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SESSION

Sustainability & Development Imperatives and the Role of Standards

Background Paper

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Background Paper

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State of play of international standards setting

Recent years have seen an expansion in global and national sustainability-related standards and disclosures, with 2023 seemingly a watershed moment to not only focus on harmonizing standards, but also to recognize the challenges of varying applicability of and capacity to deliver on a 'global baseline' in jurisdictions around the world. The trend is not new, with various global initiatives establishing standards to enable transparency between investors and companies on sustainability risks and impacts over the past three decades – from the Global Reporting Initiative (GRI) in 1997, UN Global Compact and the Carbon Disclosure Project (CDP) in 2000, Principles of Responsible Investment (PRI) in 2005, the Sustainability Accounting Standards Board (SASB) in 2011, and the launch of the Task Force for Climate-related Financial Disclosure (TCFD) in 2015.

However, the past three years have seen an uptick in country-level sustainability regulations, or plans to develop such standards, including those released by the Canadian Securities Administrators (CSA), the Monetary Authority of Singapore (MAS), Securities and Exchange Board of India (SEBI), and the US Securities and Exchange Commission (SEC), to name but a few. There are also several regional and global initiatives with far-reaching scope, in terms of both geographic reach and area of focus, with the release of the European Sustainability Reporting Standards (ESRSs) and the International Sustainability Standards Board's (ISSB) inaugural global standards, as well as the launch of the Task Force on Nature-related Financial Disclosures (TNFD).

It is within this context that B20 India has focused on the need to establish universally adaptable sustainability standards and disclosures which are transparent, inclusive, and equitable across geographies. While sustainability objectives are now built into the corporate and financial strategy of many companies and investor mandates, there has been growing consensus on the need for a global baseline that enables consistent and comparable data to inform stakeholders on related risks and opportunities, and to support capital allocation decision-making.

With a focus on energy transition and the role guidance and standards setting can play to support business action and capital allocation, this paper delves into the challenges and imperatives of global standards, including the need to simplify and harmonize standards. It also ensures that the perspective and voice of the Global South and emerging economies are represented in the development of standards as well as identifying the most effective ways to support implementation. This includes capacity building and best-practice and knowledge sharing of standards compliance and reporting.

Highlights of key global, regional, and national standards

Australia

In 2022 and mid-2023, the Australian government released two consultation papers outlining its intention to require company-level disclosures relating to carbon footprint, greenhouse gas (GHG) emissions and climate risk. Led by the Treasury, the climate-related financial disclosure reporting standards will be mandatory for listed companies and financial institutions in 2024, with a phased approach to extend reporting requirements to all Australian businesses with over 100 employees, over AUD 50 million annual revenue, or assets over AUD 250 million by 2028. The Treasury has indicated that the standards "will be aligned as far as practicable with the final standards developed by the ISSB."[1] Details of the alignment and the final standards are expected to be released at the end of 2023.

[1] Australia to struggle to meet ISSB sustainability standards, Accounting Times, https://www.accountingtimes.com.au/profession/australia-to-struggle-to-meet-issb-sustainability-standards

Canada

In 2021, the Canadian Securities Administrators (CSA) opened for public consultation proposed climate-related financial disclosure requirements for financial institutions, with the intention of taking effect in 2024. The mandatory requirements are largely based on the TCFD, and the CSA is currently determining how these standards will align with those released by the ISSB before they are finalized.[2] In 2022, the CSA also released guidance to discourage greenwashing and disclosure guidance for ESG investment funds, and in March 2023, it released a Climate Investment Taxonomy Roadmap to further address these issues. Finally, as of 1 April 2023 the Government of Canada began to require all large federal contractors to disclose their GHG emissions and reduction targets.

European Union (EU)

The EU has some of the most advanced sustainability regulations aimed at driving climate action and innovation. There are already many ESG regulations in place and many more due to take effect, applicable to international businesses with operations or supply chains in the EU. Furthermore, several EU regulations require businesses to abide by double materiality standards, and to disclose social and environmental impacts. The most significant EU sustainability laws and regulations are:

- The Sustainable Finance Disclosure Regulation (SFDR), which requires EU investors and providers of financial products to disclose how they consider and communicate sustainability – environmental and social – risks and impacts
- The Corporate Sustainability Reporting Directive (CSRD) intends to make sustainability reporting more common, consistent, and standardized. It will require more than 50,000 companies to file an annual report on the risks, opportunities, and impacts of a broad range of sustainability factors (social and environmental) on their business, as well as their impacts on people and the environment. It also applies to international companies with more than EUR 150 million annual revenue within the bloc, and at least one subsidiary or location in the EU. The requirements take effect this year with initial company reports due in 2024. It also requires all EU countries to comply with the standards by July 2024. Sector-specific standards will be adopted in 2024 as well as proportionate requirements for publicly listed small and medium-sized enterprises (SMEs) and international companies. There will be a phased approach for companies of different categories, with EU SMEs reporting from 2026 and international companies reporting from 2028
- The Taxonomy for Sustainable Economic Activities is a screening tool, providing criteria to determine what activities are or are not sustainability related. It also provides definitions to support other EU sustainability reporting requirements. The taxonomy will be reviewed and updated every three years to reflect advances in science and technology
- The Corporate Sustainability Due Diligence Directive (CSDDD) will likely come into effect in 2025-26 and will require companies to identify, assess, prevent, mitigate, and account for environmental and human rights impacts across their global supply chains. It will apply to large companies, again including international companies which meet certain thresholds within the EU. It will not directly apply to SMEs, but many may be part of supply chains of larger companies which will be required to report

India

Enacted in 2021, the Business Responsibility and Sustainability Report (BRSR) builds on India's 2012 Business Responsibility Report (BRR). Mandated by the Securities and Exchange Board of India (SEBI), the BRSR is now mandatory reporting for the largest 1,000 listed companies in India by market capitalization. The reporting is designed around nine principles which align with the UN Sustainable Development Goals (UN SDGs), placing an emphasis on sustainability, employee well-being

[2] Canadian Securities Administrators statement on proposed climate-related disclosure requirements, Canadian Securities Administrators, https://www.securities-administrators.ca/news/canadian-securities-administrators-statement-on-proposed-climate-related-disclosure-requirements/

across value chains, human rights, environmental protection, and inclusive and equitable growth.

ISSB

In 2022, the ISSB, a working group formed by the International Financial Reporting Standards (IFRS) Foundation, created the International Sustainability Reporting Standards. The standards intend to deliver a global format for sustainability and climate reporting and disclosure for companies of all sizes, investors, and regulators. In 2023, the ISSB released General (S1) sustainability and Climate-related (S2) reporting and disclosure requirements, to begin to take effect in 2024. Standards have been developed to include the incorporation of TCFD, SASB, and Greenhouse Gas Protocol, and both SASB and TCFD are being 'sunset' into ISSB. In this way, ISSB intends to drive alignment and convergence among existing reporting standards. Rather than reinvent, the goal of ISSB is to elevate sustainability reporting to an equal level with financial reporting, in a standardized and common approach.

The ISSB had indicated a focus on providing guidance on just transition disclosure and sector-specific requirements, and has requested inputs for its 2024-26 agenda, including exploring human capital and human rights standards, among other proposed priorities.

The ISSB standards have been endorsed by the International Organization of Securities Commissions (IOSCO) and several countries have signaled their intent to incorporate or account for the standards in national guidance or regulation, including the UK, Canada, Nigeria, Hong Kong, Singapore, Japan, New Zealand, and Australia. Furthermore, the ISSB and the European Financial Reporting Advisory Group (EFRAG) have confirmed a "high degree of climate-disclosure alignment."

Latin America: The Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean (LAC Taxonomy Common Framework)

Recognizing the pace at which government and policymakers, development agencies, and international organizations are developing sustainable finance taxonomies as well as the risk that the Latin American region could miss out on much-needed climate transition and sustainability financing due to a lack of comparable data and transparency, the LAC Taxonomy Common Framework is being developed to provide guidance for interoperability of taxonomies across the region and globally. With a focus on climate change mitigation and adaptation, it lays out a set of principles and a framework for taxonomies including guidance on prioritization of economic sectors, developing screening criteria and metrics, and governance structures. Organizations involved in the initiative, which will be launched at COP28 in December 2023, include UNDP, UNEP FI, IFC, the IDB, ECLAC, CAF and FAO, and is being funded by the EU.[3]

Singapore

The Monetary Authority of Singapore (MAS) is expected to enact its Green Taxonomy standards by the end of 2023. Already in 2021, MAS opened for public consultation requirements for Singapore-based financial institutions to define sustainability activities. In 2022, a sector-specific consultation covered energy, transport, and real estate, and included a focus on climate mitigation objectives. Additional sector-specific standards are forthcoming. Singapore also already requires annual disclosures and allocation of ESG / 'sustainability' assets threshold for ESG investment funds. MAS has further stated that it will be introducing mandatory disclosure requirements for financial institutions based on the ISSB reporting standards.

TNFD

Building on the TCFD, the TNFD will provide recommendations for strategies and disclosure around nature and environmental risk, across land, freshwater, oceans, and the earth's atmosphere, with an emphasis on living organisms, including people. It has already been endorsed by the G7 finance ministers and is expected to be released at the end of 2023. The TNFD was launched with the stated intent to align with the ISSB standards.

[3] Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean, United Nations Environment Programme (2023) https://wedocs.unep.org/20.500.11822/42967

United Kingdom

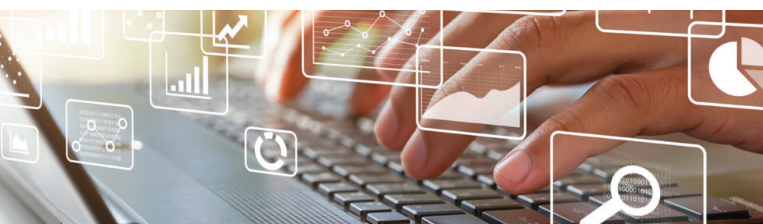
Like the EU, the UK has some of the most advanced and complex sustainability reporting requirements. 2023 has seen further enhancements to existing efforts. Large companies must disclose their energy use, carbon footprint, and GHG emissions through the Streamlined Energy and Carbon Reporting (SECR). Annual TCFD reporting is mandatory for UK-listed shares, deposit receipts, and regulated asset managers and owners. Like other similar measures, the UK Sustainability Disclosure Standards (SDS) aim to reduce greenwashing and are expected to be published in July 2024 and to align with the ISSB standards. Finally, the newly created Department for Energy Security and Net-Zero is expected to introduce further climate and sustainability related reporting requirements in the future.

United States

The US SEC, in October 2023, is expected to pass into legislation mandatory climate disclosures, including climate-related risks likely to have a material impact on a business and disclosure of GHG emissions. The disclosures are likely to be applicable to all publicly listed SEC reporting companies, with a phased approach beginning with those with a market capitalization of over USD 700 million. It is intended to also extend to smaller companies in the future. The objective of the legislation is to develop common, consistent, and standardized reporting, similar to the EU CSRD and heavily influenced by the TCFD. Other current SEC proposals include focus on board diversity and human capital management.

Challenges due to existence of multiple ESG standards

The existence of multiple ESG standards, methodologies, reporting, and rating systems presents several challenges for companies, investors, lenders, and other stakeholders. There were roughly 600+ different ESG ratings and rankings existing globally as of 2018 and these have continued to rise since then.[4] The major concerns lie in the lack of clear terminologies, inconsistent definitions, and ambiguous objectives. As a result, questions arise regarding the integrity and applicability of ESG disclosures and ESG ratings and ranking, and it can be challenging to interpret what the ESG ratings, performance, and scores indicate. Challenges specific to key stakeholders are detailed below.



Challenges for Companies

Fragmented data collection and difficulty in goal-setting

There is significant variability across ESG disclosure frameworks and standards, creating concerns for companies on how to ensure high-quality disclosure-related data. This can lead to fragmented data collection and analysis practices and hinder companies from accessing comprehensive and reliable ESG data needed to make well-informed decisions. Setting meaningful ESG goals and benchmarks becomes more complicated when companies navigate between various standards, making it challenging to define and measure progress consistently.

Increased reporting burden

Companies may find it challenging and resource-intensive to report on multiple ESG disclosure standards. While a company may be required to follow its local ESG disclosure mandate (for example, the top 1000 listed companies in India must disclose per the Business Responsibility Reporting Framework), it will additionally report in accordance with a global ESG disclosure framework for the requirements of investors or global clients. This can lead to a compliance burden, especially for multinational corporations operating in different regions that adhere to different ESG reporting requirements.

Lower ratings, particularly among Global South companies

The methodological difference in ESG ratings approaches is one of the reasons for lower ratings of companies situated in the Global South. Problems are compounded as the standards on which these ratings are based have largely evolved in developed countries and thus do not consider the distinct context of the Global South (elaborated in the next section). This has caused an asymmetry between expectations of rating agencies and the capability of emerging market companies to adequately disclose key performance indicators (KPIs) tracked by the agencies. The lower ratings eventually lead to a reduced flow of investments to Global South companies, further impacting their ability to address climate change and other sustainability related challenges. For example, Global South companies might see withdrawals in investment in emerging technology innovation for climate resilience and vulnerable populations, as they can easily become classified as 'high risk' or out of compliance with the Global North standards.

[4] Rate the Raters 2020: Investor Survey and Interview Results https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/sustainability-ratetheraters2020-report.pdf

Challenges for Investors and Lenders

Lack of comparability in ESG ratings

Another concerning factor is the dependency of investors and lenders on ESG ratings, which lack comparability and transparency. For instance, various rating agencies use different standards, methodologies, and weightings, leading to varied ESG scores for the same company. This inconsistency creates confusion and undermines the reliability of ESG ratings as a measure of a company's sustainability practices. There is also very little transparency of the methodologies that underpin ESG ratings as providers use proprietary methodologies and definitions. Methodological differences may stem from conscious choices in terms of scope, factor weights, or aggregation methods.

Misallocation of capital

Lenders and investors use ESG ratings to assess the risk of their investments or loans. Multiple ESG rating providers can create uncertainty in evaluating the risk associated with a company, which in turn increases transaction costs and discourages sustainable investment flows across economies. This may lead to difficulties in pricing loans or investments accurately, potentially resulting in misallocation of capital. The absence of a universally accepted global set of principles and guidelines that recognize the distinct priorities of Global South and specificities of major sectors for consistent and meaningful reporting further creates a barrier to effective comparability and integration of sustainability-related factors in the investment decision process.

Challenges for global value chains

Varied global ESG mandates

As mentioned in previous chapter, many different countries and regions have their own ESG reporting regulations and guidelines. Companies operating in multiple jurisdictions may have to comply with a range of ESG standards, making it difficult to have a cohesive and integrated approach to sustainability reporting. The complexity increases when supply chains, which include SMEs as crucial suppliers are spread across multiple geographies and the final product is used in a different country.

Limited ESG awareness and resource constraints in Global South supply chains

The emerging economies of the Global South are also hubs for global supply chains. As a result, Global North companies with ambitious ESG targets for their own operations, may transfer the environmental and social burden to Global South by shifting their lower value-chain production units to these economies. However, amidst varying demands and lack of expertise, resources, and awareness on sustainable practices, policies, and regulations, companies in these economies are much less equipped to manage the evolving global ESG disclosure requirements.

ESG as a non-tariff measure

Developed nations, such as the US and the EU, have deployed non-tariff measures (NTMs) as a strategy to control the level of trade they conduct with other countries and meet important social and/or environmental objectives to boost responsible business conduct.

While the intent behind promoting sustainability practices is commendable, it is becoming evident that the implementation of such standards has inadvertently transformed into a NTM, particularly for emerging economies of the Global South, due to the lack of clarity on acceptable and appropriate ESG standards to be applied. Supply chains in emerging economies, which mostly include SMEs, face significant challenges due to this as they often lack the capacity and expertise required for compliance. This can lead to exclusionary practices, where smaller companies are unable to participate in supply chains or access capital due to their limited ability to meet complex ESG requirements of developed nations.

Moreover, as the vast majority of NTMs directly target key determinants of GHG emissions reduction or sustainable development, leading nations are likely to implement more such measures to achieve net zero targets or SDGs. However, considerations of the unique context of the Global South – with significantly lower per capita emissions, relatively lower Human Development Index scores, and the critical dependence of many on natural resources – are rarely recognized or taken on board. Such NTMs will give rise to trade distortions between lagging and leading economies, especially as costs associated with compliances against regulations/frameworks are increased. The continuing misalignment of regulations could lead to a further rise in inequalities between nations by excluding emerging economies from global value chains and can extend the time required to achieve SDGs.

To address these challenges, there has been a growing call for greater standardization and harmonization of sustainability standards. Incorporating the Global South perspective into the development and design phase of the ESG standards and frameworks is crucial to achieve a global baseline that is inclusive and equitable and aligns with the diverse needs of the world's regions and populations.

ESG

Importance of convergence of Global North and Global South perspectives

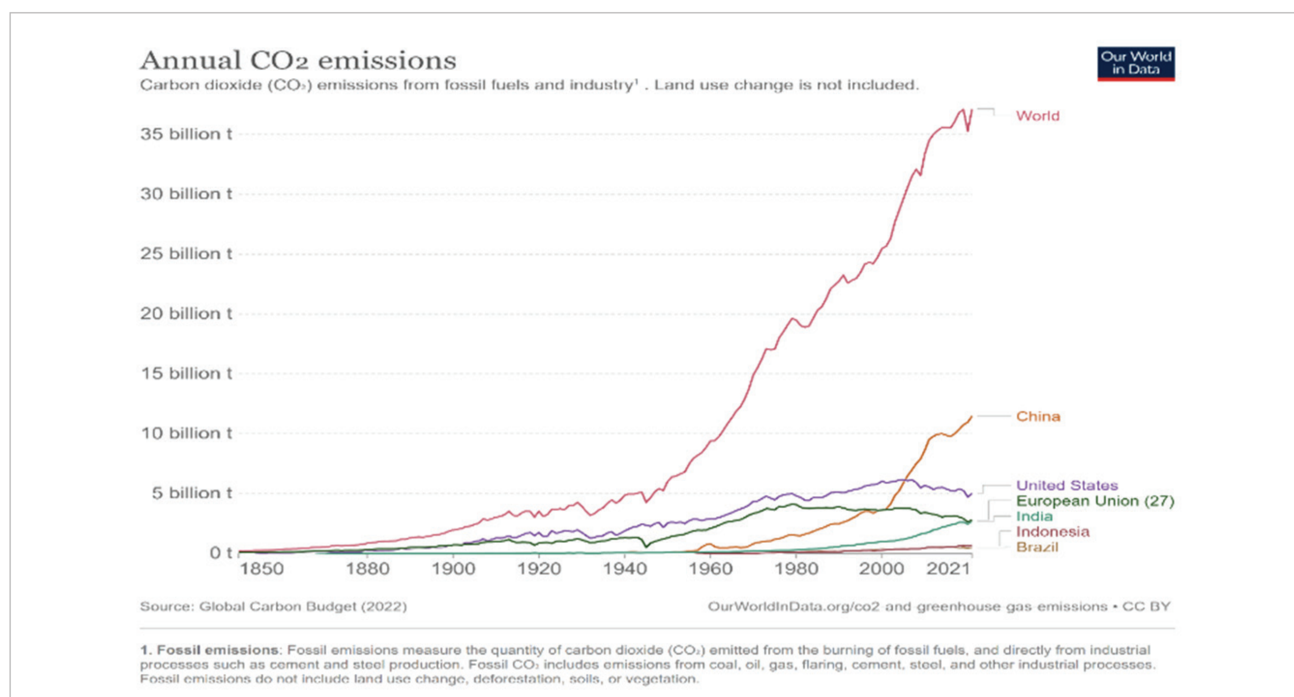
The journey of harmonizing ESG standards begins with the harmonization across the perspectives of the economies following these standards. Engaging with the realities of how vast this difference is will emphasize the importance of harmonization. This section deep dives into two crucial areas of emerging economies – climate change and social dimension.

Climate Change

The data on global CO_2 emissions reveals distinctive patterns between the Global South and the Global North. In 1850, the Global South, represented by countries like Brazil, China, India, and Indonesia, had negligible shares of global CO_2 emissions. However, by 2021, the Global South had seen substantial growth in its emissions contribution, led by China with a significant 30.9% share of global CO_2 emissions. India and Indonesia have also emerged as notable contributors, accounting for 7.3% and 1.7% of global emissions, respectively (refer to figure 1). This highlights the rapid industrialization and economic growth in these regions, resulting in increased carbon emissions.[5]

Conversely, the Global North, represented primarily by the EU and the US, showed varying trends in emissions over the same period. The EU, which had a dominant share of 27.5% in 1850, has successfully reduced its emissions to 7.5% in 2021, showcasing significant efforts in adopting sustainable practices and policies. On the other hand, the US experienced a more moderate increase in its share from 10.1% in 1850 to 13.5% in 2021.

Figure 1: Annual CO_2 Emissions for selected countries



[5] https://ourworldindata.org/co2-dataset-sources

This reduction of Global North's share in overall global emissions is due to the early industrialization and economic growth experienced by these nations. In contrast, Global South nations have only recently started experiencing comparable economic growth and industrialization, thereby leading to an expected increase in emissions linked to growth. These disparities in emissions trajectories highlight the importance of addressing climate change collectively but with consideration of an individual nation's circumstances, market situation, development, and requirements of its citizens.

Addressing climate change is a complex challenge, with varying levels of climate action between the Global North and Global South. Developed countries in the Global North have made commendable strides in decarbonization, backed by ambitious climate policies. Conversely, developing nations in the Global South grapple with obstacles such as limited access to capital, policy constraints, and inadequate infrastructure, hampering their progress towards sustainability.

The International Monetary Fund (IMF) highlights that Emerging Markets and Developing Economies (EMDEs) are projected to grow at a rate of 4% GDP in 2023 compared to advanced economies which are projected to grow at a rate of 1.5% GDP in 2023. Countries such as India (6.1% growth), Nigeria (3.2% growth) and Brazil (2.1% growth) are expected to outpace advanced economies such as the US (1.8% growth), UK (0.4% growth) and France (0.8% growth).[6]

EMDEs still require significant infrastructure to be built – with corresponding increased requirements for materials such as steel, aluminum, and concrete – whilst balancing challenges of energy access and security. Developing nations will therefore, by necessity, follow a different approach and trajectory towards reducing their emissions than developed economies.

Companies based in developing countries must also often contend with the country's requirements to prioritize energy access and affordability. Company transition plans should therefore support vulnerable regions, and communities heavily reliant on fossil fuels, ensuring social safety nets and job creation in the clean energy sector.

To achieve a just transition, businesses in developing countries must implement nature-positive approaches, including biodiversity conservation, ecosystem restoration, and protection of indigenous rights. Comprehensive plans for economic diversification are crucial to mitigate the socio-economic impact of transitioning away from fossil fuels. This entails establishing net-zero programs for specialized training and skill development, considering employment opportunities for all societal segments, and incorporating sectoral and geographic considerations into policy frameworks.

Overall, achieving a sustainable and just transition to clean energy requires the commitment and cooperation of G20 nations, providing support to the Global South, fostering economic diversification, and ensuring energy access and affordability. Leveraging global frameworks and implementing comprehensive plans will pave the way for a successful net-zero emissions future.

The ESG sector holds significant potential to unlock climate finance and drive sustainable investments. Embracing ESG principles allows businesses to direct funding towards climate-oriented projects, contributing to the transition to a low-carbon economy. Integrating sustainability criteria into business practices enhances long-term financial resilience and competitiveness, attracting investors seeking responsible and environmentally conscious growth. Collaboration with governments and financial institutions can further leverage the power of sustainability-aligned finance, mobilizing resources for impactful climate initiatives and building industry's resilience.

[6] World Economic Outlook Update: July 2023, International Monetary Fund (IMF) https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023

Sustainability standards need to be adjusted to attach relevant weights to the development priorities and distinct emission patterns of different geographies. The Global South has accelerated industrialisation and economic growth, and thus has a higher emission trajectory than the Global North. National climate-related goals of these developing economies to reduce emissions are likely to be based on their industrial growth priorities. These national goals trickle down to companies and translate into corporate goals and actions, which would thus seem to have higher emissions and lower emission control targets. Without accounting for this national context, sustainability disclosures of companies from developing economies (following the current reporting frameworks), will continue to penalise them for a comparatively higher emission trajectory.

The social dimension

Another major distinction is in the social characteristics of the two sets of economies. In existing sustainability standards, the efforts of the Global South towards sustainability do not get sufficient recognition and weightage, thus pulling down the perceived sustainability performance of Global South companies on various parameters.

Global South economies are currently in the developing phase, and, with limited resources, their national priorities are more fundamental in nature, such as eliminating hunger and poverty, expanding access to clean water and sanitation, social upliftment, and providing economic livelihoods. Therefore, companies from these economies are more likely to align their efforts towards achieving these objectives. With limited indicators of corporate social responsibility (CSR) in global ESG standards, such initiatives are assessed at lower weighting in ESG evaluation.

The Global North has a more organised, protected and represented workforce, while on the other hand, 69.6% of the Global South workforce is informal[7]. Labor policies and practices of Global South companies are based on their unique varied and complex workforce structures. These practices usually tend to fall short of the policies and practices of the Global North, when examined without reference to the workforce structures.

These factors, along with several others, are commonplace in the actions and priorities of Global South companies. However, current ESG frameworks do not include adjustments for or ways to align indicators with these social factors.

Thus, while sustainability standards highlight the positive performance of companies from the Global North, they fail to identify the unique characteristics of companies from the Global South, leaving those companies unable to report against misaligned indicators. When they are evaluated by credit providers, the lack of these data points is compensated for by the use of sovereign data, which highlights more ESG risks than opportunities in the Global South.

To ensure that Global South companies are evaluated for their sustainability performance with due consideration of the dynamics of their economy, it is essential to incorporate these unique characteristics into the design and development phase of harmonized sustainability standards. A true harmonization is, therefore, expected to be an outcome of the coalescence of the features and elements of developed as well as developing economies.

[7] Informal and Precarious Work: Insights from Global South, Journal of Labour and Society, https://brill.com/view/journals/jlso/24/1/article-p1_1.xml?language=en

Harmonization: Key towards convergence and alignment

The distinct characteristics of the economies from across the world are evident from the national priorities and divergent ESG standards followed in these economies. Thus, standard setters, business coalitions, and multilateral initiatives are expected to play a pivotal role in the harmonization of these standards, the terminologies, the reporting philosophies, and the practices across the globe. A set of globally acceptable standards, once matured, can form the backbone of the ESG ecosystem and accelerate the implementation of a sustainable economy. It can form a common basis for reporting for companies across the globe as well as a common basis for devising investment strategies in the ESG capital market. Some of the primary beneficiaries of this process would be:

1. **Multinational companies:** Businesses with global operations, customers, and value chains, will see a reduced administrative burden of coping with the existing multiple standards. Thus, a visible increase in trans-border trade is expected.
2. **Sustainable investment market:** This will create a global baseline of high quality, reliable, and comparable sustainability information addressing the needs of global capital markets. It will further direct capital to sustainable enterprises and make global capital markets resilient and efficient.
3. **Value chains and MSMEs:** The current chaos of sustainability frameworks is deterring the Micro, Small & Medium-sized Enterprise (MSME) sector from working towards sustainability. Thus, a common framework will help them produce basic sustainability credentials and allow them to capture and process their ESG data. This improvement in MSMEs' sustainability reporting will enhance MSMEs' ability to obtain financing and access business opportunities. Closing the MSME data gap benefits larger corporations as well – larger corporations that have MSMEs as part of their supply chains will welcome the availability of such data for their own sustainability reporting and for supply chain due diligence purposes.
4. **Other benefits**
    a. Reduced scope of selective reporting and use of similarly understood taxonomies will help reduce greenwashing.
    b. Increased clarity and transparency are also expected to make the audit and assurance process for ESG information more reliable.
    c. The universal standard will restore the trust of global customers in green products and companies, thus achieving the desired positive outcome of the efforts.
    d. A universally consistent set of standards would support global approaches in the ESG world, such as climate change and SDGs.

The journey towards unified standards is already in motion and has brought several standard setters together on this mission. The group of five leading standards-setting institutions, consisting of Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), and Sustainability Accounting Standards Board (SASB), published the sustainability standards prototype in 2020. Since then, members of this group have merged or collaborated to support the creation of universal standards. The International Sustainability Standards Board's (ISSB) S1 and S2 are such standards.

However, the attempted methods of standardization and interoperability have also highlighted several challenges that need to be addressed before reaching a global common. A major concern is that these standards are mostly driven by the Global North and fail to adjust to the economic

realities and complexities of the Global South (detailed in the previous section). The process of harmonization is, therefore, expected to be driven by pragmatic learning from such challenges. Thus, in addition to a review of existing sustainability indicators, definitions, and terminologies from standards such as GRI, India's BRSR, the EU's CSRD, and ISSB S1 and S2, the process can also integrate several additional priorities including:

1. Efforts to bring the underlying reporting philosophies and mandates of different regions to a common understanding. For example, US reporting is based on the concept of investor protection and capital formulation. In Europe, however, the reporting frameworks are based on mandating multi-stakeholder disclosures which integrate sustainability perspectives. In China, there are only reporting requirements for certain high-polluting listed firms.[8] Thus, these philosophies must align to reach the common objectives.
2. It is crucial to incorporate the developing nation perspective while designing and developing these standards. Different stakeholders from developed and emerging economies, including standard setters, investors, and regulators should collaborate and work out an aligned and converged set of practices with regional flexibility.
3. The size and maturity of company operations also demand representation when it comes to adoption of any standards. A company that is in a start-up phase might have a higher negative impact on the environment until its operations are stabilized. Also, if this company is into production of low carbon emission products like electric vehicles, then the trade-off should receive due consideration.
4. The majority of ESG standards and disclosure frameworks currently focus predominantly on climate issues. To address the full spectrum of ESG, topics falling under the social and governance brackets, as well as environmental issues beyond climate change, will also need to receive due weightage.

This holistic process is thus expected to give following outcomes:

1. A common set of terminologies and standards including:
    a. Common minimum topics to be disclosed by all businesses
    b. Sector-specific mandatory topics, identified based on the ESG maturity of each sector in each country, to be disclosed by businesses operating in specific sectors
    c. Sector-specific leading topics, voluntary for each sector, that would include efforts on topics over and above the mandatory ones; and
    d. Minimum ESG disclosures for supply chains
2. Appropriate regulations mandating reasonable assurance of key performance indicators (KPIs) for ESG disclosures in a phased manner.
3. Phased approach for application of the global standards.
4. Guidelines to promote transparency and comparability of scoring and weighting methodologies of established ESG rating providers.

In the current scenario, where these standards are mostly driven by the Global North, the developed world and international organizations should play a more proactive role by synergizing their efforts with the interests of the Global South. Coordination with country jurisdictions and with the ISSB, which is emerging as the global sustainability standard-setter will be critical. A collaboration process should ensure comprehensive feedback and consideration of key factors from type of economy to company industry, size, and maturity.

[8] The International Harmonization of ESG Standards: a challenge and a need, https://www.eurofi.net/wp-content/uploads/2021/04/the-international-harmonisation-of-esg-standards_a-challenge-and-a-need_lisbon-virtual-seminar_april-2021.pdf

Summary of key recommendations

The following recommendations intend to support the successful progression of global sustainability standards and enable equipping stakeholders with consistent, comparable, and decision-useful information, as detailed in this paper.

1. The overarching need for harmonized taxonomies and standards, as well as a consistent data collection and reporting approach and process.
2. Ensure that standards, KPIs, thresholds and ratings consider applicability, relevance, and prioritization of the Global South. This is particularly critical to enable capital allocation and investments to be directed to the Global South and address the current significant lack of sustainability investment in emerging and developing markets.
3. Include social indicators in standards to incorporate differentiated positions and objectives of companies in different countries.
4. Transparency of ratings methodologies to avoid misallocation of investments and to ensure alignment with relevant stakeholder priorities.
5. The development of standards and regulations that directly or indirectly apply to global supply and value chains should accommodate the capacities and limitations of Global South companies, particularly SMEs. They should also avoid exporting stringent KPIs and targets that are not aligned with distinct sustainability (social and environmental) priorities, targets, and timelines of developing economies.
6. Set up a new platform or leverage an existing platform for global standard setting, which will be universally recognized.

About B20 India

Business 20 (B20) is the official G20 dialogue forum with the global business community. Established in 2010, B20 is among the most prominent Engagement Groups in G20, with companies and business organizations as participants. The B20 leads the process of galvanizing global business leaders for their views on issues of global economic and trade governance and speaks in a single voice for the entire G20 business community.

Each year, the G20 Presidency appoints a B20 Chair (an eminent business leader from the G20 host country), who is supported by a B20 Sherpa and the B20 secretariat. The B20 aims to deliver concrete actionable policy recommendations on priorities by each rotating presidency to spur economic growth and development.

The B20 bases its work on Task Forces (TFs) and Action Councils (ACs) entrusted to develop consensus-based policy recommendations to the G20 and to international organizations and institutions. The B20 officially conveys its final recommendations to the G20 Presidency on the occasion of the B20 Summit.

As India holds the Presidency of G20 in 2023, India will host the eighteenth G20 Summit in New Delhi. The Confederation of Indian Industry (CII) has been appointed as the B20 India Secretariat for India's Presidency. CII, as the B20 India Secretariat, will host the B20 India Summit in New Delhi from 25-27 August 2023.

For queries, **reach us at b20secretariat@cii.in**