



Moving from start-up to scale-up on ESG

The 2023 Middle East report



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Foreword

Companies in the Middle East are responding with increasing vigour to new demands for changed thinking and stronger action on climate issues.

01

They are showing greater transparency about how their operations affect the environment, through increased public reporting.

02

And they are adjusting their organisations to put in place a more systematic approach to managing these efforts, including adding senior executive roles with specific sustainability-focused responsibilities.

These are among the key findings of the PwC 2023 report on environmental, social, and governance (ESG) issues in the Middle East - our second year of conducting this research in the region. **This year, the key findings zone in on the “E” pillar, related to the environment.** They highlight the continuing progress that companies are making to ensure their strategy, operations and processes are more sustainable, even as they indicate the road still to travel.

Heightened awareness of climate risk to business, coupled with new regulation, has driven the embedding of ESG in the strategy of more than six in ten companies in the region, with the focus now increasingly shifting to execution. And we are seeing a shift in perception from public and private sector leadership about the importance of ESG, with more organisations than ever before appointing a dedicated resource to handle this agenda at the executive level; almost one-third now employ a Chief Sustainability Officer. **Yet some significant gaps remain, notably in skills and funding, according to the survey respondents.**

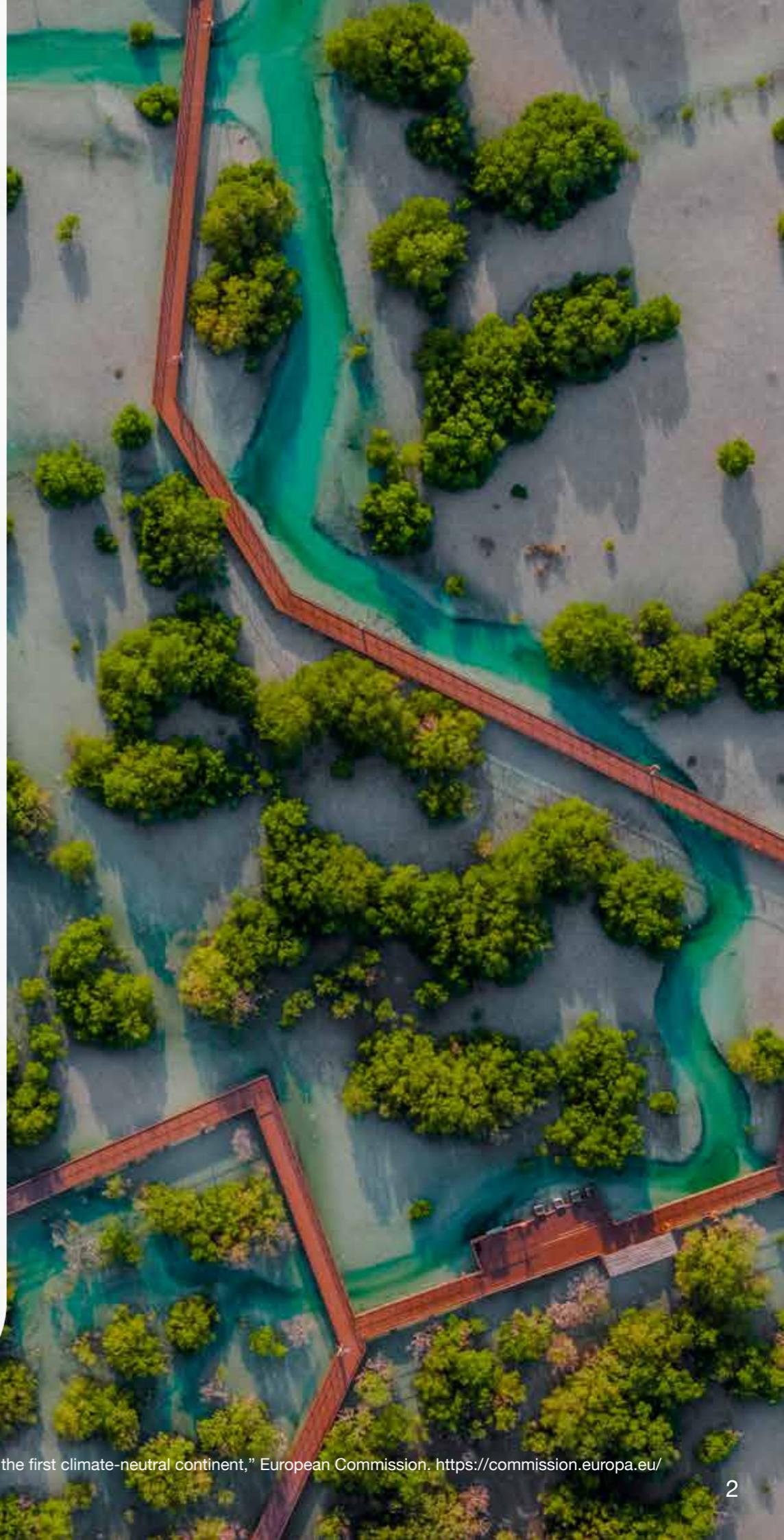
It's encouraging to see that companies in the Middle East are moving from an ESG “start-up” mode to a new, richer and deeper “scale-up” mode. To help them attain new levels of ambition - including tangible changes in operations and more green funding possibilities - survey respondents tell us that they are looking to leaders in their organisations to increase their focus on ESG. And they also want governments in the region to step up and create similar policy frameworks that have been introduced in other countries, for example, the United States with the Inflation Reduction Act, in Europe with plans including the Green New Deal, and Singapore's Green Plan 2030.

In short, this year's PwC ESG Middle East report serves as a progress card on the growth of sustainability in the region. Ahead of COP28, companies are playing their part in implementing ESG measures, but also signalling the need for practical support so that they can move faster. With the right coordinated response from governments, **2023 could be the region's most environmentally transformative year yet.**

Dr Yahya Anouti

PwC Middle East ESG Leader

Partner, Strategy& Energy, Utilities & Resources Practice



¹See “The Inflation Reduction Act,” US Environmental Protection Agency, <https://www.epa.gov/green-power-markets/inflation-reduction-act>; “A European Green Deal: Striving to be the first climate-neutral continent,” European Commission, https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en; “A City of Green Possibilities,” Singapore Green Plan. <https://www.greenplan.gov.sg/>



Key themes from the Middle East ESG survey findings

01

There has been
a seismic shift in
progress on ESG:

02

Organisations are
striding ahead with
practical action on
ESG:

03

Green funding
and sustainability skills
must be unlocked
to enable the region
to realise its climate
ambitions:

04

Businesses are
calling for a new
green deal for the
Middle East ahead
of COP28:

64% of respondents
have adopted a formal ESG
strategy in the last 12 months
and many are embedding
ESG priorities across their
organisations.

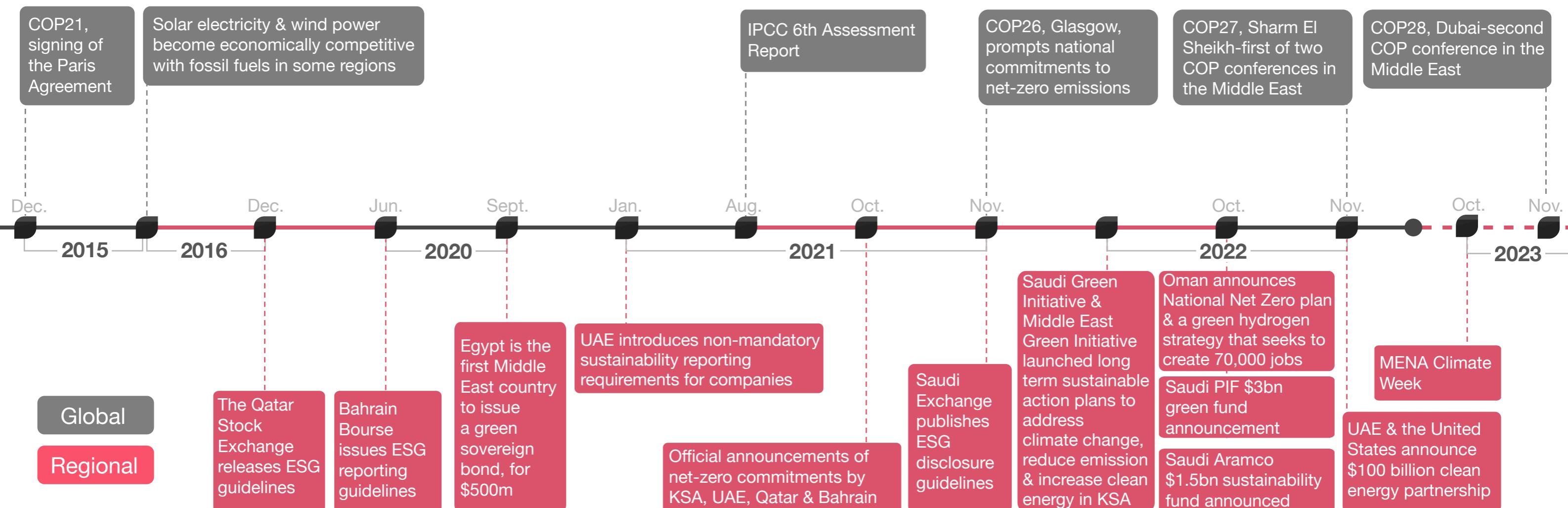
More than **60%** of
businesses want leadership
to increase the time
they allocate to ESG-
related issues, with risk
management, compliance,
and leveraging the circular
economy featuring as top
priorities for the year ahead.

Only **13%** of businesses
are accessing sustainable
finance and challenges
remain with an ongoing
green skills gap.

The signal to governments
to take serious action on ESG
is sounding loud and clear.
More than **one-third**
of companies we surveyed
hope COP28 will lead to ESG
legislation and incentives for
green growth.

ESG in the Middle East:

The journey so far





Explore the top four findings

01

The seismic shift in progress on ESG



01 The seismic shift in progress on ESG

The first PwC ESG Middle East report in 2022 showed that ESG adoption and understanding in the region was at an early stage of development, with only 18% of respondents saying their companies had teams and systems in place to cover the full remit of ESG functions.²

This year we see clear and specific signs of progress. The first is that ESG-related issues have become so embedded in many companies that they have developed specific roles to execute against the strategy.

More than one-quarter (27%) now have a Chief Sustainability Officer (CSO) in place, and in almost half of those companies, the CSO has primary responsibility for ESG. This represents a shift from our 2022 findings where some 55% of respondents stated that it was the CEO who had overall control of ESG - this year, that figure has dropped to just 20% as CSOs assume ESG leadership.

This more organised, institutional effort is a sign of growing ESG maturity in the region: indeed, other research from Strategy& has shown that 98% of companies with an A rating for ESG have an executive who is specifically responsible for sustainability.³



²“Reimagining our region through ESG,” PwC Middle East, 2022. <https://www.pwc.com/m1/en/esg/documents/esg-middle-east-survey-report.pdf>

³“Empowered Chief Sustainability Officers,” Strategy&, 2022. <https://www.strategyand.pwc.com/de/en/functions/esg-strategy/empowered-chief-sustainability-officers.html>

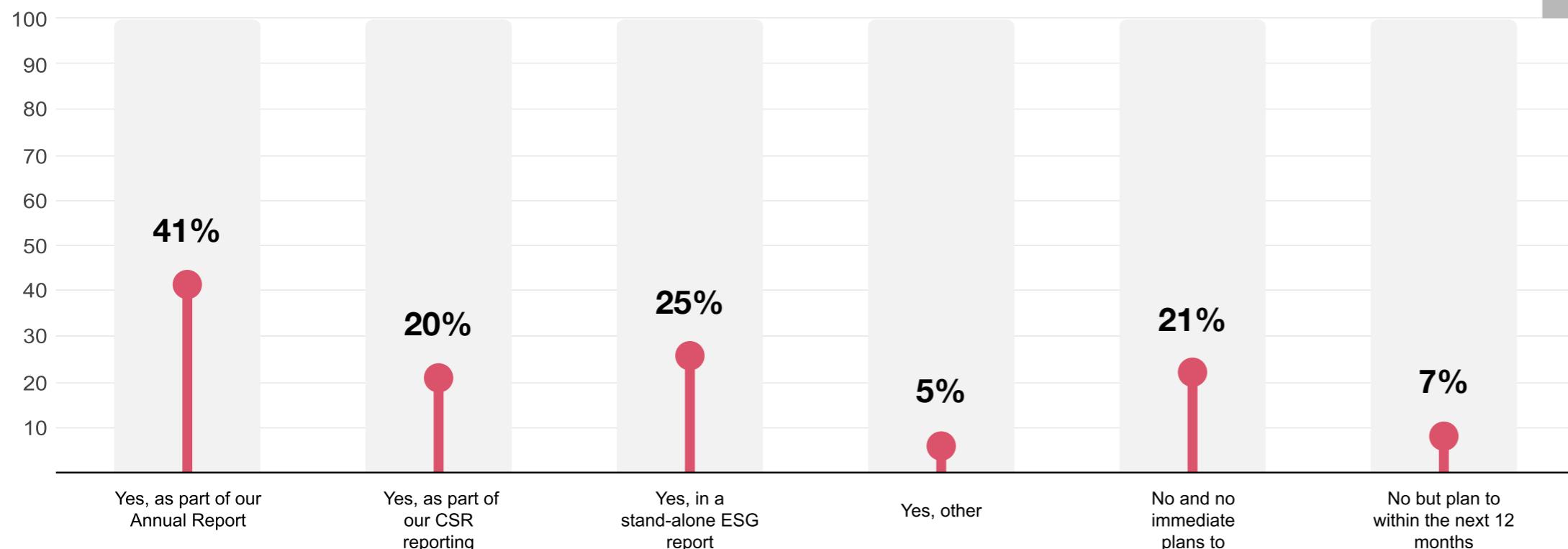
The second sign of progress comes with the fact that the share of companies with a formal ESG strategy in the region continues to rise, **with almost two-thirds (64%) now saying they have a strategy in place**. The number of companies still waiting to act has declined sharply: whereas 16% of respondents in last year's survey said their company had no ESG strategy this year, that figure has dropped to just 7%.

Third, we see that **70% of respondents now say that their company reports on ESG**, and one-quarter do so in a stand-alone ESG report (Exhibit 1). Of those who are reporting, 59% state that their reporting is formally audited or assured, and a further 25% plan to take that step in the next year.

Exhibit 1

70% state that they report on ESG, with a quarter doing so in a stand-alone ESG report.

Does your organisation report on ESG in any of the following ways?



Note: In some questions respondents were able to select more than one answer, so figures may not add up to 100%.

This trend highlights the growing regulatory pressures on companies to put in place ESG reporting across the Middle East. For example, the majority of stock exchanges and regulators in the region, including the Abu Dhabi Securities Exchange and Dubai Financial Market, have issued guidance on reporting sustainability information.⁴ Such stipulations are in line with major reporting requirements being introduced globally, notably in the European Union, which has introduced the Corporate Sustainability Reporting Directive that requires extensive reporting on sustainability issues for companies with more than 500 employees. And in the United States, the Securities and Exchange Commission has proposed new rules - still under discussion - that will mandate climate-related reporting for public companies.⁵

⁴See Mohamed Elborno, "Trust is evolving in the Middle East," Middle East Economy, March 7, 2023.

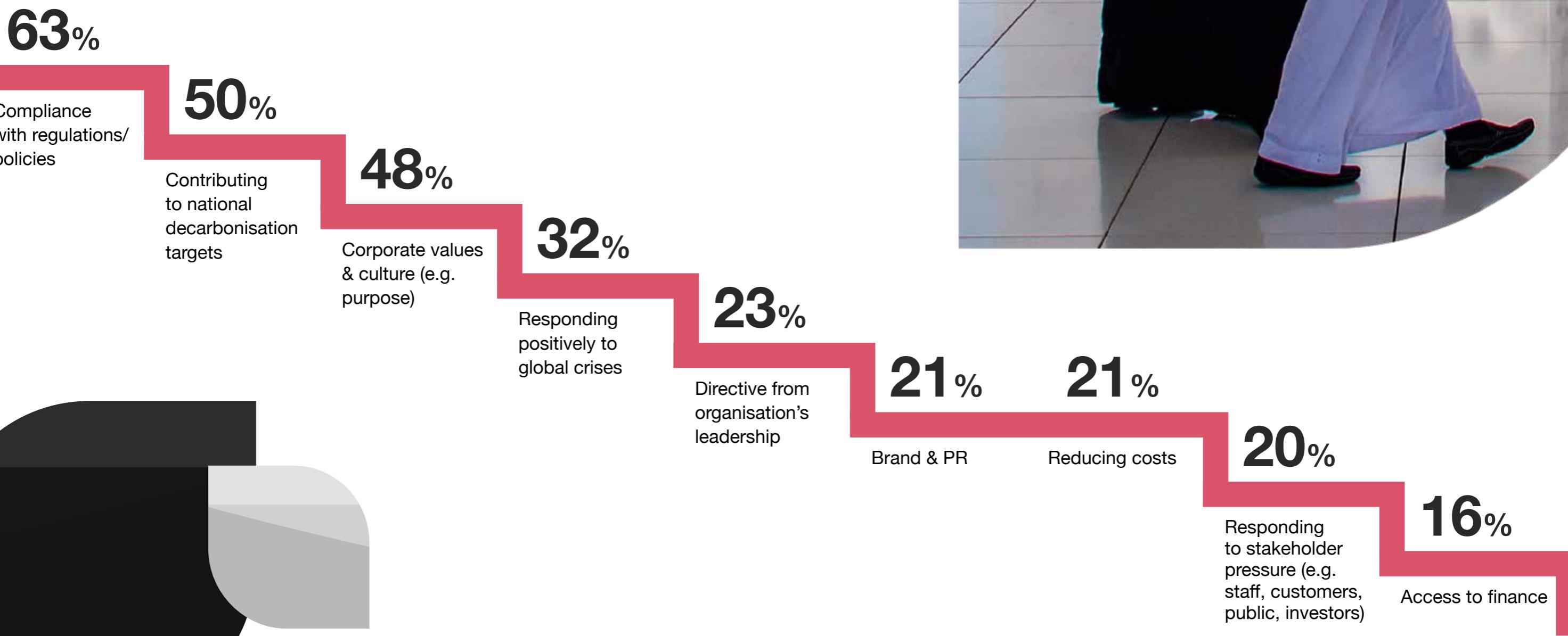
⁵See "Corporate sustainability reporting," European Commission. https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en; and "Statement on proposed mandatory climate risk decision," Securities and Exchange Commission, March 21, 2022. <https://www.sec.gov/news/statement/gensler-climate-disclosure-20220321>

Organisations in the Middle East are reacting accordingly when it comes to this increasing guidance on sustainability reporting and regulatory pressure: respondents to our survey said that complying with regulations is the single most important factor for adopting ESG strategies, followed by the desire to contribute to national decarbonisation strategies and aligning with corporate values and culture (Exhibit 2).

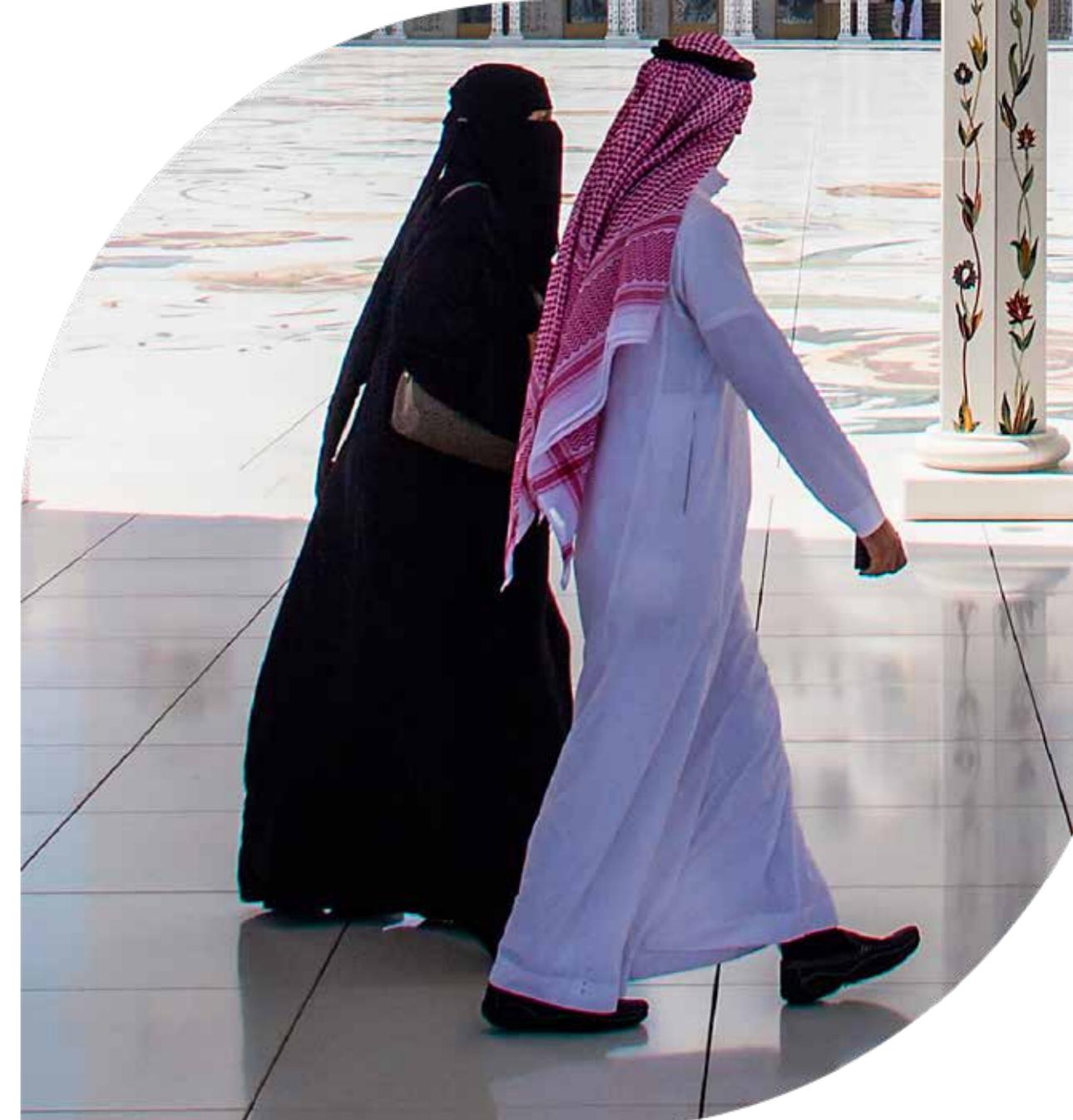
Exhibit 2

Compliance with regulations remains the most important driver for adopting an ESG strategy, indicating that organisations remain motivated for reactive reasons.

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



Note: In some questions respondents were able to select more than one answer, so figures may not add up to 100%.



“

“There is a growing pressure from investors and banks to factor ESG considerations into capital allocation and decision making.”

Fazil Abdul Rahiman

VP Sustainability & Climate Change
Abu Dhabi National Energy Company (TAQA)



The final indication of growing ESG maturity among organisations in the Middle East region can be indicated by the number of ESG-specific areas that fall under the remit of the ESG leader in a company.

Key hallmarks of good ESG practice include:

01

Setting an aspirational strategy that is anchored in economic or country level targets

02

Embedding ESG in core processes and adopting international standards for reporting

03

Identifying and maintaining an ESG risk register

04

Engaging with internal stakeholders, suppliers, customers and ecosystem enablers

05

Informing and influencing the design of ESG products and services

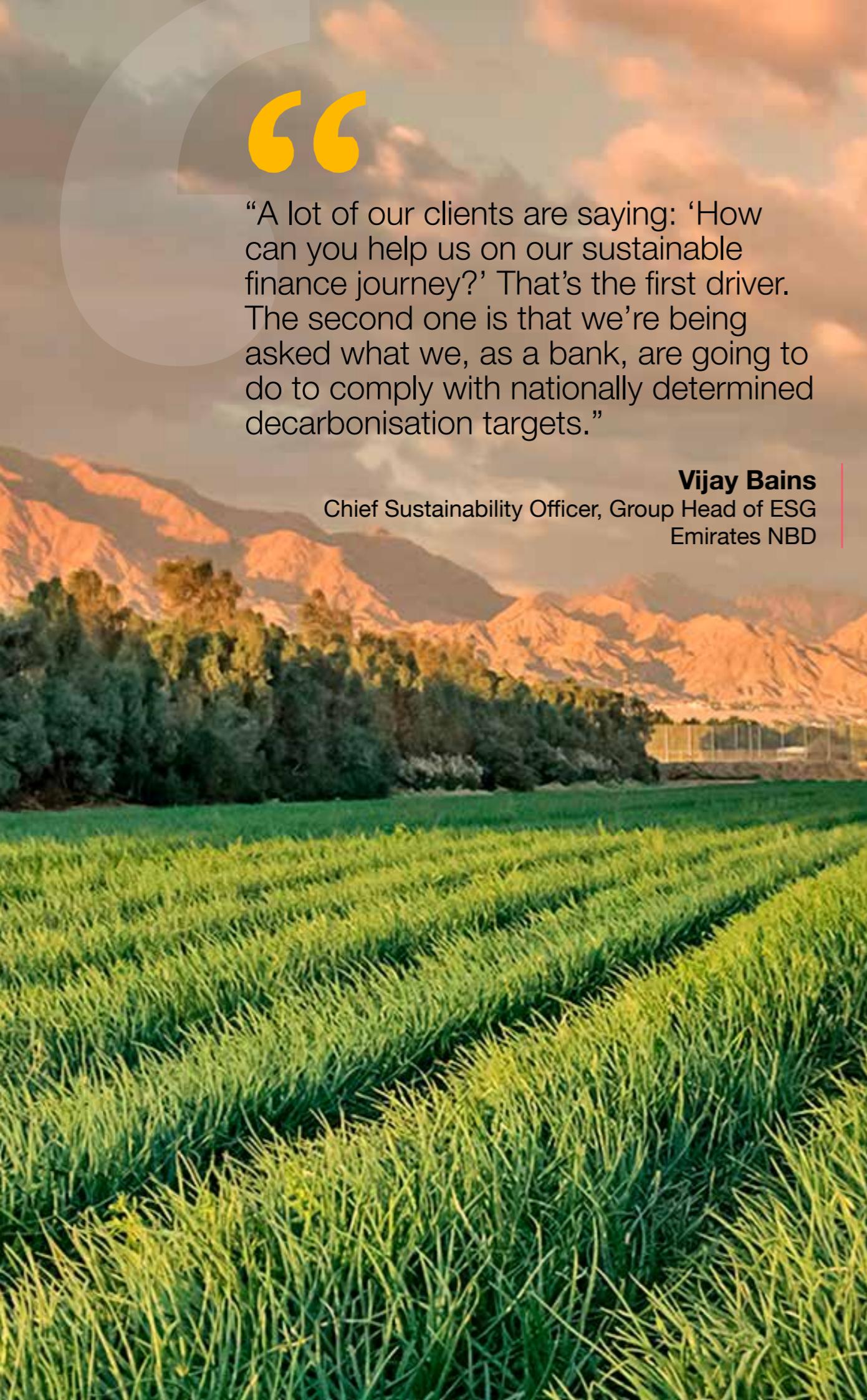
06

Communicating the strategy, achievements and also the challenges

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“A lot of our clients are saying: ‘How can you help us on our sustainable finance journey?’ That’s the first driver. The second one is that we’re being asked what we, as a bank, are going to do to comply with nationally determined decarbonisation targets.”

Vijay Bains
Chief Sustainability Officer, Group Head of ESG
Emirates NBD

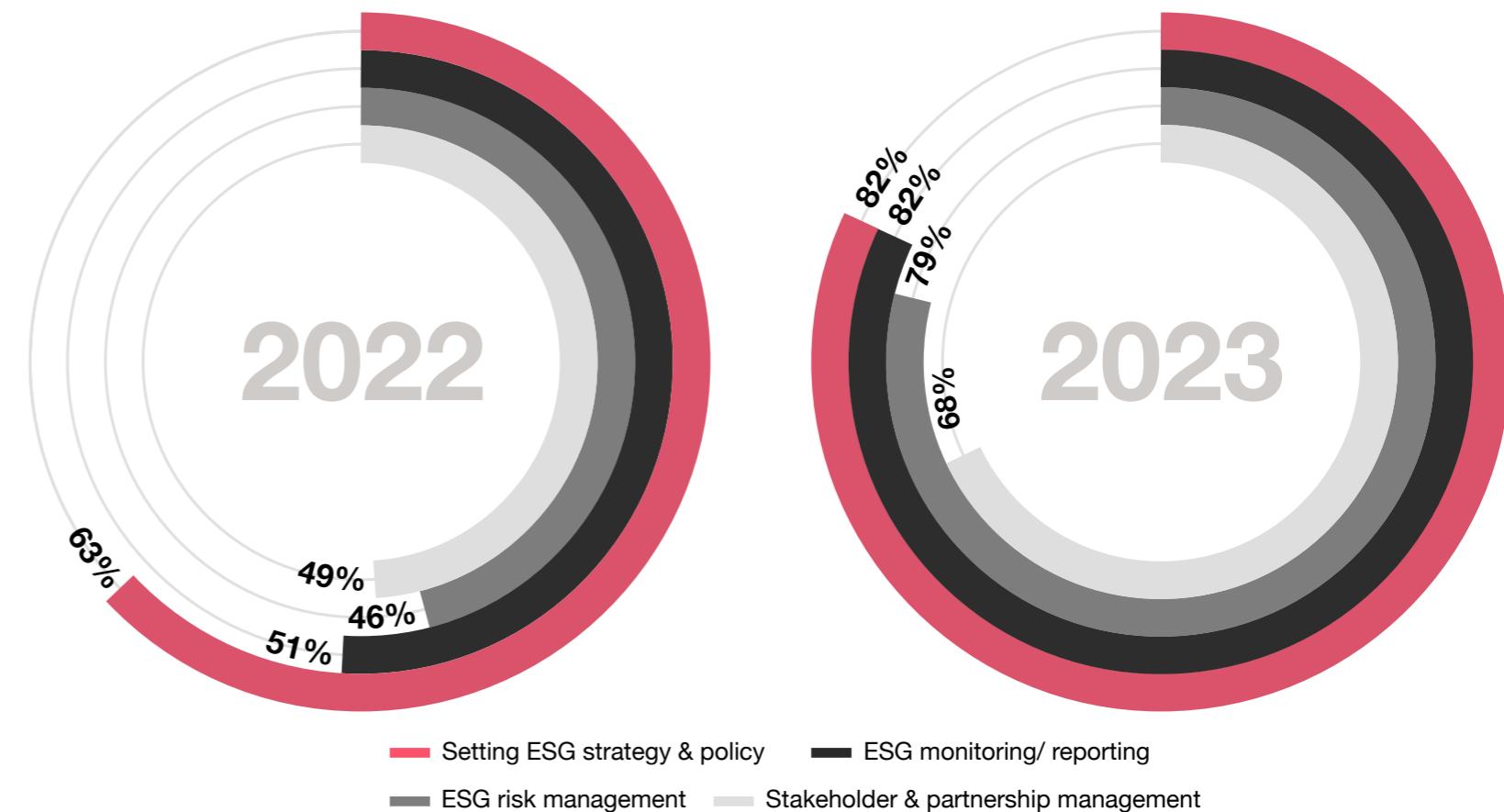


Across all six of these areas, survey respondents this year were significantly more engaged, most notably, in strategy (Exhibit 3). Here, about one-third of respondents said that all six of these areas fell under the remit of the company’s ESG leader, compared to just 18% last year.

Exhibit 3

Amongst the activities that fall under the ESG leader’s remit, ESG reporting and risk management have seen the biggest increase since last year.

Which of the following activities fall under the person responsible for leading ESG in your organisation?



Note: In some questions respondents were able to select more than one answer, so figures may not add up to 100%.

The Middle East findings of our [26th CEO survey](#), published in January 2023, gives a clearer idea of what these broad themes mean in practice. That survey showed half of regional CEOs have either taken steps to mitigate climate risk or are in the process of doing so, both by innovating new and climate-friendly products and processes and cutting emissions.⁶

⁶“Looking to the future with confidence,” PwC 26th CEO Survey, Middle East findings, January 2023. <https://www.pwc.com/m1/en/ceo-survey.html>

02

Organisations are striding ahead
with practical action on ESG



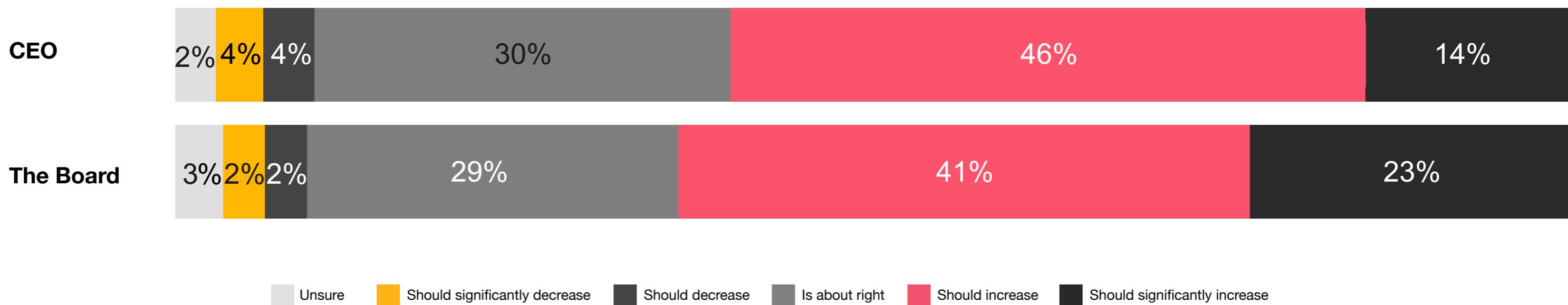
Organisations are striding ahead with practical action on ESG

One indicator of a strong, practical focus when it comes to ESG in organisations centres around the most precious of resources - time. Our findings reflect **there is a clear perception that CEOs and Boards should play a more pronounced role in pushing an ESG agenda within companies** - with more than 60% of our survey respondents telling us that they want chief executives and Boards to spend more time on ESG-related issues (Exhibit 4). Evidence also suggests that CEOs in the region are likely to be receptive to such a call: our 26th CEO survey showed that more than one in four CEOs in the Middle East felt highly exposed to climate change over the next five years.⁷

Exhibit 4

Around two-thirds state that the CEO and Board should increase the time they allocate to ESG-related issues; almost a quarter believe the Board should significantly increase their time focused on ESG.

Should the proportion of CEO/Board time allocated to ESG-related issues change?



Our survey respondents are also setting increasingly practical ESG priorities for the next year with environmental concerns ranking very highly (Exhibit 5).

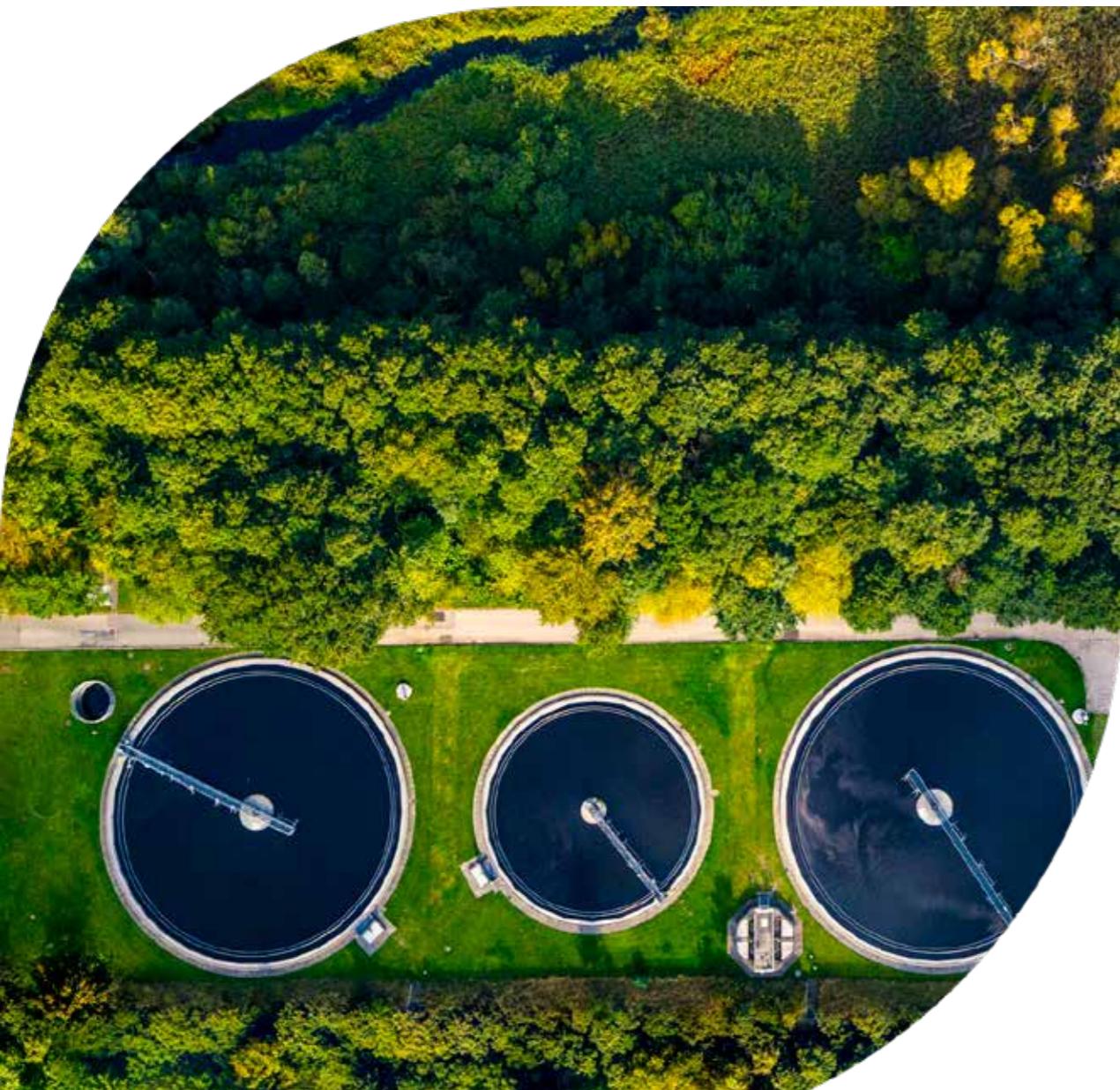
Taking steps to manage risk and compliance are top of mind, cited by almost half of the respondents. A focus on circular waste management strategies and tackling the impact of climate change come second and third on the list of priorities.

Biodiversity, air quality and water scarcity are also mentioned.

Beyond these climate-related concerns, two major aspects of the “S” (the social) pillar also feature prominently as priorities for the next year: diversity, equality and workforce wellbeing, localisation and upskilling of the workforce.

Exhibit 5

Over the next 12 months, organisations plan to prioritise environmental risk management and compliance, circular waste management and climate change.



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

Risk management & compliance

45%

Diversity, equality & workforce wellbeing

34%

Circular waste management

32%

Climate change

29%

Localisation & upskilling of the workforce

25%

Data protection & cyber security

25%

ESG reporting

16%

Biodiversity protection

14%

Local communities

14%

Corporate governance

14%

Air quality

13%

Localisation of procurement

11%

Board structure & composition

4%

Water scarcity

2%

■ Environmental ■ Social ■ Governance

Note: In some questions respondents were able to select more than one answer, so figures may not add up to 100%.



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“We are going a little too slowly as a community. We need to be more sustainable. The circular supply chain is one of the answers, but it's not the only answer: I think there's a lot of things we need to do, and the most important is that the governments should set targets and standards which are much higher than they are today.”

Head of Sustainability,
Manufacturing and Food Packaging sector

03

Green funding and sustainability skills must be unlocked to enable the region to realise its climate ambitions

03 Green funding and skills must be unlocked to enable the region to realise its climate ambitions

For a growing number of companies in the Middle East, the ESG journey is neither steady nor linear. For all the signs of growing ESG maturity, our survey highlights several areas where progress is patchy, at best (Exhibit 6).

Among the biggest gaps is the absence of adequate internal skills and expertise to implement ESG initiatives, which two in five respondents listed as a key obstacle to further progress. There are several reasons that may explain this skills shortage, including the newness of ESG as an area of expertise - for which education and vocational institutions have not had time to prepare adequately. For example, while energy engineering is a widespread academic discipline in the region, environmental studies is not. And net-zero accounting specialists or risk managers are hard to find — not just in the Middle East: on a global level, more than three in four financial professionals report a sustainability skills shortage.⁸

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“One of the big ESG challenges we are working on is to develop the skills and expertise we need internally.”

General Manager
Aviation sector



⁸See Polly Bindman, “Who is closing the ESG education gap in sustainable finance?” Capital Monitor, February 1, 2022. <https://capitalmonitor.ai/strategy/responsible/who-is-closing-the-esg-skills-gap-in-finance/>

Finance is another significant gap. Almost one-third of respondents cite funding constraints for ESG implementation as an important barrier. This may seem paradoxical in a region that has been among the most active in raising green finance; indeed, the market for green and sustainable bonds in GCC economies has been rising rapidly, with increased participation from banks and government-related entities. Total GCC green and sustainable bond and sukuk issuances rose to \$28.5 billion in 2022, from just \$605 million in 2021.⁹ Major issuers in the region include Saudi Arabia's sovereign wealth fund, the Public Investment Fund, which, in October 2022, listed a debut \$3 billion green bond on the London Stock Exchange. Also, companies including the Abu Dhabi National Energy Company and Masdar, the Abu Dhabi clean energy company, have successfully issued green securities.¹⁰ A 2020 Strategy& study estimated that green investments in six GCC industries could contribute up to \$2 billion in GDP and create more than one million jobs by 2030.¹¹

However, for now, our survey suggests that these green funding initiatives are not yet translating into innovative financing opportunities at a business level. Respondents say their companies are continuing to fund their ESG initiatives themselves, rather than tapping the burgeoning markets for green finance. Almost half (46%) of respondents said they expected to self-fund ESG efforts, with just 13% anticipating receiving green loans from banks, for example. This may reflect the novelty of sustainable finance in markets globally – for example, issuance of sustainable debt only gathered pace in the past four to five years. But it could also be a reflection of the relative lack of financial sophistication of smaller companies, a lack of green financing options until now, or a lack of awareness of the green funding opportunities that governments and financial institutions in the region have put in place.

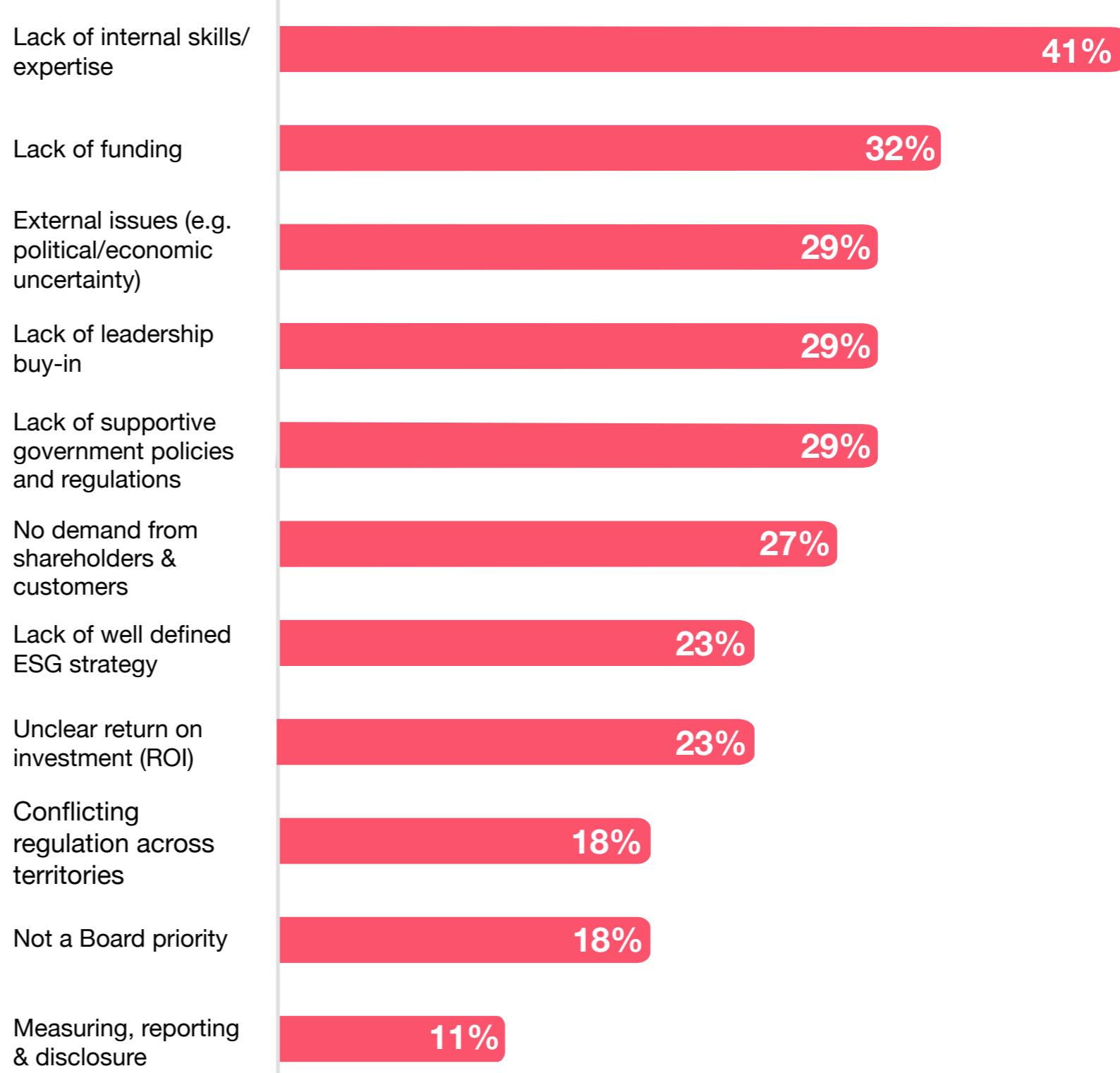
The most likely answer is that it is, in fact, a combination of all of these factors.



Exhibit 6

The top barrier to progressing the ESG agenda is a lack of internal skills and expertise, following by funding constraints.

Which of the following challenges are having the greatest impact on progressing your organisation's ESG strategy?



Note: In some questions respondents were able to select more than one answer, so figures may not add up to 100%.

⁹Aarti Nagraj, "Strong pipeline of green bonds likely from Middle East in 2023, S&P says," The National News, February 8, 2023.

¹⁰Yousef Saba and Yoruk Bahceli, "Saudi wealth fund to raise \$5.5 billion with second green bond sale," Reuters, February 7, 2023.

¹¹"Middle East green finance: A US\$2 trillion opportunity," Strategy&, 2022. <https://www.strategyand.pwc.com/m1/en/strategic-foresight/sector-strategies/financial-sector-consulting/green-finance.html>



Other gaps to fill become apparent in our survey when respondents at companies were asked to identify functional areas in which ESG is most and least deeply integrated. For this question, we focused on companies that had adopted a formal ESG strategy. The answers showed that in respect to people, operations, overall purpose, and procurement among others, ESG is fully integrated or underway to a very high degree. Yet, in some areas, notably financing investments, marketing and engineering and capital projects, a minority of respondents continue to say they have no plans to integrate ESG.

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“I’ve heard all kinds of excuses: you don’t have the data, you don’t have the resources, or you don’t have the capabilities. The truth is, you’re never going to have enough data, you’re never going to have enough capabilities, and you’re never going to have enough resources... You just need to get started!”

Shargiil Bashir
Chief Sustainability Officer
First Abu Dhabi Bank

04

Businesses are calling for a new green deal for the Middle East ahead of COP28

04 Businesses are calling for a new green deal for the Middle East ahead of COP28

The final set of findings from our survey reflects the **hunger for progress on an ESG agenda for the region**: business leaders are continuing to call for their governments to step up and go further and faster to ensure an accelerated momentum ahead of COP28.

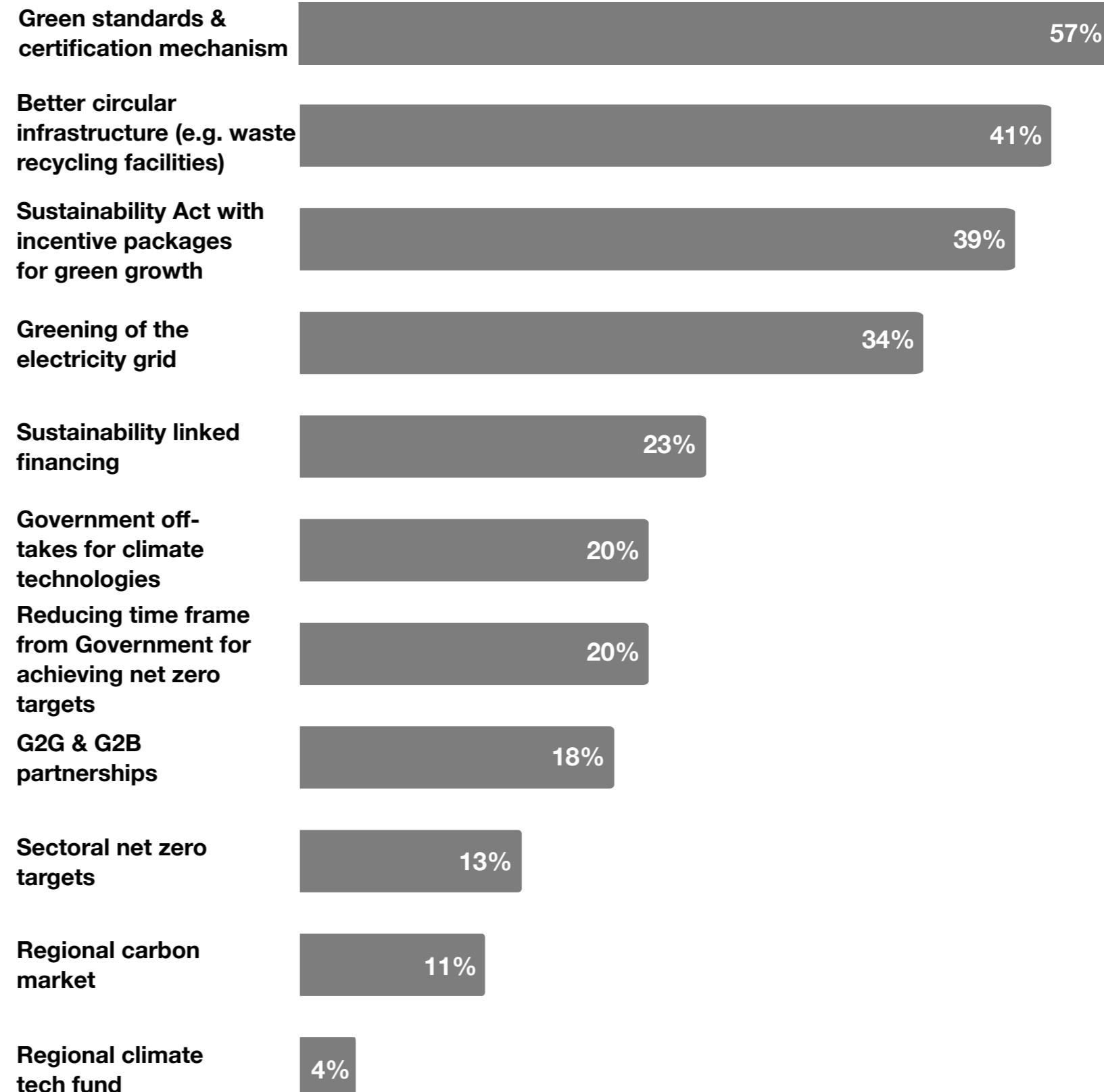
We asked organisations what government policies they would like to see introduced ahead of the two week-long climate convention taking place later this year and - characteristic of the way ESG is becoming embedded in company operations - the wish list consisted of several practical steps. It focused on a call for better ESG-related infrastructure such as waste recycling facilities, the greening of the electricity grid, and government off-takes (that is, guaranteed sales) for nascent climate technologies. But the list also has some potential broader policy implications: it includes a call for green standards and certification and green infrastructure, as well as for a Sustainability Act with incentive packages to boost green growth (Exhibit 7). If the region's leaders were to heed this latter ask, they would be following in the footsteps of US President Biden with his Inflation Reduction Act, which provides significant subsidies for the development of the climate technologies, and comparable European efforts to promote and stimulate green growth.



Exhibit 7

Green standards, circular infrastructure and sustainability legislation are front of mind amongst organisations in the region ahead of COP28.

Which ESG related government policy/policies would you wish to be announced as a result of COP28?



Note: In some questions respondents were able to select more than one answer, so figures may not add up to 100%.

Looking ahead

The COP28 summit in the UAE will ensure that the spotlight on environmental sustainability will continue to be pointed at the Middle East, at least until the COP presidency is handed over to the next host country towards the end of 2024. **Beyond this, it will be essential for both governments and businesses in the region to continue along their ESG journeys, and indeed to accelerate.** Boosting sustainability efforts to the degree needed for the region to achieve the net-zero and carbon-neutral commitments it has pledged will require further decisive action across a number of areas. **Here we outline four critical next steps.**

01 Ensure policy coherence

Governments and other authorities across the region have already increased sustainability reporting requirements for companies. They will need to ensure that they continue putting in place enabling policies that accelerate the ESG momentum. These could include:

- Introducing broader measures such as incentives to encourage and foster growth of green technology firms.
- Improving infrastructure for areas such as waste management.
- Embedding sustainability principles in all policy decisions.

02 Thread ESG thinking throughout the organisation

Our survey highlights some of the practical ways in which companies in the Middle East have begun implementing significant changes in their operations to adapt to new ESG requirements. It will be important to continue the momentum by:

- Embedding ESG thinking in areas that, for now, remain less touched by sustainability, including marketing and engineering.
- Ensuring sustainability remains an integral part of all planning and operational decisions.
- Keeping CEOs focused on strategic ESG goals, even though they have delegated some responsibility to others.

03 Focus on sustainability skills

Addressing the issue of talent development will need to be a continual priority for governments, companies and educational establishments across the region.

They can:

- Revisit education curricula at tertiary education institutions to prepare the next generation of technical experts and environmental leaders.
- Build new disciplines ranging from environmental engineering and conservation science to sustainability strategy and project management, that cater to the region's specific climate challenges.
- Develop company initiatives to localise an ESG-capable workforce.

04 Boost clarity on and access to green finance

A range of actions can be taken to end current funding constraints:

- Banks, financial markets and Chief Financial Officers can accelerate the roll-out of increasingly standard green financial instruments in the region.
- Encouraging the growth of carbon markets and more innovative financial instruments, including sustainability-linked bonds, can help spread sustainable finance.
- Companies can consider setting internal carbon prices to accelerate their transition to green finance.

About the survey

The second PwC ESG Middle East survey was conducted between:

February 27 and March 14, 2023.

Our survey achieved responses from business leaders involved in ESG activities within their organisation.

Most participants were from organisations headquartered in the **GCC region**.

About **2/3** have revenues exceeding **\$100 million**.

The largest number of respondents are from organisations based in:



The UAE



**Kingdom of
Saudi Arabia**



Qatar

A mixture of C-suite and director-level executives participated



**from C-suite
executives**



**from director-level
executive**

Companies came from a range of sectors, including:

Financial services	Industrial products	Retail & consumer	Energy, utilities & resources
Technology, media & telecommunications	Health	Government & public services	

Contact us



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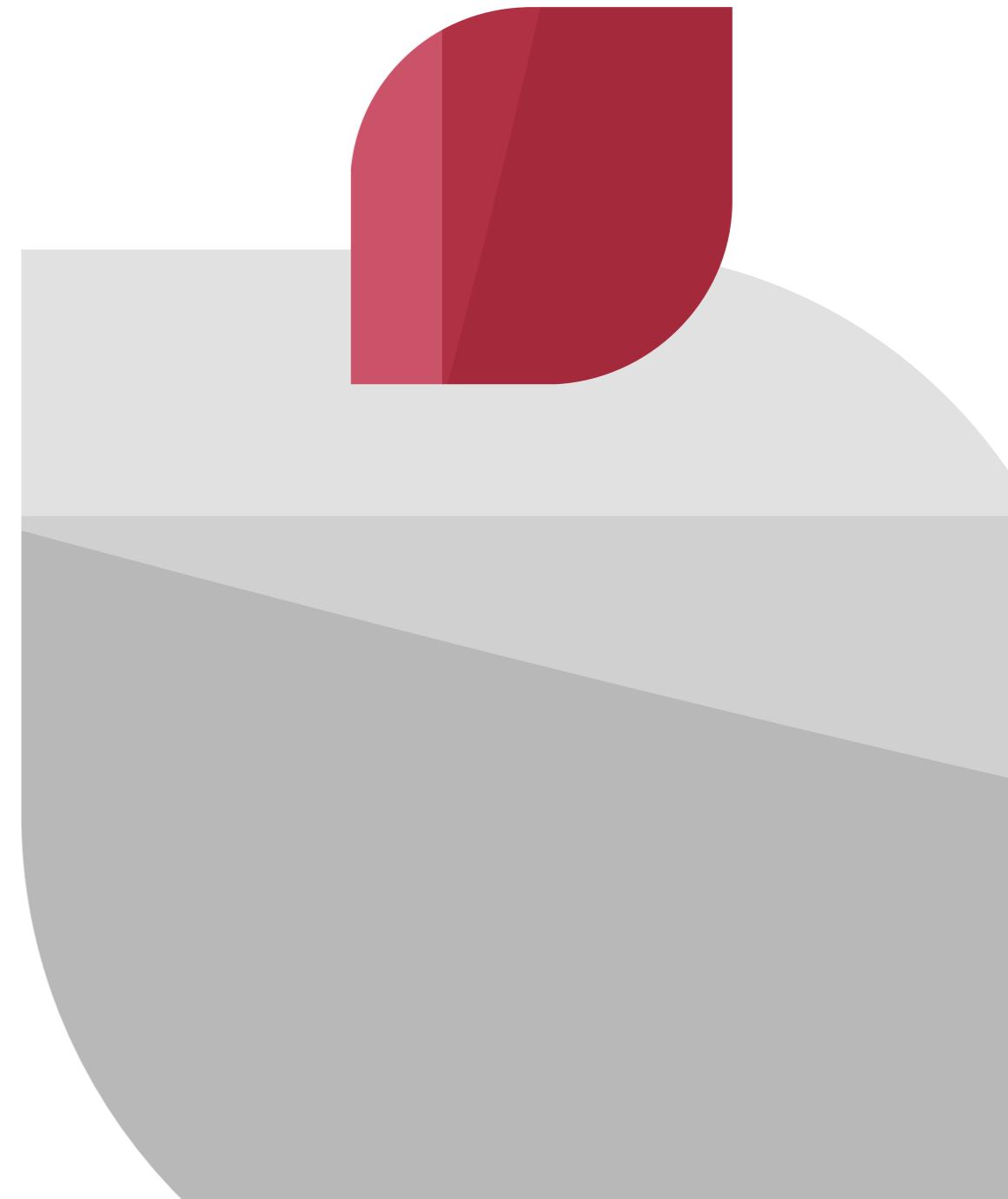
Aurelien Vincent

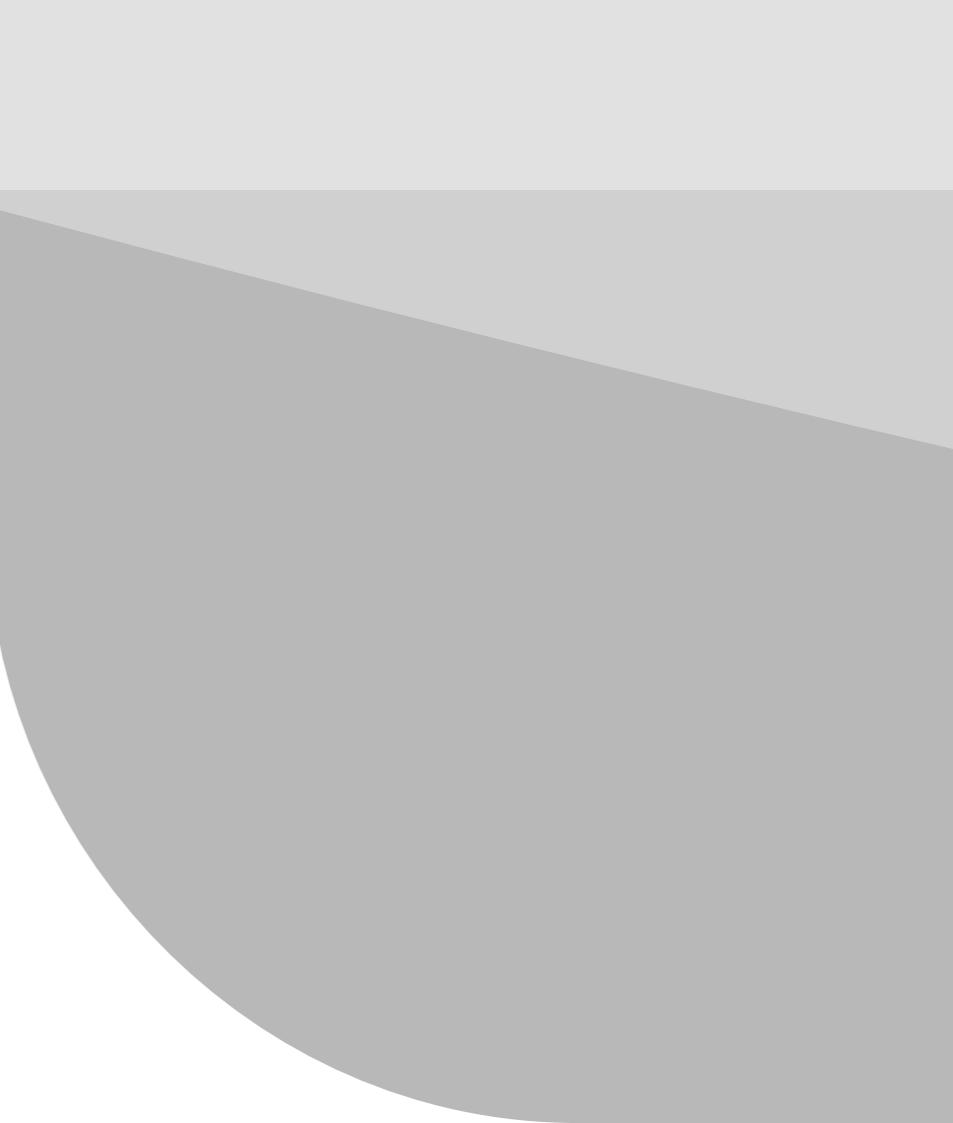
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