Entity Reporting on the Contribution Towards the Attainment of Sustainable Development Goals: Counteractions to Information Asymmetry

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Abstract

The core international trends towards non-financial reporting regulation are highlighted in the article. The model of non-financial reporting, based on combined approaches of Directive 2013/34/EU and Sustainable Development Agenda A/RES/70/1, is described by the authors. This model is the basis for the developed draft form of the management report and Guidance on preparing the management report. The level of information support in preparing management reports by Ukrainian entities according to the list of core indicators defined in the document, developed by UNCTAD, “Guidance on Core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals” is explored. The necessity of the Guidance designed by national regulators that provides explanations on how to issue non-financial statements is substantiated.

Keywords: non-financial reporting, Sustainable Development Goals, UNCTAD ISAR, Directive 2013/34/EU, Directive 2014/95/EU, management report.

Introduction

The Sustainable Development Agenda 2030 is a new conceptual framework for management strategies of developing companies. Information basis for monitoring the attainment and efficient implementation of Sustainable Development Goals (SDGs) is entities’ reporting on their contribution to this process. First and foremost, the issue the regulators encounter in implementing entity reporting is to form the list of indicators that monitor the attainment of SDGs and the methodology for their definition. UNCTAD Intergovernmental Working Group of Experts on International Accounting and Reporting Standards (UNCTAD ISAR) is making a significant contribution addressing this problem. The UNCTAD ISAR activity resulted in the draft document “Guidance on Core Indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals” (ISAR Guidance), that was approved at the 35 UNCTAD ISAR Session, held on 24-26 October, 2018 (Geneva, Switzerland) (UNCTAD ISAR, 2018, Guidance).

However, of no less importance are the issues of organizational support for entities reporting on the contribution towards the attainment of SDGs. These issues include:

- firstly, what information bases should be used for such reporting?
- secondly, will it not be an additional burden for entities reporting on their contribution?

1 On September 25, 2015, the General Assembly of the United Nations adopted Resolution A/RES/70/1 on the final document Transforming our World: the 2030 Agenda for Sustainable Development

The experts of the SESE “Academy of Financial Management” made an attempt to address these issues working on draft non-financial reporting of corporations in Ukraine. Regarding the methodological support of reporting on sustainable development, it is necessary to note that the issues of its preparation are solved by the ISAR Guidance.

The UNCTAD document is based on the methodological provisions of generally recognized and accepted international mechanisms that regulate the definition of indicators and outline the concepts on which the methodology for calculating is based, namely: Conceptual Framework for Financial Reporting, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Directive 2013/34/EU, Directive 2014/95/EU, Consolidated set of GRI sustainability reporting standards and others (table 1):

<table>
<thead>
<tr>
<th>International frameworks</th>
<th>European Union-based frameworks</th>
</tr>
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<tbody>
<tr>
<td>√ UN Global Compact</td>
<td>➢ the Eco-Management and Audit Scheme (EMAS) and the related Sectoral Reference Documents</td>
</tr>
<tr>
<td>√ UN Guiding Principles on Business and Human Rights implementing the UN ‘Protect, Respect and Remedy’ Framework</td>
<td>➢ Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings</td>
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<tr>
<td>✓ OECD Guidelines for Multinational Enterprises</td>
<td>➢ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 as regards disclosure of non-financial and diversity information by certain large undertakings and groups</td>
</tr>
<tr>
<td>✓ International Organisation for Standardisation’s ISO 26000</td>
<td>➢ Guidelines on non-financial reporting Communication from the Commission 2017/C215/01</td>
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<tr>
<td>✓ International Labour Organisation’s Tripartite Declaration of principles concerning multinational enterprises and social policy</td>
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Therefore, entity reporting, prepared in line with the above-mentioned documents, can be used as the information base for reporting on the attainment of SDGs. At the same time, it is important to underline that transition economy countries do not take full advantage of this opportunity. The reason lies in the fact that these countries possess a low quality of reporting data, insufficient comparability and low awareness regarding international and national initiatives in the field of reporting on sustainable development. This is stated in a document issued by the European Parliament “Monitoring the implementation of the Sustainable Development Goals – The role of the data revolution” (European Parliament, 2016).

In addition, transition economy countries are characterized by a complete or partial lack of coordination, data exchange and cooperation of entities that prepare, collect, process, and use reporting on the attainment of SDGs. Users of such reporting include: government, international, and non-governmental organizations. The preparers of such information act as
corporate sector entities (European Parliament, 2016). Therefore, there is an institutional problem of interaction between users and compilers of reporting, that reduces the effectiveness of the regions and state management, and the coordination at the global level.

There is no a unified solution to this problem. That is why, it is necessary to consider the issues of institutional support for reporting on SDGs based on the ISAR Guidance.

In Ukraine, the work on attainment of SDGs was initiated in 2015. In this context the national report “Sustainable Development Goals: Ukraine” was presented. This document provides the baseline and benchmarks for Ukraine to achieve the SDGs. The national report was prepared by the Ministry of Economic Development and Trade of Ukraine under the chairmanship of the First Vice Prime Minister of Ukraine – the Minister of Economic Development and Trade of Ukraine and the UN Resident Coordinator in Ukraine, Humanitarian Coordinator in Ukraine and UNDP Resident Representative in Ukraine. The national report presents the outcomes of the adaptation of 17 global SDGs based on the country’s specific experience (the Ministry of Economic Development and trade of Ukraine, 2017, National baseline Report).

The practices of the countries that have progressed towards sustainable development show that the implementation of the state policy in this field requires coordination of efforts at the level of executive authorities and a wide range of NGOs (non-governmental organizations). Among the main trends the following initiatives require special attention: the UN initiatives; the EU initiatives and other recognized international initiatives for the disclosure of non-financial information.

The United Nations initiatives, in particular, the ISAR Guidance, are of greatest interest. This is evidenced by their focus on promoting corporate social responsibility and support in solving entrepreneurial problems of globalization and creating a more stable and comprehensive economy.

The methodology for forming the key indicators stated in the UN Guidance draft is based on the best international and national practices (standards developers, regulators, etc.).

It is important to note that the indicators are universal for different jurisdictions and industries and reflect the current practice of cross-cutting existing standards, enterprise capabilities, investors’ needs, and a monitoring mechanism of the attainment of SDGs.

The key indicators defined in the document provide an opportunity for more detailed disclosure of information by entities, taking into account specifics and regulatory requirements. These indicators show the contribution of the corporate sector towards the attainment of SDGs, in particular targets 6, 7, 12, 17. At the same time, a relatively short list of indicators defined in the ISAR Guidance draft and information bases for their identification will contribute to the implementation of a unified approach to reporting on the attainment of SDGs and removal of information asymmetry between countries through the provision of the comparability principle (table 2).
<table>
<thead>
<tr>
<th>SDG</th>
<th>Indicators of SDGs’ attainment</th>
<th>Indicators of SDGs’ attainment in Ukraine (indicators and comments are presented in accordance with the document)</th>
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</thead>
</table>
| SDG 6 «Ensure availability and sustainable management of water and sanitation for all» | 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally. | 6.3. Reduce the discharge of untreated wastewater, primarily through innovative technologies of water purification at the national and individual levels. 
*Note: the target takes into account the national context* |
| | 6.4 By 2030, substantially increase water use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity. | 6.4. Increase the efficiency of water use. 
*Note: the target takes into account the national context* |
| SDG 7 «Ensure access to affordable, reliable, sustainable and modern energy for all» | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix. | 7.3. Increase the share of renewable energy in the national energy balance, in particular through the introduction of additional capacities at facilities that produce energy from renewable sources. |
| | 7.3 By 2030, double the global rate of improvement in energy efficiency. | 7.4. Increase the energy efficiency of the economy. 
*Note: the target takes into account the national context* |
| SDG 12 «Ensure sustainable consumption and production patterns» | 12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate information sustainability into their reporting cycle. | The target is addressed. 
*Note: the target is not defined separately, because it is addressed in the appropriate policy documents.* |
| SDG 17 «Strengthen the means of implementation and revitalize the global partnership for sustainable development» | 17.1 Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity. | 17.1. Mobilize additional financial resources by promoting foreign and domestic investments. 
*Note: the target is based on key priorities identified during expert and policy research.* |
The consolidation of efforts at entity reporting on the attainment of SDGs at the national level could serve as an example of the implementation in Ukraine recognized international initiatives, in particular the ISAR Guidance and the requirements of Directive 2013/34/EU, a general purpose of which is the implementation and a unified methodological approach that involves assistance to entities in disclosing information on all aspects of sustainable development (economic, environmental, social, managerial).

The Ministry of Finance of Ukraine challenged the SESE “Academy of Financial Management” to develop the draft Methodology for the preparation of the management report (the draft Methodology). Provisions of the UNCTAD ISAR Sustainable Development Reporting, as well as provisions of the ISAR Guidance, were applied while working on the draft Methodology. With this approach, the information capabilities of the management report have expanded, in particular through applying the recorded data to be reported on the attainment of SDGs.

The draft Methodology has been elaborated to address the following tasks:

- at the state level: to assist entities in preparing high quality, relevant, useful, transparent and comparable non-financial information coordinating at the state level the list of indicators of the management report and unified methodology for their calculation;

- at the interstate level: to create conditions for disclosure of information on the contribution of Ukrainian entities towards the attainment of SDGs.

The international documents that make recommendations for the report mainly cover a broad list of key indicators to provide enterprises with their own initiative in choosing the ones to be disclosed in the report (European Commission Guidelines on non-financial reporting); or specific examples of such indicators (the ISAR Guidance).

A variety of reporting techniques results in lowering their value for end users. Important information is blurred in large volumes of data disclosed by modern enterprises. The following paradox arises: the desire to achieve greater transparency through greater disclosure leads to the emergence of a large number of forms and lower transparency of the enterprise. In this context, the combination of EU directives and the ISAR Guidance will be a compromise for countries.
with economies in transition and have a synergistic impact, considering the need for enhanced transparency and accountability of companies, as well as improving approaches to management reporting and attainment of SDGs.

The analysis of the provisions of these documents, and a detailed study of their content, has shown that implementing combined international requirements will enhance the enterprise performance transparency by ensuring transparency and openness of information flows on the market; will ensure the reduction of information asymmetry and ultimately contribute towards the attainment of sustainable development goals through balancing the interests of stakeholders on the market.

The proposed key indicators cover the economic, environmental, social and managerial aspects of the business in line with the Triple Bottom-Line concept.

In developing the draft Methodology, a great deal of attention was focused on the selection of a limited number of key quantitative indicators and on the development of agreed methodologies for their calculation that would be of universal character and relevant to all entities, regardless of the type of activity, sectoral affiliation. Having this in mind, a study on the structure of information support for reporting on SDGs has been conducted (figure 1).

**Figure 1: The number of indicators by which the information in entity reporting of Ukraine is available or absent (according to the list of indicators, defined by the ISAR Guidance) ***

![Figure 1: The number of indicators by which the information in entity reporting of Ukraine is available or absent (according to the list of indicators, defined by the ISAR Guidance)](image)


The analysis of the availability of information bases for calculating the quantitative indicators of reporting on the contribution towards the attainment of SDGs has showed that 18% of the total number of indicators (6 indicators) defined in accordance with the ISAR Guidance are not included in the appropriate official and published information bases in Ukraine for disclosure in entities’ reporting. This indicates that there is no national practice to collect information on such indicators.
The structure of the information base for the management report by the list of indicators, based on the draft UNCTAD document, is as follows:

- according to financial reporting, 3% of the indicators are defined;
- according to tax reporting – 3% of the indicators;
- according to statistical reporting – 49% of the indicators;
- according to the accounting data and internal documents of the reporting entity – 27% of the indicators (figure 2).

**Figure 2: Structure of information bases for entities reporting on their contribution towards the attainment of the SDG**

![Figure 2: Structure of information bases for entities reporting on their contribution towards the attainment of the SDG](image)


Thus, the comparative analysis and assessment of the content of financial, tax and statistical reporting in Ukraine have shown that the overwhelming majority of indicators, stated in the ISAR Guidance, are contained in these reports. Therefore, this reporting can be applied as an information base for preparing the management report.

According to some indicators, the information base in Ukraine is absent, which, in its turn, may bring about information asymmetry. There is a probability of insufficient level of comparability and transparency of entities’ reporting data on their contribution towards the attainment of SDGs at the interstate, national, sectoral and entity level.

Certain indicators require minor additional calculations. These indicators include:

A. Economic area: value added; net value added; percentage of local procurement;

B. Environmental area: renewable energy; energy efficiency;

C. Social area: the proportion of women in leadership positions; percentage of employees covered by collective agreement;
D. Institutional area: all proposed by ISAR Guidances, except those for which the information base is not included in the appropriate official and published information bases in Ukraine for disclosure in the entities’ reporting (amount of fines paid or payable in accordance with convictions, average number of hours of training on anti-corruption issues per year per employee), require insignificant additional calculations according to internal documents, accounting and entity reporting.

The concept of ensuring transparency and comparability of information on the economic, environmental and social aspects of entity performance, as well as the unification of approaches to their disclosure has laid the basis for the development of the national document. The advantage was given to the quantitative indicators and to the agreed methodology for their calculation.

As a result, taking into account key international trends in disclosure of non-financial information and selected approach, the Guidance defines indicators in two areas:

1) key indicators which show significant economic, environmental and social impacts of reporting entities;

2) other essential information disclosed in accordance with the size and complexity of the business.

The methodological basis for the development of the list of key indicators is Directive 2013/34/EU and the ISAR Guidance.

Application of the unified approach, the ISAR Guidance and Directive 2013/34/EU, taking into account national peculiarities, makes it possible to address the issue of aggregated record in the information management report, which shows the economic, environmental and social aspects of entity performance, development prospects and contribution towards the attainment of SDGs.

The implementation of proposed national initiatives (draft Guidance on preparing the management report) will facilitate the process of preparing the management report by entities, promote its transparency, comparability of indicators and provide a mechanism for monitoring the attainment of SDGs by all public interest entities the range of which is wider than the range of companies according to the Ukrainian legislation (Article 1, Chapter I, the Law of Ukraine “On Accounting and Financial reporting in Ukraine” dated 16.07.1999 No 996-XIV), in particular indicator 12.6.1 Number of companies publishing sustainability reports SDG 12 «Ensure sustainable consumption and production patterns» (The Law of Ukraine “On Accounting and Financial Reporting in Ukraine”, 1999).

Conclusion

Based on the practice of the regulatory procedures for preparing non-financial reporting by Ukrainian entities, it is necessary to recommend for transition economy countries to take into account the risks associated with the implementation of the management report and attainment of SDGs, in particular:
– noncompliance of national legislation with international reporting requirements for the attainment of SDGs;

– low level of entities’ awareness of existing international and national corporate social responsibility initiatives and other non-financial reporting initiatives.

In order to avoid and mitigate these risks, it is important to encourage governments of transition economy countries to take into account national peculiarities of the legal framework and the requirements of recognized international initiatives (UN documents, EU legislative requirements, GRI and others) in developing national reporting guidelines on the contribution towards the attainment of SDGs, to be prepared by entities (figure 3).

**Figure 3: Strengthening the comparability of entity reporting on the contribution to SDG**


In conclusion, it is necessary to point out that the implementation of this initiative will allow:

– strengthen the information support for monitoring SDGs at the national level;

– to ensure comparability of reporting between countries, geographic regions, industries and entities in the context of the definition of Indicator12.6.1. Number of companies publishing sustainability reports SDG 12 “Ensuring sustainable consumption and production patterns”.

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