
NATURAL CAPITAL ACCOUNTING FOR BETTER POLICY

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Background Note on Natural Capital Accounting by Business and Government¹

Natural capital accounting is being used and promoted by businesses and governments around the world as a way of better managing the impacts of people on nature. While there is much commonality in the approaches to natural capital accounting used by business and government there are also some differences. These are presented in Table 1 below:

Table 1: Comparison of natural capital accounting by business and government

	Business	Government
History	Around for centuries. Pacioli treatise of 1496	Grew out of business accounting and macro-economic theory.
Scope	A single economic agent – e.g. a particular company	Entire economy – all business, government, NGOs and households
Key concept	Records the transactions of a particular economic agent. Records the stocks and the flows of natural resources. Can be physical or monetary. Double entry system.	Records the entries by both parties to transactions, hence quadruple entry – both economic agents
Size of profession	Huge number of professionals across the world in government, business and NGO	Very small number of professionals nearly all in government
Path to profession	Clearly defined higher education path. Taught at most universities	Not taught at universities and path to profession through specialist areas of national statistical agencies or central banks

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International standards for NCA	Still emerging. Many countries are undertaking projects to develop national standards. Early adopters include Netherlands, France and the Philippines.	As defined by the System of Environmental-Economic Accounting (SEEA). Begun in 1993 completed in 2012
Used by	Used by a relatively small but growing number of companies	Used by a relatively small number but growing number of countries
Used for	Understanding supply chain dependencies, risk management, market advantage for both: (a) sales and (b) current or future investors	Compliment to traditional economic measures (e.g. GDP), development planning, modeling (e.g. input-output analysis and forecasting)
Presentation of traditional financial and national accounts	Usually as financial statements as an Annex to Annual Reports or similar documents that reflect on the year and chart a path for the future	As a set of accounts with limited reflection and interpretation and no future pathways explored (left to other parts of government)
Presentation of natural capital accounts	Can be with Annual Reports and the traditional accounts, but often in separate reports (e.g. sustainability reporting)	Natural resources in a few countries national balance sheets but most as separate documents of environmental-economic accounts
The starting point	Inputs including water, energy, timber, fish and land, pollution generation (e.g. CO2 emissions, wastewater), environmental protection and management expenditure	Inputs including water, energy, timber, fish and land, pollution generation (e.g. CO2 emissions, wastewater), environmental protection and management expenditure
Challenges	Accounting for biodiversity and ecosystem inputs and impacts	Accounting for biodiversity and ecosystem inputs and impacts

References

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