Non-Financial Reporting Frameworks in Emerging Economies

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Abstract

Non-financial reporting frameworks in emerging economies have gained prominence in recent years as organizations recognize the need to address environmental, social and governance (ESG) issues alongside financial performance. These frameworks provide guidelines and standards for reporting on various non-financial aspects of business operations. While some emerging economies may adopt internationally recognized frameworks, others may develop their own frameworks to suit their specific contexts. Various international bodies and organizations have developed non-financial reporting standards and frameworks to guide organizations in reporting their ESG performance. Examples include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). These frameworks offer structured guidelines for reporting on specific ESG issues, ensuring consistency and comparability across industries and sectors. Within this paper it is presented the main frameworks used in emerging economies.

Key words: non-financial, emerging economies, frameworks
J.E.L. classification: O00

1. Introduction

The research aimed to study the main frameworks used in emerging economies. Implementing non-financial reporting standards and frameworks brings several advantages. It enhances transparency, allowing stakeholders to make informed decisions about a company's long-term sustainability. Standardization facilitates benchmarking and comparability, enabling investors, regulators, and the public to assess and compare the ESG performance of different organizations.

As the landscape of non-financial reporting continues to evolve, there is a growing call for convergence and harmonization among different standards and frameworks. Achieving a globally accepted and standardized approach to non-financial reporting could further enhance the credibility and effectiveness of ESG disclosures.

2. Theoretical background

In the definition by Marie-Josée Privyk (Privyk, 2022) standards are the agreed level of quality requirements, which people consider acceptable for reporting entities. A standard can be considered as containing specific and detailed criteria or values about the "what" should be reported on each topic. In general, corporate reporting standards have in common the following characteristics: emphasis on public interest, independence, due process, and public consultation, generating a stronger basis for the information requested.

On the other hand, frameworks provide the "framework" to contextualize information. Frameworks are those that are normally put into practice in the absence of well-defined standards. A framework allows flexibility in defining direction, but not the method itself. A framework can be thought of as a set of principles that provide guidance and shape people's thoughts on how to think about a particular topic, but it lacks a defined reporting obligation.

3. Research methodology

In this section we present the stage of evolution of frameworks and reporting standards in emerging economies. For this theoretical analysis to include the elements of interest, we have defined the following research questions:

1. What are the main internationally recognized reporting frameworks/standards?
2. What was the context and necessity at the time they appeared?
3. What are the main differences between the identified reporting frameworks/standards?

The critical analysis model used to highlight in an extended way the frameworks and standards used includes the following elements: conceptual basis, evolution, applicability, main aspects by which these frameworks and standards differentiate between them.

Below, there were included the main internationally recognized reporting frameworks/standards.

Table no. 1 Existing reporting frameworks and standards

Reporting Framework Entity/Standard	Acronym	Type	Year of appearance	Who applies	Users
Global Reporting Initiative	GRI	Standards and tools (including detailed indicators for reporting relevant data (Global Reporting, 2023)	1997	Over 10000 companies from over 100 countries	Expanded investors and stakeholders
RobecoSAM -Dow Jones Sustainability Index	DJSI	Tool including indicators for ranking entities	1999	Over 10000 companies	Investors
Carbon Disclosure Project	CDP	Reporting tool with specific indicators for the classification of entities (CDP, 2023)	2000	More than 23000 entities representing two-thirds of global market capitalization report via CDP in 2023 (CDP, 2023)	Investors and stakeholders
Equator Principles Association	EP	Principles for risk management in financial institutions (Equator Principles, 2023)	2003	140 financial institutions from 39 countries report using this framework (Equator Principles, 2023)	Interested parties
Science Based Targets Initiative	SBT	Tool for assessing the progress of entities against their objectives	2008	Used by over 780 companies globally	Interested parties
Climate Reporting Standards Board	CDSB	Standards for market research	2010	Private sector	Interested parties
Sustainability Accounting Standards Board	SASB	Tool including indicators for ranking entities	2011	Predominantly used in the United States	Investors
International Integrated Reporting Council	IR	Principles for impact reporting	2013	Public and private sector	Interested parties

Task Force on Climate-Related Financial Disclosures	TCFD	Principles and tool for forecasting (TCFD, 2023)	2015	Binding regulatory framework in many jurisdictions, including the European Union, Singapore, Canada, Japan and South Africa.	Investors
UN	SDGs	Tool including detailed indicators for impact reporting (United Nations, 2023)	2015	The framework is used in 162 countries (United Nations, 2023)	Interested parties.

Source: Own processing

4. Findings

Here are some key aspects of non-financial reporting frameworks in emerging economies as defined by corporate law firm Travers Smith (TraversSmith, 2022):

- Adoption of global frameworks: Many emerging economies choose to adopt globally recognized non-financial reporting frameworks to align with international standards.
- Local regulatory requirements: Some emerging economies are introducing regulations or requirements for non-financial reporting.
- Industry specific guidelines: Some emerging economies may develop sector-specific non-financial reporting guidelines.
- Cultural and social factors: Emerging economies often have unique cultural, social and environmental challenges.
- stakeholder involvement: Stakeholder engagement is an essential component of non-financial reporting in emerging economies.
- Integration with financial reporting: Integrating non-financial reporting with financial reporting is a challenge faced by organizations globally; Emerging economies may need to work on aligning these two aspects of reporting to provide a comprehensive picture of their performance.
- Insurance and verification: Ensuring and verifying non-financial reports is increasingly important. In some emerging economies, there may be a lack of expertise and resources for independent insurance, so building capacity for this is vital.
- Global benchmarking: Emerging economies often struggle to compare themselves to their global counterparts in terms of sustainability and ESG performance. This may lead to the adoption of internationally recognised reporting frameworks.
- Government support: Government support through incentives, subsidies, or recognition of ESG efforts can encourage organizations in emerging economies to adopt non-financial reporting practices.

In my opinion, these key issues succinctly present the directions of approach existing at global level, and not only within emerging economies. The adoption of global frameworks on the one hand and the fulfillment of local regulations corroborated with those specific to the industry are aspects that lead to a correct implementation of non-financial reporting.

Alongside government regulations, a wide range of reporting frameworks have emerged to help companies report on sustainability, each with a different focus on audience, reporting requirements and methodology.

The Global Reporting Initiative (GRI), founded in 1997 by the Coalition for Environmentally The fact that the Global Reporting Initiative (GRI) focuses on a more diverse group of stakeholders than the Sustainable Accounting Standards Board (SASB), whose main audience is investors, is one of the most important aspects that differentiates these two organizations. The executive directors of the

GRI and SASB wrote the following in a joint article that was published in 2017: "Instead of competing with each other, the GRI and SASB are designed to fulfill different goals for different audiences." When it comes to companies, it all comes down to choosing the right tool for the task at hand. (Mohin, T., & Rogers, J., 2017). The recent publication of GRI Standard 206 on Tax and Payment Disclosure to Governments demonstrates its relevance to a diverse collection of stakeholders. Wiederhold illustrates how multinational corporations can significantly and legally reduce their tax burden by providing an in-depth analysis of available techniques for valuing intellectual capital and transferring it to tax-advantaged countries. He does this by describing in detail the various methods of evaluating intellectual capital. (Wiederhold, G., 2014). A multinational firm is required to disclose the taxes it pays on a country-by-country basis, as required by the GRI standard. This disclosure would significantly increase the level of openness enjoyed by tax authorities and has the potential to deter tax evasion tactics that are particularly aggressive. In principle, shareholders and some specialists in accounting and tax consultancy benefit from tax evasion. However, this practice has a negative impact on the money available for public infrastructure and social welfare, which in turn affects virtually all other stakeholders. Non-shareholder stakeholders have a collective incentive to mitigate the negative effects of aggressive tax avoidance as they bear a considerable part of the cost of externalities that cannot be mitigated due to uncertain public funding. This is because non-shareholder stakeholders bear a significant share of externalities stemming from aggressive tax avoidance. The failure of the shareholders-focused accounting frameworks (IIRC and SASB) to propose any tax disclosure rule so far may not be a coincidence.

Unlike other frameworks, SASB makes a conscious effort to encode materiality, which sets it apart from other models. According to research, company managers' emphasis on important concerns broken down by industry seems to increase the value relevance of their companies' sustainability efforts (Khan, M., Serafeim, G., & Yoon, A., 2016). However, in a world where disruption is the norm, an erroneous materiality assessment will result from designating some concerns as insignificant and others as crucial through a laborious and sporadic standard-setting process. For example, the Securities and Exchange Commission (SEC) concluded in its materiality map that corporate ethics concerns are not likely to be substantial for the technology and communications industry, despite there being much evidence to the contrary (Bose, S., Guo, D., & Simpson, A., 2019). Similarly, an asset manager would be surprised to find that SASB does not consider data security or client privacy to be significant sustainability challenges for its asset management business. The protection of customers' personal information is not considered a significant concern for commercial banks by the SASB. In 2019, commercial bank and credit card business Capital One said a hacker took data relating to 100 million people living in the United States and 6 million people living in Canada from their systems (McLean, R., 2023 Oct. 30). Even though this was obviously an issue with data security, it also had negative effects on customer privacy. An investor valuing Capital One's portfolio holding against those of its rivals may be concerned about conducting due diligence on Capital One's methods of preserving consumer privacy. These examples show that it is a futile exercise to try to predict the types of concerns that will be significant to an investor in the way SASB claims to be able to do so. Investors cannot afford the luxury of handing over the task of defining the materiality of a static process managed by a standard-setting agency.

The goal of GRI and SASB is to make key performance indicators comparable between different companies. For TCFDs, comparability between issuers receives relatively little attention. According to the TCFD, consumers of climate-related financial information need companies to provide more information about the possible financial effect of climate-related challenges on their business prospects. This is a requirement that entities must meet. (Task Force on Climate-Related Financial Disclosures., 2019). Although the TCFD recommends scenario analysis for reporters, there are very few standard recommendations on the parameters and assumptions underlying such scenarios today. Although the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) have developed policy-relevant scenario descriptions, there are no 'standard scenarios' that include climate change impacts at a local scale, climate-related determinants of business performance, and climate change uncertainty parameters linked to business planning assumptions. Because of this, it is difficult to compare information that has been suggested by TCFD to different firms. As a result, the usefulness of such information to investors is substantially reduced. TCFD

cannot be considered a standard in the same sense as the GRI or SASB. It is still far too simple for companies reporting under this framework to assess idiosyncratic climate risks that are not properly articulated to investors and then conclude that their business models are robust in the face of such risks. For example, all four illustrative corporate reports that are presented in the latest status report published by TCFD state that their strategies are "resilient" or "robust" to the effects of climate change (Task Force on Climate-Related Financial Disclosures, 2019).

There is a link between civil society's calls for sustainable development, such as balancing economic growth and social and environmental goals, and the universal investor's interest in avoiding companies that generate short-term profits from the unsustainable liquidation of natural and human capital. Specifically, balancing economic growth and social and environmental objectives is a key component of sustainable development. In addition, the general awareness of the emergence of the citizen investor and the trend towards distributed ownership shows that describing investors as primarily the owners of corporations and creditors of these companies is an extremely insufficient definition. Today's investor constituency connects with consumer, employee, and community constituencies in a significantly broader manner than it did in previous centuries. It is therefore neither constructive nor viable to maintain a clear distinction between investors' interests and those of a more diverse cross-section of stakeholders, which is the focus on sustainability proofing frameworks. At the beginning of this chapter, we discussed two potential explanations for the interest investors may have in ESG information: (1) to assess the effect that business action has on environmental and social systems and (2) to locate the origins of ESG "alpha". To address the first reason, it is vital to have consistent, easily accessible, and easy-to-interpret measurements. Standardization and centralized definitions are undoubtedly essential to the aim we want to achieve here. It is not possible to assess the effectiveness of business initiatives for reducing emissions without first establishing a reliable mechanism for calculating scope 1 and scope 2 emissions.

Information is the key raw material in the process of producing value through a security selection process, sometimes known as ESG "alpha" lookup. In this endeavor, information that is familiar to many people or can be obtained with little effort is of much less value than information that must be obtained through laborious procedures, considerable research and attention to detail, along with fortuitous achievements. Information is likely to be incorporated into asset prices to the extent that it is publicly available and can be understood consistently. Therefore, the information is highly unlikely to lead to better performance. One of the conclusions that can be drawn from most of the different formulations of the efficient market hypothesis is that acquiring knowledge of this type is not worth the effort and expense involved. On the other hand, materials that are difficult to understand and understand can be useful for the selection process of security personnel. The esoteric knowledge required to form the basis of alpha containment tactics cannot be obtained by using frameworks that are both widely available and transparent. If they were able to do so, reduced barriers to entry would quickly erase any advantage they would have, which would eliminate why they need to obtain such obscure information in the first place. Investors are looking for this type of information, but the scope of their investigation inevitably extends beyond conventional data sources. Alliances formed between active investment managers, such as Alliance Bernstein and Wellington Management, with climate science institutes such as the Lamont Doherty Earth Observatory and Woods Hole Research Center, respectively, are illustrative of the hunt for esoteric knowledge, but relevant to decisions. These partnerships have the potential to significantly improve the allocation of funds for climate risk reduction and solution financing (AllianceBernstein., 2019).

5. Conclusions

In conclusion, the landscape of non-financial reporting frameworks in emerging economies represents a dynamic and evolving aspect of corporate disclosure. As these economies grow and become increasingly integral to the global business environment, the importance of transparent reporting on environmental, social, and governance (ESG) factors has gained prominence. Non-financial reporting frameworks serve as essential tools to guide organizations in these regions towards sustainable and responsible business practices.

The adoption of non-financial reporting frameworks in emerging economies is influenced by a range of factors, including regulatory developments, stakeholder expectations, and the recognition of the materiality of ESG issues. While some emerging economies may face unique challenges in terms of capacity, awareness, and regulatory maturity, the trajectory indicates a growing acknowledgment of the need for standardized and comparable ESG disclosures. Collaboration between governments, regulatory bodies, businesses, and civil society is crucial for the successful integration of non-financial reporting frameworks in emerging economies. By fostering a cooperative environment, stakeholders can work together to address challenges, share best practices, and drive the development of context-specific reporting guidelines.

In summary, the journey towards effective non-financial reporting in emerging economies is characterized by progress, challenges, and the recognition of the transformative potential of ESG disclosures. As these economies continue to play a vital role in the global economy, the successful integration of non-financial reporting frameworks will contribute not only to the sustainability of individual businesses but also to the broader social and environmental goals of these nations. The ongoing commitment to transparency, accountability, and sustainability will be instrumental in shaping the future trajectory of non-financial reporting in emerging economies.

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