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CORPORATE SUSTAINABILITY REPORTING

Evaluating National Policies on Corporate Sustainability Reporting

United Nations Environment Programme

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Contents

Forewords	**04**
1. Introduction	**06**
2. A framework for policy evaluation	**08**
3. Lessons learned and recommendations	**10**
3.1 Lessons learned	11
3.2 Recommendations to policy-makers	14
4. Case Studies	**23**
4.1 Brazil	24
4.2 Chile	33
4.3 Denmark	37
4.4 France	45
Socially Responsible Investments	55
4.5 South Africa	59
5. References	**65**
General	65
Brazil	65
Chile	66
Denmark	66
France	67
South Africa	69
6. Tool for Policy Evaluation	**70**
7. Annex 1: List of Figures, Tables and Boxes	**81**
8. Annex 2: List of Abbreviations	**82**

Foreword

Group of Friends of Paragraph 47

Taking advantage of the uniqueness of our government-led international initiative, we aim at promoting a strong and ambitious public policy understanding and vision of corporate sustainability reporting at international, regional and national level. After a first publication addressing key questions raised by governments interested in the agenda of sustainability reporting (*Frequently Asked Questions on Corporate Sustainability Reporting*) and a first working paper on the status of sustainability reporting by state-owned enterprises and public agencies (*Walking the Talk - Leading by Example through State-Owned Enterprise/Public Agency Reporting*), the Group of Friends of Paragraph 47 (GoF47) is taking a major step further in its effort to support the implementation of Paragraph 47 of the Rio+20 Outcome Document through governmental action to promote sustainability reporting.

The member governments of the GoF47 share the common vision that corporate transparency and accountability are key elements of a well functioning market economy, and that sustainability reporting constitutes an essential leverage for the transformation of corporate practices and to ensure their contribution to sustainable development. The publication *Evaluating National Policies on Corporate Sustainability Reporting* provides in-depth insights into the key role of governments and other national authorities in facilitating this transformation.

Developed with UNEP's guidance and strong support, this publication is an important pioneering contribution to global debates, as it is the first study which undertakes an in-depth evaluation of current policy for corporate sustainability reporting in our member countries, as well as provides recommendations for policy makers in the process of designing national policies or considering the improvement of the current policy framework. Thanks to the diversity of GoF47 members' experience, the resulting recommendations can be applied regardless of a country's status of economic development or its regional context.

Since its creation, the GoF47 has been a space to exchange experiences and best practices, and *Evaluating National Policies on Corporate Sustainability Reporting* provides concrete support to this goal. More importantly, this publication offers the opportunity to share the progress we achieved with other governments and interested stakeholders at a global level in view of actively promoting a culture of transparency and accountability among business of all sectors. By promoting sustainability reporting together, we have the ambition to create value for all.

Robin Edme

Chair of the Group of Friends of Paragraph 47

Foreword

United Nations Environment Programme

The past decade has seen a growing number of countries actively encouraging companies to report on their sustainability performance and impacts. In 2013, 45 countries had sustainability reporting related policies in place, an increase of 26 countries since 2006. This rapid evolution demonstrates a stronger recognition of the positive role of sustainability reporting in enhancing social and environmental accountability in corporate practices, and in addressing society's needs for transparency through qualitative and comparable reports.

This positive role was clearly acknowledged by the UN Member States in Paragraph 47 of the Rio+20 Outcome Document, which also highlights the need to develop models of best practice that can guide and improve disclosure of non-financial information. Evaluating National Policies on Corporate Sustainability Reporting highlights the crucial role that governments can play in advancing this practice. Governments have the capacity to create a favourable environment to foster sustainability reporting through diverse public policy instruments. These can include economy-wide or sector-specific disclosure requirements, diverse combinations of mandatory approaches and incentives to report voluntarily, and gradual dissemination of reporting practices by differentiating requirements according to company size.

This publication is a landmark in global research, as it constitutes the first comparative analysis of governmental action in this domain. It was developed through a collaborative process by the Group of Friends of Paragraph 47 (GoF47) and the United Nations Environment Programme (UNEP). It is meant to be a key resource for policy makers to understand the most suitable paths to introduce or enhance sustainability reporting in their country, by benchmarking their own approaches with those of leading Governments.

Looking towards the future, UNEP considers that sustainability reporting has the potential to play an important role in measuring the contribution of companies to the Post 2015 Development Agenda. In this context, UNEP is coordinating a global effort to identify measuring and reporting practices and therefore strengthen the quality of sustainability reports. At the same time, active governmental engagement in this area will be instrumental to monitor progress towards achieving a sustainable path for development in the coming decades.

UNEP therefore supports the efforts conducted by the Governments of the GoF47 in promoting and strengthening sustainability reporting in their countries and regions, as well as in assessing and sharing their experiences with all stakeholders. We trust that their achievements, as described in this publication, will inspire other countries to scale up efforts and invigorate governmental leadership in the global agenda of sustainability reporting.

Ligia Noronha
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1. Introduction

Following the 2012 UN Conference on Sustainable Development (known as Rio +20), the Group of Friends of Paragraph 47 (hereafter GoF47) was convened to contribute to the advancement of an international culture of corporate transparency and accountability through the key driver of corporate sustainability reporting.

Founded by the Governments of Brazil, Denmark, France and South Africa, the Group has since been joined by the Governments of Argentina, Austria, Chile, Colombia, Norway and Switzerland to promote corporate sustainability reporting through appropriate regulatory instruments. The aim is for sustainability reporting to become a widespread practice that facilitates a transparent, well-functioning market economy and accelerates the private sector's contribution to sustainable development. Moreover, sustainability reporting will help companies reap the competitive advantages of responsible and transparent business conduct.

In this report, five up-to-date examples of national public policies on sustainability reporting have been assembled, each of them highlighting valuable lessons for policy-makers worldwide. The examples, or case studies, have been drawn from GoF47 member countries, each of which brings a different history of experience with legislation to the table. The aim is to show how different approaches and instruments can be effective in developing greater transparency and accountability around organizations' sustainability performance. The case studies are from Brazil, Denmark, Chile, France and South Africa.

Whether designing new regulation or improving existing policy, these case studies offer good practice examples and inspiration for anyone involved in setting the right enabling regulatory environment for sustainability reporting within different national contexts.

The report also proposes a framework for evaluating national public policies on corporate sustainability reporting, incorporating a range of criteria and indicators of good practice. The framework is designed to assist policy-makers and regulators in identifying the key elements of an effective sustainability reporting policy.

The resulting case studies and framework therefore support the GoF47 in providing leadership and meeting the charter mandate, by sharing different experiences in building an effective and efficient regulatory environment of 'carrots and sticks' appropriate to different countries and contexts.

> A public policy is a social decision to regulate a certain activity. It seeks to address a perceived need by defining an objective, identifying inputs, monitoring outputs, assessing outcomes and evaluating impacts.

Evaluating public policy

The global landscape of sustainability reporting is changing fast. Although many organizations today choose to report voluntarily, a growing number of governments and stock exchanges are introducing requirements for sustainability reporting and becoming important agents for change. In particular, government policy is emerging as a key driver for ensuring the increased corporate transparency and accountability – and by extension the corporate-led innovation and technology – that is required for progress towards sustainable development.

Governments can employ a range of policy instruments to facilitate activities towards this objective: they range from informational instruments (such as guidelines, training, resource databases, learning fora etc.) to legal instruments (such as laws and regulations) and financial instruments (such as financial incentives/subsidies or incentives in public procurement). This study is focused on legal instruments but incorporates how financial and informational instruments have been employed to design and support the implementation of policy.

Careful evidence-based (ex-post) analysis of different policy paths – based on good process – is fundamental to making the case for well-conceived new policy or for adjustment or reform of existing policy. Clarity of purpose, scope and application are fundamental factors for success in developing effective policy and regulation. Furthermore, the parameters of efficiency and effectiveness are critical for evaluating what makes a 'good public policy' on sustainability reporting.

But is introducing public policy relevant to achieving better sustainability reporting? There are several advantages to policy-making in this field: National public policy on sustainability reporting introduces a 'level playing field' of expectations; this in turn can lead to more efficient provision of consistent and comparable sustainability information that is tailored to the needs of the marketplace, policy-makers and broader society and upon which they can act.

It is also important to recognise the limits of policy. Even a good public policy is no panacea for limited or deficient sustainability reporting. Several case studies in this report highlight the achievement of increasing first the provision of sustainability information (incorporated into annual management reports or in separate sustainability reports) and over time the level of compliance with specific policy requirements. Yet the same policy-makers describe the on-going challenge of how to facilitate a reporting process that improves the quality of reporting and embeds sustainability considerations into corporate management and decision-making to a point where it really adds value to the company and its investors. In the end, that is perhaps not achieved through legislative rules – and it may indeed not be their objective; but policy-makers can always provide clear and comprehensive guidance to companies on how to move 'beyond compliance' and how different reporting frameworks can help ensure better quality of reporting.

Sustainability reporting and sustainability disclosure

Different stakeholders have different information requirements, whether in the content or format of such information. Company managers need reliable information to measure, monitor and manage their sustainability performance. Employees need to understand how management is making choices that affect their terms and conditions of employment. Investors need to know if they can trust the company to give the expected returns on their investment. Consumers need clear and understandable product information to make choices. Civil society requires detailed narrative information to monitor corporate conduct. And governments need reliable information to enable them to assess the corporate tax base and understand key corporate statistics for public policy purposes.

Such diversity in information needs and underlying motivations does not mean, however, that it is impos-