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Transition to GRI Standards

Item 03 – Draft SRS 403: Indirect Economic Impacts

For GSSB Review and Agreement (with suggested amendments)

Date	11 February 2016
Meeting	25 February 2016
Project	Transition to GRI Standards
Description	As part of the move to become a standard setter, the Global Sustainability Standards Board (GSSB) has decided that the G4 Guidelines need to be transitioned to Sustainability Reporting Standards (SRSs). This paper presents a draft of the SRS 403: Indirect Economic Impacts, for GSSB review and agreement (with suggested amendments).

About this version

This paper sets out a draft of the Sustainability Reporting Standard 403: Indirect Economic Impacts, formerly the G4 Indirect Economic Impacts Aspect.

Summary of changes

1. **<u>Structure:</u>** this SRS is structured as follows, based on the previously discussed template:
   - An **introduction** – which contains all background and 'boilerplate information'. Please note that to assist with version control, this content is being developed only in the SRS: 505 Emissions, and will be re-introduced into the remaining Topic-Specific SRSs once the GSSB has signed off the content during the 5-7 April 2016 meeting.
   - The **standard itself** (i.e., requirements, recommendations and guidance):
     - <u>Reporting on management approach:</u> this section references the SRS 301: Management Approach and includes topic-specific management approach guidance, where applicable.
     - <u>Topic disclosures:</u> for each disclosure, the following is provided:
       - <u>Disclosure requirements</u> ('indicators'): phrased with 'shall' statements;
       - <u>Methodology</u>: including a mix of 'shall' and 'should' statements; and
       - <u>Guidance:</u> including 'can' statements, examples, and context.

2. **<u>Use of instructive verbs</u>:** Following GSSB input during the 4 February 2016 meeting, the Methodology sections include both 'shall' and 'should' statements. However, these are organized with all 'shall' statements grouped together at the beginning of the section, followed by any 'should' statements.

3. **<u>Status of management approach guidance</u>:** Following GSSB input during the 4 February 2016 meeting, the Standards Division will keep most of the Aspect-specific management approach guidance from G4 as 'guidance' in the SRSs. However, any specific cases where the Standard Division believes this content should be elevated to a recommendation ('should' statement) or requirement ('shall' statement) will be highlighted to the GSSB for review. In this draft SRS, the existing Aspect-specific DMA guidance has been preserved as 'guidance'.

Requested feedback

1. **<u>Use of instructive verbs:</u>** The GSSB is asked to *please review the Methodology section* in this SRS and indicate if it disagrees with any of the uses of instructive verbs ('shall' and 'should').

2. **<u>Use of sub-headings</u>:** The GSSB is asked to review the use of the headings 'Disclosure requirements' and 'Methodology' within this draft SRS, and indicate to the Standards Division whether if it would prefer to be taken out.

3. <u>Any other changes requested</u>: The GSSB is asked to please identify any other changes or improvements that the Standards Division should incorporate into this draft before it is ready for public consultation.

Sustainability Reporting Standard 403: Indirect Economic Impacts 2016

Contents

Introduction

A. About the Sustainability Reporting Standards (SRSs)

[to be provided]

B. Responsibility for this Standard

[to be provided]

C. Scope

[…]

The economic dimension of sustainability concerns a reporting organization's impacts on the economic conditions of its stakeholders and on economic systems at the local, national, and global level. It does not focus on the financial condition of an organization.

The SRSs in the Economic series (400) illustrate the flow of capital among different stakeholders, and the main economic impacts of an organization throughout society.

This SRS sets out disclosure requirements on the topic of indirect economic impacts, including infrastructure investments and services supported.

[…]

D. Normative References

[to be provided]

E. Effective Date

[to be provided]

F. Background Context

Indirect economic impacts are the additional consequence of the direct financial transactions that occur between an organization and its stakeholders. They also result when an organization invests in infrastructure or services, thus producing additional public benefits.

These indirect economic impacts can be non-monetary, and can have diverse effects on the economy. They include impacts such as shifts in local employment due to operation relocation, or increased availability of products and services for those on low incomes.

Indirect economic impacts are particularly important to assess in relation to local communities and regional economies. They are an important part of an organization's role as an agent of socio-economic change, particularly in developing economies.

For management purposes, indirect economic impacts are an important indication of where risks to reputation can develop. They also indicate where opportunities can emerge to expand market access or a social license to operate.

SRS 403: Indirect Economic Impacts

1. Reporting on Management Approach

1.1 The reporting organization shall report on its management approach for this topic using SRS 301: Management Approach sections [XX].

Guidance

Organizations using the topic-specific SRSs (400, 500, and 600 series) to report their impacts for a specific topic are expected to also disclose information on their management approach for that topic. Reporting on the management approach as well as completing topic-specific Indicators for all material topics is required for any organization that wishes to make a claim of being 'In Accordance' with the SRSs. The management approach is a narrative explanation of how the organization manages the topic, associated impacts, and stakeholders' reasonable expectations and interests.

This SRS is therefore designed to be used together with SRS 301: Management Approach in order to provide a full disclosure of the organization's impacts for a given topic. SRS 301 specifies how to report on the organization's management approach and what information to include.

Specific guidance for reporting on the management approach related to indirect economic impacts:

When reporting its management approach for indirect economic impacts, the organization can also:

- describe work undertaken to understand indirect economic impacts at the national, regional, or local level; and
- explain whether it conducted a community needs assessment to determine the need for infrastructure and other services. This explanation can include the results of the assessment.

2. Topic Disclosures: Indirect Economic Impacts

Infrastructure Investments and Services Supported

Disclosure requirements

2.1 The reporting organization shall report disclosure 403-1 as follows:

Disclosure 403-1
a. Extent of development of significant infrastructure investments and services supported. b. Current or expected impacts on communities and local economies, including positive and negative impacts. c. Whether these investments and services are commercial, in-kind, or pro bono engagements.

Guidance

This disclosure looks at the impact that the reporting organization's infrastructure investments and services supported have on its stakeholders and the economy.

In addition to investments in its own operations, an organization can make investments in the community surrounding its operations. Such investments – like transport links, utilities, community social facilities, health and welfare centers, and sports centers – make significant capital contributions to the economy.

These investments can improve the quality of life in a community over long timescales and the organization can improve its efficiency and strengthen its community relationships.

Methodology

2.2 In compiling the information in 2.1, the reporting organization should:

2.2.1 disclose the size, cost and duration of each significant infrastructure investment or service supported; and

2.2.2 disclose the extent to which different communities or local economies are impacted by the organization's infrastructure investments and services supported.

Significant Indirect Economic Impacts

Disclosure requirements

2.3 The reporting organization shall report disclosure 403-2 as follows:

Disclosure 403-2

a. Examples of significant identified indirect economic impacts of the reporting organization, including positive and negative impacts.

b. Significance of the indirect economic impacts in the context of external benchmarks and stakeholder priorities, such as national and international standards, protocols, and policy agendas.

Guidance

This disclosure looks at the spectrum of indirect economic impacts that the reporting organization can have on its stakeholders and the economy.

These indirect economic impacts vary widely by organization type, size and location, and can significantly influence the sustainability of an economy or community.

Evaluating this influence can help an organization to avoid negative indirect economic impacts in its operations. It can also provide an organization's stakeholders transparency and a means to start up a dialogue about these issues.

Examples of significant indirect economic impacts, both positive and negative, can include:

- Changes in the productivity of organizations, sectors, or the whole economy (such as through greater adoption of information technology);
- Economic development in areas of high poverty (such as changes in the total number of dependents supported through the income of a single job);
- Economic impacts from improving or deteriorating social or environmental conditions (such as the increasing costs of pollution, or changing the job market in an area converted from small farms to large plantations);
- Availability of products and services for those on low incomes (such as setting preferential pricing of pharmaceuticals to support a healthier, economy-participating population; or, conversely, setting pricing structures that exceed the economic capacity of low income users);
- Enhanced skills and knowledge in a professional community or in a geographic location (such as when shifts in an organization's needs attract additional skilled workers to an area, who, in turn, drive a local need for new learning institutions);
- Number of jobs supported in the supply or distribution chain (such as the employment impacts on suppliers as a result of an organization's growth or contraction);
- Stimulating, enabling, or limiting foreign direct investment (such as when an organization changes the infrastructure or services it provides in a developing country, which then leads to changes in foreign direct investment in the region);
- Economic impacts from a change in operation or activity location (such as the impact of outsourcing jobs to an overseas location); and
- Economic impacts from the use of products and services (such as economic growth resulting from the use of a particular product or service).