INTEGRATION OF NATURAL RESOURCES INTO NATIONAL INCOME ACCOUNTS OF SRI LANKA
WITH SPECIAL REFERENCE TO FORESTRY AND MINERAL RESOURCES

BY

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ABSTRACT

Failure to account for the numerous services and economic uses of forests, and non-inclusion of utilization of natural resources have led to many detrimental consequences. The National Accounts of any economy plays a vital role in decision making for inter-temporal decision making. Conventional accounting systems do not capture the real contribution of the natural resources sector and do not recognize the importance of environmental accounting. Therefore, for optimal resource allocation considerations on all value additions and utilization values for GDP estimation have to be accounted.

Market and policy failures can be viewed as other major issues related to resource depletion. Market failure exists when markets fail to reflect fully environmental and natural resources benefits and damages. Policy failures exist when the appropriate policy interventions necessary to correct market failures are not taken and these two failures are central to the sustainable management of natural resources in many developing countries.

The main objective of this study is to develop a theoretical model for determining the contribution of natural resources (Forest & minerals) into National Income Accounts and re-estimate the GDP of 2008, 2009 and 2010. The Total Economic Value (TEV) approach and Present value method (PV) were used to estimate the contribution from the forest and the mineral sector. At present, the conventional National Income Accounting System does not account for the non timber products and ecological benefits. This study
has used production approach to estimate the NTFP in 2008, 2009 and 2010. With regard to mineral sector, the current practice is to use 15% intermediate cost based on surveys and estimate the GDP. One of the appropriate approaches of mineral resources is to use Present Value and User Cost Approach and estimate the Present Value of reserves and adjust the value addition. This study has re-estimated the value addition of mineral for 2008, 2009 and 2010 deducting taxes, extraction costs etc. The environmental damage of gem mining, removal of river sand and other minerals have been identified as a loss to the GDP and such damages for selected minerals have also been included in the value addition.

The results show that the forest sector GDP contribution is greater than that of conventional estimates. The forest sector contribution to GDP during 2008-2010 is Rs. mn 412,750, 469,648 and 481,456 respectively showing an increase. Similarly the minerals sector also shows a value addition of Rs. 127,698, 138,949 and 155,899 mn during 2008, 2009 and 2010. Since this study has studied only selected minerals the estimated values may not be compared with the total value addition of the conventional system. However, the estimated values are quite larger than the conventional system indicating its under estimation.

The study provides important findings for decision makers, planners and researches. The GDP of the Forest sector which are not accounted at present has a significant contribution. The NTFP, Carbon, Biodiversity, water purification, hydrological values are important in this regard. If the GDP of these values taken consideration the estimated GDP is more than 50 percent of the conventional values.
The true income values of the minerals of the mining sector are also larger than the current mining value additions. The environmental damage of mineral mining has to be incorporated into the calculations which are viewed as a major problem in mining of river sand, gem and clay.

Implications for policy includes developing a mechanism to compile and establish data related to resource quantities, export prices, extraction costs to estimate the annual contribution of forest and other natural resource services and damages by institutions such as Department of Forest, the Geological survey and Mines Bureau, Department of Census and Statistics and Central bank of Sri Lanka. It is also required that these agencies cooperate and coordinate towards the estimation of true income and the long term sustainability of the natural resource sector of the country.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIST OF TABLES</td>
<td>vi</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>ix</td>
</tr>
<tr>
<td>ABBREVIATIONS</td>
<td>xi</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>xii</td>
</tr>
</tbody>
</table>

## CHAPTER 1: INTRODUCTION

1.1 Introduction 1

1.2 Research Objectives 9

1.3 Hypothesis of the Study 9

1.4 Organization of the Thesis 9

## CHAPTER 2: LITERATURE REVIEW

2.0 System of Nation Accounts (SNA) 11

2.1 National Accounting System and its Development 14

2.2 Use of National Income Accounts in Sri Lanka 14

2.3 Environmental Economic Accounting 16

2.4 Approaches to Environmental Economic Accounting 17

2.5 Integrated Environmental and Economic Accounting (IEEA) 21

2.6 Economic Theory on Market Failure 25
2.7 Market Failure
2.8 Externalities
2.9 Public Goods and Common Property Resources
2.10 Monopoly
  2.10.1 Natural monopoly
2.11 Information asymmetry
2.12 Divergence between private and social discount rates
2.13 Present Status of Forest and Mineral Resources
  2.13.1 Studies in other countries
  2.13.3 Studies done in Sri Lanka
  2.13.3 Natural resources and economic development of Sri Lanka
  2.13.4 Forest resources in Sri Lanka
  2.13.5 Forest classification based on ownership
  2.13.6 The forest plantation
  2.13.7 The estate plantation forest
  2.13.8 Ownership of forest resources
  2.13.9 Home gardens (outside forest areas)
  2.13.10 Uses of forest resources
2.14 Mineral Resources in Sri Lanka
  2.14.1 Studies in Mineral Resources
  2.14.2 The mineral industry in Sri Lanka
  2.14.3 Gems stones
  2.14.4 River sand
6.3 Direction for Future Research

REFERENCES

APPENDICES

Appendix 1 Questionnaire NTFP Survey
Appendix 2 Carbon Stock Change in Living Biomass in Land Converted into forest land (default method)
Appendix 3 Institutions and Persons met for the Study