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Item 03– Project Proposal for the Review of *GRI 201: Economic Performance*, *GRI 202: Market Presence*, and *GRI 203: Indirect Economic Impacts*

For discussion and approval

Date	10 May 2017
Meeting	24 May 2017
Project	Review of *GRI 201: Economic Performance, GRI 202: Market Presence, and GRI 203: Indirect Economic Impacts*
Description	This paper sets out the final project proposal for the review of GRI's economic disclosures, including content within *GRI 201: Economic Performance, GRI 202: Market Presence,* and *GRI 203: Indirect Economic Impacts.* The proposal has been slightly revised based on input during the GSSB meeting on 26 April 2017, as well as comments from selected members of the GRI Board and Stakeholder Council (see Annex A for the full set of Board and Stakeholder Council input received).

About this paper

The Global Sustainability Standards Board (GSSB) has identified *GRI 201: Economic Performance* as a priority standard for review in its 2017-2019 Work Program. The scope of this review was originally intended to also include new content related to tax and payments to governments.

This project proposal incorporates initial feedback from the GSSB on a discussion paper prepared by the Standards Division, which was discussed during a public meeting on 21 March 2017. During this meeting, the GSSB agreed:

- To broaden the scope of the review to also include the content from *GRI 202: Market Presence* and *GRI 203: Indirect Economic Impacts,* given that these standards are closely-related to *GRI 201* and would likely require similar expertise to review
- To launch a separate project focused on developing new content related to Tax and Payments to Governments, with the expectation that this would run in parallel to the review of *GRI 201*, *GRI 202, and GRI* 203. New content on Tax and Payments to Governments could then potentially be incorporated back into these revised standards, or could be developed as its own standard.
- To scope the first phase of this project as a holistic review of the topics and themes that should be covered underneath the economic (200) series of GRI Standards, and then to develop specific standards or disclosures based on these initial findings.

Changes since previous version

The document has been further revised based on the GSSB discussion on 26 April 2017 and comments received via email from members of the GRI Board or Stakeholder Council (see Annex A for a full set of those comments). The following minor changes have been made:

- The phrasing 'fair wages' has been adjusted to 'wages and compensation' (lines 79-80)
- The list of potential topics that could be included has been expanded to include externalities and the impacts of changing workforce trends, such as automation and use of technology (lines 90-91)
- The UN Guiding Principles has been added along with the reference to the OECD Guidelines for MNE's (lines 54-55)
- A reference to economic impact assessment tools used by development finance institutions and state-owned enterprises has been added to the examples of existing frameworks and methodologies to consider (lines 104-107).

Project background

In November 2016, the GSSB approved and published its three-year Work Program for 2017-2019, including a schedule of priority standards to review in 2017. These Standards were selected based on stakeholder feedback and a consideration of national and international developments. *GRI 201: Economic Performance* was identified for review based primarily on feedback received from the public comment period and from GSSB members during the 'Transition to Standards' initiative in 2016. This feedback indicated that the current disclosures in *GRI 201* are unclear and inconsistently interpreted, and would benefit from a thorough content review.

To help inform the scope of this project, the GRI Standards Division carried out initial research into current reporting practice on GRI's economic disclosures. This research suggested that the disclosures within *GRI 201: Economic Performance*, *GRI 202: Market Presence*, and *GRI 203: Indirect Economic Impacts* are closely-related and that the distinctions across these topics are not always clearly understood by reporters. In addition, the Standards Division noted that to review each of these Standards would likely require similar technical expertise within a Project Working Group or Technical Committee.

Based on these points, the GSSB determined during its 21-22 March 2017 meeting to expand the scope of the review project to include *GRI 202: Market Presence* and *GRI 203: Indirect Economic Impacts* as well as *GRI 201: Economic Performance.*

Furthermore, since the disclosures in *GRI 201, GRI 202,* and *GRI 203* were last updated in 2006 (with the publication of the GRI G3 Guidelines), there have been a number of international developments related to how organizations should identify, manage, and report on their impacts on the economy. The UN Guiding Principles on Business and Human Rights[1] and the OECD Guidelines for Multinational Enterprises[2] set out a clear expectation for businesses to take responsibility not only for impacts they cause directly, but also those they contribute to or are linked to through their business relationships. This concept has already been incorporated into GRI's disclosures on topic Boundary in *GRI 103: Management Approach*. However, in the context of GRI's economic disclosures, this means that organizations are expected to report not only on their direct impacts on the economy, but also those they are linked to, for example through their supplier relationships.

In addition, several of the UN Sustainable Development Goals (SDGs) are closely related to impacts of organizations on the economy – for example, Goal 1 (No poverty), Goal 8 (Decent Work and Economic Growth) and Goal 10 (Reduced Inequalities). Although the SDGs were originally developed by governments for governments, business has been identified as having a critical role to play in supporting progress towards the goals. Many businesses are already adopting the SDGs into their sustainability strategy and reporting processes,[3] and are looking for

[1] United Nations (UN), 'Guiding Principles on Business and Human Rights, Implementing the United Nations "Protect, Respect and Remedy" Framework', 2011.
[2] Organisation for Economic Co-operation and Development (OECD), OECD Guidelines for Multinational Enterprises, 2011.
[3] According to PWC's 2015 report, '*Make it your business: Engaging with the Sustainable Development Goals',* 71% of businesses say they are already planning how they will engage with the SDGs. Available at: http://www.pwc.com/gx/en/sustainability/SDG/SDG%20Research_FINAL.pdf

further guidance to understand how their activities contribute towards relevant SDGs and targets.

Together, these developments suggest that the content in *GRI 201, GRI 202,* and *GRI 203* would benefit from a comprehensive review to ensure that GRI's economic standards align with key international instruments and reflect leading practice in disclosure.

Project objectives and scope

The primary objective of this project is to review the content of *GRI 201, GRI 202,* and *GRI 203* in order to ensure these disclosures align with relevant international instruments and reflect leading practice in measuring the economic impacts of organizations.

Based on initial desktop research by the Standards Division, there are a variety of topics that could potentially be covered within the scope of economic impacts. These include, for example:

- impacts of organizations on local labor markets, including job creation, wages and compensation, training, and skills development
- impacts on poverty alleviation (for example, through community development, education, employment, or other development projects)
- monetary flows into local economies (including local procurement)
- investment in infrastructure and services (often tied in with community investment)
- securing livelihoods (covering for example the wellbeing, health, and safety of workers and local communities)
- impacts of business models (including for example, employee-owned businesses, social enterprises, and circular economy-related concepts such as 'products as services')
- economic contributions of an organization's products and services
- externalities (e.g. impacts of investment decisions)
- impacts of changing workforce trends, such as automation and use of technology

Many of these issues relate to socio-economic dimensions, as opposed to the purely economic contributions typically covered under financial reporting. Many of these issues are also closely interlinked with community development (currently covered under *GRI 413: Local Communities),* local procurement (covered under *GRI 204: Procurement Practices)* and employment (covered under *GRI 401: Employment*). These three standards are not currently included in the scope of the project, but if the Technical Committee recommends they should also be reviewed, the GSSB will consider and discuss this option.

The scope of this project will also aim to consider and, where appropriate, to build off existing methodologies for measuring the economic impacts of organizations. These could include, for example, the Measuring Impact Framework developed by WBCSD and IFC, the socio-economic assessment (SEAT) toolbox developed by Anglo-American, the IRIS impact investment metrics developed by the Global Impact Investing Network (GIIN), or the Poverty Footprint Tool developed by Oxfam and the UN Global Compact. In addition, this project can consider as point of reference relevant economic impact assessment tools used by development finance institutions (such as the World Bank or IFC) as well as those developed by state-owned enterprises.

Proposed next steps

This review will be carried out in two phases. The first phase will have a broad scope and will seek to develop recommendations on the overarching content areas and disclosures that should be covered in GRI's 200 (economic) series of standards, in order to align with relevant international instruments and methodologies.

To help inform the first phase of work, a dedicated Technical Committee will be formed as set out in the GSSB Due Process Protocol. A detailed Terms of Reference for the Technical Committee will be developed, including the objectives, scope, and timeline for their work. The Technical Committee will include experts with specific expertise in understanding and measuring the impacts of organizations on the economy. This phase of work could lead to recommendations to restructure, merge, expand, or retitle the current topics covered under *GRI 201*, *GRI 202*, and *GRI 203*. It could also lead to recommendations to add new content areas or to remove or revise existing disclosures. All recommendations from this Technical Committee will be shared back with the GSSB for consideration.

Depending on the outcomes of the first phase of work, the GSSB will then evaluate the need to form additional Technical Committees or Project Working Groups to further develop disclosures for specific topic areas, as recommended by the first phase of work.

Annex A – full set of GRI Board and Stakeholder Council comments received

SC or Board Member	Comments
SC Member	It is good that the project objectives and scope (lines 61-90) show an intention to go more into socio-economic impacts, with a healthy emphasis on labour issues. It is good that there is no narrowing of the GRI scope in this area to more conventional financial reporting. Shifting the focus towards the overall benefits of an organisation's/company's activities will help shift standard financial reporting and analysis away from such crude indictors as "revenue per employee" - which encourages companies to shift employment away from permanent employment to contractors as a simple way to improve that metric. I support the intention to harmonise with the OECD Guidelines for MNEs, and the UN Sustainable Development Goals. Something for the GSSB to be aware of – acknowledging that this review is not covering the remuneration disclosures, and so is not an immediate concern - there is a trend in Australia (don't know about elsewhere but probably) to maintain and increase executive pay during tough market periods (when they can't get rewarded for higher profits or share price) by shifting the rewards to indicators like employee engagement and customer satisfaction ("non-financial targets"). I'm happy about management being judged on sustainability criteria, but not about it being yet another device for maintaining and increasing executive pay.
SC Member	I think is very good to analyze the indirect socioeconomic impacts with local communities and local procurement and also with employment. I usually use GRI G4 EC7, EC8 and SO1 together. I think they are really interlinked.
SC Member	1. See below regarding taxes and levies. Job creation with a breakdown into green jobs (as per ILO) and indirect, informal jobs with specific definitions. Alignment of activities to government initiatives e.g. to National Development Plans of the respective countries since these are in most cases positioned to support international conventions and SDG's, for example. 2. Progressive institutions, and SOE's and DFI's, have developed tools to determine their socio-economic impact. It is usually country and mandate specific, but it should exist and be part of business processes. At the IDC the development scorecard largely reflects the Corporation's priorities and the development score of every transaction influences the pricing. It would be worth reviewing these tools and incorporating elements thereof into the content.

SC or Board Member	Comments
	3. Organizations are subsidizing development through incentives, e.g. in our case discounts offered to designated groups to encourage entrepreneurial activity. This is often a trade-off with profit and risk. Economic activity can be a balancing act between financial returns and developmental outcomes/the catalystic role. Experts in areas including subsidy pools and similar can add value to the discussion. Tax experts, re on carbon taxes vs business processes could be included.
SC Member	It is unclear to me why there is a reference to OECD Guidelines related to “take responsibility not only for impacts they cause directly, but also those they contribute to or are linked to through their business relationships” and not the UN Guiding Principles. There is a close relationship between the UNGP and economic impact resulting in adverse impacts on human rights. I think it should be mentioned and taken into account in the project as well as in the competences represented within the Technical Committee. I don’t have any other suggestions for additional frameworks, except that one could have in mind that the Danish Institute has published The Human Rights Guide to the Sustainable Development Goals linking human rights with all Sustainable Development Goals and targets (http://sdg.humanrights.dk/en).
SC Member	Economic performance should include the concept of shared value. Economic impacts should englobe impacts on society and equally shared benefits. It should not be only about profitability or revenue but rather about shared benefits. There need to be a set of measures to identify these. As long as it is the same measure of profitability and revenue , it is not real!
SC Member	I would really take care that it does not become too complex (otherwise you will lose companies actually implementing such standards). I would also make a clear distinction between input, output, outcome and impact. The key role of GRI should be a platform to structure existing guidance. There is so much in the marketplace that I wouldn’t develop something new at all. A colleague of mine (Nancy Kamp Roelands) was previously the chair of the UNCTAD-ISAR CR indicators project - they started with over 100 indicators, at the end of this process they concluded that those which align closely to the financial statements and management accounting were the most pragmatic: http://unctad.org/en/Docs/iteteb20076_en.pdf Missing topics in the current draft which will have huge economic impact is digital and robotics. In financial services, but also for all other organisations including professional services, digital and robotics/the move to automation, is a big priority as it changes how businesses work which has significant socio-economic impacts, both on your workforce but also your customers and suppliers and local communities.

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