

Enhancing ESG Disclosure and Transparency Standards in Emerging Markets

The IFC Disclosure and Transparency Program – aligned with IFC 3.0 – plays a vital role in building investor confidence and unlocking private sector investments in emerging markets. Responding to the growing demand for higher standards of corporate disclosure and transparency, the Program provides practical tools and advisory services for companies, stock exchanges and regulators in emerging markets to bring about integrated corporate reporting that includes environmental, social and governance matters.

THE PROGRAM

The Disclosure and Transparency Program seeks to maximize the benefits of disclosure and transparency at all critical links in the investment value chain. It includes:

- **Policy Support:** Helping stock exchanges and regulators raise disclosure and transparency standards in their markets through model guidance, frameworks, codes, listing requirements and other mechanisms;
- **Capacity Building:** Assisting companies as they strengthen environmental, social and governance (ESG) practices and prepare integrated and best-in class annual reports;
- **Online Platform:** Offering flexible learning opportunities, gap analysis and information for emerging market companies, stock exchanges, regulators and investors to integrate ESG in corporate reporting and disclosure practices, based on IFC Disclosure and Transparency Toolkit and other partners' resources.
- **Investment Solutions:** Enhancing low-risk emerging market investments based on adoption of IFC standards of disclosure and transparency, as part of WBG capital market strategy.

STRATEGIC ALLIANCE WITH THE UN SUSTAINABLE STOCK EXCHANGES

IFC recently entered into collaborative partnership with the UN Sustainable Stock Exchanges Initiative (SSE). The aim is to build investor trust, attract capital, and grow strong local capital markets. This work will draw on the SSE's Model Guidance on ESG Disclosure and IFC's Disclosure and Transparency Toolkit. Shared objectives include raising ESG standards across emerging capital markets and helping SSE 85-member exchanges to develop stronger ESG reporting guidelines.



IFC 3.0 STRATEGY – CREATE MARKETS

The Disclosure and Transparency Program supports IFC's 3.0 Strategy to grow strong capital markets in emerging economies and to mobilize private capital necessary to achieve the World Bank's twin goals and UN Sustainable Development Goals (SDGs).

Strong local capital markets are essential for a thriving private sector. In developing countries, they hold great potential to channel private capital toward priority development needs and help companies obtain long-term financing. Yet, many emerging capital markets lack the level of corporate disclosure and transparency required by global investors. Increasing capital inflows require robust information on companies' strategies, governance and performance and a better understanding of the inherent risks associated with weak regulatory frameworks, uncertain social and environmental conditions, and ineffective board governance.

High standards of corporate disclosure and transparency provide investors with the credible, comparable decision-useful information they need to add well-governed sustainable emerging-market companies to their investment portfolios.

THE DISCLOSURE AND TRANSPARENCY TOOLKIT, PLATFORM AND ADVISORY WORK

The IFC Disclosure and Transparency (D&T) Toolkit offers step-by-step model guidance for emerging-markets companies to prepare comprehensive and integrated annual reports and publicly disclose strategic, governance, and performance information about their ESG practices, together with financial results. It promotes an integrated approach to corporate reporting, focusing on how environmental and social issues affect the company's strategy and performance and how key risks and impacts are managed as part of corporate governance.

The D&T Toolkit draws on IFC's experience in investing in emerging markets and in applying its Environmental and Social Sustainability Performance Standards and Corporate Governance Methodology, and international reporting standards and frameworks.

The D&T Online Platform is designed to guide emerging-market companies, stock exchanges and regulators as they integrate ESG in corporate reporting and disclosure practices. The Platform will create an ecosystem providing:

- Online tools and resources for diagnostic/gap analysis to guide companies in preparing annual reports combining financial and ESG information.
- Online database and benchmarking for ESG disclosure in emerging markets.
- Flexible learning including video interviews, local case examples, FAQs, and interactive learning based upon D&T Toolkit components.
- Live training for management teams, board directors, investors and other stakeholders and training of faculty, using the online D&T platform.

IFC'S ADVISORY WORK ON DISCLOSURE AND TRANSPARENCY

The IFC released the Disclosure and Transparency Toolkit in January 2018 at the London Stock Exchange. Since then, it has been widely distributed and it is used as part of IFC's core investment and advisory activities.

The Toolkit and training program are used for IFC engagement with companies, financial institutions and investors, ranging from a Timor-Leste micro-finance institution, to Kenya Commercial Bank and China Postal Savings Bank, one of China's largest banks.

IFC is also leveraging the toolkit and training program to advise stock exchanges, central banks and regulators in developing countries, raising standards for disclosure and transparency and helping to build investor trust and confidence. Recently, IFC has helped develop or update ESG listing rules in Georgia, Kazakhstan, Kenya, Nigeria, Peru and the Philippines.

The Disclosure and Transparency Toolkit supports IFC's 3.0 Strategy to create markets by:

- Providing emerging-markets companies access to global capital markets
- Helping investors better understand risks and opportunities
- Improving market infrastructure through stock exchanges and regulators

WHY DISCLOSURE AND TRANSPARENCY MATTERS

Disclosure Studies in both developed and developing markets—covering financial and ESG disclosure—have found strong correlations between improved disclosure and (1) lower cost of capital, (2) better access to finance, and (3) increased company valuation.

Companies adopting good ESG practices make better decisions over time, have sustainable strategy, better manage risks, enjoy enhanced reputation, and have improved access to capital.

Harvard Business School studies (2011, 2013, 2016) confirm that companies with good performance on material ESG issues significantly outperform firms with poor performance on these issues (over 6%).

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