

## Inputs of ISAR to the 2021 HLPF

*“Sustainable and resilient recovery from the COVID-19 pandemic that promotes the economic, social and environmental dimensions of sustainable development: building an inclusive and effective path for the achievement of the 2030 Agenda in the context of the decade of action and delivery for sustainable development”.*

SDGs to be discussed: 1 on no poverty, 2 on zero hunger, 3 on good health and well-being, 8 on decent work and economic growth, 10 on reduced inequalities, 12 on responsible consumption and production, 13 on climate action, 16 on peace, justice and strong institutions, and 17 on partnerships in depth.

(a) Impacts of the COVID-19 pandemic on the implementation of the SDGs under review in the 2021 HLPF from the vantage point of your intergovernmental body, bearing in mind the interlinkages with other SDGs.

High quality corporate reporting is an essential part of an enabling environment for enterprise development as it promotes transparency, reliability and trust of stakeholders and helps countries to become more attractive for investment. The adoption of the 2030 Agenda significantly increased and enhanced the role of enterprise reporting as a primary source of information on the private sector contribution to the implementation of the SDGs. There is also a growing demand of users for sustainability and Sustainable Development Goal reporting and increasing emphasis on the integration of sustainability information into companies' reporting cycles. In particular, Goal 12 on sustainable consumption and production in its target 12.6 explicitly encourages companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycles. And SDG indicator 12.6.1 requires data on the number of companies publishing sustainability reports. In addition, several other SDG indicators refer to data being provided by many enterprises in their reports, such as on the use of energy and water, carbon dioxide emissions, waste generation and recycling, and to human resource management, gender equality and community development, among others. Furthermore, incorporation of environment, social and governance issues (ESG) into capital market activities and financial instruments has become a mainstream trend in recent years.

The COVID 19 pandemic significantly heightened the focus and demand on sustainability reporting by companies as means to provide stakeholders with important data on companies' performance in the environmental, social and governance areas (ESG), which is also a critical factor for a post COVID 19 resilient, green and inclusive recovery, transition to a low-carbon and circular economy, and mitigation of climate change related risks.

Ensuring that companies take into consideration environmental, social and governance aspects in their business cycles and measure, identify, and manage their interrelated impacts is critical. In fact, evidence shows sustainable funds, which focus on environmental, social and governance (ESG) factors, performed better non-ESG portfolios during the pandemic in 2020<sup>1</sup>.

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<sup>1</sup> <https://www.morganstanley.com/ideas/esg-funds-outperform-peers-coronavirus>

The COVID 19 pandemic also highlighted the need for further efforts towards harmonization and comparability of sustainability reporting to ensure its usefulness for decision making, including with regard to financial aid for post COVID 19 resurgence in the private sector, particularly for micro, small and medium sized enterprises (MSMEs). In this regard, it further facilitated efforts towards convergence of different international sustainability reporting frameworks, such as the frameworks from IIRC, CDP, CDSB, GRI, and SASB, and transition to a new governance system to develop a set of robust international standards on sustainability reporting aligned with key principles of financial reporting.

(b) Actions, policy guidance, progress, challenges and areas requiring urgent attention in relation to the SDGs and to the theme within the area under the purview of your intergovernmental body.

During 2020 and 2021, a series of key international developments in this area took place. In September 2020, an open letter<sup>2</sup> was sent by CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) to the International Organization of Securities Commissions (IOSCO), in which they express their support to the foundation of a global architecture for sustainability disclosures that enables consistent reporting of information that is relevant for enterprise value creation, as part of comprehensive corporate reporting. The letter referred to the Consultation paper<sup>3</sup> on Sustainability Reporting issued by the IFRS Foundation, which proposed the creation of a Global Sustainability Standards Board under the governance of the IFRS Foundation. Moreover, the World Economic Forum released a set of universal environmental, social and governance (ESG) metrics and disclosures<sup>4</sup> to promote reporting by companies on non-financial issues.

As a result, of the Consultation paper and the open letter, in February 2021 IOSCO issued a statement<sup>5</sup> where it said there is an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and expressed its support to a Sustainability Standards Board under the IFRS Foundation. IOSCO mentioned it would work with the IFRS Foundation to establish the Board. In March 2021, the Trustees of the IFRS Foundation announced<sup>6</sup> a strategic direction and next steps based on the feedback they received in the consultation. They stated that the consultation confirmed an urgent need for global sustainability reporting standards and that they will work to establish it within the existing governance structure of the IFRS Foundation. They welcomed the support from and collaboration with IOSCO, which would include a possible endorsement of the board and standards. In addition, the Trustees will publish a feedback statement summarizing the responses received to their 2020 Consultation. They will also publish for public comment the proposed changes to the Foundation's

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<sup>2</sup> <https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Open-Letter-to-Erik-Thedeen-Chair-of-the-Sustainable-Finance-Task-Force-of-IOSCO.pdf>

<sup>3</sup> <https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>

<sup>4</sup> <https://www.weforum.org/press/2020/09/measuring-stakeholder-capitalism-top-global-companies-take-action-on-universal-esg-reporting/>

<sup>5</sup> <https://www.iosco.org/news/pdf/IOSCONEW5594.pdf>

<sup>6</sup> <https://www.ifrs.org/news-and-events/2021/03/trustees-announce-strategic-direction-based-on-feedback-to-sustainability-reporting-consultation/>

*Constitution* to establish a new board. Finally, they aim to make a final determination about a new board before United Nations COP26 conference takes place in November 2021.

In addition, in March 2021 the European Financial Reporting Advisory Group (EFRAG) issued two reports<sup>7</sup> which were submitted to the European Commission and set out recommendations on the development of EU sustainability reporting standards. The reports were prepared at the request of the European Commission. The first report responds to a request for technical advice mandating EFRAG to undertake preparatory work for possible EU sustainability reporting standards in a revised EU Non-Financial Reporting Directive. The second report responds to an invitation to provide recommendations on the possible need for changes to the governance and funding of EFRAG if it were to become the EU sustainability reporting standard setter.

All these developments signal a major change in sustainability reporting area towards standardization of sustainability reporting, establishing a governance structure that would facilitate interconnectivity of financial and sustainability reporting and improve quality of sustainability and SDG reporting. However, in order to implement new requirements at a national level a sound corporate reporting infrastructure should exist which remains a challenge for many countries, especially developing countries and countries with economies in transition, in the efforts to adopt and effectively implement international requirements in reporting, including the new demands spurred by the 2030 Agenda. In particular, countries face institutional, regulatory, and technical capacity gaps in their national accounting and reporting infrastructure;; lack of technical expertise, and lack of practical tools that assist producing reliable and comparable information: difficulties to assess and monitor the private sector contribution towards attaining the SDGs in a consistent manner.

Consequently, there is a need for coherent efforts to support countries to strengthen their corporate reporting infrastructure and provide capacity building in this area, as well as an urgent need to support efforts and cooperation towards a global, coherent, and sound set of standards on sustainability reporting that would provide consistent and comparable reporting and ensure coherence between financial and sustainability reporting.

Additionally, climate-related financial disclosures, which would form part of these global sustainability reporting standards, are critical to understand the possible exposure of companies' activities to the medium- and long-term effects of climate change, as well as their impacts on society, and to properly manage those impacts, risks and opportunities, including the efficient allocation of capital supporting a transition to a more sustainable, low-carbon economy. Countries require support to be able to facilitate companies' disclosure in this area.

To address these challenges, UNCTAD, through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) supports Member States in their efforts towards implementation of international standards, codes, and best practices to promote harmonization and improvement of quality of enterprise reporting to facilitate financial stability, international and domestic investment, social and economic progress. It achieves these objectives by facilitating the exchange of views and best practices, building consensus, developing guidance documents, and providing technical assistance on issues related to both financial and sustainability/SDG reporting. This work is conducted

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<sup>7</sup> <https://www.efrag.org/News/Project-476/Reports-published-on-development-of-EU-sustainability-reporting-standards>

through the annual sessions of ISAR, as well as associated workshops and roundtables, research, and capacity building activities. Since the adoption of the 2030 Agenda, ISAR focuses on harmonization of companies reporting on their contribution to the SDG implementation.

In addition, ISAR supports Members States in the implementation of the GA Resolution A/RES/75/207 of 2020 on *Promoting Investments for Sustainable Development* that inter alia recognized the importance of corporate sustainability, including reporting on environmental, social and governance impacts, as appropriate, to help to ensure transparency and accountability and avoid practices that counteract efforts to achieve the Sustainable Development Goals. The Resolution also encouraged support to Member States to develop practical tools on measuring and collecting timely and reliable data on the private sector contribution to the SDGs.

Member States also require tools that would assist them in the identification of gaps through international benchmarking, the elaboration of action plans for accounting reform, and the measurement of progress in priority areas. They also need guidance on how to measure companies' economic, social, and environmental impacts in a comparable and standardized manner, as well as tools that allow the creation of human capacity to produce reliable information in key areas.

For this purpose, UNCTAD-ISAR has revised its *Accounting Development Tool* to adapt it to the requirements of the 2030 Agenda. Further on, to support the implementation of the updated tool, UNCTAD also developed and published in 2019 the *Guidance on Core Indicators for Entity Reporting on contribution towards implementation of the SDGs (GCI)*<sup>8</sup> to facilitate the harmonization and comparability of data on the private sector's contribution towards the implementation of the Goals in alignment with the Sustainable Development Goal monitoring framework, including as part of the voluntary national reviews of the HLPF. With a view to facilitate the development of technical skills and promote the implementation of the GCI, UNCTAD developed the *Core SDG indicators for Entity Reporting Training Manual*<sup>9</sup> and *Tutorials*<sup>10</sup> of the GCI Training Manual to be used for training purposes either in person or in distance learning.

ISAR conducted online its 37<sup>th</sup> annual session from 2 to 6 November 2020 with participation of close to 400 delegates from more than 50 countries. The Expert Group's discussions dealt with the impact of COVID 19 on the private sector activities, the progress made and main challenges in improving quality and usefulness of sustainability/SDG reporting by companies, as well as trends and good practices in climate-related financial disclosures. Several case studies conducted by UNCTAD on practical application of the GCI were presented and discussed. The case studies provided further evidence of usefulness of the GCI approach on facilitation of a baseline sustainability/SDG reporting by companies in a consistent and comparable manner and underscored the role of the GCI as a capacity building tool for integrating sustainability information into companies' accounting and reporting cycle. Additionally, experts reviewed progress and challenges in the SDG data collection from companies on their contribution towards implementation of the 2030 Agenda, reflecting on the

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<sup>8</sup><https://unctad.org/webflyer/guidance-core-indicators-entity-reporting-contribution-towards-implementation-sustainable>

<sup>9</sup> <https://unctad.org/webflyer/core-sdg-indicators-entity-reporting-training-manual>

<sup>10</sup> <https://isar.unctad.org/tutorials-gci/>

role of UNCTAD as a co-custodian of the SDG indicator 12.6.1 “Number of companies publishing sustainability reports”.

In its outcome document – Agreed Conclusions- ISAR *inter alia* highlighted the need for further efforts towards developing a single, coherent, and robust set of sustainability reporting standards to provide consistent and comparable data; it also acknowledged the important role that the GCI has been playing as a useful practical tool to facilitate convergence by providing early on an initial and simple common set of universal SDG indicators for companies reporting.

ISAR also noted the usefulness and encouraged further capacity building efforts of the UNCTAD Secretariat to facilitate wider use, raising awareness and dissemination of the Guidance, including for small and medium sized enterprises. It encouraged UNCTAD to continue engaging with relevant UN agencies, as well as with key regional and international institutions with a view to facilitate further alignment of reporting frameworks and practices; and developing metrics and tools on measuring and collecting timely and reliable data on the private sector contribution towards the implementation of the Sustainable Development Goals.

In response, UNCTAD has made the GCI is available in 6 languages i.e., Arabic, Chinese, English, French, Russian, and Spanish, as a voluntary practical and useful tool for Member States for measuring and collecting timely and reliable data on the private sector contribution to the SDGs.

During 2020 UNCTAD also continued to implement the activities of the Development Account project titled *Enabling policy frameworks for enterprise sustainability and SDG reporting in Africa and Latin America*. The project’s main objective is to strengthen the capacities of Governments to measure and monitor the private sector contribution to the 2030 Agenda for Sustainable Development, to provide data on indicator 12.6.1. The project has 4 beneficiary countries namely Colombia and Guatemala in Latin America and Kenya and South Africa in Africa. The above-mentioned tools are all being used in the project’s activities. For instance, in 2020 a National Action Plan towards developing high quality sustainability/SDG reporting by companies was developed in Colombia based on the gaps and priorities identified and agreed with the ADT; and a capacity building activity on core SDG indicators took place virtually in the country. Moreover, assessments of the national sustainability/ SDG reporting infrastructure were conducted in Guatemala and South Africa. And national reports on the assessment were prepared and validated at national consultative workshops in these countries. UNCTAD is now in the process of developing action plans for Guatemala and South Africa based on the ADT findings.

Furthermore, in its role as co-custodian of the SDG indicator 12.6.1 and in cooperation with UNEP, UNCTAD worked on the development of a methodology to measure the “Number of companies publishing sustainability reports”. This led to the reclassification of the indicator from Tier III to Tier II at the end of 2019. In 2020, UNCTAD started the process of data collection in cooperation with pilot countries including South Africa, Guatemala, Ukraine, Qatar, etc. The mechanism of data collection will be replicated in other regions to aggregate the global statistics reported to the IAEG-SDG in February 2021.

(c) An assessment of the situation regarding the principle of “ensuring that no one is left behind” at the global, regional and national levels against of background of the COVID-19 pandemic in achieving the 2030 Agenda and the SDGs, within the respective area addressed by your intergovernmental bodies.

ISAR is an inclusive forum and its annual sessions are attended by participants from all over the world representing Governments, international organizations in the corporate reporting area, other UN agencies, the Accountancy Profession, Academia.

In addition, as a tool to promote sustainability reporting, the GCI considers issues such as gender equality, and local communities’ development. The Guidance is applicable to all type of companies, including SMEs. In fact, case studies for SMEs in Tanzania and Italia were prepared in 2020 and presented at the 37<sup>th</sup> session of ISAR. The practical feedback from these case studies will be incorporated in the updated version of the GCI to reflect the GCI application for the SMEs.

It is undeniable that the economic and social impacts of the COVID 19 Pandemic have negatively affected all countries. These impacts have also threatened the achievement of the SDGs. One of the many negative effects of the pandemic has been felt on enterprise development, due to the drastic consequences on companies’ operations, financial stability, decrease in investment, etc. These effects have disproportionately hit micro, Small and Medium-sized Enterprises (MSMEs) in developing countries. MSMEs are the backbone of the economy across the globe and one of the major drives for innovation and development. In this situation, access to finance is critical for the survival of these companies. Nevertheless, MSMEs are less likely to be able to access finance than large firms. One of the reasons is the lack of financial literacy in the MSME sector. Therefore, it is essential to build capacities and improve technical expertise of entrepreneurs and employees in the MSME sector.

In light of this situation and based on the ISAR Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises (SMEGA Level 3)<sup>11</sup>, UNCTAD has developed the Accounting Training Manual for MSMEs focusing on micro and small companies. This initiative aims to improve financial literacy in the MSMEs and to facilitate their access to finance and financial inclusion to ensure no one is left behind. The Training Manual is available in English, Spanish and French.

A series of capacity building activities have been envisaged for this purpose. At the end of 2020, a Pilot Training of Trainers (TOT) workshop targeting accounting and reporting trainers in English-speaking developing countries took place virtually. It was attended by 94 participants from 12 countries. The training helped participants learn how to use the training manual and master the didactical knowledge and skills to deliver such training to entrepreneurs and small companies and facilitate their access to finance. In February 2021, a TOT in Latin America was conducted in Spanish and was attended by 151 participants from 9 countries. In addition, a TOT in French took place with the participation of 137 people from 18 countries. Feedback received during the workshops confirmed the need and usefulness of the training materials to support MSMEs.

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<sup>11</sup> [https://unctad.org/system/files/official-document/diaeed20092\\_en.pdf](https://unctad.org/system/files/official-document/diaeed20092_en.pdf)

[\(d\) Cooperation, measures and commitments at all levels in promoting sustainable and resilient recovery from the COVID-19 pandemic.](#)

As stated before, UNCTAD has been collaborating with UNEP in its role as co-custodian of SDG indicator 12.6.1, developing metadata guidance and collecting data. This information will allow to aggregate the global statistics that will be reported to the IAEG-SDG.

In addition, collaboration and coordination with international and national institutions needs to be fostered. The proliferation of many different sustainability reporting frameworks creates reporting fatigue and leads to inconsistencies and lack of comparability which undermines the usefulness of data provided by companies. As previously mentioned, at the 37<sup>th</sup> session of ISAR, in its agreed conclusions the group of experts emphasized the need to foster further efforts and cooperation in all initiatives towards a single, coherent and robust set of standards on sustainability reporting that would provide consistent and comparable data, facilitate the interconnectivity of integrated reporting and ensure an equal footing of financial and sustainability reporting. Therefore, UNCTAD-ISAR has continued fostering partnerships with key players in the sustainability reporting area, including with the International Integrated Reporting Council (IIRC), the World Business Council for Sustainable Development (WBCSD), Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), Professional Accountancy Organization Development Committee of the International Federation of Accountants (IFAC), the IFRS Foundation, and other international and regional stakeholders in the area of corporate and SDG reporting. Additionally, UNCTAD has strengthened cooperation with other UN entities working in this area such as: UNDESA, UNEP, UN Global Compact (UNGC), and UNRISD. As a result, UNDESA is using the GCI as business statistics' input for the national accounts which highlights the relevance of sustainability reporting in measuring the contribution of the private sector to the SDGs and UNRISD is developing indicators for social and solidarity entities building on the core SDG indicators. This cooperation has been critical for UNCTAD consensus-building efforts among stakeholders in the diverse corporate reporting community, towards facilitation of harmonization and comparability of sustainability/SDG reporting by companies and raising awareness of the role of high-quality reporting in monitoring the implementation of the 2030 Agenda.

[\(e\) Various measures and policy recommendations on building an inclusive and effective path for the achievement of the 2030 Agenda in the context of the decade of action and delivery for sustainable development.](#)

The existence of diverse sustainability reporting frameworks and standards leads to inconsistent and incomplete information that cannot be easily compared across companies. In this regard, ISAR 37<sup>th</sup> in its Agreed Conclusions highlighted the need to improve the quality and reliability of sustainability data and reporting, with a view to improving corporate decision-making while strengthening investors' and other stakeholders' protection and information; promoting efficient and transparent markets, economies and societies; facilitating the reduction of systemic risks; and improving corporate internal control systems and management practices.

The Group of Experts also recognized the important role that the GCI has been playing as a useful tool to facilitate the convergence of sustainability reporting frameworks by providing early on an initial and simple common set of universal indicators for entities' baseline reporting on sustainability issues in alignment with the 2030 Agenda for Sustainable Development. It also noted the usefulness of capacity-building efforts provided by the UNCTAD secretariat to facilitate wider use of the GCI, raising awareness and dissemination thereof, including for small and medium-sized enterprises, and encouraged further activities in this area with a view to facilitate further convergence and alignment of reporting frameworks and practices. This includes to continue engaging with relevant United Nations agencies, as well as with key regional and international institutions promoting work on the harmonization and comparability of sustainability accounting and reporting by entities in the public and private sectors, developing metrics and tools on measuring and collecting timely and reliable data on the private sector contribution towards the SDG implementation. It also called upon UNCTAD to conduct further case studies as well as consultative meetings during the forthcoming intersessional period with a view to analyze the main findings of more than twenty GCI case studies prepared over the last 2 years and reflect the feedback received during the GCI implementation process. Further on, it requested UNCTAD to continue monitoring progress on the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures, as well as of the recommendations of other initiatives, with a view to facilitating the exchange of experiences and good practices on this topic in future ISAR sessions.

Therefore, in 2021 in preparations for the 38th session of ISAR, UNCTAD continues focusing efforts on building consensus and technical expertise towards enhancing quality of current reporting requirements and practices, overcoming their fragmentation, and facilitating convergence, contributing to developing a set of sound sustainability reporting standards, and enabling data collection of SDG indicator 12.6.1 by Member States .

In addition, UNCTAD-ISAR continues its work in supporting Member States to adopt and implement international standards and codes and in their efforts to strengthen their corporate reporting infrastructure. Moreover, it maintains efforts in strengthening financial literacy in the MSME sector. All these measures aim at increasing resilience and resistance of all companies to shocks such as the COVID 19 Pandemic.

Key policy recommendations include:

- Strengthening efforts towards development of a global, coherent, and sound set of standards on sustainability reporting that would provide high quality and comparable data and ensure consistency and connectivity of financial and sustainability reporting.
- Developing practical guidance, capacity building tools and metrics on measuring and collecting timely and reliable data on the private sector contribution to the SDGs as recommended by GA Resolution of 2020 on *Promoting Investments for Sustainable Development*. In this regard ISAR document called "*Guidance on core indicators for entity reporting on contribution towards implementation of Sustainability Development Goals*" (GCI) could be useful to facilitate the progress in this area.
- Fostering the legal, institutional, and human capacity building infrastructure for corporate reporting in Member States, in accordance with international standards,



requirements and best practices. For this purpose, an assessment using UNCTAD's Accounting Development Tool<sup>12</sup> (ADT) is suggested to identify gaps and set priorities.

- Conducting capacity building activities for regulators, users and preparers is of the utmost importance to properly implement any improvements in sustainability reporting.
- Promoting collaboration and coordination at the national, regional and international levels with all key players in sustainability reporting to ensure the alignment and development of a single set of global high-quality sustainability reporting standards that promote consistency and comparability, and facilitate availability of data for the SDG indicator 12.6.1.
- Encouraging the use of assurance of this information to promote high quality and reliability of disclosures and increase trust of users.
- Launching financial literacy trainings with a view to improve financial literacy and facilitate access to finance for MSMEs.

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<sup>12</sup> <https://isar.unctad.org/accounting-development-tool/>