Economic

Performance Indicators

Aspect: Economic Performance

CORE **EC1** Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.

CORE **EC2** Financial implications and other risks and opportunities for the organization's activities due to climate change.

CORE **EC3** Coverage of the organization's defined benefit plan obligations.

CORE **EC4** Significant financial assistance received from government.

Aspect: Market Presence

ADD **EC5** Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.

CORE **EC6** Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.

CORE **EC7** Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.

Aspect: Indirect Economic Impacts

CORE **EC8** Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.

ADD **EC9** Understanding and describing significant indirect economic impacts, including the extent of impacts.

Relevance

Performance data generated in response to the Indicators in this section are expected to illustrate:

- The flow of capital amongst different stakeholders; and
- The major economic impacts of the organization throughout society.

An organization's economic performance is fundamental to understanding the organization and its basis for sustainability. However, this information is already well reported in many countries in annual financial accounts and reports. Financial statements provide information about the financial position, performance, and changes in the financial position of an entity. They also indicate the results achieved in managing the financial capital provided to the organization.

What is reported less frequently, but often desired by readers of sustainability reports, is the organization's contribution to the sustainability of the economic systems in which the organization operates. An organization may be financially viable, but this may have been achieved by creating significant externalities that impact other stakeholders. Economic Performance Indicators are intended to measure the economic outcomes of an organization's activities and the effect of these outcomes on a broad range of stakeholders.

The Indicators in this section are divided into three categories:

1. **Economic Performance.** This category of Indicators addresses the direct economic impacts of the organization's activities and the economic value added by these activities.
2. **Market Presence.** These Indicators provide information about interactions in specific markets.
3. **Indirect Economic Impacts.** These Indicators measure the economic impacts created as a result of the organization's economic activities and transactions.

There are several linkages between different Economic Indicators. Elements of the value-added table in EC1 are related to other Economic Indicators, and there are also connections between wages and benefits (EC1-2.1c and EC5), transactions with governments (EC1-2.1e and EC4), and community investments (EC1-2.1f and EC8). The Economic Indicators are also closely related to Indicators in other Protocols, including:

- EC1-2.1c, EC5, and LA14 regarding wages;
- EC1-2.1c, EC3, and LA3 regarding employee benefits;
- EC1-2.1f, EC6, EC8, and SO1 regarding interactions with local communities;
- EC2 (climate change risk) and EN3 (direct energy consumption); and
- EC10 (indirect economic impacts) and SO1 (socio-economic impacts on communities).

Definitions

Significant locations of operation

Locations where single-market revenues, costs, stakeholder payments, production, or employee numbers represent a significant share of the organization's global total, and are sufficient to be particularly important to decision-making by the organization or its stakeholders. Combined, these locations would likely represent the majority of the above figures. Reporting organizations should identify and explain the specific criteria used to determine what is significant. Reporting organizations should use International Accounting Standards 14 (IAS14) as a reference in defining significant locations of operation.

General References

- The International Accounting Standards Board (IASB) website (www.iasb.org) provides information about relevant International Financial Reporting Standards (IFRS).
- In preparing responses to the Economic Indicators, data should be compiled from figures in the organization's audited financial accounts or its internally audited management accounts, wherever possible. In all cases, the data should be compiled using either:
- The relevant International Financial Reporting Standards (IFRS) and Interpretations of Standards, published by the International Accounting Standards Board (IASB) (some Indicator Protocols reference specific International Accounting Standards, which should be consulted); or

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- National or regional standards recognized inter-nationally for the purpose of financial reporting.

The reporting organization should clearly indicate which standards were applied and provide clear references to the relevant sources.

Segmental reporting

Reporting organizations should use International Accounting Standards 14 (IAS14) as a reference in defining 'local', as required by Indicators EC1, EC5, EC6, and EC7.

EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.

1. Relevance

Data on the creation and distribution of economic value provide a basic indication of how the organization has created wealth for stakeholders. Several components of the Economic Value Generated and Distributed (EVG&D) table also provide an economic profile of the reporting organization, which may be useful for normalizing other performance figures. If presented in country-level detail, EVG&D can provide a useful picture of the direct monetary value added to local economies.

2. Compilation

2.1 Presentation:

- The EVG&D data should be compiled, where possible, from data in the organization's audited financial or profit and loss (P&L) statement, or its internally audited management accounts. It is also recommended that the economic value data be presented on an accruals basis in a table that includes the basic components for the organization's global operations as included in the table below. Data can also be presented on a cash basis where this can be justified and disclosed in a table that includes the basic components as listed below.

To better assess local economic impacts, EVG&D should be presented separately at country, regional, or market levels, where significant. Reporting organizations should identify and explain their criteria for defining significance.

2.2 Guidance on EVG&D Table Line Entries

a) Revenues:

- Net sales equal gross sales from products and services minus returns, discounts, and allowances.
- Revenue from financial investments includes cash received as interest on financial loans, as dividends from shareholdings, as royalties, and as direct income generated from assets (e.g., property rental).
- Revenues from sale of assets include physical assets (property, infrastructure, equipment) and intangibles (e.g., intellectual property rights, designs, and brand names).

Component	Comment
Direct economic value generated	
a) Revenues	Net sales plus revenues from financial investments and sales of assets
Economic value distributed	
b) Operating costs	Payments to suppliers, non-strategic investments, royalties, and facilitation payments
c) Employee wages and benefits	Total monetary outflows for employees (current payments, not future commitments)
d) Payments to providers of capital	All financial payments made to the providers of the organization's capital.
e) Payments to government (by country – see note below)	Gross taxes
f) Community investments	Voluntary contributions and investment of funds in the broader community (includes donations)
Economic value retained (calculated as Economic value generated less Economic value distributed)	Investments, equity release, etc.

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b) Operating costs:

- Cash payments made outside the reporting organization for materials, product components, facilities, and services purchased. This includes property rental, license fees, facilitation payments (since these have a clear commercial objective), royalties, payments for contract workers, employee training costs (where outside trainers are used), employee protective clothing, etc.

c) Employee wages and benefits:

- Total payroll means employee salaries, including amounts paid to government institutions (employee taxes, levies, and unemployment funds) on behalf of employees. Non-employees working in an operational role should normally not be included here, but rather under Operating Costs as a service purchased.

- Total benefits include regular contributions (e.g., to pensions, insurance, company vehicles, and private health), as well as other employee support such as housing, interest-free loans, public transport assistance, educational grants, and redundancy payments. They do not include training, costs of protective equipment, or other cost items directly related to the employee's job function.

d) Payments to providers of funds:

- Dividends to all shareholders;

- Interest payments made to providers of loans.

- This includes interest on all forms of debt and borrowings (not only long-term debt) and also arrears of dividends due to preferred shareholders.

e) Payments to government:

- All company taxes (corporate, income, property, etc.) and related penalties paid at the international, national, and local levels. This figure should not include deferred taxes because they may not be paid. For organizations operating in more than one country, report taxes paid by country. The organization should report which definition of segmentation has been used.

f) Community investments:

- Voluntary donations and investment of funds in the broader community where the target beneficiaries are external to the company. These include contributions to charities, NGOs and research institutes (unrelated to the company's commercial R&D), funds to support community infrastructure (e.g., recreational facilities) and direct costs of social programs (including arts and educational events). The amount included should account for actual expenditures in the reporting period, not commitments.

- For infrastructure investments, the calculation of the total investment should include costs of goods and labor in addition to capital costs. For support of ongoing facilities or programs (e.g., an organization funds the daily operations of a public facility), the reported investment should include operating costs.

- This excludes legal and commercial activities or where the purpose of the investment is exclusively commercial. Donations to political parties are included but are also addressed separately in more detail in SO6.

- Any infrastructure investment that is driven primarily by core business needs (e.g., building a road to a mine or factory) or to facilitate the business operations of the organization should not be included. The calculation of investment may include infrastructure built outside the main business activities of the reporting organization, such as a school or hospital for employees and their families.

3. Definitions

None

4. Documentation

Finance, treasury, or accounting departments should have the information required by this Indicator.

5. References

- International Accounting Standard (IAS) 12 on Income Taxes, IAS 14 on segment Reporting, IAS 18 on Revenues, and IAS 19 on Employee Benefits should be consulted.

EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change.

1. Relevance

Climate change presents risks and opportunities to organizations, their investors, and their stakeholders. Organizations may face physical risks due to changes in the climate system and weather patterns. These risks may include the impact of increased storms; changes in sea level, ambient temperature, and water availability; impacts on the workforce such as health effects (e.g., heat-related illness or disease); or the need to relocate operations.

As governments move to regulate activities that contribute to climate change, organizations that are directly or indirectly responsible for emissions face regulatory risk through increased costs or other factors impacting competitiveness. Limits on greenhouse gas emissions can also create opportunities for organizations as new technologies and markets are created. This is especially the case for organizations that can use or produce energy and energy products more efficiently.

EN16 allows for disclosure on total amount of greenhouse gas emissions, while EN18 discloses total reductions achieved and initiatives for reducing the amount of emissions the reporting organization produces.

2. Compilation

2.1 Report whether the organization's senior governance body considered climate change and the risks and opportunities it presents to the organization.

2.2 Report risks and/or opportunities posed by climate change that have potential financial implications for the organization, including:

- Risks due to physical changes associated with climate change (e.g., impacts of modified weather patterns and heat-related illness);
- Regulatory risks (e.g., the cost of activities and systems to comply with new regulations);
- Opportunities to provide new technologies, products, or services to address challenges related to climate change; and
- Potential competitive advantages created for the organization by regulatory or other technology changes linked to climate change.

2.3 Report whether management has quantitatively estimated the financial implications (e.g., cost of insurance and carbon credits) of climate change for the organization. Where possible, quantification would be beneficial. If quantified, disclose financial implications and the tools used to quantify.

3. Definitions

None.

4. Documentation

Records or minutes of the organization's governance bodies, including environmental committees may have the information required by this Indicator.

5. References

None.

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EC3 Coverage of the organization's defined benefit plan obligations.

1. Relevance

When an organization provides a retirement plan for its workforce, these benefits could become commitments that members of the schemes plan on for their long-term economic well-being. Defined benefits plans have potential implications for employers in terms of the obligations that need to be met. Other types of plans, like defined contributions, do not guarantee access to a retirement plan or the quality of benefits. The type of plan chosen has implications for both employees and employers. Conversely, a properly funded pension plan can help to attract and maintain a stable workforce and support long-term financial and strategic planning on the part of the employer.

2. Compilation

2.1 Identify whether the structure of retirement plans offered to employees are based on:

- Defined benefit plans; or
- Other types of benefits.

2.2 For defined benefit plans, identify whether the employer's obligations to pay pensions under the plan are to be met directly by the organization's general resources or through a fund held and maintained separately from the resources of the organization.

2.3 Where the plan's liabilities are met by the organization's general resources, report the estimated value of those liabilities.

2.4 Where a separate fund exists to pay the plan's pension liabilities, report:

- The extent to which the scheme's liabilities are estimated to be covered by the assets that have been set aside to meet them;
- The basis on which that estimate has been arrived at; and
- When that estimate was made.

2.5 Where a fund set up to pay the plan's pension liabilities is not fully covered, explain the strategy, if any, adopted by the employer to work towards full coverage, and the timescale, if any, by which the employer hopes to achieve full coverage.

2.6 Report the percentage of salary contributed by employee or employer.

2.7 Report the level of participation in retirement plans (e.g., participation in mandatory or voluntary schemes, regional or country-based schemes, or those with financial impact).

2.8 Different jurisdictions (e.g., countries) have varying interpretations and guidance regarding calculations used to determine plan coverage. Calculate in accordance with the regulations and methods for relevant jurisdictions, and report aggregated totals. Consolidation techniques should be the same as those applied in preparing the financial accounts of the organization. Note that benefit pension plans are part of the International Accounting Standard (IAS) 19, however, IAS 19 covers more issues.

3. Definitions

Full coverage

Plan assets that meet or exceed plan obligations.

4. Documentation

Finance or accounting departments should have the information required by this Indicator.

5. References

- International Accounting Standard (IAS) 19 on Employee Benefits .

EC4 Significant financial assistance received from government.

1. Relevance

This Indicator provides a measure of host governments' contributions to the reporting organization. The significant financial assistance received from a government, in comparison with taxes paid, can be useful for developing a balanced picture of the transactions between the reporting organization and government.

2. Compilation

2.1 Report significant estimated aggregate financial value on an accruals basis for the following:

- Tax relief/credits;
- Subsidies;
- Investment grants, research and development grants, and other relevant types of grants;
- Awards;
- Royalty holidays;
- Financial assistance from Export Credit Agencies (ECAs);
- Financial incentives; and
- Other financial benefits received or receivable from any government for any operation.

2.2 Report whether the government is present in the shareholding structure.

3. Definitions

Significant financial assistance

Significant direct or indirect financial benefits that do not represent a transaction of goods and services, but which are an incentive or compensation for actions taken, the cost of an asset, or expenses incurred. The provider of financial assistance does not expect a direct financial return from the assistance offered.

4. Documentation

Financial accountants include items of IAS 20 individually but these are not consolidated, as this Indicator requires.

5. References

- International Accounting Standard (IAS) 20 on Accounting for Government Grants and Disclosure of Government Assistance.

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EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.

1. Relevance

Economic well-being is one of the ways in which an organization invests in its employees. This Indicator helps demonstrate how an organization contributes to the economic well-being of employees in significant locations of operation. The Indicator also provides an indication of the competitiveness of the organization's wages, and information relevant for assessing the effect of wages on the local labor market. Offering wages above the minimum can be one factor in building strong community relations, employee loyalty, and strengthening an organization's social license to operate. This Indicator is most relevant for organizations in which a substantial portion of their workforce is compensated in a manner or scale that is closely linked to laws or regulations on minimum wage.

2. Compilation

2.1 Identify whether a significant proportion of the workforce is compensated based on wages subject to minimum wage rules.

2.2 In percentage terms, compare local minimum wage to the reporting organization's entry level wage at significant locations of operation.

2.3 Identify the variation in the ratios across significant locations of operation.

2.4 Report the distribution of the ratio of the entry level wage to the minimum wage.

2.5 Report the definition used for 'significant locations'.

2.6 For organizations that only offer salaried employment, the salary should be converted into an hourly estimate.

2.7 Indicate whether a local minimum wage is absent or variable in significant locations of operation. In circumstances in which different minimums could be used as a reference, explain which minimum wage is being used.

3. Definitions

Local minimum wage

Minimum wage refers to compensation per hour or other unit of time for employment allowed under law. Since some countries have numerous minimum wages (e.g., by state/province or by employment category) identify which minimum wage is being used.

Entry level wage

Entry level wage should be defined by the full-time wage offered to an employee in the lowest employment category. Intern or apprentice wages should not be considered.

4. Documentation

Potential sources of information include the payroll department of the organization or finance, treasury, or accounting departments. Pertinent legislation in each country/region of operation may also provide information for this Indicator.

5. References

None.

EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.

1. Relevance

The influence an organization can have on a local economy goes beyond direct jobs and payment of wages and taxes. By supporting local business in the supply chain, an organization can indirectly attract additional investment to the local economy.

Reporting organizations can gain or retain their 'social license to operate' in part by demonstrating positive local economic impacts. Local sourcing can be a strategy to help ensure supply, support a stable local economy, and can prove to be more efficient for remote settings. The proportion of local spending can also be an important factor in contributing to the local economy and maintaining community relations. However, the overall impact of local sourcing will also depend on the sustainability of the supplier over the long term.

2. Compilation

2.1 Report the organization's geographic definition of 'local'.

2.2 For the following calculations, note that percentages should be based on invoices or commitments made during the reporting period (i.e., accruals accounting).

2.3 Report whether the organization has a policy or common practices for preferring locally based suppliers either organization-wide or for specific locations.

2.4 If so, state the percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation (e.g., % of goods and supplies purchased locally). Local purchases can be made either from a budget managed at the location of operation or at the organization's headquarters.

2.5 Indicate the factors that influence supplier selection (e.g., costs, environmental and social performance) in addition to their geographic location.

3. Definitions

Locally-based suppliers

Providers of materials, products, and services that are based in the same geographic market as the reporting organization (i.e., no trans-national payments to the supplier are made). The geographic definition of 'local' may vary because, in some circumstances, cities, regions within a country, and even small countries could be reasonably viewed as 'local'.

4. Documentation

None.

5. References

None.

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EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.

1. Relevance

Selection of staff and senior management is based on a range of considerations. Ensuring that senior management is populated with local residents can benefit the local community and the organization's ability to understand local needs. Diversity within a management team and the inclusion of members from the local area can enhance human capital, the economic benefit to the local community, and the organization's ability to understand local needs.

2. Compilation

2.1 Report whether the organization has a global policy or common practices for granting preference to local residents when hiring in significant locations of operation.

2.2 If so, report the proportion of senior management in significant locations of operation from the local community. Use data on full-time employees to calculate this percentage.

2.3 Report the definition of 'senior management' used.

3. Definitions

Local
Local refers to individuals either born in or who have the legal right to reside indefinitely (e.g., naturalized citizens or permanent visa holders) in the same geographic market as the operation. Reporting organizations can choose their own definition of 'local' because, in some cases, cities, regions, and even small countries could be reasonably viewed as local. However, the definition should be clearly disclosed.

4. Documentation

Personnel or human resources departments should have the information required by this Indicator.

5. References

None.

EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.

1. Relevance

As well as generating and distributing economic value, an organization can affect an economy through its investments in infrastructure. The impacts of infrastructure investment can extend beyond the scope of the organization's own business operations and over a longer timescale. This might include transport links, utilities, community social facilities, sports centers, health and welfare centers, etc. Along with investment in its own operations, this is one measure of an organization's capital contribution to the economy.

2. Compilation

2.1 Explain the extent of development (e.g., size, cost, duration) of significant investments and support, and the current or expected impacts (positive or negative) on communities and local economies. Indicate whether these investments and services are commercial, in-kind, or pro bono engagement.

2.2 Report whether the organization conducted a community needs assessment to determine infrastructure and other services needed. If so, briefly explain the results of the assessment.

3. Definitions

Infrastructure

Facilities (e.g., water supply facility, road, school, or hospital) built primarily to provide a public service or good rather than a commercial purpose, and from which the organization does not seek to gain direct economic benefit.

Services supported

Providing a public benefit either through direct payment of operating costs or through staffing the facility/service with the reporting organization's own employees. Public benefit can also include public services.

4. Documentation

Finance, treasury, or accounting departments should have the information required by this Indicator.

5. References

None.

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EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts.

1. Relevance

Indirect economic impacts are an important part of an organization's economic influence in the context of sustainable development. Whereas direct economic impacts and market influence tend to focus on the immediate consequences of monetary flows to stakeholders, indirect economic impacts include the additional impacts generated as money circulates through the economy.

Direct economic impacts are often measured as the value of transactions between the reporting organization and its stakeholders, while indirect economic impacts are the results - sometimes non-monetary - of the transaction. Indirect impacts are an important aspect of an organization's role as a participant or agent in socio-economic change, particularly in developing economies. Indirect impacts are particularly important to assess and report in relation to local communities and regional economies.

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

2. Compilation

2.1 Explain work undertaken to understand the indirect economic impacts the organization has at the national, regional, or local level.

2.2 Report examples of indirect economic impacts, both positive and negative, such as:

- Changing the productivity of organizations, sectors, or the whole economy (e.g., through greater adoption or distribution of information technology);
- Economic development in areas of high poverty (e.g., number of dependents supported through income from one job);
- Economic impact of improving or deteriorating social or environmental conditions (e.g., changing job market in an area converted from small family farms to large plantations or the economic impacts of pollution);
- Availability of products and services for those on low incomes (e.g., preferential pricing of pharmaceuticals contributes to a healthier population that can participate more fully in the economy; pricing structures that exceed the economic capacity of those on low incomes);
- Enhancing skills and knowledge amongst a professional community or in a geographical region (e.g., need for a supplier base creates a magnet for companies with skilled workers, which in turn engenders new learning institutes);
- Jobs supported in the supply chain or distribution chain (e.g., assessing the impacts of growth or contraction of the organization on its suppliers)
- Stimulating, enabling, or limiting foreign direct investment (e.g., expansion or closure of an infra-structure service in a developing country can lead to increased or reduced foreign direct investment);
- Economic impact of change in location of operations or activities (e.g., outsourcing of jobs to an overseas location); and
- Economic impact of the use of products and services (e.g., linkage between economic growth patterns and use of particular products and services).

2.3 Report the significance of the impacts in the context of external benchmarks and stakeholder priorities, such as national and international standards, protocols, and policy agendas

3. Definitions

Indirect economic impact

An additional consequence of the direct impact of financial transactions and the flow of money between an organization and its stakeholders.

Economic impact

A change in the productive potential of the economy that can have an influence on a community's or stakeholder's well-being and longer-term prospects for development.

4. Documentation

None.

5. References

None.