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Enhancing the uptake and impact of corporate sustainability reporting

A handbook and toolkit for policymakers and relevant stakeholders

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Enhancing the uptake
and impact of **corporate
sustainability reporting**

A HANDBOOK AND TOOLKIT FOR POLICYMAKERS AND RELEVANT STAKEHOLDERS

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Foreword

**DIRECTOR, ECONOMY DIVISION
UNITED NATIONS ENVIRONMENT PROGRAMME
LIGIA NORONHA**

In the past decades there has been increasing demand for companies, and other organizations, to be more accountable and transparent in disclosing the impact of their activities and products. Companies have been called to disclose how they address emerging sustainability challenges such as climate change, growing consumption and resource scarcity, in a new reality of increased sharing of information. Information on environmental, societal and governance factors, in addition to financial disclosures, is of interest to various stakeholders of companies, such as investors, customers and governments. Sustainability reporting has therefore emerged as a useful tool for measuring and communicating companies' sustainability performance, and determining their contribution to the global objectives of sustainable development.

The importance of sustainability reporting was recognized in paragraph 47 of the final document of the 2012 United Nations Conference on Sustainable Development (Rio +20 Conference) and also in the ambitious Sustainable Development Goals adopted by countries at the United Nations Sustainable Development Summit in 2015. Although significant progress has been made in the field of sustainability reporting various challenges remain. There is a need for a wider uptake of sustainability reporting, and the quality of disclosures could be further improved. Challenges facing companies engaging in sustainability reporting include gathering data from diverse and global operations, complex value chains and lack of resources. Governments can play an

instrumental role in addressing these challenges. In light of the adoption of the Sustainable Development Goals encouraging and guiding companies to provide more valuable sustainability disclosures will help determine progress towards achieving the goals.

This publication, *Enhancing the uptake and impact of corporate sustainability reporting: A handbook and toolkit for policymakers and relevant stakeholders*, has been produced to help advance the uptake and quality of sustainability reporting. Jointly, the handbook and the toolkit form a valuable and comprehensive source of information and a clear reference for policy makers willing to play a leading role on this agenda in their respective countries. It is my hope that this publication will assist policy makers in further engaging with sustainability reporting as a tool to meet the urgent environmental and societal challenges we face and meet the targets of the Sustainability Development Goals by 2030.

A handwritten signature in black ink, appearing to read 'L. Noronha', written in a cursive style.

Ligia Noronha

Corporate sustainability reporting constitutes an essential lever for the transformation of companies' practices and for ensuring their contribution to sustainable development. It represents a potential mechanism for organizations to generate data and measure their performance in all the dimensions of sustainable development, to set goals, and to support the transition towards a low-carbon, resource-efficient, and inclusive green economy.

There has been an increase in internal and external pressure on companies to improve their sustainability performance, and sustainability reporting has now evolved from an iterative process into a strategic tool to support decision-making processes. Reasons for this include pressing environmental and social challenges and a rising interest in sustainability reporting, not only on the part of governments, but also on the part of investors and stock exchanges, resulting in regulatory instruments and incentives for reporting. This pattern is likely to continue, as company monitoring will, at the national and global levels, be a key component in tracking the progress of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs), particularly SDG target 12.6 and its respective indicator, 12.6.1, on corporate sustainability reporting.

The above has led to a rapid growth in governments and other institutions to put in place policies or other measures to encourage sustainability reporting. This, in turn, has contributed to an increase in the number of companies (particularly large and international companies) producing sustainability reports, though the quality of these reports varies widely. Conversely, there has been less of a focus on small and medium enterprises, and the reporting rate of these smaller companies is significantly lower than that of large organizations.

National governments and stakeholders have a range of crucial actions to carry out in order to improve the quality of sustainability reporting and to encourage more companies to report. Possible actions include:

- Building national understanding of the benefits of sustainability reporting;
- Creating policies or guidance to encourage and enable sustainability reporting, particularly amongst small and medium enterprises;
- Supporting the consolidation of data extracted from corporate sustainability reports to enhance the mea-

surement of sustainability performance at the national level; and

- Making use of this disclosed sustainability information to support decision-making processes.
- This publication aims to support national governments and relevant stakeholders in delivering these outcomes. It seeks to contribute to: building policymakers' awareness of corporate sustainability reporting in order to inform policy decisions; and developing policymakers' capacities to address sustainability reporting from a policy perspective. It provides step-by-step guidance for the formulation of national regulatory instruments and for the collection and management of data and indicators regarding business impacts (particularly, the environmental impacts of businesses) that can enhance the number and quality of corporate sustainability reporting practices. It also has an operational orientation and provides detailed information, self-assessment tools, and hands-on tools that help countries in implementing sustainability reporting strategies.

This work has been divided into two main sections. The first part of the material, section A (Handbook), provides an introductory overview of the key issues in corporate sustainability reporting for those who are new to the topic. Section B (Toolkit) presents more specific guidance on key themes for governments and relevant stakeholders wishing to increase the effectiveness and impact of company sustainability reporting in their countries or regions.

The material builds on existing publications and resources, synthesising this information and linking to further resources as required.



Section A — Handbook



Background to **sustainability reporting**

The first section of this publication 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.

1. OVERVIEW OF SUSTAINABILITY REPORTING

1.1. DEFINITIONS OF CORPORATE SUSTAINABILITY REPORTING

While there is currently no universally agreed definition for corporate sustainability reporting or sustainability reporting (both terms are used interchangeably throughout this publication), the concept is generally defined as being the practice of measuring and disclosing sustainability information alongside, or integrated with, companies' existing reporting practices. Corporate sustainability reporting is not simply the process of summarizing and analysing collated sustainability data; it is viewed as the process of assessing these data and using the analysis to internalize and improve an organization's commitment to sustainable development in a fashion that can be demonstrated to both internal and external stakeholders.

Corporate sustainability reporting has grown out of both environmental reporting and reporting on corporate social responsibility (CSR). Environmental reporting was pioneered in the late 1980s by companies in the chemical industry, which had serious image problems. While CSR has been attracting attention since the 1960s, reporting on CSR is a fairly recent trend which has expanded over the last few decades.

Many companies now produce an annual sustainability report (which may be called a non-financial report or CSR report) or present relevant sustainability information in a variety of different report types, including consolidated annual reports, shareholders' reports, director's reports, etc. One further trend to be aware of is that of environmental disclosure, whereby companies make publicly available their impact on the environment. A formal report is one form of disclosure, but other approaches are available – such as entering data (for example, data on carbon emissions) into a publicly available platform.

1.2. MAIN DRIVERS FOR COMPANIES TO PRODUCE SUSTAINABILITY REPORTS

1.2.1. Global context – environmental and social challenges

Reports such as the United Nations Environment Programme's fifth Global Environmental Outlook (GEO-5) and the Millennium Ecosystem Assessment reports have highlighted the impact that humans are having on the

natural environment. The Economics of Ecosystems and Biodiversity (TEEB) initiative for its part, has helped to translate this into economic terms, and in 2013 estimated that the world's top 100 externalities cost the global economy US\$ 4.7 trillion in terms of environmental and social costs of lost ecosystem services and pollution¹.

GEO5 for Business has also helped translate these global pressures as business risks, and these are summarized in *"Table 1. Environmental trends and their implications for companies as identified by UNEP's fifth Global Environmental Outlook", on page 13.*

Environmental trend	Implications for business
GHG emissions leading to global temperature increase	Market shifts favouring lower-carbon products and driving up the cost of energy and other commodities
Severe weather	Operational and supply chain disruption
Land converted for urban uses	Restricted access to land-based resources and loss of ecosystem services
Water availability	Markets for water-efficient products and constraints on growth due to water scarcity
Water pollution	Increased demand for pollution-control devices and increased cost of water treatment
Biodiversity loss	Increased market, reputational and regulatory pressure to reduce biodiversity impacts
Chemical exposure	Market favours greener products and public pressure for greater transparency
Waste	Increasing regulatory and customer pressure to reduce/manage waste

Table 1. Environmental trends and their implications for companies as identified by UNEP's fifth Global Environmental Outlook

From the social perspective, an increased awareness of the abuse of workers' rights, modern slavery, child labour, and other issues have all made it important for companies to be able to prove that their operations and supply chain do not suffer these issues and that they are making a positive contribution to society. See *"Case study – Enabling business to make a positive social contribution", on page 17.*

¹ TEEB for Business Coalition, Natural Capital at Risk: The Top 100 Externalities of Business (2013).

1.2.2. Stakeholder pressure

Increasingly, mandatory requirements are forcing companies to address sustainability. The Carrots and Sticks reports² and database³ (henceforth referred to as “Carrots and Sticks”) contain a comprehensive list of mandatory and voluntary instruments which require or encourage organizations to report sustainability-related information. Four reports have been published of this information in 2006, 2010, 2013, and 2016.

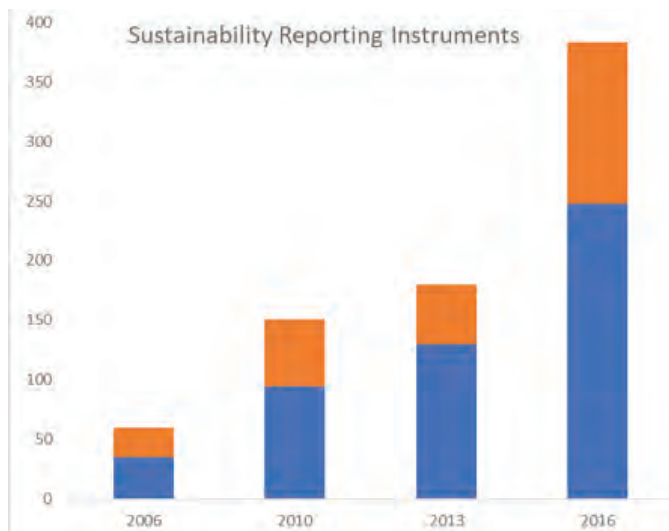


Figure 1. Growth in reporting instruments as identified in Carrots and Sticks (2016) report created on the basis of data included at page 9 (<https://www.carrotsandsticks.net/wp-content/uploads/2016/05/Carrots-Sticks-2016.pdf>)

2 <https://www.carrotsandsticks.net/about-carrots-and-sticks/>

3 KPMG, GRI, United Nations Environment Programme, and Centre for Corporate Governance in Africa, Carrots and Sticks, available at <https://www.carrotsandsticks.net/> (accessed 30 January 2019).

As noted in Carrots and Sticks, increasingly, stock exchanges are requiring listed companies to disclose sustainability information. It is likely that the Sustainable Stock Exchanges (SSE) Initiative⁴ has had an impact on the growth of stock exchange instruments. The initiative was launched in 2009 by the United Nations Conference on Trade and Development (UNCTAD), the United Nations Global Compact, the United Nations Environment Programme Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI). For more information, see section A – “1.6.6. Stock exchanges”, on page 28.

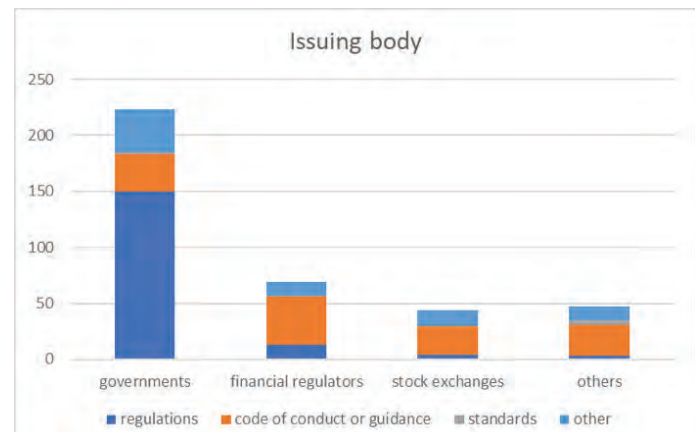


Figure 2. Breakdown of reporting instruments by type as identified in Carrots and Sticks 2016 created on the basis of data included at pages 14 and 15 (<https://www.carrotsandsticks.net/wp-content/uploads/2016/05/Carrots-Sticks-2016.pdf>)

4 <http://www.sseinitiative.org/>

★ HIGHLIGHTS OF THE 2016 REPORT STATE THAT:

- The number of reporting instruments more than doubled from 2013 to 2016 (figure 1) and the growth of reporting instruments in Europe, Asia and the Pacific, and Latin America has been particularly strong.
- Government regulation accounts for the largest proportion of sustainability reporting instruments worldwide: almost three fifths of the total number of instruments identified in 2016 (figure 2).
- Stock exchanges and financial market regulators are responsible for almost one third of all sustainability reporting instruments identified.
- Around two thirds of the instruments identified are mandatory and the rest, voluntary.
- Around one in ten instruments adopts a “comply or explain” approach.
- Almost one third of reporting instruments apply exclusively to large listed companies, while the rest apply either to all companies or to other types of companies, such as State-owned companies (see “Case study – Demonstrating a commitment to sustainability”, on page 17).

1.2.3. Increasing demands from investors

The lending and investment activities of the financial sector affect individuals and business both nationally and globally and are key drivers for achieving the transition to an inclusive, low-carbon, and resource-efficient economy. Investors are increasingly demanding non-financial information to enhance their investment decisions and reduce risk. These elements have led to an increased focus on the role of investors and the finance sector in achieving sustainable development. For example, the Task Force on Climate-related Financial Disclosures concluded that all organizations should include climate-related financial disclosures in their annual financial filings to foster shareholder engagement and promote a more informed understanding of climate-related risks and opportunities among investors and others⁵. In the same vein, one of the key recommendations in the European Union High-Level Expert Group on Sustainable Finance report of 2018⁶ was to upgrade disclosure rules to make sustainability risks fully transparent. Both reports have highlighted the necessity of aligning financial and sustainability information in order to enhance the overall usefulness of reporting to all stakeholders, from governments to investors.

A detailed analysis of sustainability in the financial sector by the United Nations Environment Programme⁷ noted that while the financial sector has a limited direct impact, it has the potential for major multiplier effects if it adopts and disseminates responsible and transparent practices. Carrots and Sticks found that the financial services industry and heavy industry were a particular focus for policymakers and regulators, and that the financial services industry now accounts for 40 per cent of all sector-specific instruments. In France, for example, institutional investors are required to report on the climate risk exposure of their portfolios, the products that contribute to financing the transition to the low-carbon economy, as well as the carbon emissions of their investment portfolios. See *“Case study – Satisfying the needs of investors and civil society”*, on page 18.

5 Task Force on Climate-related Financial Disclosures, Final Report (2017), available at <https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

6 High-Level Expert Group on Sustainable Finance, Financing a Sustainable European Economy (2018), available at https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

7 United Nations Environment Programme, Sustainability Reporting in the Financial Sector (2017).

The International Integrated Reporting Framework, the Sustainability Accounting Standards Board, and the Global Reporting Initiative are aiming to make it easier for investors to be able to access this sustainability information. For example, the report *In Focus: Addressing Investor Needs in Business Reporting on the SDGs*⁸ provides perspectives and recommendations on the key parameters of corporate reports that refer to the SDGs which investors are most likely to find useful.

More information on reporting initiatives is provided in section A *“1.5. Key existing frameworks driving sustainability reporting”*, on page 23.

1.2.4. Business performance

While corporate sustainability reporting is increasingly being driven by external pressures, it has grown out of a voluntary movement whereby companies have been measuring and reporting on their sustainability impact in order to improve their business performance. The following list gives a sense of some of the drivers motivating companies to embrace sustainability reporting:

- Improved business performance by measuring, understanding, and communicating an organization’s economic, environmental, social, and governance performance
 - Streamlining processes, reducing costs, and improving efficiency
 - Comparing performance internally and between organizations and sectors to identify inefficiencies
 - Emphasizing the link between financial and non-financial performance
- Business development
 - Managing change through increased understanding of risks and opportunities
 - Influencing long-term management strategy and policy and business plans
 - Attracting investment

8 GRI and the United Nations Global Compact, *In Focus: Addressing Investor Needs in Business Reporting on the SDGs* (2017).

- Reputation
 - Improving reputation and brand loyalty
 - Avoiding being implicated in environmental, social, and governance scandals
 - Benchmarking and assessing sustainability performance with respect to laws, performance standards, and voluntary initiatives
 - Enabling external stakeholders to understand an organization's true value
 - Demonstrating how an organization influences, and is influenced by, expectations about sustainable development
- Improved stakeholder engagement
 - Enabling external stakeholders to understand an organization's true value
 - Raising company's profile among stakeholders by being transparent and accountable to them
 - Prompting a change in the organizational approach to stakeholder relationships which can contribute to raising awareness of "creating shared value"

Additionally, as a sustainability performance report is most likely to help drive improvement where the reporting framework is part of a company-wide sustainability management strategy, many have started developing sustainability strategies.

A sustainability strategy should:

- set a clear sustainability vision for a company;
- articulate how the company's policies, strategies, and management practices are aligned with this sustainability approach and vision;
- include clear goals and commitments;
- include both near-term and long-term targets that are rooted in science and local context; and
- have a clear monitoring strategy with key performance indicators (KPIs) to assess impact and progress.

The combination of a comprehensive sustainability management strategy and a transparent reporting system will be the most effective method for improving sustainability performance and deriving business benefits.

1.3. BENEFITS OF COMPANY SUSTAINABILITY REPORTING TO NATIONAL GOVERNMENTS

The analysis undertaken in Carrots and Sticks highlights that governments are the main actors in developing sustainability reporting instruments, though the reasons for their actions can vary. In some cases, the aim is to monitor compliance with existing laws, while in others, the driver may be to increase international competitiveness. For example, national governments are responsible for regulating businesses in their respective countries, which includes ensuring compliance with all laws, including environmental and social laws. Financial reporting is a key part of demonstrating compliance, which is, increasingly, further supported by non-financial information.

Furthermore, as noted in section A *"1.2.4. Business performance", on page 15*, reporting, and specifically, corporate sustainability reporting, can play a key role in improving business performance and, therefore, boosting the national economy and creating more local employment opportunities. For example, Denmark launched the national Action Plan for Corporate Social Responsibility to increase the competitive advantage of Danish companies in the global markets (see *"Case study – International competitiveness", on page 17*).

Ultimately, governments are answerable to their constituents, and as corporate sustainability reporting can help protect the local environment as well as boost the national economy, increasingly, governments are looking at how they can facilitate increased and improved sustainability reporting.

The United Nations Environment Programme's *Evaluating National Policies on Corporate Sustainability Reporting*⁹ assesses the key policies in five countries. While all countries will have developed regulations for a variety of reasons, the primary drivers for each country have been outlined in the following case studies.

⁹ United Nations Environment Programme, *Evaluating National Policies on Corporate Sustainability Reporting* (2015).



Case study – International competitiveness

Led by the Ministry of Business and Growth, Denmark launched the Government's Action Plan for Corporate Social Responsibility in 2008. The Action Plan, as directed by the Government, set out to strengthen Danish companies' competitive advantages in global markets by promoting them as responsible businesses contributing to "responsible growth". The Action Plan identified a strong link between companies' CSR activities, their business strategies, and their core competencies promoting the concept of "business-driven social responsibility" with a clear underlying economic rationale.

The 2008 Action Plan for CSR set two overall goals for companies:

- to promote the application of CSR principles and standards; and
- to promote the integration of CSR in a company's core business strategy.

The Action Plan shifted the discussion on CSR from one which views CSR as a voluntary endeavour to one which views it as an activity regulated by law. It established the requirement for the country's largest companies to report annually on their approach to social responsibility.

In effect, the Government aimed to drive national economic growth by demonstrating that Danish companies were leaders in creating "responsible growth".



Case study – Demonstrating a commitment to sustainability

The electricity sector in Brazil has been under pressure from a range of stakeholders to demonstrate its social and environmental responsibility. Stakeholders wish to see the sector's role as an engine of economic development balanced with the social and environmental impacts of the construction and operation of large-scale infrastructure, such as hydroelectric plants and fossil fuel power-stations.

In response to this, the Brazilian Electricity Regulatory Agency, ANEEL¹⁰, issued a requirement in 2006 for all the electric energy companies to produce an annual sustainability report. ANEEL believes that the sustainability report can help demonstrate the CSR policies and actions being delivered by the sector, both as a service provider and as an investor in energy efficiency.

10 <http://www.aneel.gov.br/>



Case study – Enabling business to make a positive social contribution

The Government of Chile established the Council of Social Responsibility for Sustainable Development in April 2013. Its members are stakeholders from the public, private, and civil society sectors. The Council aimed to create a space for discussion on how to design policies, programmes, and instruments that integrate economic, social, and environmental issues.

A key output of the Council was the National Action Plan on Social Responsibility for Sustainable Development, which was approved in March 2015. The main objective of the Action Plan is to enable business to make a positive contribution to sustainable development through corporate social responsibility, as defined in Rio+20, article 46.



Case study – Satisfying the needs of investors and civil society

France first passed a law requiring companies of more than 300 employees to publish a form of social accounts in 1977. While this was an effective start, there were still issues in achieving broad corporate transparency, and these shortcomings were articulated by a range of stakeholders.

Non-governmental organizations (NGOs) were a major voice, pushing for increased transparency through more prescriptive legislation targeting a larger number of companies and addressing a broader range of issues. Investors, including those dealing with venture capital funds, and specialist rating agencies were also vocal in pushing for change as they sought more and better reporting to help evaluate risks in their portfolios.

This law was subsequently strengthened in 2002 and again in 2007, after being identified as a key issue during the Grenelle for the Environment Forum.¹¹

1.3.1. Fulfilment of international agendas¹¹

The adoption of the Paris Agreement, in 2015, means that almost all countries are bound to monitor, manage, and reduce their greenhouse gas emissions. While the Paris Agreement is one of the most prominent international agreements, countries are already bound by a multitude of other international accords covering environmental concerns (pollution, conservation, the marine environment, chemicals and waste, and so on), as well as social and human rights issues. For instance, the Bonn Agreement¹², by which the North Sea States and the European Union work together in combating pollution in the North Sea area, is one such accord. Similarly, the

11 The Grenelle for the Environment Forum was an open multi-party debate in France that brought together representatives of national and local government and key stakeholders from industry, labour, professional associations, and non-governmental organizations on an equal footing. The aim was to define the key points of public policy on ecological and sustainable development issues over the following five-year period. For more information, see <https://legrenelleenvironnement.fr/>.

12 <https://www.bonnagreement.org/>

Universal Declaration of Human Rights¹³, while not an enshrinement of human rights in law, does provide an internationally agreed standard and is the basis for the International Bill of Human Rights.

Latterly, the Millennium Development Goals and the Sustainable Development Goals have similarly codified international aspirations regarding social and environmental performance and while only target 12.6 of the SDG framework specifically mentions corporate sustainability reporting, it is clear that transparent reporting of social and environmental issues can help countries meet their commitments in respect of these international conventions, goals, and aspirations.

1.4. CURRENT CONTEXT

The importance of the role CSR and sustainability reporting play in meeting international agreements has become increasingly apparent. While the number and quality of corporate sustainability reports are generally improving, particularly amongst larger organizations¹⁴, on the other hand, small and medium-sized enterprises (SMEs) continue to account for a small fraction of the number of company sustainability reports, in spite of accounting for a significant portion of the global economy.

1.4.1. Sustainability reporting in the global sustainability agenda

The non-binding document released as a result of the 2012 Rio+20 Conference and entitled The Future We Want¹⁵ outlines the importance of CSR and of corporate sustainability reporting in advancing sustainable development. Subsequently, corporate sustainability reporting has been identified as a key tool in meeting the objectives of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals.

The status of the sustainability reporting of the world's largest organizations is well understood, with over 90 per cent of the world's largest 250 companies undertaking sustainability disclosures and a sample of the largest 4,900 showing a reporting rate of 75 per cent.

13 <http://www.un.org/en/universal-declaration-human-rights/index.html>

14 KPMG, *The Road Ahead – The KPMG Survey of Corporate Responsibility Reporting* (2015 and 2017). The reviews conclude that increasing numbers of companies are producing higher-quality reports.

15 United Nations General Assembly, Resolution A/RES/66/288 - The Future We Want (2012).

While this shows significant progress, it accounts for a fraction of a percent of the global economy, which is dominated by SMEs.

What constitutes an SME varies across the globe, but there is no doubt as to SMEs' importance to the global economy¹⁶:

- In the European Union, SMEs (enterprises comprising fewer than 500 people) account for nearly 60 per cent of gross value added (the value of outputs minus the value of intermediate consumption).
- Globally, it is estimated that formal SMEs account for 52 per cent of private sector value added; if the informal sector is included, this figure is significantly higher.
- SMEs provide between 58 per cent of employment in North America to 88 per cent in South East Asia.

Clearly, sustainability reporting can make a significant contribution to improving sustainability at a global level, but to have a significant impact, it needs also to penetrate the SME sector.

1.4.2. The Sustainable Development Goals (SDGs)

The importance of corporate sustainability reporting to meeting the objectives of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals is recognized through specific SDG target 12.6 (encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle), and its dedicated indicator, 12.6.1 (number of companies publishing sustainability reports).

Aside from the specific indicator cited, the broad impact of companies extends to many more aspects of the SDGs. The GRI undertook an assessment of how companies' disclosures map to the SDG targets and indicators and found the following¹⁷:

- About 40 per cent of SDG indicators are directly or indirectly related to corporate disclosures, with 14 per cent being directly related¹⁸.
- Even when there is a direct link to the GRI disclosures, the information companies disclose can represent just one component of the total figure required by the SDG indicator. This is because the SDG indicators aim at providing a broad, global picture.

Nonetheless, it is clear that corporate sustainability reporting can contribute to the 2030 Agenda for Sustainable Development beyond SDG target 12.6. For example, sustainability reporting can:

- Generate data that can then be used to measure progress against a range of the SDG targets;
- Provide context for the statistical information captured by the SDG indicator;
- Provide details on different aspects of each topic represented by an SDG indicator – this is useful for future breakdown of information, for example, or as input for any proposed actions (by governments);
- Provide valuable insights into how to create further SDG indicators, or how to get more detail on specific areas in the future;
- Provide valuable topic-related expertise and perspectives.

There are a range of initiatives aimed at linking sustainability reporting and the SDGs. For example, the GRI and the United Nations Global Compact have developed an action platform for reporting on the SDGs, which aims to link SDGs and common corporate disclosures and to provide guidance to companies on how to report most effectively on the SDGs¹⁹. Additional information can be found in section B.3 . ["2.2. Context", on page 37.](#)

16 The Edinburgh Group, Growing the Global Economy through SMEs (2013).

17 Global Reporting Initiative, Measuring Progress on the SDGs: A Mapping of the SDG Indicators and the GRI Standards (2017).

18 A direct link between an SDG indicator and GRI disclosure means that the GRI disclosure measures (a part of) the business contribution to the SDG indicator. An indirect link between an SDG indicator and GRI disclosure means that business action relating to the GRI disclosure can affect the SDG indicator (both positively and negatively); however, this GRI disclosure does not measure (a part of) the business contribution to that SDG indicator.

19 Global Reporting Initiative and the United Nations Global Compact, Business Reporting on the SDGs, available at www.globalreporting.org/information/SDGs/Pages/Reporting-on-the-SDGs.aspx

Also, countries and regions are already acting to ensure improved sustainability reporting in line with target 12.6. For example, the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean²⁰ was adopted in March 2018. All parties to the agreement guarantee that the relevant competent authority will collate and ensure the public availability of environmental information. Additionally, all parties agree to encourage public and private companies, particularly large companies, to prepare sustainability reports that reflect their social and environmental performance.

Overall, although companies are not reporting with regard to the SDGs (this is done by national governments), they can contribute by providing information for monitoring and through activities that support progress towards achieving the SDGs.

1.4.3. Increasing reporting rates

Sustainability reporting rates amongst large companies continues to grow²¹:

- Since 2011, approximately 95 per cent of the world's largest 250 companies have been publishing annual corporate responsibility reports, up from 35 per cent in 1999.
- Around 75 per cent of the next largest 4,900 companies published corporate responsibility reports in 2017, compared to 18 per cent in 2002.

In spite of this growth amongst large companies, there has been a slower uptake amongst SMEs. GRI reports that globally, approximately 90 per cent of businesses are SMEs and yet only 10 per cent of sustainability reports in GRI's disclosure database are published by these companies. There are a range of strategies that can be used for increasing sustainability reporting amongst this important group; these strategies include specific guidance for SMEs, supplier engagement, and collaborative reporting. This is also an area where governments can lead by example.

20 C.N.196.2018.TREATIES-XXVII.18 available at <https://treaties.un.org/doc/Treaties/2018/03/20180312%2003-04%20PM/CTC-XXVII-18.pdf>

21 KPMG, The Road Ahead – The KPMG Survey of Corporate Responsibility Reporting 2017 (2017).

SME guidance

Several organizations have developed tools and guidance aimed at supporting SMEs in developing and implementing sustainability strategies. In this respect, GRI has developed the following guides:

- Small Business Big Impact²² – This report introduces the concept of sustainability reporting and makes the case for sustainability reporting by SMEs.
- Ready to Report²³ – This document takes a company through the key steps in creating a sustainability report using the GRI guidelines, and directs the reader to the key sections of the full GRI implementation manual.
- Empowering Small Business²⁴ – This report aims at providing a comprehensive overview of the current policy practices that are shaping the reporting behaviour of SMEs, focusing on the policy elements that enable the creation of an environment conducive to reporting by SMEs on their sustainability impacts.

Supplier engagement

Many SMEs are suppliers for larger companies which will require all their suppliers to demonstrate their sustainability criteria. Therefore, supply chain engagement can be an effective way of incentivizing SMEs to report. For example, the Supplier Ethical Data Exchange (Sedex) is a not-for-profit, membership organization that works with buyers and suppliers to deliver improvements in responsible business practices in global supply chains. A group of retailers founded Sedex in 2001 to drive convergence in social audit standards and monitoring practices by providing a harmonized framework within which suppliers could demonstrate their social and environmental performance.

Sedex was primarily set up to drive the establishment of an ethical supply chain, but it covers environmental issues as well. The Sedex Members Ethical Trade Audit (a widely used ethical audit format) covers:

22 Global Reporting Initiative, Small Business Big Impact – SME Sustainability Reporting from Vision to Action.

23 Global Reporting Initiative, Ready to Report – Introducing Sustainability Reporting for SMEs (2014).

24 Global Reporting Initiative, Empowering Small Business - Recommendations for Policy Makers to Enable Corporate Sustainability Reporting for SMEs (2018).

- Labour standards
- Health and safety
- Universal rights covering the United Nations Global Compact
- Management systems
- Entitlement to work
- Subcontracting and homeworking
- Environment
- Business ethics

Any organization that is used to using Sedex to demonstrate its responsible business practices to buyers could relatively easily adapt this information to provide a sustainability report. Where suppliers or buyers are using a supply chain platform, such as Sedex or another platform, this can be used as a simple starting point for sustainability reporting.

The Organisation for Economic Co-operation and Development (OECD) has also provided guidance for responsible supply chains for both the minerals²⁵ and the apparel²⁶ sectors. The guidance provides detailed recommendations to help companies respect human rights and avoid contributing to human rights abuses through their purchasing decisions and practices.

Collaborative reporting

A growing emphasis on companies reporting on the sustainability impact of their value chains has led to an increased collaboration between companies in the same value chain to improve data quality and comparability. Examples of this can be seen in the oil and gas sector and the cement sector:

- The International Petroleum Industry Environmental Conservation Association (IPIECA) issued the *Oil and Gas Industry Guidance on Voluntary Sustainability Reporting* in 2010²⁷ to help companies shape the structure and content of their sustainability reporting. The guidance provides direction on the content of a typical industry report.

25 Organisation for Economic Co-operation and Development, OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (2016).

26 Organisation for Economic Co-operation and Development, OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (2017).

27 Available at <http://www.ipieca.org/our-work/reporting/sustainability-reporting-guidance/>

- The Cement Sustainability Initiative (CSI)²⁸ has developed:
 - *Technology Roadmap: Low-Carbon Transition in the Cement Industry*, which updates the first global sectoral roadmap, was produced in 2009. The updated roadmap aims to: identify and develop international collaborative efforts; and provide evidence for public and private decision-makers to move towards a more sustainable cement sector that can contribute to long-term climate goals.
 - *The Cement CO2 and Energy Protocol: CO2 and Energy Accounting and Reporting Standard for the Cement Industry (2011)*, which provides sector-specific guidance on carbon accounting in the cement sector.
 - The Getting the Numbers Right (GNR) database, which aims to provide the industry with information on its present and future sustainability performance and currently covers around 20 per cent of worldwide cement production.

Governments leading by example

Government actors can lead by example and develop their own sustainable procurement standard to which suppliers should conform (see *“Case study – Sustainable procurement standards”, on page 22*). They can also impose sustainability reporting requirements, including supplier due diligence, on public entities and State-owned companies (see case studies in section B.1 Policy Review *“Case study – 2.5. Brazil – Sector-specific regulation for the energy sector”, on page 64 and “Case study – 2.6. South Africa – Building on stock exchange requirements”, on page 65*).

While a sustainable procurement standard will not guarantee improved sustainability reporting by requiring suppliers to demonstrate performance, it will ensure that they are in a better position to produce high-quality sustainability reports. Additionally, publishing a sustainability report can be made a requirement for suppliers – most likely for contracts over a certain threshold.

28 All documents available at <https://gccassociation.org/>



Case study – Sustainable procurement standards

There are different approaches that can be taken to improving sustainable procurement. Here, various examples are provided, ranging from one of the world's largest companies to local governments.

1. Walmart – minimum standards and a sustainability index:

- Walmart's *Standards for Suppliers* list covers minimum social requirements.
- Suppliers' performance data are collated in the anonymous and aggregated Sustainability Index. This is shared with suppliers so that they can see how they rank in their field and gain insight into how to improve their performance.

2. Local government - overview

Local government can use procurement to address certain chosen agendas by buying solutions that will contribute to community or environmental goals or to diversity or equality targets. In 2006, the Greater London Authority (GLA) became the first public body to publish a sustainable procurement policy. Key elements of the 2017 version of The GLA Group Responsible Procurement Policy²⁹ are:

- A clear definition of the issues that suppliers are expected to address

- A commitment to embedding relevant and proportionate responsible procurement requirements into supplier contracts – though this varies from department to department

The second point is a key component of the policy and is most easily illustrated with an example. The City of Fremantle introduced a new procurement policy requiring that all tenders above \$ 150,000 be assessed on minimum 10 per cent sustainability criteria³⁰.

3. Public procurement – South Africa

In South Africa³¹, public procurement is leveraged to provide preferential treatment not only for historically disadvantaged groups and individuals, but also for small and medium-sized enterprises and to support domestic manufacturing capacities. While efforts to introduce sustainability criteria have to date had relatively limited success, local governments have found other opportunities for promoting sustainable procurement. For example, the City of Cape Town undertakes an annual review of its supply chain management, and this process was used to embed a contractual provision to “promote resource efficiency” through procurement. Similarly, Nelson Mandela Bay Municipality focuses on working with the government's suppliers of goods and services, encouraging suppliers to evaluate their own environmental performance in order to be awarded a so-called “Green Certificate”.

29 Greater London Authority, The GLA Group Responsible Procurement Policy (2017).

30 City of Fremantle, One Planet Strategy Annual Report 2017 (2018).

31 International Institute for Sustainable Development, Implementing Sustainable Public Procurement in South Africa: Where to Start (2014).



Strategies to increase reporting rates

There are some simple steps that governments and stakeholders can take to help promote and increase the uptake of corporate sustainability reporting, these include:

- identifying which, if any, platforms (such as Sedex) buyers and suppliers are using in the region to demonstrate their responsible business practices; companies can then be encouraged to ensure that sustainability reporting is covered by the platform;
- producing specific SME guidance, which should reference the criteria in the aforementioned platforms; and
- leading by example by developing their own standards for sustainable procurement; these can include a requirement for sustainability reporting, particularly with regard to high-value contracts.

1.5. KEY EXISTING FRAMEWORKS DRIVING SUSTAINABILITY REPORTING

Sustainability reporting covers a range of topics; some of these are highly technical and have their own range of agreements, protocols, and standards. Greenhouse gas emissions are a good example; many organizations follow the Greenhouse Gas Protocol for reporting. There is also International Organization for Standardization (ISO) standard 14064, which covers, among other matters, the definition of a carbon footprint for a company. In other areas, such as materials and waste, although there are recommended indicators, they are not universally agreed; there is also ongoing research to define norms and suitable indicators.

Corporate sustainability reporting is a rapidly evolving landscape with different reporting systems. To help provide clarity, a range of organizations have provided guidelines on how to approach sustainability reporting and what a sustainability report should cover. Some of these guidelines have been produced by existing organizations; others, by organizations that have been expressly set up to address this issue. In general, the frameworks aim to provide a clear description of the process to follow when developing a sustainability report

or disclosing non-financial information; they also aim to provide guidance on what topics should be covered and how these issues should be reported.

The frameworks aim both to make it easier for companies to report, and to increase the quality and impact of the reports by, for example, increasing the comprehensiveness of the reporting and the comparability between reports.

1.5.1. AccountAbility Institute

The AccountAbility Institute is the research arm of the private consultancy AccountAbility. It has developed the AA1000 series of standards, which are principles-based standards designed for all organizations aiming “to demonstrate leadership and performance in accountability, responsibility and sustainability”. The AccountAbility Principles Standard (AA1000APS)³² aims to “provide organisations with an internationally accepted and freely available set of principles to frame and structure the way in which they understand, govern, administer, implement, evaluate and communicate their accountability”. It is based on three principles:

1. Inclusivity (stakeholder participation)
2. Materiality (assessment of key sustainability issues that should be reported on)
3. Responsiveness (response to stakeholder input)

In *The Materiality Report: Aligning Strategy, Performance and Reporting*³³, the AccountAbility Institute provides detailed guidance on how to identify materiality.

32 The AccountAbility Institute, AA1000 AccountAbility Principles Standard 2008, available at <http://www.accountability.org/standards/>

33 AccountAbility Institute, *The Materiality Report: Aligning Strategy, Performance and Reporting* (2006).

1.5.2. Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) was co-launched by Ceres and the Tellus Institute in the 1990s with support from the United Nations Environment Programme. The GRI is the most widely used framework for sustainability reporting (75 per cent of the world's largest 250 companies use GRI³⁴), and the GRI disclosure database contains sustainability reports from over 12,500 organizations using the GRI framework³⁵.

The GRI identifies key principles for defining report content (stakeholder inclusiveness, sustainability context, materiality, and completeness) and quality (accuracy, balance, clarity, comparability, reliability, and timeliness). GRI standards are structured as a set of interrelated standards; there are three universal standards and 33 topic-specific standards covering a range of economic, environmental, and social subjects.

The universal standards provide:

- The reporting principles to guide the content (material topics) and quality of the report³⁶
- Mandatory disclosures about the context of the organization³⁷
- Disclosures on the management approach for each material topic³⁸

Organizations select from the topic-specific standards to report on their material topics from over 75 specific disclosures. This requires organizations to:

1. undertake a materiality assessment – a process to identify the important issues on which an organization should report; and
2. identify the relevant discretionary disclosures on the complete list.

Organizations then compile and publish their reports, including all core and all relevant discretionary disclosures.

The GRI has also published some sector guidance³⁹ outlining additional topics and disclosures relevant to specific sectors⁴⁰.

1.5.3. International Integrated Reporting Council (IIRC)

While many organizations see environmental and social accountability as an issue separate from that of financial reporting, increasingly, businesses are combining these issues into a single integrated report. The International Integrated Reporting Council (IIRC), established in 2010, developed the International Integrated Reporting Framework⁴¹ to create a formal agreed approach to integrated reporting.

The framework takes a principles-based approach rather than prescribing specific key performance indicators. It defines six capitals: financial, manufactured, intellectual, human, social and relationship, and natural; each should be valued to demonstrate long-term value creation.

Additionally, the framework provides seven guiding principles that should underpin any integrated report, namely:

1. Strategic focus and future orientation – how the organization intends to create value in the short, medium, and long term
2. Connectivity of information – provide a picture of the combination of, interrelatedness of, and dependencies between the factors that affect the organization's ability to create value over time
3. Stakeholder relationships – provide insight into the nature and quality of the organization's relationships with its key stakeholders
4. Materiality – identify the full range of issues that substantively impact the company's ability to create value
5. Conciseness – include sufficient detail to understand the organization's strategy, without weighing down the text with less relevant information

34 KPMG, The Road Ahead – The KPMG Survey of Corporate Responsibility Reporting 2017.

35 Global Reporting Initiative, Sustainability Disclosure Database, available at <http://database.globalreporting.org/>, accessed August 2018

36 Global Reporting Initiative, GRI 101: *Foundation 2016*.

37 Global Reporting Initiative, GRI 102: *General Disclosures 2016*.

38 Global Reporting Initiative, GRI 103: *Management Approach 2016*.

39 Airport operators, construction and real estate, electric utilities, event organizers, financial services, food processing, media, mining and metals, NGOs, oil and gas

40 This sector guidance was developed for use with the G4 Guidelines; it is recommended that the guidance be used when reporting with the GRI Standards. GRI will be developing new sector content from the end of 2018.

41 International Integrated Reporting Council, The International IR Framework (2013).

6. Reliability and completeness – include all issues, both positive and negative
7. Consistency and comparability – information should be consistent over time and allow comparison to the information of other relevant organizations

1.5.4. OECD Guidelines

The *Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises*⁴² comprise an annex to the OECD Declaration on International Investment and Multinational Enterprises. They are “non-binding principles and standards for responsible business conduct” for multinational corporations operating in or from countries adhering to the Declaration.

Although the Guidelines are legally non-binding, the OECD Investment Committee and its Working Party on Responsible Business Conduct do encourage implementation among adherents. The Declaration and the Guidelines were adopted by the OECD in 1976 and were most recently updated in 2011; they are applied in 48⁴³ countries.

1.5.5. Sustainability Accounting Standards Board (SASB)

The Sustainability Accounting Standards Board is a not-for-profit organization of the United States which was established in 2011. Its aim is to develop sustainability accounting standards for corporate disclosing of material information deemed helpful for investor decision-making. The sustainability accounting standards are in five categories: environment, social capital, human capital, business model and innovation, and leadership and governance.

The SASB deliberately mirrors the Financial Accounting Standards Board, and the associated standards are designed for disclosure of material sustainability information in mandatory SEC filings (financial statements submitted to the United States Securities and Exchange Commission). The aim of the SASB is to make sustainability reporting a mandatory requirement on a par with financial reporting.

42 Organisation for Economic Co-operation and Development, *OECD Guidelines for Multinational Enterprises* (2011).

43 Organisation for Economic Co-operation and Development, *Annual Report on the OECD Guidelines for Multinational Enterprises 2017* (2017).

While the SASB does provide guidance on how a company can identify its material issues, the approach of the organization is to provide extensive and detailed sector guidance identifying indicators that meet the following criteria⁴⁴:

- Objectivity — should be free from bias
- Measurability — should allow reasonably consistent measurements, qualitative or quantitative
- Completeness — should be sufficiently complete so that those relevant factors that would alter a conclusion are not omitted
- Relevance – the indicators need to directly address the sustainability topic

There are 11 overarching sectors: health care, financials, technology and communications, non-renewable resources, transportation, services, resource transformation, consumption I, consumption II, renewable resources and alternative energy, and infrastructure. The multiple categories in each sector lead to approximately 80 sets of sector guidelines.

1.5.6. United Nations Global Compact

The United Nations Global Compact⁴⁵ encourages businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The United Nations Global Compact is a principle-based framework, with 10 principles covering human rights, labour, the environment, and anti-corruption.

It is the world’s largest corporate sustainability initiative, with 12,000 corporate and other stakeholders from over 160 countries.

Global Compact business participants are required to demonstrate continuous improvement and publish a yearly progress report (Communication on Progress) on their implementation of the 10 principles of the United Nations Global Compact. The report should include a CEO statement, a description of the main actions undertaken, and measurement of the outcome of these actions.

44 As outlined in the specific sector guidelines; for example, SASB, *Food Retailers and Distributors – Sustainability Accounting Standard* (2015).

45 <https://www.unglobalcompact.org/what-is-gc/mission/principles>

CONTENT			QUALITY		
GRI ⁴⁶	IIRC ⁴⁷	SASB ⁴⁸	GRI	IIRC	SASB
Stakeholder inclusiveness	Stakeholder relationships		Clarity	Conciseness	
Sustainability context	Connectivity of information – picture of factors affecting the organization		Accuracy Balance Timeliness	Strategic focus and future orientation	Objectivity — free from bias
Materiality	Materiality		Comparability	Consistency and comparability	Measurability
Completeness	Completeness	Completeness	Reliability	Reliability	

Table 2. Comparison of the key principles of the GRI, IIRC, and SASB frameworks

1.5.7. Commonalities of existing reporting frameworks

There is broad agreement on how the content and quality of a sustainability report should be defined. *“Table 2. Comparison of the key principles of the GRI, IIRC, and SASB frameworks”, on page 26*, compares the key principles proposed by three of the major frameworks, showing a high degree of commonality regarding the content and quality requirements of sustainability reports. Whereas the IIRC and GRI list principles that should guide a report’s content, the SASB takes a more prescriptive approach, defining the specific reporting content for each industrial sector. Because of this, the SASB has a smaller list of reporting principles than the GRI and IIRC.

All three organizations have helped ensure that sustainability reporting becomes an issue of importance to mainstream investment and markets that want to understand whether companies are at risk or gaining opportunities for value creation.

An overview of the GRI, IIRC, and SASB reporting frameworks appears to indicate that sustainability reporting is evolving from being a voluntary endeavour to one which is gaining a more secure market footing and becoming mandatory. The GRI was the first of the organizations to be established, and it created voluntary guidelines for sustainability reporting. These voluntary guidelines have since been used as the basis for mandatory reporting requirements; globally, more

than 125 policy instruments, 51 of which are capital market policies, reference the GRI standards. Both the SASB and IIRC, which were established later, aim to make sustainability reporting mandatory, either through a separate mandatory sustainability report (akin to a company’s financial report) or through a single integrated report.

Another significant trend is the move away from providing detailed reporting requirements and toward a more principles-based approach often prioritizing materiality. This is also a trend that is replicated in national policies to drive company sustainability reporting – see case studies in *“Section B.1 Policy Review”, on page 26*.

According to the logic of this approach, frameworks and policies are initially set out by telling companies how and what to report; however, this does not invite companies themselves to embrace reporting in a positive fashion and to go beyond minimum requirements. As companies become more familiar with reporting and begin to derive benefits from monitoring sustainability, a more open approach can have a greater impact, since companies review and act to mitigate their own specific impacts.

1.6. FURTHER INITIATIVES SUPPORTING SUSTAINABILITY REPORTING

In addition to the organizations mentioned in section A - *“1.5. Key existing frameworks driving sustainability reporting”, on page 23*, that have established detailed reporting frameworks, there are entities whose primary function is not necessarily sustainability reporting and which have instituted a range of reporting initiatives. These entities include member organizations, coalitions of governments, standards organizations, and United Nations agencies.

46 Global Reporting Initiative, *GRI 101: Foundation 2016*.

47 International Integrated Reporting Council, *The International IR Framework (2013)*.

48 As outlined in the specific sector guidelines; for example, SASB, *Food Retailers and Distributors – Sustainability Accounting Standard (2015)*.

1.6.1. CDP

CDP (formerly the Carbon Disclosure Project) is a non-governmental organization which supports investors, companies, and cities in measuring and understanding their environmental impact. CDP does not produce its own guidelines or requirements, but provides a platform for disclosure, enabling organizations to share self-reported data.

Over 7,000 companies and 620 cities have publicly disclosed environmental information through CDP⁴⁹, and about one fifth of global greenhouse emissions are reported through the platform⁵⁰.

While initially focused on disclosing carbon emissions, CDP now has disclosure programmes covering water and forests. In addition, the CDP's annual scoring process recognizes companies with high-quality disclosure, putting the top companies on the CDP A List.

1.6.2. Climate Disclosure Standards Board

The Climate Disclosure Standards Board (CDSB) is a consortium of private companies and NGOs working to provide material information for investors and financial markets through the integration of climate-change-related information into mainstream financial reporting. The CDSB provides a framework for reporting environmental information with the same rigour as financial information. The framework is not a new standard; rather, it adopts and relies on existing standards and practices, as well as reflecting regulatory and voluntary reporting and carbon-trading rules.

1.6.3. Group of Friends of Paragraph 47 (GoF47)

Following the 2012 United Nations Conference on Sustainable Development (Rio+20), the Governments of Brazil, Denmark, France, and South Africa launched the Group of Friends of Paragraph 47 initiative to advance sustainability reporting. Since its formation, the Group has grown to include the Governments of Argentina, Chile, Colombia, Norway, and Switzerland.

The Group's Charter⁵¹ recognizes that a transparent, well-functioning market economy requires corporate sustainability reporting to become a widespread practice

49 <https://www.cdp.net/en/info/about-us>, accessed January 2019

50 <https://www.cdp.net/en/investor/ghg-emissions-dataset>, accessed January 2019

51 Group of Friends of Paragraph 47, Charter of the Group of Friends of Paragraph 47 (2012), available at <https://www.unenvironment.org/fr/node/23402>

and reaffirms the Group's intention to contribute to the advancement of an international culture of corporate transparency and accountability. Key objectives include:

- To bring Governments and other stakeholders together to develop best-practice examples of policy and regulation for promoting corporate sustainability reporting
- To promote the use of, and to build upon, existing and widely-used sustainability reporting guidance
- To bring specific attention to progressing sustainability reporting in developing countries and small and medium-sized enterprises (SMEs)

Any Government may join GoF47, providing they declare that they share the values and objectives of the Group as described in the Charter and indicate the policies they have in place to promote sustainability reporting or, in their absence, make public their intention to develop such policies.

1.6.4. International Financial Reporting Standards

The International Financial Reporting Standards (IFRS) Foundation is a not-for-profit organization established to develop a single set of globally accepted accounting standards, the IFRS Standards. The IFRS Foundation promotes and facilitates the adoption of the IFRS Standards. The IFRS provide the basis for some sustainability reporting standards, such as those of the SASB.

1.6.5. ISO 26000

ISO 26000:2010 does not set requirements and is not actually a standard; instead, it provides guidance. As a result, unlike some well-known ISO standards, ISO 26000 cannot be used as a benchmark for official certification. The guidance it provides aims to clarify what social responsibility is, help businesses and organizations translate principles into effective actions and share best practices relating to social responsibility, globally. ISO 26000 was launched in 2010, following five years of negotiations between many different stakeholders including representatives from government, NGOs, industry, consumer groups, and labour organizations.

The guidance defines seven principles of social responsibility, namely:

1. Accountability
2. Transparency
3. Ethical behaviour

4. Respect for stakeholder interests
5. Respect for the rule of law
6. Respect for international norms of behaviour
7. Respect for human rights

Furthermore, it provides seven core subjects that are deemed relevant to all companies:

1. Organizational governance
2. Human rights
3. Labour practices
4. Environment
5. Fair operating practices
6. Consumer issues
7. Community involvement and development

The ISO 26000 guidance can be purchased from ISO, though some guidance, such as a comparison of the ISO guidance and GRI reporting requirements⁵², is available for free.

1.6.6. Stock exchanges

The main initiative driving reporting amongst stock exchanges is the Sustainable Stock Exchanges Initiative (SSE). The SSE is not a framework like GRI or SASB, but it is credited with helping drive the increase in stock exchanges requiring sustainability disclosure. Set up in 2009 by UNCTAD, the United Nations Global Compact, the United Nations Environment Programme, and the Principles for Responsible Investment (PRI), the SSE had its first five members join in 2012: the B3 (formerly BM&FBOVESPA, São Paulo, Brazil), the Egyptian Exchange, the Johannesburg Stock Exchange, Borsa Istanbul, and NASDAQ.

The SSE provides a multi-stakeholder learning platform for stock exchanges, investors, regulators, and companies to adopt best practices in promoting corporate sustainability while also striving to encourage sustainable investment.

The initiative started 2019 with 98 partner exchanges from 83 countries, covering 70 per cent of global market capitalization, and has helped put sustainability reporting on the agenda of stock exchanges⁵³. For example, as

52 International Organization for Standardization and Global Reporting Initiative, GRI G4 Guidelines and ISO 26000:2010 - How to Use the GRI G4 Guidelines and ISO 26000 in Conjunction (2014), available at https://www.iso.org/files/live/sites/isoorg/files/archive/pdf/en/iso-gri-26000_2014-01-28.pdf

53 Sustainable Stock Exchanges Initiative, 2016 Report on Progress (2016), available at http://www.sseinitiative.org/data/_publications/

of 15 January 2019, 17 exchanges⁵⁴ have incorporated sustainability reporting into their listing rules and 42 exchanges⁵⁵ have provided formal guidance to issuers.

The SSE's library contains databases, guidance, and fact sheets (see example in *"Table 3. Summarized example of Brazil's B3 stock exchange factsheet"*, on page 29) on each stock exchange. The databases contain details on reporting initiatives in place globally and allow their sorting according to which institution (government, stock exchange, and so on⁵⁶) is leading each initiative.

Additionally, the 2016 *Report on Progress* lists all the stock exchanges that provide guidance to listed companies. Most of this guidance is publicly available and can be reviewed as source documents for initiatives in other countries.

The World Federation of Exchanges (WFE) is another initiative that also offers guidance for stock exchanges. The WFE has done more modest work in this area, though it has contributed to the SSE work and has a research database⁵⁷. This database contains information such as the following:

- The WFE's guidance document on recommended reporting metrics⁵⁸
- Annual sustainability surveys
- Research into the role of exchanges in promoting sustainable development
- Annual sustainability surveys
- Research into the role of exchanges in promoting sustainable development

54 Brazil - B3; China, Hong Kong SAR - Hong Kong Exchanges and Clearing Limited; Colombia - Bolsa de Valores de Colombia (Colombian Securities Exchange); France - Euronext Paris; India - BSE India Ltd. (Bombay Stock Exchange), National Stock Exchange of India (NSE); Luxembourg - Bourse de Luxembourg; Malaysia - Bursa Malaysia; Namibia - Namibian Stock Exchange; Nigeria - Nigerian Stock Exchange; Peru - Bolsa de Valores de Lima; Seychelles - Trop-X (Seychelles Securities Exchange); Singapore - Singapore Exchange; South Africa - Johannesburg Stock Exchange; Thailand - Stock Exchange of Thailand; Viet Nam - Ho Chi Minh Stock Exchange, Hanoi Stock Exchange

55 Sustainable Stock Exchanges Initiative, <http://www.sseinitiative.org/data/>, accessed 15 January 2019

56 Sustainable Stock Exchanges Initiative, available at <http://www.sseinitiative.org/data/sustainabilityreporting/>

57 World Federation of Exchanges, <https://www.world-exchanges.org/home/index.php/research/wfe-research>

58 World Federation of Exchanges, WFE ESG Recommendation Guidance and Metrics (2015)

Brazil Stock Exchange: B3 (formerly BM&FBOVESPA) (data as at 15 January 2019)	
Number of listed companies	347
Domestic market capitalization	US\$ 774.133 million
SSE partner exchange	Yes
Has annual sustainability report	Yes
Requires environmental, social and governance (ESG) reporting as a listing rule?	<ul style="list-style-type: none"> As of 2012, listed companies state whether they publish a regular sustainability report; if they do not publish, they explain why. As of 2016, the Brazilian regulator turned “Report or Explain” into a specific item negating the need for B3’s requirement. In 2017, B3 launched Report or Explain for Sustainable Development Goals initiative.
Offers written guidance on ESG reporting?	Yes; e.g., Novo Valor Corporate Sustainability - Second Edition ⁵⁹
Offers ESG-related training?	Yes - Integration of ESG issues into education through the BM&FBOVESPA Institute of Education
Provides sustainability-related indices?	Yes; including the Corporate Sustainability Index (ISE) and Carbon Efficient Index (ICO2) ⁶⁰
Offers green bonds listings?	Yes

Table 3. Summarized example of Brazil’s B3 stock exchange factsheet

1.6.7. The Task Force on Climate-Related Financial Disclosures

The Task Force on Climate-Related Financial Disclosures (TCFD) was established by the Financial Stability Board to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The work and recommendations of the Task Force aim to help companies understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors’ needs.^{59 60 61}

59 BM&FBovespa, New Value - Corporate Sustainability (2016), available at <http://www.bmfbovespa.com.br/lumis/portal/file/fileDownload.jsp?fileId=8AA8D0975754AE53015770F0C3730D68>

60 http://www.bmfbovespa.com.br/en_us/products/indices/sustainability-indices/

61 Global Reporting Initiative, Linking the GRI Standards and the SEBI BRR Framework (2017).



Case study – Bombay Stock Exchange⁶¹

Established in 1875, the Bombay Stock Exchange is Asia’s first stock exchange and one of India’s leading exchange groups. The Securities and Exchange Board of India is the regulator for the securities market in India. In 2012, it issued a circular mandating a business responsibility reporting (BRR) requirement in line with the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business notified by the Ministry of Corporate Affairs, Government of India in 2011. Initially for the top 100 listed entities, this was extended to the top 500 companies, based on market capitalization in 2015.

In 2017, the GRI reviewed these reporting requirements and produced a report highlighting the connections enabling the fulfilment of multiple reporting requirements. The report contains a range of “linkage tables” showing how the GRI standards and disclosures relate to each requirement in the BRR framework.



The TCFD recommends that organizations include climate-related financial disclosures in their annual financial filings to foster shareholder engagement and promote a more informed understanding of climate-related risks and opportunities among investors and other players⁶².

1.6.8. United Nations Conference on Trade and Development

The United Nations Conference on Trade and Development (UNCTAD) is a permanent intergovernmental body established by the United Nations General Assembly in 1964. UNCTAD's mission is to support developing countries in accessing the benefits of a globalized economy more fairly and effectively. UNCTAD undertakes analysis, facilitates consensus-building, and provides technical assistance.

UNCTAD has developed guidance documents on many topics relating to sustainability reporting. For example,

62 Task Force on Climate-Related Financial Disclosures, Final Report (2017), available at <https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

these include *Guidance on Good Practices in Corporate Governance Disclosure and Best Practice Guidance for Policymakers and Stock Exchanges on Sustainability Reporting Initiatives*. UNCTAD has also reviewed the main indicators used in CSR and sustainability reporting. This includes a recent review of the core indicators for company reporting⁶³, presented at the thirty-fourth session of the International Standards of Accounting and Reporting, held in Geneva in November 2017.

UNCTAD and the United Nations Environment Programme are the co-custodian agencies for SDG target 12.6 and its respective indicator, 12.6.1, which measures the number of companies publishing sustainability reports. Their role as custodian agencies for this indicator is closely linked to the development of a baseline definition of sustainability reporting.

63 United Nations Conference on Trade and Development, Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals (2017), available at <http://isar.unctad.org/wp-content/uploads/2017/12/ISAR-34-non-paper-31102017.pdf>

2. KEY AREAS FOR IMPROVING THE QUALITY OF CORPORATE SUSTAINABILITY REPORTING

*Raising the Bar – Advancing Environmental Disclosure in Sustainability Reporting*⁶⁴ (henceforth referred to as Raising the Bar) reviewed the status of sustainability reporting internationally and identified issues in two categories: quantity of companies reporting and quality of reports. The quantity issue refers to the need to increase the uptake of sustainability reporting, particularly amongst SMEs, and is covered in section A - “1.4.3. Increasing reporting rates”, on page 20.

The key quality-related issues identified are:

1. A non-comprehensive compliance approach leading to companies failing to report their most material impacts
2. The lack of context regarding the environmental or social setting of the company’s operations and impact
3. The variation in approach to third-party verification (assurance), which is often done on a voluntary basis and therefore does not have the same credibility as a mandatory approach
4. The inconsistency in reporting, even among companies using the same framework or guidelines

A summary of the major areas requiring improvement in relation to these four issues is provided in this section. Materiality, which refers to what topics should be included in a sustainability report, is a well-established issue; detailed guidance on the context and how to undertake a materiality assessment is included here. A separate guidance note aimed at providing context for policymakers is available in “Section B.2”, on page 73.

Context refers to the requirement to link performance to relevant benchmarks or targets. This is a rapidly evolving area, and this introduction aims to provide details on status and aims to anticipate which of the current systems is likely to be the most widely used. The issues of assurance, whether the report has been verified by an independent review, and inconsistent reporting are also covered in this introduction.

64 United Nations Environment Programme, Raising the Bar – Advancing Environmental Disclosure in Sustainability Reporting (2015)

2.1. MATERIALITY

Materiality can be defined in many ways, often depending on whether the issue is being approached from a traditional financial angle or a broader, more holistic view. “Table 4. Definitions of and approaches to materiality”, on page 31, shows how different sustainability reporting frameworks define the issue. While there is some variation in language and context, the key issue is the identification and disclosure of all relevant information.

Account-Ability	Materiality determines the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions, and performance of an organization or its stakeholders.
GRI	In sustainability reporting, materiality is the principle that determines which relevant topics are so important that it is essential to report on them. Material topics are those that reflect the organization’s significant economic, environmental, and social impacts; or that substantively influence the assessments and decisions of stakeholders. In this context, “impact” refers to the (positive or negative) effect an organization has on the economy, the environment, and/or society.
IIRC	An integrated report should disclose information about matters that substantively affect the organization’s ability to create value over the short, medium, and long term.
SASB	SASB does not define materiality, but instead “looks to the Supreme Court’s definition of material information for the purpose of standard-setting”. The Court defines material information as presenting “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available”.

Table 4. Definitions of and approaches to materiality

The process of identifying what is materially important, the “materiality process”, may be seen as essentially aiming to answer two fundamental questions:

1. Where should the boundary of the organization, its impact, and reporting be set?
2. What is the scope of the organization and the content of its report? This is defined as the range of sustainability topics or issues that should be covered.

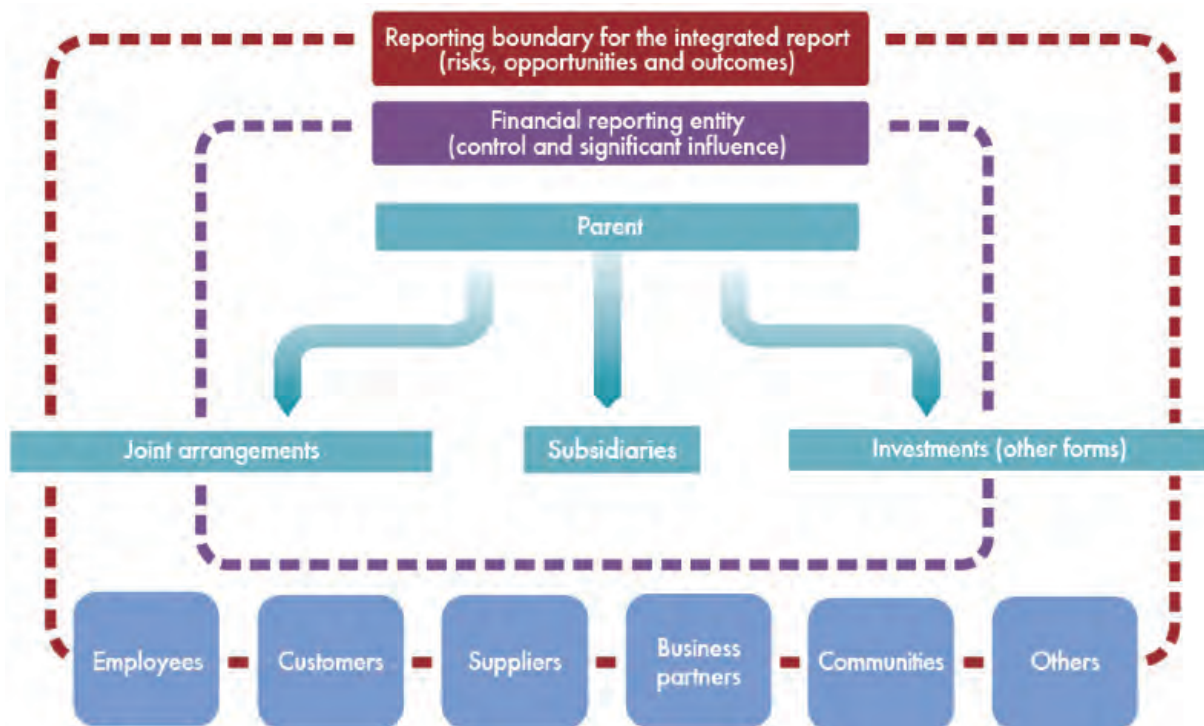


Figure 3. Scope of a sustainability report as defined in the International IR Framework⁶⁵

All four of the main frameworks analysed provide a clear approach for defining the scope of a sustainability report and the range of sustainability topics or issues that should be included. This is covered in detail in section B.2 – “2.1. *Materiality assessment*”, on page 77 and “2.2. *Aligning corporate sustainability reporting data and the SDGs*”, on page 87. However, only the GRI and the IIRC provide detailed guidance on how the boundary of an organization, its impact, and, therefore, its reporting should be defined – which is covered in the following section.

2.1.1. Materiality - organizational boundary

The IIRC proposes two aspects of the definition of this boundary⁶⁶:

1. The financial reporting entity
2. Further risks, opportunities, and outcomes

National financial reporting standards can be used to define the reporting entity. These standards revolve around the concepts of control or significant influence. They specifically define the reporting entity (i.e., which subsidiaries’, joint ventures’, and associates’ transactions and related events are included in the

65 <http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf> on page 20

66 International Integrated Reporting Council, *The International IR Framework*, paragraphs 3.30-3.35.

organization’s financial report). The second component is the identification of risks, opportunities, and outcomes attributable to or associated with organizations or stakeholders outside the standard definition of the financial reporting entity, but that have a significant sustainability impact. The organizations and stakeholders in this component are not controlled or significantly influenced by the financial entity, but they are nonetheless material on account of their potential impact on sustainability outcomes.

If, for example, there exist industry labour standards in the organizations industry, they should be disclosed because they are likely to apply to organizations’ suppliers.⁶⁷

This approach is summarized in “*Figure 3. Scope of a sustainability report as defined in the International IR Framework*”, on page 32.

The GRI refers to the financial definition of an organization as “all entities included in the organization’s consolidated financial statements or equivalent documents” (GRI 102: General Disclosures, 102-45). It also states that organizations should report not only on impacts they cause, but also on impacts to which they contribute, and impacts that are directly linked to their activities, products or services through a business

67 International Integrated Reporting Council, *The International IR Framework* (2013), page 21.

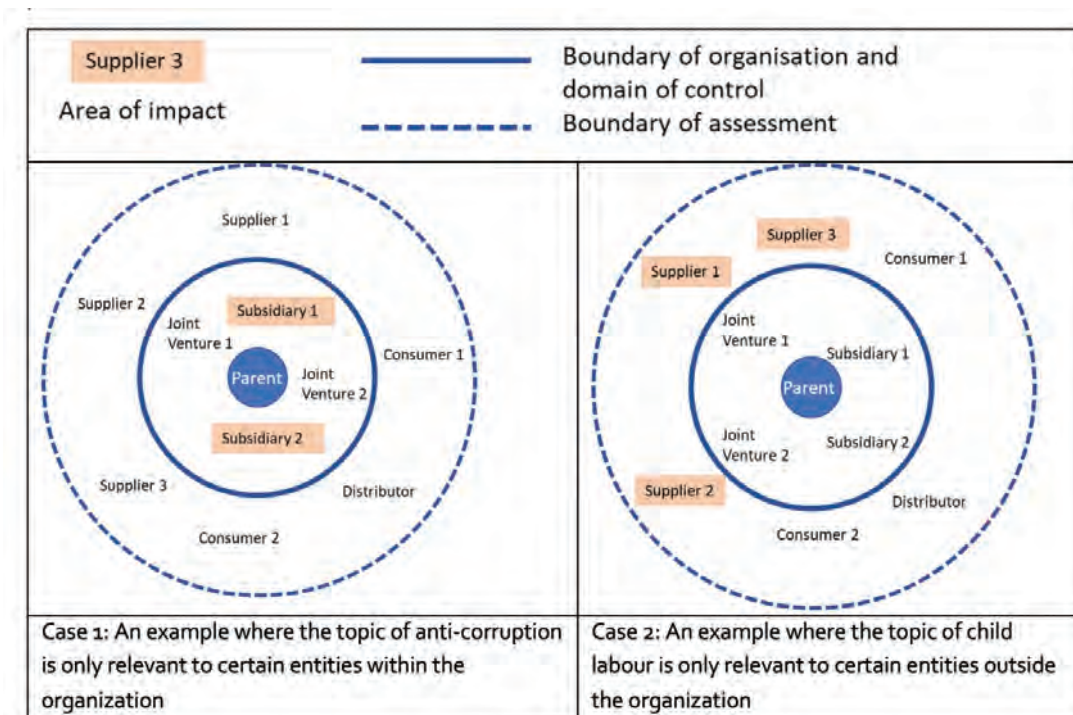


Figure 4. Examples showing how topics may be relevant inside or outside the organization⁷¹

relationship. Therefore, organizations should report on any additional impacts created “either through their own activities or as a result of their business relationships with other entities”⁶⁸, and not just on the impacts due to their direct activities.

An example of this is shown in “*Figure 4. Examples showing how topics may be relevant inside or outside the organization*”⁷¹, on page 33. In case 1, the company should report on the activities of its subsidiaries, whereas in case 2, it should focus on the activities of its key suppliers.

For reporting in accordance with the GRI standards, the boundary for any material topic should include a description of:

- Where the impacts occur
- The organization’s involvement in the impacts (for example, whether the organization has caused or contributed to the impacts or is directly linked to the impacts through its business relationships)
- Any specific limitation regarding the topic boundary

For more information, see sections G4-19, G4-20, and G4-21 of *GRI’s G4 Implementation Manual*⁶⁹ and page 10 of *GRI 101 - Foundation*⁷⁰.

2.1.2. Materiality – scope of reporting

As shown in “*Table 4. Definitions of and approaches to materiality*”, on page 31, the four main reporting frameworks analysed here each define a slightly different approach to materiality assessment. Nonetheless, there is much agreement between the approaches to a materiality assessment; this can be summarized in three steps:

1. Identification of the key issues, including stakeholder engagement
2. Analysis and prioritization of these issues
3. Validation and agreement of the approach

⁶⁹ Global Reporting Initiative, *G4 Sustainability Reporting Guidelines – Implementation Manual* (2013).

⁷⁰ Global Reporting Initiative, *GRI 101 - Foundation* (2016).

⁷¹ Adapted from Global Reporting Initiative, *G4 – Implementation Manual* (2013). (<https://www.globalreporting.org/resource/library/GRIG4-Part2-Implementation-Manual.pdf>) as shown on page 34

⁶⁸ Global Reporting Initiative, *GRI 101 – Foundation* (2016), page 12.

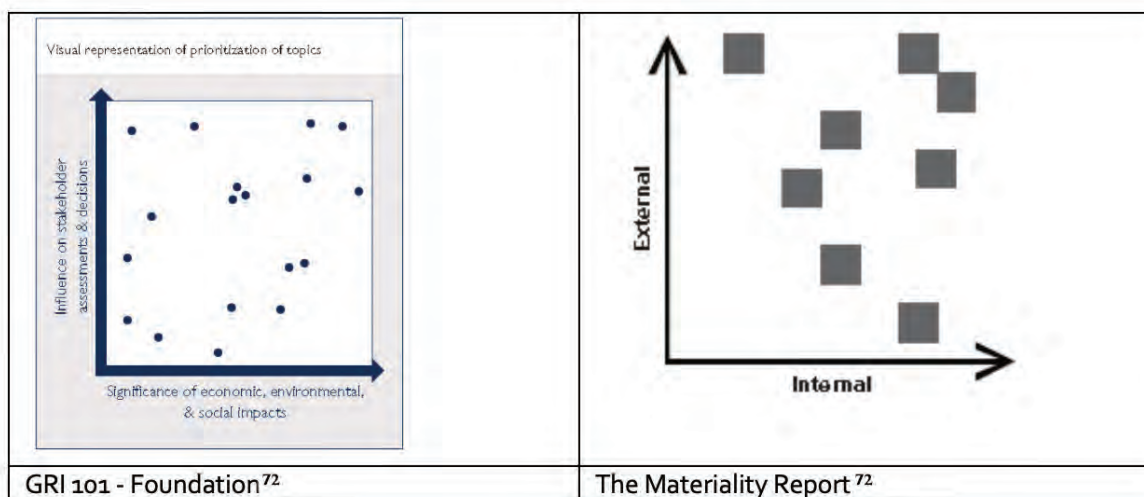


Figure 5. Example of materiality matrices⁷²

Issue identification

The first step is to identify all the sustainability issues that may be materially important. This can generally be done by following these steps:

1. Identify, through a literature review, all the issues that could be relevant to the organization.
 - a. All the organization's activities, products, services, and relationships, regardless of whether the impacts occur within or outside the organization, need to be considered.
 - b. For each identified relevant topic, the boundary, within or outside the organization, needs to be identified.
2. Undertake a dialogue with stakeholders to identify any further issues that they consider to be important.

Useful material for issue identification includes the GRI disclosures⁷³, the SASB Materiality Map⁷⁴, the Governance and *Accountability What Matters?*⁷⁵ report, and sustainability reports of similar organizations.

Relevant sustainability reports that can serve as examples can be found at:

72 The first graphic is taken from page 11 of <https://www.globalreporting.org/standards/media/1036/gri-101-foundation-2016.pdf>. The second graphic is coming from page 39 of <http://www.mas-business.com/docs/AA1000%20Materiality%20Report.pdf>

73 <https://www.globalreporting.org/standards>

74 <https://materiality.sasb.org/>

75 Governance and Accountability Institute, *Sustainability – What Matters?* (2014).

- IIRC's examples database⁷⁶; and
- GRI's disclosure database⁷⁷ and lists of GRI standards reports⁷⁸.

When considering scope, it is important to consider where the most significant impacts lie in the life cycle of the product or service. There can be huge variation here. For example, for some manufacturers, the supply chain may be the locus of the largest impact (see Section A – *“Case study – Puma and the Natural Capital Protocol”, on page 45*). Whereas in the case of products such as electronic goods or clothes, the most significant impact may apply to energy use during their lifetime and maintenance. See section B.2 *“1.1.3. Materiality – Definition and approaches”, on page 75* and *“Table 16. Illustration of where impacts can arise in the life cycle of a product or service”, on page 76*, for further discussion on this issue.

Prioritization

Most approaches suggest a prioritization matrix, but there has been some divergence as to how the issues are prioritized.

- All frameworks agree that one axis should plot the impact/influence on stakeholders or other external factors.
- There is significant divergence with regard to the other axis. For example:

76 <http://examples.integratedreporting.org/home>

77 <http://database.globalreporting.org/>

78 www.globalreporting.org/reportregistration/verifiedreports

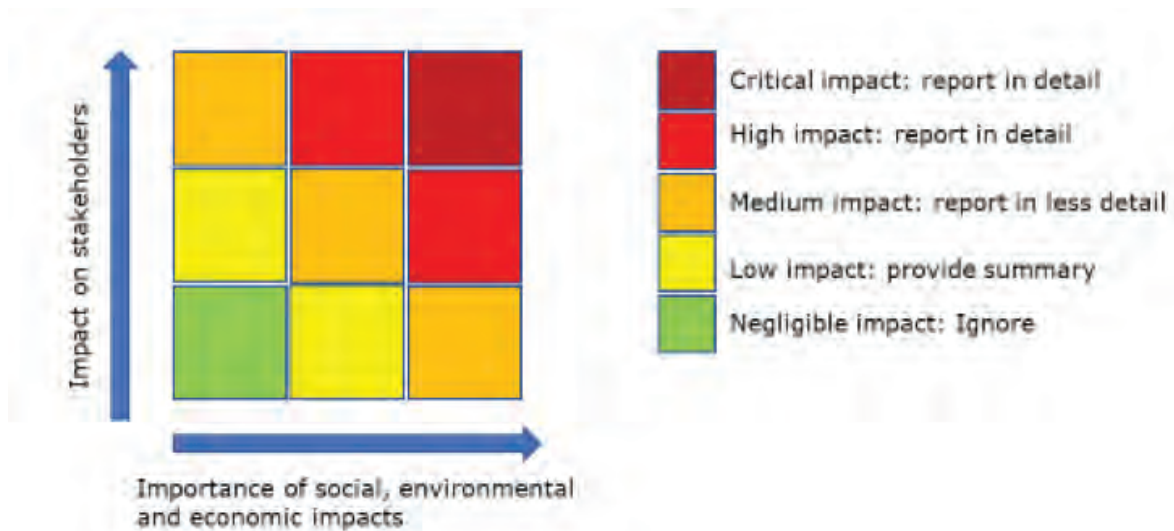


Figure 6. Schematic materiality matrix

- GRI promotes that this should plot the significance of social, environmental, and economic impacts.
- AccountAbility proposes that this should plot the scale of internal impact, financial implications, and reputational risk.]

Examples of the two approaches are shown in *“Figure 5. Example of materiality matrices⁷²”, on page 34.*

The most common elements in the prioritizing of impacts include:

1. Stakeholder engagement – further discussion with stakeholders to understand their priorities in more detail
2. Assessment of the significance of potential impacts, which can be done by considering:
 - a. The likelihood of an impact
 - b. The severity of an impact
 - c. How critical the impact is for the long-term performance of the organization
 - d. The opportunity for the organization to grow or gain advantage from the impact
 - e. More specific issues, such as financial and non-financial implications; impacts on the strategies, policies, and processes of the organization; and impacts on competitive advantage/management excellence

⁷⁹ Global Reporting Initiative, GRI 101 - Foundation 2016 (2016).

⁸⁰ AccountAbility Institute, *The Materiality Report: Aligning Strategy, Performance and Reporting* (2006).

3. Establishment of thresholds; the information can now be plotted graphically, and then used to identify which issues will be reported; a threshold for reporting will need to be established (for example, will only impacts that have a combined medium/high significance be reported, or will medium/medium issues be included?); this same analysis can be used to identify the degree to which issues need to be covered (those that are of greater significance should be covered in more detail)

“Figure 6. Schematic materiality matrix”, on page 35, outlines how issues can be plotted in relation to their importance to stakeholders and the perceived impact on the environment, society, and the economy. It also indicates how much detail should be included when reporting on an issue.

Validation and review

Once a comprehensive list of issues has been identified and prioritized, the issues need to be checked to ensure that:

- the report provides a reasonable and balanced representation of the organization’s sustainability performance, including both positive and negative impacts; and
- the proposed content is sound and credible.

To do this, the proposed content should be reviewed and approved by an internal or external expert and agreed at the board level. As monitoring and reporting constitute an iterative process, the materiality assessment should be reviewed prior to the start of the process in the next reporting cycle.





Assessing an organization's material impact

Section A – “2.1. Materiality”, on page 31, outlines a suggested approach to undertaking a fully comprehensive materiality assessment with formal consultation throughout the process. Because this describes an ideal process, which may be beyond the resources of smaller organizations, smaller organizations have the option of applying a simplified process involving actions such as the following:

1. Desktop research, including:
 - a. High-level literature review - using existing sector guidance to identify likely key reporting areas for the organization's sector
 - b. Review of the upstream and downstream impacts of the company to identify any issues which are outside the company's direct control and which should be made known to the company
2. Informal discussions with key stakeholders, employees, and customers to explore these issues in more detail
3. Based on the information gathered, a prioritization of the impacts in order to identify those that are materially important
4. Finalization of the report content with a review including input from an internal or external expert

Over time, the company can increase the amount of stakeholder engagement in the process and refine the process of identifying materially important issues.

2.2. CONTEXT

All sustainability reports should apply the “sustainability context” principle. According to the GRI standards, “the report shall present the reporting organization's performance in the wider context of sustainability”⁸¹. This means that a sustainability report should put the organization's performance in the context of: the limits and demands placed on environmental and social resources at various levels (sector, local, regional, and/or global); and the manner in which an organization contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental, and social conditions at the local, regional, and/or global level. For example, this can mean an organization should report its absolute water consumption or pollution loading in relation to the capacity of the regional ecosystem to provide fresh water or absorb the pollutant.

An assessment of the application of the sustainability context principle in *Raising the Bar* suggests that all companies should be required to apply a context-based approach to sustainability reporting, allocating their fair share impacts on common capital resources within the thresholds of their carrying capacities. To do this, much more information on global sustainability boundaries needs to be established.

81 Global Reporting Initiative, GRI 101 - Foundation (2016), available at <https://www.globalreporting.org/standards/gri-standards-download-center/>



Box 1: Useful concepts, initiatives, and tools for applying the context-based principle

Planetary boundaries

The work done by the Stockholm Resilience Centre⁸² on establishing “planetary boundaries” is the most scientific approach to this challenge. Nine planetary boundaries within which humanity can continue to develop and thrive for generations to come have been identified and quantified. Crossing these boundaries could generate abrupt or irreversible environmental changes. Respecting the boundaries reduces the risks posed to human society by crossing these thresholds.

Context-based metrics

The Centre for Sustainable Organisations (CSO), a non-profit corporation created in 2004, conducts research, development, and training for, and with, companies around the world interested in improving the sustainability performance of their operations.

The Centre is strongly committed to an approach for corporate sustainability measurement, management, and reporting that is context-based. This means that it interprets sustainability performance in terms of impacts on vital capital resources within a framework of norms, standards, and thresholds for the sustainability of impacts.

The CSO advocates for the context-based sustainability (CBS) approach that takes social, economic, and environmental thresholds in the world explicitly into account. It is along these lines that the Centre provides guidance regarding carbon emissions, water use, waste, and social footprint.

World Wide Fund for Nature/World Wildlife Fund (WWF) 3% Solution⁸³

WWF and CDP assessed the gap between the level of emissions the American corporate sector is likely to reach by 2020 and the level of emissions required to avoid the increase threshold of 2°C.

The analysis found that, based on 2010 levels, the American corporate sector needed to reduce total annual greenhouse gas emissions in 2020 by 1.2 gigatonnes of CO₂ emissions. This was equivalent to annual reductions of approximately 3 per cent per year across the American corporate sector – the 3% solution. This analysis did not look at specific sectors, only looked at the corporate sector as a whole, but it led to the concept of science-based targets, which does analyse emissions by sector.

Science Based Targets initiative

The Science-Based Targets initiative⁸⁴ (SBTi) is an approach being promoted to put carbon emissions into context. The initiative takes a decarbonization approach which aims to provide businesses with a sector-specific and research-backed method to set their emissions goals. SBTi showcases companies that set science-based targets to highlight the advantages and competitiveness generated by science-based target setting. It also defines and promotes best practice, offers guidance to reduce barriers to adoption, and independently assesses and approves companies’ targets.

The initiative provides a quick guide outlining how to join the initiative.

Global Water Tool (GWT)

Whereas carbon emissions are a global challenge, water use is mostly a local issue. The World Business Council for Sustainable Development (WBCSD) Global Water Tool (GWT)⁸⁵ aims to provide a company-wide water risk assessment to determine the value at risk and to identify business areas that are most at risk. The tool allows site-specific analysis and includes an Excel workbook, a mapping function to plot sites with datasets, and a Google Earth interface.

82 <http://www.stockholmresilience.org/research/planetary-boundaries.html>

83 WWF and CDP, The 3% Solution – Driving Profits through Carbon Reduction (2013), available at <https://www.worldwildlife.org/projects/the-3-solution>

84 <http://sciencebasedtargets.org/>

85 Available at <http://www.wbcscd.org/Clusters/Water/Resources/Global-Water-Tool>

Users can map their locations and water-use data against water, sanitation, population, and biodiversity datasets and stress indicators on a country and watershed basis (where possible).

Local Water Tool (LWT)

The Global Environmental Management Initiative (GEMI) has developed the Local Water Tool™ (LWT)⁸⁶, which is a free tool that companies can use to evaluate the external impacts, business risks, and opportunities relating to water consumption and discharge, and then develop management plans based on this evaluation. The LWT is more comprehensive than the GWT, the two tools are compatible, and the LWT allows direct importing of GWT data. This allows a more in-depth analysis of each site.

Triple bottom line

Approaches that aim to put the three pillars of sustainability in context, often termed triple-bottom-line accounting, include the Future-Fit Business Benchmark (FFBB)⁸⁷, One Planet Living Goals and Guidance⁸⁸, and the Natural Capital Protocol⁸⁹.

The FFBB is a standard that is being actively developed. At its core are 23 break-even goals, which together “mark the line in the sand that all companies must strive to reach: the transition point beyond which a business starts helping – rather than hindering – society’s transition to future fitness”. These 23 goals are in four categories:

1. Fosters well-being
2. Respects nature
3. Optimizes resources
4. Strengthens society

For each goal, detailed guidance is provided on how to

measure performance and what the break-even value is. This provides a comprehensive set of indicators with an analysis of what constitutes a sustainable level of performance.

One Planet Living is a framework of 10 principles that can be applied to companies and organizations. It is based on the concept of ecological footprint and planetary boundaries, and uses this to provide a set of goals and guidance documents, including a version for companies. This is a non-proscriptive, easy-to-understand framework that puts sustainability in context and provides companies with a clear process for developing, monitoring, and implementing their own sustainability strategies.

The Natural Capital Protocol was developed by the Natural Capital Coalition and formalizes an approach pioneered by Puma. The Natural Capital Protocol aims to support better decisions by taking into account how companies interact with nature, or more specifically, natural capital. Natural capital has, for the most part, been excluded from decisions and when it has been included, this inclusion has been largely inconsistent, open to interpretation, or limited to moral arguments. The protocol offers a standardized framework for identifying, measuring, and valuing impacts and dependencies on natural capital, putting a company’s demand on natural capital in a global context.

86 Available at <http://gemi.org/localwatertool/about.html>

87 Future-Fit Business Benchmark, Methodology Guide (2017), available at <http://futurefitbusiness.org/resources/downloads/>

88 Bioregional, One Planet Living Goals and Guidance (2017), available at <https://www.bioregional.com/resources#one-planet-living>

89 Natural Capital Coalition, The Natural Capital Protocol (2016), available at www.naturalcapitalcoalition.org/protocol



Case study – Marks & Spencer (M&S), Plan A⁹⁰

Marks & Spencer (M&S) launched Plan A in January 2007. The plan's 100 commitments include ambitious targets to make the company's operations carbon-neutral and to send no waste to landfill. The plan has been reported on annually and was updated in 2010 and 2014; in 2017, it was relaunched based on discussions with stakeholders. Ten specific changes were identified in the update, significantly, these included:

- Setting a science-based target to accelerate a shift toward becoming a low-carbon business
- Being a leader in transparency

The 2007 Plan A included 29 targets to tackle climate change and led M&S to reduce its absolute operational carbon footprint by 70 per cent. However, materiality assessments demonstrated to M&S that its own carbon footprint is the smallest part of its value chain carbon footprint, dwarfed by that of its supply chain and of customer use of M&S products. Therefore, M&S set a new (approved) science-based target that also aims: to reduce scope 1 and 2 emissions (emissions related to direct fuel consumption and purchased electricity) by 80 per cent by 2030 (compared to 2007 levels) and by 95 per cent by 2035; and to reduce scope 3 emissions (emissions in the value chain) by 13.3 million tonnes of carbon dioxide equivalent by 2030.

M&S has published digital transparency maps identifying all the factories that produce food, clothing, home, and beauty products. Through Plan A 2025, it intends to add information on the raw material sources used.

M&S's commitment to Plan A and reporting on progress has given the company a leadership position in sustainability reporting. It has reinforced this position by ensuring that its commitments are context-based and rooted in science.

90 M&S, Plan A 2025, (2017).



Putting organizations' performance into context

Companies should be encouraged to develop and report on targets that link to the local, regional, and global contexts.

For carbon emissions, an approach akin to that of the "3% solution" is a simple starting point. Companies can select annual carbon reduction targets in line with their countries' own targets or in line with the Paris Agreement, where their countries' targets are potentially insufficient. A good starting point is Climate Action Tracker⁹¹, which lists the carbon targets of some countries and ranks them from "insufficient" to "role model". For those countries not listed, a full list of intended nationally determined contributions is available⁹². An alternative approach, requiring more in-depth analysis, is to identify sector-specific targets following the Science-Based Targets framework.

For local or regional issues such as water or air pollution, reference to local benchmarks should be made. The benchmarks and targets provided by the Future-Fit Business programme and the *One Planet Living Goals and Guidance* provide a good starting point for other targets.

91 www.climateactiontracker.org

92 <https://www4.unfccc.int/sites/submissions/indc/Submission%20Pages/submissions.aspx>

2.3. ASSURANCE

Increasingly, companies are turning to third-party assurance to demonstrate the quality of the information they disclose. Benefits of assurance include increased recognition, trust and credibility, higher data quality and reliability, strengthened internal reporting processes and management systems, and improved CEO, board and broader stakeholder engagement⁹³.

93 Global Reporting Initiative, The External Assurance of Sustainability Reporting (2013), available at <https://www.globalreporting.org/resource/library/GRI-Assurance.pdf>

KPMG's 2017 review of sustainability reports⁹⁴ showed that while 67 per cent of the world's largest 250 companies have their sustainability reports independently assured (up from 63 per cent in 2015 and 30 per cent in 2005), this number falls to 45 per cent for a sample of the largest 4,900 companies globally (up from 42 per cent in 2015 and 33 per cent in 2005).

There also remains variation in what the assurance covers. In the 2015 *Survey of Corporate Responsibility Reporting*⁹⁵, KPMG found that of 1,359 of the world's largest companies, 50 per cent had the complete sustainability report assured and 34 per cent only had specific indicators assured. The remainder had specific chapters of the report or indicators assured.

The United Nations Environment Programme reviewed the GRI database and found that in 2013, 31 per cent of reports published by SMEs had some form of assurance and that the majority of these assured reports were European, although there were examples from Argentina, Brazil, Peru, and South Africa. The area of GHG emissions was one of the most common in which assurance was used.

Unfortunately, there is no agreed standard for assurance. The IIRC published a review in 2015⁹⁶ which stated that, since integrated reporting was an evolving endeavour, assurance of integrated reports would need to evolve with it. For its part, GRI does not define what assurance should cover, but it does provide some guidance:

- The assurer should be independent and demonstrably competent in both the subject matter and assurance practices.
- Quality-control procedures need to be applied.
- The review should be undertaken in a systematic, documented, and evidence-based manner to assess whether the report provides a balanced presentation of performance, considering the veracity of data and overall selection of content.
- The assurer should issue a written report that is publicly available and includes a set of conclusions and a summary of the work performed.

94 KPMG, *The Road Ahead – The KPMG Survey of Corporate Responsibility Reporting* (2017).

95 KPMG, *Currents of Change: The KPMG Survey of Corporate Responsibility Reporting* (2015).

96 International Integrated Reporting Council, *Assurance on <IR>: Overview of Feedback and Call to Action* (July 2015).

The GRI does not recommend a particular assurance standard, but identifies two separate international standards that are most often referred to and can be followed for sustainability assurance⁹⁷: the International Standard on Assurance Engagements (ISAE) 3000 and AccountAbility 1000 Assurance Standard (AA1000AS)⁹⁸. The former was developed for audits of financial information, but an update in 2013 specifically mentions that it can be used to assure reports on sustainability performance⁹⁹. The AA1000AS provides guidance for external assurance of the implementation of the AA1000 Principles Standard – AA1000APS (a set of principles which can be used to guide a company's approach to sustainability). While the AA1000AS guidance is more specific to sustainability, it is also specific to the AA1000APS.

Raising the Bar outlines the benefits and drawbacks of each and provides elements that should be included in an assurance report. The guidance includes:

- Identification of which assurance standards have been used (e.g., ISAE 3000 or AA1000AS)
- Scope of assurance
- Disclosures covered
- Assurance criteria
- Methodology (including additional standards and guidance used) and any limitations
- Level of assurance provided
- Findings/opinion and conclusions
- Observations and/or recommendations
- Notes on competencies and independence of the assurance provider
- Name of the assurance provider
- Date and place

While assurance generally is understood to refer to third-party assurance it also covers internal assurance processes. Whether a report on sustainability performance is reviewed by a third party or not, it should include a description of the internal quality-control procedures that have been undertaken to produce the report and check its veracity and quality.

97 Global Reporting Initiative, *The External Assurance of Sustainability Reporting* (2013).

98 AccountAbility, *AA1000 Assurance Standard* (2008), available at <http://www.accountability.org/standards/>

99 ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*



Demonstrating the quality of disclosed information

Companies should be encouraged to undergo third-party assurance, and as a minimum, this should cover the following:

- The data and the reliability of any resulting claims made by the company and relating to the key indicators (further information on indicators is provided in section A – *“3. Key topics and indicators in sustainability reporting”, on page 43*)
- How well the organizations apply sustainability principles, including stakeholder engagement, materiality, and the appropriateness of any targets (context)

Companies should also provide a detailed description of their internal quality-control procedures.



Promoting consistent reporting

To effectively promote consistent reporting, policies or guidance can provide (and even enforce) minimum standards for what constitutes a sustainability report. The policy or guidance can provide a range of potential indicators, highlighting those that are obligatory and specifying the degree to which the information should be broken down.

2.4. INCONSISTENT REPORTING

The growth of reporting frameworks can be an asset to the reporting agenda, since organizations can identify the approach that is most suitable for them. On the other hand, this growth creates confusion and opens up the possibility of companies identifying the approach or indicator that shows them in the best light. There are several interrelated issues:

1. Checklist compliance can lead to organizations reactively reporting historical information, rather than identifying their material topics and defining these key issues effectively.
2. Despite the checklist approach, many of the leading reporting frameworks and guidelines leave room for interpretation in their reporting requirements, which results in inconsistent reporting even among companies using the same framework or guidelines. Additionally, some companies may only report headline figures (total emissions), while others provide a detailed breakdown.
3. On top of this, the number of different reporting frameworks means that there can be an inconsistency in the use of indicators.

Although there is a range of detailed guidance on sustainability reporting available, harmonization is still required.

3. KEY TOPICS AND INDICATORS IN SUSTAINABILITY REPORTING

Sustainability reporting is a rapidly evolving discipline, and there is a growing understanding of how and what to measure in order to demonstrate holistic sustainability benefits. As sustainability reporting is trying to assess the complete performance of a company, this necessitates a broad spectrum of analysis and monitoring.

The organizations discussed in section A – “1.4. Current context”, on page 18, provide different levels and styles of guidance regarding what should be included in a sustainability report:

- The OECD guidelines¹⁰⁰ cover the topics to include in a report and provide general guidance on the approach to take, but without specific requirements or indicators.
- The United Nations Global Compact provides 10 high-level principles without specific requirements¹⁰¹.
- The Global Reporting Initiative has a comprehensive list of specific topics that can be reported on, as well as general disclosures¹⁰².
- The International Integrated Reporting Council outlines the general content of an integrated report without giving specific topics that need to be reported on¹⁰³.
- The Sustainability Accounting Standards Board provides high-level categories that specific sectors should report on¹⁰⁴.
- The AccountAbility Institute guidelines provide reporting principles and not specific topics to report on¹⁰⁵.

As the discipline has grown, there has been an increase in the number of indicators being measured and reported on, which has made difficult a consensus over exactly what to measure and how to report and harmonize this.

100 Organisation for Economic Co-operation and Development, OECD Guidelines for Multinational Enterprises (2011).

101 <https://www.unglobalcompact.org/what-is-gc/mission/principles>

102 <https://www.globalreporting.org/standards>

103 International Integrated Reporting Council, The International IR Framework (2013).

104 Sustainability Accounting Standards Board, Disclosure Topic Tables (2017).

105 The AccountAbility Institute, AccountAbility Principles Standard 2008.

While there is variation between the specific reporting requirements of each approach, broad agreement can be found. In that sense, the aim of this section is to outline the current approaches on corporate sustainability reporting in key areas and the degree of consensus.

3.1. FREQUENTLY REPORTED ENVIRONMENTAL TOPICS

“Table 5. Most frequently reported environmental topics as identified in Raising the Bar”, on page 43, below, summarizes the most commonly reported environmental topics as identified by Raising the Bar.

Greenhouse gas (GHG) emissions	The GHG Protocol Corporate Accounting and Reporting Standard ¹⁰⁶ (the “GHG Protocol”) offers a detailed structure for measuring and reporting greenhouse gas emissions. This approach is referenced by most reporting systems (such as GRI) and most companies report on GHG emissions.
Energy use	Energy use is widely reported separately from GHG emissions, but there is some wide variation in how it is reported: total energy use, relative energy use (energy/unit of area), energy intensity (energy/unit of production), quantity of energy from renewable resources, etc.
Water use	Most companies will report total water use. Some will also include information on water intensity (use/unit of production), water recycled (percentage), and water quality, but few provide any context on local water availability.
Waste and materials	There is considerably less consensus as to reporting waste and materials. Reporting can include coverage of: origins of materials used for production; reduction in waste (absolute or relative), including reduction of hazardous waste; total quantities of waste by major category (metal, organic, plastic, hazardous, etc.) recycled, incinerated, or sent to landfill. Reporting on hazardous waste should cover use of chemicals such as pesticides, volatile organic compounds, and ozone-depleting substances.

Table 5. Most frequently reported environmental topics as identified in Raising the Bar

106 <http://www.ghgprotocol.org/>

A review of what issues are normally covered by different sectors has identified that biodiversity (sometimes referred to as ecology) is another key issue that is frequently reported on by some sectors (see [“Table 6. Biodiversity indicators frequently reported on”, on page 44](#)).

Biodiversity	<p>Issues that are frequently reported on include:</p> <ul style="list-style-type: none"> Operational sites in or adjacent to protected areas and areas of high biodiversity value outside protected areas Significant impacts of activities on biodiversity Habitats protected or restored <p>International Union for Conservation of Nature (IUCN) Red List species and national conservation list species with habitats in areas affected by operations</p>
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Table 6. Biodiversity indicators frequently reported on

3.2. FREQUENTLY REPORTED SOCIAL AND INSTITUTIONAL TOPICS

Although reporting on social issues has a longer history than many environmental issues, social indicators are frequently more likely to be qualitative than quantitative, making consensus over reporting complicated. Table 7 summarizes the key areas identified by UNCTAD.

Gender equality	There are a range of ways that this can be measured, including determination of the percentage of women employed, the percentage of women in management, and remuneration and benefits by gender.
Investment in human capital	This refers to the commitment made by the company to offer employees personal and professional training opportunities, as well as the benefits that enable employees to flourish. It can be measured in terms of training hours or budget and a breakdown of benefits.
Health and safety	This can refer to the rates of injury, accident, or exposure to disease; training in health and safety; or the establishment of committees to oversee health and safety.
Collective agreement	This refers to the ability of employees (and of key suppliers) to join unions or other organizations to allow collective bargaining.
Governance disclosures	It is recommended that companies disclose information about their boards, including details on the number of meetings, gender ratio, and compensation.
Donations and payments	Companies make significant contributions to governments, and it is important that these be transparent. Charitable and community donations and contributions to local NGOs and social programmes should be reported.
Anti-corruption	Corruption is a significant obstacle to economic development. Companies should reveal any corruption-related fines or convictions that they have, or indicate what measures they have in place to help prevent corruption.

Table 7. Social and institutional indicators frequently reported on, as identified by UNCTAD¹⁰⁵

3.3. EVOLVING AREAS OF SUSTAINABILITY REPORTING

While there are some well-defined protocols for some key areas of sustainability reporting, others are still evolving. Recent initiatives and evolving areas are outlined in Table 8.

Biodiversity and ecology – ecosystem valuation	Much work has been done on putting an economic value on the services nature provides, or “ecosystem services valuation”. This has led to the concept of “environmental profit and loss accounts”. Recently, a range of organizations, including WBCSD, the World Resources Institute (WRI), WWF, IUCN and PwC, have come together to create a standard procedure for valuing the services the environment provides for companies. It is called the Natural Capital Protocol ¹⁰⁸ .
Materials – circularity indicator	The concept of the circular economy has become popular in recent years. A circular economy can be defined as “a regenerative system in which emissions and resource input and waste are minimised by closing material and energy loops. This can be achieved through long-lasting design, repair, and recycling”. Although currently there is limited knowledge in respect of measuring how effectively materials are being reused and recycled within a system, the Ellen MacArthur Foundation has developed a “circularity indicator ¹⁰⁹ ”, which can help define this.
Chemicals (and other novel entities)	There is increasing awareness of the impact of chemicals on the environment and human health. Novel entities are identified as constituting one of the nine planetary boundaries; they are defined as “new substances and modified life-forms that have the potential for unwanted geophysical and/or biological effects” and include both chemicals and nanoparticles. Several chemicals themselves are regulated by international conventions, such as the Stockholm, Rotterdam, Minamata and Basel conventions, and recently, the Dow Jones Sustainability Indices have put greater emphasis on chemicals management ¹¹⁰ .

Table 8. Evolving areas of sustainability reporting

107 United Nations Conference on Trade and Development, Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals (2017).

108 <http://naturalcapitalcoalition.org/protocol/>

109 <https://www.ellenmacarthurfoundation.org/resources/apply-circularity-indicators>

110 <https://chemsec.org/why-the-stock-markets-increased-attention-on-toxic-chemicals-is-a-big-thing/>



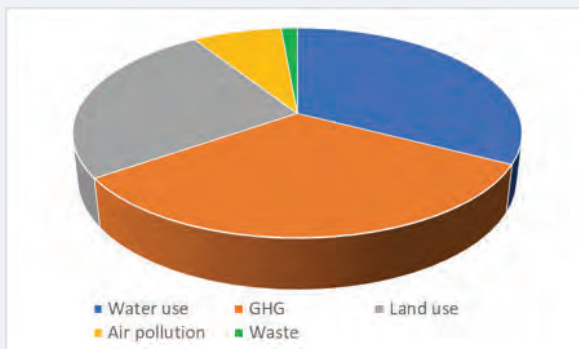
Case study – Puma and the Natural Capital Protocol

In 2011, sports and lifestyle company Puma released its *Environmental Profit and Loss Account*¹¹¹. The analysis behind this report aimed to put a monetary value on the environmental impacts along the company's entire supply chain. The analysis covered manufacturing, processing, and the raw materials production for all Puma's goods. This identified the total environmental cost of the supply chain to be 145 million euros – with the impact split quite equally between greenhouse gas emissions, water use, and land use (graph A). The analysis also revealed that Puma's operations only accounted for 6 per cent of the impact; the company's

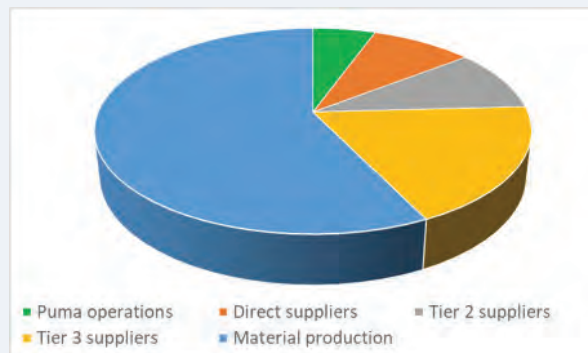
direct suppliers (tier 1 in graph B) accounted for a further 13 per cent, but material production accounted for 57 per cent.

This was a first attempt to put a monetary value on the supply chain. Puma's parent company Kering then developed this into a standardized methodology that has been used to measure the environmental profit and loss in the supply chain in 2013 and 2016. This approach contributed to the development of the Natural Capital Protocol and the Natural Capital Coalition, which had over 250 members in April 2018.

111 Puma, PUMA's Environmental Profit and Loss Account for the Year Ended 31 December 2010 (2011).



Graph A – Contribution of different environmental impacts to Puma's total environmental impact



Graph B – Contribution of different areas of the supply chain to Puma's total environmental impact; tier 2 suppliers supply Puma's direct suppliers and are supplied by tier 3 suppliers

3.4. ROLE OF MONITORING – INDICATORS

Sound, achievable, and available indicators for measuring progress are fundamental to the effective implementation and attainment of global sustainability goals. Indicators are important because having the responsible individuals report against them drives action to maintain progress in the implementation of the goals in every reporting period.

3.4.1. Indicator characteristics

Indicators, to be effective, need to meet certain criteria. UNCTAD has identified quality criteria and guiding principles to be taken into account in selecting indicators:

1. **Universality:** the indicators should apply to all enterprises, regardless of sector, size or location, to maximize the comparability of reported information.
2. **Incremental approach:** indicators should first address issues over which an enterprise has control and for which it already gathers, or has access to, relevant information.
3. **Consistency:** the selected indicators should be able to be recognized, measured, and presented in a consistent way to enable comparison over time and across entities.
4. **Performance rather than process orientation:** the indicators should show whether desired outcomes are achieved rather than whether policies,

regulations, and processes are put in place.

5. National reporting and positive corporate contributions to development: indicators should help to analyse positive corporate contributions to the economic and social development of the country in which a company operates.
6. Relevance and materiality: indicators should measure information that meets the needs of decision-makers, helping them to evaluate past, present, and/or future events, or confirming or correcting their past evaluations.
7. Understandability: the information on corporate responsibility must be understandable to the reader and in keeping with the knowledge and experience of users.
8. Reliability and verifiability: indicators should give a true, complete, and balanced view of the actual situation; a selected indicator should allow for internal or external verification.

One key additional point to highlight is the difference between relative and absolute indicators:

- Absolute indicators are those that measure total numbers: total greenhouse gas emissions, total training hours, or total health and safety incidents.
- Relative indicators measure performance per unit of production (as defined by the organization). This can be training hours per employee, water consumption per bed-night, or greenhouse gas emissions per unit of production, for example.

Both approaches have value and are important, but they must be used correctly. Absolute indicators should be used for target-setting where there is an absolute limit regarding the topic that is being reported. Pollution, water consumption, and greenhouse gas emissions are good examples of this. Ultimately, it does not matter how little energy or water an organization is using per square metre; if the amount is more than the local or global environment can sustain, then it is too much.

Relative indicators are useful for allowing comparison between comparable operations and tracking an organization's own performance over time. Again, water is a good example. Being able to compare litres per guest-night at different hotels is useful, but the context needs to be comparable; if one hotel is in a water-rich area, it should not be compared to one in a desert. Relative indicators can also be used for target-setting.

3.5. REVIEW OF EXISTING PROTOCOLS FOR SOCIAL AND ENVIRONMENTAL INDICATORS

As noted in section A - *"1.4. Current context"*, on page 18, there are different frameworks driving corporate sustainability reporting, many of which follow different protocols and standards. Key existing indicator protocols and standards are outlined in this section.

3.5.1. Greenhouse gas emissions

The Greenhouse Gas (GHG) Protocol is the most commonly referred standard for GHG emissions reporting. It forms the basis for guidance on GHG emissions reporting within other widely used frameworks for reporting on the issue, including the GRI and the Carbon Disclosure Project (CDP).

Developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), the GHG Protocol is the most commonly referenced standard for GHG accounting and provides the accounting framework for most GHG standards and programmes in the world.

The standard has three "scopes" for GHG emissions, covering the major greenhouse gases, including methane, nitrous oxide, and chlorofluorocarbons (CFCs):

- Scope 1 - direct GHG emissions: covers all direct GHG emissions produced by an organization; includes fuel combustion (such as for heating), company vehicles, and fugitive emissions (e.g., refrigerant gases)
- Scope 2 - electricity indirect GHG emissions: covers indirect GHG emissions from consumption of purchased electricity, heat or steam
- Scope 3 - other indirect GHG emissions: includes the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution) not covered in scope 2, outsourced activities, and waste disposal

ISO 14064, which covers the definition of a carbon footprint for a company, specifies principles and requirements at the organization or project level for quantification and reporting of GHG emissions and removals. It includes requirements for the design, development, management, reporting, and verification of an organization's GHG inventory.

3.5.2. Water consumption

Water consumption is relatively easy to measure; the challenge mostly concerns putting it in context. There are several initiatives for this purpose.

The United Nations Global Compact CEO Water Mandate is designed to assist companies in the development, implementation, and disclosure of water sustainability policies and practices. The Mandate contains the Corporate Water Disclosure Guidelines, which include three key pillars:

1. Company water profile – the company's relationship with water resources
2. Defining report content – materiality assessment
3. Detailed disclosure – should cover current state, implications, and response

Additionally, the CDP Water Questionnaire is a tool aimed at investors and builds on survey-based reports on companies' water management. The first version of the CDP water reporting requirements was released in December 2013.

Other tools, such as the Global Water Tool, the Global Environmental Management Initiative Local Water Tool and the CSO watershed approach, have been introduced in section A – *"2.2. Context", on page 37.*

In addition to taking some important cues from these initiatives, companies should, as a minimum, consider the following when reporting on water:

1. Total water and recycling:
 - a. Water withdrawal and usage in the company's operations, ideally broken down by location
 - b. Information on volume and quality regarding water that is discharged or recycled and reused
2. Information on the water intensity or efficiency of the company's operations or products
3. Mapping of the company's impact on water sources, with a key focus on impact on water-scarce regions
4. Measures undertaken to reduce the company's impact on water sources and to increase water efficiency in its operations

3.5.3. Waste and materials

As waste and materials are physical entities, it may appear easier to measure them than it is to measure greenhouse gas emissions. However, there is no agreed protocol for companies to follow. Waste poses a challenge in that, frequently, the corresponding resource is not in short supply, and the manufacture or disposal of the resource may be responsible for the material's impact. To understand the impact of a material, it is necessary to do a full lifecycle assessment, whereby the impact of extracting, manufacturing, recycling, and ultimately disposing of a material is calculated. This is a challenging academic process; it is also location-specific, as it depends on local recycling rates and the carbon electricity of the grid.

There are a number of frameworks or philosophies that aim to promote more efficient material use. The concept of "cradle-to-cradle" design was developed in 2002 and has continued to evolve. While the concept of the circular economy has been around for longer, it has only recently come back to prominence.

Even with these initiatives there are no recognized metrics for measuring how effectively companies are utilizing resources. As noted in section A – *"3.3. Evolving areas of sustainability reporting", on page 44,* the Ellen MacArthur Foundation is working on developing a circularity indicator and released a methodology in 2015¹¹² to assess how well a product or company performs in the context of a circular economy. The Material Circularity Indicator measures how restorative the material flows of a product or company are. While this indicator can give detailed insight into how efficiently resources are being used, it is unlikely to be widely taken up in the short term.

3.5.4. Sources for social indicators

Social indicators tend to be less quantitative than environmental indicators; therefore, while there are many existing initiatives and datasets relating to key social indicators, there are few agreed indicator frameworks akin to the Greenhouse Gas Protocol. Existing sources of information for relevant datasets include:

- United Nations Global Compact Poverty Footprint¹¹³ - contains a comprehensive list of indicators that can be used to understand corporate impacts on poverty

112 <https://www.ellenmacarthurfoundation.org/programmes/insight/circularity-indicators>

113 <https://www.unglobalcompact.org/library/3131>



- World Bank World Development Indicators¹¹⁴ - include 800 indicators in 150 countries; however, the corresponding data are national-level rather than corporate
- Leibniz Institute for the Social Sciences – European System of Social Indicators¹¹⁵ - includes over 650 proposed indicators at the national level
- OECD – Society at a Glance¹¹⁶ - reviews performance against social indicators globally

The United Nations Conference on Trade and Development drew on these resources and on its previous research to propose the social indicators outlined in the report *Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goal*¹¹⁷.

3.6. CORE ENVIRONMENTAL, SOCIAL, AND INSTITUTIONAL INDICATORS FOR REPORTING AND THEIR RELEVANCE TO THE SUSTAINABLE DEVELOPMENT GOALS

As discussed at the beginning of section A – “*3. Key topics and indicators in sustainability reporting*”, on page 43, each reporting initiative takes a different approach regarding suggested content, reporting guidance, and the requirement for the disclosure of specific topics. This section focuses on the specific environmental, social, and institutional indicators proposed in the research review undertaken by UNCTAD¹¹⁸, and presents an association with other methods of measurement based on existing reporting practices and their relevance to the Sustainable Development Goals’ monitoring framework.

“*Table 9. Most frequently used environmental indicators and guidance for key issues*”, on page 49, presents the most frequently used environmental indicators and guidance for key issues and “*Table 10. Frequently reported social indicators*”, on page 51¹¹⁹ the most frequently used social and institutional indicators and guidance for key issues.

114 <http://wdi.worldbank.org/tables>

115 <https://www.gesis.org/en/services/data-analysis/social-indicators/european-system-of-social-indicators>

116 <https://www.oecd.org/social/society-at-a-glance-19991290.htm>

117 United Nations Conference on Trade and Development, *Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals* (2017).

118 *Ibid.*

119 *Ibid.*

Category	Indicator	Data measured	UNCTAD	GRI	SDG	Guidance
Sustainable water	Water recycling	Total volume of water recycled and reused as percentage of total water withdrawal: <ul style="list-style-type: none"> total water use (m3) total water recycled (m3) and reused (m3) 	B.1.1	303-3	6.3.1	CDP Water questionnaire, UNEP - Raising the Bar
	Water use efficiency	Change in water consumption per net value added in reporting period: <ul style="list-style-type: none"> total water (m3)/economic activity (turnover, profit) 	B.1.2	303-1	6.4.1	CDP Water questionnaire, UNEP - Raising the Bar
	Water stress	Water withdrawn with a breakdown by sources as proportion of available freshwater resources	B.1.3	303-1	6.4.2	CDP Water questionnaire,; UNEP - Raising the Bar
	Integrated water resource use management	Degree of integrated water resources management implementation	B.1.4	103	6.5.1	UN Global Compact's CEO Water Mandate, UNEP - Raising the Bar
Waste Management	Reduction of waste generation	Change in waste generated per net value added: <ul style="list-style-type: none"> total waste (kg) disposal method by category total waste (kg)/unit of production 	B.2.1	306-2	12.5	Example of existing guidance in the food sector: Food Loss and Waste Protocol
	Waste recycling	Percentage of recycled input materials used to manufacture organization's primary products and services	B.2.2	301-1 301-2	12.5.1	UNEP - Raising the Bar
	Hazardous waste	Total weight of hazardous waste and proportion of hazardous waste treated	B.2.3	306-2	12.4.2	Basel Convention
Greenhouse Gas emissions	Greenhouse gas emissions (scope 1)	Greenhouse gas emissions (scope 1) per unit of (net) value added	B.3.1	305-1	9.4.1	UNEP - Raising the Bar, GHG Protocol, CDP guidance on corporate accounting and reporting for GHG emissions
	Greenhouse Gas emissions (scope 2)	Greenhouse gas emissions (scope 2) per unit of (net) value added	B.3.2	305-2	9.4.1	UNEP - Raising the Bar, GHG Protocol, CDP guidance on corporate accounting and reporting for GHG emissions
Chemicals	Chemicals including pesticides and ozone-depleting substances	Dependency on ozone-depleting substances per net value added	B.4.1	305-6 305-7	12.4.2	Montreal Protocol, UNEP - Raising the Bar
Energy consumption	Renewable energy	Renewable energy consumption as percentage of final energy consumption: <ul style="list-style-type: none"> total energy use, joules, kWh percentage that is from renewable sources 	B.5.1	302-1	7.2.1	CDP guidance on renewable energy reporting, UNEP - Raising the Bar
	Energy efficiency	Energy consumption per net value added: <ul style="list-style-type: none"> total energy use/unit of economic activity 	B.5.2	302-3	7.2.1	UNEP - Raising the Bar
Biodiversity	Operational sites in areas of high biodiversity	For any operational sites owned, leased, managed in, or adjacent to protected areas and areas of high biodiversity value outside protected areas, at least the following should be provided: geographic location and location relative to high biodiversity area; type of operation (office, manufacturing, or extractive) and size; biodiversity value of the area	-	304-1	6.6, 14.2 15.1 15.5	Convention on Biological Diversity guidance
	Significant impacts of activities, products, and services on biodiversity	Nature of significant direct and indirect impacts on biodiversity (e.g., construction, pollution; invasive species, pests, and pathogens; reduction of species; habitat conversion; changes in ecological processes outside the natural range of variation [e.g., changes in groundwater level]) Significant direct and indirect positive and negative impacts including: species affected; extent of areas affected; duration of impacts; reversibility of the impact	-	304-2	6.6, 14.2, 15.1, 15.5	Convention on Biological Diversity guidance
	Habitats protected or restored	<ul style="list-style-type: none"> Size, location, and status of all habitat areas protected or restored; indication of any external accreditation of success reported Approach - partnership or delivered by the organization Standards, methodologies, and assumptions applied 	-	304-3	6.6, 14.2 15.1 15.5	Convention on Biological Diversity guidance
	IUCN Red List species	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organization, by level of extinction risk (critically endangered to least concern)	-	304-4	6.6, 14.2, 15.1, 15.5	Convention on Biological Diversity guidance

Table 9. Most frequently used environmental indicators and guidance for key issues

Category	Indicator	Data measured	UNCTAD	GRI	SDG	Additional Guidance ¹²⁰
Gender equality	Proportion of women in managerial positions	The number of women in managerial positions divided by the total number of employees	C.1.1	405-1	5.5.2	
Research and development	Expenditure on research and development	Expenditure on research and development covering: <ul style="list-style-type: none"> • basic research (research on the fundamental aspects of phenomena without a specific application) • applied research (study aimed at determining how a specific need can be met) • development (application of knowledge to produce an output) • Expenditures should be compiled if they relate to an in-process research or development project; they should be recognized as an intangible asset (International Accounting Standard (IAS) 38, Intangible Assets) 	C.2.1	-	9.5.1	IAS 38, Global Innovation Index
Human capital	Hours of employee training by category	Average number of hours of training per employee per year per category as total hours of training per year per category divided by total employees per category	C.3.1	404-1	4.3.1	International Standard Classification of Occupations
	Expenditure on employee training broken down by employee category	Direct and indirect costs of training, including those associated with trainers' fees, training facilities, training equipment, and related travel costs. The following data should be presented with breakdown by employment category: <ul style="list-style-type: none"> • head count or full-time equivalent • employment expenditure 	C.3.2	404-2	4.3.1	IAS 18
	Employee wages and benefits	Employee wages and benefits with breakdown by employment type and gender calculated as total costs of employee workforce	C.3.3	201-1	8.5.1 10.4.1	IAS 19
Employee health and safety	Expenditure on employee health and safety	Total cost of employee health and safety by adding the figures obtained from costs of occupational safety and health-related insurance programmes, enterprise's cost of health care activities financed directly by the enterprise, and enterprise's cost incurred through working environment issues related to occupational safety and health	C.4.1	403-1 403-2 403-3 403-4	3.8	International Labour Organization (ILO) - Occupational Safety and Health Recommendation (R164)
	Frequency rates/incident rates of occupational injuries	Work days lost due to occupational accidents, injuries and illness that can reflect the degree to which the enterprise contributes to creating a healthy, safe and productive work environment: <ul style="list-style-type: none"> • frequency rates (new injury cases divided by the total number of hours worked by workers) • incident rates (number of new cases divided by average number of workers) 	C.4.2	403-2	8.8.1	UN Global Compact and Oxfam - Poverty Footprint Tool
Collective agreements	Employees covered by collective agreements	<ul style="list-style-type: none"> • Number of employees covered by collective agreements to total employees (percentage) 	C.5.1	102-41 408-1 409-1	8.7 8.8.2	ILO MNE Declaration
Corporate governance disclosures	Board meetings	Number of board meetings during reporting period and attendance rates	D.1.1	-	16.6	UNCTAD – Corporate Governance Disclosure (CGD) ¹²¹
	Female board members	Number and proportion of women board members to total board members	D.1.2	405-1	5.5.2	UNCTAD - CGD
	Board members - age range	Calculated as the number of positions in board held by members of the target group divided by the total number of such positions	D.1.3	-	16.7.1	UNCTAD - CGD
	Audit committee	Number of meetings of audit committee and attendance rate	D.1.4	-	16.6	UNCTAD - CGD
	Board compensation	Total compensation and compensation per board member and executive, expressed in monetary terms	D.1.5	102-38	16.6	IAS 24

120 For all categories, the GRI guidance can be followed.

121 United Nations Conference on Trade and Development, Guidance on Good Practices in Corporate Governance Disclosure (2006), available at http://unctad.org/en/Docs/iteteb20063_en.pdf

122 Adapted from United Nations Conference on Trade and Development, Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals (2017).

Category	Indicator	Data measured	UNCTAD	GRI	SDG	Additional Guidance
Donations	Expenditures on charitable donations	Actual expenditures on charitable donations and investments of funds in broader community where target beneficiaries are external to company, itemized on accrual basis	D.2.1	413-1	17.17.1	
Anti-corruption practices	Value of fines paid or payable for convictions	Total monetary value of corruption-related fines imposed by national regulators and courts; this indicator also requires the presentation of the total number of convictions relevant to the reporting entity	D.3.1	205-1 205-2 205-3 415-1	16.5.2	
Supply chain	Screening	Supply chain screening	-	308-1/2 414-1/2	12.7	
Society	Local community	Potential negative impact on the local community	-	202-2 413-1/2	11.6	
Product responsibility	Wider society impact	Wider society impact (fines, complaints)	-	206-1 419-1	16.5 8.8	
	Products assessed	Products assessed for improvements in health and safety	-	416-1	3.9	
	Customer health and safety	Non-compliance	-	416-2	3.9	
	Labelling	Incidents of mis-selling	-	417-1/2	16.10	
	Fines	Fines arising from product responsibility	-	417-3	16.5	

Table 10. Frequently reported social indicators²⁰



Monitoring performance and progress

While it is important for companies to monitor data to be able to monitor performance and progress, companies need to outline:

- What they are aiming to achieve, and how this is linked to the local and global context (see section A - *"2. Key areas for improving the quality of corporate sustainability reporting", on page 31*) – their sustainability targets and commitments
- How they are aiming to achieve these targets – their sustainability strategy and policy
- The existence and content of other relevant policies including:
 - o Community investment strategy and policy
 - o Corporate social responsibility strategy and policy



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 Sticks¹²¹ 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 Development¹²² 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 instruments¹²⁴

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 Russia”](#), [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 Russia¹²⁵

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 reporting¹²⁶ 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 Compass¹²⁷ 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 réglementations 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 Manual¹³⁰ 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 III¹³¹ (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

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

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 IV¹³² 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

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.

» KING IV ON A PAGE

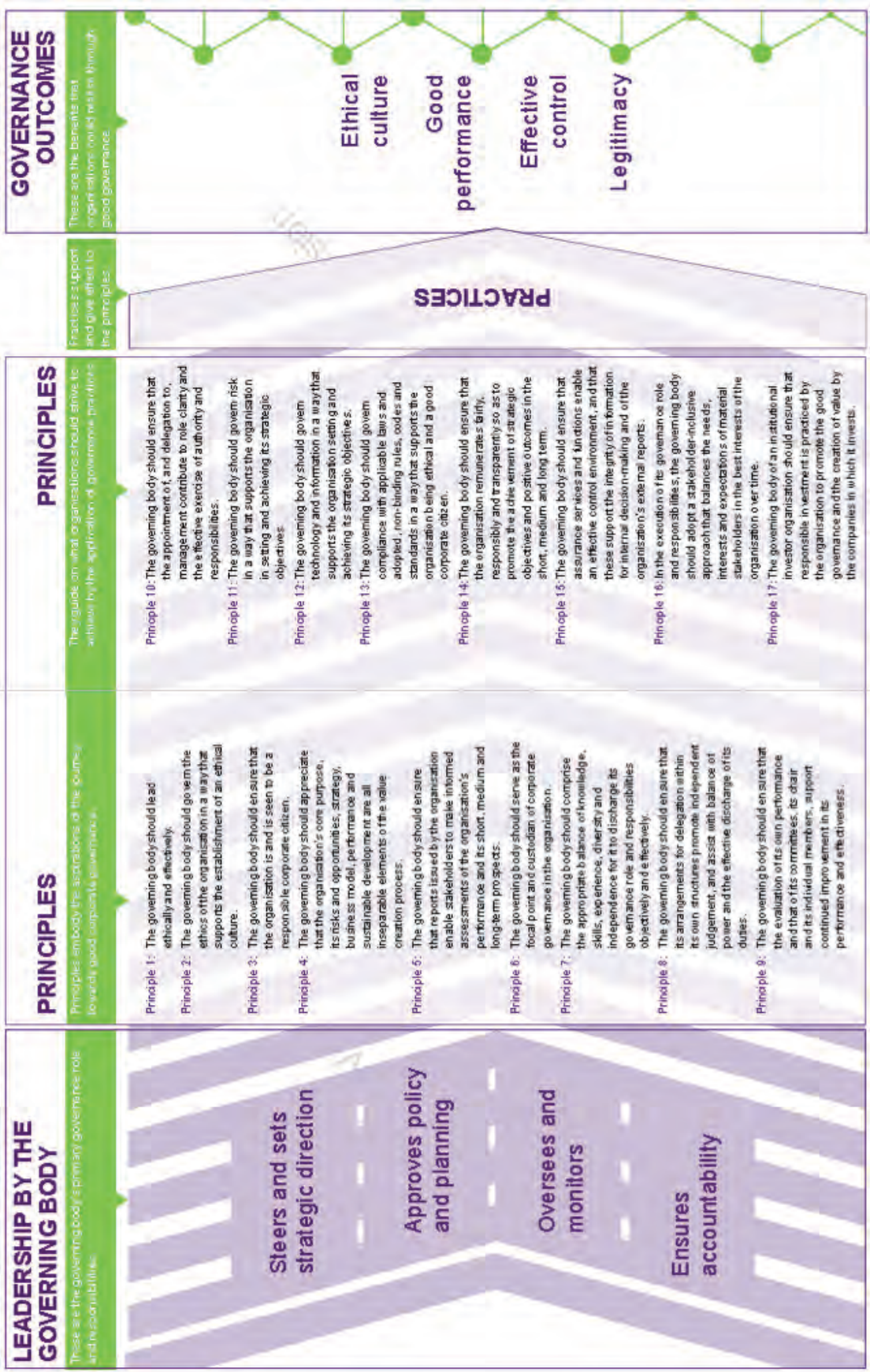


Figure 7. One-page summary of South Africa's King IV¹³³

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 guidance¹³⁴ 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

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

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).

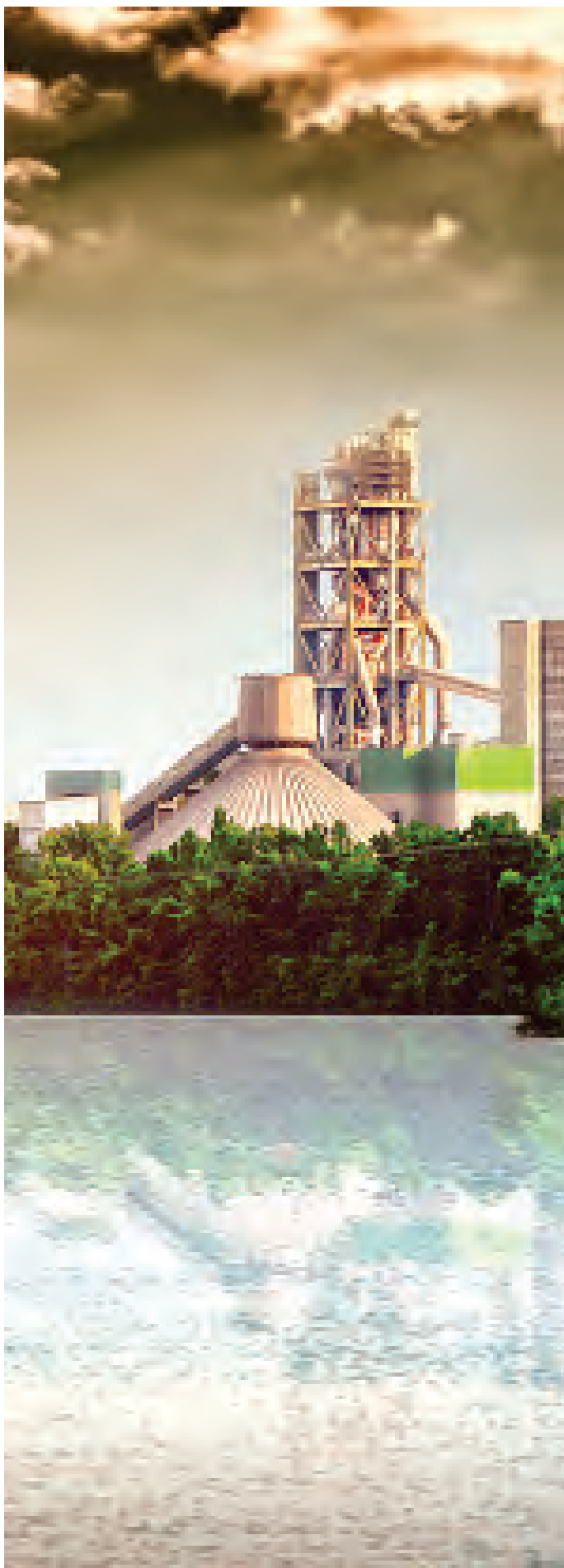


Box 2: Examples of initiatives and guidance to engage with SMEs

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 Kong¹³⁶ and Dubai¹³⁷ 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 Policies*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;

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

- 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.





SECTION B.2

Materiality and Sector Guidelines

This section provides guidance on how stakeholders can encourage and support companies of all sizes to improve their sustainability reporting, specifically by ensuring that the companies cover all material topics – the full scope of their impact. It builds on the introduction to materiality in section A – *“2.1. Materiality”, on page 31*, which defined the concept, outlined its importance and described a generic process for undertaking a materiality assessment.

To enable government actors, policymakers and key stakeholders to understand the importance of materiality this section includes the following:

1. An overview of the sustainability reporting process to put materiality in context.
2. A detailed review of the two main approaches to addressing materiality; undertaking a materiality assessment or following sector-specific guidelines.

At the end, summary guidance is provided for government actors and stakeholders on how to ensure that materiality is effectively addressed by companies of all sizes.

1. BACKGROUND TO MATERIALITY ASSESSMENTS

Governments can encourage sustainability reporting by developing policies that require reporting or by providing guidance on how to report. In order to ensure that the reporting process is likely to drive an improvement in sustainability performance and provide useful sustainability information to support decision-making processes, companies need to be encouraged to address their specific issues that have the greatest impact. Identifying these issues is known as a ‘materiality assessment’.

1.1. KEY CONTENT PRINCIPLES OF A SUSTAINABILITY REPORT

Reviewing the major reporting frameworks (see *“Table 2. Comparison of the key principles of the GRI, IIRC, and SASB frameworks”, on page 26*, in section A – *“1.5.7. Commonalities of existing reporting frameworks”, on page 26*), it is possible to identify a number of common themes that define the content of a sustainability report, namely:

1. Sustainability context
2. Completeness
3. Stakeholder engagement
4. Materiality

This section will focus on the principles of completeness, stakeholder engagement and materiality, as all of these are interrelated and hang on what is defined by materiality. Sustainability context, although a very important issue, will not be further discussed as it has been broadly covered in section A – *“2.2. Context”, on page 37*.

1.1.1. Completeness

The GRI, IIRC and SASB reporting frameworks identify completeness as a key principle, though they vary in how much specific guidance is used to define it (*“Table 14. Definitions of completeness used by main reporting frameworks”, on page 74*). IIRC provides the most open explanation, whereas SASB provides minimum reporting requirement as part of the definition, though in all cases they state that all material issues should be reported on.

IIRC	An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
GRI	Completeness primarily encompasses the following dimensions: <ul style="list-style-type: none"> • The list of material topics covered in the report • The boundaries¹³⁹ of these topics • The time period covered
SASB	The report should discuss the following: <ul style="list-style-type: none"> • The company’s strategic approach to managing performance on material sustainability issues (materiality) • The company’s relative performance with respect to its peers (comparability) • The degree of control the company has (related to the material topic) • Any measures the company has undertaken or plans to undertake to improve performance • Data for the company’s last three completed fiscal years

Table 14. Definitions of completeness used by main reporting frameworks

1.1.2. Stakeholders engagement

Both IIRC and GRI identify engaging with stakeholders as part of the process for defining the material impact of an organization as a key principle (see *“Table 15. GRI and IIRC approach to stakeholders”, on page 75*). Their approaches are not identical; GRI considers stakeholder engagement as a key step in identifying an organization’s material impacts. Organizations reporting in accordance with the GRI Standards are required to report a list of the stakeholder groups identified, the approach to identifying and selecting stakeholders, and the approach to stakeholder engagement. The IIRC takes a broader approach and requires organizations to explain the nature of the organization’s relationship with key stakeholders.

¹³⁹ GRI define “the topic boundary” as a description of where the impacts occur for a material topic, and the organization’s involvement with those impacts. Organizations might be involved with impacts either through their own activities or as a result of their business relationships with other entities. An organization preparing a report in accordance with the GRI standards is expected to report not only on impacts it causes, but also on impacts it contributes to, and impacts that are directly linked to its activities, products or services through a business relationship.

Source: GRI 101: Foundation 2016.

IIRC	An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
GRI	Stakeholders are defined as entities or individuals that can reasonably be expected to be significantly affected by the organization's activities, products, or services; or whose actions can reasonably be expected to affect the ability of the organization to implement its strategies or achieve its objectives. When making decisions about the content of its report, the organization is to consider the reasonable expectations and interests of stakeholders.

Table 15. GRI and IIRC approach to stakeholders

This mapping of stakeholder relationships by companies provides another point of engagement with SMEs. As discussed in Section A – 1.4.3 SMEs are particularly important globally and are also frequently difficult to engage with.

1.1.3. Materiality – Definition and approaches

Most reporting frameworks put identifying a company's material topics as the core of their reporting process – but this is not necessarily being reflected in company reports. While, as stated in *Raising the Bar*, it is desirable that all companies conduct their own materiality assessment, this can be challenging, especially for SMEs. Nonetheless companies can take simple steps such as:

1. Holding informal discussions with key stakeholders, employees and customers.
2. Using existing guidance, such as SASB Materiality Map¹⁴⁰ or the Governance and Accountability Institute's 'Sustainability - What Matters?' report¹⁴¹ which proposes the key reporting areas for different sectors.

The goal of a materiality assessment is to identify where the impacts of a company's operations lie, so that they can effectively be mitigated. Ideally, all companies would do a full life cycle assessment of the product or service, but this is often impractical. Therefore, an assessment is made to identify the most relevant impacts.

There are two key components to this: sustainability topics or issues and the assessment boundary. The range of sustainability topics or issues that should be covered defines the scope of a company i.e. does it need to report on impacts on biodiversity or hazardous waste generated or not? Section A – *"2.1.2. Materiality – scope of reporting"*, on page 33, describes this process in more detail.

140 <https://www.sasb.org/materiality/sasb-materiality-map/>

141 <https://www.ga-institute.com/research-reports/sustainability-what-matters-materiality-study-in-1246-gri-reports.html>

Where impacts occur is defined as the boundary. When considering the boundary of an organization it is simplest to assume that impacts can occur in the preparation of materials the company uses, the company's own operations and the use of the company's product or service. This can be summarized as the supply chain, operations, use and disposal of products or services.

For a manufacturer the largest impact may be due to its supply chain – the extraction and processing of raw materials. In this case, it would be important to report on the environmental and social impact of the supply chain and supplier engagement – this could include reporting Scope 3 Greenhouse gas emissions (see section A – *"3.5.1. Greenhouse gas emissions"*, on page 46). Alternatively, in the case of electronic goods, the greatest impact may be the energy consumed during the product's lifetime or health impacts during recycling or disposal of the product. In this case, reporting on product labelling is important.

This and further examples are shown graphically in *"Table 16. Illustration of where impacts can arise in the life cycle of a product or service"*, on page 76, where a traffic light system is used to indicate low (L), medium (M) or high (H) impact. These examples are illustrative to explain the concept and while they are broadly accurate, they are not based on detailed research.

The issue of establishing the boundary is particularly important for companies with subsidiaries and joint ventures, as it helps identify if the impact of these organizations should be included in the report.

Reporting frameworks have slightly different definitions of materiality; these definitions, the challenge of materiality and best practices are explored in more depth in *"Section B.2"*, on page 73.



Product or service	Supply chain		Own operations		Product service use and disposal	
	Impact	Scale	Impact	Scale	Impact	Scale
Iron ore extraction	Excavation equipment	L	Excavation	H	Smelting and use	L
Coal extraction	Excavation equipment	L	Excavation	H	Burning of coal	H
Shoes	Farming of cotton, extraction of plastic	H	Energy use in factories	L	Disposal of non-hazardous waste	L
Shirts	Farming of cotton, extraction of plastic	H	Energy use in factories	L	Ironing and washing	H
Phones	Extraction of materials	H	Energy use in factory	M	Responsible disposal and energy use	M
Light bulbs	Extraction of materials	M	Energy use in factory	L	Energy use in operation	H
Financial services	Office products	L	Operations of office	L	Investment in damaging industries	H

Table 16. Illustration of where impacts can arise in the life cycle of a product or service

2. IDENTIFYING WHAT IS MATERIALLY IMPORTANT

The main reporting frameworks offer the following two separate approaches for a materiality assessment:

1. Providing a process for defining the material topics of an organization.
2. Providing a predefined set of specific reporting issues for a range of industry sectors.

The AccountAbility, GRI and IIRC frameworks propose broadly the same approach for a materiality assessment (approach 1), while SASB focuses on sector specific guidelines (approach 2).

These approaches are outlined in the following sections.

2.1. MATERIALITY ASSESSMENT

AccountAbility, GRI and IIRC all suggest that companies should undertake a materiality assessment to identify the key issues that they should be reporting on. Detailed information on their approaches can be found in the following:

1. AccountAbility – ‘The Materiality Report’¹⁴² and ‘Redefining Materiality’.¹⁴³
2. IIRC – Paragraphs 3.17 to 3.29 of The International IR Framework (IIRC).¹⁴⁴
3. GRI – The latest GRI standards¹⁴⁵ continue to identify materiality as one of the four guiding principles they do not provide step-by-step guidance, which is available in the previous G-4 guidance – G4-18.¹⁴⁶

The key steps in a materiality assessment are summarized in section A – *“2.1.1. Materiality - organizational boundary”, on page 32.*

2.2. SECTOR-SPECIFIC GUIDELINES FOR SUSTAINABILITY REPORTING

As opposed to asking organizations to identify their material impact, sector guidelines review the potential

impacts of industries in a specific sector, identify the most likely social and environmental issues and outline what organizations in the sector should report on. This can help companies that are new to sustainability reporting to quickly understand what they should consider covering in their report. Additionally, if all organizations in the same sector are reporting the same information then this will allow for a more accurate comparison of inter-organizational performance.

While SASB is the framework that has embraced in most depth the approach of sector guidelines, the GRI does also provide some sector guidance.

2.2.1. GRI-related guidance

GRI has taken the approach of providing a comprehensive list of topics to report on, applicable to organizations of all types, sizes, sectors and locations. In addition to this, GRI provides specific sector guidance for a limited number of sectors.¹⁴⁷ This guidance includes recommended sector-specific disclosures that are not included in the generic list.

In addition to the GRI guidance, the Governance and Accountability Institute’s publication ‘Sustainability – what matters?’¹⁴⁸ analyses the most commonly reported disclosures by different sectors in the economy. The report breaks the economy into 35 sectors and analyses what were the most frequently reported of 84 GRI disclosures in each sector and which are the most important to each sector. While the full analysis must be purchased, the publicly available report covers the ten most and ten least frequently reported GRI disclosures.

2.2.2. SASB – sector guidance

The SASB has published sector-specific guidance, which has been developed through a stakeholder materiality process to identify what they believe to be the material issues for each sector. The ten sectors and 79 industries within these sectors are listed in *“Table 17. SASB’s sustainable industry classification system149”, on page 78.*

142 AccountAbility Institute, ‘The Materiality Report: Aligning Strategy, Performance and Reporting’ (2006)

143 AccountAbility Institute, Redefining Materiality II: Why it Matters, Who’s Involved, and What It Means for Corporate Leaders and Boards, 2013

144 IIRC, The international IR framework, 2013

145 <https://www.globalreporting.org/standards>

146 GRI, G4 Implementation Guidelines, 2013

147 Airport operators, construction and real estate, electric utilities, event organizers, financial services, food processing, media, mining and metals, NGOs, oil and gas

148 Governance and Accountability Institute, ‘Sustainability – what matters?’ (2014).

Health Care	Biotechnology	Consumption	Agricultural products
	Pharmaceuticals		Meat, poultry & dairy
	Medical equipment & supplies		Processed foods
	Health care delivery		Non-alcoholic beverages
	Health care distributors		Alcoholic beverages
	Managed care		Tobacco
Financials	Commercial banks		Household & personal products
	Investment banking & brokerage		Food retailers & distributors
	Asset management & custody activities		Drug retailers & Convenience stores
	Consumer finance		Multiline and specialty retailers & distributors
	Mortgage finance		E-commerce
	Security & commodity exchanges		Apparel, accessories & footwear
	Insurance		Building products & furnishings
Infrastructure	Electric utilities		Renewable resources & alternative energy
	Gas utilities	Toys & sporting goods	
	Water utilities	Biofuels	
	Waste management	Solar energy	
	Engineering & construction services	Wind energy	
	Home builders	Fuel cells & industrial batteries	
	Real estate owners, developers & investment trusts	Forestry & logging	
	Real estate services	Pulp & paper products	
Non-renewable resources	Oil & gas - exploration & production	Resource trans-formation	Chemicals
	Oil & gas - midstream		Aerospace & defence
	Oil & gas - refining & marketing		Electrical & electronic equipment
	Oil & gas - services		Industrial machinery & goods
	Coal operations		Containers & packaging
	Iron & steel producers		Education
	Metals & mining		Professional services
	Construction materials		Hotels & lodging
Transportation	Automobiles	Services	Casinos & gaming
	Auto Parts		Restaurants
	Car Rental & Leasing		Leisure facilities
	Airlines		Cruise lines
	Air Freight & Logistics		Advertising & marketing
	Marine Transportation		Media production & distribution
	Rail Transportation		Cable & satellite
	Road Transportation		Electronic manufacturing Services & original design manufacturing
	Technology & communications	Software & IT services	
		Hardware	
		Semiconductors	
		Telecommunications	
		Internet media & services	

Table 17. SASB's sustainable industry classification system¹⁴⁹

Additionally, SASB has identified 30 high-level social and environmental issues that they have organized under five broad sustainability dimensions (see *“Table 18. SASB’s universe of sustainability issues¹⁴⁹”, on page 79*).

Category	Issue
Environment	GHG emissions
	Air quality
	Energy management
	Fuel management
	Water and wastewater management
	Waste and hazardous materials management
	Biodiversity impacts
Social capital	Human rights and community relations
	Access and affordability
	Customer welfare
	Data security and customer privacy
	Fair marketing and advertising
Human capital	Labour relations
	Fair labour practices
	Employee health, safety and well-being
	Diversity and inclusion
	Compensation and benefits
Business model and innovation	Recruitment, development and retention
	Life cycle impacts of products and services
	Environmental and social impacts on assets and operations
Leadership and governance	Product packaging
	Product quality and safety
	Systemic risk management
	Accident and safety management
	Business ethics and payment transparency
	Competitive behaviour
	Regulatory capture and political influence
	Materials sourcing
Supply chain management	

Table 18. SASB’s universe of sustainability issues¹⁴⁹

149 <https://www.sasb.org/standards-overview/download-current-standards/>

150 *Ibid.*

The complete information is available in the following two formats:

- The materiality map¹⁵¹ is a web portal that allows users to quickly see which issues are deemed material to which sectors, and to search some of the suggested metrics.
- The individual standards for each sector, which provide the complete list of suggested reporting metrics and units for each sector¹⁵².

Organizations use these resources to guide what topics they should report on and which indicators they should use.

2.2.3. Sector initiatives

An alternative approach to comprehensive sector guidelines is to develop specific sector initiatives, especially when a sector is of particular importance nationally. The advantage of this approach is that the reporting can be tailored to the specific needs of the sector, which can ensure consistency and comparability between participating organizations. On the other hand, as the reporting does not link to other recognized frameworks, it may not encourage companies to look beyond these minimum requirements, and nor is the information gathered relevant to other sectors.

Additional examples to those provided in the section on Collaborative Reporting (section A – *“1.4.3. Increasing reporting rates”, on page 20*) include the following:

The Clean Shipping Index¹⁵³ is an independent labelling system of vessels’ environmental performance. The programme was initiated in Sweden with the goal of improving the environmental performance of the shipping industry by requiring shipping providers to report on their performance in six areas: chemicals, waste management, carbon dioxide (CO₂), oxides of nitrogen or sulphur (NO_x, SO_x) and particulate matter (PM) emissions.

The SmartWay Programme¹⁵⁴, run by the United States Environmental Protection Agency, provides tools, data and standards for measuring, benchmarking and improving environmental performance. The programme is open to any company or organization that ships, manages or hauls freight. The SmartWay Programme:

151 <https://www.sasb.org/materiality/sasb-materiality-map/>

152 <https://www.sasb.org/standards-overview/download-current-standards/>

153 <https://cleanshippingindex.com/>

154 <http://www.epa.gov/smartwaylogistics/>

- Encourages companies to generate emissions data (CO₂, NO_x, and PM) with recognized methods and data providing consistent and comparable metrics for freight emissions across all industry sectors.
- Encourages shippers to collaborate with their freight carriers and establish shared efficiency goals.
- Works with many of the recognized sustainability reporting frameworks to integrate SmartWay emissions data directly into their guidelines and standards.



Getting started...

Guidance to maximize the impact and usefulness of corporate sustainability reporting

As seen throughout *“Section B.2”, on page 73*, the general approach to materiality is straightforward; to review all available information and use stakeholder engagement to identify the most important issues to the organization, and report on these.

An alternative approach is to use predefined sector guidance that has been developed by a third party. Sector guidance is useful to both make it easy for an organization to get started in reporting and to help ensure consistent reporting within the sector. As organizations become more comfortable with sustainability reporting it is generally preferable for them to undertake their own materiality assessment for several reasons, such as the following:

1. While companies in a sector will have similar impacts, there will be significant variation between them and so prescribing what should be reported may miss key issues or over-emphasize issues that are unimportant.
2. At a macro-level, it is relatively easy to breakdown the economy into a limited number of sectors, but the number of sub-sectors quickly becomes very high. This is shown by SASB having 79 sub-sectors, and the oil and gas industry itself is in four (exploration and production, midstream, refining and marketing, and services).

In a 2013 publication, GRI referred to the industry classification benchmarks and identified 95 sub-sectors.¹⁵⁵

3. As seen in the policy case studies (*“Section B.1 Policy Review”, on page 61*), when guidelines are too prescriptive this can encourage companies to take a cautious position and only report what is required of them. The materiality process invites a more open and positive approach and allows companies to identify where they can have the largest positive impact.

When preparing any guidance or policies to promote sustainability reporting the key issues of sustainability context, completeness, stakeholder engagement and materiality need to be included to maximize the impact of the reporting process.

Given the importance of SMEs, stakeholder mapping is a key opportunity to reach this group, therefore companies should be encouraged to do this and, when appropriate, be required to do the following:

- Provide a comprehensive stakeholder map and describe the relationship that companies have with all their key stakeholders.
- Explain how they are encouraging these stakeholders to adopt more sustainable practices – for example through the use of supplier sustainability standards.

Additionally, companies should be encouraged to identify impacts that lie outside of their organization and report on these if deemed to be of importance.

Another approach could be providing minimum requirements. For this purpose, indicators outlined in section A – *“Section B.1 Approaches to engage with SMEs over sustainability reporting”, on page 69*, could be a good start as minimum reporting requirements, since a review of the literature on reporting has identified them as widely used indicators.

155 GRI, Map of Industry Classification Benchmark (ICB) to proposed GRI Business Activity Groups, 2013. Available at: <https://www.globalreporting.org/Documents/ARCHIVES/resource%20library/ICB-GRI.pdf>





SECTION B.3

Data

Accurate and meaningful sustainability reporting requires the use of quantitative and qualitative data in many areas. The introduction (section A – *“3. Key topics and indicators in sustainability reporting”, on page 43*) has outlined the role of indicators in monitoring sustainability performance including the following:

1. The key characteristics of effective key performance indicators.
2. The role of absolute and relative indicators.
3. Existing indicator frameworks.
4. Core indicators for sustainability reporting.

This section provides a closer look at the role of data in sustainability reporting. It includes the following:

1. An overview of data; what it is, its importance for governments and how it can most effectively be utilized.
2. Examples of effective data management systems at different scales.
3. An overview of how government actors can support the effective use of data in sustainability reporting.

1. WHAT IS DATA?

'Data' is defined as the facts, details and statistics collected in raw form. It is produced in huge quantities from different sources and is increasingly being measured in real time. This increasing collection of data is not in itself useful unless it is collated and analysed so that it can be put in context and used in a timely fashion – data can quickly become out of date and lose its value.

Once data has been analysed it becomes 'information'. Information is in effect analysed data that has been put into a meaningful context and can be used to:

- measure performance and change in performance
- set targets and commitments and measure progress
- verify the achievements of goals and objectives
- measure the impact of initiatives and disseminate this information.

When focusing specifically on corporate sustainability reporting the data is defined as the economic, social and environmental data that organizations produce through their everyday activities. Once analysed, data becomes a key component in building knowledge and understanding on a system that can enable organizations to understand their social and environmental impacts and the risks to which they are exposed.

Some of the key challenges in data management and analyses include:

- data availability – gaps in data, or potentially overwhelming quantities
- data accuracy – inaccurate data can render detailed analysis useless
- comparability – putting the data in a form that enables fair comparison to relevant comparable standards.

Some of these challenges can be overcome by providing a standardized set of indicators and providing local and international context on data. Indicators are covered in section A – *"3. Key topics and indicators in sustainability reporting"*, on page 43, while the provision of context is explained further in this section.

It is also important to note that not everything can be measured, and that in some cases data and indicators may not be the appropriate tool for monitoring and

this is especially the case for social issues. Taking the example of human capital, there are many definitions of this term, amongst which is 'the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labour so as to produce economic value'.¹⁵⁶ The indicators proposed in *"Table 9. Most frequently used environmental indicators and guidance for key issues"*, on page 49, are effective at measuring efforts to increase certain components of human capital, specifically knowledge, but are unable to measure issues like creativity. Good health and well-being (SDG 3) are other aspects where indicators are not able to fully capture the issue. Common indicators, such as health and safety performance, report on the absence of a negative impact on well-being as opposed to an actual increase in human well-being.

There is no doubt that data has a key role to play in measuring and monitoring sustainability performance but other sources, including photos and interviews, can also have an important role to play.



156 Claudia Goldin (Department of Economics Harvard University and National Bureau of Economic Research), Human Capital, 2014

2. ROLE OF GOVERNMENTS IN RESPECT TO DATA

Accurate data is crucial to be able to understand the sustainability performance of a company and government actors are likely to have a key role to play in ensuring that data is consistent, reliable and meaningful. Key roles of government actors may include:

- utilizing the data reported by companies
- providing context – local benchmarks, baselines, national and international goals
- establishing a centralized system of data management – potentially through a national or regional platform in order to enabling comparability, linking to national performance and avoiding double counting
- linking to SDG monitoring.

Potentially the most important way that government actors can encourage companies to report is to make use of the data published by companies by reading the reports and clearly utilizing the data, this in itself will drive improved data quality and increase the likelihood of companies reporting. The Government of Colombia and the GRI conducted a pilot project to assess the contribution of national private companies to five SDGs. Information was collected from 80 Colombian companies and aggregated into a National Voluntary Report¹⁵⁷ with an English Summary¹⁵⁸.

A further example of the potential role of government actors is suggesting core indicators to ensure consistency between company reporting and macro-level statistical data; this approach could enhance national statistical offices' ability to measure the contribution of the private sector to the attainment of the SDGs and other frameworks, while also exploring synergies between the accounting and statistics communities.

2.1. PROVIDING CONTEXT AND COMPARABILITY

One of the key uses of data and indicators is to be able to judge whether a performance is good or bad. This can be done by comparing to goals or requirements or by

157 Government of Colombia, Reporte Nacional Voluntario Colombia 2018

158 GRI and the Government of Colombia, The Private Sector and its Contribution to the SDGs: A Journey to Data Gathering Through Corporate Sustainability Reporting in Colombia, 2018

comparing to similar companies. In order to be able to compare absolute requirements, the context needs to be understood and to compare to relevant organizations, consistent units and monitoring approaches need to be used. Government actors can help in these areas by providing national or regional context and providing recommended sector-specific reporting metrics.

As noted in section A – *“2.2. Context”, on page 37*, setting the context of sustainability performance is a key challenge that needs to be addressed to ensure that the information can be correctly acted upon. The table below lists examples of key indicators that could benefit from additional context.

Data and indicators can also be used to benchmark a company against its peers – but only if they are using consistent units. This is where relative indicators become very important, as it is possible to make comparisons between operations of different sizes or types. For the key environmental issues that are relatively straightforward to quantify (carbon emissions, energy, water and waste) UNCTAD suggests a relative indicator for all these issues, essentially ‘unit of resource used (kWh, m3)/unit of economic activity’.¹⁵⁹ GRI also includes disclosures for reporting on energy and greenhouse gas intensity, though not water intensity. SASB focuses on absolute indicators.

While this is a useful general description, providing more specificity over the ‘unit of economic activity’ for key industries is likely to be useful. The tourism industry is a good example where the unit used is normally ‘guest bed night’.

A summary of sector-specific units for energy (kWh), water consumption (litres or m3) and carbon emissions (kgCO₂eq) can include:

- per m² or employee for office buildings either by day or year
- per m² for retail
- per guest bed night for tourism

Benchmarks are generally harder to identify, and they are often country specific. For example, in the United Kingdom, the Chartered Institute of Building Service

159 UNCTAD, Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals (2017)

Engineers (CIBSE) provides energy and carbon benchmarks for a range of building types and the Construction Industry Research and Information Association (CIRIA) provides water benchmarks. Example tables of relevant buildings are provided below:

Category	Indicator	Useful context
Sustainable water	Total water use and recycling	Total water extracted nationally or total embodied water consumed
	Water use efficiency	Industry benchmarks for key sectors
	Water stress	Water stress map and companies publish water consumption by location
	Integrated water resource use management	Water quality map and companies publish water discharge by location
Waste management	Reduction of waste generation	Industry benchmarks for key sectors
GHG emissions	GHG - scope 1	National GHG reduction targets; breakdown of national emissions by sector
Energy consumption	Energy efficiency	National energy statistics
Biodiversity	Renewable energy	National renewable energy statistics
	Operational sites in areas of high biodiversity	National map of biodiversity hotspots, companies required to report location of operations by area
	IUCN Red List species	National map of IUCN red list species and companies required to report location of operations by area
Gender equality	Proportion of women in managerial positions	N/A target is 50 per cent
Research and development	Expenditure on research and development	National benchmarks
Human capital	Employee training	National benchmarks
	Employee wages and benefits	Good practice standards
Employee health and safety	Frequency rates/incident rates of occupational injuries	Industry benchmarks for key sectors
Collective agreements	Employees covered by collective agreements	National benchmarks
Corporate governance disclosures	Female board members	National benchmarks
Donations	Expenditures on charitable donations	National benchmarks
Anti-corruption practices	Value of fines paid or payable due to convictions	National benchmarks

Table 19. Context and consistency guidelines for social and environmental indicators.

	kWh/m ² (electricity and thermal)	kgCO ₂ /m ²
General Office	215	75
General retail	165	90
Large non-food store	240	70
Large food store	500	240
Restaurant	460	120
Hotel	435	120

Table 20. Energy consumption and carbon emission benchmarks for UK buildings¹⁶⁰

	m ³ /employee/year	litres/m ² /day
Typical	4	2.4
Best Practice	2	1.6
Excessive use	7	3.2

Table 21. Water use benchmarks for offices.¹⁶¹

	m ² /bed space/year		
Hotel - without swimming pool	Best practice	Typical	Excessive
1 star	5	10	15
2-3 star	10	20	50
4-5 star	15	30	65

Table 22. Water use benchmarks for hotels without swimming pools¹⁶²



2.2. ALIGNING CORPORATE SUSTAINABILITY REPORTING DATA AND THE SDGS

Company sustainability reports will not be able to replace country-level reports, but if well aligned, they will be able to effectively augment and enrich the information, particularly for the SDG indicators that align with the key sustainability reporting indicators listed in section A – 3.7 of the introduction.

Therefore, if national governments can encourage and enable a consistent reporting format they will be able to use the data and information in national-level reports. For example, they would be able to provide additional information on the performance and contribution of different sectors. Double counting can also be avoided through providing a consistent process and approach and gaps and omissions identified.

As introduced in section A – “1.4.2. *The Sustainable Development Goals (SDGs)*”, on page 19, the GRI and United Nations Global Compact have undertaken a detailed analysis¹⁶³ of all major disclosure and indicator systems¹⁶⁴ to identify how they map to the SDG targets. This can be used as a starting point for developing recommended indicators for companies that can

contribute to national-level SDG reporting. They have also produced a Practical Guide¹⁶⁵ that outlines three steps for companies to embed the SDGs in existing business and reporting processes in alignment with GRI standards and recognized principles. The proposed steps are:

1. Define priority SDG targets, for example using a materiality process to identify upon which SDG targets the company's operations may impact on.
2. Set business targets and measure and monitor progress using the appropriate GRI disclosure.
3. Report and implement change.

There are further emerging initiatives such as the SDG Compass¹⁶⁶ and the World Benchmarking Alliance.¹⁶⁷ The SDG Compass is a GRI, United Nations Global Compact and World Business Council for Sustainable Development (WBCSD) initiative that provides guidance on how companies can align their strategies and reporting with the SDGs can support companies in selecting SDG target appropriate indicators. It contains a database of tools and indicators cross-referenced against the SDG targets. The World Benchmarking Alliance is an alliance of private sector and not-for-profit organizations investigating options to create a database of free, publicly available corporate sustainability benchmarks aligned with the SDGs to raise awareness and promote a race to the top.

160 CIBSE, Energy Benchmarks – TM46 (2008)

161 CIRIA, Water key performance indicators for offices and hotels (2006)

162 *Ibid.*

163 GRI and the United Nations Global Compact, Business Reporting of the SDGs – Analysis of the goals and targets, 2017

164 *Ibid.* – Appendix V

165 GRI and the United Nations Global Compact, Integrating the SDGs into Corporate Reporting: A Practical Guide, 2017

166 <https://sdgcompass.org/>

167 www.worldbenchmarkingalliance.org

3. DATA MANAGEMENT SYSTEMS

In the context of sustainability reporting, a data management system is a tool to organize relevant sustainability data in order to transform it into information that can be effectively acted upon. At a company-level this is a system for collating data so that it can be used to manage performance and report upon. A national-level system would be more likely to collate the data of different companies so that their relative performances can be easily compared and an overall sector, regional or national impact calculated.

There is a range of sustainability reporting databases or platforms at different scales: regional, international or city.

3.1. INTERNATIONAL SUSTAINABILITY REPORTING DATABASES

Both the Global Reporting Initiative (GRI) and the Carbon Disclosure Project (CDP) have searchable databases. Additionally, the Corporate Register is a membership organization that also provides a database of corporate responsibility reports.

The GRI database¹⁶⁸ is simply a database of all the registered organizational sustainability reports, all of which are publicly available. The main features of the GRI database are:

- Search function enabling users to identify all country- or region-specific reports
- 'Live tracker' of SDG 12.6.1 by country listing, indicating:
 - Whether the country has a policy requiring sustainability reporting
 - Number of reports on the database and a searchable database of registered reports using the GRI Standards.¹⁶⁹

The CDP database contains analysed data, such as summaries of corporate water or energy targets or performance but is not so easily available; as corporate data must be purchased and many datasets cannot simply be downloaded, it is required to contact the dataset owner and request information.

168 GRI, <http://database.globalreporting.org/search/>, accessed January 2019

169 <https://www.globalreporting.org/reportregistration/verifiedreports>

The CDP City level data is publicly available¹⁷⁰ and contains a global map¹⁷¹ of cities or regions that are disclosing their carbon emissions where additional information on each city can be accessed.

The Corporate Register database¹⁷² aims to include all significant (defined as more than six pages) non-financial reports that are publicly available and includes a search function by company name. It also has a search function and map for reports that use GRI or the IIRC.

3.2. REGIONAL-LEVEL PLATFORM – ARAB SUSTAINABILITY

Arab Sustainability¹⁷³ is an open, online platform, which contains a database of the 'most up-to-date organizational sustainability performance' in the Middle East and North Africa (MENA) region. The stated objectives of the platform are:

- To challenge every organization in the region to report and improve its sustainability performance.
- To provide organizations with related tools and resources to improve performance.
- To be the best source of sustainability performance data and insights in the region.

For companies, the platform proposes itself as a data management and benchmarking tool, and the companies can use the platform to store, manage and analyse their data. The services offered are:

- Storage – applications that enable companies to automatically input their data directly into the platform.
- Management – companies can import and export the data in various formats for presentations.
- Analysis – there are benchmarking and data visualization functions. Companies are also able to customize the indicators.

To a wider stakeholder group (media and the public), the site offers the following:

170 CDP, <https://data.cdp.net/Cities/2017-Cities-Emissions-Reduction-Targets-Map/5zb-bfpp>, accessed January 2019

171 CDP, <https://data.cdp.net/Cities/2016-Citywide-Emissions-Map/iqbu-zjaj>, accessed January 2019

172 Corporate Register, <http://www.corporateregister.com/>, accessed January 2019

173 <http://arabsustainability.com/>

- Sustainability data and insights: regional, sectoral, and company-specific sustainability data and insights from more than 400 MENA organizations and spanning 120 ESG indicators.
- Case studies: sustainability best practices adopted by MENA companies including how companies tackle regional economic and social challenges.
- Annual rankings: annual sustainability performance rankings of companies across the Arab region on each of eight comprehensive sustainability themes.

The platform's home page shows the top performers under a range of indicators in the categories, and each company has their own profile page on the platform with an overview of the company, its performance and all sustainability reports available to download. The platform also allows direct comparison of the performance of different companies to be made for specific indicators.

3.3. CITY PLATFORMS

As the concept of Smart Cities develops there are a range of platforms and information aimed at utilising city data and information. While this is not directly comparable to a national database of company sustainability data it serves as a useful indicator of where the fields of data management and collaborative platforms are evolving to.

The World Council on City Data – data visualization

The World Council on City Data (WCCD)¹⁷⁴ provides a consistent and comprehensive platform for standardized urban metrics in 17 categories. By allowing the comparison of standardized data the WCCD aims to be a global hub for creative learning partnerships across cities, private companies, and academia to further innovation and build better and more liveable cities.

The carbonn Climate Registry

The carbonn Climate Registry¹⁷⁵ (sic) is a voluntary and public reporting platform for local and other subnational governments. These entities can report on their climate and energy commitments, greenhouse gas (GHG) emissions performance and climate change mitigation and adaptation actions. Each participating city has a page where they list their targets, actions and performance.

174 World Council on City Data, <http://www.dataforcities.org/>, accessed January 2019

175 The carbonn Climate Registry, <http://carbonn.org/>

C40 – data management and visualization

C40 is a network of the world's megacities committed to addressing climate change. C40 supports cities to collaborate effectively, share knowledge and drive meaningful, measurable and sustainable action on climate change. It has a range of initiatives and platforms to manage, organize and analyse sustainability data.

C40 has created a Global Protocol for Community-scale GHG Emission Inventories (GPC) to provide a methodology for measuring city- or community-scale carbon footprints. They have developed a dashboard to represent the data.¹⁷⁶ This covers data in six categories:

1. World GPC map: GHG emissions for C40 cities by the three key sectors: stationary energy, transportation and waste.
2. City trends and targets: historical emissions for an individual city.
3. City comparisons: GHG emissions profiles for C40 cities, enabling in-depth comparisons through multiple views and filters (e.g. type of emissions, inventory level, city characteristics).
4. City overview: detailed data table summarizing an individual city's emissions profile in a specific year.
5. City emissions heatmap: uses the most recently reported city GHG emissions to provide insight into each sub-sector and scope for GPC activities.
6. Data quality heatmap: enables users to view how city-reported data quality varies across GPC sub-sector and scope. Users can explore data quality for activity data, emission factors or an overall score.

The final two datasets are highly detailed spreadsheets that could mainly be of interest to city specialists.

To support cities in calculating their GHG inventories, C40 has produced the City Inventory Reporting and Information System (CIRIS) which is a flexible Excel-based tool for managing and reporting city greenhouse gas inventory data. The tool aims to facilitate transparent and consistent calculations and reporting of emissions for all sectors.

176 <http://www.c40.org/other/gpc-dashboard>

C40 City – collaboration platform

A separate initiative of C40 Cities is the City Solutions Platform,¹⁷⁷ which aims to support early engagement between cities and the private sector to accelerate the deployment of climate solutions. Amongst the main objectives of the City Solutions Platform are:

- Build a platform for public and private entities to work together to develop innovative and implementable city solutions on the global stage.
- Create an inventory of appropriate engagement models according to specific city contexts and procurement rules and regulations.
- Act as a catalyst for deeper partnerships between global cities and leading sustainable solutions providers.

This provides an example of how an information platform can be used to drive collaboration and cooperation amongst public and private entities. It is possible that a similar approach could be developed building on the sustainability reporting data.



Getting started...

Data management systems relevance to country-level sustainability reporting

There are some important and useful elements that can be taken from all these data management and visualization platforms. Some key learnings are:

1. There are many competing platforms and in the case of cities, some are more adequately populated than others. Therefore, there needs to be a reason for an organization to upload their information – Is it a regulatory requirement? Will it help them gain new insights into their data?
2. Excel is a simple and powerful tool. While there is often a temptation to build a software-based online solution, this may not be the most adequate option.
3. To maximize participation, a variety of strategies are required to ensure the platform is comprehensively populated, this may include:
 - a. Incentives to participate, for example through free analysis tools.
 - b. A legal requirement to participate.
 - c. Manual searching and uploading of information (especially historic information) by the platform operators to ensure that the platform is comprehensively populated.

These examples, and in particular the C40 data management and visualization platform, provide a clear example of how a central authority can provide a standard procedure to be able to collate comparable data that can then be analysed and visualized. An analogous approach for sustainability reporting would be:

177 http://www.c40.org/programmes/city_solutions

1. Define what data should be gathered, including:
 - a. minimum requirements
 - b. wider range of indicators
 - c. standard units and calculation methodologies
2. Provide a standard data collection template
3. Develop a centralized database or platform to:
 - a. visualize the data to engage with wider stakeholder groups
 - b. enable the data to be analysed in detail so as to identify potential solutions and initiatives

National actors' role in data management

National actors can play a key role in maximizing the impact of corporate sustainability reporting, and align the reporting with the SDGs, by creating a standard structure for data gathering and management. This may involve:

1. Providing additional technical support to companies, such as:
 - a. guidance on the requested information on each of the indicators
 - b. an SDG expert team to improve data interpretation and consolidation into a central report; this team could follow up with companies to ensure the veracity of the information
 - c. directing companies to existing guidance – such as that outlined in section B.3 – *“2.2. Aligning corporate sustainability reporting data and the SDGs”, on page 87.*
2. Establishing and promoting sector-specific indicators to ensure consistent reporting. The experience in Colombia¹⁷⁸ in reporting

on business contributions to five of the SDGs highlighted the importance of supporting the companies in taking a more systemized approach to reporting, specifically for measuring energy and environmental impacts.

3. Providing context by:
 - a. undertaking national benchmarking studies of performance (for example of energy, water and waste) by different sectors
 - b. providing additional information, including which may include water scarcity hotspots, international carbon targets, etc.
4. Creating a centralized platform or data-registration mechanism for collating national-level reports.

¹⁷⁸ GRI and the Government of Colombia, The Private Sector and its Contribution to the SDGs: A Journey to Data Gathering Through Corporate Sustainability Reporting in Colombia, 2018



SECTION B.4

Dissemination and communication

The objective of corporate sustainability reporting policies or initiatives is to ultimately improve the environmental and social performance of companies. Reporting will only lead to improved performance where it is part of a comprehensive sustainability strategy (see section A – *“1.2.4. Business performance”, on page 15*) and if the sustainability performance report is both publicly available and actively assessed by civil society and the general population. This section provides a detailed look at the role that government actors and stakeholders can play in supporting the dissemination and wider communication of sustainability reports and information. The section includes:

1. An introduction to the strategies for supporting the dissemination of sustainability information.
2. Examples of strategies and initiatives used to disseminate sustainability information.
3. An outline of the first steps government actors can take in supporting the dissemination of sustainability information.

Where the sustainability reports contain information on the SDGs, these dissemination strategies can also be used to disseminate this information. See section B.3 – *“2. Role of governments in respect to data”, on page 85* for further information on how company sustainability reporting can contribute to national-level reporting on the SDGs.

1. COMMUNICATING AND DISSEMINATING SUSTAINABILITY PERFORMANCE

Communication can be seen as happening at two levels – firstly the companies themselves can report on their performance, and secondly, independent organizations and government actors can use this information to communicate on the relative performance of companies. This section focuses on the second issue.

Government actors therefore have an important role to play, enabling public access to understandable and consistent information and then making people aware of the information and able to act upon it. This can be done through a variety of initiatives including:

- Engaging with companies directly:
 - Providing guidelines and examples of good quality reporting and communication.
 - Creating intra-sector competitiveness, e.g. through awards or other initiatives.
- Supporting dissemination and communication initiatives to enable civil society to make decisions based on company disclosed data:
 - Providing clear information – public awareness and information campaigns.
 - Creating or supporting initiatives that companies want to be associated with, or to avoid being associated with.

1.1. ENGAGING WITH COMPANIES TO ENHANCE DISSEMINATION

Government actors can make it easy for companies to produce understandable reports by providing reporting guidelines, and encourage companies to produce report through the use of awards. These two initiatives can be combined through the use of awards specifically aimed at the quality and understandability of company sustainability reports.

1.1.1. Company reporting guidelines

As indicated in Raising the Bar, company reports usually contain little information on to whom the information would be of interest or relevant. This is an important issue, as companies should have undertaken a materiality process during which they would have identified their key stakeholders and the stakeholders' main concerns.

"Table 23. Key stakeholders and their specific interests¹⁸⁰" on page 95, is a summary of the research in Raising the Bar with some additions outlining to whom the information could be of interest.

To maximize the use of a report, the companies should be encouraged to:

- Provide a detailed description of their materiality processes.
- Disclose the key drivers for their reporting.
- Provide a mapping of which stakeholder group is interested in which reported area and how the company has responded to their needs and interests.
- Present an overview of key environmental performance data against goals. The performance goals should be SMART (specific, measurable, achievable, relevant and time bound).
- Include trend data for five years where available with clear information about baselines, targets and timeframes.
- Provide the data in a variety of formats:
 - Raw data in a downloadable format, e.g. to enable investors to be able to analyse in detail.
 - Visualization of data using easy to understand language to enable consumer groups to understand the information.

All stakeholders with significant influence, particularly national governments, should actively engage with reporting companies in order to increase the quality of the disclosure. This will enable stakeholders to more effectively use the information in their decision-making processes.

A key component of this will be to make the information accessible to a non-technical audience. The 'Science Based Targets' manual¹⁷⁹ includes some suggestions on this; in terms of reporting on carbon emissions they provide some simple suggestions:

¹⁷⁹ Science Based Targets initiative, Science Based Target Setting Manual (2017)

Stakeholder	Potential influence	Key questions for the stakeholder
Long-term investors	Use influence to directly impact on the company's environmental, social and governance performance.	<ul style="list-style-type: none"> • Is the company efficient? Has the company addressed its risks adequately?
Stock exchanges	Sustainability-related conditions to the listing of companies.	<ul style="list-style-type: none"> • What is the relationship between sustainability and financial performance? • Does the company merit listing on the exchange? • Is its sustainability performance in line with the stock exchange's expectations?
Governments	Sustainability reporting regulation; pollution limits; tax incentives; awards.	<ul style="list-style-type: none"> • Is the company making efficient use of national natural resources? • Is the company contributing to the change in natural capital in the country? • Is the company compliant with regulations and agreed limits for pollution, particularly those linking to international agreements? • Is the company maximizing international competitiveness?
Companies	Business relationships, e.g. supply chain requirements.	<ul style="list-style-type: none"> • How are the impacts of key suppliers affecting the company's sustainability (e.g. energy and water use) performance? • How significant are the downstream impacts on the life cycle impacts of the product or service?
Non-governmental organizations	Negative publicity (blacklists); campaigns.	<ul style="list-style-type: none"> • Is the company transparent and open? • How does the company compare to its peers? • Are there any specific areas where it is under-performing?
General public	Campaigns; boycotting.	<ul style="list-style-type: none"> • Is the product safe for people and planet?¹⁷⁹ • Is the company open and trustworthy? • Which is the best company to buy from?

Table 23. Key stakeholders and their specific interests¹⁸⁰

- Put carbon emissions in context, e.g. the equivalent to taking 1,000 cars off the road.
- Provide lay terms for technical language:
 - Scope 1 – direct emissions
 - Scope 2 – emissions from purchased heat and electricity
 - Scope 3 – value or supply-chain emissions
- Avoid jargon.

These suggestions can easily be extended to other reporting categories such as waste and water.

National governments therefore may wish to provide guidelines on reporting which would cover what should be included in a full report and how to present the information to the general public in a summary document. Alternatively, they can refer them to existing publications such as 'Model guidance on reporting ESG information to investors' from the Sustainable Stock Exchanges (SSE) initiative.¹⁸²

¹⁸⁰ While this may be the most important issue to the general public, company sustainability reports may not distinguish between company and product information – see section B.4 - 2.2 for further information.

¹⁸¹ Adapted from: UNEP, Raising the Bar – Advancing Environmental Disclosure in Sustainability Reporting, 2015

¹⁸² SSE, model guidance on reporting ESG information to investors (2017)



1.1.2. Sustainability reporting awards

Awards are a simple way of encouraging companies to improve their reporting quality and celebrating success. This was a key strategy in the 2015 Danish Action for Corporate Social Responsibility, and the Government committed to support the CSR Awards organized by the CSR Foundation. The awards were established to create awareness and share knowledge about the efforts of Danish companies and to learn from the most strategic companies. Initially they were run by the CSR Foundation, but now are run by the Danish Auditors association.¹⁸³ In 2017, awards were presented by the Crown Princess Mary, emphasizing the importance of the awards.

Examples of awards initiatives in other countries include:

1. UK Global Good Awards¹⁸⁴ (previously National CSR awards).
2. The Gulf Sustainability and CSR Awards¹⁸⁵ has 24 categories divided into 13 sustainability categories and 11 CSR categories.
3. Asia Sustainability Reporting Awards¹⁸⁶ recognizes and honours sustainability reporting best practice in Asia.
4. The Corporate Register¹⁸⁷ runs a global annual award for corporate responsibility reporting.

183 <http://www.fsr.dk/Om%20os/English>

184 <http://globalgoodawards.co.uk/>

185 <https://gulfsustainabilityawards.com/>

186 <https://csmatters.com/>

187 <http://www.corporateregister.com/crra/>

Of these examples, the latter two have a focus on the quality of reporting as opposed to performance. To encourage high-quality reporting, they include the following categories:

- Asia Sustainability Reporting Awards:
 - Most transparent report
 - Best report design
 - Best of categories including sustainability, materiality, stakeholder, supply chain
- The Corporate Register:
 - Creativity in communications
 - Openness and honesty
 - Best of categories including carbon disclosure and integrated report

This approach of focusing on reporting can be taken to encourage high-quality and understandable reports.

Another example of awards is the newly established 'ISAR Honours' of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), serviced by UNCTAD.¹⁸⁸ This will be awarded to initiatives that facilitate improvements in companies' reporting on sustainability issues.

A complete list of CSR awards is available from the Awards List.¹⁸⁹

188 <http://isar.unctad.org/isar-honours-2018/>

189 <https://awards-list.com/international-business-awards/corporate-social-responsibility-csr-awards/>

2. STRATEGIES TO ENCOURAGE COMPANIES TO DISSEMINATE INFORMATION

Once companies are producing good quality sustainability reports it is necessary to ensure that this information is disseminated to key stakeholders in a fashion that can influence decision making. This is likely to be most effective when the information from the company reports is analysed and compared and the relative performance, and even a ranking, of companies is made available. Government actors can do this in a variety of ways including:

1. Supporting or initiating information campaigns or platforms.
2. Supporting or referencing initiatives to identify 'best-in-class' companies and products.
3. Establishing a 'blacklist' of organizations that are failing to meet minimum requirements.
4. Linking to relevant issue-specific initiatives.

Examples of these opportunities are outlined in the remainder of this section.

2.1. INFORMATION CAMPAIGNS AND PLATFORMS

Section B.3 – *"3. Data management systems", on page 88*, covered data management platforms from the angle of managing data and driving collaboration – but they also can play a key communication role. The Arab Sustainability Platform¹⁹⁰ was discussed in detail in section B.3 – *"3.2. Regional-level platform – Arab Sustainability", on page 88*, and this is a good example of how a central platform can be used to compare company performance and help generate positive interest in the sustainability performance of companies.

Another relevant example is the Corporate Human Rights Benchmark (CHRB).¹⁹¹ This disclosure platform takes publicly available information of a limited number of large companies to rank their performance against six themes relating to human rights. In the first assessment, 98 publicly traded companies were chosen on the basis of their size (market capitalization) and revenues, as well as geographic and industry balance.

The following six themes are addressed:

1. Governance and policy commitments
2. Embedding respect and human rights due diligence
3. Remedies and grievance mechanisms
4. Performance: company human rights practices
5. Serious allegations
6. Transparency

The information is taken from company websites, documents and additional company input to the CHRB Disclosure Platform. The information found is then used to score the different companies against each of these themes, and tables of performance of the industries and companies are produced (*"Figure 8. Example of output from the Corporate Human Rights Benchmark for agricultural products¹⁹²", on page 98*).

Government actors can help to publicize this information for end users and consumers.

190 www.arabsustainability.com

191 <https://www.corporatebenchmark.org>



Figure 8. Example of output from the Corporate Human Rights Benchmark for agricultural products¹⁹²

2.2. BEST-IN-CLASS LISTS

Company sustainability reports are not aimed at consumers, and with the advent of integrated reports it is very difficult for consumers to be able to draw out pertinent information from them. In addition, consumers are often interested in the performance or safety of a specific product, and organization-level sustainability reporting might not be suited to providing that information. Consumers have been supported in this by a range of non-governmental organizations that review companies and provide guidance on which companies are the best in class for particular products.¹⁹²

The Ethical Company Organization¹⁹³ publishes The Good Shopping Guide¹⁹⁴ which provides information on

a huge number of products and services in the following categories:

- Home, including paints and appliances
- Money, mortgages, banks and credit cards
- Food and drink
- Health and beauty

It recommends the best companies and products in each category and more detailed information is available listing the performance of the company under ten categories covering environment, animal welfare, people and extra. Environmental reporting is one of the categories (*“Figure 9. Example of information provided by the Good Shopping Guide. Information has evolved and there is no longer a list which matches what is reflected in the report¹⁹⁵, on page 99).*

192 Ibid. (<https://www.corporatebenchmark.org/sites/default/files/styles/thumbnail/public/2017-03/Key%20Findings%20Report/CHRB%20Key%20Findings%20report%20-%20May%202017.pdf> on page 17)

193 <http://ethical-company-organisation.org/>

194 <http://www.thegoodshoppingguide.com/>

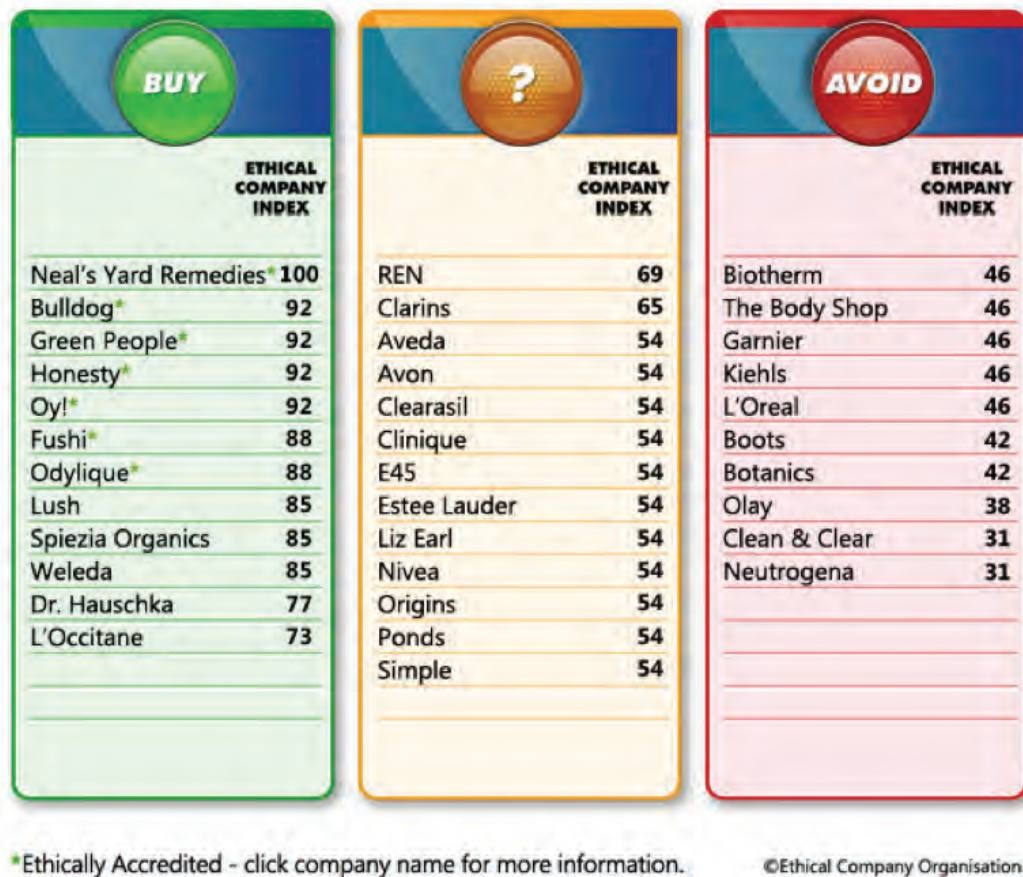


Figure 9. Example of information provided by the Good Shopping Guide. Information has evolved and there is no longer a list which matches what is reflected in the report¹⁹⁵

The Ethical Consumer¹⁹⁶ is a more campaign-orientated organization, although the site also includes the following:

- Product guides – these are similar to those on the good shopping guide, a summary of the rating of the main service providers, with more information available behind a paywall. An interesting feature is a slider that allows the user to change the importance of environmental issues that concern them, including animals, people, politics and positive environmental impact.
- Company profiles – a summary of the ratings of a few companies is available and more information is available behind a paywall.
- Guides on ethical shopping.

The Environmental Working Group¹⁹⁷ is a United States not-for-profit entity aiming to enable people to live healthy lifestyles. It contains a range of information including:

- Healthy-living guides covering topics such as avoiding pesticides or parabens.
- Specific topic issues such as tap water pollution databases.
- Detailed cosmetic product guide covering over 70,000 products and rating them from one to ten based on the chemicals they contain (*“Figure 10. Example of information provided by the Environmental Working Group¹⁹⁸, on page 100*).

195 *Ibid.* (The current update of the list can be found at this link <https://thegoodshoppingguide.com/ethical-skincare>)

196 <http://www.ethicalconsumer.org/>

197 <https://www.ewg.org/>

Figure 10. Example of information provided by the Environmental Working Group¹⁹⁸

The Good Guide¹⁹⁹ is another initiative aimed at providing information to inspire healthy choices. The site uses product ingredient information to rate products based on chemical hazards.

All these organizations have a different focus, from corporate misdemeanours and tax evasion (Ethical Consumer) to environmental performance (Good Shopping) to health (Environmental Working Group and the Good Guide), yet the approach is similar. In each case, they aim to condense the information that is available into a single score or visual table to make decision making simple for consumers.

While it is probably impractical for national governments to develop such an approach, they may be able to support NGOs or other organizations to make use of the information, as has been done by the Chilean Ministry of Environment, which has supported a partnership of academic institutions to create the methodology and list called Mi Código Verde.²⁰⁰ The methodology is based on life cycle assessment and uses eight categories to assess

the performance of products, with a summary of the analysed products published on the website. Unlike the other initiatives in this section, no ranking or scoring is provided, just a description of the performance of each product analysed.

When developing or supporting the development of product-level assessment, a useful starting point is the Guidelines for Providing Product Sustainability Information.²⁰¹ The guidelines provide valuable information on how to make effective, trustworthy claims to consumers on product-related sustainability information.

2.3. WORST-IN-CLASS LISTS

In 2004, in order to tackle a reported problem with bonded labour, the Brazilian Ministry of Labour and Employment enacted Decree No. 540/2004. This created a register of employers (both people and legal entities) caught exploiting workers under abusive and coercive conditions, the so-called 'lista suja' or 'dirty list'. Between 2004 and 2014, 300 companies were included in the list. The process for inclusion on the list included the following:

198 *Ibid.* (https://www.ewg.org/sunscreen/about-the-sunscreens/836405/All_Terrain_KidSport_Sunscreen_Lotion%2C_SPF_30_/). The website does no longer feature the spray, but only the lotion.

199 <https://www.goodguide.com/>

200 <https://micodigoverde.cl/>

201 UNEP, Guidelines for Providing Product Sustainability Information, 2017 available at: http://www.oneplanetnetwork.org/sites/default/files/guidelines_for_providing_product_sustainability_information_10yfp_ci-scp_2017.pdf

1. Lodging of a complaint.
2. Visit by the ministry.
3. Prosecution and fine.
4. Inclusion on the dirty list.
5. Monitoring for two years before being removed from the list.

In addition, financial bodies were encouraged to withhold financial assistance to these companies, and many banks and private businesses resolved not to do business with the companies on the list, and consumers also boycotted the companies.

This is an extreme example to address a highly sensitive issue; the controversial law was challenged by employers and was updated, and the government ceased to publish the list in 2014. Nonetheless, it was successful in bringing the issue of modern slavery to the attention of consumers and is credited with contributing to the release of 50,000 people from modern slavery.²⁰²

This is far from the only initiative aimed at tackling modern slavery. For example, both the Modern Slavery Act in the United Kingdom and the California Transparency in Supply Chains Act in the United States require companies to disclose the efforts that they are taking to tackle slavery in their supply chains.

There are further examples of governments creating 'blacklists' for companies not meeting the required standard. A Chinese NGO, the Institute of Public and Environmental Affairs (IPE), developed a pollution blacklist, but this was simply to raise awareness and there were no sanctions on the companies on the blacklist.²⁰³

Since then, it seems that the Ministry for Environmental Protection has developed its own blacklist, a public list recording all incidents of violation. Unfortunately, there is little information available about their criteria or the penalties the companies experience, but in one example the China National Petroleum Corporation (CNPC) was fined 500,000 yuan (US\$ 80,000) as untreated wastewater was found to have contaminated local land and underground water tables.²⁰⁴

Where government actors want to draw attention to

202 For more information see: <http://humantraffickingsearch.org/blacklisted-an-overview-of-brazils-dirty-list/>

203 For more information see: http://www.chinadaily.com.cn/china/2007-12/14/content_6320388.htm and http://en.people.cn/200611/01/eng20061101_317249.html

204 For more information see: <http://www.greenpeace.org/international/en/news/features/china-blacklists-factories-120210/> and <https://uk.reuters.com/article/china-environment-cnpc/chinas-top-oil-firm-blacklisted-for-environmental-breaches-idUKL3N0LI30020140213>

specific bad-practices, a blacklist approach can be pursued.

2.4. LINK TO ISSUE SPECIFIC INITIATIVES

There are already a range of existing issue-specific initiatives aimed at protecting people or the environment. These include:

- The Better Cotton Initiative²⁰⁵ aims to promote better standards in cotton farming.
- The Forestry Stewardship Council²⁰⁶ promotes sustainable forestry practices.
- Fair Trade is a generic term for products that aim to guarantee a fair price for producers.
- The Marine Stewardship Council²⁰⁷ promotes sustainable forestry practices.
- The Roundtable on Sustainable Palm Oil²⁰⁸ aims to promote sustainable palm oil production.

While these organizations all run voluntary sustainability standards, they also run campaigns and so there is the potential to benefit from any marketing that they undertake or learn from their campaign approaches.



205 <https://bettercotton.org/>

206 <http://www.fsc.org/>

207 <https://www.msc.org/>

208 <https://www.rspo.org/certification>

Getting started...

Government role in communicating sustainability performance

Sustainability reporting will only be effective if the content is publicly available and actively assessed by civil society. National governments can most effectively support this by:

- encouraging and pressuring companies into publicising their reports;
- supporting initiatives to use the publicly available data to assess and rank company performance to enable easy decision making for those wishing to use this information to influence their purchasing habits.

National governments and stakeholders can encourage companies to report by providing clear and simple guidance on what to cover in a report. There is already a wealth of information available, but it may be useful to tailor it to the specific national or sector audience. Once companies are reporting, they can be encouraged to promote their report by being directed to existing dissemination platforms such as the GRI or IIRC databases. Companies can be further encouraged to promote their reports and successes by establishing a national awards scheme or encouraging national companies to participate in international awards.

While guidelines and awards schemes will help disseminate reports to a wider audience they do not encourage any detailed comparison of company performance to allow the reports to easily be used in decision making. National governments can:

- Direct civil society to existing comparison platforms if they exist, these could be either:
 - Company performance focused, such as the Arab Sustainability website²⁰⁹ or the Corporate Benchmark²¹⁰
 - Consumer facing, such as The Good Shopping Guide,²¹¹ the Environmental Working Group (EWG)²¹² or Mi Código Verde.²¹³
- Create warning mechanisms, including companies that are not meeting basic standards in key areas.

These civil-society facing initiatives are more likely to enable people to act on the information contained in the reports and therefore provide an incentive for companies to improve their performance.

209 www.arabsustainability.com

210 <https://www.corporatebenchmark.org>

211 <http://www.thegoodshoppingguide.com/>

212 <https://www.ewg.org/>

213 <https://micodigoverde.cl/>



List of Acronyms and Abbreviations

AA1000APS	AccountAbility 1000 Principles Standard	MENA	Middle East and North Africa
AA1000AS	AccountAbility 1000 Assurance Standard	NGOs	Non-governmental organisations
ANEEL	Brazilian Electricity Regulatory Agency	NRE	New Economic Regulations (French Law)
BRR	Business Responsibility Reporting (Bombay Stock Exchange)	OECD	Organisation for Economic Co-operation and Development
CDP	Carbon Disclosure Project	PRI	Principles for Responsible Investment
CDSB	Climate Disclosure Standards Board	SASB	Sustainability Accounting Standards Board
CHRB	Corporate Human Rights Benchmark	SBTi	Science Based Targets initiative
CIBSE	Chartered Institution of Building Services Engineers	SDA	Sectoral Decarbonization Approach
CIRIA	Construction Industry Research and Information Association	SEC	Securities and Exchange Commission (United States)
CIRIS	City Inventory Reporting and Information System	Sedex	Supplier Ethical Data Exchange
CO2	Carbon dioxide	SMEs	Small and medium-sized enterprises
CSI	Cement Sustainability Initiative	SSE	Sustainable Stock Exchanges
CSO	Centre for Sustainable Organizations	SDGs	Sustainable Development Goals
CSR	Corporate social responsibility	TCFD	Task Force on Climate Related Financial Disclosures
ESG	Environmental, social and governance	TEEB	The Economics of Ecosystems and Biodiversity
EU	European Union	UNCTAD	United Nations Conference on Trade and Development
FFBB	Future-Fit Business Benchmark	UNEP FI	United Nations Environment Programme Finance Initiative
GEMI	Global Environmental Management Initiative	WBCSD	World Business Council for Sustainable Development
GEO5	The fifth Global Environmental Outlook report (UNEP)	WCCD	The World Council on City Data
GHG	Greenhouse gas	WFE	World Federation of Exchanges
GLA	Greater London Authority	WRI	World Resources Institute
GNR	Getting the Numbers Right	WWF	World Wide Fund for Nature/World Wildlife Fund
GPC	Global Protocol for Community-scale Greenhouse Gas Emission Inventories		
GRI	Global Reporting Initiative		
GWT	Global Water Tool		
IAS	International Accounting Standards		
ICO2	Carbon Efficient Index		
IFRS	International Financial Reporting Standards		
IIRC	International Integrated Reporting Council		
IPIECA	International Petroleum Industry Environmental Conservation Association		
ISAE	International Standard on Assurance Engagements		
ISAR	International Standards of Accounting and Reporting		
ISE	Corporate Sustainability Index		
ISO	International Organization for Standardization		
IUCN	International Union for Conservation of Nature		
KPI	Key performance indicator		
LWT	Local Water Tool		
MCSE	Brazilian Electricity Sector Accounting Manual		

Definition of key terms

Assurance: Review procedure for a report that provides conclusions on the quality and reliability of the reported information.

Absolute indicator: An indicator that measures a firm's impact related to its activities, products and services in total measured quantities, e.g. total greenhouse gas emissions, total amount of water consumed, total training hours or health and safety incidents, etc.

Boundary: The boundary defines which topics or impacts are considered relevant for inclusion in an organization's report. It refers to the description of where impacts occur for each topic and the organization's involvement with the impact, that is to say whether they are involved with the impact through their own operations or through relationships with other companies. In setting the boundary for each topic, the organization should consider impacts within and outside of the organization.

Cradle-to-cradle: An approach to the design of products and systems that uses nature's processes as a template for human industry. Materials are viewed as nutrients that circulate and are constantly recycled in healthy, safe systems.

Circular economy: This describes a regenerative system in which resource input and waste, emission and energy leakage are minimized by closing energy and material loops. This can be achieved through durable design, repair and reuse as well as recycling waste back into products. This contrasts with a 'linear economy' where resources are extracted and products are manufactured and then disposed of at the end of their life.

Disclosures: In the GRI Standards, a disclosure outlines the specific information to be reported by an organization. It refers to the 'topic to report on'.

Integrated report: A concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. It is the integrated representation of a company's performance in terms of both financial and other relevant information (as defined by the IIRC).

Lifecycle assessment: A technique to assess environmental impacts associated with all the stages of a product's life from raw material extraction through material processing, manufacture, distribution, use, repair and maintenance, and disposal or recycling.

Materiality or material topics are broadly defined as 'the issues that are of significance to an organization and its stakeholders'. Specific definitions given by other organizations are provided in Section B.2 - 1.1.3.

Natural capital: The world's stock of natural resources including geology, soil, air, water and all living organisms.

Relative indicator: An indicator that measures performance per unit of production (as defined by the organization). For instance, this can be training hours per employee, water consumption per bed night, greenhouse gas (GHG) emissions per unit of production or area of a building.

Reporting instruments: Any tool, mandatory or voluntary, used to promote or enforce sustainability reporting as a measuring performance instrument.

Scope: The range of topics or impacts covered in a report.

Scope 1: Direct GHG emissions occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled vehicles, emissions from chemical production and emissions from other GHGs – such as those used in cooling systems.

Scope 2: GHG emissions from the generation of purchased electricity consumed by a company.

Scope 3: This category includes all other indirect GHG emissions. These emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Examples of scope 3 activities are extraction and production of purchased materials, disposal of waste and use of products and services.

Sector guidelines: Reporting and indicator guidance that is specific to an industrial sector.

Sustainability context: This broad term requires that sustainability information reported by an organization should be put in the context of the limits and demands placed on environmental or social resources at the sector, local, regional or global level.

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