



Introduction to Wealth Accounting

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Wealth Accounting and the Valuation of Ecosystem Services
www.wavespartnership.org



Outline

Why should we measure and track wealth?

How do these measures relate to the SNA and SEEA?

What is the World Bank's approach to wealth accounting?

Overview of first two days of training

**“What we measure affects what we do;
and if our measurements are flawed,
decisions may be distorted.”**

Stiglitz, Sen and Fitoussi (2009)



GDP and Wealth

Gross Domestic Product (GDP) – an important macroeconomic indicator for a country's health and economic performance

“GDP tells you nothing about sustainability. [...] No one would look just at a firm's revenues to assess how well it was doing. Far more relevant is the balance sheet, which shows assets and liability. That is also true for a country.”

- Joseph Stiglitz, “Good Numbers Gone Bad”, October 2006

GDP growth is not necessarily correlated to wealth creation

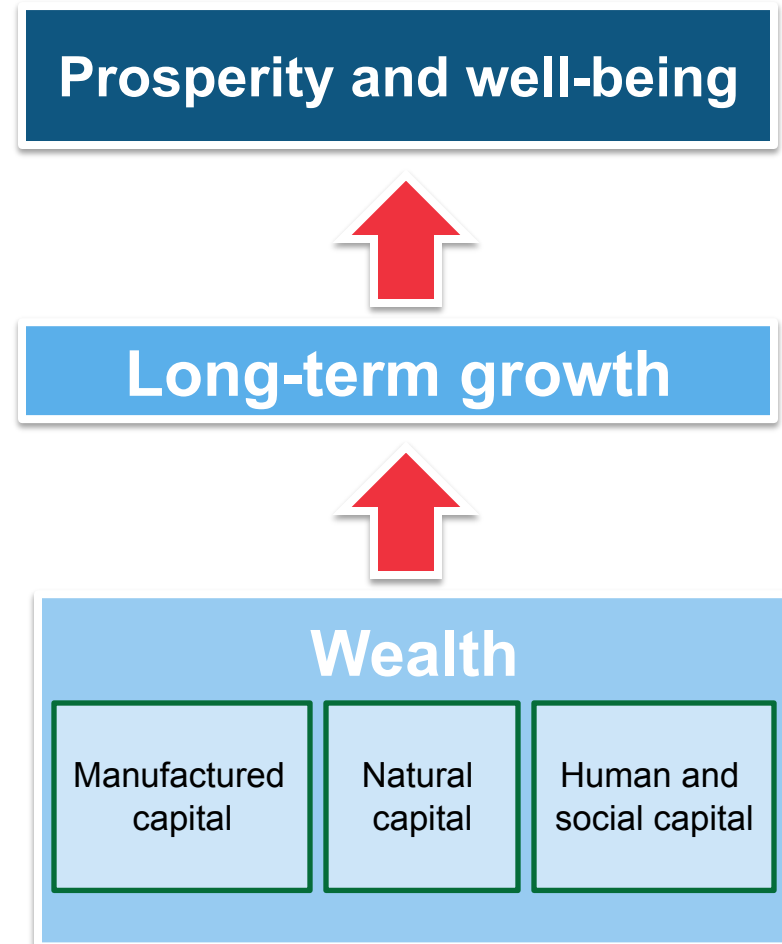
Rapid GDP growth could be driven by the depletion of non-renewable resources

Why Measure Wealth?

Change in GDP tells us if growth is occurring, **changes in wealth tell us if growth is sustainable**—that is, whether this is long-term growth.

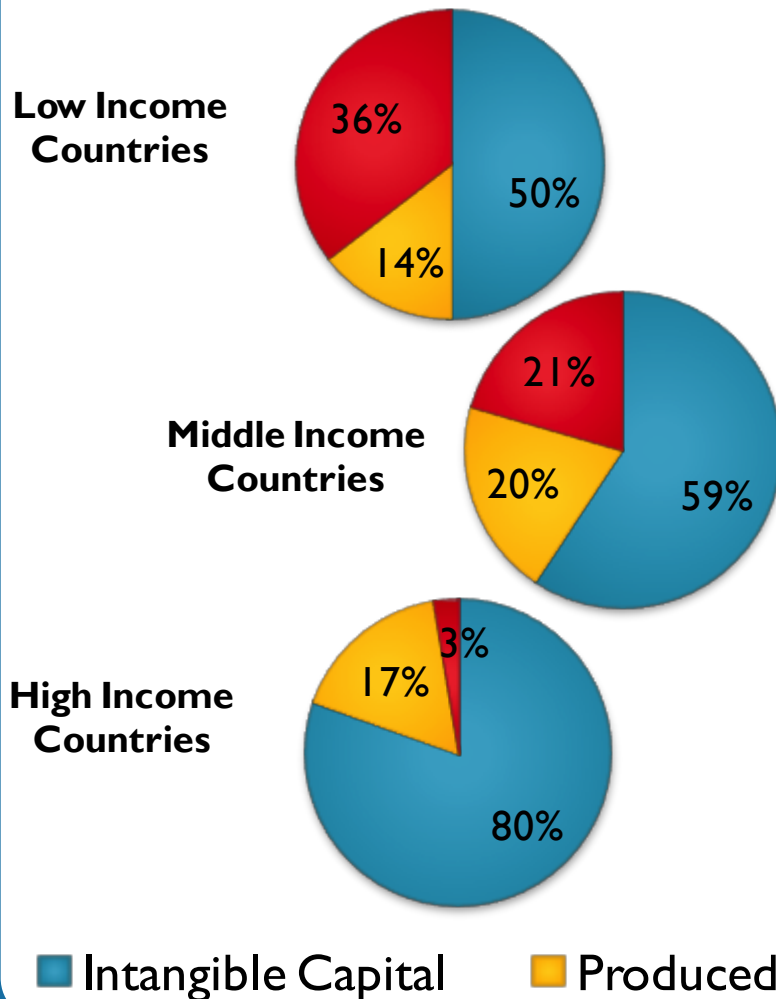
Economic development is a process of **building wealth** and managing this portfolio of assets

Only a small number of countries compile **wealth accounts**, and even **fewer include natural capital**



Wealth: A Global Perspective

Shares by country income class, 2005



Intangible wealth—human and social capital—dominates in all countries

...but

Natural capital is especially important in low income countries—averaging 36%, and in some countries more than 50% of wealth

Source: Changing Wealth of Nations (2011), World Bank.

SNA and SEEA

System of National Accounts (SNA) is framework for the measurement of economic activity, economic wealth, and the general structure of the economy

System of Environmental-Economic Accounting (SEEA)

Central Framework describes interactions between the economy and the environment, and the stocks and changes in stocks of environmental assets

- **SEEA-CF applies the accounting concepts, structure, rules, and principles of the SNA to environmental information**

A Historical Perspective

YESTERDAY

The System of National Accounts was embraced in 1950s because of the confluence of three elements:

A sound theory: Keynesian macroeconomics

A clear methodology: the SNA framework

Willingness by policy-makers to pursue a policy goal: economic growth and full employment

TODAY

In order to successfully develop an Environmental Accounting practice we will need the same:

A sound theory: Capital approach to sustainable development

A clear methodology: the SEEA framework

Willingness by policy-makers to pursue a policy goal: sustainable development

Wealth Accounting at the World Bank

Comprehensive wealth accounts

- 1995, 2000, 2005 for more than 120 countries
- Update forthcoming, annual series 1995-2012



Total Wealth:

- Manufactured + Natural + Human & Social Capital

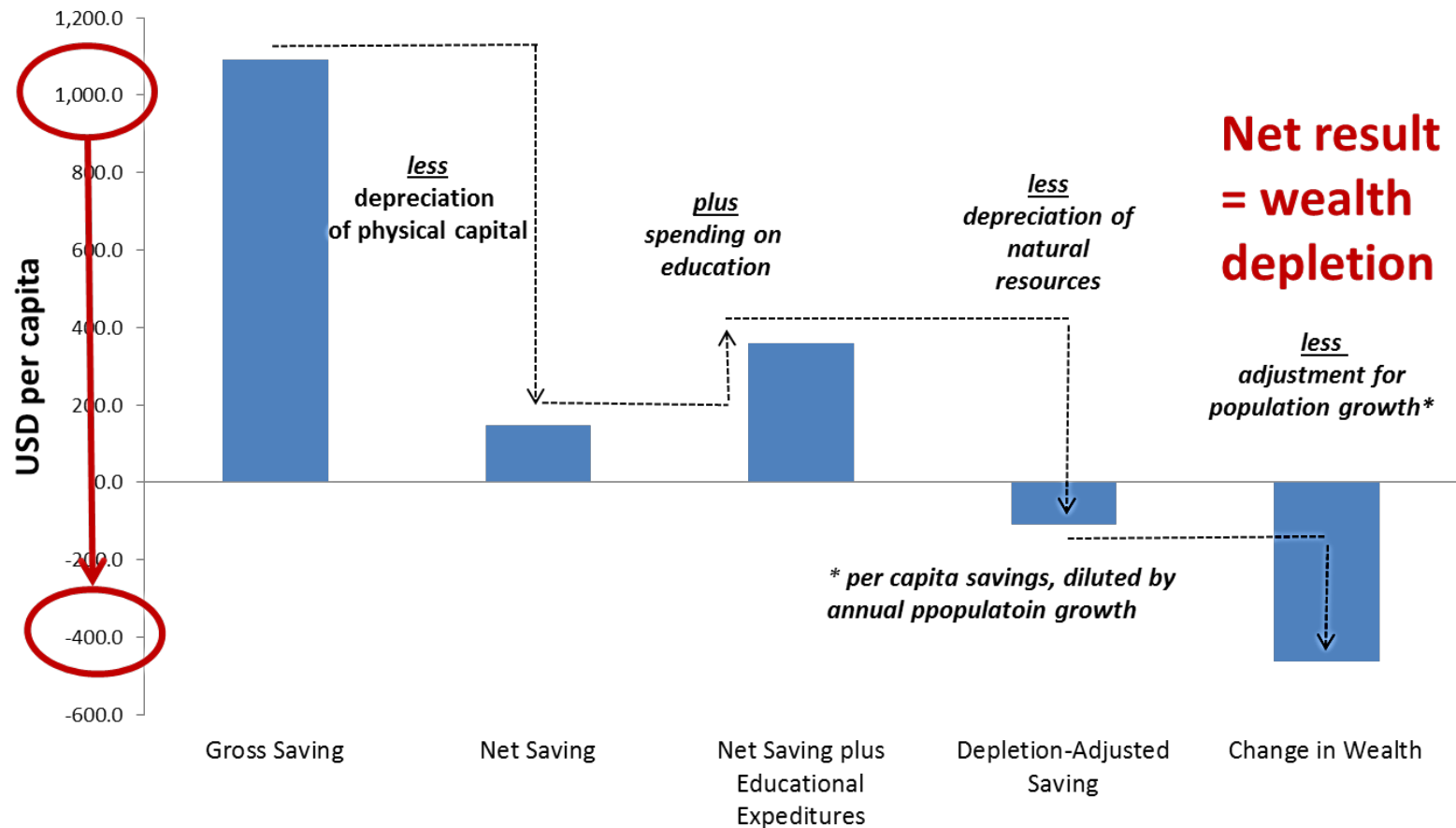
Changes in wealth—Adjusted Net Saving, calculated annually



Provide better indicators for monitoring sustainable development and prospects for long-term growth

Indicators of sustainability: Changes in wealth per capita

Calculating changes in total wealth per capita in Columbia, 2010



Indicators of sustainability: Policy implications

1. Increase the level of savings

2. Improve the quality of physical/
built capital

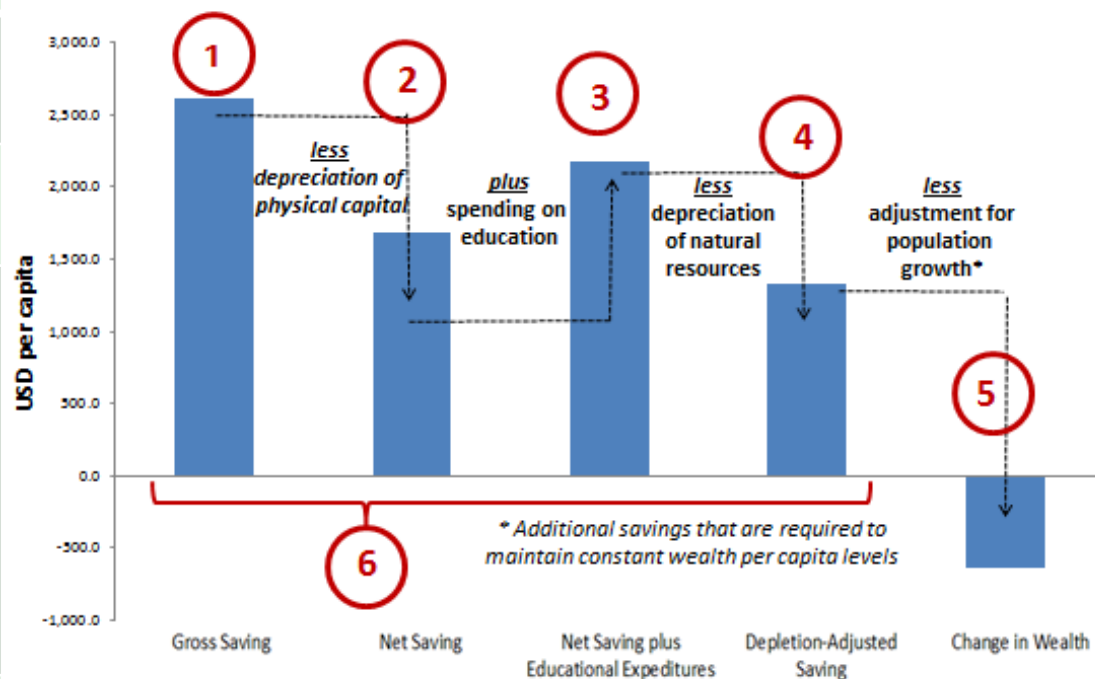
3. Increase spending on education
and innovation

4a. Invest in the quantity of natural
capital (some new resources, e.g.
minerals and fossil fuels, can be
discovered and the stock
expanded)

4b. Invest in the quality of natural
resources (such as land)

5. Higher population growth rates
dilute a country's total wealth.

6. Increase total factor productivity



WB Wealth Accounting: Applications

World Bank indicator

Sustainability indicator in WBG Corporate Scorecard

IDA-17 Results Measurement Framework

Inputs in Systematic Country Diagnostic (SCD)

Underpins Country Partnership Framework
(WB's new country engagement model)

Country analytical work

Morocco, Mauritania, Guinea-Bissau, etc.

Wealth Accounting and Valuation of Ecosystem Services (WAVES) Global Partnership

Natural capital accounting



WB Wealth Accounting: Benchmarking

Ongoing scoping studies to benchmark wealth estimates:

- Subsoil assets
- Agricultural land
- Forest resources
- Air pollution damages
- *Physical capital*

Work in other areas:

- Fisheries
- Human capital
- Review of general assumptions (e.g., time horizon)

Overview of Training (Day 1 and 2)

Construct Adjusted Net National Income

Start with indicator within SNA boundaries:

Construct Adjusted Net Saving

Where some components are not within SNA boundaries

Construct Comprehensive Wealth Accounts

Start with SNA and SEEA concepts

Consider other components beyond SNA/SEEA
(e.g., human capital, ecosystem services)

Overview of Training (Day 1 and 2)

Review basic concepts and calculations for each indicator – so take note of:

Data sources/availability

Assumptions in methodology

What is relevant/important for the Philippines?

Remaining questions and challenges

Note: World Bank methodology as *illustration*

Day 3 will provide specific country examples,
as well as policy applications

