



Building a better
working world

ESG and Sustainability

Risks and Opportunities for the region

Presentation

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The better the question. The better the answer.
The better the world works.

EY team with you today



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20 years of experience in Corporate Sustainability, ESG, Climate Change, Impact assessment and Responsible Investment advising Financial, RHC, CPR and multiple other sectors

Introduction: EY Climate Change and Sustainability Services

A globally connected sustainability practice at the forefront of ESG innovation and integration

Operating in **8 countries** across the MENA region **since 2009**

50+ sustainability professionals in MENA

And 2700+ Team of ESG professionals that are fully dedicated to providing sustainability services globally

Actively shaping the ESG agenda in KSA

Advising key entities and flagship projects in KSA on ESG, carbon and circularity

FII Institute



#1 Sustainability Leader for outstanding work helping companies achieve sustainability goals, according to Verdantix

EY became **carbon negative** in 2020, which we will achieve each year until we become net-zero by 2025.

Neom & Red Sea



Ministry of Energy & Circular Carbon Economy Fund



Many more...

ESG has become an important agenda for long term value

1

ESG and Climate Risk dominate World Economic Forum's **Global Risks Report**

2

74% of MENA finance leaders are involved to a medium to high extent in driving ESG

3

ESG AUM has reached \$41T, **to become 1/3rd of global AUM by 2025**

4

IFRS-ISSB global ESG disclosure criterion to match **financial accounting rigour**

5

Stock exchanges (including Tadawul) have a strong focus on **issuer ESG performance**

6

PIF has launched its ESG and Green Finance Framework - **to cover portfolio in next 5 years**



What does ESG mean?

Environment, Social and Governance are the three pillars of sustainability/ ESG

Environmental	Social	Governance
<ul style="list-style-type: none">▶ Climate risks▶ Greenhouse gas emissions▶ Renewables and Energy efficiency▶ Pollution and waste management▶ Use of natural resources▶ Biodiversity▶ Carbon pricing measures▶ Environmental incentives and tax credits	<ul style="list-style-type: none">▶ Human capital▶ Labor relations and working conditions▶ Diversity and Inclusivity agenda▶ Employee health, safety and wellbeing▶ Product quality and safety▶ Human rights and child labor▶ Privacy and data security▶ Community development	<ul style="list-style-type: none">▶ Board diversity▶ Antibribery and anticorruption▶ Anti-money laundering▶ Business ethics▶ Corporate resiliency▶ Compensation policies▶ Lobbying and political contributions▶ Escalation protocols

We are the first generation to be able to end poverty, and the last generation that can take steps to avoid the worst impacts of Climate Change.

Future generations will view us harshly if we fail to uphold our moral and historical responsibilities

- Ban Ki Moon, Former Secretary General, United Nations

ESG is now firmly on the “top of the agenda” for CEOs globally

Insights from EY's CEO Outlook survey 2022

82%

of respondents identified ESG factors as extremely important or important, when it comes to strategic decision making

ESG is placed much ahead of **Cost reduction**, **Capital Efficiency** and **Return on Invested capital** and at par with **Revenue growth**

2nd largest

challenge to growth -

Acceleration of climate change impacts and increasing pressures to build sustainability

3rd largest

Attention area for capital strategy-

Acceleration of climate change impacts and increasing pressures to build sustainability

Which statement best describes the primary driver of your sustainability strategy?

28%

To become a leader in sustainability to gain competitive advantage

22 %

Responding to pressure from government regulators

18 %

Enabling our operations and customers to transform

ESG is not new but it has reached a tipping point – it will be the main driver for future regulatory frameworks and impact the whole value chain

ESG is fast integrating into the global regulatory landscape for disclosures

114 stock exchanges globally part of Sustainable Stock Exchanges Initiative

Exchanges providing guidance on ESG reporting

67

Exchanges covered by an ESG Index

49

Exchanges with ESG bond segment

46

Exchanges with mandatory ESG listing requirements

33



IFRS have subsumed SASB and IR standards. Drafts of new standards related to sustainability and climate related financial disclosures published.

EU is at the forefront of refreshing its ESG regulatory environment, which the world tends to follow

EU Green Deal

CSRD
Corporate Sustainability Reporting Directive

Taxonomy

SFDR
Sustainable Finance Disclosure Regulations

EU Green Bond Standards

UAE is briskly moving on new ESG ambitions and commitments



UAE Net Zero 2050

UAE Circular Economy Policy

Mandatory disclosures for all listed entities

UAE Sustainable Finance Framework

Board diversity

Capital markets are readily embracing the idea of ESG led financing and investments

Our experience is that many companies underestimate the value creation potential of managing ESG impacts as business risks

1. ESG is an enabler of access to capital

96%

of investors say ESG performance played a pivotal role in investor decision making over the last 12 months.¹

2. ESG reduces risks and drives value creation

2x

additional return on assets generated when investing in high ESG performing firms.

3. Lack of risk-based ESG management and disclosure can lead to undervaluation

A 2019 EY survey³ found that investors are dissatisfied with the quality and consistency of risk-based environmental and social disclosure to inform investment decisions.

In the absence of good disclosure, investors are using third-party data and tools to assess risk.

1 in every 3
USD invested
is screened on
ESG impact

References:

1. EY, "Does your nonfinancial reporting tell your value creation story?" 2019. <[Link](#)>
2. Robert G. Eccles, Ioannis Ioannou, and George Serafeim, "The Impact of Corporate Sustainability on Organizational Processes and Performance," *Management Science* 60, no. 11 (November 2014): 2835-2857. <[Link](#)>
Note: Based on a value-weighted sample of high ESG performing firms vs. a control sample over the period 1993 to 2010.

Summary

- ESG and Climate related commitments are now shifting their focus on the city to city collaborations to meet the National and Global objectives; alliances is the key
- COP 27 has highlighted Financing mechanisms from Private Sector, and cities can look for availing these options
- There is no adaption or mitigation initiative that does not touch the cities participation and support; hence these are central levers
- The national and province ecosystem support is required to meet some of the ESG objectives. Hence, there is a need to factor in local nuances into the ESG plans
- Climate change poses a great threat for City's sustenance and the MENA region has been highlighted as one of the most vulnerable ones



Questions and discussion

EY | Building a better working world

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Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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