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Practical implementation, including measurement, of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals: Review of case studies*

Note by the UNCTAD secretariat

Summary

In concluding its deliberations at its thirty-fifth session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) requested the UNCTAD secretariat to finalize its work on the guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals in alignment with the Sustainable Development Goal monitoring framework and to conduct pilot testing of the core indicators at the country level by supporting member States through capacity-building initiatives in this area. To this end, UNCTAD conducted selected case studies on the application of the guidance for companies representing a broad range of industry sectors in several countries and regions. Further, an overview of the implementation of the guidance in several companies was conducted in Egypt. The objective of the case studies was to examine the relevance and applicability of the common core indicators and to verify suggested measurement methodology and accounting data availability.

This note provides a review of recent developments and key challenges in the area of sustainability and Sustainable Development Goal reporting by companies and discusses key issues identified in the case studies on the practical implementation of the guidance as means to facilitate the harmonization and comparability of Sustainable Development Goal reporting by companies.

* The present document was scheduled for publication after the standard publication date owing to circumstances beyond the control of the UNCTAD secretariat.

Contents

I. Introduction

1. Since the adoption of the 2030 Agenda for Sustainable Development in 2015, member States of the United Nations have focused on establishing priorities and development plans towards its implementation and monitoring progress in this regard. To support this process, a global indicator framework was created by the Inter-Agency and Expert Group on Sustainable Development Goal Indicators (see https://unstats.un.org/sdgs/iaeg-sdgs/; accessed 16 August 2019). The 17 Sustainable Development Goals have 169 targets and 232 indicators. One or more custodian agencies are responsible for the development of metadata guidance on the measurement methodology and data collection for each indicator.

2. Goal 12 on sustainable consumption and production (target 12.6) encourages companies, especially large and transnational companies, to adopt sustainable practices and integrate sustainability information into their reporting cycles. Indicator 12.6.1 requires data on the number of companies publishing sustainability reports. UNCTAD and the United Nations Environment Programme are co-custodians of this indicator.

3. In addition to indicator 12.6.1, many other Sustainable Development Goal indicators refer to data already being reported by companies, such as indicators on the use of energy and water, carbon-dioxide emissions, waste generation, gender equality and community development. Accordingly, company reporting has the potential to become a primary source of information on company performance towards the implementation of the Sustainable Development Goals[1] by providing stakeholders with the means to assess economic, environmental, social and institutional performance, as well as the impacts of the private sector on the implementation of the Sustainable Development Goals.

4. Relevant data on companies' contribution towards achieving the Sustainable Development Goals is important in assessing the progress in implementing the Goals; enhancing Sustainable Development Goal-oriented corporate governance mechanisms, decision-making by investors and other key stakeholders and capital providers; and promoting behavioural change at the enterprise level. This in turn gives a new impetus towards aligning the harmonization of enterprise sustainability reporting based on the Sustainable Development Goal monitoring framework and its macroindicators. However, achieving such an objective requires further efforts towards enterprise data harmonization and comparability to make them useful in making decisions and assessing progress in reaching targets and indicators agreed by member States.

5. Responding to this challenge, UNCTAD, through ISAR, has identified the need for baseline Sustainable Development Goal indicators for companies to enable the harmonization, comparability and benchmarking of enterprise reporting in this area. Since the adoption of the 2030 Agenda, UNCTAD has been working towards developing practical tools to help countries measure the contribution of the private sector to sustainable development, in particular towards achieving the Sustainable Development Goals, in a consistent and comparable manner.

6. In particular, UNCTAD revised the Accounting Development Tool to assist countries in building national capacity in the area of environmental, social and governance issues and Sustainable Development Goal reporting by companies and in strengthening their national accounting and reporting mechanisms (see https://isar.unctad.org/accounting-development-tool/; accessed 16 August 2019). The revised tool has been used to assess national regulatory, institutional and human capacity areas in reporting on sustainability and the Sustainable Development Goals, which is an interlinked component of the overall accounting and reporting infrastructure.

7. Further, UNCTAD developed and launched at the thirty-fifth session of ISAR the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation*

[1] Sustainable Development Solution Network, 2015, *Indicators and a monitoring framework for the Sustainable Development Goals: Launching a data revolution for the Sustainable Development Goals*.

of the Sustainable Development Goals.[2] Core indicators were selected through a series of elaborations at several ISAR sessions and discussions with a consultative group of experts between 2016 and 2018. Selection is based on agreed key reporting principles, selection criteria, the main reporting frameworks in existence and companies' reporting practices; and their relevance to specific Sustainable Development Goal macroindicators applicable at the micro level. The *Guidance* aims to help entities provide baseline data on sustainability issues in a comparable manner that would meet the common needs of many different stakeholders with regard to sustainability and the 2030 Agenda (see chapter III of this note for further details on the *Guidance*). It provides practical information on how selected core indicators could be measured in a consistent manner, and in alignment with countries' needs in monitoring the achievement of the Sustainable Development Goals and preparing their voluntary national reports for the United Nations High-level Political Forum on Sustainable Development.[3]

8. In concluding its deliberations at its thirty-fifth session, ISAR requested the UNCTAD secretariat to complete its work on the guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals in alignment with the Sustainable Development Goal monitoring framework and to conduct pilot testing of the core indicators at the country level by supporting member States through capacity-building initiatives in this area. To this end, UNCTAD conducted selected case studies on the application of the guidance for companies in six countries, representing different regions and industries. In addition, an overview of the implementation of the guidance in several companies was conducted in Egypt.[4] The objective of the case studies was to validate the applicability of the core common indicators, their suggested measurement methodology and the availability of the required underlying accounting data.

9. This note is prepared by the UNCTAD secretariat to facilitate discussions at the thirty-sixth session of ISAR under item 3 the provisional agenda: Practical implementation, including measurement, of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals: Review of case studies. The note provides an overview of recent key developments in the area of sustainability/Sustainable Development Goal reporting. In this context, it describes the main challenges faced by companies on Sustainable Development Goal reporting, supported by discussions of specific issues on the application of the guidance identified through the case studies.

10. The note also builds on the feedback obtained by UNCTAD through the ongoing implementation of the Development Account project entitled "Enabling policy frameworks for enterprise sustainability and Sustainable Development Goal reporting in Africa and Latin America". This project intends to strengthen the capacities of the Governments of selected beneficiary countries to measure and monitor the private sector contribution to the 2030 Agenda, in particular, target 12.6 and indicator 12.6.1. The project envisages the development and implementation of tools that would enable policymakers to establish a sustainability/Sustainable Development Goal reporting framework as a coordinated effort of relevant national stakeholders. Another aim of the project is to support Governments in the collection of comparable and reliable information on the private sector contribution to

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[2] UNCTAD, 2019, *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* (United Nations publication, Sales No. E.19.II.D.11, Geneva).

[3] The Forum is the main United Nations platform on sustainable development, playing a central role in the follow-up and review of the 2030 Agenda and the Sustainable Development Goals at the global level. The Forum meets annually under the auspices of the Economic and Social Council.

[4] In this regard, UNCTAD wishes to express its appreciation to the leadership of companies that volunteered to participate in the pilot testing of the guidance in in the following countries: Colombia (Promigas, natural gas sector); Guatemala (Porta Hotels, tourism/hotel and laundry; Saúl E. Méndez, restaurants, retail and manufacturing; Corporación Multi Inversiones, energy); Kenya (Safaricom, telecommunications); the Russian Federation (Norilsk Nickel, mining and metallurgy); and Ukraine (Naftogaz, oil and gas). Appreciation also goes to two academic experts from the School of Business, The American University in Cairo, for their study on the application of the guidance in 15 companies in Egypt.

the implementation of the Sustainable Development Goals at the national level aligned with the Sustainable Development Goals global framework of indicators.

11. This feedback includes outcomes of the ISAR event on measuring the private sector's contribution to the attainment of the Sustainable Development Goals, organized by UNCTAD and the Statistics Division of the Department of Economic and Social Affairs in New York, United States of America, on 15 July 2019 during the High-level Political Forum on Sustainable Development.[5] High-level speakers from the public and private sectors, United Nations agencies, as well as key international organizations in the area of sustainability reporting, such as the United Nations Global Compact, the Global Reporting Initiative and the Sustainability Accounting Standards Board, discussed good practices and key challenges in presenting Sustainable Development Goal data at the company level and collecting such data at the national level in a consistent manner to assist stakeholders in their understanding of the private sector's contribution to the implementation of the 2030 Agenda. They also discussed how the core indicators of UNCTAD could support this approach.

12. Finally, the note builds on ISAR discussions of the issues relating to Sustainable Development Goal reporting by enterprises at its previous sessions in 2016, 2017 and 2018. Therefore, this note should be considered in conjunction with the documentation prepared for facilitating ISAR deliberations at these sessions.[6]

II. Recent developments and challenges in the international harmonization and practical implementation of sustainability/Sustainable Development Goal reporting

13. Since the thirty-fifth session of ISAR in 2018, a number of developments have contributed towards enhancing the harmonization of sustainability/Sustainable Development Goal reporting, facilitating its practical implementation and enabling coordination among key players.

14. Sustainable Development Goal reporting by companies is an increasingly visible trend. Therefore, disclosure of sustainability data is becoming more and more common, and the Sustainable Development Goals are fuelling demands for relevant data. According to a recent survey, approximately 4 in 10 sustainability reports from both N100 and G250 companies link a company's corporate responsibility activities to the Sustainable Development Goals. The main countries making such a connection are Colombia, Finland, France, Italy, Mexico, the Netherlands, Portugal, Spain, Sweden and the United Kingdom of Great Britain and Northern Ireland.[7] According to another study, 72 per cent of 729 companies from 21 countries and territories and six broad industry sectors mention the Sustainable Development Goals in their corporate and sustainability reporting.[8]

15. However, there is growing recognition that simply linking corporate responsibility activity thematically to the Sustainable Development Goals does not suffice. Regarding the current trend, civil society and non-governmental organizations are not the only stakeholders requesting information on how companies are contributing to the achievement of the Sustainable Development Goals and on the actual impact of such contributions. More and more large institutional investors are considering how they can align their investment

5 The event was organized with support of the Government of Guatemala and Statistics Denmark, as well as the World Business Council on Sustainable Development, the Academy of Financial Management of Ukraine and Novo Nordisk.

6 See TD/B/C.II/ISAR/75, TD/B/C.II/ISAR/78, TD/B/C.II/ISAR/81 and session non-paper of 1 November 2017 (Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals).

7 KPMG International Cooperative, 2017, *The Road Ahead: The KPMG Survey of Corporate Responsibility Reporting 2017*.

8 PwC, 2018, *From Promise to Reality: Does Business Really Care about the SDGs [Sustainable Development Goals]? And What Needs to Happen to Turn Words into Action.*

decisions with the Sustainable Development Goals. Such investment strategies will inevitably require impact disclosures from businesses.[9]

16. A number of pronouncements were issued recently by key players in this area to assist stakeholders in furthering the implementation of the sustainability reporting agenda. In June 2019, the European Commission published new guidelines on climate-related corporate information reporting as part of its Sustainable Finance Action Plan.[10] One guideline is a technical report on European Union taxonomy,[11] establishing a standard classification system of the European Union on sustainable economic activities. Another expert report on a European Union green bond standard[12] creates a new category of benchmarks, which will help investors compare the carbon footprint of their investments. The Commission also welcomed an expert report on European Union climate benchmarks and benchmarks on environmental, social or governance disclosure, which aims to improve disclosure requirements on how institutional investors integrate such factors into their risk processes.[13] These guidelines will provide 6,000 European Union-listed companies with practical recommendations on how to better report the impact of their activities on the climate as well as the impact of climate change on their businesses. The guidelines are part of the Commission’s ongoing efforts to ensure that the financial sector can play a determining role in transitioning to a climate-neutral economy and funding investments on the scale required.

17. The Climate Disclosure Standards Board and the Sustainability Accounting Standards Board released an implementation guide on climate-related disclosures prepared by the Task Force on Climate-related Financial Disclosures.[14] The guide follows a report published by the Task Force in June 2017 with recommendations on such disclosures, providing context, background and a general framework on such disclosures for a broad audience.[15]

18. Work by the World Business Council for Sustainable Development on sustainability reporting and disclosure provides an opportunity for entities to engage in the Sustainable Development Goals. The Council released the first guidelines to help companies achieve their sustainable energy objectives during the European Union Sustainable Energy Week. These guidelines provide companies with an understanding of the business case for sourcing and using low-carbon energy, while driving innovation across their value chains.[16]

19. In November 2018, the Sustainability Accounting Standard Board developed and published a complete set of 77 industry-specific sustainability accounting standards on financially material issues. The Board provides an engagement guide for investors to consider questions for discussion with companies regarding such issues, as well as an implementation guide for companies that explains issues and approaches to be taken into account when implementing its standards.[17]

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[9] KPMG International Cooperative, 2017.

[10] European Commission, 2019, Sustainable finance: Commission publishes guidelines to improve how firms report climate-related information and welcomes three new important reports on climate finance by leading experts, press release, 18 June.

[11] European Commission, 2019, EU [European Union] taxonomy for sustainable activities, 18 June.

[12] European Commission, 2019, EU [European Union] green bond standard, 18 June.

[13] European Commission (2019). EU [European Union] climate benchmarks and benchmarks’ ESG [environmental, social and governance] disclosures, 18 June.

[14] Climate Disclosure Standards Board, 2019, CDSB [Climate Disclosure Standards Board] and SASB [Sustainability Accounting Standards Board] release TCFD [Task Force on Climate-related Financial Disclosures] implementation guide, press release, 1 May.

[15] Task Force on Climate-related Financial Disclosures, 2017a, Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.

[16] World Business Council for Sustainable Development, 2019, WBCSD [World Business Council for Sustainable Development] releases new guidelines to help companies achieve their sustainable energy objectives, 19 June.

[17] Globe Newswire, 2018, SASB [Sustainability Accounting Standards Board] codifies first-ever industry-specific sustainability accounting standards: Financially material reporting standards launched at London Stock Exchange, 7 November. .

20. The Global Sustainability Standards Board, an independent sustainability standard-setting body of the Global Reporting Initiative, appointed a multi-stakeholder technical committee of experts to develop the first global disclosures on tax and payments to Governments. The draft standard advances tax transparency by combining management approach disclosures on tax strategy. The Committee began its work to develop a draft in January 2018, which is now available for review and public comment.[18]

21. A number of activities were aimed at facilitating coordination among key payers and aligning their agendas. The Corporate Reporting Dialogue is a platform convened by the International Integrated Reporting Council that aims to strengthen cooperation, coordination and alignment among key standard setters and framework developers that have a significant international influence on the corporate reporting landscape (see https://corporatereportingdialogue.com/about/, accessed 19 August 2019). The following organizations make up the Corporate Reporting Dialogue: CDP, Climate Disclosure Standards Board, Financial Accounting Standards Board, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council and Sustainability Accounting Standards Board. The Better Alignment project is a two-year project focused on promoting alignment in corporate reporting to make it easier for companies to prepare effective and coherent disclosures that meet the information needs of capital markets and society (see https://corporatereportingdialogue.com/better-alignment-project/; accessed 9 July 2019). The initial findings of the project are due to be published in September 2019.

22. The Action Platform on Reporting on the Sustainable Development Goals is based on continued cooperation between the Global Reporting Initiative and the United Nations Global Compact. The Initiative aims to provide a framework and methodology for companies to report on their Sustainable Development Goal-related performance. As a member of the Platform's multi-stakeholder advisory committee, the UNCTAD secretariat works closely with the Initiative and the Global Compact to ensure coordination and consistency. In February 2019, the Global Reporting Initiative and the United Nations Global Compact announced their continued partnership to develop best practices for corporate reporting on the Sustainable Development Goals, empowering businesses to prioritize Sustainable Development Goal targets, measure progress and report on it.[19]

23. In addition, there is growing interest in assessing the ongoing efforts of businesses to address sustainability issues and the Sustainable Development Goals in their reports. The World Benchmarking Alliance initiative is aimed at increasing the private sector's impact on the Sustainable Development Goals through the creation of benchmarks in key areas that are considered to have high impact. By ranking the biggest companies in seven key areas, the Alliance expects to cover all benchmarks by 2023 and start tracking their progress. All information will be open source and free of charge.[20] The Alliance was selected as one of 10 winning projects that seek to develop solutions to deal with today's transborder challenges, showcased as part of the Paris Peace Forum.[21] In addition, the Alliance set up the Alliance Learning Platform as a means of working together.[22]

24. The Alliance for Corporate Transparency is a three-year research project that analyses how European companies disclose information necessary for understanding their impact on society and the environment, as required by Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by

[18] Global Reporting Initiative, 2018. New GRI [Global Reporting Initiative] draft standard on tax and payments to Governments now open for public comment, 13 December.

[19] United Nations Global Compact, 2019, Global Reporting Initiative and the United Nations Global Compact announce continued collaboration to advance business reporting on the Sustainable Development Goals, 21 February.

[20] Summary documents for the World Benchmarking Alliance round tables can be accessed at www.worldbenchmarkingalliance.org/consultation (accessed 9 July 2019).

[21] World Benchmarking Alliance, 2019, WBA [World Benchmarking Alliance] is announced as one of ten project winners at Paris Peace Forum: Congratulations allies!

[22] World Benchmarking Alliance, 2019, The Alliance: Collectively shaping the way forward.

certain large undertakings and groups. After assessing over 100 companies to provide early reflections on the implementation of the Directive in practice, the Alliance in 2019 issued the *2018 Research Report* on the state of corporate sustainability disclosure under the Directive.[23]

25. The Statistics Division of the Department of Economic and Social Affairs of the United Nations is setting up a body to provide guidance in the field of business and trade statistics. Cooperation opportunities between UNCTAD and the Department of Economic and Social Affairs through a dedicated task team has been recently discussed with a view to standardizing the data collection methodology to be used for business accounting and financial reporting.

26. However, there are still a number of challenges to be addressed in facilitating the harmonization and enhancing the quality of enterprise reporting on sustainability issues, including within the framework of the 2030 Agenda.

27. Challenges also remain in relation to the prevailing voluntary nature of disclosure of sustainability performance by companies, which affects the quality and comparability of such information. Despite the positive trend in sustainability reporting, disclosure becomes widespread, consistent and comparable only when mandated by Governments.[24]

28. Consistency with International Financial Reporting Standards is another challenge. One important area is determining the boundaries of the reporting entity; the other is assumptions and methods that underpin financial reporting and should be applied for sustainability/Sustainable Development Goal reporting. In some jurisdictions, such standards may only be required for the preparation of consolidated reports, not for legal entity financial statements. This may pose difficulty in compiling non-financial data, as companies may use different accounting rules in their statutory reporting of financial data and consolidated reporting at the group level. In any case, when information attributable to entities, facilities or activities outside an organization's mainstream reporting boundary is also reported, it should be clearly distinguished from information on entities and activities within the financial boundaries.

29. During the intersessional period of ISAR, two important issues continued to be at the centre of the debate on the sustainability and Sustainable Development Goal reporting agenda: materiality and reliability of reported data.

Materiality

30. In the context of Sustainable Development Goal reporting, materiality has a new dimension, in addition to the definition established in the *Conceptual Framework for Financial Reporting* ("information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity").

31. Adoption of the Sustainable Development Goals required multi-stakeholder consultations, and all parties agreed that certain aspects of economic, environmental and social activities were material to them. Further, the Task Force on Climate-related Financial Disclosures in 2017 provided recommendations on how entities could conduct materiality assessments for the disclosure of sustainability information.[25] In its final report, the Task Force "recognizes that most information included in financial filings is subject to a materiality assessment. However, because climate related risk is a non-diversifiable risk that affects nearly all industries, many investors believe it requires special attention".[26] In this regard, the reports recommends that certain organizations with an annual revenue of more than $1 billion should consider disclosing such information in other reports (that is to say, not in the annual financial filings) when the information is not deemed material and not

[23] Alliance for Corporate Transparency, 2019, *2018 Research Report: The State of Corporate Sustainability Disclosure under the EU [European Union] Non-financial Reporting Directive*.

[24] KPMG International Cooperative, 2017.

[25] Task Force on Climate-Related Financial Disclosures, 2017b, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.

[26] Task Force on Climate-related Financial Disclosures, 2017a.

included in financial filings. Further, "organizations should consider including metrics on climate-related risks associated with water, energy, land use and waste management where relevant and applicable",[27] allowing for trend analysis. The Task Force cautions organizations against making the premature conclusion that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks.

32. In the case of the European Union, the European Commission refers to a double materiality perspective that encompasses two dimensions: financial materiality, and environmental and social materiality.[28] The former takes into account a company's development, performance and position, and considers investors to be the primary audience. The latter takes into account the impact of a company's activities and considers consumers, civil society, employees and a growing number of investors to be the primary audience. In this regard, the selection of core Sustainable Development Goal indicators relies on the idea that the Sustainable Development Goal targets and macroindicators are integrated into current materiality assessments framework for companies and thus guides the suggested common disclosure baseline.

33. On the other hand, disclosure of immaterial information also makes a non-financial statement less easy to understand, since it would obscure material information. Generic or boilerplate information that is not material should be avoided.[29] Companies sometimes refer to the Sustainable Development Goals without necessarily adding value to sustainability reporting. In this regard, inclusion of the appropriate context makes understanding of the material information easier. For instance, it can include the mention of a reference to strategies and broader goals when presenting the company's performance to describe how non-financial issues relate to their long-term strategy, principal risks and policies.[30] Such narrative information allows entities to apply a lens of materiality that enables them to engage with additional disclosures, drawing on sustainability reporting guidelines, industry standards, national regulations or other available mechanisms.

Reliability and assurance

34. Credibility of non-financial reporting assurance would be enhanced by facilitating the relevance and reliability of reporting. The accuracy of information available varies depending on the source and the subsequent ability of the reporting entity to assure this information. Therefore, it is important that entities use the right mix of internal and external assurance to ensure the reliability of the published data. For example, the European Commission has recently suggested that entities can make non-financial information fairer and more accurate through, for example, the following mechanisms:[31]

(a) Appropriate corporate governance arrangements (for instance, certain independent board members or a board committee entrusted with responsibility over sustainability and/or transparency matters);

(b) Robust and reliable evidence, internal control and reporting systems;

(c) Effective stakeholder engagement;

(d) Independent external assurance.

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27 Task Force on Climate-related Financial Disclosures, 2017a.

28 Consultation document on the update of the non-binding guidelines on non-financial reporting, available at https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf (accessed 20 August 2019).

29 European Commission, 2017, Communication from the Commission: Guidelines on non-financial reporting (methodology for reporting non-financial information), *Official Journal of the European Union*, 2017/C 215/01, 5 July.

30 Ibid.

31 European Commission, 2019, Communication from the Commission: Guidelines on non-financial reporting – Supplement on reporting climate-related information, *Official Journal of the European Union*, 2019/C 209/01, 20 June.

35. KPMG International Cooperative 2017 shows that the 100 biggest companies have an increasing tendency to use external assurances. In contrast to financial reporting, assurance of sustainability reporting by a third party is still voluntary in most countries. Yet, Accountancy Europe[32] and the Global Reporting Initiative, for instance, encourage independent assurance to increase the quality of sustainability reporting. Also, according to a recent UNCTAD research publication,[33] the quality of non-financial data must be verifiable and of the same quality as financial data. The publication also proposes that the audit of the data for the core indicators be carried out according to the International Standard on Assurance Engagements 3000 Assurance Engagements other than the Audits or Reviews of Historical Financial Information Review Framework, which does not prevent entities from also using the Account Ability AA1000 Assurance Standard.[34]

36. The two most commonly used international standards are the International Standard on Assurance Engagements 3000 and Account Ability AA1000 Assurance Standard. Both are indicated as consistent with different reporting frameworks such as the Global Reporting Initiative and the Integrated Reporting (<IR>) frameworks.[35] Entities can choose between reasonable and limited assurance. In a reasonable assurance engagement, the practitioner collects sufficient appropriate evidence to reduce the assurance engagement risk and to be able to conclude that the subject matter conforms in all material respects with identified suitable criteria and gives a report in the form of a positive assurance (for example, "the financial statements have been prepared in accordance with applicable legislation and accounting standards").

37. In a limited assurance engagement, the practitioner obtains less evidence than in a reasonable assurance engagement; however, this evidence is sufficient and appropriate to conclude that the subject matter is plausible in the circumstances, and a report is provided in the form of a negative assurance (for example, "nothing has come to our attention that causes us to believe that the financial statements have not been prepared in accordance with applicable criteria" (such as legislation and/or accounting standards). For a limited assurance engagement, the practitioner performs different or fewer tests than those required for reasonable assurance and uses smaller sample sizes for the tests. The International Integrated Reporting Council also takes into consideration the possibility of having hybrid or mixed assurance levels, so that assurance can vary on a disclosure-by-disclosure basis (reasonable on some disclosures and limited on others). This could be especially relevant to types of information that present technical challenges in providing audit and assurance services, such as in the area of human rights.[36]

III. Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals

38. Since the thirty-fifth session of ISAR, UNCTAD has completed and published the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals*. As mentioned previously, the rationale for developing the *Guidance* is based on the need for baseline indicators to facilitate enterprise reporting on their Sustainable Development Goal-related performance in a comparable and consistent manner. Towards this objective, the *Guidance* provides a measurement methodology for each of the selected core indicators and suggests accounting sources of

[32] Previously known as the Federation of European Accountants, Accountancy Europe brings together 51 professional organizations from 37 countries.

[33] JT Jagd and T Krylova, Reporting on the Sustainable Development Goals: A survey of reporting indicators, Research Paper No. 1, UNCTAD.

[34] For a review of the state of the art on assurance practices, see www.cpajournal.com/2017/07/26/current-state-assurance-sustainability-reports/ (accessed 9 July 2019).

[35] International Integrated Reporting Council, 2014, *Assurance on <IR> : An Exploration of Issues*.

[36] Institute of Chartered Accountants in England and Wales, 2018, Limited assurance versus reasonable assurance, 31 January.

data collection. To ensure consistency in measurement methodology and data comparability, indicators are designed to be comparable across entities, time and geography, thereby requiring transparent and traceable documentation on scope, data quality, methods used and limitations. Reporting information should be complete and consistent with reference to the time period declared by the reporting organization for its financial statements, which means, inter alia, that it is important that financial and non-financial data refer to the same reporting period.

39. The core indicators contained in the current version of the *Guidance* are follows:

Economic area	Revenue
	Value added
	Net value added
	Taxes and other payments to the Government
	Green investment
	Community investment
	Total expenditures on research and development
	Percentage of local procurement
Institutional area	Number of board meetings and attendance rate
	Number and percentage of women board members
	Board members by age and range
	Number of meetings of audit committee and attendance rate
	Compensation: total compensation per board member (both executive and non-executive directors)
	Amount of fines paid or payable due to settlements
	Average number of hours of training on anti-corruption issues, per year per employee
Social area	Proportion of women in managerial positions
	Average hours of training per year per employee
	Expenditure on employee training per year per employee
	Employee wages and benefits as a proportion of revenue, by employment type and gender
	Expenditures on employee health and safety as a proportion of revenue
	Frequency/incident rates of occupational injuries
	Percentage of employees covered by collective agreements
Environmental area	Water recycling and reuse
	Water use efficiency
	Water stress
	Reduction of waste generation
	Waste reused, remanufactured and recycled
	Hazardous waste
	Greenhouse gas emissions (scope 1)
	Greenhouse gas emissions (scope 2)
	Ozone-depleting substances and chemicals
	Renewable energy
	Energy efficiency

40. The *Guidance* does not aim to create new reporting norms. Instead, its objective is to select common sustainability/Sustainable Development Goal indicators based on entities' current reporting practices and leading reporting frameworks (Global Compact, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council, Sustainability Accounting Standards Board and others). The core indicators also present a business case for entities as means to monitor the costs and improve efficiency of the use of natural resources. However, the core indicators do not attempt to preclude companies from providing more information in a qualitative or quantitative form. It remains up to individual businesses in different operating contexts to disclose additional information to reflect their specific Sustainable Development Goal-related practices and address the specific needs of users, particularly those representing investors and other capital providers. Although the importance of qualitative, narrative disclosure and of understanding these indicators in specific context are acknowledged, the *Guidance* does not discuss narrative disclosures and focuses on quantitative comparable indicators aligned with the Sustainable Development Goal macroindicators.

41. The most relevant Sustainable Development Goal indicator (macro level) and its metadata guidance are identified for each reporting indicator (micro level) to facilitate the alignment between the micro- and macro-level indicators. In some cases, a macro-level indicator is used for more than one reporting indicator. In others, there is no straightforward relationship between the reporting indicator and the macro-level indicator mentioned, but it represents the best possible alignment with the Sustainable Development Goal macro level, and the usefulness of the reporting indicator will be further explored through pilot testing (further refinement in this area could be envisaged based on the feedback from the practical application of the suggested core indicators).

42. The alignment between the micro- and macro-level indicators is based on the approach of a statistical framework developed by the European Commission, International Monetary Fund, Organization for Economic Cooperation and Development, United Nations and World Bank in *The System of National Accounts*.[37] The publication states that there would be considerable analytical advantages in having microdatabases that are fully compatible with the corresponding macroeconomic accounts for sectors or the total economy, and thanks to improvements in information technology, it becomes increasingly easier to derive data from administrative and business records. While it recognizes that for various reasons it may be difficult, if not impossible, to achieve microdatabases and macroeconomic accounts that are fully compatible with each other in practice, as a general objective, the concepts, definitions and classifications used in economic accounting should as far as possible be the same for both the micro and macro levels to facilitate the alignment between the two kinds of data.

43. An updated system of economic statistics is required to support the 2030 Agenda and its implementation. Microdata on companies should be accessible and integrated towards national accounts and macroindicators. In this context, a statistical business register can serve as the basis for data integration leading to a core set of integrated statistics and Sustainable Development Goal indicators. An example of such an approach is the data on gross domestic product based on revenue disclosed by companies in their annual reports.

44. Efforts to establish efficient national institutional mechanisms on data collection, including quality control of data inputs, will play an important role in achieving the objectives of sustainability reporting by entities and will facilitate the usefulness of reported data for key stakeholders, including government agencies responsible for monitoring the implementation of the Goals at the national level. It would also be necessary to develop institutional capacity to analyse many reports to ensure quality and comparability requirements for reported data. While some databases already exist, they often relate to different reporting frameworks with limited data comparability.

[37] European Communities, International Monetary Fund, Organization for Economic Cooperation and Development, United Nations and World Bank, 2009, *System of National Accounts* (United Nations publication, Sales No. E.08.XVII.29, New York).

45. The *Guidance* helps to link micro-level indicators reported by companies with the most relevant Sustainable Development Goal indicator on the macro level, and in turn to the work on the metadata guidance on indicator 12.6.1.[38] The *Guidance* and the metadata guidance on indicator 12.6.1 are interrelated, as the implementation of the metadata guidance could be supported by the *Guidance* in a practical way. In this regard, the *Guidance* helps to facilitate capacity-building in the area of the Sustainable Development Goal reporting in member States at both the country and company levels.

IV. Key issues regarding the implementation of the guidance on core indicators: Review of selected case studies

46. As requested by ISAR at its thirty-fifth session, UNCTAD conducted selected case studies to test the application of the *Guidance* in terms of their relevance as common indicators, underlying data availability and possibility of consistent measurement. The case studies were conducted in different geographical areas, countries with various levels of economic development, a broad range of industries and companies of different sizes. Companies participating in the case studies represented the following industries: telecommunications, oil and gas, mining, health care, manufacturing, retail, hospitality and energy. Countries represented were Colombia, Denmark, Guatemala, Kenya, the Russian Federation and Ukraine. An overview of the implementation of the *Guidance* in several companies was conducted in Egypt.

47. The case studies reflected different levels of experience and expertise on sustainability and Sustainable Development Goal reporting; therefore, the issues discussed below would not be fully applicable to all case studies. The following discussions aim to help identify the main areas for capacity-building in Sustainable Development Goal reporting; they are expected to provide further evidence towards building consensus on the approach suggested in the *Guidance* with regard to baseline indicators for reporting on the Sustainable Development Goals at the company level and for data collection at the national level.

48. A review of the case studies provided evidence for the following observations:

(a) Most companies were able to provide data on most of the core indicators;

(b) Environmental and social indicators were more difficult to report on than economic and institutional indicators;

(c) Institutional coordination at the national level continues to be a challenge;

(d) Regulations facilitate consistency but also affect diversity;

(e) Technical capacity needs to be strengthened;

(f) Measurement inconsistencies need to be addressed.

[38] UNCTAD and the United Nations Environment Programme, co-custodians of indicator 12.6.1, refined the proposed metadata guidance for the indicator based on expert consultations and presented it to ISAR at its thirty-fifth session in October 2018. This led to the development of a revised methodology that is currently being tested. The co-custodians will submit the proposed methodology to the Inter-Agency and Expert Group on Sustainable Development Goals for consideration to upgrade the indicator to tier two by the end of 2019.

Most companies were able to provide data on most of the core indicators

49. The core indicators are meant to be common to all entities regardless of size, industry or country. In general, case studies reflected a high level of applicability of the indicators in the *Guidance*, illustrated in the following table:

	Case 1	*Case 2*	*Case 3*	*Case 4*	*Case 5*	*Case 6*	*Case 7*	*Case 8*
Reported	26	29	27	30	25	13	22	30
Difficult to report	3	1	5	2	6	12	5	2
Not possible to report	4	2	1	1	2	8	6	1

50. The case studies showed that in many cases sustainability/Sustainable Development Goal reporting is still a new area for companies and they highlighted a variety of challenges. Some core indicators were straightforward and easy to understand and thus also had a high rate of accurate provision of information. On the other hand, some indicators were not presented while the information was available; and others were indicated for which information was not available. Companies that were already using existing frameworks on sustainability reporting faced fewer challenges in presenting the core indicators; however, it was not always clear what sources of information were used to gather the underlying accounting data.

51. One company reported that it was able to improve its data-collecting capacity on UNCTAD core indicators during the study period by gaining a better understanding of the approach suggested in the *Guidance*, thus proving the case that the information needed for reporting on core indicators could be found in existing accounting records, even if not immediately available.

52. The number of UNCTAD core indicators disclosed by companies in sustainability reports is shown in the following table:

Level of disclosure	*2017*	*2018*
Full	7	25
Partial	20	7
None	6	1

Environmental and social indicators were more difficult to report on than economic and institutional indicators

53. The case studies revealed that in most cases, environmental and social indicators were more difficult to report on than economic and institutional indicators. For example, the following two indicators were singled out as being not possible to report on in many cases: B.1.1. Water recycling and reuse and C.2.2. Expenditure on employee training per year per employee.

54. However, there is no systemic consistency among the companies with regard to problems of reporting on other core indicators. For example, the following indicators were highlighted as being not possible to report or difficult to report in selected cases, while they were provided in most other cases:

(a) B.1.3. Water stress;

(b) B.3.2. Greenhouse gas emissions (scope 2);

(c) B.5.1. Renewable energy;

(d) C.3.1. Expenditures on employee health and safety as a proportion of revenue;

(e) C.4.1. Percentage of employees covered by collective agreements.

55. This may be indicative of the point that accounting data availability for UNCTAD core indicators is a technical issue and could be improved by adapting the accounting system. This point was made in one of the studies, which suggested the introduction of a

new set of accounts/records that could be used to reflect transactions related to the core indicators.

56. Other reported difficulties on data collection relating to the core indicators included the following:

(a) With a high number of suppliers, further efforts are needed to create a level of transparency in the supply chain in order to calculate the percentage of local procurement;

(b) Only the total employee costs, including wages, salaries, pensions, social security contributions and other employee costs, are disclosed, and further breakdown is not possible;

(c) Tracking the percentage of employees having completed business ethics training is a better measurement than the number of hours of training in anti-corruption issues.

57. According to companies, the main reasons for the non-disclosure of certain indicators were the lack of legislative requirement and the lack of technical guidance and expertise on data collection and measurement. In some cases, confidentiality was another reason for non-disclosure; despite the availability of data and the fact that companies provide certain information to the environmental and social authorities, they do not disclose such information in their reports.

Institutional coordination at a national level continues to be a challenge

58. Several cases studies raised issues relating to the lack of regulation requiring environmental, social and governance/Sustainable Development Goal reporting; the lack of coordination among different authorities in charge of such reporting, including coordination between accounting standards and requirements in the area of environmental, social and governance and Sustainable Development Goal reporting; and the existence of several entities in charge of different type of companies.

Regulations facilitate consistency but also affect diversity

59. The case studies also stated that indicators traditionally required by regulations have a better rate and quality of disclosure. The case study of one country showed that there is a good level of disclosure of a number of indicators, given that such information is required by the tax and accounting laws of the country. These indicators are taxes and other payments to the Government, value added, net value added and revenue (economic area); number of board meetings and attendance rate, compensation of board members, number and percentage of female board members, number of meetings and attendance of audit committee (institutional area); and employees’ wages and benefits, proportion of women in managerial positions and expenditure on employees health and benefits (social area).

60. On the other hand, there were issues in one jurisdiction with reporting on institutional indicator D.1.5. Compensation: total compensation per board member. Since all board members were also shareholders, this information could not be disclosed without a warrant due to a legislative requirement. A company in another jurisdiction did not provide such information for reasons of privacy protection.

Technical capacity needs to be strengthened

61. Although the proposed indicators proved to be a good start towards producing comparable data, capacity-building efforts are required to collect accounting data and report on most of the suggested core indicators. Many case studies underscored an urgent need for education and training, including to explain the importance and benefits of the required disclosures concerning the Sustainable Development Goals. Particular challenges were mentioned with regard to the data collection of environmental indicators such as measuring waste, water recycling, ozone-depleting substances or chemicals and renewable energy. A lack of knowledge of sources of information to calculate greenhouse emissions or water stress was also highlighted. In this regard, further guidance provided by UNCTAD was useful in collecting data for the calculation of the core indicators. It helped to explain how

the underlying accounting data, which is required for the calculation of the core indicators, could be collected through companies' accounting systems; and how the core indicators could be measured and presented. However, in some cases, the information was not available, as it had not been recorded in previous reporting periods. The needs of small and medium-sized enterprises were specifically highlighted in this regard.

62. Some cases raised the issue of education and training in sustainability/Sustainable Development Goal reporting as part of the requirements for professional accountants, as well as for regulators and public employees in charge of supervising reporting in this area.

63. Capacity constraints also have an impact on national statistics agencies. Reporting on the Sustainable Development Goals at the national level is a complex undertaking, requiring partnerships in the collection of relevant data, including collaboration with the private sector. Digital reporting, the development of large databases and the adoption of other innovative approaches help increase capacity and the traceability of sources. Nonetheless, setting up digital reporting based on high-quality databases that have adequate quality-control systems requires significant resources, which can be a challenge for many Governments and national statistical offices.

Measurement inconsistencies need to be addressed

64. While the 2030 Agenda requires comparability and reliability of the data reflecting companies' performance towards targets and indicators agreed by member States, some core indicators – especially environmental ones – were more challenging to compare than others because of misinterpretation and misunderstanding of the measurement framework of the indicator.

65. For example, indicators requiring measurement of water – such as B 1.1 and B 1.3 – or indicators addressing greenhouse emissions such as B 3.2, were recorded in different measures in each company and required conversion to the unit requested by the *Guidance*. In case a conversion was not possible, the indicators were reported in different units available, which limited comparability.

66. One of the case studies discussed whether it would be more appropriate to focus on the rate of change of Sustainable Development Goals indicators instead of the absolute level of Sustainable Development Goals indicators.

V. Conclusion and issues for further discussion

67. This note provided an overview of the main issues discussed during the intersessional period of ISAR and identified a number of challenges in preparing selected company case studies on the application of the approach to the core indicators outlined in the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals*.

68. The cases studies revealed that most of the core indicators could be reported. However, consistent measurement and comparability of reported indicators continues to be a challenge. A number of other challenges were identified: the need for further coordination and cooperation at the national level of key stakeholders in the public and private sectors; further efforts on building national institutional and regulatory mechanisms on Sustainable Development Goal reporting to ensure its quality, comparability, reliability and consistency with accounting and financial reporting; and capacity-building at all levels to facilitate progress. It is recommended that this study be repeated in the future to measure progress in entity reporting on the attainment of the Sustainable Development Goals over time.

69. Further, the case studies showed that when further technical guidance was provided, data availability for the core indicators at a company level was improved. Therefore, building technical capacity and providing guidance could be important means for further implementation of core indicators for baseline Sustainable Development Goal reporting by companies.

70. In addition to the issues presented in this note, delegates at the thirty-sixth session of ISAR may wish to consider the following questions:

(a) How useful is the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* in helping companies provide reporting on their contribution to the Sustainable Development Goals?

(b) How can the UNCTAD approach to core indicators supplement, differentiate or interact with other existing sustainability reporting frameworks and standards?

(c) Which core indicators need to be reviewed and adjusted based on the results of the case studies?

(d) How useful is the *Guidance* in enabling countries to collect data on the private sector contribution to the implementation of the Sustainable Development Goals and to report on Goal 12.6 and its indicator 12.6.1?

(e) How useful is the *Guidance* in informing the voluntary national reports processes at the national level?

(f) What measures should policymakers take to promote the alignment of national accounts and statistics methodologies with Sustainable Development Goal reporting by entities?

(g) What are the most pressing capacity-building needs that would enable countries to collect useful and comparable data on companies' contribution to the implementation of the Sustainable Development Goals at the national level?

(h) What is the most efficient way to address these capacity-building needs?

(i) How can global forums such as ISAR further contribute to enhancing the role of entity reporting in monitoring progress in the implementation of the Sustainable Development Goals?

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Practical implementation, including measurement, of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals: Review of case studies

Corrigendum

Paragraph 21, line 1

For payers *read* players

Footnote 31

Replace the footnote with the following text: Ibid.

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