



# A Framework for Action for Sustainable Development

79330 v1

## Natural Capital Accounting

### Helping Make Better Decisions for Sustainable Development

#### At a glance

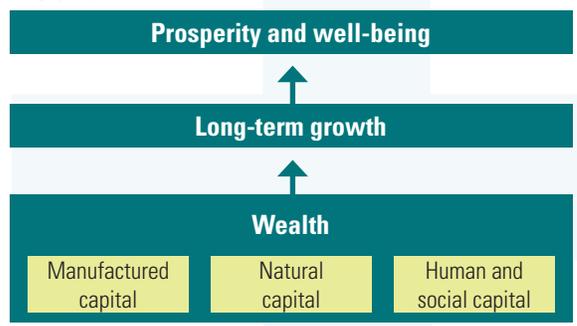
- + Countries have long kept a close watch on their national income accounts to evaluate economic performance and assess the effectiveness of their development policies and plans. But traditional indicators based on national income accounts like GDP (gross domestic product) say nothing about the longer term sustainability of current growth patterns.
- + It is in the interest of developed and developing countries to move beyond traditional GDP and start incorporating their natural capital into their national accounts to make better economic decisions.
- + Rio+20 offers a crucial window of opportunity to step up previously stated commitments to implementing natural capital accounting, as a step toward a more sustainable world.

#### The challenge

Long-term growth is a process of accumulation and sound management of a portfolio of assets—manufactured capital, natural capital, and human and social capital (see figure 1). GDP looks at only one part of economic performance—income—but says nothing about the wealth and assets that underlie this income. For example, when a country exploits its minerals, it is actually depleting wealth. The same holds true for overexploiting fisheries or degrading water resources. Relying on GDP alone to assess economic performance can be misleading, as countries could grow in the short run by running down their assets, thus endangering growth in the long term.

As Nobel laureate Joseph Stiglitz has noted, a private company is judged by both its income statement and balance sheet, but most countries only compile an income statement (GDP) and know very little about the national balance sheet. Wealth accounting, including natural capital accounting, is needed to assess whether growth is sustainable.

FIGURE 1



Important contributions to the economy of natural capital like forests, wetlands, and agricultural land are not fully captured in national accounts or may be hidden. Forestry is an example—timber resources are counted in national accounts, but forest carbon sequestration is not included. Other services like water regulation that benefits crop irrigation are hidden and the value is (wrongly) attributed to agriculture in a country's GDP.

Partly as a result of this invisibility of natural capital in national accounts, ecosystems are deteriorating worldwide, and with them the capacity to support sustainable economic growth. Natural capital is a critical asset, especially for low-income countries where it makes up a significant share (36 percent) of total wealth (see figure 2). For these countries, livelihoods of many subsistence communities depend directly on healthy ecosystems.

The concept of accounting for natural capital has been around for more than 30 years. However, progress in moving beyond conceptual thinking and experimentation toward implementation of natural capital accounting has been slow. In addition, the private sector has yet to incorporate natural capital into its accounting practices and standards.

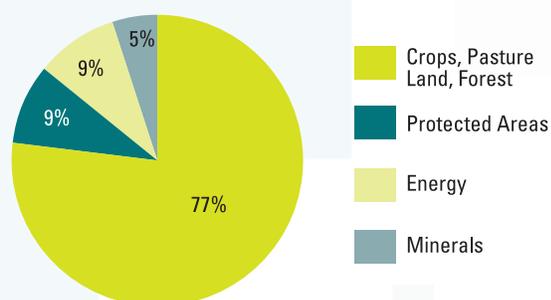
A major step toward achieving this vision came recently with the adoption by the UN Statistical Commission of the System for

FIGURE 2

**Wealth of Low Income Countries**

2008 US\$	Per Capita
Total Wealth	7,670
Produced Capital	1,117
<b>Natural Capital</b>	<b>2,403</b>
Intangible Capital	4,290
Net Foreign Assets	-141

**Natural Capital Composition**



Environmental and Economic Accounts (SEEA). The SEEA provides an internationally agreed method, on par with the current System of National Accounts, to account for material natural resources like minerals, timber, and fisheries. The adoption of the “Central Framework” of the SEEA has eliminated a major barrier to the adoption of natural capital accounting. The challenge now is to build capacity in countries to implement the SEEA and to demonstrate its benefits to policy makers.

Many countries want to take natural capital accounts beyond the material resources like timber to include ecosystem services such as water filtration, flood protection, and pollination services. These “regulating services” are not yet included because of a lack of internationally agreed methodology to calculate them, making it a barrier to implementation.

**The future we want**

Many governments, civil society, and the private sector are looking toward a future where incorporating natural capital into national accounts can support better decisions for inclusive development.

Natural capital accounting can provide detailed statistics for better management of the economy. For example, land and water accounts can help countries interested in increasing hydro-power capacity to assess the value of competing land uses and the optimal way to meet this goal. Ecosystem accounts can help biodiversity-rich countries design a management strategy that balances tradeoffs among ecotourism, agriculture, subsistence livelihoods, and ecosystem services like flood protection and groundwater recharge. Ecosystems accounting not only provides a tool to maximize economic growth but is also a means to measure who benefits and bears the cost of ecosystem changes, helping governments gauge whether their growth is inclusive.

Natural capital accounting straddles all three pillars of sustainable development and can move the world beyond a GDP metric to focus on all assets that a country needs for long-term growth and well-being.

**How do we get there?**

With the recent adoption of the SEEA, there is now wide acceptance of the need to put natural capital accounting into action. As a result, there is renewed momentum with finance ministries and ministries of environment who want to show the contribution of natural capital to national income. There is also growing interest from the business community: for example, CEOs of leading corporations have signed on to a Natural Capital Leadership Compact that identifies business solutions to integrating natural capital into their own products and services.

Countries that have started implementing the SEEA have a road map to guide them through this process. They begin by establishing institutional structures with clear lines of responsibility and commitments across government departments. Rather than taking on the challenge of compiling all natural capital accounts at once, countries are prioritizing which sub-accounts to begin with, based on important development challenges facing them. If, for example, the pressing concern in the country is to determine the role of coal reserves in a green economy and how best to manage water resources, it will begin by compiling energy and water accounts, leaving other sub-accounts for later.

Countries like Australia, Botswana, and Spain are implementing accounts for material resources and piloting ecosystem accounts. This piloting of methods will help the development of internationally agreed methodology for ecosystem accounting. This is supported by parallel efforts to identify data gaps and capacity constraints and a strategy to overcome these limitations.

A World Bank–facilitated partnership—Wealth Accounting and Valuation of Ecosystem Services (WAVES)—is helping implement natural capital accounting based on the SEEA. Through WAVES, Botswana, Colombia, Costa Rica, Madagascar, and the Philippines have embarked on work plans that have been endorsed at the highest level of their governments.

Rio+20 offers an important opportunity for the world to step up its previously stated commitments to implementing natural capital accounting. With the adoption of the SEEA, the international community now has a stronger opportunity than ever to mobilize support to implement natural capital accounting.

**References and suggested readings**

[www.worldbank.org/programs/waves](http://www.worldbank.org/programs/waves)