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Towards a System of Environmental Economic Accounting for Agriculture (SEEA-AGRI)

FAO Statistics Division

1. Introduction

The endorsement of the System of Integrated Environmental and Economic Accounting (SEEA) Central Framework by United Nations Statistical Commission in March 2012 provides the first international standard for environmental-economic accounting. This statistical standard is an important step forward in integrating economic activity and the environment to better understand implications pertaining to the sustainability of different patterns of production and consumption. This paper describes work being initiated by the Statistics Division of FAO to develop an extension to the SEEA Central Framework that captures the specific relationships between the agricultural sector and the natural environment. This is defined as the System of Integrated Environmental and Economic Accounting for Agriculture (SEEA-AGRI). Within this framework, agriculture is interpreted in the broad sense as all activities related to crops, livestock, forestry and fisheries with a primary and intensive use of environmental goods and services. This is different from other extensions (subsystems) of the SEEA Central Framework in the sense that rather than focusing on one specific *resource*, SEEA-AGRI focuses on one *group of activities*, and considers the relationship between these activities with the related environmental assets.

The paper provides a brief overview and discussion of some of the key issues that emerge for the construction of such a system. It is organized in six sections. The first three sections explain the need and merits of an integrated approach as well as the

linkages with other complementary systems. Section four defines the aim and scope of the proposed framework and in section five a preliminary development strategy is outlined. Finally, section six raises points for discussion by IICA members with regard to the approach and feasibility of country implementation of the SEEA-AGRI.

2. The need of an accounting framework for agriculture and the environment

The System of National Accounts (SNA) consists of a coherent, consistent and integrated set of macroeconomic accounts which constitutes the primary source of information about the economy now widely used for analysis and decision-making in virtually all countries. While it provides practical measures of macroeconomic performance, the SNA fails to reflect the full costs and benefits to society of economic activities. One of the main shortcomings of the SNA is that the impact of the environment on the economy and the effects of the latter on natural capital have not been readily identifiable within the economic accounts generated. The SEEA Central Framework augments traditional national accounts to integrate economic and environmental statistics in an internationally agreed manner that allows for an evaluation of the environmental sustainability of economic activity.

There are two main groups of reasons that justify the use of an accounting framework for agriculture and the environment based on the SNA/SEEA structure: reasons related to the need to unravel the relationships between agriculture and the environment, and reasons that deal with the methodological and statistical enhancements to be derived from exploiting an established analytical accounting framework.

When exploring the *relationships between agriculture and the environment*, conventional accounts only cover the economic performance and functions of agriculture as reflected in market activities and their evolution over time. In that context, the SEEA Central Framework is a useful tool to evaluate the environmental sustainability of those industries and activities making extensive use of natural resources, either as inputs or as sinks. On the one hand, the relationship between the environment and agriculture is such that natural environments provide a form of infrastructure and a flow of economically valuable and critical environmental assets such as land, soil and water to agricultural activity. On the other hand, agricultural activities may contribute significantly to soil erosion, land degradation and water quality changes.

An important distinction to be made is between those assets that can be attributed to agriculture, and those that cannot. From there, two types of accounting adjustments may be distinguished for agricultural assets. The first would focus on the services derived from the land based stock of assets (habitat and species, landscape, etc). The second would consider the impact of agricultural activities on the ability of these assets to provide environmental services (e.g. sink functions), either by modifying the quality or quantity of the assets being considered.

Furthermore, agriculture also may produce some benefits (or costs) that are not registered nor valued in the system of national accounts, including ecosystem services such as carbon sequestration, habitat for wildlife, mitigation of droughts and floods, among others. The environmental services that flow from these should be attributed as

additional income to the agricultural sector, in order to fully account for the sector's contribution to growth and GDP. In that context, a monetised environmental account for agriculture would provide an economic measure of the sustainability of the related activities; an accurate value of their contribution to a nation's wellbeing; an indication of the extent to which agriculture affects the welfare generated by other sectors; and, useful information (inputs) for policy-making and cost benefit analysis for agricultural and related environmental policies.

From the *methodological perspective*, applying the SEEA Central Framework to agriculture will help improve the conceptual basis and analytical capability of agriculture statistics, which is the goal of the Global Strategy to Improve Agricultural and Rural Statistics (GS).¹ The SEEA-AGRI can play an important role in many aspects relating to the implementation of the GS, among others, three are of special importance. First, adopting a macroeconomic accounts approach for developing a statistical framework has the advantage of applying a set of SNA-based standard classifications upon which consistent and comprehensive sets of data series can be compiled. Second, the resulting accounts can provide a complete set of variables for identifying and designing a core and minimum set of agricultural indicators, aligned with the SEEA Central Framework, and applicable across a wide range of developing and emerging market economies. Third, a macroeconomic accounts approach for a statistical framework also responds to the need of having a multipurpose information system that can be used to combine and harmonize data from various surveys and censuses together into an integrated database that supports policy making and analysis.

3. Integrating agriculture activities in one framework

Primary activities rooted in the physical environment (e.g. agriculture, forestry and fishing), are major sources of countries' wealth. Agriculture as defined by the International Standard Industrial Classification of All Economic Activities (ISIC) includes the exploitation of vegetal and animal natural resources, comprising the activities of growing of crops, raising and breeding of animals, harvesting of timber and other plants, animals or animal products from a farm or their natural habitats. ISIC revision 4, Section A, is divided in three Divisions: (01) Crop and animal production, hunting and related service activities; (02) Forestry and logging; and (03) Fishing and aquaculture (UNSD, 2011).

There are at least two important reasons for the inclusion and integration of agricultural activity in one accounting framework. The first is that *the three Divisions under ISIC revision 4, Section A represent activities that are major users of one or more environmental assets*, in particular soil, water, biological resources, land and ecosystems. These activities as a whole (including livestock grazing in the case of agriculture and aquaculture in the case of fishing) might occupy a significant portion of the economically available (exploitable) land in developing countries.² Furthermore it

¹ See <http://www.fao.org/economic/ess/ess-capacity/ess-strategy/en/>

² The SEEA identifies as an environmental asset agricultural land distinguishing between i) cultivated land (for temporary crops, for permanent plantations, for kitchen gardens and temporarily fallow land); ii) pasture land (improved and natural); and iii) other agricultural land. Additionally, the SEEA recommends compiling information about irrigated land in order to establish water abstraction from agricultural production, even if this abstraction may not be associated to an economic or market transaction.

is not unusual to find farms that are engaged in more than one of these activities and it is not uncommon for agricultural surveys and censuses to include some information about these activities. As a result, the benefits of evaluating and monitoring the rational and sustainable use of the environment vis-à-vis these activities in an integrated accounting framework is invaluable for medium to long-term policy formulation for agricultural, land use and related environmental and ecosystem issues.

The second reason is that *the three Divisions under ISIC revision 4, Section A are strongly related to basic population needs* (food, energy, shelter and other raw materials). Thus, it is strongly advisable to explore the potential of the SEEA Central Framework to agriculture in order to include and address important issues related to food security. The need for integrated and cross sector information that can be useful for decision making in a complex and globalized world is a challenge that can, in large part, be addressed from an extension of the SEEA Central Framework to agriculture.

The SEEA-AGRI envisaged by FAO would have the potential to consistently analyse important trends and give insights about relevant environmental, economic and social issues such as the increase of water demand and abstraction, land use changes, forest clearing, etc., at the macro and national level. Furthermore this information could be related to the physical food balances and other types of analysis elaborated by FAO in order to assess the impact of such phenomenon on food security.

4. Scope and coverage of SEEA-AGRI

The SEEA-AGRI can be defined as a comprehensive and standard satellite account for the integration of agricultural and environmental data based upon internationally agreed concepts, definitions, classifications and inter-related tables and accounts that universally valid, regardless of the stage of economic development reached by the country.

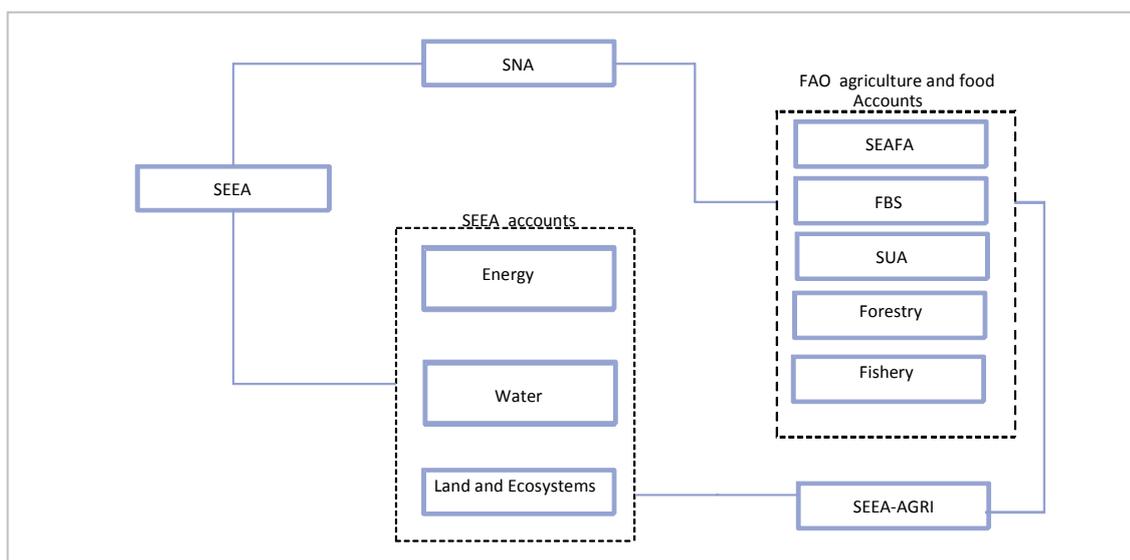
The SEEA-AGRI aims to translate policy issues into data needs and requirements in a standard and coherent manner by:

- Enhancing the use of existing agricultural statistics and related common frameworks (supply and utilization tables and food balances, etc.) through the integration of basic statistics consistent with the SNA;
- Providing a consistent, comprehensive, and coordinating framework to link data collected by different surveys and censuses together to build up an integrated database;
- Providing a sound basis for the measurement of a set of economic, social, and environmental indicators for agriculture and rural development aligned with FAO's narrow and broad definitions of agriculture, respectively;
- Providing a framework to expand the analytical capabilities of the original FAO SEAFSA and related past FAO initiatives (Fishery and Forestry Accounts);
- Providing a framework that links to other SEEA subsystems being articulated by other agencies (Ecosystems, Energy, etc.).

When looking at agricultural activities within the evolving SEEA-AGRI, agriculture interpreted in a broader sense (i.e. crops, livestock, forestry and fisheries), can be placed

at the centre of the analysis, allowing for the assessment of the interactions with other sectors, but concentrating on looking at the particular indicators pertaining to environment-economy relationships. This framework can be considered an extension of the SEEA Central Framework, one with a primary and intensive use of environmental goods and services (Figure 1). This is different from other subsystems of the SEEA in the sense that rather than focusing on one specific *resource*, it focuses on one *group of activities*, and considers the relationship between these activities with the related environmental assets. Thus, specific aspects of other accounts (e.g. water accounts) are used in the SEEA-AGRI.

Figure 1. SEEA-AGRI and other accounting frameworks



As shown in Figure 1, on one side, the SEEA-AGRI links to the SEEA Central Framework and its strengths while providing new elements of analysis which are not necessarily incorporated in the Central Framework (in figure 1 only some specific SEEA and some existing FAO accounts are shown). In turn, the SEEA Central Framework and its other subsystems provide elements that are of interest for the SEEA-AGRI (e.g. water abstraction and consumption for agricultural activities). On the other side, FAO's current frameworks, mainly Food Balance Sheets (FBS) and Supply and Utilization Accounts (SUA), among others, may be completely integrated. Furthermore, previous SNA-based FAO efforts (e.g., System of Economic Accounts for Food and Agriculture (SEAFSA)) may be conceptually incorporated into SEEA-AGRI. The relationship of the agriculture related accounts (SEAFSA, SUA, FBS) and the environmental related accounts (e.g., SEEA-Water, SEEA-Ecosystems, and FAO's recent work on Agri-Environmental Indicators) highlight crosscutting themes that can be addressed when integrating the frameworks shown in Figure 1.

In order to achieve a well-articulated SEEA-AGRI that allows for the broadening of analysis through physical and hybrid supply and use tables, covering flows of products, residuals, natural resources and ecosystem services, the subsystem should take into account the four different categories of accounts of the Central Framework design:

- **Asset accounts.** These incorporate different natural assets and its changes during the accounting period in physical and monetary values. They are relevant to the measurement of sustainable development from the capital perspective within

approaches of weak or strong sustainability. They also help to determine where income is arising from the use of resources and how it is apportioned between the extractor and the owner. Thus, they are relevant to the intra- and inter-generational equity issues of sustainable development.

- **Flow accounts.** These are divided into physical and hybrid flow accounts. They provide information at the industry level about the use of materials as inputs to production and final demand and the generation of pollutants and solid waste. The objective is to see the extent to which the economy is dependent on particular environmental inputs and the sensitivity of the environment to particular economic activities.
- **Environmental protection accounts.** These accounts identify expenditures in the conventional SNA incurred by industry, government and households to protect the environment or manage resources. Environmental protection accounts are used to compile environmental expenditures by activities and products. They give an assessment of the economic costs and benefits, including sectorial impact, of reducing human impact on the environment.
- **Adjusted macro indicators.** The SEEA recommends adjustments to the main aggregates which include indicators of sustainability such as environmentally adjusted net domestic product (eaNDP). These accounts implicitly adopt the perspective of weak sustainability. The aim of these accounts is to extend SNA aggregates to account for depletion, defensive expenditures and degradation.

For the accounts just mentioned, in many cases, measurement in physical as well as in monetary values is possible, but in other cases (i.e. most of the agri-environmental services valuation) valuation is still a subject under discussion, however hybrid indicators are usually possible within the framework. The various accounts will be integrated with the work on Agri-environmental indicators, as the indicators to the most part will flow from the accounts.

5. SEEA-AGRI development strategy

The United Nations Committee of Experts on Environmental Economic Accounting (UNCEEA) and the London Group on Environmental Accounting (LG) are the best forums for review and discussion towards development of agri-environmental accounting.³ In that context, FAO Statistics Division will work with the LG — establishing a SEEA-AGRI Subgroup — to advance (and mainstream) the methodologies on environmental-economic accounting to food and agricultural statistics and the related databases maintained across FAO. The implementation of the SEEA-AGRI will be supported by establishment of a working sub-group under the umbrella of UNCEEA/LG and a FAO-specific interdepartmental Task Force that will work to address specific issues and take the leading role in developing guidelines and recommendations.

³ Additional information on the London Group and the UNCEEA in:
<http://unstats.un.org/unsd/envaccounting/londongroup/>
<http://mdgs.un.org/unsd/envaccounting/ceea/default.asp>

Within this framework the SEEA-AGRI should ensure consistency in the classifications, concepts, definitions and policy applications through extensive and timely consultations with partner countries and at the international level. This collaboration with national experts and other specialists will facilitate piloting the SEEA-AGRI among selected countries in Africa, Asia, and the Latin America/Caribbean region. These possible country applications of an evolving SEEA-AGRI will assist in addressing those methodological aspects that still need to be resolved within the SEEA Central Framework in the context of countries where data is not necessarily accessible in terms of quantity and quality. The initial work will involve relying on current data collected and available to FAO (mainly internal FAO datasets, sourced from national statistical reporting to FAO). This approach to developing the initial tables will provide us with a good indication of the possibilities of putting together the SEEA-AGRI from current data.

The proposed roadmap should include the following main five complementary and overlapping stages in a month process which is expected to come to completion at the end of 2014:

- A. **Organization:** FAO internal processes are supported by the September 2012 FAO decision to establish the role of Chief Statistician based in the Economic and Social Development Department (Statistics Division). A priority task is taking the necessary actions to implement this decision in a manner that can support the cross-cutting nature of SEEA-AGRI. This will include setting the FAO internal interdepartmental coordination mechanisms that can support each of the five stages. From an FAO external perspective the October 2012 meeting of the London Group on Environmental Accounting provided a forum for establishing an informal group of experts, soliciting views on the scope of the project, and obtaining commitments on specific contributions.
- B. **Conceptualization:** Reviewing, revising and expanding the definitions and classifications used in relevant FAO datasets is an essential element of FAO efforts aimed at developing a SEEA-AGRI framework. Similarly, a stock taking and evaluation of developing and emerging market country specific examples in terms of Agriculture, Forestry, and Fisheries accounts, respectively, that can inform and serve as an input to SEEA-AGRI development will be conducted. Alignment with other SEEA extensions and relevant regional (e.g., E.U.) work will also be established. This involves development of the related physical flow, environmental activity, and asset accounts for land, water and energy, as relevant, along with a preliminary articulation of an integrated presentation of these. Where appropriate, relevant elements of the additional portions of the SEEA, namely Experimental Ecosystem Accounts and relevant Applications and Extensions (SEEA Water and SEEA Energy) will be used to expand and elaborate on the methodological guidance included in the SEEA Central Framework. A key feature of this initiative is the leveraging of diverse FAO datasets, datasets maintained by national authorities available on-line, and data of other international organizations and their standardization to common SEEA-related concepts and definitions pertaining to the agriculture sector, broadly defined as crops, livestock, aquaculture and agroforestry.
- C. **Consultation:** *IICA members are asked to consider contributing to this role,* which will also include London Group experts from national statistical agencies and other international organizations. The SEEA-AGRI subgroup of the London

Group is intended to meet twice supported by quarterly teleconferences, while the FAO Internal Governance Meetings (IGM) should occur on a monthly basis. Both forms of consultation are intended to provide an on-going forum for review, comparison and discussion of methodological work underway towards development of the SEEA-AGRI accounts.

- D. Pilot application and feedback:** FAO will work with two pilot countries from APCAS and AFCAS members, respectively, supplemented by an additional country from the Latin America/Caribbean region. Pilot applications will illustrate the data demands, technical capabilities, and the analytical possibilities to be derived from the *minimum required*, *recommended*, and *desired* SEEA-AGRI datasets to be outlined in the final document prepared.
- E. Drafts and final document:** This will be an iterative process, informed by stages A-D above. It is expected that a final draft of SEEA-AGRI will be ready by the end of 2014 and then be submitted to the United Nations Statistical Commission.

6. Conclusions and points for discussion

One of the characteristics of the SEEA is its implementation flexibility. A core *minimum required* dataset account should be conceived as a complete system which is internally consistent with the Central Framework, but designed such that it can be implemented equally well in part or in whole. Depending upon the specific issues faced, a country may choose to implement only a selection of the accounts included in the SEEA-AGRI. Even if a country desires eventually to implement the full *desired* dataset system, it may decide to focus its initial efforts on those accounts that are most relevant to the issues it wishes to address. The proposed outline for the SEEA-AGRI is structured as follows:

- Chapter 1. Introduction
- Chapter 2. From SEEA to SEEA-AGRI: The framework
- Chapter 3. Asset accounts
- Chapter 4. Flow accounts
- Chapter 5. Expenditure and transaction accounts
- Chapter 6. Macroeconomic aggregates and other indicators
- Chapter 7. Extensions and policy applications
- Chapter 8. Valuation of agricultural services and environmental costs and benefits
- Annex 1. Standard tables (including numerical examples)
- Annex 2. Complementary tables (including numerical examples)

One of the main concerns is that a great deal of data may be required to implement the accounts pertaining to a *minimum required* dataset SEEA-AGRI and these data may not completely exist in many developing and emerging market countries. Furthermore, the accuracy of the data collected is usually filled with uncertainties. These are known shortcomings of the basic data and core indicators currently provided by countries already managed at the global level by FAO and published through FAOSTAT. In this regard, the experiences of IICA member countries in developing Environmental Accounts would be very interesting to know about and share with our countries. The United Nations Statistics Division (UNSD) is coordinating the capacity

development on the SEEA-CF, which will be undertaken in this region starting in 2013. IICA members should contact UNSD for further information.

IICA members are asked to express their views on:

- The proposed scope and coverage of the SEEA-AGRI to be developed by FAO;
- The proposed SEEA-AGRI development strategy;
- The proposed summary outline of the SEEA-AGRI methodological document;
- Their interest in participating in the SEEA-AGRI development work, and advise any previous or on-going work pertaining to environmental-economic accounting for agriculture, forestry, and/or fisheries that could inform SEEA-AGRI development;
- Do they build indicators and publish analyses from environmental accounts?

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Table 1. The SEEA-AGRI and the linkages with the dimensions of the GSIARS

Dimensions of agricultural statistics data requirements				
	Asset accounts (SNA)	Flow accounts	Expenditure and transaction accounts	Macroeconomic aggregates and indicators
Economic dimension				
Crops and livestock	Product stocks and resource stocks, as well as capital stock such as equipment, buildings, irrigation systems.	Inputs for production, outputs from production, agroprocessing, prices, final consumption. Value of imports and	International transfers, government expenditures, private expenditures, rural expenditure, infrastructure expenditure.	GDP and NDP for the agricultural sector
Forestry and logging				
Fishing and aquaculture				
Environmental dimension				
Water	Changes in water quality, changes in water availability.	Abstraction and consumption of water by the agricultural sector and subsectors. Flows of pollutants emissions	Expenditures according to CEPA and CEM. Economic instruments and environmental transactions within the agricultural sector.	Adjustments of the macroeconomic aggregates. Depreciation by depletion, degradation and defensive expenditures accrued to the agricultural sector. Intensity and efficiency indicators of resource use.
Land cover and use	Changes in land cover and land use (possible to register ecosystems associated with land). Changes in landscape.	Agricultural sector land use according to subsector.		
Energy	Use of stocks of agriculture food product land for biofuels. Energy plantations	Biofuels production and consumption. Firewood use.		
Climate change	Associated with land cover and land use. Changes within agriculture (i.e. from crops to livestock)	Emissions of GHGs and energy supply and use for the agricultural sector. Firewood use.		
Soil	Changes in soil composition and attributes	Soil losses and gains according subsectors.		
Wastes		Generation of waste and disposal of wastes from agricultural activities		
Biodiversity	Changes in biodiversity due to agricultural activities.	Activities within the sector that contribute to biodiversity maintenance.		
Social dimension				
Food security	Food availability, household capital stocks	Food consumption in terms of calories and nutrients available and consumed.	Public investments	Efficiency indicators and indicators of wellbeing.
Poverty reduction		Income of rural households from the agricultural sector		
Risk and vulnerability	Capital stocks	Commodity prices.		
Gender		Sex distribution factors.		

Based on WB, UN, FAO (2011)