Think Ahead ACCA

Sustainability reporting:

The evolving landscape in Pakistan

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **188,000** members and **480,000** students in **178** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **100** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that, through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

In June 2016 ACCA formed a strategic alliance with Chartered Accountants Australia and New Zealand (CA ANZ). The alliance represents the voice of 788,000 members and future professional accountants around the world, who share the commitment to uphold the highest ethical, professional and technical standards.

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This report explores the corporate sustainability reporting landscape in Pakistan and discusses why companies report on sustainability when there is no mandatory requirement to do so.

The report is based on views from the stakeholders and a review of the available literature on the subject. The report also outlines a comparison of sustainable reporting practices in Sri Lanka with those in Pakistan.

The report also elaborates about the sustainability reporting landscape in Sri Lanka and compares the same with corporate sustainabiltiy reporting landscape in Pakistan.

ABOUT THE AUTHOR

Mr. Malik Mirza, a fellow member of ACCA, is working as Managing Director of the Finman Group which provides capacity building sessions, recruitment and business advisory services. Mr. Mirza is a seasoned corporate sector professional with over seventeen years of experience in the field of financial management, accounting, auditing, tax planning and related corporate matters. Mr. Mirza is also on the Board of the Aga Khan Health Services Pakistan and chairs the finance committee of the Board. Mr. Mirza is a qualified chartered accountant and a masters in business administration as well.

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Foreword by Malik Mirza

I believe the time is right for the business community to take stock of where we are on the non-financial story telling journey of corporate reports. Whilst it is understandable for corporate leaders and shareowners to be driven by profits and wealth maximization it is now accepted by the majority that the science behind the linkages between business processes and climate change are real and present a danger to the planet.

Pakistan like other nations cannot sit on the fence when it comes to adopting modernity in how business models operate and how managers integrate sustainable practices to operate and grow their businesses. Our government has signed the Paris agreement on climate change and emissions and we have also committed to the UN sustainable development goals. These agreements are worthless unless we walk the talk of implementing sustainability.

We should be proud of our business leaders and their achievement over the last decade in adopting newer and newer reporting methodologies. GRI and now Integrated Reporting are gaining traction here in Pakistan but we have to learn and share more. Companies like Attock refinery, ICI, Akzonoble, KE, Atlas Honda, Hinopak, Qarshi, Engro, Nestle and Tetrapak and just a few who have set the industry standard for sustainability reporting.

ACCA is proud of the role it has played alongside partners like WWF Pakistan and supporters like IUCN, BCSD-Pakistan, PICG, CIPE and the Ministry of environment in providing a recognition and reward mechanism to encourage public reporting and thereby building trust amongst stakeholders and adding value to businesses.

Malik Mirza
Managing Director, Finman Group

Foreword by Sajjeed Aslam

Ever since 2000 ACCA Pakistan has been actively encouraging companies large and small, quoted and unquoted to adopt GRI standards and start reporting on their economic, environmental and social performance. At that time and till now there is no legislative framework for the application of such standards and reporting thereon, but enterprises voluntarily stepped forward because they knew the global and country importance of changing corporate behaviors to take account of their triple bottom line. Pakistan; largely an agricultural reliant country where the supply chains of a majority of businesses rely upon the environment and society had to learn about the true value of the connection between profit, people and the planet. Knowing your supply chains, understanding their sensitivity to ESG forces, managing and reporting on your integrated business model was and is paramount.

ACCA Pakistan has partnered with WWF Pakistan to reward and recognize good sustainability reporting through the ACCA-WWF Pakistan Environmental Reporting Awards. At the heart of our judging criteria is GRI the "go to" standards for enterprises to start reporting and drive good business behavior. For years accountants have valued "Goodwill" but it was only until the link was recognized between business activities and climate change that professional bodies like ACCA started encouraging the adoption of standards other than for finance, like GRI, to reinforce the value of goodwill to the planet and people and not just shareholders wealth.

Pakistan's stock exchange continues to be on a long bullish run, the steadiness of such capital markets is also driven by how corporate leaders manage the non-financial part of their business. This is vital in countries with a large youth population where we need business to grow and survive to provide for jobs and the demands for honest goods and services delivered by business processes that do not damage the ecosystem. Stakeholder education is vital in this consumer and business relationship. ACCA Pakistan encourage stakeholder engagement as part of its judging criteria used in the ACCA-WWF awards as well as simple and clear communication underpinned by credible audited reporting.

Sajjeed Aslam
Head of ACCA Pakistan

Executive summary

In this report, an attempt has been made to find the key benefits that lead organisations to report on sustainability.

In the absence of any mandatory requirement, why are companies preparing sustainability reports in Pakistan? What are the key factors that determine whether companies in Pakistan are 'preparing' or 'not preparing' sustainability reports?

In this report, an attempt has been made to find the key benefits that lead organisations to report on sustainability. The report is based on a review of the sustainability reports of various organisations, related literature and interviews with concerned stakeholders.

STRUCTURE OF THE REPORT

This report comprises an introduction to the concept of sustainable development, followed by five chapters: 'Sustainability reporting in Pakistan', 'Why do companies from Pakistan report on sustainability?', 'Environmental, CSR and GRI reporting in Pakistan: an overview', 'Sustainability reporting in Sri Lanka and a comparison with Pakistan', 'Recommendations' and an appendix listing the companies discussed in the report. The recommendations may further increase the number of companies developing sustainability reports in Pakistan.

SUSTAINABLE DEVELOPMENT

The Brundtland Commission's definition is:

> 'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.

Further, the concept of 'the three Ps' gained popularity in 1990s when companies began reporting about People, Profits and Planet.

REGULATORY REGIME FOR SUSTAINABILITY REPORTING IN PAKISTAN

The Securities and Exchange Commission of Pakistan (SECP) issued a Corporate Social Responsibility (CSR) Order in 2009 applicable to all public companies. The said Order required descriptive as well as monetary disclosures of CSR activities undertaken by companies, if any, during each financial year in the directors' report to the shareholders annexed to the annual audited accounts.

Once an organisation starts preparing environmental reports, it has to monitor the impact of its business operations on the environment.

KEY BENEFITS FOR ORGANISATIONS REPORTING ON SUSTAINABILITY

It has been noted that organisations have found sustainability reporting to be beneficial for their business growth and for improving perceptions among stakeholders. The companies concerned consider that there is a business case for such reporting because the sustainable development process, once embedded in the values of the organisation, improves cost control, increases profits, allows better monitoring of business targets and has a significant impact on the environment in which it operates.

These companies consider sustainable development to be a process. After the discussions held with the concerned stakeholders and the review of related literature, the seven benefits of such reporting can be summarized as follows:

- it inculcates a disciplined approach towards process improvement;
- it enables goals to be achieved in a better and more targeted manner;
- it can be used as a monitoring tool;
- it encourages a better perception of the company in the marketplace;
- it can act as a tool for obtaining feedback from stakeholders;
- it increases transparency, and
- it allows assessment by the owners of the impact of the company's operations on the environment.

Sustainability reports are being produced for both internal and external stakeholders. Internally, the organisational management uses such reporting as a benchmark for performance related to environmental and social impact. For external stakeholders, these organisations consider that buyers based abroad are interested to learn more about their suppliers' socially responsible behaviour, and this can be made evident through environment and sustainability reports.

Once an organisation starts preparing environmental reports, it has to monitor the impact of its business operations on the environment. The key benefits of environmental consciousness and reporting include:

- a decrease in consumption of natural resources such water and energy and production of waste;
- a decrease in operational and waste disposal costs;
- improvement in stakeholder relationships;
- an improvement in environmental risk rating;
- increased trust in both the company |and its products as consumer concerns about the environment are addressed, and
- an increase in environmental awareness among executives and employees.

With changing global environmental issues, it is imperative that far more companies should adopt sustainability reporting.

THE SUSTAINABILITY REPORTING LANDSCAPE AT SRI LANKA

Sri Lanka formed a National Action Plan for the Haritha (Green) Lanka in 2009. The Programme is administered by the National Council of Sustainable Development established under the presidential secretariat in Sri Lanka. The Ministry of Environment provides secretariat facilities for the Council. In 2016 Sri Lanka initiated an Integrated Reporting Council with the aim of promoting inclusive and concise corporate reporting of how entities create value through their business model, stakeholder engagement, and deployment of risk and governance processes to achieve sustainable development, and related matters. Table ES1 compares sustainable reporting and key environmental, social and governance (ESG) guidelines in Sri Lanka and Pakistan.

ACCA'S ENVIRONMENTAL REPORTING AWARDS

In 2002, ACCA launched its sustainability reporting awards in Pakistan. These were the first awards of their kind by any global professional accountancy body. In 2011, the two national accountancy bodies of Pakistan also initiated the sustainability reporting awards along with the annual best corporate reporting awards.

The recipients of these awards from ACCA consider sustainable development to be a process and the award recognition has led them to review their existing systems, improve their processes and monitor the impact of their business operations on the environment. Further, such recognition has improved global perceptions of these companies.

RECOMMENDATIONS

Arguably, more needs to be done to encourage organisations to adopt the sustainability reporting framework, followed by capacity-building programmes. With changing global environmental issues, it is imperative that far more companies should adopt sustainability reporting.

To develop the culture of sustainability reporting in Pakistan, the benefits obtained by the companies currently producing sustainability reports should be showcased to other companies through seminars, workshops and related awareness-raising sessions.

Table ES1: Comparison of ESG guidelines in Sri Lanka and Pakistan

	SRI LANKA	PAKISTAN
Population	20.3m	185.1m
Number of listed companies	295	559
Sustainability reporting specifically mentioned in the Code of Corporate Governance	Yes – Detailed guidelines and principles provided	No – Mentioned as part of the Directors' training programme
Key ESG guidelines	Green Reporting System by the Ministry of Environment (2011)	Voluntary CSR guidelines provided by the Securities & Exchange Commission of Pakistan (2013)
IR Council at national level	Yes – formed in 2016	No, although a national CSR forum was formed in 2016

Introduction

Business today needs to adapt to the changing scenario and take into account the impact business operations have on the surrounding environment.

Before the 19th century, people took the view that there are plenty of resources available and that nature has an infinite capacity to absorb waste. As 'natural capital' was available free for consumption, an attitude of 'Take, make and waste' was common. Then, the 19th and 20th centuries witnessed industrial revolutions in which agriculturally based economies moved towards mechanisation and industrialisation (Figure 1). This change accelerated consumption of fossil fuels, emission of carbon dioxide, and deforestation. With changes in climate, depletion of natural resources and increased pollution, it was soon realised that a serious change was needed in the way businesses conducted their affairs.

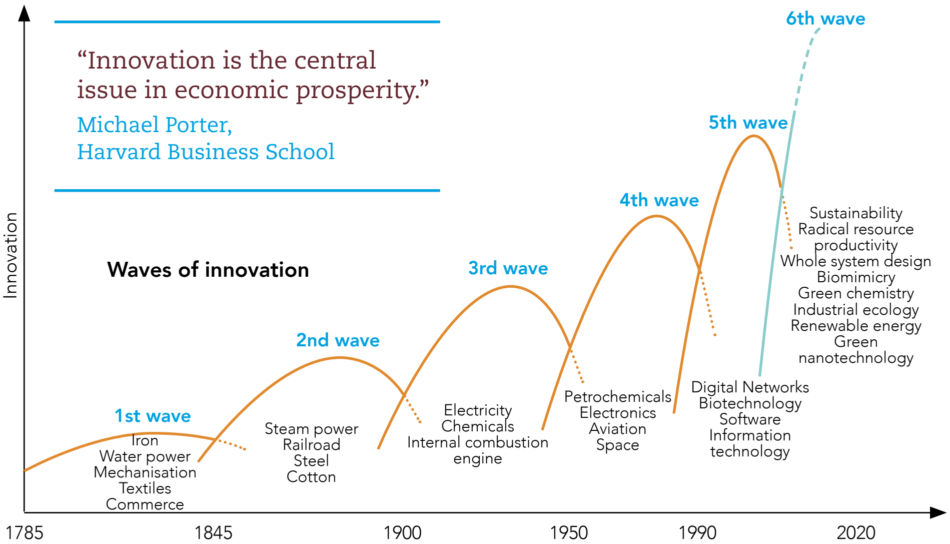
Business today needs to adapt to the changing scenario and take into account the impact business operations have on the surrounding environment. **Businesses are not responsible for only for the current effects of their operations. They are also responsible for the effects on future generations.** Thus the concept of the triple bottom line has entered corporate jargon and companies have started reporting about people, planet and profits.

THE TRIPLE BOTTOM LINE

The phrase 'the triple bottom line' was first coined in 1994 by John Elkington (www.economist.com/node/14301663), the founder of the British consultancy, SustainAbility. His argument was that companies should be preparing three different (and quite separate) 'bottom lines'. One is the traditional measure of corporate profit—the 'bottom line' of the profit and loss account. The second is the bottom line of a company's 'people account' – a measure in some form of how socially responsible an organisation has been throughout its operations. The third is the bottom line of the company's 'planet' account – a measure of how environmentally responsible it has been.

The triple bottom line (TBL) thus allocates value to three Ps: profit, people and planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time. Only a company that produces a TBL is taking account of the full cost involved in doing business (*Economist* 2009).

Figure I1: Industrial innovations over two centuries



Source: The Natural Edge Projects. The Natural Advantage of Nations (Vol. I): Business Opportunities, Innovation and Governance in the 21st Century. www.naturaledgeproject.net

The concept of sustainable development received its first major international recognition in 1972 at the United Nations (UN) Conference on the Human Environment held in Stockholm.

SUSTAINABLE DEVELOPMENT – HISTORICAL EVOLUTION

The concept of sustainable development received its first major international recognition in 1972 at the United Nations (UN) Conference on the Human Environment held in Stockholm. The term was not referred to explicitly, but nevertheless the international community agreed to the notion – now fundamental to the concept of sustainable development – that both development and the environment, hitherto addressed as separate issues, could be managed in a mutually beneficial way.

The term received further attention in 1987 in the report of the UN World Commission on Environment and Development, *Our Common Future*, also known as the Brundtland Report, which included what is deemed the 'classic' definition of sustainable development:

> 'Development which meets the needs of the present without compromising the ability of future generations to meet their own needs'
> (WCED 1987).

It was also noted in the report that:

> 'Sustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs. We do not pretend that the process is easy or straightforward. Painful choices have to be made. Thus, in the final analysis, sustainable development must rest on political will.'

The concept of sustainable development formed the basis of the United Nations Conference on Environment and Development held in Rio de Janeiro in 1992. The summit marked the first international attempt to draw up action plans and strategies for moving towards a more sustainable pattern of development. It was attended by over 100 heads of state and representatives from 178 national governments. The summit was also attended by representatives from a range of organisations representing civil society. Sustainable development was argued to be the solution to the problems of environmental degradation discussed by the Brundtland Commission in *Our Common Future* (see also the Sustainable Development Commission website).[1]

1 The Sustainable Development Commission (SDC) was the UK government's independent adviser on sustainable development. It closed on 31 March 2011.
www.sd-commission.org.uk/pages/history_sd.html

The MDGs were intended to tackle an array of issues that included poverty, hunger, disease, gender inequality, and access to water and sanitation.

DEFINING SUSTAINABILITY

The definition of sustainability is not nearly as simple as it might seem, and neither is the definition of sustainable development. This is best illustrated by the fact that there are over 200 different definitions of sustainable development. Nonetheless, the most common definition is the one composed by the Brundtland Commission in 1987, as given above.

SUSTAINABLE DEVELOPMENT GOALS (SDGS)

At the Sustainable Development Summit on 25 September 2015, United Nation (UN) member states (including Pakistan) adopted the 2030 Agenda for Sustainable Development, which includes a set of 17 Sustainable Development Goals (SDGs) to end poverty, fight inequality and injustice, and tackle climate change by 2030.

The newly adopted SDGs reflect a coherent, holistic, comprehensive and balanced framework incorporating the three dimensions of sustainable development – social, economic and environmental – with recognition of the direct linkages between human well-being, economic development and a healthy environment.

The SDGs, otherwise known as the Global Goals, build on the Millennium Development Goals (MDGs), eight anti-poverty targets that the world adopted in 2000 and committed to achieving by 2015. The MDGs were intended to tackle an array of issues that included poverty, hunger, disease, gender inequality, and access to water and sanitation. Enormous progress has been made on the MDGs, showing the value of a unifying agenda underpinned by goals and targets. Despite this success, the indignity of poverty has not been ended for all.

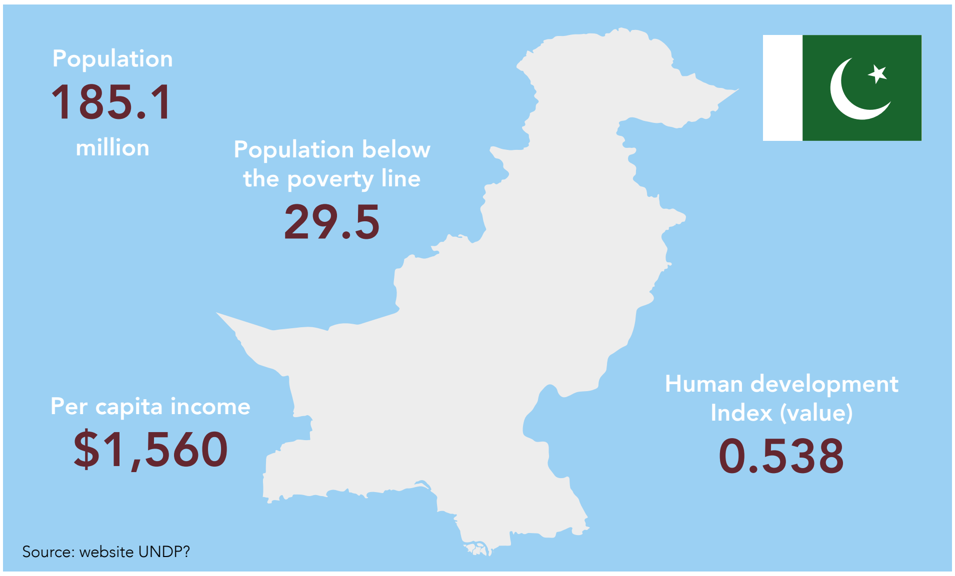
The new Global Goals, and the broader sustainability agenda, go much further than the MDGs, addressing the root causes of poverty and the universal need for development that works for all people.

UN Development Programme (UNDP) administrator Helen Clark has noted: ‘This agreement marks an important milestone in putting our world on an inclusive and sustainable course. If we all work together, we have a chance of meeting citizens’ aspirations for peace, prosperity, and wellbeing, and to preserve our planet’ (UNDP 2016).

While speaking at the Asia-Pacific Forum on Sustainable Development (APFSD) in Bangkok, Ahsan Iqbal, Pakistan’s Federal Minister for Planning, Development and Reforms said:

> ‘We believe that SDG’s agenda for development isn’t an international agenda; it is our own agenda. It reflects our ambition and desire to give our people [a] better quality of life. Therefore, we must take ownership of SDGs with complete devotion and passion’.

Figure I2: About Pakistan



1. Sustainability reporting in Pakistan

WHAT IS A SUSTAINABILITY REPORT?

A sustainability report is a report published by a company or organisation about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organisation's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.

BENEFITS OF SUSTAINABILITY REPORTING FOR AN ORGANISATION

Sustainability reporting can help an organisation in many ways. Organisations that prepare such reports are able to:

i. measure;

ii. understand, and

iii. communicate

their economic, environmental, social and governance performance. Furthermore, these entities can set goals and manage change in an effective and systematic manner.

A sustainability report forms the basis for communicating an organisation's performance with reference to its impact on the environment in which it operates.

Sustainability reporting can be considered to be synonymous with other terms for non-financial reporting, such as triple bottom line reporting. It is also an intrinsic element of integrated reporting, a more recent development that combines the analysis of financial and non-financial performance (GRI n.d.).

The expectations of consumers and demands for 'clean and green' companies have led to a number of benchmarks, such as the Sullivan Principles, the UN Global Compact and the Organisation for Economic Co-operation and Development (OECD) guidelines on multinational enterprises. Sustainability reports are prepared and published by companies from various sector around the globe. Major providers of sustainability reporting guidance include:

- Global Reporting Initiative (GRI)
- the Organisation for Economic Co-operation and Development (OECD Guidelines for Multinational Enterprises)
- the United Nations Global Compact (the Communication on Progress)
- the International Organization for Standardization (ISO 26000, International Standard for social responsibility).

> Companies in Pakistan are moving slowly towards adoption of the global reporting framework, so as to create and maintain global investors' confidence. One such global form of reporting is the sustainability report.

THE CORPORATE LANDSCAPE – PAKISTAN

Corporate sector reporting is regulated by the Securities and Exchange Commission of Pakistan (SECP), a regulator established with the objective of developing a modern and efficient corporate sector, including insurance, non-banking finance companies (NBFCs) and capital markets.

The corporate sector in Pakistan was originally governed by the Companies Ordinance 1984 (which was promulgated on 8 October 1984 and repealed the Companies Act 1913. The framework was recently revised through promulgation of the Companies Ordinance 2016 (in mid-November 2016), replacing the initial version of the Companies Ordinance 1984. However, the Upper house in legislative body i.e. the Senate has rejected the revised Ordinance and therefore, the Companies Ordinance 1984 prevails until the time of publication of this report.

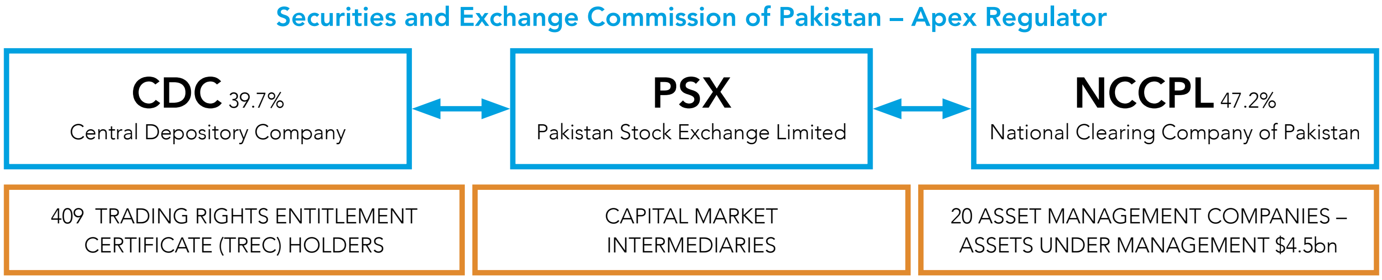
The capital markets of Pakistan have been consolidated as the 'Pakistan Stock Exchange' (PSX) (which was formed after integration of the Lahore and Islamabad Stock Exchanges with the Karachi Stock Exchange and the renaming of the Karachi Stock Exchange as Pakistan Stock Exchange Limited, a single nationwide capital market). PSX had 559 listed companies with market capitalisation of US $78bn as of 15 September 2016. Figure 1.1 shows the regulation of Pakistan's capital market.

Morgan Stanley Capital International (MSCI), the US equity indices provider, has included Pakistan Stock Exchange in its benchmark emerging-market index that is likely to attract multimillion dollars of portfolio investment in PSX. MSCI stated in its annual review meeting:

> 'The MSCI Pakistan Index will be reclassified to emerging markets status, coinciding with the May 2017 semi-annual index review. PSX would be inducted in the EM Index in June 2017'.

This clearly indicates the recent attention that the capital markets of Pakistan have attracted among foreign investors. Therefore, companies in Pakistan are moving slowly towards adoption of the global reporting framework, so as to create and maintain global investors' confidence. One such global form of reporting is the sustainability report.

Figure 1.1: Regulation of the capital market in Pakistan[2]



Source: PSX annual report 2016

Table 1.1: Investors

INVESTORS	
Domestic retail investors	233,112
Domestic direct mutual fund investors	221,018
Domestic institutional investors	999
Foreign institutional investors	2,175
Free float	23% (out of which one-third is held by foreign institutional portfolio investors)

2 Please note that in late December 2016, The Pakistan Stock Exchange (PSX) sold 40 per cent strategic shares to a Chinese consortium that made the highest bid of Rs28 per share for 320 million shares on offer. The value of the transaction is calculated to be Rs8.96 billion ($85 million). The Chinese consortium comprises three Chinese exchanges — China Financial Futures Exchange Company Limited (lead bidder), Shanghai Stock Exchange and Shenzhen Stock Exchange. Together they will take up 30pc of the strategic stock while two local financial institutions — Pak-China Investment Company Limited and Habib Bank Limited — will pick up 5pc each, the maximum permitted to a single institution under the regulations.

> Sustainability reporting is not mandatory under the current regulations in Pakistan.

REGULATORY PERSPECTIVE

Sustainability reporting is not mandatory under the current regulations in Pakistan.

THE CODE OF CORPORATE GOVERNANCE

The SECP implemented the Code of Corporate Governance in March 2002; it was revised in April 2012. The code is applicable on all listed companies and issuers of listed securities. Under the Code, the board of directors of a listed company are required to ensure that the company has policy on corporate social responsibility (CSR) initiatives and other philanthropic activities, including donations, charities, contributions and other payments of a similar nature. Furthermore, the company should have policies on health, safety and the environment.

The Code also states that the directors of listed companies must be certified under the comprehensive Director's Training Program (DTP). One of the components of the DTP is to make the Directors aware of international trends and practices in CSR and sustainability reporting. Other than this, the Code does not specifically mention sustainability reporting for companies.

VOLUNTARY GUIDELINES ON CSR REPORTING

The SECP issued a CSR Order in 2009 applicable to all public companies. The said Order required descriptive as well as monetary disclosures of CSR activities undertaken by companies, if any, during each financial year in the directors' report to the shareholders annexed to the annual audited accounts.

According to this order, every company is required to provide descriptive, as well as monetary, disclosures of the CSR activities undertaken during each financial year in the directors' report to the shareholders, annexed to the annual audited accounts. The companies, however, were at liberty to choose the content and format of their CSR reports, generating a strong perception that most reports are public relations tools adopted by large companies, and not a form of accountability. Stakeholders, therefore, found it difficult to assess a company's priorities for CSR, or to evaluate the firm's use of resources and the effects of implementing its CSR policies.

Keeping in view global experience and local market practices, a set of guidelines was developed by the SECP to encourage adoption of voluntary measures to ensure transparency and corporate accountability in implementing CSR activities. In 2013, the guidelines were made applicable to all public companies. Through these guidelines, the SECP has exerted influence over two aspects: governance practices and independent assurance. Thus as a primary step, each company is expected to disclose its policy for CSR activities prominently in an appropriate medium of communication for its stakeholders. Thereafter, assurance from an independent external party is required for verification of the reported activities.

The SECP's purpose in issuing CSR guidelines was to encourage accountability and transparency by the companies engaged in CSR activities.

The guidelines are also aimed at raising awareness about the concept of CSR itself among companies.

The guidelines have been kept voluntary and companies are at liberty to follow them fully or partially, or to adopt any comparative standard. This also implies that SECP does not collect data or analyse trends in reporting with specific reference to following CSR guidelines. Also, SECP and market participants consider that understanding about CSR is still in its infancy and therefore CSR reporting has not been made compulsory.

The key reasons for the fall in exports are the global commodity crisis, domestic power shortages, a poor business climate, low external demand and exchange rate appreciation against the rupee.

NATIONAL CSR FORUM

One of the outcomes of the extensive consultation carried out when creating the CSR guidelines was the formation of a national CSR Forum. Currently the CSR guidelines are voluntary. The Pakistan Institute of Corporate Governance (PICG) is leading CSR awareness at a corporate governance level. PICG submitted a 'roadmap' for the formation of a national CSR Forum. The first meeting of the forum was held at SECP in 2016. The core committee is currently (2016) finalising the TORs and work plan.

Keeping in view the historical and current perspective and regulatory ambit, the role of SECP is one of facilitation, encouraging CSR initiatives, and ensuring transparency and accountability by companies engaged in such activities.

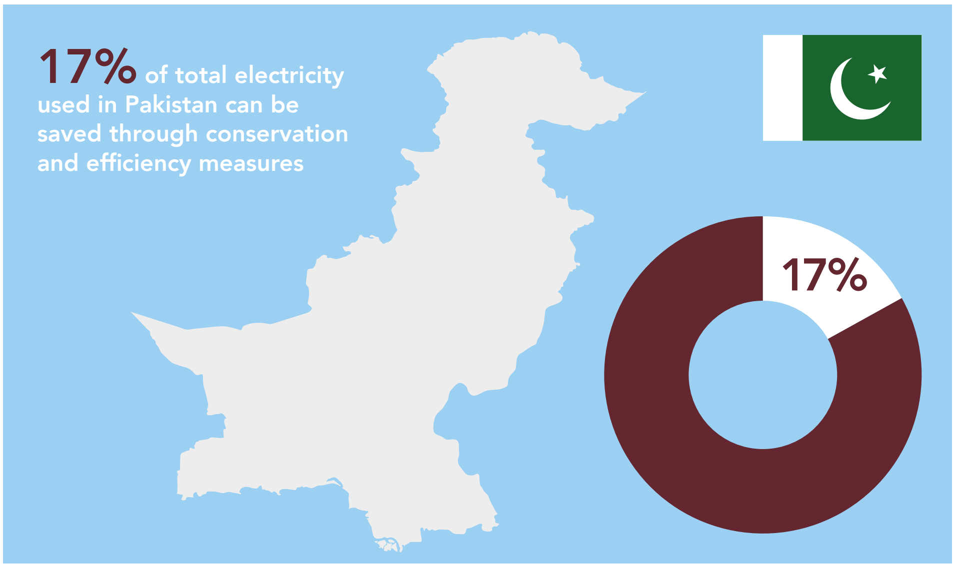
SECP is looking to incorporate environmental, social and governance (ESG) disclosures in its upcoming Code of Corporate Governance 2016 (being finalised at the time of writing). Principally, SECP has stated that it encourages CSR initiatives and has even submitted to the Federal Board of Revenue (FBR) that a suitable tax incentive be given to companies to enhance such activities. Also, consultative sessions with the business community, academia and regulatory bodies have shown that the CSR mandate is seen in a positive light and is rather effective in increasing brand value and trust of companies. Examples such as Engro and Nestlé are quoted in arguments that there is a lot of potential untapped by companies and a need for creating entrepreneur-enabling initiatives or integrating marginalised communities into corporate supply chains

THE SIGNIFICANCE OF SUSTAINABILITY REPORTING FOR PAKISTAN: GLOBAL TRADING AND THE ENERGY CRISIS

Pakistan's exports have fallen by 15.4%, from US \$24.58bn in 2012/13 to US \$20.8bn in 2015/16 (*Pakistan Today,* 16 September 2016). The Ministry of Commerce has issued the Strategic Trade Policy Framework 2015–18 with US export targets of \$35bn. As of July 2016, 60% of Pakistan's exports were to 10 countries: the US, China, the UAE, Afghanistan, UK, Germany, France, Bangladesh, Italy and Spain. The US is the biggest single buyer of Pakistani exports, taking a 17% share. European Union countries account for 22% (*Khaleej Times*, 2016).

The key reasons for the fall in exports are the global commodity crisis, domestic power shortages, a poor business climate, low external demand and exchange rate appreciation against the rupee.

Figure 1.2: Electricity in Pakistan



Global corporate reporting is becoming more relevant for enabling organisations to remain part of global supply chains and compete in a fast-changing world.

Pakistani business people are exploring more markets and different countries so as to remain connected to a globalised world and increase exports. In such a scenario, global corporate reporting is becoming more relevant for enabling organisations to remain part of global supply chains and compete in a fast-changing world. Chief executive of ICI Pakistan Limited, Asif Jooma, has said:

> 'As a diverse, growing, manufacturing and trading concern, it is vital that we monitor and manage our operations and processes so as to create maximum value for our shareholders while making the minimum impact on the world around us.'

- It is estimated that owing to energy crises, 500,000 households are affected by unemployment, as businesses have been forced to shut down because of energy shortages.
- Rs30 billion is the approximate expenditure by Pakistani households on uninterruptible power supplies (UPS) and battery chargers alone.
- About 60% of Pakistani households have some form of UPS as a backup for selected appliances during power cuts and shortages. Backup power sources are a stopgap solution, both wasteful and inefficient (Dawn 2016).

At a conference on sustainability reporting, CSR and governance organised in 2013 by the Pakistan Institute of Corporate Governance, Dr Tilo Klinner, at that time the Consul General of the Federal Republic of Germany, pointed out that growth without sustainability is worth nothing in the long run. Pakistan is an energy-deficient country Therefore, **it has to solve the energy crisis by not only producing more energy, but also conserving the available energy.** Further, in a survey conducted by the Pakistan Institute of Corporate Governance (PICG), 62% of respondents said that their organisation had a sustainable development strategy. This suggests there is a growing recognition among Pakistani businesses that sustainable development should be integrated into the planning and measurement systems of their enterprises.

SUSTAINABILITY REPORTING PAKISTAN

Since the early 2000s, Certain companies in Pakistan have been publishing reports covering, separately and in combination, the environmental and social aspects of their operations. Such reports are published either as part of their annual reports or on standalone basis.

Sustainability reports are also now frequently published by many companies in Pakistan but such reporting is not mandatory. Therefore, organisations are not bound to report separately on sustainable development.

In order to encourage companies to report about sustainable development, ACCA Pakistan and World Wildlife Fund Pakistan (WWF) jointly launched their 'Environmental Reporting Awards' in May 2002 with the aims and objectives shown in Figure 1.3.

Figure 1.3: The aims and objectives of the ACCA–WWF Environmental Reporting Awards

To recognise and reward those organisations that report and disclose environmental, social or sustainability performance.	To encourage best practices in environmental, social and sustainability reporting.
To raise awareness of reporting corporate social responsibility issues and performance.	To provide evidence of 'best in class' disclosure performance, on the basis that 'disclosure changes behaviour', with companies considering how their commitment towards sustainable business can enable them to function better to protect and enhance sustainable performance.

> ‘It is vital that environmental issues are seriously considered by all organisations, regardless of their size and nature of business.’
>
> Hammad Naqi Khan, Director General, WWF

The award process is summarised in Figure 1.4. The number of organisations entering into the award process has increased steadily over the decade. The change from 2002 to 2013 shows a landmark improvement in 2013, with around 10 times as many entries as in 2002 (109 entries as compared with 11 in 2002).

The awards were the first initiative of this kind launched in Pakistan by a global professional accountancy body. The two national accountancy bodies initiated their own sustainability awards in 2011.

Reviewing the results of the ACCA–WWF award winners in the listed companies' category from 2007 to 2013 shows that, during these six years, the Attock Refinery Limited won the awards four times and Engro Corporation and ICI Pakistan Limited twice each.

For environmental reporting, the winners included Century Paper & Board Mills Ltd, Pak Elektron Ltd, AES Lal Pir, National Refinery Limited, Hinopak Motors Limited, Atlas Honda Limited and Qarshi Industries.

This indicates growing interest among a variety of organisations in producing quality reports on the sustainability and environmental aspects of their business.

Further, two of the recipients (Attock Refinery Limited and ICI Pakistan), when contacted for comments about the significance of the ACCA–WWF award, stated that they had received global recognition as a result, and both companies have since participated in the international awards on sustainable reporting. They stated that these awards have been significant in improving the perception and image of their businesses globally.

Hammad Naqi Khan, director general of the World Wild Life Fund, Pakistan has explained that the awards were initiated to promote awareness among organisations about monitoring the impact of their business on the environment. It is vital that environmental issues are seriously considered by all organisations, regardless of their size and nature of business. Over time, companies have learnt about the importance of such reporting as part of their business processes.

Figure 1.4: Summary of the award process

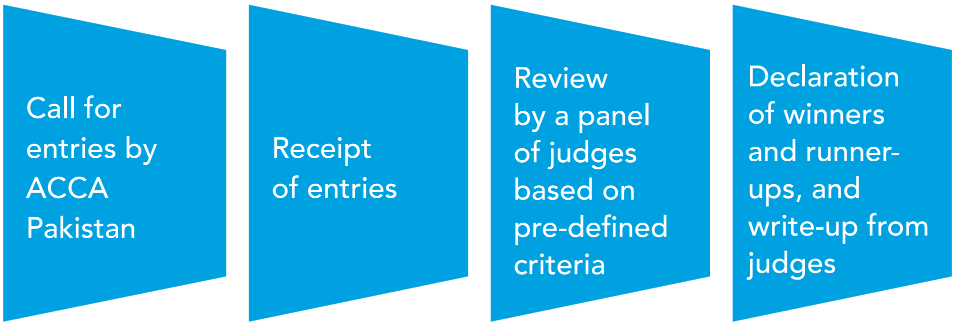
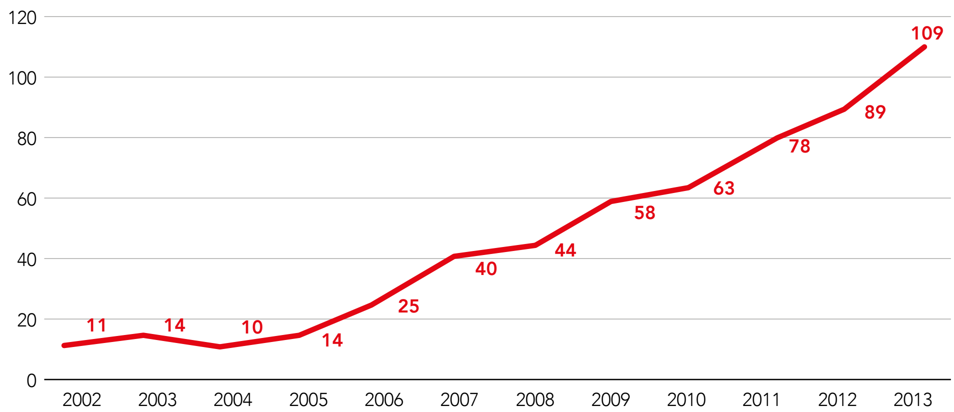
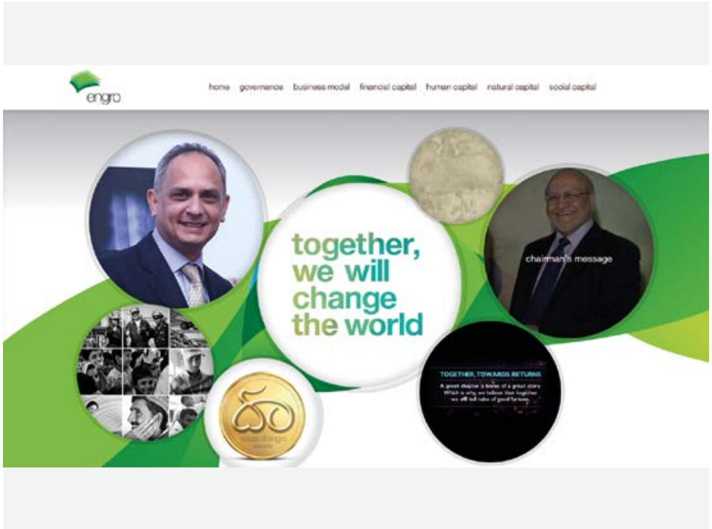


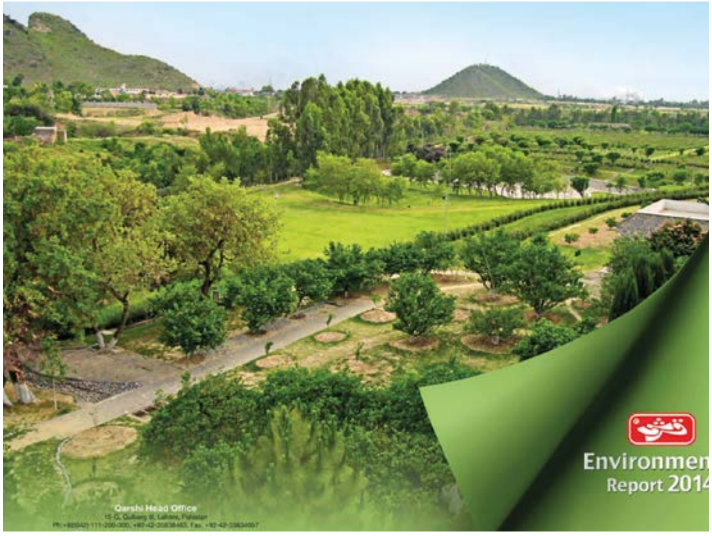
Figure 1.5: Entries ACCA – WWF Environmental Reporting Awards



Photos, top: trophies of the coveted PERA; **bottom left:** framed awards; **bottom right:** Asif Jooma (right) chief executive, ICI Pakistan Limited, receiving his company's award

Photos, top left: Engro Corporation's communications team Shamikh Zaidi (left) Naila Kassim (right) with their award; **top right:** Engro Corporation's <IR> report; **middle left:** Dr Altaf Qureshi, Manager HSEQ, Qarshi Industries Limited; **middle right:** <IR> Report published by Qarshi; **bottom left:** Adil Khattak, CEO, Attock Refinery Limited; **bottom right:** Atlas Honda receiving the PERA in 2013





2. Why do companies from Pakistan report on sustainability?

Sustainability reporting has a business case in the form of a reduction in costs achieved through process improvements and increased operational efficiency through decreasing energy consumption.

In the absence of any mandatory requirement, it appears that sustainability reporting is simply additional work for organisations' normal corporate reporting functions. Why are companies moving towards adoption of a sustainability reporting framework, providing detailed disclosures in line with the GRI standards, the Integrated Reporting Framework and in some cases, United Nations Global Compact (UNGC) standards?

A detailed discussion was undertaken with companies that provide sustainability reports and they were asked what, in the absence of any mandatory requirement, prompts a company to prepare a detailed report?

Most of the companies argued that **commitment from top management** is one of the key factors that lead to the preparation of sustainability reports. The chief executive officer's vision of adopting sustainable development as a process forms the basis of reporting. Without top management's commitment, such reporting is not possible, as it is time and resource consuming.

Further, the companies that produce sustainability reports consider that sustainable development is a continuous process. In the discussions, it was also mentioned that success in the awards was the outcome of integrated thinking within the organisation and once the sustainable development processes are integrated into the working of the company, the reporting process is undertaken to showcase the achievements to the stakeholders.

The sustainability reports are produced for both internal and external stakeholders. Internally, management considers such reporting to be a benchmark for performance related to environmental and social impact. For external stakeholders, the companies consider that the buyers in other countries are interested to learn more about the organisation's socially responsible behaviour.

In addition, such reports help to increase investors and lenders' confidence in the corporate practices adopted by the organisation.

It was also noted that such reporting has a **business case** in the form of a reduction in costs achieved through process improvements and increased operational efficiency through decreasing energy consumption. The latter is achieved by finding better ways of consuming electricity and other energy sources.

> 'Our Sustainability in Action model has been designed in accordance with global best practices. We have embedded sustainability into our business and corporate strategic objectives. We are in the process of defining both formal and informal long term commitments aimed at innovation'.

BENEFITS OF SUSTAINABILITY REPORTING

A discussion with concerned reporting entities (see Appendix) and a review of sustainability reports brings out seven key benefits that encourage production of such reports.

1. They inculcate a disciplined approach towards process improvement.
2. They enable goals to be achieved in a better and more targeted manner.
3. They can be used as a monitoring tool.
4. They encourage a better perception of the company in the marketplace.
5. They can act as a tool for obtaining feedback from stakeholders.
6. They increase transparency.
7. The allow assessment by the owners of the impact of the company's operations on the environment.

> 'The two key advantages of sustainability reporting are reduction in costs through review of all processes and the system improvement'
>
> Chief financial officer,
> Attock Refinery Limited

1. Inculcating a disciplined approach towards process improvement

Companies consider that sustainable development helps profitability and at the same time, helps the organisation to adopt a systematic approach towards process improvement. Those involved in the sustainability reporting process mentioned in the discussions that by using the checklists available in the GRI standards, their organisation is able to take a systematic approach towards improvement of processes and procedures. This helps the organisation to take a structured and step-by-step approach with clear key performance indicators that result in improved processes.

As the sustainability strategy of a company revolves around the economic, social and environmental aspects, adoption of sustainability reporting parameters helps the organisation to take a proactive approach by informing its mission statement in each of these areas. Once the goals are in place, the organisation has to achieve its stated goals through process improvement. Achieving the goals of decreasing carbon emissions, water and electricity consumption and increasing energy efficiency requires improvements in processes. When an organisation is aware that it has to report its performance and its progress on the stated goals, the processes are reviewed at length to ensure that there is marked efficiency in achieving the desired results, hence the need for a disciplined approach.

In its 2014 sustainability report, Crescent Steel explains its 'sustainability in action' model and states that: 'Our Sustainability in Action model has been designed in accordance with global best practices. We have embedded sustainability into our business and corporate strategic objectives. We are in the process of defining both formal and informal long term commitments aimed at innovation'.

Sustainability initiatives must be linked with business process improvements in order to reap the benefits of the sustainability reporting frameworks.

2. Achieving goals in a better and more targeted manner

'We use the environmental reporting as an audit tool to monitor the progress towards achieving vision based objectives for improving our efficiency. Further, we have created a dash board which helps us to monitor the progress towards our goal for making our environment better' (Iqbal Ahmed Qarshi, CEO of Qarshi Industries)..

For building and improving supply chain practices, Qarshi uses the 10 principles of the UN Global Compact covering four major dimensions:

i. human rights
ii. labour
iii. environment, and
iv. anti-corruption

Sustainability reporting helps an organisation to move towards its goals in a targeted manner by applying the best practices from the international market, learning from the experiences of similar organisations in the global marketplace and keeping in line with the global changes taking place.

Organisations use sustainability reporting as a tool for monitoring their progress towards their goals.

3. Using sustainability reporting as a monitoring tool

'What gets measured, gets managed' is an old management maxim. The progress toward the goal is to be monitored to ensure that the targets set are being achieved.

Organisations use sustainability reporting as a tool for monitoring their progress towards their goals.

One of the general comments made by the panel of judges for the ACCA–WWF awards was: 'Companies who scored well were those whose reporting enabled readers to picture their environmental, social and sustainability practices through transparent, balanced, supportable and descriptive information'.

The executives of the organisations providing sustainability reports all viewed such reports as a means of monitoring progress towards pre-determined goals and therefore enabling management to decide upon the course of action necessary if the goals are not being achieved.

4. Encouraging better perception of the company in the marketplace

The companies that provide environmental disclosures and demonstrate that they are environment-friendly are perceived better in the marketplace and by their stakeholders.

'The hallmark of a successful business in the modern world is that it effectively translates its financial returns into sustainable value that extends beyond its own boundaries, touching the lives of all its stakeholders. Being socially responsible should not only be limited to one's operations. The emphasis on sustainable value should extend beyond the doors of offices and the gates of the plants. Effective sustainable initiatives extend their benefits to all stakeholders involved. A good sustainability strategy focuses on protection of environment, safety of customers, satisfaction of employees, social development of host communities and shared growth with all business associates. It ensures that financial returns are shared with everyone thereby creating a positive change in their lives' (Saquib H. Shirazi, chief executive officer, Atlas Honda Limited; sustainability report 2015).

Muhammad Aliemuddin, manager HSEQ at Attock Refinery Limited (ARL), appreciated the efforts of ACCA and remarked that 'Based on sustainability reporting for ACCA's awards, ARL is now applying for [the] Asia Sustainability Reporting Awards being held at Singapore'. This clearly indicates a desire to show the company to be a responsible corporate citizen in the global economy.

In the discussions mentioned above, the organisations engaged in sustainability reporting claimed that sustainability reports help to build a company's positive image among its stakeholders and in the society in which it operates. In fast-moving global markets, international investors and buyers are more inclined to deal with socially responsible companies. Such responsible social behaviour is reflected in the form of the sustainability report.

This burgeoning demand for socially responsible business behaviour has been matched step for step by a number of credible supply-side efforts that help the consumer or investor objectively differentiate between 'good' corporate citizens and others. With beginnings in diverse contexts, ranging from inter-faith groups to labour unions to watchdog organisations, a set of globally acknowledged yardsticks are now available for establishing the credentials of any enterprise that wishes to be judged for its impact on society. These, including the ISO 14000 standard for environmental management systems, the SA 8000 social accountability standard, and more recently, the Global Reporting Initiative guidelines for sustainability reporting, all emerged in response to the need for a global set of implementable CSR standards. The UN Global Compact and the Johannesburg World Summit on Sustainable Development both validate this trend for CSR (Waheed 2015).

The companies producing sustainability reports tend to engage more with the environment than those companies that do not report, and, at the same time, they invite their stakeholders to provide comment and feedback on these reports.

5. Sustainability reporting as a tool for obtaining feedback from stakeholders

'Shared value creation requires focusing on financial as well as critical non-financial factors and embedding sustainability practices in business strategy and key business areas for effective management of externalities. We have been working on embedding the sustainability practices in our business processes and share our performance with our stakeholders through our annual sustainability report' (extract from a statement in the Fauji Fertilizer Company Limited annual sustainability report 2015 by Lt Gen Khalid Nawaz Khan, HI (M), Sitara-i-Esar (Retired), chairman).

The companies producing sustainability reports tend to engage more with the environment than those companies that do not report, and, at the same time, they invite their stakeholders to provide comment and feedback on these reports. Sustainability demonstrates the impact of the business operations on the surroundings. Therefore, one of the key benefits of such a report is the opportunity it gives stakeholders to comment on the social and environmental performance of the company.

6. Transparency

Sustainability is a collective process in which all stakeholders must come together for the common good. The chief executive of ICI Pakistan Limited, Asif Jooma shared the function of the company's sustainability council as:

'A multi functional team consisting of individuals from all business and functional areas of the company.'

Explaining that the council, 'steers our sustainability agenda, formulating strategy and setting targets to align sustainability related objectives with our Company's overall goals.' ICI Pakistan Limited has reported according to the internationally accepted GRI (Global Reporting Initiative) standards **'in order to present a more transparent picture of what the company is doing to achieve its economic, social and environmental objectives'.**

Sustainability reports are a step towards transparency and openness because, in following the GRI standards, organisations have to report about both the positive and negative consequences their operations.

7. Assessment by the owners of the impact of a company's operations on the environment

Through environmental reporting, the owners of the business are able to monitor more efficiently the impact of the business and company's operations on the environment.

CASE STUDY – ICI PAKISTAN LIMITED

Muhammad Zafar Farid, Manager of Corporate Health, Safety and Environment (HSE) at ICI Pakistan Limited, highlighted that one of the key 'mega trends' affecting industry worldwide is population growth. The current global population is around 7bn and is expected to increase to up to 9bn by 2050. This will create enormous pressure on available environmental resources. Further, a new middle class of around 2bn people is expected to emerge in the next 20 years. Climate change will affect everyone on the planet. Hence, there needs to be consideration for all these factors in the way that a company conducts its operations.

While discussing the reason for sustainability reporting, Farid pointed out that there is currently no mandatory requirement in Pakistan in this regard. ICI Pakistan Limited started sustainability reporting in 2008 and for the last several years, has voluntarily elected to continue this initiative as the management feels this practice offers various benefits to the organisation.

Benefits to ICI Pakistan Limited

Farid elaborated upon the following key benefits that ICI Pakistan Limited has obtained from sustainability reporting since 2008.

1. Employees' satisfaction and morale have improved. Employees like being part of a reputable organisation that is aware of its responsibilities with regard to the environment.

2. Stakeholder confidence has been positively impacted. Customers of ICI Pakistan Limited have mentioned their appreciation of the work done by the company in various segments, particularly with regard to water conservation.

3. Sharing of knowledge: certain customers, after going through the reports, have asked ICI Pakistan Limited to provide support to their own organisations, enabling them to adopt best practices with regard to sustainable development processes. Recently, a team from the Polyester Business of ICI Pakistan Limited supported customers who were facing energy issues by providing them with information about the latest technology and replacing machinery that uses too much energy.

Further, ICI Pakistan Limited considers that sustainable reporting supports its licence to operate. The Environmental Protection Agency of the Pakistan government (Pak-EPA) periodically sends teams to the company's Polyester and Soda Ash plants to observe best practices.

While sustainability reporting in principle aligns well with the Company's vision, brand promise, and values, the reporting of sustainability data in accordance with GRI reporting standards offers the added benefit of documentation of HSE performance in line with globally-accepted, standardised criteria.

Global recognition

GRI-compliant reports are accessible to global audiences. The benefits of this are demonstrated by the following case. After examining the ICI Pakistan Limited sustainability report for the year 2012, the University of Lausanne, Switzerland, nominated one of its PhD candidates to visit ICI Pakistan Limited and verify the claims made in the report. The candidate met employees and provided them with a questionnaire designed to ascertain whether employees were aware of sustainable development as a process, as mentioned in the report.

Ultimately, ICI Pakistan Limited went on to win the competition organised by the University of Lausanne. The international recognition, in turn, positively impacted the Company's image.

Key challenges faced by ICI Pakistan Limited in relation to sustainability reporting

Farid elaborated on the challenges faced by the company.

- The first challenge was with regard to the compilation and consolidation of data. ICI Pakistan Limited consists of four diverse business units, each with vastly differing operations and processes. Hence, extensive data integration was required across the board. This proved to be a challenge initially, but over time, the company developed its own comprehensive database (in-house software known as an 'EPM database'), through which to track, compile and consolidate all the relevant sustainability-related data and the company's impact on the environment.

- Another challenge related to building the capability of employees with regard to the value-addition of sustainability reporting.

- The third challenge was defining targets for Economic, Social and Environmental Performance, with the most critical aspect of this being the setting of five-year targets in each category. The company considers it a tremendous achievement that all targets were duly met during the last three five-yearly cycles. This was made possible by strong teamwork and a sustained focus on achieving targets.

A sustainable approach to business can also enhance the brand value of the company. It develops an association with good virtues and values, attracting customers in whatever shape or form, as well as talented employees.

TRIPLE BOTTOM LINE – AN INITIATIVE IN PAKISTAN

Keeping in view the significance of sustainability reporting, *Triple Bottom-Line* (www.tbl.com.pk) was launched in January 2008 as the country's first and only knowledge-based, CSR-focused publication. Supported by two leading national companies, English Biscuit Manufacturers Pvt. Ltd. (EBM) and National Foods Limited (NFL), the bi-monthly TBL was sent free of charge to a researched list of decision-makers and opinion-formers in the corporate sector, the government, media, academia, NGO sector, and international institutions active in Pakistan.

There are various reasons for organisations to report on sustainability, including the following:

- Customers, particularly those in European markets, increasingly reward companies that disclose their sustainability impacts. Consumers buying from Pakistani companies want to be sure that they do not contribute to exacerbating the widespread poverty but, rather, that they contribute to eradicating it.

- Reporting using a standardised framework is a way of showing that a company is transparent and accountable and so can build trust between the customer and the business or the purchasing company and the supplier. If companies disclose information by following a standardised approach, it enables comparability between organisations both within Pakistan and internationally. Customers can use this information to evaluate the performance of one company against another with respect to certain indicators, such as the total number of employees by age, which shows that a company is not relying on child labour. They can also use this sustainability information to benchmark organisations' performance with respect to laws, norms, codes, performance standards and voluntary initiatives. Disclosure can also improve a company's access to capital because the investment community trusts companies that openly present sustainability information.

- A sustainable approach to business can also enhance the brand value of the company. It develops an association with good virtues and values, attracting customers in whatever shape or form, as well as talented employees. A study conducted by PricewaterhouseCoopers of 3000 graduates in the UK, US and China found that 87% of respondents said that they would deliberately seek to work for employers whose corporate responsibility reflected their own ethics and values (PwC 2007).

- There are also internal benefits because the process of gathering sustainability data is a useful internal management tool. The process of producing reports enables businesses to identify operational inefficiencies, cut waste and save money for the company. For listed companies this helps enhance shareholder value. Just as an external stakeholder can benchmark company performance from the information disclosed in these reports, this benchmarking information can also be helpful for the internal management of a company and drive improved performance (Miles Hills 2016).

Miles Hills (2016) also comments that sustainability disclosures are only useful for all parties insofar as companies disclose information that is relevant to the organisation and its stakeholders. If companies, based in Pakistan or elsewhere, fail to present comprehensive and comparable information about their economic, environmental and social impacts, and gloss over the material issues, then their reports are not much use to either internal or external stakeholders.

3. Environmental, CSR and GRI reporting in Pakistan: an overview

Environmental reporting is a public disclosure of the information about a company's environment performance, including its impacts on the environment, its performance in managing those impacts and its contribution to ecologically sustainable development.

The government of Pakistan has established the Pakistan Environment Protection Agency (PEPA), which is responsible for enforcement of the PEPA-1997 rules and regulations, and approves the Environmental Impact Assessment (EIA) and Initial Environmental Examination (IEE).

PEPA is mandated to prepare or revise, and establish the National Environmental Quality Standards (NEQS) with the approval of the Pakistan Environmental Protection Council (PEPC); to take measures to promote research and the development of science and technology that may contribute to the prevention of pollution, protection of the environment, and sustainable development; to identify the needs of, and initiate legislation in, various sectors of the environment; to provide information and guidance to the public on environmental matters; to specify safeguards for the prevention of accidents and disasters that may cause pollution; and to encourage the formation and working of non-governmental organisations, community organisations, and village organisations to prevent and control pollution and promote sustainable development (Pak-EPA 2016).

Environmental reporting is a public disclosure of the information about a company's environment performance, including its impacts on the environment, its performance in managing those impacts and its contribution to ecologically sustainable development. The key reasons for an organisation to report on its environmental impacts include:

- the fulfilment of its corporate social responsibility
- the disclosure of information to its stakeholders
- the capacity-building of employees for activities related to improvement of the environment
- improvement of the company's image
- compliance with the National Environmental Quality Standards.

International buyers are conscious of fuel efficiency, carbon emissions and other environmental performance indices as factors influencing the purchase decisions.

WHY ARE ORGANISATIONS REPORTING ON THEIR ENVIRONMENTAL IMPACTS?

In discussions with the winner of the Environmental Reporting Award, Qarshi Industry, Dr Altaf Hussain Altaf, chief of Qarshi Herb Research Centre, Qarshi Industries (Pvt.) Ltd, he explained that the benefits of environmental reporting may vary from one company to another, but some of the key benefits are:

- the decrease in consumption of natural resources such as water and energy, and in waste production
- the consequent decrease in operational costs and costs of waste disposal
- improvement in stakeholder relationships
- favourable environmental risk ratings
- enhanced trust in both the company and its products due to consumer consciousness about the environment
- an increase in environmental awareness among executives and employees.

It should be noted that environmental issues pose risks that could seriously damage business activities. At the same time, these issues present opportunities for creating and expanding new business, as long as such challenges are anticipated and dealt with. Qarshi Industries, with its 250 products and exports to over 29 countries, recognises the climate change and energy issues as the greatest challenges to address.

Altaf further argued that environmental reporting supports the audit, which makes a company more receptive to new developments. **Like financial reporting, environmental reporting forces a high level of organisational transparency. This allows for feedback from informed stakeholders on the environmental performance of the company.**

Nonetheless, environmental reporting has its own challenges. The key challenges include issues of climate change, resource availability and biodiversity.

DEALING WITH ENVIRONMENTAL CHALLENGES

So, what are companies in Pakistan doing to deal with these environmental challenges?

From discussions at Qarshi Industries, it was evident that the companies dealing with international markets are concerned about and mindful of the changing global standards, with a particular focus on the environment.

International buyers are conscious of fuel efficiency, carbon emissions and other environmental performance indices as factors influencing the purchase decisions.

Such changes in consumer values and market needs may result in reputational risk, if companies do not adhere to the global standards. Thus, fuel-efficient mechanisms and other technologies are being put in place to reduce carbon emissions and create a positive effect on the environment. Further, global warming, resource depletion and other related issues are likely to compel buyers to move towards a demand for a diverse energy mix. Some companies are developing products that use alternative energy sources. Large-scale alternative power generation units are being planned to promote energy diversification.

'Qarshi sees [the] resource issue as the greatest environmental risk after [the] climate change issue and [the] energy issue. The depletion and resulting difficulty of obtaining raw materials and other resources used in our products possess a huge risk to our business continuity. In response, we are promoting stable procurement and effective utilisation of available resources, developing alternative technologies and developing recycling technologies and reuse them. Through this effort, we are aiming for stable business operations and to create opportunities for business expansion. We are also aware of the various risks associated with the collection, disposal and recycling processes and are building systems suited to us', Altaf elaborated, when he was asked about the issues that are considered in the preparing of the environmental report.

The companies that are reporting in line with GRI standards include those organisations that are dealing with international supply chains in one way or another, where such reporting standards are required by the parties involved for transparency and credibility purposes.

THE REPORTING OF CORPORATE SOCIAL RESPONSIBILITY (CSR) IN PAKISTAN

Companies use resources (natural and human) from their environment to run their business. In the process, these companies deplete the available resources and have an impact on the environment in which they operate. Globally, the concept of corporate social responsibility initiated with the realisation that companies should be held responsible for their impact on the environment. Hence, companies should be held responsible to society.

In Pakistan, CSR is frequently equated with corporate philanthropy, the terms often being mistakenly used synonymously. Some consider CSR to be a simple compliance with law. This creates a difficulty because in many companies top management is still uncertain about the true meanings of CSR. This indicates the need for a mass awareness campaign supported by the government, targeting business people, entrepreneurs and customers so that they are able to appreciate CSR as well as the general perils of non-compliance in today's environment. Frequent and open discussion defining and explaining CSR, detailing its nature and promoting and developing methodologies that local businesses can adopt and use to manage their CSR obligations would be a useful first step.

Muhammad Imran, director of projects and training at the Corporate Social Responsibility Centre, Pakistan[3] has said that there is a long way to go in the adoption of international reporting standards other than finance. Many companies are still learning about the international GRI standards. The companies that are reporting in line with GRI standards include those organisations that are dealing with international supply chains in one way or another, where such reporting standards are required by the parties involved for transparency and credibility purposes.

Imran further explained that the link between CSR and organisational performance has been established via the concept of sustainability by integrating economic planning with social and environmental considerations. The benefits have four aspects.

1. CSR can reduce direct cost (energy, materials, etc) – through sustainable use of resources.

2. CSR can improve the productivity of workers (increased motivation, lower absenteeism and reduced staff turnover) – by involving them in policies through stakeholder engagement and the company's contribution through HR and social dimensions

3. CSR can reduce management risk (easier access to credit, increased value of assets for investors, etc) – through establishment of a governance system with a focus on sustainability objectives.

4. CSR can improve the competitive image of the organisation – by getting extended support from stakeholders.

Figure 3.1: The benefits of CSR adoption

Reduction in direct costs	Improvement in productivity of workers	Reduction of management risks	Improve competitive image of the organisation
Through sustainable use of resources, the direct costs (energy, materials, etc) are reduced.	Increased motivation, reduced absenteeism and reduced staff turnover – by involvement in policies through stakeholder engagement and company contribution on HR and social dimensions.	Easier access to credit, increased value of assets for investors, etc – through establishment of a governance system with a focus on sustainability objectives.	By getting extended support from stakeholders.

3 More about the Corporate Social Responsibility Centre, Pakistan can be found at www.csrcp.com

> While commenting on the need for Integrated Reporting (<IR>) in Pakistan, Imran argued that Pakistan needs it because investors need this information for making prudent investment decisions.

While commenting on the need for Integrated Reporting (<IR>) in Pakistan, Imran argued that Pakistan needs it because investors need this information for making prudent investment decisions. Further, accounting ratios (earnings per share (EPS), dividends, etc.) do not tell the full story. Although the annual reports of leading companies in Pakistan include some information related to the basic elements of <IR>, there is only one company that uses an <IR> format. The major impediment to providing an integrated report is the lack of data.

Imran also stressed the need for accountants to play their role. Accountants act in the following areas to create and increase CSR.

- **Sustainability management** – This involves managing risk, measuring and managing performance and reporting performance internally and externally though voluntary and compulsory initiatives.
- **External reporting of sustainability information** – This requires relevant, accurate and complete data. Professional accountants understand the need for quality data and robust systems to capture, maintain and report performance.
- **Non-financial systems** (including those capturing sustainability performance data and other information). Professional accountants can help access and improve these controls and systems.
- **Influencing behaviour** – the finance function is usually best placed to incorporate sustainability considerations into the business case, and into capital expenditure decisions, cost allocation and integration with remuneration and strategy.

Imran remarked that the accountants have another important role: that of supporting organisations in disseminating the impacts of CSR activities to wider range of stakeholders through reporting on CSR. The reporting framework for CSR reports includes the Accountability 1000 framework created in 1999; this is a set of standards that focus on performance indicators, targets and reporting systems. It also has stakeholder engagement as a fundamental principle. The other most widely used reporting framework is developed by the Global Reporting Initiative (GRI). GRI was established to provide global guidelines for the reporting of social and environmental information, and to ensure consistent reporting. The GRI's vision is to achieve a situation where 'reporting on social performance by all organisations is as routine and comparable as financial reporting'. It provides a Sustainability Reporting Framework 'of which the Sustainability Reporting Guidelines are the cornerstone' and 'provides guidance for organisations to use as the basis for disclosure about their sustainability performance, and also provides stakeholders a universally-applicable, comparable framework in which to understand disclosed information'.

Hammad Siddiqi, country director of the Centre for International Private Enterprise, while commenting on CSR stated that the concept of philanthropy in Pakistan is embedded in the culture. Therefore, when the term CSR is used, the organisations consider it to be a form of charity or donation. There is a need to link CSR initiatives with the sustainable development goals. There are two types of business organisation in Pakistan: multinational companies and domestic Pakistani companies. There is a need to move beyond the 'charitable' model towards developing an indigenous model based on local environmental needs.

GRI REPORTING IN PAKISTAN

There are many different reasons why organisations decide to implement a GRI reporting process, but the idea of finding value in the process itself is rarely there from the outset. The value only becomes apparent during implementation and execution.

Even so, the value of such a process is not always a 'low hanging fruit' just there to be picked by all organisations. Organisations have different ways of uncovering this value, as well as creating further benefits from the process. Nor are the value, or the challenges, always clear at the beginning. The number of organisations using the GRI Guidelines is growing and now involves organisations of all sizes and types in many countries worldwide.

4. Sustainability reporting in Sri Lanka and a comparison with Pakistan

A National Action Plan for the Haritha (Green) Lanka Programme was developed and launched in Sri Lanka in 2009.

In a 2012 report from the Ministry of Environment, Sri Lanka, D.M. Jayarathna, at that time the prime minister of Sri Lanka, stated that:

> 'Sustainable development is a process. There are three main conditions that need to be satisfied before the process is set in motion: namely, changes in thinking, deciding and executing. In thinking, we have to break away from old concepts, attitudes and approaches. Today, our understanding of human development is materialistic. We should now change the direction of our thinking to higher realms of moral and spiritual upliftment'
>
> UN Conference on Sustainable Development 2012

GREEN REPORTING SYSTEM IN SRI LANKA

A National Action Plan for the Haritha (Green) Lanka Programme was developed and launched in Sri Lanka in 2009. The Programme is administered by the National Council of Sustainable Development established under the presidential secretariat at Sri Lanka. The Ministry of Environment provides secretariat facilities for the council.

In 2011, the Ministry of Environment, Sri Lanka launched the 'National Green Reporting System of Sri Lanka'. The Green Reporting System is a framework for enabling organisations to become transparent through sustainability reporting. The ministry considers that producing a sustainability report will enable an organisation to measure, disclose and be accountable to both internal and external stakeholders for its organisational performance in achieving sustainable

Nearly 120 manufacturing and services sector organisations have been associated with the reporting system and green reports have been submitted annually (Ministry of Mahaweli Development and Environment 2011).

development. The National Green Reporting System of Sri Lanka is based on the GRI G3 Guidelines and suggests that organisations use the ISO 26000 Standard for Guidance on Social Responsibility for designing and implementing internal sustainability mechanisms. A National Green Reporting Unit is established within the Sustainable Development Division of the Ministry of Environment as the secretariat for the National Green Reporting System. The National Green Reporting System of Sri Lanka focuses on:

1. profit / economic aspects
2. the planet / environment
3. people / social aspects.

The five tiers of the green reporting system – Sri Lanka

There is a five-tier system established for reporting entities under the Green Reporting system, shown below in Table 4.1.

Nearly 120 manufacturing and services sector organisations have been associated with the reporting system and green reports have been submitted annually (Ministry of Mahaweli Development and Environment 2011).

The Ministry of Environment, Sri Lanka considers that the main business drivers for engaging in Sustainability Reporting include:

- **improved operational performance** – reduction in operating costs, optimum use of resources and improvement in operational efficiency;
- **improved stakeholder relationships** – building of trust and improved communication through continuous engagement with various interest groups;
- **improved risk management** – better understanding of, and dealing with, non-financial risks appropriately, which saves organisations' time and money and avoids loss of reputation; it also leads to a reduction of liabilities through integrated risk management;
- **improved investor relationships** – a sustainability report helps an organisation to meet the growing demand for ethical investment funds, by enhancing transparency and accountability;
- **identification of new markets and/or business opportunities** – the need for

Figure 4.1: About Sri Lanka

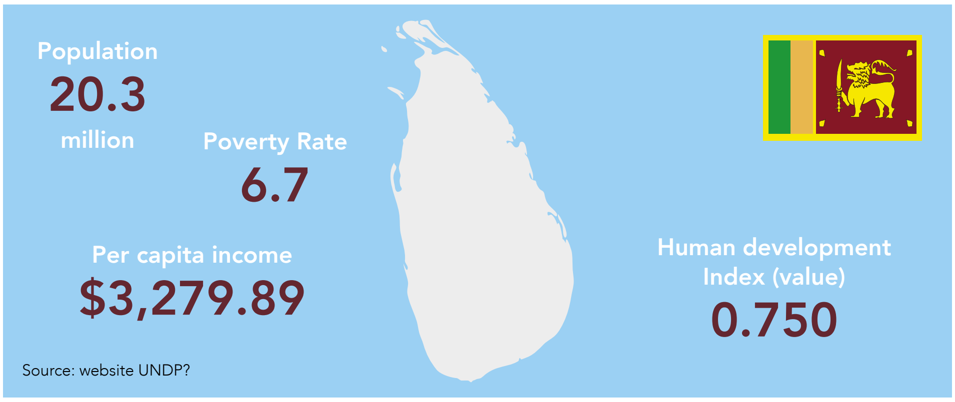


Table 4.1: The five tiers of the Sri Lankan Green Reporting system

TIER	DESCRIPTION
1	Industries accept the Green Reporting System in principle
2	Voluntary reporting by industries
3	Mandatory reporting by industries based on voluntary selection of parameters that are measurable and verifiable
4	Mandatory reporting by industries – reporting in accordance with a selected set of mandatory parameters that are measurable and verifiable
5	Mandatory reporting by industries – reporting in accordance with all the parameters listed in the reporting system that are measurable and verifiable

To promote sustainable development, Sri Lanka has formulated and implemented a considerable number of policies that safeguard the environment during development.

human activities to become more sustainable drives development of innovative products and services, facilitating access to new market, and

- **improved public value of organisation** – enhancement and maintenance of reputation and brand value.

To promote sustainable development, Sri Lanka has formulated and implemented a considerable number of policies that safeguard the environment during development; among them are the Caring for Environment 2003–2007 policy and the National Environmental Policy of 2002.

As at 30 September 2016, the Colombo Stock Exchange (CSE) listed 295 companies representing 20 business sectors. The revised Code of Corporate Governance and Best Practices implemented in 2013 provides details about the sustainability reporting principles and guidelines for these companies. It states that: **'Sustainability is a business approach that creates long term stakeholder value by embracing opportunities and managing risks derived from economic, environmental and social developments and their potential implications and impacts on the business activities of the entity'.**

The referred Code also defines sustainability reporting as the practice of **recognising, measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development in the context of the overall business activities and strategy of the entity and is directed at the target stakeholders: usually, shareholders, employees, consumers, society and government.**

The following principles of sustainability reporting have also been explained in the Code:

- economic sustainability
- the environment
- labour practices
- society
- product responsibility
- stakeholder identification, engagement and effective communication
- formalisation of sustainable reporting as part of the company's reporting process.

As in Pakistan, Integrated Reporting (<IR>) is new to Sri Lanka and there are no legislative or other requirements for organisations to prepare integrated reports.

The Code states that sustainability reporting is a board responsibility and that it should link sustainable issues more closely to the organisation's strategy. The Code also suggests that sustainability reporting can be based on different guidelines, including the National Green Reporting System, the GRI Guidelines, the AA 1000 framework and Stakeholder Engagement Standards, UN Global Compact, ISO 9000 Quality Management Assurance Standards, ISO 14000 Environmental Standards, ISO 26000 on Social Responsibility and OHSAS 18000 Occupational Health and Safety Standards. The Corporate Governance Code has been included as a listing rule.

INTEGRATED REPORTING COUNCIL SRI LANKA – AN INITIATIVE TOWARDS SUSTAINABLE DEVELOPMENT PRACTICES

As in Pakistan, Integrated Reporting (<IR>) is new to Sri Lanka and there are no legislative or other requirements for organisations to prepare integrated reports. Therefore, organisations that include the principles of <IR> in their annual reports do so on a voluntary basis.

Nonetheless, in one of the major developments towards <IR>, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) launched the Integrated Reporting Council (IR Council) in 2016, comprising professionals from the accountancy and non-accountancy sectors, regulators and academics. The main purpose of the IR Council is to establish a platform to allow networking among people who are interested in the concept of <IR> and who have an interest implementing it in their corporate reports.

The main objectives of the IR Council are to promote inclusive and concise corporate reporting of how entities create value through their business model and how they use stakeholder engagement, risk and governance processes to achieve sustainable development; to identify related needs of all stakeholders who are interested in integrated reporting issues and the best manner in which those needs could be fulfilled; to raise the awareness of integrated reporting by initiating seminars, conferences, roundtable discussions and technical publications; disseminate knowledge of <IR> among corporates and accounting professionals and provide guidance on <IR>; to collaborate with statutory bodies for promoting <IR>; and to carry out research and studies in relation to <IR> (Colombopage 2016). Sarah Grey, director of the International Integrated Reporting Council, while addressing the audience at the launch ceremony stated: 'This is the first IRC in the whole of Asia. I expect it to impact Sri Lanka quite positively in terms of how businesses with strategy and resilient business value can attract local and global markets and enhance financial stability and sustainable development' (*Daily FT*, 2016).

In November 2004, ACCA Sri Lanka initiated its Sustainability Reporting Awards. The Awards are endorsed by the Ministry of Environment and the Global Compact Network Ceylon.

Table 4.2: Comparison of sustainability initiatives in Sri Lanka and Pakistan

	SRI LANKA	PAKISTAN
Population	20.3m	185.1m
Number of listed companies	295	559
Sustainability reporting specifically mentioned in the Code of Corporate Governance	Yes – Detailed guidelines and principles provided	No – Mentioned as part of the Directors' training programme
Key ESG guidelines	Green Reporting System by the Ministry of Environment (2011)	Voluntary CSR guidelines provided by the Securities & Exchange Commission of Pakistan (2013)
IR Council at national level	Yes – formed in 2016	No, although a national CSR forum was formed in 2015

5. Recommendations

Companies in Pakistan, by and large, are aware of the need for transparency, a better corporate image, and the importance of harmony for global reporting.

Companies in Pakistan, by and large, are aware of the need for transparency, a better corporate image, and the importance of harmony for global reporting. Nonetheless, there are issues and challenges related to management commitment and availability of data for such reports and integrating the sustainable development process into business operations. There are a few recommendations that can be considered for increasing sustainable reporting in Pakistan, and these are outlined below.

1. AWARENESS SESSIONS

Pakistan has a long way to go in developing integrated and sustainability reporting. There is a need for creating awareness about the benefits that a company can obtain through sustainability reporting. The board needs to create the right 'tone at the top' to focus management on the adoption of sustainable development as a process in the organisation, resulting in appropriate reporting. Therefore, awareness sessions for chief executive officers and beneficial owners of a company are expected to result in an increase in the number of reporting entities.

2. SHOWCASING THE ACHIEVEMENTS OF ORGANISATIONS

In discussions carried out when this report was being prepared, some organisations that are reporting on sustainability clearly claimed various benefits that they obtain from such reporting. The examples of those companies need to be showcased as role models for the organisations that are yet to report on sustainability-related matters.

3. POLICY-LEVEL INTERVENTIONS

- At present, reporting on sustainability is not mandatory. Once such reporting is made mandatory, it will gradually become linked with the contribution of the organisation towards the achievement of Sustainable Development Goals. Further, a significant boost can be witnessed in the number of entities reporting about sustainable development on a standalone basis, if such reporting is mandatory.

- Pakistan is expected to witness enormous investment in infrastructure, transportation and power projects from 2016 to 2030, related to the 'China Pakistan Economic Corridor' (CPEC). All the projects will have an impact on the environment. Hence, sustainable reporting for CPEC projects would ensure that the companies engaged in related business activities adopt adequate sustainability reporting.

4. CAPACITY-BUILDING SESSIONS

The capacity of the executives working in various organisations needs to be further strengthened, enabling them to understand the sustainable development process and reporting requirements in a holistic manner. Such training sessions will help company executives to adopt integrated thinking within the organisation.

5. AWARD CATEGORIES

The ACCA–WWF PERA awards are recognised by companies as one of the pioneer awards programmes in the country. Going forward, ACCA may consider having a separate category for CSR and sustainability for SMEs.

Acknowledgements

The authors are grateful to the following for their contributions to the preparation of this report.

Muhammad Aliemuddin and his team
Manager, Health, Safety, Environment and Quality, Attock Refinery Limited

Assad Abbas
Chief Financial Officer, Attock Refinery Limited

Hammad Naqi Khan
Director General, World Wild Life Fund Pakistan

Hammad Siddiqi
Country Director, Centre for International Private Enterprise (CIPE)

Iqbal Ahmed Qarshi
Chief Executive Officer, Qarshi Industries

Muhammad Imran
Director, Training Centre for CSR Pakistan

Muhammad Zafar Farid
Manager, Corporate Health Safety and Environment (HSE), ICI Pakistan Limited

Zohra Sarwar
Securities & Exchange Commission of Pakistan

ACCA Islamabad and Lahore Team.

Appendix

About the organisations referred into the report

ATTOCK REFINERY LIMITED (ARL) – www.arl.com.pk

ARL is the pioneer of crude oil refining in the country with its operations dating back to 1922. Backed by a rich experience of more than 90 years of successful operations, ARL's plants have been gradually upgraded / replaced with state-of-the-art hardware to remain competitive and meet new challenges and requirements. ARL's current nameplate capacity stands at 53,400 bpd and it possesses the capability to process lightest to heaviest (10-65 API) crudes. The Company is ISO 9001, ISO 14001, ISO/IEC 17025, OHSAS 18001 certified and is the first refinery in Pakistan to implement ISO 50001 (Energy Management System).

CRESCENT STEEL AND ALLIED PRODUCTS – www.crescent.com.pk

Crescent Steel and Allied Products Limited is a conglomerate corporation listed on the stock exchange. Starting operations with a pipe manufacturing facility in March 1987, Crescent Steel now has diversified businesses in four defined sectors – engineering, textiles, capital markets and power – spread over five campuses.

QARSHI INDUSTRIES – www.qarshi.com

Qarshi Industries (Pvt.) Ltd. is one of the largest natural products manufacturers in Pakistan. It is a modern and progressive facility that manufactures and markets leading brands that have become household names. Qarshi is engaged in promoting healthy living for seven decades. It has been offering a blend of age-old Oriental and Greek herbal preparations combined with the latest advancements in science and technology to provide safe and effective products to its consumers.

ICI PAKISTAN LIMITED – www.ici.com.pk

With over 70 years of successful operations across the country, ICI Pakistan Limited is a leading Pakistan-based manufacturing and trading company consisting of four diverse Businesses: Polyester, Soda Ash, Chemicals and Life Sciences. Through these Businesses, the Company manufactures and trades in a wide range of products including: polyester staple fibre (PSF), soda ash, general and specialty chemicals, toll-manufactured pharmaceuticals, nutraceuticals, animal health products and agricultural products (including chemicals, field crop seeds, vegetable seeds and more). The Company also has a management stake in the infant milk formula business under the name of NutriCo Pakistan Private Limited.

ENGRO LIMITED – www.engro.com.pk

Engro has a varied business portfolio, which includes fertilisers, foods, chemical storage and handling, trading, energy and petrochemicals. Fuelled by the vision of becoming the premier Pakistani enterprise with a global reach and passionately pursuing value creation for all stakeholders, Engro's investments in agriculture, foods, energy and chemicals are all designed to deploy inclusive business models to pursue an integrated and inclusive growth for all who interact with the business.

FAUJI FERTILIZER COMPANY LIMITED – www.ffc.com.pk

Fauji Fertilizer Company Limited (FFC) is the largest chemical fertiliser producer in Pakistan, with the biggest market share in the country. It was established by the Fauji Foundation, which holds a controlling interest.

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