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## Trade and Development Board Investment, Enterprise and Development Commission Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

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

**Note by the UNCTAD secretariat**

#### *Summary*

The private sector plays a critical role in the implementation of the 2030 Agenda for Sustainable Development. To enhance its contribution towards the achievement of the Sustainable Development Goals it is important to have means of assessing its input in a consistent manner. Sound company reporting on Goals-related issues has become even more important with regard to post-pandemic resurgence, which should be resilient, green and inclusive. Sound accounting and reporting by enterprises are key for making such information available to all concerned stakeholders, including Governments, investors and society at large. However, for reporting to fulfil such a role, further efforts are needed to enhance the harmonization of Goals-related reporting by companies, including its quality, consistency, comparability and reliability, as well as its alignment with the 2030 Agenda and its monitoring framework.

Responding to this challenge, at the fourteenth session of the United Nations Conference on Trade and Development, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting launched an initiative to select a number of universal core indicators for entity reporting in alignment with the macro-level indicators for monitoring progress on the Goals. This work resulted in the development of the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* launched at the thirty-fifth session of the Intergovernmental Working Group of Experts. Several case studies on the application of the guidance were conducted and the results were presented at the thirty-sixth session of the Intergovernmental Working Group of Experts. The agreed conclusions of the session noted that the guidance was a useful toolkit for organizations to provide comparable baseline data on their contributions to the achievement of the Goals and as a means to facilitate the comparability of company reporting on sustainability issues in alignment with the 2030 Agenda. The UNCTAD secretariat was requested to, inter alia, conduct further case studies on the implementation of the guidance to facilitate wider use,



awareness-raising and dissemination of the guidance, as well as training and capacity-building, including in cooperation with relevant training institutions.

This note discusses the results of further application of the guidance and highlights key challenges identified in the process of its implementation. It also suggests issues that may be addressed by the Intergovernmental Working Group of Experts with a view to further facilitating the harmonization and comparability of Sustainable Development Goal reporting by entities and the convergence of existing, diverse reporting frameworks in this area, while also assisting countries in providing data on target 12.6.1 under the Goals and assessing in a consistent manner the contribution of the private sector to the achievement of the Goals.

## I. Introduction

1. Since the adoption of the 2030 Agenda for Sustainable Development, Member States of the United Nations have focused on establishing priorities and development plans for its implementation and on monitoring progress with regard to the achievement of the 17 Sustainable Development Goals and 169 targets. One or more custodian agencies are responsible for the development of metadata guidance on the measurement methodology and on data collection under each of the 231 indicators. Under Goal 12 on responsible consumption and production, target 12.6 is to encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. UNCTAD and the United Nations Environment Programme are co-custodians of indicator 12.6.1 on the number of companies publishing sustainability reports. The coronavirus disease (COVID-19) pandemic has led to calls to build back better as a basis for post-pandemic recovery that should be resilient, green and inclusive. The United Nations framework for the immediate socioeconomic response to COVID-19 states that securing the global environmental commons requires living within planetary boundaries, conserving and sustainably managing globally shared resources and ecosystems, as well as their shared vulnerabilities and risks, to promote human well-being.<sup>1</sup> This further increases the need for a solid system of entity reporting on economic, environmental, social and governance-related issues, as part of global concerted efforts for a sustainable social and economic resurgence.

2. Many of the indicators, including indicator 12.6.1, refer to data already being reported by companies. Therefore, a primary source of information on company performance towards the achievement of the Goals could be company reporting, when stakeholders start to actively report on the impacts of the private sector on the achievement of the Goals.<sup>2</sup> Relevant data on the contribution of companies to the achievement of the Goals allow for the assessment of progress in this area and for the enhancement of Goals-oriented corporate governance mechanisms, and also contribute to behavioural change at the firm level. This, in turn, demands further harmonization and comparability in sustainability reporting at a company level to make reporting useful in helping to reach the targets and indicators under the Goals.

3. Responding to this challenge, at the fourteenth session of the United Nations Conference on Trade and Development, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting launched an initiative to select a number of universal core indicators for entity reporting in alignment with the macro-level indicators for monitoring progress on the Goals. This work resulted in the development of the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals*, launched at the thirty-fifth session of the Intergovernmental Working Group of Experts.<sup>3</sup> The guidance aims to help entities provide baseline data on their contribution to sustainable development in a comparable manner; provides practical information on how selected core indicators can be measured consistently and in alignment with country needs in monitoring the achievement of the Goals; and details how they may be used in preparing voluntary national reports for the high-level political forum on sustainable development.

4. To validate the applicability of the core indicators, the suggested measurement methodology and the availability of the required underlying accounting data, UNCTAD, in 2019, conducted several case studies in companies of different sizes, representing different regions and industries. In addition, an overview of the implementation of the guidance in several companies was conducted in Egypt and the United States of America. The case

<sup>1</sup> See <https://unsdg.un.org/resources/un-framework-immediate-socio-economic-response-covid-19>.

*Note:* All websites referred to in footnotes were accessed in August 2020.

<sup>2</sup> See [https://ec.europa.eu/knowledge4policy/publication/indicators-monitoring-framework-sustainable-development-goals-launching-data-revolution\\_en](https://ec.europa.eu/knowledge4policy/publication/indicators-monitoring-framework-sustainable-development-goals-launching-data-revolution_en).

<sup>3</sup> UNCTAD, 2019, *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* (United Nations publication, sales No. E.19.II.D.11, Geneva).

studies were presented and discussed at the thirty-sixth session of the Intergovernmental Working Group of Experts. All of the companies were able to provide data on most of the core indicators, yet the results highlighted a number of challenges faced by companies in this area, in particular the need to build technical capacity. In response to this need and to facilitate application of the guidance, UNCTAD developed a training manual on its implementation.<sup>4</sup>

5. This note aims to facilitate discussions at the thirty-seventh session of the Intergovernmental Working Group of Experts on further implementation of the guidance to facilitate the harmonization and comparability of Goals-related reporting by entities. It provides an overview of recent key developments in the area of sustainability and Sustainable Development Goal reporting and describes the main challenges faced by companies in this regard, supported by results from the practical application of the guidance. It also builds on feedback obtained by UNCTAD in the ongoing implementation of the Development Account project titled “Enabling policy frameworks for enterprise sustainability and Sustainable Development Goal reporting in Africa and Latin America”, the main objective of which is to strengthen the capacities of Governments to measure and monitor the contribution of the private sector to the achievement of the 2030 Agenda and facilitate their reporting on target 12.6 and indicator 12.6.1.<sup>5</sup> In particular, the project aims to support Governments in the collection of comparable and reliable information on the contribution of the private sector to the achievement of the Goals at the national level. Finally, the note builds on discussions at previous sessions of the Intergovernmental Working Group of Experts on issues related to sustainability and Sustainable Development Goal reporting by enterprises and should be considered in conjunction with the documentation prepared to facilitate deliberations at those sessions.<sup>6</sup>

## II. Recent developments and key challenges in sustainability and Sustainable Development Goal reporting by entities

6. The most significant development in the area of Goals-related accounting and reporting is a growing demand for enhanced quality and usefulness in reporting and an increased focus on harmonization and comparability. However, according to a study conducted by Pricewaterhouse Coopers, while three quarters of the companies studied publicly mentioned the Goals in reporting, companies still lacked an understanding of the concrete actions to take to report on sustainability.<sup>7</sup>

7. At the opening plenary of the thirty-sixth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the President of the Economic and Social Council highlighted the importance of facilitating the harmonization of sustainability and Sustainable Development Goal reporting to ensure its comparability, reliability and usefulness for decision-making and of assessing the contribution of the private sector to the achievement of the Goals, as well as of promoting action on the integration of sustainability information into the accounting and reporting cycle and its consistency with financial reporting. The recently launched Global Investors for Sustainable Development Alliance had made fostering and harmonizing standards for sustainability reporting, as well as impact measurement, a priority, and the guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals would be an excellent input to this Alliance.<sup>8</sup>

<sup>4</sup> UNCTAD, 2020, *Core SDG[Sustainable Development Goal] Indicators for Entity Reporting: Training Manual* (United Nations publication, sales No. E.20.II.D.17, Geneva).

<sup>5</sup> See <https://unctad.org/en/Pages/DIAE/ISAR/UNDA-Project-1819H.aspx>.

<sup>6</sup> See TD/B/C.II/ISAR/75, TD/B/C.II/ISAR/78, TD/B/C.II/ISAR/81 and <https://isar.unctad.org/wp-content/uploads/2017/12/ISAR-34-non-paper-31102017.pdf>.

<sup>7</sup> See <https://www.pwc.com/gx/en/services/sustainability/sustainable-development-goals/sdg-challenge-2019.html>. The study analysed the financial and sustainability reports of 1,141 companies from 31 countries across seven industry sectors and conducted interviews with business leaders worldwide to obtain their perspective on the Goals.

<sup>8</sup> See TD/B/C.II/ISAR/91.

8. The General Assembly, in its resolution 74/199, welcomed the growing interest among investors in taking sustainability issues into account in their investment decisions, but acknowledged that further work was needed to analyse, monitor and measure its contribution to the Goals and maximize its positive developmental impact.

9. A number of initiatives are under way to develop practical guidance to assist companies in their understanding of the objectives, benefits and means of such reporting. Some of these important developments are highlighted below.<sup>9</sup>

10. The European Commission supports the process of developing non-financial reporting standards in the European Union and, in 2020, will present a renewed sustainable finance strategy that includes a revision of the non-financial reporting directive.<sup>10</sup> The Commission has published new guidelines on reporting climate-related information, taking into account the recommendations of the task force on climate-related financial disclosures and supplementing it with the non-binding guidelines on non-financial reporting of the Commission. In 2020, the technical expert group on sustainable finance (which was tasked with developing recommendations on a range of topics, including technical screening criteria for the European Union classification system for sustainable activities, or taxonomy, to meet objectives related to climate change mitigation and adaptation) will make further recommendations to the Commission on the taxonomy. The regulation on sustainability-related disclosures to come into effect in March 2021 will require the implementation of policies to make certain disclosures on sustainability risks and factors relevant to investment activities.<sup>11</sup> Many of the requirements of the regulation will apply to investment managers, with a view to enhancing transparency and the integration of environmental, social and governance-related matters into investment decisions and recommendations.<sup>12</sup>

11. In response to further work on the non-financial reporting directive, the Climate Disclosure Standards Board published a draft position on the key changes to be considered.<sup>13</sup> The Board has also started a four-year project that builds on its existing framework and aims to create enabling conditions to accelerate the preparation of high-quality information useful for decision-making that is related to climate change and natural capital, to be integrated into mainstream reporting.<sup>14</sup> The Board has launched consultations to advance the disclosure of nature-related financial information in mainstream reports and explore the role of the framework built on international accounting practices and standards, aligned with the recommendations of the task force on climate-related financial disclosures.<sup>15</sup>

12. The European Financial Reporting Advisory Group is a private association established in 2001 with the encouragement of the European Commission to provide input in the development of international financial reporting standards and ensure that European views on the development of financial reporting standards are properly and clearly articulated in the international standard-setting process. Following the action plan for financing sustainable growth issued by the European Commission in 2018, the Group established the European Corporate Reporting Lab, which issued a report on climate-related reporting, in response to the needs of corporate reporting stakeholders in the European Union. The report provides practical insights and examples of good reporting practices, accompanied by commentary, including the perspectives of preparers and users on the

<sup>9</sup> For more in-depth coverage of recent developments in climate-related financial disclosures, see TD/B/C.II/ISAR/94.

<sup>10</sup> See [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en).

<sup>11</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>.

<sup>12</sup> See <https://www.srz.com/images/content/1/6/v2/168822/030220-SRZ-Alert-New-ESG-Disclosure-Obligations.pdf>.

<sup>13</sup> See <https://www.cdsb.net/corporate-reporting/1009/cdsb-publishes-changes-needed-ensure-successful-revision-eu-non-financial>.

<sup>14</sup> See <https://www.cdsb.net/natural-capital/995/cdsb-seeks-independent-impact-assessment>.

<sup>15</sup> See <https://www.cdsb.net/cdsb-framework/993/framework-consultation-launches-drive-uptake-nature-related-financial-disclosure>.

specific examples and reporting practices, and also highlighting areas for improvement and reporting practices to avoid.<sup>16</sup>

13. The World Business Council for Sustainable Development has launched a new global alliance to work on its new initiative to deliver sustainable solutions over the next five years to help end plastic waste in the environment. Its business climate resilience report brings together important global developments and the latest views on climate change adaptation and resilience, with a focus on private sector resilience. The annual review of the sustainability and integrated reports of member companies requested regulators and standard setters to simplify and align the corporate reporting landscape.<sup>17</sup> The World Business Council for Sustainable Development continued to advance the reporting exchange, one of the most comprehensive sources of information on sustainability reporting requirements, which received an honours award in 2018 from the Intergovernmental Working Group of Experts for its contribution to the achievement of the Goals through its efforts to help companies report on sustainability.<sup>18</sup> The platform includes information on environmental, social and governance-related reporting requirements and resources from 70 countries.<sup>19</sup>

14. The Sustainability Accounting Standards Board continued its work on standards aimed at identifying sustainability topics and related performance metrics that are likely to have financially material impacts on companies in each of 77 industries, by capturing financially material information useful for decision-making.<sup>20</sup>

15. The Global Reporting Initiative has launched a public reporting standard on tax at the country level and has conducted research on whether the Goals have influenced business reporting and contributed to the adoption of new partnerships and business models, with a view to considering how to strengthen the role of reporting, in order to enhance sustainable business practices and stimulate collaboration.<sup>21</sup> The Global Sustainability Standards Board, an independent operating entity under the Global Reporting Initiative, has launched a programme focused on the sectors with the highest impacts and is developing a new standard to help agriculture and fishing organizations improve on how they disclose and manage their impact. This sector is prioritized because of its significant environmental, social and economic impacts.<sup>22</sup>

16. The corporate reporting dialogue is a platform convened by the International Integrated Reporting Council. Its two-year Better Alignment Project is focused on driving better alignment in the corporate reporting landscape, to make it easier for companies to prepare effective and coherent disclosures that meet the information needs of capital markets and society.<sup>23</sup> A publication titled *Driving Alignment in Climate-related Reporting* closely aligns the existing standards and frameworks of project participants with the recommendations of the task force on climate-related financial disclosures.<sup>24</sup>

17. In 2019, Accounting for Sustainability released an update of its publication *Financing our Future*, which sets out actions to deliver a global sustainable financial system, including recommendations on building a compelling evidence base and motivating people to act, developing consistent terminology, allocating funds to sustainable outcomes, adopting reporting standards and pricing externalities.<sup>25</sup>

<sup>16</sup> See <http://www.efrag.org/Lab1>.

<sup>17</sup> See <https://www.wbcsd.org/Overview/News-Insights/General/News/Best-of-the-year-2019>.

<sup>18</sup> See <https://isar.unctad.org/isar-honours-objective/>.

<sup>19</sup> See <https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange>.

<sup>20</sup> See <https://www.sasb.org/blog/the-question-on-esg-is-no-longer-why-but-how/>.

<sup>21</sup> See <https://www.globalreporting.org/information/news-and-press-center/Pages/Reporting-drives-corporate-change-to-achieve-SDGs.aspx>.

<sup>22</sup> See <https://www.globalreporting.org/information/news-and-press-center/Pages/Creating-a-sustainability-standard-for-agriculture-and-fishing-.aspx>.

<sup>23</sup> See <https://corporatereportingdialogue.com/how-to-simplify-corporate-reporting/>.

<sup>24</sup> See <https://corporatereportingdialogue.com/corporate-reporting-dialogue-shows-high-level-of-alignment-between-major-global-reporting-frameworks-on-tcf-recommendations/>.

<sup>25</sup> See <https://www.accountingforsustainability.org/financing-our-future.html>.

18. The International Federation of Accountants has published a point of view on enhancing corporate reporting that discusses integrated reporting issues and the role of the accountancy profession in enhancing corporate reporting.<sup>26</sup>

19. The World Benchmarking Alliance has published a list of the companies with the greatest influence on the ability to move to a more sustainable future, which comprises entities collectively making up half of the global economy, equal to \$43 trillion in revenue. The list represents part of the mission of the Alliance to measure the impact of the private sector and sustainability efforts with one global accountability mechanism.<sup>27</sup> The Alliance has also launched benchmarks on seafood and the climate, as well as the third iteration of its corporate human rights benchmark.

20. At the fiftieth annual meeting of the World Economic Forum, focused on sustainability, the International Business Council addressed some of the practical challenges that arise in balancing short-term and long-term business pressures to ensure that shareholders and other stakeholders succeed together.<sup>28</sup> To allow for non-financial information to be reported with the same discipline and rigour as financial information, and to work towards consistent and comparable non-financial reporting, a new initiative titled “Towards common metrics and consistent reporting of sustainable value creation”, in collaboration with the big four accounting firms, proposes a set of metrics and recommends disclosures that Council members could use to align mainstream reporting.<sup>29</sup>

21. The Sustainable Development Goals action manager, jointly promoted by the United Nations Global Compact and B Lab, brings together the 10 principles of the Global Compact with the B Lab impact assessment in the context of the Goals, to enable meaningful business action through dynamic self-assessment, benchmarking and improvement. The web-based impact management solution for the global business community enables businesses of all sizes worldwide to improve progress on achieving the Goals.<sup>30</sup>

22. The International Organization for Standardization is working towards bringing systemization and standardized quality to global indicators. It has established Technical Committee 309, of which UNCTAD is a member, to work towards enhancing accountability and decision-making, along with the governance of such processes.<sup>31</sup>

23. Much effort has been made in recent years, yet there are still a number of gaps and challenges in the area of sustainability and Sustainable Development Goal reporting that need to be addressed to enhance its quality and harmonization. This includes the following issues: existence of multiple frameworks and guidance; lack of consistency in measurement methodologies, leading to a lack of comparability and reduced usefulness for decision-making and the tracking of progress; greenwashing and the use of boilerplate disclosures; lack of institutional capacity to coordinate processes; lack of technical expertise, including practical tools, metrics and other means for convergence and implementation. The proliferation of many different frameworks creates reporting fatigue, undermines the quality of data provided by companies and raises cost and benefit-related concerns.

24. Another challenge is in facilitating the implementation of integrated reporting and the alignment and consistency of financial and non-financial reporting. The General Assembly, in its resolution 74/199, encouraged industry, interested Governments and relevant stakeholders, with the support of the United Nations system, as appropriate, to enhance existing models and develop new models for best practice and to facilitate action

<sup>26</sup> See <https://www.ifac.org/what-we-do/speak-out-global-voice/points-view/enhancing-corporate-reporting>.

<sup>27</sup> See <https://www.worldbenchmarkingalliance.org/the-sdg2000-the-most-influential-2000-companies-for-a-sustainable-future/>.

<sup>28</sup> See <https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation>.

<sup>29</sup> See <https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation>.

<sup>30</sup> See <https://www.unglobalcompact.org/news/4518-01-29-2020>.

<sup>31</sup> See <https://www.iso.org/committee/6266703.html>.

for the integration of sustainability reporting, taking into account experiences from already existing frameworks and paying particular attention to the needs of developing countries, including for capacity-building. However, ensuring the consistency of sustainability reporting with financial reporting and the International Financial Reporting Standards remains a challenge. Non-financial information is often qualitative or measured by a variety of non-financial metrics and management accounting techniques.<sup>32</sup> Besides a determination of the boundaries of the reporting entity and consolidation procedures, sustainability and Sustainable Development Goal reporting needs the application of the assumptions and methods that underpin financial reporting and are also applicable to non-financial reporting.<sup>33</sup>

25. Accountancy Europe has published a description of a global solution to interconnected standard setting with a view to meeting the need for reliable and consistent information in non-financial reporting that can be presented along with financial reports in an integrated manner.<sup>34</sup> Accountancy Europe supports an approach to corporate reporting that would provide comparable and consistent reports based on a core set of global metrics. This approach would promote connectivity between financial and non-financial standard setting bodies through a corporate reporting foundation. The institutional arrangement would build on the current International Financial Reporting Standards Foundation trustees and the proposed standard setter would be responsible for issuing standards for both financial and non-financial reporting, aimed at a global solution. Oversight of standard setting would be strengthened through enhanced public-private collaboration.<sup>35</sup>

26. Capacity-building at all levels is critical. Lack of institutional and technical capacity to adapt national corporate reporting environments to the new demands under the 2030 Agenda and effectively assess the contribution of the private sector to achieving the Goals, as well as difficulties in aligning sustainability reporting by companies with the Goals monitoring framework and its indicators, are among the key issues at the institutional level. This also involves a lack of relevant supporting institutions, their coordination and cooperation and a lack of technical expertise, as well as a lack of adequate monitoring and enforcement mechanisms. In particular, tools are required to enable the identification of gaps through international benchmarking, the elaboration of action plans for accounting reforms and the measurement of progress in priority areas. Issues related to capacity-building in Goals-related reporting by companies should be addressed as part of an overall accounting and reporting infrastructure. Such reporting is an integral part of the national reporting infrastructure and high-quality reporting cannot be achieved without having in place the other key elements of an enterprise reporting system.

27. Another key challenge is the involvement of and coordination between institutions dealing with accounting regulations and those responsible for Goals-related monitoring and implementation. In addition, further coordination is necessary with agencies responsible for environmental, social and governance-related regulations and developments, as well as statistics offices.

28. To address these issues, UNCTAD, through the Development Account project, aims to help strengthen the capacities of Governments to measure and monitor the contribution of the private sector to the implementation of the 2030 Agenda, in particular through the provision of data with regard to target 12.6 and indicator 12.6.1. Project activities at the country level comprise the following: an initial multi-stakeholder meeting to facilitate coordination and implementation of the project at the national level; an interim national assessment of the sustainability and Sustainable Development Goal reporting infrastructure, based on the results of the application of the Accounting Development Tool developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting; a national workshop to agree on a set of national priorities and validate the final report on the way forward; an action plan; technical support on the implementation of

<sup>32</sup> Accountancy Europe, 2019, *Interconnected Standard Setting for Corporate Reporting* (Brussels).

<sup>33</sup> See <http://integratedreporting.org/wp-content/uploads/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf>.

<sup>34</sup> See <https://www.iasplus.com/en/news/2019/12/acceu-cogito>.

<sup>35</sup> Accountancy Europe, 2019.



priority actions based on the plan; and capacity-building activities. For example, in Colombia, one of the beneficiary countries, the process included the active engagement of and contributions from all key institutions involved in the achievement of the Goals, as well as the institutions involved in financial and non-financial reporting at the national level, including key institutions such as, among others, the following: Ministry of Finance and Public Credit; Ministry of Commerce, Industry and Tourism; Ministry of Environment and Sustainable Development; National Planning Department; Financial Superintendence; and Technical Council for Public Accounting.

29. The findings of the national assessment of the accounting and reporting infrastructure in Colombia, based on the Accounting Development Tool, highlighted gaps in three main areas, namely, constraints in human capacity for corporate reporting, institutional weaknesses in corporate reporting and limitations in the accounting infrastructure for sustainability and Sustainable Development Goal reporting. The findings also demonstrated that public-private partnerships were critical in ensuring the relevance and implementation of measures towards the harmonization and comparability of Sustainable Development Goal reporting by companies and the recognition of the benefits and usefulness of Sustainable Development Goal reporting for all main stakeholders. Some of the key recommendations for improvement in these areas included in the action plan for Colombia were as follows:

(a) Strengthening the accountancy profession by enhancing the requirements to obtain and maintain a licence (education, examination, practical experience and continuing professional development), including for sustainability and Sustainable Development Goal reporting, and by promoting education and training in such reporting;

(b) Strengthening the professional accounting organizations with the aim of improving the technical capacity of professional accountants;

(c) Establishing a mechanism for coordination between the government entities in charge of achieving the Goals and entities in charge of corporate reporting;

(d) Improving coordination between entities in charge of corporate reporting. The existence of multiple regulators at the national level hinders the timeliness, depth and coherence of the regulatory process and the creation of an adequate infrastructure, in terms of both institutions and regulations;

(e) Establishing a regulatory framework for sustainability and Sustainable Development Goal reporting that will form the basis for the subsequent guidelines, procedures and standards for sustainability reports. This includes the designation of a focal entity in charge of sustainability reporting at the national level.

### **III. The role of the guidance on core indicators for entity reporting in converging existing frameworks for sustainability and Sustainable Development Goal reporting by entities**

30. The guidance on core indicators offers a practical and pragmatic approach towards baseline reporting on the Goals as a first step towards data comparability, which can then be expanded to reflect industry and company-specific information as appropriate. In this regard, it contributes to the implementation of resolution 74/199, which encouraged international support for Member States, according to national circumstances and priorities, to voluntarily develop practical tools on measuring and collecting timely and reliable data on the private sector contribution towards the implementation of the Sustainable Development Goals at the national level. The guidance on core indicators provides a measurement methodology for each selected indicator and suggests accounting sources for data collection. The core indicators covering the economic, environmental, social and institutional areas were identified through a multi-stakeholder consultative process and intergovernmental consensus-building, based on key reporting principles, main reporting frameworks and the reporting practices of companies. The core indicators were selected based on the macro-level indicators included in the global indicator framework for the

Goals of the Inter-Agency and Expert Group on Sustainable Development Goals Indicators that were applicable at the company level.<sup>36</sup> To ensure consistency in the measurement methodology and data comparability, the core indicators are designed to be comparable across entities, time and geography, and require transparent and traceable documentation on scope, data quality and methods used. The core indicators are intended as a starting point on the path towards sustainability and Sustainable Development Goal reporting by companies and represent the minimum disclosures that companies need to provide to decision makers and for Governments to be able to assess the contribution of the private sector to achieving the Goals. However, the guidance on core indicators does not preclude companies from providing more information in reporting on their specific activities and impacts in the context of the 2030 Agenda.

31. UNCTAD and the United Nations Environment Programme, in cooperation with the Global Algorithmic Institute, a not-for-profit research institute, are working to facilitate the implementation of the data collection mechanism they have jointly developed. Initial data collection was conducted on four themes in accordance with the metadata guidance on indicator 12.6.1.<sup>37</sup> During the intersessional period of the Intergovernmental Working Group of Experts, UNCTAD and the United Nations Environment Programme were working on refining the metadata guidance with regard to the monitoring of sustainability reporting by companies and broadening the assessment, by covering more countries and regions by capturing the number of companies reporting on their progress on the Goals based on the metadata guidance. The Institute is developing a data repository consisting of raw data at the corporate level, including actual sustainability reports and the results of government-led surveys, as well as aggregated data at the national, regional and global levels. The indicators in the guidance on core indicators are intended to be used as a baseline, to collect such data in a consistent and comparable manner.

32. To facilitate the alignment of the guidance on core indicators with the macro-level indicators for monitoring progress on the Goals, UNCTAD works closely with the Statistics Division of the Department of Economic and Social Affairs, which has established a dedicated task team on well-being and sustainability with a view to standardizing the data collection methodology for business accounting and financial reporting and considers the guidance on core indicators as the basis for data collection in this area.<sup>38</sup> UNCTAD is also cooperating with the Global Compact. The Communication on Progress of the Global Compact is currently being revised and the guidance on core indicators is expected to be taken into consideration in the revised reporting framework for the Communication on Progress, as part of the broader scope of reporting in line with the 10 principles of the Global Compact. The Financing for Sustainable Development Office of the Department of Economic and Social Affairs works on the harmonization of different metrics on the sustainability and Sustainable Development Goal reporting of entities, including in its capacity as secretariat of the Global Investor for Sustainable Development Alliance. UNCTAD also works closely with the programme to align approaches. Since 2019, UNCTAD and the United Nations Research Institute for Social Development have conducted joint efforts to respond to the rapid proliferation of sustainability indicators, with a view to developing a comprehensive mechanism on the contextualization of sustainability and Sustainable Development Goal reporting by companies based on related and relevant economic indicators and benchmarks, using the guidance on core indicators as a baseline.

33. Selected case studies on the application of the guidance on core indicators reveal that the consistent measurement and comparability of indicators reported on continues to be a major challenge. A number of other challenges were identified through the implementation of the guidance, including the need for improved coordination and cooperation at the national level of key stakeholders in the public and private sectors; further efforts in building national institutional and regulatory mechanisms on Sustainable Development Goal reporting to ensure its quality, comparability, reliability and consistency with financial reporting; and capacity-building at all levels to facilitate progress. In

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<sup>36</sup> See <https://unstats.un.org/sdgs/indicators/indicators-list/>.

<sup>37</sup> See <https://unstats.un.org/sdgs/metadata/files/Metadata-12-06-01.pdf>.

<sup>38</sup> E/2020/24-E/CN.3/2020/37.

addition, the main barrier to implementing the guidance is a lack of technical knowledge and processes for data collection.<sup>39</sup>

34. In order to conduct pilot tests and gain insights into the practical implementation of the guidance on core indicators, UNCTAD has, since 2018, been conducting case studies that cover different geographical areas; countries with various levels of economic development; a broad range of industries, including telecommunications, oil and gas, mining, health care, manufacturing, retail, hospitality and energy; and companies of different sizes in China, Colombia, Guatemala, the Russian Federation and Ukraine. An overview and analysis of the implementation stage of the guidance was conducted in Egypt and the United States, involving several companies. Further results of ongoing case studies on the application of the guidance in Egypt, Italy, Kenya, Poland, Saudi Arabia, South Africa and the United Republic of Tanzania, covering the stone-working, pulp and paper, garments, education, agriculture and manufacturing and telecommunications sectors will be discussed at the thirty-seventh session of the Intergovernmental Working Group of Experts. The case studies included small and medium-sized companies and family businesses.

35. In particular, in 2020, a case study on the implementation of the guidance on core indicators was conducted at the American University in Cairo. Based on publicly available disclosures, the study showed that the highest score was attained in the economic area, that is, 100 per cent of the core indicators in the guidance had been reported on. This was followed by the environmental area, with a disclosure level of 89 per cent, which is considered a significant achievement given some of the challenges in Egypt, including the lack of laws or regulations that require institutions to disclose their efforts to achieve the Goals. The rate of disclosures in the institutional area was at 67 per cent and in the social area, at 17 per cent.

36. Two case studies were conducted at medium-sized enterprise in Italy. The first company is an industrial group producing diamond tools for cutting and processing marble, granite, engineered stone and ceramic. Preliminary findings show that the company was able to provide full disclosures with regard to 17 of the 33 indicators. The company is already providing disclosures under most of the indicators in the economic area and about half of the indicators in the social and institutional areas. The most challenging area, as noted in other case studies, is the environmental area. Under some of the indicators, such as expenditure on employee training and expenditure on employee health and safety, only qualitative information is provided, and with regard to other indicators, such as greenhouse gas emissions (scope 1 and scope 2) and waste reused, re-manufactured and recycled, the main issue is a lack of accounting data. The second company conducts activities in the wholesale and retail sale of beauty products, including perfume, personal care and hygiene products. Findings show that the company was able to provide full disclosures with regard to 12 of the 33 indicators. The company is already providing disclosures under most of the indicators in the economic area and about half of the indicators in the social area. The most challenging areas are the institutional and environmental areas. In many instances, the company is already providing qualitative information (under 12 indicators, including those related to green investment, renewable energy, energy efficiency and expenditure on employee training) and is planning to provide disclosures with regard to 24 of the 33 indicators, in line with the guidance on core indicators, by 2021 (see table 1).

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<sup>39</sup> TD/B/C.II/ISAR/89.

Table 1  
Application of the guidance on core indicators by medium-sized enterprises, by area

|  | Company 1 |               |        |               | Company 2 |               |        |               |
|--|-----------|---------------|--------|---------------|-----------|---------------|--------|---------------|
|  | Economic  | Environmental | Social | Institutional | Economic  | Environmental | Social | Institutional |
| Disclosed                                | 7         | 3             | 3      | 4             | 7         | 0             | 4      | 1             |
| Expected to be provided at a later stage | 1         | 2             | 4      | 1             | 1         | 4             | 3      | 4             |
| No data available                        | 0         | 6             | 0      | 2             | 0         | 7             | 0      | 2             |

Source: UNCTAD.

37. The findings of all of the case studies conducted to date show that most companies were able to provide data on most of the core indicators. There was no single indicator that was not reported on by all companies participating in the pilot tests. A few indicators were found difficult by some companies to report on due to legislative restrictions; a lack of technical knowledge, data or systems to collect information; or simply because there were no activities related to a particular indicator. The environmental area consistently tended to be more challenging to report on. For example, one cited reason for not reporting was a lack of knowledge of data sources for calculating greenhouse emissions or water stress. However, there is no systemic consistency among companies regarding the problems in reporting on other core indicators. Companies already using frameworks for sustainability reporting faced fewer challenges in reporting on the core indicators. The case studies reveal that it is possible to improve data-collecting capacity under the core indicators through additional technical guidance and the application of the indicators over several reporting periods, through which better understanding may be gained of how data may be collected from existing accounting records.

38. Feedback from case studies has indicated that the proposed core indicators have proven to be a good start towards producing comparable data. However, capacity-building efforts are required to collect accounting data and report on many indicators. In this regard, UNCTAD has developed a training manual to facilitate the practical application of the guidance on core indicators.<sup>40</sup> The manual aims to become a technical tool for all kinds of users, including preparers of reports for small and medium-sized enterprises. By showing the link between the micro-level (core indicators at the company level) and the macro-level (Goals-related indicators at the national and global levels), the manual facilitates the understanding of company impacts on the achievement of the Goals. The manual provides explanations of each indicator, including the definition, measurement methodology and potential sources of information. It also provides useful numerical examples for the calculation of each indicator and examples of how the indicators have already been disclosed by companies worldwide. The manual is a work in progress and will be updated based on feedback from preparers and users.

39. The guidance on core indicators does not aim to create new reporting norms. Instead, its objective is to select common sustainability and Sustainable Development Goal indicators based on the current reporting practices of entities and leading reporting frameworks, such as those of the Global Compact, Global Reporting Initiative, Sustainability Accounting Standards Board, International Accounting Standards Board, International Integrated Reporting Council and others. The guidance also presents a business case for entities as a means of monitoring and reducing costs and improving efficiency in the use of natural resources. The importance of qualitative, narrative disclosures and of understanding such indicators in specific contexts is acknowledged, yet the guidance does not discuss narrative disclosures and focuses on quantitatively comparable indicators aligned with the macro-level indicators under the Goals. However, as noted, the guidance does not attempt to preclude companies from providing more information, in a qualitative or quantitative form. Individual businesses in different operating contexts may decide to disclose additional information to reflect their specific Goals-related practices and address the needs of their users, in particular those representing

<sup>40</sup> UNCTAD, 2020.

investors and other capital providers. One example is the incorporation of the guidance on core indicators by the Family Business Network in its reporting framework for family firms. In its sustainability pledge, the Network endorsed the guidance as the common set of performance indicators to be used in tracking progress and assessing impact. The Network also suggested that further discussions should be held to consider additional indicators for inclusion in the guidance on core indicators, some applicable to all types of businesses and some specific to family businesses (see box).

**Indicators and issues proposed by the Family Business Network to supplement the guidance on core indicators**

*Issues common to all businesses:*

1. Social inclusion

(a) Ethical supply chains (target 8.7 under the Sustainable Development Goals): Does the company have a formal written code of conduct for suppliers that holds them accountable for social and environmental performance (this may include policies on fair trade and against slavery, forced labour and child labour)?

(b) Investing in and commitment to the community (target 17.17 under the Sustainable Development Goals): Does the company have a formal written policy to source labour and/or materials locally whenever possible?

2. Institutional area (good governance)

Review of social and environmental performance (target 8.7 under the Sustainable Development Goals): Does the board review the social and environmental performance of the company at least annually to determine whether the company is meeting social and environmental objectives? Is the review made available in a report to relevant stakeholders such as employees, suppliers, customers and owners?

*Issues relevant to all family businesses, and answered with yes or no:*

Institutional area (good governance; target 16.6 under the Sustainable Development Goals)

(a) Independent directors: Does the board include independent directors?

(b) Governance: Is there a constitution (rules of engagement) to ensure good governance of the business and family in the long term?

(c) Responsible ownership: As a family business, are resources used and guidance provided to prepare the next generation to be responsible owners?

(d) Family values: Are the company's culture, strategy and practices aligned with the family values?

*Source:* Family Business for Sustainable Development, 2020, The sustainability indicators for family business, available at <https://fbsd.unctad.org/indicators/>.

40. To further facilitate the convergence of different frameworks through the use of the guidance on core indicators, UNCTAD is updating its analysis on the comparability and complementarity of its core indicators with major reporting frameworks. Such research was first conducted in 2016 during the initial phase of the selection of the core indicators. UNCTAD has recently updated these comparisons, including based on feedback from the pilot tests of the application of the guidance. One such comparison was conducted to explore alignments with the standards issued by the Global Sustainability Standards Board. Comparative analysis with other sustainability and Sustainable Development Goal reporting frameworks will be presented at the thirty-seventh session of the Intergovernmental Working Group of Experts. In total, more than 5,000 organizations worldwide have used the Global Reporting Initiative standards for their sustainability reporting and around 80 per cent of the world's 250 largest companies report in accordance with these

standards.<sup>41</sup> For purposes of analysis, the indicators have been classified as follows in comparison with the guidance on core indicators (see table 2 and figure):

(a) *High level of comparability*: quantitative information for a core indicator is also required for at least one indicator in the Global Reporting Initiative reporting framework or the core indicator can be calculated based on at least one indicator in the Global Reporting Initiative reporting framework;

(b) *Medium level of comparability*: only qualitative information on the related topic of a core indicator is available under at least one indicator in the Global Reporting Initiative reporting framework or some sort of information on the related topic is requested under at least one indicator in the Global Reporting Initiative reporting framework, yet the latter does not specify the format of the required information and it is unclear whether quantitative information will be available;

(c) *Low level of comparability*: only broadly related information is available under one indicator under the Global Reporting Initiative standards and the available information requires interpretation to correspond to the core indicator;

(d) *No comparability*: no comparable indicator is available in the Global Reporting Initiative reporting framework.

Table 2

**Comparability of the guidance on core indicators and the Global Reporting Initiative standards**

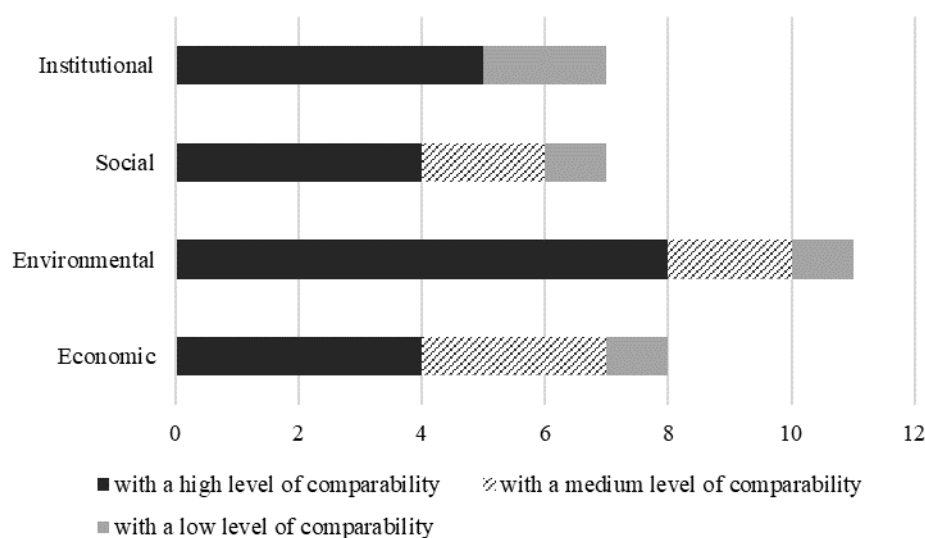
*Number of UNCTAD core indicators matching a Global Reporting Initiative standard with*

|                                  |    |   |
|----------------------------------|----|---|
| ...a high level of comparability | 21 | A.1.1 Revenue; A.2.1 Taxes and other payments to the Government; A.3.2 Community investment; A.4.1 Percentage of local procurement; B.1.2 Water use efficiency; B.1.3 Water stress; B.2.3 Hazardous waste; B.3.1 Greenhouse gas emissions (scope 1); B.3.2 Greenhouse gas emissions (scope 2); B.4.1 Ozone-depleting substances and chemicals; B.5.1 Renewable energy; B.5.2 Energy efficiency; C.2.1 Average hours of training per year per employee; C.2.3 Employee wages and benefits as a proportion of revenue, with breakdown by employment type and gender; C.3.2 Frequency/incident rates of occupational injuries; C.4.1 Percentage of employees covered by collective agreements; D.1.2 Number and percentage of women board members; D.1.3 Board members by age range; D.1.5 Compensation: total compensation per board member (both executive and non-executive directors); D.2.1 Amount of fines paid or payable due to settlements; D.2.2 Average number of hours of training on anti-corruption issues per year per employee |
| ...a medium-level comparability  | 7  | A.1.2 Value added; A.1.3 Net value added; A.3.1 Green investment; B.2.1 Reduction of waste generation; B.2.2 Waste reused, re-manufactured and recycled; C.1.1 Proportion of women in managerial positions; C.3.1 Expenditures on employee health and safety as a proportion of revenue   |
| ...a low level of comparability  | 5  | A.3.3 Total expenditures on research and development; B.1.1 Water recycling and reuse; C.2.2 Expenditure on employee training per year per employee; D.1.1 Number of board meetings and attendance rate; D.1.4 Number of meetings of audit committee and attendance rate  |
| ...no comparability              | 0  |   |

*Source*: UNCTAD.

<sup>41</sup> See <https://fbrh.co.uk/en/80-percent-of-the-world%E2%80%99s-250-largest-companies-report-according-to-gri>.

### Number of indicators under the Global Reporting Initiative standards that match those in the UNCTAD guidance on core indicators



Source: UNCTAD.

41. The analysis reveals that all of the UNCTAD core indicators have a reference in the Global Reporting Initiative standards, while comparability of an indicator with a specific Global Reporting Initiative standard varies for each UNCTAD core indicator. Both frameworks cover economic, environmental, social and institutional areas, while the guidance on core indicators contains a limited number of indicators common across industries and aligned with the macro-level indicators under the monitoring framework for the Goals that are applicable at the company level. The measurement methodology for the guidance on core indicators is also aligned with the relevant macro-level indicators under the Goals. The Global Reporting Initiative standards request a broader range of qualitative and quantitative information. Another major difference is that while the guidance on core indicators contains 33 core indicators as a minimum comparable set of data for all companies, the Global Reporting Initiative standards allow data and disclosures to be selected by the reporting company. This also demonstrates the complementarity of the guidance on core indicators and the Global Reporting Initiative standards, since baseline core indicators could and should be complemented by the further company-specific disclosures required by the Global Reporting Initiative, as well as by other relevant reporting frameworks.

## IV. Conclusion and issues for further discussion

42. This note provides an overview of recent trends and challenges in sustainability and Sustainable Development Goal reporting by companies with regard to its further harmonization and comparability. Key challenges include a need for coordination between key stakeholders and further alignment between different frameworks, as well as capacity-building at all levels. The UNCTAD guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals addresses such issues as a means of converging the main reporting frameworks and leading practices, through the use of a limited number of baseline indicators that are common across all businesses and aligned with the monitoring framework for the Goals.

43. In addition to the issues presented in this note, delegates at the thirty-seventh session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

(a) How can the UNCTAD guidance on core indicators further facilitate the convergence of existing sustainability reporting frameworks and standards to ensure the usefulness of sustainability and Sustainable Development Goal reporting by companies for

decision-making and assessing of the contribution of the private sector to the implementation of the 2030 Agenda for Sustainable Development?

(b) What are the major challenges in Sustainable Development Goal reporting by companies and what are good practices to address them?

(c) What are the most pressing capacity-building needs with regard to enabling countries to collect useful and comparable data on the contribution of companies to the achievement of the Sustainable Development Goals at the national level?

(d) What is the most efficient way to address such capacity-building needs?

(e) How can global forums such as the Intergovernmental Working Group of Experts further contribute to enhancing the role of entity reporting in assessing the contribution of the private sector to achieving the Sustainable Development Goals?

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