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The Inequality—Financial Markets Nexus: Implications for Developing Metrics for Voluntary Disclosures

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This paper has been jointly prepared by research staff at the Southern Centre for Inequality Studies and Krutham, for the Taskforce on Inequality-related Financial Disclosures Interim Secretariat.

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Contextual Framing

In 2021, as part of the Interim Secretariat of the Taskforce on Inequality-related Financial Disclosures (TIFD) SCIS retained Krutham (formerly Intellidex) to jointly research and write this background paper to inform the co-creation process for the proposed taskforce. The paper was funded through the support of the Tipping Point Fund for Impact Investing.

At the time of writing, TIFD's Interim Secretariat comprised the following members: the Argentine Network for International Cooperation (RACI), Predistribution Initiative (PDI), Rights CoLab, Southern Centre for Inequality Studies (SCIS), and United Nations Development Programme (UNDP). In mid-2023, the TIFD project converged with the organisations that had been preparing a Taskforce on Social-related Financial Disclosures (TSFD) to form a single initiative dedicated to co-creating a Taskforce to address inequality and social-related risks, opportunities, impacts, and dependencies. As the propositions of TIFD have been integrated into the converged initiative, provisionally called, "Taskforce on Inequality and Social-related Financial Disclosures" (TISFD), we expect that these findings and discussion outlined in this paper can continue to usefully inform the direction and content of the initiative.

The views are not representative of the individual members of the Taskforce or the Taskforce itself. Rather, views in this paper are attributable specifically to the paper's authors.

Executive Summary

In 2021, an initiative was launched to develop a Taskforce on Inequality-related Financial Disclosures (TIFD), which would produce a systemic risk management framework to reduce inequality created and perpetuated by the private sector. The study of financial disclosure as a mechanism to fight inequality is a newer branch of inequality studies, and we are excited to contribute to the Taskforce's important work in building a fairer, more balanced and stable private sector that builds and preserves wealth for all.

The Taskforce framework

The framework to be developed by the proposed Taskforce will be designed for use by the private sector to measure and manage risks relating to inequality, and as a mechanism to promote transparency and accountability. The TIFD project's theory of change rests on the belief that the private sector (investors and companies) can be incentivised to reduce or eliminate practices that sustain or exacerbate social injustices, such as unfair pay practices to employees and suppliers, and tax avoidance, while encouraged to engage in activities that reduce inequality in their societies such as financial inclusion and access to markets for excluded populations.

Inequality is rising in many countries. It threatens social stability and the functioning of the financial markets. The Taskforce initiative is thus timely and important. In this paper, we discuss some of the challenges that the Taskforce might need to consider – in particular, as researchers based in South Africa and Brazil, we pay particular attention to how various dynamics might play out in the global South. We recognise the much higher burdens of unemployment, informality and working poverty in developing countries that may require specific forms of disclosure.

Framework considerations

This paper discusses conceptual and regional issues pertinent to studies of inequality. We explore why private sector actors are or should be interested in inequality. We highlight the characteristics of inequality that pose a risk to financial markets and financial returns and explore how financial actors have engaged with existing inequality-related disclosure metrics or regimes. We also analyse South Africa's black economic empowerment (BEE) framework. The possible effectiveness of a broader and more comprehensive inequality-related disclosure framework is discussed, and we argue that its contribution to tackling inequality will depend on the extent to which it avoids the pitfalls of existing ESG (environmental, social and governance) disclosure frameworks.

Framework limitations

ESG-related reporting depends on high-quality, nuanced data, which is significantly lacking in developing countries and has often been a reason for ESG-oriented investors not to invest in these regions at all. The Taskforce's voluntary disclosure framework is appealing in its ability to generate this information in collaboration with participating firms.

We further explore additional challenges of a profit-first ethos of single financial materiality which will not be easy or quick to shift. While the TIFD project's theory of change rests on the idea that it is in the financial interest of companies and investors to take systematic risk more seriously, it is also true that investors can sacrifice returns to combat inequality. A disclosure framework could enable some investors to achieve non-financial objectives through their investment strategies. It will be critical for the Taskforce to demonstrate how outcomes which are historically considered "non-financial" are financially material to investors' portfolios when considering inequality. To successfully tackle socio-economic inequality, the Taskforce must pay attention to the impacts and dependencies (as well as risks and opportunities) of both companies and investors in relation to people, wealth inequality, occupational segregation, horizontal

inequality, production and firm behaviour, access to and fair pricing of capital, market and investment structures, and the interactions between value chains, industries and sectors.

We argue that an inequality disclosure framework must be developed with sensitivity to the fact that inequality often manifests in very context-specific ways. Nonetheless, globally, within-country inequality is now a larger component of total inequality than between-country inequality, which suggests that there are common global dynamics driving inequality that require consideration as well.

Key questions of the paper

Can a disclosure framework reduce overall socio-economic inequality, or will it shift inequality somewhere else, for example, to other firms, other regions, or out of the firm and the private sector and into households? Are there material regional variations in the perceptions of the causes and effects of socio-economic inequality? What is the appropriate level of focus for an inequality disclosure framework?

Surplus generated by workers accrues to the owners of capital and, at the most basic level, is a significant contributor to socio-economic inequality. There is also inequality in income between workers within firms and sectors. Furthermore, inequality is produced by changes in asset prices, and by differences in sovereign investing, among other factors. The correct unit of analysis for the Taskforce deserves attention.

The authors of this paper underscore a point of the TIFD proposition that regional variations mean that a one-size-fits-all disclosure framework is unlikely to be appropriate. The distribution of informal employment needs to be considered, with 61% of all global employment being informal and as much as 90% of employment being informal in the global South. While disclosure frameworks matter for formal companies, what is often overlooked in the development of disclosure frameworks are the implications for the large number of people, particularly in the global South, who are informally employed or who work in informal enterprises. A second consideration is high unemployment given that the distribution of labour income is one of the great drivers of income inequality. Furthermore, the growth of precarious and non-standard employment, with the rise of platform work as an example, is an additional concern.

Socio-economic inequality

This paper considers the different mechanisms through which socio-economic inequality can affect financial markets and the private sector, as well as the incentives for participants interested in reducing socio-economic inequality. We examine existing disclosure approaches in relation to company and investor effects on society and the environment, and in relation to the management of ESG-related risks in the protection of financial value. We consider wage ratios as one of the most widely used inequality-related disclosure metrics in developed markets, and we analyse South Africa's BEE policies.

We consider three major channels of cause-effect between socio-economic inequality and the economy: inequality and economic or financial crisis; inequality and political instability; and inequality and social instability. We comment on the ways in which businesses and investors cause and perpetuate socio-economic inequality, and the risks that business poses to well-functioning and broadly egalitarian societies.

Inequality-related financial disclosures

Some of the existing frameworks are discussed as well as the degree to which inequality is currently addressed by these frameworks. We consider the possible effects of introducing inequality-related financial disclosures to the financial sector and also explore the observed effects of ESG-disclosure regimes. We discuss what this implies for the probability that an inequality-focused framework could work.

Investors treat ESG as a financial risk measurement framework. This reduces ESG concerns to the standard risk-and-return considerations of investors. However, ESG investing which ensures that no harm is done is an important consideration in the drive for more sustainable investments. Being clear about what constitutes an inequality-reducing investment while avoiding green- and social-washing is therefore

essential, particularly given the risks of greater uncertainty in a newer terrain of disclosures and in auditing those disclosures. Proof of financial viability or the wider uptake of a more complex financial modelling exercise that better incorporates the longer-term costs of sustained inequality is critical.

Conclusion

A risk management framework focused on inequality can be instrumental in developing a common language around concepts and measurement. This common language will make it easier for the broader public to hold both companies and investors accountable for harmful inequality-enhancing practices. It could also assist states and financial sector regulators to better regulate eventual disclosure requirements relating to inequality. Such a framework will assist companies and investors in understanding their impacts, dependencies and risks related to inequality and any threats to their financial viability. Institutional investors are expected to respond by shifting large volumes of capital to where it is less likely to exacerbate inequality, or even to where it will reverse it. This, in turn, could modify the signals to private companies and other investors regarding what constitutes viable economic activity.

Recommendations

An important priority for the Taskforce should be that the framework is interoperable with existing standard setters. One way to standardise could be by developing a scorecard. However, we caution against scoring and standardisation that could lead to the development of a compliance mindset that focuses on that which is easily reportable or is deemed most important to regulators, standard setters and providers of capital, rather than on real risks arising from or contributions to inequality. The Taskforce could also provide research and guidance to companies and investors on how to produce better data and make use of it.

When considering the dimensions along which contributions to inequality could be measured in a simple and comparable way, a double materiality approach could be appropriate. This approach is more concerned with contributions made by the private sector *to positive and negative social outcomes in society*, irrespective of whether those outcomes affect the value of the firm. This contrasts with "single financial materiality" approaches that only consider *risks to the financial value of an investee*, such as risks of bad publicity or social unrest that affects operations. By including a focus on positive and negative externalities caused by the private sector, this approach has the potential to motivate real change in the ways in which companies and investors operate, the outcomes of those changes, and for them to report on those changes. It encourages investors and businesses to produce accurate, contributions-based disclosures about the relationship of their operations, products, and services to inequality. According to the TIFD theory of change, the additional information and corresponding changes in behaviour will ultimately be in investors' best interests by improving society, the economy, and diversified markets, rather than narrowly focusing on the risks to individual investees directly.

Introduction

In 2021, an initiative was launched to develop a Taskforce on Inequality-related Financial Disclosures (TIFD), which would produce a systemic risk management framework focused on inequality that is created and perpetuated by the private sector. The aim was for this framework to be used by the private sector to measure and manage systematic risks relating to inequality, and as a mechanism to promote transparency and accountability. In this way, companies and investors, alongside various rights holders, civil society organisations, policy makers and regulators, would be empowered to evaluate the performance of the private sector in tackling inequality.[1]

As a collaboration comprising a broad range of stakeholders, the proposed Taskforce would co-create context-based guidelines, thresholds, targets and metrics for companies and investors to measure and manage their contributions to inequality, as well as the impact of inequality on private sector financial performance. The Taskforce would also create an explicit role for the most marginalised and vulnerable individuals, communities and their advocates as co-creators of the framework and in the governance of the framework.

TIFD's theory of change rests on the belief that the private sector (investors and companies) can be incentivised to reduce or eliminate practices that sustain or exacerbate social injustices, such as unfair pay practices to employees and suppliers, and tax avoidance. These practices typically do not hamper returns to company executives and shareholders in the short term – they are shifted to other actors in the economic system. But in the longer term, the accumulation of these externalities compounds inequalities and poses a threat to the smooth functioning of economies and financial markets. For example, declining social development indicators in areas such as education and health as median disposable incomes and tax revenues fall could lead to growing social conflict and political instability, both of which would be intensified by greater climate instability and its knock-on effects on livelihoods, assets and infrastructure. Inequality (and climate change) can thus be viewed as a systematic risk with the potential to undermine the overall performance of economies and financial markets, and thus sustained growth in revenues and profits.

Investors may have a greater incentive to act more urgently on systematic risks. In particular, large institutional investors, such as pension funds, sovereign wealth funds, insurance funds and foundations, hold investments in many different companies and sectors, and often in many different countries. As such, they cannot diversify out of systematic risks: externalities arising in one part of their portfolios will affect

[1] In early 2023, the initiative to launch TIFD converged with an initiative to launch a Taskforce on Social-related Financial Disclosures (TSFD). Because this paper was written as a commentary on TIFD prior to the announcement of the convergence, it refers to TIFD in the past tense, although proposed elements of TIFD are anticipated to be integrated into the converged taskforce.

the performance of other parts of their portfolios. These "universal owners" (Quigley, 2019; Urwin, 2011) thus have a clear financial incentive to minimise the negative externalities produced by their investees that produce economy- and society-wide losses.

In various dimensions, inequality is rising in many countries. Apart from any moral concerns about the divergence in opportunities and wellbeing that this represents, growing inequality also threatens social stability and the functioning of the financial markets. The Taskforce initiative is thus timely and important.

However, developing a framework to measure corporate and investor contributions to inequality must be sensitive to complexity: the concept of inequality is multidimensional, with differences in how it manifests in different contexts. It also plays out at different levels, for example, between countries, within countries, or within firms, and gains at one level may be offset by losses at another. The framework will also need to be perceived externally as legitimate by a critical mass of actors, and this will not be an easy task. We also know that previous disclosure frameworks that have been oriented at managing environmental, social and governance (ESG) risks have, at times, been unevenly implemented and supported by the private sector. Where they have been embraced by private sector actors, those designed to assess ESG risks that threaten shareholder value have been more widely used, as opposed to those that assess companies' effects on environmental and social impacts (notably, the European Financial Reporting Advisory Group (EFRAG) disclosure standards combine these two elements in promoting the concept of "double materiality"[2] (Adams et al., 2021)). There have been no known efforts to date to develop frameworks that assess impacts which can manifest as systematic financial risks to diversified investors. There has also been very limited development of frameworks to assess investors' own impacts, risks and dependencies relating to inequality (The Predistribution Initiative (PDI), Impact Frontiers, and The Investment Integration Project (TIIP) (2023 – work in progress).). In this paper, we discuss some of the challenges that the Taskforce might need to consider. Our commentary is based on 1) our review of evidence about existing disclosure frameworks; and 2) our anticipation of practical difficulties in understanding the possible effects of inequality-related disclosure requirements, that is, how disclosure regimes might influence the behaviour of private sector actors and inequality(ies) more broadly. As researchers based in South Africa and Brazil, we pay particular attention to how the preceding dynamics might play out in the global South. In particular, we recognise the much higher burdens of unemployment, informality and working poverty in developing countries that may require specific forms of disclosure.

We start by discussing conceptual and regional issues pertinent to studies of inequality. In particular, we consider the development of frameworks within a context of high informality and high unemployment –

[2] Single financial materiality concerns an exclusive or predominant focus on the risks posed by environmental and social challenges to company performance and company value. This contrasts with the idea of double materiality, which also focuses on the effects that companies have on social and planetary wellbeing.

a reality in some developing countries in the global South. We then explore why private sector actors – both businesses and investors – are or should be interested in inequality, and highlighting inequality's characteristics as a systematic risk to financial markets and financial returns. The section concludes with a discussion of how these actors have engaged with existing inequality-related disclosure metrics and/or regimes. The specific metric we discuss is the wage ratio, which is sometimes included in broader ESG disclosure frameworks. We also analyse South Africa's black economic empowerment (BEE) framework. BEE was designed as a tool for the private sector to contribute to correcting the legacies of apartheid that manifest in today's inequalities in the country.

These experiences lead into a discussion of the possible effectiveness of a broader and more comprehensive inequality-related disclosure framework. We argue that its contribution to tackling inequality will depend on the extent to which it avoids the pitfalls of existing ESG disclosure frameworks. Some of these pitfalls are design-based and could be overcome quite easily, for example, the Taskforce intends to adopt an additionality or contribution-focussed lens to reporting about the firm or investor's contributions to inequality, rather than using a standard risk management approach that would look at how operating in a highly unequal society would present a risk to business as usual.

But other challenges will require more complex and potentially costly interventions. For example, the dearth of high-quality, nuanced data in developing countries, on which ESG-related reporting depends, has often been a reason for ESG-oriented investors not to invest in these regions at all. The appeal of the Taskforce's voluntary disclosure framework is its ability to generate this information in collaboration with participating firms.

Another problem is that the profit-first ethos of single financial materiality, which excludes actions to transform the conditions that give rise to social injustice[3] and that governs most investor and corporate decision making, will not be easy or quick to shift. It will require ongoing engagement across various stakeholders in government, civil society and the private sector to motivate the adoption of a systematic view of risk by a critical mass of actors. While the Taskforce's theory of change is premised on the idea that it is in the financial interest of companies and investors to take systematic risk more seriously, single financial materiality prevails due to a combination of factors. These include short-term targets set for asset managers, uncertainty about what exactly systematic risk entails and how to operationalise the management of it, and sometimes fewer internal resources being committed to ESG and governance issues (Quigley, 2019; Urwin, 2011).

[3] Kumhof and Winant (2015) describe redistributive policies as those "… that prevent excessive household indebtedness and reduce crisis-risk *ex-ante*" as compared to "*ex-post* policies such as bailouts or debt restructuring". We apply a similar meaning to transformative and redistributive policies in the rest of this paper.

While inequality presents a threat to financial returns, it is also true that investors can sacrifice returns to combat inequality, for example, through impact investments that prioritise inequality effects directly above returns. Some investors may aim to achieve such non-financial objectives through their investment strategies, and a disclosure framework may enable them. There is also, however, a coordination or free riding risk that can emerge from the fact that inequality is a macro or systemic feature. Investors who hold diversified portfolios are clearly exposed to it, while individual investors can tactically exploit investment opportunities that contribute to inequality but maximise returns. This is similar to the coordination problems that emerge in tackling climate change – while overall portfolios are healthier in a world that sees significant capital invested in transitioning energy systems, short-term tactical investments in fossil fuel may generate higher returns. Much like debate over ESG, the notion of a returns sacrifice for positive non-financial outcomes is highly controversial, especially when investment managers have a fiduciary responsibility for the financial wellbeing of their clients and not for social features of wider society. It will be critical for the Taskforce to demonstrate how outcomes which are historically considered "non-financial" related to inequality are financially material to investors' portfolios, as its theory of change states.

While the challenges are substantial, we are excited to contribute to the Taskforce's important work. We invite readers to get involved as well by providing their own ideas about how to build a fairer, more balanced and stable private sector that builds and preserves wealth for all.

Inequality in the global South

The Taskforce aims to address socio-economic inequality in all its dimensions. What does this mean? While inequality is most thought about in terms of income inequality and most often reflected in the Gini coefficient of income inequality, scholars have pointed to five other important dimensions of inequality, both economic and social (Francis and Webster, 2019; Webster et al., 2020):

- wealth inequality (Chatterjee et al., 2020; Orthofer, 2016);
- occupational segregation, or inequalities in the types of work people do (Espi et al., 2019);
- measures of horizontal inequality, such as race and gender pay gaps (Brynin and Perales, 2015; Espi et al., 2019; Gradín, 2017; Helm, 2014; Parashar, 2014);
- a focus on production and firm behaviour, particularly the income earned from differences in the ownership of various factors of production and the distribution of privately held wealth (Goga, 2022);
- how firms relate to value chains, industries and sectors, and how these relationships or interactions are distributed around the world.

To successfully tackle socio-economic inequality, the Taskforce must pay attention to each of these components.

Additionally, we argue that an inequality disclosure framework must be developed with sensitivity to the fact that while inequality is a global problem, its causes and effects are not universal (Webster et al., 2020). For instance, income inequality between countries has fallen in some instances, while in many cases, intra-country inequalities have risen. Globally, within-country inequality is now a larger component of total inequality than between-country inequality (Chancel et al., 2022), suggesting that global dynamics are major driving factors of inequality, for instance, as globalisation and free movement of capital has accelerated.

While poverty and inequality are closely interlinked, scholarship today tends to focus more on inequality (Francis and Webster, 2019; Soudien et al., 2019). This shift was motivated by the perceived success in the reduction in poverty, and the near simultaneous appearance of widening inequality. The true picture is, of course, mixed, with poverty also rising in many parts of the world, including sub-Saharan Africa, the Middle East and in some European countries (Development Initiatives, 2019). The study of financial disclosure as a mechanism to fight inequality is a newer branch of inequality studies (see, for example, Adeleke, 2019; Cort et al., 2022; Litwin, 2023).

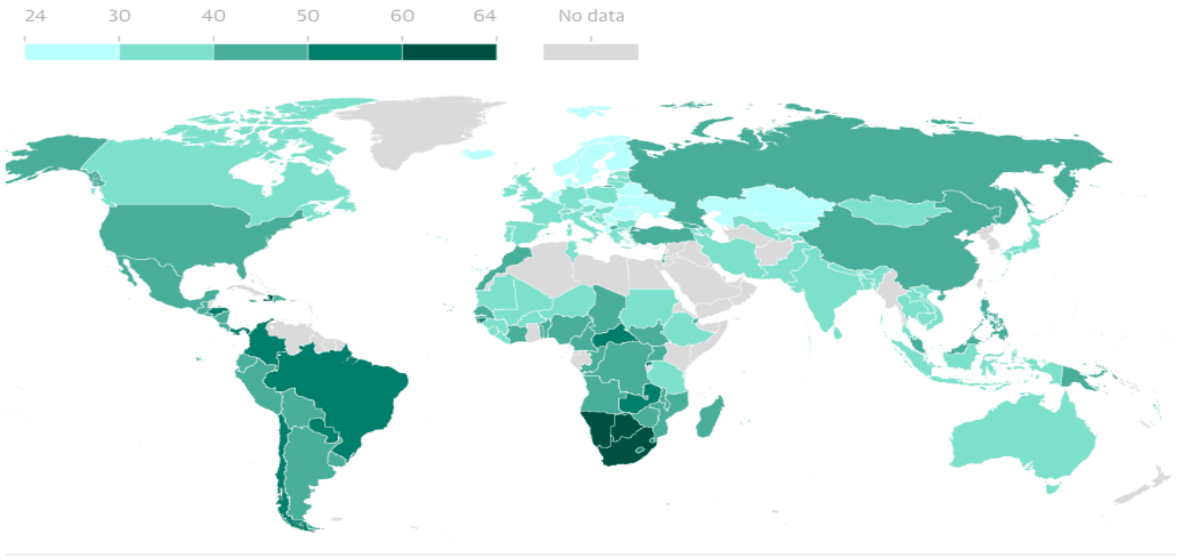
One of the key questions the Taskforce will need to grapple with are the broader effects of instituting a disclosure framework to reduce inequality, both within firms and across the private sector more broadly. Can a disclosure framework reduce overall socio-economic inequality, or will it shift inequality somewhere else, for example, to other firms, other regions, or out of the firm and the private sector and into households? Unlike some other products of capitalist activity, the production of inequality is both an externality and may be a central feature of the functioning of capitalism (Gallas, 2016). In a basic sense, surplus is generated by workers, and accrues to the owners of capital. The magnitude of this transfer of surplus has been, at the most basic level, a significant contributor to socio-economic inequality, because the returns to the owners of capital have been higher than the returns to labour (Piketty, 2014). This is not, of course, the only dynamic that produces inequality. There is also inequality in income between workers within firms and sectors: both vertically, between, for example, executives and unskilled workers, and horizontally, between those who do the same work. Inequality is also produced by changes in asset prices, and by differences in sovereign investing, among other factors.

Do regional variations matter?

There is now a shared assumption that socio-economic inequality is a global problem. But this is not to suggest that its causes and effects are universal. The precise nature of the production and reproduction of inequality, and the magnitude of its effects, varies around the world, which raises the important question about the correct unit of analysis for the Taskforce. Should the focus be global, or delineated into the global North and South? Or should there be a closer focus on continents, regions or even countries? Or, instead, should the focus be on industries and value chains?

There are important differences in socio-economic inequality between the global North and the global South (Gallas, 2016; Webster et al., 2020), one of the most important of which is its magnitude and growth. Many countries in the global South, particularly those in Southern Africa and Latin America, have endured high levels of socio-economic inequality for decades. South Africa, for example, had the world's highest income inequality in the late 1980s (Wilson and Ramphele, 1994) and, as recently as 2018, maintained the unenviable spot as the world's most unequal country (Sulla and Zikhali, 2018). In contrast, countries such as the United Kingdom and the United States have seen rapid growth in inequality in recent decades, albeit from a lower base. The picture is complicated, however, and does not map neatly onto a global North/South divide. China and India, for example, are global South countries which have seen rapid increases in income and wealth inequality in recent years, but in the context of a dramatic reduction in poverty. Furthermore, employment in the global South is characterised by high levels of informality and growing precarity.

Figure 1: Income inequality around the world



Source: Graphic from the Guardian, based on World Bank data (2017)

There are other regional variations that need to be considered in the development of the Taskforce, which matter in addressing socio-economic inequality. These include differences in cultural norms (for example, caste and gender), how racism manifests and is experienced, the role of government (such as the provision of social goods or the regulatory frameworks governing the private sector), global interest rates and monetary policy dynamics and, of course, the historical antecedents of the current distribution of wealth, income and opportunity in a country.

The marked regional variations in the character and dynamics of inequality raise the question: What is the appropriate level of focus for an inequality disclosure framework? There are advantages and disadvantages to the various approaches. A global framework would be comparable and simple to implement and

monitor, but without more granular elements could miss many important regional variations. Conversely, a set of regional frameworks would be more responsive to local dynamics, but would risk being fragmented, complicated and unwieldy. A global approach which is sensitive to regional variations is a key tenet underpinning the Taskforce's development of metrics and targets, coupled with the importance of a co-creation process that includes diverse actors from around the world representing these different groupings. This will ensure that a variety of voices shape both the structure and content of the Taskforce and can ensure that the commitment to context-based metrics and targets is realised.

Characteristics of the global South

The Taskforce and the authors of this paper believe that regional variations mean that a one-size-fits-all disclosure framework is unlikely to be appropriate. In this section, we therefore examine which regional divisions and issues matter for a disclosure framework. Our preliminary analysis suggests several important considerations. The first is the distribution of informal employment. While 61% of all employment globally is informal, in many countries in the global South, as much as 90% of employment is informal (International Labour Organisation, 2018). This means that the majority of the world's workers, and the vast majority in the global South, are not formally employed in firms, which has implications for the effectiveness of a disclosure framework on inequality. Many workers are either employed informally within formal firms, or work in the informal sector entirely. Secondly, many countries in the global South, with South Africa being the most striking example, have levels of unemployment far in excess of those in the developed world. Inequality in these countries is driven primarily by many zero-wage earners, in addition to inequality in wages between employed people (Webster and Francis, 2019). This has important implications for how we think about the design and implementation of disclosure frameworks.

What are the implications of high levels of informal employment for the Taskforce?

Disclosure frameworks matter for formal companies. They are subject to formal disclosure requirements through companies' legislation and stock exchange listing rules that do not apply to informal firms and sole traders. What is often overlooked in the development of disclosure frameworks, however, are the implications for the large number of people, particularly in the global South, who are informally employed or who work in informal enterprises.

It is important to first examine what is meant by the term "informality." The term "informal sector" was coined by Keith Hart, arising from his work in Ghana in the 1970s (Hart, 1973). The concept has evolved to suggest a focus on the nature and location of the economic activity itself, rather than the employment relationship, which is covered by the concepts of informality and informal work more directly (Rogan and Skinner, 2018). Informal employment refers to the nature of the work and the employment relationship,

and not the location of the economic activity itself. Informal employment is therefore possible in both the formal and informal sector.

The term "informal economy" is the broadest of these categories and captures both the informal sector itself and informal economic activity – such as informal employment – within the formal sector. There is extensive conceptual and methodological research dedicated to measuring and understanding informal work, broadly defined (Portes, 1983). Given that most workers in the global South are informally employed, it is critical that frameworks such as the Taskforce are designed to include these workers. A developed framework that is blind to informality could well push more workers from formal employment into informal work in either the formal or informal sector. For example, a framework that targets pay gaps but does not consider a firm's supply chain could lead to the outsourcing of low-paid workers to reduce a firm's pay gap. This is exemplified in the apparel sector where illegal subcontracting by suppliers arises from brand purchasing practices that wish to keep final prices low while shifting the risk and cost elsewhere in the value chain. Outsourcing can, in turn, push inequality into less visible areas of the economy, including the informal sector, while at the same time reducing pay inequality within a firm. These implications are discussed in more detail in the second half of this paper. This could exacerbate differences between the formal and informal sectors, leading to a formal sector with lower wage inequality, and an informal sector with both high inequality between workers in the informal sector, and high inequality between formal and informal workers.

What are the implications of high unemployment for the Taskforce?

A second concern is high unemployment. In many developed countries, such as the United States and much of Europe, unemployment rates have historically remained in the low single digits. At the time of writing this paper, they had been at their lowest levels for several decades. In such cases, it makes sense to conceptualise a working-age population as largely working in formal jobs with relatively few people unable to find work. But there are several developing countries, South Africa being the most striking example, where unemployment rates are extremely high. In South Africa, the narrow unemployment rate[4] is greater than 32% (Statistics South Africa, 2023) and, in fact, less than half of all working age adults are employed at all. The distribution of labour income is one of the great drivers of income inequality and a host of related inequalities in the country (Leibbrandt et al., 2012; Leibbrandt and Pabon, 2021). For example, this unemployment is not distributed evenly across the country: women and people of colour have significantly

[4] In the South African context, the narrow definition of unemployment is the official unemployment rate. This is calculated by expressing the share of unemployed individuals as a proportion of total employed workers. Broad or expanded unemployment includes the share of "discouraged" workers and will therefore be higher than the official measure.

higher unemployment rates than other demographic groups (Posel and Rogan, 2009; Heintz and Naidoo, 2021).

How does a disclosure framework address the private sector effects on socio-economic inequality, as well as the impact of socio-economic inequality on private sector performance, in the context of such high unemployment? The co-creation process of the Taskforce will need to investigate where and how the private sector contributes to high unemployment as distinct from the macro-economic causes of unemployment. A key concern with implications for the saliency for the Taskforce project is that if unemployment is a key driver of socio-economic inequality, a disclosure framework directed at formal companies and investors considering only the features of those employed in formal sector companies, is unlikely to have a significant impact on reducing national inequality.

A related concern is the growth of precarious and non-standard employment, with the rise of platform work – also referred to as "gig work" – being the most striking example. The platform economy can be classified into two categories – online web-based platform work which is performed remotely, and location-based platform work which is carried out in a specified area – both of which promise freedom and flexibility. However, the platform economy deepens the casualisation of labour and shifts risks such as occupational health and safety onto workers. Furthermore, companies that rely on gig workers typically misclassify them as independent contractors, leaving them without access to paid leave, benefits, social security or any occupational and health insurance. Yet, it is striking how economically dependent they are on the platform over which they have little to no control (Castel-Branco, 2021). How then should disclosure frameworks address non-standard employment relationships, where, in the example of Uber, drivers are treated as business partners rather than employees (Webster and Masikane, 2020)? What are the implications of this for a disclosure framework? This issue has been acknowledged, for example, by the Sustainability Accounting Standards Board (SASB), presented in their report on human capital management framework (SASB, 2020).

One of the key research questions with which the Taskforce will need to engage is if there are material regional variations in the perceptions of the causes and effects of socio-economic inequality. This should emerge in the engagements to co-create the Taskforce. There is growing literature on the differences in perceptions and other aspects of inequality around the world. Differences exist as to the nature and magnitude of inequality, the causes of inequality and the extent of the problem it poses. A global framework to address inequality would need to be appraised of these regional variations. It will need to decide what regional variations are material for the framework, and the extent to which these can be addressed by the proposed framework.

Inequality and the financial markets

In this section, we begin by considering the different mechanisms through which socio-economic inequality can affect financial markets and the private sector and, therefore, the incentives its participants might face to be interested in reducing socio-economic inequality. We then examine existing disclosure approaches in relation to company and investor effects on society and the environment, and in relation to the management of ESG-related risks in the protection of financial value. We consider one of the most widely used inequality-related disclosure metrics in developed markets – wage ratios – which shed light on pay gaps of different groups of workers (men and women, or top-paid and lowest-paid workers). We then analyse South Africa's Black Economic Empowerment policies, which represent a comprehensive effort to deliver improved racial and gender equality in South Africa through voluntary corporate disclosures on a range of dimensions, such as company ownership, management and employment patterns. We conclude with some thoughts on what an appropriate approach to inequality disclosure might consist of from a global South perspective.

Risks of inequality to financial markets

We consider three major channels of cause-effect between socio-economic inequality and the economy and, in turn, the financial markets: inequality and economic or financial crisis; inequality and political instability; and inequality and social instability.

The relationship between socio-economic inequality and the economy is the subject of significant debate, because establishing causation is difficult. The first area of contention is the relationship between inequality and economic crises, which we might call the *economic crisis channel* to focus on the causal link between inequality and economic crisis. Several studies show a correlation between inequality and macroeconomic volatility. Hausmann and Gavin (1996) show that the more volatile countries of Latin America are also much more unequal. Breen and García-Peñalosa (2005) investigate this relationship and find that if a country like Chile had the same level of macroeconomic volatility as Sweden or Norway, its Gini coefficient would fall by six percentage points. This relationship is only one of correlation, though it corroborates the contention that high inequality and macroeconomic instability are related. Some authors (for example, Stiglitz, 2012) argue that there is causality and that it works both ways. High inequality makes economies especially vulnerable to economic shocks, as a large portion of the population lack resilience to absorb a shock. In turn, high inequality may lead to greater leverage, over-extension of credit and higher risk in mortgage lending, increasing vulnerability to economic shocks (Rajan, 2015). At the same time, recent work in the United States shows that increasing indebtedness among average households and in government has taken place alongside the development of a "savings glut" among the rich. This increasing wealth at the top of the distribution (including financial assets that amount to direct claims on government

and household debt) has not been accompanied by greater rates of investment that might spur economic growth (Mian et al., 2020). Later work also identifies the development of a savings glut among the rich and dissaving among the rest of the population in the EU and China over the last forty years (Bauluz et al., 2022).

High inequality also increases the probability of economic shocks because it redistributes income from those with a high propensity to consume to those with a low propensity to consume, reducing aggregate demand and increasing financial asset volatility. Aggregate demand is then stimulated by low interest rates and lax regulation, which creates bubbles that trigger further crises (Mian et al, 2020; Stiglitz, 2012; Summers, 2015). In this economic analysis, high inequality may both cause and exacerbate economic crises, thus contributing to macroeconomic volatility. The literature shows that it is particularly the global South that is vulnerable to the economic crisis channel, although not exclusively given the Global Financial Crisis that exhibits many of the posited relationships between inequality and crisis.

The second body of literature focuses on the dynamic between economic inequality and political conflict, which we might call the *political instability channel*. This can indirectly feed into macroeconomic instability if conflict leads to policy uncertainty and civil unrest. For example, economic inequality has been cited as a cause in several revolutions, including the Russian, French and Iranian Revolutions (Lichbach, 1989) and in the rise of fascist and populist regimes in historical (for example, Germany and Italy) and contemporary times (Brazil, United States). Given that asset values reflect an existing distribution of resources, and conflict may arise around distributional issues, conflict is a threat to asset values. The difficulty with this literature is that it is not clear to what extent economic inequality is a cause of conflict. While inequality can be identified as a cause in several conflicts, it does not follow that inequality is a sufficient cause of conflict, even if it may be necessary. For example, it is not clear that political conflict will necessarily arise in situations of extreme inequality, where the elites have the resources to suppress dissent and the poor are unable to mount any form of effective opposition (Moore, 1978).

Another argument often attributed to Samuel Johnson (cited in Lichbach, 1989) is that some level of inequality is necessary because under perfect equality, everyone is unhappy due to a perceived lack of opportunity to distinguish themselves. Therefore, unrest may follow. These two arguments suggest an inverse U-shaped probability function for inequality-related conflict, with probabilities highest at mid-levels of inequality. Such arguments also underscore the need for continued research to understand the "tipping point(s)" at which inequality becomes a systematic economic risk, and to calibrate the Taskforce's efforts around avoiding these tipping points (the Taskforce itself acknowledges that the achievement of perfect economic equality is not part of its aims). A related point is that high inequality may damage trust and social cohesion, which makes contracting and performance monitoring expensive, leading to higher transaction costs and reduced economic activity (Dabla-Norris et al., 2015). From a global South

perspective, these arguments support the contention that the moderate to high levels of inequality in emerging markets are a risk to political stability and therefore to asset values. In the case of fragile states where elites can suppress dissent because too many people are destitute and cannot organise, inequality may not contribute to asset price volatility. Such states tend to be less developed and do not have liquid public capital markets and, therefore, portfolio investors.

Finally, inequality can lead to social instability – manifested by increasing incidences of protest and riot, for example – which threatens the smooth functioning of economies and financial markets. Countries with weaker democratic institutions – disproportionately located in the global South – are less able to cushion their financial markets against these shocks and to counter negative investor sentiment (Barrett & Chen, 2021). Highly unequal countries also tend to have a high incidence of crime, reflecting unequal access to opportunities in the formal economy and resentment among the excluded. Businesses operating in high-inequality countries have been shown empirically to be more likely to be targets of crime (Bhorat and Naidoo, 2017; Krammer et al., 2023), implying greater expenditure on safety measures to protect staff and business assets. Inequality can also influence business performance through its negative impact on employees: underpaid workers who cannot afford investments in healthcare, education, fixed assets and other wellbeing-promoting areas tend to be less productive and to be less motivated (Cort et al., 2022). Moreover, inequality concentrates political and decision-making power in the hands of the few, and this sustains inequalities in power, status and wealth, and distorts the democratic process (Piketty, 2014; Stiglitz, 2015). These distortions can limit expenditure on public goods, such as health and education, and targets the non-rich, which, in turn, leads to suboptimal use of human resources, and reduction in the pool of potential talent available for innovation (and indeed the pool of people able to afford the products of innovation) (Zweimüller, 2000). This is one of the key drivers of technological change in classical models of economic growth[5]. All this can reduce the "investability" of highly unequal countries.

The economic crises, political instability and social instability channels show that inequality implies a cost for investors in emerging markets, as well as for the investee businesses operating in these markets. These actors, therefore, would benefit from reduced inequality, at least at the level of inequality typically found in investable emerging markets. Improved inequality disclosures from companies could enable asset selection that took inequality into consideration. Issuers of investment instruments could then include inequality data criteria in their reporting and further facilitate this selection.

[5] The empirical literature is, however, far from reaching consensus on the actual relationship between inequality and economic growth. Banerjee and Duflo (2003) note the lack of reliable and consistent data, measurement issues regarding income, gross domestic product (GDP) and unobservable factors correlated with inequality and growth, as well as problems of identification (the ability to unambiguously determine the pattern of forces that generates observed data) as contributing to the wealth of contradictory evidence (they themselves find no clear relationship between inequality and economic growth). However, Cort et al. (2022) cite more recent studies demonstrating greater empirical support for a negative relationship between GDP growth and inequality, through channels including the lack of access of poor people to credit, underdevelopment of human capital, and limited domestic consumption and, thus, extent of product markets.

How do companies and investors influence inequality?

Having discussed the risks of inequality *to* business and investment, we now address some of the ways in which business and investors cause and perpetuate socio-economic inequality; in other words, the risks that business poses to well-functioning and broadly egalitarian societies.

Modern socio-economic inequality is not a state of being but is continually produced and reproduced in the modern economy, through the process of capitalist activity (Gallas, 2016). Firms produce inequality through the movement of surplus between employees and shareholders; between employees themselves; and between consumers, employers, and lenders and investors (Adam Cobb, 2016), as well as the non-financial impact they have on their communities and environment (we expand on this discussion in the next section). Conversely, the fiscal system (comprising both tax and government spending) is often designed to reduce inequality (directly and indirectly) through transfers from those with higher wealth and income to those with lower wealth and income. Policies and frameworks, such as that being developed by the Taskforce, which aim to alter the distribution of a firm's surplus, as well as surplus across markets, will affect society more broadly through both the first and second order effects.[6] Relatedly, there are a few levels at which we can consider the production and reproduction of inequality: firm, sector, economy-wide or full value chain, and investors. We also need to consider the externalities of private sector activity, such as the impact of land acquisition by extractive industries and infrastructure, and systemic externalities which impact on, for example, the tax system, the competitive landscape for smaller firms, or the environment.

Companies also contribute to inequality – both within and outside the company in question – through their practices in relation to compensation: whether this is compensation of employees, suppliers or outsourced workers. Later we discuss compensation-related disclosures in more detail. Investors' (and in particular, institutional investors') contributions to inequality merit special attention. The Predistribution Initiative (PDI), Impact Frontiers, and The Investment Integration Project (TIIP) (2023 work in progress) are developing typologies of the major channels of influence. Based on draft materials released for consultation to date, we summarise the four channels below (noting that this typology is still under development) and provide examples where appropriate.

The first channel is capital allocation. Investors can positively influence inequality-related social outcomes (such as better working conditions, employment of people from vulnerable groups, participation of workers/ordinary people in governance and/or corporate ownership) by investing in companies that act responsibly along these dimensions, and divesting from those that don't. They can also provide capital on

[6] Our analysis notes also that the system includes some surplus that is external to the firm, such as real estate appreciation and sovereign debt. Additionally, a significant share of inequality comes from inequality between companies and the flow of capital to certain firms over others.

better terms to these investees to what they might be able to find in the financial markets; capital with which these (social) enterprises can produce positive, inequality-reducing social effects. This channel of contribution could extend to individual investors and consumers: anti-apartheid investor and consumer campaigns, for example, played a role in reducing the flow of capital to South African companies operating in an environment of legalised racial discrimination, in turn contributing to the dismantling of this unequal system. Through this channel, investors can also provide financing to the informal economy.

A growing concern for the global South is the impact of ESG disclosure frameworks and investment practices on capital flows to the continent. Several authors have noted the "anti-poor" bias in ESG frameworks, which tend to rate wealthy countries as better ESG performers, using metrics such as corruption perceptions, rule of law, labour rights, media freedom and inequality itself (Gratcheva, et al., 2021). Investors who implement their ESG strategies by down-weighting or excluding countries that perform poorly in their ESG assessments tend to hold portfolios that are biased towards wealthy countries. This can exacerbate inequality, even while inequality is a measure used in the ESG assessment. The Taskforce will need to consider the risk of disclosures that lead investors to exclude countries, or issuers within countries, from portfolios, which thereby exacerbate inequality.

To some extent, concerns over global North social priorities are related to social phenomena in the global South. Torellii (2017) argues that climate change in sub-Saharan Africa (and to a lesser extent in Syria) is the leading cause of migration from these regions to Europe. This is because the majority of these populations are dependent on agriculture and natural resources (with declining viability of associated livelihoods due to climate change), while having poor social and physical infrastructure to deal with extreme weather events, such as floods and droughts, and high poverty rates. Yet, climate change as a major driver of migration to the global North, as well as the effects of these migration patterns on global North economies and markets, remains poorly understood and under-acknowledged. There are increasingly visible efforts from countries in the global North to provide finance to the global South to tackle climate change, but those remain insufficient. In Pakistan, for example, where floods in 2022 led to hundreds of billions of dollars' worth of damage and the displacement of millions of people, relief and aid efforts have been far below what is required (Bhutto, 2022). Similarly, the $8.5bn pledged to South Africa for its Just Energy Transition Investment Plan to support decarbonisation efforts and the social expenditures required to prevent the tens of thousands of workers and families dependent on coal mining value chains from losing their livelihoods, is an unspecified mix of grants, commercial loans and concessionary loans. We do not yet know the split of this funding between commercial and concessionary terms. The commercial elements may dominate the concessionary elements and contribute to increasing debt and expected returns, reducing the state's ability to meet expenditure required to support the growth of the green economy and the social fallout from climate disasters (Hausmann, 2023).

The preceding point about the inconsistencies in climate-related finance relates to the second channel of influence: the manner in which investors structure investment vehicles can have significant negative effects. For instance, the venture capital model may not be the most appropriate form of financing for some start-ups in Africa. The model demands rapid growth, which may not be feasible in less liquid and developed markets without compromising sustainability and equity. For instance, to grow quickly, several residential solar start-ups backed by venture capital incentivised their salespeople to extend financing to households with poor underwriting standards, which resulted in predatory lending and negative impacts for households who were unable to repay (Predistribution Initiative, 2023). Another example is the unwillingness among private investors to restructure onerous sovereign debt, contributing to the tightness of fiscal space and, thus, making socially just outcomes harder to achieve. A recent example relates to the Debt Service Suspension Initiative (DSSI), initiated by the G20 at the request of the World Bank and IMF. Under the initiative, bilateral creditors suspended debt repayments on a portion of total external debt among a group of low- and lower-middle income countries to enable extraordinary social expenditures during the height of the Covid-19 pandemic. Despite the extension of the invitation to private creditors to participate alongside bilateral creditors, only one did so (World Bank, 2022). The UNDP recently identified 72 countries as vulnerable to either default or sustained suboptimal social and economic development outcomes due to their high burdens of debt. Over half of total debt service payments on external public debt at risk for 2021-2025 and owed by this group of countries is due to private creditors (UNDP, 2022). This debt burden is exacerbated by illicit financial flows (IFFs) out of the global South, often hosted by tax havens in the global North. The African Union (AU) estimates that Africa has lost over $1trn to IFFs over 50 years – an amount equal to all official development assistance (ODA) received over the same period (Adeleke, 2019). In Zimbabwe, for example, the African Development Bank and Global Financial Integrity estimated in 2013 that the country lost $12bn to IFFs between 2000 and 2009. (African Development Bank & Global Financial Integrity, 2013). The concept of IFFs differs from capital flight, which represents divestment due to push factors such as poor policymaking and social or political instability. South Africa – relatively stable during the same period – is estimated by the same report to have lost around $170 billion to IFFs.

The UN considers IFFs to be the leading cause of inequality in resource-rich states. The extractive sector, in particular, generates high revenues which could be used by the state to fund development and address inequality, but this depends on adequate regulation and oversight of relationships between state functionaries and foreign investors that could otherwise be corrupt and clientelistic. In the absence of this, debt burdens accumulate, and dependency on aid or a professed inability to fund social expenditures continues (Adeleke, 2019).

Through tax avoidance practices, such as transfer pricing, IFFs often result in the erosion of the tax base and, consequently, falling government revenues which reduce the government's inability to fund social

protection programmes and other pro-development outcomes. This impact is unevenly borne by developing countries, which exacerbates the inequality between developed and developing economies. The vicious cycle worsens within the context of rising political corruption as governments are forced to increase borrowing to manage growing state debt. Adeleke (2019) argues for open contracting, as well as public disclosures of payments received by governments and made by companies, that shows payments, obligations, profits and incentives in different countries and for different projects. A noteworthy answer to this call has been initiated by the OECD (Organization for Economic Cooperation and Development) and the global tax justice movement, as it spearheads the implementation of 15 action points to tackle tax avoidance and ensure greater transparency in the taxation of corporate income (OECD, 2021).

The other channels of influence of investors on inequality are via engagement with investees and internal firm management. In terms of engagement with investees, by dint of the power represented by their financial stake in the investee, investors could motivate investees to adopt different practices, for example, in relation to fair pay, or building good relationships with suppliers. In terms of internal firm management, investor firms could improve their own strategy and governance relating to diversity, equity and inclusion (DEI), fair pay, skills development, moderating excessive fund manager compensation, responsible tax, political responsibility (such as lobbying and political spend), and adopting interpretations of fiduciary duty, financial analysis methods and incentive structures that account for systematic risks such as inequality and climate change. These practices could also be extended to the firm's supply chains (Bauer et al., 2022).

It is worth noting that the development of financial services in the economy as a whole can influence socio-economic inequality. Financial services development can, theoretically, reduce inequality if these developments expand or restrict access to finance among poorer households (for education, healthcare and income smoothing) and entrepreneurs who tend to be excluded from formal lending practices. As entrepreneurs gain access to finance, they expand employment. In developing countries, employment of especially lower-skilled labour (which is more abundant than skilled labour) is often concentrated in small businesses, which can have an inequality-reducing effect. But inequality could also be intensified if new or better services only reach those who already have access to services, or if it stimulates skilled labour-intensive economic growth, or if the terms of the financing are predatory. The evidence from around the world suggests that the more positive effects predominate (Demirgüç-Kunt & Levine, 2009). This argument could be extended to non-financial activities. For example, companies that are able to provide low-cost products and services to underserved markets – especially in developing countries – could have meaningful inequality-reducing impacts, for example, expanding access to commodities such as electricity, water, nutritious food, quality education, housing and waste management services.

Disclosure measures regarding inequality

In the preceding sections we discussed how socio-economic inequality is perpetuated by investors and companies. These are the major influences:

- compensation of labour and other human resourcing practices, such as conditions of contracting (formal vs informal employment and outsourcing vs insourcing), employment of low-skilled people in a context of high unemployment, inclusion of historically marginalised groups in recruiting practices;
- offer of products and services, including financial services, to underserved markets;
- the pricing and quality of products and services;
- tax practices (including illicit financial flows);
- forms of political influence, such as lobbying and political spend;
- influence on communities in terms of land and resource use and in changing the dynamics of local economies;
- choices about where to invest;
- the structure and terms of investments;
- the consideration of positive and negative externalities in investment decision-making via accounting for social and human capital.

Our discussion is based on academic studies regarding the way in which these effects unfold in the aggregate. More information about how discrete private sector entities influence these dynamics and practices would certainly be assisted by company and investor-level public disclosures. Such disclosures remain underdeveloped from the perspective of socio-economic inequality, with the exception, perhaps, of compensation practices, which are discussed later in this paper. In this section, we discuss some of the existing frameworks and the degree to which inequality is currently addressed by them.

The development of disclosure frameworks

In most jurisdictions, exchange-listed companies have long been required to make public annual financial disclosures, according to specific regulatory requirements or standardised regulatory requirements. In recent years, ESG-related disclosures have become ubiquitous. Many of these disclosures are increasingly recognised as financially material (we thus avoid categorising ESG risks as "non-financial" for the rest of this paper). They have grown significantly over the last two decades and, since 2021, 39 of 57 members of the World Federation of Exchanges said they had issued formal ESG reporting guidance for companies listed on their exchanges (World Federation of Exchanges, 2020). Globally, the percentage of retail and institutional investors that apply ESG principles to a quarter or more of their portfolios has risen from

48% in 2017 to 75% in 2019 (Deloitte, 2020). By 2025, Deloitte predicts that ESG assets in the US will hit $35 trillion in value (Lopez-Valenzuela 2020).

The 'E' in ESG has gained the most traction. Reporting on climate and environmental risk exposure is much more common than on social risks, as is the development of specific financial instruments to exploit green opportunities, such as green bonds. Whether reporting about exposure to climate-related risk and the associated movement of assets is having real effects on the preservation of the environment and climate change mitigation is under debate.

ESG reporting frameworks typically centre on risks from a firm's effect on the environment, employees, suppliers and value chain, communities and customers, as well as whether its internal management or governance is sound. Some interpretations of ESG and corresponding frameworks consider positive and negative effects on the environment and stakeholders (thereby falling into the field of "impact materiality," such as the Global Reporting Initiative, or GRI) while others primarily focus on the specific effects that have a strong probability of affecting a company's financial performance (thereby falling into the field of "single financial materiality," such as the International Sustainability Standards Board, or ISSB). These factors are typically captured in ESG ratings, which are composite scores developed by third-party service providers, measuring a firm's performance in each area. These ratings are then used by financial markets (investors and their consultants) to make decisions about where to invest, as well as by companies for self-evaluation and improvement. Such ratings can also be generated by investors themselves using internal proprietary models.

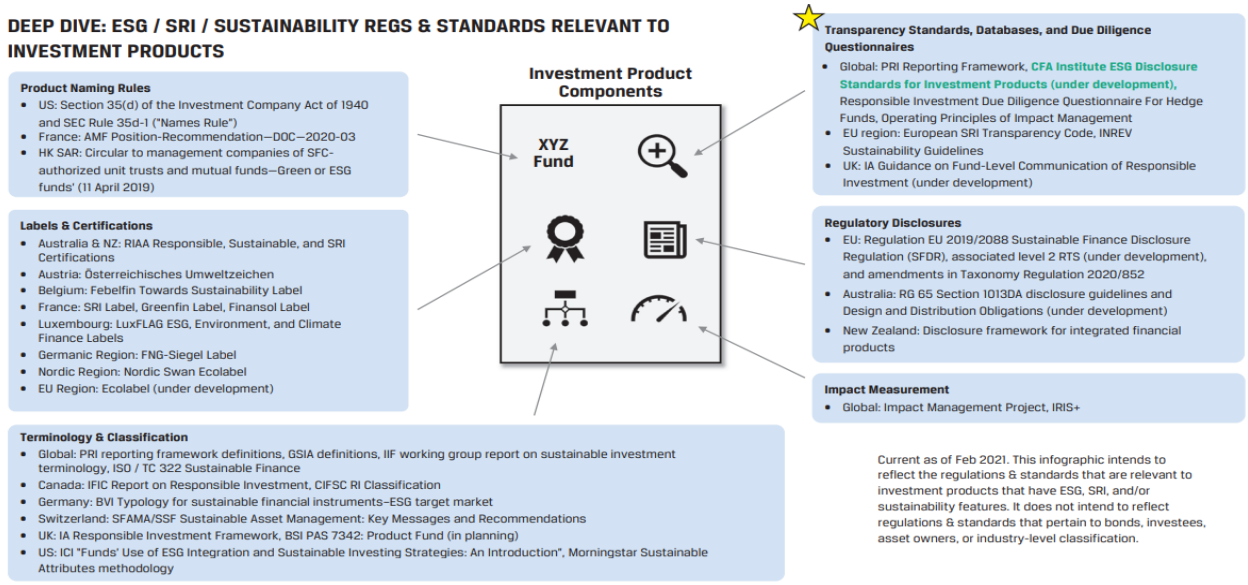
The increase in disclosures has largely been driven by investors' desire to access more information about the risks of their investments, and interventions by regulators. The provision of more information about the risks that investments present – whether these are related to governance, the environment or social issues – is critical for financial markets. It helps investors manage risks and enhances financial and economic stability. Besides asset selection, this type of information is also used to inform which companies an investor should focus their engagement efforts on, and what to advocate for.

Investors are increasingly using ESG data in their engagement and asset allocation strategies. A 2021 PWC global survey of 325 institutional investors found that 49% were willing to divest from companies that were not taking "sufficient" action on ESG issues, while 79% indicated that the way a company managed ESG risks and opportunities was a significant consideration in making investment decisions. Simultaneously, lobby groups and ordinary individuals and consumers have heightened their advocacy for the consideration of the effects of business operations on people and the planet, apart from those that centre on profitability for shareholders.

Disclosure frameworks and standards

There is a vast array of ESG disclosure standards. The table below illustrates some of the disclosure standards relevant specifically to investment products.

Figure 2: Regulations and voluntary codes and standards relevant to investment products



Source: CFA Institute, 2021

And below, we list some of the most popular sustainability disclosure frameworks for companies (Bloomberg Law, 2022; GRI, 2022):

- Global Reporting Initiative (GRI) Standards,
- International Sustainability Disclosure Standards (ISSB) IFRS S1 and IFRS S2[7],
- Taskforce on Nature-related Financial Disclosures (TNFD),
- Workforce Disclosure Initiative,
- United Nations Global Compact,
- Principles for Responsible Investment (PRI) (investment businesses specifically),
- Equator Principles (specifically banks).

ESG disclosures have gained the most traction in Western Europe, North America and East Asia. But the global South, more broadly, is catching up. For example, the Sustainable Banking and Finance Network (SBFN) measures progress in emerging economies in the development of sustainable finance frameworks

[7] The ISSB aims to streamline sustainability reporting by consolidating various existing frameworks into a unified set of global standards. These standards (IFRS S1 and IFRS S2) will subsume several existing standards and initiatives, namely the SASB standards, TCFD, the CDSB framework, and the CDP. Additionally, the ISSB's standards are designed to be interoperable with the GRI standards. While GRI remains a separate entity, this interoperability aims to reduce the reporting burden on companies using both ISSB and GRI Standards for sustainability disclosures (IFRS, 2023).

and policies by banking associations and/or national regulators (such as treasuries). Up from 20 in 2019, 2021 concluded with 30 SBFN countries implementing sustainable finance policies, regulations, voluntary principles and roadmaps. These plans typically include disclosure recommendations or requirements, often informed by the TCFD (Sustainable Banking and Finance Network, 2021). Another example is the Integrated Reporting Framework, which aims to strengthen corporate reporting with fuller accountability for the way in which organisations create or erode financial, manufactured, intellectual, human, social/relational and natural value. This is a global initiative with local committees responsible for the Framework's local uptake and adoption. National or regional committees have been established in Brazil, South Africa, Indonesia, Hispanic Latin America, Africa and the Association of Southeast Asian Nations (ASEAN).

Below, we focus on one of these frameworks, which at the time of writing this paper was being integrated into the ISSB: the TCFD. We focus on this framework given its widespread adoption and because it is a model which contributed to the inspiration of the Taskforce.

Challenges

The world of ESG disclosures – within which we locate, conceptually and practically, specific frameworks for inequality-related disclosures – has been fraught with difficulties. In this section, we explore what these challenges have been and what their implications might be for the Taskforce.

Box 1: The TCFD

The Taskforce for Climate-Related Disclosures (TCFD) was established in 2017 with the objective of enhancing transparency about the financial risks of climate change: which sectors, companies and investments are most exposed to it, and which companies are taking action to mitigate climate change and adapt to its effects (TCFD, 2017). To meet this objective, the TCFD recommended a set of consistent and comparable disclosures from financial sector actors about how they are responding to and incorporating the effects of climate change into their governance and operations, with these disclosures to be included in regular annual financial reporting. The intention was that greater adoption of the recommended disclosures would create a common framework for thinking about and reporting on climate change. It would also enable the routine consideration of climate risk as a systematic risk to financial markets by decision makers: that is, as a risk that is inherent across different geographies, investments and asset classes. At the same time, businesses would be better able to demonstrate their green credentials, leading to better allocation of capital from a climate perspective.

The TCFD has shown considerable success. Its 2021 progress report details the extensive adoption of its recommendations in reporting about climate change by financial institutions that manage $194 trillion in assets (TCFD, 2021).

But challenges in the implementation of the TCFD's recommendations have hindered complete reporting. These have related to difficulties faced by producers of disclosures in developing and reporting on their climate impacts and strategies, and particularly in the development of appropriate metrics and sourcing reliable data on those metrics (TCFD 2017). While the TCFD provides recommendations about what to report on – for example, to describe how climate-related risks and opportunities are identified and managed, and to disclose metrics and targets used to measure them – exactly how to do this is largely left to the discretion of each reporting entity. Reporting entities then turn to the many other disclosure frameworks that provide guidelines and metrics for reporting on the fuller range of ESG issues. This leads to significant inconsistency in how climate risks are understood and measured in the market.

In addition, the concept of thresholds and allocations is not adequately addressed by the TCFD. This is the idea of measuring a company's or institutional investor's contributions to climate change relative to the planet's carrying capacities (a "threshold", for example, the maximum quantity of greenhouse gas emissions the planet can absorb before inexorable climate breakdown), in proportion to the size of the entity and the sector it operates in (the appropriate "allocation" relative to the threshold for that entity). Several authors – notably Kate Raworth (2017) in *Doughnut Economics* – argue that this is critical to arriving at a more realistic understanding of the worth of ESG efforts and to gauge whether reporting entities' operations are sustainable. In the Doughnut Economics approach, ecological ceiling thresholds are combined with attention to social floor thresholds – minimum social standards required to protect human well-being, such as living wages, decent healthcare and education. This could be useful in developing effective inequality-related metrics.

Another criticism of the TCFD is that while it encourages companies to provide metrics about the environmental effects of their operations, such as greenhouse gas emissions, the Taskforce has refrained from setting standards or firm recommendations about what to report on and how. Given that this is a relatively difficult area of reporting, the practical effect might have been that those preparing disclosures disproportionately focus on the outside-in risks of climate change (how climate risk impacts company financials), rather than the inside-out risks (how companies contribute to climate change).

Multiple frameworks

The preceding subsection shows that there is a large array of ESG frameworks currently in use. They are often used inconsistently by companies, investors, policy makers and regulators. The global financial system is, of course, complex and the needs of asset owners and allocators differ from issuers, investment managers, regulators and other stakeholders. For this reason, the details included in disclosures vary. But this variation – which also applies to ESG ratings systems that calculate ESG scores for companies based on disclosed information – is problematic. What is measured in different frameworks and ratings systems, and how it is measured, can differ quite markedly. This has led to substantial confusion about what ESG investing means, and wide variations in how specific elements are defined, reported on and understood. For example, different ratings systems often produce different results for the same companies (Boffo and Patalano, 2020; Kotsantonis and Serafeim, 2019). At the same time, this opens space for companies to game the system by cherry-picking: focusing on a set of principles and metrics (while discarding others),

often from different disclosure frameworks, that will create the most flattering storyline about ESG credentials. Kaplan and Ramanna (2021) note that, due to the wide scope of ESG reporting, corporations can embark on moral trade-offs when their actions improve performance in one of the ESG metrics, for example, reducing greenhouse gas (GHG) emissions from their truck fleets, while performing poorly in an unreported metric, such as the use of indentured labour in the mining of minerals for the batteries of electric vehicles.

In response to this, the following efforts have been made to standardise the frameworks and ratings themselves (International Resource Panel, 2021):

- the IFRS Foundation's ISSB, which is working to develop global sustainability reporting standards, with an initial focus on climate;
- the World Economic Forum International Business Council (IBC's) Stakeholder Capitalism Metrics Initiative alongside the big four accounting firms (which also suggests lists of core metrics for all companies globally and supplemental sectoral metrics);
- the initiative of five of the largest global frameworks (SASB, GRI, IIRC, CDP, CDSB) to work together in consolidating corporate reporting (facilitated by the Impact Management Project, World Economic Forum and Deloitte);
- the Impact Management Project and Global Reporting Initiative's work on harmonising initiatives.

We know that at least some of these initiatives have expressed commitment to harmonising with each other.

Mandatory rather than voluntary disclosures may be useful in focusing attention on narrower sets of metrics and creating shared understandings of and methodologies for ESG-related actions and outcomes. Guidance from entities like the TCFD, alongside requirements from banking associations and/or national treasuries, can assist investors in understanding what investments qualify as ESG investments, and how to report on their performance. This assists with clarity and comparability. In Europe, large companies will soon be required to report their ESG activities using metrics defined by EFRAG (European Financial Reporting Advisory Group). Whether similar consolidation occurs in other regions, and how different requirements in different regions are managed by disclosing entities and their users, remains to be seen. For instance, EFRAG is developing their guidance based on impact materiality, while ISSB is developing their guidance based on single financial materiality. Multinational companies or companies with international investors may need to consider using both frameworks. It will also be critical to monitor the development of the European standards to learn how emerging complexities and disagreements are navigated. The lesson for the Taskforce would appear to be that its framework would need to seek

interoperability with other standard setters, both leveraging and building upon what has already been created to date, and potentially developing guidance that is compatible with varying interpretations of materiality. Indeed, the Taskforce has committed to developing its framework in a manner that conducts a landscape analysis of what currently exists, relating to inequality disclosure guidance, metrics and targets. The Taskforce then intends to synthesise findings and make recommendations for the closure of gaps. The Taskforce's framework could then be integrated into official standard setter's frameworks, such as ISSB, GRI and EFRAG's Environmental and Social Reporting Standards (ESRS). Ongoing dialogue among these standard setting initiatives can support continuous improvement.

Standardisation vs contextual relevance

Standardisation can come at the cost of contextual relevance. A balance between the two will be difficult to achieve. There is the risk of over-simplification in creating easy-to-operationalise reporting frameworks, rather than frameworks that meaningfully capture what really matters, especially for social issues such as inequality. Reporting entities – especially fund managers with large portfolios of investees – may come to rely on standardised reporting frameworks rather than considering how such frameworks interact with their specific context. This is exemplified in the "Boohoo scandal", where investors flocked to an online retail company that was highly rated by ESG agencies, yet paid workers in its supply chains at levels below minimum wage (McGrath, 2020). This was widely reported in the media. It could reflect intentional "greenwashing" or "impact washing," the failure of ratings agencies to respond quickly enough to changing conditions and/or the complexity of making sense of sometimes contradictory or overly intermediated information.

The broadness and potential vagueness of highly standardised reporting requirements could be offset by distinct requirements within an overarching framework for reporting entities in different sectors, based on the size of the entity, and where the entity operates. We return to this discussion when we analyse widely--reported wage ratios as a measure of inequality below.

S is harder

ESG issues, especially "S" or social issues, tend to be more difficult to conceptualise and measure, and therefore to report on, than standardised financial metrics that have been in widespread use for at least a century. And, as noted above, "E" disclosures have gained much more traction than "S" ones. "S" issues that are relevant to inequality are not governed by frameworks as extensive as the TCFD, for example. Furthermore, issues that are frequently disclosed are typically not framed explicitly as issues of inequality. For example, disclosures might relate to investments in countries with strong anti-corruption measures and independent media or, when it comes to companies, how much the company spends on corporate social responsibility. Regarding financial instruments, bonds for housing or financial inclusion are framed

as growth-promoting investments with a social dimension. A primary exception, in some markets, is in reporting wage gaps, as noted below.

There are several possible reasons for the prevalence of "E"-based disclosures. These include the fact that the "S" domain has traditionally been regarded as the responsibility of governments, with social issues to be addressed via taxation and regulation.

In addition, "E" issues tend to be of narrower scope. Private sector climate management has tended to focus on greenhouse gas emissions, alongside responsible use of resources, for example, practices relating to waste management and the use of water and energy. As we have shown in this paper, contributions of the private sector to inequality arise in many more areas, including tax practices, engagement with climate justice (such as promoting social justice in the energy transition by retraining workers in soon to be stranded industries or adopting community ownership structures for new renewable energy infrastructure), compensation practices and fulfilment of other labour rights, and practices relating to discrimination, land use and workers, communities and supply chains in other countries. These issues can also be more complex and time-consuming to measure – especially rights- and justice-related issues – than emissions or resource usage, given the human subjects on which the measurements are based.

The availability of data

The cherry-picking of the indicators which allow for the most flattering depiction of ESG-related performance that we highlighted above could be done innocently: some things are simply more difficult to measure than others, or data may not be available in some areas. Existing disclosure indicators and guidance tend to focus on management policies and practices rather than outcomes. This leaves much discretionary space for investors and companies to choose indicators, as well as how to construct them. Making causal arguments about how management policies and practices affect outcomes is challenging due to the lack of robust studies. And in practice, investment managers tend to use data that is easily available and not too costly to collect. For example, when assessing sovereign-level ESG, they may use databases like the Corruption Perception Index from Transparency International or the Press Freedom Index compiled by Reporters Without Borders rather than complex indicators of poverty, healthcare or development (Theobald, 2022).

For companies, disclosure frameworks often do provide sets of metrics to measure and report on. For example, the ISSB (and the disclosure frameworks it is integrating) and GRI have made strides in the development of more action-oriented disclosure frameworks, with sets of metrics aligned to sustainability**.** But like investors, companies tend to factor in easy-to-measure indicators such as gender and race diversity of the board (Sloggett and Gerritsen, 2016). This issue is exacerbated by the fact that companies are often left to conduct their own materiality assessments of what is material to disclose. The PRI, a membership

organisation whose membership includes the world's largest institutional investors with assets under management of $121.3 trillion in 2022 (PRI, 2022), focuses the social aspects of ESG on **human rights**. These include equal opportunities for and treatment of workers, access to benefits, a living wage, and inclusion of the voices of workers, affected communities and end users of products and services. However, PRI acknowledges that the data to support analysis of these factors is difficult to obtain (PRI, 2022).

There has been little discussion on the trade-offs between the availability of data and measurement of firm behaviour in potentially more complex approaches to reducing inequality in societies. As discussed above, to supplement a company's own reporting, both mandatory and voluntary, as well as their engagement with companies, investors often rely on easily available data provided by third parties, such as NGOs, investment banks, data service providers and multilateral organisations. Primary data gathering is expensive compared to free sources of data, such as public indices, or even compared to paid providers. It is also expensive to gather data on complex phenomena such as sanitation and public health.[8] From an investor perspective, the benefit in terms of reduced macroeconomic shocks and political stability has a price, and it may be reasonably assumed that the cost of data gathering must be below that price.

In practice, the cost of data gathering and reporting tends to be borne by the reporting entity. For example, a recent report on climate disclosure found that corporate entities spend, on average, $533,000 annually on climate-related disclosure while institutional investors are spending an average of $1,372,000 to collect, analyse and report climate data in making investment decisions (ERM, 2022). Given that investors are managing large portfolios of many companies, the expense per dollar of market capitalisation falls heavily on the companies. This dynamic could be problematic for companies in the global South who may have fewer resources or be smaller than companies in the global North. Moreover, in the social sphere, data may well be more expensive to gather given the relative complexity of measurement, particularly across geographies and when accounting for local variations, and the different focus of measurement (people rather than the physical/natural environment). We anticipate that the Taskforce will need to articulate, to a certain degree, at what point benefits exceed costs for various actors to secure private sector buy in.

Larger companies and investors have greater capacity than smaller enterprises (MSMEs) to establish and run sustainability departments with dedicated staff for reporting. This raises the question of whether small businesses, emerging fund managers and other smaller investment institutions should be exempt from some or all reporting requirements, particularly given their relatively smaller impacts on broader socio-economic inequality, and provided MSMEs comply with relevant existing labour and environmental laws, as well as other legal protections for communities and consumers. Furthermore, given that the global

[8] The Human Rights Measurement Index is preparing to monetise its product for investors, which could fill this gap. Another example is As you Sow's new initiative, "As you Know".

South is characterised by smaller businesses, more on average than the global North[9], the cost of data gathering and reporting to meet the Taskforce's requirements may have an overall negative inequality effect. As discussed above, we are already seeing this effect of ESG investment strategies in diminishing flows to the global South. However, defining thresholds between small and large businesses may be difficult, while the cumulative effects of many smaller businesses and investors contributing to an issue may be necessary to consider.

Wage ratios

To date, disclosures relating to the private sector's effects on inequality have largely been concerned with internal firm inequality, rather than the impact of the firm on external inequality. While most of these types of disclosure have been driven by regulators rather than shareholders, investors have generally supported the introduction of wage ratios into disclosures by companies. In the United States, the introduction of the CEO pay ratio disclosure took seven years of contentious public engagement that was unprecedented in the Securities and Exchanges Commission's history of public engagement on disclosure (Bank and Georgiev, 2019). Wage gap disclosure took effect in 2018, based on a ratio of median worker to CEO. A similar disclosure requirement took effect in the UK in 2019, also of median worker to CEO pay. The results of these disclosure requirements show that it tends to be employers of large numbers of low-skilled workers that have high pay-gap ratios. In the United States, a study of 300 public companies found that Amazon came out with, by far, the highest wage ratio in 2021 at 6 474, followed by Estee Lauder Companies (1 965), Penn National Gaming (1 942), FleetCor Technologies (1 404) and Nike (913) (Anderson and Pizzigati, 2022). The measurement of CEO pay includes salary, bonuses, the estimated value of stock and stock option awards, changes in pension value and perks. Given that many CEOs have significant exposure to volatile stocks, pay measures can be volatile, so the top-ranked companies tend to also change rapidly. Workers generally do not have similar exposure to share prices, although some research shows that employee share ownership schemes can be a positive contributor to reducing inequality and the social risks that arise from inequality (Blasi et al., 2018). A UK study on the top 350 listed companies found that the pandemic caused pay ratios to fall to 44:1 in 2020/2021 from 53:1 in the previous year, corresponding with significant market dislocation (HighPayCentre, 2022).

The 2021 ranking of pay ratios for UK companies shows that it is primarily firms within the retail sector that stand out at the top, while financial services and technology companies dominate the bottom. Below are tables of the Top 10 and Bottom 10 UK pay ratios:

[9] See, for example, Ciani et al (2020). The smaller average size of firms in lower- and middle-income countries is often related to insufficient financial market development (Angelini & Generale, 2008).

Table 1: Top 10 UK pay ratios (FTSE 350)

Company	**Industry**	**CEO/median employee ratio**
Ocado	Retail	278
CRH	Construction & Materials	267
Dunelm	Retail	204
Morrisons	Retail	199
Flutter	Travel & Leisure	198
AstraZeneca	Health Care	197
B&M European Value Retail	Retail	196
Ashtead	Industrial Goods & Services	185
JD Sports	Retail	183
Diploma	Industrial Goods & Services	180

Source: HighPayCentre, 2022

Table 2: Bottom 10 UK pay ratios (FTSE 350)

Company	**Industry**	**CEO/median employee ratio**
Beazley	Insurance	7
Trainline	Travel & Leisure	8
Auto Trader	Technology	11
Sanne Group	Financial Services	11

Company	Industry	CEO/median employee ratio
Hiscox	Insurance	12
Kainos	Technology	12
Land Securities	Real Estate	14
Moneysupermarket	Technology	14
Reach	Media	14
Centrica	Utilities	15

Source: HighPayCentre, 2022

An examination of these tables shows clearly that retail and industrial goods and services dominate at the worst pay ratios, while financial services and technology dominate the list of best ratios. This is not because of wage restraint by CEOs in the latter two industries, but rather because the make-up of the staff body is more skilled and more capital intensive resulting in high-median wages. Indeed, a key driver of higher spread in pay ratios was how low the median salary was (HighPayCentre, 2022).

As we argued above, in much of the global South, large-scale unemployment and large informal economies (made up of casual labour in formal enterprises and workers and entrepreneurs engaged in unregistered business activity) are much larger problems than in the global North, which contributes to structural inequality. In developing countries, a major channel for the private sector to contribute to reducing inequality might be, therefore, to formally employ more workers from the large pool of unemployed and/or informal labour, particularly those with low skills, and to use more labour-intensive forms of production (another channel might be to improve opportunities for smaller informal enterprises, as mentioned above). The employment channel may have the effect of increasing wage ratios within the firm and masking its effects on external inequality.

A focus on wage ratios without considering workers throughout the value chain may also affect the incentives of reporting entities. For example, companies could increase ratios of part-time workers and outsource lower-paid jobs. This would improve their pay ratios but probably worsen workers' conditions. The SASB (now ISSB) has committed to incorporating measures of companies' shares of temporary or informal workers on their payroll, which would mitigate this issue and provide a benchmark for the

Taskforce to work with. Issues of this nature are emblematic of the ways in which changes to agents' economic incentives can often have unforeseen effects.

Therefore, wage ratios may be more effective in developed markets. In countries where joblessness and informality are high, inequality tends to be far greater between the formal sector and the informal sector, and measures of inequality *within* the formal sector may not reflect the overall level of inequality. The converse applies in developed markets with high levels of employment and a large formal sector: focusing on in-firm inequality does have a second order effect on wider social inequality. In both developing and developed markets, other mechanisms beyond wages, such as employee share ownership and access to benefits such as education and healthcare can similarly have an impact on social inequality with the firm as a channel.

However, measures of wage differentials are generally easy to measure and communicate. They are a striking indication of a particular firm's wage patterns. Whether the measure compares the CEO and median worker, or top and bottom quartiles, or another ratio, the resulting figure is salient and easy to compare between companies. This is not true of other measures of company impact on wider social inequality. While measures like the Gini coefficient are well understood, the impact of any particular company on that measure can be difficult to determine.

Nonetheless, there are certainly benefits to using wage ratios in the global South. While much of the poverty in these societies is determined by being unemployed or informally employed, working poverty (being unable to satisfy basic food and non-food needs) for formally employed individuals and their households remains a significant problem. In South Africa, for example, where the informal sector is relatively small compared to peer countries, ILO estimates point to a working poverty rate of 37% (International Labour Organisation, 2023). This is due to a combination of factors: minimum wages being set at levels below subsistence, uneven compliance with minimum wage legislation by formal employers and weak enforcement capacities in the state, for example, more than half of the workforce earns less than the prevailing minimum wage, a figure which matches the sub-Saharan African average (Bhorat et al., 2017), and the high costs of dysfunctional public transport for low-paid workers who typically live far away from where they work (the median reduction in wages due to transport-related expenditures ranged from 26% to 40% depending on the mode of transport in a 2015 study (Kerr, 2015).

This discussion points to a need to complement a focus on wage ratios with other measures that provide a more complete picture of a company or institutional investor's effects on inequality in society.

Observed effects of ESG disclosures

We now shift our focus to consider the possible effects of introducing inequality-related financial disclosures to the financial sector. The financial sector, in addition to individual investors, includes, but is not limited to, the following participants: banks, asset managers, and asset owners and allocators, including pension funds, sovereign wealth funds, insurance companies, endowments, and family offices. By allocating capital to productive (and unproductive) activities, the decisions made within the financial sector have cascading effects on the real economy. As disclosures and their effects on capital flows become more widespread, investee organisations would come to recognise that their success in attracting investment will be dependent, to some non-negligible degree, on the extent to which they adapt their business practices and the manner in which they report on the effects of those practices. Investor-level disclosures could also promote the allocation of capital to underserved segments of the market, including small- and medium-sized enterprises (SMEs) and diverse and emerging fund managers. New interpretations of risk and return, informed by the understanding of the systematic risk of inequality, could also result in improved pricing of and access to capital. Hence, inequality-related disclosures could have real impacts on promoting economic activity that, at best, reduces inequality and, minimally, does not worsen it within and across borders.

In this section, we explore the observed effects of ESG-disclosure regimes. We discuss what this implies for the likelihood of an inequality-focused framework working, as described in the previous paragraph.

In the European Union (EU), compliance with recently introduced non-financial disclosure requirements for listed banks has been found to be directly related to member countries' "societal variables", including political and legal systems, cultural aspects and level of economic development (Lucchese, 2020). The reporting of less economically developed countries within the bloc tends to be better (Lucchese, 2020). This is perhaps due to the greater salience of social issues in these countries. The study also observed better reporting in countries with more of a future orientation, as indicated by measures of thrift, perseverance, savings and adesire by banks to build longer-term relationships with stakeholders. Countries in which democracy is entrenched also show better performance in reporting due to a more active civil society and threats of being held accountable. These findings could have implications for how inequality-related disclosures are perceived and implemented, depending on the country's social context.

For firms, ESG disclosures have been found to have clear benefits. Despite the challenges and complications already outlined, such as complexity and data availability, higher quality disclosures have reduced information asymmetries in financial markets and helped firms that are better at it to access capital in the US (Romito and Vurro, 2021). In the Netherlands, firms with better corporate social responsibility (CSR) performance, greater external financing needs and stronger corporate governance tend to provide

higher quality CSR disclosures. These firms also tend to gain greater analyst coverage, higher levels of institutional ownership, greater stock liquidity, higher valuations in seasonal equity offerings (SEOs) and lower yields to maturity in bond issuances (Gao et al., 2016).[10] In the food and beverage industry, a study of seven countries and 171 internationally listed firms shows that firms with better ESG disclosures find it easier to access capital (lower cost of equity) (Raimo et al., 2021). From these correlational relationships, it could be deduced that higher quality ESG disclosures can yield economic benefits for firms.

Romito and Vurro (2021) conducted content analysis on non-financial reports released by US firms included in the S&P 500 index over the 2004–2014 period. They find that both the level of ESG disclosure and the scope of stakeholder-related themes covered in the reports reduce information asymmetry. Reduction of information asymmetry is important: when reliable information to assess a firm is unavailable to investors, they may request a higher return to finance it (Lambert et al., 2012). Additionally, the increased complexity of assessing a firm with limited or absent information might bias its market evaluation and increase the risk of hostile takeovers (Grossman and Hart, 1981, cited in Romito and Vurro, 2021). This indicates the benefits that companies may reap from making detailed ESG disclosures or, more narrowly, inequality-related disclosures. In an inequality-plagued country such as South Africa, it is not unreasonable to argue that companies which readily make inequality-related disclosures would find favour in the market. However, this may also be dependent on the content of the disclosures; high levels of internal inequality have the potential to change public sentiment towards a company.

Data is now available from some parts of the world regarding gender pay-gap reporting on reducing the gender wage gap. In the UK, entities that employ 250 or more people have been mandated to publicly disclose median and mean gender pay gaps across hourly and bonus pay (Raghunandan and Rajgopal, 2021). Blundell (2021) finds that the introduction of these mandatory disclosures prompted a 1.6 percentage-point reduction in the gender wage gap. He attributes this specifically to a decline in the wages of male employees and highlights that employers with low wage gaps are preferred by female employees. Additionally, after the enaction of the mandatory disclosure of the gender wage gap, Raghunandan and Rajgopal (2021) report a reduction of 0.41% in the gender pay gap for entities with employees numbering between 250 and 499, and no change for those that employ over 500 people. While the figures in these findings differ, possibly because of differences in methodology, they highlight a positive impact of mandatory gender wage-gap disclosures in the fight against gender wage gaps. In the Danish case, legislation that requires firms with 35 or more employees to report gender-based wage data was adopted in 2006 (Bennedsen et al., 2019). Similarly, an interrogation of the impact of this piece of legislation indicates a reduction in the gender pay gap. The average ratio of male to female wages in firms

[10] The authors test for a direct relationship between disclosure quality and analyst coverage, levels of institutional ownership, stock liquidity, valuations in SEOs and yields to maturity in bond issuances. The effect of greater external financing needs – a correlate of better disclosures – on these variables is not directly estimated.

above the employee threshold, that is, with 35 or more employees, declined by two percentage points on average, relative to firms below the threshold and thus exempt from compliance with the legislation (Bennedsen et al., 2019). In this case, the narrowing of the gender wage gap is largely a result of a slower growth in wages of male employees. At the same time, companies governed by the legislation are found to be more likely to hire and promote women.

The evidence on the gender wage gap thus suggests that reduced wage gaps are not driven by increasing wages for women. Instead, the effect is driven by either slower wage growth for men (a relatively benign outcome) or to falling wages for men (and thus reduction in the total wage bill – possibly less benign). The latter case could be reflective of disclosures that are changing behaviour in unexpected ways (at least from the perspective of the designers of disclosure frameworks). For example, it is possible that the profits accruing from the smaller wage bill are redistributed to investors. Additional, complementary disclosures – such as rising wages for female employees, and more detailed disclosures around shareholder returns – might correct this.

Omaliko et al. (2020) investigated the effect of ESG disclosures on the performance of non-financial firms in Nigeria. The authors used non-financial key proxy variables, including intellectual capital disclosure, risk management disclosure and corporate governance disclosure. They measured the performance of firms through return on equity (ROE) to establish the relationship between non-financial disclosures and firms' performance. Their findings indicate that non-financial disclosures exerted substantial influence on the performance of firms ROE. These findings inform their conclusion that non-financial disclosures have positively improved firms' performance over the years, as well as their recommendation that firms should make more non-financial disclosures.

The preceding evidence relating to the impacts of non-financial disclosures within countries is rather positive. But when we look at the effects of these disclosures from a cross-country perspective, a more troubling picture emerges. A recent study of asset managers' and owners' decision-making processes in developed markets found that as ESG reporting and accompanying sustainable investment becomes more widespread, this has tended to bias flows of capital *away* from the global South, where such investment is most needed (Theobald, 2022). The reasons for this include:

- "E" issues being conceptually easier to deal with, or easier to measure, than "S" issues. This means "E" metrics – such as carbon emissions, renewable energy usage, efficient water consumption – tend to dominate ESG reporting. On the one hand, companies in developed markets have a competitive advantage in these areas due to the availability of better infrastructure. On the other hand, companies in developing markets may have a competitive advantage in social dimensions of ESG performance, for example, by improving access to financial products,

electricity or employment. But this data is typically harder to come by, and finding and reporting on this data tends not to be part of investors' key performance indicators.

- The absence of data on specific ESG metrics influences ESG ratings. ESG rating systems are often built using existing, publicly available secondary data. For example, many rating systems assign scores to countries, which in turn influence decisions to invest in companies in those countries. A country's G metrics, for example, corruption and media freedom, might be obtained from Transparency International or Amnesty International, while its social metrics, such as inequality, from the World Bank. Developing countries score poorly on most of these metrics, and this often leads to unfavourable ratings by top investment houses who view these countries as less promising investment destinations.
- This status quo reflects a static, backward-looking approach to ESG issues: a country's progress in reducing its Gini coefficient, or the efforts of a highly polluting company to improve its carbon footprint, is not adequately recognised.
- Companies in developed markets tend to be bigger and better resourced and, thus, are more capable of compiling convincing reports detailing their ESG credentials.

These considerations mean that a disclosure framework must consider context, including the level of development of reporting capacity, particularly in less-developed markets. Disclosure requirements that penalise government or companies from poorer nations in efforts to attract capital may have unintended consequences, including biasing capital toward wealthier countries.

Trade-offs in measurement

Analysis of trade-offs is needed to assess optional approaches to disclosure and their effectiveness in addressing inequality relative to the context in which they occur. For example, if a Gini coefficient is chosen as a metric, a firm that achieves internal equality with low pay differentials between top and bottom earners may be assessed to have little impact compared to a firm that achieves systemic change by enabling subsistence farmers to access global markets for their produce in a largely rural economy.

It is instructive to consider the case of a country with high levels of unemployment and informal employment, as is the case with many countries in the global South. It could be argued that in these contexts, the greatest positive impact on inequality is achieved by formalising employment, and firms that maximise formal employment should consequently be measured as highly impactful, irrespective of their internal pay disparities. Formal employment is generally of higher quality as it is more likely to obey national labour laws, although laws and regulation must be appropriate to ensure formal jobs are a step up from poverty, and to remove unnecessary barriers to entry for small businesses. Given the typical pattern of formalisation in economies in which the informal sector makes up a high proportion of workers, we would expect high internal or within-firm inequality, as there tends to be a skills premium paid to company

leadership, but downward wage pressure on unskilled positions, given the abundance of unskilled labour. In such cases, the objective of reducing wider social inequality may, in fact, require higher levels of intra-firm inequality to widen employment of unskilled labour. The reason for this is that it will be necessary to attract executives to establish labour-intensive firms, which may require premiums to be paid, especially if such skills are not available domestically.

In transition economies, income inequality is positively correlated with the share of output produced by the informal economy (Rosser et al., 2000). This is a two-way correlation: an increasingly large informal economy is associated with more inequality because of poor tax compliance and weak social safety nets, while high inequality may lead to more informality as trust levels and social solidarity decline in the formal sector (Rosser et al., 2000). In a developing market context, unemployment is a critical driver of income inequality and poverty (González and Menendez, 2000), with unemployment particularly concentrated on low-skilled workers. Skill-intensive companies may have low internal inequality, but such companies may have little impact on wider inequality, given that they do not absorb unskilled workers who are often the majority in global South countries.

This point, though, is not universally true of the global South – indeed, some studies show that poorer countries have lower unemployment rates and that unemployment rates are higher for high-skilled workers in poorer countries (Feng et al., 2018). In poorer countries, many people make their livelihoods in subsistence agriculture, absorbing a large pool of potentially low-skilled people. Economic growth and urbanisation draw people out of subsistence agriculture due to the promise of higher wages and standards of living – with rates of migration often exceeding the capacity of new economies and sectors to employ them. This leads to increasing unemployment as countries progress through to middle-income status. Middle-income countries, thus, often experience growing unemployment as subsistence agriculture declines. Other studies have shown that, regarding skilled production, the implementation of automation in production is particularly relevant and strongly correlates with unemployment (Anakpo and Kollamparambil, 2022).

There is a long history of research that has largely confirmed Okun's Law, at least in general, that a 2% fall in gross domestic product is usually associated with a 1% increase in unemployment. Research has shown that Okun's Law is a poorer fit in developing countries than in developed countries, but that the relationship holds, with the weakness of fit consistent with a view that unemployment in developing countries is more structural than output-related[11] (Ball et al., 2019). Whether structural or output-related,

[11] Output-related unemployment relates to changes in the unemployment rate that are brought about by typically temporary changes in the economy. For example, during periods of economic expansion, employers typically produce more goods and services and hire more people, whereas during downturns the reverse occurs. Structural unemployment, on the other hand, is not linked to the business cycle. This type of unemployment is caused by underlying features of the economy that make it harder for some people to get jobs on a permanent basis. Such characteristics might include a public education system that does not provide the skills required in the labour market, spatial dynamics (for example, the persistence of apartheid spatial planning in South Africa and inadequate public transport), or changes in the economy

poorer countries tend to have higher unemployment, a key driver of inequality. It will therefore be important to focus attention in low- and middle-income countries on corporate and investor efforts to promote formal employment. This might be at odds with priorities in the global North, such as within-firm pay equity.

This is not to say that securing decent employment is an exclusive challenge for the global South. Growing labour market precarity – the increasing prevalence of work that is insecure, irregularly or badly paid, and associated with fewer formal employment rights, such as paid leave and medical or occupational insurance – is a problem in the global North (see, for example, Standing, 2011). But as Leite et al (2017) argue, this phenomenon refers in the main to a loss of employment protections that had been won in industrialised societies roughly between 1945 and 1975. Precarity has instead been a constant feature of many economies in the global South, with large informal workforces having never benefited from employment protections. In Brazil, for example, almost 40% of the working population is classified by the official statistical agency as being informally employed (Agência IBGE Notícias), and roughly half of this group of people are own-account workers engaged in entrepreneurial activity without having formally registered a business (SEBRAE, 2019).

These different dynamics may point to different priorities in disclosure. For example, in the global North, the increasing casualisation of employment in the (usually near-universal) formal sector calls for better disclosures from companies about the rights of their employees (whether in-sourced or out-sourced). In the global South, these disclosures need to be complemented by, for example, the following:

- indications of the numbers of people employed who share characteristics with those in informal employment (or chronic unemployment, for example, low education level or peripheral areas of residence);
- disclosures about measures taken to address the constraints faced by informal entrepreneurs, for example, limited access to capital, business skills, or access to municipal services and infrastructure (including digital and financial infrastructure, lighting, sanitation, all of which can be supported by the private sector), and limited networks with formal sector businesses (that is, lack of integration into supply chains and business networks).

Taking an additionality-based approach to disclosure

The idea that ESG investing and related disclosures do not adequately account for or encourage behavioural change among investors and companies has become widely recognised in academic and practitioner literature. Investors treat ESG as a financial risk measurement framework which ultimately

itself – for example, sectors that employ relatively fewer people, or where highly skilled workers are sought after, may be growing at a significantly faster pace (brought about by technological change, for example).

reduces ESG concerns to the standard risk and return considerations of investors. For example, investing in a highly polluting or badly governed company can therefore still qualify as an ESG investment if the management of those risks has been factored into the decision-making process and into the price of the asset, or if these risks are considered to be less material than other drivers of returns to shareholders. But this is different from interpretations of ESG investing as ensuring that investment does not do harm (Kirk, 2022; Migliorelli, 2022).

This inward-looking approach that is more concerned with risks to investments rather than the externalities of these investments – alongside pervasive greenwashing – could be evident in studies showing little correlation between ESG ratings and sustainability outcomes. For example, Elmalt et al. (2021) find no clear relationship between ESG scores and the emissions of large emitters. Similarly, Simpson et al. (2021) note, in a study of ESG rating upgrades in the MSCI framework, that only one out of 155 upgrades cited reduced emissions as a factor. The result is that even high-emitting companies can score well if "regulations aimed at mitigating climate change do not pose a threat to the company's profitability" (IMF, 2022: 22). Finally, ESG funds from big asset managers are routinely invested in the "Carbon Majors", a small group of highly polluting companies that are responsible for the bulk of industrial emissions, and their non-ESG funds also tend to vote against environmental resolutions at the AGMs of these Carbon Majors (IMF, 2022: 22).

This calls for more emphasis in rating systems and disclosure frameworks on the impacts of companies' and investors' operations, products and services, and the extent to which they contribute to positive ESG outcomes. The ongoing work of the Predistribution Initiative (2023) and the organisation Impact Frontiers, cited above, has adopted a contributions-focused lens in its thinking about how to structure disclosures from investors in relation to inequality. Recognising the practical difficulties in demonstrating the contributions to sustainability or additionality of investments, the most recent drafts (socialised for a consultation period in 2023) build on earlier studies (see, for example, Carter et al, 2018; Escalante et al, 2018, Spratt and Collins, 2012). The draft guidance makes the case for investors to construct a "plausible narrative" around how their investments have enabled potential inequality-reducing outcomes by, for example, providing a social enterprise with funds it would be unable to access on the open market, or on better terms than accessible to the investee. Similar work is required for reporting entities that are not institutional investors.

Generating evidence about profitability

An important consideration in the drive for more sustainable investments is profitability. If investors are to move capital meaningfully into sustainable investment from an inequality perspective, evidence of the financial success of similar investments will be required. This is particularly true for larger institutional investors, such as pension funds and insurers, whose fiduciary duty will require sustainable financial

performance in order to fund liabilities. It is for this reason that South Africa's Financial Sector Conduct Authority (FSCA) recommends the integration of ESG factors into fiduciary duty. However, the track record still needs to be built. What can the experience of ESG investing tell us about the compatibility of social and financial returns?

A common narrative in the literature is that, in the pursuit of social impact, profit-first investors do not need to forgo financial returns. Various studies claim superior financial performance of sustainable or socially responsible investments (Ademi and Klungseth, 2022; Ashwin Kumar et al., 2016; Qureshi et al., 2021). An opposing view is that social and financial returns are fundamentally divergent forces, at least in the short term (Armstrong, 2020). Indeed, social return can be seen as an objective of investors which can be traded off against financial returns, implying that such investments should have lower-than-market financial returns with the discount representing the "price" investors are paying for the social impact. The International Monetary Fund reviews the global evidence and finds "no conclusive evidence in the literature that sustainable funds consistently out- or underperform conventional funds" (IMF 2019, p85). These findings are corroborated by Yue et al. (2020) who find no conclusive evidence of sustainable funds generating higher returns than their traditional counterparts after studying 30 sustainable and 30 traditional funds. Yet, in certain asset classes, there is evidence that investors are willing to accept a lower yield for ESG-compliant instruments, for example, the so called "greenium" in green bonds refers to the yield discount that investors accept for green bonds compared to vanilla bonds that reference the same underlying balance sheet (Climate Bonds Initiative, 2021).

Cappucci (2018) offers a plausible explanation for the diverging evidence. He argues that ESG integration is a process characterised by differing return expectations as the journey to full ESG integration unfolds. Initially, as asset managers begin to engage with ESG analysis of their portfolios, the costs of developing new systems (costs which managers not integrating ESG do not bear), as well as the reduction in the investment universe that the usual first step entails (exclusion of companies representing unacceptable ESG risk), leads investment managers into a "valley" of lower financial returns. Full commitment to ESG integration takes longer as managers push through initial difficulties and find ways to proactively identify companies that are better managed. And eventually, finding these more sustainable opportunities tends to result in better and more stable financial performance relative to the starting position in the integration process. But the difficulties, including establishing new systems and models, working with often weak data, and navigating the novelty of ESG, can prevent managers from fully exploiting ESG opportunities and keep them stuck in the valley of lower (initial) returns. Kotsantonis et al. (2016) echo this point, arguing that, while many asset managers have committed to sets of ESG principles, this is a very different proposition from full ESG integration in investment decision making. The true extent of ESG integration tends to not be accounted for in studies comparing ESG and non-ESG funds or investment companies.

The contradictory evidence is also a result of differing definitions of sustainable investments. Some definitions take an expansive view, including funds that have screened out investments which are obviously environmentally or socially harmful. Other definitions limit samples only to impact investments. This refers to those that actively set out to promote and measure social or environmental change. Moreover, even definitions of ESG factors can diverge markedly. Acts of "greenwashing" and "social washing" add to this complexity. "Greenwashing" and "social washing" refer to the intentional mischaracterisation of an investment as environmentally friendly or socially conscious. As part of its annual screening in 2020, the European Commission, together with national consumer authorities, interrogated the practice of greenwashing in 344 seemingly suspicious claims after conducting a broader screening (European Commission, 2021). The Commission concluded that, in over 50% of the cases, fund managers did not provide adequate information to enable consumers to assess the validity of the claims; in 37% of the cases, the claims incorporated vague and general statements, such as "conscious", "eco-friendly" and "sustainable", with the aim of creating an unfounded impression that a product did not impact the environment negatively; and in 59% of the cases, fund managers did not provide easily accessible evidence to substantiate their claims (European Commission, 2021). Greenwashing and social washing mislead consumers and investors alike.

Being clear about what constitutes an inequality-reducing investment while avoiding green- and social-washing is therefore essential, particularly given the risks of greater uncertainty in a newer terrain of disclosures and in auditing those disclosures. Proof of financial viability will also be critical or, alternatively, the wider uptake of a more complex financial modelling exercise that better incorporates the longer-term costs of sustained inequality.

Box 2: The case of black economic empowerment policy

South Africa's broad-based black economic empowerment policy (BEE) is a useful example of a framework that is used to measure effects on external inequality. This policy is designed to address the legacy of apartheid, which resulted in highly skewed economic patterns in which white South Africans controlled far greater economic resources than black South Africans. BEE aims to undo this through a complex set of interventions that ultimately link to government procurement policy. Companies are rated on their impact on BEE with ratings in the form of "levels". These levels translate into preference by government for procurement from firms with a higher level or rating. Because companies are scored in part by reference to the levels of the companies they procure from, the incentives to improve BEE ratings cascade through the economy as both public and privately owned firms seek entities with high ratings from whom to procure.

A company's BEE level is determined from a score card that assesses companies on five different factors:

- Ownership, in which black economic and voting participation is measured, with BEE levels corresponding to various target thresholds. Often firms implement employee share ownership schemes for black staff members to deliver on this target. Multinational companies operating locally apply for an exemption to this sub-element if company policies limit their ability to dilute ownership within specific countries;
- Management control, with a higher proportion of black leadership at senior levels resulting in better scores;
- Skills development, with companies scoring points for the amount they spend on training black staff. Companies can also improve their scoring by offering apprenticeships to job seekers and absorbing them after the training period. Given high unemployment levels, firms are also awarded points for any expenditure on black unemployed individuals;
- Enterprise and supplier development, with companies awarded points if they invest in and mentor other black-led and -owned companies;
- Socio-economic development, representing corporate social responsibility and other charitable giving, with companies awarded points for spending a target of after-tax profit.

These are measured through various prescribed mechanisms, generally based on the proportional representation of black people in the various factors. The measurement is guided by a series of "codes" that specify best practice in some detail. These cover various complexities involved in measurement with the aim of ensuring rule and principal coincide. In addition to the main scorecard, industries can also create their own "charter" which can adapt the scorecard to particular industry contexts. For example, the financial sector has its own scorecard that awards points for financing black-owned businesses and transformational infrastructure, and providing access to financial services in rural areas. Over the last decade, policy has evolved to push the codes' focus from internal inequality (ownership, employment equity) to external inequality, with increased focus on enterprise development, this being the impact of firms on developing other firms in the economy through direct investment, mentorship and procurement. This shift has largely tracked public calls for empowerment to be more broad-based rather than focused on a narrow elite, which substantially overlaps the notion of shifting from intra-firm inequality to social inequality more widely.

There are a mix of internal and external inequality consequences of this approach. Companies are driven to empower their own black staff, empower black investors through equity deals, but also empower black people in the economy more widely through enterprise development and procurement. A premise of the policy is also that management, skills development and ownership elements create capital and skills for black people that will, in time, filter into the wider economy as beneficiaries start businesses or change companies.

BEE policy is pervasive in South Africa, ensuring that BEE levels are understood well. While the scorecard mechanism can be highly complex, the resulting level is a simple indication of a company's impact on BEE. The carrot driving the policy is access to government procurement, although a BEE level also has advantageous reputational consequences that support companies' marketing.

However, the BEE approach suffers from criticism for being largely input-based rather than output focused (and this mirrors the inward-looking approach that dominates ESG reporting outlined above). It measures the amounts spent, for example, on procurement from black-owned firms or skills development of black staff, rather than the outcomes that are intended, such as developing black-owned firms in the economy or improving the skills and earning power of black workers. In part, the absence of a clearer outcomes focus reflects a lack of agreement on the outcomes that are desirable, such as a single measure of racial inequality in South Africa. BEE is not linked to any specific targets for macro-level measures; rather all measures are focused on firms themselves and the inputs they make into accomplishing established BEE objectives.

Furthermore, research on disclosures by mining companies found that, at the time of publication, reporting tended to be characterised by low-quality data, lack of detail and superficiality, with minimal emphasis on long-term issues concerning sustainability (Carels et al., 2013). Further, a review of the BEE literature by Shava (2016) suggests widespread fraud and corruption in the development of BEE ratings, political interference and poor accountability. These practices defeat the major purpose of BEE. The superficiality and sometimes dishonesty in BEE disclosures and ratings are analogous to criticism that has been made regarding sustainable reporting by companies elsewhere, which can be vague and based on equivocations on the meaning of sustainability (see, for example, Aras and Crowther, 2009).

Conclusions and recommendations

The Taskforce's work could lead to significant and lasting change. As the use of disclosures to measure and manage the risks of inequality faced by the private sector, and the sector's contributions to inequality proliferate, it is expected that a common language around concepts and measurement will emerge. This common language will make it easier for the broader public to hold both companies and investors to account for undertaking or facilitating harmful inequality-enhancing practices. It could also assist states and financial sector regulators, such as bank supervisors, to better regulate eventual disclosure *requirements* relating to inequality. And, of course, it will assist companies and investors in understanding their effects, dependencies and risks relating to inequality or, in other words, both their own effects on inequality and the threats inequality poses to their financial viability. Like the Taskforce on Climate-Related Financial Disclosures (TCFD), the vision of the Taskforce is one where institutional investors will respond to the new information the initiative will require by shifting large volumes of capital to where it is less likely to exacerbate inequality, or even to where it will reverse it. This, in turn, would modify the signals to private companies and investors regarding what constitutes viable economic activity. Based on the discussion in the rest of the paper, we conclude by providing some recommendations on the way in which these positive changes might be facilitated.

Standardisation of and articulation with other frameworks

The inequality-related disclosure framework proposition of the Taskforce enters a playing field full of other disclosure frameworks for investors and companies, which might not have inequality as the focus, but which address other sustainability issues, as well as aspects of inequality. An important priority for the Taskforce should be that it is interoperable with existing standard setters. Practically, this would mean, for example, developing disclosure principles that can be operationalised using existing disclosure frameworks and can be incorporated into existing reporting. Commonly used metrics should also be prioritised, although this won't always be feasible. As far as possible, the Taskforce disclosures should also be standardised across reporting entities. Standardisation and articulation with other frameworks would enhance comparability and transparency, while mitigating the risks of creating confusion among reporting entities, fragmentation in reporting practices, greenwashing as the discretionary space for "honest mistakes" widens, and non-compliance due to perceived difficulties in reporting and/or perceived lack of legitimacy. Together, this would presumably facilitate flows of capital into companies and investment vehicles with good inequality credentials and reduce access to financing and cost of capital for companies and investment vehicles which exacerbate inequality.

It would be especially important to ensure compatibility of the Taskforce's disclosures with climate and nature-related disclosure frameworks, such as that governed by the TCFD. As described in this paper,

climate change presents special risks to developing countries; risks that potentially worsen socioeconomic inequalities both within and between countries.

Scorecards

One way to standardise could be by developing a scorecard that provides an indication of the contributions to inequality made by a company or investor. The scorecard could measure reporting entities along multiple dimensions and provide points accordingly – as in the case of South Africa's BEE policy – where companies earn points on multiple factors and need to achieve minimum scores on each.

Being required to perform on several indicators has several justifications. Our discussion of disclosures relating to wage ratios shows the dangers in focusing too narrowly on a particular indicator that may nonetheless be a simple and easily communicable measure of inequality-related performance. It can lead to operational changes that result in better scores but nevertheless go against the spirit of the disclosures (such as outsourcing low-wage employees in the case of the CEO-median ratio) and can unfairly favour certain types of company (for example, financial service companies who tend to have a higher proportion of higher skilled workers, but whose operations might contribute far more to society-wide inequalities). However, simple, imperfect measures – like wage ratios – are far more likely to gain broad traction and understanding, as well as facilitate comparison between companies and countries; as Thomas Piketty has noted in his defence of the use of ratios in studies of macro-level inequality, for example, the ratio of national income going to the top 10% or bottom 50% of the population in any given country (Piketty, 2022). This no doubt explains the widespread proliferation of reporting on wage ratios.

Our recommendation for the Taskforce is simply to supplement ratios with other indicators, and for reporting entities to be required to provide data in each area. This data could then be translated, perhaps by third parties who provide ratings and rankings to clients, into a scorecard that captures contributions to inequality along various dimensions. It could be adapted to different sectors, countries or business sizes, which could promote a more realistic understanding of contributions to inequality and thus more appropriate financial market allocations.

However, as has been witnessed in BEE policy and ESG investing more broadly, scoring and standardisation could lead to the development of a compliance mindset that focuses on that which is easily reportable or is deemed most important to regulators, standard setters and providers of capital, rather than on real risks arising from or contributions to inequality. Gaming and dishonesty among reporting entities to "beat the system" are real risks. Finally, the use of a scoring strategy runs the risk of replicating problems in ESG indexing and ratings practices. Indexing is the creation of a portfolio of instruments, chosen or weighted on the basis of specific metrics. Similarly, ESG rating agencies produce assessments and scores of potential investments based on their compliance with a model for ESG performance. These are used

as a relatively simple way for asset managers to integrate sustainability into their portfolios: investment opportunities are screened in and out based on external ratings. However, for this to work optimally for inequality, the data and methods for compiling these ratings must be robust. Where indices are based on available public data on common indicators, as happens with ESG indices, developing countries with typically worse inequality profiles, if measured by metrics like Gini coefficients and unemployment rates, would do relatively badly and have higher risk profiles, thus diverting investments, despite real progress in certain areas that private investment could support. This implies that data problems could result in inequality-related financial disclosures having similar effects to ESG investing more broadly and exacerbating inequality between countries. As we have discussed previously, a multi-indicator approach to measurement that proscribes minimum targets for each indicator and is sensitive to context could be an effective way to ensure targets are not cherry-picked while still respecting the differences that are natural to different economic sectors.

The Taskforce could also provide research and guidance to companies and investors on how to produce better data and make use of it. TCFD has shown some success in helping investors and companies understand "E" data better, and in developing a common language and shared understandings and goals in relation to climate risk, after realising that issuing recommendations without practical guidelines can lead to confusion. Without a lot of practical guidance and assistance in data production, investors in particular would need to do their own research about the risks and contributions to inequality posed by different investments. This can be complex, costly and time-consuming – known barriers to ESG investing currently.

These costs would be felt disproportionately by smaller and/or less resourced businesses and institutional investors, as well as those not already accustomed to regular sustainability-related reporting. Smaller firms are more dominant in the global South which reinforces the need for clear guidance on implementation from the outset.

Internal versus external inequality

What are some of the dimensions along which contributions to inequality could be measured in a simple and comparable way? Currently, internal measures of inequality (that is internal to the reporting entity) are dominant, as noted in the discussion on wage ratios. But more external measures of inequality would be important to include in the Taskforce's work, which would be aimed at measuring more directly what company and investor contributions to inequality in their societies are. In many developing countries, large incidences of informal employment, high rates of unemployment, illicit financial flows, and unequal access to financial services constrain development and sustain inequalities (although these problems are not absent in the global North). Some measures of external inequality that could complement internal

measures (wage ratios and the total wage bill, diversity statistics, employment conditions for example) could include:

- Employment impact: does the reporting entity employ people who fit the profile of the unemployed in the country it operates in? In South Africa, this might mean the adoption of unskilled labour-absorptive production techniques and hiring many young people, given that the average unemployed person in the country has not finished high school and is under the age of 35. This should be overlaid with a measure of the quality of jobs provided to such workers, including opportunities for skills development, and other benefits such as having a formal, long(er)-term contract.
- The impact of products and services, including financial services. For example, for an insurer or bank, does it extend non-predatory, reasonably priced financial services to groups of people who are known to suffer from discrimination in or unequal access to these services? This might include increased lending to small businesses that don't have substantial collateral or credit records, loans and equity for first-time social enterprise borrowers, or affordable health insurance products for low-income consumers. Other business impacts that might alleviate inequalities could include promotion of access to energy, education, nutritious food, information services or childcare. A measure should reflect the additional earning power that such services provide to the recipient.
- Impacts of products or services extends to the structure of investments: do investors provide fair terms to investees and, in so doing, promote positive social outcomes that could alleviate inequality? How are risk and return distributed among stakeholders, as well as investors, in a transaction?
- Taxes and lobbying: disclosures about taxes paid in *every* relevant jurisdiction, alongside disclosures of membership of business associations, political spend and other political activity.

What sorts of impact matter in each context could be canvassed using regional or national engagements with civil society focused on identifying the biggest local challenges regarding inequality. Contributions could then be focused on this. This customisation would not change the headline reporting entries that could be the same everywhere, for example, the profile of the workforce, impacts of products and services, taxes and lobbying, etc.

Ultimately, a scorecard could result in a simple headline figure, a "level" or similar, that investors could use as a guide to know what effect their capital allocation has on inequality. Settling on the right metrics and methods for measuring them will require piloting and subsequent fine-tuning of the disclosure framework, coupled with robust monitoring by civil society and by regulators.

Additionality/contributions

Taking a more expansive approach to disclosures that more carefully analyses the effects of companies and investors on societal inequality would be equivalent to taking an additionality-based approach to sustainable investing. Such an approach is more concerned with contributions made by the private sector to positive social outcomes, rather than the blindness to externalities that characterise inward-looking ESG risks to business-as-usual approaches. This approach has the potential to motivate real change in the ways in which companies and investors operate, and for them to report on those changes.

However, demonstrating contributions to improvements in social outcomes is practically challenging. Some of these practical difficulties could be avoided by further developing the work of the Predistribution Initiative and Impact Frontiers in developing guidance for investors on how to develop a "plausible narrative" about their contributions to inequality. This would remove much of the burden on reporting entities. But translating these narratives into comparable, consistent and objective quantitative indicators to guide investment flows by standard setters will be a complex endeavour. Transparency and iterative development will be key.

Making people recognise that this is in their interest

We have noted in this paper that current ESG disclosures can be incomplete, inaccurate or misleading because sustainability-related disclosures are complex and expensive. This reality is a drag on better compliance and more complete disclosures. Counteracting this will require concerted efforts to persuade investors and businesses that producing accurate, contributions-based disclosures about the relationship of their operations to inequality is in their best interest.

This is partly a matter of peer pressure: having leaders in various market segments adopt any Taskforce principles or disclosure frameworks could motivate others to do the same. It is also partly about emphasising the positive returns, including financial returns, that accrue to entities that fully commit to decent disclosures, as the balance of evidence shows. But it will also require sustained pressure from civil society, labour and shareholder groups to motivate financial sector and corporate actors to adopt the Taskforce's framework in good faith, as well as the ongoing involvement of civil society in informing the development and adaptation of the disclosures. And if disclosures truly reflect the behaviour of reporting entities, then undoubtedly many will be required to make significant operational and strategic changes to the "deep design" of their businesses (see, for example, Sahan et al., 2022). If the primacy of shareholders' financial interests in interpreting fiduciary duty and corporate responsibility continues to exclude externalities, this will be difficult to shift.

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