Section B

Corporate **sustainability reporting toolkit**

“The first section of this publication –*”Section A”, on page 12* – is aimed at individuals who are new to the concept of sustainability reporting. It provides a non-technical introduction to the topic with a comprehensive list of references for those who require more in-depth details.

The first chapter of this section introduces a basic definition of corporate sustainability reporting; it presents the set of drivers for companies to produce sustainability reports; it touches on the main benefits and status quo of sustainability reporting, while making the link with the global sustainability agenda and the Sustainable Development Goals; and it provides an overview of the key existing frameworks and initiatives on the subject.

In addition, the second and third chapters of section A focus on the key areas for improving the quality of sustainability reports; they discuss the most frequently reported social and environmental topics; and they provide information on the role of monitoring and performance indicators.”, on page 54, this material was designed as an attempt to put in one place vast and key sources and tools useful for corporate sustainability reporting, and to provide information on how the subject matter links to concepts and issues that are relevant for policymakers and other relevant stakeholders working towards sustainable development.

In this respect, this section of the publication presents more specific direction on a number of the key elements of corporate sustainability reporting and provides readers with action-oriented guidance to apply the research to their work.

Information in section B has been grouped and organized in four sub-sections (section B.1, section B.2, section B.3 and section B.4) in order to provide a structured and targeted direction to readers. *“Section B.1”, on page 55*, provides useful information in respect to policies and other mechanisms that can contribute to increase the quantity and quality of corporate sustainability reporting; *“Section B.2”, on page 73,* discusses different approaches to maximizing the impact of sustainability reporting, specifically materiality assessments and sector guidance; *“Section B.3”, on page 83,* presents approaches for effectively managing sustainability data; and *“Section B.4”, on page 93,* offers a set of different strategies and tools for disseminating and communicating the information contained in sustainability reports.

Each of the aforementioned subsections provides detailed background information to the topic, examples of how the topic has been addressed (publications, case studies, methodologies, tools, platforms, etc.) and a summary guidance on how to get started in addressing the specific theme.

SECTION B.1

Policy Review

This section provides specific guidance to policymakers and other interested stakeholders on approaches and options to strengthen the policy framework to enhance sustainability reporting practices. Information contained in this section builds on the experience of pioneering governments in reviewing their policy frameworks and creating an enabling regulatory environment for sustainability reporting through both new regulation and improving existing policy. The section covers the following:

1. A high-level overview of current methodologies, national policies, sector guidelines and tools for policy analysis and development.
2. Case studies and experiences.
3. An overview outlining key first steps to developing policies that encourage effective sustainability reporting.

Three main sources of information have been identified in this area:

- The Carrots and Sticks[121] suite of documents and database. The dedicated site and associated reports provide a comprehensive overview of sustainability reporting instruments worldwide, where 'reporting instruments' include any instrument, mandatory or voluntary, that requires or encourages organizations to report on their sustainability performance.
- The Reporting Exchange platform released by the World Business Council for Sustainable Development[122] which includes reporting on specific information found on the Carrots and Sticks platform but also includes information on wider sustainability policies (for example building standards, pollution control policies and permitting requirements) and a country summary of the policy framework.
- The United Nations Environment Programme's publication 'Evaluating National Policies on Corporate Sustainability Reporting'[123] (henceforth referred to as 'Evaluating National Policies') which provides a framework for evaluating national policies on corporate sustainability reporting and takes an in depth look at five countries with advanced national policies on the subject.

121 *www.carrotsandsticks.net*

122 *www.reportingexchange.com*

123 UNEP 'Evaluating National Policies on Corporate Sustainability Reporting' (2015)

1. REVIEW OF POLICIES TO ENHANCE CORPORATE SUSTAINABILITY REPORTING

This first chapter reviews the key reports and information platforms to provide the global context on how policies are being used to encourage and improve sustainability reporting. It also covers the tool outlined in Evaluating National Polices for identifying the key policy opportunities available to specific government actors.

1.1. OVERVIEW OF REPORTING INSTRUMENTS INTERNATIONALLY

In 2016, Carrots and Sticks conducted a review of the sustainability reporting environment in 71 countries and territories including the top 60 economies by GDP and 11 countries which were included in previous reports or were known to have a relevant reporting instrument. The research identified all the key reporting instruments that require or encourage organizations to report on or disclose information relating to their sustainability performance. A sample of countries is shown in table 11.

Country	Number of reporting instruments
Argentina	10
Australia	14
Bangladesh	3
Bolivia	3
Brazil	17
Canada	9
Chile	4
China	15
Colombia	5
Ecuador	5
France	11
Germany	6
India	12
Japan	14
Kenya	1
Mexico	4
Nigeria	3
Pakistan	3
Peru	3
Russia	3
South Africa	11
United Kingdom	15
United States	17
Venezuela	4

Table 11. Sample of countries with reporting instruments and the number of other existing reporting instruments[124]

The report classes any tool used to promote or enforce sustainability reporting as an instrument, including the following:[124]

- Legislation, regulations and policy sustainability reporting requirements or expectations issued by governing bodies such as governments, financial market regulators or stock exchanges. The regulations can be mandatory or voluntary and, in some cases, may be on a 'comply or explain' basis.
- Self-regulation reporting requirements or expectations issued by organizations to apply to their own communities or memberships, for example, instruments issued by industry organizations.
- Requirements, guidance or recommendations for public reporting on a single topic (e.g. greenhouse gas emissions) or by a specific sector (e.g. mining).
- Voluntary guidelines and standards for sustainability reporting.
- Standards on sustainability assurance such as ISO 14046 or AccountAbility's 1000 Assurance Standard.

Altogether the research identified 383 sustainability reporting instruments across the globe – though it is important to note that this covers instruments and disclosure in the broadest sense and not necessarily the publication of a sustainability report. For example, over 60 per cent of the identified instruments only cover specific environmental or social topics and many of these instruments have very restricted sustainability disclosure requirements. Furthermore, many of the guidelines or regulations relating to corporate or SME governance simply require disclosure about board remuneration and gender balance – while this is a disclosure, it is far from a full sustainability or integrated report.

The key points from the Carrots and Sticks research are as follows:

- There has been continued growth in the number of countries with reporting instruments. Additionally, where countries have a reporting instrument in place the number of mechanisms is increasing from about three in 2006 to nearly six in 2016.
- Government regulation is the most important

124 Information from the database of Carrots and Sticks, accessed January 2019

instrument accounting for nearly 60 per cent of the reporting instruments and found in 80 per cent of the countries studied.

- Stock exchanges and financial markets account for one-third of instruments and have been particularly active in recent years in developing this agenda.
- Two-thirds of the instruments are mandatory, the remainder voluntary. About one in ten uses 'comply or explain', which is most frequently used by stock exchanges and financial markets.
- Reporting instruments are generally focused on large companies:
  - Almost one-third of instruments apply only to large listed companies (three-quarters of these are introduced by stock exchanges or financial regulators).
  - State-owned companies or specific sectors are other target areas for these targeted instruments.
  - Finance and heavy industry are the most targeted sectors by sector-specific instruments.

1.1.1. Role of government actors

As indicated in Carrots and Sticks, governments account for the largest proportion of sustainability reporting instruments worldwide. Governments tend to have a mandatory requirement and a broad scope - about three-quarters of their instruments are mandatory and around 85 per cent cover all types of organizations (large, State-owned, public sector, SMEs). These instruments derive from a range of departments including the following:

- Environment – about 25 per cent of regulations
- Business, trade or industry – 12 per cent
- Finance or treasury – 10 per cent
- Others, including departments of energy, labour and health, account for over half of the instruments.

While the three departments (environment, trade or industry, and finance) account for nearly half of the instruments, the remainder are spread throughout all government departments, which highlights how diverse the opportunities are for implementing a policy on sustainability reporting.

In terms of what scale or type of business is targeted by government instruments, there is a tendency to focus on larger companies. Nevertheless, there are a number of examples of instruments specifically aimed at SMEs, but these tend to focus on corporate governance rather than sustainability reporting. Further guidance on SMEs can be found in section A – *"1.4.3. Increasing reporting rates", on page 20, and* Section B – *"1.3. Overview of national policies on requirements for corporate sustainability reporting", on page 59*.

Governments and regulators increasingly require or encourage sustainability disclosure in the organization's annual report – i.e. an integrated reporting approach, with only about a third of the instruments that specify a reporting format requiring a separate sustainability report.

A common theme, as noted in Carrots and Sticks, is for countries to test a policy with a voluntary measure or targeting a specific group (such as large organizations) and then expand or replace this with a mandatory measure to cover all companies. For example, South Africa's King Code initially applied only to companies listed on the stock exchange, but now applies to 'all entities'. In OECD countries, common new reporting requirements include laws such as company acts or accounting regulations, and instruments targeted at specific themes such as corporate governance or environmental pollutants.

1.2. POLICY EVALUATION PROCESS

Designing new regulation or improving existing policy will depend on the specific national circumstances of each country; in those countries where reporting mechanisms already exists, a key first step will be to analyse the reach and effectiveness of the policies already in place. As an example, the policies of Chile and Russia are shown in*"Table 12. Reporting instruments in Chile and Russia125", on page 58*. This high-level analysis shows that in the case of Chile, outside of listed companies there is no mandatory reporting requirement. In the case of Russia, although there is mandatory legislation, it only applies to financial institutions, and the largest State-owned companies only require their Board to consider publishing non-financial information.

UNEP's Evaluating National Policies outlines the policy evaluation framework that was used to assess five case studies offering good practice examples within different national contexts in setting the right enabling regulatory environment for sustainability reporting. This approach that analyses reporting policies throughout their lifespan (from conception to implementation and assessment) can be used to assess main policies for promoting sustainability reporting. *"Table 13. Steps in analysing the effectiveness of an existing instrument to drive sustainability reporting", on page 58* lists out the main steps and questions in the framework to analyse each of the policies and identify if there are any significant gaps.

A more comprehensive set of notes and questions is provided in the Appendix of Evaluating National Policies.

	Scope of issues	Issuer category	Instrument Category	Mandatory/ voluntary	Organization covered by the instrument
CHILE					
Norma de Carácter General N° 386	Social	Financial regulators	Regulation	Mandatory	Listed companies
Norma de Carácter General N° 385	Environmental, social and governance	Financial regulators	Regulation	Mandatory	Listed companies
CIRCULAR N° 52	Environmental - declaration of taxes on pollutants	Ministry of Finance / Ministry of Environment	Regulation	Mandatory	Sector specific - energy sector
CSR Action Plan	Environmental, social and governance	Ministry of Economy	Strategy / guidance	Voluntary	All organizations
RUSSIA					
Regulation No. 454-P "On the Disclosure of Information by Issuers of Securities"	Environmental, social and governance	Financial regulators	Regulation	Mandatory	Issuers of securities (financial institutions)
Russian Government Directive 1710-13, 2013	Environmental, social and governance	Government of Russia	Regulation	Mandatory to consider	22 largest State-owned companies
Guidance 03-849/r, 2003	Governance	Financial regulators	Code of Conduct or guideline	Mandatory	Joint stock companies

Table 12. Reporting instruments in Chile and Russia[125]

Evolution	Context	Existing policy environment, i.e. other supporting CSR policy requirements
		National drivers and pressures for increased transparency
	Process	Main stakeholders involved in consultation
		Negotiation of policy content (main points contested, how they are resolved)
Design	Objectives	Clarity of need for policy and its goal
	Applicability	Who does the policy apply to?
		Link to other corporate reporting legislation (if any)
	Scope and specification	Scope of defined issues to be reported on
		Level of prescriptiveness
		Level of complexity
	Reporting principles	Rules-based or principles-based (e.g. is it 'comply or explain'?)
Implementation	Rules and procedures	Requirements for the compilation and publication of reporting
	Roll-out, guidance and support	Guidance material to accompany legislation
		Ongoing support with interpretation
	Interpretation and response	Reporters' interpretation(s) of the requirements
		Reporters' responses in annual reporting (minimum compliance vs comprehensive)
Enforcement	Incentives and penalties	Compliance mechanisms
		Enforcement process
	Verification of compliance	Assurance and verification
		Supporting institutions (e.g. mediation, grievance)
Monitoring	Effect (impact) of policy on reporting	Effect on policy of reporting
	Effectiveness against objectives	How effective has the policy been?

Table 13. Steps in analysing the effectiveness of an existing instrument to drive sustainability reporting

1.3. OVERVIEW OF NATIONAL POLICIES ON REQUIREMENTS FOR CORPORATE SUSTAINABILITY REPORTING

The Carrots and Sticks body of research looks at all instruments that can promote sustainability and all the potential mechanisms available to governments, including guidelines, regulations and financial instruments for reporting. The United Nations Environment Programme's research 'Evaluating National Policies on Corporate Sustainability Reporting' focuses much more narrowly on legal instruments to promote and enforce sustainability reporting, though it does outline the role the guidance and financial instruments can play in supporting policy initiatives.

UNEP's report looks in detail at five case studies of policymakers introducing requirements for corporate sustainability reporting. These are as follows:

- Brazil: the mandatory reporting requirements issued by the Brazilian Electricity Regulatory Agency (ANEEL) for electric utility companies to disclose their sustainability performance.
- Chile: the mandatory requirement underway for State-owned enterprises to report on their sustainability performance and the (currently) voluntary 'comply or explain' approach.
- Denmark: the mandatory 'comply or explain' requirement contained in the Financial Statements Act for listed and large companies in Denmark to report on their sustainability performance.
- France: the mandatory 'comply or explain' requirement in French law for sustainability reporting from listed and large companies.
- South Africa: the mandatory requirements for sustainability (and integrated) reporting for companies listed on the Johannesburg Stock Exchange.

The case studies offer a diverse range of approaches, with Chile and Brazil focused on State-controlled enterprises. Denmark and South Africa both used existing financial reporting requirements as the starting point for driving further sustainability disclosure. The French policy had the widest scope – applying to all large companies. The report found that public policy can be instrumental in increasing the number of companies reporting on sustainability performance and the quality of these reports.

Analysis of these five case studies has identified several common threads in developing effective policy to drive sustainability reporting:[125]

- Multi-stakeholder consultation to discuss policy design and promote engagement has been crucial to the enabling of acceptance and adoption of policies.
- Most policies define an overarching goal of wanting to encourage a more proactive engagement by companies with corporate social responsibility and sustainability. In this sense, mandatory reporting is seen as a means to this end. This overarching goal is generally explained in guidance notes rather than the policy itself.
- The 'comply or explain' approach underpins the policies in most cases. This requires companies falling within the scope of the policy to either comply with the regulation or state why they are unable to do so. This was the case for all policies addressing private companies (France, Denmark, South Africa and listed companies in Chile), whereas for State-controlled companies in Chile and Brazil the reporting was mandatory.
- The policies generally require or encourage companies to apply the principle of materiality.
- There is less agreement on how the scope of reporting should be defined, with some policies providing a comprehensive list of indicators and others offering significant flexibility:
    - Some case studies (France, Brazil and South Africa) propose a comprehensive list of indicators.
    - Danish companies have some mandatory reporting requirements (human rights, climate change and gender), but flexibility around what else to cover.
    - Chilean State-owned companies must produce a 'GRI-based' report covering the issues that they view as material.
- The policies tend to be amended over time, often leading to a broadening of scope.
- Frequently there is not a single policy, but reporting requirements are integrated into a range of voluntary and mandatory frameworks and policies with different levels of detail and flexibility.
- Assurance ranges from external auditing (France and South Africa) to internal verification of compliance but not performance (Denmark) to no assurance requirements (Brazil and Chile).

125 *Ibid.*

- There is a trend of applying mandatory reporting to specific financial institutions (such as institutional investors, mutual funds and portfolio management companies) as well as companies.

1.3.1 Evaluating public policy on sustainability reporting

Increasing corporate sustainability reporting is not necessarily about developing new regulation, but about creating an enabling regulatory environment. Therefore, a key first step is to undertake a policy review and assess how well policies are aligned with the sustainability reporting agenda and the national development strategy, and how they contribute to the goals of the national priorities and vision. A decision can then be made over whether the best approach is amending existing regulation or creating new regulation.

For countries aiming to develop a specific sustainability reporting policy, Evaluating National Policies has the following recommendations:

1. Understand the context
   a. What is the historical and current regulatory context for sustainability reporting?
   b. Undertake stakeholder dialogue to understand their needs.
2. Policy development
   a. Set a clear objective.
   b. Test through multi-stakeholder consultation.
3. Policy design
   a. Consider a 'principles-based' approach (provide key principles and guidance of good reporting) as opposed to a prescriptive 'rules-based' approach (set of detailed rules that must be followed).
   b. Ensure a focus on materiality.
   c. Provide minimum pre-defined indicators linked to existing frameworks.
   d. Ensure any specific national requirements are met.
   e. Link with other key influencers such as stock exchanges.
4. Policy implementation
   a. Consider mandatory and voluntary approaches, for example a two-tier approach, depending on organization size.
   b. Consider gradual application; start with larger and public-sector companies first, with the latter leading by example.
   c. Use the 'comply or explain' approach.
   d. Consider enforcement and accountability from the outset.
5. Monitor and communicate
   a. Set clear publication and accessibility requirements for reports.
   b. Highlight how reporting is improving sustainability performance – if it is.
   c. Celebrate success, for example through awards.

2. CASE STUDIES OF POLICIES REQUIRING CORPORATE SUSTAINABILITY REPORTING

Case study – 2.1. United Kingdom (UK) – Integrating policy through the Companies Act

Incorporating sustainability issues into the existing Companies Act is a method of driving sustainability disclosure. In 2013 the UK Government updated the UK Companies Act of 2006 to include the needs to produce a business review that included 'where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters', though SMEs are exempt from this requirement.

Additionally, listed companies are required to provide information about:

- environmental matters (including the impact of the company's business on the environment);
- the company's employees; and
- social, community and human rights issues.

This should include information on any relevant policies and the success of them.

Specific additional requirements for listed companies include:

- gender breakdown of the board, senior managers and employees;
- political donations;
- disabled staff; and
- greenhouse gas emissions.

Subsequently, in 2016, the UK Government produced the Companies, Partnerships and Groups Regulations as a further amendment to the Companies Act. This required companies to also report on anti-corruption and bribery matters. The outcomes should be reported in a strategic report and can make use of a national or international reporting framework.

This UK case study provides a further example of how additions to existing law can be used to drive sustainability reporting.

Case study – 2.2. European Union (EU) – Legislation: Non-Financial Disclosure Directive

As part of the European Union CSR strategy, the European Commission launched a proposal to enhance the transparency of large companies on social and environmental matters in 2013. The aim of this was to improve the social and environmental performance of EU companies.

In 2014, Directive 2014/95/EU was adopted by the Council of the European Union which amends the 2013 Accounting Directive on the preparation of annual and consolidated financial statements. The Directive required large (more than 500 employees) public interest entities (e.g. listed companies, credit and insurance institutions) to provide a management report on environmental and social matters including: employee-related issues, respect for human rights, anti-corruption and bribery. The report must include the following:

- A description of the company's business model.
- A description of the policies and their outcomes related to the environmental and social matters.
- The principle risks related to the environmental and social matters that the company's operations are exposed to.
- Non-financial key performance indicators.

Public interest entities must also provide a diversity report (in their corporate governance statement) on the age, gender and educational background of administrative, management and supervisory bodies. This should also describe the diversity policy, its objective and results of its implementation.

Where a company does not pursue policies, it will have to explain why this is the case ('report or explain').

The Directive allows flexibility for the member States in key areas, such as the following:

1. How they define an organization as a large undertaking (500 employees and €40 million turnover is frequently used).
2. What organizations are considered public interest entities.
3. Whether or not reports must be verified by an independent assurance service provider.
4. If any penalties will be imposed upon organizations which fail to report adequately.

The Directive does not require a specific reporting framework but recommends the use of an internationally recognized instrument (GRI, United Nations Global Compact, OECD guidelines, etc.). The EU also provided guidance on non-financial reporting[126] in mid-2017.

126 *https://ec.europa.eu/anti-trafficking/sites/antitrafficking/files/guidelines_on_non-financial_reporting.pdf*

Case study – 2.3. Denmark – Making use of Financial Statements Act legislation

In Denmark, initiatives to drive sustainability reporting have grown out of the two Action Plans for Corporate Social Responsibility of 2008 and 2012. One of the four key objectives of the 2008 Action Plan was 'Propagating Business-Driven Social Responsibility', which included the following key activities relating to sustainability reporting:

- Encourage Danish companies and investors to continue and develop their commitment and CSR work.
- Make it mandatory for large businesses to report on CSR in the management's review of the annual report.
- Make it mandatory for institutional investors and unit trusts to report on CSR in the management's review of the annual report.
- Intensify counselling on innovation and social responsibility for small and medium-sized businesses in the regional growth houses.

The Action Plan laid out the objective to legislate that major businesses (largest 1,000 businesses), institutional investors (pension funds, life-insurance, etc.) and unit trusts report on their CSR work in the management's review of the annual reports. A stakeholder engagement process resulted in the "Act amending the Danish Financial Statements Act (Accounting for CSR in large businesses)", where Section 99a sets out the disclosure requirements which came into force in January 2009.

The policy required companies to produce a report on social responsibility, defined as considerations for human rights, societal, environmental and climate conditions as well as combating corruption in their business strategy and corporate activities. The report is required to include information on relevant policies and how the policies are being realized, including systems and procedures. An assessment of achievements due to the companies' work on social responsibility should also be included.

Businesses without policies on social responsibility are required to disclose this information.

The notes of the policy provide definition to the term 'social responsibility', specifically:

- Societal concerns may consist of:
  - work on helping foreign suppliers observe workers' and human rights;
  - health and safety at work, employee satisfaction and development; and
  - businesses making special efforts to retain or integrate people who are disabled, seniors, persons with reduced capacity or persons with other ethnic background in the labour market.
- Environmental and climate concerns may include:
  - preventing pollution;
  - reducing consumption of energy and other resources;
  - developing or using environmentally efficient technologies; and
  - eco-labelling products.

The 2012-2015 version of the Action Plan again

highlighted the need to promote corporate transparency, particularly around human rights and climate impact. To this end, in June 2012, the Danish parliament adopted an amendment to the Financial Statements Act requiring businesses to expressly account for the topics of 'human rights' and 'climate impact reduction' regardless of whether or not these are included in the businesses' CSR policies. They also provided further guidance through CSR Compass[127] and Klima Kompasset.[128]

A further amendment – Section 99b – was also implemented, effective from 1 April 2013, which requires companies to report on the gender balance at the highest governance level (typically the Board) and on policies to improve gender balance at lower levels of management. Then, in May 2015, a final amendment was made to the Financial Statements Act to ensure that the requirements were fully aligned with the EU Directive 2014/95/EU.

As the reporting requirements are part of the Financial Statements Act, they need to be checked by an auditor, but do not need to follow a recognized assurance procedure. The Auditor's opinion should be included in the report. Penalties can be imposed for non-compliance.

The Danish example highlights how amendments to existing legislation can be used to increase reporting rates.

127 *www.CSRkompasset.dk*

128 *www.klimakompasset.dk*

Case study – 2.4. France – Developing specific reporting regulation

France has a long tradition of requiring corporate sustainability reporting. In 1977 Parliament passed a law requiring companies with more than 300 employees to publish social accounts based on 100 indicators. This was reinforced in 2002 by the Law on New Economic Regulations (Loi sur les Nouvelles régulations économiques – the NRE). Article 116 required companies trading on the Stock Exchange to disclose non-financial information such as staff salaries and benefits and how they were accounting for the social and environmental impacts of their operations.

There were a number of shortcomings with the legislation, notably that it only addressed listed companies, its lack of clarity over subsidiaries and the absence of any sanctions for non-compliance. This was addressed during the public consultation process known as the '*Grenelle for the Environment Forum*' in 2007 and the NRE legislation was replaced by Article 225 of Law no. 2010-788 on the National Commitment for the Environment in July 2010. Article 225 amends article L225-102-1 of the French Commercial Code, together with implementation decree no. 2012-557 for Article 225.

Article 225 of the Law makes corporate sustainability reporting mandatory for companies exceeding size thresholds. The legislation requires companies to include information on their environmental and social performance, including all the company's subsidiaries, in their annual report—effectively turning it into the foundation for a full integrated report. Key features of the legislation include:

- Increase in scope of topics to cover, including corruption and human rights.
- 'Comply or explain' approach.
- Lists of topics provided, but indicators can be defined by the company. Topics are in three categories (a full breakdown is provided on page 53-54 of Evaluating National Policies):
    - Social information
    - Environmental information
    - Local community impact (called societal commitments to sustainable development).
- Covers all companies with more than 500 employees, not just listed companies, with a staged implementation starting with the largest companies.

- The legislation provides clear guidance on reporting boundaries for holding companies and subsidiaries.
- An independent external report is required, but there are no sanctions for non-compliance.
- The guidance cross-references requirements to GRI and ISO 26000.[129]

The legislation has proved successful in increasing the number of companies reporting and the data that they are covering, as well as driving up the reporting on the performance of subsidiaries with a review in 2013 finding that 80 per cent of companies were covering their subsidiaries. On the other hand, companies seem to be only reporting on issues that are listed in the regulations and are not undertaking a materiality process to identify the issues that are of key importance to them. This highlights the potential drawback of proscriptive legislation.

Running parallel to this, France has developed similar transparency regulation for investment companies. Laws on socially responsible investment were introduced in 2001 requiring investment companies with assets of more than €500 million to report on the integration of environmental, social and governance (ESG) criteria into their investment decisions. This was updated through the 'Grenelle for the Environment Forum' process by Article 224 of Law no.2010-788 and covers portfolio management and investment companies but not pensions. This is a similar law to Article 225, but with considerably more flexibility. For example, companies can define their own ESG criteria and indicators, and no third-party assurance is required, with the aim that companies will challenge their own business model. Companies are required to disclose their action plan and the first reports were published in November 2017.

129 More information in English can be found at: *https://www.globalreporting.org/SiteCollectionDocuments/Global-Conference-2013/slides/GRI-Regional-France-24May2013.pdf*

Case study – 2.5. Brazil – Sector-specific regulation for the energy sector

The electricity sector has been pressurized by a range of stakeholders to demonstrate social and environmental responsibility, specifically around minimizing the impact of the construction of hydroelectric plants and the operation of power plants. Specifically, Law No. 8987 (1995) gives electricity users the right to receive the proper information 'in order to defend individual interests'. The Brazilian Electricity Regulatory Agency (ANEEL) decided that sustainability reporting could be an effective method of responding to this pressure.

The energy sector had been used to reporting on sustainability issues from the 1950s and in 2001 ANEEL passed resolution 444/2001 establishing the 'Public Service Electricity Accounting Manual' (Manual de Contabilidade do Serviço Público de Energia Elétrica - MCSPEE) which outlines requirements for disclosure of financial and social responsibility data, amongst other information. In 2006 ANEEL required companies to produce an annual social-environmental report (order 3034/2006), and the Accounting Manual[130] was amended and became the Electricity Sector Accounting Manual (Manual de Contabilidade do Setor Elétrico – MCSE). Finally, resolution No. 605, which came into force in 2015, stipulates that social-environmental reporting must take place alongside other mandatory disclosure, such as the financial statement, report of Fiscal Council, and the report of the independent auditors.

The requirements initially applied to all concession and license holders in the areas of distribution, transmission and generation of electric energy; 63 distributors, 38 licensees (permit holders), 132 transmitters and 60 generating companies. As of 2015, all companies granted authorization to operate in the electric energy sector, except for self-producers (companies that generate electricity for their own consumption), are required to

130 *http://www2.aneel.gov.br/aplicacoes/leitura_arquivo/arquivos/Manual-jan-2007.pdf*

comply.

The Electricity Sector Accounting Manual (MCSE) provides a minimum standard for disclosure, including a set of indicators specific to the Brazilian electricity sector. The reporting requirements are structured under five 'dimensions': overall dimension; corporate governance; economic and financial; social and sectoral; and environmental. Performance indicators need to be presented against each of these dimensions. The MCSE contains both quantitative and qualitative indicators and indicators to measure both performance and process.

Early versions of the MCSE referenced international reporting frameworks; GRI, AA1000 and relevant national reporting requirements such as social reporting requirements issued by the Brazilian Institute of Social and Economic Analyses (IBASE). Companies can then choose to produce a report based on separate frameworks, such as the GRI, although the indicators coincide with some of those in the GRI's guidelines, it also goes beyond the GRI guidance, in particular regarding quantitative data. As of the 2015 version of the MCSE, companies are encouraged to use GRI as a basis for reporting.

Reporting is mandatory, and a few companies have been fined for non-compliance. There is no requirement for third-party assurance.

To ensure the smooth implementation of the policy, ANEEL has held public consultations and run workshops. Furthermore, companies struggling to meet the minimum reporting requirements can direct questions to ANEEL, nonetheless there have been challenges to achieving high-quality reporting, as well as clear successes, for example:

- Successes
    - The regulation has been found to increase environmental disclosure by 20 per cent in participating organizations. For example, there is a significantly higher reporting rate of GRI indicators that are mandatory under ANEEL compared to those that are not.
    - Some companies are embracing GRI and moving beyond minimum compliance.
- Challenges
    - Some companies are not reporting all data, particularly against environmental indicators.
    - There is a lack of consistency in the reports, making comparison difficult.

This case study provides a good example of how local and industry-specific mandatory reporting requirements can work with international frameworks. The MCSE provides a set of minimum requirements that encourages companies to engage with GRI and to steadily increase their disclosure.

Case study – 2.6. South Africa – Building on stock exchange requirements

In South Africa, the concept of disclosure has a strong history.

The first step taken in creating a wider sustainability reporting requirement was a range of stakeholder consultation activities, and important early actors were:

- the Johannesburg Stock Exchange, which has been at the forefront of the sustainability reporting agenda in South Africa, making the production of an integrated report a listing requirement in 2010 (using a 'comply or explain' approach); and
- the South African Public Investment Corporation's Corporate Governance Rating Matrix for State-Owned Enterprises.

The State-Owned Enterprises Matrix consists of 92 indicators divided into the following categories:

- Board and Committee composition
- Accountability
- Remuneration
- Functioning of the Board
- Reporting

- Stakeholders
- Social
- Environmental

The social and environmental requirements include the following:

- Social
    - Conformance to developmental regulatory mandates
    - Ability to respond to changing developmental priorities
    - Building and maintaining a culture of honesty and integrity
    - Codes of conduct and ethics
    - Specify corporate responsibility policy and spend as percentage of profit after tax
    - Detail direction and demographics of spend
    - Specify impact on communities (local, national and international)
- Environmental
    - Compliance with environmental requirements (both national and industry specific)
    - Evidence of environmental policy, strategy, monitoring and, where appropriate, a rehabilitation plan
    - Evidence of positive environmental audits

Building on these foundations, the King Committee released the third version of ‘King Code of Governance for South Africa’ in 2009 – known as King III[131] (the document is owned by the Institute of Directors – Southern Africa). This contains 75 principles split across nine governance elements, specifically:

1. Ethical leadership and corporate citizenship
2. Boards and directors
3. Audit committees
4. The governance of risk
5. The governance of information technology
6. Compliance with laws, rules, codes and standards
7. Internal audit
8. Governing stakeholder relationships
9. Integrated reporting and disclosure

The King Code was updated in 2016 and King IV[132] takes quite a different tack from King III, focusing on principles and outcomes as opposed to giving a comprehensive list of reporting requirements (see one-page summary in *”Figure 7. One-page summary of South Africa’s King IV133”, on page 68*) and it provides additional guidance for key sectors (including municipalities, investment funds and SMEs). The Code includes 17 principles that should be applied, with recommended practices provided for each principle. The principles are broken into the following categories:

1. Leadership, ethics and corporate citizenship
2. Strategy performance and reporting
3. Governing structures and delegation
4. Governance functional areas
5. Stakeholders and relationships

The outcomes that implementing the code is aiming to achieve are:

1. Ethical culture
2. Good performance
3. Effective control
4. Legitimacy

The King Code applies to ‘all entities regardless of the manner and form of incorporation or establishment and whether in the public, private or non-profit sectors’. In King III the requirement was ‘apply or explain’, and in King IV this has become ‘apply and explain’ as entities are required to ‘apply the principles in the Code’ and provide a statement about how the principles have been applied. The Code is clear that sustainability reporting should be integrated with the entity’s financial report.

While the King Code is not enforced by legislation, and is therefore voluntary, it coexists with several laws that apply to companies and

131 Institute of Directors Southern Africa, King III Report on Corporate Governance for South Africa 2009, 2012 update

132 Institute of Directors Southern Africa, King IV Report on Corporate Governance for South Africa 2016, 2016

directors, including the Companies Act, and further enforcement takes place by regulations such as the Johannesburg Stock Exchange Listings Requirements where non-compliance can lead to a fine. The Code recommends that the Board 'engage an external assurance provider on material sustainability issues', and this is normally one of the major auditing firms.

The King Code is an interesting case study as it provides a clear example of how policies or initiatives can evolve with time. There is a sharp change in emphasis from King III to King IV from prescriptive requirements to an outcome and principles approach based on transparency. Looking further back, the evolution from King I and King II shows how the remit of the Code has grown from only companies listed on the stock exchange to 'all entities' and the scope has grown to include sustainability issues.

Overall, the Code has been successful with the number of listed and non-listed companies reporting having increased and the quality of reports having also improved.

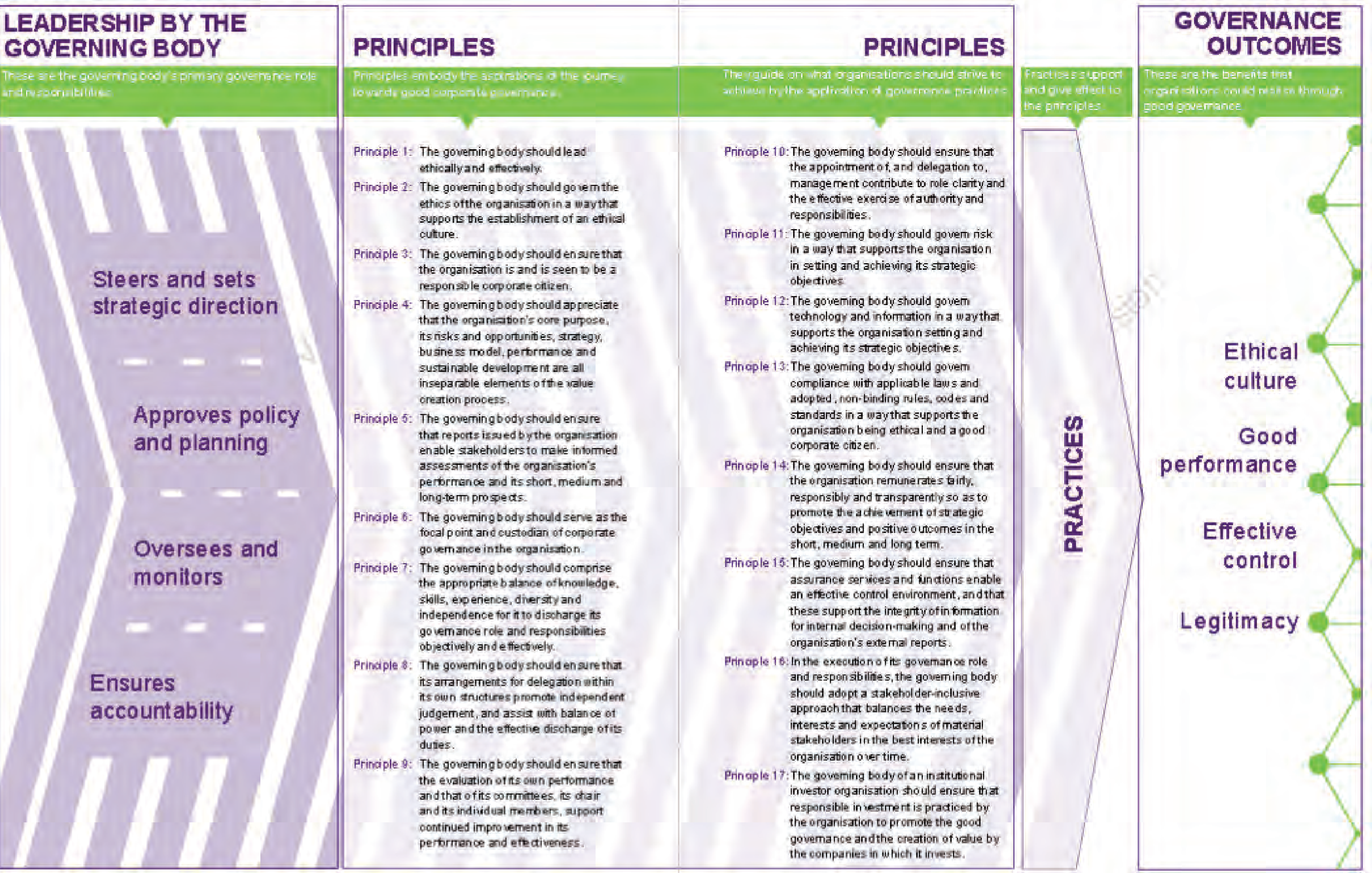

Figure 7. One-page summary of South Africa's King IV[133]

3. APPROACHES TO ENGAGE WITH SMES OVER SUSTAINABILITY REPORTING

As noted privately-owned SMEs play a critical role in the global economy and yet in many countries, reporting instruments focus initially on large companies and State-owned enterprises. This is a logical approach as large companies have the financial and human resources required to manage reporting, while smaller companies may lack the capacity to report, meaning that a large part of the economy has no sustainability reporting requirement. In this context policymakers face a real challenge in how to engage with SMEs, as their limited resources to report, and therefore voluntary instruments may have limited impact.

When compiling this toolkit no examples of policies aimed at SME sustainability reporting were found. Nonetheless there are still many opportunities for engaging with these types of companies. In this respect, the GRI has published guidance[134] on developing policies to enable SMEs to disclose non-financial information. The document provides ten opportunities available to national governments to engage with SMEs and reiterates the key points highlighted in section A – *"1.4.3. Increasing reporting rates", on page 20,* of supply chain engagement and providing bespoke guidance for SMEs. The document makes the following three key recommendations for national governments:

1. To include supply chain due diligence in any policies aimed at large companies.
2. To lead by example by imposing sustainability reporting requirements on public entities and State-owned companies, as well as integrating into public procurement and even national subsidy programmes.
3. To empower business associations, trade unions and chambers of commerce to support and build the capacity of SMEs to undertake sustainability reporting.

Points 1 and 2 are specifically discussed in section A –*"1.4.3. Increasing reporting rates", on page 20*. The third point focuses on how wider stakeholders can support SME reporting. In this sense, the report notes that there are many actors involved in developing a conducive policy environment for SMEs to report on their sustainability impacts. This includes civil society, SME business network organizations, industry organizations, business schools and trade unions. An example of this is an initiative by GRI and the Catalan Chamber of Commerce aimed at providing training and capacity building for SMEs (see Catalonia on *"Box 2: Examples of initiatives and guidance to engage with SMEs", on page 69*).

Furthermore, it is possible to adapt existing guidance to the needs of SMEs. For example, Hong Kong and Dubai provide corporate governance guidance for SMEs (see box 2 b) and South Africa has adapted wider guidance to the specific context of SMEs (see Hong Kong and Dubai on *"Box 2: Examples of initiatives and guidance to engage with SMEs", on page 69 70*).

133 *Ibid.* (*https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/684B68A7-B768-465C-8214-E3A007F15A5A/IoDSA_King_IV_Report_-_WebVersion.pdf* on pages 40 and 41)

134 GRI, Empowering small businesses, 2018

Box 2: Examples of initiatives and guidance to engage with SMEs

a) Catalonia – training for SMEs

The Catalan Chamber of Commerce collaborated with 11 major companies and GRI to provide training to more than 60 SMEs that supplied the larger companies.[135] Through the programme, GRI Certified SME training was provided as well as intensive workshops and consultancy to SMEs to start and continue sustainability reporting. SMEs learnt how to leverage management systems to measure and manage their sustainability performance, and how to report that performance to their stakeholders through GRI's reporting framework. The 11 large companies agreed to mentor their SME suppliers in this project. Throughout the programme, over 60 participating suppliers received support from sustainability consultants to evaluate and diagnose their practices, to establish improvement plans and management systems, and report their progress.

135 GRI, Teaching transparency to small businesses and suppliers, available at: *https://www.globalreporting.org/Documents/ARCHIVES/resource%20library/CoCBrochure-Final.pdf*

b) Hong Kong and Dubai – governance guidance

Both Hong Kong[136] and Dubai[137] have developed guidance for SMEs on governance. The Dubai document is short and well-structured providing guidance in six categories. One of these is 'transparency and shareholder relations'. This document only outlines the need to engage with shareholders and hold an annual general meeting, but it would be straightforward to provide further guidance on wider transparency issues relating to sustainability.

The Hong Kong document is significantly more in depth and serves as a tool for SME directors to set strategic directions, business development and internal control. The guidance touches upon the concept of corporate governance and its importance and divides SMEs in Hong Kong into five categories. It discusses the main issues faced by these companies and provides a set of case studies.

c) South Africa's King Code – specific guidance

The King Code is South Africa's main strategy for increasing company reporting – and this is aimed at 'all entities'. The Code contains specific guidance for a range of sectors including municipalities, retirement funds, not-for-profit entities, State-owned enterprises and SMEs. The King Code is outcome-based and has 17 principles that should be applied. See the case study *"Case study – 2.6. South Africa – Building on stock exchange requirements", on page 65,* for further information. In the case of the SME guidance, the terminology of the principles is adapted, and some clarification is provided on the aim of the principle.

136 Hong Kong Institute of Directors, Guidelines on corporate governance for SMEs in Hong Kong, 2014

137 Department of Economic Development – Government of Dubai, The Corporate Governance Code for Small and Medium Enterprises - Building the foundations for growth and sustainability, 2011

Getting started...

First steps in developing sustainability reporting policies

Government actors have a range of options to encourage sustainable reporting through policies and regulation. Identifying the most appropriate option will require analysis of the particular country context.

For most governments, the first step will be to review the following:

- The existing regulation and to understand the impact and effectiveness of this regulation (the UNEP policy evaluation tool found in Evaluating National Polices[138] can be used as a framework to guide this – see section B.1 – *"1.3.1 Evaluating public policy on sustainability reporting", on page 60*, for a summary of the tool).
- Other reporting policies (that do not relate to sustainability reporting) that exist, to see if requirements can be integrated.
- The key stakeholders in the field, such as industry bodies or stock exchanges and to understand if they are also developing reporting guidance or requirements.
- Whether there are wider international policies that can be leveraged.

This review should identify opportunities, for example:

- can existing reporting policies be made more effective or have an increased scope? See case studies on how the scope of policies in *"Case study – 2.6. South Africa – Building on stock exchange requirements", on page 65*, *"Case study – 2.4. France – Developing specific reporting regulation", on page 63,* and *"Case study – 2.3. Denmark – Making use of Financial Statements Act legislation", on page 62,* have evolved over time;
- are there any existing policies and initiatives that could be exploited? – see UK and Danish case studies – *"Case study – 2.1. United Kingdom (UK) – Integrating policy through the Companies Act", on page 61* and *"Case study – 2.3. Denmark – Making use of Financial Statements Act legislation", on page 62*;
- can industry bodies or stock exchanges be used to drive corporate sustainability reporting? – see Brazil and South Africa case studies and information on Sustainable Stock Exchange Initiative (section A – *"1.6.6. Stock exchanges", on page 28*).

If it is still decided that specific regulation is required, then it will be important to understand what is likely to be most effective in the country context. For example, how mature is corporate reporting in general in the country? If it is not well evolved, regulation may need to be prescriptive, but if there is already a culture of reporting an 'outcomes and principles' approach may be more effective.

138 UNEP 'Evaluating National Policies on Corporate Sustainability Reporting' (2015)