UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Tackling the Sustainability Reporting Challenge

A Policy Guide

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EXECUTIVE SUMMARY

This publication has been prepared by UNCTAD-ISAR to support countries in their efforts to strengthen their national sustainability reporting infrastructure to keep up with international changes and promote sustainable finance and development. It contains different approaches, best practices and examples from which policymakers and other interested stakeholders can choose when establishing or strengthening the regulatory, institutional and human capacity components of the reporting infrastructure. It is intended as a menu of policy options. It was developed based on lessons learned from different countries, including through UNCTAD technical assistance activities in Africa and Latin America in the field of accounting and reporting. It also draws on evidence collected by UNCTAD through desktop research, feedback obtained during a Consultative Group meeting in March 2022, and the work already accomplished with the development of UNCTAD sustainability and Sustainable Development Goals (SDGs) reporting-related tools comprising the Accounting Development Tool (ADT), the Guidance on Core Indicators for Sustainability and SDG Impact Reporting (GCI), the *Core SDG Indicators for Entity Reporting Training Manual* and the GCI e-learning courses.

The figure below outlines different policy options that countries can consider when developing and implementing a national action plan to reinforce their sustainability reporting ecosystem and the table following contains policy recommendations that countries may wish to take into consideration presented as a function of components of the sustainability reporting infrastructure, that is, the legal, institutional and human capacity components.

Building and implementing a national sustainability reporting action plan – lessons learned

Key components of the national sustainability reporting action plan — lessons learned

Key components	Recommendations/policy options
Regulatory	Map pre-existing regulation and initiatives on sustainability reporting
	Start with listed companies and the financial sector
	Adopt a transitional approach and use a “building blocks” approach
	Develop a sustainability reporting framework in convergence with the International Sustainability Standards Board
	Ask companies to disclose SDG contributions
	Define tailored requirements for small and medium-sized enterprises and non-listed companies, and promote sustainability reporting in public-sector entities
	Emphasize good corporate governance practices as a prerequisite for effective sustainability reporting
	Publish the requirements, guidance or framework for public comments
	Require external assurance
	Stimulate the adoption of sustainability reporting through various promotional activities
Institutional	Identify or establish a national entity in charge of sustainability reporting and of integration with the financial standard setter
	Designate a body in charge of compliance monitoring and enforcement
	Promote coordination among all key entities
	Ensure that key institutions are adequately staffed, diverse and well-funded
Human capacity	Ensure availability of capacity-building for professionals and preparers participating in the production and assurance of sustainability reports, including through partnering with professional accountancy organizations and ensuring that the continuous professional development programmes are up to date
	Ensure that university curricula are up to date
	Build capacity in the public sector
	Provide specific technical support to micro-, small and medium-sized enterprises

Introduction

This policy guide provides recommendations and a menu of different approaches, best practices and examples for policymakers and other interested stakeholders working on establishing or strengthening their national sustainability reporting infrastructures. It is meant as a menu of policy options that countries can choose from based on their jurisdictions and on their stage in the journey towards the implementation or reinforcement of their sustainability-reporting infrastructure. It builds on the main lessons learned from different countries, including experiences gathered from UNCTAD technical assistance activities in Africa and Latin America, in addressing practical implementation aspects pertaining to policymaking, regulation, and the institutional and human capacity of the national corporate reporting ecosystem. It is also based on information collected by UNCTAD through desktop research, and inputs obtained during a Consultative Group meeting in March 2022. This policy guide complements the UNCTAD sustainability and SDG reporting toolkit including the ADT,[1] GCI,[2] the *Core SDG Indicators for Entity Reporting Training Manual*[3] and the GCI e-learning courses[4].

The urgency to establish or reinforce the national sustainability reporting infrastructure is motivated by several international trends and developments that indicate that jurisdictions are rapidly moving from a voluntary to a mandatory sustainability reporting regime. At the end of 2021, the twenty-sixth United Nations Climate Change Conference of the Parties (COP 26), which was held in Glasgow, represented a major step towards globally aligned sustainability reporting as the International Financial Reporting Standards (IFRS) Foundation trustees announced the formation of the International Sustainability Standards Board (ISSB).[5] The ISSB is working on global sustainability reporting standards that will soon become mandatory for listed companies in many jurisdictions worldwide. Consequently, there has been an unprecedented consolidation of sustainability corporate reporting standards into the ISSB, including the standards and frameworks of the Climate Disclosure Standards Board, the Value Reporting Foundation (which houses the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) standards), the Task Force on Climate-related Financial Disclosures (TCFD) and the World Economic Forum, and these institutions have committed to contributing this material to support the establishment of the ISSB standards. In addition, the International Organization of Securities Commissions will review for endorsement the ISSB standards to be used for cross-border purposes.

Moreover, on 21 April 2021, the European Commission adopted a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD),[6] amending the Non-financial Reporting Directive issued in 2014 and extending the scope of the regulation to apply to all large companies and all companies listed on European regulated markets with the exception of micro enterprises. The CSRD requires assurance of sustainability information and envisages the adoption of European Union Sustainability Reporting Standards, which are currently being developed by the European Financial Reporting Advisory Group (EFRAG). Developments in the European Union tend to be influential beyond the region; they affect global processes and have an impact in other jurisdictions.

Also, the Securities and Exchange Commission of the United States of America has stated that public companies must communicate to their shareholders and the federal government certain climate-related disclosures, including information on climate-related risks and some metrics. The proposed rules would

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1 https://adt.unctad.org/adt-at-the-isar-sessions/.

2 https://unctad.org/system/files/official-document/diae2022d1_en.pdf.

3 https://unctad.org/webflyer/core-sdg-indicators-entity-reporting-training-manual.

4 https://isar.unctad.org/e-learning-courses/

5 https://www.ifrs.org/groups/international-sustainability-standards-board/.

6 https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.

demand disclosures on Form 10-K concerning a company's governance, risk management, and strategy with respect to climate-related risks, as well as of any targets or commitments made by a company and related plans.

More recently, the concluding declaration of COP 27 highlighted that a global conversion to a low-carbon economy will require investment of at least $4 trillion to $6 trillion per year. It underscored that delivering such funding will require a transformation of the financial system, a key element of which is sustainability reporting by companies as the basis for sustainable investment. During COP 27, the ISSB made a strong case for assistance to developing countries to help them prepare to implement ISSB standards. It announced the launching of a Partnership Framework for Capacity-building[7] supported by public and private organizations worldwide. The ISSB recognized that "achieving a truly global baseline necessitates a strong focus on supporting implementation across all economic settings … and to consider the specific circumstances of emerging and developing economies, and smaller entities, many of which operate within global value chains". UNCTAD was presented as one of the day-one partners of this initiative.

At the same time, pressure from various stakeholders, such as employees, investors, business partners and customers, compels businesses to prove their accountability and commitment to sustainable development through high-quality, comparable and reliable corporate sustainability disclosures.

Based on these developments, and with a view to support countries in their efforts to reinforce their sustainability reporting infrastructure, this policy guide covers the following points:

- **Reasons why it is important to establish and strengthen the national sustainability reporting infrastructure;**
- **Key considerations for the development and implementation of a national action plan for sustainability reporting:**
  - How to create fertile ground;
  - How to build the organization;[8]
  - How to formulate the plan;
  - How to implement the plan effectively;
- **Main elements of the national action plan for sustainability reporting:**
  - Regulatory component;
  - Institutional component;
  - Human capacity aspects.

1. Why is it important to build and strengthen the sustainability reporting infrastructure?

There are several reasons why it is important to build or strengthen the national sustainability reporting infrastructure. From the point of view of companies, sustainability reporting is a powerful lever to manage change towards sustainability practices (including climate friendly practices, the promotion of gender equality, reduction in the use of natural resources, and the like); to improve reputation, brand loyalty and stakeholders' engagement; to attract investments and funds; and to be part of global value chains.

[7] https://www.ifrs.org/news-and-events/news/2022/11/issb-cop27-progress-implementation-climate-related-disclosure-standards-in-2023/.

[8] This point refers to recommendations on how institutions at the national level can organize to establish an action plan for sustainability reporting. It also contains suggestions on the type of entities to include.

At the country level, having a high-quality sustainability reporting infrastructure means being able to use corporate sustainability reports to assess the contribution of the private sector to sustainable development and having a more resilient and competitive business economy. Promoting the preparation of reliable and comparable sustainability reports, including greenhouse gas (GHG) emissions data and other climate-related indicators, will enable responsible investment and facilitate the mobilization of funds for SDG investment, including climate finance.

1.1 "You get what you measure": The transformative function of sustainability reporting

Sustainability reporting can be defined as the practice of measuring, evaluating and disclosing sustainability and environmental, social and governance (ESG) information alongside, or integrated with, corporate financial reporting practices. It should not be seen as an end but rather as a means to improve an organization's commitment to sustainable development and to demonstrate accountability both internally and to external stakeholders. As such, sustainability reporting does not simply have an informative function, it has also a transformative function, that is, it can influence corporate decisions and behaviours because companies will track their performance on specific ESG metrics, will communicate their performance externally, and will even commit to sustainability targets. In this sense, high quality sustainability reporting is a powerful and essential lever for the transformation of companies' practices and for ensuring their contribution to sustainable development and to the achievement of the SDGs.

1.2 Stakeholder pressure and corporate reputation

In August 2019, the Business Roundtable, an association of chief executive officers from leading companies in the United States, issued a new "Statement on the Purpose of a Corporation":[9] 181 CEOs signed the statement and committed to lead their companies not only for the benefit of shareholders but of all stakeholders, that is, customers, employees, suppliers and communities. This is just one anecdotal piece of evidence related to the mounting pressure from stakeholders and society that a company needs to do well by doing "good".

From an environmental perspective, stakeholders expect companies to manage and reduce their GHG emissions, decrease the amount of natural resources used and waste generated – including through circular economy strategies – and contribute to preserving biodiversity. Thus, it becomes fundamental to track performance in these areas, communicate it and establish credible targets. A study presented at COP 26 in 2021, "The Global Sustainability Study 2021",[10] involved around 10,000 consumers across 17 countries and revealed that 85 per cent of the respondents have become "greener" in their purchasing in the last five years and that more than one third are willing to pay more for sustainability and for environmentally friendly alternatives. Consumers consider themselves key actors for stimulating positive environmental change (29 per cent), together with for-profit companies (22 per cent) and international political actors (22 per cent).

From a social perspective, an increased awareness of the importance of workers' health and safety (especially in light of the COVID pandemic), of modern slavery and child labour, and other issues related to contributions to local communities, have all made it important for companies to be able to prove that their operations and supply chain do not encounter these issues and that they are making a positive contribution to society. Companies that invest in sustainability increase the sense of belonging of employees; the best professionals want to work for organizations that exhibit good corporate citizenship. More sustainable companies are also more likely to retain talent, keep employees motivated and improve their productivity.[11] Sustainability reporting can help companies to explain their sustainability strategies, to establish a bond

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9 https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.

10 https://www.simon-kucher.com/sites/default/files/studies/Simon-Kucher_Global_Sustainability_Study_2021.pdf.

11 https://sloanreview.mit.edu/article/using-corporate-social-responsibility-to-win-the-war-for-talent/.

with society and to improve their relationships with special interest groups (for example, customers, employees, environmental activists, the Government), thus promoting corporate reputational goodwill.

1.3 Sustainability risk management

Risks associated with ESG have attracted rising attention, especially among investors, customers and regulators. Corporate stakeholders expect businesses to recognize and report on their material sustainability risks and opportunities, and to explain how these are assessed and managed. Issues such as environmental degradation and safety incidents and scandals need to be considered and proactively governed by companies, as ESG factors influence financial returns and present an opportunity to create long-term value. By preparing sustainability reports, corporate executives can collect information that allows them to define and implement effective responses to sustainability risks, to measure and monitor such risks, and to embed ESG-related risk priorities in decision-making processes and corporate business models. At the same time, sustainability reporting is a powerful lever to effectively respond to the ESG demands of a wide range of stakeholders about how a company is assessing and managing sustainability risks to drive company value.

In this regard, the ISSB approach is to develop a global baseline of sustainability-related disclosure standards that provide investors and creditors with information about companies' significant sustainability-related risks and opportunities that could affect the enterprise value, to support informed decision-making.

1.4 The growing interest in sustainable investments

Many investors nowadays have preferences that go beyond the simple shareholder value maximization and there is a growing desire by providers of capital to invest sustainably.[12] The COVID pandemic has further encouraged investors to pay attention to companies' resilience and long-term goals, including health and work practices and ethics, in addition to environmental issues. Sustainability reporting plays an important role in this respect as providers of financial capital are increasingly demanding non-financial information to enhance their investment decisions and reduce risk in their lending and investment activities.[13] Thus, sustainability reporting is an important tool to improve a company's relationship with capital providers, who are also concerned with assessing and communicating the ESG performance and sustainability impacts of their investments.[14]

The United Nations Global Sustainable Finance Observatory,[15] a hub for data and resources on sustainable finance, has recently been launched by UNCTAD to promote the full and effective integration of sustainable development into the global financial ecosystem by engaging all stakeholders along the investment value chain, including institutional investors, stock exchanges, standard setters and regulators, to bring more credibility, consistency and transparency to the market. The Observatory promotes and facilitates the transition of sustainable investment from market niche to market norm, leading up to 2030 and beyond. It addresses the challenges of fragmentation in standards, proliferation in benchmarking, complexity in disclosure, and sustainability-washing concerns.

1.5 Supply chain sustainability

Sustainability risks, whether financial, environmental (for example, carbon footprint) or social (for example, unethical labour conditions, human rights), are often manifested in supply chains. Large global companies

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[12] https://www.eurosif.org/wp-content/uploads/2021/10/European-SRI-2018-Study.pdf.

[13] Some research studies suggest that more and better disclosure can lead to tangible capital-market benefits such as improved liquidity, lower cost of capital, higher asset prices (or firm value), and potentially better corporate decisions (see, for example, Barth ME, Cahan SF, Chen L and Venter ER (2017), The economic consequences associated with integrated report quality: Capital market and real effects, Accounting, Organizations and Society, 62:43–64).

[14] https://www.morganstanley.com/press-releases/sustainable-signals.

[15] https://gsfo.org/.

need to work with their suppliers, many of them small and medium-sized enterprises (SMEs), to identify and manage these risks and to set ESG targets (for example, Scope 3 GHG emissions). In this regard, sustainability reporting represents a critical factor that can facilitate SMEs' access to global value chains and increase their competitiveness. However, SMEs require technical support in financial and sustainability reporting, and the development and sharing of specific methodological and training materials would be instrumental in this respect.

1.6 Measuring the contribution of the private sector to sustainable development

High-quality and consistent information included in corporate sustainability reports can be used to understand and assess the contribution of the private sector to sustainable development and the implementation of the SDGs, particularly if sustainability reporting indicators[16] aligned with the SDG indicators are included in the information disclosed. Moreover, the Paris Agreement implies that almost all countries are required to control and reduce their environmental footprint. Governments are responsible for regulating the private sector, including monitoring and safeguarding compliance with environmental and social laws. Therefore, if national Governments can support the building and strengthening of a sustainability reporting infrastructure, they will be able to use corporate sustainability reporting information in national-level reports on sustainable development and SDGs to track progress. In this regard, countries can use cumulative data on the private sector contribution to the SDGs at the national level as an input for their voluntary national reviews where they keep track of the progress on the local implementation of the SDGs. In particular, fostering a high-quality corporate sustainability reporting infrastructure can contribute to SDG target 12.6, "Encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle", with the related indicator 12.6.1, "Number of companies publishing sustainability reports" under the custodianship[17] of two United Nations agencies, UNCTAD and the United Nations Environment Programme (UNEP).

1.7 Resilience and competitiveness

It has been estimated that the SDGs will create $12 trillion of market opportunities by 2030 in food and agriculture, cities, energy and materials, and health and well-being.[18] In this sense, sustainable development can motivate companies towards fostering innovation and implementing new business models to attract new customers and expand in new markets. In emerging markets (for example, Africa, Asia, Latin America and the Middle East) consumers are 30 per cent more willing to recognize a price premium for sustainable products and services than consumers in developed countries.[19]

In addition, the COVID pandemic has emphasized the importance of ESG initiatives for corporate and system resilience. Indeed, companies engaging in ESG practices are said to be more competitive in the long run, thus supporting national economies and generating more local work opportunities.[20] Given that sustainability reporting can stimulate companies to adopt sustainable practices, a high-quality sustainability reporting infrastructure becomes fundamental for the resilience and competitiveness of a national economic system.

2. Key considerations for the development and implementation of the national action plan

Sustainability reporting is an essential lever for the transformation of companies' practices. It allows the generation of data to measure companies' sustainable performance and to make sure that they define and

16 For more information on this see Guidance on Core Indicators for Sustainability and SDG Impact Reporting: https://unctad.org/system/files/official-document/diae2022d1_en.pdf.

17 https://isar.unctad.org/2021/02/03/metadata-on-the-sdg-12-6-1/.

18 https://sustainabledevelopment.un.org/index.php?page=view&type=400&nr=2399&menu=1515.

19 https://www.oecd.org/dev/SDG2017_Better_Business_2030_Putting_SDGs_Core_Web.pdf.

20 Ibid.

commit to targets aligned with the SDGs. Establishing a high-quality sustainability reporting infrastructure is also crucial in light of the upcoming international sustainability reporting standards that will be issued by the ISSB. Therefore, it is fundamental for countries to reinforce their reporting infrastructure, and for this purpose it is recommended to prepare and implement a national action plan.

As a general premise for the development and implementation of the national action plan, policymakers should consider that a strong national sustainability reporting infrastructure includes regulatory, institutional, and human capacity components based on the ADT,[21] and should have a dynamic national process that makes it quickly adaptable to international and national needs and developments. In addition, a national sustainability reporting infrastructure should ensure consistency between sustainability and financial reporting, to overcome information and decision silos within companies and to support an interconnected approach to both reporting and assurance.

Some preconditions of the financial reporting infrastructure can facilitate the establishment of a sound sustainability reporting infrastructure, including:

- A regulation aligned with international standards;
- Strong promotion of corporate governance through a specific institution or code;
- Financial regulator(s) and supervising entity(ies) well-staffed and financed;
- Well-established coordination procedures and routines among key players in corporate reporting;
- Strong systems of certification and continuing professional development for professional accountants;
- University curricula that are up to date and aligned with the evolution of the accounting principles and tools;
- Audit and assurance required for disclosures;
- A national dynamic process that enables ongoing updates based on international and national needs and developments.

All these elements allow to “build on top” – instead of starting from scratch – a high-quality sustainability reporting infrastructure. For example, the mandates of the regulator(s) could be expanded to cover sustainability reporting, capacity-building for sustainability reporting could be achieved by leveraging existing relationships with universities and existing continuing professional development systems, audit and assurance requirements could be extended from financial to sustainability disclosures, and the like.

Based on the experience of UNCTAD, lessons learned and best practices identified, the development and implementation of a national action plan can be carried out according to the following stages (as presented in the Executive summary figure):

1) Create a fertile ground;
2) Build the organization;
3) Formulate the plan;
4) Implement the plan effectively.

[21] “Using international standards and best practices in the areas of accounting and reporting, the ADT is a quantitative tool for measuring the level of development of a country’s accountancy environment. The ADT provides a quantitative benchmark of a country’s position at a point in time and its progress toward greater implementation of these standards and practices.” See “What is the purpose of the ADT?”: https://adt.unctad.org/about-the-tool/what-is-the-purpose-of-the-adt/.

2.1 How to create a fertile ground

Several approaches can be taken to create fertile ground before embarking on the development of a national action plan to establish or strengthen the sustainability reporting infrastructure. Some of these include:

- Promote the benefits and importance of sustainability reporting for both companies and government entities and increase awareness about the impacts and contribution of the private sector to the implementation of the SDGs. In this regard, it is important to disseminate information about current international developments in sustainability reporting, such as the creation of the ISSB and the publication of its exposure drafts on general disclosure requirements and climate change disclosures. Moreover, it is necessary to clarify and communicate the connections between the 2030 Agenda for Sustainable Development and the national action plan for introducing or strengthening sustainability reporting.

- Promote the "double-materiality" principle, where disclosure is considered both from the point of view of financial impact on the company as well as the company's impacts on the economy, society and the environment. The ISSB standards are founded on a financial materiality approach, according to which sustainability effects are measured in terms of impacts on the financial position and prospects, in the short, medium and long term, of a company. As with financial reporting, the primary users of reports based on ISSB standards are capital providers, that is, investors and creditors.

  The double-materiality approach goes beyond what is currently required in the exposure drafts of the ISSB, but it is important because it will facilitate sustainable finance and responsible investment, as well as decisions aimed at continuously progressing in the achievement of the SDGs. For instance, the European standards[22] are being conceived according to the double-materiality principle and are aimed at producing reports for both investors and a wider range of stakeholder categories, for example, employees, customers, the Government.

  The Global Reporting Initiative (GRI) standards are guided by the double-materiality principle promoting disclosure of negative and positive impacts of reporting entities on the economy, the environment and society. GRI standards are currently the most used sustainability reporting standards. GRI has issued the revised Universal Standards[23] in alignment with instruments, enabling reporting that follows the: United Nations Guiding Principles on Business and Human Rights; Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises; OECD Due Diligence Guidance for Responsible Business Conduct; International Labour Organization International Labour standards; International Corporate Governance Network Global Governance Principles. The new GRI Universal Standards have been developed around the concepts of impact, material topics, due diligence and stakeholder engagement to respond to the information demands of different stakeholders, including investors, Governments and civil society. GRI is also producing standards for 40 sectors[24] and it has already published standards for oil and gas; coal; and agriculture, aquaculture and fishing.

- Prepare the ground not just for public-interest entities – namely listed companies, financial sector and other public-interest entities – but also for large non-listed companies and SMEs, and public-sector entities. Reporting requirements could be tailored to each one of these categories. Defining beforehand which type of entities will be addressed by the national action plan will allow to engage all relevant stakeholders from the beginning and provide support to all entities included in the scope of the action plan. An example concerning sustainability reporting and SMEs in the European Union can be found in Box 1.

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22 https://www.efrag.org/lab6#subtitle4.

23 https://www.globalreporting.org/standards/standards-development/universal-standards/.

24 https://globalreporting.org/standards/sector-program/.

Box 1. Sustainability reporting and SMEs in Europe

Established in 2001 by a group of organizations representing the European accounting profession, preparers, users, and national standard-setters, EFRAG has as objectives to provide technical expertise to the European Commission for the application of International Accounting Standards within Europe, to participate in the International Accounting Board's (IASB) standard setting process, and to coordinate the development of International Accounting Standards within the European Union.

EFRAG extended its mission in 2022 following the new role assigned to it in the CSRD and is presently in charge of developing the drafts for European sustainability reporting standards. EFRAG Cluster 8[25] is responsible for making sure that the peculiarities of SMEs are taken into account during the standard setting process, starting as early as the drafting of the standards. One important point is the alignment between the sustainability standards being defined for large entities and those specific for SMEs. Before defining the specific reporting standards for SMEs, as a preliminary activity Cluster 8 has launched research and formulated some key questions to better understand users' needs as well as the reporting capacity and resources of SMEs. In order to embed the specificities of SMEs into the process, an expert in SME matters sits in the EFRAG Sustainability Reporting Technical Expertise Group.

European Union supervisors, such as the European Central Bank[26] and the European Securities and Markets Authority[27] have endorsed a simplified mandatory standard for SMEs.

Source: UNCTAD based on information from https://www.efrag.org/, and comment letters from the European Central Bank and and the European Securities and Markets Authority.

- Stimulate collaboration and communication with peers in the region to exchange experience and lessons learned, such as through the recently created Regional Partnerships for the Promotion of Sustainability Reporting in Africa and Latin America[28]. The Partnerships were created by UNCTAD to guarantee long-lasting support to African and Latin American countries and provide a communication channel among peers for sharing experience and good practices. The Partnerships also intend to support members in their efforts to develop national strategies and policies for the establishment of national infrastructure for high-quality sustainability reporting and to facilitate the measurement of the contribution of the private sector to the SDGs. They provide a regional voice in interaction with international setters; for example, by creating an opportunity to prepare joint feedback with a regional perspective on the exposure drafts of the ISSB.

  UNCTAD and ISAR[29] provide substantive and logistical support by paying attention to the challenges of the regions, supporting their evolution and progress, creating opportunities to share lessons learned with other regions, providing capacity-building opportunities, assisting their efforts to

[25] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F20211015%2520PTF-ESRS%2520status%2520report%2520(final).pdf.

[26] https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf.

[27] https://www.esma.europa.eu/sites/default/files/library/esma32-334-245_response_to_ec_consultation_on_revision_of_nfrd.pdf.

[28] https://isar.unctad.org/regional-partnerships-for-the-promotion-of-sustainability-reporting/#.

[29] ISAR – an ECOSOC subsidiary body – assists countries with the implementation of international standards and best practices on accounting and reporting with the goal to foster financial stability, international and domestic investment, and social and economic progress. UNCTAD serves as ISAR's secretariat, providing substantive and administrative inputs to its activities. For more information on ECOSOC and its subsidiary bodies, including ISAR please see: https://www.un.org/ecosoc/en/content/ecosoc-subsidiary-bodies and https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/2021doc/brief_isar.pdf

develop national strategies to establish or strengthen the infrastructure for high-quality sustainability reporting and identifying technical assistance needs.

To foster dialogue among countries, the Partnerships conduct 3–4 meetings annually. Dialogue is also fostered through digital platforms, developed by UNCTAD, as a space for sharing resources and best practices on sustainability reporting. Partnership members include representatives from regulators of companies (listed companies, financial sector, SMEs), financial reporting standard setters, entities responsible for sustainability reports, government entities in charge of the implementation of the SDGs, and professional accountancy associations (PAOs). An observer status is available for universities, NGOs, regional professional organizations, and others that are not in the suggested member list or that need more time to join formally.

Currently, the Partnerships have 50 members from 26 countries in Africa and 29 members from 14 countries in Latin America. In the case of the Latin American Partnership,[30] during the first year of operation Mexico took the Chair led by the Mexican Council for Financial Reporting Standards (CINIF) with the support of the National Banking and Securities Commission of Mexico and the Mexican Institute of Public Accountants. As of 2023, Guatemala is the Chair. The African Partnership is chaired by Cameroon, represented by the Ministry of Finance, while South Africa, represented by the Department of Trade, Industry and Competition, and Kenya, represented by the Institute of Chartered Accountants of Kenya, were elected as Vice-Chairs.

Another example of regional collaboration is shown by the work of the Association of Southeast Asian Nations (ASEAN) CSR Network (ACN),[31] founded in December 2010. It promotes responsible business conduct, sustainability, equality and inclusion with a vision to create a responsible business community in South-East Asia. ACN works with different players, including ASEAN member States, the private sector, civil society and international organizations to offer a platform for networking and collaboration for the members. It also supports capacity-building and training activities and helps coordinate collective actions on business integrity, human rights, equality, and environmental sustainability.

2.2 How to build the organization

There are various good practices that can be considered in the development of an organization to implement the national action plan, as follows:

- Identify key entities from the Government, private sector and civil society, establish a task force or working group, engage the group and keep it informed, and ensure buy-in. This will avoid duplication of efforts with other stakeholders in the country through policy coordination.

  The task force should be multisectoral, multi-institutional, multidisciplinary, and should take diversity into consideration, including gender. A multisectoral approach involves key entities from the public and private sectors and civil society to ensure cooperation and action across sectors to speed up the readiness of the country from different angles. Collaboration from key institutions that can have impact on the different components of the sustainability reporting ecosystem is critical. To achieve a multi-institutional task force, it is recommended to include regulators, the national financial standards setter, accountants' associations, academic associations, accounting firms, chambers of commerce, industry and other sectorial organizations, the stock exchange, United Nations agencies, and the like. It is also possible to add some observers that can be important allies when deploying the national strategy, such as universities. It is advised the taskforce be multidisciplinary, comprising participants with different knowledge and competencies such as accountants and auditors, engineers, and economists. Finally, a diverse representation, including gender equality, is recommended to ensure an inclusive approach that considers different perspectives.

30 https://unctad.org/meeting/first-meeting-regional-partnership-promotion-sustainability-and-sdg-reporting-latin-america.

31 www.asean-csr-network.org/c/.

For instance, in the case of India, the committee in charge of sustainability reporting includes the standard setter, capital market regulators, and other institutions that are helping to monitor progress on the implementation of the SDGs. A PAO is also one of the special invitees of the committee.

In Uruguay, a sustainability working group comprised of the Association of Accountants, Administrators and Economists[32] and the Faculty of Economic and Administrative Sciences of the University of the Republic of Uruguay is launching the Uruguayan Alliance for Sustainability in collaboration with the Ministry for Environment, Uruguay's Central Bank, the Montevideo Stock Exchange, and DERES,[33] with the objective of advancing corporate sustainability reporting at the national level.

In Singapore, the Sustainability and Climate Change Committee (SCCC) from the Institute of Singapore Chartered Accountants[34] includes experts in sustainability-related matters and aims to promote the relevance of sustainability, including climate change, in companies' business strategies and operations; the SCCC advocates for the professional accountant's role in sustainability reporting; it endorses high-quality sustainability reporting and keeps pace with related advances. Three subcommittees, namely those for quality, sustainability excellence, and education support the work of the SCCC.

Finally, a comprehensive example of a task force is found in the European Lab Project Task Force on European Sustainability Reporting Standards[35] that was established in September 2020. The aim of the task force was to start developing the sustainability standards in project mode as a premise to the work of the EFRAG sustainability reporting bodies. The 35 members were appointed through a call for candidates and a selection process. They all have expertise in sustainability reporting and originate from 13 European Union member States. European public authorities were also invited to participate. A secretariat supports the work of the task force by providing technical expertise, project management and drafting input. It is comprised of around 30 members (in full-time equivalent) provided by constituents and stakeholders as contributions in-kind and working together with resources from the EFRAG secretariat. Most of the participants in the secretariat contribute to the project on a 50 per cent basis, with some contributing more, and only a few are on a 100 per cent basis.

Box 2 contains information on how stock exchanges can promote sustainability reporting among listed companies.

- Create a steering committee with leading entities and ensure Government leadership. The steering committee can be composed of two or three leading entities in charge of the development of the action plan and responsible for the implementation of its activities and recommendations, as well as for the coordination with other leading and supporting institutions from the public and private sectors. Leadership from the Government will facilitate engagement from other key counterparts in the public and private sectors.

  In Guatemala, for example, this committee is composed of the Ministry of Economy and CentraRSE,[36] working in collaboration with the Secretariat of Planning. With a view to promote engagement, the steering committee in Guatemala opted to host bilateral meetings before the action plan presentation to brief key counterparts, clarify questions for specific actions, and capture important feedback beforehand. By doing this, the committee was not only able to mitigate potential risks during the action plan presentation (misunderstandings or lack of participation) but also to gain support from key entities.

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32 Colegio de Contadores, Economistas y Administradores del Uruguay.

33 https://deres.org.uy.

34 https://www.isca.org.sg/standards-guidance/sustainability-and-climate-change.

35 https://www.efrag.org/EuropeanLab/LabGovernance/45/European-Lab-PTF-on-European-Sustainability-Reporting-Standards.

36 https://centrarse.org/.

Box 2. The role of stock exchanges

The Sustainable Stock Exchanges Initiative (SSE),[37] a United Nations Partnership Programme organized by UNCTAD, the United Nations Global Compact, UNEP Finance Initiative and the Principles for Responsible Investment initiative, provides a global platform for exploring how stock exchanges, in collaboration with investors, companies, regulators, policymakers and relevant international organizations can enhance performance on ESG issues and encourage sustainable investment, including the financing of the SDGs.

The SSE seeks to achieve this mission through an integrated programme of conducting evidence-based policy analysis, facilitating a network and forum for multi-stakeholder consensus-building, and providing technical guidelines, advisory services and training. Over the past decade, SSE member exchanges have rapidly increased the number of written guidance documents on sustainability reporting from exchanges to listed companies from just 6 in 2012 to 67 in 2022.

For instance, in 2015 the SSE launched a Model Guidance for Exchanges to promote reporting of ESG information. Currently, 56 per cent of stock exchanges tracked by the SSE have published ESG reporting guidance for their listed companies. The SSE also maintains a database[38] of all of these guidance documents.

Source: UNCTAD based on information from https://sseinitiative.org/.

In Kenya,[39] the National Sustainability Steering Committee will oversee the implementation of the national action plan; the Chair will be the National Treasury, and the Co-Vice-Chairs the Nairobi Securities Exchange and the Capital Markets Authority, while the Institute of Chartered Accountants of Kenya will be the secretariat in charge of tracking overall progress.

In South Africa,[40] the steering committee decided to meet three times a year, following the schedule agreed on by the operational working groups. In this way, it is able to monitor the success of the action plan implementation, ensuring commitment from the working groups and adjusting planned activities promptly when necessary.

Box 3 describes the process followed by Mexico to advance sustainability reporting.

Box 3. The case of Mexico

With a view to advancing sustainability reporting in the country, several activities have been conducted. These include:

- Creation of a Sustainability Finance Committee as a national working group led by the Government and including the participation of the Ministry of Finance, the Central Bank, the National Securities and Banking Commission and with participation of other entities such as CINIF, the Mexican Institute of Public Accountants and the National Association of Universities.
- Development of a sustainability taxonomy by the Ministry of Finance with the aim of avoiding greenwashing and social washing and increasing reporting comparability and transparency.
- Definition of a sustainability reporting standard setter or regulator: the National Securities and Banking Commission is in charge of issuing requirements for listed companies and the financial sector, and CINIF has expanded its mandate to address the sustainability disclosure standards. A Consultative Committee on Sustainability Reporting will support the CINIF activities by providing advice and guidance. The Consultative Committee will be formed by representatives

[37] https://sseinitiative.org/.

[38] https://sseinitiative.org/esg-guidance-database/.

[39] This information was gathered by UNCTAD through technical assistance activities conducted in the country.

[40] This information was gathered by UNCTAD through technical assistance activities conducted in the country.

Box 3. The case of Mexico *(Cont.)*

from the Ministry of Finance, the Central Bank, the National Securities and Banking Commission, the National Insurance Commission, the National Association of Faculties of Accountancy, the Association of Banks of Mexico, the Mexican Institute of Public Accountants, and the Big Four accounting firms. The standards issued by CINIF are applicable to large non-listed companies and SMEs and will be guided by the sustainability disclosure standards of the ISSB but will also consider a simplified framework for SMEs, such as UNCTAD GCI.

- Development of a strategy for the strengthening of professional skills: to foster professional skills, the National Association of Faculties of Accountancy is promoting the incorporation of sustainability issues in university curricula and the Mexican Institute of Public Accountants is developing continuing professional education programmes including sustainability reporting topics.
- Consultation and exchanges with peers: during the first year of operation, the CINIF chaired the Latin American Partnership for the promotion of sustainability reporting with the support of the National Securities and Banking Commission and the Mexican Institute of Public Accountants. The Partnership allows sharing experience, lessons learned and challenges with counterparts in the region.

Source: UNCTAD based on discussions at the Consultative Group Meeting in March 2022.

2.3 How to formulate the plan

The following process may be considered in the formulation of a national action plan:

- Assess the current corporate reporting infrastructure, through the diagnostic of the regulatory, institutional and human-capacity elements, and the capacity-building and coordination process to change or adapt those elements at the national level to determine a baseline for improvement opportunities. This will provide the country with a benchmark against international corporate reporting standards and best practices but will also identify gaps to be prioritized, key strategic allies to close those gaps and other capacity-building opportunities to enhance corporate reporting, especially sustainability and SDG reporting. This can be done using the UNCTAD ADT.[41] Then an analysis of problems and their causes can be conducted by breaking down gaps and issues and identifying root-cause problems to be tackled.

  The ADT has been developed by UNCTAD-ISAR to act in response to capacity-building needs regarding the implementation of international standards, codes and regulations for corporate reporting. The ADT is a quantitative tool for measuring the level of development of a country's accountancy environment that is based on international standards and best practices in financial and sustainability reporting. It offers a quantitative benchmark of a country's position at a specific moment in time and its progress towards strengthening and improving the use of international standards and best practices. It considers listed companies, the financial sector, other public-interest entities, and micro-, small and medium-sized enterprises (MSMEs), and it contains an addendum dedicated to the public sector.

  The information collected and elaborated through the ADT can be used to communicate and engage with different stakeholders, including regulators, donor agencies, professional associations, educators, and capital-market players. In particular, the analytical information provided by the ADT can be used to assist stakeholders in the detection and prioritization of areas requiring improvement and in defining a roadmap and an action plan for convergence towards international accounting and reporting best practices. For standard setters and regulators, especially in developing economies, it supports the understanding of accounting challenges; for academia, the ADT can help to fine-tune

[41] https://adt.unctad.org/about-the-tool/why-focus-on-accounting-for-development/.

accounting curricula and discover areas for human capacity-building. Government agencies can leverage the ADT to outline gaps and proper policies and resources to be allocated. It can also be used by regulators to analyse the implementation and enforcement of standards over time and by donors to assess the impact of their support for the convergence of the national accounting infrastructure. Finally, investors will know more about the state of development of the financial architecture, the quality of reporting and the investment climate.

The ADT is aimed at self-assessment at the country level and over time. To apply this tool, UNCTAD coordinates its implementation together with a government counterpart or a national accounting body and with the support of representatives from key stakeholders at the national level in financial and sustainability reporting to fill in the diagnostic questionnaire. Stakeholders usually include securities, banking and insurance commissions, stock exchanges, standard setters, audit chambers, accounting firms, PAOs, academia, public-sector accounting authorities, SME regulators, institutes of directors, experts in the area of sustainability, and country SDG focal points.

The ADT is structured into four main pillars and related indicators:

(A) Legal and regulatory framework

- A.1 – Financial reporting and disclosure
- A.2 – Audit
- A.3 – Incorporation of ESG information into enterprise reporting
- A.4 – Corporate reporting requirements: enforcement, monitoring of implementation, and compliance
- A.5 – Licensing of auditors
- A.6 – Corporate governance
- A.7 – Ethics
- A.8 – Investigation, discipline and appeals

(B) Institutional framework

- B.1 – Financial reporting standards – institutional aspects
- B.2 – Audit standards – institutional aspects
- B.3 – ESG reporting – institutional aspects
- B.4 – Compliance, monitoring and enforcement – institutional aspects
- B.5 – Audit regulation – institutional aspects
- B.6 – Coordination
- B.7 – Ethics – institutional aspects
- B.8 – Accountancy profession – institutional aspects

(C) Human capacity

- C.1 – Professional education and training
- C.2 – Professional skills and general education
- C.3 – Assessment of accountancy capabilities and competencies
- C.4 – Practical experience requirements
- C.5 – Continuing professional development

C.6 – Advanced level and specialized training after initial professional development

C.7 – Regulators and others in the reporting supply chain

C.8 – Requirements for accounting technicians

(D) Capacity-building process

Public-sector addendum

P.1 – Financial reporting and disclosure

P.2 – Audit

P.3 – Monitoring and Compliance

P.4 – Institutional aspects

The ADT is continuously reviewed and updated by the international experts of the UNCTAD-ISAR working group to take into consideration the evolution of the accounting and reporting best practices.

- Develop a list of recommended activities and actions that addresses the root-cause problems identified. These activities can be further detailed into manageable sub-activities and should be linked to targets, resources needed, a timeline (five years are suggested), and leading and supporting implementing institutions.

  The list of activities can be developed by the steering committee in coordination and through discussions with the task force, based on the results of the national infrastructure assessment and the problem–cause analysis. Actions that could potentially be addressed together should be identified, as they will be under the responsibility of the same leading or supporting institutions and have similar timelines for delivery.

- Involve international experts for review and comments that can improve the recommended actions and ensure consistency. The international experts provide an independent review of the ADT documents and the national action plan that can ensure consistency across assessment exercises, add value and tailor recommendations and actions to the needs of the country. Based on the experience of Colombia,[42] the participation of external experts enhances the assessment documents and the national action plan.

  It is suggested to involve international experts along with experts with local knowledge of the region and country. In addition, the presentation and discussion of the action plan with the task force allows the collection of feedback and promotion of buy-in and synergies among key entities that can support the planning of following steps and the further coordination of possible resource engagement. As mentioned previously, bilateral meetings with strategic partners conducted prior to the main presentation of the action plan can facilitate support.

2.4 How to implement the plan effectively

Finally, some practical lessons learned that may be useful in the implementation of a national action plan or strategy are as follows:

- Formalize institutional commitments through a legal instrument or a memorandum of understanding (MoU) to secure resources and collaboration among key entities and allow for continuity through the five-year timeline, even in the event of organizational changes in entities or among government representatives.

  The legal instrument or the MoU could cover entities that are members of the steering committee or could also be extended to entities in the task force; however, a larger number of entities will entail a longer period for the agreement and issuance of an MoU.

[42] This information was gathered by UNCTAD through technical assistance activities conducted in the country.

- Ensure professional project management through the steering committee in coordination with the task force. In defining the implementation process for the action plan, countries should aim to develop a realistic timeline by taking into consideration the internal planning and budget approval procedures of the leading implementers, particularly with regard to government entities.

  A simplified list of activities to initiate implementation may be developed to avoid resistance and provide an overview of the required actions. It is important for the steering committee to select the actions that can be implemented or started in the short term, based on importance, urgency and ease of implementation.

  The steering committee could clarify the responsibilities of key entities in each phase and for each activity of the action plan. To expedite implementation, actions and activities may be grouped based on those that can be delivered together, depending on responsible implementers and delivery dates. For example, capacity-building activities may be combined to include different target groups, or two guidance documents may be discussed by the same key entities at one round table. Countries could also consider creating operational working groups in charge of implementing certain activities and include those entities with the corresponding mandate and expertise.

  Moreover, promoting effective communication throughout the different phases of the implementation process is essential, and the creation of a one-stop shop website could be instrumental in this regard. For instance, the one-stop shop could announce when exposure drafts of standards are available for comments; a section of the website could include a repository of examples of good practices or guidance; another section could list the trainings and classes offered on sustainability reporting at universities or at the PAO, and the like.

  Finally, the employment of a continuous monitoring process is critical and could result in adjustments to the action plan. Constant updates to the sustainability reporting framework, guidelines, training materials and curricula may be needed according to developments at the international level, such as changes due to standards issues by the ISSB. Countries might also need to monitor changes with regard to key relevant topics for inclusion in any of the reporting areas, whether economic, environmental, social or institutional.

- Capture benefits from international experience and effective practices by sharing best practices with other countries on implementing or enhancing a sustainability reporting infrastructure. Regular touch points may be an option for sharing best practices, providing regional updates and exploring synergies across regions. For instance, the Regional Partnerships for the Promotion of Sustainability Reporting in Africa and Latin America are facilitating such processes.

- Consider introducing a national repository of sustainability reports similar to those in various jurisdictions for the financial statements of listed companies, to make the information available to different types of users and avoid companies having to produce or submit information to different entities or users. In addition, this will facilitate measuring the contribution of the private sector to the SDGs and it will enable tracking progress on SDG indicator 12.6.1, "Number of companies publishing sustainability reports".

  There are some examples of international repositories of sustainability reporting. The United Nations Global Compact requests that the signatories to its 10 principles report using the Communication on Progress platform. This database[43] contains over 15,000 signatories from more than 160 countries. Another example is the Corporate Register database[44] that includes searchable (by company name) non-financial reports that are publicly available. In addition, the International Portal for Sustainability Reporting[45] collects annual reports (both separated and integrated reports) of international companies

43 https://www.unglobalcompact.org/what-is-gc/participants.

44 https://www.corporateregister.com.

45 https://www.sustainability-reports.com/.

containing sustainability information. Moreover, the Integrated Reporting examples database[46] includes samples of integrated reports. Some leading practice integrated reports are highlighted, in the form of both entire reports and best-in-class extracts.

An example of a regional repository is given by the Arab Sustainability open online platform,[47] with the most up-to-date database of organizational sustainability performance in the Middle East and North Africa region. However, it does not contain sustainability reports but data on sustainability performance. The objective of this platform is to stimulate organizations in the region to disclose and enhance their sustainability performance. Top performers under a range of indicators are shown on the homepage. Companies can employ the platform to store, analyse and benchmark their data.

3. Main components of the national sustainability reporting action plan

Some recommendations can also be identified with regard to the three main components of a national action plan for sustainability reporting, namely, the regulatory, institutional and human capacity components.

As a basis for developing these elements, a taxonomy of sustainable activities may be established. For example, the European Commission has developed an environmental taxonomy, that is, a classification system to ascertain whether economic activities are environmentally sustainable. The aim of the taxonomy is to help the European Union increase sustainable investments and achieve the European Green Deal. The Taxonomy Regulation identifies six objectives to which activities should contribute: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; the protection and restoration of biodiversity and ecosystems.[48] A European Union social taxonomy to define what a “social investment” is, is underway. Moreover, countries such as India and Mexico[49] are developing national taxonomies. A taxonomy can be instrumental in avoiding greenwashing and SDG washing, and in increasing the comparability and transparency of reports. See Box 4 for more information on the European Union environmental taxonomy.

Box 4. European Union environmental taxonomy

To achieve the objectives of the European Green Deal,[50] including a 55 per cent decrease in GHG emissions by 2030 and becoming a climate-neutral continent by 2050, in 2018 the European Commission published a sustainable finance plan with the aim of encouraging green investments. To implement this plan, a clear definition of what “green” means was required. Therefore, in June 2020 European Union established a taxonomy, that is, a classification system identifying a list of environmentally sustainable economic activities.

The European Union taxonomy[51] comprises six environmental objectives:

(1) Climate change mitigation;
(2) Climate change adaptation;
(3) The sustainable use and protection of water and marine resources;
(4) The transition to a circular economy;

46 https://examples.integratedreporting.org/.

47 https://arabsustainability.com/.

48 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en.

49 This information was shared during the Consultative Group meeting which took place virtually in March 2022.

50 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en.

51 https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en.

Box 4. European Union environmental taxonomy *(Cont.)*

(5) Pollution prevention and control;

(6) The protection and restoration of biodiversity and ecosystems

It also outlines four features for an economic activity to be "taxonomy-aligned". The activity should:

(1) Make a substantial contribution to at least one environmental objective;

(2) Do no significant harm to any other environmental objective;

(3) Comply with minimum social safeguards;

(4) Comply with the technical screening criteria, that is, environmental performance requirements that guarantee the economic activity makes a substantial contribution to the environmental objective in question and does no significant harm to any other environmental objectives.

The Taxonomy Regulation applies to all large European companies that are already subjected to the Non-financial Reporting Directive and to financial institutions offering financial products on the European market. It will be introduced in two phases. During the first phase entities will have to disclose the proportion of their turnover, capital and operational expenditures that is related to taxonomy-eligible activities, that is, that make a substantial contribution to one of the six environmental objectives of the taxonomy. This phase relates to the 2022 annual report. In the second phase entities will have to disclose the proportion of their turnover, capital and operational expenditures that is taxonomy aligned. This phase will begin in 2023 for large companies and in 2024 for financial institutions. The taxonomy will be continuously reviewed and updated and will evolve over time.

Source: UNCTAD based on information from the European Union taxonomy for sustainable activities.

Reporting standards and assurance processes should be designed in a way that facilitates structured digitalization, in order for sustainability information to become more widely accessible and readable by both humans and machines. For example, the ISSB is working on proposals enabling the electronic tagging of sustainability disclosures.[52] In this regard, convergence with other international taxonomies should be promoted to the extent possible.

3.1 Regulatory component

Concerning the regulatory component of a sustainability reporting infrastructure, countries may consider some or all of the following aspects:

- Map pre-existing regulations and initiatives, to take them into consideration in the development of the sustainability reporting framework and requirements, for example on environmental or health-related topics. This needs to be done on a country-by-country basis.
- Start with listed companies and the financial sector, in line with international practice, and consider a voluntary or a "comply or explain" approach for other types of entities. Comply or explain is a mechanism in which companies must follow a recommendation or state the reasons why the recommendation was not observed.
- Adopt a transitional or phased approach towards mandatory sustainability reporting. This would allow companies to adapt smoothly to the new reporting requirements, and they will have enough time to build capacity in sustainability reporting, establish the necessary procedures to collect data and measure their impacts, and make a progressive implementation of the requirements.

[52] https://www.xbrl.org/news/issb-publishes-draft-sustainability-reporting-standards-sets-course-for-alignment/.

- Use a "building-blocks" approach, to allow for the layering of additional reporting requirements onto a baseline. For example, the ISSB is using such an approach to define the new sustainability reporting standards to be able to deliver a global, consistent and comparable sustainability reporting baseline, while at the same time leaving flexibility and room for jurisdictional reporting needs and for reporting requirements aimed at a broader group of stakeholders. For instance, countries could request companies to also provide information about the positive and negative impacts of their activities on the economy, environment and society, in order to measure the contribution of the private sector to the implementation of the SDGs. Box 5 contains more information on the building-blocks approach used by ISSB.

Box 5. ISSB building-blocks approach

The building-blocks approach used by ISSB[53] allows the addition of requirements that are jurisdiction specific or aimed at a broader group of stakeholders. The objective is for ISSB standards to be successfully incorporated into local reporting requirements. Block 1 is represented by "investor-focused sustainability information material to enterprise value". It consists of global standards for baseline sustainability disclosure focused on investors' and creditors' needs. Each country will have to establish enforcing mechanisms or other procedures to make them effective, such as providing guidance. Existing mechanisms used for adopting and implementing IFRS in financial reporting may be employed and adapted for sustainability reporting. Block 2 is "multi-stakeholder-focused reporting – impacts on the economy, the environment and people". For this block, jurisdiction-specific reporting requirements will need to be defined by national authorities and the information disclosed will address the needs of a larger range of users.

Source: UNCTAD based on information from the ISSB building-blocks approach.

- Develop a sustainability reporting framework in convergence with the ISSB. The ISSB is developing international reporting standards that provide a comprehensive global baseline for sustainability disclosures. Consistent with the approach taken for the IFRS, it is for jurisdictions to decide whether to mandate the use of ISSB standards. The standards can be implemented in combination with jurisdiction-specific requirements or requirements aimed at meeting the information needs of broader stakeholder groups beyond investors and creditors.

  The ISSB proposals are developed based on the work of the Climate Disclosure Standards Board,[54] the IASB, the Value Reporting Foundation[55] (that is, Integrated Reporting and SASB standards), the TCFD[56] and the World Economic Forum.[57] On 31 March 2022, the ISSB published the exposure drafts "General Requirements for Disclosure of Sustainability-related Financial Information"[58] and "Climate-related Disclosures".[59] [60] The first draft clarifies that the objective of sustainability-related financial disclosures is to deliver information about material sustainability-related risks and opportunities that is helpful to primary users of financial reporting in determining whether to provide resources to

53 https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/supporting-materials/issb-webinar-presentation-april-2022.pdf.

54 https://www.ifrs.org/sustainability/climate-disclosure-standards-board/.

55 https://www.valuereportingfoundation.org/.

56 https://www.fsb-tcfd.org/.

57 https://www.weforum.org/stakeholdercapitalism/our-metrics.

58 https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf.

59 https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf.

60 https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/.

the reporting entity. The Climate Standard relies on the TCFD recommendations.[61] Companies would need to report information about the governance processes for monitoring and managing climate-related issues; how their business model, strategy and cash flows could be affected by climate risks; plans and targets for climate issues; the use of climate-related scenario analysis to evaluate risks and opportunities. Companies would also be required to disclose their Scopes 1, 2 and 3 GHG emissions in absolute terms as well as per unit of economic or physical output consistent with the GHG protocol. In addition, the Climate Standard includes climate-related disclosure requirements by industry in line with the SASB approach.[62] Materiality is considered in the context of the information that users of general-purpose financial reporting need to evaluate enterprise value.

The IFRS Foundation has a cooperation agreement with the GRI, which, conversely to the investor-focused perspective of the ISSB, has developed multi-stakeholder sustainability reporting standards following the double-materiality principle. This agreement[63] stresses that they will strive to coordinate work programmes and standard-setting activities. It also highlights the importance of ensuring coherence between sustainability disclosures addressing the needs of capital providers and those focusing on a wider set of stakeholders and looking at double materiality.

- Go beyond the preparation of sustainability information for investors' needs and promote responsible investment by asking companies to disclose their impacts on the SDGs, namely their positive and negative impact on the economy, the environment and society. In this regard, the GCI would be a useful tool. While considering impact on society, human rights could be taken into account, for which countries can refer to the Guiding Principles on Business and Human Rights.[64]
- Define specific requirements that would consider the needs of different categories or segments of entities. For instance, a simplified requirement or voluntary guidance for non-listed companies and SMEs, such as the GCI (see Box 6). In particular, SMEs need to be carefully reflected in the sustainability regulation or framework because they represent the majority of companies worldwide. For example, EFRAG has established a cluster organization (Cluster 8 – see also Box 1) that is working on sustainability standards that would take into consideration the needs as well as the reporting capabilities and resources of SMEs.[65]
- Promote the evolution of public-sector reporting to include sustainability information. For example, in Brazil, federal-level state-owned companies are required to report sustainability information using a single reporting framework, in this case the Integrated Reporting Framework.
- Emphasize good corporate governance practices as a pre-requisite for effective sustainability reporting. Particular attention should be paid to diversity-related issues when dealing with corporate governance aspects.
- Publish the requirements, guidance or framework for public comments so that feedback can be incorporated during the development process. For instance, as detailed in the publication *EFRAG's Due Process Procedures*, EFRAG has defined an inclusive public consultation process with stakeholders with the aim of collecting their feedback and views.

  Consultation periods are specified on the EFRAG website, and any interested party may make their input available through transparent public comments. Exposure drafts indicate the time and manner according to which written comments can be provided. They become part of EFRAG publicly available documents

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61 https://www.fsb-tcfd.org/recommendations/.

62 https://www.ifrs.org/news-and-events/news/2022/08/ifrs-foundation-completes-consolidation-with-value-reporting-foundation/.

63 https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/.

64 https://www.ohchr.org/sites/default/files/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.

65 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F20211015%2520PTF-ESRS%2520status%2520report%2520(final).pdf.

Box 6. The Guidance on core indicators for sustainability and SDG impact reporting[66]

Sustainable Development Goal target 12.6, which is linked to SDG 12, "Ensure sustainable consumption and production patterns", encourages companies to adopt sustainable practices and to integrate sustainability information into their reporting cycles. The related indicator 12.6.1 is "Number of companies publishing sustainability reports". UNCTAD and UNEP are co-custodians of this indicator and are, thus, responsible for developing its measurement methodology and collecting data to track progress. Corporate reporting is an important source of data on the impact of companies' activities on the economy, environment and people. For this reason, since 2015 UNCTAD has been working to enable further advancements on SDG and sustainability reporting by companies, specifically focusing efforts to support Governments in measuring the contribution of the private sector to the implementation of the SDGs. Therefore, it developed the GCI, which was launched at the thirty-fifth session of ISAR (ISAR 35) in 2018. A revised version of the GCI was published – *Guidance on Core Indicators for Sustainability and SDG impact Reporting* – in 2022. The first version of the GCI was based on deliberations from 2016 to 2018 during three ISAR annual sessions, intersessional forums and consultative group meetings; the second version of the GCI is based on three years of deliberations in ISAR sessions and consultative group meetings, further alignment with the SDG macro-level indicators and practical implementation feedback from 2019 to 2021.

The GCI contains 34 quantitative core SDG indicators that cover the economic, environmental, social and institutional areas. The indicators are intended as a starting point in the journey towards sustainability and SDG reporting by enterprises, particularly SMEs. The objective of the GCI is to provide practical information on how these indicators can be measured in a consistent manner and in alignment with countries' needs on monitoring the attainment of the SDG agenda. It is aimed to serve as a tool to support Governments to assess the private-sector contribution to SDG implementation and could inform the voluntary national review process at the national level. The GCI also assists entities to provide baseline data on sustainability issues in a consistent and comparable manner that would meet the common needs of many different stakeholders of the SDG agenda. However, the indicators do not attempt to preclude companies from providing more information in a qualitative or quantitative form.

Since the first edition of the GCI, UNCTAD has prepared 36 case studies on the practical application of the core SDG indicators in different types of entities from various countries and industries, including listed companies, SMEs and family businesses. The case studies were presented and discussed at ISAR 36, 37 and 38, and provided further evidence of the applicability of the GCI approach and its value in facilitating sustainability and SDG reporting by companies in a consistent and comparable manner. The case studies have also underscored the role of the GCI as a capacity-building tool for the integration of sustainability information in companies' accounting and reporting cycles, and they have further highlighted the need to build technical expertise to report on the core SDG indicators.

Consequently, UNCTAD developed the *Core SDG Indicators for Entity Reporting Training Manual*, a practical tool useful for all kinds of users, including SME report preparers. The manual facilitates the understanding of companies' impacts on the implementation of the SDGs. It builds on the GCI by providing detailed explanation on each indicator, including definition, measurement methodology and potential sources of information, as well as useful illustrative and numerical examples of indicator calculations, and examples of how these indicators have been already disclosed by companies around the world. In addition, it contains self-assessment questions and solutions and a list of selected references to deepen the understanding of these issues. Furthermore, UNCTAD has created an e-learning course on the implementation of core SDG indicators for sustainability reporting by companies that allows interested stakeholders to follow the training in a self-paced manner in English, French or Spanish.

Source: UNCTAD.

66 https://unctad.org/system/files/official-document/diae2022d1_en.pdf.

and are posted on its website. If confidentiality is demanded, the name of the respondent is not disclosed. Specifically, feedback received during the public comment period is reflected in the preparation of the final technical advice (draft standards or draft amendments) to the European Commission by the EFRAG Sustainability Reporting Board. Public consultations are also carried out through specific events, field tests and surveys. Additional materials, such as project summaries, podcasts, webcasts, educational material, Q&As and presentations, can be issued by the EFRAG secretariat.

- Require external assurance to ensure the quality, reliability and comparability of sustainability reporting. A proportional and phased approach to assurance requirements for SMEs would allow appropriate time for implementation.

  As defined by the International Auditing and Assurance Standards Board (IAASB), an assurance engagement means "an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria".

  The IAASB has developed an umbrella of standards for assurance of non-financial information, that is, the International Standard on Assurance Engagements (ISAE) 3000 (Revised); Assurance Engagements Other than Audits or Reviews of Historical Financial Information; and some subject-matter-specific standards such as, ISAE 3410 and Assurance Engagements on Greenhouse Gas Statements. The IAASB is working on updating and improving the assurance of sustainability and ESG reporting. In March 2021, the IAASB approved its Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements.

  Two options for assurance are provided by ISAE 3000 (Revised), depending on the level of depth and rigor of the assessment. Reasonable assurance provides the report's users with a relatively high degree of comfort that the subject matter is not materially misstated, while limited assurance provides the users with a lower level of comfort.

  Besides compliance, the most important benefits of assurance can be increased stakeholder confidence, processes improvement, higher reputation, and easier external funding.

  In addition, the IAASB is now working on developing an overarching standard for assurance on sustainability reporting that will comprise limited and reasonable assurance, the conduct of an assurance engagement in its entirety and areas of sustainability assurance where priority challenges have been identified.[67] In this regard, countries will have to monitor new developments and update the requirements as needed.

- Stimulate the adoption of sustainability reporting by companies through various promotional activities, such as awards, grants, and access to low-cost financing, among others. There are different examples of sustainability reporting awards around the world. They are an effective and relatively easy way to incentivize companies to focus on and enhance the quality of sustainability disclosures by making them visible for their commitment and success.

  For instance, ISAR Honours[68] raises awareness and supports the visibility and diffusion of national and international best practices on sustainability and SDG reporting, related to both the public and private sector. It is an award for policy, institutional and capacity-building initiatives aimed at incentivizing enterprises to disclose information about their contribution to the achievement of the SDGs, and that support Governments in gathering data for SDG monitoring needs.

[67] https://www.iaasb.org/focus-areas/sustainability-assurance.

[68] https://isar.unctad.org/2022/04/05/isar-honours-2022/.

The Asia Sustainability Reporting Awards[69] is a non-profit initiative that encourages and celebrates quality in sustainability reporting. It is a platform for sharing best practices, benchmarking, and learning from the experience of peers.

Similarly, in 2015 the Danish Government supported the CSR Awards organized by the CSR Foundation. The aim of the award was to increase awareness about the commitment of Danish companies towards sustainability reporting and to share and learn from best practices.[70]

The CR Reporting Awards[71] were launched in 2007 and are managed by the Corporate Register, a provider of a global online directory of sustainability reports. It celebrates best-in-class companies in corporate non-financial reporting, across several categories, including the best integrated report, the best ESG report and the best carbon disclosure report.

In Italy, the Oscar di Bilancio,[72] promoted by Borsa Italiana (the Italian Stock Exchange), Bocconi University and the Federazione Relazioni Pubbliche Italiana, awards the most virtuous companies in reporting and transparency, in various categories, including SMEs, and special prizes for integrated reporting and non-financial reporting.

3.2 Institutional component

Regarding the institutional component of sustainability reporting infrastructure, countries may consider undertaking some or all of the following actions:

- Identify or establish an entity at the national level and/or a local standard setter to be in charge of sustainability reporting and of integration with the financial standard setter.

  In India, for example, the Institute of Chartered Accountants of India established the Sustainability Reporting Standards Board in February 2020. Its mission is to formulate comprehensive, globally comparable and understandable standards for measuring and disclosing non-financial information about an entity's progress towards the SDGs. The standards should enable the provision of reliable and useful information to various stakeholders on a timely basis.

  In Mexico, CINIF has updated its statutes to widen the scope of its mandate to issue and disseminate sustainability disclosure standards for non-listed companies and SMEs.[73]

  With regard to integration, EFRAG ensures coordination between financial and sustainability reporting by different means, including observership of the Chairs of the two EFRAG Reporting Boards, joint regular meetings between the Reporting Boards, consideration of the connectivity aspect in the development of technical positions and technical advice in the form of draft European Union Sustainability Reporting Standards.[74]

- Designate a body in charge of compliance monitoring with, and enforcement of, sustainability reporting requirements. Enforcement refers to the functions performed by an independent regulator to guarantee the compliance of a company's disclosure with the standards and the reporting framework required by a jurisdiction.

  Implementing an effective monitoring and enforcement system is a crucial task. The development of

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69 https://csrworks.com/asra/.

70 https://mcdonoughpartners.com/2015-csr-conference-and-awards-in-denmark/.

71 https://corporateregister.com/crra/about/#:~:text=The%20CR%20Reporting%20Awards%20%28CRRA%29%20are%20the%20only,largest%20online%20directory%20of%20CR%20%26%20Sustainability%20Reports.

72 https://www.ferpi.it/news/oscar-di-bilancio-2021-tutti-i-vincitori-del-premio-dedicato-alleccellenza-nella-comunicazione-finanziaria.

73 https://unctad.org/system/files/non-official-document/ciiisar39_2_EGBojorges_en.pdf.

74 EFRAG due process procedures and European Union sustainability reporting standard-setting, approved by the EFRAG General Assembly on 15 March 2022.

such a system implies the design of a set of activities for compliance monitoring and enforcement and of methodologies for both the prevention and correction phases. It also implies the designation of a body that should be independent and have enforcement powers, that is, the capability to guarantee that their conclusions and recommendations following inspection are properly addressed and the ability to execute a variety of sanctions. It is also important to think about coordination mechanisms with other areas of legislation and regulation and other bodies at national and international levels.[75]

- Promote coordination among all key entities at the national level, comprising regulators, standard setters, accounting firms, associations of companies by industry, PAOs and universities.
- Support these institutions to ensure that they are adequately staffed, diverse, and have sufficient financial resources to operate. The allocation of appropriate human and financial resources fosters a fair, transparent and efficient process. Recruiting the right calibre and number of staff is essential to the quality and independence of institutions. Suitable funding guarantees that these entities are free from external influences to execute their powers and responsibilities. Appropriate competencies and diversity are also recommended to encourage critical thinking, represent the views of people of varied backgrounds, and promote unbiased decisions.

3.3 Human capacity aspects

With regard to the human capacity component of sustainability reporting infrastructure, a key challenge is related to limitations in the sustainability talent pool. To overcome this challenge, countries may consider some or all of the following aspects:

- Ensure availability of capacity-building for professionals and preparers participating in the production and assurance of sustainability reports, such as accountants, auditors, environmental scientists proficient in carbon accounting and scenario analysis. For instance, in the case of accountants and auditors this can be promoted through partnering with PAOs and making sure that the continuous professional development programmes are up to date with sustainability reporting developments. Partnering with PAOs in capacity-building activities can enable broader participation from their members, who play a key role in entity reporting. This can result in a larger number of professionals with the required technical skills and improved awareness of sustainability reporting. Adequate technical skills from all key players are a fundamental prerequisite for the implementation and strengthening of a high-quality sustainability reporting infrastructure.

  For instance, the Institute of Chartered Accountants in England and Wales offers technical resources for members in such topics as non-financial reporting, sustainability and climate change, corporate governance, and audit and assurance.[76]
- Ensure that the university curricula are up to date with sustainability reporting requirements and international developments. For example, in Kenya and South Africa working groups have been established to facilitate coordination between PAOs and academia and to ensure that curricula and professional education programmes are aligned and updated with relevant modules on sustainability and SDG-related reporting.
- Build capacity in the public sector, especially among regulators, for compliance monitoring and enforcement of sustainability and SDG reporting by companies.
- Provide specific technical support to MSMEs for financial and sustainability reporting and develop a set of tailored methodological and training materials. MSMEs are the backbone of the economy across the globe and important drivers of innovation and development. MSMEs make up the

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[75] See “Key foundations for high-quality corporate reporting”, note by the UNCTAD secretariat: https://unctad.org/system/files/official-document/ciiisard70_en.pdf.

[76] https://www.icaew.com/technical.

majority of the economic engine of developing countries and are a major source of employment and self-employment, including for vulnerable groups.

Since the COVID pandemic continued access to finance for MSMEs, including public financial support, has been essential. Such access is facilitated by adequate reporting, not only on economic performance but also on sustainability issues. Thus, building expertise on accounting and sustainability reporting is becoming increasingly important.

4. Conclusions and recommendations

Over the last year, significant progress has been made towards establishing global sustainability reporting standards and moving in the direction of mandatory sustainability disclosures around the world. This note has outlined recommendations, good practices and examples that can be used by policymakers and other interested stakeholders to establish and strengthen the national sustainability reporting infrastructure and to prepare for upcoming sustainability reporting standards and requirements.

The recommendations offered in this policy guide need to be interpreted and exploited in light of the local political and regulatory issues, the specific ecosystem of stakeholders within each jurisdiction and the institutional setting. However, there are three recommendations that are universally valid:

- **First, countries should start reinforcing their sustainability reporting infrastructure as early as possible.**
- **Second, given the multidimensional nature of sustainability and SDG reporting, it is critical to ensure a collaborative process based on a multi-stakeholder dialogue and cooperation, including key stakeholders from the public and private sectors and civil society.**
- **Third, the sustainability reporting infrastructure should be flexible and dynamic to accommodate continuing updates, to allow it to respond to international developments, new sustainability reporting standards and other requirements.**

While regulators and standard setters in the United States, the European Union, and other jurisdictions globally are making progress on sustainability reporting standards, policymakers and interested stakeholders around the world have a great opportunity to prepare and commit to strengthening transparency and accountability towards sustainable development by taking action to establish and improve the national sustainability reporting infrastructure today. The area of sustainability reporting has gained momentum and is in flux; countries are starting to adapt their reporting ecosystems and the ISSB standards and other standards are being developed. UNCTAD will continue supporting member States and collecting experience and lessons learned that can update and enrich this document. The next couple of years represent an opportunity for action to innovate corporate reporting and accounting infrastructure. Regulators, standard setters, companies and civil society, including academia and PAOs, need to collaborate to contribute to this process of redefinition of corporate reporting and accountability that is better suited for sustainable development.

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