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## ECONOMIC COMMISSION FOR EUROPE

### CONFERENCE OF EUROPEAN STATISTICIANS

Joint UNECE/OECD/Eurostat Working Group on Statistics for Sustainable Development

Third meeting

Geneva, 19-20 April 2006

### REPORT

## INTRODUCTION

1. The joint UNECE/Eurostat/OECD Meeting of the Working Group on Statistics for Sustainable Development (WGSSD) was held in Geneva from 19-20 April 2007. It was attended by Austria, Belgium, Canada, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Lithuania, Luxembourg, The Netherlands, New Zealand, Norway, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom. The European Commission (Eurostat, DG ECFIN, and DG INFSO), and the United Nations Economic Commission for Europe (UN ECE) attended. The meeting was opened by Mr. Brüngger, director of the ECE Statistical division, who pointed out the tasks of the working group:

- Map common denominators in existing approaches and establishment of facts related to current policy oriented approaches.
- Carry out methodological work on measurements of sustainability through the capital approach.
- Prepare a report on the findings to CES and OECD. Deadline for the draft report should be December 2007. The Annual meeting of the CES is planned for June 2008. The report should be available for consultation with the 62 member states before that. This can result in new and additional recommendations.

2. The provisional agenda was adopted.

3. Mr. Robert Smith (Canada) chaired the meeting.

## ORGANIZATION OF THE MEETING

4. The following substantive topics were discussed at the meeting on the basis of the contributed papers and presentations from the participating countries/organizations:

- (a) Reports of the subgroups;
- (b) Capital and development: a conceptual and practical framework for measurement and policies;
- (c) Review of the annotated outline of the final report;
- (d) Human capital;
- (e) Equity issues in the capital approach;
- (f) Natural capital;
- (g) Commonalities in existing indicator sets;
- (h) Social capital;
- (i) Policy implications of the capital approach.

5. On the first day of the meeting the Working Group split into two groups. The aim of the first group was to define in conceptual terms the capital approach to measuring sustainable development and the aim of the second group was to define what constitutes a ‘sustainable development indicator’, how indicator sets are to be selected for review, and how ‘commonalities’ are to be determined.

### **SUMMARY OF THE MAIN CONCLUSIONS REACHED AT THE MEETING**

6. The meeting reached the following main conclusions:

- (a) Reports from the two sub-group meetings

#### *Subgroup on capital approach*

7. The subgroup reviewed the terms of reference. The terms of reference remains appropriate with one suggestion for an additional item on identification of the indicator domains and list of indicators. The tasks of the sub-group can be summarized as follows (comments on status and plans in parenthesis):

- (i) define clearly in conceptual terms the capital approach to measuring sustainable development; (T. Moe has done this.)
- (ii) review the existing approaches to the measurement of aggregate capital, including the approach advocated by the World Bank; (not done so far)
- (iii) define the relation of produced and financial capital to sustainable development within the broader capital approach; (already well articulated, not much effort required from our side)
- (iv) define natural capital as clearly as possible in conceptual terms and identify issues that will require research for the purposes of our report; (annotated outline from R. Smith presented and discussed. Agreed it would serve as a useful outline for the report section on natural capital.)
- (v) define human capital as clearly as possible in conceptual terms and identify issues that will require research for the purposes of our report; (paper prepared by M.

Greaker presented and discussed. Revised paper to be used as the basis for an annotated outline on human capital for the next meeting in November)

- (vi) define social capital as clearly as possible in conceptual terms and identify issues that will require research for the purposes of our report; (much remains to be done; New Zealand, Germany and the Czech Republic agree to lead further thinking on this point. Contributed paper by the Czech Republic on human and social capital agreed to be a useful summary of the literature)
- (vii) study the ways in which equity issues might be dealt with within the capital approach; (Further work required, to be lead by Switzerland. A fuller paper will be prepared for the next meeting.)
- (viii) identify the policy implications of the capital approach; (practical implications. Paper from Smith.)
- (ix) identify the linkages between the capital approach and extended systems of national accounts (e.g. the SEEA). (Not much done so far. Will have to decide how to present this. Germany has done some thinking on SD-accounting linkages).

8. The subgroup discussed each of the capital types, starting with natural capital. The paper on natural capital (WP9) was well written. The following suggestions for improvement were made:

- introduce the concept of the precautionary principle;
- review the controversial nature of evaluation methods when measuring natural capital;
- define the natural capital in broader terms in order to include both market and non-market terms of measurement; and
- explicit recognition of the need for both physical and monetary measures.

9. The paper on human capital was also reviewed. The paper omitted to mention health. The paper should more clearly distinguish between the input- and output-based approaches. It was suggested that the output-based approaches are more appropriate but in some countries it can lead to underestimation of the human capital.

10. One should make a distinction between contributions from human capital to the economy and contributions to wellbeing. We should be coherent and consistent across different types of capital with regard to market and non-market related types of capital.

11. Discussion on whether to measure the human and social capitals concluded that they should be considered separately. In addition, social capital indicators need to be defined. A useful distinction was noted: Human capital is mainly about individuals, while social capital is about society. Social capital can perhaps be seen as a glue/grease value that allows human capital to function effectively. We must bear in mind that our mandate asks us to include social capital, but only as far as conceptually sound.

12. Equity was highlighted as important for sustainable development. The Scandinavian model to development, which put relative emphasis on equity, was proven to be robust and showed that equity matters. Some suggested that equity could be considered as a component of social capital. Thinking further of social capital and equity is a part of the future challenges.

In summary, work in the coming months consists of:

- Cleaning up paper on natural capital (R. Smith)
- Cleaning up paper on human capital (M. Greakter)
- Write a note on equity issues (A. Scheller)
- Developing the social capital area (R. Millicich, J. Thomas and S. Czesany)
- Development of indicator domains – Leave it to the fall.

#### ***Subgroup on commonalities***

13. The group reviewed the concept of commonalities: status of indicators sets, frameworks, number of indicators and tiers, themes and sub-themes, domains, indicator definitions, short term or long term, whether to classify as capital or not capital.

14. The group also reviewed the potential existing/planned reviews of the indicator sets: Eurostat study, Julie Hass report, Statistics Netherlands literature review, and UNCSD questionnaire.

15. The group agreed that, on the basis of the mentioned material, the SDIs will be reviewed, processed and a summary report on commonalities will be prepared. The report will then be validated with the help of the UNECE secretariat for all country members of the CES.

(b) Capital and development: a conceptual and practical framework for measurement and policies

16. The meeting agreed that:

- a conceptual framework for sustainable development measurement must recognize explicitly that welfare is generated in societies both by activities that are market-based and those that are not;
- the presentation of the existing empirical approaches to the measurement of national wealth needs to recognize their exclusion of non-market sources of welfare.

17. The meeting also considered that, from a capital perspective, there is no basis for inclusion of GDP as an indicator of sustainable development.

18. The concept of national wealth in its broadest sense includes in principle everything of relevance to wellbeing. Measurements will, however, be only partial in practice. We should be selective in choosing indicators and avoid the temptation to define the whole program for official statistics as indicators of sustainable development.

19. It was also noted that the capital approach is ‘scalable’, i.e. can in principle be applied at a local, national as well as a global level.

(c) Review of the annotated outline of the final report (WP6)

20. The tone, the technical level and the length of the report were discussed. The participants were comfortable with the tone and supported the technical level. It was suggested to include concrete examples that will help the non-experts. Furthermore, the report should include an executive summary for non-experts and the general public. About 100 pages seems to be the comfort level; however, the meeting agreed that the report should be as long as it needs to be.

21. The titles of chapter 3 (add ‘existing SDI set’, drop ‘framework’) and chapter 6 need to be changed and possibly section 2.3 will be repositioned after chapter 3. In principle, there was general support for the structure of the report.

22. One suggestion was to have section 6.1 as a separate chapter and to remove “good” from title of section 6.1. The title of chapter 6 should be rethought, as one would not expect to find main conclusion in a chapter with its current title.

(d) Human capital

23. The human capital has to be defined in wider terms. The meeting identified a dilemma as to whether the input- or output-based approach in measuring human capital is preferable. The meeting also noted that the approaches to the calculation of human capital used by the World Bank and Statistics Norway are not fully sufficient. The meeting agreed that more sophisticated approaches such as the output approach developed by Jorgenson and Fraumeni, and possibly other input approaches should be considered.

24. A treatment of non-market aspects of human capital is missing in the document prepared by Statistics Norway. It was suggested that this be added.

25. It was noted that there could be some inconsistency in the treatment of human and produced capital if the former is measured from the output side while the latter is measured from the input side (investments). Consistency in measuring different types of capital is wished for.

(e) Equity issues in the capital approach (WP8)

26. The meeting agreed with the following points:

- equity between countries is equally important as equity between individuals;
- there are two different points of view with regard to equity and its relation to capital: one view is that equity matters both from intra- and inter-generational perspectives and the other is that equity of those living today is not part of sustainable development;

- equity is in one way or another related to the success of the society. Therefore, the WGSSD has to consider how to express this in a capital approach – is there a stock to measure or shall we measure equity as an input to the social capital?

(f) Natural capital

27. The meeting agreed on the following:

- the way the System of Environmental and Economic Accounting (SEEA) is discussed in the paper should be changed. SEEA should be used actively throughout the chapters, as this is an important reference. However, the report should discuss difficulties with its implementation;
- definition of natural capital needs to be modified to recognise that the question of ownership is not necessarily relevant from a conceptual perspective. Global environment assets not owned by any nation still remain assets;
- the problem of climate change needs to be handled in a stronger way;
- the question of monetary valuation needs to be treated more carefully;
- apply the same approach of presenting the natural capital to the other types of capital in the report;
- there are some concerns about the guidance that the capital framework provides on what should be measured and what should not, e.g. protection of animals. The capital approach will not answer every question related to the environment;
- the capital approach provides a macro perspective that is useful to signal the problem but does not solve the problem.

(g) Commonalities in existing indicators sets

28. There was general support for the proposed outline of chapter 3. However, several participants noted that the proposed outline is ambitious and long and there is a need for further reflection. Some concern was expressed about the sensitivity in identifying specific countries. The idea of identifying a “best hybrid set of indicators” was questioned and concern was expressed about the feasibility of objectively identifying a “best” set of indicators without good criteria. However, there is a need to identify indicators both to show the commonalities with, and potentially to supplement those indicators that come out of, the capital approach.

(h) Social capital

29. The group generally supports the inclusion of social capital in the final report and also considered the possibility of including cultural capital. It needs to continue to pursue thinking and discussion on this topic. Four lines of enquiry were suggested: institutional indicators, indicators of social services, indicators of trust in corporations, and composite indicators of the effect of human and social indicators. However, a number of participants noted that the use of composite indicators is rejected in official statistics when objective weights are not available.

30. Amongst the various possibilities to measure social capital, there seems to be a vigorous

interest in the institutional capital and the group on social capital should look into it.

(i) Policy implications of the capital approach

31. The meeting reviewed the proposed outline for the chapter on the policy implications. There was general support for the outline. However, the meeting recommended that the outline be revised with respect to the tone. A number of comments were expressed in support of the notion that the capital approach to the measurement of sustainable development could lead to some policy implications. Furthermore, it was stressed that official statistics could derive a considerable degree of legitimacy from the use of the capital approach in measuring sustainable development.

32. In particular it was pointed out that:

- Capital framework is rooted in formal theory, more difficult to be dismissive
- Capital indicators are less prone to political pressure
- Capital indicators help to focus on capital consumption, threats to SD
- Capital indicators make the tradeoffs between short term and long term issues visible

33. It was further stressed that statistical systems is a necessary but not sufficient requirement for ‘good policy’.

## **RECOMMENDED FUTURE WORK**

34. The WGSSD agreed that a fourth meeting of the joint Working Group would be organised in the autumn of 2007. Participants were informed that the next meeting is tentatively planned for 8-9 November 2007. The National Institute of Statistics of Romania has offered to host the meeting in Bucharest. A meeting of the Steering Committee is also tentatively planned for 27-28 September 2007 to be held in Ottawa, Canada.

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