Making Sustainability Disclosure Standards Work for All

Input paper to the G20 Sustainable Finance Working Group submitted by GSG Impact - May 2024

Executive Summary

- This GSG Impact input paper presents a series of findings and recommendations in response to the 2024 agenda and priorities of the G20 SFWG, in particular regarding the objective to advance "sustainability disclosure that works for all."
- Our contributions emerge from and are informed by "Impact Transparency From The Ground Up," an effort led by GSG Impact in 9 emerging and developing economies (EMDEs), 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).
- The project aimed to raise awareness and build capacity regarding sustainability disclosure and broader impact transparency topics in select EMDEs, while also gathering local and expert views to issue strategic recommendations "from the ground up", for global standard setters and policymakers worldwide.
- Throughout this document, GSG Impact emphasises the importance of enhancing inclusivity and proportionality in global sustainability disclosure, ensuring adequate engagement of voices from the so-called "Global South" in standard-setting efforts, as well as considering the realities of MSMEs, alongside those of larger reporting entities.
- The findings shed light on challenges and opportunities specific to EMDEs, including: i) consideration of needs of MSMEs, including those operating informally, to develop a truly inclusive global baseline, ii) reflections on perceived tensions as well as complementarities between *adoption* and *adaptation* approaches to / of international standards, iii) the need and opportunity to complement regulation with bottom-up, market-driven incentives and evidence to boost adoption, 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 voices of EMDEs in global sustainability standard-setting efforts, and in particular to inform and influence future social-related disclosures.
- We conclude by elevating the following recommendations for the consideration of G20 governments: i) Adopt IFRS-ISSB's global baseline, while allowing pathways that consider the realities of EMDEs and MSMEs, ii) Enhance participation from EMDEs through existing global, regional, and local networks, iii) Assist preparers and broader local market actors with implementation guidelines and other instruments for effective nuanced adoption and, iv) Explore and support the development of tools, such as regional materiality matrices and staggered implementation roadmaps, to navigate the trade-off between local specificities and global comparability of sustainability disclosures.

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 includes 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 addressing these 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 need and an opportunity 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 crucial to provide investors, key market players, and those holding investors to account with more comprehensive, accurate, and globally comparable information on sustainability and impact-related risks and opportunities. This evolution is necessary to move away from an era where sustainability and impact information is neither consistently measured nor reported, and therefore not managed nor valued by markets.

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

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[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.

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 made 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 SEC in the US and 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. Or said differently, it aims to provide a common language that bridges the financing and sustainability worlds.

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, since 2021 GSG Impact has called for an urgent "build" on the baseline, to complement this effort 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

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 - approved 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)—, which embrace double materiality and are effective from May 1st 2024. In a similar vein, in October 2023, Brazil, Latin America's largest economy with a GDP of $3.7 trillion[7], announced the adoption of IFRS Standards S1 and S2. The standards will be voluntary starting in 2024 and mandatory from 2026 onwards.

Despite progress, doubts remain about market readiness in EMDEs to adopt sustainability disclosure standards, especially for medium and small-sized companies linked to larger firms through their supply chains. 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

[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

[7] ECLAC. (2024, May 30). Latin America and the Caribbean represent 7.3% of global GDP. Retrieved May 31, 2024, from https://www.cepal.org/en/news/latin-america-and-caribbean-represent-73-global-gdp

(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 feasibility of adopting the standards.

Going forward, strategies for boosting engagement from these jurisdictions, especially as standards on social disclosures and biodiversity evolve, will be needed. 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 direction of travel makes it imperative to ensure greater participation of stakeholders in emerging economies in consultations and wider decision-making arenas, as such jurisdictions have the highest rates of poverty globally, and are home to over 50% of planetary biodiversity.[8] 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), advancing engagement from voices in the global south will be particularly relevant.

Efforts to ensure inclusivity in EMDEs should consider that MSMEs, often lacking capabilities, risk falling behind. MSMEs are crucial for these economies, contributing at least 40% of national income[9] and 70-95% of new jobs[10], with even higher figures if small businesses operating informally were included. Whilst not necessarily "reporting entities" themselves, these smaller companies are at risk of being negatively affected by increased requirements for sustainability disclosure given the key role they play in supply chains of larger corporations, and their limited resources and capacity to respond to such requirements.

Therefore, understanding the criticality of greater inclusivity and proportionality in global sustainability standard-setting efforts, we 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.

OUR RESEARCH APPROACH: FROM THE GROUND UP

GSG Impact, a global impact market builder, convener and orchestrator, with members in 50+ countries, led an ambitious effort in nine key EMDEs jurisdictions to raise awareness and build capacity on sustainability reporting and wider impact transparency topics, while also systematising needs and insights from key local stakeholders, to inform international efforts "from the ground up."

The findings and recommendations in this paper were drawn from these efforts, where a series of in-person capacity-building workshops, in-depth interviews, and stakeholder engagement activities took place during January and May 2024, in Indonesia, Vietnam, Cambodia, Thailand, Nigeria, Ghana, Colombia, Mexico and Brazil. Stakeholders consulted include: listed and non-listed

[8] 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
[9] World Bank (2019). "Small and Medium Enterprises (SMEs) Finance. World Bank."Retrieved February 8, 2024. Available at: https://www.worldbank.org/en/topic/smefinance
[10] IFC (2022). "MSME Finance." Available at: https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/msme-finance

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.

KEY FINDINGS

1. EFFORTS TO DELIVER AND INCLUSIVE GLOBAL BASELINE FOR SUSTAINABILITY REPORTING MUST TAKE INTO ACCOUNT THE REALITIES AND NEEDS OF MSMEs, INCLUDING THOSE INFORMAL BUSINESSES 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 (amongst other information) as per regulations to become effective in the coming years.[12]

Being key parts of local and global supply chains, MSMEs are expected to be placed under undue stress by well-intentioned pushes for greater transparency, as per relatively weaker data management, financial, technical and reporting capabilities. 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 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.[13] 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.[14]

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[11] According to the World Bank, 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.

[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] 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

[14] 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.

Whilst facing challenges in any given economy regardless of its level of development, in EMDEs, where economic informality prevails, MSMEs operating outside formal regulations (including on taxation and labour) account, on average, for 33% of GDP.[15]

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 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.

The rapid pace demanded of both formal and informal MSMEs in EMDEs to stay up to date with the sustainability agenda is coupled with several other significant challenges. As reported by stakeholders and experts from our in-country activities, many small entities lack even the most basic resources to undertake simple accounting practices. Structural barriers, including limited management capacities, inadequate infrastructure, precarious security conditions, low levels of skill in the labour force, and low productivity, persist and exacerbate these challenges. According to UN Global Compact surveys, only 13% of MSMEs in developing economies have implemented sustainability strategies, underscoring the extent of these obstacles.

G20 Governments are called to play a key role in upgrading sustainability management and reporting within MSMEs by leveraging existing accreditations, such as government-issued quality assurance standards or other certifications, to encourage MSMEs to integrate sustainability practices (and eventually reporting). This approach holds particular significance in sectors like agribusiness and food production, where small companies are actively involved and subject to regular government and industry quality checks and certifications.

Furthermore, governments can also promote MSMEs' adoption by introducing simplified standards that prioritise metrics relevant to their unique circumstances, thereby reducing reporting burdens. For example, the Mexican Council for Financial Reporting Standards (CINIF) and Capital Markets Malaysia (CMM) are some of the regulators that have implemented this strategy by customising reporting requirements to fit the specific needs, metrics and characteristics of MSMEs in their respective jurisdictions.

According to our field research, large corporations can complement these efforts to enhance adoption of sustainability management and reporting within the MSMEs in their value chains. 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 improve MSME´s capabilities and resilience, but also as something large corporates and reporting entities should pursue in their own self-interest, 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.

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

2. THERE SHOULD NOT BE A CONTRADICTION BETWEEN ADOPTION OF THE GLOBAL BASELINE BY EMDEs AND MAKING JURISDICTIONAL ADAPTATIONS

The sustainability management and reporting landscape has evolved substantially over the past decades, resulting in the emergence of a variety of standards, guidelines, frameworks, and regulations. In order to avoid further fragmentation and to gradually find a path towards harmonisation and comparability, the ISSB is seeking to establish a global baseline for sustainability reporting. However, the effective adoption of such a baseline varies across jurisdictions.

Throughout our project, we observed various 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, capabilities, readiness and topics relevant to their local markets.[16] These approaches speak to an apparent trade-off between 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 to sustainability standards, which may not be fully addressed by broader global efforts. This approach enables disclosure requirements to be informed by existing domestic guidelines and frameworks, including locally-adopted international precedents (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). In some EMDEs, such as Ghana, sustainability reporting builds upon pre-existing principles like the Sustainable Banking Principles for the Financial Sector. Therefore, future steps should capitalise on these efforts to prevent further confusion.

However, adaptation poses a number of challenges for local regulators tasked with developing technical standards, who 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 *adoption* approach eases global comparability and interoperability of information, by organising and presenting information in a useful, actionable, and context-sensitive way. At the same time, as data generation and management costs are expected to decrease, flows of international capital should gradually become easier and more transparent. For the case of EMDEs, in much need of investment capital, convergence towards a common global language should facilitate integration into the global financial system.

Challenges linked to the adoption path could be related to the heavier burdens that entities may face on the onset, including steep learning curves, lack of immediate access to required data

[16] At the time of this report, there were four open consultations on 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/

(including 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 aims to provide jurisdictions with sufficient degrees of freedom to decide on their own process towards adoption without hampering the baseline's main purpose of ensuring comparability and interoperability of information.[17]

GSG Impact's research across regions and countries suggests that while some jurisdictions (mostly across but limited to South Asia and Africa) are leaning towards *adoption*, others are finding ways for adaptation, developing local approaches that dialogue with (and can potentially enhance) global standards.

In sum, 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.[18] Brazilian experts also agreed, and considered that "trying to develop local norms, different to emerging international requirements, would be a fatal mistake. This need not imply we shall not find our own route into adoption, like the one proposed by our regulator CMV." Latin America is a good example of a region coordinating for consistent adaptation, through efforts like those driven by GLASS[19] - 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[20] can be a step 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 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. This approach will allow for greater margins of manoeuvre for jurisdictions willing to adopt, considering local nuances, while also balancing the need to deliver the comparability, consistency and reliability of information.

Finally, while it is key to ensure that jurisdictions can opt for phased-in approaches and select metrics adapted to their local and regional contexts, this should not jeopardise the harmonisation of information, nor result in asynchronous disclosures or excessively long timeframes for adoption. 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

[17] 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.
[18] Superintendencia Financiera de Colombia (2021). "Circular Externa 031 de 2021." Available at: https://cdn.actualicese.com/normatividad/2021/Circulares/CE031-21.pdf
[19] For further information, see: https://glenif.org/
[20] 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

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 critical.

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 WIDER BENEFITS OF SUSTAINABILITY MANAGEMENT AND REPORTING, BEYOND COMPLIANCE, WILL BE EQUALLY IMPORTANT TO ENGAGE COMPANIES AND OTHER STAKEHOLDERS

Consultations during our in-country efforts indicated that widespread adoption of sustainability reporting practices in EMDEs 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, including derived from investors demanding consistent information (and hence bringing adequate levels of "discipline" down value chains), will also play a key role.

This is especially true in jurisdictions where regulatory environments and enforcement are relatively weaker. It is therefore important to build evidence in support of sustainability management and disclosure as a means 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[21] study, top performers on ESG topics achieve valuation multiples 3% to 19% higher than those of median performers, whilst also outperforming competitors in attracting and retaining talent.

Consequently, building a consistent path towards adoption through "carrots" OR "sticks" poses a false dichotomy. A positive approach that stresses the benefits of embracing sustainability as a means of doing more and better business is as important as strong, efficient regulation. Fortunately, most of the jurisdictions included in our research have strong precedents to build upon, including the work of the UNDP through its SDG Impact management initiative.

Building on precedents

Back to regulation, across the Global South, many countries are not beginning their sustainability reporting journey from a blank slate, Rather, they are building upon pre-existing 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 make the basis of a common language for local stakeholders.

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

In Ghana, the Stock Exchange issued voluntary guidelines in 2019 for listed companies to disclose ESG information in line with international standards. 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 material impact on their business.

In Southeast Asia, Vietnam's State Securities Commission´s Circular 96 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 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 makes it mandatory for financial institutions and public companies to prepare annual sustainability reports.

4. AS THE GLOBAL AGENDA PROGRESSES, CAPACITY BUILDING NEEDS TO GET MORE SPECIFIC, TAILORED TO THE REALITIES OF EMDES AND CATERING TO DIFFERENT STAKEHOLDER GROUPS.

As awareness around trends and increasing requirements on sustainability management and disclosure requirements continues to grow, our research indicates that capacity building remains a challenge to be prioritised in the coming years. Post-event surveys from our workshops evidenced that almost 70% of participants were 'not at all familiar' or 'only slightly familiar' with evolving sustainability disclosure standards and the broader impact transparency agenda. Consultations also revealed a strong interest in capacity building to address knowledge and skill gaps, especially among smaller companies. Without such efforts, stakeholders believe that adopting the global baseline will remain a utopia.

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

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 government ones), including 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 "not only market actors have weak capabilities but also *public data which in Europe or the US is consistently made available by the public sector. That doesn't exist here. 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 or not as public systems are not available or are partial and 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"*

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 strong presence in such jurisdictions. In this regard, one GSG national partner lead, who is also a certified UNDP SDG Impact Standards expert, highlighted that the UN system has invested significant resources in raising awareness about the importance of sustainability management and practices in business and investment activities, including intensive training on the adoption of SDG Impact Standards, which can sometimes be misinterpreted as reporting standards, even though they are not. The expert emphasised that future capacity-building efforts should avoid confusing the market and instead maximise synergies between existing frameworks in EMDEs, where capabilities already exist, and new rules and regulations.

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 being 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 African expert interviewed stated that their organisation considers three impact levels: economic, environmental, and, most importantly, social impact. They emphasised that the social aspect is particularly crucial in emerging markets, but hey noted a lack of transparency regarding issues such as the inclusion of women in the workforce, minimum wage, and child labour, signalling absence of the topics that are particularly material to their market.

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.[22] In view of this and other relevant data, it becomes clear that shaping "social" disclosure standards must start with greater participation from such regions where pressing social challenges, including inequality and poor

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

labour market conditions, are most prevalent.[23] Participants in our events see a difference with the climate standards developed to date, as a Nigerian 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: reportedly, only a mere fraction of overall 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 emerging economies (with that number coming down to virtually zero if filtered for responses from investors).[24]

As put bluntly by a representative from an international organisation participating in GSG Impact's activities in Africa, "*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.*"

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.[25] 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.[26]

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, "universal" 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 as "employee's well-being" across different countries speak to this same challenge.

RECOMMENDATIONS AND CALL TO ACTION

The G20 as the premier forum for international economic cooperation is uniquely positioned to catalyse the much-needed action by different actors to make global sustainability disclosure standards work for all.

[23] World Bank (2023). "March 2023 global poverty update from the World Bank." Available at: https://shorturl.at/gqOU2
[24] 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%.
[25] For further information, see: https://www.tisfd.org/
[26] 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/

Building on the insights from key stakeholders in EMDEs and the findings from our research described above, we call on the G20 to:

1. Promote the adoption of IFRS-ISSB's standards (global baseline) by G20 countries and beyond, following implementation pathways that factor in the realities of local market actors, especially of MSMEs that can be disproportionately affected given their limited resources and capacity to comply with increasing disclosure requirements;

2. Mandate development agencies of member countries as well as multilateral organisations to support preparers of sustainability reports by funding capacity building initiatives, including the development of implementation guidelines, technical assistance programmes and technology solutions, in close collaboration with local stakeholders.

3. Request and actively promote greater participation of key local market actors, especially from EMDES, in the development of sustainability disclosure standards, leveraging on the influence and amplification power of existing national, regional and global sectorial networks, to ensure that future standards reflect a wider diversity of voices and realities. Ongoing efforts, including the "from the ground up" initiative by the GSG Impact Partnership, and the UNDP´s work to establish Sustainability Disclosure and Management Hubs in select EMDEs, are steps in the right direction.

4. Further explore and support the development of tools and instruments, such as regional materiality matrices and staggered implementation roadmaps, that can help navigate the trade-off between considering local and regional specificities while preserving global comparability of sustainability disclosures.