



ESG INTEGRATION IN THE ARAB REGION

September 2022



AFCM
ARAB FEDERATION OF
CAPITAL MARKETS

Introduction

Given AFCM's vision in facilitating the exchange of information, providing collaborative opportunities for the members and transferring knowledge, to bring the interests of the Arab capital markets to life on all levels, mainly sustainability, which is becoming a mainstream topic across the board and a prominent topic for debate amongst government leaders and corporations, AFCM has issued in early 2021 a report on ESG Integration in the Arab region, which consisted on reviewing ESG guidelines in the Arab Exchanges, discussing the ESG regulations and disclosure requirements in many regions around the world, and suggest best practices for the Arab Exchanges.

In fact, ESG continues to evolve as an investment strategy and it represents a growing portion of the overall capital market investment, and ESG strategies have been receiving higher inflows from new equity launched funds over the past few years. As ESG investing continues to accelerate, companies that address the appropriate social and environmental issues related to their business, and report effectively the needed information to the market, can benefit by achieving sustainable growth, attracting more funds, and receiving higher business valuation. The availability of reporting frameworks and guidance for ESG issues can help companies identify, measure and disclose material ESG information that help investors to perform more accurate valuation and make more appropriate investment decisions. Also, laws and regulations are required to simplify the methods used by issuers to report material risk factors, to organize and encourage transparency about disclosed information, and to impose obligations on ESG disclosures, therefore, making the reported information easier for investors to review and understand.

Therefore, and since ESG data and analytics are becoming of critical importance for MENA financial markets, AFCM has issued this note in 2022 on ESG metrics in the Arab region, seeking to integrate the latest developments achieved by each exchange, while updating our previous information or adding other developments, aiming at assessing the level of awareness and attitudes achieved over the last couple of years towards the concept of sustainability among our members.

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Chapter **I**

**ESG GENERAL ATTRIBUTES FOR
ARAB EXCHANGES**



The main ESG challenge is the quality of the reported data by companies about their Environmental, Social and Governance practices. Most countries around the world don't have regulations that oblige companies to report their ESG information, however, companies are left free to decide which ESG factors have material impact on their business performance, and to determine the type of information to disclose to investors. The lack of standardized and transparent frameworks about reporting ESG practices presents real challenge for investors to perform an effective investment analysis, also investment managers seek for solutions to the challenges originated by the lack of consistent, comparable and material information, and companies need to determine precisely their material ESG factors to generate sustainable long-term performance.

As of 2014, few stock exchanges around the world provided voluntary guidance to companies on reporting environmental, social and governance (ESG) information, and investors faced numerous obstacles while seeking comprehensive material issues about a company's ESG practices. This gap pushed many international organizations and UN initiatives to collaborate in order to develop Guidance Models to help exchanges develop their own, custom guidance. The United Nations Sustainable Stock Exchanges (SSE) initiative and the World Federation of Exchanges (WFE) each published an ESG Guidance Model, aiming at provide exchanges with a globally consistent base to start from as they work to create their own, locally customized, voluntary guidance, to help their issuers to report properly the ESG information required to meet the investors' need. The WFE and SSE guidance templates together offer an effective toolkit for Stock Exchanges to guide companies and investors alike on environmental, social and governance (ESG) reporting and measurement.

Regionally, among the **16** exchanges who are members of the Arab federation of Capital Markets (AFCM) and as of August 2022, only **10** exchanges are partners with sustainable stock exchanges (SSE initiative), and **12** exchanges are members with the World Federation of Exchanges (WFE), without any improvement when compared to our 2020 survey. In parallel, **10** Arab stock exchanges issued written guidance on ESG reporting (from 8 exchanges as of our 2020 survey), while the Egyptian Exchange and Amman Stock Exchange have mandatory reporting regulation (without any change from 2020 survey), while **7** exchanges launch annual sustainability reports (from 4 exchanges in 2020 survey), and **8** exchanges offer ESG related training programs (from 6 exchanges), as shown in table 1.



Table 1: The general ESG attributes for the AFCM members

AFCM Members	SSE Partner	WFE Member	Has annual sustainability report	ESG reporting required as a listing rule	Has written guidance on ESG reporting	Offers ESG related training
Abu Dhabi Securities Exchange (ADX)	✓	✓	✓	✗	✓	✓
Amman Stock Exchange (ASE)	✓	✓	✓	✓	✓	✓
Bahrain Bourse (BHB)	✓	✓	✓	✗	✓	✓
Beirut Stock Exchange (BSE)	✗	✗	✗	✗	✗	✗
Casablanca Stock Exchange (CSE)	✓	✓	✓	✗	✓	✗
Dubai Financial Market (DFM)	✓	✓	✓	✗	✓	✓
Damascus Securities Exchange (DSE)	✗	✗	✗	✗	✗	✗
Egyptian Exchange (EGX)	✓	✓	✓	✓	✓	✓
Iraq Stock Exchange (ISX)	✗	✗	✗	✗	✗	✗
Khartoum Stock Exchange (KSE)	✗	✗	✗	✗	✗	✗
Boursa Kuwait (BK)	✓	✓	✓	✗	✓	✓
Muscat Securities Exchange (MSX)	✗	✓	✗	✗	✗	✗
Palestine Exchange (PEX)	✗	✓	✗	✗	✗	✗
Qatar Stock Exchange (QSE)	✓	✓	✗	✗	✓	✓
Saudi Exchange (Tadawul)	✓	✓	✗	✗	✓	✓
Tunis Stock Exchange (TSE)	✓	✓	✗	✗	✓	✗

Chapter

II

**FRAMEWORKS SUGGESTED BY
ARAB EXCHANGES GUIDANCE**



Over the last decade, many non-profit organizations around the world and UN initiatives have developed sustainability reporting standards. Some issuers use these standards for their own sustainability reporting purposes, while others use them as a starting point for additional research on the subject. The GRI standards from the Global Reporting Initiative and the ten universally accepted principles of the United Nations Global Compact (UNGC) are widely used by local exchanges to develop their own ESG Key Performance Indicators (KPI). The main UN initiatives and non-for-profit organizations are:

The Global Reporting Initiative (GRI)

Is an international, not-for-profit organization working in the public interest towards a vision of a sustainable global economy where organizations manage their economic, environmental, social, and governance performance and impacts responsibly. GRI's activities are twofold: firstly, the provision of sustainability reporting guidelines and secondly, the development of engagement activities, products and partnerships to enhance the value of sustainability reporting for organizations.

The Sustainability Accounting Standards Board (SASB)

A non-profit U.S.-based organization, has a mission to create and disseminate accounting standards that reporting issuers can use to disclose material sustainability factors in filings with the Securities and Exchange Commission. The SASB Materiality Map is a visual tool that helps users identify SASB disclosure topics on an industry-by-industry basis and compare the potential materiality of various sustainability factors across different industries and sectors.

Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The Task Force will consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.

The International Integrated Reporting Council (IIRC)

It is a group of international leaders from the corporate, investment, accounting, securities, regulatory, academic, standard-setting and civil society areas with a mission to create the Integrated Reporting Framework. The framework will provide material information about an organization's strategy, governance, performance and prospects in a concise and comparable format, a fundamental shift in corporate reporting.

The Climate Disclosure Standards Board (CDSB)

It is an international consortium of business and environmental NGOs. CDSB is committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. CDSB offers companies a framework for reporting environmental information with the same rigor as financial information. Collectively, CDSB aims to contribute to more sustainable economic, social and environmental systems.

Carbon Disclosure Project (CDP)

It is a global not-for-profit organization, founded in 2000 and headquartered in London. CDP requests standardized climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as "CDP signatories".

The United Nations Global Compact (UNGC)

It is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.

Table 2: The frameworks suggested by each Arab ESG guidance

AFCM members with written guidance on ESG reporting	GRI	SASB	TCFD	IIRC	CDSB	CDP	UNGC
ADX	✓	✓	✗	✓	✗	✓	✓
ASE	✓	✗	✗	✗	✗	✗	✗
BHB	✓	✓	✓	✓	✓	✓	✓
BSE	✗	✗	✗	✗	✗	✗	✗
CSE	✓	✗	✗	✓	✓	✗	✓
DFM	✓	✓	✓	✓	✗	✓	✓
DSE	✗	✗	✗	✗	✗	✗	✗
EGX	✓	✓	✓	✓	✓	✓	✓
ISX	✗	✗	✗	✗	✗	✗	✗
KSE	✗	✗	✗	✗	✗	✗	✗
BK	✓	✓	✗	✓	✗	✓	✓
MSX	✗	✗	✗	✗	✗	✗	✗
PEX	✗	✗	✗	✗	✗	✗	✗
QSE	✓	✓	✗	✓	✗	✓	✓
Tadawul	✓	✓	✓	✓	✓	✓	✓
TSE	✓	✓	✓	✓	✗	✓	✓

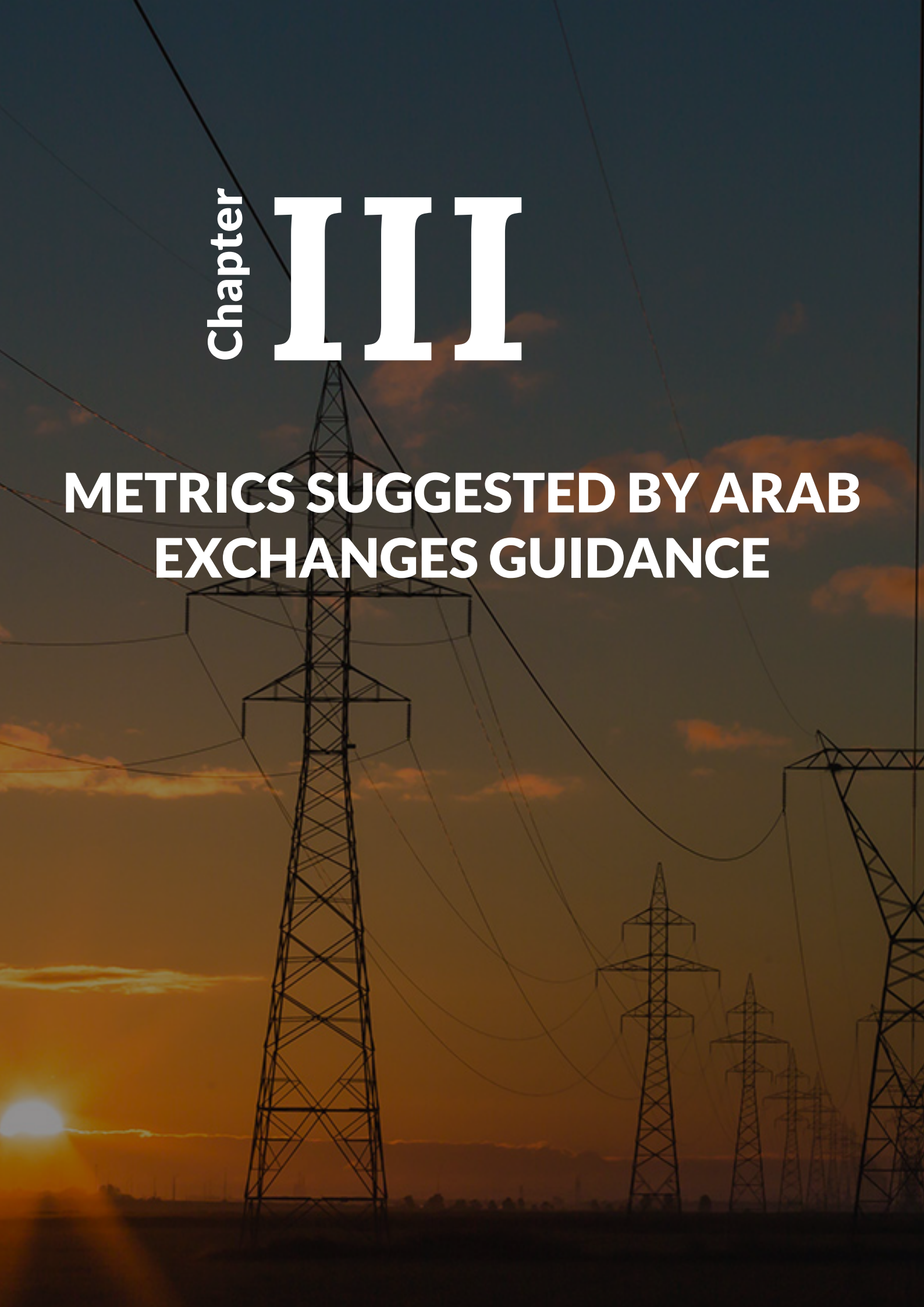
The ESG guidance of the Arab Exchanges differ substantially, as they don't contain the same list of metrics for each ESG category. The comparison between the Arab Exchanges' guidelines with three main global guidelines; the Euronext Guidelines to Issuers for ESG Reporting, the Nasdaq ESG Reporting Guide, and the London Stock Exchange Group (LSEG) Guide to ESG reporting, shows that global guidelines incorporate the new developments associated to climate and UN SDGs. In addition, global guidance covers more detailed aspects about ESG reporting that help issuers to disclose all quantitative and qualitative ESG information. Therefore, KPIs (key performance indicators) must be set to measure progress in the region and will be supported by having robust data collection and reporting systems. This will require investment to ensure alignment with global standards and that capacity is built to collect and report on non-financial ESG metrics.



Chapter

III

**METRICS SUGGESTED BY ARAB
EXCHANGES GUIDANCE**





In November 2015, the World Federation of Exchanges announced the release of new WFE recommendations on ESG reporting. WFE recommends the use of the SSE Model Guidance released earlier since it provides comprehensive principles that assist companies on how to benefit from existing ESG frameworks for better ESG reporting. The WFE recommendations offered practical advice on how to handle enhanced sustainability disclosure, and that the adoption of the WFE guidance will help the exchanges that initiated a partnership with the UN's Sustainable Stock Exchanges initiative, to meet their SSE commitment.

The WFE guidance offered all interested exchanges with practical advice on how to take their sustainability policies to an upper level, which will help those exchanges to meet their international sustainability benchmarks to which they have committed. The WFE's new recommendations help exchanges to develop their own key performance indicators (KPI) to measure performance in each ESG category as described in the SSE Model Guidance. SSE encourages all stock exchanges to use these new tools to create their own guidance on ESG reporting for listed companies.

In 2018, the WFE announced an updated version for the WFE's 2015 Guidance and Metrics. The update is performed to reflect the new sustainability developments, such as the UN Sustainable Development Goals (SDG) and the Task Force on Climate Related Financial Disclosures (TCFD) recommendations and to incorporate all feedback received from investor groups on the initial WFE Guidance, and to adjust the metrics based on the implementation experiences in certain markets. The resulted revisions to the 2015 Guidance and Metrics are:

- Investors are the main users for a company ESG disclosure, therefore the primary focus for exchanges is to ensure the availability of relevant decision-making information for investors.
- The provision of greater guidance around report preparation including: responsibility and oversight, reported information and business value should be linked clearly, provide useful definitions and approaches for materiality.
- The adjustment of the metrics, including renaming some metrics to align with the TCFD Recommendations, the removal of certain metrics that tended to not be reported, or investors indicated these were less important; the provision of guidance around certain metrics to specify a reporting methodology, and the creation of new metrics related to management of climate related issues.

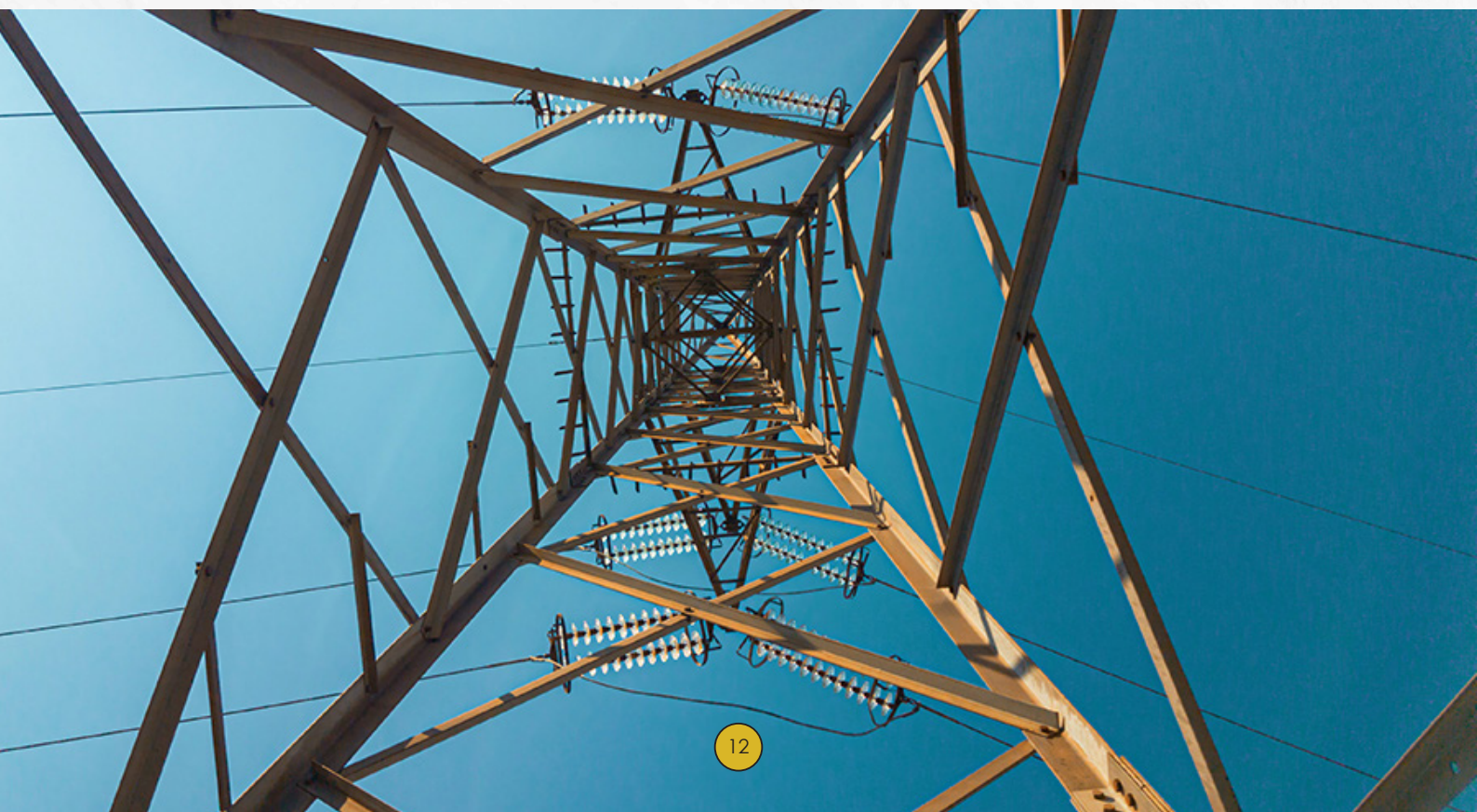


Table 3: WFE metrics suggested in each Arab Exchange Guidance for ESG disclosure

Metric	ADX	ASE	BHB	BSE	CSE	DFM	DSE	EGX
Direct & Indirect GhG Emissions	✓	✗	✓	✗	✓	✓	✗	✓
Carbon Intensity	✓	✗	✓	✗	✗	✓	✗	✓
Direct & Indirect Energy Consumption	✓	✓	✓	✗	✗	✓	✗	✓
Energy Intensity	✓	✓	✓	✗	✗	✓	✗	✗
Primary Energy Source	✓	✓	✓	✗	✗	✓	✗	✓
Renewable Energy Intensity	✗	✗	✗	✗	✗	✗	✗	✓
Water Management	✓	✓	✓	✗	✗	✓	✗	✓
Waste Management	✓	✓	✓	✗	✗	✗	✗	✓
Environmental policy	✓	✓	✓	✗	✓	✓	✗	✓
Environmental impacts	✓	✓	✓	✗	✓	✓	✗	✓
CEO Pay Ratio	✓	✓	✓	✗	✗	✓	✗	✓
Gender Pay Ratio	✓	✓	✓	✗	✗	✓	✗	✓
Employee Turnover Rate	✓	✓	✓	✗	✗	✓	✗	✗
Gender Diversity	✓	✓	✓	✗	✗	✓	✗	✓
Temporary Worker Rate	✓	✗	✓	✗	✗	✓	✗	✗
Non-Discrimination	✓	✓	✓	✗	✗	✓	✗	✓
Injury Rate	✓	✓	✓	✗	✗	✓	✗	✓
Global Health	✓	✓	✓	✗	✓	✓	✗	✓
Child & Forced Labor	✓	✓	✓	✗	✗	✓	✗	✓
Human Rights policy	✓	✓	✓	✗	✓	✓	✗	✓
Human Rights violations	✗	✗	✗	✗	✗	✗	✗	✓
Board – Diversity	✓	✓	✓	✗	✓	✓	✗	✓
Board – Separation of Powers	✓	✓	✓	✗	✓	✓	✗	✓
Board – Confidential Voting	✗	✓	✗	✗	✗	✗	✗	✓
Incentivized Pay	✓	✓	✓	✗	✗	✓	✗	✓
Fair Labor Practices	✗	✓	✓	✗	✗	✓	✗	✗
Supplier Code (SC) of conduct	✓	✓	✓	✗	✓	✓	✗	✓
Ethics Code (EC) of conduct	✓	✓	✗	✗	✓	✓	✗	✓
Bribery/Anti-Corruption Code	✗	✓	✓	✗	✓	✓	✗	✓
Tax Transparency	✗	✓	✗	✗	✗	✗	✗	✗
Sustainability Report	✓	✓	✓	✗	✓	✓	✗	✓
Framework Disclosures	✓	✓	✓	✗	✓	✓	✗	✓
External Validation & Assurance	✓	✗	✓	✗	✗	✓	✗	✓

Table 3: WFE metrics suggested in each Arab Exchanges Guidance for ESG disclosure

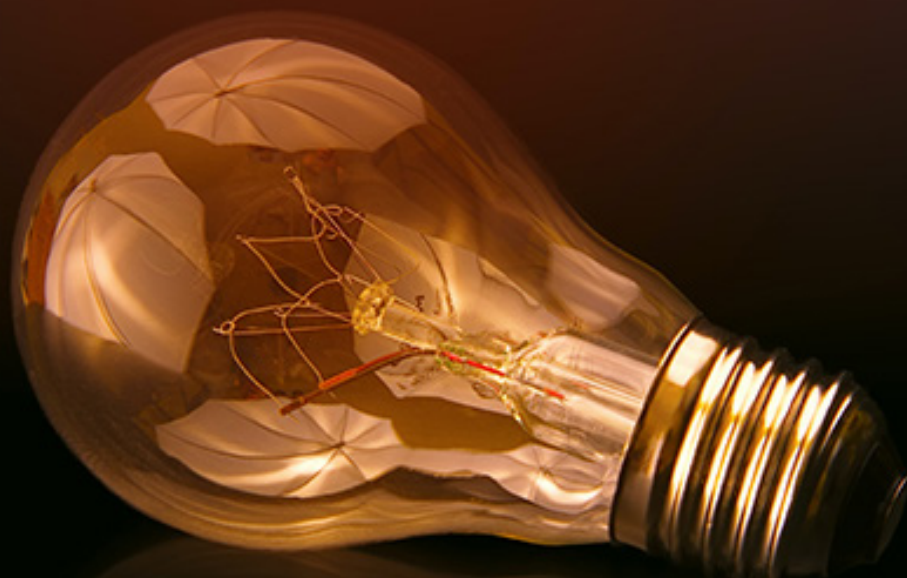
Metric	ISX	KSE	BK	MSX	PEX	QSE	Tadawul	TSE
Direct & Indirect GhG Emissions	✗	✗	✓	✗	✗	✓	✓	✓
Carbon Intensity	✗	✗	✓	✗	✗	✗	✓	✓
Direct & Indirect Energy Consumption	✗	✗	✓	✗	✗	✓	✓	✓
Energy Intensity	✗	✗	✓	✗	✗	✓	✓	✓
Primary Energy Source	✗	✗	✗	✗	✗	✓	✗	✓
Renewable Energy Intensity	✗	✗	✗	✗	✗	✓	✗	✗
Water Management	✗	✗	✓	✗	✗	✓	✓	✓
Waste Management	✗	✗	✓	✗	✗	✓	✓	✓
Environmental policy	✗	✗	✓	✗	✗	✓	✓	✓
Environmental impacts	✗	✗	✗	✗	✗	✓	✓	✗
CEO Pay Ratio	✗	✗	✗	✗	✗	✓	✓	✓
Gender Pay Ratio	✗	✗	✓	✗	✗	✓	✓	✓
Employee Turnover Rate	✗	✗	✓	✗	✓	✓	✓	✓
Gender Diversity	✗	✗	✓	✗	✓	✓	✓	✓
Temporary Worker Rate	✗	✗	✗	✗	✗	✗	✓	✓
Non-Discrimination	✗	✗	✓	✗	✗	✗	✓	✓
Injury Rate	✗	✗	✓	✗	✗	✓	✓	✓
Global Health	✗	✗	✗	✗	✗	✓	✓	✓
Child & Forced Labor	✗	✗	✓	✗	✓	✓	✓	✓
Human Rights policy	✗	✗	✓	✗	✓	✓	✓	✓
Human Rights violations	✗	✗	✗	✗	✓	✓	✗	✗
Board – Diversity	✗	✗	✓	✗	✓	✓	✓	✓
Board – Separation of Powers	✗	✗	✓	✗	✓	✓	✓	✓
Board – Confidential Voting	✗	✗	✗	✗	✓	✗	✗	✗
Incentivized Pay	✗	✗	✗	✗	✓	✓	✓	✓
Fair Labor Practices	✗	✗	✗	✗	✓	✗	✓	✗
Supplier Code (SC) of conduct	✗	✗	✗	✗	✗	✓	✓	✗
Ethics Code (EC) of conduct	✗	✗	✗	✗	✓	✓	✓	✓
Bribery/Anti-Corruption Code	✗	✗	✗	✗	✓	✓	✓	✓
Tax Transparency	✗	✗	✗	✗	✓	✗	✓	✗
Sustainability Report	✗	✗	✓	✗	✗	✓	✓	✓
Framework Disclosures	✗	✗	✗	✗	✓	✗	✓	✓
External Validation & Assurance	✗	✗	✓	✗	✓	✓	✓	✗

There is no doubt that the MENA region is experiencing a fast transformation, with this change enhancing economic growth, diversifying economies, creating jobs and improving overall quality of life. In fact, there was a sequence of regional developments, yet still relatively modest, in relation to climate change, sustainable finance, social considerations, and good governance, as the year 2021 saw a relative uptick in sustainable finance transactions from the private and public sectors with numerous environmental related commitments from some governments in the GCC with net zero emissions target announcements.

First, the “E” of ESG is increasingly coming to the forefront as governments, mainly in the GCC area, seek to establish a transition from oil and gas. In the run-up to the COP26 Climate Change Conference in Glasgow, UAE committed to net-zero carbon emissions by 2050, Saudi Arabia and Bahrain also vowed to achieve net zero by 2060. With the next two COPs scheduled in Egypt (November 2022) and the UAE (2023), climate action in the Middle East is expected to come under greater scrutiny. There was also a some increase in GCC government led and/or public-private partnerships for green financing, investment in renewable energy, sustainability linked sovereign issuances. However, Middle Eastern countries are powered almost exclusively on gas and oil, with little coal reliance. 77% of power came from gas in 2021, and 21% from oil, as few Middle Eastern countries have made any steps to embrace clean electricity by investing in solar power and other renewable energy technologies.

Second, the “S” (social) of ESG also saw advancement with issuance of data protection laws, regulations on ethical use of technologies like artificial intelligence, and government initiatives related to human rights, diversity and inclusion, yet still very modest. However, social values, such as supporting communities, are also important for businesses in the region. This commitment was seen clearly during the pandemic, when family businesses in the region actively supported initiatives to help their people, suppliers and local communities.

Third, the “G” (governance) of ESG is increasingly an area of focus in the region, mainly in addressing organizational culture and values. A review in 2014 by the OECD highlighted that several countries in the region have issued governance codes and guidelines for banks, insurance companies, state-owned enterprises, securities companies, and small and medium sized enterprises (SMEs). These guidelines and codes are issued by central banks, capital market authorities and corporate governance institutes. As the ESG agenda advances in the Middle East, some banks in the region are beginning to screen their investment products and loan portfolios for climate impacts, illustrating how governance is in constant evolution in the region.

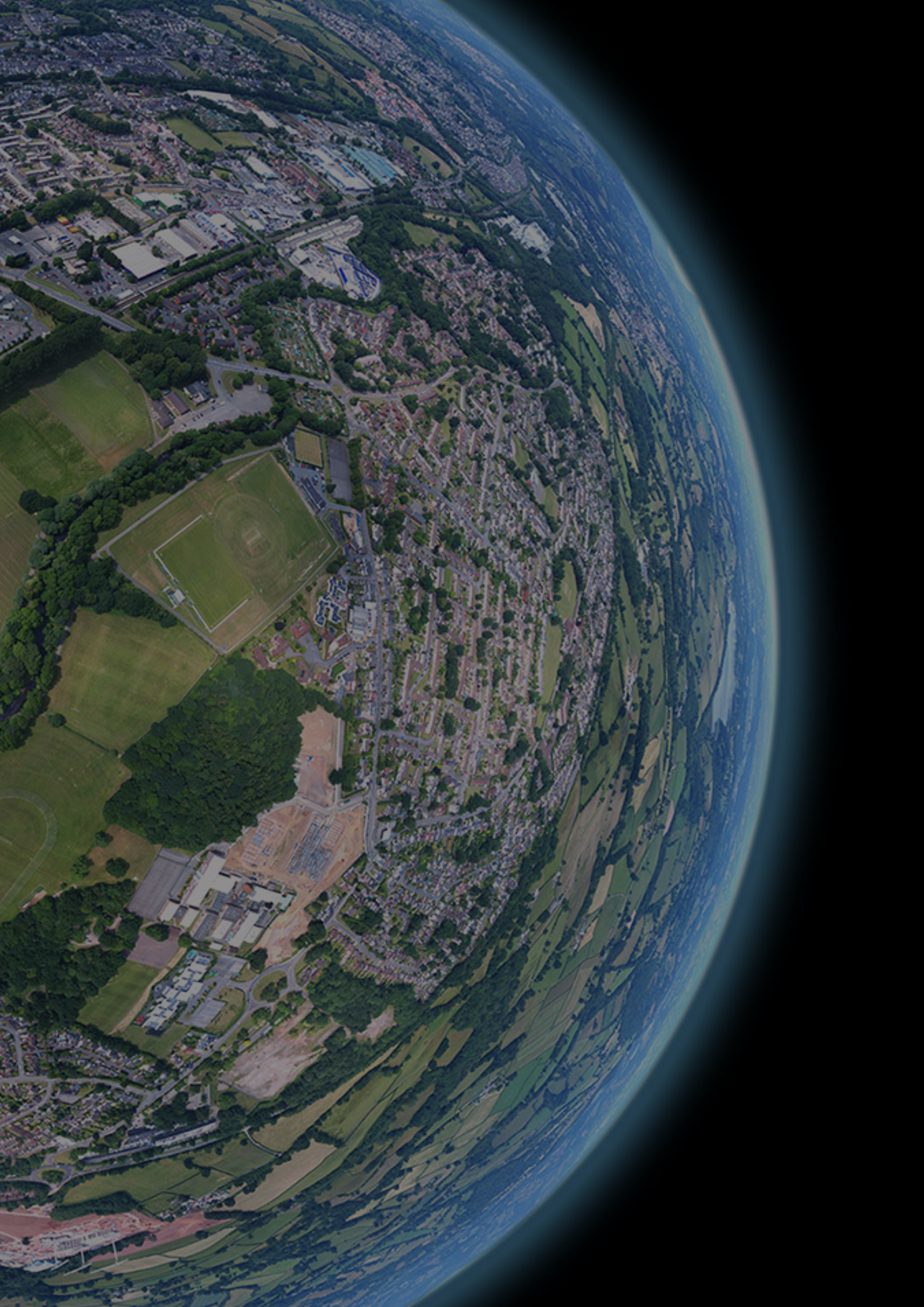


An aerial photograph of a city and its surrounding landscape, viewed from a high altitude, likely from space. The image shows a mix of urban development, green spaces, and agricultural fields. The city is densely packed with buildings and roads, while the surrounding areas feature large green fields and some industrial or commercial structures. The overall scene is a blend of natural and built environments.

Chapter

IV

SUSTAINABILITY PLANS BY ARAB EXCHANGES



Over the last few years, many Arab Exchanges launched sustainability plans to encourage their participants to introduce climate-friendly products and to implement sustainable strategies, such plans are also aligned with sustainable future visions launched by most Arab governments.

Abu Dhabi Securities Exchange (ADX)

On July 2019, Abu Dhabi Securities Exchange (ADX) launched its ESG disclosure guidelines for listed companies. The ADX strategy aims to encourage sustainable economic growth, while providing ESG training programs to encourage the business community to adopt ESG best practices. The comprehensive released standards (31 KPIs) will enhance ADX's competitiveness and attract more responsible investments, the guiding principles will help ADX to promote sustainability in financial markets, and this is aligned with the UAE National Vision 2021 and Abu Dhabi Economic Vision 2030, both visions aim to implement approaches based on sustainable and knowledge-based economy. Starting 2021, the UAE Securities and Commodities Authority (SCA) requires listed public joint stock companies to adhere to specific ESG disclosure requirements.



Amman Stock Exchange (ASE)

ASE has issued some introductory publications about sustainability such as Guidance on Sustainability Reporting in both languages Arabic and English which indicates steps for the listed companies to prepare the sustainability report, sustainability importance, and how the listed companies disclose their sustainability performance beside the most important sustainability measures with the international standards in this domain, it is worth noting that the ASE is working on updating the guidance to be more beneficial and support to the companies. ASE issued its first sustainability report for the year 2020 included in its annual report. And this step will be a motivational step for companies to start preparing their own sustainability report. ASE in its strategic plan for (2021-2023) has a project about issuing the sustainability reports by ASE 20 companies compulsory, as an initial step for enforcing all companies listed in ASE. ASE in cooperation with the United Nations Development Program (UNDP) and the United Nations Global Compact Network in Jordan (UN Global Compact Network), held a training course between the period 5-7 October 2021 organized by Social Value International (SVI) for representatives of ASE20 index companies to familiarize them with the importance of issuing sustainability reports and how these reports are prepared according to the latest initiative of the UNDP (SDG Impact Standards). The listed companies included in the ASE20 index sample for the first quarter of 2022 will be obliged to issue sustainability reports for 2022, in accordance with the GRI Standards, and the company may add the Transparency topic to the report in accordance with the SDG Impact Standards.



Bahrain Bourse (BHB)

Bahrain Bourse strives to be at the forefront of the ESG agenda within Bahrain's capital market ecosystem and wider financial community, acting as a catalyst and driver to contribute towards ESG and net zero goals. In parallel, Bahrain Bourse values the importance of incorporating Environmental, Social, and Governance (ESG) factors into its day-to-day business operations, to achieve sustainable growth and meet stakeholder expectations. Currently the Kingdom of Bahrain (Bahrain) ranks 1001 in the UN Sustainable Development Goals (SDGs) Global Ranking. Bahrain Bourse ESG framework is in line with the Kingdom of Bahrain's commitment towards

achieving net zero goals by 2060, as well as a number of interim initiatives by 2035. Bahrain Bourse ESG framework is also in line with UN Sustainable Development Goals (SDGs) and Bahrain Vision 2030. Bahrain Bourse believes that good corporate ESG practices are fundamental to its continued success and the delivery of enhanced business performance. Bahrain Bourse has deployed key initiatives to promote the adoption of Environment, Social and Governance (ESG) among the stakeholders. The efforts had contributed to promote sustainability reporting and disclosure on a voluntary basis, promoting sustainable financial products and responsible investments.



Casablanca Stock Exchange (CSE)

Casablanca Stock Exchange is the second largest in Africa by market capitalization. With Morocco hosting the climate change conference COP22 in November 2016, the exchange has been instrumental in developing a roadmap of the Moroccan financial sector for sustainable development and the signing of the Marrakech Pledge. Casablanca has developed with the AMMC, the market regulator, in 2017 guidance on ESG reporting. The exchange also launched an ESG index in collaboration with Moody's in 2018 and published its sustainability report in 2021. The exchange remains committed to pursuing its efforts to promote sustainable capital markets and has rolled-out several initiatives including capacity building of market participants including regulators, institutional investors and issuers.



Dubai Financial Market (DFM)

In 2019, Dubai Financial Market (DFM) launched its Sustainability Strategic Plan 2025 to promote ESG best practices for its market participants. The Strategy aims to create long-term value for DFM participants, and become the sustainable financial market leader by 2025. The basics of this strategy are; Sustainability Reporting & Disclosures, Sustainable Investment Education, Green Products & Listings, and Gender Balance & Empowering People. The DFM has formed Sustainability Committee to follow up the implementation of the Sustainability Strategy, the committee is expected to embed DFM's sustainability policy and practices across DFM business operations, and to launch a series of initiatives to increase the awareness on of ESG investing and encourage issuers to adopt ESG reporting guidance, this will reinforce the companies' ability to attract investments through good governance practices. In 2020, Dubai Financial Market (DFM) launched the UAE Index for Environment, Social and Governance (ESG), the index is designed to measure listed companies embracing ESG best practices in collaboration with S&P Dow Jones Indices and the Hawkamah Institute for Corporate Governance in the UAE (Hawkamah). In 2021, and as part of the Dubai Sustainable Finance Working Group, the DFM participated in launching two guides for sustainable issuance and investments and extended that to the market participants in a well-attended webinar.



The Egyptian Exchange (EGX)

The Egyptian Exchange (EGX) believes in the important role it plays at the community level, not only through becoming a sustainable institution that takes the social dimension as an essential guide to each of its daily decisions and strategic orientation, but also through extending its role to lead and encourage the listed companies to become more sustainable. EGX seeks to improve transparency and integrate all sustainability practices within all market participants. In line with Egypt's 2030 vision to achieve the Sustainable Development Goals (SDGs), EGX took several steps as a leading institution to promote environmental, social and governance (ESG) factors not only on the organization level, but on the market level as well. The Egyptian Exchange is the first Exchange Globally to train and certify all the listed companies on preparing sustainability reports in accordance with Global Reporting Initiative (GRI) standards and principles. This step comes due to the importance of these reports in attracting sustainable investments, and comes to supplement the national efforts in fostering sustainability practices and fighting climate change, especially after the international community vested its trust in Egypt to host COP27 in November 2022 in Sharm El-Shiekh.



Iraq Stock Exchange (ISX)

ISX started conducting an awareness campaign for listed companies (especially industrial sector) by taking care of surrounding issues such as pollution (i.e. oil spills, release of toxic chemicals, greenhouse gas emissions), use of environmentally-friendly products, organic components, etc. In addition, ISX organizes an internal workshop for employees addressed company social activities such as promoting health and safety, encouraging labor-management relations, protecting human rights and focusing on integrity. Social positive outcomes include increasing productivity and morale, reducing turnover and absenteeism, and improving brand loyalty. In parallel, ISE is urging boards of directors on transparency about policies in place, application of codes of ethics, anti-corruption provisions, grievance mechanisms, adherence to company values, reporting arrangements, norms-based screening. ISX is working on expanding its activities to reach all sectors and spread the ESG culture and encourage them how to deal with sustainable and impact investing by holding workshops, and focusing on the separate interrelated threat of biodiversity loss since it is an impending natural catastrophe that could have enormous economic consequences, with more than half of the world's total gross domestic product dependent on natural resources from food to ingredients for medicine. ISX is Working on launching ESG report guidance to encourage both companies and investors to direct and manage their future decisions.



Boursa Kuwait (BK)

In 2017, Kuwait launched a plan to transform its economy by 2035 through 164 strategic development programs. The plan is intended to transform the economy by attracting direct foreign investments, create partnerships and transfer information about renewable energy, service sectors, and information technology. The Kuwait National Development Plan also aims to focus on sustainable investments that are aligned with environmental and social factors, and to introduce social and economic empowerment programs targeting youth, women, SMEs, and the elderly. Boursa Kuwait has developed corporate sustainability disclosure guide with the aim of supporting Kuwaiti listed companies report on Environmental, Social, and Governance (ESG) issues, in order to meet the growing needs of various stakeholders, including investors, customers, suppliers, and regulators for transparent and regular information. The ESG disclosure guide recommends an initial set of 30 sustainability indicators. These indicators are based on KPIs from the World Federation of Exchanges (WFE) and the Sustainable Stock Exchanges Initiative (SSE). These KPIs are designed to be relevant for all sectors and are aligned with the seven pillars of Kuwait's National Development Plan.



Muscat Stock Exchange (MSX)

Recently, the ESG standards were approved by the heads of GCC exchanges, MSX will conduct an awareness campaign and workshops for companies before the end of the year, and the exchange is working on preparing a disclosure guidance for ESG disclosure. MSX is also currently creating an electronic page on the Muscat Stock Exchange website for the listed companies to view the ESG reports. As a vision, all companies listed on the Muscat Stock Exchange work to implement the standards of the United Nations principles related to the SSE.



Qatar Stock Exchange (QSE)

QSE has accelerated the efforts to promote sustainability after it launched the ESG reporting Guidelines in 2016. Qatar's National Vision 2030 emphasizes that developments should be carried out with responsibility and respect for people and the environment. Qatar Stock Exchange strongly supports the transition into an investment environment that contributes to the realization of the human, economic, social and environmental pillars of Qatar National Vision 2030. In 2018, QSE has launched the first sustainability platform in the region to encourage listed companies to disclose their reports on sustainable development, Qatar Stock Exchange Sustainability and ESG Dashboard is designed to accelerate the objectives of the ESG

Guidance on reporting and to help listed companies to communicate their ESG and sustainability performance efficiently with investors and other relevant stakeholders. In 2021, QSE announced the launch of the MSCI QSE 20 ESG Index in collaboration with MSCI, with the joint index designed to identify the top 20 securities within the MSCI Qatar IMI Index, that demonstrates the best Environmental, Social and Governance (ESG) profile. Listed company education is an additional focus with QSE hosting bi-monthly webinars with leading ESG practitioners.



Tunis Stock Exchange (TSE)

Tunis Stock Exchange launched in collaboration with the regulatory authority (Financial Market Council) the ESG reporting Guide in December 2021. Currently some listed companies disclose in their annual management reports, a part concerning ESG reporting. A support program for listed companies, initiated by the Tunis Stock Exchange, is currently being finalized. It is still planned to introduce ESG reporting into TSE regulations as an obligation for listed companies. In addition, initiatives are being finalized to launch green bonds since there are tax advantages already in force since the beginning of 2022.



Saudi Exchange (Tadawul)

In 2018, Tadawul solidified our commitment to ESG by becoming a partner exchange in supporting the UN Sustainable Stock Exchanges Initiative and working to promote ESG awareness and encourage sustainable investment, in collaboration with market participants. In October 2021, the Saudi Exchange launched ESG disclosure guidelines for companies listed on the Saudi Exchange, to promote sustainable growth in the Kingdom. The guidelines serve as a roadmap for companies looking to better navigate the ever-changing ESG landscape by introducing a selection of reporting options to help companies measure their ESG growth, and ultimately unlock the benefits of incorporating ESG into their operations. With ESG becoming an increasingly critical part of decision-making for local and international investors, these guidelines encourage companies to voluntarily disclose their ESG performance and offer them structure and support on their journey forward. Since introducing the ESG disclosure guidelines, Tadawul have organized a series of webinars to help Saudi Exchange listed companies broaden their understanding of the importance and benefits of ESG implementation from the perspective of many different stakeholders. Going forward, Tadawul plans to launch our ESG advisory initiative and to meet with listed companies individually to see how Saudi Exchange can support them in improving their ESG profile and advise them on how to improve their disclosures and ratings.



Conclusion

Last but not least, a slight improvement, yet welcomed, has been achieved in the region over the last couple of years, while the level of awareness of the concept of sustainability could be said to be “fair” in the majority of our Arab markets, however further efforts are needed to be exerted in other markets. In addition, providing voluntary guidance doesn’t guarantee that companies will report sufficient ESG information, companies in the Arab region need to address increasingly ESG factors into their business models to improve their ESG rating, as Arab companies are lagging behind their peers in the world regarding ESG ranking. In fact, although some companies in the Arab region disclose few ESG indicators to mitigate the reputational risk associated with poor ESG activities, in particular those associated to adverse environmental impact, however, ESG reporting still in its early stage of development. Beside issuing ESG reporting guidance to guide companies to prepare sustainable reports, exchanges are encouraged to prepare annual sustainability reports to demonstrate their commitment to deliver on the goals and initiatives toward their capital markets. Also, regulators in the Gulf region are limited in their ability to provide incentives to encourage the adoption of ESG standards, particularly tax reduction incentives. However, the region needs to focus on developing regulations that can be accessed by investors and issuers which aim to reduce the costs of complying with ESG regulations.

In parallel, most Arab countries launched visions for the coming decade to promote sustainable economic growth, but the governments are required to take actions to implement major reforms to attract investors and boost competitiveness, such as easing business licenses, lowering fees, loosening foreign ownership of firms, reducing non-tariff barriers, liberalizing foreign ownership, and supporting women and young entrepreneurs. In recent years, many GCC countries has been working on strategies to attract investments, especially in non-hydrocarbon sectors, and to encourage non-oil exports, such as reforming legislation and creating free trade zones with generous incentives for investors. However, the direct inflows of funds in the GCC region have under-performed compared to other emerging markets. Arab Exchanges bear the core responsibility to follow up their governments’ visions and set up the required regulations that promote more transparent and effective disclosures. Exchanges need to create frameworks that stimulate their partnerships because individual efforts can’t achieve the desired objectives, especially with the presence of global unions that work closely to exploit ESG and other investments opportunities. Arab exchanges should work closely to develop common ESG guidance that help issuers to report complete and competent ESG information. Therefore, the Arab Federation of Exchanges will spare no effort to intensify its activities for its members to enhance their development and competitiveness globally in a way that supports joint Arab capital markets cooperation and a mean of strengthening the economies development of Arab countries and ultimately benefits individuals in the MENA region.



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