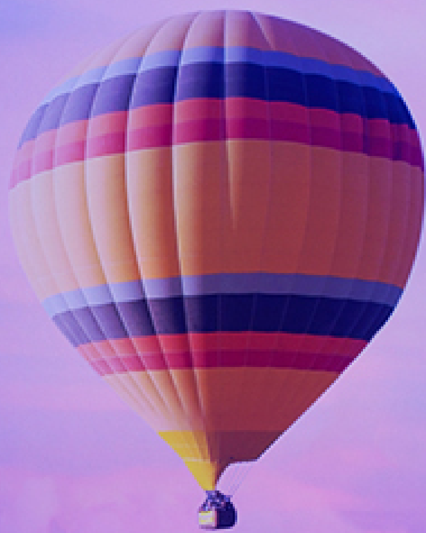
KPMG

# Environmental, Social, Governance



An introductory guide for businesses in Qatar

February 2022

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# Executive summary

Market leaders are taking a strategic response to ESG, changing their products and services, processes, operations and supply chains. The first step to embed ESG into a business must be taken by the Board, taking on the responsibility and accountability to drive the transition towards becoming an environmentally and socially responsible business.

The KPMG 2021 CEO Outlook found the priorities of corporate leaders are changing. Environmental, social and governance (ESG) matters have taken center stage as stakeholders look to businesses to play a wider role in tackling social and economic challenges. In turn, companies have sought to respond, recover and enhance their resilience to the evolving environment.

COVID-19 has highlighted the social and governance elements within ESG as businesses seek to protect jobs, support efforts to control the spread of the virus and 'do the right thing'. It has highlighted the importance of resilience to extreme change and our ability to undertake radical transformation; it provides an opportunity to embed ESG into future board level decisions.

The ESG space has continued to develop rapidly, with amplified ESG awareness and expectations among investors, regulators, and consumers. ESG-related investment is accelerating, even in the midst of the pandemic, driving investor demands for enhanced ESG-related disclosure and data. ESG isn't a hygiene factor for today. Its impact is already profound and it is a critical factor for businesses that want to be ready for further fundamental changes coming down the track. ESG is no longer a choice - it is an imperative.

To illustrate how to incorporate ESG considerations to help foster greater corporate resilience, we focus on the following key issues:

1. ESG Governance and Strategy;
2. Risk Management;
3. Key Performance Indicators (KPIs) and target setting;
4. Sustainable Finance; and
5. Reporting and Assurance.



# What is E-S-G?

**Environmental**
Your impact on the world

- Climate change
- Greenhouse gas (GHG) emissions
- Natural resource depletion
- Waste and pollution
- Deforestation
- Hazardous materials
- Biodiversity

**Social**
Your contribution to your communities

- Working conditions, including slavery and child labour
- Impact on local communities
- Conflict regions
- Health and safety
- Employee relations and diversity
- Product mis-selling
- Data protection

**Governance**
How you conduct yourself

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy
- Data breaches

# The T in ESG

**Tax as a long-term key focus**

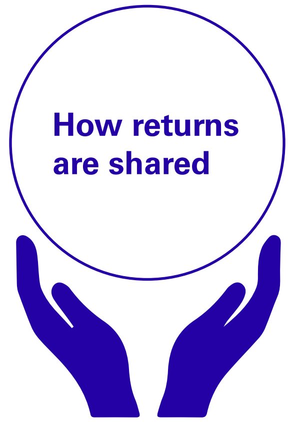
- Carbon taxes
- Tax credits for renewable energy projects (e.g., solar panels)
- Tax credit for energy efficient consumer products

**Paying fair taxes**

- Companies are moving away from ETR as key KPI for Tax Management
- Is the business paying the appropriate levels of tax and contributing to society?
- Low taxes are no longer an incentive to attract foreign companies

**Tax governance**

- International tax systems are revised for corporate taxes to become more transparent
- Tax transparency and Tax Governance is aligned to the new norm


# What does a typical ESG journey include?

A strategic approach is needed to embed ESG in an organization since it provides short to long term benefits and associated investment decisions. This strategic guidance is led by the Board/Executive Committee who establish a strong tone of intent. A typical ESG transformational journey will include some or all of the steps below

**ESG Journey**

| | Maturity Assessment | Materiality Assessment | ESG Strategy | Governance & Risk Managemen | ESG Process Development | Reporting | Assurance |
|---|---|---|---|---|---|---|---|
| **Key Activities** | — ESG awareness sessions<br>— Conduct an ESG maturity assessment using recognized frameworks (e.g., KPMG's ESG levers; QSE KPIs)<br>— Analyse maturity assessment results and identify strategic initiatives | — Conduct a materiality assessment of recommendations<br>— Select/prioritize the recommendations for implementation<br>— Identify "compete to win" KPIs to measure success of the prioritized recommendations<br>— Develop an implementation roadmap to execute prioritized recommendations (strategic initiatives) | — Develop an ESG vision and mission aligned to a strong purpose/value statement<br>— Develop an organizational ESG strategy | — Define a governance framework to provide monitoring and oversight of the ESG strategy and its implementation<br>— Embed and monitor ESG risks in the enterprise risk management framework | — Develop ESG policies and processes with adequate control measures to manage known risks<br>— Develop data capture processes for monitoring and control purposes | — Capture relevant data for ESG reporting and analytics<br>— Prepare ESG reports as required by regulatory and standards authorities (e.g., QSE, GRI etc.) | — Conduct an independent assurance exercise to validate ESG claims, commitments and reports |

# Qatar's ESG and Sustainability Landscape

Key requirements driving the ESG and sustainability agenda in the State of Qatar

### Qatar National Vision 2030

- Qatar National Vision's four key pillers are aimed at supporting sustainable development. The Qatar National Vision 2030 serves as a clear roadmap for Qatar's future, social, human, environmental and economic development in the next decade.
- Qatar National Vision 2030 establishes a clear long-term vision of the country's future, which is meant to be used as a support for national strategies and implementation plans. The Vision seeks:
  1. To modernise and preserve traditions,
  2. Intergenerational justice,
  3. Managed growth and expansion,
  4. Capacity building in the workforce, and
  5. Economic growth, social development and environmental management.

**Impacting State of Qatar**

### Qatar Stock Exchange (QSE) ESG Guidelines

- QSE joined the Sustainable Stock Exchanges Initiative of the United Nations ("SSEI") in 2016 and is committed to promote sustainable practices in Qatar.
- Qatar Stock Exchange introduced ESG Guidance in December 2016 to assist all listed companies to incorporate ESG reporting into their existing annual reporting processes.
- QSE has provided a set of ESG Key Performance Indicators which should be the focal point of issuer ESG reporting.
- The QSE Guidelines are currently voluntary. Globally, mandated ESG reporting is increasingly becoming the norm. Qatar and its listed companies can expect that in due course reporting on material ESG metrics and sustainability reporting will become mandatory.

**Impacting QSE Listed Companies**



# Why should you act now?

As consumers, society and shareholders are increasingly demanding change, these ESG megatrends are set to shape the business landscape.

### COVID-19

The pandemic has placed greater scrutiny on the ethical performance of businesses and highlighted the value of resilience over efficiency. The transformation to the New Reality is an unprecedented opportunity to embed ESG at the core of organizational purpose and operations.

### Investor and Social Pressure

**~ $30tn** in investment is dedicated towards ESG investing globally[1]

Investors and customers are recognizing their ability to impact corporate activities and to hold corporates accountable for not managing ESG risks. Investors are also increasingly recognizing that ESG risk equals long-term investment risk. This will trigger a fundamental reshaping of finance with fossil fuel and other high-carbon heavy businesses experiencing higher costs of capital.

### Transition to Low Carbon Economy

Global energy demand will grow by at least **26%** over 20 years[2].

Current ways of generating power are unsustainable and natural resources are becoming increasingly scarce. Industries need to become more energy efficient and reduce their carbon footprint as Qatar seeks to achieve their Qatar National Vision 2030 sustainability goals.

### Regulation

Regulators are showing increasing interest through requirements under the QSE Sustainability and ESG Reporting Initiative, the Taskforce for Climate Related Financial Disclosure, and EU Requirements.

Reporting of climate related financial disclosure will become harmonized and mandatory across all industries. Measures will be aligned with the Sustainable Development Goals (SDGs) and principal ESG domains of Governance, Planet, People and Prosperity.

### Risk Management

The cost of climate change may reach US **$43tr**[3].

6°C of warming represents present value losses worth **US $43t** or **30%** of the world's entire stock of manageable assets.


**Sources:**

1. J.P Morgan Asset Management: How is ESG affecting the investment landscape, 2019.
2. International Energy Agency: World Energy Outlook Report, 2019.
3. The Economist, The cost of inaction: recognising the value at risk from climate change, 2015.




# Decoding the ESG alphabet soup: What does it mean and is it relevant to me?

Companies are increasingly being subjected to a suite of mandatory reporting requirements to evidence their response to their ESG impact. Our guide below breaks down some of the commonly used terms in ESG reporting.

**What is TCFD?**
Taskforce for Climate-Related Financial Disclosures (TCFD) is a way of disclosing the impact of the environment on a company, in terms of climate risk. This helps investors to understand a company's exposure to climate risk.

**What is SECR?**
Streamlined Energy and Carbon Reporting (SECR) is the reporting of carbon emissions and energy use within the Director's and Strategic Reports. Its is mandatory for all large UK companies (all listed companies and large asset owners) for years starting on or after 1st April 2019.

**What is an SDG?**
Nations as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

**What are GHG Emissions?**
Greenhouse Gas Emissions (GHG) are the emissions associated with energy and fuel use. They are split into Scope 1 (direct combustion – e.g. Gas), Scope 2 (indirect e.g. electricity) and Scope 3 (typically travel).

**What are the WEF Metrics?**
The World Economic Forum (WEF), together with the International Business Council, have worked with the Big Four to build a list of ESG metrics which every company should be able to report against. This is currently under consultation.

**Why ISSB was setup?**
The International Sustainability Standards Board (ISSB) was created on November 3rd 2021 to set the baseline for sustainability related disclosure standards for organisations to provide information about their sustainability related risk and opportunities to enable investors to make informed decisions.

# Questions from our clients

ESG sets a clear strategic imperative for real and lasting change and it sits firmly on the C-Suite Agenda. Climate change topped the "threats to growth" in our 2021 Global CEO Outlook and the ESG agenda is increasing in urgency. ESG challenges each member of the C-Suite – in their functional areas of expertise, and also as a strategic growth and resilience priority.

**Key questions on:**

**Strategy**

- How do I learn lessons from the COVID-19 pandemic and become a more sustainable business in the New Reality?
- What is our relative ESG maturity?
- Which ESG opportunities should we prioritize and what risks are critical to mitigate?
- How do I develop a strategy to respond to climate change?
- How do I engage and ensure stakeholder buy-in for my ESG strategy?
- How are other businesses in my industry incorporating ESG into investment approaches and risk management?

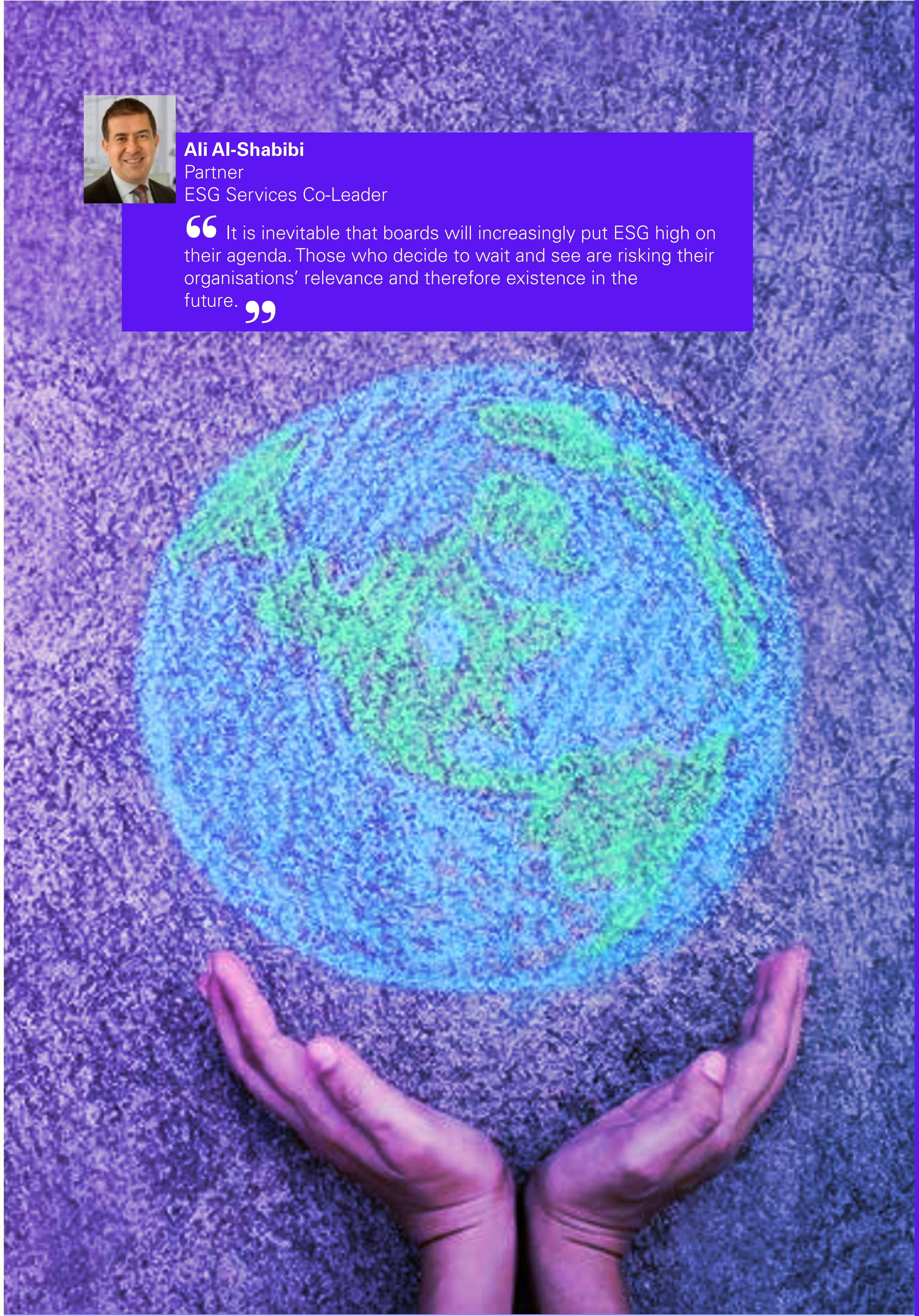
**Finance and Reporting**

- What are investors looking for businesses to report on across ESG?
- What disclosures are mandatory?
- How do I both confidently and efficiently manage ESG reporting with increasing requirements ?
- Can I embed ESG into my debt financing and will it lower my cost of funding?

**Operations**

- How do I optimize the ethical and sustainable footprint of my supply chain?
- How can being ethical and environmental improve my resilience and profit margins?
- How can digital help me to track and trace my products, enhance operational performance, and predict ethical and sustainable risks to my business?
- How do I ensure my third parties are compliant with existing and new regulation?
- How do I adapt my operations to meet my business and ESG priorities?





**Ali Al-Shabibi**
Partner
ESG Services Co-Leader

"It is inevitable that boards will increasingly put ESG high on their agenda. Those who decide to wait and see are risking their organisations' relevance and therefore existence in the future."

# KPMG in Qatar ESG Services

**How can we help you?**
Our teams can support you on your ESG journey across the business cycle. Below are the relevant business area to explore some of the ways we are helping organizations embed ESG across their business.

**KPMG's three pillars for ESG**

**ESG Transformation**
- ESG Strategy
- Impact and social return on investment
- Sustainable Finance
- Risk assessment

**ESG Reporting**
- Sustainability reporting

**ESG Assurance**
- Assurance

## Other specialized services

- **Business and Human rights**
- **Climate Risk / TFCD**
- **Sustainable Supply Chain**

**Omar Mahmood**
Partner
ESG Services Co-Leader

"ESG has gained significant momentum in recent years, and if leveraged as a value creation tool, will help drive growth and the sustainable development agenda in the coming years."

# ESG Strategy

Regulators and stakeholders are demanding that companies focus on improving their ethical practices and processes. In response, many organizations are thinking more strategically about embedding "sustainability" into their organizational DNA. Those that adopt and incorporate sustainable practices are often better positioned to adapt to the emerging opportunities and associated risk management.

Integrating a sustainability strategy into your overall business approach can be beneficial in several ways such as:

— Facilitating open stakeholder engagement to understand their expectations, which provides input into organizational strategic planning and priorities.

— Strengthening sustainability governance within your organization by implementing a strategic framework that includes clear responsibilities and KPIs.

— Organizing ongoing sustainability initiatives, with frequent effectivitivity monitoring and evaluating.

— Differentiating yourself by aligning sustainability goals to your organizational objectives and purpose, and incorporating them in all aspects of the business.

**HOW CAN WE HELP?**

KPMG can assist your organization in the following ways :

— Develop a robust sustainability strategy, including long- and short term goals, KPIs and reporting structures.

— Stakeholder engagement and prioritization of internal and external expectations.

— Implementation of a sustainability strategy, establishing a defined plan of action, a baseline from which to measure progress, and a clear view of priorities.



# Impact and social return on investment

Businesses investing in social endeavors often fail to quantitatively measure the impact their programs generate. This prevents stakeholders from understanding both the positive outcomes, as well as areas which require improvement. Conducting impact assessments and determining the value created (in financial terms) strengthens the case for investing in social ventures at the board level.

By measuring social impact, you will be able to:

— Manage and communicate the social value created by your organization with your stakeholders.

— Increase investor confidence and attract potential investors by providing financial return on investment information.

— Understand and measure your organization's social investments and its impact, allowing you to pinpoint any shortfalls and take corrective measures.

**HOW CAN WE HELP?**

KPMG has developed bespoke valuation and impact assessment approaches to accommodate the different levels of rigor, complexity, and financial contribution. These include True Value Methodology (a KPMG proprietary tool), the Social Impact Assessment tool and the internationally recognized Social Return on Investment tool:

— The True Value methodology provides you with a detailed assessment of your organization's most significant positive and negative economic, social, and environmental impact. Our methodology applies a financial value to the impact generated in order to give a complete overview of the value that an organization creates.

— The Social Impact Assessment assists you in analyzing, monitoring, and managing your organization's social impact. This tool is used for comparatively smaller projects, where maturity level is lower and is often applied at the early stages of implementation.

— The Social Return on Investment tool provides detailed quantification of your impact, including unintended consequences to accurately identify social return on investment.

# Sustainable Finance

Asset owners and managers understand that sustainability risks and opportunities can positively or negatively affect returns on investment. Furthermore, stakeholders increasingly expect asset owners and managers to factor in ESG criteria when making investment decisions.

By understanding the opportunities and threats of sustainability-related issues your organization is better positioned to:

- Set short-term and long-term targets and objectives for your (responsible) investment strategy that resonate with stakeholder and organizational core values.
- Meet stakeholder, regulator and government transparency expectations and requirements.
- Develop a more robust picture of investment opportunities and risks which incorporates sustainability and corporate social responsibility business factors.

**HOW CAN WE HELP?**

At KPMG, we provide three main service channels:

- Conduct a benchmarking and readiness assessment to determine ESG risks. This includes identifying and analyzing gaps between an investment's sustainability strategy and performance, and voluntary industry standards such as UN Principles for Responsible Investment (PRI) and the Equator Principles.
- Work with you to evaluate and develop your ESG vision, strategy, and policy statements This includes researching sector policies, advising on indices and ratings, and advising on ethics and integrity management.
- Support with ESG disclosure and reporting based on ESG performance, e.g. responsible investment reporting.



# Risk assessment

Risk and sustainability are clearly interrelated. From a burgeoning population to shifting social norms, changing weather patterns to declining ecosystems, the sustainability risk landscape grows more complex and interconnected every year. Lack of awareness or even negligence in past decision-making processes has contributed to many of the global risks we face today.

Risk managers are now incorporating ESG-related measures into their registers, in an effort to head off such risks, develop appropriate alleviation processes and minimize adverse impact.

By doing so, organizations are able to:

- Reduce the impact of ESG related events and potentially alleviate the impact of unforeseen events by utilizing a holistic risk review, beyond financially focused influences.
- Generate innovative and sustainable services by understanding the ESG risks in the private and public sectors to identify opportunities and attain a competitive advantage in the market.

**HOW CAN WE HELP?**

To respond to the today's rapidly changing environment, we use KPMG's proprietary Dynamic Risk Assessment (DRA) - a three-dimensional approach which seeks to understand connections between risks and the speed at which impact occurs.

Our Sustainability Services team applies DRA to three specific categories:

- Materiality assessments to assess risks and opportunities related to your operations by utilizing stakeholder engagement and our online voting tools.
- ESG due diligence to explore the environmental, social and governance risks unique to your organization.
- Environment, health, and safety to monitor risks related to health and safety within your organization.

# Sustainability reporting

Concerns about environmental, economic, and social responsibility have risen to the forefront amongst stakeholders in both the private and public sectors. As a result, performance reporting is now 'business as usual' for the majority of companies regionally and globally. More stakeholders are expecting organizations to identify and communicate their environmental, economic, social risks, as well as the related impact and measures to effectively address them.

Reporting on sustainability performance enables you to:

- Show commitment for sustainability with internal and external stakeholders.
- Gain stakeholder confidence by telling 'your story' and demonstrating your organization's commitment and approach to addressing sustainability related challenges and opportunities.
- Track and establish organizational progress by comparing year-on-year performance.
- Proactively tell your value creation story, distinguishing yourself from your competitors.

**HOW CAN WE HELP?**

KPMG can assist your organization in the following ways:

- Preparing standalone sustainability reports aligned to regional and international reporting guidelines, such as the GRI and Qatar Stock Exchange ESG Guidelines.
- Comprehensive reporting aligned with the International Integrated Reporting Council (IIRC).
- Corporate social responsibility (CSR) reports.
- Greenhouse gas (GHG) reporting.

# Assurance

External assurance is designed to provide you with independent verification of your ESG commitments to third-party and other stakeholders. This will demonstrate your transparency by publishing reliable and accurate information that is free of bias and conveys the integrity of your organization's ESG processes and performance. Such transparency further demonstrates your seriousness about ESG and could lead to a competitive advantage.

Some benefits of independent third-party assurance includes:

- Demonstrating management's commitment to improving disclosures to the market and/or regulators.
- Presenting credible sustainability performance data and gaining stakeholder's confidence.
- Supporting scoring models for external benchmarks and sustainability indices, such as the Dow Jones Sustainability Index and the QSE sustainability index.
- Improving internal controls and reporting processes to identify potential risk exposure and opportunities for improvement.

**HOW CAN WE HELP?**

KPMG provides independent third-party assurance using recognized assurance standards such as ISAE 3000 and ISAE 3410 which commands a high degree of rigor, equivalent to that of financial reporting. These standards may be applied to a variety of non-financial information including, but not limited to:

- Individual data points (e.g., Greenhouse gas footprints, health and safety data, and community investment spend).
- Standalone sustainability reports.
- Integrated reports.
- Responsible investment reports.
- Specific government reporting.

# Other specialized services

At KPMG, we also offer an array of specialized services to complement our core offerings. These present a wide range of approaches designed to supplement a growing economy with an increasing interest in sustainability and social practices and outcomes.

**Business and Human rights** | **Climate Risk / TFCD** | **Sustainable supply chain**

## Business and Human rights

Businesses are under increasing pressure to take action on human rights issues. We support companies in identifying the financial, legal, and commercial implications of environment, health and safety risks and opportunities. Drawing on the knowledge and experience of professionals across KPMG's worldwide network of member firms, we help design sustainable procurement strategies and supplier monitoring frameworks, highlighting risks related to child labor, human rights, and minimum wage.

## Climate risk / TFCD

In 2015, the Financial Stability Board (FSB) formed the Task Force on Climate related Financial Disclosures (TCFD) and requested companies disclose their material climate-related risks to financial stakeholders. KPMG supports our clients to navigate the TCFD recommendations by identifying climate-related risks and opportunities, and understanding the related financial implications. We also support clients to incorporate relevant disclosures into financial filing and annual reporting.

## Sustainable supply chain

While businesses are held accountable for suppliers' social impact, gaining visibility and control in modern supply chains can be a challenge. KPMG specialists can assist your organization to map supply chains, identify risks, track product ingredients, improve supplier performance and strengthen supplier relationships.

# KPMG in Qatar's Core ESG Team

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