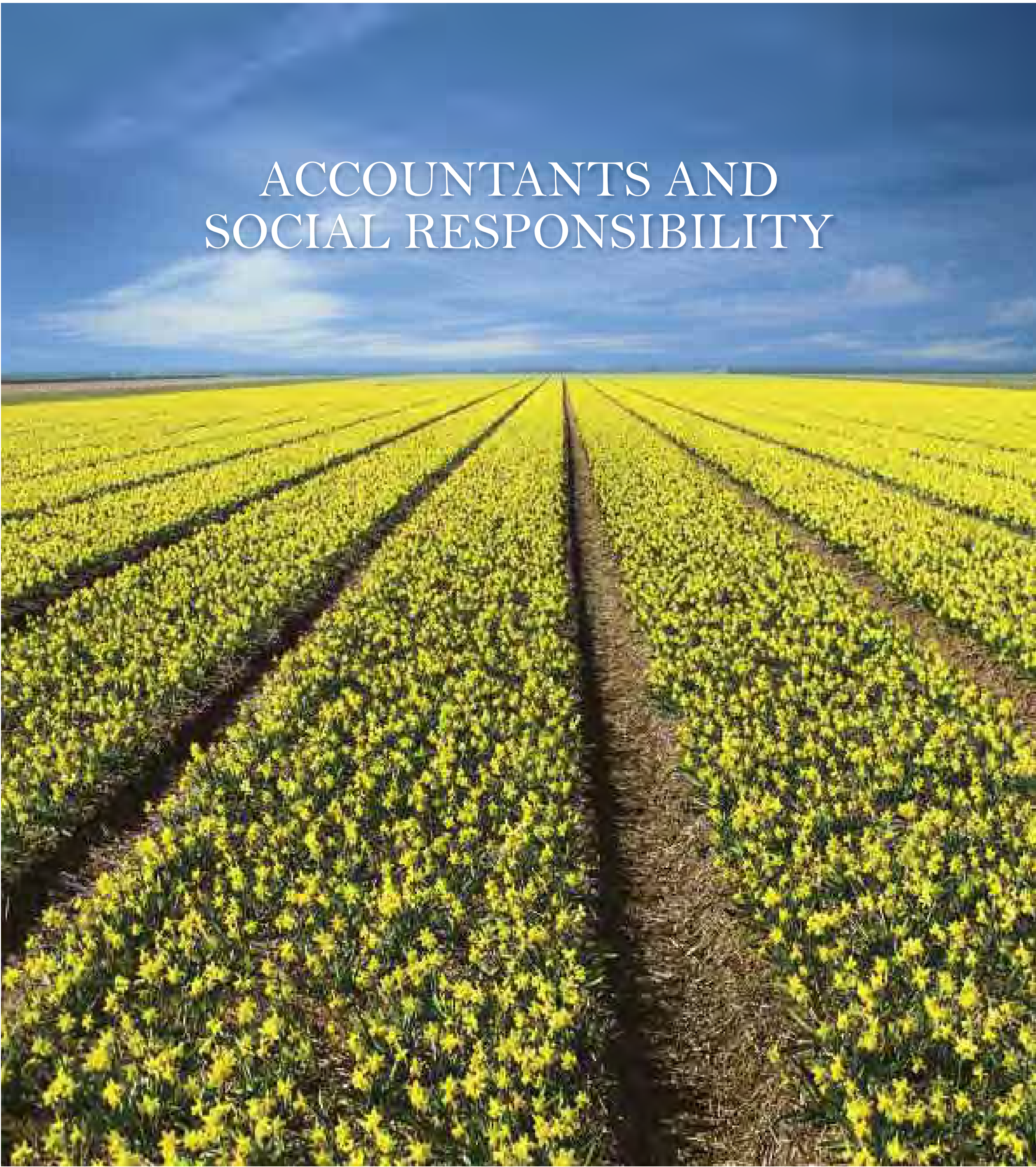
APR - JUN 2011

THE PAKISTAN ACCOUNTANT

Magazine of The Institute of Chartered Accountants of Pakistan



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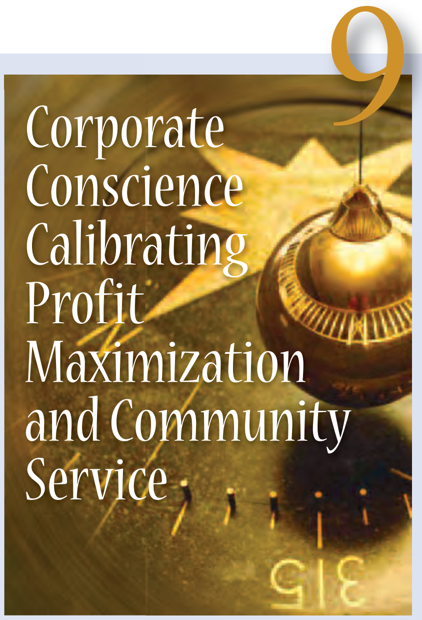

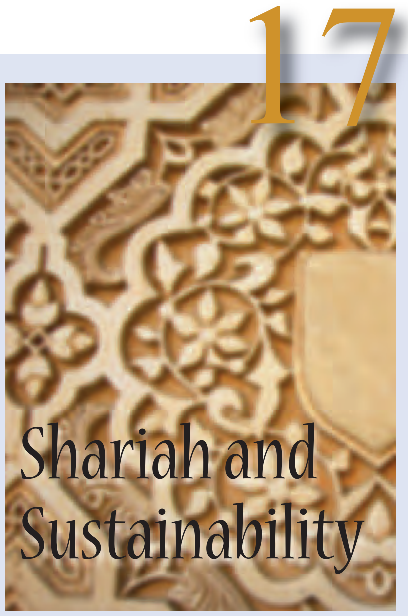

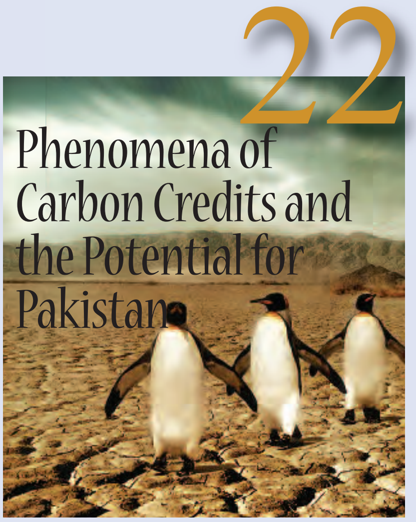

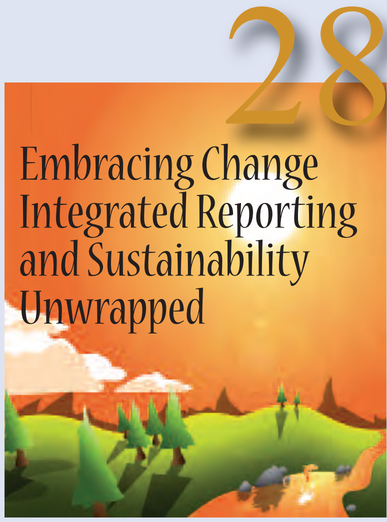

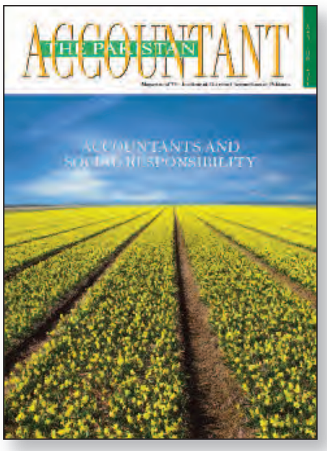

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Editor's Letter

"Concern for man and his fate must always form the chief interest of all technical endeavors; Never forget this in the midst of your diagrams and equations." Albert Einstein

We as an accountant have a crucial role in building the future of the nation as we hold a fiduciary position in nation building, if we discharge this responsibility with integrity and accuracy, growth and improvements in lifestyle will follow. It is our prime responsibility to ensure that the business as conducted is reported truly and fairly.

The increasing emphasis on corporate social responsibility and accountability has seen companies grappling with the challenge of ensuring that future generations are not burdened with the residual fallout of unethical, amoral or unsustainable business practices. Companies should account for the "triple bottom line", including measuring the ethical, environmental and social impacts of their operations. All these developments have increased the responsibility of us accountants. Companies no longer are only accountable to shareholders for sustaining a viable financial return on their capital investment but rather are increasingly expected to act responsibly towards their broader stakeholders as well.

Across the globe, organizations and governments are implementing measures to be more socially responsible. Corporate Social Responsibility is no more restricted to being on the paper. There are two main purposes of corporate responsibility standards. One is to help drive and improve corporate performance through more responsible and accountable business practice. The other is providing a clear and common understanding of what is meant by 'sustainable development' and 'corporate responsibility (CR)' and the tools that drive them.

Despite an increased demand for corporate accountability the emerging dominant global practice is through voluntary disclosure. However, this increases the risk of some companies selectively disclosing information, placing them in a favorable light. Stakeholder demands for comprehensive and transparent CSR-related disclosures and accordingly increased organizational accountability raise concerns about completeness, validity, accuracy and reliability of CSR disclosures. At the same time many CSR disclosures can simply be taken as "window dressing" or "green-washing".

The credibility gap characterizing CSR reporting can be bridged by professional auditors providing CSR assurance. Accountants should take the lead in managing risk of maintaining CSR besides their traditional role in financial reporting.

Adnan Zaman

President's Page

The increasing emphasis on corporate reporting has greatly broadened the role of the accounting professionals. Although the profession has continuously undergoing transformations, the new expectations add a new forte of responsibility on us; ensuring accountability for the future generation.

A major aspect of accountants' contribution is the ability to provide a mechanism for holding corporations accountable for what they do. The professional background and orientation of accountants equip them with the necessary qualities for applying sustainability issues thereby making them a sought after resource for their organizations. Corporate Social Responsibility (CSR) encompasses a variety of issues like ethics, governance, social activities product safety, human rights and environmental activities. When considering CSR from the perspective of the accounting profession, it is necessarily and inextricably linked with social accounting. I believe that it is our responsibility that Pakistan does not lag behind the countries adapting and implementing Social Accounting.

The role of the Accountants is not restricted to setting the agenda and laying the groundwork for corporate responsible behavior in their companies. The accountants need to ensure that social responsibility is on the board's agenda of corporate governance issues. I believe we need to continually educate ourselves and keep abreast of the existing standards and global initiatives relating to CSR and use them as yardsticks to measure their organization's performance. In this regard the ICAP Golden Jubilee Conference on "Accountants and Social Responsibility" is being held in Karachi on July 26 and 27 2011 which is expected to be largely attended.

In increasingly difficult economic circumstances, some might argue that sustainability reporting may seem like a luxury to be postponed for better times, but in reality in view of the climate change and the magnitude of the solutions it provides for humanity it cannot be delayed. Social accounting challenges conventional accounting in particular financial accounting, giving a narrow image of the interaction between society and organizations, thus artificially constraining the subject of accounting.

The accounting bodies across the globe collectively developed the Sustainability Framework released by IFAC which provides guidance to professionals working at senior management levels and supporting the decision makers of the organisations. It is surely a major breakthrough in achieving implementation of social accounting and creating a momentum in society's drive to make businesses essentially meant for profit to be socially responsible. The framework is truly hailed as a catalyst in changing the mindset of the top brass.

Saqib Masood

ICAP GOLDEN JUBILEE LOGO UNVEILED

To honour the five decades of accomplishments, the Golden jubilee Committee had held a competition for designing the logo and slogan of ICAP for the Year 2011, Members, students and staff were asked to participate and put their feelings for ICAP on the canvass. The response was overwhelming with a large number of entries showing the love and attachment for the Institute. The Logo that was finally selected for the Golden Jubilee logo 2011 was made by our member Mr. Isfhan Iqbal (R- 5693). The Slogan for the Year as deliberated by the Committee is **Fostering Talent for Leadership.**

THE IDEA BEHIND

The logo highlights the 50 years along with the ICAP insignia and the slogan Fostering Talent for Leadership imbues the solidity and authority of the Institution. The concentric circles symbolize the commitment to the continuous progress and advancement of the organization.

The legacy of the organization is contained within date mentioned under the logo itself and is reinforcement to ICAP's grand legacy that has withstood time.

Mr. Isfhan Muhammad Iqbal is an Associate Member of the Institute of Chartered Accountant of Pakistan since July 2009. He has completed his article from A.F. Ferguson & Co., Chartered Accountants in May 2009. Then he joined Bank Islami Pakistan Limited as Unit Head - Internal Audit. Currently he is associated with KPMG Muscat.

JOIN THE DISCOURSE

Topic for the forthcoming issue is:

"The AESOP fable about the Hare and Tortoise charmed us as children; In the fast emerging global business horizon does the age old mantra slow but steady wins the race still holds true??"

DOES 'SLOW AND STEADY WINS THE RACE' STILL HOLD TRUE?

The answer to this is just three words: look around you. What companies are at the top of the world? Toyota, Microsoft, Google, Wal-Mart, IBM; look at the big Audit Firms. Common trait: slow, steady growth over decades, if not centuries, aversion to rapid expansion and acquisitions, solid business model, well-researched new ventures that extend over several years.

What companies you no longer see? Enron, Daimler-Chrysler, AOL Time Warner, Merrill Lynch. Common trait: Blind, Rapid expansion.

I rest my case.

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In my humble view the age old mantra slow but steady wins the race still holds true but only for one's self-satisfaction the reason being that the rules of the game have changed. Everyone is working on a short-term agenda. The finishing line is not where the tortoise reached but where the hare arrived first. Result is that we are achieving more in days, minutes and seconds then what our ancestors used to achieve in years and we least bother that in this process we have more quickly brought near global warming in our atmosphere as well as in our attitudes.

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The mantra is still applicable to some extent. However, it's no more completely valid in the current scenario. Now we need to be fast to run the race of knowledge in the modern age. Further more i would like to say that everyone learns/delivers with time. However, if you want to outperform others, you have to be fast in learning and delivering.

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'Slow and Steady wins the race' ….. True of False in Todays world? …... Interesting!

The slow and steady wins the race mantra has turned obsolete in today's fast paced world. This formula may have been useful in the industrialization age, where the formula to success was to get educated and then **slowly and steadily** move up the corporate ladder in a career that was usually dedicated to one or maybe two organizations.

We have long exited from the Industrial age, and have moved into the Information age, where knowledge is power. Today the focus is not on life-long employment, but rather on life-long employability. Breathe.

Had Mark Zuckerberg followed the slow and steady notion, he would not have dropped out of Harvard, and he would not have created an online revolution through 'Facebook' and as a result become one of the youngest billionaires. He would have completed his degree, searched for an entry level job since he had 'no experience' and so forth.

In order to achieve life-long employability one has to adopt a constant learning process. One has to learn how to perform better in the present job, how to study better in the present grade. Most importantly, one has to learn new ideas and developments in one's own field and in the World. You never know when an entire industry or line of work turns obsolete. Countless people have been rendered redundant only by the internet and online business opportunities.

In the Industrial age, the idea of wealth and enterprise evolved around Land, Labour and Capital. The Information age has proved that a slight change in technology can render Land and Capital useless and the Labour unskilled in terms of technological development.

Today is a day of 'Smart Working' not 'Hard Working'. Today mental muscles can help achieve a lot more than physical muscles.

Hence 'Slow and Steady' is old school, and the idea of 'constant learning and re-engineering' is in.

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HARE and a Tortoise:

Ibne Insha in his "Urdu ki Aakhri Kitab" narrates the fable as the Hare winning the race by 'generations' and his grandson waiting for the tortoise to reach to the destination so that he could cut tortoise's ears fulfilling Grand dad Hare's last wish. Eventually the 'slow and steady' Mister tortoise arrived to find the grandson Hare waiting with a pair of scissors, the tortoise hid his head inside his shell in a bid to seek refuge. From that time onwards, the honourable race of tortoise hides their heads in the shell in shame.

This is a marvellous satire on the famous fable which I fully endorse. In the past 15 years the world has changed rapidly Satellite television, mobile phone, Internet, etc. have revolutionised the era and the technology has changed the time for good. The world is no longer a place for lazy turtles that are carrying the baggage of centuries on their back, casting a moronic spell on the society whatever path they walk.

I feel for us as a nation to prosper, it is essential for the educated class, in particular those heading and leading the business and industry, to assess the demands of modern era and impart knowledge to younger generations so that the future generations are born free from the shackles of mental bonds carried by our generation from the past.

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In my opinion, it's good to be slow and steady but its better to be fast and reliable. If you have two people in your organization, one slow, methodical and reliable and the other fast and still reliable at what he does, the fast and reliable chap will consistently climb the organizational ladder faster than the slow, methodical chap.

Conclusively, the fast and consistent will always beat the slow and steady. But to compete in the fast emerging global business horizon, the strategy should be to run the race of hare and tortoise as a team. It's good to be individually brilliant but it's equally important to harness each other's competencies as a team. By teamwork, we can let the person with relevant core competency for a situation to take leadership and consequently achieve common goals.

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You may have to sacrifice a lot but in the end you will reach the finish line first being steady!

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I feel to survive today in the highly competitive jungle you need to be armed with technology, innovation, being able to bring swiftly quality improvements using marketing strategies and techniques.

So in my opinion the old mantra has changed and in today "when the slow and steady tortoise arrived, he met with the opponent hare grandson at the destination".

The following factors are important to stay competitive/ live in today's fast emerging global business:

1) New IT technologies
2) Product innovations/differentiations
3) Swift Quality improvements
4) Rapid marketing strategies / techniques

So in my opinion the old mantra has changed and in today "when the slow and steady tortoise arrived, he met with the opponent hare grandson at the destination".

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"Around 6000 BC the camel caravan was the fastest form of transportation at about eight miles an hour. In the late eighteenth century (1785) the stagecoach was able to cover about ten miles an hour. It took about 8000 years to increase the average group speed by two miles an hour. It was probably during that phase of history when this fable was first told. In today's world we are buried in the avalanche of change that had a small beginning. The speed of change is also evident from the fact that nowadays total knowledge of the world doubles every 1-2 years. So what we know now might become insufficient or possibly irrelevant tomorrow. For that reason I believe *full throttle pedal to the metal* to be the key to survival. Slow and steady lifestyle is certainly not."

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Despite all the rapidity of life, the proliferation of knowledge and fast emerging global business horizon it is fact that we have to leap forward the others proving ourselves the fittest to be in the race of survival, but taking move today and remain idle for weeks is not the life, I must refer another AESOP fable ***"The Grasshopper and the Ants"*** which gave us messages that *"Idleness brings want", "To work today is to eat tomorrow"*, "Prepare for want before it comes".

So if we go on taking our moves steadily in race of life based on our SWOT analysis and don't waste our energies in nuisance for taking fast results but positively seek the results , I will propagate that the Age Old Mantra slow but steady wins the race still holds true.

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The base rule cannot be changed. Ask the business leaders like Adamjee, Dawoods', Dadabhoys', Baber Ali. It is actually a hybrid approach.... slow and steady with consistency in preliminary period, once the business is in full swing, increase the gear, make some small jumps, some longer, some higher... once there is rain... lower down the gear. During raining season, the most important approach is to save the business from any bad losses and the Going Concern of the business is not damaged whether the speed comes down to a tortoise.

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On Hares and Tortoises: Since we all the know the story of the Hare and the Tortoise, I will give you two less known stories from Mr. Aesop; then I am going to ask a few awkward questions. The first fable is **"The Hares and the Frogs"**. Read on.

THE HARES were so persecuted by other beasts; they did not know where to go. As soon as they would see a single animal approach them, off they used to run. One day they saw a troop of wild Horses stampeding about, and in panic all the Hares scuttled off to a lake, determined to drown rather than live in such a continual state of fear. But just as they got near the bank of the lake, a group of Frogs, frightened in their turn, scuttled off, and jumped into the water. "Truly," said one of the Hares, "things are not as bad as they seem:

Moral: "There is always some one worse off than yourself."

Now read my second selection: "The Tortoise and the Birds".

A TORTOISE desired to change its place of residence, asked an Eagle to carry him to his new home, promising her a rich reward for her trouble. The Eagle agreed, and seizing the Tortoise by the shell with her talons, soared aloft. On their way they met a Crow, who said to the Eagle: "Tortoise is good eating." "The shell is too hard," said the Eagle in reply. "The rocks will soon crack the shell," was the Crow's answer; and the Eagle, taking the hint, let fall the Tortoise on a sharp rock, and the two birds made a hearty meal off the Tortoise.

Model: "Never Soar Aloft On an Enemy's Pinions"

You see what happened? The brash and smug hare became wise and the wise tortoise allowed to be eaten alive.

As I hear the Tortoise-lovers shouting: "But these were two different Tortoises" and this raises a statistical issue. How can one single Tortoise's victory lead us to derive a general principal? The sample size is too small. **The sample size is one**. Can we as professionals rely on this?

I think over the centuries the tortoise has established better PR and charmed us. The real hero is the hare; fallible, but with humility to learn from his mistakes.

Now that I have restored the honour of the hares, I will get back to addressing the mantra: Slow and steady wins the race. There is a pervasive assumption that if you are a hare, you are necessarily morally deficient. Of course, we know that the tortoise was in no position (especially after his death) to argue this; so where did this assumption come from? Who has been teaching us that slow and steady wins the race? I have my theory, but I will come to that in a minute.

First, I want to know what the race is. Does it end anywhere? To my mind, if you are in a race then whether you are a hare or a tortoise makes no difference to me. The race matters. Because if the race is to the end of a cliff, and the winner falls off and breaks his neck, then I want to be second (and alive) any day of the week. The race matters. Because being in a race tells me that the participants are in agreement about what is important and why it is important. The only superficial difference that remains to be settled is: who is better.

For example: if you and I agree that profit maximization is the ultimate goal for us then the race is on between us but if a third person stands up and says, no I think 5% of my profits should go to my poor relatives by right – that person is not in our race. He is in a different race. I am not saying it is better or worse.

Now what is this business of slow and steady? I interpret this as invitation to extreme risk aversion. This is the principal of saving your job first. Nothing great was ever achieved by the timid. That is not just a fable, it is a disconcerting fact. To dare to think, to push at the boundaries of knowledge, to travel the path less trodden has nothing to do with steadiness. Why are we being brain washed into steadiness? Who fears the lunatics?

And this brings me neatly to my theory of the real teachers of slow and steady wins the race. You guessed it. The hares. It is perverse and illogical. But that's what I think. Think about it. Who gains from slow and steady? And who fears lunatics?

Moral of my story: Do not be a tortoise or a hare. Be yourself, "Because you are better than tortoises and hare".

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Corporate Conscience

Calibrating Profit Maximization and Community Service
A Case Study of Pakistan Petroleum Limited

Khalid Rahman, FCA

Striking a balance

The corporate sector is largely viewed as the engine for the country's economic growth. Earlier, the profit earned by the sector was regarded as an outcome of the company's own efforts to be solely shared with the government through taxes and other obligations. During the last few decades, however, increased attention is being given to corporate social responsibility (CSR) and the role of the corporate sector in improving the quality of life of marginalized communities. This comes at a time when profits earned by companies are not viewed solely in terms of corporate gains but also as a contribution to society at large, including the population of the area from where the resources are extracted or operational activities undertaken. Therefore, caring for marginalized segments of society and local communities is inextricably linked to profit-making.

In developing countries such as Pakistan, where the state lacks the necessary resources to adequately address issues of poverty, unemployment, deficit livelihood generation capacity and large gaps in civic infrastructure facilities, the role of the corporate sector becomes all the more crucial for socio-economic development. Due to its financial muscle, the corporate sector is also believed to have the necessary skills and motivation to translate plans into action. Besides, communities, academia, media and government are well-informed about increased global expectations from the corporate sector, especially through voluntary measures such as the United Nations Global Compact and mandatory stipulations to contribute towards development. The Government of Pakistan also binds companies belonging to the Exploration and Production (E&P) sector to work for uplift of local communities. Likewise, the Securities and Exchange Commission of Pakistan now requires registered companies to report on CSR initiatives and spending in their annual reports. Disclosures on CSR initiatives also feature among the parameters for annual and sustainability reports issued by the Institute of Chartered Accountants Pakistan and Institute of Cost and Management Accountants of Pakistan.

With a change in consumer patterns that demonstrate support of products by socially and environmentally responsible companies, the corporate sector has gradually realized the importance of a viable CSR programme as part of their key business priorities. With a commitment to social development by management, organizations are able to profile themselves as responsible citizens. Most marketing companies too have aligned their CSR programmes with image building to illicit market trust, credibility and enhance stake among consumers at the one hand and result in financial gains on the other.

In Pakistan, there is increasing awareness in the corporate sector that business expansion and profit maximization go hand-in-hand with enhancing the goodwill and image of company through welfare initiatives and outreach to marginalized communities.

Striking optimum balance between profit earning and community welfare is only possible when the corporate

Pakistan Petroleum Limited: An Overview

The pioneer of the natural gas industry in the country, PPL has been a frontline player in the energy sector since the mid-1950s. As a major supplier of natural gas, PPL today contributes some 25 percent of the country's total natural gas supplies besides producing crude oil, Natural Gas Liquid and Liquefied Petroleum Gas.

PPL operates six producing fields across the country at Sui (Pakistan's largest gas field), Adhi, Kandhkot, Chachar, Mazarani and Hala and holds working interest in 12 partner-operated producing fields.

As a major stakeholder in securing a safe energy future for the country, PPL pursues an aggressive exploration agenda aimed at enhancing hydrocarbon recovery and replenishing reserves. The company's exploration portfolio comprises 35 exploration blocks. Of these, PPL operates 19 blocks and has working interest in 16, including two off-shore blocks, as non-operating partner. PPL is also among the first local E&P companies to extend its operations beyond national borders and has an interest in an exploration licence in Yemen.

Over the years, PPL has developed a reliable foundation and infrastructure for providing clean and safe energy through sustainable exploitation of indigenous natural resources while adhering to best practices of corporate governance and employee health and safety and environmental conservation. As a result, 12 of its fields and facilities are certified for ISO 9001 Quality Management System and 13 certified for ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Assessment Series.

As one of the largest corporate providers of social development and welfare services in some of the most remote swathes of the country, PPL has received the Corporate Philanthropy Award for six consecutive years from 2004 to 2009.

sector considers CSR beyond donations and plans and implements these initiatives in the same manner as its operations. This means strategic planning, efficient implementation through credible partners, constant monitoring and evaluations for lessons learnt, are essential steps for building a meaningful CSR programme.

CORPORATE SOCIAL RESPONSIBILITY AT PPL: OUR PHILOSOPHY

PPL considers social responsibility as a major business ethic and takes pride in being the largest contributor for uplift and welfare of marginalized segments of the country. The company's CSR programme dates back to its establishment in the early 50s. PPL's first CSR project Sui Model School (SMS) started as a primary school for children of staff and local communities in District Dera Bugti, Sui in 1957 at a time when the concept of corporate contribution for social development was still nascent. With an inclusion of a fully-fledged Sui Field Hospital (SFH) in 1962, PPL's CSR programme gained momentum, particularly in its operational areas, together with contribution to significant national projects.

Aligning the CSR programme with the company's operations since its beginning, PPL was able to engage extensively with local communities, civil society organization and government during the last six decades and refine its approach and strategies to address emergent needs through lessons learnt. The establishment of the PPL Welfare Trust (PPLWT) was a step in the same direction.

PPLWT was formed in 2001 as a separate body to oversee the company's CSR operations, ensuring cohesion, consistency and transparency. PPLWT paved the way for transforming ideas into reality. The foremost among these was the approval of a minimum1.5 percent pre-tax profit to be spent on CSR efforts. As a guiding body, PPLWT also maintained a balance between philanthropic assistance and long-term projects. Consistency was maintained in providing donations to credible organization such as The Kidney Centre, Patient Welfare Society, Aga Khan University Hospital, Hub School and Bait-ul-Sukoon on a long-term basis to sustain their operations.

PPL receives a large number of requests for financial and infrastructure support, which are judiciously screened to select the reliable organizations with relevant experience, outreach and scope to benefit disadvantaged communities. PPL prefers that the maximum benefit of its CSR initiatives reaches stakeholder communities, especially those living around its operational areas.

The company also has a rigorous needs assessment process whereby PPL's own CSR projects are thoughtfully identified after a series of consultations with major stakeholders, including elected representatives, area notables, local community development and public welfare organizations and relevant government departments. Later, competent and credible organizations are engaged as partners for sustaining long-term benefits.

Monitoring and assessment remains a major focus in PPL's CSR programme. PPL believes that only effective feedback and regular supervision can result in desired outputs. As such, the company interfaces regularly with partner organizations and conduct field visits to assess progress and ensure bridging of gaps, if required.

The company's thematic focus remains on education, healthcare, enhancing livelihood generation opportunities, infrastructure development and post-disaster rehabilitation to provide integrated services for improving the quality of lives of local communities. PPL has engaged leading organizations with relevant experience to implement key projects, a few examples of which are:

KEY PROJECTS

Healthcare

PPL gives priority to health issues of communities living in and around its operational areas as well as other parts of the country. The company has built hospitals, mother and child healthcare centres and donated equipment and mobile dispensaries for local populations. PPL is also running a major project with Murshid Hospital and Healthcare Centre (MHHCC) for training of traditional birth attendants around its producing fields.

Patient at Sui Field Hospital

Sui Field & PPL Public Welfare hospitals

Sui Field Hospital (SFH) began as a modest dispensary in 1956 to provide basic healthcare facilities for PPL field employees. Staffed by a team of 26 men and women doctors and surgeons, 8 nurses and over 30 paramedics, SFH is today considered the best facility of its kind in the area. SFH can accommodate 50 in-patients with latest medical facilities, including two operation theatres, blood bank and laboratory, delivery room with electronic foetal heart monitor, cardiac care unit and ultrasound machines. PPL funds the operational cost of the hospital.

In addition to providing medical services to employees and families of PPL and partner organizations, SFH also extends medical facilities to over 40 percent of the local population.

Owing to increasing demand for quality healthcare services in Sui, the company has initiated another major healthcare initiative and is constructing the **PPL Public Welfare Hospital** at a cost of approximately Rs. 300 million. PPL will also provide furnishing and basic medical equipment for the hospital. The facility is expected to be completed by end - 2011.

After construction and in-kind support, PPL will continue to assist the hospital through an annual donation of Rs. 10 million for employing 8 specialist doctors and purchasing medicines for free distribution among deserving patients.

Once completed, the Government of Balochistan will assume responsibility of operating the hospital under the guidance of an independent Board of Governors.

Mobile Medical Service

Launched in 2002, the Mobile Dispensary Service (MDS) at Sui is affiliated with SFH. The MDS provides free healthcare to marginalized communities living around Sui Gas Field.

PPL doctor aboard Mazarani Gas Field's mobile dispensary attends to a patient

The MDS works in two shifts and takes a weekly round of each colony. The dispensary is equipped for general check-ups, X-rays and minor surgical procedures. A dedicated doctor is available on board to conduct screening and general assessment for diseases.

Similar services are operational for local communities around Mazarani and Kandhkot gas field since 2005 and 2010, respectively.

The MDS in Sui, Mazarani and Kandhkot caters to more than 100 patients on a daily basis.

Eye/ Medical Camps

PPL organizes two free eye camps every year for communities living around each of its producing fields usually in collaboration with taluka hospitals or Al-Shifa Trust. The camps cater to patients of all ages.

Eye camp near Adhi Field

Typically, PPL's eye camps have screening, testing and treatment facilities. Patients with weak eyesight are provided glasses, while, phacoemulsification surgeries are performed for cataracts.

Education

PPL promotes academic institutions in its operational areas and beyond to enhance learning, livelihood opportunities and quality of life of local communities.

Students at Sui Model School during assembly

The company's interventions include scholarships in relevant disciplines to local and foreign institutions, operational funding, construction of infrastructure such as classrooms, libraries and computer centres and provision of furniture and equipment. The company also intends to establish chairs in various universities, including the NED University of Engineering and Technology and Mehran University of Engineering and Technology in Jamshoro.

Sui Model School and College

SMS and College (SMSC) began as a primary school in 1957, to provide education for children of PPL employees and locals living in and around the field. Today SMS caters to over 2,800 students, from classes 1 to matriculation, about a quarter of which are girls. The school's faculty comprise 40 qualified teachers. PPL finances all operational costs of the school besides maintenance and procurement of equipment and books.

SMS is ranked among the best academic institutions in Sui for over five decades, with most former students gaining admission into reputable higher education institutions of the country.

In September 2009, SMS was upgraded to a higher secondary school for extending intermediate education to female students.

Besides PPL's flagship SMS, PPL has constructed the Federal Government Public and Taleem Foundation schools and contributed towards construction of Balochistan Public School (BPS). The company also awards scholarships to deserving students at BPS and provides financial assistance covering cost of fees for around 500 girls at Taleem Foundation School.

(Front row: first left) PPL Scholar Abdul Majeed Bugti, hailing from Balochistan, at Mohammad Ali Jinnah University, Karachi, 2008. Majeed joined PPL as a Management Trainee in 2009 after completing his Master's in Business Administration

Higher Professional Education Scholarship

The Higher Education Scholarship (HES) was launched in 2005 to allow potential students of both genders resident in District Dera Bugti to pursue higher studies in reputable institutions throughout the country. In 2011, the scheme was extended to local students residing around the company's other producing fields.

The scholarship focuses on engineering, medicine, business administration, information technology and education.

To date, the scholarship has benefited nearly 70 students.

National Outreach Programme

In 2001, the Lahore University of Management Sciences (LUMS) launched the National Outreach Programme to provide financial assistance towards a bachelor's degree for high-achieving matriculation and intermediate students across the country.

PPL signed a Memorandum of Understanding (MoU) with LUMS to finance two deserving students each year for a period of four years, bringing the total number of students to eight. The scholarship will be limited to students from PPL's operational areas, especially from Balochistan.

Computer Training Centre and Library

The first-ever Computer Training Centre and Library in Sui was inaugurated in 2010 to provide access to the latest information and communication technology for residents of Sui and surrounding areas. PPL has donated land, building, furniture, books and computers for the centre and is committed to financing operational costs.

A three-month basic computer course was organized for students in three-batches, comprising 204 participants. The fourth batch was redesigned as a six-month certificate programme in IT offering both basic and advance levels of training.

The Citizens Foundation schools in Kandhkot

PPL signed a MoU in June 2009 with The Citizens Foundation to run three primary schools around Kandhkot Gas Field. These schools will be extended to the secondary level once students are promoted from grade V to VI. Two schools have already started functioning and the third will be operational by August 2011.

The Hub School

Located on the outskirts of Karachi in Hub, Balochistan, The Hub School (THS) is a boarding school for boys. THS aspires to provide quality education comparable to the best available at international academic institutions.

THS plans to cater to approximately 800 students from Class 6 eventually leading up to an International Baccalaureate degree. Initially, THS hopes to provide merit- and need-based scholarships to 15 percent of its students. This percentage is expected to increase to 50 percent in the future.

PPL has funded the complete construction of an eponymous block spread over 24,000 square feet, comprising 24 classrooms and other ancillary facilities.

Livelihood Generation Capacity Enhancement

PPL believes in empowering marginalized communities through skill enhancement to generate livelihoods. Some recent PPL-funded programmes are highlighted below:

Women Handicraft and Welfare Centre, District Dera Bugti, Sui

Women Handicraft and Welfare Centre

PPL promotes women entrepreneurship by building capacity for livelihood generation. To this end, the company has supported the Women Handicraft and Welfare Centre (WHWC) at Sui since 2006.

WHWC accepts young women who are unable to complete their formal education and interested in learning vocational skills to enhance their income potential. PPL is constructing new premises for the centre with purpose-built classrooms for cooking, baking, stitching, embroidery, painting and computer training. The company also plans to provide equipment and furnishing together with operational costs.

Technical Training Centre, Daultala

Located near Adhi Field, the Technical Training Centre at Daultala (TTC-D) offers courses in woodwork and carving, electricity and motor winding, automobile mechanics, tailoring and plumbing. Between eight to nine trainees are enrolled in each course.

PPL has supported TTC-D since the early nineties. The company constructed and equipped electrical, automobile mechanics, carpentry and computer workshops. Each of these can accommodate 20 trainees.

A former student of the Technical Training Centre, Daultala, works in his carpentry shop

Technical Training Centre, Sui

Established in 1992, TTC at Sui (TTC-S) runs one-year courses to train automobile mechanics, electricians and welders. About 30 students are enrolled in each of the three courses.

PPL provides in-kind support to TTC-S for workshop training, equipment and infrastructure maintenance since 2003.

In 2009, PPL has initiated a scholarship scheme for the top ten students of TTC-S to pursue diploma-level studies in recognized polytechnics across the country. So far, 20 students have been granted scholarships under the scheme.

Infrastructure Development

Since PPL's core business entails working in remote areas for E&P of hydrocarbons, the company focuses on developing infrastructure and civic amenities not only for its own use but also for local communities. Besides supplying gas and water free-of-cost to Sui Town, PPL has constructed roads, culverts, installed water tanks and pumps and developed and refurbished various schools, hospitals and health facilities around its operational areas.

SOS Children's Villages

Youth hostel built by PPL at SoS Children's Village of Balochistan, Quetta

Founded in 1949 in Austria, the SOS Children's Village Association was developed to provide long-term care for children who are orphaned, displaced or can no longer live with their families.

PPL has funded the construction of two SOS villages in Quetta and Jamshoro during 2008 to 2010.

Potable Water Supply Scheme

Located near PPL's Mazarani Gas Field (MGF), Ghaibi Dero faced acute shortage of potable water.

Initially, PPL constructed a water storage tank connected to the pipeline supplying water to MGF for local communities but the water source became polluted. As a result, the company built two new water tanks in the village for providing potable water to the residents. The tanks get supply from Warah Canal, a safe water source, through a regular water tanker service.

Bowzer for supply of potable water to Ghaibi Dero

Kashmore Water Pumping Station

PPL has been supplying clean water to Sui Town since the launch of its operations in the area. With an investment of over Rs 150 million on water supply infrastructure, the company provides service to some 40,000 residents.

Using a modern water pumping station installed near Kashmore, the water is pumped to Sui located 55 kilometers away and distributed through a 170-kilometers network.

Post-disaster Rehabilitation

In times of national emergencies, PPL has always come forward to give generous donations in cash and kind to victims of disaster-hit areas. Following the 2005 earthquake and 2010 Floods, the company moved a step forward by assisting rehabilitation efforts so that affectees can once again become productive members of society.

PPL Rehabilitation Centre, Bagh

In May 2006, PPL signed a MoU with MHHCC to provide financial support to establish a rehabilitation centre for victims of the 2005 earthquake at the District Headquarters Hospital in Bagh, AJK. The purpose was to produce and provide artificial limbs, treatment and follow-up, together with emotional support to amputees free of cost.

The centre has been operational since December 2006. Initially, PPL committed three-year support for the centre. But due to increasing demand, the company decided to establish an endowment fund to continue support for operational expenses.

So far, more than 4,000 amputees, including those with spinal cord injuries, have been successfully treated at the rehabilitation centre. Of these, about 1,000 patients have been given free assistive devices.

Patients at PPL Rehabilitation Centre Bagh, Azad Jammu and Kashmir

2010 Floods: Relief and Rehabilitation

The company's Board of Directors approved Rs. 100 million for flood relief to supplement the government's efforts. It was further decided that the amount will be distributed in two phases.

Displaced flood affectees at a free PPL camp near Kandhkot Gas Field

In the first phase, the company donated Rs. 20 million in cash to the Prime Minister's Flood Relief Fund 2010. Concurrently, PPL also distributed relief goods and other basic necessities amounting to Rs. 30 million to affected areas, identified through needs assessments, particularly in and around its operational areas. Besides, PPL also established free medical camps in affected areas.

Rs. 50 million was earmarked for rehabilitation work with a focus on planning and implementing a sustainable programme for the affected communities living around Kandhkot Gas Field.

PPL doctor attends to flood victims at a medical camp set by the company at Indus Highway

Impact: Responsible Cause – Multi-faceted Effect

As a result of consistent efforts during the last six decades, PPL has forged mutually beneficial long-term linkages with local communities around its operational areas to gauge urgency of issues in order to be addressed through its CSR efforts. The Potable Water Supply at Ghaibi Dero (GD), near Mazarani Gas Field, and PPL's intervention in District Dera Bugti illustrates this contention.

GD residents, especially women, had to travel long distances for collecting potable water. Initially, PPL built a water storage tank on the line supplying water to the field. Later, when the water became polluted, PPL built two new storage tanks in the centre of the village. The water is supplied to these tanks from a safe source through a bowzer facility operated by the company.

Usually, as water sources in the area tend to become contaminated, a permanent supply line may be in effective after some time. The use of bowzers on the other hand will ensure sustained water supply from another potable source, in case this occurs.

The scheme is a major source of relief for local women, saving several hundred hours of travel time and leading to an improved health profile among local residents.

Similarly, PPL is continuously providing an integrated development framework for District Dera Bugti through its long-term CSR projects, including SMSC and SFH, which has enabled the company to establish trust and stake among local communities.

Local youth are provided a number of opportunities to enhance their academic qualification and technical skills in order to pursue careers at reputable organizations, including PPL, on the basis of merit. The trust and goodwill among communities have paved the way for smooth functioning of company operations and provision of a skilled workforce to run business while the local population has benefitted from basic facilities to improve the quality of their lives.

PPL's contributions have been appreciated by reputable organizations. **The company was awarded the Corporate Philanthropy Award by Pakistan Centre for Philanthropy for six consecutive years from 2004 to 2009.**

Lessons Learned

Earlier, CSR initiatives such as Sui Model School and College and Sui Field Hospital began with self-planning and implementation. The two facilities are still operated and managed by the company. However, as company operations were extended to other areas it was not possible for PPL to fully manage and implement its CSR programme. As such, the development sector, especially education, healthcare and livelihoods generation services, is evolving with ongoing research guided by best practices, with reputable development organizations aligning their approaches and staff capacity in line with emerging trends. Against this backdrop, PPL decided to work in partnership with reliable development organizations, especially those with relevant experience and local presence.

PPL's experience with public sector and civil society partners has proved useful in implementation of projects, providing a sense of direction of selecting appropriate partners according to the nature of the project in consonance with the community mindset and area's geo-political dynamics for **effective implementation and sustainability**.

Although, sustainability still remains a major concern, especially when the company desires projects to become self- sustainable after primary support. However, consultation with local communities and key stakeholders, prior to launching of projects, for need analysis and buy-in, has resulted in building abiding trust and confidence. This has also increased ownership and willingness among local stakeholders to sustain development projects initiated by PPL. The involvement of local communities has also assisted the company, mostly at an informal level, by maintaining checks and balances, to monitor progress by implementing agencies.

PPL has further refined its CSR procedures to ensure transparency, consistency and effectiveness. Joint accounts for transfer of funds, planning and payment are scheduled in phases to ensure periodic completion and regular monitoring visits. Likewise informal feedback from locals has proved to be effective in managing projects with stakeholders from diverse backgrounds and capacities.

Moreover, there are specific examples where lessons learned have had a major impact in changing the line of action. In providing disaster relief for the October 8, 2005 Earthquake victims, PPL realized that relief efforts will not address the miseries of affectees, particularly amputees and paraplegics, as they would also require long-term support to adjust to normal life. As a result, PPL Rehabilitation Centre, Bagh was established. The learning from the earthquake experience enabled PPL to strategize efforts for relief and rehabilitation following the 2010 floods. A dedicated budget of Rs. 50 million was allocated since the beginning for the rehabilitation of flood affectees.

The Way Forward

Overall, there has been considerable change in the approach and outlook of PPL's CSR programme by incorporating best practices from the development sector as well as corporate CSR initiatives to make it more vibrant and sustainable. PPL has gradually moved from providing donation to its CSR budget being used for long-term social and economic development projects.

The company now encourages well-reputed and credible organizations to submit proposals for projects before seeking funds, clearly highlighting the objectives, procedure and results. The proposals are assessed for scope and on-ground impact on community well-being prior to making any commitments.

In the long run, PPL plans to initiate integrated CSR projects, whereby various developmental interventions are undertaken within a specific geographic area over a period of time to improve well-being of local communities. Since PPL is already committed to the sustainability of projects in its operational areas, aggregating efforts with a location-specific approach will result in substantial change in the quality of life of local residents. This approach will in turn also lead to sustaining development work as the community, especially local youth, will be empowered through improved literacy, quality healthcare and sustained income generation sources to drive change from within. In fact, PPL is already witnessing significant outcomes of its sustained and integrated efforts in Dera Bugti, Sui.

As a result of consistent efforts, trials and errors and continuous learning, an organization develops its own model for executing its CSR programme, which can accommodate innovation and creative methods for improving the lives of the marginalized communities on the one hand and increasing credibility, trust and earnings for the company on the other.

Shariah and Sustainability

Islamic Views on Corporate Social Responsibility

Mas Sukmawati Abu Bakar
Associate Director, Malaysian Accounting Standards Board

In 1967, Syed Hossein *Nasr wrote Man* and Nature to express his anguish at mankind's godless march towards material advancements. To those outside the faith, his anxiety over the lack of spirituality in seemingly secular matters may seem esoteric. But his view of Islam as a holistic way of life resonates with Muslims everywhere; as for a Muslim, there is no distinction between the sacred and the profane.

Since the Islamic revival of the mid-twentieth century, there has been marked fervour to imbue various aspects of everyday life with Islamic culture and religion. This renewed interest in religion, coupled with the economic boom of their new nation-states, saw Muslim investors and user groups increasingly demand that businesses conduct their operations in a manner congruent with their religious beliefs. Starting with a small interest-free savings bank in the Egyptian town of Mit Ghamr in 1963, the demand for Shariah compliant products and services has grown exponentially over the following decades.

Nevertheless, in the early years there were no consistent criteria for what qualified as 'Shariah compliant', or indeed a clear idea of what would be the Shariah demands on these new forms of enterprises. Undoubtedly, while the Quran and the Sunnah contain numerous commandments for fair dealing in trade and upholding justice, there are no specific prescriptions for many of the innovative undertakings of modern business enterprises.

Islam, however, is progressive and allows man-made rules and regulations to be further developed from the Quran and Sunnah to provide clarity in implementing the spirit of the injunctions. There is classical precedent in this, for example, in regulating the trade practices of medieval souks, and the conduct of travelling merchants in *caravanserais*. In a more contemporary context, the Auditing and Accounting Organization for Islamic Financial Institutions (AAOIFI) has promulgated various standards for modern Islamic financial institutions (IFIs) since its establishment in 1991.

As its name implies, AAOIFI's initial focus was on accounting and auditing standards to cater for IFIs' unique transactions. AAOIFI's *Conceptual Framework for Financial Reporting by Islamic Financial Institutions states* that:

> "Financial reports should provide … information about the IFI's compliance with the Islamic Shariah and its objectives and to establish such compliance; and information regarding the manner in which prohibited earnings and expenditures, if any, were reported and dealt with."

The fledging concept of Shariah compliance initially tended to fixate on halal trade income versus haram interest income. However, over time it became increasingly more evident that Shariah compliance encompassed more than just avoiding interest; and that the financial statements alone may not satisfactorily convey the extent of an entity's compliance with Shariah. Moreover, there was a need to impress upon Islamic businesses that their social responsibilities extend far beyond *zakat, sadaqah* and acts of philanthropy.

The Malaysian Accounting Standards Board (MASB), another standard-setter with a project on Islamic financial reporting, made the following observation in its Statement of Principles i-1 (SOP i-1), Financial Reporting from an Islamic Perspective:

> "…financial reporting would need to encompass more than just the preparation and presentation of financial statements. From an Islamic perspective, financial reporting may include financial and non-financial information, and may extend into areas beyond the financial statements, such as other areas of the annual report, and may contain elements of social and environmental reporting."

The MASB's SOP i-1 further re-examined the prevalent view that financial statements which met investors' needs will also meet most of the needs of other users. Islam promotes the values of social responsibility and accountability. An entity is answerable not only to its shareholders, but to society as a whole. These stakeholders include its employees, creditors, suppliers, customers, the government, and even the community in which it operates its businesses. Traditional financial statements that are tailored to meet the needs of investors may not satisfactorily convey information that is important to these other stakeholders, e.g. employee welfare, sustainable sourcing, environmental impacts, and equitable economic returns to local peoples.

The MASB's SOP i-1 also noted that sensitivity to social responsibility is not exclusive to Islam and is arguably a universal concern that transcends religious affiliation. Indeed, non-religious establishments such as the Global Reporting Initiative (GRI) and the United Nations Global Compact are active proponents of social and environmental reporting. However, while these others may be inspired by humanitarian ideals, Muslims ought to be even more compelled to be attentive to corporate social responsibility (CSR), as it is part and parcel of the muamalat obligation demanded by Islam. As stated in the Quran:

> *"…and He made you khalifah of the Earth and elevated some of you above others so that He may try you through what He has bestowed upon you. Indeed your Lord is swift in penalty, but indeed He is forgiving and merciful" – Surah Al-An'am: 165*

Mankind's appointment as *khalifah*, often translated as 'vicegerent', is thus not a licence to plunder the earth's resources as it pleases, but is a position of grave responsibility as Allah has entrusted mankind with stewardship of the earth, and it is to be held accountable for its deeds.

Unfortunately, CSR reporting is not usually dealt with by accounting standard-setters, whose main focus is normally the financial report. Thus, while AAOIFI's accounting standards were useful for accentuating the form and contract of interest-free transactions, and the segregation of halal and haram income, it could not tackle Shariah compliance in a more holistic manner. Realising this, AAOIFI stepped out of its customary accounting standard-setting role, and began to develop other standards on governance and ethics.

AAOIFI'S CSR STANDARD

At about the same time GRI was established by the Coalition for Environmentally Responsible Economies (CERES) in 1997, AAOIFI issued the first of its Governance Standards for Islamic Financial Institutions. The early governance standards, however, still hinted at a limited idea of what Shariah would demand of a corporate entity and tended to focus on the obvious, e.g. the appointment of a Shariah supervisory board and the need for a Shariah review.

It was only in April 2009 that AAOIFI issued its Governance Standard No. 7, *Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions* (AAOIFI's CSR standard), which stated that:

> "CSR for IFIs refers to all activities carried out by an IFI to fulfil its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individuals and institutions. …Religious responsibility refers to the overarching obligation of IFIs to obey the laws of Islam in all its dealings and obligations."

This standard is probably the first to assert that CSR is an Islamic religious responsibility, and to extend that responsibility to all dealings and obligations.

Much of the text of AAOIFI's CSR standard describes a list of responsibilities that it has categorised as either 'mandatory' or 'recommended' conduct, suggesting that AAOIFI believes some are more vital than others. Mandatory conduct includes putting in place policies relating to client services, earnings prohibited by Shariah, employee welfare, the environment, and *zakat*; while recommended conduct relates to policies for benevolent Shariah compliant transactions such as *qard hasan* (benevolent interest-free loans) and waqf (endowments) among others. Finally, AAOIFI's CSR standard provides guidance on mandatory and optional presentation and disclosure in preparing a separate CSR report; and its appendices include an example of a CSR report prepared using its standard.

AAOIFI's CSR standard, along with AAOIFI's other governance and ethics standards, provides the first usable framework for Islamically-inclined entities wishing to incorporate socially responsible policies and procedures into their operations, and who want to communicate those policies to their stakeholders.

HOW AAOIFI COMPARES WITH OTHER CSR INITIATIVES

AAOIFI's foray into the realm of CSR constitutes a remarkable shift in paradigm. Not many accounting standard-setters have delved into CSR reporting. Although the MASB has acknowledged the need for CSR reporting and identified areas of concern in its Statement of Principles, it has not issued any specific guidance on the matter. Thus, AAOIFI's efforts are indeed commendable. Its prescriptions for the inclusion of policies peculiar to Islamically-inclined entities such as prohibited earnings and expenditure, *zakat*, *qard hasan* and *waqf* are especially useful as they are unlikely to ever be addressed by other CSR initiatives.

However, AAOIFI's CSR standard only addresses IFIs, and therein lays its main shortcoming. It is difficult, if not impossible, to apply AAOIFI's prescriptions to other businesses. For example, AAOIFI obviously would not provide adequate guidelines on emissions and effluent that would be needed by entities engaged in heavy industry. Additionally, at a mere fifty-seven paragraphs long, AAOIFI's standard may not be as robust as some other CSR guidance.

There are also problems with compelling entities to accept and adopt the AAOIFI standard, and there is an absence of a mechanism to ensure consistent application and follow-up actions.

In this context, the *Sustainability Reporting Guidelines* issued by the Global Reporting Initiative is probably more comprehensive. GRI is widely considered a leader in driving CSR reporting worldwide, and is looked to as a benchmark for this type of reporting, which GRI calls 'sustainability reporting'.

GRI is a network-based organization whose primary focus is to develop tools and resources entities can use when undertaking CSR reporting. They create these tools through a collaborative process; working with businesses, governments, academia, and professional institutions, representing over sixty countries. Sadly, AAOIFI which has over two hundred fee-paying members has done little to tap into this pool of knowledge, and largely does not involve members in its standard-setting process.

GLOBAL REPORTING INITIATIVE

As the GRI's goal is to expand the field of sustainability reporting by creating high-quality guidelines that any entity can follow, it offers all of its guidance free of charge to the public on its website. AAOIFI's standards, conversely, are only available through purchase, and are only in printed volumes.

GRI's chief publication is the *Sustainability Reporting Guidelines*; the current version 3.1, known as the 'G3.1 Guidelines', was published in March 2011 and builds on the earlier version 3.0 or 'G3 guidelines' issued in 2006. The GRI's primary objective is to provide all entities with an accepted methodology to assess their impact on society. It also provides information on how to report these findings to external users, in much the same way as their financial statements.

The G3 Guidelines categorize CSR reporting into environmental, social and governance objectives. They give both general assessments (called the 'Sustainability Reporting Guidelines') that apply to most entities, and sector specific assessments (called 'Sector Supplements') that may be more relevant to the entity's specific business lines. Finally, the G3 Guidelines provide a Technical Protocol that governs the final report.

The Sustainability Reporting Guidelines, which are applicable to all entities, represent the primary framework for CSR reporting from GRI's perspective. It is divided into two parts: Part 1, Reporting Principles and Guidance and Part 2, Standard Disclosures. In addition to these two parts, the Sustainability Reporting Guidelines also includes expanded guidance on the local community, human rights, and finally gender issues.

Part 1 of the Sustainability Reporting Guidelines outlines the overall report content and quality. It suggests that in determining the report content, entities should consider materiality, stakeholder inclusiveness, sustainability context and completeness. When setting the report quality, entities should take into consideration the characteristics of balance, comparability, accuracy, timeliness, reliability and clarity. Finally, Part 1 concludes with guidance on setting the report boundaries.

Part 2 of the Sustainability Reporting Guidelines, the Standard Disclosures, includes information on the strategy and profile of the report, management's approach to undertaking this assessment, and the detailed performance indicators to look at. The performance indicators listed are by far the 'meat' of the Sustainability Reporting Guidelines. These indicators lay out in detail the different topics that should be considered, such as energy, water, corruption, and labour/management relations, and are categorized into six themes: (1) environmental, (2) human rights, (3) labour practices and decent work, (4) society, (5) product responsibility and (6) economic.

The Sector Supplements currently include five distinct sectors: (1) electric utilities, (2) financial services, (3) food processing, (4) mining and metals, and (5) non-governmental organisations (NGOs). In addition to these five, there are nine others that are either under development or are currently being piloted, including construction, media, oil and gas, automotive, and telecommunications. The main purpose of these sector supplements is to provide additional indicators to evaluate that are industry specific.

The Technical Protocol is the latest piece of the G3 Guidelines, added in 2011. It provides additional guidelines on the content of the sustainability report, and is to be read in conjunction with the Sustainability Reporting Guidelines - much like implementation guidance. The focus here is the overall scope of the report, range of topics covered, each topic's relative reporting priority and level of coverage, and what to disclose in the report related to the process chosen by management when defining its content.

UNITED NATIONS GLOBAL COMPACT

The United Nations (UN) defines its Global Compact as 'a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption[1]. The Global Compact aims to impact and change business practices, providing target benchmarks along with implementation guidance on how to achieve the specified goals. Equally important, the Global Compact provides a blueprint for disclosures that an entity following the plan can use to communicate their achievements to their constituents.

Although the UN's Global Compact is not entirely dedicated to CSR reporting, as its key focus is targeted at changing business practices and operations rather than just evaluating and reporting an entity's current social and environmental impact, its principles tie in to the overall drive to creating more socially accountable businesses. Similar to GRI, the UN offers its guidance free-of-charge to the public.

Interest in the Global Compact has grown exponentially since it was launched in July 2000. Currently, there are over 8,700 participants, representing over 130 countries, making it the largest voluntary corporate responsibility initiative in the world. These members are encouraged to participate in knowledge sharing of best practices, creating a dynamic environment that all can benefit from. The Global Compact provides their members a plethora of resources and tools that they can use to assist management with implementation. It is encouraging to note that a fair number of businesses from Muslim majority countries are participants in the Global Compact.

As stated above, the ten goals that drive the Global Compact can be categorized into four areas: human rights, labour, environment, and anti-corruption. Within human rights, the two principles listed focus on protecting and respecting human rights and ensuring the entity does not participate in human rights violations. Within the labour category there are four principles: honouring the right to collective bargaining, eliminating forced labour and child labour, and eradicating employee discrimination. In terms of the environment, three principles are discussed: supporting a preventive approach to environmental changes, promoting environmental responsibility, and encouraging environmentally friendly technologies. Finally the last principle, which deals with anti-corruption, promotes combating corruption in all forms (including bribery and extortion). These ten goals are extrapolated into tools and hand-outs that detail a breadth of activities necessary to achieve the stated objectives.

The Global Compact's reporting guidelines outlined by the UN are contained in the UN's Communication on Progress (COP). The COP outlines three key areas that must be addressed for a COP report to be valid. First, it must include a statement made by an entity's chief executive in support of the Global Compact. Secondly, it must detail the practical actions taken by the entity to help achieve the ten principles set out by the UN. In doing this, entities must disclose all relevant policies, procedures and activities that have either been implemented, or are in the pipeline. Finally, the company must include a self-assessment of how they are doing in achieving the Global Compact's goals (both quantitatively and qualitatively). As long as these three pieces of the COP are addressed in the report, the UN is flexible on the general format and detail of content submitted.

In following the Global Compact, its members agree to abide by the COP. This means these entities must annually post their progress towards meeting the Global Compact's goals, as a way of increasing transparency and accountability. This promotes full commitment, as those that do not post their progress run the risk of losing their participant status in the program. Over time, lack of participation can even result in expulsion from the project. This level of commitment and accountability is unique among the voluntary CSR programs, and may serve as a best practice in CSR reporting.

THE EQUATOR PRINCIPLES

As AAOIFI's CSR standard deals exclusively with financial institutions, it would be remiss not to compare it with initiatives specific to the finance industry. One that immediately comes to mind is the Equator Principles, which form a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions[2]. The Equator Principles were developed by private sector banks – led by Citigroup, ABN AMRO, Barclays and WestLB – and were launched in June 2003. The banks had modeled the Equator Principles on the environmental standards of the World Bank and the social policies of the International Finance Corporation (IFC).

Banks that follow these principles are termed 'Equator Principles Financial Institutions' (EPFIs). By signing up to this project, which is voluntary, EPFIs agree to not loan money to projects that do not comply with the stated social and environmental standards. The Equator Principles Association currently has 72 fee-paying members (of which 70 are EPFIs) representing 27 countries. Members include banks from Muslim majority countries, although none of these are full-fledged Islamic banks.

The Equator Principles do not represent a comprehensive approach to CSR analysis, but focus on a limited aspect of a banking organisation. The Equator Principles are based on 10 principles encompassing (1) review and categorization, (2) social and environmental assessment, (3) applicable social and environmental standards, (4) action plan and management system, (5) consultation and disclosure, (6) grievance mechanism, (7) independent review, (8) covenants, (9) independent monitoring and reporting, and (10) EPFI reporting. These principles were largely based on the International Finance Corporation Performance Standards and the World Bank Group Environmental, Health and Safety Guidelines. For EPFIs, performance of this analysis is suggested for financing projects where the capital costs exceed USD10 million.

It is ultimately up to the public to demand more from the entities they invest in and do business with, and support the businesses that are socially responsible.

Implementation of the Equator Principles requires an annual report that details the status of implementation, which is submitted to the Equator Principles Association. The report must include the number of transactions screened by the EPFI, divided by type of transaction (which may include breakdowns by sector and/or region). This report can be included in the entity's financial statements, other CSR report, or on the EPFI's external website.

Due to issues with the association's governance and the limited scope of the principles, critics are cautious about the integrity of reports produced by EPFIs. Nevertheless, the Equator Principles mark a noteworthy effort by the finance industry to self-regulate aspects of their operations, and some of these criticisms have actually helped the association and its members to improve themselves further.

CRITICISM OF CSR REPORTING

There is also serious criticism of CSR reporting as a whole. Detractors see CSR reporting as mostly hype, and that many entities primarily participate to attract positive public relations. These critics cite numerous examples of companies with a known history of human rights and environmental violations touting that they 'care' about corporate social responsibility through issuing CSR reports; all the while not changing their unethical business practices. These critics believe the only way to really drive change is to have these reports independently audited, and for the audit findings to confirm or disprove the reports as being true and fair.

Secondly, many suggest that CSR reporting should have graduated benchmarks that must be achieved annually. This may motivate entities to continually progress towards the stated goals; instead of the current practice where entities are only required to communicate their current status and there is no drive to persuade entities to step closer to the ultimate goal year-after-year.

Finally, as CSR reporting is voluntary, entities may choose not to hold themselves accountable to society at all, at least publicly, so society is left in the dark as to whether or not they practice socially responsible operations.

Nevertheless, few can deny that CSR reporting is a step in the right direction towards more transparency and better accountability, and consequently better business practices. It is ultimately up to the public to demand more from the entities they invest in and do business with, and support the businesses that are socially responsible.

CONCLUSION

Since Syed Hossein first bemoaned the lack of spirituality in pursuing material wealth, mankind's collective conscience seems to have finally awakened, and it has begun to take its first tentative steps to caring for nature and his fellow man. With increasing public pressure for businesses to produce CSR reports, the people behind the corporate facades must give more thought to the manner in which they reap gains, and not just how much gains are reaped.

While the various CSR reporting guidelines available today may differ with regards to topical or jurisdictional authority, breadth of guidance provided, report detail and accountability, they all urge us to conduct ourselves with more awareness of this Earth entrusted to us. Where one set of guidelines may be lacking in a certain area, prescriptions may be found in another. Thus, it would be acceptable to complement or supplement the requirements of 'Islamic' CSR standards with guidance found in 'secular' standards, provided that these are congruent with the principles of Shariah.

In Islam there is the concept of *fard kifayah*, a community obligation that must be performed by a sufficient number of its members. Classically, *fard kifayah* has been associated with providing essential services such as healthcare and education. Given that, in this day and age, the impact of businesses can reverberate throughout the world, perhaps it is time to consider the performance of environmental and social audits as part of a community's *fard kifayah*. After all, on the day of Judgement, all of mankind will be held accountable for its deeds and derelictions on Earth, as the Quran has cautioned us:

> *"When the Earth trembles with such an unimaginable shaking,*
> *And the Earth reveals what burdens her,*
> *And Man cries, 'What has befallen her?',*
> *On that day shall she tell her story…" –*
>
> *Surah Al-Zalzalah: 1-4*

From an Islamic perspective, it is thus untenable to divorce our pursuit of worldly gains from the consequences of the Hereafter. As Syed Hossein Nasr wrote in *Man and Nature*, "To be at peace with the Earth, one must be at peace with Heaven".

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Phenomena of Carbon Credits and the Potential for Pakistan

Omar M. Malik

Abstract:

The article explains the phenomena of global warming and provides precise information to the reader about the establishment of UNFCCC, evolution of Kyoto Protocol and development of various emission trading schemes including Clean Development Mechanism. The article presents an in-depth analysis of CDM activities in Pakistan. To assess the diffusion of CDM in Pakistan, a comparison of CDM project activities in Pakistan is made with the CDM project activities in neighbouring countries. Potential of CDM in Pakistan is explored. Causes for low participation of Pakistani industrial sectors in CDM are critically analyzed and enumerated. Measures to boost CDM in Pakistani industrial sector are also proposed. The article also focuses on developing a consensus of CDM values and benefits for Pakistan.

Keywords: Climate Change, Kyoto Protocol, CDM Pakistan, Carbon Credits

THE PHENOMENA OF GLOBAL CLIMATE CHANGE:

Global climate change is one of the most critical challenges of the 21st century. In the last 100 years, the average surface temperature of the planet has risen by approximately 0.7o Celsius and there is overwhelming scientific evidence that this global warming is due to the intensification of the greenhouse effect, in turn caused by the increased atmospheric concentration of greenhouse gases, namely, carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydroflourocarbons (HFC 23 and HFC 134a) and sulfur hexafluoride (SF6).

The intensification of the greenhouse effect, is due to the higher concentration of the so-called greenhouse gases in the atmosphere, caused by anthropogenic (human) activities, primarily from the burning of fossil fuels, notably coal, petroleum byproducts and natural gas, which occurs on a worldwide basis due to domestic and commercial uses and in transportation, energy production, industry and agriculture.

Other, non-combustion-related anthropogenic emission sources include industrial processes, agricultural activities, waste disposal and deforestation.

Increase in global temperatures can in turn cause other changes, including a rising sea level and changes in the amount and pattern of precipitation. These changes may increase the frequency and intensity of extreme weather events, such as floods, droughts, heat waves, hurricanes, and tornados. Other consequences include higher or lower agricultural yields, glacier retreat, reduced summer stream flows, species extinctions and increases in the ranges of disease vectors.

PRELUDE TO KYOTO PROTOCOL AND EMERGENCE OF CDM:

In mid-1980s, as a result of growing scientific evidence of human interference with the global climate system and ever-increasing public concern about the environment, the climate change appeared on the political agenda. In 1988, the Intergovernmental Panel on Climate Change (IPCC) was established by the United Nations Environment Program (UNEP) and the World Meteorological Organization (WMO) with a purpose to provide policy makers with authoritative scientific information, The IPCC, which comprised hundreds of eminent scientists and experts on global warming, was assigned with the gigantic task of assessing the state of scientific knowledge concerning climate change, evaluating its potential environmental and socio-economic impacts, and framing realistic policy advice.

In 1990, the IPCC published its first report in which it was concluded that the growing accumulation of anthropogenic greenhouse gases in the atmosphere would augment the greenhouse effect, which could result in additional warming of the Earth's surface by the next century, unless measures were adopted to limit emissions. The report confirmed that climate change was a real threat and called for an international treaty to combat it.

The United Nations General Assembly responded by formally launching negotiations on a framework convention on climate change and establishing an "Intergovernmental Negotiating Committee" to develop the treaty. Negotiations to formulate an international treaty on global climate protection began in 1991 and resulted in the completion, by May 1992, of the United Nations Framework Convention on Climate Change (UNFCCC).

The UNFCCC was opened for signature during the UN Conference on Environment and Development (the Earth Summit) in Rio de Janeiro, Brazil, in June 1992 and entered into force in March 1994.

The Convention set an ultimate objective of stabilizing atmospheric concentrations of greenhouse gases at safe levels. To achieve this objective, a general commitment was required from all countries to address climate change, adapt to its effects, and report their actions to implement the convention. The Convention divided the countries into two groups: Annex I Parties, the industrialized countries who had historically contributed the most to climate change, and non-Annex I Parties, which included primarily the developing countries. The principles of equity and "common but differentiated responsibilities" contained in the Convention required Annex I Parties to take the lead in returning their greenhouse gas emissions to 1990 levels by the year 2000.

Parties (countries) to UNFCCC are classified as:

- Annex I countries – industrialized countries and economies in transition

Annex I countries commit to reduce their emission levels of greenhouse gasses to targets that are mainly set below their 1990 levels. They may do this by allocating reduced annual allowances to the major operators within their borders. These operators can only exceed their allocations if they buy emission allowances, or offset their excesses through a mechanism that is agreed by all the parties to UNFCCC.

Annex II countries are a sub-group of the Annex I countries. They comprise the OECD members, excluding those that were "economies in transition" in 1992. They are required to provide financial resources to enable developing countries to undertake emissions reduction activities under the Convention and to help them adapt to adverse effects of climate change.

Developing countries are not required to reduce emission levels unless developed countries supply enough funding and technology.

The Kyoto Protocol is an agreement made under the United Nations Framework Convention on Climate Change (UNFCCC). Countries that ratify Kyoto Protocol commit to reduce their emissions of carbon dioxide and five other greenhouse gases, or engage in emissions trading if they maintain or increase emissions of these gases; four greenhouse gases (carbon dioxide, methane, nitrous oxide, sulphur hexafluoride) and two groups of gases (hydro-fluorocarbons and per-fluorocarbons) produced by them.

The Kyoto Protocol defines legally binding emission targets for the Annex I Parties and establishes mechanisms for meeting them. However it did not enter into international force until February 16, 2005, after ratification by the Russian Federation at the end of 2004.

In accordance with Article 3.1 of the Protocol, the Annex I Parties undertook not to exceed their assigned limits and to reduce their GHG emissions by at least 5% over their 1990 levels. These targets should be achieved between 2008 and 2012, known as the first commitment period. Thus, the phase of recognizing and accounting the reductions by the Annex I Parties began on January 1, 2008. As mentioned previously, the targets were attributed exclusively to the Annex I Parties and it will be up to them to lead the process, initiating the fight against climate change and its impacts, in accordance with the Convention and the Kyoto Protocol.

Should the Annex I Parties fail to comply with the targets established in the Protocol, they will be subject to the legally binding consequences in accordance with Article 18.

The Kyoto Protocol established the following three additional implementation mechanisms to complement the domestic GHG reduction targets implemented by the Annex I Parties:

- Clean Development Mechanism (CDM)
- Joint Implementation (JI)
- Emissions Trading (ET)

The CDM is the only additional implementation mechanism that permits the participation of non-Annex I Parties (so-called because they are not included in Annex I of the Convention), which do not have reduction targets and are made up of the developing nations, such as Pakistan. This economic instrument aims to make it easier for the Annex I countries to meet their targets since it is frequently more cost efficient to reduce or remove GHG emissions outside their frontiers.

The basic regulations needed to implement the CDM formed part of the Marrakesh Accords, established in November 2001 during COP 7. Small-scale projects were regulated during COP 8, forestry projects during COP 9 and small-scale forestry during COP 10. Since the Kyoto Protocol entered into force, further additions to and detailing of CDM-related issues have taken place within the scope of the COP/MOPs.

There are two main objectives of the CDM:

- to assist non-Annex I Parties to:
  - meet their sustainable goals and priorities, by hosting projects that contribute to these goals, and
  - contribute to the UNFCCC's overall objective of stabilizing global concentrations of greenhouse gas emissions at a level that would prevent dangerous anthropogenic interference with the climate system; and
- to assist Annex I Parties to meet their Kyoto targets at a lower cost, by allowing the use of CERs (Certified Emission Reductions) generated by emission reducing CDM projects in non-Annex I countries to be used to meet in part these obligations.

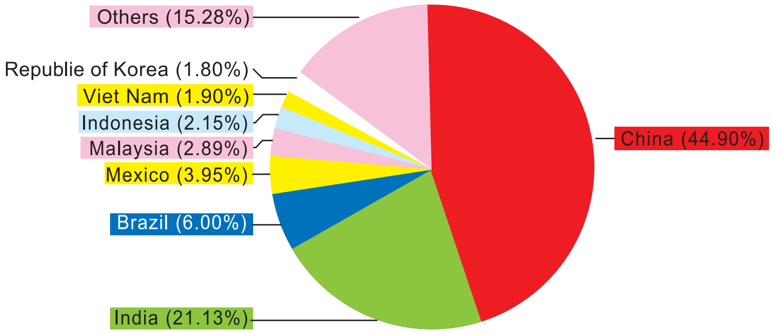
ELIGIBILITY FOR CDM:

- CDM projects must promote sustainable development in the countries in which they are located;
- The emissions reductions from CDM projects must be real, measurable, long-term, and additional to reductions that would have occurred without the project.
- Funding for CDM projects must not divert funding from existing official development assistance

DIFFUSION OF CDM IN PAKISTAN:

Although Pakistan became signatory to Kyoto Protocol quite early (January 11, 2005), the growth of CDM in the industrial sector in Pakistan has been not been very promising. According to the statistics provided on UNFCCC website (see fig below, last updated on June 30, 2011) there are a total number of 3214 registered CDM project activities. Among them, China has the largest number of registered projects (1443, corresponding to a share of 44.90%), followed by India (679, corresponding to a share of 21.13%) and Brazil (193, corresponding to a share of 6.00%). In contrast, Pakistan has only 11 registered CDM projects which correspond to a low share of 0.34%.

Registered project activities by host party. Total: 3,214



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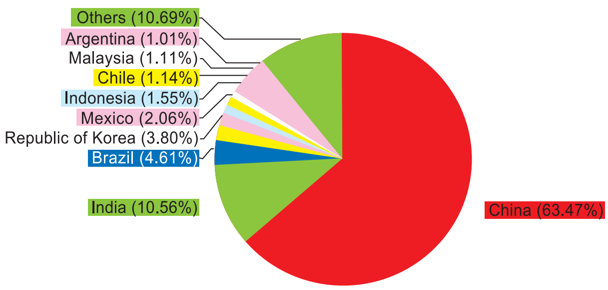
Likewise, if we look at expected average annual CERs from these registered projects (see fig below) China alone has a shared of 63.47%, followed by India (10.56%) and Brazil (4.61%); these three countries together account for almost 78.64% of the total CERs generated so far. The CER share of Pakistan stands at 0.36 % which is almost 30 times less than that of India.

Expected average annual CERs from registered projects by host party. Total: 486,661,140



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The following table provides a complete list of Pakistani projects in CDM Pipeline .

Title	Status	Type	CER ktCO2e/yr
Catalytic N2O Abatement Project in the Tail Gas of the Nitric Acid Plant of the Pakarab Fertilizer Ltd (PVT) in Multan, Pakistan	Registered	N2O	1050
Community-Based Renewable Energy Development in the Northern Areas and Chitral (NAC), Pakistan	Registered	Hydro	87
The 84 MW New Bong Escape Hydropower Project, Azad Jammu and Kashmir (AJK), Pakistan	Registered	Hydro	219
Construction of additional cooling tower cells at AES Lal Pir (Pvt.) Limited. Muzaffar Garh, Pakistan.	Registered	EE supply side	11
Pakarab Fertiliser Co-generation Power Project	Registered	EE supply side	119
Composting of Organic Content of Municipal Solid Waste in Lahore	Registered	Landfill gas	109
ICI Polyester Co-generation Project	Registered	EE own generation	21
Gul Ahmed Combined Cycle Gas Turbine Project	Registered	EE supply side	36
"Biogas-based Cogeneration Project at Shakarganj Mills Ltd., Jhang, Pakistan"	Registered	Methane avoidance	19
Almoiz Bagasse Cogeneration Project	Registered	Biomass energy	23
Waste Heat Recovery based 15 MW Power Generation Project at Bestway Cement Limited, Chakwal, Pakistan	Registered	EE own generation	48
Cattle Waste Management, Landhi Cattle Colony, Karachi, Pakistan	Validation terminated	Methane avoidance	1458
Switching of fossil fuel from Heavy Fuel Oil to Natural Gas by replacing Heavy Fuel Oil Engines (5.86 MW*4) with Gas Engine (16.4 MW) at Maple Leaf Cement Factory Limited, Iskanderabad, Pakistan	Validation terminated	Fossil fuel switch	23
DGKCC Waste Heat Recovery and Utilization for 10.4 MW Power Generation at Dera Ghazi Khan Plant	At Validation	EE own generation	34

Title	Status	Type	CER ktCO2e/yr
DHCL Gas Turbine based Cogeneration Project	At Validation	EE own generation	31
Fuel Switch and energy efficiency project at PWML, Pakistan	At Validation	Fossil fuel switch	17
Grid connected combined cycle power plant project in Qadirpur utilizing permeate gas, previously flared	At Validation	Fugitive	163
Waste Heat Recovery and Utilization for Power Generation at Maple Leaf Cement Factory Limited, Iskanderabad, Pakistan	At Validation	EE own generation	48
Waste Heat Recovery and Utilization for Power Generation at Lucky Cement Limited, Karachi Plant	At Validation	EE own generation	43
"Waste Heat Recovery and Utilization for Power Generation at Cherat Cement Company Limited, Nowshera, Pakistan"	At Validation	EE own generation	32
Waste Heat Recovery and Utilization for Power Generation at Lucky Cement Limited Pezu Plant	At Validation	EE own generation	34
Methane avoidance project at Habib Sugar Mills Ltd.	At Validation	Methane avoidance	58
Biomass Fuel Switch Project at Sapphire Finishing Mills Ltd, Pakistan	At Validation	Biomass energy	34
Reduction of Heavy Fuel Oil usage for Power Generation at Lucky Cement, Pezu, Pakistan	At Validation	Fossil fuel switch	34
Compost from Municipal Solid Waste in Peshawar, Pakistan	At Validation	Landfill gas	144
Methane avoidance project at Colony Sugar Mills Ltd.	At Validation	Methane avoidance	61
Substitution of coal with alternate fuels at DG Khan Cement Company Limited, Khairpur Plant	At Validation	Biomass energy	149
Waste Heat Recovery Power Plant at Fecto Cement Limited	At Validation	EE own generation	20
Waste Heat Recovery CDM Project at Attock Cement Pakistan Ltd.	At Validation	EE own generation	38
Patrind Hydropower Project	At Validation	Hydro	282
Waste Heat Recovery and Utilization for Power Generation at Cherat Cement Company Limited, Nowshera, Pakistan	At Validation	EE own generation	26

CAUSES FOR LOW PARTICIPATION OF INDUSTRIAL SECTOR IN THE CDM:

There are manifold causes for low participation of the industrial sector of Pakistan in the CDM. These are enumerated below :

1. **Lack of awareness of industrial sector about CDM**
   Although Pakistan ratified Kyoto Protocol quite early in January 2005, majority of the industrial owners are still not aware of various emission reduction schemes and emission trading programs under the Kyoto Protocol and their environmental and financial benefits. Although few industrial owners have general awareness about CDM, they still do not know about the intricacies and modalities of CDM registration process such as establishing prior CDM awareness, seriousness of CDM consideration and above all additionality. Such project proponents, who do not seek the assistance of an experienced CDM consultant, normally end up developing projects which are rejected even at pre-validation stage.

2. **Lack of financial incentives from the government**
   The government does not provide any financial incentives (e.g. tax rebates, subsidies, attractive tariffs) for the promotion of CDM related projects in Pakistan.

3. **Dearth of Institutional Guidance**
   Institutional guidance both from the government and industrial associations plays an important role in the successful development of CDM related project activities. Unlike India and China, there are no specific statistics, sectoral studies and guidelines available for the industrial sector in Pakistan which provide essential information with regard to current practices in the region, financial indicators for decision making process, and opportunities which can be realized as CDM project activities.

4. **Long Timeframe for CDM project Development**
   Timeline of CDM project registration is very long. A project proponent has to go through processes of PDD development, DOE selection, on-site validation, responding to Validation Protocols, waiting for completeness check, and Global Stakeholders' Consultation. Such methodology, though very transparent, yet takes approximately up to 2 years for a project proponent to get the project registered as CDM project. Furthermore, verification, issuance, and emission trading process may add up more than one year into it, which means the project participant shall start getting CDM income after approx. 2.5 of starting date of the project activity. During that phase, the project proponent has to bear all the project construction, project development, and validation costs and at times it acts as a great hurdle for project developers to participate in CDM.

5. **High Costs of Validation**
   Over the years the costs for validation of CDM project activities have increased a lot. For small-scale project activities they range between 20,000 to 30,000 EUROs and for large scale 30,000 to 40,000 EUROs. These high costs can stall CDM decision making process; especially in those cases where total number of estimated emission reductions (ERs) associated with the CDM project activity is less than 7,000 tCO2/yr.

MEASURES PROPOSED TO BOOST CDM IN INDUSTRIAL SECTOR OF PAKISTAN

Keeping in view the causes for low participation of industrial sector in CDM, the following measures are suggested to accelerate the development of CDM in Pakistan:

1. Create Awareness about CDM at the Private, Public and Policy Level

- In this regard a comprehensive CDM awareness campaign, consisting of workshops, seminars, multimedia advertisements, etc, needs to be launched by DNA Pakistan which creates awareness among, Project Proponents, Project Developers, Industry Owners, Industry Associations, representatives from EPA and other relevant government authorities and ministries.
- Local CDM consultants, DOEs and CER buyers should also be invited to join the campaign. They can help disseminate CDM related knowledge in an effective manner.

2. Provide Financial Incentives to CDM Project Proponents

In order to promote CDM in Pakistan, the government should:

- Provide tax rebates
- Instruct financial institutions to provide CDM related loans at attractive rates
- Waive duties on import of CDM related technology
- Provide attractive tariffs for grid-connected CDM project activities
- Provide funding for small size CDM projects to offset high validation costs

3. Develop Institutional Studies and Guidelines

The relevant government bodies, ministries and industrial associations should actively get involved to develop:

- Sectoral studies elaborating key statistics of the sector, the status of technologies prevalent in the sector and the kind of CDM initiatives that can be taken.
- Public and sector specific benchmarks for decision making process of a CDM project activity. Please note that for financial additionality of a CDM project there should be either a publicly available benchmark (such as commercial lending rate) or sector specific benchmark which can be clearly validated by the DOE. So far no such benchmarks exist, except for the public sector Hydropower/Thermal projects or private sector IPPs.

4. Properly Plan Your CDM Project

Although CDM projects can take considerable time to get registered as internal or external delays may occur during any phase of the project, the overall time to accomplish these projects can be minimized through efficient planning. Some of the crucial steps to be taken in this regard are summarized below:

- Conduct financial feasibility or barrier analysis of the project to see whether it is additional or not
- Select the applicable UNFCCC approved methodology
- Decide whether you can develop the CDM project on your own, otherwise hire the CDM consultant at an early stage
- Develop project idea note for the project
- Intimate the CDM secretariat and DNA Pakistan about the start date of the project activity
- Conduct local stakeholder meeting and environmental examination at an early phase and go for Host Country Approval
- Arrange all appropriate evidences regarding historical data, project activity data to smooth the validation and registration process
- Develop Project Design Document and go for validation right away
- Choose the validator who has the requisite expertise in the sectoral scope to which the project activity belongs

CDM VALUES AND BENEFITS FOR PAKISTAN

The underlying philosophy of the CDM is simple: "developed countries can invest in low-cost abatement opportunities in developing countries like Pakistan and receive credit for the resulting emissions reductions, thus reducing the cutbacks needed within their borders." CDM not only lowers the cost of compliance with the Protocol for developed countries but also enables developing countries to benefit as well by increasing investment flows and helping them achieve sustainable development goals. The CDM encourages developing countries to participate by making sure that development opportunities and initiatives will be addressed as part of the package. This recognizes that only through long-term development will all countries be able to play a role in protecting the climate.

For a developing country like Pakistan, the CDM can:

- Encourage and permit the active participation of both private and public sectors;
- Attract investment for projects that help in the shift to a more prosperous but less carbon-intensive economy;
- Furnish a tool for technology transfer, if investment is routed into projects that replace old and inefficient fossil fuel technology, or create new industries in environmentally sustainable technologies; and,
- Help outline investment priorities in projects that meet sustainable development goals.

Specifically, the CDM can make contributions to Pakistan's sustainable development objectives through:

- Sustainable ways of energy production;
- Transfer of technology and financial resources;
- Increasing energy efficiency & conservation;
- Alleviation of poverty through income and employment generation; and,
- Local environmental side benefits

The impetus for economic growth presents both fears and opportunities for sustainable development. While environmental quality is a necessary element of the development process, in practice, there is substantial incongruity between economic and environmental goals. Increased access to energy and provision of basic economic services, if developed along conventional paths, could cause long-lasting environmental degradation — both locally and globally. But by charting a different course and providing the technological and financial assistance to follow it, many potential problems could be avoided.

In comparing potential CDM projects with what might otherwise take place, it becomes clear that the majority of CDM projects will entail not only emission reduction benefits, but also result in a range of environmental and social benefits within developing countries. Sustainable development benefits could include reductions in pollution of air and water due to reduced consumption of fossil fuels, especially coal and oil, but also extend to improved availability of water, reduction in soil erosion and protection of biodiversity. For social benefits, many projects would create new job opportunities in target regions or income groups and promote local energy self-sufficiency. Therefore emission reduction and sustainable development objectives can be pursued simultaneously.

Many options under the CDM could create significant co-benefits in Pakistan, addressing local and regional environmental problems and advancing social objectives. For Pakistan, that might otherwise give priority to immediate economic and environmental needs, the prospect of significant ancillary benefits should provide a strong inducement to participate in the CDM.

OVERVIEW OF POTENTIAL CDM OPPORTUNITIES FOR INDUSTRIAL SECTOR IN PAKISTAN:

1. Textile
- Energy efficiency improvements (e.g. use of efficient machinery)
- Fossil fuel switch, from high carbon intensive to low carbon intensive (including renewable fuels)
- Steam optimization by condensing (installation of double extraction cum condensing turbine could optimize the steam wastage)

2. Glass
- Fuel efficiency improvement in glass melting technique
- Energy efficiency, e.g. use of HRSGs at the exhausts of generators to produce steam which is required in the manufacturing of glass, or that steam is further used in the power generation from steam turbine.

3. Fertilizer
- Fossil fuel switch, from high carbon intensive to low carbon intensive
- Reduction in steam consumption of Ammonia/ Urea plant through revamping of Ammonia/ Urea plant
- Reduction in thermal energy consumption of Primary Reformer by installing parallel auto-thermal reforming system
- Fuel switchover from Naphtha fuel to Natural Gas fuel in Primary Reformer
- Installation of Carbon Dioxide Recovery (CDR) plant at Urea manufacturing facility
- Off gases recovery at Urea plant
- Installing catalytic decomposition equipment at the tail gas downstream between HNO3 absorber and stack
- Installation of a secondary catalyst to decompose N_2O inside the reactor
- Use of Neem Coated Urea instead of plain Urea

4. Demand side Energy management
- Replacement of low efficient equipment (such as pumps, compressors, lamps) with energy efficient alternatives;
- Application of retrofit measures for various types of equipment through measures such as power factor improvement, and installation of energy saving devices, etc.

5. Cement
- Waste heat recovery based power generation (Use of waste heat with HRSGs (Heat Recovery Steam Generators) at the clinker making kiln and produce electricity with the steam turbine)
- Use of alternative fuels / fuel switching such as Municipal Solid Waste (MSW) Refuse Derived Fuel (RDF), biomass, tires, etc in cement kilns
- Energy efficiency improvements (use of more efficient and modern technologies for cement manufacturing)
- Use of blends in cement production: Fly ash, blast iron slag, non-carbonated calcium sources in the raw mix for cement processing, etc.

6. Oil & Gas
- Flare reduction and gas utilization
  - Recovery and utilization of associated gas from oil wells that would otherwise be flared
  - Flare reduction and gas utilization at gas and oil processing facilities
- Energy efficiency improvements
- Leak reduction (Reduction of gas venting in gas transmission and distribution systems
- Projects in Refineries:
  - Steam Optimization
  - Energy Efficiency
  - Heat Recovery
  - Flare Gas Recovery
  - Steam Loss Reduction

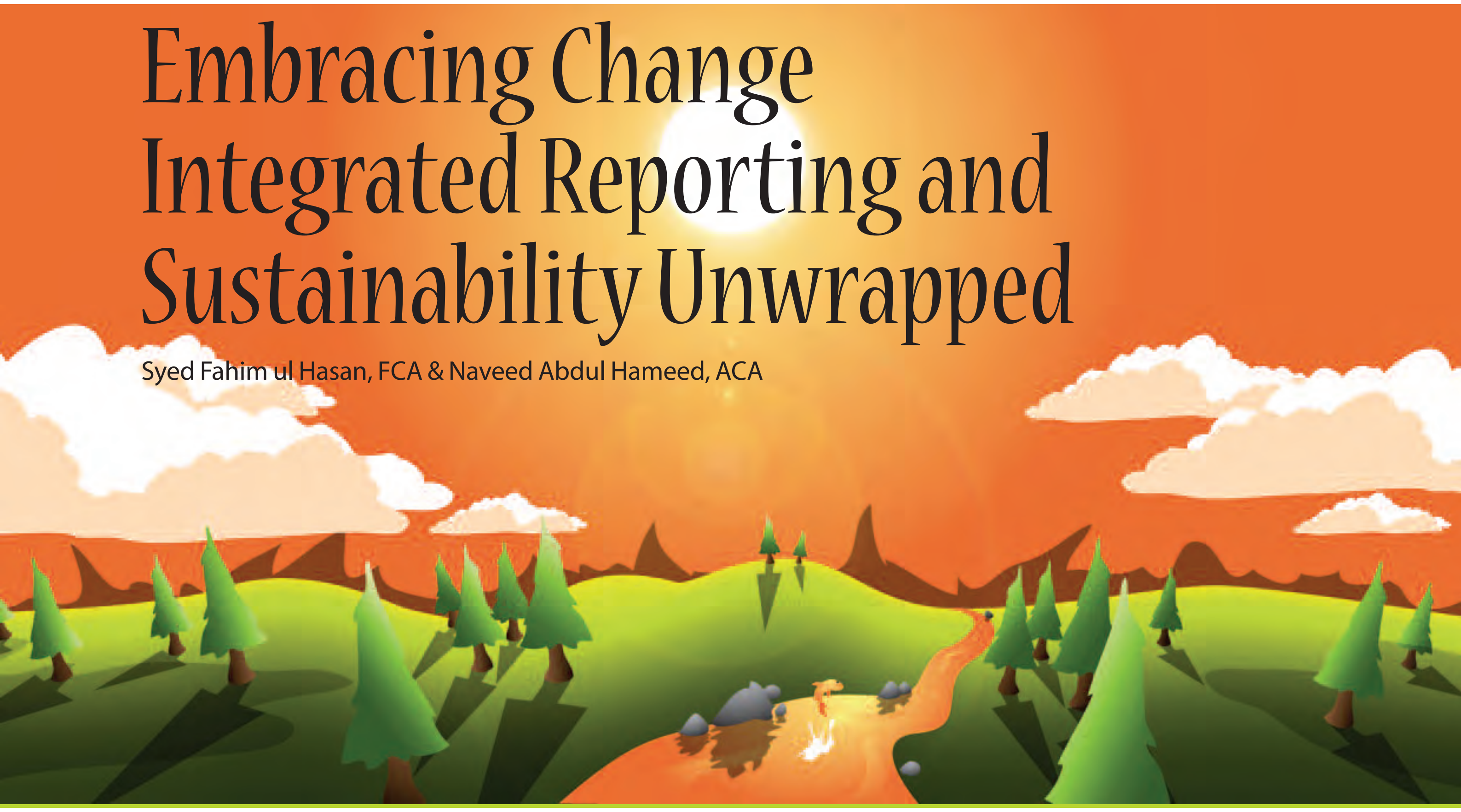
7. Sugar
- High pressure boilers based cogeneration: Bagasse based cogeneration in sugar industries with high pressure boilers and power export to grid
- Waste water treatment and biogas recovery
- Biogas based power generation and export to grid

8. Steel & Iron
- Energy Efficiency improvement of thermal and electrical energy systems
- Waste heat recovery based power generation
- Use of alternative fuels / Fossil Fuel Switch

9. Renewable Energy Management
- Wind Power
- Hydro Power (e.g. Run-of-the-River Hydro Power Project)
- Solar Power (e.g. Use of PV solar panels in Houses, Commercial Buildings)
- Biomass based cogeneration: Biomass based (agriculture residue such as rice husk) power generation, and replacement of fossil fuel based power generation.

About the Author:

Omar Malik is co-founder of Carbon Services. His is responsible for new business development, international partnerships, and the company's expansion to new markets. Since the company's inception, Omar has overseen the development of over 30 CDM projects and carbon transactions, in excess of 20 million tons of CO_2. He is actively involved in commercialization of CER and VER transactions. Omar has an MBA from INSEAD in France, and a BSc in Finance from Georgetown University in Washington DC.



Embracing Change Integrated Reporting and Sustainability Unwrapped

Syed Fahim ul Hasan, FCA & Naveed Abdul Hameed, ACA

The financial meltdown, economic crisis together with increasing population, over-consumption of finite natural resources, pollution of land, sea and air, climate change leading to global warming and social instability have raised questions in the minds of global communities about the sustainability of the current socially irresponsible corporate model which considers the financial performance, the only criterion for success. If not changed, the current model will result in natural and man-made disasters on planet earth as a result of uncontrolled consumption of natural resources and widening of gap between various global community groups. The current reporting model which focused on the financial performance was hence considered inadequate to address the concerns. It is strongly felt now, the businesses which make timely investments in social and environment sectors will only sustain in the long run.

Considering above, the current reporting standards, International Financial Reporting Standards (IFRS) do not serve the purpose of stakeholders as they capture the business performance in financial terms. These reports do not consider the social, environmental and long-term economic context within which the business operates. Some companies produce 'Sustainability' or 'Environmental' or 'CSR' reports which consider these factors. However, these reports do not necessarily connect the risks and opportunities with the business strategy and model nor they address reporting on corporate governance.

Integrated Reporting demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing. Addressing the wider as well as longer-term consequences of decisions and actions, an integrated report makes clear the link between financial and non-financial value.

Integrated Reporting

Understanding the corporate strategy drivers is an initial step; it's easy to say but difficult to do. Management's assessment should incorporate core values and the resources required for delivery. These resources would include critical company processes; customer, employee, vendor and community attributes; supply chain processes; and market, competitor and other external forces.

The roadmap to realizing benefits from integrated reporting — while relatively straight forward — is not necessarily a simple one. It requires a comprehensive approach, including coordination across a wide range of business segments, processes, information silos and internal groups.

Before we move on to discuss more about integrated reporting and associated benefit, it is necessary here to explore the concept of sustainability, one of the key aspects for integrated reporting.

WHAT IS SUSTAINABILITY?

Since the financial performance of an organization is directly linked to its activities and, each activity of an organization has an impact. Management of these impacts is necessary. These impacts have triggered many questions. Will my business, my company, my operations will sustain in the long run? How can a company have a goal broader than its financial performance and still be a winner? Or can it be a winner in this changing business environment without changing its 'usual financial goal' approach? How does one define and measure the non financial goals? How will they impact the ultimate financial results?

The issue has broadened the governance thinking from single bottom line financial performance to triple bottom line or the concept called SUSTAINABILITY.

Sustainability represents those impacts which are mentioned in the aforementioned lines.

These impacts are:

- Social
- Economic, and
- Environment

Financial success is no longer the sole measure by which corporations are judged by their stakeholders – primarily investors, consumers, employees, regulators and the communities in which they operate. Companies are now expected to perform well in non-financial areas, such as human rights, business ethics, environmental policies, corporate contributions, community development, corporate governance and workplace issues. There is an increasing expectation that traditional financial reporting boundaries should be extended to include information about environmental impact and corporate social responsibility.

The sustainability Idea

Meet the needs of the present without compromising the ability of future generations to meet their own needs.

Earth is not inherited from our forefathers rather it is borrowed from our future

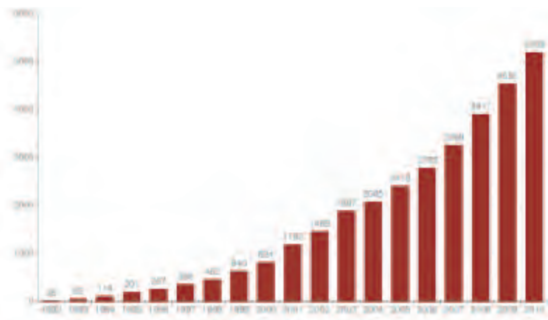
Other names of sustainability

"What's in a name? That which we call a rose by any other name would smell as sweet."

- Corporate Citizenship (CC)
- Corporate Responsibility (CR)
- Corporate Social Responsibility (CSR)
- Philanthropy
- Economics, Equity, Environment (EEE)
- People, Planet, Profit (PPP)
- Sustainable Development (SD)
- Sustainability
- Triple Bottom Line (TBL)

Some sustainable business practices?

- Energy saving
- Water saving
- Reduction in fertilizer use
- Reduce green house gas emissions
- Reduce wastes and effluents
- Concern for bio-diversity
- Water purification
- Compliance with product and waste disposal regulations
- Forestation
- Employee education and training
- Workforce passive diversity
- Workforce healthcare provision
- Community investment/local philanthropy
- Poverty alleviation programs
- Conformity with recognized environmental management standards, e.g. ISO 14001
- Public environmental / sustainability reporting
- Independent assurance of sustainability reports



No. of global corporate sustainability reports issued per year

SUSTAINABILITY IN PAKISTAN

The concept of sustainability is relatively new to the business community in Pakistan. It is, however, becoming an important business concern, mainly because of increasing pressure on the Pakistani business community (especially in the export sector) to comply with European Union environmental and social responsibility standards such as those relating to packaging waste and water treatment.

In accordance with the view point of a large number of business people, these environmental and social responsibility standards are regarded as barriers to trade and as a 'neo-colonial agenda to exploit the export sector of Pakistan'. The business community in Pakistan faces a number of micro and macro economic challenges. Their profits are already under pressure due to heavy taxation, inflation, fuel prices and utility bills. At the same time, European Union buyers are demanding lower prices; but exporters in Pakistan are increasingly finding it difficult to comply with this requirement.

As in the rest of the world, businesses in Pakistan are concerned with profit maximization. An important obstacle in the adoption of sustainable business practices is that many of the companies, both larger and SMEs, cannot appreciate the link between sustainability initiatives and profits. This link needs to be illustrated to convince the business community to adopt sustainable business practices and to report them.

> "Embedding sustainability is a part of the organization's DNA"
> *Davis Phillips –*
> *Senior Corporate reporting Partner - PwC*

The environmental laws exist in Pakistan under the authority of Ministry of Environment. Section 11 of the Pakistan Environmental Protection Act, 1997 prohibits discharges and emissions (of wastes) in excess of the limits prescribed under the National Environmental Quality Standards, or NEQS (SRO 549(I)/2000 dated 8 August 2000).

CLEAN DEVELOPMENT MECHANISM (CDM)

CDM is one of the market mechanisms of Kyoto Protocol, an international binding for the global reduction of Green House Gases' emission by 5.2% from the level of 1990's. Kyoto Protocol (KP) was enforced in 2005 by United Nations Framework Convention on Climate Change (UNFCCC). 35 countries (western and eastern Europe, Canada and Japan etc) have ratified the protocol while a vast majority have accepted and approved the protocol. Pakistan is one of the countries approving the protocol. Those countries who have ratified the KP are the developed nations which are assigned the maximum cap for the emission of GHG into the atmosphere. Whereas, for the developing countries (like Pakistan) there is a flexibility by putting no Cap on the GHG emission level. Under the CDM methodology, a country that is emitting at its limit of carbon emission (developed country) can acquire permission for additional carbon emission by investing in emission reduction projects in developing countries (e.g Pakistan). This carbon trading takes place through the exchange of Certified Emission Reduction (CER) units. Developed countries help developing countries in carrying emission reduction / removal projects and in exchange, earn CERs from developing countries. Purchasing one unit of CER allows developed countries to emit one tonne of carbon dioxide in addition to its limit.

For CDM projects in Pakistan, Ministry of Environment (MoE), Government of Pakistan is the Designated National Authority (DNA) while its National Operational Strategy was approved in 2006. Presently, there are four projects registered with UNFCCC and 23 approved projects by the DNA, that is MoE. Many other projects are also in the pipeline. Following are the advantages of CDM for the corporate sector in Pakistan:

- Additional financial resources (Revenue through sale of CER units)
- Advanced technology transfer
- Achieve sustainable development (reduction of GHG)
- Increased rate of return
- Identify internal inefficiencies, cut waste and save money for the company

It is hereby proposed that carbon trading should be actively and properly regulated by the Government.

Pak Arab Fertilizers of Fatima Group has a plant in Multan to generate power using nitric acid. This is the biggest CDM project of UNFCC in Pakistan (out of 10 registered projects). The company is earning 3 million USD a year in carbon credits. The information was shared on UN Climate Summit on Dec 7 by Shafqat Kakakhel, a member the Executive Board of CDM. (Source: Dawn newspaper: December 8, 2010)

HOW SUSTAINABILITY IS RELEVANT FOR PROFESSIONAL ACCOUNTANTS

Accountants' professional background and orientation equip them with the necessary qualities to support their contribution - namely, wide business understanding, numeracy and knowledge of measurement, and objectivity and integrity. Applying these competencies to sustainability issues can help organizations to embrace sustainable development, and to incorporate it into strategic planning and execution. This will allow organizations to simultaneously deliver improved business performance *and* to contribute to a better world.

Professional accountants are in a good position to help organizations interpret sustainability issues in a relevant way for their organizations, and to integrate those issues into the way they do business.

"It is important that all accountants understand the concept of sustainability so as to provide better financial support to the business decisions of their business partners."
Michael J. Foley
Assistant Corporate Controller , Johnson & Johnson U.S.A.

"The most fundamental issue for the profession is getting the point across that there is a linkage between financial performance & sustainability."
Nick Shepherd
President of Edu Vision, a Canada-based consulting & training company and a fellow of the Association of Chartered Certified Accountants.

Recommended readings:
Professional Accountants in business-At the Heart of Sustainability, published by IFAC

IFAC'S SUSTAINABILITY FRAMEWORK

IFAC's Sustainability Framework can help professional accountants grasp all the important aspects of sustainability that they may encounter, directly or indirectly, and that will be important to their organizations. It consolidates all of the important aspects of sustainability for organizations wishing to deliver long-term sustainable value to their stakeholders.

The Framework addresses four perspectives in bringing together all the critical areas required to successfully manage a sustainable organization. These perspectives are: business strategy, internal management, financial investors, and other stakeholders. Organizations that have successfully embraced sustainable development to add value to the organization and its stakeholders have usually taken action on all four perspectives.

The Framework provides many examples of good practice, so that professional accountants can easily seek more detailed information on areas of particular interest.

The four perspectives are summarized below:

ROLE OF THE JOINT COMMITTEE OF ICAP AND ICMAP TO FOSTER SUSTAINABILITY REPORTING IN PAKISTAN (TO EXPAND)

In order to promote the responsible reporting by companies covering the economic, environment and social performance of the business, the joint committee of ICAP and ICMAP has announced "Best Sustainability Report Award 2011" and has published the Criteria for this award. The Criteria is based on internationally recognized Framework; G3 Guidelines of Global Reporting Initiative (GRI), an international standard on Sustainability Reporting that has also been recommended by the International Federation of Accountants (IFAC). The criteria are comprised of the following areas:

a) Strategy and profile disclosures
b) Disclosures on management approach with regard to sustainability
c) Core performance indicators (in the areas of economic, environment and social performance)
d) Relevance of the sustainability report to the organizational sector
e) Stakeholders' engagement
f) Report presentation
g) Assurance by an independent assurer being a practicing member (s) of ICAP and ICMAP, in accordance with ISAE 3000.

The Criteria for the Best Sustainability Report Award is available on the Institute's website: http://www.icap.org.pk/userfiles/file/TechnicalDepart/sustainability_report_award.pdf

EVOLUTION OF CORPORATE REPORTING

According to KPMG International Survey of Corporate Responsibility Reporting 2008, by the end of the last century trendsetting companies started to explain their impact on the environment and wider society in CSR (Corporate Social Responsibility) reports and a growing number of companies are now following their example.

Full Integrated Report

Over the last decade CSR reporting has grown significantly – from 35 percent in 1999 to 80 percent of the companies listed in the Global Fortune 250 in 2008. Over the last years, a selected number of companies have started to integrate CSR reporting into the annual report. As of today, only 3 percent of the companies worldwide are reporting on an integrated basis. However, this figure is increasing.

Approximately 270 companies using the Global Reporting Initiative's G3 guidelines are **self declared integrated reporters.**

To determvine the extent to which corporate and investor behavior is changing to contribute to a more sustainable society, researchers Robert Eccles and George Serafeim analyzed data in collaboration with Sustainable Asset Management (SAM), involving over 2,000 companies in 23 countries. They ranked countries based on the degree to which their companies integrate environmental and social discussions and metrics in their financial disclosures.

Research findings:

Company Integration and Investor Interest in Environmental Performance

Integrated Reporting by Companies

Investor Interest	Low	High
High	Canada Greece India Japan Singapore United States	Denmark UK Germany Spain Switzerland
Low	Australia Belgium China Hong Kong Italy South Korea	Brazil Finland France Netherlands South Africa Sweden

Company Integration and Investor Interest in Social Performance

Integrated Reporting by Companies

Investor Interest		Low	High
	High	Canada Greece India Japan Singapore Switzerland United States	UK Germany Italy Spain
	Low	Australia China Hong Kong Netherlands South Korea	Belgium Brazil Denmark Finland France South Africa Sweden

ABOUT INTERNATIONAL INTEGRATED REPORTING COMMITTEE (IIRC)

The International Integrated Reporting Committee (IIRC), launched in August 2010, is in the process of creating a globally accepted integrated reporting framework. Members of IIRC include from Accounting for sustainability (A4S), the Global Reporting Initiative (GRI), the International Federation of Accountants (IFAC), the main global accounting firms (PwC. E&Y Deloitte), the UN, the International Organization of Securities Commissions, the World Bank, the IMF, the Financial Stability Board (as observers), the International Accounting Standards Board (IAASB) and the Financial Accounting Standards Board (FASB), as well as from a range of businesses, investors, NGO's and academic institutions.

"To make our economy sustainable we have to relearn everything we have learnt from the past. That means making more from less and ensuring that governance, strategy and sustainability are inseparable." So said Professor Mervyn King, Deputy Chairman of the International Integrated Reporting Committee (IIRC), at the committee's launch in August 2010.

KEY MILESTONES OF INTEGRATED REPORTING BY IIRC

Key Activity	Key milestones
Publication of Integrated Reporting discussion paper	Mid 2011
Launch of a Pilot Programme on Integrated Reporting	October 2011
Initial company and investor 'dry run' testing for the Pilot Programme	2011
Proposals for Integrated Reporting put forward at the time of the G20 Finance Ministers meetings	October 2011
Completion of Full Pilot Programme for integrated reporting by companies and investors	2012
Development of Integrated Reporting Framework by IIRC	2010

PAIB FORUM ON INTEGRATED REPORTING

CPA Australia and the Institute of Chartered Accountants in Australia, together with the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC), hosted a forum for local professional accountants in the second week of May 2011 in Melbourne, Australia. The focus of the forum was on how professional accountants in business can support their organizations to improve governance practices through the integration of financial and non-financial information into their reporting, including a focus on environment, social, and governance (ESG) factors.

"Professional accountants help their organizations recognize the importance of incorporating ESG factors into functions and processes—from strategic planning and goal setting to external communications and reporting," said Roger Tabor, chair of the PAIB Committee. "The speakers at the PAIB Forum and subsequent committee meeting served to help us better understand how organizations and their investors are managing ESG issues, and incorporating ESG into valuations and decision making."

Main conclusions of the forum:

- Integrated reporting needs to reflect an organization's strategy and values, as well as how it is managed in all social, environmental, and economic dimensions of performance;
- The process of integrated reporting, in turn, is a powerful tool to help drive an organization's strategic agenda, providing management with key drivers of performance;
- Integrated reporting has to be open and transparent by reflecting both improvements in performance as well as weaknesses; and
- Pension fund investors, as well as some other institutional investors, are increasingly looking for financial implications of ESG factors to understand how an organization's strategy and operations are affecting the numbers and key measures of performance.

FOUNDATIONS OF INTEGRATED REPORTING IN PAKISTAN

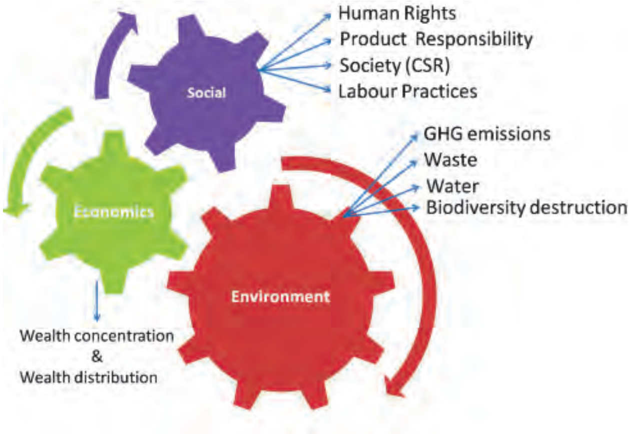
As we have already discussed in the above paras that the structure of integrated reporting lies on the pillars of financial reporting, sustainability reporting and reporting on Corporate Governance. In the following we shall be analyzing the existence of the reporting practices followed in Pakistan for each of the individual area, which will form the ground for future convergence.

Areas of Reporting	Reporting Framework
Financial reporting (Financial statements)	IFRS Companies Ordinance Banking Companies Ordinance Insurance Ordinance
Sustainability reporting	G3 guidelines of Global Reporting Initiative (GRI) – recognized reporting standard by IFAC Sustainability Framework
Corporate governance	Code of Corporate Governance (Stock Exchange Listing Regulations)

In Pakistan, financial reporting and reporting on corporate governance is in the maturity stage. However, reporting on sustainability is evolving.

SUSTAINABILITY REPORTING

More than 60 companies in Pakistan are producing their separate sustainability reports. A very few companies like Engro Corporation, Engro Polymer and ICI etc are following G3 guidelines of GRI as a reporting framework of their sustainability reports.



Areas of disclosure under G3 guidelines of GRI

CODE OF CORPORATE GOVERNANCE

The *Code of Corporate Governance*, implemented by the Securities and Exchange Commission of Pakistan in March 2002 has the following provision on the organization's environmental impact.

Under 'Responsibilities, Powers and Functions of Board of Directors', Section (viii) sub section (b):

The Board of Directors [should] adopt a vision/mission statement and overall corporate strategy for the listed company and also formulate significant policies having regard to the materiality as may be determined.

'Significant policies' for this purpose includes 'Health Safety and Environment (HSE)'. Indeed, many of the policies are interrelated and may have an impact on HSE.

Under 'Significant Issues to be Placed for Decision by the Board of Directors', Section (xiii):

In order to strengthen and formalize the corporate decision-making process, significant issues shall be placed for the information, consideration and decision of the Boards of Directors of listed companies.

Here, **'significant issues'** include, among other things:

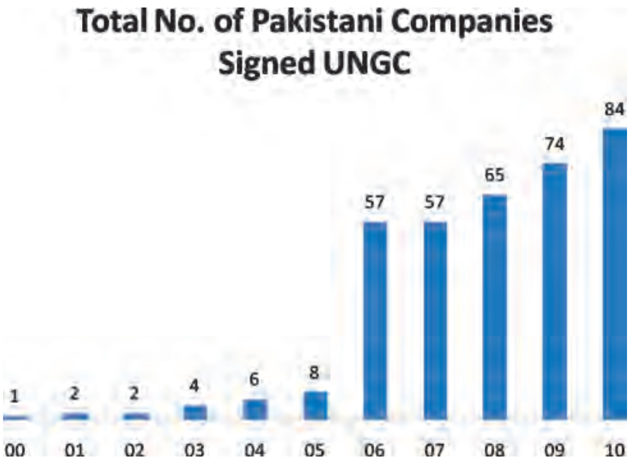
Any significant accidents, dangerous occurrences and incidents of pollution and environmental problems involving the listed company.

SECP'S SRO FOR DISCLOSURE ON CSR / ENVIRONMENTAL INITIATIVES

SRO 983(1)/2009 dated Nov 16, 2009 requires every public company to provide descriptive as well as monetary disclosure of the CSR activities / environmental measures in the directors' report, annexed to the annual audited financial statements. The SRO is effective from financial year beginning on or after July 1, 2009. For areas of disclosure, please refer the SRO.

UNITED NATIONS GLOBAL COMPACT

The United Nations Global Compact (UNGC) is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. All those companies who have signed the UNGC are required to produce "Communication on Progress" (CoP). Many companies around the globe are producing CoP to disclose their sustainability aspects. The following chart shows the total number of Pakistani companies in each year who have become the signatory to UNGC.



ISO 14000

ISO 14000:2004 certified companies are required to communicate / report on significant environmental aspects. According to clause 4.4.3, certified companies are required to implement methods for external communication of significant environmental aspects. The trend towards ISO 14000 registration is increasing among the corporate world of Pakistan at a very fast pace.

ASIAN SUSTAINABILITY RATING OF PAKISTANI COMPANIES (2009 RESULTS)

The Asian Sustainability Rating (ASR™) is a benchmarking tool for use by Asian companies, investors and other stakeholders. Launched in October 2009, the ASR™ covered the top 20 companies by market capitalization in 10 Asian markets.

Rank in Pakistan	Rank in total ASR (among the Asian companies)	Company	Score 2009 (%)
1	46	Engro Chemicals Pakistan Limited	55.9
2	87	Unilever Pakistan	40.2
3	95	Pakistan State Oil	38.2
4	123	Nestlé Pakistan	29.4
5	150	Fauji Fertilizers Company Limited	22.5
6	159	Oil and Gas Company Limited	18.6
6	159	Pakistan Petroleum Limited	18.6
8	166	Standard Chartered Pakistan	16.7
8	166	Hub Power Company Limited	16.7
8	166	Lucky Cement Limited	16.7
11	181	GlaxoSmithKline Pakistan	13.7
12	183	Pakistan Oil Fields Limited	12.7
13	186	National Bank of Pakistan	10.8
13	186	Kot Addu Power Company Limited	10.8
13	186	Royal Bank of Scotland	10.8
16	189	Allied Bank of Pakistan	9.8
17	191	Pakistan Telecommunication Company Limited	7.8
18	193	United Bank Limited	6.9
19	197	Muslim Commercial Bank Limited	2.9
20	199	Habib Bank Limited	1.0

Disclosure by indicator area (%)	Pakistan
Governance, Codes, and Policies	35.2
CSR Strategy and Communication	10.2
Marketplace and Supply Chain	16.5
Workplace and People	7.3
Environment	19.1
Community and Development	15.5

Source: asiansr.com

Snapshots from Sustainability Reports

2010 TNT EXPRESS

Operating income (EBIT)

	2009	% change	2010
Europe & MEA	281	32.0%	371
Asia Pacific	(32)	n/m	14
Americas	(32)	n/m	(67)
Other Networks	18	0.0%	18
Non-allocated	(174)	-10.3%	(156)
	61	195.1%	180

(in € millions, except percentages)

Volumes

	2009	% change	2010
Number of tons carried	7,695,844	6.6%	8,207,603
Average of number of working days	254	1.2%	257
Number of depots/hubs	2,409	10.1%	2,653
Number of vehicles [1]	26,319	14.9%	30,239
Number of aircraft [1]	48	4.2%	50

1 A substantial number of the vehicles and aircraft are not owned but leased or subcontracted.

Financial performance

	2009	2010
Quick ratio (current assets minus inventory/current liabilities)	1.0	1.1
Interest coverage (operating income/interest and similar expenses)	0.8	3.1
Return on assets (profit for the period to the equity holders/total assets)	-0.2%	1.2%
Return on capital employed (operating income/total assets minus current liabilities)	1.8%	5.2%

Corporate responsibility performance

	2009	2010
CO_2 emissions (ktonnes)	788	1,020
CO_2 efficiency index	98.2	92.8
Fatal accidents (own employees and subcontractors)	27	36
Lost time accident frequency rate (lost time accidents per 100 FTEs)	3.04	2.98
Customer satisfaction	93.6%	92.2%
Employee engagement	-	69%

ANNEX

Annex 1: Global Compact and GRI G3 index
Annex 2: Data clarification table
Annex 3: Glossary and definitions

Corporate contribution

Risk indicators	Non-financial performance	Historic trend 2008	2009	2010	Objective	A new tone and style of engagement
• Competitive remuneration	• Number of direct employees	103,700	102,900	96,200		'We have created employment directly and indirectly'
• Health and safety	• ROW and minority employees in leadership	134	140	151	300 by 2050	
• Work/life balance	• Number of recordable safety incidents	1,604	1,513	1,471	1000 by 2050	
• Personal development	• Average training hours per employee	21	22	18	25 by 2050	
• Political uncertainty	• Number of indirect employees (FTE)	1,200	1,220	1,360		
• Unit cost inflation	• Average order handling time/hours	6	6.5	5.5	4 hours by 2013	
• Product quality	• Deliveries on time (%)	90%	93%	93%	98%	
• Order fulfilment						
• Processing efficiency						
• Human rights in Asia						
• Animal welfare						
• Carbon market prices	• Greenhouse gas emissions (tonnes)	78.5	76.8	73.2	29 by 2050	'We have reduced our impact on the environment, both directly and indirectly'
	• Transport impacts (emissions, congestion etc)	15	18	17	12 by 2012	
• Dwindling oil and gas reserves	• Waste (thousand tonnes)	600	700	800	670 by 2050	
• Availability of green energy resources	• Energy consumption (per million boe)	18	21	23	19 by 2050	
• Increased environmental legislation	• Barrels produced per day (thousand)	3,606	3,997	4,014	4,000 by 2050	
• Environmental taxation	• Tax paid per $ capital expenditure (cents)	0.20	0.25	0.41		'Through taxes paid, we are funding schools, hospitals and social care'
• Charging employee tax rates	• Tax paid per employee ($)	5,796	6,482	7,838		
• Different royalty tax regimes	• Tax paid per barrel of oil equivalent	1,375	1,512	2,025		

'What is strategically important'	Corporate contribution						
	Value drivers	Financial performance					
		Historic cash flow			Prospective		
		2008	2009	2010	2011	2012	2013
driven by the strategy and issues material to business success	**Customer impact**						
	• Revenues (segmental analysis)	(1,277)	(1,294)	(1,501)	↗	↗	↗
	• New customer revenues	(98)	(102)	(120)	→	↓	→
	Brand						
	• Advertising	30	31	30	→	→	→
	• Promotion	25	22	20	→	→	→
	• Marketing	30	31	31	→	→	→
	Innovation/products & services						
	• R&D expenditure	150	161	170	↗	↗	→
	• Cost of research alliances	70	72	96	→	→	→
	• Revenues from potential sales	(5)	(9)	(12)	↑	↗	→
	• Revenues from new products introduced in last four years	(830)	(854)	(1035)	↗	↗	↗
	• Knowledge management experience	25	28	35	→	↗	↗
	Human capital impact						
	• Wages and salaries ($)	7,142	7,922	8,695	→	→	→
	• Average salary ($000)	69	77	90	→	→	→
	• Training and development expenditure ($)	220	205	194	↗	↗	→
	• Health and safety expenditure ($)	382	295	309	↗	↗	→
	Supply chain impact						
	• Cost of sales	715	720	840	→	→	↗
	• Distribution costs	40	39	50	↗	↗	↗
	• Outsourcing expenditure	5	45	60	↑	→	→
	• System costs	25	30	40	↗	↗	→
	• Sustainable new materials						
	• Packaging use and disposables						

BENEFITS OF INTEGRATED REPORTING

Integrated reporting redefines the scope of information relevant to strategic corporate objectives and provides a broader method of accessing, analyzing, managing and communicating strategic information both internally and externally. Integrated reporting refers to the integrated representation of a company's performance, in terms of both financial and non-financial results.

The primary benefit of integrated reporting is a more holistic view of information relevant to the company and its value proposition and strategy. As outlined in One Report: Integrated Reporting for a Sustainable Strategy, by Robert G. Eccles and Michael P. Krzus, this approach promotes a wider perspective of the information vital to a company's long-term strategic objectives. As a result, financial executives have an opportunity to transform corporate processes and enhance long-term corporate value.

"One Report creates the platform for one conversation in which all stakeholders can and must participate."

There are two main reasons why companies should adopt One Report in their external reporting. The first is that it is a key element of taking sustainability seriously, once the company has created a truly sustainable strategy, by responding to the risks and opportunities created by the need to ensure a sustainable society. The second reason is that the simplification from One Report's single message to all stakeholders is a key element of improving corporate disclosure and transparency.

Apart from effective communication to stakeholders, sustainability reporting also serves other benefits associated with company's sustainability initiatives:

- Greater clarity about the relationship between financial and nonfinancial key performance indicators. This will help managers understand and confront the trade-offs necessary to balance financial and societal demands.
- Connected reporting can help to identify cost savings by bringing together the analysis of financial and sustainability information.
- Better management decisions. As noted by the creators of the Balanced Scorecard, HBS professor Robert S. Kaplan and David P. Norton, there is compelling evidence that better measurement, and therefore better information, leads to better decision-making.

Integrated sustainability and financial reporting is an ethical obligation"
– Robert G. Eccles and Michael P. Krzus (authors of One Report: Integrated Reporting for a Sustainable Strategy)

"Integrated Reporting is the "Holy Grail" of corporate reporting
– John Elkington (SustainAbility founder)

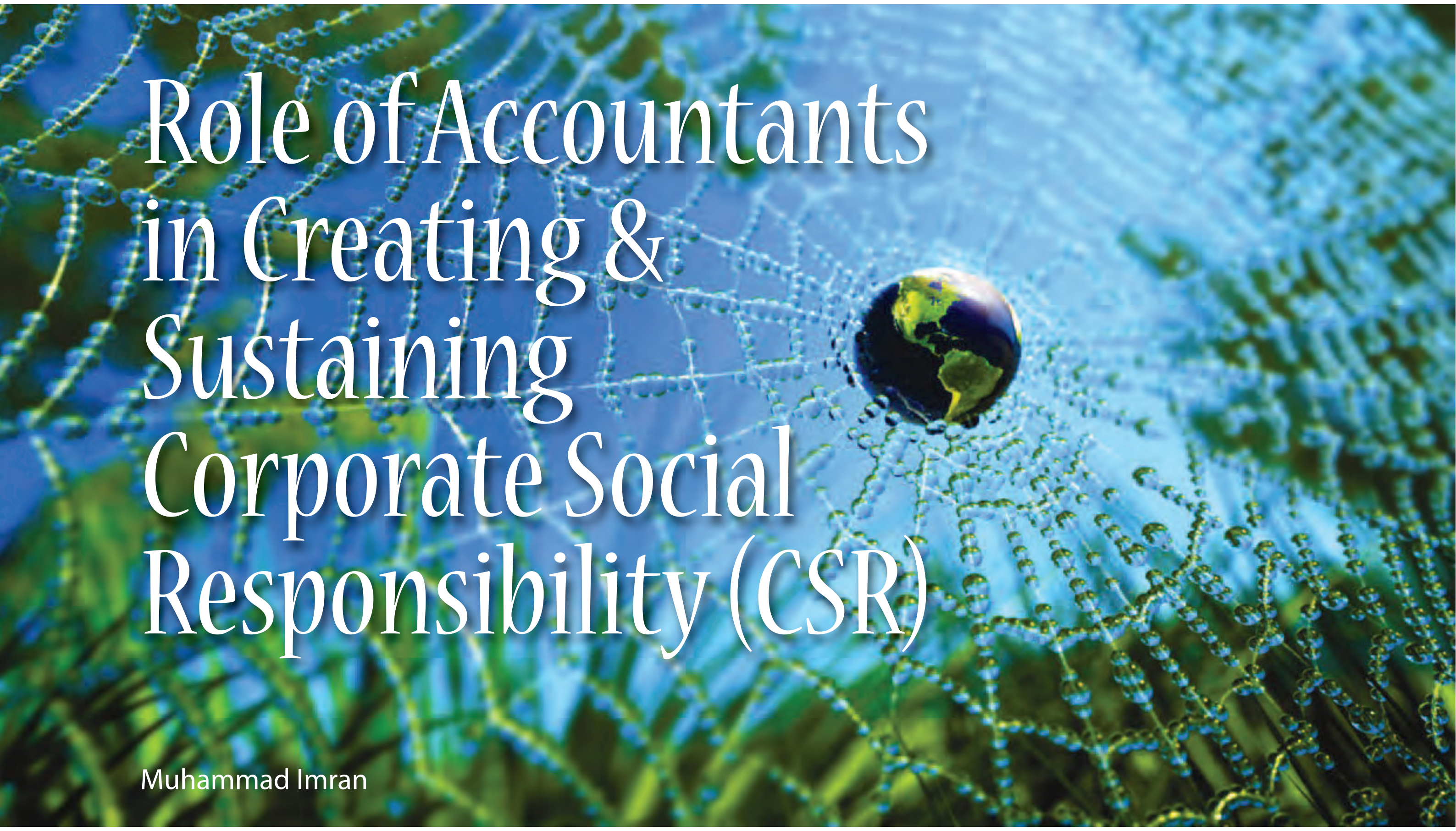
"Integrated Reporting is more than the newest 'best practice' in corporate reporting which companies can choose to practice or not. It now seems inevitable that the notion of integrated reporting will gain increasing credence in business"
– Toby Webb (Ethical Corporation founder).

- Deeper engagement with the broad stakeholder community. First, it will help shareholders focus on more than short-term returns and better understand the investments necessary to ensure long-term viability. Second, other stakeholders will begin to appreciate the need for a company to make a profit if it is to create value over the long term.
- Lower reputational risk resulting from integrated reporting. Stakeholder engagement leads to better mutual understanding. Clear and consistent communications about a company's financial and non-financial performance will be the basis for a constructive two-way conversation.
- The use of a common language and demonstration of the relevance of sustainability to business performance can lead to greater engagement and integration of sustainability issues into decisions taken.
- Questions from investors and other stakeholders can become pre-empted, reducing demands on management time for completion of questionnaires, surveys and other requests for information.
- Develop vision and strategy on sustainability
- Improve your business through healthy competition in areas beyond financial performance
- Identify opportunities manage risk and monitor the results
- Do good and let it be known
- Know where you are to know where you are going

IN A NUT SHELL

Integrated reporting provides a broad assessment of company value and performance and addresses a comprehensive range of financial, value, social, environmental and strategic disclosures over long-term periods. This approach aligns the information important in managing sustainable corporate value creation for all stakeholders. As a result, the integrated report provides a clearer more complete picture of the company.

The most important thing about integrated reporting today is that it is an emerging movement. The meaning of integrated reporting will only be developed and its implementation will only happen if this movement is an effective one. This will require a high level of commitment that comes from energy, enthusiasm, trust, courage, persistence and collaboration amongst every person and organization who believes that integrated reporting can play an important role in ensuring that we have a sustainable society. Please join the integrated reporting movement for your own sake and for the sake of generations to come.



Role of Accountants in Creating & Sustaining Corporate Social Responsibility (CSR)

Muhammad Imran

Corporate Social Responsibility (CSR) and sustainability are key issues in the current business environment as stakeholder groups are incorporating CSR as one of the important factor in decision making. These decisions about organizations include investment/ procurement decisions or extending support to maintain/ obtain social licenses to operate.

The accountants have a pivotal role in organizational areas closely related to CSR such as reporting, transparency, ethics, legal compliance, resource consumption and communication with stakeholders. The accountants measure, control and communicate within and outside the organization. The present business environment provides opportunities and threats to the accountants and the accounting profession. The increasing importance of environmental and social issues, organizational risk management and reporting are the key drivers of this change.

This article mainly concentrates on reporting on social and environmental issues and the role of accountants in creating, reporting and preserving corporate social responsibility. Corporate Social Reporting is interchangeably used with Corporate Social Responsibility, Social and Environmental Accounting (SEA) or Corporate Social Disclosure or recently developed terms of Sustainability Reporting or Sustainability Accounting.

The understanding of Corporate Social Responsibility/ Sustainability, CSR reporting, and the link between CSR and accounting profession is necessary before exploring the role of accountants in creating and preserving CSR.

CORPORATE SOCIAL RESPONSIBILITY

The term Corporate Social Responsibility (CSR) covers a variety of issues revolving around the companies' interaction with society. These issues cover governance, ethics, social activities, philanthropy and community involvement, product safety, human rights and environment issues. CSR/Sustainable Development (SD)/Corporate Responsibility (CR)/Triple Bottom Line (TBL)/ Sustainability are interchangeably used.

CSR is a concept whereby companies integrate social and environmental concerns in to their business operation and in their interaction with their stakeholders on a voluntary basis.

Sustainable Development is Development which meets the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainability Reporting is a practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational performance toward the goal of sustainable development.

CSR & ACCOUNTING PROFESSION

Several concepts related to CSR apply to the accountants or accounting domain e.g. Environmental Management Accounting (EMA), Social Environmental Accounting (SEA), Corporate Social and Environmental Reporting or Social Responsibility Accounting. These concepts link CSR to accounting system arguing the importance of such aspect in the work of accountants.

CSR-related concepts influence significantly the accountancy profession, via the use of critical competencies of accountants. For example, in Environmental Management Accounting (EMA) the management of environmental and economic performance is done via management accounting systems and practices that focus on both physical information on the flow of energy, water, materials, and wastes, as well as monetary information on related costs, earnings and savings. EMA is reflected by both physical information on the use, flows and destinies of energy, water and materials (including waste), and monetary information on environment-related costs, earnings and savings sides. EMA has such application fields as: assessment of annual environmental costs/expenditure, product pricing, budgeting, investment appraisal, calculating costs, savings and benefits of environmental systems, environmental performance evaluation, indicators and benchmarking, external disclosure on environmental expenditures, investments and liabilities.

The link between CSR and organizational performance has been established via the concept of sustainability by integrating economic planning with social and environmental considerations. The benefits may be found in four directions.

- CSR can reduce direct cost (energy, materials etc) – through sustainable use of resources;
- CSR can improve the productivity of workers (increased motivation, low absenteeism and reduced turnover) – by involvement in policies through stakeholder engagement and company contribution on HR and social dimensions;
- CSR can reduce management risk (easier access to credit, increased value of assets for investors etc) – through establishment of governance system with focus on sustainability objectives;
- CSR can improve the competitive image of the organization – by getting extended support from stakeholders.

The professional accounting bodies are realizing the importance of CSR and devising the role of accountants in dealing with this important issue. These bodies set the general framework in which accountants act, influencing on the long run their influences and roles. Given the role of accountants in business, International Federation of Accountants (IFAC) has taken initiatives to influence the way in which organizations integrates CSR through accountants' education. In this light, IFAC issued in 2009 the IFAC Sustainability Framework and developed The Prince's Accounting for Sustainability (A4S) Project, which involved work with businesses, investors, the public sector, accounting bodies, NGOs and academics to develop practical guidance and tools for embedding sustainability into decision-making and reporting processes. Recently, based on the collaboration with the Global Reporting Initiative, a new committee – International Integrated Reporting Committee (IIRC) was created in order "to create a globally accepted framework for accounting for sustainability that brings together financial, environmental, social and governance information in a clear, concise, consistent, and comparable format."

Global Accounting bodies (Association of Chartered Certified Accountants – ACCA and Institute of Chartered Accountants in England and Wales – ICAEW etc.) have also turned their attention toward the CSR issue and are focusing on the implication of CSR on accounting profession. Apart from continuously investigating CSR and Accountants, ACCA is organizing Corporate Social Responsibility Awards in different countries to promote and extend support for CSR concept and aligning accountants for this new era.

ACCOUNTANTS & CSR

Accountants play an important role in meeting the goal of sustainable development and preserving the sustainable development/CSR. Accountants can help to build the business case for actions to be taken – and better measure and present the result of actions taken by company during its CSR drive.

The professional accountants in organizations support the sustainability efforts of the organization; they work for in leadership roles in strategy, governance, performance management, and reporting process. The accountants also oversee measure, control and communicate the long term sustainable value creation of the organization. The IFAC framework addresses four perspectives in bringing together all the critical areas required to manage successfully a sustainable organization; business strategy, internal management, financial investors and other stakeholders.

Accountants act in these areas to create and increase CSR as:

- Sustainability Management – Involves managing risk, measuring and managing performance and reporting performance internally and externally though voluntary and compulsory initiatives;
- External reporting of sustainability information – requires relevant, accurate and complete data. Professional accountants understand the need for quality data and robust system 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 behavior – the finance function is usually best place to incorporate sustainability considerations into business case, capital expenditure decisions, cost allocation and integration with remuneration and strategy.

The accountants have another important role of supporting organizations in disseminating the impacts of CSR activities to wider range of stakeholders through reporting on CSR. The reporting framework for CSR reports includes Accountability 1000 framework crated in 1999, is a set of standards that focus on performance indicators, targets and reporting system. 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 that 'reporting on social performance by all organizations is as routine and comparable as financial reporting'. They provide a Sustainability Reporting Framework 'of which the Sustainability Reporting Guidelines are the cornerstone' and 'provides guidance for organizations 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'.

There are reporting principles, encompassing similar attributes to those espoused for financial accounting, such as, materiality, auditability, completeness, relevance, accuracy, neutrality, comparability, and timeliness; and also includes transparency, inclusiveness, clarity and sustainability context.

In order to actively contribute to CSR, the accountants have to expand their roles to cover issues of corporate governance, risk management and strategic management. The role of Accountants in supporting sustainability can be viewed in broader context as development of policies addressing sustainability issues, supporting stakeholder engagement with accessible and reliable information, collecting and reporting mechanism against the targets leading to decisions that support and preserve CSR.

CONCLUSION

Accounting has always been the language of business, so it is needs to play an important role as that language evolves to include information and responsibility beyond the purely financial. Now a days, organizations are being asked to take steps which leads to sustainable development and uplift of the society. Moreover, organizations are being called by stakeholders to be responsible for their action through transparent reporting and Accountants help organizations to take actions leading to sustainable development and be accountable. Accountants also provide assurance for CSR reports for increasing credibility of CSR reporting.

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GUIDE TO READING AND UNDERSTANDING A SUSTAINABILITY REPORT: AN OVERVIEW

Nazish Shekha

The organization today in all sectors is aware of how negative exposure can hurt its business. This can be anything from the treatment of employees; environmental discharges; sourcing material made in an unhealthy environment; use of child labor in the supply chain, products containing harmful substances or the risks of product recall. It is essential to consider the welfare of the environment, community, employees, etc.

The general public on the other hand has become increasingly concerned about how an organization is conducting its business. The organization has to commit to sustainable development or society will hold it accountable. Both the public society and the organization are realizing the importance of acting in the capacity of where each exerts its influence.

DEFINING SUSTAINABLE DEVELOPMENT

The most commonly cited definition of sustainable development comes from the 1987 Brundtland Commission report: "Sustainable Development is development which meets the needs of the present without compromising the ability of the future generations to meet their own needs." By committing to the sustainability agenda the organization considers its stakeholders' needs and considers the ideas of imposing limitations in meeting present requirements where use may pose a threat to future needs.

THE SUSTAINABILITY AGENDA HAS BECOME BUSINESS STRATEGY

Companies today are finding that doing a simple analysis on how much it is going to cost to develop products is simply not enough. It has become important to look at carbon dioxide emissions, the waste products in terms of pollutants, methods of disposal etc. The labor policies, occupational health standards and the effect on the surrounding communities have all become part of the business strategy.

A business case has developed for companies to communicate such strategies. The general idea is that information should be available to those who are interested. Many companies have developed this communication as a marketing strategy displaying such information on labels, banners or brochures.

Information on the credibility of these strategies can be found in the organization's Sustainability Report. The reader can use it to find information on an organization's economic, environmental and social initiatives. The companies publishing the reports usually follow an annual process and keep them available online.

WHAT IS SUSTAINABILITY OR CSR REPORT?

Also known as Corporate Responsibility, Stakeholder or Corporate Social Responsibility Reports, they are produced by companies in all sectors today. The reports can be described as a method by which an organization communicates with its stakeholders, addressing how it gives importance to their needs.

Annual reports have traditionally looked at financial reporting of profits and losses, assets and liabilities. The nature of reporting has now evolved to include non financial or sustainability issues. The concept of materiality has also evolved. In financial reporting a material issue refers to information that is omitted that could influence the economic decisions of users on the basis of the financial statements. In the sustainability context the concept of materiality also now includes an organization's strategy or significance of an issue to an organization and its stakeholders.

THE SUSTAINABILITY REPORT COMMUNICATES PERFORMANCE ON STAKEHOLDER'S ISSUES

Stakeholders are holding organizations accountable for their actions. Stakeholders have become highly aware of the misgivings of environmental pollution, poor employee policies and highly polluting products. Each stakeholder has its own set of issues which he/she finds important:

- **The society** is holding the organization accountable in their policies and practices today. This is seen clearly following recent disasters like the oil spill in the Gulf of Mexico and nuclear fallout in Japan. Society's members have become conscious of the importance of environmental issues, labor policies and using resources wisely and expect a similar responsiveness from companies. The society is concerned with the well being of the people at large. They range from animal or human rights activists, media to institutions.

- **The local community** is concerned with environmental and social impacts of the organization. If the organization has a factory, the local community will be concerned with the wastes produced in the factory: wastewater, air pollutants etc. If an organization employs people that come from outside the community, the community's concern will be the social impact.

- **The consumer** today is interested in buying products that have the least environmental impact from companies that have good business ethics. When looking for suppliers of raw material it is no longer a business case for companies to look for the cheapest supplier. The consumer is looking beyond the organization's premises and towards areas where an organization exerts its control. The consumer is interested in the policies used to source raw material down the supply chain. The concept "cradle to grave" also known as lifecycle analysis is quickly becoming an important part of business.

- **The Investor** too is looking beyond the financial health of an organization and increasingly looking at how it deals with non financial issues such as environmental discharge, carbon footprint, health and safety policies, sources of raw material etc.

- **The employee** is interested in how organizations are managed and conduct their business affairs when applying for a job. He is interested in working in organizations that are transparent in their decision making process ie there is an open communication between decision makers and stakeholders. The employee also needs to have confidence in the company's reputation. They are interested in working in organizations which will be sustainable in the future.

- **The regulator/government** is interested if its laws are being followed. If the organization exports goods or services then regulatory compliance of the importing country will be necessary – this makes it a stakeholder. The regulator will also be interested in the transparency of the statements and claims made by the company.

HOW DOES AN ORGANIZATION RECOGNIZE THE ISSUES THAT ARE MATERIAL?

The Sustainability report addresses the issues that are important to its stakeholders. The combined list of issues encompassing all of the stakeholders' interests is diverse. It is impossible for an organization at one moment in time to address the issues let alone convey them to the stakeholders. The strategy of most companies is to chalk out the issues that are most important to all and work on them.

A key part of an organization's sustainability strategy must be engaging with stakeholders. An initial process of engaging with stakeholders helps identify key issues. Feedback from stakeholder dialogue sessions, online surveys, employee surveys etc are used in identification.

Once the issues are identified the organization decides which issues to prioritize. Normally the issues that are prioritized are the ones that are both important to the stakeholders and can affect business. They are referred to as the material issues.

A policy is then developed on how to commit to resolve the issues. A timeline is set to achieve the goals of resolving the issues. A methodology is identified for determining and monitoring performance in that area. The Sustainability report then conveys an organization's performance in terms of the material issues.

The organization then highlights its commitments to issues by setting targets for achievements. The report uses a defined a set of key performance indicators (KPIs) to measure performance related to the material issues over a period of time. The KPIs are either quantitative or qualitative. The annual performance in KPIs will be measured against the set targets.

READING THE SUSTAINABILITY REPORT: UNDERSTANDING THE COMPANY'S APPROACH

As a reader of the Sustainability Report, it is important to know what to look for. The sustainability report includes information on:

1. **Organization's profile and approach:** The reader will find information on the organization's geographical locations, organizational structure, products and services, financial strength and corporate mission statements. This can be used by the reader to understand the background approach to how the CSR policies have been developed and the scope of the report.

2. **The organization's commitment:** The letter from the senior most member of the organization helps the reader determine the company's commitment as it will give a summary of the message it wants to give to its stakeholders, company's main issues and their related performance.

3. **Engaging stakeholders:** As a stakeholder, the reader can determine if the stakeholder engagement process has tried to deal with issues that concern stakeholders on the whole. The report will give a summary on the stakeholder dialogue process. An ideal report should include documentation of the engagement activities and how feedback is being integrated into the CSR policies.

4. **Performance details:** The reader can sift through summaries of key facts and figures in the form tables, charts and case studies to develop an understanding of performance. If the report has been published before, the reader can compare an organization's performance over material issues. The report will usually report on figures over three of five years.

5. **Compare with other reports:** In order to understand how well an organization is reporting, the reader should look at other reports from companies of similar backgrounds and sectors. This is a difficult task as the issues an organization will be reporting on will be unique to that organization. One way a comparison can be made is by considering how each organization has pledged to improve.

6. **Is the Report using any Standards and Reporting Principles?** The United Nations along with other regulatory and educational institutions have developed frameworks to develop sustainability strategies. These give guidelines to develop policies, procedures, report development and address stakeholder issues. Some frameworks are sector specific while others cover the overall issues that come under the umbrella of the sustainability agenda. The reader can check if the organization is subscribing to any external charters, guideline to learn more about its CSR policy. (See Table 1: List of common frameworks)

7. **Is the report using the GRI?** The most common framework used in report development is the Global Reporting Initiative's 'G3 Principles'. The GRI has identified and developed a set of key performance indicators using feedback from all stakeholder groups. The Guidelines identify what to report using standard disclosures with identified performance indicators and their corresponding data collection activities. The reader can compare reports by looking at the KPIs reported in each report. Reports developed on the GRI Framework also contain a GRI Index. The index identifies where each indicator is located.

8. **Third Party Assurance:** Most reports contain an assurance statement at the end of the report. Assurance is an evaluation method which assesses the quality of the reports. The assurance statement includes results of the evaluation to provide credibility to the company's performance for its stakeholder. The assurance statement is similar to that seen in financial reports. The Assurance Statement also gives an idea of what an organization is reporting and where it needs improvement.

9. **Online Reviews:** A helpful tool to for the reader to use while going through the report is the internet search option to conduct a five minute research. The search will bring out both positive and negative items in the media related to the organization's sustainability policies. It will bring out the stakeholder views and responses to the reports and the organization's policies. There are a lot of blogs online related to the review of such reports. Online surveys are being conducted by various organizations related to the reporting strategies to create clear cut benchmarks in reporting.

At this stage the reader should be able to judge if the report has covered the material issues. If the organization shows a commitment to deal with the issues that have come up in the background research – then the readers know this is a step in the right direction. If no attempt has been made to highlight the issues then the report is not addressing the stakeholder's issues.

FINAL INPUT – STAKEHOLDER FEEDBACK

After reading the report, readers should provide feedback to the organization. This will help improve the reporting process of the organization. As sustainability reports are geared towards including stakeholders, the company will be interested in the feedback even if it is negative.

ANNUAL COMMITMENT TO READ

Sustainability reporting is an evolving process. Each organization faces different issues and progresses towards resolving them at their own pace. Each organization then continues to develop its reporting process in the same manner. As a stakeholder, the reader should try and read each annual report to see how the process is changing.

Common Frameworks in Sustainability Reporting	
United Nation's Global Compact (UNGC)	www.unglobalcompact.org
Code of Conduct development guidelines by Organization for Economic Co-operation and Development (OECD)	
Guidelines/Methodologies for measuring carbon footprints: The World Business Council for Sustainable Development (WBCSD), the World Resources Institute (WRI) and the Carbon Disclosure Project (CDP)	www.wbcsd.org, www.cdproject.net/
Global Reporting Initiative's G3 Guidelines and Reporting Framework	www.gri.org
The Social Accountability Standard (SA8000)	www.sa-intl.org
Principle for Responsible Investments (PRI)(applicable to investment managers)	www.unpri.org
The Equator Principles (applicable to banks) Charter for including and managing social and environmental risk in project financing	www.equator-principles.com
Guidance on Voluntary Sustainability Reporting (applicable to the oil and gas industry) by The International Petroleum Industry Environmental Conservation Association (IPIECA).	www.ipieca.org
AccountAbility AA1000: Standard for providing third party verification to Sustainability Reports	www.accountability.org
ISO certifications for various categories	www.iso.org

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Accounting for Sustainability

IFAC Releases Updated Sustainability Framework

Stathis Gould

The grim reality is that our planet has reached a point of crisis, with the time for us to act rapidly running out. We are confronting what could be described as a Doomsday Triumvirate: pollution and over-consumption of finite natural resources, coupled with the very real risk of catastrophic climate change, unprecedented levels of financial indebtedness and alarmingly unsustainable rates of population growth. If we are to tackle these problems it is vital that we have better information…about the sustainability of the organizations we work for, invest in and depend on, and about the products and services we buy and use. - HRH The Prince of Wales, [World Congress of Accountants, 9 November, 2010, Malaysia]

These words from The Prince of Wales's keynote address at the 2010 World Congress of Accountants are a rallying call to the accountancy profession to step up and do its part to address the sustainability crisis.

Through its updated Sustainability Framework (March 2011), the International Federation of Accountants (IFAC) is helping to position professional accountants, in their capacity as employees or external advisers, as part of the solution to the crisis. This article provides insights into what organizations and their accountants can do to help foster long-term sustainable value creation. Accountants are already doing much to help organizations minimize waste, create efficiencies, and cut costs in their organizations, which is undoubtedly the biggest driver for embracing sustainability. However, accountants also need to take on new and expanded roles, activities, and skills; there is much more to be done in both large, and small- and medium-sized, entities, which comprise a large part of most, if not all, economies.

Sustainability has three important dimensions:

(a) economic viability
(b) social responsibility, and
(c) environmental responsibility.

While trade-offs can occur between them, these dimensions are interconnected in various ways. For example, being socially and environmentally responsible (towards employees, communities, and other stakeholders), leads to enhanced trust, and, therefore, makes good business sense. Social and environmental responsibility cannot stand in isolation from economic viability. Organizations must continue to provide products and services that people want in order to generate profits, growth, and new jobs. While pursuing a commercial imperative, organizations must also take into account their social and environmental impact as part of generating sustainable value.

The Sustainability Framework consolidates the important aspects of integrating sustainability into the DNA of an organization, and is applicable to entities of all sizes and complexities. The second edition of the Framework addresses sustainability from three perspectives: business strategy, operations, and reporting. Each perspective is designed to be of interest to a different group of accountants. For example, accountants working at senior management levels might be more focused on the business strategy perspective. Those working in performance management-related roles (including planning, budgeting, costing, and performance measurement) may direct their attention to the operational perspective, and those preparing business, financial, sustainability, or integrated reports, or involved in providing audit and assurance, might find the reporting perspective of most use.

BUSINESS STRATEGY

From the business strategy perspective, the Framework emphasizes the importance of adopting a strategic approach, so that sustainability is integrated into vision and leadership, strategic planning, objectives, goals, and targets, as well as incorporated into governance, accountability arrangements, and risk management.

Thinking about sustainability issues strategically is an opportunity for organizations to establish or re-establish why sustainability matters to them in the context of its organizational activities. This calls for the board and management to articulate and promote the benefits of that strategy, ideally using a language that will resonate with the organization. Terms like sustainability, corporate social responsibility, and climate change can be interpreted in various ways, and be seen as representing additional costs. By clearly defining what they mean by sustainability, how it relates to the organization and its key stakeholders, and how it can drive long-term organizational success, organizations may find it easier to introduce new sustainability goals and initiatives, particularly those related to carbon reduction programs to meet mandated or self-imposed carbon reduction commitments.

Accountants can play a leading role in establishing the business case for sustainability by ensuring that appropriate governance structures are in place to strengthen implementation, monitoring, and accountability, and to effectively engage stakeholders and suppliers. Accountants can also lead the way in setting goals and targets and integrating risk management and assessment.

Organizations that have successfully embedded sustainability from a strategic perspective tend to be those that also convert increased sustainability performance into commercial advantage. They can do so in many ways: achieving first mover advantage in the market with a new product or service; collaborating with others, such as supply chain partners, or even competitors, to enhance sustainable performance; and responding to emerging sustainability trends and legislation, including the development of market mechanisms, such as emissions trading schemes or carbon taxes. Ultimately, these organizations are changing risk to opportunity.

OPERATIONS

The second part of the Sustainability Framework examines sustainability through the lens of operations. It presents a full spectrum of management and management accounting activities to support higher-quality information, which leads to more informed decision making and can help support the choices an organization needs to make to chart a more sustainable path.

The complexity of approach will depend on the maturity of an organization. Quick wins can be achieved by waste minimization, including improving energy efficiency and reducing waste and water consumption. Organizations can do much to improve their environmental performance with simple and inexpensive measures, by applying simple controls based on a better understanding of their patterns of consumption.

A more sophisticated approach to carbon accounting can be used to calculate an organizational or product carbon footprint, better manage greenhouse emissions, make reductions over time, and report this information to external stakeholders. The quality of carbon accounting will depend on the strength of an organization's data collection processes and systems. Accountants are well placed to help develop carbon management plans, and to prioritize carbon reduction projects, quantify them, and place numbers on implementation costs and carbon savings.

For the more advanced, implementing sustainability and environmental accounting can help to provide the environmental, social, and financial information needed to support decisions—whether at a strategic level (including investment appraisal) or at a product or process level. Environmental accounting ranges from relatively simple adjustments to existing cost models and accounting systems to more integrated environmental management accounting practices that link physical and monetary information, such as material flow cost accounting. For guidelines that can help identify hidden environmental-related costs, see IFAC's *Environmental Management Accounting* (2005).

In addition to identifying, defining, and classifying costs in a useful way, accountants can ensure the alignment of sustainability performance with organizational objectives, and help integrate sustainability objectives and measures of performance with the overall internal control and management system. Accountants are also ideally positioned to incorporate sustainability performance measures and KPIs into strategic performance managements systems.

The IFAC Sustainability Framework provides many examples of good practice that professional accountants can use to learn more and apply to their own organizations. It is available at www.ifac.org/PAIB. Information on the recently formed International Integrated Reporting Committee is at www.integratedreporting.org.

REPORTING

From the reporting perspective, the Framework considers how organizations can improve the usefulness of their external communications and reporting. Accountants can lead the way in developing a reporting and disclosure strategy that will yield high-quality reports that provide a more complete picture of an organization's performance. This will involve reflecting sustainability impacts in financial statements, such as environmental impacts on assets, liabilities, income, and expenditure. In addition, narrative reporting could be improved to fill the reporting gap that occurs when certain information that is important in running an organization is not captured in financial statements (e.g., climate change risks). Other improvements that accountants can spearhead include reconciling approaches to applying materiality to multi-stakeholder sustainability reporting; and establishing an approach to external assurance and review that adds credibility to an organization's disclosure and can also help to improve an organization's reporting processes.

The Framework will help accountants to familiarize themselves with integrated reporting, a new term that has emerged as possibly presenting a new reporting paradigm. Integrated reporting is a consolidated representation of an organization's social, environmental, and economic performance—whether in a single integrated report or in the annual report. Integrated reporting involves presenting and clearly explaining the connections between the various social, environmental, and financial aspects of organizational performance.

The quality of integrated reporting, therefore, hinges on the level of integration of sustainability within management and operational processes. Accountants will need to consider how they can foster greater collaboration and coordination within an organization to ensure that sustainability and financial reporting processes are better aligned, and that the data collection and reporting processes for non-financial information aspire to match that of financial information.

As we've seen, accountants can contribute in a plethora of ways to initiating, improving, and reporting on sustainability efforts in their organizations. In all the areas mentioned above, their professional background and orientation equip them with the necessary skills—namely, wide business understanding, numeracy, knowledge of measurement, objectivity, and integrity. However, this challenge also requires accountants to build upon and further develop their skills by utilizing the continuing professional development resources available from their institutes, IFAC, and other sources. This applies equally well to small- and medium-sized practitioners (SMPs) as it does to professional accountants in business: SMPs have an important role in articulating and communicating to SMEs the benefits of accounting for sustainability and reporting on sustainability matters.

The IFAC Sustainability Framework provides many examples of good practice that professional accountants can use to learn more and apply to their own organizations. It is available at www.ifac.org/PAIB. Information on the recently formed International Integrated Reporting Committee is at www.integratedreporting.org. For more information about the Framework and other IFAC activities to support professional accountants in business, contact Stathis Gould, Head of PAIB Service Delivery: StathisGould@ifac.org.

About the Author

Stathis Gould is Head of Professional Accountants in Business Service Delivery at the International Federation of Accountants. Before moving to IFAC, Stathis was at CIMA responsible for planning and overseeing a program of technical support for professional accountants in business. Prior to his role at CIMA, Stathis worked in both the public and private sectors in the UK.

ICAP- ICMAP Best Sustainability Report Award

Evaluation Criteria 2011

A Strategy & Profile Disclosures 20

(Disclosures that set the overall context for understanding organizational performance such as strategy, profile and governance)

1 Strategy & Analysis **2**

a) Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy.
b) Description on the impact of sustainability trends, risks, and opportunities, on the long term prospects and financial performance of the organization

Profile, Report Boundary & Governance **18**

2 Organizational Profile

2.1 Name of the organization.
2.2 Primary brands, products & services.
2.3 Operational structure of the organization (divisions, operating companies, subsidiaries, JVs).
2.4 Location of organization's headquarters / head office.
2.5 Number and names of countries where the organization operates.
2.6 Nature of ownership and legal form.
2.7 Markets served by the organization (geographical breakdown, sectors, type of customers / beneficiaries).
2.8 Scale of the reporting organization (in terms of number of employees, net sales, total capitalization broken down into debt & equity and quantity of products or services provided).
2.9 Significant changes in the organization during the reporting period.
2.10 Awards received in the reporting period.

3 Report Parameters

Report Profile

3.1 Reporting period for information provided.
3.2 Date of most recent previous report (if any).
3.3 Reporting cycle (annual, biennial etc.)
3.4 Contact point for questions regarding the report and its contents.

Report Scope & Boundary

3.5 Process for defining report content (determining materiality, users of the report etc.)
3.6 Boundary of the report (countries, divisions etc.)
3.7 Statement of specific limitations on the scope or boundary of the report.
3.8 Basis for reporting on JVs , subsidiaries, leased facilities, outsourced operations etc.
3.9 Data measurement techniques, basis for calculation and assumptions.
3.10 Explanation of effect of any restatement of information provided in previous report.
3.11 Significant changes from previous reporting periods in the scope, boundary, and measurement methods.
3.12 Table identifying the location of the Standard disclosures in the report (index).
3.13 Policy and current practice with regard to seeking external assurance for the report.

4 Governance, Commitments & Engagement

Governance

4.1 Governance structure of the organization
4.2 Indicate whether the Chair of highest governing body is also an executive officer.
4.3 State the number of members of the governing body that are independent and/ or non-executive members.
4.4 Mechanism for shareholders & employees to provide recommendations to the highest governing body
4.5 Linkage between compensations of those charged with governance and the organization's overall performance.
4.6 Processes in place for the highest governing body to ensure avoidance of conflict of interests.
4.7 Processes for determining the qualifications & expertise of those charged with governance.
4.8 Internally developed mission statements, code of conduct etc. and their status of implementation.
4.9 Procedures of those charged with governance for overseeing the identification & management of economic, environmental & social performance.
4.10 Processes for evaluating the performance of those charged with governance with respect to economic, social & environmental performance.
4.11 Governance structure of the organization

Commitments to External Initiatives

4.12 Explanation of whether and how the precautionary approach is addressed by the organization.
4.13 Subscription of the organization to externally developed economic, environmental & social charters, principles or other initiatives.
4.14 Organization's membership in associations and national or international advocacy organizations.

B Management Approach Disclosures 10

(Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding economic, environmental and social performance of the organization. Management approach shall be given for the performance indicators (Part C) that the organization intends to disclose.)

1	**Economic**	**3**
1.1	Economic performance	
1.2	Market presence	
1.3	Indirect Economic Impact	
2	**Environment**	**3**
2.1	Materials	
2.2	Energy	
2.3	Water	
2.4	Biodiversity	
2.5	Emissions, Effluents and waste	
2.6	Products and services	
3	**Social**	**4**
3.1	Labour practices & decent work	
3.2	Human Rights	
3.3	Society	
3.4	Product Responsibility	

C Core Performance Indicators 35

(Indicators that elicit comparable information on the economic, environmental and social performance of the organization.)

1 Economic

Economic Performance (EC1-EC4)

1.1 Direct economic value generated & distributed
1.2 Financial implications/risks/opportunities due to climate change
1.3 Defined benefit plan obligations' coverage
1.4 Significant financial assistance received from government

Market Presence (EC6,EC7)

1.5 Policy, practices, proportion of spending on local suppliers at significant locations of operation
1.6 Procedures for hiring and proportion of senior management hired from local community at significant locations

Indirect Economic Impacts (EC8)

1.7 Development and impact of infrastructure investment and services for public benefit

2 Environment

Materials (EN1,EN2)

2.1 Materials used by weight/volume
2.2 Percentage of materials used that are recycled

Energy (EN3,EN4)

2.3 Direct energy consumption by primary source
2.4 Indirect energy consumption by primary source

Water (EN8)

2.5 Total water withdrawal by source

Biodiversity (EN11,EN12)

2.6 Location/size of the land owned, leased, managed near protected areas/areas having high bio-diversity value
2.7 Impacts on biodiversity

Emissions, Effluents &Waste (EN16,EN17,EN19-EN23)

2.8 Direct and indirect GHG emissions by weight
2.9 Other relevant indirect GHG emissions by weight
2.10 Emissions of ozone depleting substances by weight
2.11 NOx, SOx and other air emission by type & weight
2.12 Total water discharge by quality & destination
2.13 Total weight of waste by type & disposal method
2.14 Total number & volume of significant spills

Products & Services (EN26,EN27)

2.15 Initiatives to mitigate environmental impacts of products & services
2.16 Percentage of products sold and packaging reclaimed (recycled / reused)

Compliance (EN28)

2.17 Monetary value of significant fines and sanctions due to non-compliance with environmental laws & regulations

3 Social

Labour Practices and decent work

Employment (LA1,LA2)

3.1 Total workforce by type, contract & region
3.2 Total number & rate of employee turnover by age group, gender & region

Labour- management relations (LA4,LA5)

3.3 Percentage of employees covered by Collective Bargaining Agreements
3.4 Minimum notice period regarding significant operational changes

Occupational health & safety (LA7,LA8)

3.5 Rates of injury , diseases, lost days, absenteeism & number of work-related fatalities by region
3.6 Education, training & counselling programs

Training & Education (LA10)

3.7 Average hours of training per year per employee

Diversity & Equal Opportunity (LA13,LA14)

3.8 Composition of governance bodies & breakdown of employees in categories
3.9 Ratio of basic salary of men to women by employee category

Compliance

3.10 Significant fines and sanctions due to non-compliance with Labour Laws

Human Rights

Investment & procurement practices (HR1,HR2)

3.11 Percentage & number of agreements that include human right clauses
3.12 Significant suppliers that have undergone screening on human rights

Non- discrimination (HR4)

3.13 Total number of incidents of discrimination & actions taken

Freedom of association & collective bargaining (HR5)

3.14 Operations in which freedom of association & collective bargaining may be at risk & necessary remedial actions in this regard

Abolition of child labour (HR6)

3.15 Operations in which there is a risk of child labour and remedial actions in this regard

Prevention of forced & compulsory labour (HR7)

3.16 Operations in which there is a risk of forced & compulsory labour & remedial actions in this regard

Compliance

3.17 Significant fines and sanctions due to non-compliance with Human Rights Laws

Society

Community (S01)

3.18 Programs & practices assessing & managing the impacts of operations on community

Corruption (S02-S04)

3.19 Percentage and number business units analyzed for corruption risk
3.20 Percentage of employees trained in anti-corruption policies
3.21 Actions taken in response to corruption incidents

Public Policy (S05)

3.22 Public policy positions & participation in policy development

Compliance (S08)

3.23 Significant fines and sanctions due to non-compliance

Product Responsibility

Customer Health & safety (PR1)

3.24 Life cycle stages in which health & safety impacts of products are assessed

Product & Service labelling (PR3)

3.25 Type of product and service information required by procedures & percentage of significant products & services subject to such information requirements

Marketing Communications (PR6)

3.26 Programs for adherence to laws and standards relating to marketing communication

Compliance (PR9)

3.27 Significant fines and sanctions due to non-compliance, concerning the provision & use of products & services

D	Relevance of the sustainability report to the organizational sector	5
E	Stakeholder Engagement	10
1	**Reporting Process**	
1.1	List of stakeholders group engaged by the organization.	1
1.2	Basis of identification and selection of stakeholders with whom to engage.	1
1.3	Approaches to stakeholders engagement including frequency of engagement by type and stakeholder group.	1
1.4	Key topics and concerns raised through stakeholder engagement and the organization's response to them.	1
2	**Reporting on Responses**	
2.1	Actions taken or activities planned in response to stakeholder engagement process.	3
2.2	Risk management based on stakeholder consideration and feedback.	3
F	Report Presentation	10
a)	Theme on the cover and whole report.	4
b)	Effectiveness of photographs and their relevance.	2
c)	Uploading of sustainability report on the website.	2
d)	Calendar of major events during the year.	2
G	Assurance by an independent assurer being a practicing member(s) of ICAP and /or ICMAP, in accordance with ISAE 3000 (Note 2).	10

Note 1

If any of the disclosure items is not applicable for a reporting organization, it should be marked as "N/A" with clear description of why the particular disclosure item is not applicable.

Note2:

International Standard on Assurance Engagement (ISAE) 3000: Assurance Engagements other than audits or reviews of Historical Financial Information is promulgated by International Accounting and Auditing Standard Board of IFAC. ISAE 3000 is the recognized standard for Sustainability Report assurance by IFAC Sustainability Framework and is also adopted by ICAP.

Note3:

The above criteria have been laid down in accordance with G3 Guidelines promulgated by the Global Reporting Initiative (GRI). Any reference to disclosure items' code shall be referred to the respective code of these Guidelines. The reporting framework can be downloaded from www.globalreporting.

Transfer Pricing Documentation Requirements

Tariq Jamil, FCA

Transfer Pricing (TP) is a vast subject and no summary can really do justice to the uderstanding of the subject. We can only scratch the surface if an attempt is made to justify the subject in a short article. The purpose of this article is to create some awareness and interest amongst the tax professionals and the taxpayers to undestand the significance of transfer pricing with reference to taxation and tax rating of entities entering into connected transations. Generally, the taxpayers who will provide adequate documentation confirming that they carried out a TP execise to ensure that their transactions met the arm's length standard would be a signed a low tax risk rating. It is a ways in the interest of taxpayers to maintain suffcient documentation to support their adheence to the arm's length principle. Some important definitions

- **"Transfer Price"** is a price at which a **connected transaction** takes place.
- **"Arm's length price"** is a price at which independent persons enter into a trans action in the open market according to transaction conditions.
- **"Arm's length standard"** as it is generally understood is the pricing standard that two unconnected (i.e. independent) persons would follow while entering into a business transaction with each other.
- **"Connected transaction"** is a transaction between connected persons.
- **"Unconnected transaction"** is a transaction between unconnected persons or independent persons.
- **"Connected persons"** are persons who are connected with each other and their actions are controlled by the same person or entity.
- **"Fair Value"** is the amount for which an asset could be exchanged; or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- **"Related Party"**, in relation to an entity, a party is related to an entity if:

(a) The entity, directly, or indirectly through one or more intermediaries:

i) Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

ii) Has an interest in the entity that gives it significant influence over the entity; or

iii) Has joint control over the entity **"significant**

influence" is the power to partiipate in the financial and operating policy decisions of an entity, but is not control over those policies.

Significant influence may be gained by share ownership, statute or agreement.

"joint control" is the contractually agreed sharing of control over an economic activity.

(b) The party is an associate of the entity;

(c) The party is a joint venture in which the entity is a venturer;

(d) The party is a member of the key management personnel of the entity or its parent;

(e) The party is a close member of the family of any individual referred to in (a) or (d);

(f) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

- **"Related party transaction"** is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
- **"Associate"** is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

TRANSFER PRICING UNDER PAKISTAN TAX LAW

Transfer pricing has been on the tax statute since creation of Pakistan when we inherited and adapted the Income Tax Act, 1922 (Repealed Act'22), and it continued with some modifications in the Income Tax Ordinance, 1979 (Repealed Ordinance'79) and the Income Tax Ordinance, 2001 (ITO'01), currently in force. Whilst the provisions enacted in the Repealed Act'22 and Repealed Ordinance'79 were restricted only to transactions between a resident and a non-resident, the ITO'01 expanded its scope to transactions between associates irrespective of the residential status of the connected persons. These provisions are reproduced below for better understanding of the matters to follow.

INCOME TAX ACT, 1922 – SECTION 42(2):

S42(2)-"Where a person not resident (or not ordinarily resident) in Pakistan carries on business with a person resident in Pakistan and it appears to the Income-tax Officer that owing to the close connection between such persons the course of business is so arranged that the business done by the resident person with the person not resident or not ordinarily resident produces to the resident either no profits or less than the ordinary profits which might be expected to arise in that business, the profit derived there from, or which may reasonably be deemed to have been derived there from, shall be chargeable to income-tax in the name of resident person who shall be deemed to be, for all the purposes of this Act, the assessee in respect of such income-tax."

INCOME TAX ORDINANCE, 1979 – SECTION 79:

S79 - "Where business is carried on between a resident and a non-resident and it appears to the Deputy Commissioner that conditions are made or imposed between them in their commercial or financial transactions which differ from those which would be made between independent persons, the Deputy Commissioner shall determine the amount of profits which would have accrued to the resident but, by reason of those conditions, have not so accrued, and include such amount in the total income of the resident."

INCOME TAX ORDINANCE, 2001 – SECTION 108:

108(1)-"The Commissioner may, in respect of any transaction between persons who are associates, distribute, apportion or allocate income, deductions or tax credits between the persons as is necessary to reflect the income that the persons would have realized in an arm's length transaction.

108(2)- In making any adjustment under sub-section (1), the Commissioner may determine the source of income and the nature of any payment or loss as revenue, capital or otherwise."

If you look at the above provisions closely, you will note that the target is the transaction between connected persons and income in such transaction is deemed to arise only when it is established that the transaction has not been entered into at arm's length principle; or it has an element of conditions or arrangements which has resulted in diversion of profits from one person to another who are closely connected with each other.

The purpose of tax avoidance provisions in a tax statute is to ensure that taxpayers do not engage in transactions with related persons in order to achieve a tax benefit that could not have been obtained had the transactions taken place between unrelated parties.

Who are connected persons? Persons are connected with each other if their actions are controlled by the same person or entity. For this purpose, a taxpayer's spouse, brothers, sisters, children and parents will all be considered connected to each other. Whether or not other taxpayers are under the control of the same person will be determined based on the facts and circumstances. Nevertheless, the tax administration is expected to apply following basic rules in determining whether the entities entering into business transaction are connected or associates with each other.

- A taxpayer is connected with an entity if the taxpayer owns more than 50% of the voting powers in the entity, whether directly or indirectly.
- If two entities are considered to be connected to the same taxpayer, the two entities will be considered to be connected with each other.

- A taxpayer will be considered connected with an entity if the taxpayer owns less than a majority of the voting powers in that entity, if the facts and circumstances indicate that the taxpayer has the power to control the decisions of the entity.

For determining transfer pricing issue, the tax administration is expected to look at unconnected transaction, and in this connection emphasis and focus will be on the following facts and circumstances:

- Similarity of the functions performed, i.e. both the entities should be involved in the same type of business
- Similarity of the contract terms, i.e. both the entities should have the same terms and conditions for supply of goods or rendering of services.
- Similarity of the risks borne by the parties in the connected and unconnected transactions
- Similarity of the economic conditions where the transaction takes place giving due emphasis on the profit levels generated with respect to similar investments under similar economic conditions
- Similarity of property and services in the connected and unconnected transactions

The issue of diversion of profits by transfer pricing had been raised by the Tax Administration in Pakistan mostly under section 42(2) of the Repealed Act'22 and section 79 of the Repealed Ordinance'79. Transfer pricing has been raised by the tax administration and debated at the appellate forum debated in Pakistan particularly with reference to pharmaceutical companies as the medicines produced, packed and sold by these companies in Pakistan are largely imported into Pakistan by these companies from their immediate or ultimate parents in bulk as raw material. Such prices were presumed to be higher than the open market price and accordingly the Tax Administration had challenged those prices and reduced the import value mostly using comparative data from other importers. This issue was debated in greater detail at the appellate courts. Some significant findings of the courts are summarized below:

- Section 79 cannot be invoked where freedom of purchase from the international market did not exist. Accordingly, it is held by the Tribunal that so long the right of the manufacturer is protected under the Patents and Designs Act, it would be deemed that the freedom of purchase does not exist and, therefore, in such circumstances the provisions of section 79 of the Repealed Ordinance, 1979 shall not be attracted.
- Until and unless there is some material on record to show that the raw material has been imported through business connections with the non-resident parent company or sister concern at higher rate than ruling international price as a result of close relations, the question of any collusive arrangement does not arise. The burden prima facie lies on an Assessing Officer and until and unless the onus of proving the fact establishing import of raw material from parent or sister concern at higher price as compared to the international ruling price is discharged, the provision contained in section 79 of the Income Tax Ordinance, 1979 shall not be attracted.
- The provisions related to transfer pricing intends to put a curb on the manipulation and secret business deal between a resident and its close non-resident business associate by which the normal profit which would have accrued does not find place in the books of account but actually it is presented in a reduced or depleted form, and such depleted profit should be less than the ordinary profit which in the normal course is expected in such dealings. By adopting such device, law does not permit a taxpayer to evade tax by manipulated and arranged dealings between two close associations, one being resident and the other non-resident. The profit which would accrue normally in such dealing shall be deemed to be the profit of the resident taxpayer and will be taxed as income.

Section 108 of the ITO'01 provides full powers to the Tax Commissioner to examine the transactions between associates (i.e. between connected persons) in the light of transfer pricing rules as provided in rule 20 to 29 of the Income Tax Rules, 2002. In a case where reasonable basis exists that the transactions entered into between the associates do not stand the test of arm's length standard, the Tax Commissioner may distribute, apportion or allocate income, deductions, or tax credits between the associates as is necessary to reflect the income that the persons would have realized in an arm's length transaction.

TP DOCUMENTATION

In this background, it is extremely necessary that transfer pricing documentation is maintained to support any transaction between connected persons to demonstrate that the transaction meets the criterion of arm's length standard. In this connection, the taxpayers are expected to have the following minimum TP documentation:

- Documents supporting identification and understanding of the TP transaction.
- Documents supporting selection of TP method.
- Documents supporting application of TP method.

- Documents supporting determination of arm's length amount and the process in place to reflect future changes.

OECD transfer pricing guidelines provides general guidance for the tax administration to take into account in developing rules and/or procedures on documentation to be obtained from the taxpayers in connection with transfer pricing inquiry. It equally provides adequate guidance to the taxpayers in identifying documentation that would help them in satisfying that their controlled transactions (i.e. transactions between connected persons) were carried out at arm's length standard for resolving transfer pricing issues and facilitating tax examination. With reference to TP documentation, in most tax jurisdictions, the burden of proof of transfer pricing is the responsibility of tax administration, and accordingly in such cases taxpayers may not be required to prove correctness of its transfer pricing unless the tax administration makes a prima facie case challenging that the pricing is inconsistent with the arm's length principle. Even in such jurisdictions, the tax administration might still reasonably request the taxpayer to produce TP documentation as without such documentation, the tax administration may not be able to examine the case properly. In some jurisdictions, where the burden of proof is the responsibility of taxpayers, it is desirable that TP documentation is available to demonstrate that the pricing satisfies the arm's length standard. One has to bear in mind that the Tax Administration in many jurisdictions have the power to seek information and accordingly non-provision of TP documentation may lead to a situation whereby the burden of proof is shifted to the taxpayer by issuing a show cause notice seeking explanation as to why a proposed adjustment on account of transfer pricing may not be made.

TP is considered appropriate for tax purposes when the following questions are adequately and appropriately answered:

- Whether comparable data from uncontrolled transaction is available to compare with the transaction entered into between connected persons or associates?
- Whether the conditions used for TP in prior years have changed as compared to current year?
- Whether same prudent business management principles have been used that would govern the process of evaluation of a business decision of a similar level of complexity and importance?
- Whether written materials are available that could serve as a documentation of the efforts made to comply with the arm's length principle?
- Whether factors taken into account for comparing the pricing between an independent and controlled transaction are appropriate?
- Whether the method of pricing applied is appropriate in case of the nature of business of the taxpayer?

While reviewing the above questions, it is necessary that the tax administration should give due consideration to the following:

- Cost consideration in locating comparable data – it should not be disproportionately high as compared to the amount at issue.
- Use of Article on 'exchange of information' in the Double Taxation Agreements may be used by the Tax Administration to obtain comparable data if that could be arranged in timely and efficient manner.
- Taxpayer should not be expected to have prepared or obtained documentation beyond the minimum needed to make a reasonable assessment of whether it has complied with the arm's length principle.
- Tax Administration should not require the taxpayer to produce documents that are not in actual possession or control of the taxpayer or otherwise reasonably available, e.g. information that cannot be legally obtained; information that are confidential to taxpayer's competitors; information that are unpublished; information that cannot be obtained by normal enquiry or data market.
- There should not be any public disclosure of the information, trade secrets, scientific secrets or other confidential data, except to the extent it is necessary in case of public court proceedings or judicial decisions.

The issue of diversion of profits by transfer pricing had been raised by the Tax Administration in Pakistan mostly under section 42(2) of the Repealed Act'22 and section 79 of the Repealed Ordinance'79.

Taxpayers should recognize that notwithstanding limitation on documentation requirements, a tax administration would have to make a determination of arm's length transfer pricing even if the information were incomplete. Adequate TP documentation and voluntary production of such documentation can improve the persuasiveness of the transfer pricing approach. This is true whether the case is relatively straightforward or complex. The greater the complexity or unusualness of the case, the more significance will attach to TP documentation.

TP documentation should not be required at the stage of filing of return to demonstrate that the transfer pricing determination is appropriate

IFRS/IAS requires adequate disclosure of the transactions entered into between connected persons, related parties or associated enterprises, and accordingly there is sufficient information available in the audited financial statements attached with the return of income that could trigger TP inquiry by the tax administration. An attempt was also made by the Securities & Exchange Commission of Pakistan to make it the responsibility of the Auditors to report on the appropriateness of transfer pricing in case of related party transactions, but that could not be implemented as it was not accepted by the professional bodies like ICAP. This is currently in suspension.

Strict inquiry into TP documentation by Tax Administration in a developing country could become an impediment in international trade and foreign investment. Accordingly, the tax administration in Pakistan is currently not adequately focusing on transfer pricing issues. Nevertheless, considering the fast deteriorating financial health of the Pakistan economy; unchecked financial corruptions; and increasing corrupt practices, the Inland Revenue is constantly looking for avenues for raising revenues through taxation. As a result, there is a greater possibility of revamping of the enforcement efforts by the Inland Revenue to aggressively challenge the TP transactions to raise taxes.

Information about foreign associated enterprises is essential to transfer pricing examinations. However, gathering information may present a taxpayer with difficulties that it does not encounter in producing its own documents. For example, when the taxpayer is a subsidiary of a foreign associated enterprise or is only a minority shareholder, information may be difficult to obtain because the taxpayer does not have control of the associated enterprise. In any case, accounting standards and legal documentation requirements (including the limits for preparation and submission) differ from country to country. Accordingly, substantial time and cost may be involved in translating and producing documents. These considerations should be taken into account in determining taxpayer's enforceable documentation obligation.

COMMON FEATURES IN TP ENQUIRY

The thrust of the Tax Administration in a TP enquiry would largely revolve around the following. These should neither be treated as minimum compliance requirements, nor be taken as an exhaustive list of the information that may be requested by the tax administration.

- Information of the associated enterprise involved in controlled transaction. This could be:
- outline of the business;
- structure of the organization;
- ownership linkages within the MNE group;
- amount of sales and operating results from the last few years preceding the transaction; and
- level of the taxpayer's transactions with foreign associated enterprises, for example the amount of sales of inventory assets, the rendering of services, the rent of tangible assets, the use and transfer of intangible property, and interest on loans.
- Information on pricing, including business strategies and special circumstances at issue, may be useful. This could include factors that influenced the setting of prices or the establishment of any pricing policies for the taxpayer and whole MNE group. For example, to employ integrated pricing or cost contribution policy on a whole group basis.
- The transaction at issue
- The functions performed
- Information derived from independent enterprises engaged in similar transactions or businesses
- Nature and terms of the transaction,
- Economic conditions and property involved in the transactions
- Changes in trading conditions or renegotiations of existing arrangements
- Description of the circumstances of any known transactions between taxpayer and an unrelated party that are similar to the transaction with a foreign associated enterprises
- List of any known comparable companies having transactions similar to the controlled transactions.

CONCLUSION

A recent survey carried out in 25 developed and emerging economies, including China, India and Brazil, about three fourth of the MNEs selected for survey confirmed that they believe that TP documentation is more important now than it was two years ago. In case of Pakistan, as time passes and the pressure is built by the fund-giving agencies like IMF and World Bank to reduce or withdraw subsidies given by the government and to increase the tax revenues, naturally, further pressure will be on the tax administration to raise taxes by invoking the provision of section 108 of the ITO'01 to examine cross border transactions as well as domestic transactions between associates and challenge them as not entered into in full compliance with the arm's length principle. It is therefore imperative for the taxpayers to give due attention to the TP documentation to support their TP transactions to meet this challenge.