



Empirical Analysis of State-owned Enterprises' Non-Financial Reporting: The Case of Ukraine

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Non-financial reporting;
Directive 2013/34/EU;
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Management report;
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Abstract: *The paper puts forward the following fundamental hypothesis: assurance of transparency and quality of non-financial reporting of SOE, the decisive role in the regulation of which belongs to the state as the owner of assets, requires effective, efficient regulatory support that can ensure the achievement of sustainable development. The study provided evidence that the number of Ukrainian SOE that prepare management reports has increased since the introduction of the relevant legislation. The practical value of the study is to improve existing and introduce new tools for assessing the impact of institutional factors on financial and non-financial disclosure by SOE regarding compliance with the principles of sustainable development in a transitional economy.*

1. INTRODUCTION

The state is the largest owner of assets in Ukraine and plays an important role in the functioning of the national economy and for countries with economies in transition. One-tenth of the economy is generated by the public sector. Around one million employees work at state-owned enterprises. The value of assets of state-owned enterprises is one-fifth of the average value of assets of Ukraine.

At the same time, state-owned enterprises are most represented in the industries where activities are causing significant fiscal risks, resulting in losses of revenues to the state budget. Sectoral affiliation of state-owned enterprises is mainly oil and gas, transport, energy, food and agriculture, mechanical engineering, chemistry and coal mining (Fig. 1).

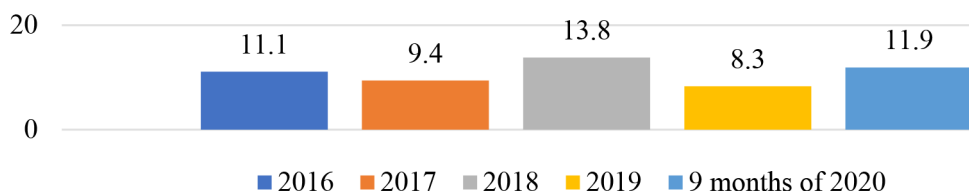


Figure 1. The share of the public sector in the economy of Ukraine for the period from 2016 to 9 months of 2020, %.

Source: Ministry of Economy of Ukraine, 2019.

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In addition, the vast majority of the largest state-owned enterprises are monopolies, the profitability of which is determined by non-market factors, such as state regulation of tariffs. The best state-owned enterprises operate in such areas as oil and gas transportation, transportation, energy, food and agriculture, mechanical engineering, chemistry and coal mining. The enterprises which are considered the TOP-5 largest state-owned enterprises worked in the following industries: oil and gas (PJSC National Joint-Stock Company “Naftogaz of Ukraine”); transportation (PJSC “Ukrzaliznytsia”); energy industry (SE “National Atomic Energy Generating Company” Energoatom “, SE” Energorynok “, State Specialized Enterprise” Chornobyl Nuclear Power Plant “) (Ministry of Economy of Ukraine, 2019)

Thus, there is a situation in Ukraine, when state-owned enterprises are most represented in those industries in which doing business does not contribute to the preservation of national wealth (oil and gas, energy, transportation) and industries that are not attractive in terms of doing business (education, health, nature management). State-owned enterprises depend on the implementation of important functions of conservation of non-renewable natural resources (oil and gas industry), provision of public social services (electricity generation, water supply and sewerage, education, health care) at the national level.

This situation addresses the necessity to widespread the use of tools designed to promote the preservation of national wealth, human capital development, the disclosure of economic, environmental and social consequences of state-owned enterprises and the achievement of sustainable development of the country with an economy in transition.

An effective tool for disclosing these aspects in countries with economies in transition are various non-financial reports, which are based on the recommendations of various international initiatives. Due to the defining role of the state as the owner of assets in regulating the activities of state enterprises, the importance of national policy, which is implemented through the adoption and adjustment of various regulations in Ukraine is dominant. This postulates the need for an in-depth analysis of the national regulatory and legal support for the activities of state-owned enterprises and the identification of regulations on information support for monitoring sustainable development.

Not aiming to assess such information provision at the global and national levels, the presented study aims to assess the state of implementation of non-financial reporting by the largest Ukrainian state enterprises and identify areas for improving the institutional support of non-financial reporting as a determining factor in promoting non-financial reporting in transition economies. The main focus of the study is to identify institutional tools to increase the accountability and transparency of state-owned enterprises in countries with economies in transition. The sequence of research with an institutional approach involves the following stages:

- assessment of the state regulatory and legal support for non-financial reporting of state-owned enterprises, in particular on the preparation of management reports;
- empirical identification of the state of introduction of non-financial reporting by the largest state-owned enterprises and identification of aspects that cause the current introduction of non-financial reporting;
- substantiation of institutional factors of macroeconomic regulation aimed at strengthening accountability and transparency of state-owned enterprises to society.

The starting point for solving this problem is the thesis that strengthening the transparency of state-owned enterprises in countries with economies in transition is in the segment of further adaptation of regulations to the requirements of international recommendations on non-financial reporting, thus giving the boost to the modernization of national legislation.

2. LITERATURE REVIEW AND PROBLEM STATEMENT

The theory and practice of non-financial reporting concern an increasing number of foreign and domestic companies that join current trends of disclosure of information on sustainable development. That is why representatives of both domestic and foreign scientific communities investigate problems of the development, implementation and improvement of non-financial reporting. Thus, researchers from different countries critically evaluate the implementation of non-financial reporting, its scope, prospects (Oliinyk, Kucheriava, 2019) and study the impact of non-financial information disclosure on corporate social responsibility (Crowther, 2017).

Also, it is necessary to highlight the studies, devoted to theoretical and practical issues of implementation of Directive 2014/95/EU provisions. Arvidsson (2018) disclosed the crucial challenges in combining the sustainability reporting practice and non-financial reporting practice provided by the EU Directive (2014/95/EU). The author focused on stakeholder expectations and information needs and a strong increase of information asymmetry.

The industrial aspects of non-financial reporting practices are also studied by the scientists, in particular, the issues related to disclosure of specific data by energy companies within the implementation of EU directive requirements (Oliinyk, Kucheriava, 2019; Dumitru and others, 2019). Many works are devoted to a retrospective analysis of non-financial reporting development, including papers, prepared by public organizations (Caputo and others, 2020; Venturelli and others, 2019; Oliinyk, 2019).

Special attention is paid by a large group of authors to SOEs' non-financial reporting by issues: evaluation of non-financial reporting practice (Manes-Rossi and others, 2020), formats and approaches of disclosure of non-financial data (Pena, 2019).

Summing up the mentioned above information it is necessary to note the lack of investigations devoted to the assessment of SOEs non-financial reporting compliance with regulatory frameworks (Directive 2014/95/EU, national legislation).

3. RESEARCH DESIGN, METHODOLOGY AND DATA PROCESSING

The issues of climatic change, respect for human rights, the incidence of poverty and aggravation of social problems as a result of the COVID-19 pandemic are encouraging more and more companies to implement and report on sustainable development policies. According to the 2020 KPMG survey, 80% of N100 companies (reporting of top 100 companies by income level in 52 jurisdictions) (a total of 5,200 N100 companies) prepare non-financial or sustainable development reporting (the result has improved by 5% compared to 2017). Sustainability reporting has grown particularly strongly in three countries: Kazakhstan (+34%), Slovakia (+21%) and Germany (+19%). Among the G250 companies (250 largest companies by income in the world, according to Fortune 500 list, ranking 2019) by the income level in the world, reporting is prepared by 96% of companies (KPMG, 2020).

The impetus for the growth of the share of companies preparing non-financial reporting was the adoption of EU Directives (primarily Directives 2013/34/EU and 2014/95/EU) and the development of a system of responsible investment (investment taking into account ESG factors). Thus, according to the estimate provided in the biennial report of the FSRI Foundation in the United States, 12 trillion US dollars (which is 38% more than in 2016) are invested in assets, subject to ESG-strategies (Matos, 2020, p.7). At the end of 2019, the Principles of Responsible Investment (PRI), which govern the largest global network of institutional investors committed to taking ESG aspects into account in their investment processes, extended to more than 2,500 signatories managing assets in the amount of more than 85 trillion US dollars (Matos, 2020, p.8).

In 2017, Ukraine adapted its national laws to the requirements of Directive 2014/95/EU by amending the Law *On Accounting and Financial Reporting in Ukraine*. According to the Law, large and medium-sized enterprises prepare a management report – “a document containing both financial and non-financial information which characterizes the status and prospects of the enterprise development, as well as reveals the main risks and uncertainties of its activities”.

The Ministry of Finance of Ukraine has developed guidelines on the types of disclosure of non-financial information in the management report (indicative structure of the report, types of information to be disclosed, etc.).

Surveys conducted in Ukraine on transparency and accountability of companies show a small share of companies that prepare non-financial reports. Thus, according to the research by the Center for the Development of Corporate Social Responsibility, in 2014, among the TOP-100 largest companies in Ukraine, non-financial reporting was prepared by 14 companies; in 2015 – 17, in 2016 – 12, in 2017 – 16 (Transparency Index of Ukrainian Companies’ Websites, 2017); in 2019, 13 non-financial reports of various forms were prepared (according to GRI standards or with their elements, Progress Reports on Implementation of the Principles of the UN Global Compact, etc.), as well as 31 Management Reports. According to the research of the Ukrainian Companies Transparency Index 2019, state-owned companies have shown a higher level of openness than private ones. The researchers have concluded that the greater openness of state-owned companies is the result of the corporate governance reform of state-owned companies in Ukraine.

As part of the reform to ensure greater transparency of state-owned enterprises, the Ministry of Economic Development and Trade of Ukraine has recommended state-owned companies to disclose (in accordance with the Guidelines for Transparency and Activity of Economic Entities of the Public Sector of the Economy, approved by the Order No. 116 of the Ministry of Economic Development and Trade of Ukraine dated February 11, 2015) the following categories of information: purpose and objectives of the company; results of financial and economic activities (liquidity, profitability, efficient use of the property and their changes within 3 years; accrual and transfer to the budget, in accordance with the laws, of dividends, net profit); performance results; information on procurement and investment; average monthly remuneration of employees, including management, remuneration arrears, etc.

Transparency is one of the main principles of corporate management of state-owned enterprises in the world (OECD Principles of Corporate Governance). By signing the Association Agreement with the EU, Ukraine has assumed responsibilities to increase transparency and competitiveness in public procurement (to ensure competitive procurement and guarantee access to information on public procurement, in particular for state-owned enterprises), to strengthen anti-corruption efforts, as well as to implement policies rising corporate management (OECD, 2015).

A higher level of transparency of commercial companies in Ukraine, including state-owned enterprises, is possible, in particular by increasing the share of companies that prepare non-financial reports.

The relevance of the study of non-financial reporting of state-owned enterprises of Ukraine is predetermined by the following two aspects. Firstly, state-owned enterprises make a significant contribution to the economic, social and environmental functions of states for social development and have a significant impact on the achievement of global and national Sustainable Development Goals. On the other hand, non-financial reporting of state-owned enterprises is a source of information for both stakeholders and the public as a whole with regard to the most significant achievements, which is common practice in foreign countries but requires additional research and ideas for implementation by businesses in Ukraine.

In addition, it should be noted that during the COVID-19 pandemic and within the post-pandemic period, the issues of non-financial reporting of enterprises become relevant, as the spread of COVID-19 has an unpredictable and sometimes devastating impact on economic development and the financial system in most countries, which has manifested itself in the form of complicated business conditions, reduced activity of businesses in the markets, a sharp decline in living standards, deteriorating access to public services (including educational and medical). This requires involving business in solving current and future social and environmental problems.

It is natural that in the conditions of uncertainty caused by the COVID-19 pandemic, it is important to investigate the information support of state-owned enterprises in detail, as the asymmetry of accounting and financial reporting information of state-owned enterprises is due to insufficient data or their distortion, which leads to fiscal risks. In addition, lack of non-financial information and fragmentary presentation of data do not allow to assess the status and prospects of the enterprise, as well as to identify the basic risks and uncertainties of such enterprises.

In most countries with a high level of development and income, non-financial reporting contains a balanced and comprehensive analysis of development, performance and status of the enterprise, which includes key performance indicators for a particular area of activity, as well as information on future development, research and development, propensity to price, credit, liquidity and cash flow risks. The non-financial report contains, inter alia, information on compliance with the corporate management code, which applies to the company, an explanation of the reasons for failure to apply certain provisions of the corporate code, etc.

According to the laws of Ukraine, the management report is submitted only by large and medium-sized enterprises, with the latter including only financial information. Management reports for potential investors and companies are a source of information on the management's vision of the results of activities that cannot be obtained from financial reporting, including social and environmental aspects, progress and prospects for the future, existing risks and uncertainties. Such a report does not duplicate financial statements and notes to them but is a separate report with its purpose and objectives, submitted along with the financial statements.

At the same time, we should agree with the opinion of scientists that Ukraine, both in the scientific and professional environment at the interstate level, has no single approach to the unification of non-financial reporting and harmonization of key indicators of companies with macro indicators of CSR in relevant areas. This is quite correlated with the non-financial reporting of state-owned enterprises, for which a management report is a tool for communicating with

stakeholders on how the largest Ukrainian coal, electricity, engineering, transport, food and chemical enterprises manage their impact on the economy, society and environment arising in connection with their basic activities.

The relevance of the research of non-financial reporting of the state-owned enterprises is also predetermined by the fact that such enterprises have numerous means to influence non-financial indicators. Timely and high-quality reporting of the largest state-owned enterprises of Ukraine provides information on their social responsibility, contribution to sustainable development, risk management at the micro level, etc. However, the mechanisms for presenting information are imperfect and not uniform.

The research aims at analyzing the impact of legislative changes on the level of preparation of non-financial reporting by Ukrainian state-owned enterprises, which according to the Ministry of Economic Development, Trade and Agriculture of Ukraine are in the Top 100 state-owned enterprises.

Non-financial reporting of Ukrainian enterprises is studied in the following sequence:

1. Selection of respondent enterprises – among the largest state-owned enterprises of Ukraine, which are required to submit non-financial reporting, the most profitable are oil and gas, as well as electricity and transport enterprises. However, one of the reasons for the low operational efficiency of state-owned enterprises is a weak system of corporate management, which does not contribute to profitability and sets conflicting goals, which leads to poor management. Strong links between state-owned enterprises and relevant ministries are a safeguard against external competition. The institutions are often actively involved in the management of state-owned enterprises. However, the activities of such enterprises are not always effective and beneficial to society. This leads to the inevitable conflict of interests, necessitates decisions on privatization of such enterprises (which is taken into account in the analysis procedure).
2. The parameters for the preliminary selection of enterprises are: the enterprise is in the TOP-100 largest state-owned enterprises of Ukraine and has experience in non-financial reporting.
3. Data collection and accumulation of information take place through familiarization with non-financial reports of respondent enterprises, conceptual bases of their reporting, as well as analysis of other non-financial information according to the criteria selected in accordance with EU Directives on ESG Reporting (environment, social and personnel policy, human rights and fight against corruption and bribery).
4. Summarizing the results of expert evaluation of non-financial reports of selected companies in the context of compliance with the national laws and EU Directive requirements for disclosure of management reports and other non-financial statements (if available) through review of practical aspects, features and general trends in the company reporting. The sources of information are non-financial reports of the coal industry, energy, engineering, oil and gas, transport, food, agriculture and chemical enterprises, as well as other enterprises, for 2018, which are posted on their corporate websites.
5. The method of data collection is a systematic targeted observation while analyzing the dynamics of non-financial reporting of the TOP 100 largest state-owned enterprises of Ukraine and expert evaluation of the results.

According to the results of the analysis, it is found that after the adoption of amendments to the national laws with regard to the necessity to prepare non-financial reporting, the level of preparation and public disclosure of non-financial reports by the state-owned enterprises has increased (figure 2).

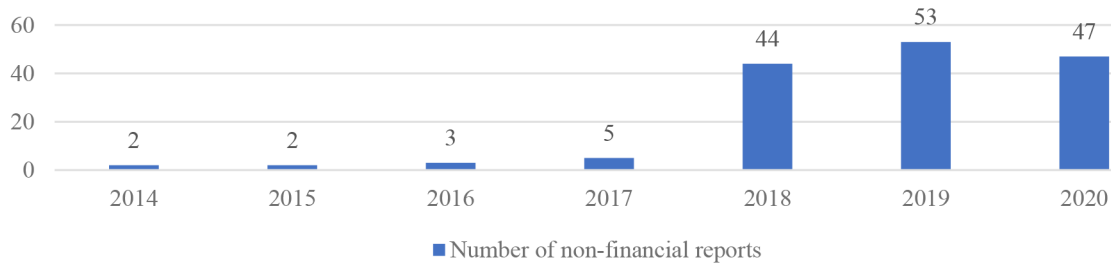


Figure 2. Dynamics of preparation and public disclosure of non-financial reports by the state-owned enterprises of Ukraine

Source: summarized by the authors according to non-financial reporting of the state-owned enterprises.

In 2018-2020, non-financial reports were prepared by almost 50% of all the state-owned enterprises: in 2018 – 44; 2019 – 53; 2020 – 47 (Ministry of Economy of Ukraine, 2019).

The research has also revealed that the practical aspects of preparing non-financial reporting were not typical of the largest Ukrainian state-owned enterprises until 2018. In 2014-2020, only Naftogas of Ukraine National Joint Stock Company prepared non-financial reporting. In 2016-2017, SE Enerhoatom National Atomic Energy Generating Company, SE Ukrenerho National Energy Company, Ukrzaliznytsia PJSC and SE Mystetskyi Arsenal National Art and Culture Museum Complex started preparing non-financial reporting.

In our opinion, the main reasons that providing a legislative framework for a management report has not affected the fact that all state-owned enterprises began preparing such reports include:

- in accordance with the law, management reports are submitted along with the annual financial statements, which in fact imposes obligations to prepare such reports on the financial structures of companies;
- the issues of administration of collecting and analyzing the management report remain open. Although the reports are submitted to the statistical bodies, such bodies do not control their timely submission and analysis of the information provided;
- rules of administrative liability for violation of the procedure for submission and public disclosure of management reports are applied little, if any.

The research has also revealed that Oil and Gas (100%), Chemical Industry (100%) and Electricity (65%) state-owned enterprises show the highest level of preparation and public disclosure of non-financial statements, with the lowest level of Coal Mining enterprises (30%) (Table 1).

The choice of types of non-financial reporting by state-owned companies, in our opinion, depends on the requirements of the law. Analyzing non-financial reporting of the state-owned enterprises shows that more than a third of enterprises prepare reports in the form of a management report (38%). At the same time, 22% of the state-owned enterprises disclose non-financial information mainly in management reports, which are part of the Annual Information of the Issuer of Securities or the Annual Reports of Enterprises.

Table 1. Dynamics of preparation and public disclosure of non-financial reports by the state-owned enterprises of Ukraine in terms of scope of business

| No | Scope of activities | Number of enterprises | Preparing non-financial reporting | | | | | | |
|-------|----------------------|-----------------------|-----------------------------------|------|------|------|------|------|------|
| | | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| 1. | Coal industry | 10 | 0 | 0 | 0 | 0 | 4 | 4 | 3 |
| 2. | Electricity | 17 | 0 | 0 | 0 | 0 | 11 | 13 | 11 |
| 3. | Engineering | 8 | 0 | 0 | 0 | 0 | 3 | 4 | 4 |
| 4. | Oil and Gas | 2 | 1 | 1 | 1 | 1 | 2 | 2 | 2 |
| 5. | Transport | 21 | 0 | 0 | 0 | 1 | 9 | 12 | 10 |
| 6. | Food and Agriculture | 6 | 0 | 0 | 0 | 0 | 0 | 2 | 3 |
| 7. | Chemical Industry | 3 | 0 | 0 | 0 | 0 | 3 | 3 | 3 |
| 8. | Other | 33 | 0 | 0 | 0 | 0 | 12 | 13 | 11 |
| TOTAL | | 100 | 1 | 1 | 1 | 2 | 44 | 53 | 47 |

Source: summarized by the authors according to the non-financial reporting of the state-owned enterprises. The practical aspects of preparing non-financial reporting in accordance with International Reporting Standards (according to GRI standards (or with GRI elements), integrated reporting or progress reports) are not common among Ukrainian state-owned companies. Only 7% of the state-owned enterprises prepare reports according to international standards (Figure. 3).

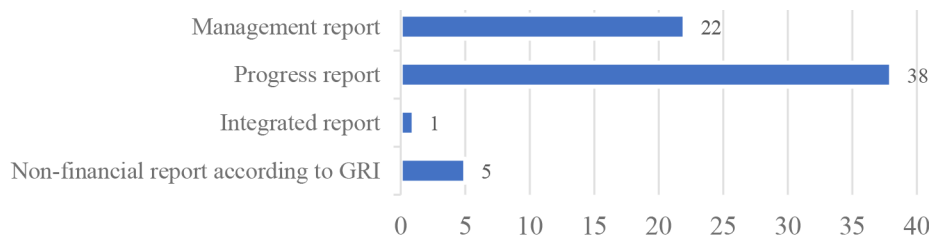


Figure 3. Types of non-financial reports prepared by the enterprises included in the TOP-100 largest state-owned enterprises of Ukraine in 2018

Source: summarized by the authors according to the non-financial reporting of the state-owned enterprises.

Among the state-owned enterprises which prepare non-financial reports, the share of those which prepare management reports increased from 72% (in 2019) to 86% (in 2018).

From 50% (in 2018) to 41.5% (in 2019) of enterprises prepared management reports which were disclosed as part of the Annual Information of the Issuer of Securities, Annual Reports of Enterprises, Labour Reports or Reports of the Executive Body.

Among the enterprises, only 13% (in 2019) and 16% (in 2018) prepared and disclosed non-financial reports in accordance with the requirements of international non-financial reporting standards.

Naftogas of Ukraine NJSC (since 2015), SE Enerhoatom National Atomic Energy Generating Company (since 2016), SE Ukrenerho National Energy Company and Ukrzaliznytsia PJSC (since 2017), Ukrhydroenergo PJSC (2019) were the first to prepare non-financial reports according to the GRI (Global Reporting Initiative) Standards. It should be noted that the non-financial report of Enerhoatom National Atomic Energy Generating Company, *Generating Energy for Sustainable Development* for 2018 was awarded platinum awards in three categories: *Print Media*, *Annual Report* and *Corporate Social Responsibility* (disclosure of information on sustainable development) of the international MarCom Awards in the field of corporate communications. Also, in 2018, Enerhoatom was awarded the Deloitte Sustainability Report Award

– The Green Frog Award (GFA) 2018 for showing the best sustainability indicators and strategic commitments published in the Company's Non-Financial Report. Non-financial reports of Enerhoatom National Atomic Energy Generating Company are presented not only in a printed form, but also in a bilingual interactive version (website).

Six companies among the 57 state-owned enterprises preparing non-financial reports made them in several forms. For example, Ukrhydroenergo PJSC and Enerhoatom National Atomic Energy Generating Company prepare non-financial reports in GRI format, as well as management reports. Since 2017, Ukrzaliznytsia PJSC has been preparing reports in the form of an integrated report, which reveals both financial and non-financial indicators, which give a comprehensive view of the company's strategy, corporate management, performance and prospects in order to comprehensively show its economic, social and environmental impact. The reports for 2017-2019 have been prepared in accordance with the requirements of the International Standard for Integrated Reporting (IR International Framework) and the International Standards for Reporting on Sustainable Development *Global Reporting Initiative* (GRI SRS, the main option of compliance (Core).

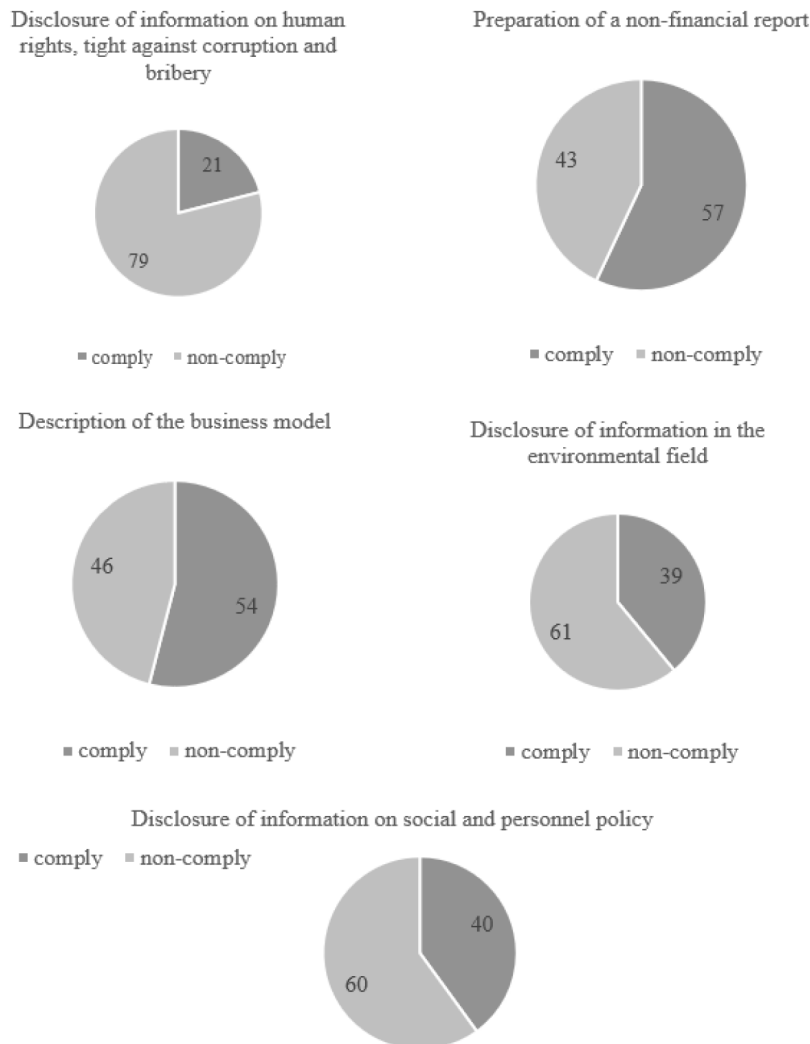


Figure 4. The results of the analysis of compliance of non-financial reports for 2018-2020 with the requirements of Directive 2014/95/EU.

Source: summarized by the authors according to the non-financial reporting of the state-owned enterprises.

Since 2010, Ukrenerho National Energy Company has been preparing Annual Reports, which reflect information on corporate management, social policy and labor protection, environmental policy, and since 2017, the company has been preparing non-financial reports according to GRI Standards.

In 2018, in addition to the management review (management report), Turboatom JSC prepared and disclosed the management report on the company's website in the Annual Information of the Issuer of Securities.

The analysis of non-financial reports has shown that the level and quality of information disclosure on environmental, social and personnel issues, human rights, anti-corruption and bribery are different. Figure 4 shows the results of the analysis of compliance of non-financial reports for 2018-2020 with the requirements of Directive 2014/95/EU, formalized in the form of criteria.

4. RESEARCH RESULTS

Most often, the state-owned enterprises in non-financial reports disclose information on the business model of enterprises (95%), environmental and social issues (68% and 70%, respectively). Only 37% of enterprises disclose issues of human rights, anti-corruption and bribery.

21 companies (37% of all the companies having reports) fully comply with EU Directive Requirements in terms of disclosure of information on ESG areas in non-financial reports. The analysis has revealed that the highest level of compliance with Directive 2014/95/EU in terms of disclosure of the information is shown by those state-owned enterprises which have a long reporting practice (before 2018) and prepare non-financial reports in accordance with the national laws and international standards, especially GRI. However, some companies included in this group have been preparing management reports only since 2018.

16 enterprises (or 28% of all the enterprises having reports) disclose three out of the four relevant ESG criteria and have a compliance rate of 75%. Most companies in this group do not disclose information on human rights, fight against corruption and bribery.

One third of the state-owned enterprises which prepared non-financial reports within the period 2018-2020 (33.3%) have a compliance level of 25%. The enterprises of this group disclose one of the reporting criteria, and according to the analysis, it is a description of the business model. This group includes the companies which prepare management reports in the Annual Information of the Issuer of Securities.

The analysis of the content of non-financial reporting has revealed that national enterprises, including state-owned ones, do not actually assume responsibilities to achieve the UN Sustainable Development Goals. Thus, according to the Transparency Index of Ukrainian Companies 2019, only 10 companies out of the 100 largest taxpayers in Ukraine published information on the company's contribution to the achievement of CSR in their non-financial reports for 2019. Among the state-owned enterprises, only Enerhoatom National Atomic Energy Generating Company, Ukrhydroenergo PJSC and Ukrzaliznytsia PJSC provided information on their contribution to the achievement of the UN Sustainable Development Goals in their non-financial reports for 2019.

At the same time, the share of companies integrating CSR into their corporate strategies for social responsibility or sustainable development and into corporate reporting on these issues

is growing. According to a KPMG survey in 2020, 69% of N100 and 72% of G250 companies link their business to CSR and cover this fact in corporate sustainability reporting. Compared to 2017, the reporting of companies that cover the issues of achieving CSR has increased by 30% for N100 companies and by 29% for G250 companies (KPMG, 2020, p.44).

The results of the analysis of the practical aspects of non-financial reporting of the state-owned enterprises show that despite the legal requirements adopted for the preparation of management reports, only half of the largest state-owned enterprises prepare non-financial reports, mostly in the form of management reports.

The quality of non-financial reports of state-owned enterprises depends on experience, regulatory requirements and standards the company uses while preparing non-financial statements. 37% of all the state-owned enterprises which prepare non-financial reports fully comply with EU Directive Requirements with regard to the disclosure of information on ESG areas in non-financial reports. 28% of enterprises have a level of compliance of 75% within the period of 2018-2020, with a third (33.3%) of the state-owned enterprises which prepare non-financial reports having a level of compliance of 25%.

Among other things, the results of the analysis of the dynamics of non-financial reporting of the TOP-100 largest state-owned enterprises of Ukraine enabled to identify of many problematic aspects related to the public disclosure of reports:

1. Management reports are posted by enterprises in the section *Financial statements* (for example, SE Production Association “O. M. Makarov Pivdennyi Machine-Building Plant”).
2. Businesses post management reports irregularly, with the information appearing late in some cases.
3. Most often, the management report discloses such information as:
 - 1) probable prospects for further development;
 - 2) information on development;
 - 3) information on the conclusion of derivatives or transactions in derivative securities (namely the task and policy of the issuer to manage financial risks, including insurance policy for each major type of anticipated transactions, with hedging transactions used; information on the issuer’s exposure to price, credit, liquidity and/or cash flow risks);
 - 4) a report on corporate management (namely information on its corporate management code; on the voluntary application of corporate management codes of stakeholders, information on corporate management practices applied in excess of statutory requirements; information on the general meeting of shareholders (participants); board, information on the executive body, description of the main characteristics of internal control and risk management systems, list of persons who directly or indirectly own a significant stake, information on any restrictions on the rights of participation and voting of shareholders (participants) at the general meeting of the issuer; appointment and dismissal of officials; powers of officials).

However, there is a problem with misinterpreting and misunderstanding the notions *management report* and *management review*. The analysis has shown that among the enterprises quite often the management review is called the management report. The Board of the Audit Chamber of Ukraine explained the practical aspects of applying international auditing standards, which, inter alia, contained systematic requirements for the management report and management re-

view within the regulatory framework. Comparison of the requirements for the preparation of the management review and management report, defined by the Laws of Ukraine No. 3480-IV *On Securities and Stock Market* dated February 23, 2006 and No. 996-XIV *On Accounting and Financial Reporting in Ukraine* dated July 16, 1999, showed as follows:

- the management report prepared in accordance with the requirements of Law No. 996 covers more issues than the Management Report prepared in accordance with the requirements of Law No. 3480;
- in case of preparation of the report on the management of the enterprises which are not issuers, the information on corporate management of such enterprise is not specified in the Management Report.
- In addition, the difference between these reports is also in the reporting subjects:
- the management review is made by issuers, except for issuers, which are not joint-stock companies and which have not made a public offer of securities other than shares, and whose securities are not admitted to trading on the stock exchange (part eight of Article 40 of Law No. 3480);
- the management report consists of both issuers of securities whose securities are admitted to trading on stock exchanges or in respect of which a public offering has been made, and other enterprises of public interest, as well as medium-sized enterprises.

5. DISCUSSION AND CONCLUSION

In countries with economies in transition, the existence of state regulation of the non-financial reporting process in the context of information support for monitoring the achievement of sustainable development is due in some way to the need to overcome the limited rationality of management of non-financial reporting. This necessitates the search for an effective mechanism for organizing non-financial reporting, which would solve the problem of meeting the needs of stakeholders to disclose information on the impact of business activities on the economy, environment and society.

Drawing on the experience of EU Member States and countries with economies in transition shows that there are two models for implementation of the provisions of Directive 2014/95/EU into national legislation: amendments to existing legislation on non-financial reporting; development of a fundamentally new legislative act, the norms of which regulate the preparation, submission and publication of non-financial statements.

The results of a purposeful study of the experience of developed EU countries in the field of regulation of non-financial reporting directed the authors to find ways to further improve Ukrainian legislation on these issues and identified the following areas:

- in order to stimulate the spread of non-financial reporting practices, it is advisable to introduce a policy of support and encouragement of enterprises that compile non-financial reports, educational activities for the preparation of non-financial reporting, awarding the best enterprises that prepare non-financial reporting, etc;
- in order to avoid information asymmetry and ensure comparability of non-financial reporting information, it is advisable to determine at the regulatory level, a list of mandatory (key) industry indicators that fully disclose relevant information about the company and its impact on the economy, environment and society;
- in order to provide information on monitoring the achievement of CSR, mandatory (key) and sectoral indicators of reporting should be linked to the national program of their

- achievement (national development tasks), which, among other things, will allow state enterprises to integrate CSR into their development strategies;
- the introduction of the “report or explain” principle enshrined in the EU directive requirements;
 - taking into account the practice of non-financial reporting of foreign companies and state enterprises (large taxpayers, TOP-100 largest state-owned enterprises), it is advisable to settle the issues of voluntary non-financial reporting;
 - in order to ensure the quality of information disclosed in non-financial statements, it is advisable to enshrine at the legislative level the need for its due diligence;
 - defining the mechanism of administration of non-financial reporting, in the particular collection and generalization of reporting, analysis of the submitted information, control over observance of norms of the legislation concerning preparation of such reporting at the legislative level.

There is a technical problem with the difficulty of finding information on websites of enterprises. This negatively affects the level of transparency of data on the performance of economic entities. It is advisable to improve the regulatory and organizational framework for non-financial reporting of enterprises in Ukraine and countries with economies in transition, namely to form an optimal list (package) of indicators to be reflected in the reports, clearly define posting of management reports on official websites, based on the international experience of such reporting.

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