



SUGGESTIONS ON UNCTAD’S DRAFT OUTLINE POLICY RECOMMENDATIONS, LESSONS LEARNED AND BEST PRACTICES FOR ESTABLISHING/STRENGTHENING THE SUSTAINABILITY REPORTING INFRASTRUCTURE

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KEY CHALLENGES FOR COUNTRIES WITH ECONOMIES IN TRANSITION IN IMPLEMENTING NON-FINANCIAL REPORTING (SUSTAINABILITY REPORTING)

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- low level of involvement of enterprises in reporting on the impact of their activities on the environment (environmental, social, institutional);
- lack of institutional levers of influence and motivation of enterprises to disclose non-financial information, except for those types of enterprises that are required by law to disclose such data. For example, according to Ukrainian law, management reports are submitted only by large and medium-sized enterprises, and the latter can only include financial information. Management reports for potential investors and society are a source of information on performance that cannot be obtained from the financial statements, including social and environmental aspects, progress and prospects for the future, existing risks and uncertainties of the enterprise's activity.
- lack of unified approaches to standardizing the content of non-financial reporting (list of basic indicators);
- lack of a mechanism for collecting and consolidating data from non-financial reports of enterprises (repositories).

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1. *Suggestion for “Guidance on core indicators for entity reporting on contribution towards implementation of Sustainability Development Goals” (GCI).*

GCI can be **supplemented by a block of indicators that characterize the trends in anti-crisis management of enterprises in conditions of uncertainty** (addressed to paragraph “UNCTAD’s tools”).

2. *Suggestion on the main best practices in establishing or strengthening the regulatory, institutional, and human capacity components of the sustainability reporting national system.*

The given scientific study of the best practice in regulating non-financial reporting of EU member states and countries with economies in transition allows to identify two models:

- model of countries with economies in transition: making changes to the existing national legal framework on compiling a management report in the context of harmonization with the recognized international initiatives (Georgia, Moldova);

- model of EU countries with developed economies: development of special legal support (law and/or by-law) administrating non-financial reporting (Austria, Belgium, Spain, Italy, Germany, Poland and France).

An example of a regional initiative to address the current voluntary reporting on sustainable development is the draft Corporate Sustainability Reporting Directive № 2021/0104 (CSRD), issued by the European Commission. The adoption of the CSRD will help bring the EU closer to its strategic goal of bringing sustainability reporting into line with general purpose financial statements in order of importance. This fact is also confirmed by the change of terminology in the document from "non-financial reporting" to "sustainability reporting" (addressed to paragraph “Examples of successful approaches followed by countries”).

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3. The key common approaches of successful examples of implementation of national sustainability reporting infrastructure include the following:

- standardization of methodological approaches to the preparation of reports on sustainable development. The adoption of the CSRD Directive also requires the mandatory introduction of sustainable development reporting standards. These standards are intended to supplement the list of information currently contained in Directive 2013/34 / EU and to identify sectoral special features that need to be disclosed;
- ensuring the multifunctionality of the use of sustainable development reporting as a source for assessing the risks of achieving the SDGs (in the context of monitoring and preparing voluntary national reviews); fiscal risks (in terms of risk assessment of state corporations), etc. (creation of the Council for International Standards for Sustainable Development under the Council for International Standards for Financial Reporting) **(addressed to paragraph “Examples of successful approaches followed by countries”)**.

*4. In the context of the main steps for policymakers in establishing or strengthening the national sustainability reporting infrastructure it should be noted that a key aspect of strengthening the national infrastructure is the proper **organization of non-financial reporting in the country** **(addressed to paragraph “Examples of successful approaches followed by countries”)**.*

4.1 The synthesis of modern academic thought and the assessment of the current regulatory framework, recommendations and guidelines of international documents allowed to identify levels of non-financial reporting regulation in Ukraine:

- national level (upper), which is regulated by the relevant state executive bodies, which operate in a certain legal field;
- local level (lower), at which regulation is carried out by the subject of economic activity (enterprise, organization, institution).

4.2 National functional-analytical models of the organization of non-financial reporting in countries with transition economies need to be evaluated **(which can be done using tools developed by ISAR UNCTAD, in particular the Accounting Development Tool, ADT)**.

4.3 We also consider it necessary to focus **on ensuring the quality of sustainable development reporting and developing criteria for its evaluation** (reliability, relevance, comparability).

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*5. The following elements should be differentiated in order **to take into consideration the specificities at the country level**:*

- the need to clarify the list of basic indicators of the management report, which the enterprises are to coordinate with (key efficiency indicators, including of sectoral nature);
- creation and administration of a national database of non-financial reports as a key element of the data collection mechanism **(addressed to paragraph 3.3 Main elements of the national action plan for sustainability reporting)**.

*6. The key actor should be **International Sustainability Standards Board under the International Financial Reporting Board**. The sustainable development management is a relatively new function for public administration as it has always meant that its integral parts are within the function of different state institutions. Given that the main source of information on sustainable development reporting are accounting data, we consider it **appropriate to determine the central executive body of the country as the main regulator of sustainable development reporting, whose functions are to implement and establish state policy in the field of accounting and reporting** **(addressed to paragraph “Examples of successful approaches followed by countries”)**.*

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7. In the context of incentives for alignment of stakeholders' interests we would like to focus on the following. In almost all international documents issued by international financial institutions that can provide loans and financial support to countries around the world (including emerging economies) (IMF, World Bank, European Investment Bank), **one of the criteria for deciding on lending is how the use of provided funds can serve to achieve SDGs, economic sustainability (e.g. green investment).** In order to develop this direction, the qualified personnel should be introduced at the financial sector, enterprises, as well as in public sector. So, the **training and professional development of those who are involved in working in this sphere is really crucial** (addressed to paragraph "Examples of successful approaches followed by countries").

8. The key areas where countries require assistance:

- **technical assistance in establishing a national repository** for countries with transition economies;
- **technical assistance in conducting the assessment** according to the methodology of the Accounting Development Tool, adapted to the infrastructure assessment of the reporting for sustainable development of an enterprises;
- **methodological assistance in establishing national or implementing the provisions of global standards** for the preparation of sustainable development reporting, which is being worked on by the newly established International Sustainability Standards Board (addressed to paragraph 3.3 Main elements of the national action plan for sustainability reporting).



**SESE the “Academy of
Financial Management”
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THANK YOU!