

# Sustainable financing and investing survey 2021

**MENAT report**  
Climate impact on the rise



# Introduction

## Values, stakeholders and returns catalyse change

**Sustainable finance and investment in the Middle East, North Africa and Turkey (MENAT) continues to grow and develop, influenced by an ever changing combination of forces that are driving change among issuers and investors.**

Two of the most powerful driving forces this year for why issuers and investors care about environmental and social issues is a firming in their belief that it is right to care about the world and society (42%), together with increasing regulatory demands for them to pay greater attention (42%).

MENAT is the only region where these two forces are given as the top two, but they are also prominent across regions, and especially the values-based belief that it is right to care, which is the leading reason given by issuers and investors globally.

In breaking the responses down, some interesting differences in opinion between issuers and investors in the region, are apparent (**Fig 1**).

For instance, rising pressure from employees (46%) and customers (40%) to care about these issues, together with regulatory demands (45%), are the three main reasons influencing issuers' engagement and commitment to these areas.

For investors, regulatory demands (36%) and their belief it is right to care (51%) are primarily underpinning why these issues are important, together with a recognition that paying attention to these issues can improve returns and reduce risk (42%).

What is particularly interesting is the movement in some of these responses from last year, and especially among issuers. For instance, the influence of employees and customers has risen markedly on last year, when less than a quarter of issuers recognised the influence of these stakeholder groups. Such a rise not only highlights the increasing importance of these issues to crucial stakeholders, but just as importantly the responsiveness of companies in the region and elsewhere to them.

Different institutions will be impacted differently by these forces. However, more generally, the differences between issuers and investors in MENAT this year is something of a theme.

For instance, not only do 48% of issuers consider environmental and social issues as very important – compared to 27% of investors – some 97% of them have increased the attention they pay to these issues in the past year, whereas notably fewer but still high 69% of investors have done the same.

In addition, while 6% of issuers have already made net zero commitments and 78% say they are working towards setting a target, some 6% of investors have already done so but only 12% say they are working towards it – the lowest percentage of any region.

Responsible or environmental, social and governance-focused investing has been developing in MENAT during the past few years, as our annual surveys have shown. Yet this year, the responses from investors highlight some key challenges to ESG investing's growth and development.

Positively, about a fifth of investors in the region say they have a firm-wide policy on responsible investing or ESG issues and 36% say they do not but do intend developing one. The percentages are low against the global average, but they do show firm commitment and engagement from investors.

This is particularly the case in Saudi Arabia and the UAE where 22% of investors say they have a policy in place, which is higher than the regional average.

Investors in the region are experiencing some challenges, which may be slowing their embrace; some 61% of investors – a global high although this percentage has fallen consecutively in the past three years – say certain issues are holding them back from pursuing ESG investing more fully and broadly.

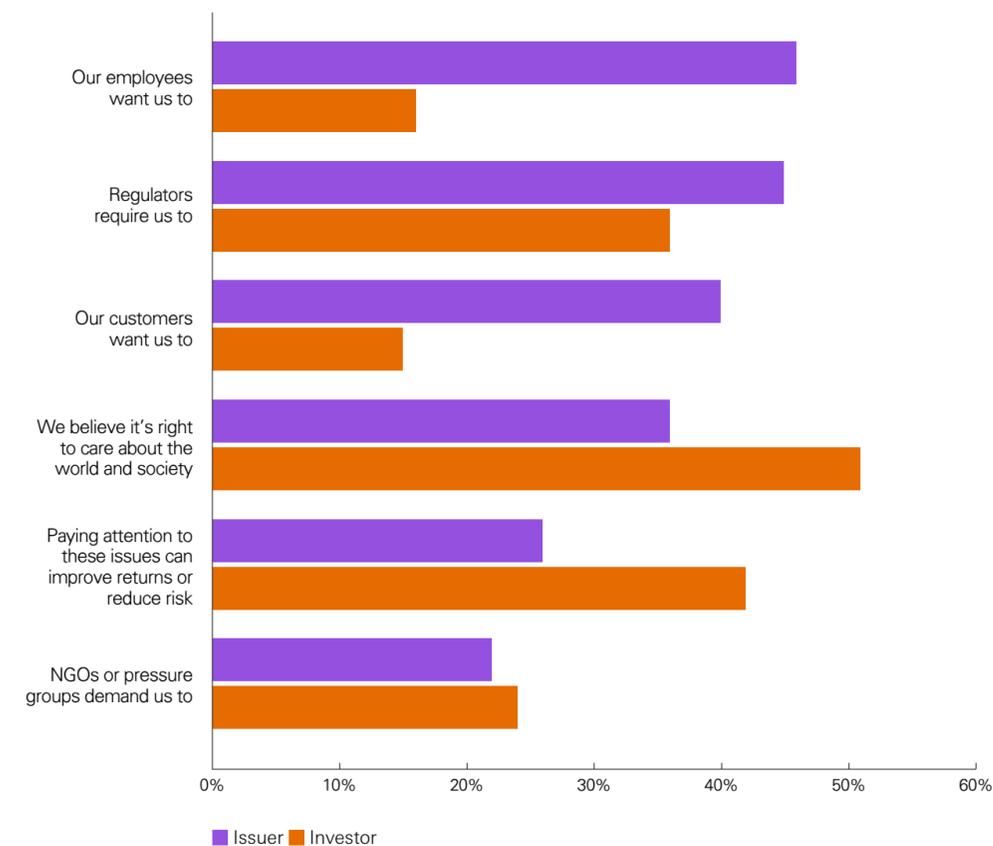
Top among those issues this year is a shortage of expertise and qualified staff. In fact, of those investors who are being held back from ESG investing, some 43% of them say this shortage is the main reason why, which is the highest percentage globally.

Other challenges include regulatory or legal constraints (28% - down from 36% last year), poor quality or availability of ESG data (28% - flat to last year), lack of demand among clients (27% - down from 44%), and a lack of comparability of ESG data across issuers (27% - down from 55%).

What this shows is that while some key challenges to ESG investing in MENAT remain, many are being addressed and becoming progressively less of an issue. The region's investors may feel as if they are currently losing the ESG talent battle. They haven't, however, lost the war.

**Figure 1: Issuers and investors opinions diverge**

Why does your organisation care about social and environmental issues?



**44%**  
of those MENAT investors who are being held back from pursuing ESG investing more fully and broadly, say the main reason is a shortage of expertise or qualified staff

### 2021 Key Findings:

- ♦ **Reasons to care** – Three clear factors underpin why MENAT issuers care about environmental and social issues: Pressure from employees (46% - up from 3% in 2020); regulatory requirement (45%); pressure from customers (40% - up from 2% in 2020).
- ♦ **Strategic importance** – MENAT issuers show greater commitment to environmental and social issues than investors; some 48% (up from 33% last year) say these issues are very important to their organisation compared to 26% (down from 34%) of their buyside peers.
- ♦ **Reasons to care** – Three clear factors underpin why investors care about these issues: Belief that it is right to care about the world and society (51%); recognition that paying attention to these issues can improve returns or reduce risk (42%); regulatory requirement (36%).
- ♦ **Climate change impact** – some 45% of issuers say climate change is already affecting their business or activities, up from 7% in 2020.
- ♦ **Net zero opportunity** – 6% of MENAT issuers and investors have already made carbon neutral or 'net zero' commitments – the lowest percentages globally.
- ♦ **ESG investing** – Some 19% of MENAT investors say they have a firm-wide policy on responsible investing or ESG issues and 31% say they have no intention of doing this, which is the highest percentage of any region.
- ♦ **ESG skills gap** – Of those MENAT investors who say they are being held back from pursuing ESG investing more fully and broadly, most (44% - up from 26% last year) say the main reason is a shortage of expertise or qualified staff, the highest percentage globally.
- ♦ **Issuers examined** – 47% of MENAT investors say the information disclosed by companies on their environmental performance is inadequate – the second highest percentage globally. Some 32% say it is adequate, and 21% excellent.
- ♦ **Issuers examined** – 42% of MENAT investors say the information disclosed by companies on their social performance is inadequate – the joint highest percentage with Asia globally. Some 34% say it is adequate, and 24% excellent.
- ♦ **Green and sustainable finance** – Some 63% of MENAT issuers (around the global average) say they expect their company to actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months.



# Disclosure

## Investors call on issuers to improve disclosure

**In line with the global trend, company disclosure on environmental and social issues in MENAT has been rising in recent years, and for about a third of issuers we surveyed, they expect levels to rise further, which they see as a good thing.**

Such expectations are evident across other regions, but they are highest among ASEAN (37%) and MENAT issuers (32%) (Fig 2). In fact, by country, some 42% of Saudi issuers said this, which is notably higher than the 32% of their UAE peers who said the same.

Overall, though, most issuers in the region (51% - in line with the global average) think their disclosure levels are about right and they feel no pressure to increase them – up notably from 37% who said the same last year.

What's interesting is that more issuers in these two regions indicate they are feeling greater pressure from investors or regulators to increase their disclosure on these issues, and especially European issuers, of whom 36% - a regional high – say this.

This is in contrast to only 5% of MENAT issuers who say they feel similar pressure, which is one of the lowest percentages regionally and somewhat at odds with the view of investors we surveyed.

Indeed, investors in MENAT clearly want to see improvements to the disclosures companies make in the region – some 47% of them say the environmental disclosures of companies they invest in are inadequate, and 42% of them say the same for the

social disclosures – the joint highest percentages regionally with investors in Asia and notably higher than a fifth of investors in the Americas who say the same. (Fig 3).

In particular, 56% and 47% of Saudi investors say that environmental and social information disclosed by companies they invest in is inadequate, both of which are regional highs.

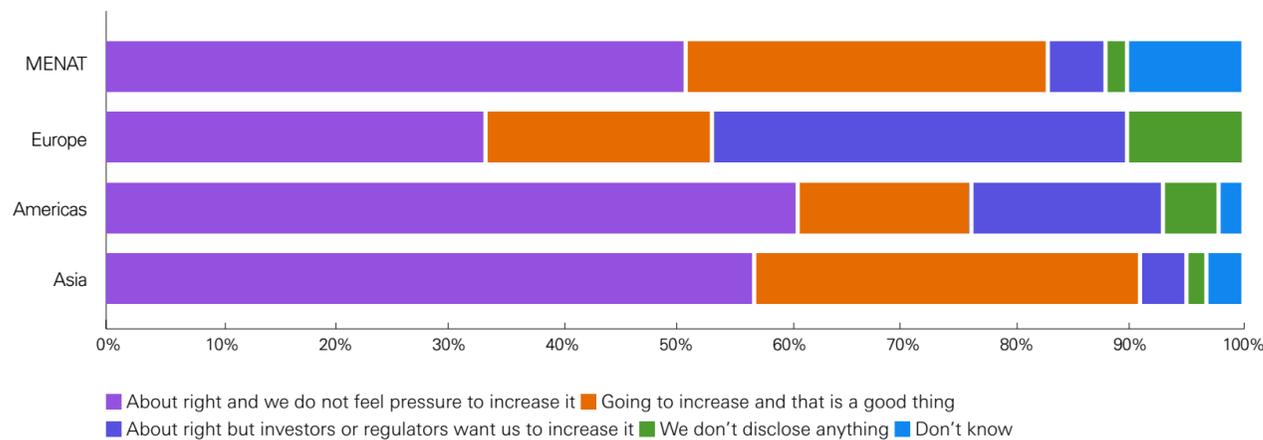
Clearly a significant proportion of MENAT companies need to make improvements to the information they disclose on these issues. However, according to our survey, some 32% of investors believe companies' environmental disclosures are adequate and 21% say they are excellent. Issuers receive marginally better marks on the social side – 34% of investors say the disclosures are adequate, and 24% say they are excellent.

Further supporting this is that, when asked what would help the most in trying to invest sustainably, investors gave greater voluntary disclosure by companies as one of the top factors, together with more consistent ESG ratings and an official taxonomy.

What this shows is that if issuers have not yet felt the pressure from investors to disclose more and better information on the environmental and social performance, our survey indicates that they surely soon will.

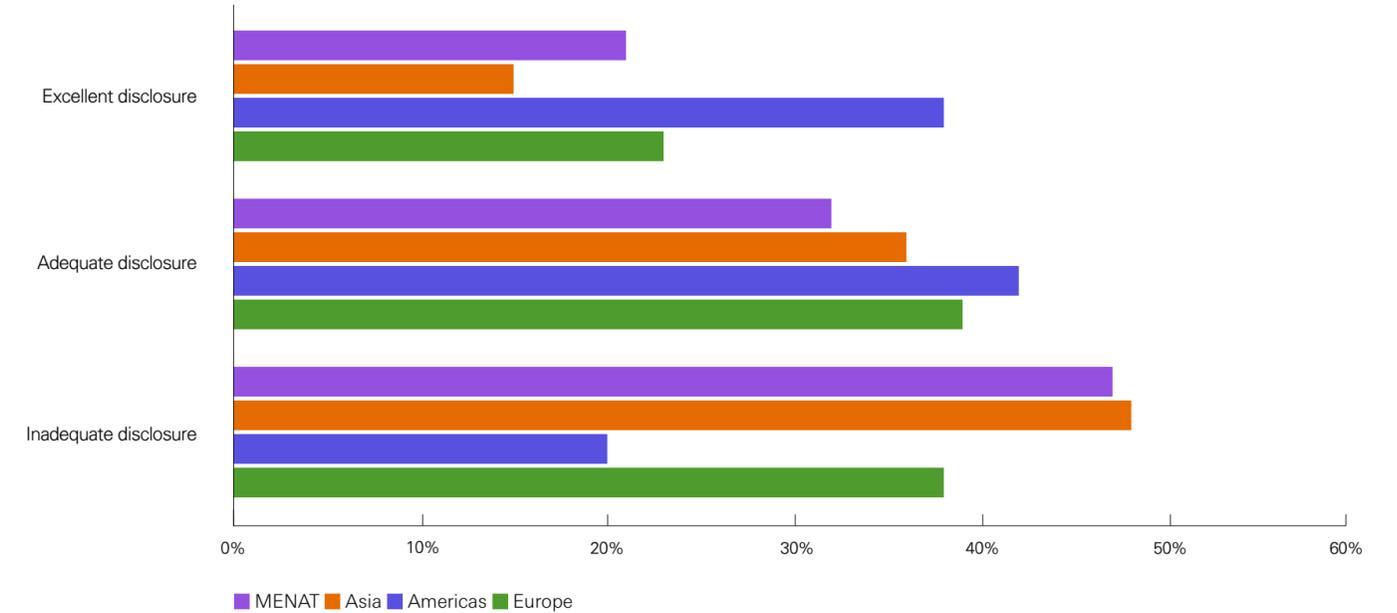
**Figure 2: Most MENAT issuers feel levels of disclosure are about right**

How would you describe the level of disclosure you make now on environmental and social issues?



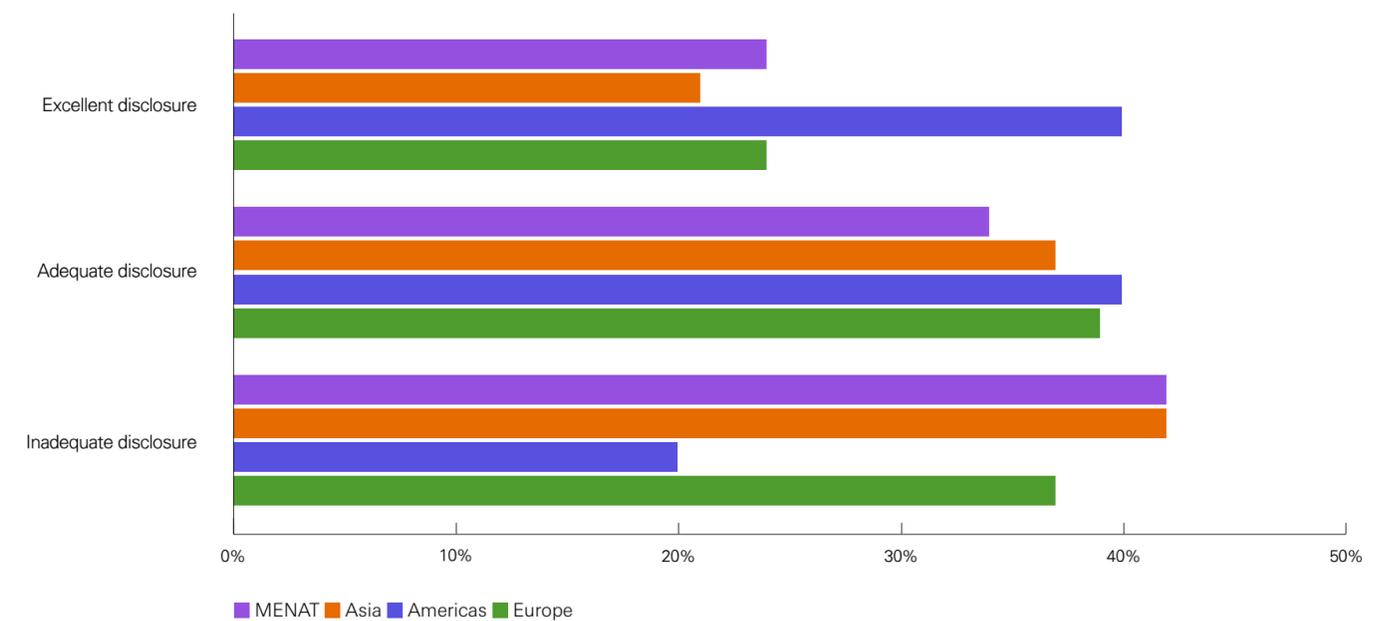
**Figure 3: MENAT investors judge environmental disclosures**

How good is the information companies you invest in disclose about their environmental performance?



**MENAT investors judge social disclosures**

How good is the information companies you invest in disclose about their social performance?



# Climate Change

## Issuers increase efforts to mitigate impact of climate change

**Under a greater sense of urgency, companies in MENAT are studying the effects of climate change and considering increasing some business activities or starting new ones to mitigate its impact, which is being felt more this year compared to last year.**

In fact, some 45% of issuers say climate change is already affecting their business or activities – up notably from only 7% in 2020. (Fig 4). In particular, 60% of UAE issuers say this – a regional high.

To lessen the impact, about three quarters (73%) of issuers say they are trying to learn more about the possible effects before pursuing action, while 72% say they are considering increasing some business activities or starting new ones to benefit from the economic changes brought by climate change. Saudi issuers are especially keen on this – 88% say they are considering such action.

In contrast, only 15% of issuers across the region say they are considering reducing or getting out of some business activities which could be vulnerable to climate change – the lowest percentage of any region.

There may be several reasons why this is the case. In the main it could be that companies in the region have already been proactive in reducing their exposure to activities or businesses vulnerable to climate change, and are now are eager to go on the front-foot, pursuing a growth strategy.

Devising an effective climate change and sustainability strategy can be complex and challenging. For 48% of issuers – higher than the global average of 42% – they say they need a substantial amount of advice and information from others on how to formulate their strategy and how to carry it out.

Top among the institutions they say they need this from, are investment and commercial banks, followed by national governments, professional advisers and consultants, and international bodies.

They will need to listen to their investors, too. For them, most (57%) say it is important companies they invest in prepare for the effects of climate change, and 17% say it is vitally important.

Interestingly, those investors who say it is vital say so because they think companies must have plans to transition to low carbon, and warn that if they don't have a credible one, they will divest their shares in those companies.

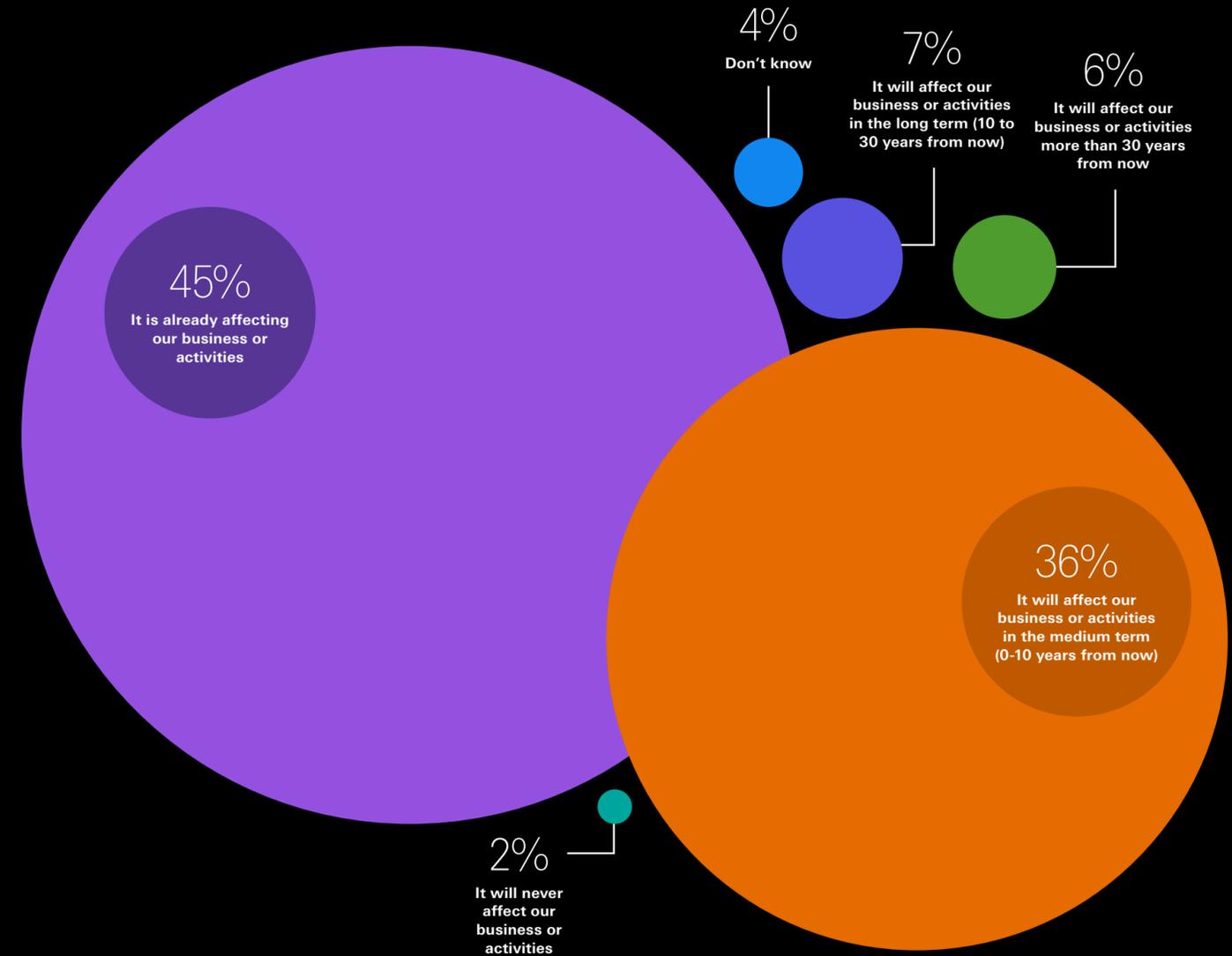
Not all investors in MENAT assign such high levels of importance to companies responding to climate change, however. Some 27% of investors say, for instance, that it is not very important – the highest percentage of any region.

For them, some of the main reasons for the lack of importance, are that other issues are more important to investment performance, effects are likely to be mild and that, in their view, they can always sell their investments later.



“To lessen the impact, 72% of issuers say they are considering increasing some business activities or starting new ones to benefit from the economic changes brought by climate change.”

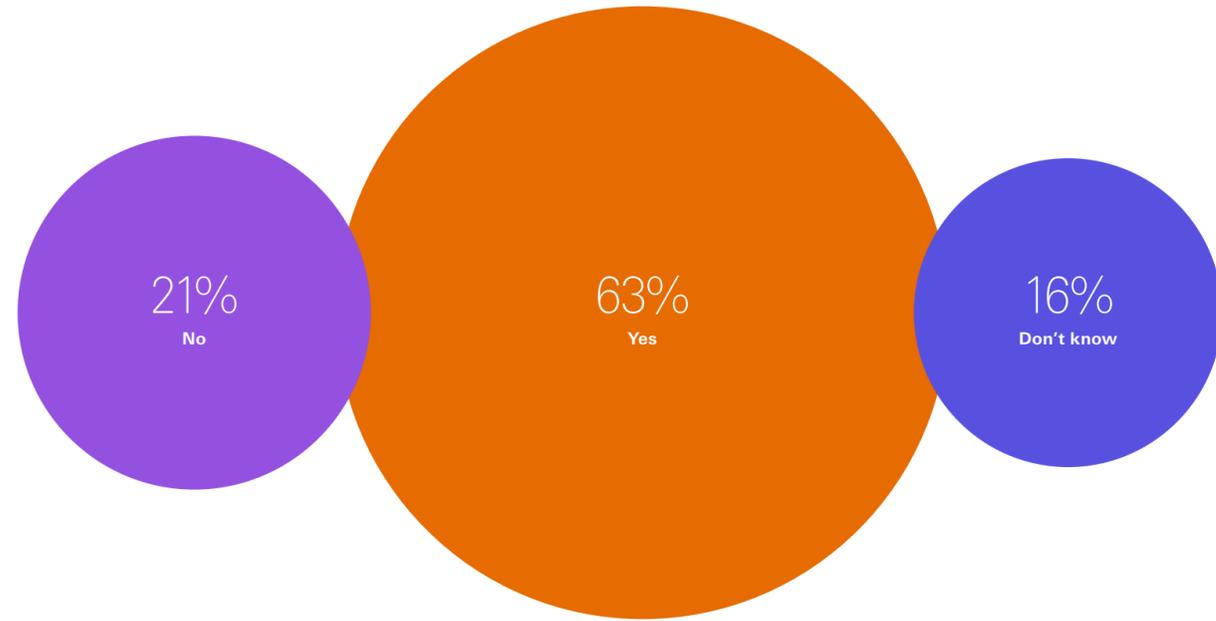
**Figure 4: Issuers feel the effects of climate change**  
Will climate change begin to affect your business or activities?



# Sustainable finance and infrastructure

## Strong demand for capital and solar

**Figure 5: Strong demand for sustainable finance among MENAT issuers**  
 In the next 12 months, do you expect that your company will actively seek advice on green, social or sustainability issues in relation to capital markets transactions?



**Green and sustainable finance in MENAT is still in an early stage of growth and development, but it is still evolving, and in the next 12 months, our survey indicates there could be a spurt in new issuance.**

Some 63% of the issuers we surveyed – rising to 64% in Saudi and UAE – said they expect their company to actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months, indicating strong intent among these companies to access sustainable finance.

While the percentage is lower than in Asia (78%) – where interest is the highest – it is higher than in the Americas (53%), and roughly in-line Europe (62%). Such interest globally should manifest in greater activity as an expanding number of issuers look to source capital more sustainably. It is this need which has driven good growth in the sustainable finance market in MENAT, supported by regulators and policymakers adopting a range of positive, sustainable initiatives.

Significant investment in sustainable infrastructure projects – such as solar power – has also been a big focus for governments in the region, creating investment opportunities.

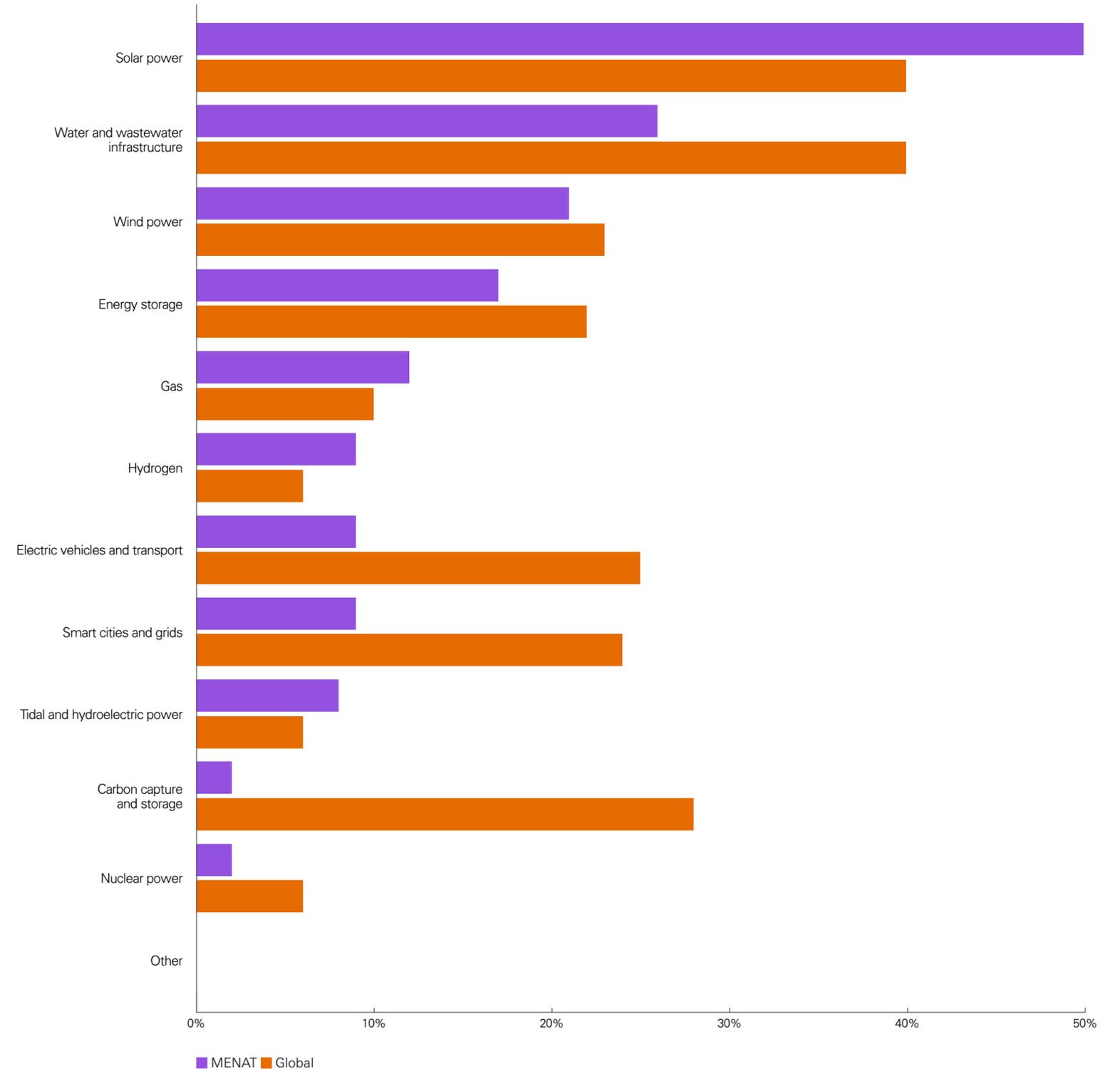
For their part, some 44% of the investors we surveyed said they are interested in investing in these types of projects, and 11% said they already do, led in the main by capital providers in the

UAE. Top among the projects of most interest to them this year are: solar power (50%); water and wastewater infrastructure (26%); wind power (21%); energy storage (17%); and gas (12%). Interest among MENAT investors in solar power is the highest globally, but it is also the most interesting investment opportunity for investors in Americas and Asia. (Fig 6).

The rise of renewable power generation is perhaps the most notable change from last year, when wind and solar were ranked a combined fifth, behind water and water infrastructure, which was the most attractive opportunity. At the core of MENAT investors' interest in solar is the market opportunity it represents for a region that needs to diversify its energy sources. Together with this, national governments are making huge investments in solar infrastructure and placing the industry at the heart of efforts to boost economic recovery. Increasingly, it seems likely that sustainable finance and investment will play a greater role in supporting this structural transition. While the results from our survey show that MENAT issuers are more advanced than their investor peers on embracing sustainability, the region's capital providers are increasingly incorporating environmental and social considerations into their corporate and investment strategies.

This is a trend that seems likely to only continue to rise, helping to further propel sustainable finance and investment in the region.

**Figure 6: MENAT investors most interested in solar**  
 Which of the following types of sustainable infrastructure projects would you be most interested in investing in?

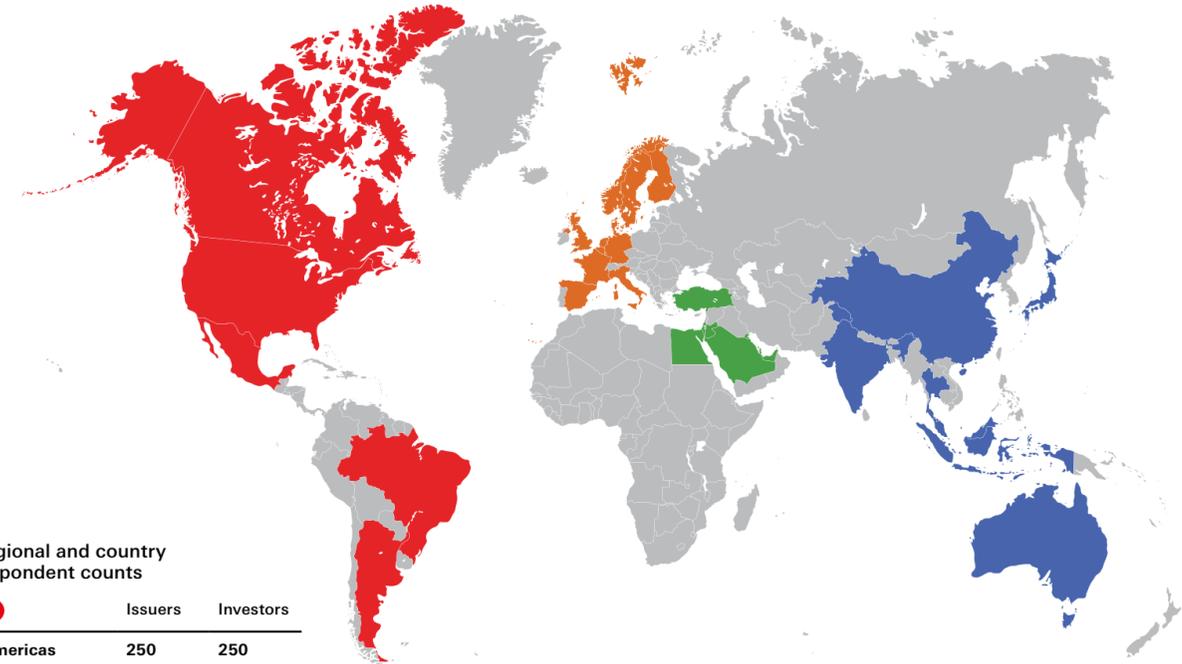


# Methodology

The HSBC Sustainable Financing and Investing Survey 2021 is an annual global survey of 2,000 capital market issuers and institutional investors. The survey was run during May and June and was designed and executed by Euromoney Institutional Investor PLC.

Respondents were split evenly between 1,000 issuers, from across 19 industries, and 1,000 institutional investors, including asset allocators and asset owners. In total, respondents were based in 34 territories across the regions of Americas, Europe, MENAT and Asia.

Issuer respondents held senior positions in the CFO office, and in finance, treasury, risk and investments. Investor respondents held senior positions in the CIO and CFO office, in portfolio and fund management and investment.



### Regional and country respondent counts

	Issuers	Investors
<b>Americas</b>	<b>250</b>	<b>250</b>
US	126	126
Canada	50	50
Argentina	21	23
Brazil	30	30
Mexico	23	21
<b>MENAT</b>	<b>150</b>	<b>150</b>
Saudi Arabia	50	50
United Arab Emirates	50	50
Bahrain	5	12
Egypt	15	11
Kuwait	12	11
Qatar	10	11
Turkey	8	5

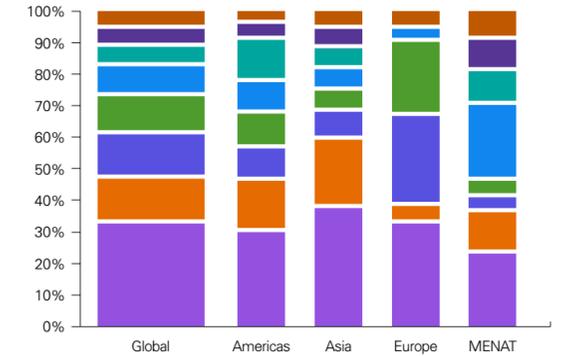
	Issuers	Investors
<b>Europe</b>	<b>276</b>	<b>276</b>
United Kingdom	76	76
France	50	50
Germany	50	50
Italy	20	19
Spain	24	26
Denmark, Sweden, Norway, Finland	27	30
Belgium, Netherlands, Luxembourg	29	25

	Issuers	Investors
<b>Asia</b>	<b>324</b>	<b>324</b>
Mainland China	100	100
Hong Kong SAR	50	50
Singapore	50	50
Malaysia	22	21
India	20	21
Indonesia	20	22
Thailand	21	17
Japan	22	20
Australia	19	23
<b>TOTAL</b>	<b>1,000</b>	<b>1,000</b>

### Issuers by industry/sector

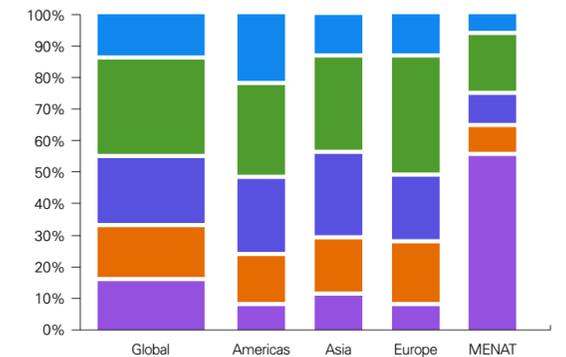
Banking	90	Transport	60	Metals and mining	40
Retail and consumer services	90	Consumer goods	60	Building materials	30
Real estate	80	Industrial goods	50	Electricity and water	30
Information technology	80	Agriculture, food, beverages, tobacco	50	Local government	10
Healthcare	70	Insurance	50	Supranational organisation	0
Telecoms	70	Other	40	Central government	0
Oil, gas, coal and chemicals	60	Business services	40		

### Investors by institution type



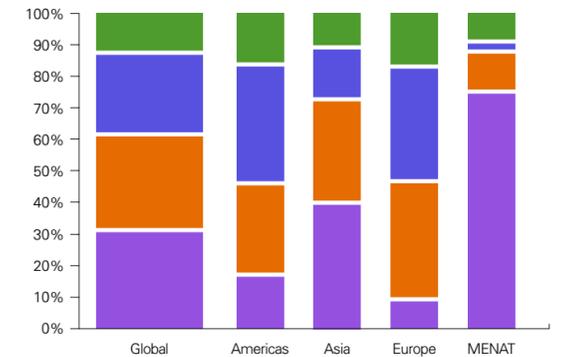
- Asset manager
- Bank treasury
- Insurer
- Pension fund
- Family office
- Endowment and foundation
- Non-financial corporate treasury
- Sovereign wealth fund

### Issuers by annual revenue



- \$10bn+
- \$1bn to \$10bn
- \$500m to \$1bn
- \$250m to \$500m
- Up to \$250m

### Investors by AUM



- \$25bn+
- \$5bn to \$25bn
- \$1bn to \$4.9bn
- Up to \$1bn

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