GSG IMPACT

AUGUST 2024

Impact Transparency From The Ground Up

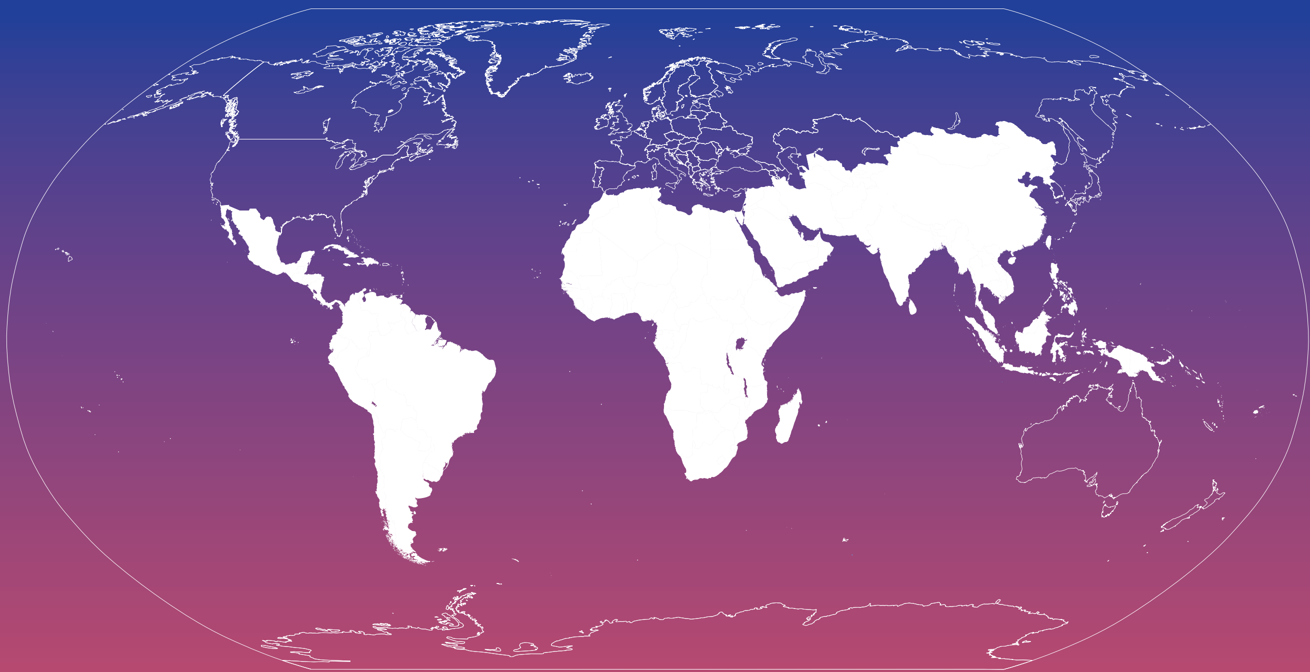
Executive Summary

The Impact Transparency agenda has gained global momentum, largely driven by significant progress in advancing sustainability and impact-related disclosure standards. However, **doubts remain around market readiness for adoption of sustainability disclosure norms in emerging economies (EMDEs), particularly by medium and small-sized companies (MSMEs)** that are part of regional and/or global supply chains through their links with larger reporting entities.

Additionally, there have been relatively **low levels of engagement by key stakeholders from the so-called "Global South"** in the design of these globally-relevant disclosure standards, which poses questions around their global representativeness and adoptability.

The **Global South, home to 85% of the global population and over 50% of the world's biodiversity**, cannot be spared in the design of a global sustainability reporting baseline. This is particularly relevant as the next generation of standards on social-related disclosures begins to take shape.

In light of this, GSG Impact, with support from the UK government through its Foreign, Commonwealth and Development Office (FCDO), and in partnership with leading organisations in the field, including the IFRS Foundation's International Sustainability Standards Board (ISSB), the United Nations Development Programme (UNDP), and the International Foundation for Valuing Impacts (IFVI), took on an ambitious project, called "Impact Transparency From the Ground Up". The initiative pursued a t**wo-fold**



objective: to raise awareness and build capacity on sustainability disclosures and broader impact transparency topics in select EMDEs, while also gathering local and expert views to issue strategic recommendations "from the ground up" for standard-setting institutions and policymakers worldwide.

The findings outlined in this report shed light on some of the **major challenges and opportunities,** specific to EMDEs, that the global trend for greater impact transparency bring, including: **i) the need to consider the realities of MSMEs**, including those operating informally, to develop a truly inclusive global reporting baseline, **ii) reflections on tensions and complementarities between adoption and adaptation approaches** to international sustainability disclosure standards, **iii)** the need and opportunity to **complement regulation with market-driven incentives and evidence** to boost adoption of sustainability disclosures, **iv)** a call to **tailor capacity** building efforts to meet the needs of distinct markets and stakeholders which are diverse in nature, **v)** the need to amplify the voices of EMDEs in global sustainability standard-setting efforts, in particular to inform and influence future social-related disclosures.

The report concludes by presenting a **set of recommendations for a range of stakeholders,** including standards setters, governments and multilateral organisations, to make sustainability disclosure standards work for all: **i) Transition from openness to proactive inclusivity of Global South** voices in shaping global standards, **ii) Support preparers in EMDEs** with technical assistance, practical implementation guidance and technology solutions, **iii) Develop tools that allow factoring in local and regional specificities** while preserving global comparability, such as regional materiality matrices and phased-in implementation roadmaps and, **iv) Seek greater collaboration between reporting entities, IOs and knowledge-development institutions** to build an evidence-based business case for sustainability disclosures and impact transparency, beyond just compliance.

Introduction

Background

We stand at a critical juncture in history, facing unparalleled challenges that threaten social cohesion and natural systems worldwide. Business as usual no longer serves our economic systems, compelling us to shift from mere wealth maximisation to a new impact-driven paradigm that encompasses risk, return, and impact.

Social and environmental challenges are numerous, intertwined and complex in nature. According to the World Economic Forum (WEF), the global cost of climate change damage is projected to stand between $1.7 trillion and $3.1 trillion per year by 2050.[1] World leaders are increasingly acknowledging and reacting to these pressing challenges as evidenced by the widespread adoption of Net Zero carbon pledges,[2] and the commitments to achieve the Sustainable Development Goals (SDGs) set by the UN by 2030. However, we are still nowhere near reaching the Paris climate goals, whilst the SDG financing gap in developing countries remains stubbornly high at over $4 trillion per annum.[3]
On a positive note, with over $270 trillion allocated in financial markets and ESG-aligned[4] global assets under management (AUM) surpassing $30 trillion in 2022 (and predicted to hit $40 trillion by 2030),[5] there is both a major opportunity and a pressing need to further align capital with purpose and respond to the global development and climate agendas by finding more effective ways of mobilising investment capital at scale to achieve real impact, while meeting the risk-adjusted return expectations of investors.

For this shift to take place, it is essential to provide investors and other key market players (including those who hold investors accountable) with more, better, and globally comparable information on sustainability and impact-related risks and opportunities - evolving from an era in which sustainability and impact information is not measured nor reported consistently, and consequently not managed or valued by markets.

Over the past decades, a plethora of sustainability disclosure guidelines were developed to address this need, which at the outset included voluntary and issue-specific standards, such as those produced by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-Related Financial Disclosures (TCFD), and the Integrated Reporting (IR) initiative, amongst others. However, this resulted in a confusing and fragmented ecosystem, which is only now starting to find a path to harmonisation and convergence, thanks in large part to efforts by the IFRS Foundation's International Sustainability Standards Board (ISSB) to build a global baseline for reporting sustainability-related risks and opportunities under a common standard.
The ISSB baseline, which will need to be interoperable with similar efforts by the Securities

1 WEF (2023). "Climate change is costing the world $16 million per hour: study." World Economic Forum. Retrieved March 18, 2024. Available at: https://www.weforum.org/agenda/2023/10/climate-loss-and-damage-cost-16-million-per-hour/

2 ITF (2021). "Time to deliver: mobilising private capital at scale for people and planet". Available at: https://www.impact-taskforce.com/media/gq5j445w/time-to-deliver-final.pdf

3 OECD (2023). "Bottlenecks to Access Sustainable Development Goals Finance for Developing Countries". Available at: https://www.oecd.org/g20/oecd-g20-bottlenecks-sdg-finance-developing-countries.pdf

4 ESG-aligned capital is defined by its mitigation of risky environmental, social, and governance practices in order to protect value; impact investing addresses societal challenges that can generate market-rate, near market-rate, or below-market rate financial returns. For further details on the differences across the different market risk/return strategies, see: "The Bridges Spectrum of Capital." Available at: https://www.bridgesfundmanagement.com/publications/bridges-spectrum-capital-define-sustainable-impact-investment-market/

5 Bloomberg (2024). "Global ESG assets predicted to hit $40 trillion by 2030, despite challenging environment, forecasts Bloomberg Intelligence." Retrieved February 8, 2024. Available at: https://www.bloomberg.com/company/press/global-esg-assets-predicted-to-hit-40-trillion-by-2030-despite-challenging-environment-forecasts-bloomberg-intelligence/ Accessed 21 March 2024.

Exchange Commission (SEC) in the US and the European Financial Reporting Advisory Group (EFRAG) in Europe, aims to provide harmonised and globally comparable disclosures that meet the information needs of investors as primary users, addressing both general sustainability and environmental risks and opportunities that affect enterprise value. Given the global reach of the IFRS Accounting Standards, now mandatory in 147 jurisdictions – of which more than 70% are emerging economies – the ISSB initiative is a key stepping stone to enable the mobilisation of capital at scale for increased impact and sustainability-aligned investments.[6]

While supporting the ISSB global baseline, GSG Impact has also called for an urgent "build" approach since 2021, to complement the baseline and account for impacts on all stakeholders - in line with established and emerging jurisdictional efforts and voluntary standards that go beyond sustainability risks and opportunities affecting enterprise value only.

Towards a truly global system that works for all

As referenced, efforts by the ISSB have gone hand in hand with progress made by other jurisdictions to deliver standards including, but not limited to, the European Sustainability Reporting Standards (ESRS), adopted in July 2023 by the European Union (EU) and which cover environmental, social, and governance issues; and the U.S Securities and Exchange Commission's rules mandating public companies to disclose climate change-related information - passed in March 2024. Other notable developments in the field include new sustainability disclosure requirements for listed companies by China's three major stock markets —the Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), and Beijing Stock Exchange (BSE)—, effective from 2025, the announcement of an ISSB-aligned draft sustainability disclosure standard by China's Ministry of Finance expected to be nationally established by 2030 and the announcement made by Brazil, the largest economy in Latin America, on the adoption of ISSB global baseline, mandatory from 2024 and onwards to all listed companies.

Despite the remarkable progress described, doubts remain about market readiness for adoption of sustainability disclosure norms in EMDEs, particularly by medium and small-sized companies that are part of regional and/or global supply chains through their links with larger reporting entities. In the same line, we have seen relatively low levels of engagement by key stakeholders from the so-called Global South in designing ISSB's baseline to date: although middle income and developing regions home over 85% of the world's population, a mere fraction of the responses submitted to the IFRS Foundation's ISSB inaugural consultation on their first standards (IFRS-S1 and IFRS-S2) came from stakeholders in EMDEs - in spite of efforts by the IFRS-ISSB to design and run an open, non-discriminatory and transparent consultation process. This, in turn, poses questions about the global representativeness and adoptability of the standards.

6 IFRS (2024). "Who uses IFRS Accounting Standards?" Available at: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis-of-use-of-ifrs-accounting-standards-around-the-world

Going forward, strategies for boosting engagement from these jurisdictions will be needed, especially as standards on social disclosures and biodiversity evolve. Following a new consultation on future agenda priorities, the ISSB recently announced the beginning of new research projects focusing on Human Capital and Biodiversity - signalling that the next set of standards might be related to such topical issues. This specific direction of travel makes it imperative to ensure greater participation of stakeholders in emerging economies in consultations and wider decision-making instances as such jurisdictions have the highest rates of poverty globally, and are home to over 50% of planetary biodiversity.[7] In the case of social-related disclosures under discussion (not only by the ISSB), and given the contextual sensitivity of such topics (i.e. they differ from the more globally comparable climate-related standards), boosting engagement from voices in the Global South will be particularly relevant.

Efforts to ensure inclusivity, especially in EMDEs, should also consider the fact that Micro-, Small-, and Medium-sized Enterprises (MSMEs) which typically lack capabilities, risk lagging behind. This is crucial as MSMEs are the backbone of emerging economies, contributing to at least 40% of their national income[8] and between 70% and 95% of new employment opportunities[9] - acknowledging that these figures would be even higher if they included small companies operating in the informal economy, prevalent in EMDEs. Whilst not necessarily "reporting entities" themselves, these smaller companies are at risk of being negatively affected by increased requirements for sustainability disclosures given their limited resources and capacity to respond to such requirements and the key role they play in supply chains of larger corporations.

As such, understanding the criticality of greater inclusivity and proportionality in global sustainability standard-setting efforts, GSG Impact embarked on a bottom-up effort, working with its members and strategic partners, to help show the way towards a new system that works for all.

Workshop in Phnom Penh, Cambodia, 1 Feb, 2024.

7 Collen, B., Ram, M., Zamin, T., & McRae, L. (2008). "The Tropical Biodiversity Data Gap: Addressing Disparity in Global Monitoring." Tropical Conservation Science, 1(2), 75-88. Available at: https://journals.sagepub.com/doi/10.1177/194008290800100202

8 World Bank (2019). "Small and Medium Enterprises (SMEs) Finance. World Bank."Retrieved February 8, 2024. Available at: https://www.worldbank.org/en/topic/smefinance

9 IFC (2022). "MSME Finance." Available at: https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/msme-finance

About the project

Leveraging its capabilities as a global market builder, convener and orchestrator, and with members in over 50 countries, GSG Impact has led, during the past months, an ambitious project in nine key EMDEs aimed at:

a) raising awareness and building capacity on sustainability reporting and wider impact transparency topics, and

b) systematising views, needs, insights, and contributions from key stakeholders in these countries to inform key international efforts "from the ground up," with a view to advancing truly global standards and impact-transparency practices, enhancing proportionality, and promoting wider adoption.

The insights, findings, and recommendations in this report are drawn from consultations with over 500 key stakeholders in 9 select EMDEs, namely Indonesia, Cambodia, Vietnam, Thailand, Ghana, Nigeria, Colombia, Mexico and Brazil, where a series of in-person capacity building workshops, in-depth interviews, and stakeholder engagement activities took place between January and March 2024.[10] The stakeholders engaged in the initiative included: listed and non-listed companies, MSMEs, financial regulators, stock exchanges, accounting and auditing firms, national accounting standard setters, other relevant government agencies, industry associations, federations of accountants, public development banks, investors and academia. (SFWG), specifically on means to deliver "sustainability disclosures that work for all".

9
Countries

+500
Stakeholders consulted

10
In-person workshops

61
Guest speakers

+35
Partner organisations

58%
Of speakers were women

10 To prepare this report and to mitigate the risk of over-generalising the conclusions derived from the project activities, our key messages and main findings have been tested and validated by GSG Impact's global network of 50+ National Partners and other relevant stakeholders.

Key findings

1. Efforts to deliver an inclusive global baseline for sustainability reporting must take into account the realities and needs of MSMEs, including those informal entities prevalent in EMDEs

While not reporting entities themselves, MSMEs[11] are likely to soon face increasing social and environmental disclosure requirements from their larger clients, many of which will be mandated to report scope 3 carbon emissions[12] (amongst other information) as these regulations become effective in the coming years. Similar pressures for smaller companies will likely arise from regulations such as the European Commission's Corporate Sustainability Due Diligence Directive (CS3D),[13] which requires large companies to conduct human rights and environmental due diligence in their own operations as well as in those of their suppliers - many of them MSMEs.

As key actors in local and global supply chains, MSMEs, with relatively weaker data management, financial, technical and reporting capabilities, are expected to be placed under undue stress by well-intentioned pushes for greater transparency. If not addressed correctly, this could put many MSMEs at risk of marginalisation from key value chains. It is therefore imperative that both global standard setters and domestic regulators, working directly with MSME representatives and through larger entities, anticipate and address the challenges to come.

The global relevance of MSMEs, and hence the criticality of their inclusion in standard-setting efforts, is evident. Both formal and informal MSMEs make up over 90% of all firms around the globe.[14] They operate across a diverse range of sectors, from manufacturing to services, and are the bedrock of economic development, acting as catalysts for growth, job creation, and innovation. In EMDEs specifically, MSMEs represent 40% of GDP and are responsible for as much as 70% of job creation.[15] Whilst facing challenges in any given economy regardless of its level of development, in EMDEs, where economic informality prevails, MSMEs operating outside formal norms and regulations (including on taxation and labour) account, on average, for 33% of GDP.[16]

11 According to the IFC, micro-enterprises are businesses with less than 10 employees, total assets less than $100,000, and annual sales less than $100,000. Small enterprises are businesses with between 10 and 50 employees, total assets between $100,000 and $3 million, and annual sales between $100,000 and $3 million. Medium-sized enterprises are businesses with between 50 and 300 employees, total assets between $3 million and $15 million, and annual sales between $3 million and $15 million. IFC (2024). "IFC's Definitions of Targeted Sectors". Available at: https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/definitions-of-targeted-sectors

12 Refers to indirect greenhouse gas emissions released that occur in the value chain of an organisation but are not directly owned or controlled by that organisation. Scope 3 emissions represent a broader and more complex category that reflects the full extent of an organisation's environmental impact throughout its value chain. Notably, scope 3 emissions often account for the largest portion of a company's carbon footprint, highlighting the significance of addressing these indirect emissions in efforts to mitigate climate change.

13 For further information, see: https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

14 International Council for Small Business (2019). "Annual Global Micro-, Small and Medium-sized Enterprise Report". Available at: https://icsb.org/wp-content/uploads/2019/09/REPORT-2019.pdf

15 In Latin America, 99.5% of businesses are MSMEs, representing 60% of total employment. In Africa, they comprise over 90% of businesses and contribute to around 50% of GDP. In Southeast Asia, they account for 97% of all enterprises, employ 85% of the labour force, and explain 45% of regional GDP. IADB (2020). "MSME Financing Instruments in Latin America and the Caribbean During COVID-19." Available at: https://publications.iadb.org/en/msme-financing-instruments-in-latin-america-and-the-caribbean-during-covid-19

16 World Bank (2022). "The Long Shadow of Informality." Available at: https://thedocs.worldbank.org/en/doc/37511318c092e6fd4ca3c60f0af0bea3-0350012021/original/Informal-economy-full-report.pdf

In Africa and Southeast Asia, where exporting to European markets is pivotal, and in particular for sectors that rely heavily on MSMEs across their supply chains (e.g. agro-processing, textiles, manufacturing), reporting pressures will be higher (as will be operating costs) and, therefore, risks of marginalisation will be greater. In addition, the predominance of women-owned and women-led small businesses in specific sectors poses an additional gender imbalance threat.

Major gaps prevail

Not only are MSMEs in EMDEs, and specially those operating informally, facing challenges to keep up with the sustainability agenda, but as reported by stakeholders and experts across our in-country engagements, many small entities even lack basic resources to perform the simplest accounting practices. As indicated by an official in charge of liaising with and supporting MSMEs in an African country: "The majority of small companies in our market operate informally, which means they are not even acquainted with the financial system. This makes it virtually impossible for them to even dream of reporting any kind of data consistently, even less so data pertaining to sustainability and impact. Their aspiration is mere survival, and our political goals and capacities are focused there, through gradual formalisation and supporting the development of basic accounting literacy, including bookkeeping."

Other structural barriers such as limited management capacities, lack of adequate infrastructure, poor security conditions, low levels of skill in the labour force, and low productivity, explain why, according to UN Global Compact surveys, only 13% of MSMEs in developing economies have sustainability strategies in place.[17]

Keys to help MSMEs embrace sustainability practices

Across our consultations we saw agreement around the key role that large corporations are called to play in upgrading sustainability management and reporting within the MSMEs in their value chains. As expressed by stakeholders, corporations can provide such critical support through knowledge transfer, as well as via direct financial investment. This is seen as critical not only to ensure fair market access, and enhance MSMEs' capabilities and resilience, but also as something large corporates and reporting entities should pursue in their own self-interest. Addressing this will act as a competitive advantage to raise investment by impact-driven investors, attract and retain talent, tap into sustainability-conscious clients by enhancing brand reputation and, of course, be well placed to respond to increasing sustainability reporting requirements in the coming years.

In a complementary line of thinking (and action), some of the government representatives attending our events pointed to the potential role of existing accreditations, including government-awarded quality assurance standards or other certifications, to push for the incorporation of sustainability practices (and further down the line, reporting) by MSMEs.

> *"Large enterprises obligated to disclose information regarding their supply chains ought to provide assistance to their MSME suppliers, enabling them to fulfil the minimum reporting. It is very much in their own self-interest."*
>
> **ACADEMIC EXPERT**
> **LATIN AMERICA**

17 UN Global Compact (2022). "SME Engagement Strategy". Available at: https://unglobalcompact.org/library/6049

This can be particularly relevant in sectors like agribusiness and food production, subject to regular government and industry quality controls and certifications, and with intense participation from small companies.

In 2021, for example, Cambodia introduced the "Inclusive Business" (IB) accreditation[18] to provide businesses that follow certain criteria, aimed at improving the livelihoods of low-income populations (and hence labelled as "inclusive"), with tax reliefs and access to funding. IB accreditations could include a requirement for some form of sustainability disclosure, to be implemented incrementally, and MSMEs in the pipeline for accreditation could be recognised for already attempting to comply with other sustainability requirements and supported to continue in this path.

For MSMEs that are more advanced, but still lack expertise, the introduction of simplified sustainability reporting standards in pioneering jurisdictions like Mexico, is proving helpful. The Mexican Council for Financial Reporting Standards (CINIF) requests different disclosures from entities depending on whether they are of "public interest" (banks or listed companies, typically large entities). The Council helps companies of all sizes navigate new information requirements by handpicking and prioritising metrics relevant to their specific circumstances, thereby reducing costs and administrative burdens, particularly for smaller ones. CINIF proposes a two-stage implementation process, starting with assistance on measurement, analysis, and selection of specific sustainability metrics (for which online tools are under development)[19] [20].

In Malaysia, MSMEs are now required by various stakeholders to disclose their ESG standards or risk financial losses: according to the Sustainable Finance Institute Asia, Malaysian SMEs could potentially incur US$65 billion in losses if they fail to keep pace with their multinational company (MNC) counterparts in global sustainability compliance[21]. In response to this, Capital Markets Malaysia (CMM) launched a guide called the "Simplified ESG Disclosure Guide (SEDG) for SMEs in Supply Chains."[22] This guide aims to align Malaysian SMEs with global frameworks and international reporting standards, ultimately helping them thrive in the global supply chains.

Workshop in Bangkok, Thailand. 6 Feb, 2024

18 For further information, see: https://www.khmersme.gov.kh/en/sme-inclusive-business/

19 For further information, see: https://www.cinif.org.mx/nis-mayo2024/Comunicado%20evento-promulgacion_NIS.pdf

20 PwC (2024). "Promulgación de las Normas de Información de Sostenibilidad (NIS) 2024 para empresas en México." PwC México. May 13. Accessed July 4, 2024. https://www.pwc.com/mx/es/soluciones/esg/promulgacion-nis-2024-para-empresas-en-mexico.html

21 Eco-Business (2023). "'No one left behind': Simplified guide hopes to push sustainability disclosures among Malaysian SMEs." Retrieved May 10, 2024. Available at: https://www.eco-business.com/news/no-one-left-behind-simplified-guide-hopes-to-push-sustainability-disclosures-among-malaysian-smes/

22 For further information, see: https://sedg.capitalmarketsmalaysia.com/

2. There does not need to be a contradiction between adopting the global baseline by EMDEs and making jurisdictional adaptations

As discussed, the sustainability management and reporting landscape has evolved substantially over the past decades. As a result, a variety of standards, guidelines, frameworks, and regulations have emerged.

Whilst efforts like that of the ISSB to establish a global baseline for sustainability reporting are crucial to avoid fragmentation and ensure comparability, the effective adoption of such a baseline necessarily varies across jurisdictions.

Throughout our project, including research and on the ground consultation, we have seen varied approaches to adoption, with some jurisdictions leaning towards adopting ISSB standards "face value", and others working on local adaptation(s) to cater for specific nuances, structures, capabilities, readiness and topics relevant to their local markets.[23] These approaches speak to an apparent trade-off between the must-achieve goal of enabling global harmonisation and comparability, on the one hand, and the need to tailor processes to the realities of local/national markets on the other.

The *adaptation* approach allows jurisdictions to integrate idiosyncratic needs, which may not necessarily be addressed in broader, global standards. This also enables disclosure requirements to be based on pre-existing guidelines, frameworks, norms and other domestic and (domestically adopted) international precedents for measurement and reporting (e.g. the UN SDG Impact standards, popular in several EMDEs following years of advocacy and work by the UNDP through local and international offices). Sustainability reporting is definitely not starting from zero in most jurisdictions, and the next steps should build on that tradition rather than starting over at the risk of creating further confusion.

However, adaptation also poses a number of challenges for local regulators who are tasked with developing technical standards, and need time and resources to consult with experts and other stakeholders. Multinational corporations may also find themselves having to wade through a potpourri of standards across various jurisdictions they may interact with, which can complicate data collection and reporting processes, and result in greater operational burdens.

For its part, the plain *adoption* approach has the merit of ensuring global comparability and interoperability of information from the onset, by organising and presenting information in a useful, actionable, and context-sensitive way for the benefit of investors as decision-makers. At the same time, as data generation and management costs are expected to be lower, flows of international capital should gradually become easier and more transparent. For the case of EMDEs, in much need of investment capital, both domestic and international, convergence towards a common global language should facilitate integration into the global financial system.

The potential "downside" of the adoption path could be related to challenges posed by the heavier burdens that entities may face at the onset, including steep learning curves, lack of immediate access to required data (not only at the company or value chain level but also nationally, which could include information on exposure to natural risks, typically produced and provided by governments), and implementation costs, amongst others.
A healthy, propositive and practical "synthesis" between the two approaches lies in the ISSB "adoption pathways" route, which as explained by ISSB Chair Emmanuel Faber aims to provide jurisdictions with sufficient degrees of freedom to decide their own process towards adoption without

23 At the time of this report, there were four open consultations on the adoption of sustainability-related disclosure standards at a country level, and another thirteen took place over the past year. Seven of them in EMDEs. For further information, see: https://www.ifrs.org/ifrs-sustainability-disclosure-standards-around-the-world/jurisdiction-consultations-on-sustainability-related-disclosures/

hampering the baseline's main purpose of ensuring comparability and interoperability of information.[24 25]

Our research and work on the ground across regions and countries included in the initiative suggests that while some regulators (mostly in, but not limited to, South Asia and Africa) are leaning towards *adoption*, other jurisdictions are finding ways for *adaptation*, developing idiosyncratic approaches that dialogue with (and can potentially enhance) international standards.

An accounting expert consulted in Africa pointed to this whilst also emphasising the need for greater involvement of local stakeholders in the design of the standards: *"Adoption is the way. Eventually, global standards will come our way and everyone will have to address international requirements. There is no point in creating more localised standards, but in the process active participation is key. Our voices need to be heard and be at the heart of international disclosure norms."*

For its part, an academic expert interviewed in Latin America deep-dove into some of the challenges for adaptation, recalling Colombia's experience as it adopted IFRS's financial disclosures a decade ago: "In Colombia, international sustainability standards should be adapted, as established by local Law 1314.[26]

Workshop in Phnom Penh, Cambodia, 1 Feb, 2024.

24 Responsible Investor (2023). "ISSB to outline range of adoption 'pathways' for countries in early 2024, says Faber". Available at: https://www.responsible-investor.com/issb-to-outline-range-of-adoption-pathways-for-countries-in-early-2024-says-faber/

25 Nigeria, for instance, Africa's first country to announce the adoption of ISSB's Standards, proposed a phased implementation roadmap with three distinct phases spanning 2026 to 2032. Refer to Box 1 below for further information.

26 In Colombia, Law 1314 of 2009 established that companies must apply international financial reporting standards of international acceptance. That is, all companies that carry out commercial acts must keep accounts under the technical accounting frameworks in force in the country, which are based on the International Financial Reporting Standards issued by the IASB (IFRS), without prejudice to the exceptions set forth in the same law.

This is especially relevant, considering that the majority of companies are SMEs. In other words, the standards are applied internationally and we need to converge to the global baseline, but it's not necessary for everyone to apply them in the same way. We must differentiate between listed and non-listed companies, and between large, medium, and small ones."

In summary, consistent, well-designed adaptation paths must cater for local market characteristics and capabilities, whilst not aiming to challenge the global baseline - like Colombia's Financial Superintendence notice 031/21, which explicitly recognises the goal to converge with international standards.[27] Experts joining one of the panel discussions in Latin America agreed, by considering that "*trying to develop local norms, different to emerging international requirements, would be a fatal mistake. This need not imply that we shall not find our own route into adoption, like the one proposed by our regulator.*"

Latin America is a good example of a region coordinating for consistent adaptation, through efforts like the one driven by GLASS (Group of Latin-American Accounting Standard Setters)[28] - an organisation that brings together 16 standard setters from across the region. This body has established a Permanent Sustainability Commission dedicated to analysing ISSB standards, responding to public consultations, and coordinating efforts to harmonise disclosure requirements in the region.

Looking ahead, the ISSB's upcoming jurisdictional guidelines[29] can be a step in the right direction towards balancing apparent tensions between adoption and adaptation. These guidelines will be aimed at not only allowing the possibility of adopting or adapting the standards, but also enabling "other uses" of the information - e.g. by recognizing the range of approaches that jurisdictions may take to be informed by, reference or draw inspiration from ISSB Standards when introducing sustainability-related disclosure requirements in their legal and regulatory frameworks. It is expected that this approach will allow for greater margins of manoeuvre for jurisdictions willing to adopt, ensuring that local nuances are considered, while also balancing the need to deliver the comparability, consistency and reliability of information.

Workshop in Accra, Ghana, 7 Feb, 2024.

27 Superintendencia Financiera de Colombia (2021). "Circular Externa 031 de 2021." Available at: https://cdn.actualicese.com/normatividad/2021/Circulares/CE031-21.pdf

28 For further information, see: https://glenif.org/

29 IFRS (2024). "The jurisdictional journey towards globally comparable information for capital markets." Available at: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/preview-of-the-jurisdictional-adoption-guide.pdf

Finally, we assess that while it is key to ensure that jurisdictions can opt for phased-in approaches and select metrics that make sense in their local and regional contexts, this should not jeopardise the harmonisation of information, nor result in asynchronous disclosures or excessively long timeframes for adoption in some countries. Therefore, technical assistance and targeted capacity building resources are deemed crucial to ensure that local considerations are incorporated in a timely manner and do not risk harming the implementation of the global baseline, with ISSB participating and engaging with jurisdictions periodically to ensure alignment - for which local-to-global and global-to-local coordination is a must.

Workshop in Phnom Penh, Cambodia, 1 Feb, 2024.

Box 1. Nigeria's Adoption Readiness Working Group (ARWG) for Sustainability Reporting: an example of government action to design an implementation roadmap for sustainability disclosure.

The Adoption Readiness Working Group (ARWG) for Sustainability Reporting in Nigeria was created on 6 June 2023, in Abuja, Nigeria, with the aim of guiding Nigeria's pledge to become an early adopter of IFRS Sustainability Disclosure Standards. The ARWG was entrusted with the task of developing a plan and providing guidance for the adoption of these standards, tailored to the local context.

As explained during our workshops by ARWG representatives, the goal is "not to have a 'regulate and use' adoption approach but to have buy-in from all stakeholders." This commitment is reflected in the group's diverse composition, which includes representatives from regulatory agencies, professional bodies, public and private companies, auditors, academia, and sustainability professionals.

In January 2024, the ARWG unveiled a phased adoption roadmap, consisting of three distinct phases spanning 2026 to 2032. By 2030, early adopters will be required to provide assurance for all disclosures, with the same requirement extended to voluntary adopters by 2031, and to mandatory adopters by 2032. A representative from ARWG explained: "This phase-by-phase approach is based on the experience we had with the adoption of the IFRS (accounting standards)."

The roadmap offers Nigerian businesses a structured pathway to adopting sustainability reporting standards, ensuring Nigeria's alignment with globally recognised sustainability norms while affording companies adequate time to adjust and transition.[30]

30 Financial Reporting Council of Nigeria (2024). Available at: https://frcnigeria.gov.ng/wp-content/uploads/2024/07/FINAL-COPY-OF-SUSTAINABILITY-ROADMAP1.pdf

3. Adoption of the global baseline (and other standards) will not be only driven by enforcement (or "sticks") from regulators: a positive, evidence-based case tapping into the wider benefits of sustainability and impact management, beyond mere compliance, will be equally important to engage companies and other stakeholders

Interviews and wider consultation during our in-country efforts indicate that in EMDEs widespread adoption of sustainability reporting practices will require a dual approach that seamlessly integrates "top-down enforcement" (e.g. through government regulation) with "bottom-up" efforts to build a compelling case for sustainability and impact practices as drivers of enhanced business management, performance and, ultimately, profitability. Further incentives, such as those derived from investor demands for consistent information (thereby instilling greater "discipline" throughout value chains), will also be pivotal.

This is especially true in jurisdictions where regulatory environments and enforcement are relatively weaker. There, it is important to build an evidence base in support of sustainability management and disclosure as a lead to accessing new markets, consolidating existing ones, facilitating access to funds, reducing operational costs, building brand reputation, or attracting and retaining talent. As underscored by a BCG[31] study, top performers on ESG topics achieve valuation multiples 3% to 19% higher than median performers, whilst also outperforming competitors in attracting and retaining talent.

In summary, building a consistent path towards adoptions through "carrots OR sticks" poses a false dichotomy. A positive approach stressing the benefits of embracing sustainability as a means of doing more and better business is as important as strong, efficient regulation. Most of the jurisdictions included in our on-the-ground research have strong precedents to build upon, including the work of the UNDP through its SDG Impact management initiative.

"It is all about understanding the benefits of adopting sustainable practices. If it provides opportunities for growth and access to favourable financial resources for micro, small, and medium enterprises, as well as increased competitiveness in local and regional markets, then those involved will be more inclined to adopt."

GOVERNMENT AGENCY REPRESENTATIVE
AFRICA

"Culture plays a crucial role in promoting sustainability. It's not just about checking boxes; it's about embracing sustainability as a way of life."

REPRESENTATIVE OF AN EARLY ADOPTER COMPANY
AFRICA

"We have been talking about sustainability for a long time and nobody paid any attention. But the minute they (investors) started talking about finance in relation to sustainability and people being able to get funding, the conversation changed."

COMMERCIAL BANK
AFRICA

31 BCG (2022). Compliance to courage in ESG. Available at: https://www.bcg.com/publications/2022/compliance-to-courage-in-esg

Building on precedents

Back to regulation, across the Global South, many countries are not beginning their sustainability reporting journey from a blank slate but are building upon an existing foundation of reporting initiatives, sustainability-related regulations, and standards that guide corporate sustainability practices locally. These are important precedents for the full adoption of the next generation of globally harmonised standards and wider impact transparency practices. In turn, ongoing standard-setting efforts should not aim to build from scratch, but take into account valuable national developments that form the basis of a common language for local stakeholders.

For instance, in Ghana, the Stock Exchange issued voluntary guidelines in 2022 for listed companies to disclose ESG information in line with international standards.[32] In 2021, Mexico's National Banking and Securities Commission, the financial system regulator, mandated listed companies to disclose their environmental policies in their annual reports. In that same year, the Finance Superintendence of Colombia, the country's financial market regulator, issued Circular 31, requiring issuers to disclose information on social and environmental risks likely to have a material impact on their business.[33]

In Southeast Asia, Vietnam's State Securities Commission's Circular 96[34] from 2020 requires publicly traded firms to disclose ESG information such as GHG emissions and data on compliance with environmental protection laws and employee-related policies. In a similar fashion, Thailand's Securities and Exchange Commission Form 56-1 One Report[35] requires listed companies to disclose information on their sustainability practices, corporate governance and environmental and social impacts, including GHG emissions and human rights commitments. Additionally, Indonesia's Financial Services Authority's Regulation 51 from 2017[36] makes it mandatory for financial institutions and public companies to prepare annual sustainability reports.

"A client approached us with questions regarding the sustainability report, particularly interested in the extent to which they could deviate from the full set of requirements. We consistently advise that the effort put into generating a thorough report should not just aim at meeting compliance but should also be seen as serving their own strategic interests, including access to capital. Sooner or later, companies will realise the significance of the sustainability report when they see their funding costs decrease."

CONSULTANCY FIRM EXPERT
LATIN AMERICA

"In my experience, one of the main drivers of sustainability is not regulation, but financing. I once organised a webinar where we talked about the circular economy and we were told: 'Please, next time you do this meeting, come with the investors. Don't talk to us about the circular economy without coming up with funding sources.'"

WORKSHOP PARTICIPANT
AFRICA

32 For more information, see here: https://gse.com.gh/wp-content/uploads/2022/11/GSE-ESG-DISCLOSURES-GUIDANCE-MANUAL-1-1.pdf

33 Superintendencia Financiera de Colombia (2021). "Circular Externa 031 de 2021." Available at: https://cdn.actualicese.com/normatividad/2021/Circulares/CE031-21.pdf

34 For more information, see here: https://thuvienphapluat.vn/van-ban/EN/Chung-khoan/Circular-96-2020-TT-BTC-providing-guidelines-on-disclosure-of-information-on-securities-market/460833/tieng-anh.aspx#google_vignette

35 For more information, see here: https://publish.sec.or.th/nrs/8617se.pdf

36 For more information, see here: https://www.sbfnetwork.org/wp-content/assets/policy-library/980_Indonesia_Technical_Guidelines_for_Banks_on_implementation_of_POJK_2017_IFSA.pdf

Workshop in Mexico. 21 Mar, 2024.

Landscape of sustainability disclosure requirements and related regulation and norms across select EMDEs

Country	Authority	Local regulations/Frameworks[A]
Colombia	Financial Superintendence of Colombia (SFC)	Circular 31 (2021)[B]
Nigeria	Financial Reporting Council (FRC) Nigerian Stock Exchange (NGX)	Sustainability Disclosure Guidelines (NGX) (2016)[C]
Mexico	National Banking and Securities Commission (CNBV) Mexican Council for Financial Information Standards (CINIF) Mexican Stock Exchange (BMV)	Issuers' Circular, Annex N (CNBV) (2021)[D] Sustainability Guide (BMV) (2016)[E]
Ghana	Bank of Ghana Ghana Stock Exchange (GSE)	Sustainable Banking Principles (Bank of Ghana) (2019)[F] ESG Disclosures Guidance Manual (GSE) (2022)[G]
Vietnam	State Securities Commission of Vietnam	Circular 96/2020/TT-BTC (2020)[H] Sustainability Reporting Handbook for Vietnamese Companies (2013)[I]
Indonesia	Financial Services Authority (OJK)	Regulation No. 51/POJK.03/2017 (2017)[J]
Thailand	Securities and Exchange Commission of Thailand	Form 56-1 One Report (2019)[K] Corporate Governance Code (2017)[L]
Cambodia	Securities and Exchange Regulator of Cambodia (SERC)	Cambodian Sustainable Finance Principles Implementation Guidelines (2019)[M]

A The below indicated years correspond to the year each regulation/framework was announced.

B The footnote corresponds to a citation previously used (ibid., p. 17)

C Nigerian Stock Exchange. "Sustainability Disclosure Guidelines." Available at: https://ngxgroup.com/ngx-download/sustainability-disclosure-guidelines/?wpdmdl=25949&refresh=657b6708a05721702586120&ind=1604672225156&filename=Sustainability%20Disclosure%20Guidelines.pdf

D CNBV México. "Instructivo para la elaboración del reporte anual." Available at: https://www.cnbv.gob.mx/Anexos/Anexo%20N%20CUE.pdf

E Grupo BMV. "Guía de Sustentabilidad. Hacia el desarrollo sustentable de las empresas en México." Available at: https://www.bmv.com.mx/docs-pub/SERVICIOS_EMISORAS/3q2wk7r8jj6746k46q1n.pdf

F Bank of Ghana (2019). "Sustainable banking principles and sector guidance notes." Available at: https://www.bog.gov.gh/wp-content/uploads/2019/12/Ghana-Sustainable-Banking-Principles-and-Guidelines-Book-1.pdf

G Ghana Stock Exchange (2022). "ESG Disclosures. Guidance Manual." Available at: https://gse.com.gh/wp-content/uploads/2022/11/GSE-ESG-DISCLOSURES-GUIDANCE-MANUAL-1-1.pdf

H Ministry of Finance, Vietnam (2020). "Circular. Providing guidelines on disclosure of information on securities market." Available at: https://thuvienphapluat.vn/van-ban/EN/Chung-khoan/Circular-96-2020-TT-BTC-providing-guidelines-on-disclosure-of-information-on-securities-market/460833/tieng-anh.aspx

I IFC (2013). "Sustainability Reporting Handbook for Vietnamese Companies". Available at: https://documents1.worldbank.org/curated/en/179691468328537687/pdf/781570WP0Box030y0reporting0handbook.pdf

J OJK. Indonesia's Financial Services Authority (OJK) Regulation 51/POJK.03/2017. Available at: https://www.ojk.go.id/en/berita-dan-kegiatan/siaran-pers/Documents/Pages/OJK-Issues-Regulations-on-Infrastructure-Financing-SMEs-Development-Sustainable-Finance-Programs-Blocking-Terrorists-Fund/SP%2085%20DKNS%20OJK%20VII%202017-ENGLISH.pdf

K SEC Thailand (2021). "SEC prepares listed companies for disclosure of annual registration statement via Form 56-1 One Report." Available at: https://www.sec.or.th/EN/Pages/News_Detail.aspx?SECID=9062&NewsNo

L SEC Thailand (2017). "Corporate Governance Code 2017." Available at: https://www.sec.or.th/cgthailand/EN/Pages/CGCODE/CGCODE.aspx

M The Association of Banks in Cambodia (2019). "Cambodian Sustainable Finance Principles Implementation Guidelines." Available at: https://www.sbfnetwork.org/wp-content/assets/policy-library/280_Cambodia_SF_Principles_-_Implementation_Guidelines.pdf

4. As the global agenda progresses, capacity building needs to become more specific, tailored to the realities of EMDEs and catered to different stakeholder groups

As awareness around trends and increasing requirements on sustainability management and disclosure requirements continues to grow, our research and consultation on the ground indicate that capacity building remains a challenge which needs to be prioritised in the coming years. Post-event surveys from our workshops indicated that almost 70% of overall participants[37] were "not at all familiar" or "only slightly familiar" with evolving sustainability disclosure standards and the impact transparency agenda more generally. Consultations also indicated great interest in capacity building to tackle knowledge and capacity gaps, especially amongst smaller companies, without which stakeholders consider that the path towards adoption of the global baseline will remain a utopia.

As such, 35% of our workshop attendees emphasised that global standard setters and international organisations should make capacity building a priority, to ensure that prospective frameworks "work for all". Key priority topics for capacity building, as identified through consultation, include: more robust data systems to collect, manage, and share information; clarity on what information to disclose (including means to conduct consistent materiality assessments), and means to make sense of multiple existing (and complementary) standards.

Workshop in Bali, Indonesia. 23 Jan, 2024.

37 Key stakeholders who attended our workshops included: representatives from large enterprises, MSMEs, international organisations, investors, government officials, and experts from accounting consulting firms.

Knowledge and capacity gaps are exacerbated in EMDEs, a sector of the economy where data environments are usually poor (incomplete, outdated, non-comparable across databases including within government), due to the prevalence of high levels of informality. In this sense, a representative and sustainability expert from a major trade association in Latin America explained that *"it is not only the market actors that have weak capabilities but also the public data, which in Europe or the US is consistently made available by the public sector. Take the case of smallholders in the value chains of large food processing companies; they can't assess whether they are in an area exposed to climate or other natural risks as public systems are not available, incomplete and/or out of date. To make things worse, land tenure in many rural areas is informal so corporates themselves find it hard to ensure adequate traceability in their value chain"*

> *"When the Central Bank released the local principles we didn't know how to get some of the information that the template at the time required. And considered that some of the data required was not useful in any way. Different banks submitted different data and the Central Bank could never create an analysis that made any sense. Nobody had a clue on how to report in a uniform manner. I see the same thing happening with ISSB unless we are told exactly where to get the information and get support on how to make sense of it."*
>
> **COMMERCIAL BANK REPRESENTATIVE**
> **AFRICA**

At the same time, future capacity building priorities in EMDEs should not only target preparers and users of information and stakeholders in their value chains but also regulators and other public sector entities that, as discussed above, are not starting from scratch in the journey towards greater accountability and requirements in the sustainability and impact spaces. Support will be needed to ensure that domestic guidance and rules in place, not necessarily related to reporting *per se*, are adequately integrated into future domestic regulation and, at the same time, in line with the global baseline.

Finally, as per insights gathered during our events in select EMDEs, capacity building on sustainability reporting specifically should aim to dialogue with past efforts by international agencies like the UNDP, with a strong presence in such jurisdictions. As one GSG Impact National Partner lead, who is also a certified UNDP SDG Impact Standards expert put it: *"the UN system has invested a lot of resources on raising awareness about the importance of sustainability managements and practices in business and wider investment activities. This has included intense training on the adoption of SDG Impact Standards, which can be misinterpreted as a form of standards for reporting - when they are not. Not only does future capacity building need to avoid confusing the market, but also making the most out of synergies between existing frameworks, for which capabilities exist, and new rules and regulations."* Equally, international capacity building initiatives will benefit from being designed and implemented in collaboration with local actors. In the absence of such cooperation, these initiatives may be unable to fully address the specific challenges at the local level, thereby limiting their potential to foster sustainable practices in areas where they are most needed.

5. Social-related disclosure standards and requirements will never be globally representative if voices from EMDEs do not take centre stage

With the first set of ISSB standards and regulations in the EU and the US biassed towards climate disclosures, there are growing expectations that future developments will necessarily start relating more closely to the "social" dimensions of sustainability and impact - the inclusion of "human capital" as a priority topic in the next generation of research work by the ISSB speaks to this.

With "social" aspects being inherently more contextual than climate ones, and with EMDEs facing a disproportionate number of challenges in this regard (from income, gender and racial inequality, to poor labour conditions, human rights violations and corruption), there is growing awareness that future efforts cannot afford to not have voices from the Global South at the centre of the discussions. An official from an African sovereign fund said: *"As an organisation, we look at three levels: the economic, the environmental and, most importantly, the social impact. In emerging markets, the social aspect is very important. At the moment, if we are talking about inclusion of women in the workforce, minimum wage or child labour, I still feel there isn't a lot of transparency."*

700 million people currently live in extreme poverty across South Asia, the MENA region, Latin America and North Africa, subsisting on less than $2.15 a day.[38] In view of this and other relevant statistics, it becomes clear that shaping "social" disclosure standards must start with greater participation from such regions where pressing social challenges, including inequality and poor labour market conditions, are most prevalent.[39] Participants in our events see a difference with the climate standards developed to date, as an African stakeholder put it: *"when it comes to climate we see ourselves as a region facing the consequences of irresponsible, non-sustainable practices by industrialised countries. And perhaps we have not been as actively engaged in shaping climate-related standards as we should. However, our engagement going forward, in view of the coming discussions on social disclosure requirements, needs to be at a whole different level"*. Emerging data of global engagement with past ISSB consultation processes seems to validate this perception: a mere fraction of the responses to the consultation on S1 and S2 exposure drafts back in 2022 came from the so-called Global South. More recently, less than a third of responses to the ISSB consultation on future agenda priorities came from

> *"We, as representatives of the Global South, may not have been as vocal and engaged as needed in shaping general sustainability and climate-related disclosure standards; but, if with 85% of the global population, we sit idle in the next generation of social and inequality-related disclosures, it will mean the so-called global baseline is heading in the wrong direction."*
>
> **REPRESENTATIVE FROM AN INTERNATIONAL ORGANISATION JOINING OUR WORKSHOPS IN AFRICA**

38 World Bank (2023). "Poverty Overview." Available at: https://www.worldbank.org/en/topic/poverty/overview

39 World Bank (2023). "March 2023 global poverty update from the World Bank." Available at: https://shorturl.at/gqOU2 emerging economies (with that number coming down to virtually zero if filtered for responses from investors).[40]

The recent formation of a working group to define the mission, mandate, and scope of a (future) Taskforce on Inequality and Social-related Financial Disclosures (TISFD) is a step in the right direction and should be leveraged as an opportunity for stronger engagements from Global South voices.[41] Similarly, following ISSB's announcement of new projects to research disclosure of risks and opportunities related to human capital (alongside biodiversity) should be leveraged as an opportunity to boost EMDEs' inclusion in the global standard-setting process.[42]

In practice, the development and implementation of social disclosures will pose substantial challenges, primarily due to the need for specific indicators that reflect the unique characteristics of each country and industry. For instance, defining global, universally applicable categories for jurisdictions with different labour regulations, work environments, and cultural factors could easily lead to broad simplifications that do not take into account different realities, such as the different value of a formal job created in an EMDE compared with one created in a developed economy. Different definitions of categories, such as "employee's well-being", across different countries speak to this same challenge.

Workshop in Accra, Ghana. 7 Feb, 2024.

40 According to the ISSB, of the 411 responses collected, Africa accounted for 3%, Latin America and the Caribbean for 4%, Asia-Oceania for 20%, North America for 29%, and Europe for 44%.

41 For further information, see: https://www.tisfd.org/

42 ISSB (2024). "ISSB to commence research projects about risks and opportunities related to nature and human capital". Available at: https://www.ifrs.org/news-and-events/news/2024/04/issb-commence-research-projects-risks-opportunities-nature-human-capital/

Recommendations & calls to action

This section outlines the emerging calls to action for a range of actors based on our research and efforts on the ground. For sustainability disclosure standards to be more inclusive and work for all, we recommend the following courses of action:

1. Move from openness to (pro)active inclusivity: amplify the voices of EMDEs in shaping global standards

International standard setting institutions cannot afford to exclude EMDEs from the design, formulation, and review of sustainability reporting standards. To do so would potentially hamper local development by exacerbating existing inequalities and marginalising businesses in these jurisdictions from global value chains. Although standard-setting institutions did conduct open consultations and multiple iterations to develop these standards, voices from emerging markets were not meaningfully represented. Given that key stakeholders in EMDEs either lacked awareness or resources to effectively participate in these consultations, their engagement in the development of the global standards was significantly low.

Going forward, to guarantee that these standards are globally representative and inclusive, it is imperative that standard setters seek a more proactive strategy to engage key stakeholders in these jurisdictions and adequately integrate their views and realities. As demonstrated by previous consultations, merely opening the door for participation is not enough: a deliberate and strategic effort must be made to fully capture and incorporate EMDEs' unique needs and perspectives into decision-making processes.

With this goal in sight, standard setters should leverage the geographical reach and influence of existing networks with a global footprint that brings together stakeholders whose voices are key to developing standards of this type. Such networks include the International Organization of Securities Commissions (IOSCO)[43], UNDP's Financial Centres for Sustainability (FC4S)[44], UN Global Compact[45], Network for Greening the Financial System (NGFS)[46], International Chamber of Commerce[47], Sustainable Stock Exchanges Initiative (SSE)[48] and the International Federation of Accountants (IFAC)[49]. These networks are of great importance not only because of their broad representativeness, exemplified by organisations such as IOSCO, in which 75% of its members are capital markets' regulators from EMDEs, but also because of their unparalleled ability to disseminate information and enhance capacity building among their members.

However, while these organisations and their global networks certainly provide valuable avenues for reaching out to emerging economies, standards setters should not confine their efforts to these channels. To incorporate EMDEs' voices proactively and effectively, it is also essential to engage with specialised networks and relevant local communities of practice, such as the Integrated Reporting Network's Regional Committees in Latin America and Africa, and GSG Impact' Partnership.

By shifting from passive openness to proactive inclusivity, leveraging the extensive outreach of existing global, regional, and sectoral networks, it will be possible to transition towards a landscape of global sustainability disclosure standards that is truly representative and promotes sustainable development. Integrating EMDEs' perspective

43 For further information, see: https://www.iosco.org/

44 For further information, see: https://fc4s.org/

45 For further information, see: https://unglobalcompact.org/

46 For further information, see: https://www.ngfs.net/en

47 For further information, see: https://iccwbo.org/

48 For further information, see: https://sseinitiative.org/

49 For further information, see: https://www.ifac.org/

through this strategic approach will not only enhance awareness of transparency and disclosure practices among these economies but will also ensure that the baseline for sustainability standards is authentically global, reflecting a broader array of voices and leaving no one behind.

Recommendation #1
For standard setters

Promote greater participation of key local actors from EMDEs in the development of sustainability disclosure standards, **leveraging the reach, influence and amplification power of existing national, regional and global specialised networks,** to ensure that future standards reflect a wider diversity of voices and realities

2. Support preparers: technical assistance, practical guidance and technological tools

This project unveiled a widespread interest in sustainability, transparency and reporting among local actors in EMDEs. Yet, this enthusiasm was often tempered by concerns regarding the costs and complex requirements associated with the effective implementation of global sustainability disclosure standards. This sentiment was particularly aggravated among MSMEs.

Key challenges identified by preparers of information in terms of implementing the standards included lack of expertise, insufficient financial and technical resources, and unavailability of the data needed to meet disclosure requirements. To level the playing field for businesses in EMDEs, development cooperation agencies and multilateral organisations can make a much-needed contribution by funding capacity building efforts that help overcome these barriers, including but not limited to some of the actions outlined below:

1. **Implementation guidelines:** The development of clear guidelines that assist preparers in selecting, measuring, and disclosing sustainability metrics is paramount. Such guidelines will provide technical teams in reporting entities with the clarity and direction needed to comply with global sustainability disclosure standards, ensuring the consistency and comparability of information. The recent release of an Impact Disclosure Guidance by the Impact Disclosure Task Force,[50] along with ISSB's Adoption Guide,[51] represent significant progress in the right direction.
2. **Technical assistance:** Though implementation guidelines clearly specify which metrics to disclose, technical teams responsible for preparing reports will need formal training to learn how to effectively gather, manage, and report sustainability information. Sustainability disclosures will require companies to adapt their data analysis and collection processes, which may involve retraining existing financial reporting teams to include sustainability and impact metrics, or hiring new personnel with the necessary expertise. Technical assistance for closing this knowledge gap in reporting practices will be essential.

50 For further information, see: https://www.businesswire.com/news/home/20240418924942/en/Impact-Disclosure-Taskforce-Releases-Impact-Disclosure-Guidance-Helping-Scale-Financing-for-the-UN-Sustainable-Development-Goals

51 For further information, see: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/preview-of-the-jurisdictional-adoption-guide.pdf

3. **Peer-learning initiatives:** Formal training could be effectively complemented by collaborative initiatives that promote knowledge exchange and peer learning. These communities of practitioners, whether regional or local, are particularly valuable as they allow participants to explore common challenges in impact reporting, share best practices, and advance towards effective sustainability reporting. The establishment and expansion of groups like these, for example the Climate Action Peer Learning Groups run by the UN Global Compact[52] or peer learning initiatives led by Integrated Reporting Regional Committees, is essential for enhancing understanding and cultivating a collaborative space for advancing sustainability and impact transparency.

4. **Technology solutions:** The development of technological tools that facilitate ESG data generation, management, and reporting practices is key to facilitating sustainability disclosure, especially in EMDEs where data is usually missing, outdated, or incomplete. These tools range from, for example, ESG calculators which assist in measuring company-specific metrics such as carbon footprint, waste management, and water usage, to more advanced solutions such as blockchain or geospatial AI. Blockchain solutions, as offered by firms like EY[53] and PwC[54], enhance transparency, security and traceability of ESG data, while geospatial AI leverages satellite imagery and geographical information systems (GIS) to monitor environmental changes and impacts at a more granular level, allowing to identify sustainability risks and opportunities linked to a specific geography.

Regardless of the approach, for capacity building to be effective it must be context-sensitive and grounded in a deep understanding of local idiosyncrasies. One-size-fits-all solutions have proven to be ineffective, as each jurisdiction has a different starting point, and faces unique challenges which involve a different set of actors.

Therefore, to develop tailored approaches that encourage effective implementation, and to ensure that the solutions provided meet the unique needs and circumstances of each context, it is essential to consult and work in close partnership with relevant local actors, including government agencies, financial regulators, business associations, academia and accounting bodies.

Additionally, the role of international standard setters and large businesses will also be important to build capacity on sustainability disclosure at scale. While international standard setters can leverage existing global networks such as IOSCO or UN Global Compact to implement a "Train the Trainers" model for capacity building dissemination, large corporations can encourage the development of sustainability reporting capabilities within MSMEs in their supply chains through responsible procurement initiatives and supplier development programmes. A combined effort by standard setters, local regulators and large corporations, will significantly expand the reach of capacity building initiatives, thereby equipping a greater number of businesses of all sizes to adopt sustainability reporting practices, lowering the costs of complying with such requirements alone.

Recommendation #2

For development agencies and multilateral organisations

Support preparers by funding capacity building initiatives to facilitate sustainability reporting, including the development of **implementation guidelines, technical assistance programmes and technology solutions** in close collaboration with local stakeholders

52 For further information, see: https://unglobalcompact.org/take-action/peerlearning

53 For further information, see: https://www.ey.com/en_tr/blockchain-platforms/opschain-environmental-social-governance

54 For further information, see: https://www.pwc.com/us/en/services/digital-assets/blockchain-environmental-impact.html

3. Build an evidence-based business case: impact transparency beyond compliance

In order to promote greater adoption of impact management in general, and reporting in particular, moving beyond a narrative solely based on regulation and compliance is critical. Businesses are facing rising costs to meet the heightened demand for greater accountability in sustainability practices. According to a Deloitte survey, 68% of businesses claim to feel pressure from consumers and clients to respond to new sustainability concerns. They are also feeling pressure from their shareholders (66%), investors (66%), employees (64%), and civil society (64%).[55] As previously mentioned in this report, since mandatory regulation alone does not provide sufficiently compelling incentives for complying with sustainability disclosure requirements, it is key to clearly demonstrate the value proposition.

Both regulation and market or policy incentives have the potential to drive the adoption of sustainability disclosures by businesses. In fact, a combination of both has proved to be the most effective approach to promoting greater transparency, especially in EMDEs. However, while regulation and mandatory disclosure standards are advancing, the narrative highlighting the economic and financial benefits of impact transparency is lagging behind.

Efforts to change this situation should aim to illustrate how integrating wider sustainability practices into business models can help business growth, by facilitating access to new markets, reducing production costs, and enhancing financing opportunities, as well as having a positive impact on returns and financial performance. According to the German investment fund DWS and the University of Hamburg, 63% of their studies showed a strong correlation between ESG performance and positive returns.[56] Additionally, sustainability strategies can drive positive market reputation, helping to attract talent as well as grow brand recognition. With nearly half of consumers expressing a desire to embrace a more sustainable lifestyle but lacking adequate information,[57] sustainability disclosures could play a critical role in meeting consumer demands.

It is necessary to seek collaborations between sustainability reporting entities, including early adopters of global sustainability disclosure standards, and knowledge-development organisations – not only academia but also research-based think tanks and civil society organisations – to produce compelling evidence that supports the business case for companies and investors to incorporate impact transparency practices to their operations. Additionally, allowing knowledge-development organisations to access more impact data will enable further research on the relationship between sustainability and business performance.

Recommendation #3

For reporting entities and knowledge-development institutions

To collaborate in order to **build an evidence-based business case to promote sustainability disclosures and impact transparency** beyond just compliance.

55 For further information, see: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/us-audit-the-business-case-for-esg-reporting-for-sustainable-private-companies.pdf

56 For further information, see: https://www.dws.com/AssetDownload/Index?assetGuid=caef8dc7-510d-4dfb-8c3a-cf139335414b

57 Deloitte (2023). "How consumers are embracing sustainability." Available at: https://www2.deloitte.com/uk/en/pages/consumer-business/articles/sustainable-consumer.html

4. Develop phased implementation roadmaps and regional materiality matrices to reconcile global comparability and jurisdictional diversity

Establishing a global baseline for sustainability reporting is vital to ensure that information is consistent and comparable across capital markets. However, the effective global adoption of such standards requires acknowledging the diverse levels of readiness for sustainability reporting across jurisdictions and tailoring approaches to address issues that are unique to each region. The main challenge lies in how to balance the need for comparability of information and still be able to factor in local specificities and realities. To navigate this, tools such as regional materiality matrices and phased implementation roadmaps can offer an appropriate solution of compromise.

On the one hand, developing regional materiality matrices can help jurisdictions identify and prioritise the most relevant sustainability information (risks, opportunities, impacts) for that particular region within the global reporting baseline. These matrices provide a detailed overview of the specific sustainability issues that are relevant to each regional context and enable organisations to focus their reporting efforts where they matter the most to users, while ensuring full interoperability with the global baseline. International and regional organisations and fora can provide an adequate space for governments to collaborate, discuss and reach consensus on the priority issues for each region, and provide technical assistance in developing the materiality matrices.

On the other hand, phased implementation roadmaps establish a timeline for gradually incorporating sustainability disclosure requirements in each jurisdiction's regulatory framework. Phased approaches make it easier for organisations of all sizes and sectors to adapt to increasing demand for transparency. These roadmaps ought to be developed by national governments in consultation with relevant organisations and market players, and potentially with technical assistance from specialised international organisations.

By advancing the development of tools like these, global adoption of a sustainability reporting baseline becomes increasingly feasible, as global comparability will not imply excluding local and regional specificities, making sustainability disclosure standards work for all and truly promote sustainable development.

Recommendation #4

For governments and multilateral organisations

To actively engage in the development of **tools that factor in local and regional specificities while preserving global comparability,** such as regional materiality matrices and staggered implementation roadmaps.

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