



Proposed Recommendations Document: 1.23 Environmental classifications within GFS

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: WS.12 Environmental Classifications Draft 2025 SNA and Draft BPM7	
Global Consultation(s):	SNA Consultation: January 2023
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	AEG: October 2023 ; March 2023 ; October 2022 ;
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: <p>The proposed recommendations aim to improve the availability of government's environment related flows by aligning the updated GFSM with the draft 2025 SNA and by enhancing existing guidance on the use of GFS for environment related analysis. Key recommendations for updating the <i>GFSM 2014</i> include retaining the current reporting options for environmental taxes and introducing categories for environmental grants as climate financing sources, and including environmental, social and governance (ESG) and green financial instruments in supplementary reporting. Additionally, the recommendations propose the integration of renewable and non-renewable resources into GFSM's stocks and flows. Finally, the proposals recommend broadening the existing text in <i>GFSM 2014</i> Appendix 7 to other sources of government environmental statistics.</p>	

Background and Issues

1. The emergence of issues related to the environment and climate change has underscored the need to update statistical frameworks that measure and support the analysis of these issues. Frameworks such as the System of Environmental Economic Accounting - Central Framework (SEEA CF) and Classifications of the Functions of Government (COFOG) have embarked on update processes to accommodate the increased demand for statistics which measure these issues and highlight their interactions with the economy. Furthermore, the 2008 SNA and BPM6 update processes reviewed the inclusion of environmental classes in their classifications. Given the role of the government in addressing

environment and climate change issues, as well as the fiscal risks they pose, it is necessary to consider the resulting user demand in the context of the *GFSM 2014* update.

2. Many of the mechanisms by which economic behavior is influenced toward meeting environmental policy objectives involve payments to government, most commonly in the form of taxes, permits, and rent; and payments by government in the form of subsidies and other transfers. These transactions are recorded in the GFS framework but are generally not separately identifiable as relating to the environment – such data would need to be identified separately in the underlying source data. For example, subsidies provided by the government for the purposes of environmental protection are recorded under *Subsidies (GFS Code 25)*, which is only disaggregated by the recipient sector. Consequently, users looking to discern how much a government provides in subsidies for environmental protection, cannot directly obtain this information from the standard presentations of the *GFSM 2014* framework.

3. In contrast, the *GFSM 2014* (Tables 5.2 to 5.5) offers the option for compilers to include ‘of which’ lines for environmental taxes, under each tax category. Revenue includes the category of *pollution taxes (GFS Code 114522)* which includes “*taxes on pollution levied on the emission or discharge into the environment of noxious gases, liquids, or other harmful substances...*” (para. 5.81). However, the explicit identification of environmental revenues is restricted to taxes and rent. Likewise, users are unable to identify whether any grants or financial assets and liabilities may be related to climate finance. Sources of climate financing typically includes contributions from international organizations and foreign governments, often through grants or financial instruments. Additionally, government’s climate financing may also be sourced from the private sector. Some of these gaps are addressed through COFOG and SEEA CF, which present government expenditures and revenues aimed at environmental protection. Notably, SEEA CF aligns its data with the economic classification of the SNA and is therefore broadly consistent with the *GFSM 2014*, while COFOG can be cross-classified to economic classifications. The existence of reporting frameworks such as SEEA CF and COFOG reduces the need for extensive changes to the *GFSM 2014* to facilitate the availability of environmental data for users. Moreover, the *GFSM 2014* incorporates the COFOG and promotes the reporting of environmental taxes and transfers in line with the SEEA CF.¹

4. Similar limitations in the 2008 SNA prompted a review of environmental classifications during the manuals’ update processes. Guidance note *WS.12 Environmental Classifications* made several recommendations to improve the availability and granularity of environmental data within the SNA framework and were considered alongside changes that broadened the asset boundary of natural resources. The relevant changes made to the SNA can be summarized as:

- Including ‘of which’ categories for environmental, social and governance (ESG) and green instruments (debt securities, loans, and equity and investment fund shares), for supplementary reporting.

¹ See *GFSM 2014* Appendix 7, paras. A7.115-A7.134.

- Introducing sub-classes of natural resource rent to separately identify rent related to non-renewable mineral and energy resources, renewable energy resources, biological resources, water resources, and other natural resources.
- Introducing a class of government taxes for emission permits and other carbon taxes.
- Including a non-renewable mineral and energy resources, and renewable energy resources class into the SNA classification of stocks and flows.
- Including definitions of environmental taxes and subsidies, in line with the *2012 SEEA CF*, and encouraging users to report this information.

Proposed Recommendations

5. The updated GFSM should maintain consistency with the draft *2025 SNA* and should aim for consistency with any revisions decided through the *SEEA CF* and *COFOG* update processes, where possible. The proposed recommendations for updating the *GFSM 2014* are as follows:

- Maintaining the existing 'of which' reporting options for environmental taxes, while also maintaining the inclusion and definition of 'pollution taxes' in the main GFSM framework.
- Introducing 'of which' categories for environmental grants receivable and payable, given the relevance of grants as a source of climate financing, particularly from international organizations and foreign governments.
- In line with the draft *2025 SNA*, including 'of which' categories and definitions for ESG and green instruments for debt securities, loans, and equity and investment fund shares for supplementary reporting (as described in draft *2025 SNA* (Table 35.3 and paras. 12.151-12.152)).
- In line, with the draft *2025 SNA*, introducing sub-classes of natural resource rent to include non-renewable mineral and energy resources, renewable energy resources, biological resources, water resources, and other natural resources.
- In line with the draft *2025 SNA*, including non-renewable mineral and energy resources, and renewable energy resources classes into the GFSM classification of stocks and flows. The final classification should be based on the outcomes of GFSM research project 2.19 *Accounting for natural resources and their exploitation in GFS*.
- Updating and expanding the existing text in *GFSM 2014* (Appendix 7), on the relationship of GFS with the *SEEA CF* to discuss how users and compilers can use GFS for environment-related analysis, thereby broadening the discussion to other sources of government environmental statistics (e.g. environmental protection expenditure accounts, G20 Data Gaps Initiative 3 (DGI-3) recommendations 6 and 7).

Rationale for Proposed Recommendations

6. The proposed recommendations aim to harmonize the updated GFSM with the draft *2025 SNA*, a key objective of the *GFSM 2014* update process. Additionally, the proposed recommendations consider the unique demands of fiscal data in the context of environmental and climate change issues and aims to balance this with compiler burden. The proposed recommendations also consider progress with the update of *COFOG* and *SEEA CF* in the update of the GFSM.

7. Analysis of the fiscal costs of climate change typically focuses on government policies related to mitigation and adaptation, along with the costs associated with responding to climate related disasters. This focus is particularly relevant as many governments have committed to reducing greenhouse gasses, highlighting climate finance needs, especially for developing countries. As such, a dedicated annex that explains how the GFSM can be used alongside other frameworks for environmental analysis can support emerging user needs in this area.

Proposed Text for GFSM Update

8. Proposed text or source of text by proposed recommendation:

Proposed recommendation	Proposed text / source of text for GFSM update
'of which' categories for environmental grants receivable and payable	Including the following footnote in Table 5.7, for 1311, 1312, 1321, 1322, 2611, 2612, 2621, 2622. <i>Further breakdown/"of which" lines could allow for the identification of those grants related to environmental purposes</i>
Including 'of which' categories for ESG and green instruments	Table 35.3 in the draft 2025 SNA to be included in the dedicated annex for GFS and environmental analysis. Drafters may also decide to include a reference to these instruments in the main chapters. Definitions for the supplementary instruments to be adapted from draft 2025 SNA paras. 35.119-35.126
Introducing sub-classes of natural resource rent	Based on the final classification and text included in the draft 2025 SNA.
Including a non-renewable mineral and energy resources, and renewable energy resources class into the GFSM classification of stocks and flows	Based on the final classification and text included in the draft 2025 SNA.

Additional References

2025 SNA Table 35.3 Reporting structure for ESG and green financial instruments

AF.3 Debt securities	<i>Of which:</i> ESG debt securities <i>Of which:</i> Social debt securities <i>Of which:</i> Green debt securities <i>Of which:</i> Sustainability debt securities <i>Of which:</i> Sustainability-linked debt securities <i>Of which:</i> Other ESG debt securities
AF.4 Loans	<i>Of which:</i> ESG loans <i>Of which:</i> Green loans
AF.5 Equity and investment fund shares/units	

AF.51 Equity	<i>Of which:</i> ESG equity <i>Of which:</i> Green equity
AF.52 Investment fund shares/units	<i>Of which:</i> ESG investment fund shares/units <i>Of which:</i> Green investment fund shares