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How local content can promote ESG

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GCC countries are setting ambitious environmental, social, and governance (ESG) targets. Every GCC national agenda has a significant ESG component and targets. These are part of a global wave of increased awareness about how the private sector can contribute to meeting important national and international goals, such as decarbonization, circular economies, and local talent development. Improving ESG performance represents a new way of doing business, an approach different from focusing only on financial metrics. Although attaining ESG standards can seem daunting, governments and large organizations in the GCC have a head start thanks to strong local content platforms. Companies and governments can expand their programs to address these ESG issues.

Local content programs provide a foundation for ESG because they already contain such social objectives as employment and economic development — the *S* in ESG. GCC local content initiatives began primarily through national oil companies — such as Saudi Aramco's In-Kingdom Total Value Add (IKTVA), ADNOC's In-Country Value (ICV), Qatar Energy's Tawteen, and SABIC's Nusaned. Local content is now at the heart of many GCC government agendas. Some countries have national-level local content programs. These programs have built institutional capabilities, policies, and mechanisms that boost local value creation, strengthen resilience, and stimulate sustainable growth.

These efforts have yielded important results. Local content in Saudi Arabia's defense sector, for example, has grown from 2 percent in 2015 to 8 percent in 2020. Saudi Aramco's local content index has increased from 35 percent at the end of 2015 when it launched IKTVA, to 56 percent in 2020. Successful ESG will have a similarly significant impact. We estimate that incorporating circular initiatives into urban areas can generate savings in the GCC of US$138 billion by 2030, around 1 percent of cumulative regional GDP from 2020 to 2030. It can also reduce emissions by 150 million tons, virtually the CO_2 emissions of the Netherlands in 2015.

To achieve those gains, governments can expand existing local content programs. That involves using well-established and tested measurement mechanisms, procurement policies, and financing; and the development of small and medium-sized enterprises (SMEs).

GCC countries already possess mature mechanisms for measurement. They have the capability to measure, audit, and certify their overall local content performance. They achieve this by assessing underlying metrics such as the number of local jobs created or the share of women in the workforce. They can now expand these audit and certification processes to consider a wider set of ESG data, such as greenhouse gas emissions or circular economy metrics.

GCC companies have a head start on procurement. Most local content programs focus on procurement to increase the domestic contribution to any given product or service. Similarly, ESG requires close coordination with a company's suppliers. By aligning those two objectives, companies can build on their local content progress to meet their ESG goals. National champions, such as national oil companies, can embed ESG principles into local procurement processes and reorient them to buy low-carbon products and services. Companies can also focus on circular procurement — recapturing and reusing waste products along the supply chain to reduce the amount of trash going into landfills.

GCC companies have already funneled financial resources to local procurement, and that can now work for ESG. Across the GCC, companies have made targeted investments to build up local capabilities. They can apply that same approach to support and enable investments in ESG-linked projects. Such ventures could include recycling plants and sorting technologies that strengthen the local circular value chains and drive future competitive advantage for the region.

Finally, a critical aspect of all GCC local content programs is to develop SMEs. The approach is to focus on such issues as workforce development and supplier development. Governments and companies can expand these programs to develop ESG capabilities among local SMEs. In terms of governance, large companies can work with their SME suppliers to help them develop the right oversight and governance, thus generating benefits that spread along the value chain.

There are sizable rewards for countries and companies that can implement ESG successfully in the short and long term — and sizable disadvantages for those that cannot. By capitalizing on existing local content programs, GCC countries can achieve their ambitious ESG goals.

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