

# Reimagining our region through ESG

The 2022 Middle East report



PwC's Environmental, Social and Governance (ESG) survey, examining the challenges, economic opportunities and competitive advantage to be gained from adopting the agenda that is transforming our region.

**ESG imperatives are now front and centre for Middle East businesses and governments alike – but our first survey of leaders with ESG responsibilities shows most organisations are only at the start of their journeys.**

Our region is undergoing a rapid transformation, with this change driving economic growth, diversifying economies, creating jobs and improving overall quality of life. Reflected in national visions set out by individual countries, this transformation is threaded through every aspect of Middle Eastern society.

As a firm, we believe that embedding ESG principles across all areas of economic and social evolution is essential to realising the ambitions of our region, enabling it to become a leader on the global sustainability stage. But what does this mean, in practical terms, for organisations and governments at the forefront of this transformation?

Earlier this year, PwC Middle East conducted a survey to better understand the level of ESG maturity in the region and to explore the main ESG issues facing organisations today. The result is a first of its kind, holistic assessment of ESG for the Middle East from top-level executives. It explores where companies are on ESG, their priorities for action, barriers to implementation and how these can be overcome.

Responses highlight three critical areas that need to be addressed: strategic ESG alignment, readiness to change and adapt, and the need for greater government direction and more extensive collaboration with the private sector. In short, we found that not all national priorities related to ESG are properly reflected yet in corporate strategies; that most companies are still in “start-up” mode when it comes to ESG strategy and implementation; and that companies want more specific government policies and regulations to underpin ESG efforts. Underlying all three is a real need for the public and private sectors to work together on ESG transformation in order to build trust in shared goals and deliver genuine impact.

What's clear is that companies in the Middle East have a strong sense of what is needed to achieve progress on ESG. ESG issues are exerting a growing influence on government policy and corporate direction. The pandemic, and the urgency to act against climate change, has clearly repositioned ESG from a niche to a mainstream concern. So has the realisation that acting on ESG brings significant business opportunities.

We would like to thank all respondents who took the time to contribute to this valuable research.

**Abdelkaleq Ahmad**  
PwC Middle East Consulting Partner,  
Economics and Sustainability



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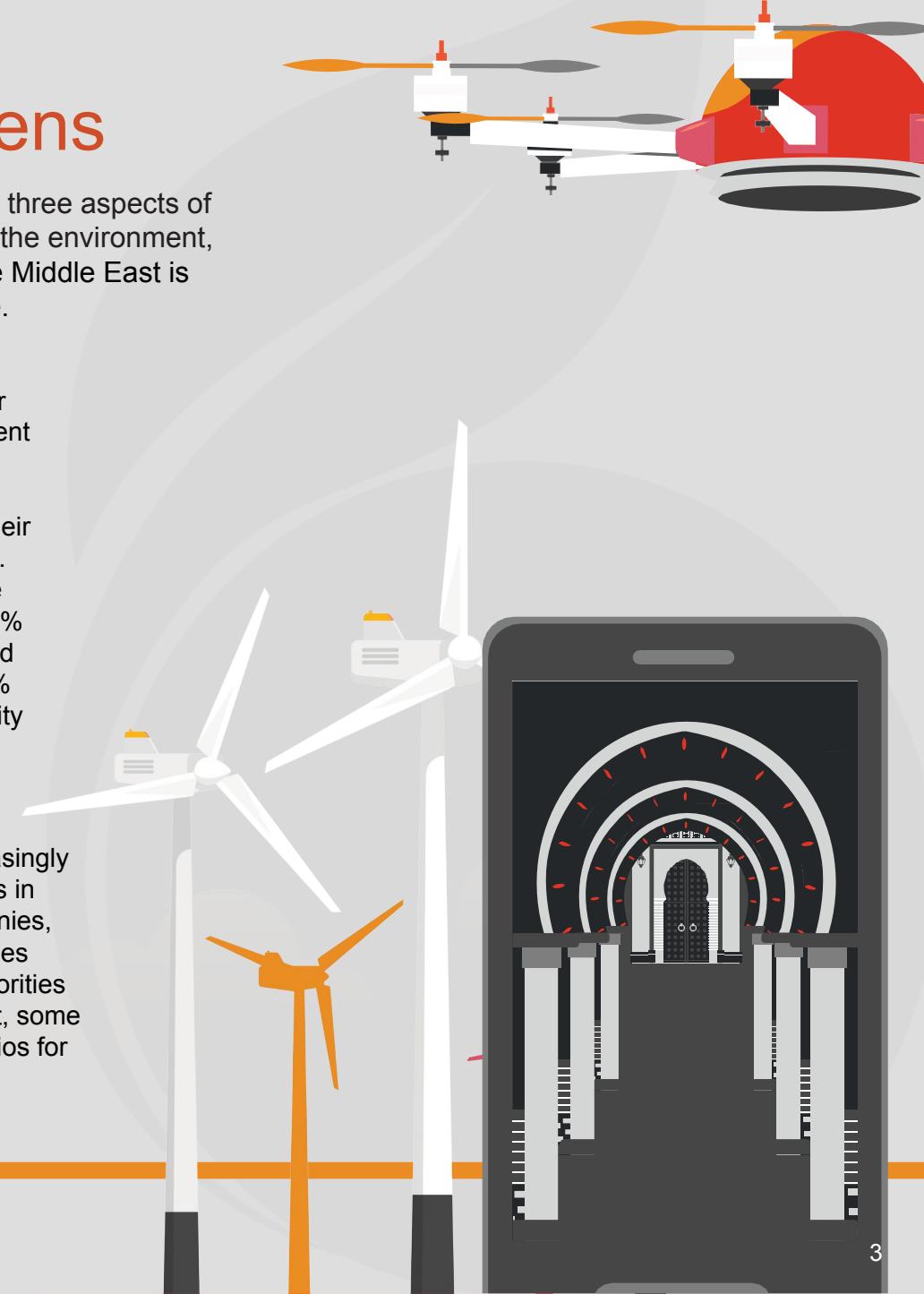
# ESG in the Middle East – Transformation through a new lens

The values that underpin ESG are not new to the Middle East. For example, all three aspects of ESG permeate the region's efforts to diversify economies, improve the state of the environment, create more opportunities for young people (almost half of the population of the Middle East is under the age of 24) and drive a higher participation of women in the workforce.

**E**nvironmental issues are increasingly coming to the fore as governments in the region seek to transition from oil and gas. In the run-up to the COP26 Climate Change Conference in Glasgow, the United Arab Emirates committed to net-zero carbon emissions by 2050; Saudi Arabia and Bahrain also pledged 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.

**S**ocial 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 championed initiatives to help their people, suppliers and local communities. According to the results of PwC's Middle East Family Business Survey (2021), 84% of the region's family businesses retained as many staff members as possible, 56% took action to support the local community and 45% provided financial support or loans to their employees.

**G**overnance standards and codes are already adopted in the region and are increasingly an area of focus. 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.



# 01

Key survey themes

The responses to PwC's first ESG survey in the Middle East focus around three themes - priorities in transition for the public and private sector, a 'start up' mentality when it comes to ESG and a call for clearer direction from governments:

### ESG priorities are in transition

There is some lack of alignment between corporate and government ESG priorities. For example, water scarcity and biodiversity rank a low fourth and fifth place among the top environmental priorities for companies, despite national policies to protect both. However, climate change and diversity & equality do rank highly which shows some synergies.

### The ESG 'startup' mentality

Companies are still in "start-up" mode when it comes to ESG strategy and implementation, with only 18% of respondents saying their companies had teams and systems in place to cover the full remit of ESG functions.

### A call for clearer direction

Businesses want clearer government policies and regulations to support ESG efforts. In our survey, 86% of large companies said increased ESG regulation would strengthen and accelerate the implementation of their own ESG strategies.

It is clear that the right government signals, policies and regulations can galvanise businesses into playing a greater role in achieving national commitments related to ESG objectives. And it is also clear from the responses to our survey that businesses want to take on this role.



# ESG priorities

Our survey established important links between ESG priorities for companies and organisations in the Middle East, as well as issues that cut across all three priorities.



## Environment: Waste and climate change

emerged as the top environmental priorities for respondents in the survey, ahead of air pollution, water and biodiversity. Saudi Arabia alone produces about 15 million tonnes of garbage a year, 95% of which ends up as landfill. The Kingdom plans to invest \$6.4 billion in the recycling of waste by 2035 as part of its Vision 2030 strategy. Across the region, the circular economy model opens up huge opportunities, whether in terms of products, energy creation or services, and can make a significant contribution to economic diversification.



## Social: Diversity and equality

is the top societal area of focus for companies in the survey. Gender equality is clearly a priority, with women having a more active role in social and economic life than ever. But so are localisation policies that have set increased targets and employment quotas for GCC nationals, primarily aimed at unlocking the potential of the region's large and growing young population.



## Governance: Addressing organisational culture and values

was the top governance priority for 57% of respondents. In general, improved governance is regarded as a key enabler for successfully implementing an ESG strategy. Respondents referred to the need for "senior leadership buy-in and commitment"; "fixing smart KPIs for achieving goals and incentivising people to achieve it"; "being honest about the issues"; and the need for "formalising a strategy".

Across the ESG areas you selected, please rank the top 3 priorities for your organisation over the next 12 months.



Diversity and equality  
Rank 1:08%



Climate change (combined)  
Rank 1:14%



Safety and standards  
Rank 1:11%



Organisational culture and values  
Rank 1:06%



Transparency and reporting

Governance

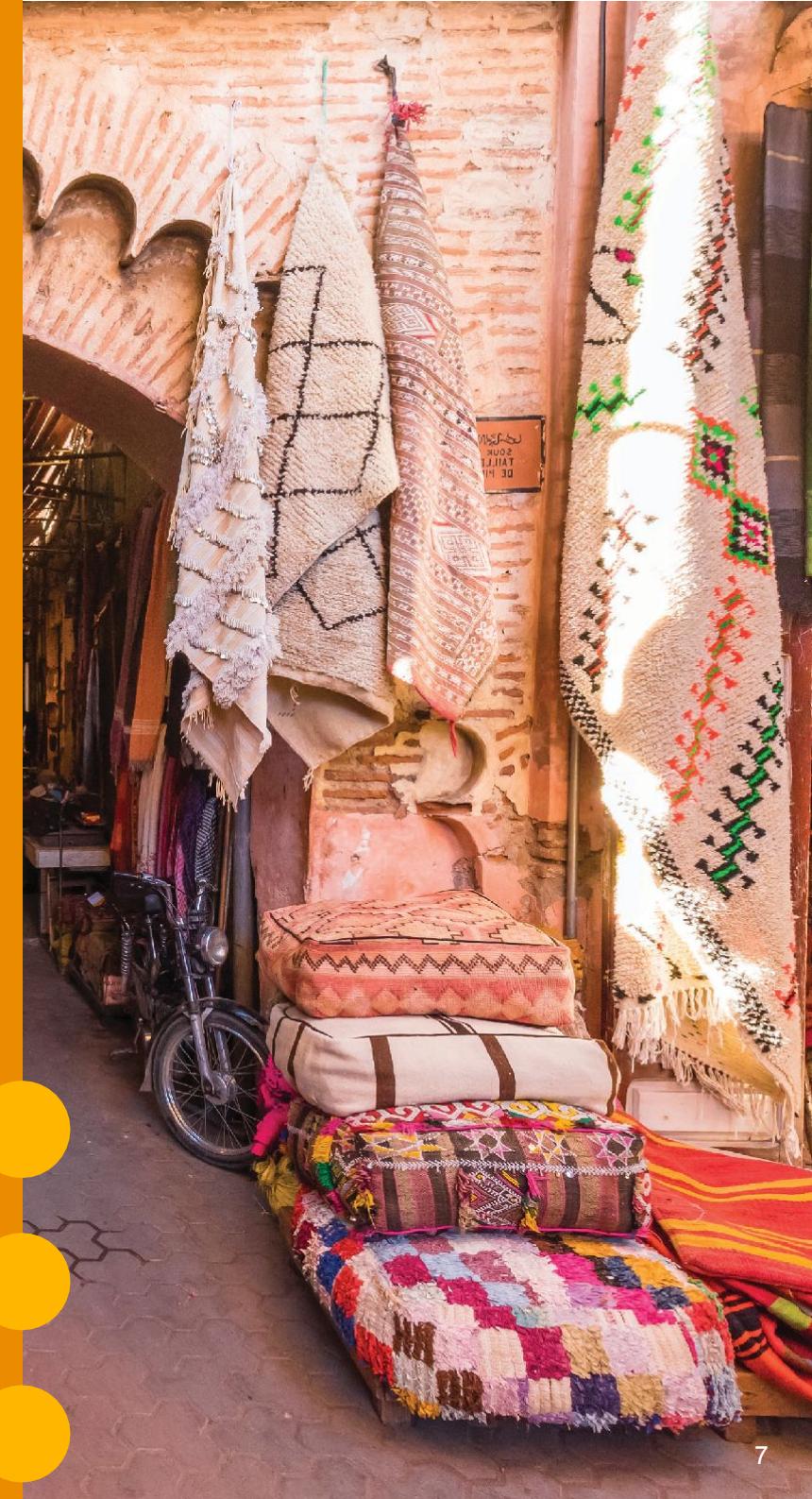
Societal

Environmental



We have an **ESG** strategy because it's the right thing to do; because it will become our licence to operate down the line; and because we need to support our customers from a business perspective. It is the future.

**Shargiil Bashir**  
Chief Sustainability Officer,  
First Abu Dhabi Bank



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The survey findings

# 01 Priorities are in transition

ESG trends are converging and driving rapid social and economic change in the Middle East. Some of them are so recent – for example, government net-zero pledges in response to climate change – that companies are still digesting their implications. Nevertheless, it is clear that companies are responding to new national priorities. Our survey showed that climate change was a top environmental priority for 54% of respondents. With the next two climate summits scheduled to be hosted in the region, companies and organisations can be expected to focus more on this issue.

Climate change and waste aside, one of the main findings from the survey is that there are some gaps between national governmental priorities on ESG and those of corporations. Bridging this gap is therefore critical for greater alignment between corporate and national ESG strategies. Businesses and governments need to work together on key priorities or there is a risk of counter productive actions.

Addressing water scarcity, for example, is a top priority for all governments in the region. Billions of dollars are invested each year in building new desalination capacity to compensate for dwindling freshwater reserves. Yet addressing the challenge of water did not rank among the top 10 ESG priorities for corporate respondents in our survey. When asked about environmental priorities alone, only 27% of respondents mentioned water security. Biodiversity – a major regional and global concern with the acceleration of the loss of natural habitats and plant and

animal species – was a priority for only 16% of respondents. Natural habitats are crucial for providing clean air, water, food, medicines, protection from storms, all of which underpin resilience in societies and businesses.

## Outlining the opportunities

The disconnect between national and business priorities around sustainable water management and protecting biodiversity is potentially concerning. But there are positive business opportunities here for companies that move quickly to align their ESG priorities with those of their governments – not only to address risks, but to anticipate demand for new business services and products that are likely to emerge with ESG inspired economic transformations, such as green hydrogen and blue bonds.

Focusing specifically on the opportunities for the retail industry, the Middle East findings of our latest [Global Consumer Index Survey](#) show the growing influence of sustainability as a factor in purchasing decisions. 60% of regional respondents said they are more eco-friendly than they were six months ago and consider sustainability factors when deciding what to buy. Furthermore, 53% told us they always or very frequently buy eco-friendly or sustainable products when they shop in-store, which is well above the global average of 42%. Companies with a focus on sustainability in their value chain and a reputation for investing in environmentally-friendly production are therefore more likely to attract this growing group of eco-conscious buyers than those making the same products unsustainably.

There is even the opportunity for organisations to become trailblazers in the region – for example, by actively embracing gender equality at work or pioneering water conservation efforts and the protection of biodiversity.



## Barriers and challenges

This is not to underestimate the barriers to adopting successful ESG strategies in the region. Within organisations, respondents said workforce and cultural issues were the principal obstacles to implementing an ESG strategy. The pandemic and the lack of a well-defined ESG strategy were also high up the list of obstacles.

“It’s important to embed ESG values and culture in an organisation to make decisions come alive.

**Ian Clark**

Executive VP, Shelf Drilling

Another set of difficulties – not specific to the region – is the absence of universal standards and metrics to measure ESG impacts. And while 60% of respondents in the survey said they were very confident or fairly confident about measuring the return on investment (ROI) of ESG initiatives, larger organisations were less confident.

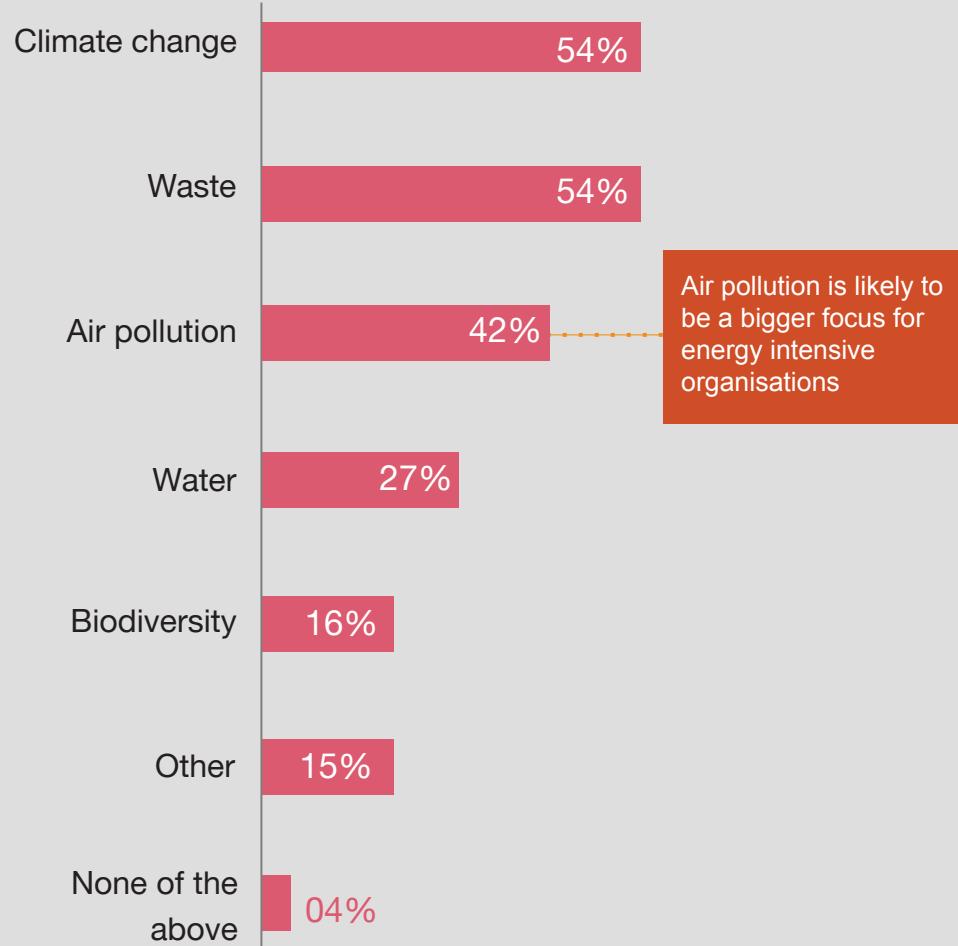
Ian Clark, Executive VP at Shelf Drilling, commented: “It’s difficult to say what the ROI is right now; but the day we need solid ESG ratings to access capital, or to win a client contract, that is when I will be able to demonstrate a big ROI. It’s better to be ahead of the game than to have to play catch-up.”



There are positive business opportunities here for companies that move quickly to align their ESG priorities with those of their governments – not only to address the physical risks of climate change, but also to anticipate demand for new business services and products that are likely to emerge with ESG inspired economic transformations.

Which, if any, of the following Environmental related areas is your organisation planning to focus on over the next 12 months?

59% of \$100m+ organisations are focusing on waste



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Organisations appear confident in their ability to measure ROI of ESG initiatives, however \$100m+ organisations are less likely to be “very confident”.

# 02 The ESG 'startup' mentality

While ESG is clearly on the corporate radar, our findings show that companies in the region are still in the early stages of developing ESG strategies.

Nearly 60% of respondents said they had a formal ESG strategy in place, but further questioning showed this may be an overly optimistic claim.

Two responses, in particular, are telling. First, more than half of the businesses surveyed indicated that their CEO was responsible for leading ESG, indicating an absence of specialised roles or teams. We would expect a formal strategy to have clear ESG governance with roles and responsibilities properly defined. This is an obvious gap.

Second, only 18% of respondents said their companies had teams and systems in place to cover the full remit of ESG functions, including setting strategy and policy, ESG monitoring and reporting, risk management, stakeholder engagement, ESG input on product and service offerings, ESG risk management and communications and marketing.

The need for specialist teams and systems becomes even more apparent from the scale and ambition of ESG commitments in the region. From our survey it is clear that gender equality is a focus for organisations and more are committing to having ESG reporting independently audited. While fewer have made carbon neutral and net zero commitments, this number is expected to increase as a sizable proportion are currently working towards this commitment.

The reasons why companies in the region are embracing ESG are also encouraging, as the answers of respondents indicate that the rationale has moved on from simply achieving energy efficiencies and cost savings. Smaller organisations (<\$100m) cited corporate values as one of the principal rationales for adopting ESG policies, whereas larger organisations (\$100m-plus) were more likely to name directives from leadership as the most important.

Equally clear are the benefits for adopting ESG, including stronger brands, improved compliance, having better ESG data and gaining a competitive edge.



From an organisational point of view, there are clear steps companies can take to embed an ESG strategy. It begins with defining priorities that are aligned with a company's business rationale and with national goals; defining roles and responsibilities to deliver the strategy, with KPIs to measure progress; and deciding on the degree of accountability – from internal reports to full external audits.

**Which, if any, of the following activities fall under the remit of the person responsible for leading ESG in your organisation?**



**63%**



**51%**



**49%**



**46%**



**46%**



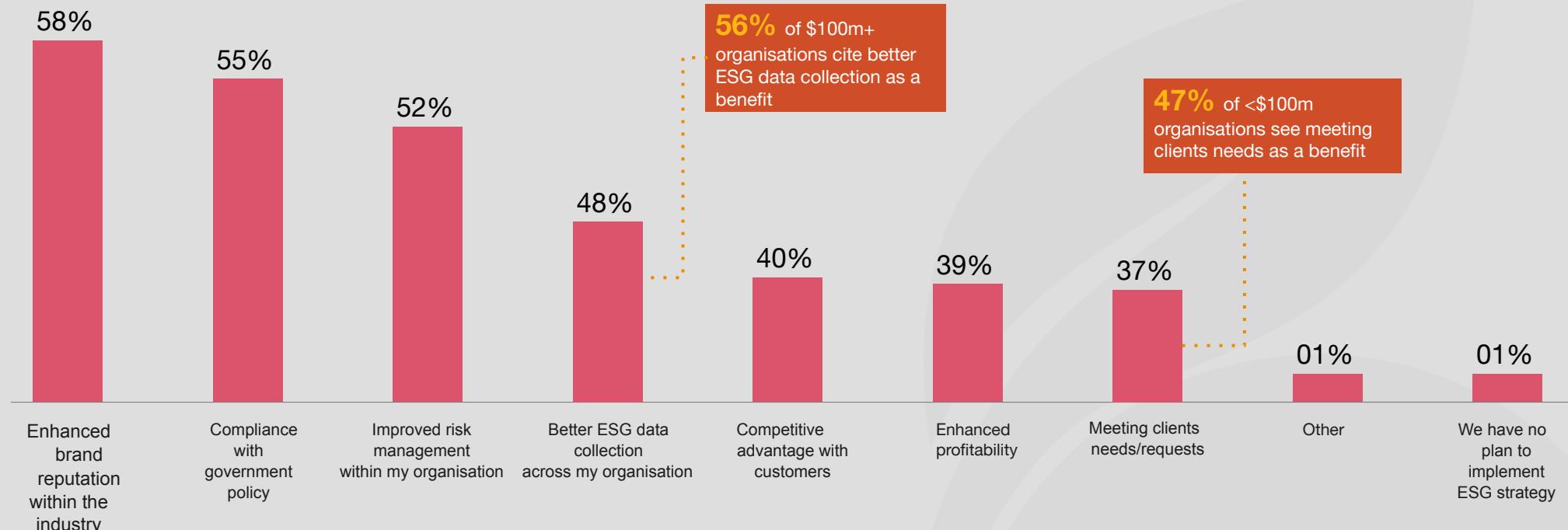
**43%**

ESG-related input on product/service offering

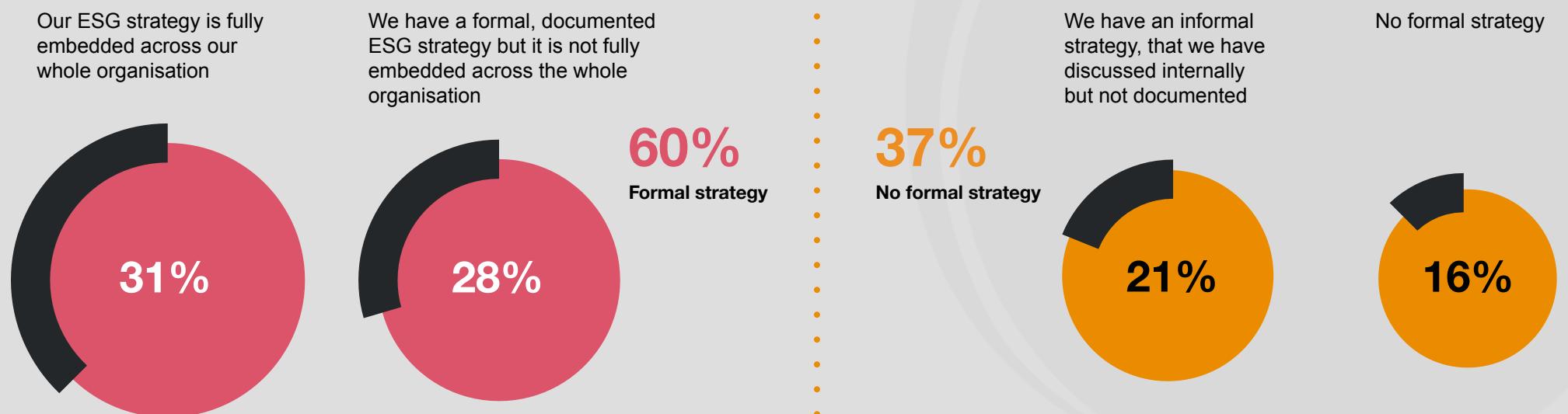
ESG risk management

ESG Communication and marketing

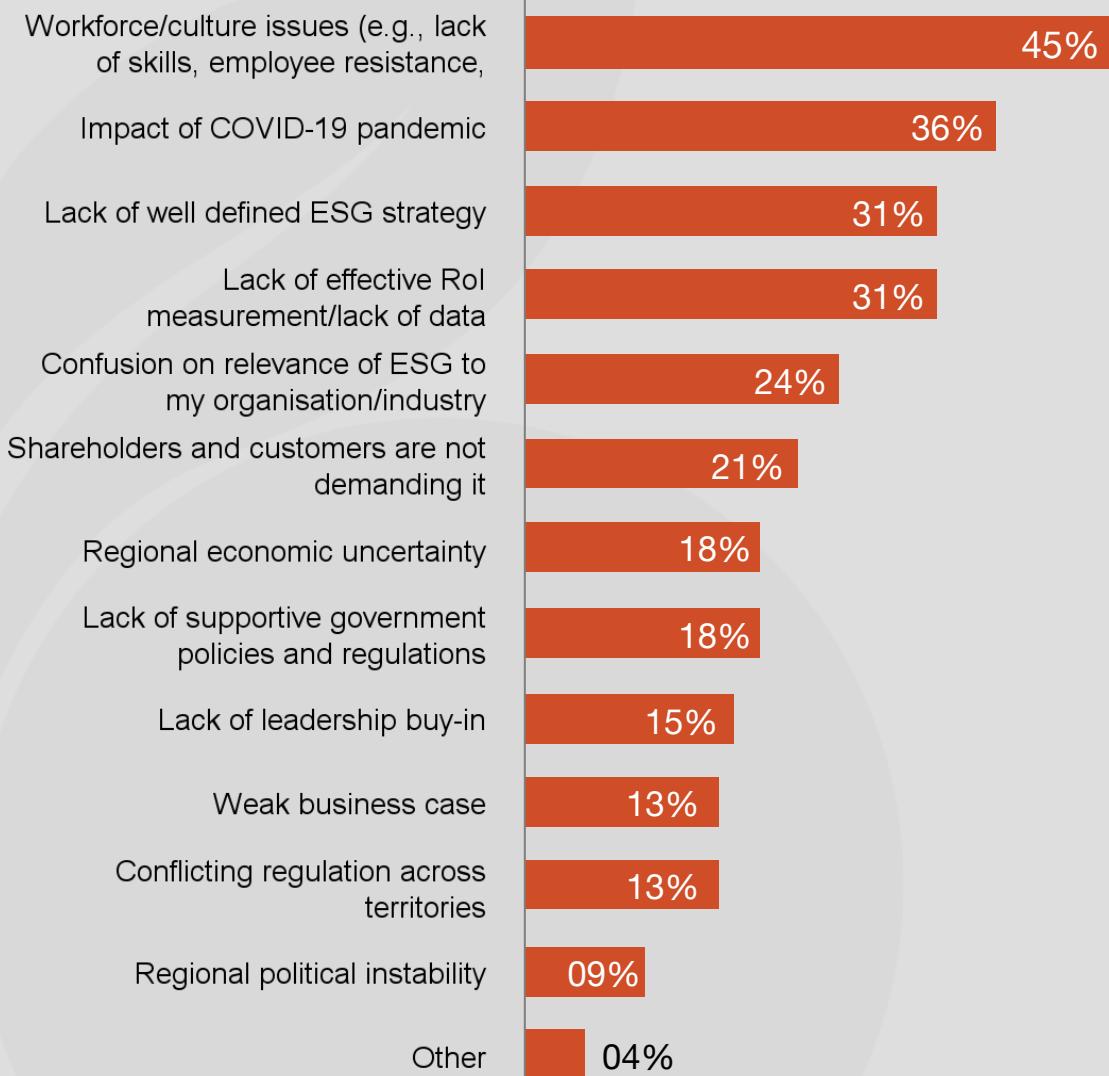
**Within the next 12 months, which of the following benefits does your organisation expect to achieve as a result of implementing an ESG strategy?**



**Which of the following best describes your organisation's status with regards to an ESG strategy?**

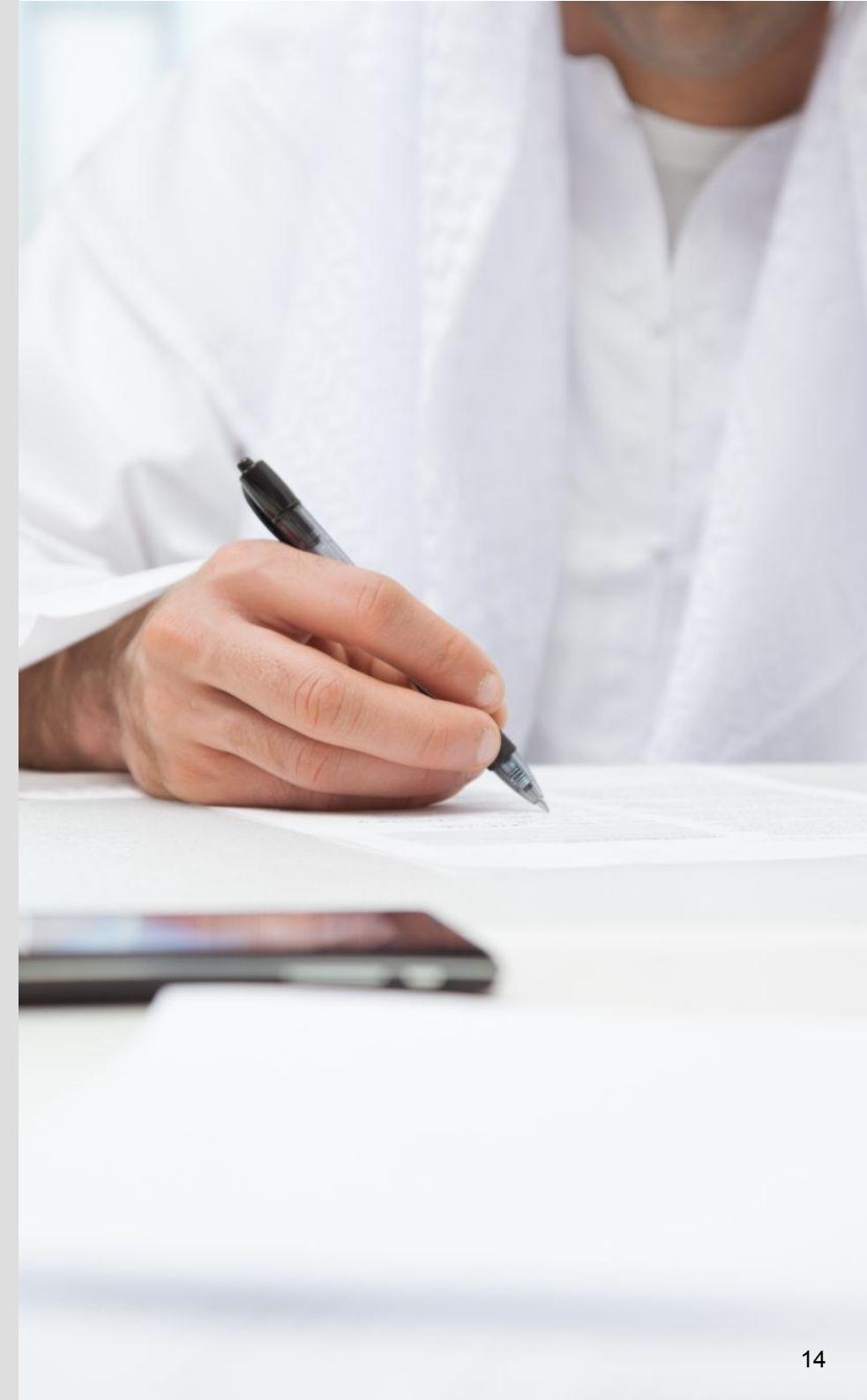


## Which, if any, of the following barriers is your organisation facing in progressing with an ESG strategy.



**38% of \$100m+ organisations cite lack of well defined ESG strategy**

**47% of \$100m+ organisations cite lack of effective RoI measurement**



# 03

# A call for clearer direction

For ESG transformation to make an impact, a two-pronged approach is required. First, businesses must do everything in their power to deliver on ESG issues. Second, government bodies and regulators must develop clear policies and regulations to assist businesses in their transformations.

## **Business leadership**

Companies in the Middle East have a strong sense of what is needed to achieve progress on ESG. Inside organisations, ensuring ESG is a priority at board level is seen as having the greatest impact for driving strategy. Policies to standardise ESG disclosures and risk assessments was the top priority for energy-intensive organisations and came a strong second overall.

When it comes to measuring progress, companies said they needed metrics for proving that ESG initiatives have a measurable impact on communities and over half of respondents also mentioned having mandates for diversity, inclusion and equal pay in the workplace.

## **Government policies and regulations**

There was also a strong call for more government guidance and policies on ESG, particularly when it comes to the environment. Clearly, there are different types of regulations and not all businesses will be impacted in the same way. International regulation – the European Union's proposed Carbon Border Adjustment Mechanism, for example though – could impact energy exports from the region.

Some 54% of respondents said they would welcome policies targeted at sustainable procurement to ensure more environmentally friendly products. Given that the region remains heavily dependent on oil and natural gas for its energy supply, this dependence remains a major barrier for the decarbonisation of industry. As outlined in PwC's publication 'The rise of circularity', the region can create multiple benefits by adopting a circular economy approach in the energy, utilities and resources sector. Benefits include creating more value, improving brand reputation, localisation and job creation and attracting Foreign Direct Investment.

Companies also said they were awaiting detailed policies and implementation plans for recently announced net zero targets, including – among others – energy efficiency measures, renewable energy investment, directives on how to measure carbon emissions, circular economy initiatives, and policies to save and reuse water.



**Governments can encourage and incentivise certain initial behaviours to move ESG agendas forward. They are taking the lead in certain areas such as power generation.**

**Greg Fewer**

Group Chief Financial & Sustainability Officer, Aldar Properties



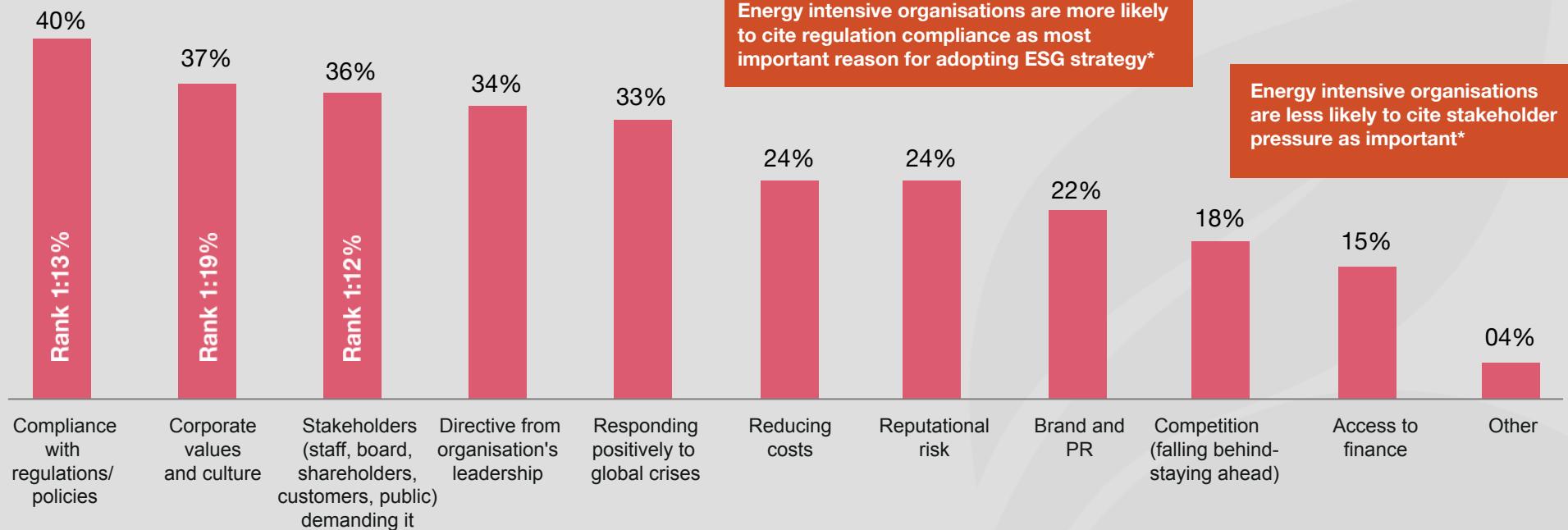
Companies are expecting more ESG regulation in the near future, but they also want better and clearer regulation. More than half of respondents to the survey admitted difficulties in complying with existing external ESG regulations. This indicates an increased need for dialogue between government and companies on these difficulties.

By taking the lead in policy and strategy, governments can also catalyse action by companies. For example, our survey indicates that more businesses are now setting net zero targets since the governments of the UAE, Saudi Arabia and Bahrain made their national net zero commitments around COP26 in 2021. This shows a marked improvement since October and November 2021, when PwC asked CEOs the same question for its 25th Annual Global CEO Survey.

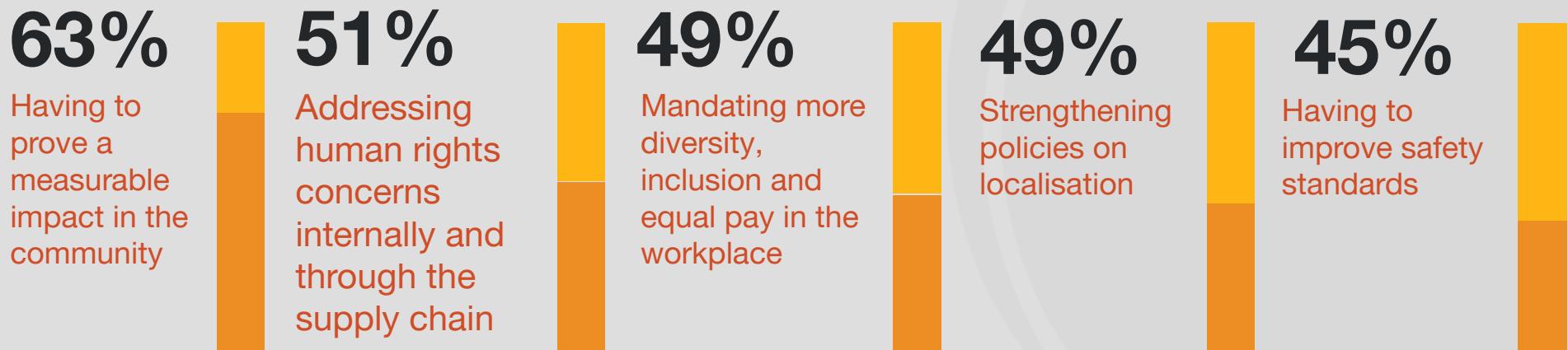
Clear guidelines, a country roadmap for decarbonisation and a level playing field for industries are all required to enable Middle Eastern companies to advance in their ESG strategies. But companies can also maximise the opportunities of ESG-driven transformations by getting ahead of the game.



Which of the following factors do you believe are the most important reason(s) for adopting an ESG strategy within your organisation?

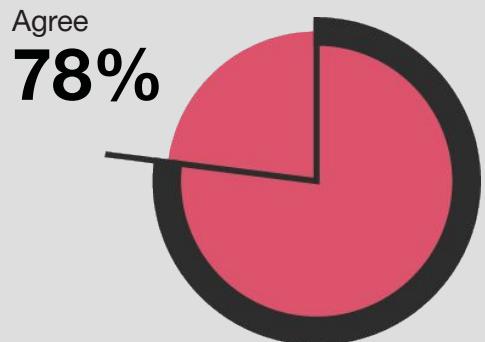


Which of the following Societal related government policies would have the greatest impact on achieving your organisation's ESG strategy?

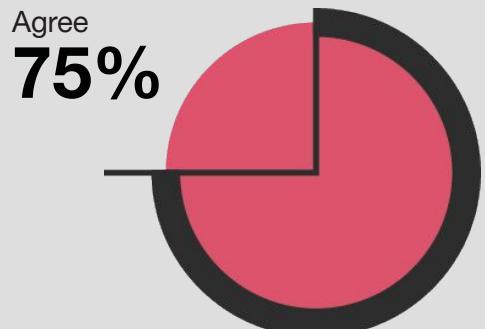


## To what extent do you agree or disagree with the following statements regarding ESG regulation in your industry?

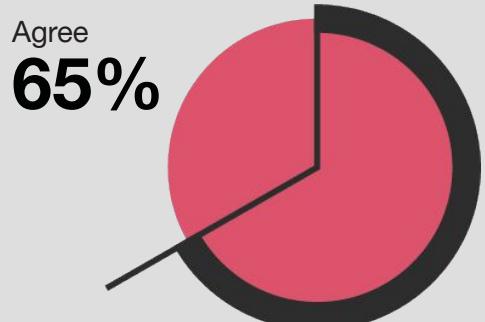
Increased ESG regulation will strengthen and accelerate my organisation's ESG strategy



ESG regulations and reporting requirements will become more stringent in the next 12 months



Increased ESG regulation will lead to increased costs for my organisation

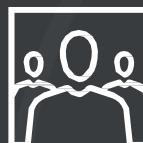


## Which of the following Environmental/ Social/ Governance related government policies would have the greatest impact on achieving your organisation's ESG strategy?

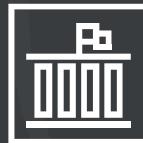
Top government policies impacting on achievement of ESG strategy:



**Environmental**  
Sustainable procurement and supply chain policies to ensure provision of more environmentally friendly products and services



**Social**  
Having to prove a measurable impact in the community



**Governance**  
Policies requiring businesses to ensure ESG is a board level priority

Policies to standardise ESG disclosures and risks assessments would have the biggest impact on the energy intensive organisations

# 03

Looking ahead



The responses to our survey suggest that there is a role for both businesses and governments to address the most pressing issues. Even in the absence of suitable policies and regulations, there are clear steps companies can take. While governments can engage in dialogue with businesses to better understand their policy and regulatory needs.

## Four calls to action for businesses:

### Ensure you properly embed your ESG strategy with clear governance:

From an organisational point of view, embedding an ESG strategy begins with defining ambition and priorities that are aligned with a company's business rationale and with national goals. Ideally, there should be one person in charge to oversee and coordinate the full suite of ESG functions. This person will require access to people with the right skills and capacity to be able to deliver the strategy.

### Set clear KPIs & invest in robust data collection systems and analysis:

KPIs must be set to measure progress and will be underpinned 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. Reporting can range from internal ESG reports to those that have been fully audited by a third party.

### See the bigger picture:

There are many business opportunities here for companies that move quickly to align their ESG priorities with those of their governments. Early adopters may generate new business services and products that could create real value and wider benefits for society. An ESG strategy can also help anticipate and manage risks in a proactive manner (e.g. the physical impacts of climate change).

### Integration is key:

ESG is a complex subject and many of the issues are connected. Adopting an integrated approach to ESG and embedding a strategy across different functions are important steps in reorienting businesses towards a value-creation ecosystem. In this system, traditional financial measures of success are complemented by new considerations that also create value, including environmental sustainability, employee engagement, external partnerships and broader societal wellbeing.

### A call to action for governments:

When it comes to the role of governments and regulators, companies in our survey said they needed clear guidelines, country roadmaps for decarbonisation and a level playing field across industries. For example, the following policies were highlighted as having the potential to have the greatest impact on achieving their ESG strategy:



**E**

Sustainable procurement and supply chain policies to ensure provision of more environmentally friendly products and services



**S**

Having to prove a measurable impact in the community



**G**

Policies enabling businesses to ensure ESG is a board level priority

ESG demonstrates a new approach to business that thrives on collaboration between clients, suppliers, regulators and across industries and the adoption of its principles - both by the public and private sector - can accelerate the massive and fast transformation of our region. By fully embedding ESG strategies, organisations can set themselves on a path to long-term, sustained outcomes and success.

Governments, in turn, can enable this transformation through setting a purposeful ESG policy and regulatory agenda that will underpin the drive towards increased economic opportunities - new, value added jobs, more meaningful social inclusion and greater governance for our regional economies.



About the survey

Between January and February 2022, PwC surveyed c-suite leaders in organisations across the Middle East, focusing on those who had responsibility for ESG in their businesses. These organisations were headquartered in 13 countries, including nine in the Middle East and North Africa, plus the United States, Greece, France and Germany.

**70%+**

of respondents were from C-suite level and represented companies headquartered in the region.

The survey reached a broad cross- section of economic industries and countries, with a particularly strong showing from companies in the two largest economies, **Saudi Arabia** and the **United Arab Emirates**.

Respondents were evenly split between large companies (more than \$100m in annual revenues) and smaller ones (less than \$100m).

Heavy industrial emitters of CO2 comprised

**32%**

of respondents, with the remainder coming from a range of other sectors of the economy.

Organisations from a range of industry sectors participated in the survey.



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