Advancing the SDGs: Understanding and Improving the Role of Corporate Transparency

High-Level Roundtable Discussion,
April 19-20, 2018, New York City, NY

Meeting takeaways

Supported by the Emerging Markets Sustainability Dialogues (EMSD) program and the Swiss Agency for Development and Cooperation (SDC), the Columbia Center on Sustainable Investment (CCSI), Sao Paulo Stock Exchange (B3), and the Center for Sustainability Studies of Funcacao Getulio Vargas (FGVces) are partnering to understand how emerging market multinational enterprises (EMMNEs) are impacting, and can impact, the sustainable development goals (SDGs), and how different stakeholders can drive corporate performance in this area.

The first roundtable as part of this initiative brought different stakeholders together to discuss **three key questions**:

- What does it mean for a company to contribute to the SDGs?
- How useful is ESG information for different stakeholders (e.g., investors, policymakers, and civil society)?
- What are the opportunities and challenges of SDG-based reporting and assessment?

These discussions focused in particular on emerging market multinational enterprises[1], and the information demands of their various stakeholders.

Core conclusions from the discussions were:

- The SDGs provide a crucial umbrella framework for understanding and driving corporate performance on environmental, social, and governance (ESG) issues. In particular, Agenda 2030 and SDG reporting/assessment is important because:
    - It goes beyond existing ESG perspectives, emphasizing integration and interdependence among the various goals, as well as the scale, urgency and inclusiveness of the changes needed;
    - It can provide a framework for integrating a broader set of issues, especially impactful issues like policies and practices regarding tax payment and lobbying; and
    - It provides for consideration of ESG issues that go beyond those that are "material" for investors.

- But SDG-based reporting and assessment needs guidance to provide value:
    - SDG reporting and assessment should integrate existing initiatives and frameworks, including those related to ESG investing and internationally

[1] Brazilian multinationals were used as a case-study for other emerging market companies.

agreed frameworks (e.g., the UN Guiding Principles on Business and Human Rights);
    - existing sustainability/ESG assessment tools should establish common standards and strong performance indicators, and be integrated into companies' regular information systems. The present fragmentation of frameworks and indicators likely increases the burden of corporate reporting and reduces its utility for different stakeholders;
    - guidelines – including sector-specific ones – should be developed and used to ensure reports are meaningful and not misleading, and that companies are not cherry picking what they disclose; and
    - more work should be done to clarify the theory or theories of change behind ESG reporting and assessment, and ensure reporting and assessment is tailored accordingly.

- <u>Relevant information remains lacking:</u>
    - reporting and assessment must be done at the parent company or global level, as well as down to the project or local level;
    - information on "s"-related indicators appears especially limited;
    - corporate reporting should be complemented by other sources of information (e.g., media reports; information from impacted communities; and data held by governments on, for instance, FDI, socioeconomic conditions, and human rights);
    - there is potentially an important role for big data in collecting data from relevant sources.

Other recurring themes and issues were that:

- Policies formulated at the parent company level are not necessarily integrated into policies or practices at the host country or affiliate level; similarly, corporate reporting does not necessarily cover policies or practices at the affiliate level with sufficient detail to understand impacts;
- Expectations and demands regarding corporate performance on ESG issues seem to largely be shaped by the relevant sector, activities within that sector, and their potential or likely impacts, rather than by origin of the companies. Origin of firms, however, may nevertheless be relevant as the laws, institutions, and norms of home countries may shape corporate policies and practices.
- SDGs must be considered in the full context of Agenda 2030, rather than as a mere list of items to be addressed/reported on;
- While the SDGs were largely envisioned as being applied at a country level, it is also crucial to scale them down to the local and company level;
- In order to avoid worsening current fragmentation in corporate sustainability assessment, rather than creating new methodologies and tools specific for the SDGs, the SDGs should leverage and integrate relevant existing methodologies and tools.

To move forward, it is important to:

- Develop guidelines to ensure SDG reporting and assessment is meaningful and not misleading.
- More clearly articulate a theory of change behind SDG reporting to help inform content of those reports.

- Identify resources and tools (including those employing big data technologies) for improving the quantity and quality of information necessary for SDG assessments of corporate performance from global down to project levels.
- Identify whether/what regulation on disclosure is necessary.

Below is more detailed information regarding the discussion in each of the sessions.

Day 1 - April 19,2018

What do the SDGs mean for companies? What does it mean for companies to contribute to the SDGs?

- There are 4 basic pillars of the SDGs: 1) economic development; 2) social inclusion; 3) environmental sustainability (including major challenges of climate change, pollution, and loss of biodiversity); and 4) governance. For achieving the SDGs, current patterns of economic activity are on the wrong path.
- For most companies, the SDGs will require improvements and some adaptation, but may not require radically changing practices. However, for others (such as those in the agribusiness industry), the SDGs highlight real challenges to aspects of their business, or (as for those in the fossil fuel industry) even existential threats to their operations. Thus, it is important to identify a typology of businesses based on the challenges they face in advancing/supporting the SDGs.
- Companies should not "cherry pick" SDGs, identifying those to which they feel more comfortable to contribute, while failing to discuss/address those that are more problematic; nevertheless, it is also important to focus on those most relevant and impactful (e.g., SDG 13 for a fossil fuel company). When focusing on some SDGs, it is important to be aware of impacts on others; impacts can vary across SDGs (e.g., depending on energy source used, progress on SDG 7 can negatively impact SDG 13) and also between global, local and firm levels.
- Some principles/approaches have been proposed for assessing contributions:
    - At a conceptual level: Consider where the company sits on the spectrum between, on the one hand, seeing its mission as maximizing contributions to shareholders while maintaining compliance with the letter of the law (which a company might have lobbied or litigated to shape), and, on the other, adopting a "do no harm" approach with respect to all stakeholders and negative externalities.
        - In some countries such as the US, legal requirements mandating that companies prioritize shareholders' interests is often cited as a barrier to consideration of non-financial issues, but such understanding is not really grounded in actual law.
        - We need better tools and managerial incentives to assess and improve performance on non-financial issues.
        - In addition to better understanding and measurement of negative externalities, we also need better understanding and measurement of positive contributions.

- When assessing alignment, scale and effectiveness of companies' contributions to the SDGs, it is crucial to consider the broader context of Agenda 2030. In this sense, the following questions might be useful:
    - Are the company's goals and targets applied at global, national or local levels?
    - Are the magnitude and timing of the company's plans and actions commensurate with its impacts, capacities, means and/or responsibilities?
    - Has the company created mechanisms and allocated resources to implement and monitor the actions it will take to achieve the targets set?
- When assessing methods for integration of the SDGs into corporate directives, the following questions should be asked of companies:
    - Does the company do due diligence to understand its intended and unintended impacts (positive and negative) on society and the environment?
    - How does the company identify which SDGs to prioritize? Is the guidance grounded on the company's impacts and/or the materiality of the relevant issues to any particular stakeholder group?
    - Does the method include 'cross analyses' of how actions targeted at one SDG might impact others?
    - Does the company provide clear information regarding its method of implementation?
    - Does the company provide clear information regarding relevant targets and metrics and its reasons for adopting them? If so, are they consistent with Agenda 2030/SDGs in terms of scale, speed, focus and other key aspects?
    - Does the company's approach to the SDGs explicitly connect to other instruments and/or initiatives? Does it lead the company towards more integrated/cooperative approaches to Agenda 2030/SDGs?
- Various initiatives are already underway, and a specific discussion paper with further details is available at the roundtable's website[2].
- It is important to develop guidelines or a list of dos/don't dos:
    - For these to be useful, it will likely be important to adopt a sector and industry specific approach (recognizing, though, that even within a particular sector, the impacts can differ significantly (e.g., impacts of mining can differ depending on which mineral is being mined)).
    - Some issues may be similar across industries and can benefit from inter-industry collaboration.
- [more in-depth discussions of principles and tools for assessing SDG performance took place on Day 2]

* Contributing to the SDGs requires work within the firm (from parent companies through to affiliates), as well as through value chains.
* Value chain responsibility continues to be big a challenge for firms. There is a range of companies that behave well but source irresponsibly.

2 https://www.dropbox.com/home/1st%20Round-Table%20Discussion%20Documents

- Integrating the SDGs into business models requires engaging the highest levels of a company's governance and management (eg Board of Directors and executive C level).
- Real responsibility on the SDGs is much more robust than traditional conceptions of CSR.

ESG reporting and materiality: Taking stock of the quality and relevance of information in reports for investors, policymakers, and civil society

- CSR reporting is itself an SDG target (Target 12.6). But among many audiences there remain questions regarding "why report", to whom reporting should be addressed, what information reporting should include, and, more fundamentally, what the theory/theories of change is/are behind reporting. Responding to some of these issues, participants noted that CSR reporting:
    - is important for a company's self-knowledge, assessment and long term view;
    - is important for management (you can't manage what you don't measure);
    - is important/necessary for impact investors, as well as for mainstream ones;
    - empowers stakeholders, such as consumers re purchasing decisions, employees re career decisions, and civil society re impacts and advocacy.
- There is, however, a general feeling that, currently, CSR reports do not offer enough of the right information; even though companies may be spending significant resources producing information for various guidelines and initiatives, it was felt that they are not necessarily providing content sought by investors and other stakeholders. Thus, it can be unduly expensive/cumbersome for companies to report, and difficult for users to sort out what is actually relevant for them.
- The meaning of "materiality" is key: ESG information that is presently deemed material to investors and therefore reported is not necessarily the same as information material to other stakeholders; consequently, limiting information/disclosure to investor materiality may fail to capture SDG issues relevant to other stakeholders.
- The group questioned how relevant and useful ESG information is for investors at present:
    - The predominant view is that ESG performance is considered important to financial performance because, for instance, it
        - signals good management,
        - can enable companies to avoid reputational harms,
        - can reduce risks, including of penalties, litigation, or adverse policy change,
        - might attract certain types/pools of capital, and
        - may reflect a company's position relative to peers,
    - Companies report investors generally not being very interested in understanding their ESG policies or practices, although exceptions are becoming more frequent.
    - Overall, ESG information is cited by investors as being lacking.
        - Companies are supplying information that is not necessarily material to investors (or other stakeholders).
        - The "S" in ESG falls behind reporting/assessment on "E" issues – due in part to the challenges of identifying quantitative metrics for social issues and impacts; although very relevant, data on companies' tax practices and lobbying is also limited.

        - Investors have noted the lack of standardized definitions, approaches, or indicators, making it difficult to compare companies, or even the same company, over time.
        - Evidence of incongruence among sustainability/ESG ratings and indicators is that there are many different ratings with different methodologies that lead to very different answers. In contrast, although there are different credit rating methodologies and players, there is a strong correlation between, for instance, Moody's and other ratings.
    - But there have been some positive developments:
        - There is a move toward Integrated Reporting, which can enable better identification of how ESG issues are relevant, and ensure those ESG issues are addressed by the Board and managed by the company.
        - Initiatives like SASB can help develop industry-specific metrics and indicators, which may lead to CSR standards being more broadly used.
- Improvements in disclosures have been driven by diverse actors – investors, civil society, stock exchanges, and governments, providing some lessons learned:
    - B3's experience can show impact of voluntary initiatives: it promoted voluntary disclosure of responses to its Corporate Sustainability Index (ISE) questionnaire. While in 2012, only 8 of 37 companies disclosed, in 2016, 33 of 35 did. Since 2017, such disclosure has become a pre-requisite for participation in the ISE's portfolio. A similar pattern of voluntary disclosure leading to mandatory requirements could be seen in B3's "report or explain" initiative, which started as a self-regulatory voluntary practice regarding sustainability and reporting for all listed companies, and after a few years, following voluntary adoption by a relevant number of companies, became part of the legal framework.
    - The Business and Human Rights Resource Centre (BHRRC) uses a different approach to gather data: it works with 19 country-based researches to collect information relating to impacts on the ground, posts information on its website re allegations of violations, and also posts company responses. It has approached 2400 companies with allegations of human rights violations, and has a response rate of 75%, generating qualitative disclosures regarding human rights issues.
- In the context of multinational companies, the challenge of accessing ESG/SDG information is more daunting due to the lack of basic data on company operations. Parent companies may report on ESG performance at the parent company level, but it is difficult to access information at the affiliate level. Even core information – e.g., where they are investing, what those affiliates are doing, who owns what, how many people are employed, etc. – can be difficult to find.
    - It is very difficult to study ESG impacts through foreign direct investment (FDI) related data. Government held data on FDI is rudimentary, global standards focus only financial bottom lines, and firm-level data is limited and does not provide relevant information. An alternative is to use annual reports to assess ESG impacts, but there is no publicly available comprehensive framework to do so, and information may be especially limited for privately held firms.
    - Emerging Market Global Players (EMGP) Project researchers help fill gaps on firm-level information, which can be essential for having an accurate picture of the real economy and actors in it, and shaping relevant policies. After the Rana

Plaza disaster, for instance, it was noted that corporate reports had significantly underestimated the size of the garment manufacturing industry in Bangladesh, which in turn hindered development and implementation of appropriate policies. Thus, it is important to improve collection and dissemination on even basic data regarding the location and extent of different types of economic activities.
    - In India, government has robust reporting requirements for its outward investing firms; but the government does not make all information reported by companies publicly available, and reporting is not as extensive as required by, e.g., the US.
- The mere fact of reporting on ESG policies/practices is not a good proxy for performance on them.

SDG Specific Reporting and Assessment

- The general sense is that SDG assessment/reporting is an essential step forward, but should not be simply added on top of existing ESG standards/indicators/transparency platforms, neither replaces them: it should bring more comprehensiveness, cohesion and coherence to existing initiatives and tools.
- There are already some efforts to use existing reporting frameworks to assess company's efforts towards the SDGs (e.g. the "SDG Compass" developed in partnership between GRI, WBCSD and UNGC and the most recent directives of the International Integrated Reporting Committee- IIRC).
- What are opportunities/challenges to using SDGs (as compared to other frameworks) as a tool for assessing firm's performance in contributing to sustainable development?
    - Opportunities include:
        - It offers a holistic approach, which can be used to integrate issues throughout the firm's strategy and operations, going beyond environmental, social and governance aspects, and encompassing economic issues such as policies/practices toward use of tax havens and transfer pricing; solicitation of preferential fiscal and financial incentives; abusive market practices; and expenditures on lobbying contributions. In this sense, the SDGs underline the importance of assessing ESG performance, which looks at economic, environmental, social and governance issues.
        - The SDGs provide a comprehensive view of the issues that matter to different stakeholders, and can be a framework into which more specific initiatives/frameworks are integrated. Companies are overwhelmed with different principles and reporting frameworks. The SDGs can be a platform for policy coherence in advocacy.

    - Challenges of SDG specific reporting and assessment:
        - One aspect that is missing is accountability: for instance, human rights frameworks include accountability mechanisms, whereas the SDG framework currently does not. The existing human rights agenda should be taken as part of the SDG agenda, not replaced by it, or as a separate one. (Indeed a significant portion of the SDG indicators are related to human rights standards).

        - Raises risks of cherry picking – i.e., of highlighting positive contributions while paying less attention to negative ones. For instance, if pharmaceutical companies are using poor labor practices, but making contributions on health, they might try to call attention to the latter issue, while shifting focus from their poor practices in the former.
        - SDGs (and indicators) weren't designed for company reporting. SDGs were developed with business input, but not designed specifically for business use.
        - Presently, although there are broadly accepted definitions, there still is a lack of clarity around what is meant by the term "sustainability", especially among non-specialized stakeholders, which makes reporting and assessment difficult, and limits effective transparency.
        - There is a lack of clarity regarding the theory of change for such reporting.
- How – quantitative v qualitative; separate sustainability report v integrated report
    - Some work on assessing SDG performance focuses on qualitative assessments, rather than to quantify qualitative information.
    - In mainstream reporting, corporate disclosures are increasingly written and published to be read in the context of big data. What does this mean for the authors and users of such information?
    - What types of publicly available information (including government-held data) can be used to complete the picture offered by corporate disclosures, including to provide a fuller picture of on-the-ground impacts?
    - Some firms are moving toward integrated reporting – which can improve assessment/management of SDGs material for investors[3].

Day 2 - April 20, 2018

Case studies on SDG transparency and assessing corporate performance on the SDGs

The second day of the roundtable started with presentations (available at this link) by representatives from CCSI (on integrating SDGs in extractive industry companies' strategies), SHIFT (on the relation between the SDGs and existing human rights frameworks) and by five Brazilian companies with significant levels of international operations and active engagement in the promotion of the corporate sustainability agenda. The companies (BNDES, Braskem, Fibria, Itaú and Petrobras) were asked to present and comment on their recent experiences in integrating SDG into their corporate strategies and transparency mechanisms, such as reporting and communications. The bullets below highlight the key aspects of the presentations and discussion.

- Presentations ***by*** companies -
    - In general, company's first step was to connect SDGs to existing sustainability targets and initiatives, usually presenting this by tagging the latter with SDGs' icons/numbers, and/or checking boxes in a correlation matrix.

3 The relevance/value of Integrated reporting for different stakeholders was not discussed.

- The criteria for such connections seems to be grounded on the link between a specific SDG and a positive impact achieved through a company's goal, plan or initiative.
- In some cases, such connections also included a broader set of company's targets, such as its overall strategic goals, as well as, project-level goals and regular activities.
- Some companies also reported how, in different ways, they used their existing sustainability materiality assessments (such as a materiality matrix or others tools) as a reference to identify priority SDGs for the company, in order to establish a basis for proactively incorporating SDGs into their plans and strategies.
- There were no cases of companies reporting assessments of their negative impacts on the SDGs, nor of incorporating more complex criteria for assessing their contributions taking into account the broader Agenda 2030 framework, incorporating matters such as integration, interdependence, scale, pace and cooperation for the SDGs.
- Companies presented communication/dissemination efforts targeted to their various stakeholders (such as investors, employees, local communities and clients), aiming to foster awareness about the SDGs, educate the audiences and show the company's commitment/contribution to the agenda.
- Some companies also presented initiatives regarding other reporting matters, such as the adoption of the integrated reporting approach (following IIRC's framework) and the broader role of corporate transparency for business and sustainability.

- Presentations ***about*** companies -

  - Oil company –
    - This presentation provided an example of how an oil company was trying to develop a methodology to assess and shape its contributions to the SDGs from the global to the affiliate and project level.
    - This project involves looking, e.g., at which indicators are already used by and which ones can be used by the company (for internal monitoring and evaluation and external reporting) to reliably and effectively assess performance on the SDGs from the corporate to the project level;
      - It also involves looking at ways of motivating progress on the SDGs, such as by linking compensation to performance on certain SDG-related key performance indicators.
      - One insight gleaned from the project is the need to ensure information disclosed is meaningful. For instance, when describing activities relevant to SDG 13, an oil company may include significant information on the number and types of initiatives it has launched for investing in/using renewable energy. But without disclosure of other information (e.g., on fossil fuel phase-out timelines or targets, or regarding the extent of corporate lobbying against climate policies), the general description of support for renewables may not be an accurate reflection of the company's contributions to SDG 13.

- Mining company –
    - Work involves using SDGs to align corporate strategies/practices with provincial development priorities;
    - A key driver for this initiative is to help the company secure/keep a social license to operate, the lack of which had caused the failure of other projects in the region;
  - Data relevant for assessing SDGs and impacts on SDGs may be different at the local level than at the global level; for each, there is a need for baseline data and data on impacts. (Some relevant data routinely gathered by human rights bodies).
    - Synergies can be exploited when companies and governments are trying to gather and disclose data on baseline conditions and changes over time at local, national, and global levels.

The roundtable concluded by discussing central themes and possible ways forward:

- Identify whether/what regulation is necessary:
  - According to some – regulation and enforcement is crucial: There is a cost of reporting negative information; consequently, companies will disclose only if it is beneficial or required. Companies should be held accountable.
  - According to others - it is dangerous to create new regulations when regulators do not know enough about sustainability/SDGs or the information to require. There is also the risk of regulation coalescing around a "lowest common denominator", rather than "raising the bar". There are experiences showing that careful and patient timing can bring about positive results. Moreover, additional regulation may be subject to manipulation from lobbying forces. Nevertheless, there are new relevant regulatory initiatives being proposed (e.g., in the EU).
  - Further discussion on these issues is warranted.
- Develop guidelines to ensure SDG reporting and assessment is meaningful and not misleading.
- More clearly articulate a theory of change behind SDG reporting to help inform content of those reports.
- Identify resources and tools for improving the quality of information necessary for SDG assessments of corporate performance from the global to project levels.