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System of Environmental Economic Accounting

SEEA Central Framework 2028 update

Draft Guidance Note
C4: Primary and secondary purpose

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GUIDANCE NOTE Issue C4 “Primary and secondary purpose”

1 Introduction

General conceptual/measurement scope

1. The System of Economic-Environmental Accounts Central framework (SEEA-CF) is the international statistical standard for measuring the environment and its relationship with the economy. The basis of the framework is to classify as environmental those economic activities “whose *primary purpose* is to reduce or eliminate pressures on the environment, or to make more efficient use of natural resources”. Given the increasing interest of policymakers and stakeholders to identify and possibly introduce secondary purpose into the SEEA-CF, the aim of this **Issue C4 Note** is to provide guidance on these concepts and possibly introduce adjustments in the SEEA-CF to include environmental activities and/or transactions that have secondary environmental purposes.

2. In the SEEA-CF the concept of primary purpose serves two functions: first, to determine scope by establishing the boundaries of environmental activities, and second, to classify certain items of analytical interest within this scope, namely: environmental activities, environmental products and environmental expenditures. Although, the SEEA-CF acknowledges the importance of transactions other than those with a primary environmental purpose, it does not consider the concept of secondary environmental purposes explicitly, which are considered outside its scope.

3. The issue is how to deal with secondary purpose and the possible adjustments to primary purpose in a consistent manner. This relates not only to the SEEA-CF framework, but also the principles of functional classifications, therefore, there is a clear link between the classification of environmental activities based on primary purpose and other national accounts functional classifications, in particular, the Classification of Functions of Government (COFOG). These issues are discussed in turn drawing from the national accounts and statistical classification literature.

The SEEA-CF and the function of primary purpose and its limits

4. The first function of identifying environmental purpose in the SEEA-CF is to establish the boundaries of the System. This is inherent to SEEA-CF as the system boundary is set in terms of environmental purposes (section 2). Setting the boundaries for environmental activities in terms of primary environmental purpose is consistent with the current SEEA approach, and statistics are easier to produce and more accurately measured -within that definition. However, it generates at least two problems. First, estimates on transactions related only to what is defined as the environment based on the primary environmental purpose underestimates the size -and the general understanding- of what constitutes environmental activities and their related environmental products and transfers. For example, although the expenditure on afforestation can be considered to have an economic purpose, it also has environmental purposes, such as biodiversity protection, climate adaptation or mitigation.

5. Consequently, if the system boundaries are only based on primary environmental purpose, estimates on the share of the environmental sector are relatively low (e.g. 1-2% of the GDP for European EGSS) precisely because only a small set of activities considered “environmental” are identified. This low estimate does not seem consistent with the importance policymakers place on environment and sustainability, suggesting that identifying and estimating economic activities that have a secondary purpose that is environmental (e.g. public transport and low carbon transport, considering the secondary purpose of climate mitigation) or environmental activities that have additional and/or complementary environmental purposes (e.g. transmission and distribution of electricity or biodiversity protection, considering the secondary purpose of

climate adaptation) may be critical to understand the role and impact of the environment in the economy and vice-versa, as well as policy action on an issue that is of social and political relevance. The intention of this SEEA research item C4 is to enlarge the scope of the SEEA going beyond activities with a primary environmental purposes, with a view to make it more comprehensive. There are other SEEA research items that will also seek to make more comprehensive the scope of SEEA by other means, e.g. see C3.

6. The second function of environmental purpose in the SEEA-CF is to classify certain items within the SEEA-CF boundary, these are: environmental activities, environmental products and environmental expenditures. The SEEA-CF accounts classify these items according to different environmental categories, in the current SEEA CF 2012, by using the Classification of Environmental Protection Activities (CEPA).[2] This classification was designed to classify using the primary purpose criterion for a relatively small group of environmental categories -for example it does not include climate.

7. Furthermore, a framework built exclusively around primary purpose fails to record many increasingly interconnected economic, social and environmental challenges. It also does not correctly represent private and public action in a range of environmental issues and, specifically, how economic agents make choices based on those multiple purposes. For example, classifying the decision to protect a watershed as either one of biodiversity protection or alternatively as a decision of climate adaptation, misrepresents the action since the decision was made precisely because the transaction -the expenditure to ensure protection-achieves both objectives -or purposes- simultaneously.

8. Considering secondary purpose in the SEEA-CF, however, poses several questions and problems which has close connections with other SEEA statistics and classifications, and in particular how functional classifications in the System of National Accounts (SNA) are treated. Therefore, examining how purpose is dealt with in functional classifications provides guidance on how to deal with secondary purposes.

The meaning and problem with only using primary purpose in environmental systems

9. Governments record and classify a range of information related to public and private activities, economic transactions, and budgetary processes, these are often organised in classification and accounting frameworks. Accounting systems can be based on classifications that are structural or functional. Structural classifications refer to the intrinsic nature of the description of an agent, activity, product, or transaction, while functional classifications depend on why these have taken place.

10. Functional classifications use the primary purpose as the classification criteria. However, policymakers and other stakeholders are increasingly interested in identifying and classifying transactions that include multiple motivations or purposes within the same accounting framework (UN, 2025). This issue is especially relevant in the case of emerging policy concerns that have more than one objective or purpose -a primary and a secondary purpose- and where policymakers need to identify them coherently to support policymaking or inform the public.

11. Perhaps the clearest example is climate policy where policymakers need to identify and classify expenditures and other activities that are related to climate mitigation or adaptation but whose primary purpose is not climate, such as expenditures or activities related to renewable energy, forestry, energy efficiency and clean transport.

12. The interest in identifying and classifying economic activities according to multiple purposes poses a major methodological challenge. The key to statistical classifications is to determine a set of discrete, exhaustive

[2] This has been superseded by the new Classification for Environmental Purposes (CEP) (EUROSTAT, 2025), however, although the CEP has been adopted and should be fully adopted by SEEA-CF, it has yet to be implemented, so for the purposes of the analysis we draw on the documentation of the SEEA-CF that uses the CEPA and CREMA.

and mutually exclusive categories which can be assigned to one or more variables used in the collection and presentation of data, and which describes the characteristics of a particular population (Hancock, 2013). There is also a big practical challenge, namely, how to produce estimates of products/activities/expenditures by secondary purpose. For this government, a sound and consistent approach that may involve some form of tagging would be extremely useful.

13. For this, the principle of mutually exclusive and exhaustive classification is critical, since it ensures consistency and avoids double counting, and one of the core principles for statistical classifications endorsed by the United Nations Statistical Commission (Hoffmann and Chamie, 1999). This necessarily implies classifying under one and only purpose. The question then is how to ensure the consistency, comparability and robustness of statistical classification systems and international standards, specifically the SEEA Central Framework, while satisfying the demand of more complex information from policymakers which includes identifying and classifying activities considering more than one purpose.

The analytical challenge

14. Decisionmakers and citizens are confronted with a range of new interconnected economic, social and environmental challenges. A guide to understand current development concerns can be drawn from the Sustainable Development Goals (SDGs). What these suggest is that current development challenges and policy approaches are difficult to define within the framework of traditional sectoral policies, which underpin the current functional classification systems. This is certainly the case of climate change, but also the digital economy, gender or other policies to reduce discrimination. Often the only way to recognise government action and its intent in these arenas is precisely to identify the secondary purpose behind an economic transaction.

15. An accounting system, such as SEEA-CF, can be used to analyse the data and identify activities that have the environment as a secondary purpose. Accounting systems can meet specific data needs by providing more detail, by rearranging concepts from the central framework or by providing supplementary information.

Specific research question

16. The advantage of using established frameworks and classifications, such as the SEEA-CF or the Classification of Function of Government (COFOG), is that they effectively identify economic action within existing classification systems, facilitating a connection with broader statistical and accounting frameworks. However, by not providing guidance on the key issue of secondary purpose, the SEEA-CF is not responding to policymakers' specific needs. The evidence of this is the increasing proliferation of *ad hoc* classification systems such as budget tagging approaches that (e.g. BIOFIN, CPEIR, etc.), while responding directly to policymakers needs, are not conceived within a comprehensive accounting system, and therefore produce results that are not comparable across countries and even over time and, significantly, cannot be clearly connected to other economic information systems.

17. The SEEA-Central Framework provides critical information on environmental activities, however, given the nature of new environmental concerns and policies, it is limited. The key question then is whether it is possible to introduce a more complex approach to the classification of environmental activities and transactions that can recognise multiple purposes but maintain the coherence and principles of a comprehensive framework that has become an international standard.

2 Review of existing measurement and research

Functional classifications and primary purpose

18. The main discussion on the meaning of "purpose" in national and environmental accounting guidance and manuals is carried out in relation to functional classifications such as COICOP, COPNI, COPP, and COFOG. However, given its importance, it is surprisingly not discussed in detail. Functional classifications depend on the motivation or intent of the decision-maker that is: the purpose. They are treated in Chapter 18 of the SNA 1993 where the unit of classification is defined as "actual or imputed outlays made in connection with particular functions or to achieve a particular purpose" (SNA1993, p 18.6). However, the meaning and definition of primary purpose is not specifically discussed.

19. Similarly, Chapter 29 of the SNA 2008 defines functional classifications as "special classifications to analyse expenditures or more generally outlays, by different sectors according to the purpose for which the expenditure is undertaken" (p 29.9). It also identifies the four core functional classifications that are viewed to provide additional information for a "wide variety of analytical uses". However, how these classifications are determined -or how primary purpose- is defined is not discussed in detail.

20. Primary purpose is addressed implicitly in paragraph 29.50 (SNA 2008) where there is a brief discussion on general classification categories and satellite accounts. Here it is argued that, to preserve the principle of mutually exclusive classification and ensure consistency within a functional classification, "different satellite accounts, each with a different focus, may not be consistent with respect to other headings. For example, if an education satellite account treats some teaching done in hospitals as education rather than health, the measure of health in that satellite will differ from that in any other satellite where such a displacement has not been made." This is a recognition that satellite accounts can reorganise the same information under different categories based on different purposes. However, it does not discuss the idea of classifying transactions and activities based on both primary and secondary purpose, within the same classification structure and framework.

21. In UN (2000) a more detailed discussion of the four functional classifications is provided. Here "purpose" (and function previously) is understood to mean "the socio-economic objectives that institutional units aim to achieve through various kinds of outlays" (UN 2000, p5). Given the relevance of the Classification of Government Functions (COFOG), we discuss it in more detail. The use of COFOG is defined here as "to provide a wide range of statistics pertaining to expenditures by government, households, NPISHs and producers that experience has shown to be of general interest and amenable to a wide variety of analytic applications. For example, the COFOG shows government expenditure on health, education, social protection and environmental protection as well as on financial and fiscal affairs, external affairs, defence and public order and safety" (UN 2000, p10).

22. However, although the full classification is provided and there is guidance on how to deal with outlays that could have several individual transactions, how the primary purpose is defined and whether to recognise multiple purposes is only discussed implicitly. In the first case, paragraph 19 suggests that the criteria are to "assign all outlays by multifunction units to whichever purpose appears to account for the largest part of total outlays" (UN, 2000). In the second case, it states that "political objectives related to secondary benefits of economic expenditures to support specific economic activities, such as agriculture and manufacturing should not be conflated with the additional objective of income or employment support to disadvantaged groups" (p20-21). In effect this would suggest that functional classifications have no flexibility to deal effectively with additional purposes within the same framework and, further, a choice must be made to classify a transaction under one and only one purpose.

23. This issue is discussed explicitly in Eurostat (2019) where, to provide guidance on how to classify government expenditure under the COFOG, it states that some government expenditure may satisfy more than one function. “For example, a government supported programme to improve health by encouraging more people to participate in sport serves the functions of both health (07) and recreation (08). For the COFOG breakdown of total government expenditure it is important not to double count this expenditure so as to ensure consistency. In cases where there are no physical indicators available to split the total expenditure between the different functions, <u>only one function — the main function</u>, should be used (p 41, our underline). The concern then, following best practice, is to classify under one and only one category and to identify the primary purpose often deciding by using additional criteria considering the main function of the institutional unit that carries out the transaction.

24. There are several recommendations on how to identify the main function or purpose facilitating the classification: “if the main function is not clear, the nature of the government unit making the payments gives a good indication of the main function: for example, in the previous case, the ministry of health or the minister of sport” (ibid), but no allowance is made to explore the alternative of classifying under two functions, or what could be termed primary and secondary purpose.

25. This constraint is problematic, since policy responses, particularly on environmental issues, have evolved considerably in recent years. Environmental policies are no longer limited to environmental agencies focussing on financing a protected area or cleaning contaminated sites. Instead, environmental policies are viewed and implemented to encompass systemic whole-of-government approaches that consider how humans consume and produce, therefore often environmental policies are implemented by institutional agents whose main function is not environmental, and that implement policies through action that can be viewed as secondary purpose. For example, an energy ministry that subsidises renewable energy, an economy ministry the supports circular economy measure, or an agricultural ministry that support biodiversity protection. These actions may have a secondary purpose(s), but they form the backbone of environmental policy and therefore must be identified and classified.

Primary purpose and the environment

26. Determining primary purpose is of special concern in the environmental arena. The primary environmental purpose criterion is discussed explicitly in chapter 4 of the SEEA CF. Paragraph 4.11 states that: “[t]he scope of environmental activities encompasses those economic activities *whose primary purpose* is to reduce or eliminate pressures on the environment or to make more efficient use of natural resources.” The primary purpose criterion is thus a key concept in the SEEA-CF for determining the scope for environmental activities, but also for environmental products and environmental transactions.

27. Paragraphs 4.12 and 4.13 define environmental protection and resource management in more detail and paragraphs 4.15 to 4.17 are focussed on determining what is or how to identify primary purpose. With the exceptions discussed below, all the material in SEEA-CF sections 4.2 and 4.3 are devoted to recording transactions with a primary environmental purpose.

28. The SEEA-CF also acknowledges the importance of transactions other than those with a primary environmental purpose. Paragraph 4.9 states: “[a] distinction is drawn between those economic activities that should be considered environmental, and other economic activities that are closely associated with the environment or that use the environment directly in their production processes”. The current SEEA-CF does not coin nor use the concept of secondary environmental purposes, however, there are passing references, and some concepts related to it. For example, paragraph 4.14 states that “resource

management activities may result in associated secondary environmental benefits, such as protection and restoration of wildlife and natural habitats" (our underline). Similarly, paragraph 4.33 states that "also separately identified are non-specialist producers (who produce environmental goods and services for sale, although this is *not their primary activity*)" which can be viewed as an associated concept. References to other concepts that are related to secondary purposes albeit not explicit, can be found on connected products (paragraph 4.65), adapted products (4.67) and adapted goods (4.99). For instance, SEEA paragraph 4.65 defines connected products as products whose use directly serves environmental protection purposes but which [do not have a primary environmental purpose]. One example could be an electric vehicle, which does not have a primary environmental purpose, but its use contributes to environmental protection because it does not emit greenhouse gases or air pollutants. Indeed, it is the case in many countries that include in their SEEA accounts cleaner and resource efficient products to expand the SEEA 2012 coverage beyond products with a primary environmental purpose. This approach would no longer be necessary if the SEEA extends its coverage to secondary environmental purposes. In effect, although conceptually extending coverage to secondary purpose is an important step forward, in practice in some countries it implies limited change with current practices.

29. Determining primary purpose in the environmental protection activities is critical to estimate total environmental expenditure and is often not completely clear, it is dealt with extensively in Eurostat (2017) which discusses Environmental Expenditure Accounts. Although the Handbook recognises that "many activities are undertaken for a variety of purposes…the primary purpose must be identified". Moreover, it goes on to argue that there may be different interpretations stating that "[e]xperience over the years has shown that several interpretations of the concept of 'environmental protection' and of the determination of the purpose may exist. Compilers should know these interpretations...".

Guidance to identify primary purpose in the environment

30. The Eurostat Handbook goes on to argue that the environmental protection purpose criterion is critical to delimit the scope of the Environmental Protection Expenditure Accounts. It identifies different interpretations of the primary purpose criterion, including purpose in a narrow sense, purpose laid down in legislation, purpose based on stated intentions. It also proposes identifying environmental purpose using the following criteria: technical nature, presumed effect or real effect.

31. This discussion suggests two issues. First that although primary purpose is a critical concept on determining a statistical classification, and therefore the basis of an accounting framework, it is not a concept which has been dealt comprehensively, except in the case of the environment. In this context primary purpose is discussed in detail providing some guidance on how statisticians can classify certain environmental activities. To provide guidance, the recommendation, at least in the environmental field, is when the primary purpose cannot be identified to classify based on structural criteria, namely the "technical nature "or "presumed or real effects". This could be the basis for identifying secondary purpose.

Other approaches

32. A second issue is that there is no clear definition of what is meant by secondary purpose nor how to classify the same transaction under more than one purpose. There is, however, some work on this outside international classification systems. Due to the current demand for more detailed information on government environmental expenditures, there are several global and national initiatives to address this issue. For example, UNDP BIOFIN has developed a new taxonomy focusing on biodiversity and promotes tagging government expenditures related to biodiversity (UNDP, 2018[2]). Similarly, the UN Development

Programme (UNDP) has implemented the Climate Public Expenditures and Institutional Review (CPEIR) methodology (UNDP, 2015[3]) to tag climate change related expenditures. In response to the rising demands for clearer identification of environmental expenditures, the EU has developed a sustainable development taxonomy to support a comprehensive approach for tagging green finance (European Union, 2020[4]).

33. These initiatives have developed their own classifications systems which in effect reclassify transactions according to what could be broadly considered the secondary purpose of an economic activity, thus providing additional information to policymakers but making it impossible to connect with other international standards (e.g. BIOFIN and CPEIR) or use a structural classification based on presumed effect (e.g. EU, 2020). Of more concern is that these approaches often try to "quantify" the significance of an action with a score. This is based on the approach taken by the Rio Markers (OECD ref) where to provide information on international development financial flows targeting the themes of the Rio Convention (1992) -biodiversity, desertification, mitigation and adaptation- scores are given depending on the assumed significance.

34. In the Rio Markers there are three possible values (or scores) to assess financial flows: indicating whether the Rio Convention themes are not targeted (a 0 score), is a significant objective (a 1 score), or a principal objective (a 2 score) of the action. The values are attributed according to the extent to which the themes are explicitly addressed at the level of problem analysis (context); objectives and results; and activities. Depending on the value attributed, fixed percentages of the overall budget are relevant for the respective themes, for example, the EU has decided to use 0%, 40% and 100%.

35. In effect, this approach, which has been highly influential in *ad hoc* classification systems, uses coefficients to determine the level of relevance of the secondary purpose of an action. Therefore, a critical element in conceptualising primary and secondary purpose in the SEEA-CF defining these terms both on conceptual and in practical terms.

3. Conceptual options and treatment

Interpretation of secondary purpose

36. A key conceptual consideration is what is the meaning of the secondary purpose. Secondary purpose can be defined as "*the additional or complementary purpose behind the realisation of an economic or environmental activity, product, expenditure or transaction*". In this definition secondary purpose can be understood in two ways depending on whether a transaction/expenditure is indivisible or there is an additional environmental purpose which can be imputed.

I. **Case 1: Secondary purpose of additional complementary purpose that can be disentangled from the primary purpose.** The idea is that if a product, activity or expenditure has a primary non-environmental purpose, but in which a secondary purpose can be identified, compilers should make the distinction. Examples include:

   a. Additional expenditures: For example, the primary purpose of a bridge, a port, or other infrastructure in which an additional expenditure has occurred to serve an environmental purpose, such as raising the bridge, strengthening the port, using different materials or techniques, or other additional expenditures to deal with climate adaptation.

b. Comparative costs: For example, expenditure on an electric vehicle, where the primary purpose is transportation, but which also serves the purpose of environmental protection (prevent air pollution) and/or resource management (energy source). In this case, the additional costs of the electric vehicle should be compared to an equivalent ICE vehicle and the difference should be imputed to the complementary environmental purpose.

II. **Case 2: Secondary additional purpose indivisible from the primary purpose.** The idea is that if a product, activity or expenditure has a primary non-environmental purpose, but in which the whole activity also has a possible positive environmental purpose or impact these must be identified completely. For example, expenditure on monoculture afforestation for forestry services has a primary economic purpose, but the whole activity also has the secondary purpose of climate mitigation. In this case the whole expenditure must be identified and cannot be separated from its primary purpose. This case 2 is more relevant for COFOG than for SEEA, because the environmental case is a specific case of a more general situation that would affect recording in all COFOG categories.

Characteristic and non-characteristic activities

37. Once the SEEA compilers establish the existence of an environmental purpose (in an activity/product/expenditure), the next step is to determine whether this is only one purpose or others. If there is more than one purpose, there may be more than two purposes. All the purposes that are not the primary purpose can be referred to as secondary purposes. No ranking or hierarchy of the secondary purposes is necessary for SEEA.

38. For example, when tackling economic activities, there may be several cases:

a. An activity where environment is the primary purpose (with no other purposes). One example is soil sanitation;

b. Multipurpose activities, where environment is recognised to be one of the primary purposes, but it is not possible to identify the primary purpose. Examples are renewable energy production (climate mitigation – energy supply) and recycling (reduction of material use – cost reduction/economic purpose). Another example is the expenditure to obtain from the authorities an emissions performance sticker for vehicles (NB based on the number of emissions produced by cars); it has a primary environmental purpose, and the expenditure can be considered multipurpose, as it also enables vehicle mobility.

c. A non-environmental activity where environment is a secondary purpose. Examples are electric transport (primary purpose transport, secondary climate mitigation) or public transport.

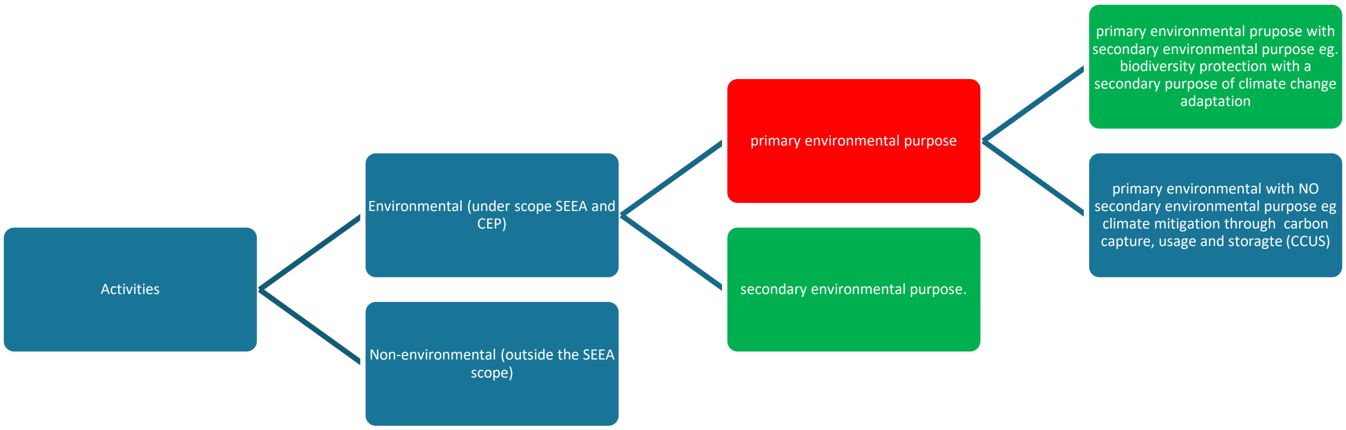
d. A non-environmental activity with no secondary environmental purpose.

39. A representation of these categories is presented in Figure 1. Here activities, and a similar approach can be taken for other transactions, are recognised as environmental when they are either characteristic or non-characteristic but have an environmental secondary purpose. Furthermore, within characteristic environmental activities, two types are recognised: those that do not have additional environmental purpose and those that do. In Figure 1 activities with a primary environmental purpose are presented in the red box, while environmental activities considered as secondary purpose are coloured in green.

40. This note proposes that SEEA CF defines and considers as non-characteristic environmental activities (or products) those that have a secondary environmental purpose while not having a primary environmental purpose. This non-characteristic concept, which does not exist in SEEA CF 2012, would replace the connected goods and adapted goods in SEEA CF 2012 (see paragraph 29). This definition of non-

characteristic environmental activities or products can also be applied to expenditures. This means that the scope of the SEEA could be categories a, b, and c in paragraph 38.

Figure 1 Category of Environmental Activities



4. Recommendations on conceptual treatments

41. This section takes over ideas from the previous section and formalises and completes them. It first addresses the conceptual aspects of the environmental purpose. Afterwards it addresses the distinction between primary and secondary purpose.

Definition of SEEA scope

42. In the recording of transactions in monetary terms between economic units that may be considered environmental, some SEEA accounts have different focus, e.g. production or expenditure. Correspondingly, some SEEA accounts have a focus on environmental activities, or environmental products, or environmental expenditures. In this sense, the SEEA scope consists of the transactions that are considered environmental.

The scope of environmental activities encompasses those economic activities whose purpose is to reduce or eliminate pressures on the environment or to make more efficient use of natural resources. This scope encompasses both activities with a primary environmental purpose and activities with a secondary environmental purpose. Several secondary activities are possible, and this definition does not distinguish between several secondary and tertiary environmental activities. This definition includes both goods and services.

Definition and conceptual guidance of environmental purpose

43. The existence or not existence of environmental purpose is an attribute that SEEA CF considers for economic activities, products and expenditures. This creates the following categories: environmental activities and non-environmental activities, environmental products and non-environmental products, and environmental expenditures and non-environmental expenditures.

44. As known, SEEA CF sets the scope of environmental activities in paragraphs 4.12-4.13 in terms of (primary) environmental purpose. Conceptually, the environmental purpose should be understood in terms of the motivation of the agent who engages in production activities, acquires a product (good or service) or generates a financial transaction, regardless of effect or impact. For instance, what is the purpose of a buyer when purchasing an electric vehicle, is it transportation, or making a difference for the environment?

45. The first step for the SEEA compilers is determining whether there is an environmental purpose or not. However, purpose is difficult to discern, many economic activities are undertaken for a variety of purposes, environmental and non-environmental ones. Determining the purpose may involve a degree of interpretation, suffer changes over time or may not be fully comparable across countries.

46. The task of assessing environmental purpose can be facilitated by considering the following operational aspects:

- Purpose based on *technical nature*, i.e. inputs, production process and output characterising a given activity irrespective of legislation or revealed intentions. This is the preferred approach, see next paragraphs.

- Purpose based on *intention, motivation or presumed effect*, i.e. assumed environmental consequences of an activity or action. Actual dominant motivation and stated intentions may be difficult to observe or measure technical nature is similar to presumed effect, and sometimes the latter can be taken as a proxy of the former. Technical nature is conceptually more objective and neutral whereas the presumed effect is more subjective and 'presumed' possibly led by preconceptions.
- Purpose laid down in *legislation*, in particular, purpose stated in the provisions or preambles of the legislation, which may or may not correspond to the legislation title; legislation may or may not be clear but it will be national legislation and thus not necessarily ideal for international comparisons.
- Purpose identified indirectly through *the real effect*, i.e. the objectively proven consequences on the environment of an activity or action. Purpose or motivation of the economic agent is different from the real effect produced. The real effect can only be observed ex-post and it may vary on a case-by-case, therefore it is unsuitable for international statistics. This operational aspect is a last resource and should be avoided as much as possible.

47. Therefore, for statistical purposes, the principal basis for determining the environmental purpose of an activity or a product is *the technical nature*. This is the most neutral basis for determining the environmental purpose and thus best suited for statistics. In particular, the technical nature considers if the economic activity reduces the pressure on the environment or makes more efficient use of natural resources, whatever the stated motivations and presumed or real effects are.

48. The focus on the technical nature allows SEEA compilers to consider the suitability of activities for achieving the environmental purpose irrespective of the agent's motivation for its production. A presumed technical effect of the environmental product is second best, because it supports the delineation of the environmental activities, as in most cases details on a product's entire life cycle are unavailable or insufficient.

49. Once the SEEA compilers establish the existence of an environmental purpose, the next step is to determine if it is the primary purpose or a secondary purpose. This is only applicable to activities (or products, or expenditures) with more than one purpose. First, the SEEA compiler must assess if there is more than one purpose. If there is only one purpose, it is the *de facto* the primary (and only) purpose. If there is more than one purpose, there may be more than two purposes. All the purposes that are not the primary purpose are called secondary purposes. No ranking or hierarchy of the secondary purposes is necessary for SEEA.

Operational and practical guidance of environmental purpose

50. Ideally, environmental purpose should be determined in a conceptual discussion around a table with technical information and without need to wait for impacts or effects of actions to become visible. In practice, however, SEEA practitioners often use technical nature (of the activity, product or expenditure) and the other aspects such as presumed impact as guide.

51. SEEA compilers can compile lists of environmental activities, products and expenditures in the economy, after applying conceptual considerations to all elements of the economy. Such lists can be linked to statistical classifications to facilitate processing of data sources. For instance, list of activities based on ISIC (and EU taxonomy) with associated environmental “technical nature” to be used as a basis for secondary purpose. List of products based on CPC or HS commodities or manufacture codes (PRODCOM in Europe). An approach based on lists is consistent with **Guidance Note C3**.

52. For reasons of efficiency and international comparability, it is desirable to have international lists discussed and agreed by compilers at international level. In the EU, a Eurostat task force has discussed lists of environmental activities and products over the last decade, using considerations about technical nature, expected impact, etc. This delivered the so-called ‘indicative compendium’ of environmental products and activities.

53. The explanations in GN C3 apply here too in that such international lists are guidelines and indicative for the national circumstances and may need adjustments in each country.

54. Once such lists are produced, they become the operational guidelines to establish the environmental purpose (or lack of) based on lists of activities, products and associated expenditures. They spare the need to consider the technical nature of every transaction each time. It would be an advantage to establish separate lists of activities with primary environmental purpose and activities with secondary environmental purpose. The same goes for products with primary environmental purpose and secondary environmental purpose. Such operational lists also have an important role operationalising the blur area between having a secondary environmental purpose and not having any environmental purpose. One example is whether conventional, non-organic agriculture has a secondary environmental purpose or no environmental purpose at all. Another example is whether industries that use less energy or fewer natural resources than others have a secondary environmental purpose or no environmental purpose at all.

55. Such lists are simpler to establish for primary environmental purpose, because there is more experience in the community of practitioners since 2012 SEEA CF (see lists in GN C3) and also because the primary purpose lists can be expected to be shorter and focused in fewer activities and products.

Characteristic and non-characteristic activities, products and expenditures

56. The SEEA CF system boundaries for environmental activity accounts encompass characteristic and non-characteristic environmental activities.
    a. *Characteristic environmental activities* are the economic activities whose primary purpose is to reduce or eliminate pressures on the environment or to make more efficient use of natural resources. These are the environmental activities defined in SEEA CF, §§ 4.11 – 4.13.
    b. *Non-characteristic environmental activities* are economic activities that are not characteristic (thus their primary purpose is not environmental), but they have one or several secondary purposes to reduce or eliminate pressures on the environment or to make more efficient use of natural resources.

This definition does not distinguish between several secondary environmental activities and tertiary environmental activities.

57. Those are definitions for environmental activities. Similar definitions stand for characteristic and non-characteristic environmental products and environmental expenditures.

Categories of environmental purposes

58. In the previous paragraphs, the environmental purpose (primary or secondary) was considered as the approach to establish the boundaries of the system, e.g. the boundaries of the sub-part of the economy under scope of the SEEA-CF. This is a first application of the primary purpose criterion.

59. There is second application of the environmental purpose criterion, namely, to classify the activities, products and expenditures which are within the boundaries of the SEEA system, into homogeneous environmental categories. This is what the former classifications CEPA and CREMA did, and now more comprehensively the Classification of Environmental Purposes (CEP) which should be the basis of the SEEA-CF update (see issue C1).

60. The CEP is a new classification of environmental activities adopted by the UN Statistical Commission and should be used by compilers for the SEEA-CF and in particular functional accounts. The CEP is a generic, functional classification of economic activities, products, expenditures and other transactions related to environmental protection and management of natural resources (see Table 1).

Table 1. New CEP classification and mapping to original CEPA and CREMA

LEVEL I - DIVISION	LEVEL II - GROUP	LEVEL III - CLASS	CEPA / CReMA correspondence
01 Air and climate	0101	Reduction and control of greenhouse gases	CEPA1
	0102	Reduction and control of other air pollutants	CEPA 1
02 Energy	0201	Energy from renewable sources	CReMA13A
	0202	Energy savings and management	CReMA13B
03 Wastewater and water resources	0301	Wastewater management	CEPA 2
	0302	Water savings and management of natural water resources	CReMA10
04 Waste, materials recovery and savings	0401	Waste management	CEPA3
	0402	Materials recovery and savings	CReMA11B, 13C, 14
05 Soil, surface and groundwater, biodiversity and forest	0501	Protection of soil, surface and groundwater	CEPA4
	0502	Protection of biodiversity and landscape	CEPA6+CReMA12 (consolidated in the current version of CEPA & CReMA)
	0503	Management of forest resources	CReMA 11A
06 Noise and radiation	0601	Protection against noise and vibration	CEPA5
	0602	Protection against radiation	CEPA7
07 Research and development	0701	Research and development	CEPA8, CReMA15
08 Cross-cutting and other environmental purposes	0801	Environmental education and training	CEPA9.1, CReMA16
	0802	General environmental administration, management, regulation, dissemination and consultancy	CEPA9.2, CReMA16
	0803	Other environmental purposes	CEPA9.4, CReMA16

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61. Whether the CEP is comprehensive for all the extensions under discussion for the update of SEEA-CF is addressed in Guidance Note C3. CEP has the same scope as SEEA 2012, if the SEEA scope is extended it may be necessary to extend CEP. If SEEA keeps the same core scope for environmental protection and resource management and has extensions for climate change, circular economy, etc. CEP may also need corresponding extensions with ad-hoc 'n.e.c.' categories for climate change, circular economy, etc. (see Guidance Note C3). Although the CEP may not be comprehensive and in the future may need to be adjusted for the moment it is the most accurate and comprehensive classification of environmental activities. The same categories of the CEP can be used to classify primary and secondary environmental purposes. For instance, there may be an activity with a primary environmental purpose is CEP 01, and another activity with a secondary environmental purpose also in CEP 01.

62. This means that the categories of CEP are the same for primary and secondary purposes. Otherwise said, the CEP categories do not need changes/adaptations to classify primary or secondary purposes. The same CEP may be applied to the task of classifying primary purposes and secondary purposes. It will be useful adding an indicative list of non-characteristic products/activities/expenditures that have identifiable secondary purposes based on presumed effects or the technical nature. The current explanatory notes provide guidance in recording of borderline cases, but admittedly the explanatory notes will be more useful for primary purposes.

63. The CEP has detailed explanatory notes clarifying the treatment of borderline cases between categories. The explanatory notes provide guidelines on how to operationalise the environmental purpose for each one of the CEP categories, what is included and what is excluded. The explanatory notes were developed under the 2012 SEEA CF, i.e. they only take into consideration the primary environmental purpose, but they are equally applicable to the secondary environmental purposes.

Recording and valuation of primary and secondary purpose transactions in an accounting approach

64. This section uses expenditures (as opposed to activities or products) to illustrate a possible framework approach to record transactions that have environmental secondary purpose.

Recording framework whenever only using primary purpose

65. Figure 2 represents a simplified and generic approach of how expenditures are recorded in a system that determines scope by only identifying primary environmental purpose, such as the SEEA-CF 2012. The Figure illustrates how to record environmental expenditures using the CEP, in this example there are only 4 categories, each expenditure is valued at 10 and total expenditure is 40. Expenditures 5 and 6 do not have a primary environmental purpose and, therefore, nothing is recorded for them.

66. An important aspect of a recording framework is the convention for valuation of the transactions. In a recording framework that only includes transactions with a primary environmental purpose, all transactions are recorded at their full market value. In the example in Figure 2, all transactions have a market value 10, and the full values are recorded. In this recording framework, it remains implicit and not recorded, that some of those transactions may also have secondary, non-environmental purposes, and that part of the full valuation 10 may be attributed/attributable to those purposes. This has profound consequences in a recording system such as COFOG, insofar some expenditures may serve several purposes or 'functions' at the same time. In this example, the recording based only on primary environmental purpose is imperfect. On the one hand, there is risk of overestimation because the transactions included are valued 10 even if some of their primary purposes are not environmental. On the other hand, there is risk of underestimation

because the transactions with only secondary environmental purpose are not recorded (thus given an implicit value 0).

Figure 2 Simplified accounting framework considering primary purpose

	Primary purpose				
	CEP				
	1	2	3	4	
Expenditure 1	10				
Expenditure 2		10			
Expenditure 3			10		
Expenditure 4	10				
Expenditure 5					
Expenditure 6					
				total	40

Introducing recording and valuation of secondary purposes

67. To analyse secondary purpose expenditures, consider Figures 3 and 4. They are two alternative ways of recording secondary expenditures. These two possible recordings are put forward for discussion and decision by the SEEA community. They are not self-excluding, and it would be possible to allow both to exist in the SEEA framework, and to leave freedom to national compilers to decide which one to use according to their national circumstances. However, such a double system would undermine international comparability. It is also possible that the SEEA recommends one recording method and proposes the second one as complementary/supplementary. Whenever deciding between these two recording approaches, it is also necessary to consider the interpretation that the accounting framework is given to the meaning of secondary purposes (see paragraph 37).

68. One approach for aggregation, and to avoid double counting, is to only to record additional expenditures, this is presented in Figure 3. These are secondary purposes of a non-characteristic environmental product (case 1 in paragraph 36). In this example expenditures 3 to 6 have secondary purposes, and expenditures 5 and 6 do not have a primary environmental purpose. With this recording approach, expenditures 3-4 which are already recorded as a primary environmental expenditure, are not recorded again, only expenditures 5-6, which are not primary environmental expenditure are recorded as secondary environmental expenditures. In the recording system in Figure 3, the secondary purposes cannot be disentangled from the primary purposes, and all the values recorded are the full value of the expenditures. This would be the situation of secondary purpose identified as case 2. In this case, compilers must assess whether the Expenditure 3 and Expenditure 4 are predominately for primary or secondary environmental purposes and record them in either one. Compilers will need guidance in this regard, and operational lists can be useful in this regard. Primary and secondary purposes are recorded separately. The total of secondary expenditures is 30, and the total value of all expenditures under the boundary is 70, 40 primary environmental expenditures and 30 secondary environmental expenditures (cells added in green).

69. In effect, to avoid double counting, only primary purpose expenditures and additional secondary environmental expenditures of expenditures that do not have a primary environmental expenditure are aggregated. An example for expenditure 3 and 4 could be biodiversity protection with an additional complementary or secondary purpose of climate adaptation, while expenditure 5 and 6 could be renewable energy in which the primary purpose is energy production and the secondary purpose is climate mitigation. This approach is taken by the new CEP that introduces categories as environmental whose primary purpose is not environmental, renewable energy being a case in point. As regards valuation, all transactions are recorded at full costs (in this example, they are all valued 10).

Figure 3 Simplified accounting framework considering secondary purpose approach 1 (values cannot be disentangled)

	Primary purpose					Secondary purpose						
	CEP					CEP						
	1	2	3	4		1	2	3	4			
Expenditure 1	10											
Expenditure 2		10										
Expenditure 3			10						10			
Expenditure 4	10							10	10			
Expenditure 5						10		10				
Expenditure 6							10					
				total	40				total	30	Big total	70

70. The approach presented in Figure 3 would require separate recording/tables of primary and secondary purposes but would need that the CEP categories to be the same in both tables, there is no need for different CEP categories of primary and secondary purposes. However, the CEP would probably need to be expanded to include several categories that are currently viewed as cross sectoral and are not currently included such as climate adaptation and circular economy. In effect, the idea integrates the concept of policy area into the classification, albeit explicitly recording primary and secondary expenditures separately and aggregating only additional expenditures, i.e. those non-environmental expenditures that have secondary environmental expenditures. The approach presented in Figure 3 uses valuation at full costs and thus does not require special calculations for valuation.

71. Another possible approach is presented in Figure 4, consistent with the interpretation of Case 1 presented above paragraph 37. Accordingly, for each expenditure, the compiler must disentangle the part of the expenditure value that satisfies each primary and secondary purpose. In this example, the primary purposes add a value of 33 and the secondary purposes add 27. The total is 60. The recording methods in Figures 2 and 4 give different totals, not only in this example.

Figure 4 Simplified accounting framework considering secondary purpose approach 2 (values can be disentangled)

	Primary purpose					Secondary purpose						
	CEP					CEP						
	1	2	3	4		1	2	3	4			
Expenditure 1	10											
Expenditure 2		10										
Expenditure 3			7						3			
Expenditure 4	6							3	1			
Expenditure 5						2		8				
Expenditure 6							10					
				total	33				total	27	Big total	60

72. Some features of the accounting framework presented Figure 4 are the following: There is no double counting, not even in expenditures 4 and 5 with multiple purposes. This recording leads to no double recording and provides a more accurate valuation of the importance of each purpose. Mind that, compared to Figure 3, this recording system requires adding up all the expenditures in all the primary and secondary purpose categories (cells in green). As regards valuation, the transactions with primary environmental purpose are valued at full costs (in this example, value 10). The transactions with secondary environmental purposes are valued at extra costs. The calculation of the extra costs valuation is necessary.

73. There are conceptual and practical differences between the recordings presented in Figures 3 and 4. First, conceptually, it is important to consider what is the meaning of an expenditure with secondary purpose. Does it mean expenditures with a purpose that cannot be disentangled from the primary purpose (i.e. they are different but inherently linked) or they are expenditures with several purposes that can be conceptually separated? The COFOG community may be confronted with the former, whereas the SEEA community may be confronted with the latter (e.g. whenever considering if an expenditure belongs in the circular economy or climate change mitigation).

74. Secondly, there are practical considerations in the recording systems in Figures 3 and 4. Whenever possible to distinguish conceptually and practically, the recording of flows as in Figure 4 is preferable. The recording system in Figure 4 is much more demanding for the compiler and for the data sources than those in Figure 2 or Figure 3. It requires the compiler to be able to identify part of the value for each transaction attributable to primary and secondary purposes and to each category of purposes. This will not be possible in most data sources, and even when the data source allows it, it requires a full breakdown i.e. full data for all 6 expenditures, in this case. Access to a full list of expenditures might be possible in some cases, e.g. for the Government sector if we are doing budget analysis. If there is budget tagging, this information would be available. Therefore, budget tagging, may play a fundamental role for recording under this system. This might be possible also for an updated COFOG that also recognises secondary purpose.

75. Therefore, recoding as in Figure 4 poses both a conceptual and a practical problem. Conceptually there may be some activities that can simply not be disentangled between their primary and secondary purposes. In these cases, the statistical community could provide guidance, for example only classifying afforestation as forest management with the understanding that it may have implications for biodiversity and climate mitigation (see guidance note C3). With respect to the practical problem, there may simply not be enough

information for compilers to disentangle these activities or expenditures. In this case, they may need to differ to recording expenditures using the approach proposed in Figure 3 and provide general assumption or rules of thumb on the estimation of final expenditures, using, for example, a priori coefficients as in the case of the Rio Markers. If this is the approach taken, then it is important to clarify from the outset which coefficients are used and for the SEEA to provide the same coefficients for different activities to ensure international comparability.

76. However, for most data sources other than public budget, this type of information would not be directly available. For instance, such data for the corporate sector would require access to microdata, which may not be possible. Idem for the household sector expenditures, or for the rest of the world (imports and exports of environmental products). However, even in cases of incomplete information, it would be possible to produce some estimates, e.g. based on coefficients. In the example they would be the shares of the total value 10 to obtain values 6, 2, 8, 3, etc. Sources for coefficients may be the supply-use tables. Special sectorial studies may exist, etc.

77. Even when the data sources have the information, there is some arbitrariness in the shares of the value, for individual expenditures, but the aggregates should be approximately correct.

78. The recording system in Figure 4 is conceptually possible and statistically sound (i.e. for aggregates), but very demanding for the compiler.

Recording of secondary purposes in SEEA and COFOG

79. This guidance note is seeks maximum coordination for the SEEA and COFOG review processes. Indeed it is co-authored by members of both communities. However experience shows that the two statistical communities have slightly different sensibilities and points of focus, and correspondingly different (and tightly coordinated) documents are being written for the two communities. In particular, in the context of the discussion on secondary purposes, the main concern for the SEEA community is the identification of environmental activities (i.e. to set the SEEA boundaries), whereas their classification (e.g. in categories of the classification CEP) is only a second concern. For the COFOG community, the classification is crucial, and setting the system boundaries is not an issue because the boundaries are a given from the SNA. As regards the SEEA concern, the goal is to achieve a comprehensive scope, by including all the primary environmental activities and also the secondary environmental activities whenever they are not included in the former. But whenever an activity has a primary environmental purpose (in one CEP category) and also a secondary environmental purpose (in another CEP category), it is recorded only once to avoid double counting. That fits with Figure 4. A separate solution is (being) developed to record activities that have several environmental purposes, see guidance note C3. In the case of COFOG, the classification is essential, and recording a transaction more than once is OK provided it makes sense for the user (policymaker) and the recording is done properly and orderly. That may fit better with Figure 3.

5. Other considerations in advancing the issue

CEP, environmental purpose, and alternative boundaries of the SEEA system

80. The CEP has, by design, the same system boundary as the SEEA-CF 2012, which in turn is based on the primary environmental purpose. Should the reviewed SEEA-CF extend it to secondary environmental purposes, as proposed in this guidance note, the question arises how to use CEP in that context. The issue

of extending the scope of the SEEA-CF and the CEP links is developed in Guidance Note C3. This section develops some ideas more directly related to the classification of secondary purposes.

81. One significant innovation of the CEP was to introduce the concept of "policy areas" to "provide to policymakers and users an instrument to organise the available information according to their needs" by mapping to policy relevant areas (see Table 2). The new classification considers the following areas: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystem.

82. The idea is to provide guidance to decision-makers by providing a consistent framework to reorganise the categories to a new policy area category not comprehensively covered by the classification, for example, putting together "GHG capture and storage" in the air and climate category together with "renewable energy" and "energy efficiency" as a new combined policy area category considered climate mitigation. In effect, it implicitly adopts an ancillary classification of environmental activities based on secondary purpose.

83. A similar approach could be taken to classify activities or expenditures with a secondary purpose namely "tagging" environmental activities with secondary purposes and then if needed extracting the information in a satellite structure with the understanding that the information provided includes both primary and secondary activities and only provides a guidance of environmental action. This approach would require a formal definition of activities that have environment as a secondary purpose and practical guidance for compliers.

Table 2. CEP Policy area proposal

LEVEL I - DIVISION	CCM Activities	Within or outside CEP scope
Climate mitigation	Renewable Energy	
	Energy Efficiency	
	Fuel Switch and Public Transport	
	GHG Carbon Capture, Storage and Destruction	
	GHG Removal by Sinks	
Climate Adaptation	Manufacture of specifically designed products to moderating harm from different types of natural hazards	
	Construction, installation, repair and other related activities	
	Architectural, engineering and other professional activities	
Protection of water and Marine resources activities	Wastewater discharges	
	Monitoring of water resources pollutants for human health protection	
	Water management, protection of surface water and groundwater	
Circular Economy	Energy Efficiency	
	Water	
	Waste/Recovery/reuse/repair	
	Organic agriculture and soil protection	
	Public Transport	
Pollution prevention and control	Prevention, reduction, treatment of pollutants	

	Pollution cleaning up	
Biodiversity/Ecosystem Related activities	Protection and conservation of biodiversity	
	Sustainable land use (including sustainable agricultural practices), management, protection and restoration of terrestrial, marine and other aquatic ecosystems	
	Sustainable forest management	

84. Identifying primary and secondary purpose can provide additional information of policy makers that may be of use. If the CEP recognises secondary purposes, additional indicators can be provided. Although primary expenditures cannot de aggregated secondary expenditures without double counting, it can be identified and aggregated across expenditure lines. Table 2 provides an example, expenditures/activities or products can be organised according to individual sectors. The advantage of this approach is that it allows countries to analyse selected policies -for a specific category- in a coherent way. This approach can also be taken for a revised COFOG.

85. Identifying secondary purpose expenditures and recording the information in this way provides critical information for policymakers that can be connected to budget tagging efforts. By aggregating across specific expenditure lines policymakers can be informed of their total effort in a specific. However, since both primary and secondary purpose expenditures would be aggregated these must be clearly distinguished. The table provides a possible representation drawing on the information from Figure 3.

Table 3 Information across expenditure categories

CEP	Expenditure 1 (eg. Biodiversity)	Expenditure 2 (Climate Change)	Expenditure 3 (eg. Circular Economy)	Expenditure 4 (Sustainable management)	Expenditure 4 (No environmental)	Expenditure 4 (Non-environmental)
Primary						
1	10					
2		10				
3			10			
4				10		
Total Primary	10	10	10	10	0	0
Secondary						
1					10	
2						10
3				10	10	
4			10	10		
Total Secondary	0	0	10	20	20	10
Total	**10**	**10**	**20**	**30**	**20**	**10**

Environmental expenditures, revisited

86. Sections 3 and 4 presented a delineation of environmental vs non-environmental applicable to activities, products and expenditures. Section 4 further explained how it can be operationalised based on lists, for environmental activities and environmental products.

87. When it comes to environmental expenditures, one could imagine that the same approach based on lists is straightforward. This is one way to consider it, and this approach may be useful e.g. for functional classifications such as COFOG.

88. However, in the context of SEEA-CF, if a strict balancing of products, activities and expenditures is required, e.g. .in the context of thematic supply and use tables, internal consistency requires defining the boundaries of environmental expenditures with an additional step from environmental products activities. In particular, environmental expenditures relate to environmental activities and environmental products with accounting relations, as follows:

Environmental expenditure by corporations consists of:

• Gross fixed capital formation (i.e. investment) on environmental products;
• Gross fixed capital formation for environmental activities, i.e. for the production of environmental products;
• Intermediate consumption on environmental products;
• Intermediate consumption for environmental activities i.e. for the production of environmental products. Intermediate consumption are the goods and services either transformed or used up during production processes;
• Transfers received for environmental activities or environmental products, e.g. unrequited payments from the Government or the sector 'Rest of the World' to the corporations.

Environmental expenditure by government and NPISH consists of:
• Final consumption on environmental products. This is collective consumption whenever products produced by government are not sold;
• Gross fixed capital formation on environmental products;
• Gross fixed capital formation for environmental activities;
• Intermediate consumption for environmental activities;
• Intermediate consumption on environmental products;
• Transfers paid for environmental activities or environmental products, i.e. unrequited payments from the government to the corporations or households;
• Transfers received for environment activities or environmental products, e.g. unrequited payments from the sector 'Rest of the World' to the government.

Environmental expenditure by households consists of:
• Final consumption on environmental products;
• Gross fixed capital formation in cleaner and resource efficient dwellings or in dwellings refurbishment;
• Transfers received for environmental products, i.e. unrequited payments from the government to the households.

89. These accounting relations set constraints in the way to define environmental expenditures. Whether these constraints should be part of the definition of environmental expenditures, in the context of SEEA CF, is a matter for discussion by the TT-C.

6. References

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