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ACRONYMS AND ACCOUNTABILITY:

STRATEGIC INSIGHTS ON CORPORATE ENVIRONMENTAL DISCLOSURES IN SRI LANKA

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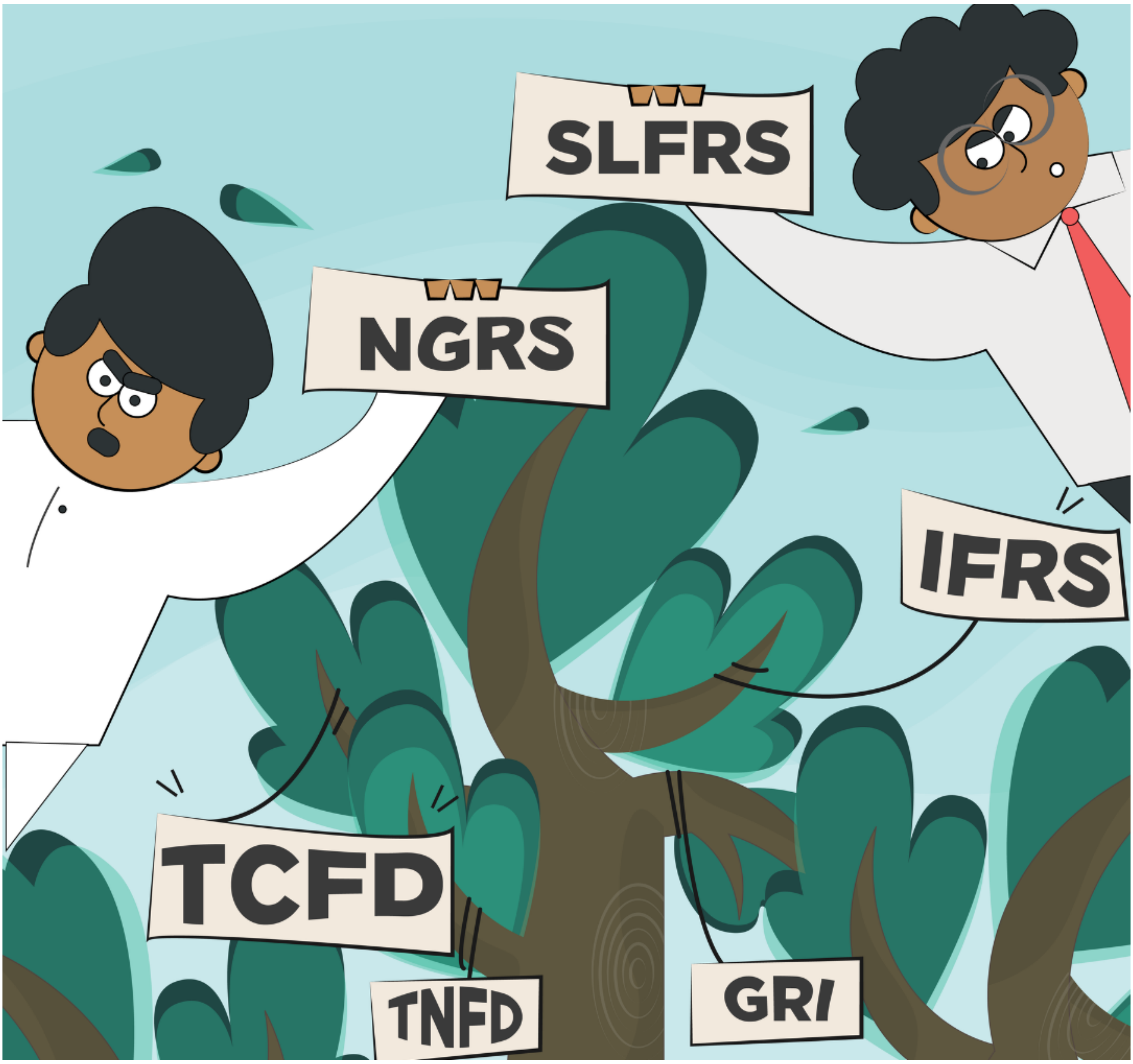

RESEARCH BRIEF SERIES

Nature, Climate and Economy

A publication under CSF's thematic pillar on: Nature, Climate and the Economy: We conduct research, convene stakeholders, and communicate policy imperatives for putting nature and natural capital at the core of Sri Lanka's post- crisis economic recovery, and its medium-term development pathways. Ongoing work includes innovative financing for conservation and a green recovery, strengthening financial institutions' environmental integration, nature-positive tourism, and reorienting growth metrics towards better considerations of natural capital.

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Abbreviations and Acronyms

CA Sri Lanka	Chartered Accountants of Sri Lanka
CBAM	Carbon Border Adjustment Mechanism
CSDDD	Corporate Sustainability Due Diligence Directive
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
EUDR	European Union Deforestation-Free Regulation
GHG	Green House Gases
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
MoE	Ministry of Environment
NDCs	Nationally Determined Contributions
NGRS	National Green Reporting System
PLC	Public Limited Company
SASB	Sustainability Accounting Standards Board
SBE	Specified Business Enterprise
SBTi	Science-based Targets Initiative
SLAS	Sri Lanka Accounting Standards
SLFRS	Sri Lanka Financial Reporting Standards
SME	Small and Medium-sized Enterprise
TCFD	Task Force on Climate-related Financial Disclosures
THSI	Thailand Sustainability Investment
TNFD	Task Force on Nature-related Financial Disclosures

Executive Summary

Environmental disclosures are increasingly vital for fostering corporate accountability and aligning business practices with global sustainability goals. This Research Brief builds on the foundational insights from a recent CSF Knowledge Primer (*'Acronyms and Accountability: Navigating Corporate Environmental Disclosures'*), and offers a deeper examination of corporate environmental disclosures and their significance for Sri Lanka's sustainability journey. It aims to provide practical recommendations for decision-makers, businesses, and stakeholders to adopt more effective and impactful disclosure practices. At CSF, we are interested in how better environmental disclosures can drive corporate behaviour, attract sustainable investments, and support Sri Lanka's transition to a greener, climate-resilient economy.

An evaluation of the reporting practices of CSE-listed companies uncovered significant disparities in the maturity, adoption and reporting intensity of environmental disclosures. While the influence of global regulations, particularly from the European Union, are pushing Sri Lankan exporters to adopt higher standards, challenges such as resource constraints, data scarcity, and a lack of standardised practices for data collection and management hinder comprehensive reporting. However, the implementation of the SLFRS standards is anticipated to improve adoption and consistency in environmental reporting.

The research revealed several local complexities and nuances. A critical issue is the tendency of many companies to engage in compliance-driven reporting rather than adopting meaningful sustainability practices, which require a deeper integration of sustainability into business operations. A "carrots-and-sticks" strategy combining incentives and regulations could drive broader adoption of environmental reporting. SMEs play a crucial role in local supply chains, and their inclusion in reporting practices is necessary for comprehensive reporting. Additionally, collaboration and coordination between policymakers and corporate actors are crucial to aligning strategic objectives and achieving realistic climate goals. Most importantly, effective sustainability reporting hinges on internal organisational capacity. The commitment of top management, a well-trained sustainability team, and collaboration across departments is critical.

Key strategic insights of this research focus on the roles of the CSE and accounting bodies in shaping the sustainability reporting landscape by promoting the standardisation and adoption of global frameworks through strategic initiatives. Developing a national environmental reporting roadmap and a sector-specific, incremental approach to mandatory reporting are recommended. Also, the establishment of an annual sustainability reporting index could serve as a benchmarking tool to encourage transparency and continuous improvement. Another key insight is the role that the MoE can play in offering training, capacity building, and technical resources to assist SMEs in adopting sustainability practices. Given that the NGRS currently lacks complexity for larger corporations, its simplicity makes it well-suited for supporting SMEs.

In conclusion, the research emphasises the need for a cohesive strategy that aligns local practices with global frameworks by leveraging the roles of key institutions.

1. Introduction

Environmental disclosures have become an increasingly popular mechanism to foster corporate accountability and align business practices with global sustainability goals. These disclosures provide critical insights into the environmental impacts, risks, and opportunities of organisations, enabling stakeholders such as investors, regulators, and consumers to make informed decisions. In the context of economic recovery following debt restructuring, attracting new investors will likely depend on how well Sri Lankan companies and organisations align with global sustainability trends. Transparency through environmental reporting not only signals commitment to sustainability but also enhances investor confidence in long-term corporate resilience. Moreover, these disclosures could have the potential to catalyse systemic change, driving businesses to adopt practices that mitigate environmental harm. At CSF, we want to explore and understand the impact of environmental disclosures and their potential to catalyse Sri Lanka's transition to a greener economy, ultimately contributing to a more sustainable and climate-resilient future. Our interest lies in understanding how these disclosures can influence corporate behaviour, attract sustainable investments, and align economic recovery efforts with global climate goals.

This Research Brief examines the landscape of corporate environmental disclosures in Sri Lanka, building on CSF's recent Knowledge Primer, *'Acronyms and Accountability: Navigating Corporate Environmental Disclosures'* [1]. The goal of this research is to understand the current reporting landscape, the motivations of corporate stakeholders and consultants for the adoption of reporting practices, their perceptions of the usefulness of reports in driving impact, and the enablers and barriers to better environmental reporting.

The methodology for this Research Brief involved two approaches.

1. A desk research was conducted to assess the current landscape of corporate environmental disclosures among companies listed on the Colombo Stock Exchange (CSE) in Sri Lanka. This involved reviewing publicly available reports and data on the environmental disclosures of these companies.
2. The desk research was combined with primary research involving semi-structured interviews with business leaders in key industry sectors, as well as practitioners in the corporate disclosures space (such as consultants, ESG professionals, and sustainability executives). These interviews were designed to gather insights on the challenges, enablers, and practices of environmental reporting in Sri Lanka. The research also incorporates observations from an environmental disclosures session on the SLFRS S1 and S2 standards organised by a professional body[2] (referred as 'SLFRS workshop' for future reference).

This multi-method approach ensured a comprehensive understanding of the corporate environmental reporting landscape in Sri Lanka.

2. A Snapshot of Corporate Disclosures Among CSE-Listed Companies

We assessed environmental reporting practices of 67 companies listed on the Colombo Stock Exchange (CSE) across 18 industries, with a focus on trends in sustainability disclosures. The top companies were selected based on market capitalisation in each industry, as defined by the CSE[3].

[1] The Knowledge Primer offers an in-depth exploration of global corporate environmental disclosures, tracing their evolution, economic drivers, and implications, with a focus on key frameworks such as GRI, TCFD, TNFD, and IFRS. Download document here: https://www.csf-asia.org/wp-content/uploads/2024/12/Knowledge-Primer-2.pdf.
[2] Organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) on 23 October, 2024, titled '*Embedding Sustainability in the DNA of the Organisation: Are Boards on Board?'*.
[3] External guidance was sought to obtain information and the list of top listed companies by sector.

Industry classifications were based on what is typically used by the CSE. Among the numerous environmental accounting frameworks and metrics available, the study focused on the most frequently cited metrics in the recently published annual reports at the time of the study. These included:

1. Global Reporting Initiative (GRI)
2. Task Force on Climate-Related Financial Disclosures (TCFD)
3. Net Zero Targets
4. Science Based Target Initiative (SBTi)
5. Sustainability Accounting Standards Board (SASB)
6. GHG/Carbon emissions
7. Waste management
8. Water
9. Energy
10. Sri Lanka Financial Reporting Standards (SLFRS S1 and S2 / IFRS S1 and S2)

Box 01: Overview of the SLFRS

The Sri Lanka Accounting and Auditing Standards mandates the adoption of Sri Lanka Accounting Standards (SLAS) for Specified Business Enterprises (SBEs) under the guidance of the Accounting Standards Committee. Since January 1, 2012, Sri Lanka has aligned its accounting standards with the International Accounting Standards Board (IASB).

The SLFRS S1 and S2, developed in collaboration with the International Sustainability Standards Board (ISSB), highlight sustainability risks and opportunities, and address general sustainability-related financial information and climate-related disclosures. Effective from January 1, 2025, they will initially be adopted by the first 100 listed entities of the CSE, with incremental adoption over the years.

The standards are structured around four core pillars: governance, strategy, risk management, and metrics and targets. While organisations can choose to apply voluntary global frameworks and standards, they must ensure compliance with SLFRS requirements. The Sustainability Disclosure Standards Committee, established by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), will review and recommend best practices for local implementation. The structure and implementation plan of the SLFRS is outlined in more detail in the CSF Knowledge Primer on environmental disclosures[4].

The key findings discussed below outline general trends in sustainability reporting in Sri Lanka:

Industry Trends:

Reporting intensity[5] was used to assess the industry trends in reporting under different metrics (as indicated in Appendix 1). Among the sample companies assessed, the Capital Goods industry was the top performer with all companies adopting the GRI framework, greenhouse gas (GHG) emissions, waste management, water, and energy disclosures. Consumer Durables & Apparel and Consumer Discretionary Distribution & Retail industries also demonstrated strong reporting

[4] CSF Knowledge Primer '*Acronyms and Accountability: Navigating Corporate Environmental Disclosures*': https://www.csf-asia.org/acronyms-and-accountability-navigating-corporate-environmental-disclosures/

[5] Reporting intensity in this context is the average number of environmental reporting metrics and frameworks disclosed by companies within a specific industry, calculated as the total disclosures for that industry divided by the number of companies in that industry. This measure provides a standardised way to compare the level of environmental reporting across industries with varying numbers of companies.

practices. The Telecommunication Services industry also shows high reporting intensity, however considering only two companies were assessed in this study, the reporting intensity may not be accurately represented for the entire industry. However, industries like Software Services, Automobiles, and Transportation, lagged significantly, and the companies assessed had no disclosures under any of the metrics. The Real Estate industry also showed the lowest number of reporting metrics, indicating a gap in integrating sustainability reporting in this sector.

Broad Acceptance with Uneven Implementation:

Nearly two-thirds of the companies disclosed some form of environmental metrics or frameworks, but the metrics reported in the disclosures and number of companies reporting on these metrics varied significantly across industries. While some companies are trailblazers reporting on nearly all metrics, others lag behind disclosing little to no environmental data. Appendix 2 indicates this variation in the four highest reporting industries. The Capital Goods industry has the highest reporting, however, none of the companies were aligned with SBTi. In the Consumer Durables industry, two companies skewed the results, with adoption of all frameworks and metrics assessed. On the other hand, one company had no disclosures on any of the metrics. Similarly, in the Utilities industry, one company had no disclosures on any of the metrics, while the other company had varying levels of reporting on different metrics. Additionally, within this industry the assessed companies had not adopted the SLFRS standards at the time of this review. In the Consumer Discretionary Distribution & Retail industry, all companies had reported on at least one metric under waste management, water, and energy, with no reporting on TCFD or SBTi. This uneven distribution is seen across all industries assessed.

Multiple Metrics and Frameworks:

Metrics like energy, waste, and water emerged as the most frequently reported with nearly half the companies assessed reporting on these metrics. Among these, energy disclosures were leading, followed by waste management and water use. It is also important to note that many companies limit their reporting to these metrics and have not adopted any global reporting frameworks or standards. Among the frameworks adopted, GRI emerged as the most widely accepted and used, reported by nearly 45% of companies assessed. In contrast, other advanced frameworks like the TCFD and SBTi saw limited adoption, with less than 10% of companies adopting either framework. Appendix 3 indicates the percentage of assessed companies reporting each metric.

Early Adoption of SLFRS Standards:

Only six companies were early adopters of the SLFRS S1 and S2 standards, which are set for mandatory implementation for PLCs from January 2025.

KEY TAKEAWAYS

- **There is significant disparity in the maturity and progress of environmental disclosures among CSE-listed companies, both across and within industries.**
- **Companies employ a wide range of metrics and frameworks, resulting in a lack of uniformity even within industries.**
- **Among global frameworks, the GRI stands out as the most widely used in Sri Lanka. However, less than half of the assessed companies have adopted it.**
- **The mandatory SLFRS requirements will invariably drive more adoption of environmental disclosures across publicly listed companies in Sri Lanka**

3. Global Influences and Evolving Frameworks

Frameworks like the GRI, TCFD, TNFD and IFRS Standards are increasingly influencing corporate practices worldwide. The ripple effects of global frameworks and mandates reach stakeholders in the Global South, influencing suppliers, regulatory bodies, and local businesses.

> "The regulatory landscape is rapidly changing. The speed with which regulations changed in the last 20 years is what we will see happen in the next 24 months... Even if we as a company did not care, the current regulatory landscape would not allow us to do so. So there is a regulatory push, and the license to operate is at risk if companies do not consider climate risk and impacts."
> ***Head of Sustainability at a leading garment manufacturing company.***

The increasing stringency of European Union (EU) regulations is significantly shaping the compliance landscape for Sri Lankan companies, particularly those engaged in exports. Unlike many other global markets, the EU places high expectations on sustainability, driven by evolving consumer demands and regulatory frameworks. Export clients that Sri Lankan companies cater to in the EU region, exert considerable pressure to adopt robust environmental reporting and data collection practices. This pressure is amplified by emerging EU regulations such as the European Union Deforestation-Free Regulation (EUDR), the Carbon Border Adjustment Mechanism (CBAM), and the Corporate Sustainability Due Diligence Directive (CSDDD), all of which are expected to have varied levels of implications for Sri Lankan exporters, as highlighted in a CSF policy brief on the EU Green Deal[6]. Additionally, packaging regulations, requirement for product environmental footprints, ESG ratings, and human rights compliance (a stringent requirement in the EU and North America) further elevate the expectations on exporters. As highlighted by many interviewees, these requirements and pressures have compelled many companies to adopt comprehensive reporting in Sri Lanka to remain competitive in the international market. Compliance with mandatory EU sustainability directives such as the Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) has become essential if companies wish to continue working with European clients and businesses.

A common thread among most interviewees, particularly sustainability heads in companies, was that the GRI framework is widely used among Sri Lankan companies due to its global acceptance and ease of implementation. Many organisations find GRI advantageous as it provides a structured and practical approach to reporting, making it convenient to adopt and align with stakeholder expectations. Moreover, for companies with international clients, particularly in Europe, using the GRI framework ensures consistency and compatibility, as many of these customers also rely on GRI for their own sustainability reporting.

> "One of the main challenges is that there are several regulations and several aspects to consider. Aligning with everything is a big challenge. There is a risk of duplication of work. There is also an increased work load because of the density of information required for all these different frameworks."
> ***Senior Manager of Sustainability and ESG at an apparel company.***

Navigating the complex and diverse voluntary and mandatory reporting landscape presents significant challenges. Companies must consider multiple frameworks, each with its unique focus and requirements. The IFRS leans toward financial materiality, and is argued to be a "capitalistic framework" (as emphasised by a senior consultant and GRI expert) that caters only to shareholders of the company and is non-inclusive, as opposed to the GRI which caters to all stakeholders of the company. Frameworks such as GRI and the ESRS emphasise an impact-driven approach and double

[6] CSF Policy Brief "*EU Green Deal and Implications for Sri Lanka's Exports*": https://www.csf-asia.org/eu-green-deal-and-implications-for-sri-lankas-exports/

materiality. This involves looking at indicators and metrics through an 'inside-out lens' to assess companies' impacts on the society and environment, as well as an 'outside-in lens' to assess the social and environmental risks for the company.

Science-based targets are also gaining momentum, as they provide measurable, actionable, and time-bound objectives to ensure that companies are working towards better sustainability performance. As indicated in our CSE study, some top companies in Sri Lanka have already aligned with the SBTi, establishing both short-term and long-term goals to enhance their sustainability practices. While some consultants flagged concerns regarding the rigidity of such targets, target-setting remains a critical element of sustainability reporting. As one consultant emphasised, setting meaningful and attainable targets is essential for fostering good reporting practices and achieving tangible results.

Interestingly, some consultants believe that there is a noticeable shift within the business community in Sri Lanka over the last few years, with companies increasingly recognising the importance of addressing climate and environmental challenges. This growing awareness stems from an acceptance of the reality of climate change and the associated risks it poses to business operations, supply chains, and long-term resilience. However, as flagged by a Group Managing Director of a PLC, Sri Lanka needs to balance the pressures of global sustainability standards with the need for locally relevant reporting solutions that are fair, inclusive, and do not burden local stakeholders and smaller companies.

KEY TAKEAWAYS

- **The evolving regulatory landscape, particularly stringent EU regulations, is driving Sri Lankan companies (particularly exporters) to adopt comprehensive environmental reporting to maintain competitiveness.**
- **Companies face significant challenges and complexities in aligning with multiple reporting frameworks, leading to increased workloads and risks of duplication.**
- **The GRI framework is widely used by Sri Lankan companies due to its global acceptance, structured approach, and alignment with international client expectations.**
- **Science-based targets are gaining traction as they offer measurable and actionable objectives for sustainability performance.**
- **There is a growing recognition among Sri Lankan companies of the importance of addressing climate and environmental challenges. However, there is a call for balancing global standards with locally relevant reporting practices.**

4. Complexities of Reporting in Sri Lanka

Sri Lanka's adoption of SLFRS S1 and S2, slated for implementation starting in 2025, marks a pivotal step toward integrating sustainability into corporate reporting. Aligned with IFRS standards, these standards emphasise financial materiality, requiring publicly listed and large companies to quantify financial risks and opportunities in ways that were not previously addressed. However, the complexities surrounding corporate environmental disclosures have come into sharp focus. While reporting frameworks aim to enhance transparency and drive sustainability, the journey toward effective implementation is fraught with challenges unique to developing economies.

> "It includes many different quantified pieces of information on financial risks and opportunities. This is a lot of work! Financial implications have never been done before, even under the GRI framework. It requires the finance team and the sustainability team to work together, which has a strong influence on governance structures."
> ***Assistant Vice President of Corporate Strategy and Sustainability at a large conglomerate.***

Sri Lanka's corporate sector faces the dual burden of catching up to global sustainability practices while grappling with local barriers such as resource constraints, data scarcity, and limited awareness of the strategic value of environmental disclosures. While early adopters in Sri Lanka are positioning themselves to meet international investor expectations and gain a competitive edge, for many other companies, this has led to a tension between compliance-driven reporting and impactful sustainability practices. This section delves into the intricate challenges of environmental reporting in Sri Lanka.

Box 02: What are Scope 3 emissions?

The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) within a company's value chain, including both upstream and downstream emissions.

Scope 3 emissions are not directly controlled by the company. These emissions are the most extensive to track, as they include upstream activities like the production of purchased goods, transportation, and business travel, as well as downstream activities such as the use and disposal of sold products. Often constituting the largest portion of a company's carbon footprint, Scope 3 emissions are critical for understanding the full environmental impact of an organisation. However, their reporting is challenging due to the need for extensive data collection from various stakeholders, the complexity of calculations, and the lack of standardised practices. Despite these challenges, addressing Scope 3 emissions is essential for aligning with global sustainability goals and fostering meaningful climate action.

4.1 Underpreparedness of Reporting Organisations

Although the first stage of the mandatory SLFRS requirements will be rolled out from 1 January 2025, the CSE study (Section 2) highlighted that only 6 organisations have taken up early adoption of the framework, and some of the top CSE-listed companies have not adopted any framework at all. Primary research revealed a consensus among practitioners that many organisations are underprepared to implement rigorous frameworks like SLFRS. Successful implementation requires robust internal systems, continuous year-round data collection, and close collaboration across departments. This challenge is especially pronounced for organisations with no prior experience in international reporting frameworks. Even organisations that have adopted voluntary frameworks like GRI, which allow more flexibility in the metrics reported, face significant hurdles in adapting to SLFRS standards.

> "It is not an easy standard to implement, it requires time, strategy, and effort. It cannot be done overnight. It also requires money and engagement with suppliers."
> ***Head of ESG at a large conglomerate.***

To ease this transition, SLFRS provides transitional relief, giving companies two years to adapt their systems for better reporting. For instance, Scope 3 reporting becomes mandatory only after two reporting cycles, offering much-needed flexibility. Many companies seem to be relying on the two year transition relief period to give them more time to put systems in place, but one cannot underestimate or downplay the time required to gather quantitative climate-related data.

A crucial aspect that cannot be ignored is that the corporate disclosure space is complex and rapidly changing, with frameworks working on additions and inclusions on a regular basis. For example, biodiversity reporting is a growing trend globally, with both GRI and IFRS working on integrating recommendations by the Task Force on Nature-related Financial Disclosures (TNFD) into the reporting frameworks. However, companies in Sri Lanka are still grappling with data collection systems for Scope 3 emissions with very few companies looking into biodiversity impacts. The looming question Sri Lanka is faced with is whether the companies, enforcing bodies, and the people within it, are agile enough to keep up with fast paced changes happening globally.

4.2 The Challenge of Collecting Complex Data in a Data-Scarce Environment

Sri Lanka faces significant challenges in data availability and accessibility, and given that most companies have not been tracking their environmental metrics, the challenge is even more exacerbated. A glaring example of this is the challenge of reporting Scope 3 metrics, a task that even early adopters find difficult. Reporting on Scope 3 emissions requires extensive data collection and engagement throughout the value chain. Moreover, the data has to be in verifiable metrics that can be externally audited. The process often incurs significant costs and requires robust systems. Companies investing in advanced tools and data collection dashboards have seen improvements in data collection and management. However, as the Assistant Vice President of Corporate Strategy and Sustainability at a large conglomerate explained, while the software allows for ownership of the data and establishes a system, follow-ups and convincing stakeholders and supply chain entities to submit their individual data is an ongoing process and requires considerable effort.

Calculations for emissions data further compound the difficulty. Companies often rely on external organisations for analysis and converting raw data into emission metrics, but this approach still faces limitations. The lack of accurate data in Sri Lanka necessitates reliance on science-based assumptions and external verification to set reporting boundaries. The absence of standardised practices for data collection from diverse stakeholders has exacerbated the complexities. These challenges highlight the pressing need for capacity building, technological support, and improved stakeholder engagement across the entire supply chain.

> "The bigger question is how conducive is the landscape for reporting? The data availability and the speed at which data collection happens is very low, so we have to make a lot of assumptions. We need to start talking in 'carbon' if we are to work towards a better data landscape."
> ***Head of Sustainability at a leading garment manufacturing company.***

4.3 Moving Away from Box-ticking to Meaningful Impact

> "There is definitely a huge educational curve that is required. Reporting for the sake of reporting is what we see most commonly in Sri Lanka. The understanding of its advantages and benefits to the company is quite low. Companies, and especially the banking sector, are not at the level of understanding that they should be in."
> ***Head of Sustainability at a leading garment manufacturing company.***

While the early adopters of the SLFRS framework are setting internal standards to meet global reporting expectations, primary research indicated that many large organisations are working on the sustainability reports purely with the intention of compliance. Such companies then look at doing the bare minimum with the help of external consultants, with limited impact on the company's operations. This was highlighted by some of the consultants interviewed.

> "Many companies use various frameworks as a tickbox exercise which may satisfy the criteria of the reporting framework, but may not affect the environmental performance of the company or satisfy the stringent requirements of export clients."
> ***Senior sustainability consultant and GRI expert.***

The key to environmental reporting is to first implement sustainability processes and management strategies within organisations, and then carry out the reporting based on the baseline data. However, as highlighted by many interviewees, in Sri Lanka the common practice in many organisations is to first report various sustainability ambitions and goals before actually putting operations, strategies and governance in place. Moreover, the sustainability reports can be as simple or as greenwashed as the companies adopting them want them to be. Some interviewees argued that Sri Lankan companies tend to take on a lot of ad-hoc philanthropic work like beach clean ups and planting trees, and then report these initiatives in their sustainability reports. Impacts that are 'material'[7] to the organisation are not taken into account.

While many companies still have significant progress to make, the best-performing organisations are recognising the strategic value of well-implemented disclosures.

> "In terms of operations, our emissions have reduced drastically. This is because we now have a deeper understanding of the changes that are required... Reporting has also been very helpful from a benchmarking perspective. It has allowed us to understand where we stand in comparison to other industry players."
> ***Senior Manager of Sustainability and ESG at an apparel company.***

Interviews revealed that some companies are advancing initiatives in circular economy and circularity, aiming to improve their metrics year-on-year. Additionally, biodiversity is emerging as a material topic, gaining traction among companies that see its long-term importance. These efforts highlight the growing realisation that sustainability reporting, when integrated with actionable strategies and tangible performance improvements, can serve as a powerful driver of corporate transformation.

KEY TAKEAWAYS

- **Many organisations, particularly those with no prior experience in international frameworks, are underprepared for the rigorous requirements of SLFRS, necessitating robust internal systems and long-term strategies.**
- **The lack of standardised practices and data scarcity, especially for Scope 3 emissions, poses significant challenges, requiring extensive stakeholder engagement, capacity building, and technological support.**
- **A prevalent issue is the focus on compliance-driven reporting rather than meaningful impact, with many companies treating reporting as a tick-box exercise rather than integrating sustainability into their core operations.**
- **There is a critical need for education and capacity building within organisations to understand the strategic benefits of sustainability reporting.**

[7] Materiality in environmental reporting refers to the principle of identifying and prioritising environmental issues that are most significant or impactful to an organisation's operations, stakeholders, and overall sustainability goals. Materiality ensures that reporting efforts focus on the most relevant topics, providing clarity and actionable insights for stakeholders such as investors, regulators, and customers.

5. Local Nuances and Opportunities for Greater Impact

To meet global sustainability standards, it is evident that a one-size-fits-all approach may not be feasible. Instead, a nuanced strategy that integrates local realities with global expectations is essential. This section explores key insights from interviewees, highlighting crucial factors to consider, such as the complexities of regulatory compliance, the role of incentives, the influence of sustainability awards, the need for cross-sector collaboration, the burden of compliance on Small-medium Enterprises (SMEs), and the integration of natural capital risks.

5.1 A Carrots-and-Sticks Approach

> "A strict regulatory framework does not work for Sri Lanka, as the companies tend to do the bare minimum."
> ***Partner at a leading professional services network in Sri Lanka.***

A key finding from the interviews is the growing consensus that a level playing field is crucial for fostering fair competition and encouraging widespread sustainability adoption across industries. Investments in sustainability come at a cost, and many interviewees emphasised that it is unfair for companies that actively invest in sustainable practices and reporting to be at a disadvantage compared to competitors who do not make similar efforts. The concept of a "reporting burden" was also raised, with one senior consultant noting that the costs associated with data collection systems, human resources, and capacity building place a significant strain on companies, particularly SMEs. A "carrots-and-sticks" approach, combining incentives and regulations, could push companies to follow suit and create a more equitable environment. A partner at a leading professional services network pointed out that incentivising companies through mechanisms like tax breaks or regulatory incentives could offer a middle ground between voluntary and mandatory requirements.

5.2 Awards and Recognition

Although global frameworks and regulatory pressures have played a big role in the scale of adoption of environmental disclosures, in Sri Lanka sustainability awards have been one of the key catalytic drivers for higher reporting. These awards, particularly the ones that are hosted by the Ceylon Chamber of Commerce, were mainly started to create awareness about sustainability practices, and recognise organisations that were doing Corporate Social Responsibility (CSR) right. Over the years, as more companies have incorporated formal reporting frameworks, awards have also become more rigorous and competitive. In fact, ranking the companies as top performers increased competition among companies to start formal reporting, and continues to be one of the biggest motivating factors in Sri Lanka.

However, given the changing landscape of the regulatory environment, the nature and purpose of these awards need rethinking to ensure that they can continue to push the needle on sustainability reporting.

> "Going forward the language and criteria may need to converge with the new requirements that are coming into use."
> ***Evaluator for a reputed sustainability awards program in Sri Lanka.***

5.3 Collaboration and Coordination between Organisations

A recurring theme in the interviews was the need for more meaningful consultations and coordinated efforts when it comes to sustainability policies and actions. It was noted that many national and international pledges made by the Ministry of Environment often lack proper consultation with national chambers and relevant bodies, which undermines their effectiveness.

> "The country makes a lot of pledges, both nationally and internationally, just for the gallery. There are no consultations with national chambers or other bodies. We just read in the Sunday Times that pledges have been made."
> ***Group Managing Director of a PLC.***

This lack of engagement with key stakeholders results in poorly executed ad-hoc initiatives, such as tree planting efforts, which are not followed up or monitored. Vibrant and meaningful consultations with all segments of society is critical for understanding what is feasible and identifying the most impactful actions. Moreover, policies must be developed in alignment with the needs and capacities of all stakeholders, ensuring that solutions are practical and sustainable in the long term.

Further concerns were raised about the lack of coordination between national target-setting and the practical needs of companies. This highlights the gap between high-level commitments, such as Nationally Determined Contributions (NDCs), and the lack of infrastructure or resources to help companies meet these targets. For example, in the electricity sector, the lack of clear options for sourcing renewable energy remains a challenge for companies trying to align with national climate goals.

In this context, collaboration is key. While many companies are expected to create significant impacts on their own, it is widely recognised that partnerships and alliances are essential to driving meaningful change.

> "It is not easy for companies to create an impact on their own, although this is what is expected and many companies do it well. So mechanisms like partnerships and alliances are important, we are an island country after all."
> ***Partner at a leading professional services network in Sri Lanka.***

Such alliances are seen as valuable platforms for collaboration, particularly in areas like calculating Scope 3 emissions or carrying out offsetting activities for companies. However, it was highlighted that not all companies embrace this collaborative mindset, with some prioritising competition over partnership, which can hinder collective progress.

5.4 The Importance of SMEs in Local Supply Chains

A key insight from industry leaders in Sri Lanka is that it is crucial to consider the role that SMEs play in driving sustainable development in the country. As highlighted by the Secretary General of an industry association, the majority of businesses in Sri Lanka are SMEs and they constitute a significant portion of the supply chains for most large companies and PLCs. This underscores the importance of supporting SMEs and small businesses to drive long-term sustainability across sectors. Furthermore, as the demand for data collection grows, these smaller businesses must be equipped to collect internal data and contribute to the larger companies' data needs.

However, successfully integrating these small players into the sustainability ecosystem requires an inclusive regulatory framework and a strong capacity-building foundation. Some interviewees emphasised the need for specific support for SMEs, including training programs, free consulting, and reporting guidelines. These initiatives are crucial for building the capacity necessary for effective environmental reporting and sustainable practices. However, it is important to recognise that this comes with significant challenges. Reaching all SMEs is difficult, and the burden of data collection and compliance is much higher for these small enterprises. While many large companies are actively engaging stakeholders within their supply chains to improve data collection, there is also a pressing need for more institutionalised capacity-building efforts to support small businesses in this process.

5.5 Intangible Assets and Natural Capital

An interesting revelation that came out in the interviews is the importance of moving towards valuing natural resources and understanding the true dependence of companies on nature and intangible assets.

> "The most crucial factor and reality is that true cost economics is not understood. All our financial decisions and company operations are carried out using linear economy principles. And this is the biggest flaw. We fail to question what the value addition of nature is to the business."
> ***Head of Sustainability at a leading garment manufacturing company.***

The Assistant Vice President of Corporate Strategy and Sustainability at a large conglomerate also highlighted that most companies tend to look at sustainability reporting primarily in terms of reputational risks and compliance, but including natural capital risks in sustainability and financial disclosures would change how sustainability is addressed in the corporate landscape. Factoring in natural capital does not end at just looking at the risks it poses to the business in the long run. Businesses also need to understand and consider the impacts of their activities on the society and environment. As one interviewee rightly argued, reporting aligns with the concept of "enlightened self-interest," where businesses need to act in ways that benefit society while securing their long-term viability.

> "All companies have externalities and it is in public interest to maintain low impacts in Sri Lanka... There is definitely a need for compulsory reporting, like the financial disclosures. This is in line with 'enlightened self interest'. We also need to start looking at long-term profits, and empirically manage ESG risks as well as our intangible assets."
> ***Evaluator for a reputed sustainability awards program in Sri Lanka.***

Recognising that corporate success and societal and environmental well-being are interconnected, is a shift from focussing on short-term profits to long-term gains. And some practitioners argue that reporting can catalyse this mindset change.

KEY TAKEAWAYS

- **A balanced approach combining regulatory frameworks and incentives is needed to foster a fairer competition and encourage adoption of environmental reporting.**
- **Sustainability awards in Sri Lanka have been key drivers for enhancing and encouraging environmental reporting. However, these awards need to evolve with the changing regulatory environment to continue motivating companies toward higher reporting standards.**
- **Meaningful consultations and stronger coordination between organisations and policymakers are crucial for effective sustainability practices. Companies face challenges when national targets are disconnected from practical needs, and there is a need for more collaborative approaches, especially in areas like emissions calculations and offsetting activities.**
- **SMEs play a significant role in most supply chains of PLCs and large companies. To effectively integrate SMEs into the sustainability ecosystem, an inclusive regulatory framework, institutionalised efforts and robust capacity-building initiatives are necessary.**
- **There is a growing recognition that businesses must account for the true value of natural resources and intangible assets in their sustainability reporting, moving from short-term profit focus to long-term sustainability.**

6. Building Organisational Capacity for Environmental Reporting

As reporting becomes an integral part of corporate strategy, the primary research revealed that certain organisational factors stand out as crucial drivers of its successful implementation. This section explores these key drivers, focusing on the role of top management in championing sustainability, the importance of trained sustainability professionals in steering the process, and the need for cross-departmental alignment to embed sustainability into core business operations.

6.1 Motivation of Top Management

A common theme observed in interviews with companies at the forefront of sustainability reporting is the intrinsic motivation of top management to integrate sustainability into their business strategies. Genuine commitment from leadership drives organisational reforms and influences policies and strategies across all levels of the organisation.

> "This [sustainability] needs to be a boardroom discussion, and ESG factors and conversations have to infiltrate boardrooms."
> ***Head of Sustainability at a leading garment manufacturing company.***

When sustainability is prioritised by the board, it ensures that these values permeate throughout the company, with clear sustainability goals and key performance indicators (KPIs) cascading from board members down to managers and staff. However, as some of the interviewed ESG professionals pointed out, convincing leadership to engage with sustainability reporting can be challenging, as it requires a long-term vision. They also argued that going forward, sustainability professionals have to be on the board, emphasising the need for board members to possess sustainability skills and expertise to drive impactful change.

> "The ESG team presents regularly to the board, and these meetings are made as frequent as the finance meetings."
> ***Head of ESG at a large conglomerate.***

In leading companies, regular presentations by the ESG team to the board have become standard practice. This high level of engagement ensures that sustainability is treated with equal importance as financial performance, reinforcing its central role in business decision-making.

6.2 Having a Trained Sustainability Team

A key factor in the successful implementation of sustainability reporting frameworks is ensuring organisations have well-trained and appropriately-skilled human resources. The primary research revealed that some senior members leading sustainability efforts possessed skills and academic backgrounds in other fields, such as business management. While their leadership roles demonstrate organisational commitment to sustainability, certain comments reflected the simplistic understanding and rudimentary knowledge they have on sustainability practices and climate risks. On the other hand, organisations that have actively worked on sustainability strategies have made a concerted effort to incorporate qualified ESG professionals[8] into their governance and management structures. These companies have also prioritised extensive capacity building and regular training of their staff, which has positively impacted their understanding of sustainability. The depth of knowledge in these organisations reflects the value of having dedicated professionals with a strong grasp of both the technical and strategic aspects of sustainability reporting.

[8] A 'qualified ESG professional' typically possesses a combination of formal education, professional certifications, and relevant experience in sustainability, environmental science, corporate responsibility, or related fields. They possess practical experience in ESG integration in business strategies, developing sustainability policies, managing ESG risks, sustainability reporting, or conducting sustainability assessments.

Companies with such trained and skilled sustainability teams have distinct advantages. These teams have successfully transformed ad-hoc sustainability initiatives into streamlined and comprehensive sustainability reports and operational strategies. In contrast, companies without dedicated sustainability teams often display a more superficial understanding of sustainability, focusing on isolated initiatives, such as paper packaging or tree-planting and beach clean-up projects, and lack the comprehensive approach necessary for long-term impact. A trained sustainability team can also enhance and streamline data collection and management processes. Additionally, in these organisations, baseline calculations and data gathering are typically conducted in-house.

> “All the data collection and reporting was an in-house process with an internal team, and external consultants /professionals were used only for writing. The main reason for this was because we felt that external parties did not understand the complexity of the data or our practices. So carrying out these practices in-house was always better.”
> ***Assistant Vice President of Corporate Strategy and Sustainability at a large conglomerate.***

Sustainability professionals in leading organisations go beyond merely viewing sustainability reporting as a company risk. They understand the broader business and economic rationale behind sustainability practices, such as cost reduction, lower environmental footprints, and improved employee retention - factors that were highlighted by many interviewees. These professionals are also better equipped to recognise gaps in their organisations sustainability efforts and acknowledge the work still needed to achieve meaningful progress and impact. They understand that producing quality sustainability reports involves more than just documenting CSR initiatives.

> “The main goal for us is to avoid any green washing, and make sure there is action first before reporting anything.”
> ***Head of ESG at a family-owned group of companies.***

6.3 Collaboration within the Organisation

> “It is very important that everyone is on board for these processes and strategies to work. So it’s definitely an uphill battle.”
> ***Head of Sustainability at a leading garment manufacturing company.***

Reporting leads to structural changes and changes in the way data is being recorded. This involves all departments within the organisation to be aligned towards the same sustainability goals and to change or adapt the way they function. Data collection and reporting must be integrated across various functions like operations, finance and accounting, requiring collaboration between these teams and the sustainability team.

One of the main obstacles highlighted by sustainability executives of companies is the disconnect between sustainability and finance teams, a concern repeatedly raised by many interviewees.

> “The financial teams often do not fully understand the language and metrics of sustainability.”
> ***Head of Sustainability at a leading garment manufacturing company.***

> “Finance heads are the biggest obstacle to sustainability in organisations.”
> ***Head of ESG at a large conglomerate.***

While financial reporting is a well-established practice for most companies, non-financial reporting remains less prioritised and is often treated as an afterthought. This creates a significant barrier to meaningful engagement in sustainability practices and environmental disclosures. At the SLFRS workshop, the Head of ESG at a large conglomerate highlighted that framing climate risks as financial risks could help secure buy-in from the finance teams and shift the mindset within companies to demonstrate the long-term value of sustainable practices.

The influence that the finance teams have in decision-making also draws attention to the value that frameworks like the IFRS (and SLFRS) bring to the table in terms of sustainability reporting. Although there are many criticisms of these frameworks regarding the uni-dimensional focus on financial risks, these insights make a strong case for having financial frameworks with stringent environmental indicators.

6.4 Consulting Requirements and External Expertise

A significant challenge for businesses is the overwhelming amount of information available, much of which is not easily accessible or tailored to the local context.

> "The regulatory landscape is constantly changing. The Big 4[9] provide services and regulatory guidance internationally, but their understanding of the local regulatory landscape is low."
> ***Head of ESG at a family-owned group of companies.***

This highlights the need for local consulting organisations to step in as service providers with a deeper understanding of the Sri Lankan reporting landscape. Informational support is especially crucial, given the dynamic nature of regulations. Regulatory consulting services can help companies navigate these changes, ensuring national compliance while aligning with global sustainability frameworks.

Consulting firms are particularly valuable for assurance and data verification, and providing credibility to reported data. In addition to these roles, consulting firms can also assist with offsetting activities by leveraging external teams to support companies in meeting their environmental goals. However, the foundational aspects of sustainability reporting, such as data collection and implementation of sustainability practices, remain the responsibility of internal teams within the companies.

Box 03: Integrating In-House Efforts and External Expertise

Effective sustainability reporting requires a balanced approach between internal responsibilities and external support. Within companies, essential tasks include establishing robust systems for continuous data collection and management, not just within sustainability teams, but across departments such as finance, operations, and supply chain management. Internal teams must ideally handle all baseline calculations, particularly for Scope 1 and Scope 2 emissions, and oversee data collection for more complex Scope 3 reporting. Most importantly, companies need to work towards integrating sustainability strategies into their operations, set measurable goals, ensure alignment with global frameworks and local requirements, and foster cross-departmental collaboration for better environmental reporting. Additionally, building internal capacity is crucial. Companies must invest in training their staff to enhance expertise in sustainability reporting and environmental management. This not only ensures accurate and effective reporting but also embeds sustainability deeper into the organisational culture.

External organisations play a complementary role by offering regulatory guidance (both local and international) and helping companies navigate the complex and evolving landscape of environmental standards. They provide assurance and data verification services, ensuring the credibility of sustainability reports. Consulting firms offer insights into best practices and help companies align with global frameworks while also providing advanced tools and software solutions to streamline reporting processes. For SMEs, external assistance is particularly vital. Government bodies and industry associations can support SMEs by offering subsidised training programs, technical guides, and accessible resources. This helps SMEs overcome barriers to sustainability reporting, enabling them to contribute effectively to broader corporate environmental goals.

[9] The four largest professional services and accounting networks in the world: Deloitte, EY, KPMG, and PwC.

7. Strategic Directions and the Way Forward

As Sri Lanka attempts to transition towards a greener economy, enhancing its environmental reporting landscape will be an important part of the journey, However, strategic interventions are essential to address existing gaps and inconsistencies. The uneven adoption of environmental disclosures across industries and companies, coupled with variations in metrics and frameworks, underscores the need for a cohesive approach. Globally, successful models demonstrate that stock exchanges, accounting bodies, and regulatory frameworks play pivotal roles in standardising and driving sustainability reporting practices.

This section explores the strategic roles that key entities like the CSE and accounting bodies like CA Sri Lanka can play in shaping a robust reporting ecosystem in Sri Lanka. Additionally, it reevaluates the relevance and potential of the National Green Reporting System (NGRS) in the local context, and the potential role of the MoE in driving higher environmental reporting. By drawing on insights from successful international practices and tailoring solutions to Sri Lanka's unique socio-economic and regulatory environment, this section provides a roadmap for building an inclusive and credible sustainability reporting framework.

7.1 Leveraging Resources and Expertise of the Stock Exchange and Accounting Bodies

The CSE and accounting bodies hold significant potential to shape the future of sustainability reporting in Sri Lanka. In countries with high adoption rates of environmental disclosures, such as Singapore, Malaysia, and Thailand, stock exchanges have played a pivotal role in driving implementation and regulatory requirements. These examples, highlighted in the CSF Knowledge Primer, demonstrate how these bodies can influence reporting practices through targeted strategies. Incorporating global best practices into local contexts not only ensures alignment with international expectations but also enhances the credibility and efficacy of Sri Lanka's sustainability reporting ecosystem. However, to maintain relevance, it is critical to update local adaptations of standards regularly in line with global frameworks and requirements. As highlighted in earlier sections, accounting bodies and the stock exchanges have the capacity and resources to do this.

Two key approaches have been identified for the CSE and accounting bodies to drive sustainability reporting in Sri Lanka effectively. These insights stem from research findings, and analysis of the data and literature review on this topic.

Approach 1: Formulating a national environmental reporting roadmap

Setting a clear strategic pathway is essential to guide corporate entities, particularly in aligning with evolving global frameworks and local needs. Given that large companies and PLCs are regulated by these bodies to varying degrees, an incremental implementation of standards can be effectively regulated.

> "The CSE needs to push for this in an incremental manner. This would have a catalytic effect. When bigger companies comply, smaller companies will start complying as well, because the entire supply chain has to follow the sustainability principles and practices."
> ***Evaluator for a reputed sustainability awards program in Sri Lanka.***

Mandating globally recognised frameworks in a phased manner among all companies was a key recommendation. Although this is being done based on revenues and stock-exchange listings, the interviews revealed other mechanisms of achieving this.

Sector-based approaches: A critical insight that emerged was the need for sector-specific policies rather than blanket mandates. Effective implementation could prioritise sectors based on three main factors: revenue generated by the sector, its environmental and social impact, and the time required for companies within the sector to adapt to reporting requirements. This targeted approach ensures that policies are both impactful and feasible, addressing sectoral challenges and capacities. In this context, industry bodies play a critical role in driving sector-wide standardisation by contributing to establishing uniform guidelines and frameworks, ensuring consistency and transparency across the supply chain. The Secretary General of an industry association highlighted that these bodies can provide industry specific data regarding global trends and demands, as well as inputs regarding challenges and opportunities for companies in Sri Lanka. Additionally, the interviewee highlighted the role of the sector organisations in implementing capacity building and training programmes for small businesses within the industries.

Driving incremental reporting within industries:. As some interviewees highlighted, companies that predominantly operate in export markets need to be prioritised as they bring in the high revenues, and also simultaneously come under increased scrutiny by export clients and investors. The first phase of implementation can start with large export companies and subsequently include smaller export companies. The next phase can include all the companies that are part of the supply chain for exporting companies. Lastly, all other companies within the industry can be included.

Tackling emissions reporting: Given the challenges of collecting emissions data, it is crucial to work towards better data landscapes. The initial focus could be on reporting aspects under direct organisational control, such as Scope 1 and Scope 2 emissions. In subsequent phases, reporting can expand to Scope 3 emissions which are within the purview of the company. Eventually broader boundaries like logistics and purchased goods can be included. This phased approach ensures that as companies progress, their supply chain partners also begin to collect and share their respective data, making overall reporting more accurate and streamlined.

Approach 2: Creating an annual reporting index

The development of an annual reporting index can serve as a powerful tool to benchmark and track the progress of sustainability reporting among publicly listed companies. Drawing inspiration from models such as Thailand's Sustainability Investment (THSI) Index, which is spearheaded by the Stock Exchange of Thailand (SET), Sri Lanka can adopt a similar approach tailored to its specific context. The THSI Index is a model that evaluates companies based on their environmental, social, and governance (ESG) practices. Companies are assessed on a variety of criteria, including environmental management, resource efficiency, and disclosure transparency. The index serves multiple purposes: it recognises companies with outstanding ESG performance, provides a reference for investors seeking sustainable investment options, and encourages companies to improve their ESG practices.

A Sri Lankan Sustainability Reporting Index could be developed by the CSE in collaboration with CA Sri Lanka and other relevant stakeholders. By publicly recognising companies that excel (and don't) in sustainability reporting, the index could motivate others to adopt and improve their reporting standards. Such an index aligns with the growing demand for sustainable investments, attracting both local and international investors. Moreover, regular updates and public availability of the index would create a transparent platform for monitoring and benchmarking corporate sustainability performance. As implementation of the index progresses, it could be integrated into broader regulatory frameworks, potentially linking performance on the index with incentives or recognition programs.

7.2 Steering NGRS from Redundancy to Relevance and Impact

The National Green Reporting System (NGRS), launched in 2011 and approved in 2012, is a voluntary sustainability reporting framework in Sri Lanka. Based on the triple bottom line approach - profit, people, and planet - the NGRS provides guidance for private organisations in the manufacturing and services sectors to prepare sustainability reports. Developed by the MoE with technical assistance from the Ceylon Chamber of Commerce and the EU SWITCH-Asia program, it aligns with the GRI G3Guidelines of 2006. The structure of the NGRS is outlined in more detail in the CSF Knowledge

Primer on environmental disclosures[10]. Despite registering over 150 organisations, adoption has been limited, with few organisations successfully submitting reports and even fewer achieving NGRS certification. The framework has not been actively implemented since 2020.

> "The NGRS framework hasn't even come up on our radar."
> ***Head of Sustainability at a leading garment manufacturing company.***

Although there has been limited adoption of the NGRS, what was surprising was that majority of the interviewees, including leading sustainability professionals in the country, were not aware of the existence of the NGRS framework. The few who knew of NGRS questioned the need for such a national framework, "especially when it is a copied version of the globally accepted GRI framework" (as quoted by the Head of Sustainability at a leading garment manufacturing company)[11].

One of the significant shortcomings of the NGRS, as highlighted by the interviewees, is its outdated structure. While the GRI framework has undergone several updates periodically to remain relevant, the NGRS has not kept pace and remains based on GRI G3 of 2006.

> "We attended trainings by the Ministry of Environment where we were introduced to the NGRS framework. This is mainly in alignment with the GRI, through to the topic index. NGRS has basically copied and pasted the old GRI framework. We did this for one year. We even showed the mapping of NGRS and GRI. After that, we felt that there was no point because this was a redundant framework, since GRI was already moving ahead with more requirements. In terms of influence, it had no impact whatsoever on the company. Indirectly, maybe yes, because this geared us towards the GRI framework a lot more. We are mostly aligned with global frameworks."
> ***Assistant Vice President of Corporate Strategy and Sustainability at a large conglomerate.***

The MoE has now started reviewing and updating the NGRS, in collaboration with the United Nations Industrial Development Organisation (UNIDO). However, what remains to be seen is how dynamic the framework will be, given how rapidly evolving global frameworks are.

Some interviewees argued that considering the biggest driver to report in Sri Lanka is to tap into export markets and foreign investments, a national framework like NGRS that does not have global acceptance does not add value for many reporting companies. International frameworks are also better from an investor point of view, as these global frameworks make it easier to compare reporting across countries and sectors. A leading garment manufacturing company's Head of Sustainability emphasised that Sri Lanka may not require a framework like NGRS, suggesting that such efforts are better handled by organisations with proven expertise in standardisation. They highlighted financial organisations as an example, noting that the SLFRS framework is a more effective, appropriate and phased approach for ensuring consistent and credible reporting practices.

The NEAP 2022-2030[12] and the NDC Implementation Plan[13] are the latest and most significant policy documents that attempt to chart Sri Lanka's short-term trajectory to a sustainable growth path. Both policies make it a target to annually increase NGRS registrations and NGRS-compliant annual reports by 20 percent and 50 percent respectively from 2021-2030. The policies are silent on possible revisions to the NGRS, its process, and applicability. Therefore, it is unclear if sustainability reporting will eventually be made mandatory for larger entities, if the NGRS will be revised to reflect currently accepted international standards, and if the NGRS will extend its scope beyond the

[10] CSF Knowledge Primer '*Acronyms and Accountability: Navigating Corporate Environmental Disclosures*': https://www.csf-asia.org/acronyms-and-accountability-navigating-corporate-environmental-disclosures/
[11] The interviewees highlighted that the NGRS is "copied" from the GRI. However, it must be noted that the NGRS framework is an adapted version of the GRI framework (GRI G3 from 2006), and only includes 49 of the 79 GRI indicators, with one additional environmental indicator that is not part of the GRI framework.
[12] National Environmental Action Plan 2022-2030: http://env.gov.lk/web/images/downloads/policies/NEAP_2022.pdf.
[13] Nationally Determined Contributions Implementation Plan: https://env.gov.lk/web/images/pdf/divisions/climate_change_division/publications/2023/NDCImplementationPlan2023.pdf.

manufacturing and services sectors. The need for a national reporting system is usually to facilitate localised application. However, in a global context of increased uniformity in reporting standards, we must take a careful look at the merits of maintaining separate national standards. In addition to the cost and effort that the regulators must incur to update such standards and stay relevant in a fast-changing global setting, the incentive and benefits for businesses must also be considered. Based on the inputs from the interviews, it was clear that the MoE as a regulating and standard setting body for large companies is not an efficient strategy to drive sustainability reporting.

However, there are a few areas where the reach and resources of the MoE could be pivotal. While larger companies and PLCs are often driven by competition to meet high reporting standards and stock exchange and accounting regulations, SMEs face unique challenges in adopting sustainability frameworks. The MoE and NGRS could facilitate sustainability reporting across SMEs.

> "For small organisations and SMEs, the NGRS is easier and simpler to incorporate. Even GRI is too complicated. The NGRS gives a good idea to understand what kind of data is needed."
> ***Assistant Vice President of Corporate Strategy and Sustainability at a large conglomerate.***

Even though it may lack the complexity required for larger corporations, the NGRS framework, particularly the older version, offers a simpler approach for SMEs, making it easier for these organisations to communicate with stakeholders and collect essential data. While all companies do not have to be at the same level as PLCs, basic reporting systems like NGRS could drive significant progress even for the PLCs.

However, for SMEs to fully integrate sustainability reporting, they require more than just frameworks - they need robust support systems. This support should include training, capacity building, and technical guides, with particular attention given to accessibility and language barriers, and providing materials in English, Sinhala and Tamil. Training is essential, particularly for MSMEs that cannot afford the costs of paid programs. The MoE can play a critical role in addressing these gaps by offering subsidised training programs and creating easily accessible resources for SMEs.

> "The idea is to make the reporting process as easy as possible, basically like a tax system, where everyone is able to do the task without it being too tedious."
> ***Assistant Vice President of Corporate Strategy and Sustainability at a large conglomerate.***

KEY TAKEAWAYS

- **The CSE and accounting bodies like CA Sri Lanka are pivotal in shaping Sri Lanka's sustainability reporting landscape by driving standardisation and adoption of global frameworks through strategic interventions.**
- **A sector-specific, incremental approach to mandating sustainability reporting can ensure gradual compliance while addressing the unique needs of different industries. This approach prioritises large export-oriented companies and progressively includes smaller companies within supply chains.**
- **A phased focus on Scope 1 and 2 emissions, expanding to Scope 3 emissions over time to all companies within the supply chains, will help improve data collection and accuracy, enabling companies and their supply chain partners to contribute to more streamlined and comprehensive reporting.**
- **Developing an annual sustainability reporting index, modelled after successful examples like Thailand's THSI Index, could benchmark and track corporate performance, encouraging transparency and continuous improvement in environmental reporting.**
- **While the NGRS is currently redundant and lacks the complexity for larger corporations, its simplicity could support SMEs. The MoE can play a crucial role in providing training, capacity building, and technical resources, especially for SMEs.**

8. Conclusion

This research highlights the multifaceted landscape of corporate environmental disclosures among publicly listed companies in Sri Lanka, highlighting both the progress made and the challenges that remain. The findings reveal a fragmented approach to sustainability reporting, characterised by uneven adoption of frameworks and varying levels of maturity across industries. While global frameworks such as the GRI are popular among corporate entities, the overall uptake is limited, signalling the need for more cohesive and strategic interventions. The introduction of mandatory SLFRS requirements is touted to be a game-changer, pushing more companies toward standardised environmental disclosures. This regulatory shift is expected to catalyse adoption and elevate the quality and consistency of environmental reporting across the board.

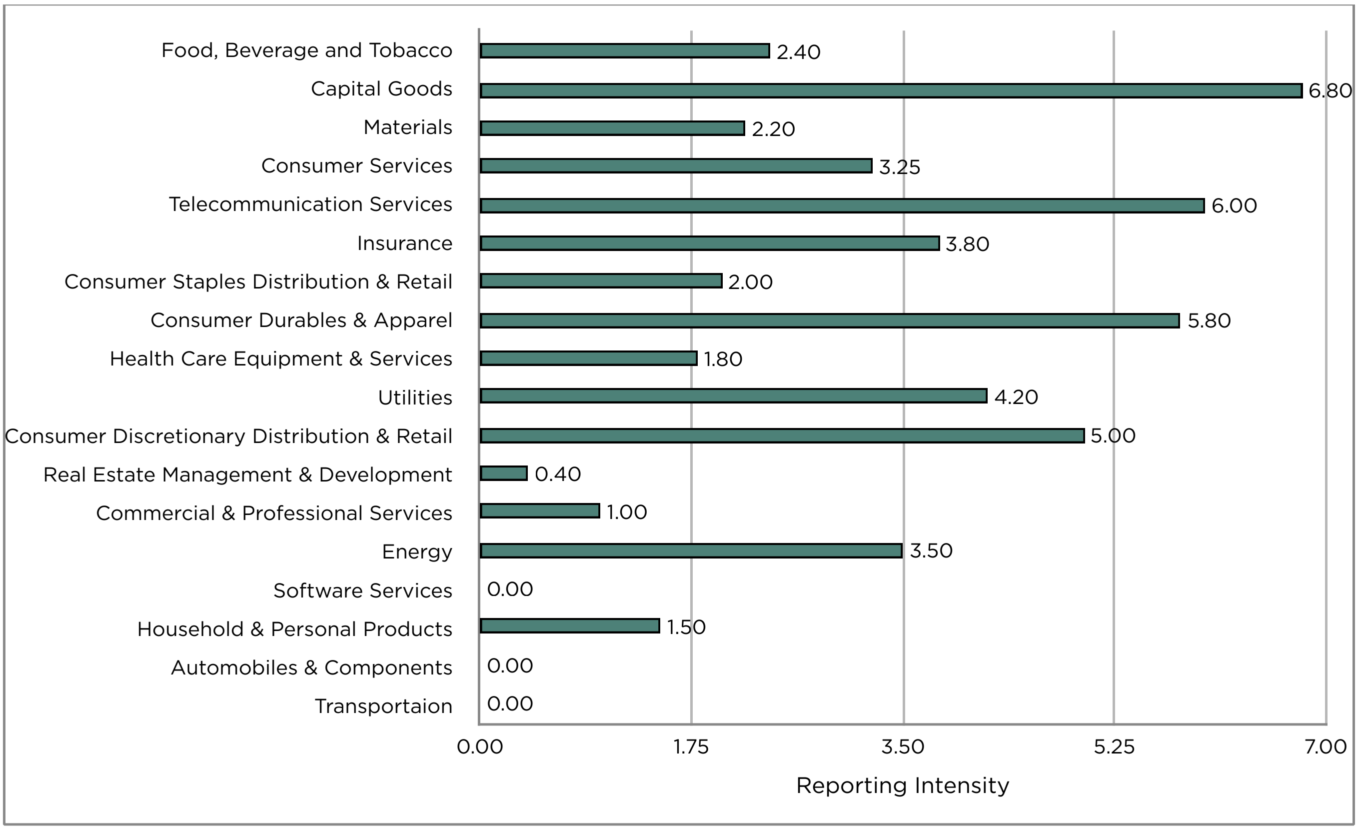
However, the journey towards robust environmental reporting in Sri Lanka has a long way to go. The findings underscore the importance of a strategic roadmap that not only aligns with global best practices but also addresses the unique socio-economic realities of the local context. Central to this roadmap is the pivotal role of key institutions like the CSE and accounting bodies like CA Sri Lanka. Their leadership in defining a national sustainability reporting strategy will be crucial in driving meaningful change. By adopting a phased approach that prioritises high-impact sectors and integrates incremental reporting standards, these bodies can foster an ecosystem that encourages transparency, accountability, and continuous improvement. The potential revitalisation of the NGRS further highlights the dynamic interplay between global influences and local adaptations. While the current NGRS framework is seen by many practitioners as outdated and lacking relevance, its reinvention could serve as a powerful tool, particularly for SMEs, by providing a simplified, accessible pathway to sustainability reporting.

Looking forward, Sri Lanka stands at a pivotal juncture in its environmental reporting journey. The next chapter will be defined by how effectively the country navigates the complexities of global frameworks while crafting solutions that resonate locally. This will require not just regulatory compliance but a cultural shift towards embedding sustainability into the core business strategies of companies. What lies ahead is an opportunity to push the boundaries of traditional reporting in Sri Lanka. As global frameworks continue to evolve, with increasing emphasis on broader metrics like biodiversity and supply chain emissions, Sri Lanka must stay agile and forward-thinking. By fostering innovation, leveraging technology for data management, and building organisational capacity, the country can transform its sustainability reporting landscape. This evolution will not only enhance corporate accountability and attract responsible investment but also contribute to the broader goal of sustainable development.

Medhini Igoor is a Researcher at the Centre for a Smart Future (CSF). This Research Brief builds on the foundational insights from a recent CSF Knowledge Primer ('Acronyms and Accountability: Navigating Corporate Environmental Disclosures'), which was aimed at understanding the multi-faceted and complex realm of corporate environmental disclosures. This work is part of our ongoing research on how to chart a greener growth path for the Sri Lankan economy.

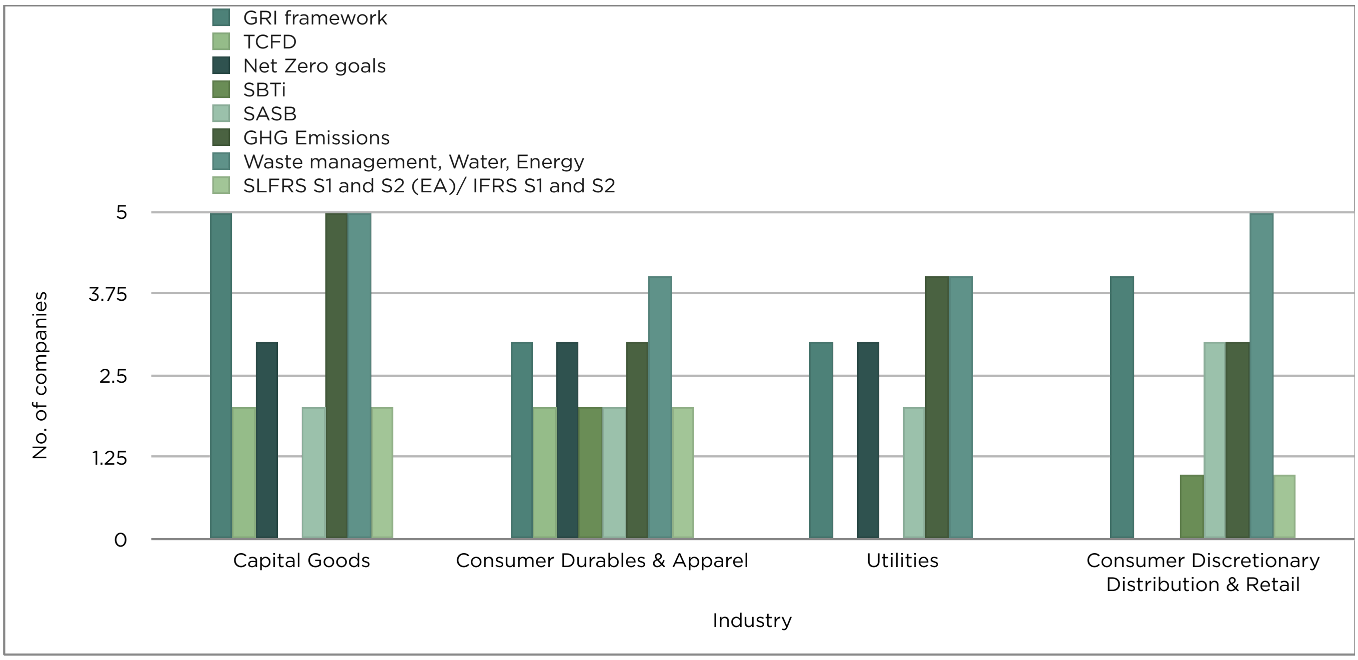
Appendix

Appendix 1: Environmental reporting intensity per industry



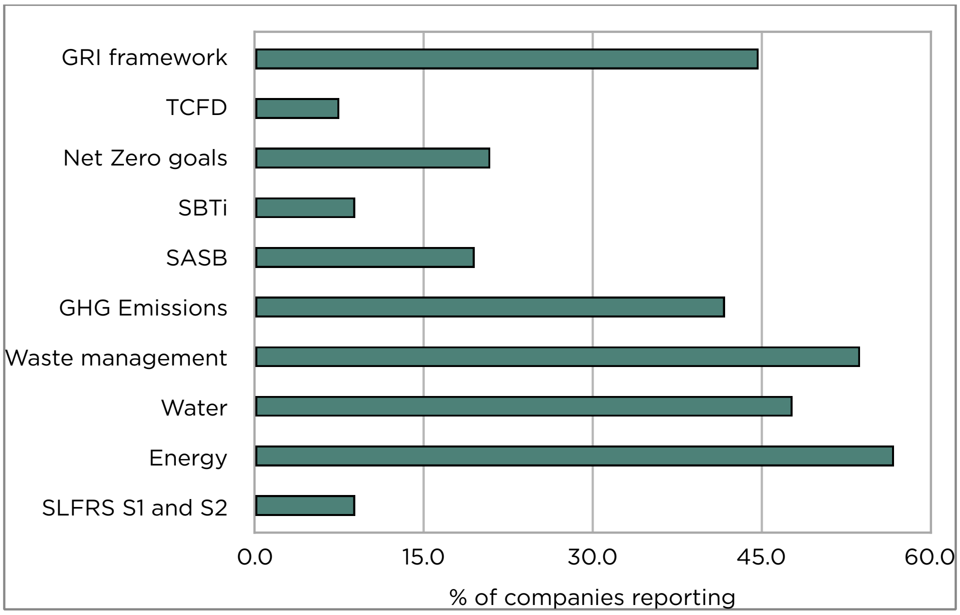
Source: Author's construction

Appendix 2: No. of companies reporting on different frameworks and metrics in the four highest reporting industries.



Source: Author's construction

Appendix 3: Percentage of assessed companies reporting each metric



Source: Author’s construction

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