ESG in the GCC Region: Accelerating Integration

2022 REPORT

APCO worldwide®

BDI GCC Board Directors Institute

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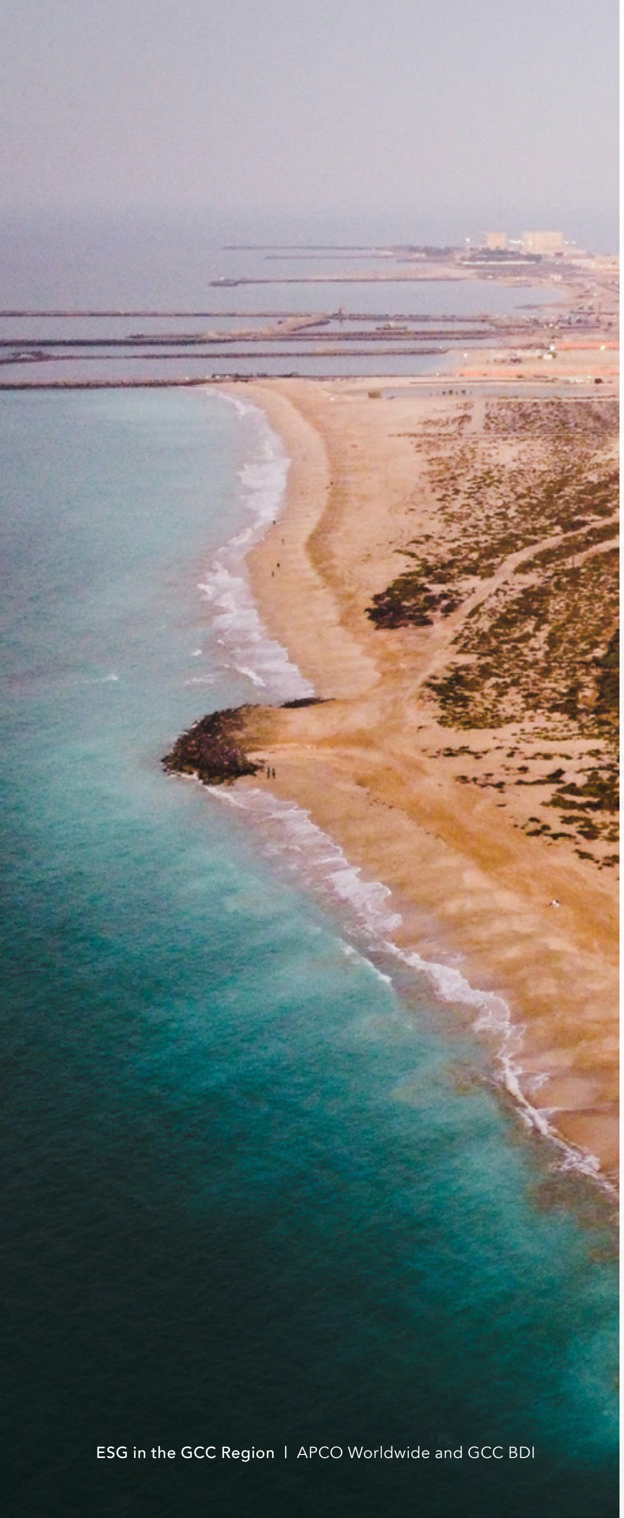


Business strategy, by its very nature, should take a long view. Leaders of today cannot stop at short-term profit and loss statements if they hope to make long-term gains. From emergent environmental challenges to the realities of social change, the public and private sector increasingly recognise that there must be a deeper integration of environmental, social and governance (ESG) criteria in strategic planning.

In the GCC region, mindsets are rapidly shifting as momentum grows around net zero emissions. In this report—a collaboration between APCO Worldwide and GCC Board Directors Institute (GCC BDI)—we seek to better understand ESG maturity in the region and identify the opportunities and challenges organisations face in implementing their strategies. This work captures the perspectives of executives as the global economy continues its post-pandemic recovery and as companies and governments are re-examining their approach to resilience, and embarking on ambitious strategies to address the climate crisis. This report also explores the specific challenges companies face during this time of transition and highlights how they are beginning to take action on ESG. While we found that a lack of transparency and standardised metrics remain major points of friction, for many companies, the most important question is finding support systems to guide and help them navigate the evolving ESG landscape.

Every organisation, business and individual is facing a transition—a transition meant to go faster in this decade than ever before. As a future-facing and transition-focused company, APCO sees ESG as a catalyst for cross-sectoral collaboration around urgent social and environmental problems within the GCC region. The momentum of ESG is proving to be unstoppable, and GCC-based companies should see it as an opportunity not a threat. With the right tools, planning and vision, they can channel the energy of this moment to create organisational value and emerge as global leaders in sustainability, leapfrogging the implementation challenges of their peers in other markets and setting new standards that define best practice in the future.

Julie Jack

Senior Director and
ESG Practice Lead

APCO Worldwide

Liam Clarke

Senior Director & Head
of MENA Climate Practice

APCO Worldwide

I am pleased to present the findings of the first comprehensive ESG report for GCC companies, curated with leadership and guidance from APCO Worldwide.

It is heartening to see the findings of this report. When I first came to GCC in 2016, ESG practices were still being represented through the company's CSR efforts; often these were packaged into charitable initiatives and donations. Now, within a decade, as the report shows, corporations are beginning to develop robust ESG practices that will stand the test of our dynamic and dare I say, volatile times.

In the GCC, government intention has always been the cornerstone of corporate strategy. Just like ICV and several regulations around nationalization, ESG disclosure regulations will evolve sooner in the GCC.

We already know that governments are studying the best practices globally and laying out the framework for individual countries.

The board has a challenging task ahead—ESG needs to be articulated as a central theme in the corporate strategy as a statement of purpose. Purpose that needs to be mandated to all the members of the C-suite. Capital needs to be allocated in how Purpose then gets translated into concrete actions in all the layers of the company with very clear deliverables and key performance indicators.

I am very proud of several GCC corporations who are well ahead in their approach towards ESG, and they are the ones who will partner with the government to lay out the path forward. GCC BDI partners with many of these corporations to share the knowledge that they have assimilated.

Please do join us for programs to learn how to integrate an ESG strategy in your business strategy.

Jane Valls

Executive Director

GCC Board of Directors Institute

INTRODUCTION

The global economic and health crisis stemming from COVID-19 has illuminated the reality that environmental, social and governance (ESG) issues will be a critical focus of the business community for decades to come. Given the pandemic's impact on customers, communities and workers, momentum towards ESG integration is increasing dramatically. In the Gulf region in particular, there is an ESG imperative: the dynamic economies of the GCC are undergoing rapid transformation necessitating a shift in perspectives on the ESG agendas. Due to the pressure for economic diversification, the growing demand for jobs from the region's young population, and the looming threat of climate change, the region is at an inflection point. **The coordinated focus on accelerating environmental and social outcomes in tandem with business growth is not only apparent in the ambitious national plans of the Gulf states, but also in the increased interest in ESG strategy and reporting with the private sector** across Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).

Earlier this year, APCO Worldwide and GCC Board Directors Institute (GCC BDI) conducted a survey, complemented by a series of in-depth interviews with executives, to better understand ESG maturity in the region and identify core opportunities and challenges organisations face in implementing their strategies as the global economy continues its post-pandemic recovery. The survey explored where companies are on their ESG journey, their priority issues, and barriers to implementation. **The responses highlight that companies are beginning to take action on ESG, but that a lack of transparency and standardised metrics remain major points of friction.** Although a majority of respondents (46.3%) found that the pandemic accelerated their company's approach to ESG, many GCC-based companies face challenges implementing ESG practices and the myriad analytics and reporting tools.

While the will to implement a strong ESG strategy is there, the way forward is far less straightforward. As a result, **ESG strategies in the region have emerged largely as a reactive response to investor and stakeholder pressure.** While public companies in the GCC are further along on this journey due to the demands of stakeholder and investor pressure, most private companies still have a long way to go. Nevertheless, across both public and private companies, we find that **GCC-based companies are still at the "start-up" phase of their ESG journey, that government policies around ESG are rapidly evolving, and organisations are largely struggling to understand, analyse and act upon their data.** To streamline these strategic ESG efforts, leaders who participated in our in-depth interviews spoke of the critical need to strengthen standardised methods of reporting, as well as the necessity of clear government regulations and policies. Dialogue between GCC organisations and governments will define and strengthen the scope of ESG adoption and ambition within the region, accelerating an opportunity for the GCC to become a global leader in the ESG space.

ESG is a space that can enhance cross-sectoral collaboration to tackle urgent social and environmental challenges. As ESG strategies are fully implemented, the public and private sectors serve to benefit from a deepening commitment to sustainability through opportunities to capitalise on ESG opportunities and an acceleration of the region's net-zero goals.

We would like to thank all respondents who helped contribute to this valuable research.

ESG is mostly seen positively—largely due to the importance that GCC companies place on ESG's impact on their reputation, risk, and value.

GCC-based companies are still at the "start-up" phase of their journey on ESG and government policies around ESG are rapidly evolving and struggle to understand, surface, query, analyze and act upon their data.

Most private companies are not reporting on their ESG goals, but more than half of listed companies are. ESG reporting of both public and private companies primarily takes the form of an annual ESG report separate from financial reporting, or an integrated annual sustainability report.

While the demand for ESG analysts, strategists and others knowledgeable about environmental, social and governance issues is on the rise, there are few ESG-specific teams that exist within most GCC-based organizations (26.6%). The responsibility for setting and adhering to ESG goals and targets lies primarily with the CEO (58.8%).

ESG strategy in the region has emerged largely as a reactive response to risk management and investor and stakeholder pressure.

Companies are taking action on ESG, but a lack of transparency and standardized metrics remain major points of friction. Private companies that report have comparatively lower transparency because they have a greater likelihood of internal measurement.

Major Milestones in ESG Integration in the GCC: A Timeline

December 2016: Qatar Stock Exchange introduces ESG Guidance to assist all listed companies wishing to incorporate ESG reporting into their existing reporting processes.

January 2019: Abu Dhabi Securities Exchange (ADX) announces ESG disclosure guidelines for listed companies.

July 2019: The Dubai Financial Market (DFM) launches its Sustainability Strategic Plan 2025 based on four pillars: (1) sustainability reporting & disclosures, (2) sustainable investment education, (3) green products & listings, and (4) gender balance & empowering people.

April 2020: The Dubai Financial Market launches UAE Index for ESG to gauge UAE-listed companies' commitments to ESG. The index is a collaboration with S&P Dow Jones Indices and the Hawkamah Institute for Corporate Governance.

June 2020: Bahrain Bourse launches voluntary ESG reporting guideline for listed companies and other stakeholders.

January 2020: Public joint stock companies listed on the ADX or the DFM in the UAE (Listed PJSCs) must publish a sustainability report.

January 2021: The UAE's Securities and Commodities Authority (SCA) requires public joint stock companies listed in the UAE to comply with specific ESG disclosure requirements. In accordance with Article (76) of the Chairman of SCA Board Decision No. (03 R.M.) of 2020 concerning adoption of the Corporate Governance Guide for Public Joint Stock Companies (Governance Code), public joint stock companies listed on the ADX or DFM in the UAE (Listed PJSCs) must publish a sustainability report.

January 2021: The UAE's SCA issues a general clarification to Article (76) of the Governance Code which sets out in detail the required contents of sustainability reports and confirms that sustainability reports must be published annually. Listed PJSCs must comply with the Global Reporting Initiative (GRI) standards and any sustainability standards and requirements issued by the DFM or ADX, depending on which market they are listed on.

March 2021: UAE SCA requires at least one female director on the boards of all listed companies, as firms around the world face pressure to boost gender diversity.

September 2021: Boursa Kuwait launches ESG guide to raise awareness and drive the embrace of Corporate Sustainability in the Kuwaiti capital market.

October 2021: Saudi Tadawul Group issues guidelines for disclosure of ESG practices to enable Saudi-listed companies to understand the context, characteristics, and market best practices in ESG disclosures.

October 2021: The UAE becomes the first country in the Gulf to commit to net zero carbon emissions by 2050.

October 2021: Saudi Arabia announces that it aims to reach "net zero" greenhouse gas emissions by 2060.

October 2021: Qatar launches its National Climate Change Action Plan aimed at achieving a 25% reduction in greenhouse gas emissions by 2030.

The State of ESG in the GCC

	Bahrain	Kuwait	Oman
GOVERNMENT COMMITMENT	Bahrain pledges to reach net zero emissions by 2060. To help achieve its goal, the Kingdom will adopt a circular carbon economy strengthened by various offsetting schemes including carbon-capture technology and afforestation (Arabian Business).	Kuwait does not have a documented net zero pledge or commitment. The country has pledged to reduce its greenhouse gas emissions by 7.4% by 2035.	Oman's upstream oil and gas sector is evaluating a target of zero emissions by 2050, according to its Second Nationally Determined Contribution (NDC) report, which was recently submitted to the United Nations Framework Convention on Climate Change.
EXAMPLES OF COMPANY ACTIONS	Aluminium Bahrain B.S.C. (Alba) has agreed upon a plan to achieve its environment, social, and governance (ESG) goals that will lead the firm to net-zero emissions by 2060.	Shell Kuwait pledged to have set a target to become a net-zero emissions energy business by 2050. The company is reducing emissions from their operations, and from the fuels and other energy products. It also means capturing and storing any remaining emissions using technology or balancing them with offsets.	Petroleum Development Oman (PDO), Oman's biggest oil and gas producer, outlined a strategy to become a carbon-neutral energy producer by 2050 and pledged steep cuts in their CO_2 emissions.

	Qatar	Saudi Arabia	United Arab Emirates
GOVERNMENT COMMITMENT	Qatar calls for a reduction in carbon emissions to net zero by 2050. Qatar is the world's largest producer of liquefied natural gas and aims to expand LNG production to 127 million tonnes annually by 2027. It says its gas production helps combat climate change globally because it can help the world shift from high-polluting fuels like oil and coal to renewable energies.	Saudi plans to reach net zero by 2060. The country will invest heavily in technologies like carbon capture and clean hydrogen, which it will fund through the continued exports of oil and gas. Saudi Arabia says it will reach net zero through a so-called "Carbon Circular Economy" approach, which advocates "reduce, reuse, recycle and remove."	The UAE has committed to being net zero by 2050. The UAE strategic initiative is a national drive to achieve net zero emissions by 2050, making the Emirates the first nation in the Middle East North Africa region to do so. The UAE has invested in renewable energy ventures worth around 16.8 billion USD in 70 countries with a focus on developing nations. It has also provided more than 400 million USD in aid and soft loans for clean energy projects.
EXAMPLES OF COMPANY ACTIONS	QatarEnergy has outlined its plan to scale up its carbon capture and storage and solar power generation capabilities as part of its drive to significantly reduce the carbon footprint at its facilities by 2035. The Qatari state-owned giant unveiled its updated sustainability strategy targeting "carbon capture and storage technology to capture over 11 million tonnes per annum of CO2 in Qatar by 2035".	SABIC to Support its Global Projects to Become Carbon Neutral. SABIC's net zero target is the same as the 2050 pledge by Aramco, which has also committed to move into renewables. The Saudi Electricity Company (SEC) currently has an energy mix of 99% fossil fuels. The government has pledged to generate 50% of its electricity from renewable sources by 2030.	Daikin Middle East and Africa FZE ("Daikin"), a leading manufacturer of air conditioning, heating, ventilation, & refrigerant solutions, has pledged to move closer to its net zero by 2050 target with the launch of a new solar plant at its headquarters in Dubai. The project is made possible with a solar lease from Yellow Door Energy, a UAE-based sustainable energy provider for businesses.

KEY FINDINGS

Momentum is building around the ESG agenda in the Gulf region, driven primarily by efforts to diversify away from oil and gas coupled with a growing number of government directives. In the UAE, for example, Vision 2021, launched in 2010, prioritises "sustainable environment and infrastructure" and sets national targets related to clean energy, water availability and productivity, reduction of carbon emissions and energy intensity, as well as a list of key performance indicators to measure its progress.[1] Building from this, the government adopted Vision 2030 in 2015, defining a roadmap for national sustainable development. In 2018, the UAE presented its first Voluntary National Review, underscoring the country's SDG implementation strategy, as well as methods of data collection utilised to develop more clear policies and regulations.[2]

Meanwhile, in Saudi Arabia, the Saudi Green Initiative is working towards greening the Kingdom, reducing emissions and the preservation of land and sea through "environmental protection, energy transformation and sustainability programmes."[3] Saudi-based stakeholders have encouraged the development of innovative approaches to sustainable growth through initiatives such as the Tadawul Sustainability Reporting Guidelines. The launch of these guidelines enables the advancement of ESG by streamlining the organisation's ability to voluntarily report and publicly disclose their ESG performance.[4]

"Governance is very much well accustomed to in the region and is well taken care of, but the importance of the E and the S of ESG are where there needs to be more emphasis, more growth, more awareness. A lot of organizations don't know why it's important to disclose environmental & social progress, and what the metrics are that they need to report and disclose on."

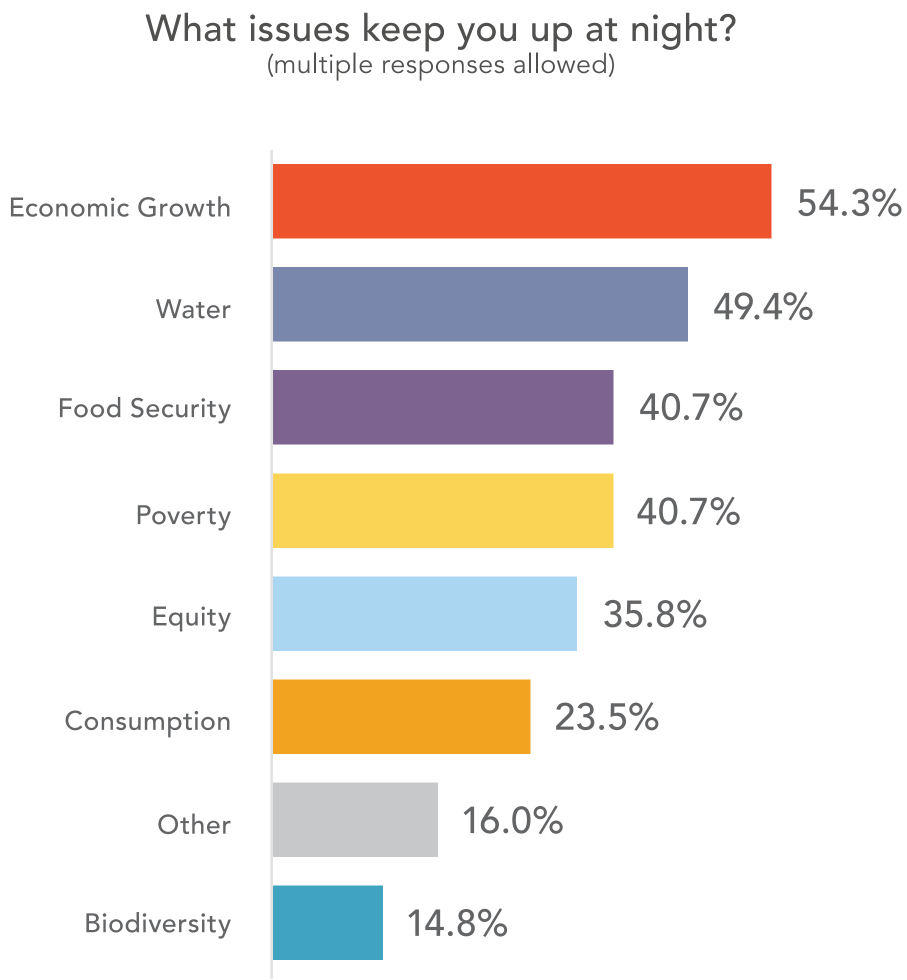
Director of Marketing and Business Development at a large financial institution

GCC governments have a key role to play as the globe works to achieve progress on climate mitigation and adaptation. Given the region's exposure to high-risk environmental events and stress, building resilience and risk management capabilities is essential in the face of vulnerability. Environmental issues rank among top priority issue areas for GCC-based survey respondents. Water, food security and consumption are rated among the top areas of concern.

Within the region, water resources are decreasing as the demand for water increases. Maplecroft's latest Environmental Risk Outlook Report signals that the UAE, Saudi Arabia and other "water-stressed" GCC countries face high levels of water and air pollution that are driving increased risk scores.[5] The threat to future development, and even quality of living, highlights the importance of resource and consumption management.

Water scarcity within the region is connected with other areas of concern such as food insecurity, desertification and consumption. According to the Global Security Index, the GCC is more food secure compared to other countries, but the region imports 85% of its food.[6] As water scarcity increases, supply chains may be threatened, and the agriculture sector will face severe limitations in food production, resulting in a negative impact on human livelihood and economic development.

Slow implementation of resiliency measures will expose businesses to the environmental threats plaguing the GCC region. Organisations must act quickly to consider environmental risks, implement internal ESG priorities, and externally report to key stakeholders. ESG strategy and development will enable companies to identify material risks and plan for the reality of future operations within the GCC region.



The Impact of the Pandemic on GCC-based Business

The coronavirus pandemic severely disrupted business operations, forcing companies to confront unprecedented shocks and navigate unchartered waters more than ever before.

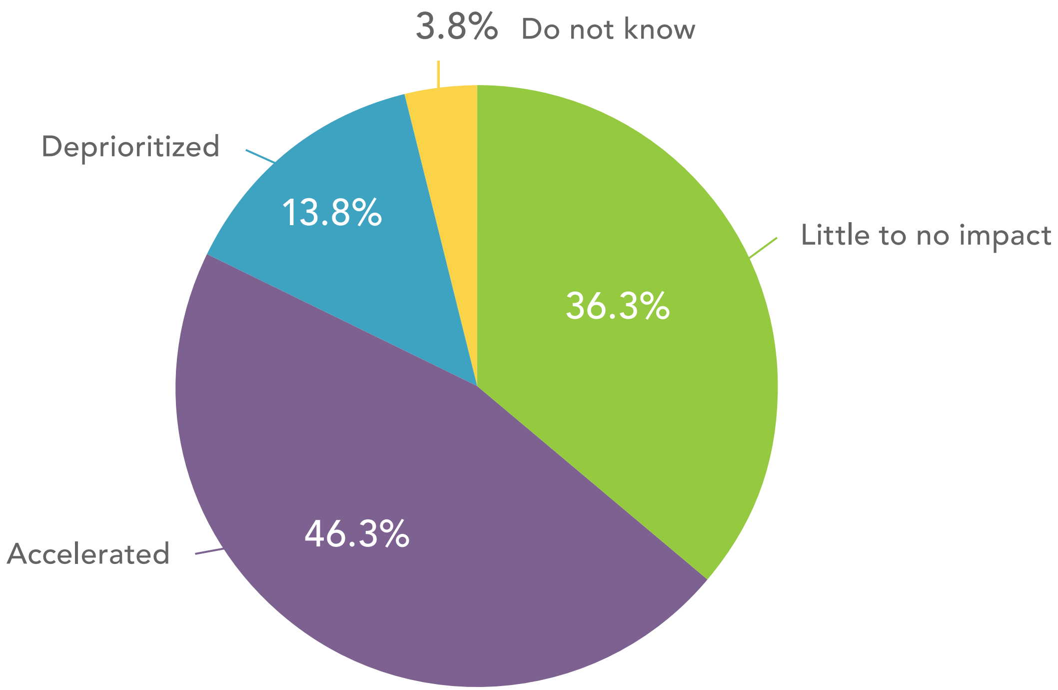
Vaccination procurement became a top priority for the GCC countries as they sought to protect the public health of their citizens and the economy from the pandemic. However, the drop in global demand for oil and gas slowed the economic growth of most countries in the region. Before the pandemic, the GDP of the GCC was on a steady upward trajectory, but instead it contracted by 4.8% as travel restrictions stifled other major sectors in the region such as real estate, tourism, and logistics.[7] While these vulnerabilities impact the populations of GCC countries as a whole, these developments are not all net negative. In a bid to further diversify, more countries developed pathways to integrate more women and youth into the workforce.

For example, between 2018 and 2021, the UAE, Saudi Arabia, and Bahrain all implemented new policies banning gender discrimination in the workplace.

The pandemic highlighted the instability of operating without consideration of the impact of risks, both short and long term. As companies sought methods to mitigate COVID-19 risks, many found that investment in ESG strategy development and reporting enabled readiness for what was once an unpredictable future. The majority of respondents (46.3%) saw the pandemic directly accelerate their company's approach to ESG. COVID-19, combined with the critical nature of other high impact risks such as rising temperatures, drought, and desertification, highlights the unique regional issues that have contributed to the rise of ESG in the GCC.

> *"The pandemic in many ways focused attention, crystallised minds and acted as a catalyst for people to do more, and hopefully do the right thing over and above what they've been comfortably doing internally"*
>
> General Manager at a small independent non-profit organisation

Has the pandemic impacted your company's approach to ESG?



"The surprising thing is that many businesses are doing lots of good things behind closed doors. It's because that's how they've survived, if not prospered, and made their way through a global pandemic."

General Manager at an independent non-profit organisation focused on sustainability.

Key Drivers of Adoption

With government pressure on the rise and more companies taking a more proactive, public approach, it is unsurprising that 43.8% of respondents say that their companies observe ESG as a form of brand improvement while 38.8% see ESG primarily as a form of stakeholder engagement. However, the social and environmental risks exposed by the pandemic have highlighted the prioritisation of ESG on the agenda of company leaders. 51.3% of organisations now primarily view ESG as a value creation strategy and 46.3% see it as a risk mitigation measure. Due to the critical nature of these issues, perspectives and voluntary actions may be shifting.

This sentiment is replicated within the key elements influencing reporting; across the board, respondents shared similar sentiments that key elements such as reputational risks (43.0%), operational risks (27.8%), investor requirements (30.4%), mandatory reporting (21.5%), and financial risks (25.3%) shape how their companies report on ESG issues. As the consideration of risk begins to comparatively have greater incentivisation for action than demands and mandates from investors and others, these answers likely reflect how views of ESG are shifting among company leadership.

“Every line of business was allocated targets and that incentive structure has changed. I think that’s essentially the pivot you’re seeing with large organisations now. ESG has gone from being a niche area to something that is number one commercial, a core part of risk management, and a board and executive level compensation criteria.”

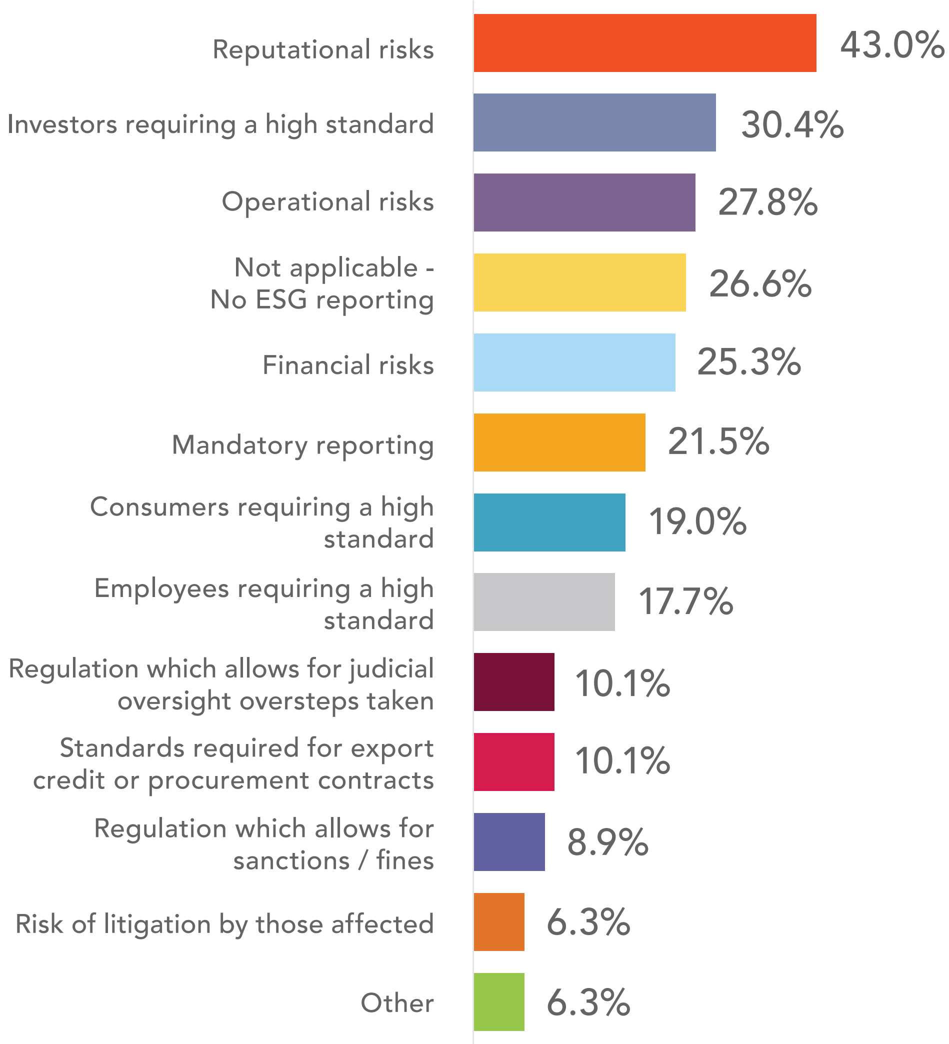
Managing Director and Head of Sustainability at leading financial services organisation

GCC organisations may have originally adopted ESG and sustainability goals as investors, employees and consumers directed their attention to the social and environmental impact of companies. However, voluntary reporting and disclosure presents itself as a lever of change that mitigates risk and future-proofs businesses against shocks down the road. When combined with stakeholder contributions to ESG priorities, risk mitigation can strengthen value creation, long-term growth, reputation, efficiency, and competitiveness. The added business value of risk mitigation may be a new leading factor that incentivises both public and private companies to enhance transparency and voluntarily reporting on ESG strategy and development.

Although most companies in the GCC region are at the beginning of their ESG journeys, progress is largely concentrated in the UAE, Saudi Arabia and Bahrain where progressive social and environmental government policies are prompting the private sector to take action. All three countries implemented net-zero targets in 2021. The UAE, in particular, has emerged as a regional leader. Since 2020, public joint stock companies listed on the Abu Dhabi Securities Exchange (ADX) or the Dubai Financial Market (DFM) in the UAE (Listed PJSCs) must publish a sustainability report reflecting the company's long-term strategy and its impact on the environment, society, the economy and governance.

> *"It's clear [that the UAE is] also trying to set an example by setting a tone from the top, by encouraging the private, as well as the public sector, to think more broadly about ESG matters."*
>
> General Manager at small independent non-profit organisation

Which of the following elements is shaping changes in how you report on ESG issues in your firm?
(multiple responses allowed)



Who is Accountable for ESG Strategy and Goals?

ESG is now a top agenda item for the board and executive teams within the GCC region. Among survey respondents, the majority say that their board and executive teams view ESG positively (52.5%) or somewhat positively (21.3%). This positive sentiment has made its way into board agendas, as 22.5% of respondents report that ESG is discussed as part of their board agenda at all meetings, 38.8% say that it is discussed more than once a year and 18.8% say that it is discussed once a year.

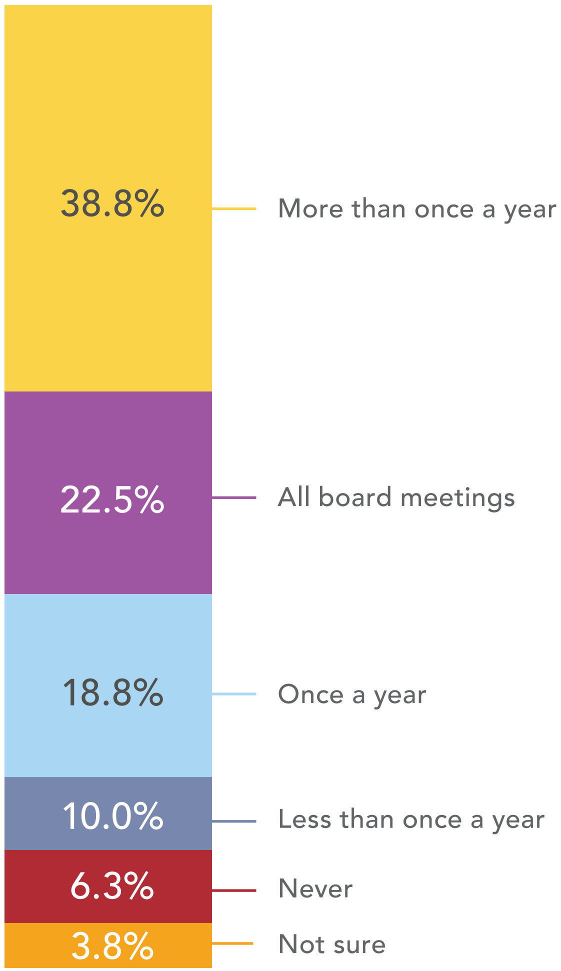
Board-level conversations are transforming into organisational actions, which are conveyed though ESG priorities. Survey respondents' organisations largely factor board-level oversight of a company's goals, strategies, and remuneration (43.2%), as well as the structure of the company, including management and adherence to regulations, into ESG reporting (38.3%).

However, ESG standards and regulations remain unclear within the GCC region. **Company leadership wants to see governments and regulators address this guidance gap so that their ESG agendas can move forward.** By doing so, the GCC governments can advance the large-scale action of companies and differentiate themselves as leaders. Yet, as board members and other leadership await government direction, companies can proactively implement an internal-facing ESG strategy and development plan.

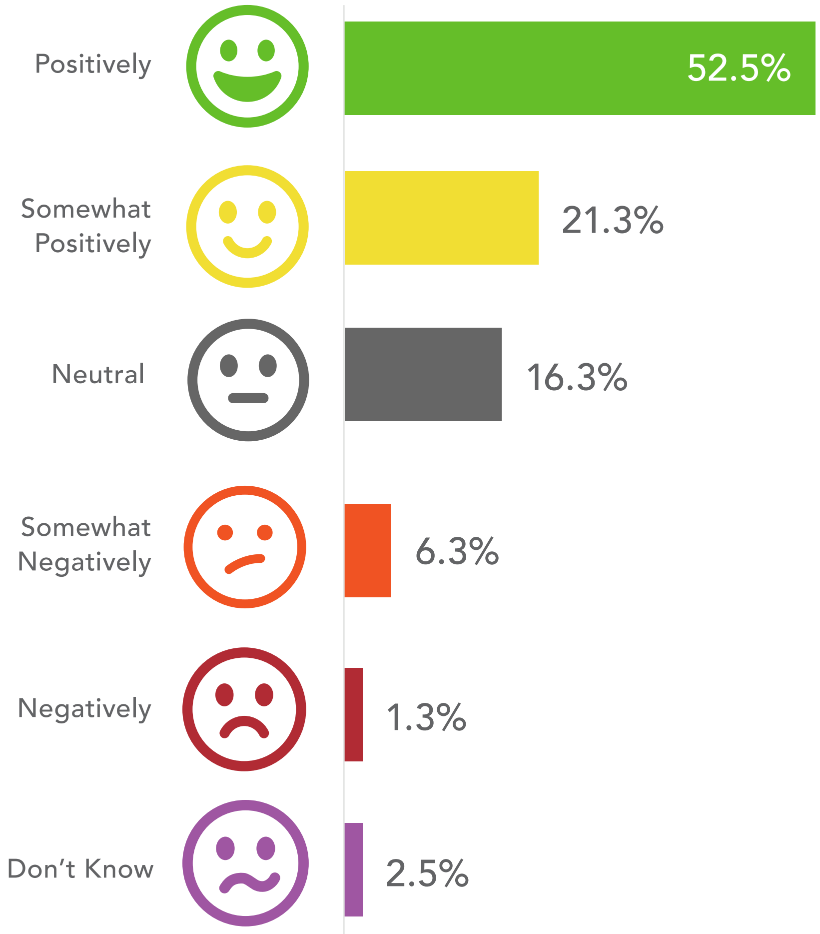
"To motivate the private and public sectors to make decisions that further ESG priorities, the GCC governments need to make their policies and regulations clear from a governmental and, therefore, societal perspective."

Group Chief Financial & Sustainability Officer at leading real estate developer

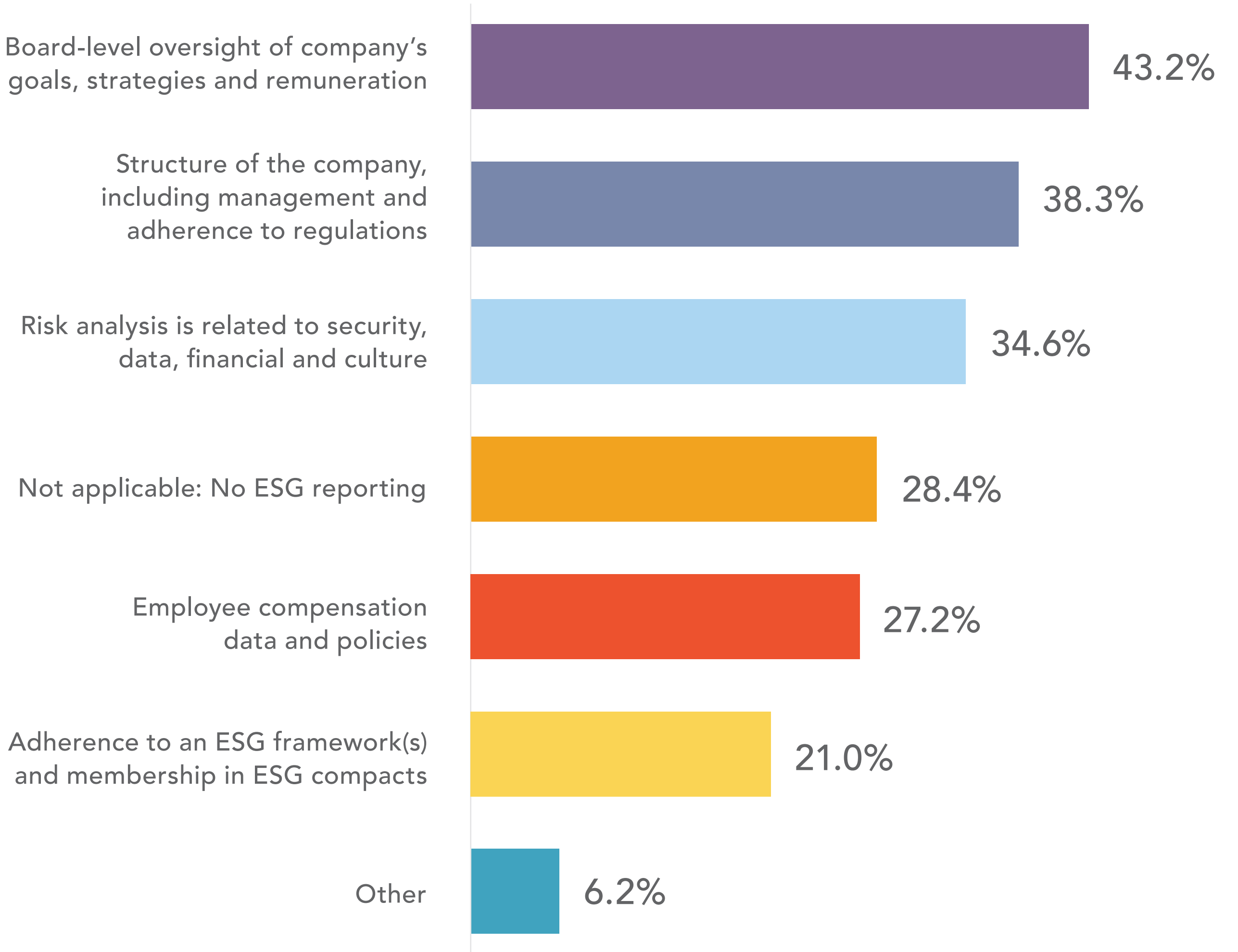
How often do you discuss ESG as part of your board agenda?



How does your board and executive team view the company's ESG initiatives?



What governance standards does your firm factor into its ESG reporting?



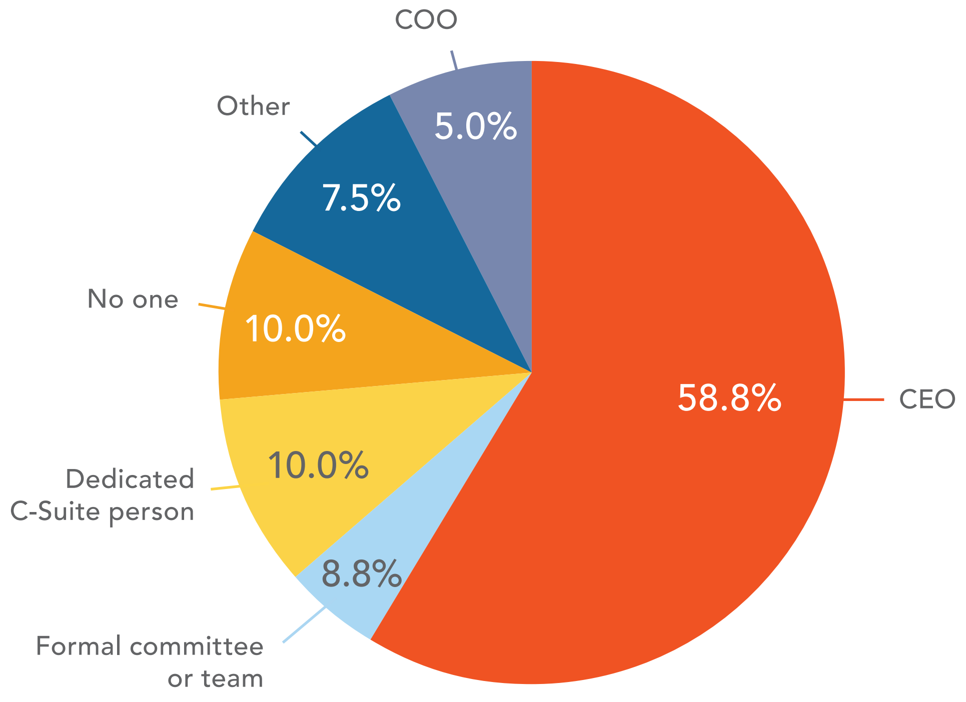
Who Drives the ESG Agenda?

When it comes to the day-to-day management of ESG within the organisation, only 26.6% of organisations have a specialised ESG team that sits under one function/business unit. Instead, the majority of respondents noted that the responsibility for setting and adhering to ESG priorities lies primarily with the CEO (58.8%).

Despite booming global demand for ESG analysts, strategists and specialists knowledgeable about environmental, social and governance issues, the GCC region has yet to develop a deep bench of talent. As ESG development progresses within the GCC countries, the demand for more specialised ESG talent has rapidly increased. The lack of dedicated ESG positions and teams signals that there is a profound need to address internal governance. Several in-depth-interviews highlighted how this regional skills shortage has limited internal capacity to accelerate progress on ESG.

> *"Within the GCC, more help is required because there are different starting points for organisations and different capacities to collect and synthesise reporting data. And also, there is a massive skills shortage of people who are actually qualified sustainability experts in the region."*
>
> Managing Director and Head of Sustainability at leading financial services organisation

Who in your organisation has ultimate accountability for reaching ESG goals and targets?



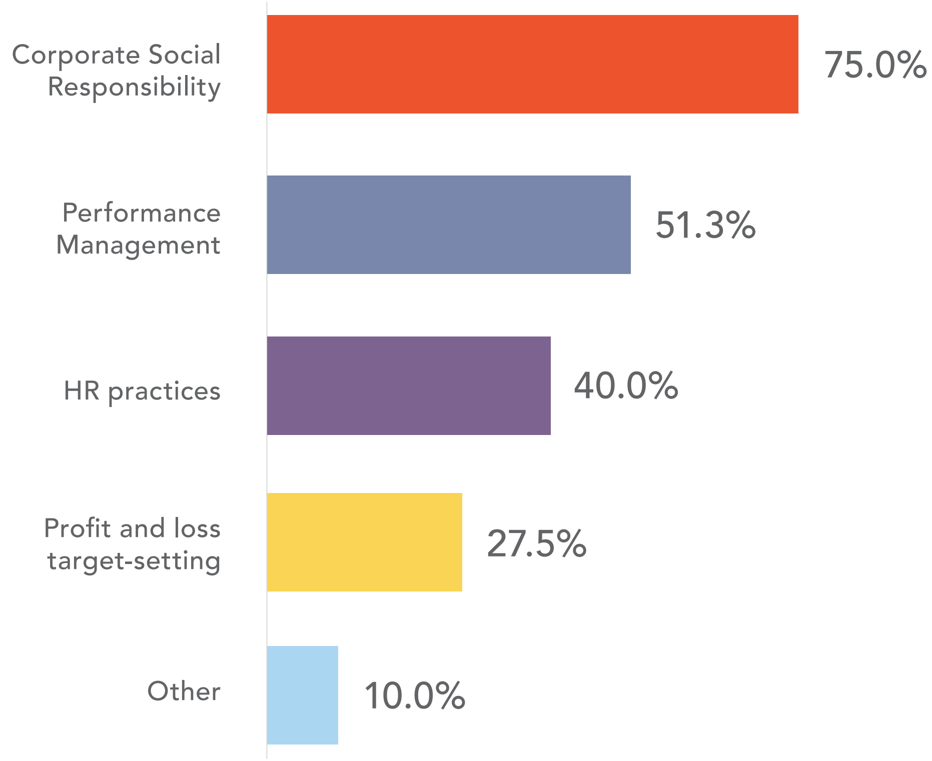
Specialised ESG Talent in the GCC

As young professionals enter the workforce, companies within the GCC region have a sizeable opportunity to address the talent gap. By hiring and training the next generation of professionals on everything from data collection and dissemination to integration of ESG into business strategy, GCC-based companies can enhance their capabilities to develop strategic ESG functions with clear internal governance.

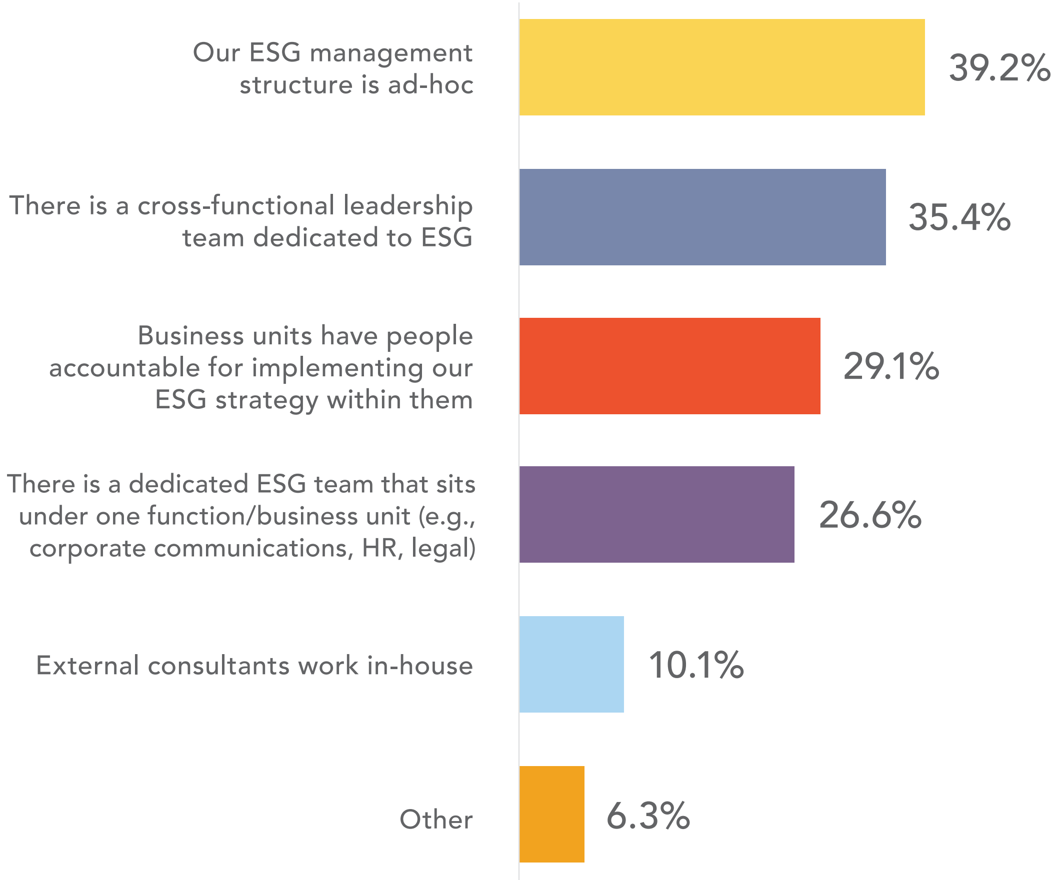
Additionally, as Gen Z enters the workforce, employees are increasingly demanding that their employers demonstrate a commitment to advancing social and environmental progress. Beyond statements, these employees look for embedded processes that reinforce company-wide commitments such as performance management and HR practices. GCC companies appear to be on the path to integrating these demands, as the ESG processes and operations of respondents' organisations were supported by corporate social responsibility (75.0%), performance management (51.3%) and HR practices (40.0%).

Given that visible company value is now the baseline, it is more than likely that youth talent will not only provide a solution to the skills shortage but also further ESG development and implementation within the GCC region. By prioritising purpose-driven and impactful work within their organisation, they will serve as another key force that moves the ESG agenda froward. As they champion the benefits of ESG adoption, the workforce barrier will be addressed and will catalyse the progress of companies, and the region, as they seek to establish their role as ESG leaders.

Are your firm's ESG processes and operations supported by the following?



How is ESG governed or managed within your firm?



What Does It Mean to Start and Establish Best Practices?

A growing body of research finds that companies that effectively manage ESG risks and opportunities financially outperform their peers over the long run.[8] Sound ESG strategy is an essential ingredient of that success: **firms that perform the best have defined which issues are most material to their business and outlined a clear approach to integrating these considerations into business strategy and a coordinated effort to deliver these insights to key stakeholders such as company leadership, investors and the broader business community.**

The language of ESG may shift depending on the country or the industry. Management of waste products might be particularly relevant to the pharmaceutical industry whereas money laundering policies may be a larger concern for financial services firms. Nevertheless, some issues from diversity to mitigating climate change are universal. The volume of rules and frameworks may be overwhelming to some companies and cause many to shy away from disclosure. However, reporting can play a critical role: in articulating their journey, companies can improve their understanding of their own ESG risks and opportunities and kick-start a virtuous cycle of improvement and accelerate long-term value creation.

Adoption of Standards

ESG reporting in the GCC region has yet to be widely adopted. Only 55.0% of respondents said their organisation currently reports on ESG goals. While reporting takes various forms, respondents primarily said that their companies generate either an integrated sustainability annual report (27.2%), or a regular report on ESG activities separate from financial reporting (24.7%).

However, without a standardised or universal reporting structure, organisations in the GCC region struggle to decide which framework to adopt and which metrics to report on. Although 70.5% of surveyed organisations are aligned with common reporting standards and auditing their results, when asked how their organisation determines what information is critical to measure and manage ESG issues, only 8.8% of respondents said that they use a framework.

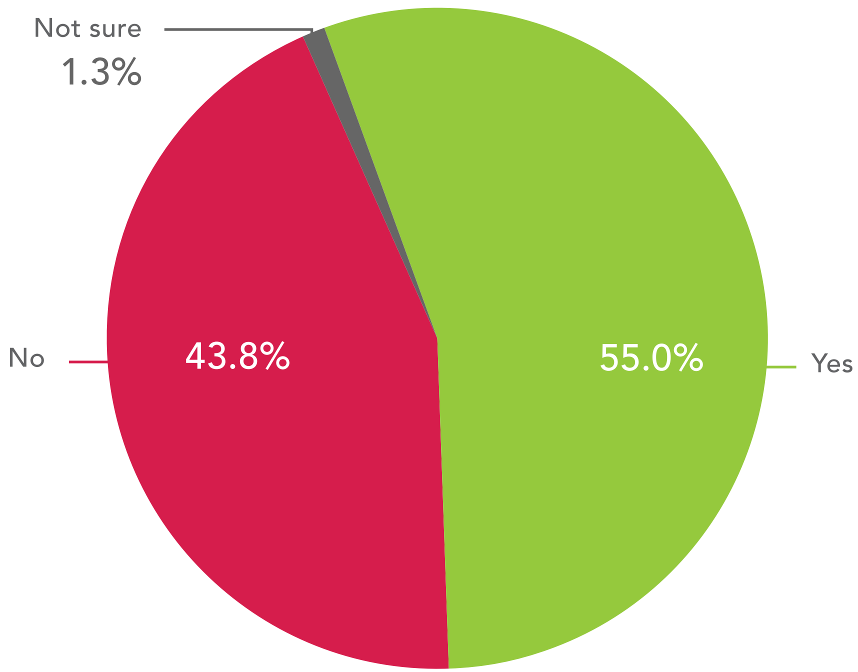
Out of those who use sustainability reporting or disclosure frameworks to measure ESG issues within their organisation, 21% said that they use the Global Reporting Initiative (GRI) and 18.5% use the United Nations Sustainable Development Goals or the International Organisation for Standardisation (ISO). However, there was no clear consensus on what framework was being used between organisations; out of 81 responses, there were 14 different frameworks employed to measure progress.

“The more consistent and mandated standards you can have, the simpler it becomes. Because in the absence of those, this is where you get the alphabet soup. I’m incredibly frustrated by not only the emergence of new so-called standards, but also the expansion of existing standards, such that you can never act. It takes years for companies to get themselves ready to report against them.”

Chief Climate and Sustainability Officer at leading integrated energy and chemicals company

As companies set ESG initiatives and seek to measure progress, there must be standardisation surrounding frameworks. By doing so, the impact of ESG, both globally and regionally, will continue to progress rapidly.

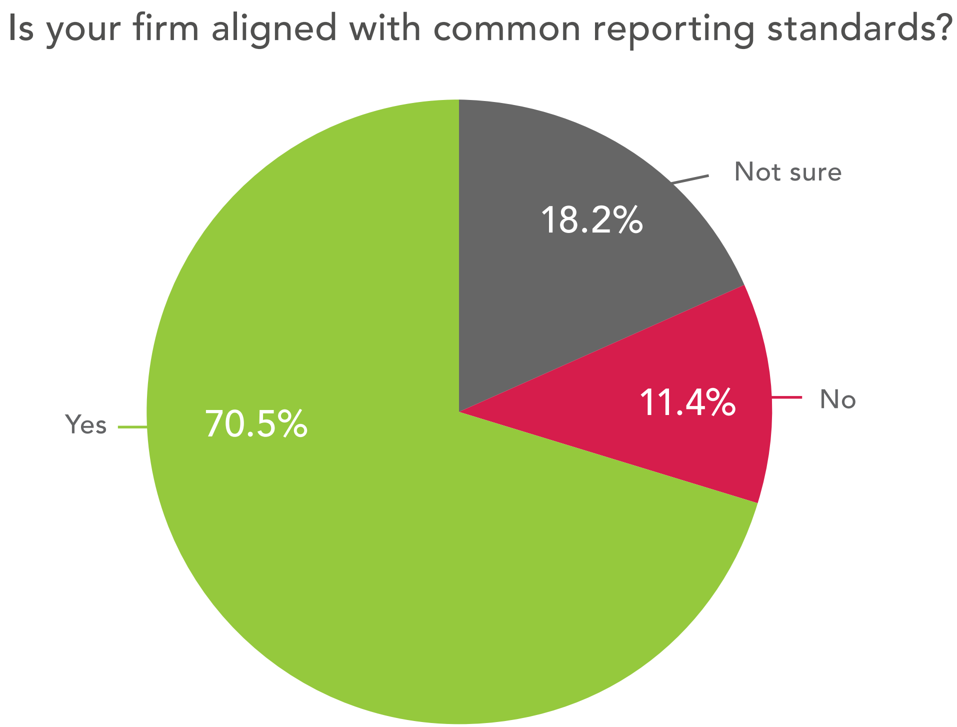
Are you reporting on your ESG goals?



"We are following the GRI. That was our starting point, but to be very honest with you, we were completely overwhelmed. There's a lot to digest and we spent a fair amount of time within the organisation leveraging off experts in our shareholders' organisations."

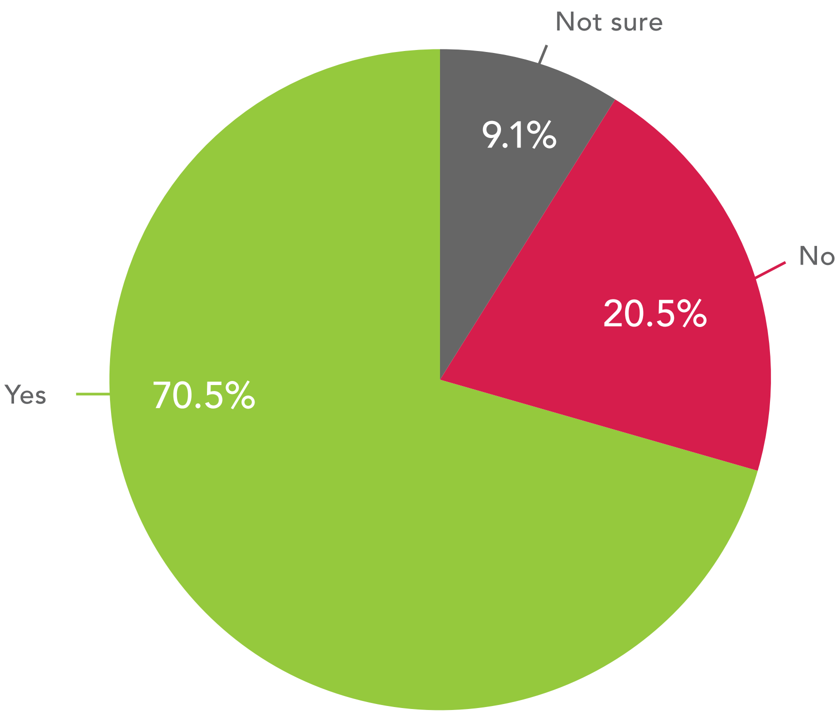
Acting Chief Governance Officer at mid-size industrial investment and development company


What form does your firm's ESG reporting take?
Integrated sustainability annual report
27.2%
No ESG Reporting
27.2%
Regular report on ESG activities separate from financial reporting
24.7%
Other
7.4%
Private reporting only among leadership
6.2%
Integrated ESG reporting into financial reporting
3.7%
Private reporting within the whole firm
3.7%

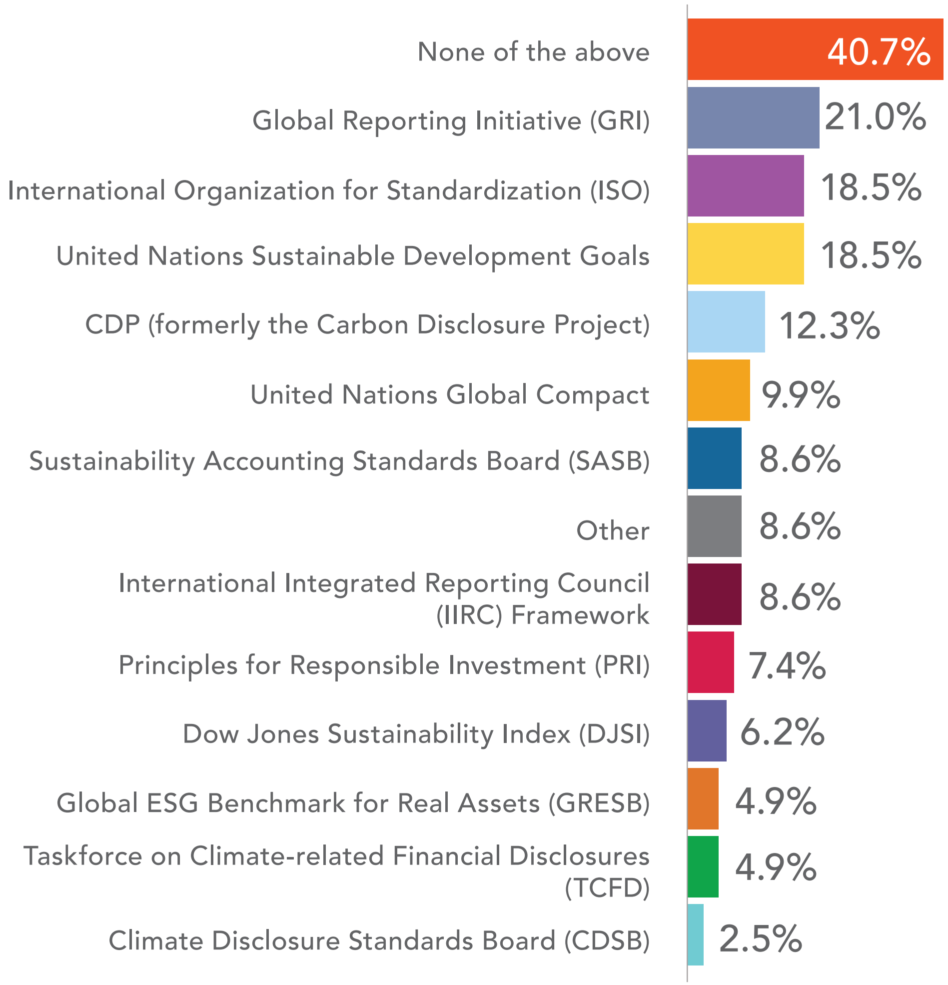

Is your firm aligned with common reporting standards?
Not sure
18.2%
No
11.4%
Yes
70.5%


5075

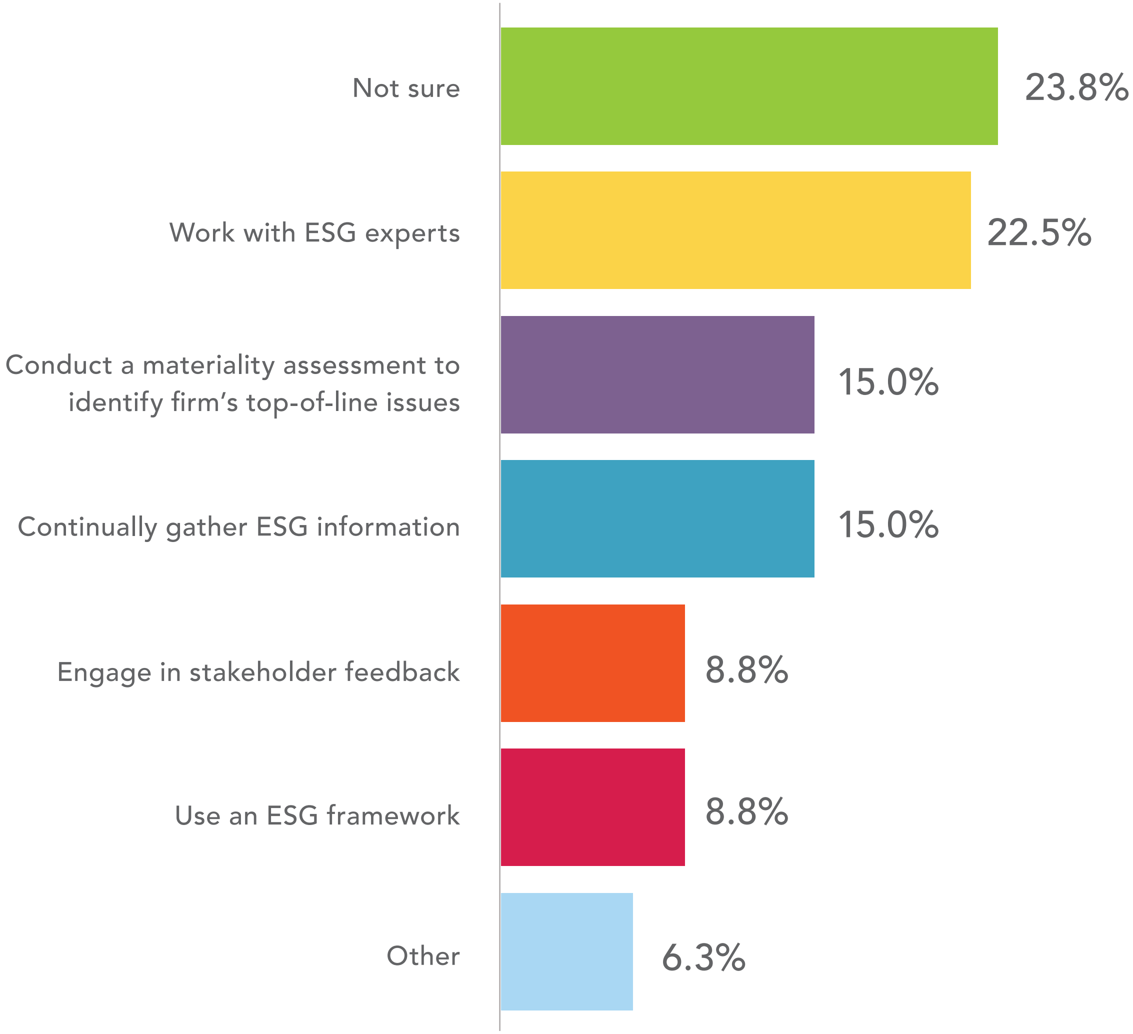
Are you auditing your organizations results?



Are you using any of the following Sustainability Reporting or Disclosure Frameworks?
(multiple responses allowed)



How does your firm determine what information is critical to measure and manage ESG issues?



Transparency in Reporting

As ESG development remains a global and regional priority, the demand for transparency is on the rise as stakeholders factor ESG criteria into their evaluations of company performance. **Without regular robust reporting, it is difficult to hold businesses accountable and accurately assess progress. But companies in the GCC remain hesitant to report externally on their ESG efforts due to uncertainty around how, what, and when to report.**

Although reporting is still voluntary for a large portion of companies within the region, many companies are taking action: 70.6% of respondents at public companies said that they report on ESG while 42.9% of private companies said the same.

> *"When I look around, maybe at the top 50 organisations within Saudi Arabia or within the GCC, they definitely have an ESG mandate, they have a platform, but I think they're still finding their way as to how that feeds into their reporting."*
>
> Chief Operating Officer at large investment holding company

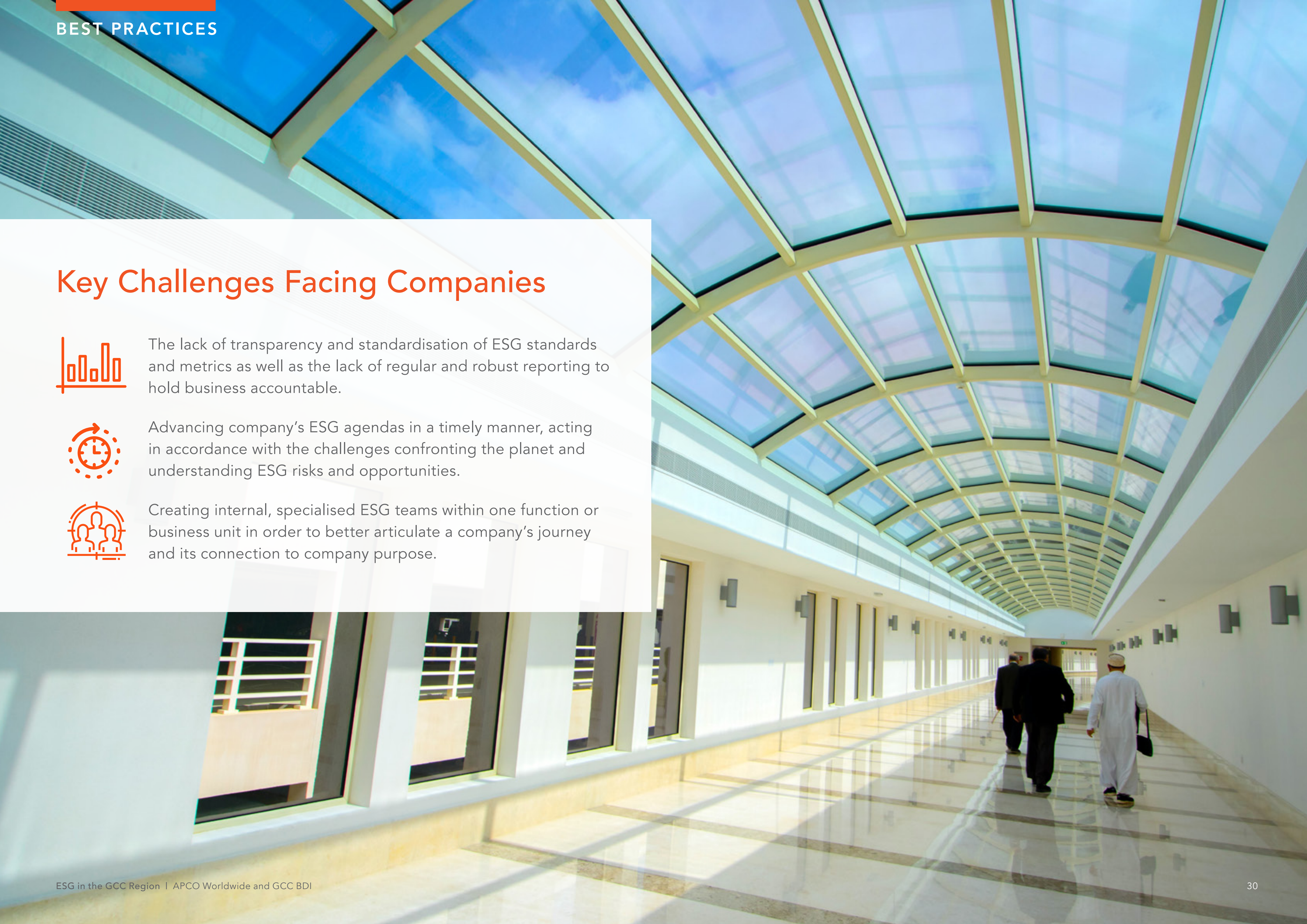
While the majority of respondents at private companies have yet to publicly report on their ESG progress, some respondents indicated that they do produce internal-only reports on social and environmental factors. Of those that only report internally on ESG, 9.3% of respondents said that their company limits report access to only leadership and 4.7% said that access is limited to the whole company.

While lacking transparency, private reporting is largely aligned with common reporting standards (77.8%) and has audited results (83.3%). The strong level of measurement within these internal reports is key, because it reflects how private companies are dealing with stakeholder value and alignment with standards. In-depth interviews with ESG leaders in the GCC discussed their hesitation to report externally on their ESG progress due to a wariness arising from concerns about being compared to their global peers based in markets where ESG adoption is more widespread. Interviewees also noted that the current lack of public transparency does not reflect GCC companies' commitment to addressing regulatory and risk priorities. Many private companies currently focus on internal reporting so that when they shift to external reporting in future, they can emerge with positive perceptions.

Organisations in the GCC region are interested in finding methods of support as they navigate the evolving ESG regulatory field. While there is strong measurement within surveyed companies who are internally reporting, transparency is still an essential component of ESG strategy and development. Increased business transparency within the GCC region will build value for stakeholder relationships, as well as enhance governance and alignment with global standards.

"There's an element of caution, of what we're putting out publicly, but that doesn't necessarily reflect a lack of work internally."

Chief Climate and Sustainability Officer at leading integrated energy and chemicals company



Key Challenges Facing Companies

The lack of transparency and standardisation of ESG standards and metrics as well as the lack of regular and robust reporting to hold business accountable.

Advancing company's ESG agendas in a timely manner, acting in accordance with the challenges confronting the planet and understanding ESG risks and opportunities.

Creating internal, specialised ESG teams within one function or business unit in order to better articulate a company's journey and its connection to company purpose.

Looking Forward

Any company that is developing and reporting on its ESG strategy positively shapes the development of market best practices from data collection to transparency. These strides have a beneficial impact for all stakeholders in the region – not only deepening the amount of comparable data, but also raising the bar for stakeholder engagement. In-depth-interviews and survey responses highlight how governments have and will continue to play a key role in fostering adoption of ESG through national strategic planning documents, standards and their convening power. There is an opportunity to develop new policies and regulations across the GCC region that enable greater communication and collaboration between the public and private sector.

The 2023 UN Climate Change Conference (COP28), which will take place in the UAE, is likely to serve as an accelerant for companies taking a more proactive approach to ESG issues and disclosure in the region. The event is a critical opportunity to develop regional climate solutions and policy formation, implementation, and regulation. But the evolution of ESG in the region does not all boil down to a push from the government: investors, employees and consumers are increasingly turning their eyes to companies' environmental, social and governance performance, especially as the world continues to recover from the COVID-19 pandemic. This pressure, in conjunction with risk management, has driven companies to realise the business value of setting ESG priorities.

As many GCC-based organisations are at the early stages of their ESG journeys, they can position themselves as leaders from the onset by clearly defining the scope of ambition and greater goals of the company — and how ESG fits into that picture. In doing so, they increase the understanding of ESG as a pathway to enhance business value and measure its contribution to company growth, corporate impact, stakeholder relations, and broader social and environmental outcomes.

As the urgent demand for change grows louder, GCC countries are seeking to make powerful changes. By refining and enhancing their bottom line, organisations have the ability to capitalise on ESG opportunities, as well as accelerate the region's net-zero goals.

About APCO

APCO Worldwide is an advisory and advocacy communications consultancy helping leading public and private sector organisations be catalysts for progress by navigating the challenges of today, acting with agility, anticipating social risk, and building organisational reputations, relationships, and solutions to succeed. APCO is proudly an independent and majority women-owned business.

In a rapidly evolving global context, rising expectations for organisations and a time of transformational change, APCO strives to add value to our clients' enterprises and benefit society. We enable clients to achieve their objectives through insightful counsel, compelling narratives, and creative solutions. The values we share reflect our commitment to our people and our clients and we aspire to meet the highest business standards in our industry.

Most importantly, we are a trusted partner to our clients, who hire us to help them anticipate, plan, execute and secure their futures through our robust global expertise and astute advisory council, creative and impactful advocacy programmes, and purposeful and effective communications.

apcoworldwide.com

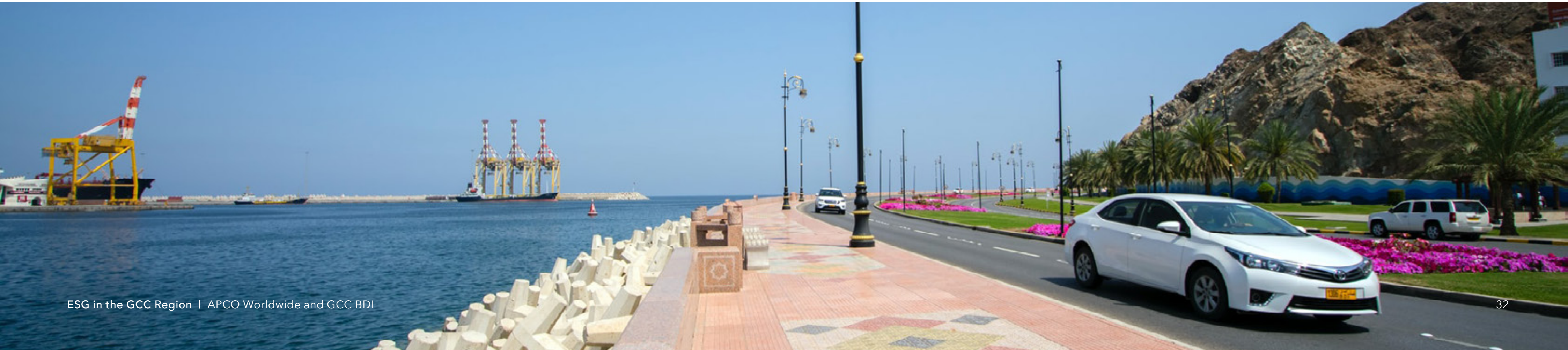
About GCC BDI

Launched in 2007, GCC Board Directors Institute (GCC BDI) is a not-for-profit organisation that guides board directors of organisations, from family-owned businesses to listed companies, to acquire the know-how and the tools to reach and sustain effective governance. GCC BDI is supported by eight leading regional corporations and professional services firms who serve as our strategic partners.

Our mission is to enhance board member capabilities, create a strong and influential regional network of board members and disseminate high-quality corporate governance knowledge, leading the regional debate on emerging best governance practices. We aim to accomplish these goals through a combination of effective practice and experience sharing, access to global knowledge, and interaction with regional and international counterparts.

GCC BDI has grown to become the leading organisation in the region for board directors. We have delivered over 300 programmes and forums to top-tier companies in the Gulf and now comprise over 2,500 members, each with extensive knowledge and experience of operating at the most senior levels of business in the GCC.

gccbdi.org



ACKNOWLEDGEMENTS

APCO Worldwide

Camryn Sofronski

Akinyi Ochieng

Nicholas Labuschagne

Julie Jack

Hilary Brandenburg

Sala Patterson

Elizabeth Sen

Liam Clarke

Jolyon Kimble

Dean Cambridge

Rhea Mahajan

Caitlin Grant

GCC BDI

Jane Valls

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Oliver Page

Lucy Turner

Mehwish Sarwar

Research Objectives and Methodology

APCO Impact and GCC Boards of Directors Institute (GCC BDI) commissioned an online survey in the first quarter of 2022 of 81 executives, complemented by nine in-depth interviews with company leaders. "Executives" and "leaders" are defined as senior C-suite executives and/or individuals with the title of director or above leading organisational ESG strategy efforts. Respondents reflect a cross-industry representation spanning 20 sectors with revenues greater than $100 million (59.3% of respondents represented companies with revenues exceeding $100 million).

Size of Organisation

1. **10,001 or more employees:** 8.6%
2. **5,001—10,000 employees:** 6.2%
3. **1,001—5,000 employees:** 35.8%
4. **501—1000 employees:** 8.6%
5. **500 and fewer employees:** 40.7%

Seniority

1. **C-suite:** 35.8%
2. **Executive Director:** 9.9%
3. **Non-Executive Director:** 17.3%
4. **Board/company secretary:** 7.4%
5. **Senior management:** 19.8%
6. **Middle management:** 7.4%
7. **Administrative/Non-management:** 1.2%
8. **None of the above:** 1.2%

Key Industry Sectors

1. **Financial services:** 21%
2. **Chemicals:** 9.9%
3. **Consulting, auditing and legal services:** 8.6%
4. **Energy production and utilities:** 7.4%
5. **Manufacturing:** 6.2%
6. **Retailing:** 6.2%
7. **Construction and real estate:** 6.2%
8. **Telecoms:** 4.9%
9. **Automotive:** 2.5%
10. **Agriculture and agribusiness:** 2.5%
11. **IT and technology:** 2.5%
12. **Professional services:** 2.5%
13. **Entertainment, media and publishing:** 2.5%
14. **Consumer goods:** 1.2%
15. **Education:** 1.2%
16. **Mining and quarrying:** 1.2%
17. **Healthcare, pharmaceuticals and biotechnology:** 1.2%
18. **Transportation, travel and tourism:** 1.2%
19. **Other:** 11.1%

Regions

1. **All our stakeholders reside in the GCC region:** 40.7%
2. **Most of our stakeholders reside in the GCC region:** 30.9%
3. **Half of stakeholders reside in the GCC region, half are abroad:** 14.8%
4. **Most stakeholders reside abroad, some are in the GCC region:** 9.9%
5. **All our stakeholders are abroad/outside the GCC region:** 3.7%

Company Profile and Core Demographics

Survey respondents are primarily employed at public (42%) or private (53.1%) companies. A small percentage of respondents (4.9%) included professional services firms or agencies.

1000+ **$100M**

Most organisations of respondents surveyed (50.6%) had 1,000+ employees. Of these organisations, the majority (59.3%) had a 2022 annual revenue (in USD) of over $100 million.

The primary stakeholders of surveyed organisations all (40.7%), or for the most part (30.9%), reside in the GCC region. While the majority of survey respondents are based in the region, most GCC companies represented in our survey are globally connected and have operations spanning every major region.

Survey Questions

1. What issues keep you up at night?
2. Has the pandemic impacted your company's approach to ESG?
3. How does your board and executive team view the company's ESG initiatives?
4. Who in your organisation has ultimate accountability for reaching ESG goals and targets? Select one:
5. How often do you discuss ESG as part of your board agenda?
6. Are you reporting on your ESG goals?
7. If you answered yes to the previous question –

   7a. Are you aligned with common reporting standards?

   7b. Are you auditing your results?
8. What form does your firm's ESG reporting take?
9. Are you using any of the following Sustainability Reporting or Disclosure Frameworks?
10. What governance standards does your firm factor into its ESG reporting?
11. Since adopting ESG reporting, have you noticed any of the following changes in your firm's performance?
12. Which of the following elements is shaping changes in how you report on ESG issues in your firm?
13. Are your firm's ESG processes and operations supported by the following?
14. How is ESG governed or managed within your firm?
15. How does your firm determine what information is critical to measure and manage ESG issues?
16. Does your organisation primarily view ESG as?
17. What industry does your firm operate in?
18. Which of the following BEST describes the level of your current role?
19. Which of the following BEST describes your organisation? Select one.
20. How many people are employed at your company?
21. What was the annual revenue (in USD) for your company last year?
22. Where are your primary stakeholders located?
23. In addition to the GCC region, in which other region(s) does your company operate (including through group companies or subsidiaries)?

Endnotes

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