Enhancing comparability of sustainability reporting:

Selection of core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals

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Background

- ISAR held a High-Level Policy Dialogue on Sustainability Reporting within UNCTAD XIV and World Investment Forum 2016 on 21 July in Nairobi, Kenya where UNCTAD launched its *initiative on selecting a limited number of core indicators responsive to the SDG agenda and in alignment with the SDG monitoring framework and its indicators.*

- UNCTAD joined forces with UN Environment to evaluate the existing reporting frameworks, establish key principles for SDGs reporting, and suggest the selection of core SDG reporting indicators.

- ISAR convened a Consultative Group comprised of key leading international experts in the area of corporate reporting to discuss this topic. The most recent meeting was held on 3-4 April 2017.

- Background notes have been presented at ISAR 33 and 34.
Criteria for the selection of indicators

- Indicators should:
  - be **relevant** to at least one Sustainable Development Goal monitoring indicator
  - be based on **existing key initiatives** or reporting frameworks and/or should be found in corporate reports
  - be **universal** (applicable to all reporting enterprises)
  - facilitate **comparability** across industries
  - address issues over which a company has **control** and for which it gathers data (incremental approach)
  - facilitate **convergence of financial and non-financial** reporting principles and data
  - be capable of **consistent** measurement
  - be suitable for **consolidated reporting** and **legal entity reporting**
Goal 6
Relevant indicators:
6.3.1 Proportion of wastewater safely treated
6.4.1 Change in water-use efficiency over time
6.4.2: Level of water stress: freshwater withdrawal as a proportion of available freshwater resources

Goal 7
Relevant indicators:
7.2.1: Renewable energy share in the total final energy consumption
7.3.1: Energy intensity measured in terms of primary energy and GDP

Goal 17
Relevant indicators:
17.1.2: Proportion of domestic budget funded by domestic taxes
17.17.1: Amount committed to public-private and civil society partnerships
UNCTAD's methodology

- Logical framework:

  17 Sustainable Development Goals → Framework of SDG targets and indicators → Enterprise indicators

- Example:

  SDG 7: Affordable and Clean Energy → 7.2.1: Renewable energy share in the total final energy consumption → B.5.1: Renewable energy as a percentage of total energy consumption during the reporting period
B.1.2. Water use efficiency

Water use efficiency refers to the change in water consumption per net value added in the reporting period. Water consumption is defined as the difference between water received and off-stream return flow, which includes the release of wastewater after use, conveyance losses, water incorporated into products and crops, water consumed by humans and livestock, water evaporated and transpired, and cooling water that is not released to a significant water body. This indicator was first advanced in the UNCTAD/EEI guidance.

UN Environment uses water consumption per unit of goods produced as a relevant measure in its Raising the Bar report. Among other sources, UN Environment refers to the CDP water questionnaire, which requires information on the water intensity of the reporting entity's operations. CDP disclosures also require qualitative information on the water context of the operation, including a mapping of available water sources and the enterprise's impact in water scarce regions.

GRI standard 303-1 requires the disclosure of the total volume of water withdrawn, with a breakdown by sources of water, as well as the standards, methodologies and assumptions used in providing the data. It is clarified that the disclosure applies to both water withdrawn directly by the reporting entity, or through intermediaries, such as water utilities.

According to the Food and Agriculture Organization (FAO), its metadata guidance on indicator 6.4.1 is expected to consider the output over time of a given sector (gross value added rather than net has been chosen here) per unit of industrial net water withdrawn (water withdrawn minus return flow), and is expressed in USD per cubic metre.

The SNA provides extensive guidance on the statistical treatment of non-financial assets, including water resources, with regard to valuation, accounting information entry, and licensing. Focusing more specifically on environmental resources, the SEEA makes a distinction between net domestic water use, which is the defined as the sum of all return flows of water to the environment plus evaporation, transpiration and water incorporated into products, and final water use, which is equal to evaporation, transpiration and water incorporated into products, reflecting the quantity of water no longer available for use.

<table>
<thead>
<tr>
<th>Sources</th>
<th>UNCTAD/EEI (IIIB), UN Environment, CDP water questionnaire, GRI 303-1, SNA (Chapter 10, D.), SEEA (3.5).</th>
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</thead>
<tbody>
<tr>
<td><strong>SDG indicator framework</strong></td>
<td>6.4.1. Change in water-use efficiency over time.</td>
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<tr>
<td><strong>Issues for discussion</strong></td>
<td>- Should this indicator be reported as a change (current version), or instead as an absolute figure (water use efficiency during the reporting period)?</td>
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<td>- Should the measurement of water use reflect net water use, or final water use, as per the SEEA framework?</td>
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Output: list of core indicators

- **Economic area**: Revenue, Value added, Net value added, Taxes and other payments to the Government, Green investment/products, community investment, Total expenditure on research and development, Percentage of local procurement

- **Social area**: Proportion of women in managerial positions, Employee training, Employee wages and benefits, Expenditures on employee health and safety, Frequency of occupational injuries, Coverage by collective agreements

- **Institutional area**: Number of board meetings and attendance rate, Number of female board members, Board members by age range, Number of meetings of audit committee and attendance rate, Compensation of board members and executives, expenditures on charitable donations, amount of fines paid or payable due to anti-corruption convictions
Zoom into environmental indicators

• Environmental area:

1. Water
   • Water recycling, Water use efficiency, Water stress, Integrated water resource management,

2. Waste management
   – Reduction of waste generation, Waste recycling, Hazardous waste

3. Greenhouse gas emissions
   • Scopes 1-2

4. Chemicals (including pesticides and ozone-depleting substances)

5. Energy
   • Renewable energy, Energy efficiency
Guidance on core indicators

- Delegates at ISAR 34 provided UNCTAD with a mandate to take the project on core indicators forward and prepare a guiding document.

- The retained indicators are expected to be universal, highlighting the fact that all companies use natural resources, and that accounting for such use already takes place as part of their budgeting processes.

- Importance of providing stakeholders with clear and concise methodology on reporting.
Next steps

• Call for **comments** on non-paper draft

• **Consultative Group** on Sustainability Reporting and SDGs expected to take place in early 2018

• Ongoing activities: **consultations** with various partners in the area of sustainability reporting, including standard-setters, governments, companies, investors, preparers, the accounting profession, and many more

• Pilot testing of the core indicators at the national level, via the **Accounting Development Tool**

• Launch of the final document: **ISAR 35 – 24-26 October 2018**