Protecting the Commons: A Call for Public & Private Sustainability in MENA

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Arabia CSR Awards - 26 October 2011

Excellences, Distinguished Guests, Ladies and Gentlemen,

It is a distinct pleasure for me to be here today at this prestigious Arabia CSR Awards event to recognize and honor organizations in the Arab region that demonstrate outstanding leadership and commitment to corporate sustainability.

The Hawkamah Institute for Corporate Governance has long been making the case for companies and governments in the region to adopt policies and practices that address sustainability, and we truly appreciate the important work carried out by Arabia CSR in this field.

We all know the importance of sustainability, but this recognition is generally not translated into action. We pay lip service: words not deeds. This is particularly true in the Arab world where sustainability practices are in their infancy. This attitude must change.

We live in some of the most fragile ecologies on earth. We are one of the most vulnerable regions to global warming, reduced precipitation and rise in sea levels. Water supply sources in the Arab world, two-thirds of which originate outside the region, are being stretched to their limits. The level of water scarcity is the highest in the world and is rapidly growing, threatening to lead to confrontation, to 'water wars'.

A recent report by the Arab Forum for Environment and Development stated that the Arab world will be facing severe water shortages as early as 2015. The annual per capita share will be less than 500 cubic metres, less than 10% of the world's average, (estimated at over 6,000 cubic meters). Without fundamental changes in policies and practices, the situation will get worse, with severe social, political and economic consequences.

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According to the World Bank, the economic costs of environmental degradation are high in the region, varying from 2.1 % of GDP in Tunisia, to as high as 7.1 % of GDP in Iran. "This high cost of environmental degradation spills into public finances, household budgets, the competitiveness of the economy, and inter-generational equity".

Adding to environmental stress and damage, the MENA region is becoming a significant contributor in terms of greenhouse gas emissions. Currently it represents about 6% of global greenhouse gas emissions, but it has the fastest rising regional per capita emissions in the world. The region's emissions grew five times faster than the global average from 1990-2005.

Much of this boils down to the high energy intensity of consumption & production activities, waste and inefficiency brought on by subsidies. According to recent reports, oil demand in Saudi Arabia rose by 22 percent between 2007 and 2010, out pacing the growth rate of Chinese oil demand, despite China's economy expanding almost three times faster. If Saudi maintains current policies & practices and sustainable oil production capacity remains at 12.5mbd, it will be a net importer of oil by 2037, if not earlier!

In fiscal terms this means that Saudi Arabia could face a serious revenue and balance of payment crisis within the current decade as it will need to cut exports to meet rising domestic demand. And like many regional oil producers, Saudi is a country that is still highly dependent on oil revenues to fund its entire state apparatus, welfare system and government spending.

In other words, both the fiscal and environmental realities point in the same direction. The region imperatively needs to adopt better sustainability practices. What should be done? The strategic priorities are to improve energy efficiency, curb energy consumption, remove fossil-fuel subsidies promote the development of "clean tech" and use renewable sources of energy. However, no policies are in place.

We are witnessing more and more MENA companies starting to recognize the importance of corporate sustainability, but serious issues remain. We at

Hawkamah define corporate sustainability as covering three key areas: “ESG” – Environmental, Social and Corporate Governance. To raise awareness and put corporate governance and corporate sustainability on the agendas of the region’s policy makers, we have conducted research, surveys and studies on the state of ESG in the Middle East and North Africa region for several years. The idea behind our initiatives is to create regional benchmarks which will then act as catalysts for reform.

A major initiative has been the ESG Index which we launched in partnership with Standard & Poor’s and the International Finance Corporation. The Hawkamah-S&P Index, the first-ever index of its kind in the Arab region, ranks and tracks the transparency and disclosure of regional listed companies on ESG issues.

The constituents of the Index are drawn from a universe of the 150 largest and most liquid companies listed on the national stock exchanges of 11 Arab countries, covering the entire region from Morocco to Oman. Each company is analyzed on nearly 200 ESG Issues including carbon emissions, water and energy consumption, employee health and safety, community investment, charitable giving, financial reporting, auditing, board independence and executive remuneration, with the top 50 best performing companies included in the Index.

Through this work on the Index, Hawkamah now has a substantial database on the ESG practices of regional listed companies. The data covers the last four years. Our evidence suggests improvements in corporate governance practices of companies over the past years. But, generally speaking, their scores on the environmental and social criteria remain low.

Assisted by the issuance of corporate governance codes by governments & regulators, corporate governance has started to take root in the region. Many companies now view corporate governance as a strategic investment. But the environmental and social aspects of corporate sustainability are still largely seen by companies as something “nice to have”. The same applies to signing up to and implementing the UN PRI.

There are notable examples of regional companies that are very active in promoting the ”social good”, making significant charitable contributions, engaging in disaster relief operations and sponsoring events raising awareness on environmental issues. These companies have dedicated resources to worthy causes and they have improved, in many case changed, the lives of millions of people, particularly in disaster hit areas.

While such activities are laudable and should continue, they illustrate the prevailing mindset that corporate social responsibility is something “nice to have”, something that happens “externally” to the company.

The challenge for the region is to have the companies extend their external “corporate social responsibility” activities to cover their own internal operations. There needs to be a paradigm shift within the business community. First, ESG starts at home and second, ESG is good for the bottom line. We have certainly seen this with the companies included in the ESG Index, whose share price performance has significantly outperformed the market.

Sustainability, covering areas ranging from employee to customer satisfaction, from energy efficiency to health and safety, is a core driver of competitive business strategies.

Managing stakeholder relations and issues generates business benefits. A company’s greater understanding of employee attitudes, customer perspectives and impacts on communities can not only reduce risks but also be a way of identifying value-enhancing opportunities for the future.

If companies do not address sustainability they will not produce long-term value for their shareholders. The 2010 BP Gulf of Mexico oil spill which halved BP’s share price in a couple of weeks is a prime illustration of the risks of neglecting ESG risks.

The first key step for the region’s companies is to see that ESG is less about promoting social goals (important as that may be) and all about minimizing risks and maximizing returns.

Although an increasing number of MENA companies have drafted policies on issues such as the environment and health & safety, very few of them demonstrate their commitment to these policies by publicly setting targets in relation to these policies and reporting on their progress.

For example, although nearly 40% of the companies in our ESG Index universe (i.e., the largest and most liquid listed companies in the MENA) have some sort of an environmental policy in place, only four of them publicly disclose their greenhouse gas emissions.

Of course, many more companies may be monitoring their environmental performance, but since reporting on such activities is not mandatory, we simply do not know the exact numbers. It is doubtful that listed companies will drive sustainability reporting in the region if it is not required.

There is a strong case to be made that the state-owned enterprises in the region should do that - to show leadership in this important area. In fact, we have many panelists here today from Sweden, and I believe we should follow the Swedish example. Sweden was the first country to demand sustainability reports from state-owned enterprises. Both research and evidence suggest that mandatory sustainability reporting has raised awareness among companies and led to greater sustainability efforts.

To sum up, there have been some developments in the realm of ESG in the region, but clearly more, much more, needs to be done. Most importantly, the governments of the region need to send the right signals and not only through legislation; first, mandate sustainability reporting by state-owned enterprise and second, promote the incorporation of ESG criteria into the investment decision-making process of our sovereign wealth funds. Our sovereign wealth funds should show leadership in corporate sustainability by adopting responsible investment practices and investing in companies such as those that are part of the ESG Index.

We also need to support the development of better ESG practices by the region's companies, state-owned or otherwise. We should provide the region's companies and regulators with practical tools on how to go about improving ESG.

This is why institutions such as Arabia CSR, and indeed Hawkamah, which provide a platform for sharing best practices and develop tool kits, are crucial for the evolution of corporate sustainability. We need to do more to support institutions that develop home grown solutions while learning from international best practices: Institutions of the region and for the region.

We also need to publicly recognize the efforts of individual companies that go the extra mile in their ESG journey and make a difference. I congratulate the companies that are being awarded here today for showing leadership and thereby nudging other companies in the region to follow their example.

Everyone recognizes the need for sustainability. It is up to us to translate this recognition into action. The immediate beneficiaries of such action are us. This is all in our own self-interest, but this is also a duty we owe to our future generations. But we need to internalize the externalities of our actions. Implementing ESG is about protecting our commons.

We can easily imagine the impact of an oil spill similar to the one in the Gulf of Mexico happening here. The damage would be an environmental and human life-threatening calamity, an ecocide. The Gulf here is our livelihood. We must ensure that our governments and companies are doing their best to manage and minimize their environmental risks. For the sustainability, not only of our investments and companies, but of our region and way of life, for inter-generational equity – we need to start taking ESG seriously.