the recording decision related to emissions permits.

> *Should the revenue that governments receive from carbon pricing mechanisms be separately identified in the System of National Accounts?*
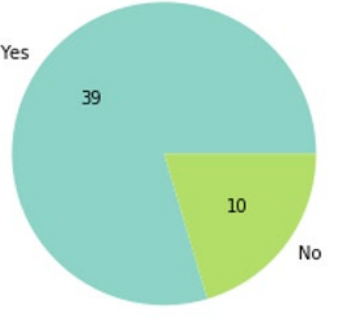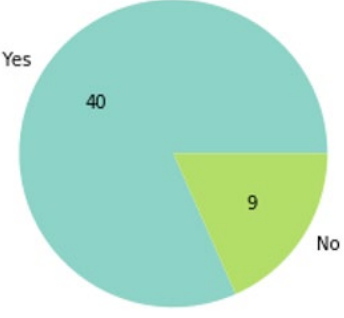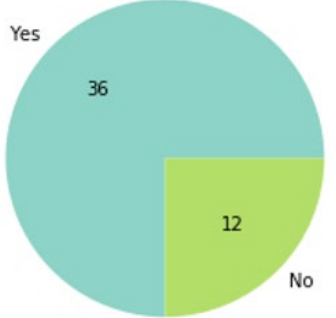
Carbon Pricing Mechanisms
    Carbon Taxes
    Emissions Trading Scheme
  ○ Yes
  ○ No
  ○ Not sure/I don't know
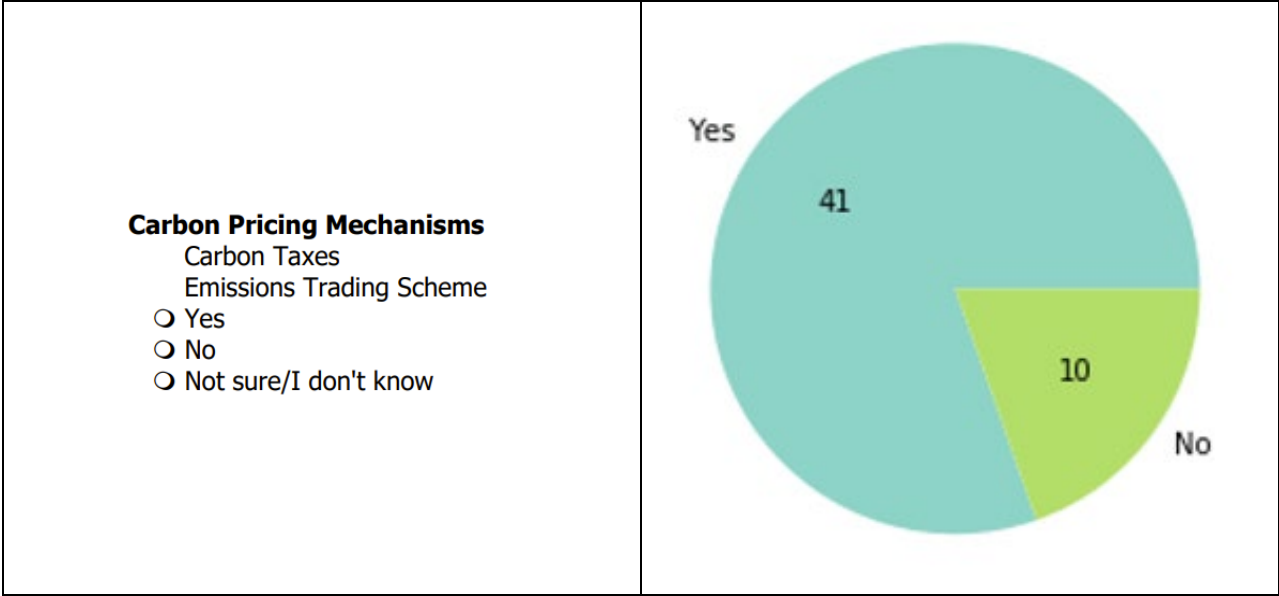
7.   **The seventh and eight questions asked respondents if the concepts "environmental taxes" and "environmental subsidies" should be included in the SNA and corresponding classes be added to the SNA classification of transactions.** Both recommendations were supported by most respondents. Respondents who disagreed with the proposal noted that since many countries report on an individual tax basis it would be better left to users to define what they consider an environmental tax or environmental subsidy. Others indicated that taxes and subsidies are not recorded according to purpose within the SNA and this type of presentation is already included in the System of Environmental and Economic Accounting Central Framework (SEEA-CF).
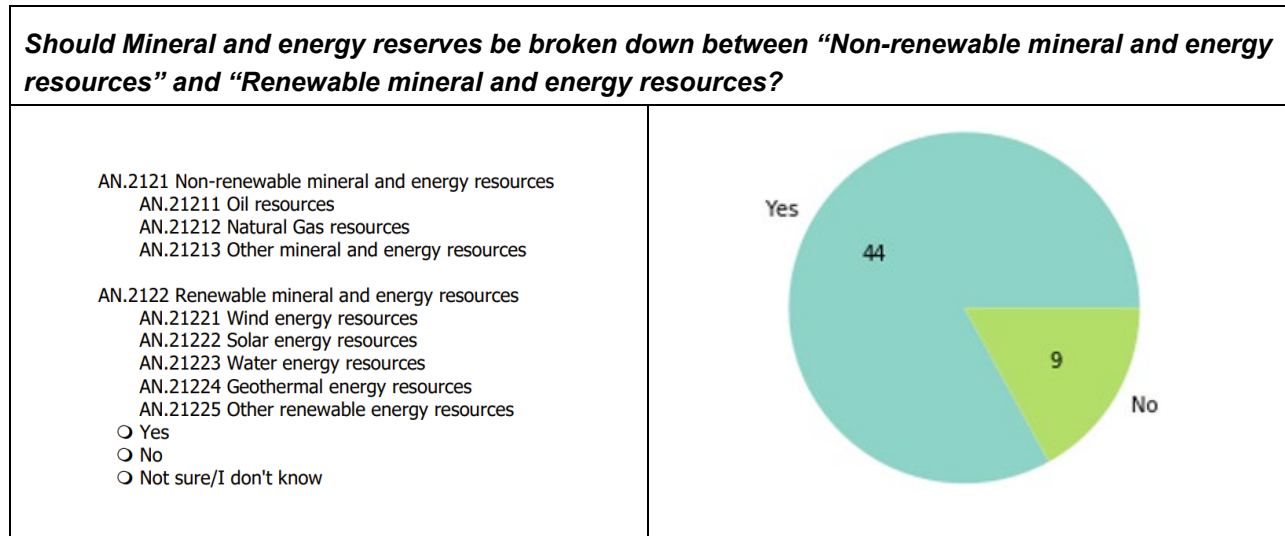
Should "of which" categories be created for environmental taxes?

Taxes on production and imports
    Taxes on products
        Of which: Environmental taxes on products

    Other taxes on production
        Of which: Other environmental taxes on production
  ○ Yes
  ○ No
  ○ Not sure/I don't know

Should "of which" categories be created for environmental subsidies?

Subsidies
    Subsidies on products
        Of which: Environmental subsidies
    Other subsidies on production
        Of which: other environmental subsidies on production
    ○ Yes
    ○ No
    ○ Not sure/I don't know

8.   **The ninth, 10th and 11th questions asked respondents if the following produced asset classes should be included in the SNA asset classification system: Renewable Energy Installations, Fossil Fuel Installations, Electric powered transport equipment, Carbon capturing equipment, and Nuclear Fusion equipment.** Most respondents agreed with this recommendation. Respondents who disagreed with the proposal noted that while these are important categories, they should not be included in the core classification since there is no indication of a long-term user need. They also noted that it would be very difficult to measure and price these assets. Several respondents struggled with the definitions provided in the guidance note.

Should the following classes be added to the SNA transactions and asset classification system – Renewable Energy Installations, Fossil Fuel Installations, Electric powered transport equipment, Carbon capturing equipment, and Nuclear Fusion equipment.

AN.1122 Other structures
    Of which: Renewable Energy Installations
    Of which: Fossil Fuel Installations
  ○ Yes
  ○ No
  ○ Not sure/I don't know

AN. 113 Machinery and Equipment
    AN.1131 Transport Equipment
        Of which: Electric powered Transport Equipment
  ○ Yes
  ○ No
  ○ Not sure/I don't know

AN. 1133 Other machinery and equipment
    Of which: Carbon capturing equipment
    Of which: Nuclear Fusion equipment
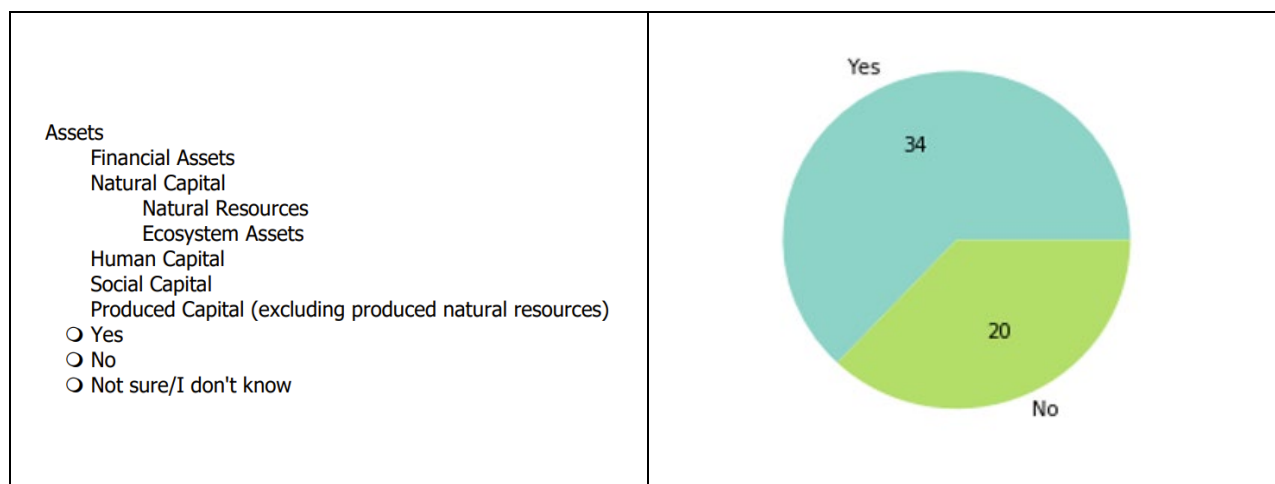 ○ Yes
  ○ No
  ○ Not sure/I don't know

9.   **The 12th question asked respondents if Mineral and Energy Resources should be broken down between Non-renewable mineral and energy resources and renewable mineral and energy resources.** Most respondents supported this recommendation, given its importance in understanding the energy transition. Respondents who disagreed with the recommendation indicated that they did not agree with including renewable energy resources in the SNA and therefore this breakdown is not necessary.


Should Mineral and energy reserves be broken down between "Non-renewable mineral and energy resources" and "Renewable mineral and energy resources?

AN.2121 Non-renewable mineral and energy resources
    AN.21211 Oil resources
    AN.21212 Natural Gas resources
    AN.21213 Other mineral and energy resources

AN.2122 Renewable mineral and energy resources
    AN.21221 Wind energy resources
    AN.21222 Solar energy resources
    AN.21223 Water energy resources
    AN.21224 Geothermal energy resources
    AN.21225 Other renewable energy resources
○ Yes
○ No
○ Not sure/I don't know

Yes 44
No 9

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10.   **The 13th and 14th questions asked respondents if the SNA Asset classification system should be updated to include human capital, natural capital and social capital and the concept of comprehensive wealth.** There was less agreement for these recommendations than for the other recommendations in the guidance note. Several respondents misinterpreted the recommendation as a proposal to include these assets within the SNA asset boundary. The proposal recommends including these classes in the classification system but notes that these classes are outside the SNA asset boundary. The rationale for including these assets in the classification system is more so that the concept of comprehensive wealth can be included in the SNA. The guidance note recommends including the concept of comprehensive wealth as a tool to make users aware that the SNA recognizes a broader concept of wealth than SNA wealth and that this concept is analytically useful. Several respondents indicated a preference for the term "inclusive wealth" over "comprehensive wealth".

Should new classes for Human Capital (extension), Ecosystem (extension), and Social Capital (extension) be added to the existing SNA Asset classification hierarchy?

Assets
    Financial Assets
    Natural Capital
        Natural Resources
        Ecosystem Assets
    Human Capital
    Social Capital
    Produced Capital (excluding produced natural resources)
  ○ Yes
  ○ No
  ○ Not sure/I don't know

Should the concept of comprehensive wealth, i.e. the value of all assets (Financial Assets, Natural Assets, Human Capital, Social Capital, Produced Capital) that a nation has at its disposal for the well-being of its citizens and the sustainability of its activities, be included in the updated SNA?
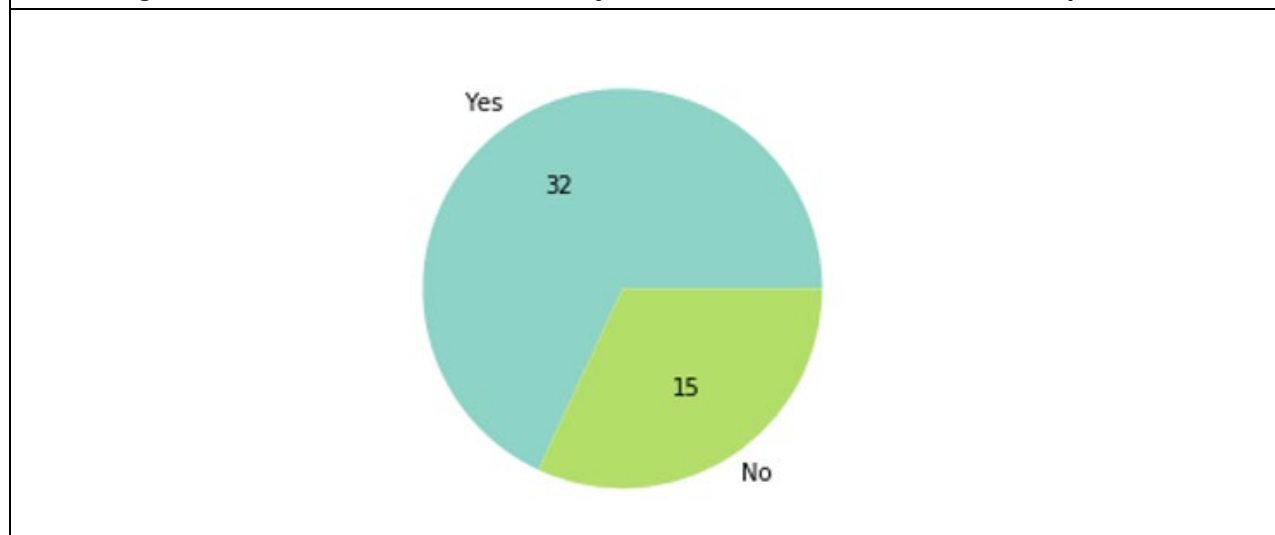
11.   **While there was overwhelming support for the recommendations in the guidance note the following modifications to the guidance note could be considered to address some of the concerns raised by those who disagreed with the proposal.**

    a) Remove the recommendation to include a ESG institutional sub-sector in the SNA institutional sector classification system.

    b) Update the SNA to include definitions for ESG / Green Financial Investments and noted that these definitions may evolve over time and if needed updated definitions will be included in the SNA.

    c) Instead of adding ESG / Green – Bonds/Loans/Equity to the SNA Financial Asset classification system the updated SNA includes guidance (and an illustrative version) of how the Financial Asset Classification system can be presented on a functional basis (with ESG / Green instruments as the basis for the illustration).

d) Instead of adding classes of produced environmental purposed assets to the SNA transactions and classification system the updated SNA includes guidance (and an illustrative version) of how the produced asset classification system can be presented on a functional basis (with environmental purposed produced assets as the basis for the illustration).

e) That the guidance note is updated to better reflect that Human capital, Social Capital and Ecosystem Capital are not part of the SNA asset boundary and that the term "inclusive wealth" is used to refer to the value of all assets that a nation has at its disposal for the well-being of its citizens and sustainability of its activities.