KEMENTERIAN EKONOMI
JABATAN PERANGKAAN MALAYSIA
NEWSLETTER

DOSM/BPPAS/1.2024/SERIES 51

Beyond GDP: What is the Role of Environmental, Social and Governance (ESG) Data within Beyond GDP?

Objective

To support the transition from traditional financial performance reporting to the inclusion of sustainability reporting and provide a transparent source of information and benchmarking tool for enterprises.

ESG beyond GDP

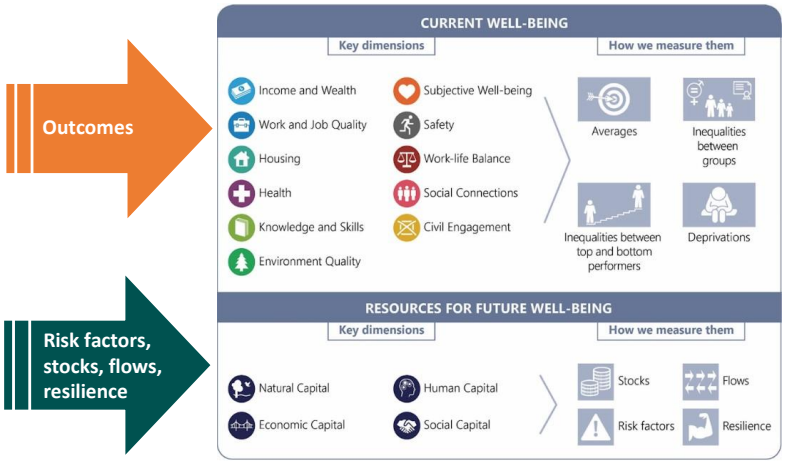
Environmental, social and governance (ESG) refers to non-financial information that can be used to inform the long-term risk and return of an investment.

Aligning well-being with ESG

There is a need for improvement of common grievances about ESG such as a necessity to focus on ratings and data on environmental and social impacts for sustainable finance to work for people/planet, which can equally benefit the market by mitigating systemic risk, investors have to concern about environment and social issues and ESG ratings also needs to making a strong case for greater harmonisation of measurement and more robust data.

In beyond GDP, OECD has produced well-being framework. OECD well-being framework How's Life 2020: Measuring Well-Being is a based on a multi-dimensional framework covering 11 dimensions of current well-being and four different resources for future well-being (natural, human, economic and social capital).

OECD Well-being Framework



ESG and Well-being

OECD Wellbeing Framework shows a result of well-being related metrics under environmental and governance have a high quantitative measurement and addressed these dimensions more compare to social dimension. So, social dimension demanding a better and harmonised data

Measuring the non-financial performance of firms through the lens of the OECD Well-being Framework (social dimension) allows for a better understanding of the outcomes and possible benefits between the stakeholder and the firms with the multi-dimensional framework.

Firms can compare people's outcomes to industry and society-wide benchmarks after aligned a set of firm-level and societal-level well-being. Measuring government and business well-being allows for a potential new source of sectoral data for statistics providers.

Greenwashing

Greenwashing can generally be described as 'the practice of only paying lip service to environmental, social and governance (ESG) factors with token gestures.

Examples Of Greenwashing

Marketing: Spending more money, time and efforts on marketing its products as green rather than actually minimizing its adverse impact on the environment.

Unproven claim: a company claims to have implemented a new manufacturing process to increase its product's recycled content

Corporate donations to charities affiliated with the board's independent directors (affiliated donations) may impair independent directors' monitoring incentives.

Conclusion

Adjusting a country's GDP (Gross Domestic Product) for ESG (Environmental, Social and Governance) risk involves incorporating sustainability and responsible business practices into the measurement and evaluation of a nation's economic performance. While GDP is a traditional economic indicator that primarily focuses on economic output, incorporating ESG factors provides a more comprehensive view of a country's long-term economic sustainability.

INTRODUCTION

A lot of information is already available from micro statistics, but increasing emphasis on importance of alignment to macroeconomic aggregates. Various initiatives by international statistical community (e.g., UN NTA; OECD EG DNA; ECB EG DFA; Eurostat TF HDA) and academia (e.g., WID.world). Several countries are already publishing distributional result in line with National Account totals

BEYOND GDP

Building inclusive and sustainable societies requires statistical systems that move "beyond GDP" and in particular, move "beyond averages". The meeting on Mapping Distributional Frameworks seeks to discover the synergies among the different distributional frameworks used for measuring economic inequality

Distribution of income, consumption and saving

OECD and Eurostat launched an Expert Group on Distributional National Accounts. This group developed template and guidelines, and engaged in three data collection rounds. The work continues, focusing on broadening the coverage and improving the quality, granularity and timeliness, also in view of the new DGI-3

Distribution Of Wealth

OECD launched an Expert Group on Distribution of Household Wealth (EG DHW) in 2023. Work will leverage off work already done by the ECB Expert Group on Distributional Financial Accounts (EG DFA) and by various countries already compiling distributional wealth results

Distributional results as part of new G20 DG1 (1)

Data Gaps Initiative dates back to 2007/08 Global Financial Crisis and the need to develop more timely and accurate information for policy makers. The DG1 focus on gaps in areas of:

- Climate change
- Household distributional information
- Fintech and financial inclusion
- Access to private and administrative data and data sharing

Distributional results as part of new G20 DG1 (1)

- Joint work by OECD (lead), ECB, Eurostat, IMF, UN and World Bank
- By end-2024: Results for 2021, 2022 and/or 2023 at income/wealth quintile level
- By end-2026: Annual results within 1.5 years after reference period at income/wealth decile level
- By end-2026: Results at least every 3 years, published within 4 years after reference period, at income quintile/decile level

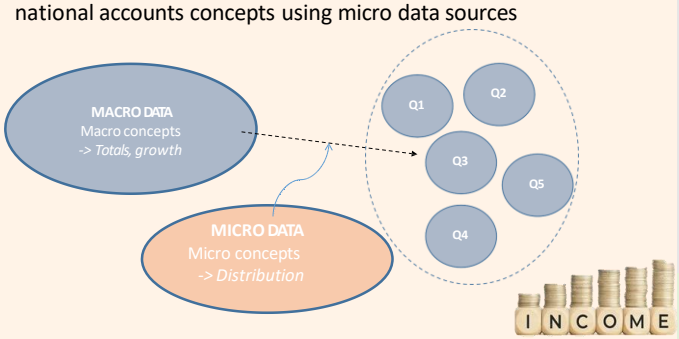
SCOPE OF THE WORK

SCOPE OF THE PROJECT

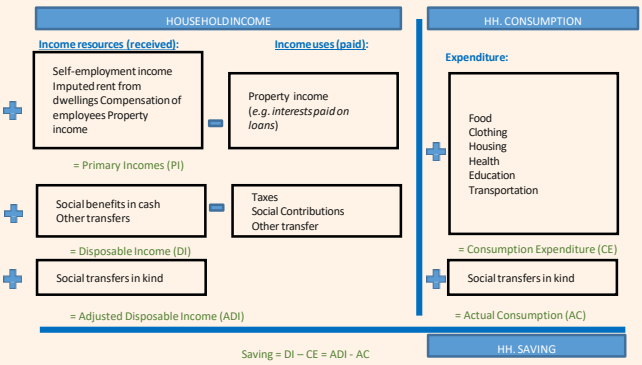
- Distributional results for various household groupings:
  - Standard of living by disposable income and net wealth group (quintile/decile/percentile)
  - Main source of income
  - Household type (size and composition of the household)
- The unit of analysis is the household, with a focus on private households
- Equivalence scales are used to arrive at comparable results across households
- Also collection of socio-demographic information (age, gender, education level, housing status, etc.) accompanying the distributional results

AIM OF THE PROJECTS

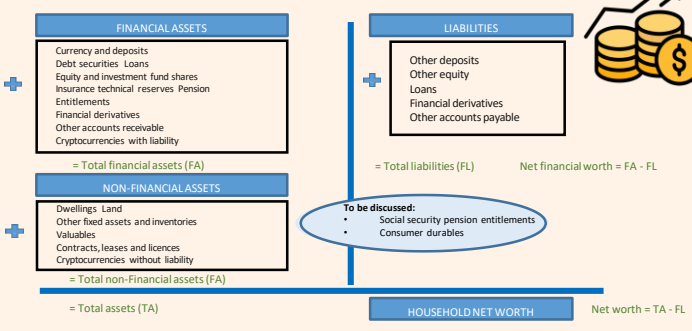
- Develop methodology to produce **distributional** results for household **income, consumption and wealth** consistent with national accounts concepts using micro data sources



INCOME AND CONSUMPTION CONCEPTS



WEALTH CONCEPTS (STILL UNDER DISCUSSION)



MAIN USERS OF THE DATA

SCOPE OF THE PROJECT

The data can be used to 1) monitor impacts of specific events or phenomena, 2) identify issues and 3) evaluate the impact of specific policies

Main users:

- Policy makers
  - Monetary policy (e.g., which households may be affected by changes in interest rates?)
  - Financial stability (e.g., which households have high debt-to-income ratios?)
  - Fiscal policy (e.g., what is the impact of re-distributional policies on different groups of households?)
  - Social policy (e.g., how many households are at risk of poverty?)
- Media (newspapers; magazines; radio/television; websites; …)
- Researchers (academia; journalists; analysists; …)
- General public

MAIN BENEFITS OF USING THE EG DNA AND EG DHW FRAMEWORK

MAIN QUESTIONS THAT MAY BE ANSWERED

- Data are coherent with macroeconomic aggregates
  - Provides a more comprehensive picture of economic inequality, including elements not covered in micro statistics (e.g., social transfers in kind)
  - It captures households and transactions that are typically underrepresented in micro data
  - It broadens the scope for macroeconomic analyses
- Data are consistent across income, consumption and wealth
  - Improves the quality of the results by the ability to cross-check the results
  - Provides the opportunity to assess inequality in three dimensions (e.g., are households at the bottom of the income distribution also at the bottom of the consumption and wealth distribution?)
  - Helps to derive important multivariate indicators (such as consumption-to-income ratio; debt-to-income ratio; liquid assets-to-income ratio)
  - Assists to derive more aggregate measures of income (e.g., adjusted disposable income + holding gains)
- Data are comparable over time
- Data are comparable across countries