

VIII Foro de Contadurías Gubernamentales de América Latina

Ciudad de México, 5, 6 y 7 de octubre de 2022.



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Preliminary results of the regional study on sustainability-related financial information in the Public Sector in Latin America



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Agenda

- Background
- Results per dimension
- Benefits
- Challenges
- The role of the accountant
- Conclusions and recommendations



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Background



Objective of the study

To provide an overview of the current state of sustainability-related financial information in the region's public sector.

Research instrument

A tailor-made questionnaire of 33 questions was designed to obtain information on the following dimensions:

- Sustainability Reports
- Disclosures of Sustainability-related Financial Information
- Climate-Related Disclosures
- IPSASB's Recommended Practice Guidelines

The questions were answered in a self-assessment format by the general accountants of the countries participating in the study.

Participating FOCAL member countries

Countries surveyed



Argentina



Bolivia



Brazil



Chile



Colombia



Costa Rica



Ecuador



El Salvador



Guatemala



Panama



Paraguay



Peru



Mexico



Uruguay

Countries interviewed



Brazil



Colombia



Paraguay



Results by dimension



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México 2019



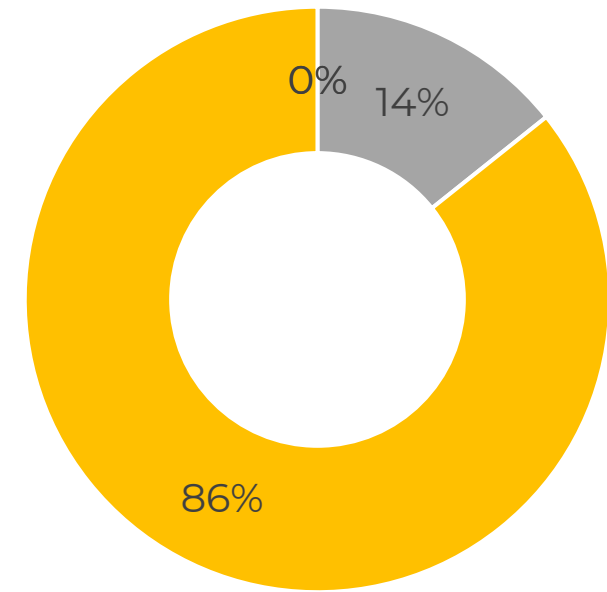
Sustainability Reports (1/4)

- ▶ 86% of the countries surveyed have adopted a national plan for sustainability and climate action.
- ▶ Respondents recognize the importance of National Development Plans (Bolivia, Colombia, Ecuador and Mexico), as well as Nationally Determined Contributions (Panama and Costa Rica) to advance in the fulfillment of the Sustainable Development Goals.

Examples of plans and programs related to climate change:

- ▶ National Climate Change Policy (Guatemala and Mexico)
- ▶ National Plan for Adaptation to Climate Change (Uruguay and Peru)
- ▶ Environment and Natural Resources Sector Programme (Mexico)
- ▶ National Green Growth Program (Brazil)

Has your country adopted a national plan for sustainability and climate action?



■ NA ■ No ■ Partially ■ Yes

Sustainability Reports (2/4)

- 86% of the countries surveyed indicated that they had designated an entity responsible for the implementation and monitoring of national sustainability and climate action plans.

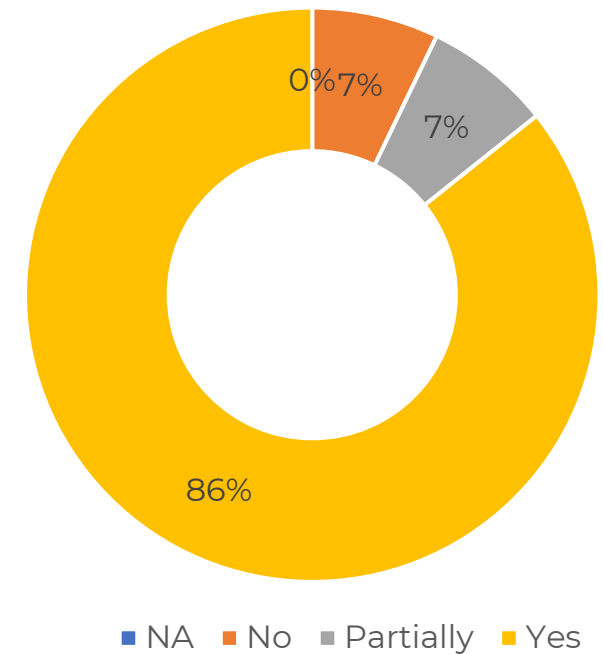
SDGs

- Interinstitutional Commission chaired by the Ministry of Foreign Affairs
- Ministry of Social Development
- Ministry of Planning
- Administrative units of the Presidency
- National Statistical Institutes

Climate Change

- Ministry of the Environment
- Ministry of Environment and Natural Resources
- Inter-Agency Committee on Climate Change

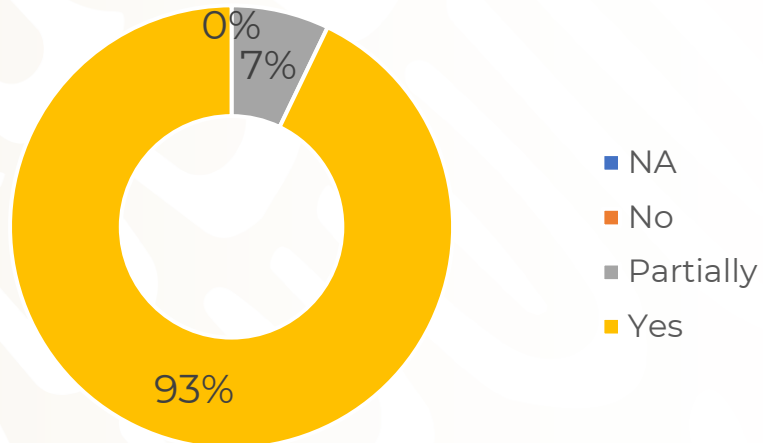
Has your country designated an entity responsible for the implementation and monitoring of the national sustainability and climate action plan?



Sustainability Reports (3/4)

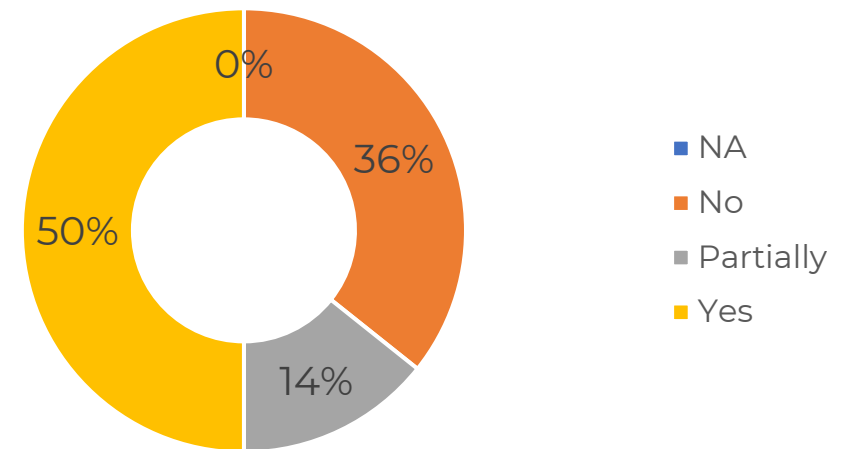
- 93% of the countries surveyed report on the achievements of the SDGs, especially through the Voluntary Country Progress Reports on the SDGs.

Is your country currently reporting on the achievements of the United Nations Sustainable Development Goals (SDGs) at the national level?



- Only 50% of the countries surveyed indicated that they use guidelines for the presentation of information. It is noted that countries are making individual efforts to develop methodologies and define indicators for reporting.

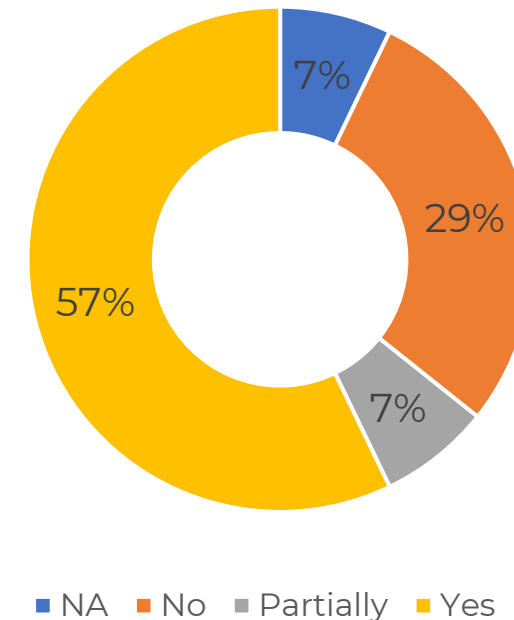
Does your country use sustainability reporting guidelines?



Sustainability Reports (4/4)

- 57% of the countries surveyed indicated that financial information is available that could be used for sustainability-related financial reporting. Some examples are:
- Link between the public budget and the SDGs.
- Reports on climate change-related spending
- Investment reports for certain SDGs
- Off-balance-sheet accounts of contracts signed by PPPs and turnkey that are reflected as a contingent liability.
- Information related to public debt

Is there currently financial information available in your country that could be used for sustainability-related financial reporting?



Disclosures of financial information related to sustainability

- The countries surveyed generate information and reports on fiscal sustainability, which allow identifying, assessing and managing the respective risks. 43% of the countries surveyed indicated that they have integrated information systems that facilitate the measurement of progress related to sustainability. However, adjustments to the systems would be necessary to identify a new flow of information associated with sustainability. Some examples of other information systems used are:

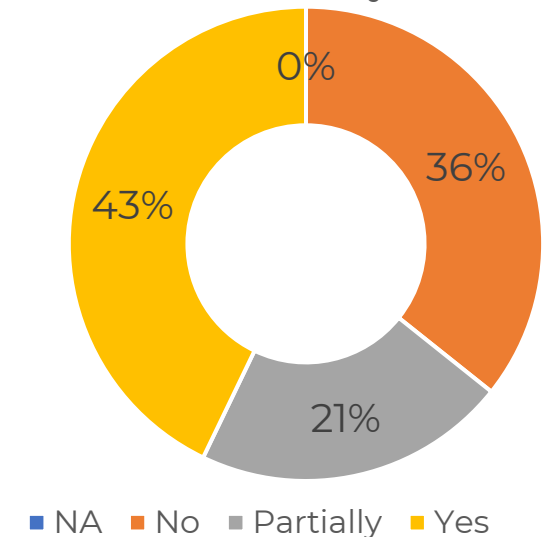
SDGs

- SDG Information System (Mexico)
- National Statistical System (Uruguay)

Climate Change

- Forest Traceability and Control System (Panama).
- National Climate Transparency Platform (Panama)
- Costa Rica's National Climate Change Metrics System
- National System of Environmental Indicators (Mexico)

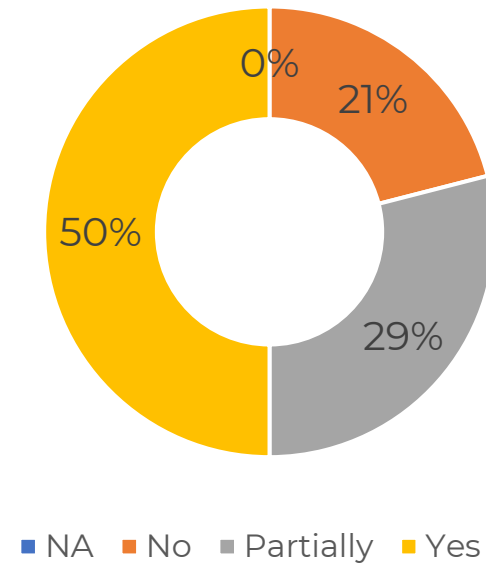
Do entities have integrated information systems that guarantee the quality of records and facilitate the measurement of progress related to sustainability?



Climate-related disclosures

- 50% of countries surveyed indicated that they identify current and expected effects of climate-related risks and opportunities. Some specific examples are:
- In Panama, the Ministry of Environment developed the Climate Change Technical Guide for the Planning, Pre-feasibility and Feasibility of Public Investment Projects and the Climate Change Labeler Implementation Manual to identify public investment projects that meet adaptation, mitigation or transversal criteria. Additionally, there are Climate Change Scenarios that allow to project a plausible representation of the future climate and from these projections quantify the expected impacts for the various sectors of the country.

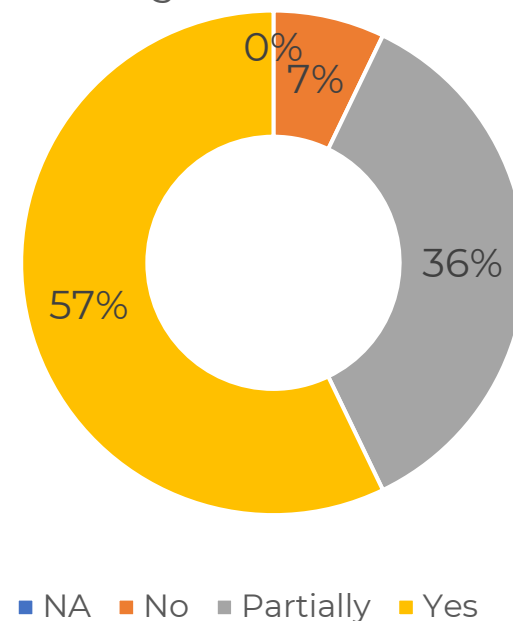
Do entities in your country identify the current and expected impacts of climate-related risks and opportunities in the assessment of sustainable development?



IPSASB's Recommended Practice Guidelines (1/2)

- ▶ 57% of the countries surveyed indicated that they have information to assess the service, income and debt dimensions of long-term fiscal sustainability, but this information is not prepared based on IPSASB's Recommended Practice Guidelines.

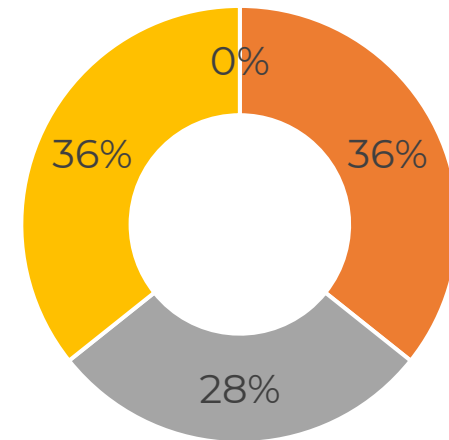
Do entities in your country have information to assess the service, revenue and debt dimensions of long-term fiscal sustainability?



IPSASB's Recommended Practice Guidelines (2/2)

- ▶ 36% of respondents indicated that in their country information on fiscal sustainability is available, but the focus is mainly on the medium term and not on the long term.
- ▶ None of the countries participating in the study apply the IPSASB Recommended Practice Guidelines. Some countries indicated that the guidelines have not been adopted at the country level, as the implementation of IPSAS is a priority.

Do entities in your country currently provide information on long-term fiscal sustainability including, for example: projections of future inflows and outflows, the principles, assumptions and methodology used in the projections?



■ NA ■ No ■ Partially ■ Yes

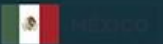
Benefits of Sustainability-Related Financial Disclosures (1/2)

- ▶ Contributes to decision making, public policy formulation and improved risk management.
- ▶ Provides alerts on areas where the State needs to intervene.
- ▶ Assesses whether it is necessary to contract public debt or generate additional resources through taxes to maintain certain services to the community.



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Benefits of Sustainability-Related Financial Disclosures (2/2)

- ▶ Provides visibility on the impacts of entities' activities on the achievement of the SDGs.
- ▶ The risks and opportunities associated with the effects of climate change, as well as the time horizons determined through climate change scenarios can be considered as key elements for negotiating loans to the nation.



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Challenges (1/2)

Parallel Accounting Reforms

In some countries it has not been possible to prioritize the topic of sustainability from the accounting point of view because they are currently in the process of implementing IPSAS and the priority has been to ensure the application of the standards.



Coordination

Sustainability is a cross-cutting issue involving the entire government and various sectors, so coordination with the other government entities in charge of environmental policies can be perceived as challenging.

Avoid information overload

A too broad scope in the disclosure of sustainability-related financial information can make it difficult to implement and compare the information. Decision makers may have difficulties in identifying relevant information.

Challenges (2/2)

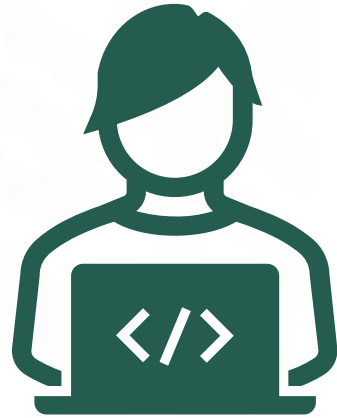
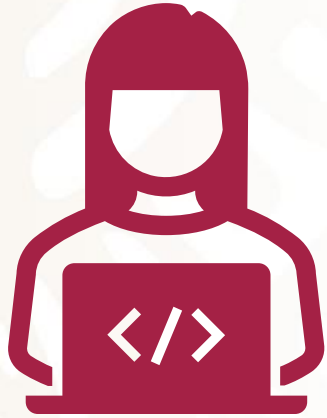
International comparability

Countries are making independent progress in developing methodologies, defining indicators and developing information systems to facilitate the monitoring of progress in achieving the SDGs. This could affect the international comparability of reported information.

Positioning of accountants in the field of sustainability

The countries surveyed have already clearly defined the entities responsible for the preparation of sustainability-related reports. In this context, it could be a challenge to determine the role that accountants might have.

The role of accountants



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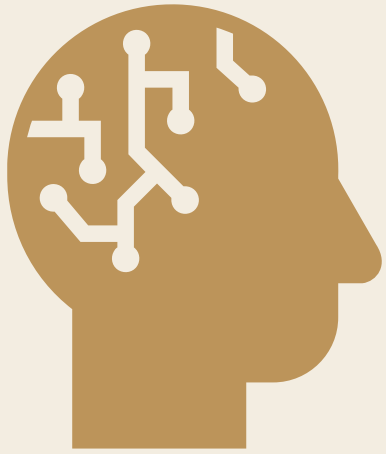


The role of accountants



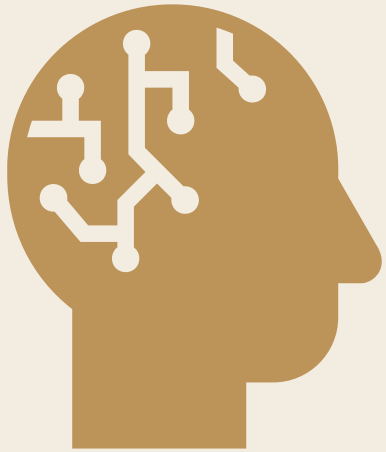
- ▶ Once it has been defined what information should be included in the reports, how this information should be generated and presented to the public, the role of public accountant can be defined.
 - ▶ If it is identified that current information systems are capable of containing financial information related to sustainability (or even non-financial information), accountants would have an important role in being "owners" of those systems. On the contrary, if the information is not generated in the financial information systems, accountants could only have a coordinating role to collect sustainability information from other entities in order to complement the financial reports.
 - ▶ In other words, the role of the accountant would be limited to guiding the way the information would be presented, and to validating that the information is complete and meeting the standards that have already been adopted.
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Conclusions and recommendations (1/2)



- ▶ The countries surveyed have experience in preparing financial information related to fiscal sustainability, which would facilitate the possible implementation of new international sustainability standards in the public sector.
- ▶ Climate change is being given higher priority compared to other SDGs.
- ▶ The lack of clarity on which internationally recognized methodologies and guidelines should be used in countries creates problems in the international comparability of reported information.

Conclusions and recommendations (2/2)



- ▶ The method of implementation of future international public sector sustainability standards would be comparable to the implementation of IPSAS, so countries can build on lessons learned from their current IPSAS implementation projects (direct or indirect adoption, voluntary or mandatory adoption, progressive implementation, or big-bang).

Recommendations for the development of international standards for disclosure of financial information related to sustainability in the public sector (1/2)



Before starting with the development of the standards, it is suggested to define key aspects such as:

- ▶ Users and users' information needs.
 - ▶ Whether the information would be presented at the entity level or at the aggregate level.
 - ▶ The constraints of financial information: Materiality and the cost-benefit ratio.
 - ▶ The approach and methodology that will be used to generate and present financial information related to sustainability.
 - ▶ The purpose, scope and expected benefits of presenting financial information related to sustainability, in order to be able to convince stakeholders.
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Recommendations for the development of international standards for disclosure of financial information related to sustainability in the public sector (2/2)

The standards could be developed based on what has been developed in the private sector (for example, the IFRS S1 and IFRS S2 draft standards) and making the necessary adaptations for application in the public sector (a change of perspective would be required, not only changes in terminology).

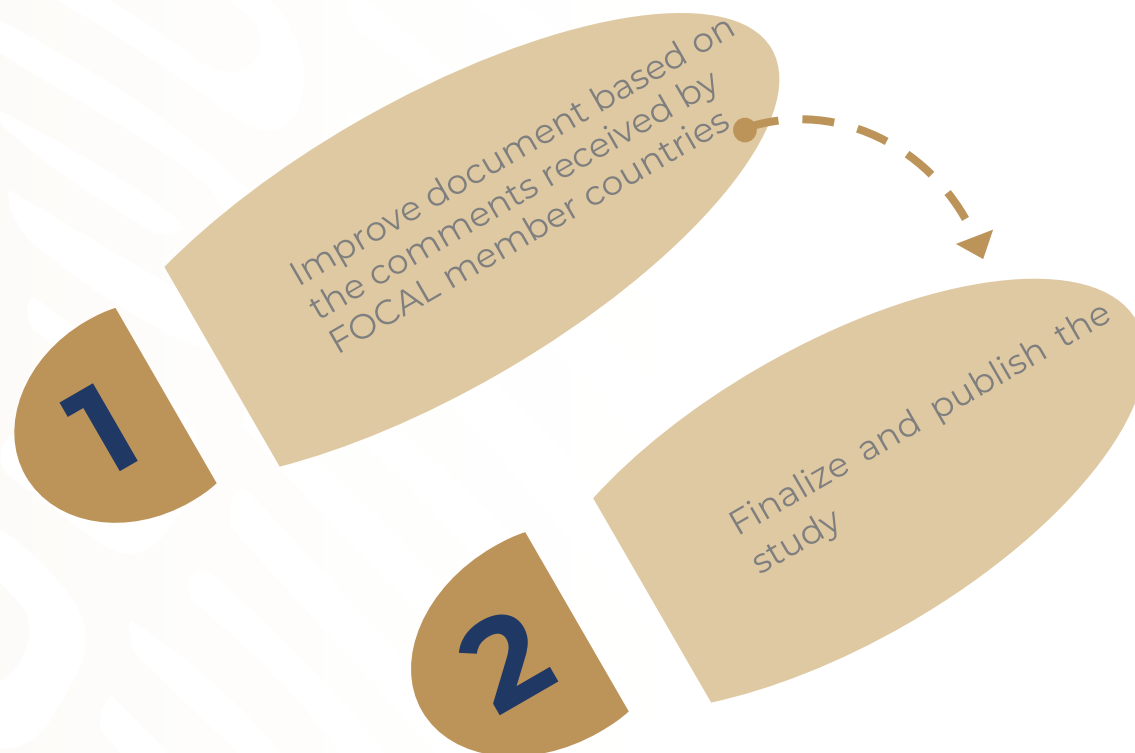
It is important that the standards define and prioritize the indicators to be presented to make the information comparable between countries.



Recommendations on the implementation of international sustainability standards in the public sector

- ▶ Direct adoption of international standards to improve comparability between countries and progressive implementation.
 - ▶ Establish technical commissions at the country level to ensure the quality of the information reported and to be responsible for analyzing the required types of information for decision-making in order to meet the needs and information demands of users.
 - ▶ Provide accompaniment, and training for stakeholders to create the means to meet new demands for information as a result of a cultural change for the presentation of financial disclosures related to sustainability.
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Next Steps





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