Embracing your ESG reporting narrative

Examining sustainable value creation for your organisation in the evolving Middle East ESG landscape

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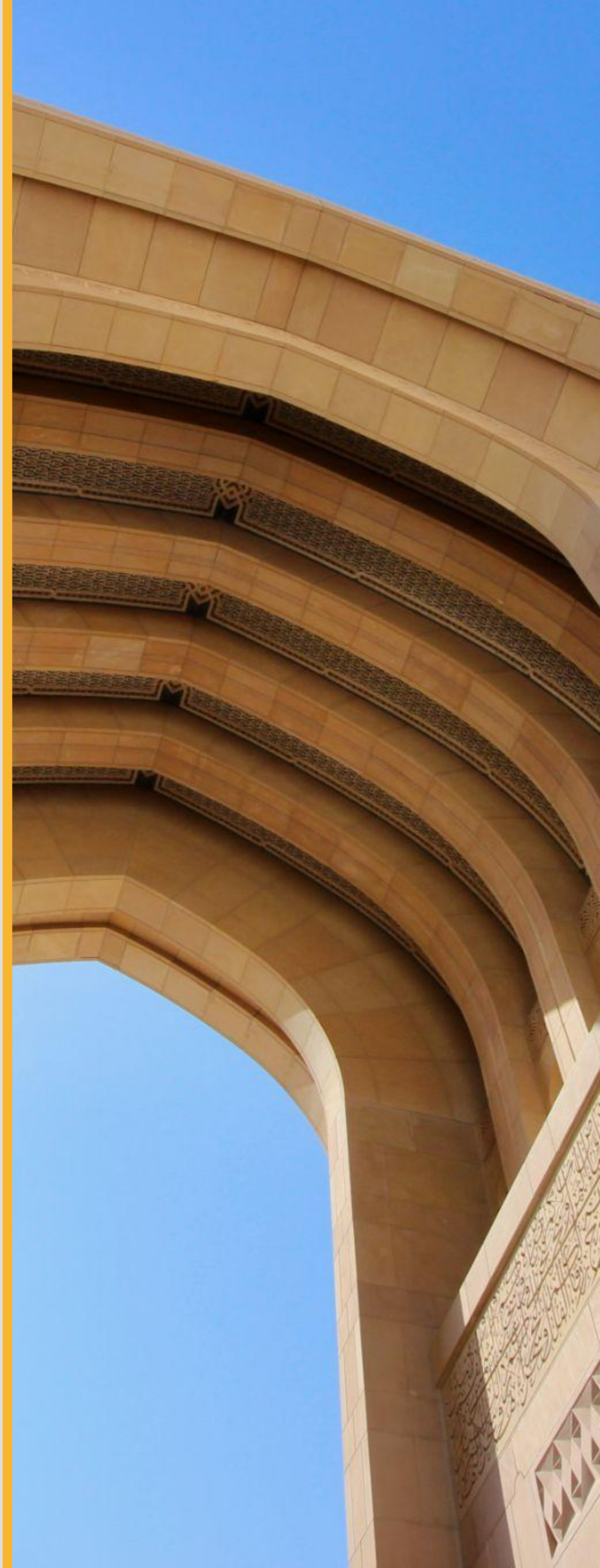

This article will offer insights on:

ESG & the Middle East: where we are now

Our region is undergoing a rapid transformation which is driving economic growth, diversifying economies, creating new jobs and improving overall quality of life. This massive surge in economic and social activity should not be at the cost of sustained outcomes, if the region is to become a leader on the global sustainability stage. Sustainable development is underpinned by progress on all three pillars of ESG with social and governance aspects being enablers for delivering the sustained outcomes.

Regional governments have set the broad direction by making ‘net zero commitments’ and other pledges. The region’s commitment to the sustainability agenda and the significance of this is clear; and the fact that the next two COPs are being held in our region - 2022 COP 27 in Egypt and 2023 COP 28 in the UAE - will only help solidify this commitment.

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In order to advance the sustainability agenda, regulators in the region have responded by putting in place requirements for disclosing the ESG performance for businesses by issuing guidelines on ESG reporting.

The ESG reporting requirements are mandatory for certain entities in the UAE and Egypt, whereas they are voluntary in Qatar and KSA. We expect that the reporting requirements are going to be more stringent with sector-focus, entity-focus (public vs private and/or financial scale) providing the reporting context. These are expected to eventually be made mandatory in the near future to support the national ambitions on ESG - something businesses need to be ready for.

The growing significance of ESG disclosures; a global perspective

Findings from PwC's latest Global Investor Survey demonstrate that investors' focus on companies' ESG-related commitments and actions in recent years has brought reporting further into the spotlight. Investors are using companies' sustainability reports and setting up investing screens based on benchmarks that track everything from emissions levels to human rights records to diversity in the boardroom.

The survey also highlighted a number of deficiencies in current ESG reporting; only about one-third of investors, on average, think the quality of the reporting they're seeing is good enough. Simply put, investors cannot easily differentiate between companies on ESG-related performance. Investors question whether much of today's ESG reporting gives them the relevant, reliable, timely, complete and comparable information they need for effective decision-making.

In their pursuit to compare performance, investors often rely on third-party ESG indices and ratings agencies which provide a score based on the organisations' response and the data available in the public domain - this approach further elevates the need for improving the quality of disclosures. Better reporting would help investors more readily understand how a sustainable business model leads to long-term viability, assess how ESG strategy translates into value creation, and determine whether a company's actions have the potential to lead to negative impacts on the planet or people.

The consideration that an organisation underperforms on some of the metrics that stakeholders are interested in should not encourage 'cherry picking' or overplaying on the metrics that it does well - potentially falling prey to 'greenwashing' or going to the other extreme of avoiding reporting altogether. If at all, as the survey findings support, investors demand transparency and commitment, underpinned by a strategy to improve on ESG metrics from its current baseline.

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Current ESG reporting in the Middle East

Despite the growing sense of urgency to act on ESG issues, ESG disclosures by businesses in the Middle East remain limited - both in the coverage and quality of reported data. According to PwC's 2022 Middle East ESG survey, only 29% respondents believe 'Transparency and Reporting' to be a top priority, however over 75% of the respondents expect the ESG regulations and reporting requirements to get more stringent. The gap between the current focus and expected evolution of ESG reporting requirements must reduce significantly for the region to enhance the quality of ESG reporting. Having said that, key challenges such as a shortage of qualified staff, lack of comparability and poor quality of ESG data may hinder the progress in achieving this objective.

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Current ESG reporting in the Middle East

Our ESG survey went on to reveal that data and knowledge barriers dominate obstacles to ESG investing in the Middle East. These include a lack of ESG disclosures and comparability of ESG data across issuers, when disclosed. Whilst a higher percentage of issuers claim to report on ESG topics, the quality and thoroughness of these disclosures is considered inadequate, specifically when it comes to climate related disclosures e.g. carbon footprint, alignment to recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) and other recognised frameworks.

The journey of ESG reporting is further complicated by a lack of uniform reporting standards that are applicable to all businesses akin to the financial reporting standards. It is critical to develop an understanding of the plethora of reporting standards and select the optimum reporting standards based on the business context and stakeholder demands.

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The journey of ESG reporting is further complicated by a lack of uniform reporting standards

A closer look at the reporting landscape

Selected reporting standards/ Frameworks	GRI	<IR>*	SASB*	WEF IBC	TCFD
Audience	Multi-stakeholder	Investors	Investors	Multi-stakeholder	Investors
Materiality	Broader materiality - 'material aspects' are those that reflect an entity's significant economic, environmental and social aspects	A matter is material if it could substantially affect the company's ability to create value in the short, medium or long term.	Definition of "materiality" applied as under the US federal securities laws and apply sector-specific lenses.	Broad concept considering the information needs of investors and other stakeholders	Materiality is defined as what is material to the financial filings.
Industry	Industry agnostic (although some sector specific standards issued and are in development)	Industry agnostic	Industry specific (77 industries)	Industry agnostic	Industry agnostic
Structure	Modular, interrelated standards covering universal topics used by all entities along with standards on specific areas relating to Environmental, Social and Governance topics.	An integrated report includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive: Organizational overview and external environment, Governance, Business model, Risks and opportunities, Strategy and resource allocation, Performance, Outlook, Basis of presentation.	SASB's sustainability topics are organized under five broad sustainability dimensions: Environment, Social Capital, Human Capital, Business Model & Innovation, Leadership & Governance.	Recommendations across 4 pillars aligned to the **Sustainable Development Goals** (SDGs): Governance, Planet, People, Prosperity Consists of **21 core + 34 expanded metrics and disclosures.**	**TCFD disclosures** highlight the impact of climate on the business using different climate scenarios and quantifying the impact from physical and transitional risks in financial terms.

*recently merged with International Sustainability Standards Board (ISSB) alongwith the value reporting foundation (VRF)

GRI: Global Reporting Initiative **<IR>** : International <IR> Framework **SASB**: Sustainability Accounting Standards Board

WEF IBC: World Economic Forum International Business Council **TCFD**: Task Force on Climate-related Financial Disclosures

Source: PwC analysis

From the above table, it is evident that a wide variety of ESG standards and frameworks are available for companies to choose from, which is driving inconsistencies in the reporting - a concern highlighted by the users of ESG reporting in **PwC's latest Global Investor Survey**. This, coupled with the lack of comprehensive and mandatory ESG reporting and independent assurance requirements, means stakeholders continue to operate in an information vacuum, unable to make well informed decisions around ESG risks and opportunities, while evaluating businesses.

A closer look at the reporting landscape

The formation of the International Sustainability Standards Board (ISSB) is a watershed moment and a clear indication that the world is moving towards universally accepted global reporting standards around ESG reporting, in order to drive consistency and transparency. On March 31, 2022, the ISSB launched consultations on the first two proposed standards. As progress is made to define a unified set of standards, in the short term, organisations will continue to be perplexed by the large number of existing standards and upcoming national regulations; for example, the Securities and Exchange Commission's proposed climate proposal would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks.

The standards for non-financial information reporting should not be any less stringent than for financial reporting. Given the pervasive nature of ESG issues on businesses and society at large, the urgent need is for investment grade, independently assured, ESG information. **Our investor survey** showed that 74% of investors think it's important that reported ESG-related metrics are independently assured and that 79% of investors place more trust in ESG information that has been assured. The message is clear, assurance helps clients build trust and confidence in sustainability reporting!

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The importance of embracing your ESG reporting narrative

ESG issues and their profound impact on organisations is an inescapable reality. Addressing ESG issues for businesses will be as critical, if not more, as digital transformation has been, and neglecting its importance may potentially hinder future growth. As businesses transform to become more sustainable, it is essential that they focus on communicating and owning their ESG narrative.

Embracing ESG is a strategic imperative, with transparency in reporting sitting at its core. Whilst the ESG reporting landscape is complex and convoluted and continuously evolving, inaction on the ESG reporting is not an option for organisations, given the demand for comprehensive, relevant and credible ESG disclosures from the internal and external stakeholders. Organisations should embark on the ESG reporting journey through careful navigation of the current and upcoming ESG reporting frameworks and standards. They should look to focus on developing narratives that are backed by robust KPIs and metrics which are comparable and auditable.

Are you ready to take the next steps?

*Article prepared with contributions from Nadir Hashmi, Manager, ME ESG Reporting

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