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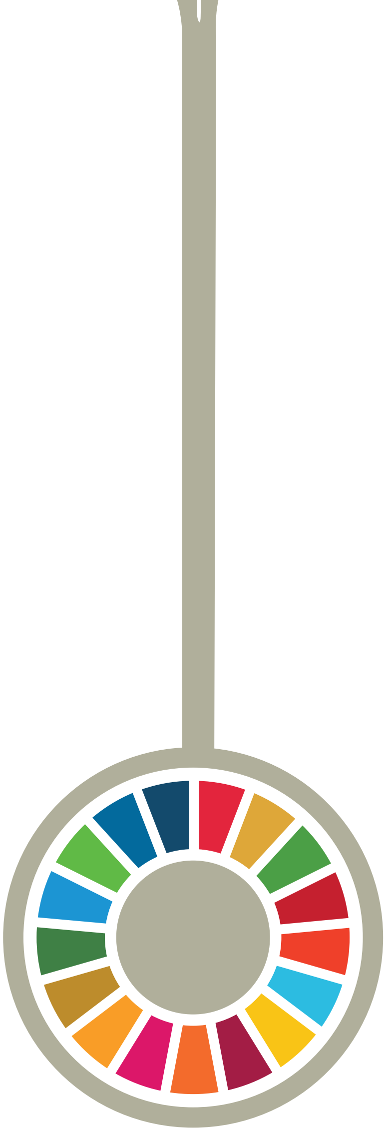
ANNUAL SDG REVIEW 2023

The private sector and the SDGs in the Arab region



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ANNUAL SDG REVIEW 2023

The private sector and the SDGs in the Arab region

The Review is a preparatory document of the Arab Forum for Sustainable Development to encourage discussion on priority issues for the achievement of the SDGs in the Arab Region

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Use of a dash (–) between dates representing years, e.g. 2020–2021, signifies the full period involved, including the beginning and end years.

Details and percentages in charts may not necessarily add to totals because of rounding.

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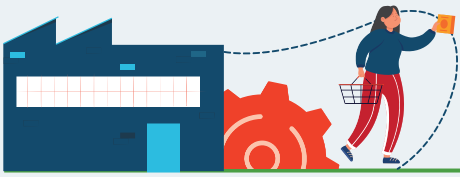
Key messages

1 Delivering the SDGs through business action

The region's private sector is underperforming on the environmental, social and governance (ESG) front

- Very few companies in the Arab region publish sustainability reports.
- Small and medium-sized enterprises (SMEs) in the region underperform larger companies and peers in other world regions in their ESG actions.
- Women-led enterprises in the region outperform men-led enterprises in ESG implementation.
- Few companies monitor their energy consumption and even fewer monitor water consumption.
- The social component is a weak point, notably in terms of women's employment and the fair treatment of migrant workers.

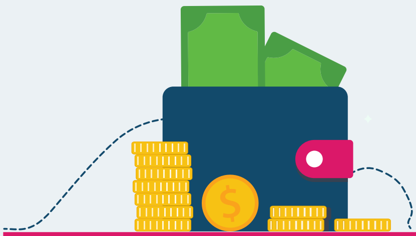


The region's private sector is being nudged by a web of pressures, but their SDG actions reflect largely conventional corporate social responsibility (CSR) approaches

- While government regulations and incentives continue to be a main driver behind private sector alignment with the SDGs, the business case for the SDGs is becoming clearer.
- The private sector is starting to perceive the risk to their business from not achieving the SDGs; this is notable for climate risks, including natural disasters and scarcity and increased cost of resources.
- Ambitious government commitments, such as net zero, could exert transition risk on companies as they seek to comply.
- Customer preference for sustainable products and services – an emerging trend according to surveys in the region – is playing an increasingly important role in driving Arab companies' adoption of ESG measures, especially for exporters.
- A shift is yet to take place from CSR towards a more ambitious and holistic 'shared value' approach that can bring longer-term and cumulative gains to businesses and societies.

Way forward

- Governments need to lead by example, adopt a new generation of supporting policies (such as circular economy policies), offer incentives and de-risk ESG investments by the private sector.
- Businesses need to commit to transparent sustainability reporting.
- Civil society organizations, including professional associations, can complement efforts by Governments and other stakeholders by providing guidance to the private sector on best practices for aligning with the SDGs, and supporting social entrepreneurship.
- All actors need to give particular attention to SMEs that represent the majority of enterprises in the region, face many impediments and are the lowest ESG performers.



2 Mobilizing private finance for the SDGs

In the Arab region, private finance is crucial to bridge the SDG financing gap

- Twelve middle- and high-income Arab countries face an estimated SDG financing gap of $660 billion per year to achieve priority targets by 2030.
- Private capital is abundant, but only a small share is channelled to SDG-related projects. The challenge resides in mobilizing domestic and foreign private capital to help close the SDG financing gap in the region.

Private investment is low and declining

- Both domestic and foreign private investments are declining as a share of GDP, and at a faster rate than in other developing regions.

- Domestic private investment as a percentage of GDP is nearly half as high as in South Asia, or one third as high as in developing East Asia and the Pacific.
- The Arab region is the only developing region where net foreign direct investment (FDI) is negative (i.e. outflows surpass inflows).

Corporate finance deals in the region reveal a move towards sustainability in recent years

- Inward FDI traditionally concentrated in sectors that create few jobs and fall short of being transformative, including fossil fuels, real estate, and leisure.
- However, recent corporate finance deals have prioritized SDG-related sectors, especially renewable energy, water and sanitation, and transportation.

Way forward

- Governments can translate their investment plans into bankable project pipelines that contribute to achieving the SDGs, and embed them into national development strategies to guide private sector investment.
- Governments can enact legislation to promote public-private partnerships (PPPs) and ensure that risks and returns are shared fairly; establish PPP units within Governments; and build capacity to enter partnerships.
- All actors can promote blended finance to galvanize private capital in riskier environments.
- Develop regulatory frameworks to promote sustainable capital markets, including for sustainability-themed bonds and funds.
- All actors can develop harmonization of sustainable financing standards to strengthen ESG reporting and accountability and ensure investor confidence.
- All actors can boost domestic savings to stimulate investment and generate greater employment, economic growth and sustainable development.

3 Engaging the private sector in SDG planning and coordination

The private sector is involved in SDG planning and review frameworks, but participation could be wider and more meaningful

- Arab Governments are engaging the private sector in SDG planning, review and coordination, most commonly through chambers of commerce and industry.
- Most Arab countries engage women business associations in SDG coordination processes, but the participation of micro, small and medium-sized enterprises (MSMEs) is lacking in more than a third of countries.
- Private sector engagement is piecemeal and often tokenistic. While the private sector is regularly consulted, it does not participate in decision making in most Arab countries.

Reporting on private sector contributions to the SDGs in voluntary national reviews (VNRs) is lacking

- VNRs partially reflect the contributions of the private sector to the SDGs; reporting is generally limited to private sector contributions to economic growth and employment creation.

Way forward

- Engaging the private sector in local-level SDG planning and coordination can help widen the reach to include MSMEs. The emerging interest in the region in local SDG reviews is helpful in that respect.
- A unified and stable mechanism that meaningfully engages the private sector across all stages of the policy cycle will be critical to ensure coherence and accumulation of results.
- VNRs should reflect private sector contributions to SDGs that go beyond job creation and economic growth. Digital self-reporting platforms can better capture these contributions and help standardize corporate sustainability disclosure.

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Introduction

The 2030 Agenda for Sustainable Development acknowledges the role of the diverse private sector, ranging from micro-enterprises to cooperatives to multinationals, in the implementation of the Sustainable Development Goals (SDGs). It commits Member States to take the necessary actions to encourage and promote effective public-private partnerships (PPPs). It also calls on all businesses to apply their creativity and innovation to solving sustainable development challenges.

The ESCWA Annual SDG Review 2023, the second in the series, explores the contributions of the private sector to the realization of the 2030 Agenda and the SDGs in the Arab region. Building on limited available data on the subject, the report offers an indicative reading of existing trends and gaps in the region. The analysis is guided not only by the Agenda's goals and targets, but also by the whole-of-society and rights-based approaches and the principles of universality, leaving no one behind, combating inequality and promoting gender equality and the empowerment of women.

Although the private sector has the potential to be a key development partner in the Arab region, this is yet to fully materialize. Available evidence indicates that businesses are a major driver of productivity gains, job creation and economic growth. In some Arab countries, private enterprises also contribute to the provision of some social services, such as education and health care, and spearhead innovation and technological change. Moreover, the private sector, in synergy with Governments, donors and other partners, can play a key role in bridging the financing gap to achieve the SDGs by 2030, which has been estimated in 12 Arab countries to exceed $660 billion per year.[1]

Businesses face a plethora of challenges in the region, including instability, lack of effective enforcement of competition law, low investment in human capital and technology, insufficient access to finance and limited opportunities for women and young people. Arab States and other stakeholders are deploying broad efforts to support the development of the private sector and its alignment with the SDGs. Governments are also increasingly engaging the private sector in institutional mechanisms dedicated to planning, coordination and review of the 2030 Agenda.

The next chapters of this report review the contributions of the private sector to sustainable development in the Arab region from three lenses:

1. **Delivering the SDGs through business action**
2. **Mobilizing private finance for the SDGs**
3. **Engaging the private sector in SDG planning and coordination**

Each chapter assesses evidence for private sector engagement in the delivery of the SDGs in the region and provides guidance on actions needed to address current gaps.

Box 1.
What is private sector contribution to the SDGs?

While the 2030 Agenda stresses the importance of private sector contribution to the SDGs, it does not provide clear guidance on the scope of that contribution or ways to accurately and consistently measure it. In broad terms, a private school that provides education in remote areas could be seen to contribute to the achievement of SDG 4. Any company that creates job opportunities could be seen to contribute to the achievement of SDG 8. If we consider the SDGs within the paradigm shift called for by the 2030 Agenda, we would acknowledge that those achievements would need to be qualified: a private school that offers accessible quality education; a company that creates decent jobs. Transformative change is about creating a shift towards increased environmental sustainability, equality, a rights-based approach to development, inclusivity, justice, etc. – the core principles outlined in the Preamble and Declaration of the 2030 Agenda.

Thinking of transformative change and the core principles brings us closer to capturing how any intervention, whether by the Government, the private sector, civil society or individuals, contributes meaningfully to SDG implementation. It is not an exact science. But it is also not as simple as the provision of education, health care, food products or jobs.

However, while government interventions can be measured utilizing the global indicator framework for the SDGs, albeit complemented by qualitative analysis, no such globally agreed framework exists for measuring private sector contributions to the SDGs. Multiple efforts are being made to capture this contribution and some are referenced in the present Review. Examples include the GCI framework of the United Nations Conference on Trade and Development (UNCTAD); the SDG Impact Standards for enterprises, private equity funds and bond issuers of the United Nations Development Programme (UNDP); guidance by the Global Impact Investing Network; as well as that of the United Nations Global Compact, which complements its Ten Principles with Chief Finance Officer Principles. Common to most existing efforts is a focus on impact – socially beneficial and environmentally sustainable – and on good corporate governance.

In the absence of a comprehensive and accessible global framework, the present Review uses an environmental, social and governance (ESG) framework as a proxy for alignment with the SDGs. In addition, the Review acknowledges that the application of this framework in the region is limited by the scarcity of data on private sector contributions. However, building on available reporting, the Review offers an analytical perspective on available data to contribute to the discussion on private sector engagement with the SDGs in the Arab region. It lays out findings, offers analysis and provides recommendations in line with the overall assessment of SDG achievement in Arab countries. Thus, it also makes the case for more detailed data production as well as more robust analytical tools to help assess and improve private sector contributions to the SDGs in the region.

Source: ESCWA.

Delivering the SDGs through business action

1

Delivering the SDGs through business action

A. Every business can contribute

Businesses and other private sector entities can contribute directly to the SDGs by producing the goods and services required to realize a sustainable society. Beyond that, regardless of the sector they operate in, all businesses can contribute to the SDGs by adopting better business models and aligning their internal policies and standards to the principles of the 2030 Agenda.

Every business entity can…

For example:

Align its core business to the SDGs that directly link with its sector of operation

- **A private school offering affordable and quality education to boys and girls**
- **A company manufacturing renewable energy systems**

Contribute to many SDGs through its internal policies and standards

- **Offer decent work opportunities to men and women equally**
- **Fight bribery**
- **Practice sustainable consumption and production**

The present chapter provides an overview of the sustainability performance of the private sector in the Arab region and sheds light on pathways to better alignment of business with the SDGs.

Given the scarcity of studies on this subject in the region and the lack of disaggregated information by enterprise type, size and sector of operation, only a general assessment can be made. Findings were arrived at through a synthesis of information from various sources, including:

- Macro-level data on the environmental and social performance of Arab economies, mainly SDG indicators obtained from the ESCWA Arab SDG Monitor.

- Published firm-level datasets covering representative samples of companies and collected through surveys.
- United Nations reports on labour and human rights issues.
- Reporting by the United Nations Global Compact concerning the performance of its members.

Analysis is informed by an environmental, social and governance (ESG) framework (table 1), which offers broad and widely used criteria for analysing the impact that a business has on the natural environment, the relationships it has with people and communities, and how it governs itself. ESG covers elements that are core to the SDGs, making ESG performance a good proxy for SDG alignment.

Table 1.
The ESG framework used

E	Materials Energy Water Biodiversity Emissions Effluents and waste	S	Human rights Employment Labour-management relations Occupational health and safety Training and education Diversity and equal opportunity Non-discrimination Freedom of association and collective bargaining Child labour Forced or compulsory labour Local communities Customer health, safety and privacy
G	Procurement practices Supplier environmental and social assessment Anti-corruption Anti-competitive behaviour Transparency Innovation		

Source: ESCWA.

Box 2.
Global ESG trends

- Increasing demand from investors and other stakeholders for credible and transparent sustainability (non-financial) business reporting that demonstrates progress.
- Shift from a narrow understanding of CSR to a holistic and strategic approach that integrates ESG considerations into core policies and practices.
- Growing attention to climate and biodiversity risk in investment decisions and the setting of carbon emissions targets, with ambition to achieve net zero.
- Attention to ESG considerations in supply chains.
- Growth in the circular economy and corresponding business opportunities.
- Increasing consumer awareness and demand for sustainable products and services.
- Increased importance given to ESG-related skills in hiring decisions.

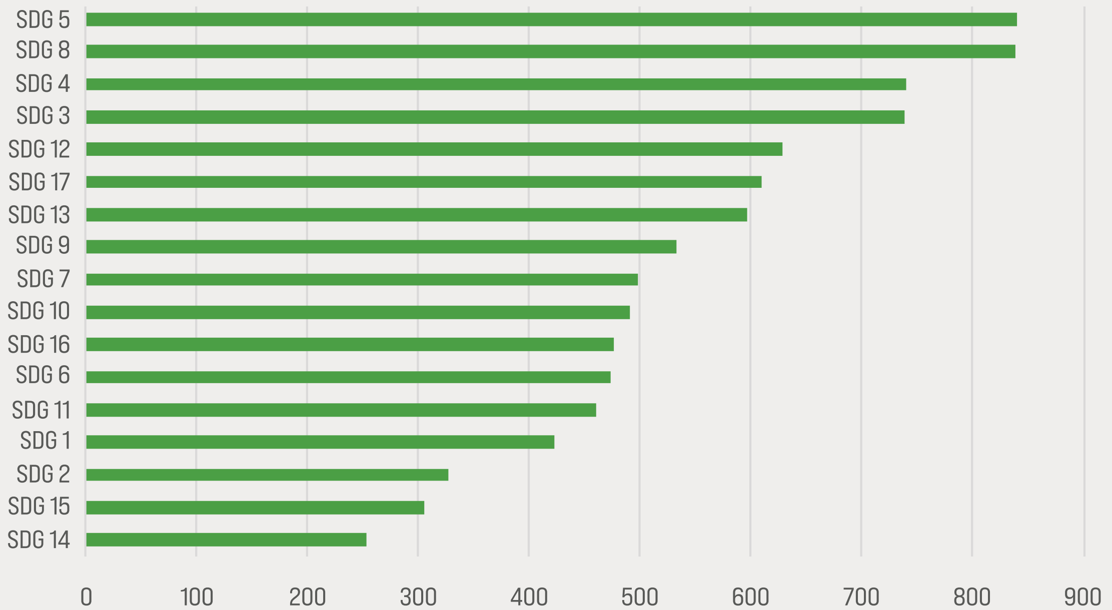
Sources: Sustainable Square (2022). ESG trends that define 2022; and KPMG (2022). ESG in 2022: 7 themes to look out for.

Box 3.

Which SDGs attract most private sector actions in the region? Evidence from the United Nations Global Compact

The United Nations Global Compact is the world's largest corporate sustainability initiative counting over 17,000 business participants, with nearly 600 companies from the Arab region, slightly over half of which are SMEs. The initiative calls on companies to align strategies and operations with ten universal principles on human rights, labour, environment and anti-corruption and to take ambitious actions on the SDGs. While participants represent a fraction of the companies in the region, their self-reporting indicates a focus on gender equality (SDG 5), decent work (SDG 8), quality education (SDG 4) and good health (SDG 3). A good number of businesses address responsible consumption and production (SDG 12), partnerships (SDG 17) and climate action (SDG 13). By contrast, life under water (SDG 14) and life on land (SDG 15) are the least reported SDGs by participant businesses in the Arab region.

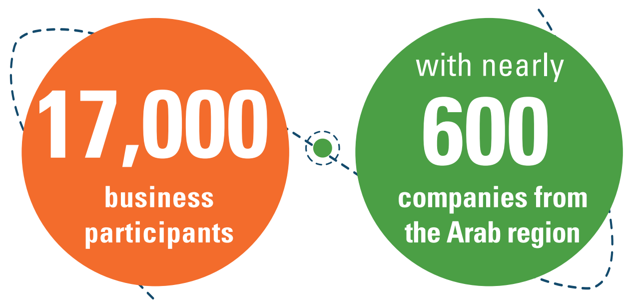
Cumulative number of responses received from United Nations Global Compact companies in the Arab region, by SDG



Source: Compiled by ESCWA, based on data from the United Nations Global Compact (accessed 12 October 2022).

Notes: Data reflect cumulative reporting by United Nations Global Compact participants from 16 Arab countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, the State of Palestine, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen. Half of the participants from the Arab region are headquartered in two countries (the United Arab Emirates and Lebanon), with limited representation from least developed countries (LDCs). Cumulative reporting implies that each company may have submitted multiple reports over time.

The United Nations Global Compact is the world's largest corporate sustainability initiative counting over



B. The region's private sector is underperforming on the environmental, social and governance fronts

While little information exists to fully assess the ESG performance of businesses in the Arab region across all the above criteria, available data point to generally poor performance. This is true for both home-grown companies and foreign direct investment (FDI) into the region. While a growing number of companies are adopting sustainability policies and commitments, there has been limited progress in moving from policy to measurable action.

It should be noted that the analysis below refers to both private sector and State-owned enterprises due to the lack of disaggregated data.

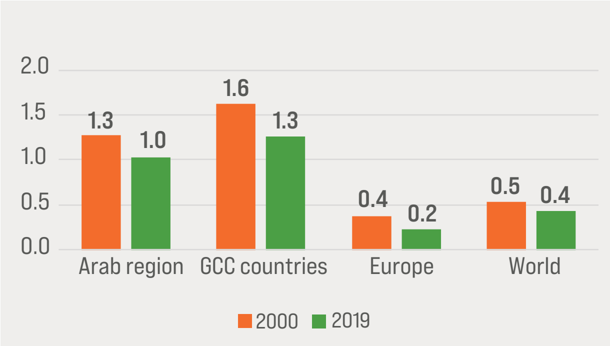
1. Environmental performance

Despite some progress on the environmental front, such as the reduction in carbon dioxide emissions relative to manufacturing gross domestic product (GDP) over the past two decades, Arab economies remain environmentally inefficient.

Carbon: Industries in the Arab region continue to emit a high level of carbon dioxide per unit of manufacturing value added. Averaging 1 kg per $ in 2019, the regional average was more than double the world average of 0.4 kg per $, driven by the Gulf Cooperation Council (GCC) subregion, which recorded the highest rate globally (1.3 kg per $, the same as Central and South Asia, while Europe was the best global performer in 2019 with an emission rate of 0.2 kg per $) (figure 1).

Figure 1.

Carbon dioxide emissions per unit of manufacturing value added, 2000 and 2019 (Kilogram per dollar)



Source: Arab SDG Monitor.

Energy: The EBRD-EIB-WB Enterprise Surveys (2018–2019)[2] showed that 1 in 5 firms in the region had adopted energy efficiency measures; a similar proportion of companies set energy consumption targets, whereas 1 in 3 firms monitored energy consumption.[3] **Across Arab economies, larger companies performed better than small and medium-sized enterprises (SMEs),[4] implying that commitments by large corporations are yet to reverberate across businesses in their value chains.**

Box 4.

What influences Arab enterprises' climate investments?

Results from the EBRD-EIB-WB Enterprise Surveys (2018–2019) indicate that the level of climate-related investments by companies in the Arab region was influenced by:

- Awareness of climate issues and access to information about measures to tackle them.
- Access to credit to allow companies to implement such measures. However, access to credit had less of an impact on investment than climate awareness and access to information did.

This points to the importance of addressing information and financing barriers in the region.

Source: European Investment Bank, European Bank for Reconstruction and Development, and World Bank (2022). Green investment by firms: Finance or climate driven. MENA Enterprise Survey Report Working Papers: Volume 9.

Water: The Arab region is still far from achieving a decoupling of economic growth from water use. **In 2019, water use efficiency across agriculture, industry and services in the region was about half the world average**, with a ratio of $10.1 value added for each cubic metre of water withdrawal, compared to a global value of $19/m^3.[5] There are notable subregional differences, with GCC countries typically making better economic use of water due to the relatively smaller size of their agricultural sectors.

The above enterprise survey[6] found that only 1 in 6 firms in the region monitored their water usage, and even fewer (11 per cent) had adopted water management measures.[7]

2. Social performance

Social engagement constitutes a weak point for the private sector in the region. In the absence of strong regulatory environments and just labour systems governed by human rights, risks of abuse by the private sector can be high. Groups that tend to pay the price include women, children and migrant workers. These groups deserve particular government attention to protect them.

Despite global efforts, the uptake of corporate respect for human rights has been slow across world regions, and particularly so in the Arab region.[8] Since the unanimous adoption by the United Nations Human Rights Council of the Guiding Principles on Business and Human Rights in 2011, and more than ten years later, **no Arab country has elaborated a national action plan on business and human rights, although Morocco and Jordan have declared their intention to do so.**[9]

Box 5.
Morocco: Taking steps on business and human rights

Morocco and Jordan are the only Arab countries in the process of developing national action plans in application of the United Nations Guiding Principles on Business and Human Rights. Morocco has taken concrete action, having integrated a chapter on business and human rights into its 2018–2022 National Action Plan for Democracy and Human Rights, which was officially adopted in 2017, following years of consultations.[a] This came as a result of efforts by the National Human Rights Council of Morocco and the General Confederation of Moroccan Enterprises and reflects the role that national human rights bodies could play in that respect.

[a] Danish Institute for Human Rights. National Action Plans on Business and Human Rights: Morocco.

Employment of women: The gender gap in employment in the Arab region is massive. The female labour force participation rate in the region stood at around 20 per cent in 2021 – less than half the global average of 46 and the lowest among world regions – compared to 70 per cent for men.[10] Unemployment among women is increasing, reflecting that the region is not creating enough jobs to absorb even the small number of female entrants to the labour force.

Only 14 per cent of firms in the Arab world had female participation in ownership in 2020 – less than half the global average of 33 per cent.[11] Just 5 per cent of firms in the region were managed by women, compared to 18 per cent globally.[12]

Box 6.

Women-led enterprises in the region outperform men-led enterprises in terms of ESG, despite barriers

Women-led enterprises in the Arab region tend to perform better than men-led ones across several ESG elements. The EBRD-EIB-WB Enterprise Surveys (2018–2019) show that firms that provide training to their employees in the Arab region are more likely to be led by women, whereas no such difference can be discerned in firms in other regions. Moreover, women-led enterprises tend to have a better gender balance in their workforce. Women-led enterprises are more likely to have an online presence and be digitally connected; they are also more likely to spend on research and development, although such spending is low across all enterprises regardless of leadership.

In a nutshell, women-led enterprises seem to be doing the right things, despite barriers. Indeed, women-owned businesses in the region tend to remain micro or SMEs, due to greater restrictions in accessing credit and other legal and social constraints.

Sources: European Investment Bank, European Bank for Reconstruction and Development, and World Bank (2022). Unlocking Sustainable Private Sector Growth in the Middle East and North Africa: Evidence from the Enterprise Survey; ESCWA and ILO (2021). Towards a Productive and Inclusive Path: Job Creation in the Arab Region.

Migrant workers: Discrimination against migrant workers in Arab countries is multi-faceted. One aspect relates to wages, where in some Arab countries,[13] a minimum wage applies only to nationals (e.g. in Oman) or only to public sector employees (e.g. in Bahrain, where calls have been mounting to offer migrant workers in the private sector the minimum wage set by General Federation of Bahrain Trade Unions).[14] Double standards may be applied, such as in Jordan where a higher minimum wage applies to national workers than to migrant workers. Even where wage laws do not discriminate between nationals and non-nationals, such as in Lebanon, migrant workers tend to earn below the minimum wage.

The COVID-19 crisis has further highlighted the vulnerability of migrant workers in the private sector, who are often excluded from social protection and health insurance systems. In the GCC, COVID-19 transmission rates were higher among migrant workers, who often live in overcrowded accommodations. Moreover, due to the economic downturn resulting from the pandemic, foreign workers were the first to be dismissed by businesses, and many had their pay cut.[15]

Child labour: The number of children aged 5–17 in the Arab region who work doubled from 1.2 million in 2016 to 2.4 million in 2020. Three quarters of working children are boys who perform hazardous work.[16] There are significant subregional differences, with child labour being mostly prevalent in Arab least developed countries (LDCs), such as Comoros (24.4 per cent), the Sudan (12.6 per cent) and Mauritania (9.4 per cent),[17] where children work mostly in agriculture.

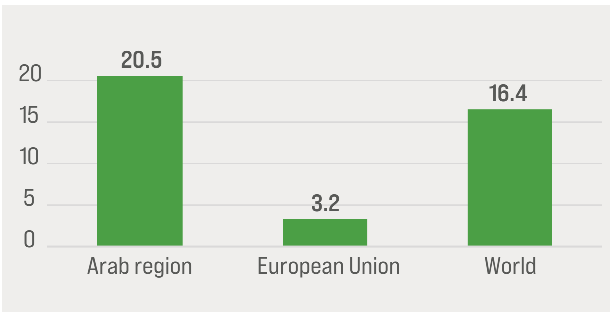
3. Governance performance

Every company is governed by an internal system of rules and procedures – whether explicit or implicit. Governance has implications on environmental, social and economic performance.

Corruption: Corruption is considered by businesses in the region to be among the top barriers facing their development.[18] As measured by SDG indicator 16.5.2, 20.5 per cent of firms in the region paid at least one bribe to a public official or were asked for a bribe in 2020, compared to around 3.2 per cent in the European Union and 16.4 per cent globally (figure 2).[19]

Figure 2.

Incidence of bribery, 2020 (Percentage)



Source: Arab SDG Monitor.

Transparency: Very few companies in the Arab region publish sustainability reports according to SDG indicator 12.6.1, with most reporting companies being from GCC countries.[20]

According to the KPMG Survey of Sustainability Reporting 2020,[21] 96 per cent of the top 250 corporations in the world (measured by revenue) currently report on sustainability. Sustainability reporting rates among the top 100 companies headquartered in Saudi Arabia and the United Arab Emirates are 36 per cent and 51 per cent respectively, which are among the lowest rates in the sample of 52 countries included in the survey (the average of the global sample was 88 per cent). Growth in reporting is low across the board, with no significant differences noted across sectors of operation.

Support for civil rights: Businesses in the region are yet to shoulder their share of the responsibility to support civil rights. Customer privacy is one right that is not often respected. For example, only 20 per cent of mobile operators in the region have publicly published their privacy policies. Moreover, some mobile operators are failing to stand up against repressive practices, reportedly contributing to government initiatives aiming to limit freedom of expression and the freedom of access to information.[22]

Political connection: The private sector in Arab countries is characterized by large enterprises that are politically connected.[23] Alliances between the business and the political spheres constitute a barrier to development in some countries such as Lebanon and Mauritania.[24] Politically connected firms tend to have an unfair competitive edge, therefore deterring other companies from entering the market and hurting job creation.

Innovation: The extent to which a business innovates is reflective of corporate culture and values and is therefore tightly linked to internal governance practices. A company's innovation capabilities directly impact its environmental, social and economic performance and cannot therefore be dissociated from the ESG framework (table 1).

Innovation rates in the region are significantly lower than the global average. According to the EBRD-EIB-WB Enterprise Surveys (2018–2019), 1 in 5 enterprises in the surveyed Arab countries introduced new or improved products, services or processes or invested in research and development (R&D) activities. This is almost half the rate in the global sample. Participation in global trade is an important determining factor, implying that engagement in foreign markets can incentivize but also facilitate innovation in businesses in the region through access to knowledge and technology.[25] Importantly, digital technology – a prerequisite for innovation in today's economies – has particularly low adoption among small enterprises in the region.

Box 7.

Large versus small: Who fares better in terms of ESG performance?

Assessing the ESG performance of SMEs is difficult due to lack of data and formalization of corporate sustainability practices. Indeed, SMEs are rarely required or incentivized to report on their performance, and they often do not have the human and financial resources to do so. Nevertheless, data from the EBRD-EIB-WB Enterprise Surveys (2018–2019) show a dire situation for the SMEs of the region compared to their peers in other world regions and larger companies in the region. For example:

- **Social and environmental performance:** SMEs in the region have the poorest performance across regions and firm categories in the global sample, including in terms of female participation in the workforce, management and staff training.
- **Innovation and digital transformation:** While some SMEs in the region can be highly innovative, notably young ones, overall, they tend to be less connected digitally, due in part to constraints in access to finance and dependence on internal financing.

SMEs in the region have been deeply impacted by the COVID-19 pandemic and global inflation, and they continue to carry the burden of conflict, instability and climate change. Support and guidance for SMEs to improve their ESG performance is also lacking. Given their large number, urgent attention must be given by Governments and other stakeholders to promote SDG alignment and disclosure among SMEs in the region.

Source: European Investment Bank, European Bank for Reconstruction and Development and World Bank (2022). Small and medium enterprises in emerging economies: The Achilles' heel of corporate ESG responsibility practices? MENA Enterprise Survey Report Working Papers: Volume 4.

While limited up-to-date data on R&D expenditure by the private sector prevent an adequate regional analysis, existing figures show that in some GCC countries, the private sector contributes a significant share of total R&D funding, reaching in the case of the United Arab Emirates a staggering 74 per cent of gross domestic expenditure on R&D[26].

Despite this bleak backdrop, a number of start-ups, microenterprises and SMEs in the Arab region are championing business models that combine environmental, societal and financial sustainability, such as BIOwayste and L'Atelier du Miel in Lebanon (boxes 8 and 9).[27]

Box 8.

Testimonial: BIOwayste – Transforming organic waste into biogas and biofertilizer

BIOwayste is a start-up from Lebanon that provides businesses, farmers and municipalities with innovations that turn organic waste into cooking gas and biofertilizer, saving money and protecting the environment. We have developed a system that contributes to achieving four SDGs:

- **Affordable and clean energy (SDG 7):** BIOwayste promotes the use of clean renewable energy in the form of biogas for cooking.
- **Sustainable cities and communities (SDG 11):** BIOwayste can be jointly operated with municipalities to divert urban waste from landfills.
- **Responsible consumption and production (SDG 12):** BIOwayste decreases food waste by up to 80 per cent, and reduces greenhouse gas emissions by up to 40 per cent annually. It can also help in spreading awareness around waste reduction and recovery.
- **Climate action (SDG 13):** BIOwayste provides significant research potential for a closed-loop renewable energy system. Every BIOwayste system saves over six tons of carbon dioxide emissions per year.

The technology can be tricky, as multiple parameters can affect the biodegradation reaction leading to the generation of biogas. In addition, our technology needs a lot of investment in R&D, which is a challenge for microenterprises and SMEs. However, with the right knowledge and expertise, we have won many competitions and awards from local and international organizations.

Despite the difficult circumstances faced by Lebanon in recent years, our design is finalized and is now being tested and installed in private companies, civil society organizations and universities. Moving forward, we plan to expand as much as possible to help the environment and reduce greenhouse gas emissions.

Reine Metlej
Founder
BIOwayste

Yasmine Jabali
Founder
BIOwayste

Note: This box was produced by Reine Metlej and Yasmine Jabali, founders of BIOwayste.

Box 9.

Testimonial: L'Atelier du Miel – Enhanced transparency, reduced food miles and higher producer income in the honey sector

L'Atelier du Miel's objective is to pioneer a more sustainable food supply model with greater value to the consumer, the producer and the land. Our star offering is the installation of beehives in customer's gardens to enable them to produce homegrown honey, from garden to table. Currently serving 200 customers, we aim to reach 1,000 homegrowers in the next three years.

The programme reduces food miles, enhances transparency regarding product quality and creates opportunities for local beekeepers to sell their produce at a premium. Our services contribute to making the SDGs a reality, with a focus on food security, improved nutrition and sustainable agriculture (SDG 2) and responsible consumption and production (SDG 12).

In 2013, when L'Atelier du Miel was founded, artisanal beekeeping was on decline in Lebanon. The lack of trust in artisanal honey due to deceptive practices, poor regulation and insufficient product differentiation resulted in customers replacing local honey from their diets with imported honey or other products.

By promoting region-based varieties and creating new ways to engage with customers (dedicated stores, ecommerce and giving honey as a gift), L'Atelier du Miel has been able to introduce honey to new market segments.

This has encouraged a local supply of quality products, promoted artisanal practices that help maintain ecosystems and created income for underserved communities of producers in more than 15 regions in Lebanon.

Although the model has proven resilient in a precarious and unstable business environment, we continue to face challenges, including the decay of public infrastructure and the loss of the financial services previously provided by banks.

In this context, companies like L'Atelier du Miel could benefit the most from support in opening new markets and investments in digital and physical infrastructure.

Marc-Antoine Bou Nassif

Founder and Chief Executive Officer (CEO)
L'Atelier du Miel

Note: This box was produced by Marc-Antoine Bou Nassif, founder and CEO, L'Atelier du Miel.

C. The private sector's approach to SDG actions remains largely conventional; a shift is yet to take place towards shared value creation

Reported SDG actions by private sector enterprises in the region reflect largely conventional CSR approaches or models of action, notably:

- Philanthropic actions that are add-ons to a business' core operations, such as private sector support to charities and vulnerable groups, schools, health facilities, etc. Support by the private sector to communities affected by COVID-19 was also seen in several Arab countries during the pandemic.
- Actions to integrate environmental and social considerations into core business operations, such as energy and water use efficiencies, recycling of materials and improvements to working conditions. This is a widely adopted model, driven by greater awareness, but also by cost savings, compliance with stricter regulations and reputational considerations.

Both approaches have the potential to be transformative, although philanthropy often does not address the unsustainable business practices of companies and tends to not go to scale. Yet, there is growing criticism of conventional CSR as a box-ticking action meant to make businesses look good, and given the realization that CSR does little to address the risks to businesses and societies resulting from social or environmental problems.

Globally, there has been a shift towards a more ambitious and holistic 'shared value' approach that can bring longer-term and cumulative gains to both businesses and societies. Shared value entails a change in the business model to one where a firm seeks profit and competitive advantage by improving the conditions of the community in which it operates.[28] Shared value can be created in different ways, as described below, with associated costs and efforts borne differently depending on who reaps the fruits. While the shared value approach is yet to be mainstreamed in the Arab region, some companies are taking transformative steps to strengthen the contribution of their regional operations to the SDGs, including Fine Hygienic Holding (Jordan) (box 10) and SAP (Germany) (box 11).[29]

Table 2.
How is shared value created in practice?

Pathways for shared value creation	For example	Who gains and who is expected to bear the associated costs?
1. Product, process, and market innovations in response to unmet societal needs	A real estate company developing low-cost, yet profitable housing solutions for the poor	The initiating company gains and typically bears the associated costs
2. Sustainability improvements in the value chain	A dairy company investing to improve the production efficiency in its milk supply farms, thus reducing their carbon footprint	All companies in the supply chain benefit, and a cost-sharing mechanism is typically pursued
3. Improvements in the conditions of the local community where the company operates	A company investing in education programmes in the area it operates in to secure a local pool of skilled labour	Gains accrue over the long term to all private sector operating in a certain area. Collective action and cost sharing with Government (national and local) and civil society organizations is generally needed

Source: Compiled by ESCWA based on information provided in FSG (2020). The Social Ecosystem Dilemma.

Box 10.

Testimonial: Fine Hygienic Holding – Promoting sustainable value chains, enhancing water-use efficiency and empowering stakeholders

At Fine Hygienic Holding (FHH), we realize that we are in the Decade of Action, and we are working on accelerating sustainable solutions by making changes to our operations and aligning ourselves with the SDGs. Our multiple projects aim to protect the environment and fight climate change. We are aligning ourselves with SDG 15, where, for every tree we use, we have made a deal with our suppliers to plant an average of five trees. We have also ensured that all our products are made from 100 per cent virgin pulp and sourced from certified suppliers. We are also supporting SDG 6 by leading the industry in terms of minimizing water usage. In Jordan, we were the first private sector company to take the initiative and recycle wastewater. Our contributions are numerous, as FHH runs a variety of other sustainable projects and is committed to protecting the environment.

At FHH, we also go the extra mile to help the surrounding community. In 2021, we launched Fine Academy, our group's CSR programme, offering diploma students more than 60 years of expertise to equip them with the knowledge required to enter the job market efficiently. Another CSR we are proud of is Khair Al Koura. The initiative was designed to promote sustainable development in underdeveloped communities by empowering women and lifting them out of poverty by establishing income-generating projects. In 2020, the entire project was handed over to its beneficiaries, making the project 100 per cent independent and self-sufficient.

James Michael Lafferty
CEO of Fine Hygienic Holding

Note: This box was produced by James Michael Lafferty, Chief Executive Officer, Fine Hygienic Holding.

Box 11.

Testimonial: SAP – Building skills for a sustainable and digital future

In line with our purpose to improve the world and people's lives, SAP has embraced the SDGs since their launch in 2015. While we are committed to using our extensive resources to reach across 25 industries and contribute to nearly all of the 17 SDGs, through our CSR initiatives and global university programmes we have focused on SDG 4 (quality education).

From a CSR perspective, our programming is strategically designed to power equitable access to economic opportunity, education and employment in the digital and green economies. Within our novel programme Digital Skills for Today, we have impacted over 120,000 lives in the MENA region alone. We have also established nearly 800 design and skills labs in communities of highest need.

Through the SAP University Alliances programme, we have partnered with more than 100 schools and universities in the MENA region to enable young people to access decent work in the digital economy by implementing various digital skills initiatives. These initiatives prepare young people to manage an intelligent enterprise, shape their own future, and have a meaningful impact on the world. SAP skills allow young talent to kick-start their tech career within the vast ecosystem of SAP customers and partners.

For example, in 2022, SAP teamed up with Global Scouting and GEMS Education to hold a Learn to Code workshop at the SAP House at Expo 2020 Dubai, as part of the World Scouting Camp activities codenamed JOTA-JOTI, the largest internet-based event followed by more than 3 million people. The event addressed over 150 scouts from the United Arab Emirates and more than 1,000 young thinkers from around the world. Such initiatives demonstrate how multisectoral partnerships can contribute the 2030 Agenda and provide various opportunities to ensure inclusive and quality education for all and promote lifelong learning.

Wissam Kadi
Global Initiatives Director, SAP Next-Gen and SAP University Alliances
SAP

Note: This box was produced by Wissam Kadi, Global Initiatives Director, SAP Next-Gen and SAP University Alliances, SAP.

Box 12.

Is social entrepreneurship a viable model in the Arab region?

A social enterprise is a "mission-driven organization whose activities are focused on social value creation through sustainable business models".[a] While social enterprises may have different legal forms and ways of operating, they can be thought of as NGOs that undertake profit-generating market activities. Another important characteristic of social enterprises is having a participatory governance structure. Social enterprises have the potential to contribute to decent employment (especially for women and young people) and decentralized public service delivery in underprivileged areas, therefore reinforcing social cohesion, and the resilience of local communities over the longer term.[b]

Social enterprises can be found in several Arab countries, notably in Egypt, Morocco and Tunisia. However, they are mostly small-scale enterprises that are far from constituting an organized sector, so their voice is often not heard. Although they receive support from a growing number and variety of national and international organizations, the support is generally piecemeal, and so they continue to face financing and technical challenges at all stages of maturity. National policy frameworks for social entrepreneurship are starting to emerge in some Arab countries. In Tunisia, for example, a law on the social and solidarity economy was adopted in 2020 that provides financial and tax advantages for social enterprises.[c] In Djibouti, a similar law was adopted in 2019 to define social enterprises and promote their development through the establishment of dedicated structures and instruments including microfinance.[d]

[a] World Bank (2017). Social Entrepreneurship in Tunisia: Achievements and Way Forward.
[b] Ibid.
[c] Government of Tunisia (2021). Rapport national volontaire sur la mise en œuvre des Objectifs de développement durable en Tunisie.
[d] ILO (2019). The Republic of Djibouti passes a law on the social and solidarity economy.

D. A web of pressures from nature, consumers and Governments has turned alignment with the SDGs into a strategic choice

Government regulations (so-called "hard" measures) are commonly the main driver behind the alignment of business operations with the public good. However, this is not always the case. Presently, a web of "soft" pressures by nature and consumers are pushing businesses to pursue such alignment as a strategic choice.

The business case for action is clear. A company that does not align with the SDGs faces at least three types of risks:[30]

Nature: Disruption risk

Risk of loss to a company that depends on a degraded natural resource such as air, land, water or biodiversity (directly or indirectly through the value chain). Also risk from extreme weather events.

Consumers: Reputational risk

Risk to a company's reputation that is seen by its employees, business partners and consumers to be causing environmental or social damage.

Government: Transition risk

Risk to a company due to policy change as Governments seek to decarbonize and comply with increasingly ambitious global agreements (e.g. on climate change) or address natural resource shortages (notably water stress).

Box 13.

Opportunities in a circular economy

A circular economy is one where materials are kept in the economy as long as possible, and so waste is reduced to an absolute minimum. To date, no country has achieved a perfect circular economy; however, a global shift can be observed in this direction, with several countries leading.

Indeed, the global circular economy was recently projected to grow at a compound annual rate of 7.8 per cent over the 2021–2027 period (no separate figure is available for the Arab region).[a] Other research estimates that the transition to a circular economy could generate as much as $4.5 trillion in additional economic output by 2030.[b] Presently, less than 9 per cent of the materials we consume are recycled.[c]

A shift to a circular economy could help address multiple challenges facing Arab countries, especially those in crises, through:[d]

- Employment generation for a large array of skillsets.
- Lower costs of products and services.
- Reduced imports of materials, which can result in savings to countries facing fiscal imbalances.
- Conservation of scarce natural resources, such as water.
- Better waste management.

Promoting a circular economy requires a set of reforms, including incentives to industries to shift to circular models of production, penalties on the use of virgin materials, investments in related technologies and infrastructures and regulation of quality standards that facilitate recycling. In a promising step, in 2021 the United Arab Emirates established the Circular Economy Council, with members representing federal and local authorities and the private sector, and adopted the Circular Economy Policy 2021–2031. The results of such steps are yet to materialize.

[a] https://www.globenewswire.com/en/news-release/2022/08/22/2501983/0/en/Global-circular-economy-market-size-to-record-7-8-CAGR-through-2027.html.
[b] https://www.weforum.org/impact/helping-the-circular-economy-become-a-reality/.
[c] https://www.circularity-gap.world/2022.
[d] https://www.acted.org/wp-content/uploads/2021/03/circularity-as-a-lifeline-for-mena-economies-in-distress-v3.pdf.

Evidence from the literature abounds. For example:

- A survey of the private sector in Lebanon revealed that climate change is perceived as a risk to companies, with 2 in every 3 companies surveyed identifying the scarcity and increased cost of raw materials due to climate change to be impacting their business.[31] Perceptions of climate change risk has prompted 3 of every 4 companies surveyed to switch to more sustainable materials across the value chain.
- A study found that increasing water stress in Egypt and Morocco could compel Governments to tighten regulations on water use in agriculture, which could in turn raise the cost of producing staple crops, such as cereals and pulses, by 20 to 40 per cent by 2030.[32] Against this risk, it is in the best interest of producers to seek solutions to reduce their use of irrigation water.
- A recent survey of consumers in Saudi Arabia, the United Arab Emirates and Egypt[33] found that some 7 out of 10 shoppers prefer to buy products from companies that respect the environment. This proportion is greater than the global average, and has risen from earlier surveys, signalling that the COVID-19 pandemic may have impacted consumer behaviour in favour of eco-friendly products. Surprisingly, older consumers (older than 45 years) seem to be more socially conscious than younger consumers. One possible explanation is that older groups may have higher incomes that allow them to make this choice.
- A growing number of Arab countries are making varying degrees of sustainability commitments, which could come at a cost to companies as they seek to comply. For example, the United Arab Emirates committed to getting to net zero by 2050, while Bahrain and Saudi Arabia committed to doing so by 2060,[34] which would pressure companies operating in these countries to take aggressive actions to cut their emissions. As another example,

Egypt, Jordan, Morocco and Tunisia have adhered to the Declaration on International Investment and Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD), thus committing to actively promote the "responsible business conduct" of multinationals operating in or from their territories, in line with agreed guidelines.[35]

On the flip side of risk lies opportunity!

ESG performance can contribute to financial performance. While the evidence is not solid across the board, an analysis of financial performance of companies listed in stock exchanges in Egypt and Jordan suggests that **socially and environmentally responsible companies tend to have a better return on assets.**[36] ESG performance boosts company resilience, drives innovation and gives a competitive advantage to companies in the region for integrating into global supply chain networks. This is especially true in Arab countries that have entered association agreements with the European Union.[37]

This is over and above business opportunities in green sectors such as those created in a circular economy (box 13).

E. Actions needed to fill the gaps

There is a generally poor business environment in the region that prevents the growth of companies – whether such growth is SDG aligned or not. General challenges include instability, unfair competition (including from informal businesses and State-owned enterprises), low investment in human capital and technology and difficulties in accessing finance. The latter issue is addressed in detail in the following chapter.

Arab countries and other stakeholders are deploying broad efforts to enable the development of the private sector, as reported in voluntary national reviews (VNRs) and other reports. They are also making efforts to engage the private sector in institutional mechanisms dedicated to planning, follow-up and review of the 2030 Agenda. To accelerate the alignment of the private sector with the SDGs in a just way for all, Governments, businesses (and their associations), civil society organizations and other stakeholders must work together to build a culture of trust and achieve the following:

Governments:
Regulate and de-risk

- Adopt a new generation of policies to accelerate the shift to a green economy, offer incentives and de-risk environmental and social investments by the private sector
- Develop, enact and periodically update a national action plan on business and the SDGs, and monitor business performance accordingly
- Lead by example by having State-owned enterprises adopt high ESG standards

Business community:
Commit and drive ambition

- Commit to transparent ESG disclosure to become at par with financial disclosure
- Set ambitious ESG industry standards and promote compliance

Civil society organizations and other stakeholders:
Guide and facilitate

- Raise awareness of the risks of not achieving the SDGs and the opportunities that could result from aligning with the goals
- Complement efforts by Government by providing guidance on best practices for aligning business operations with the SDGs
- Provide young people with career guidance and training opportunities on the SDGs
- Support social entrepreneurship

All actors: Give particular attention to SMEs, which constitute the largest share of enterprises, face many impediments and are the least performing in terms of SDG alignment

Mobilizing private finance for the SDGs

2

Mobilizing private finance for the SDGs

The financing for development outlook in the Arab region remains turbulent. Fiscal stress from high and increasing debt is draining a large share of many countries' revenues to cover debt servicing, instead of financing the SDGs and climate action.[38] Conflict and protracted economic crises add further layers of complexity to the challenges faced by some countries. Moreover, the war in Ukraine has set in motion a triple global crisis (food, energy and finance) that is compounding the already devastating impacts of climate change and the COVID-19 pandemic. In this context, private finance is ever more vital for delivering the SDGs in synergy with Governments, donors and other development partners.

The following sections explore the role of the private sector in bridging the SDG financing gap through investments in the real economy and capital markets in the Arab region. Trends in domestic private investment and FDI reveal that private capital is falling short of its transformative potential in Arab countries. **Not only do private investments account for a small share of GDP compared to other developing regions, but they are also concentrated in a few sectors and are declining rapidly**. Innovative approaches to mobilize private finance for the SDGs include PPPs, blended finance, bankable project portfolios, sustainable bonds and sustainability-themed funds. Governments need to put in place regulations and institutions that create an enabling environment for sustainable private finance and promote synergies with other sources of finance for development.

Box 14.

What is a private investment?

In this chapter, private investment is understood as investment that is made by companies or private individuals rather than Governments.

In some cases, due to data limitations, references to private investment may include public or semi-public entities, such State-owned enterprises.

Other private sources of finance, such as remittances and philanthropy, are not addressed in this chapter.

Source: ESCWA.

Disentangling what constitutes private sector investment in the SDGs is a difficult task. In broad terms, all investments that create employment, raise tax revenue and spur economic growth contribute to the achievement of the SDGs. However, not all investments are sustainable from the economic, social and environmental perspectives. For example, some private sector initiatives may contribute to global warming or harm the health of communities. Thus, a distinction is needed between overall private investments and those that are socially inclusive, environmentally sustainable and reflective of the principles of the 2030 Agenda. In the absence of an exact classification, analysts often define SDG-related investments as those that focus on particular sectors. For example, UNCTAD considers SDG-related investments as those targeting agriculture and forestry, education, health, power transmission and distribution, renewable energy, telecommunications, transportation, waste management and recycling, and water and sanitation.[39]

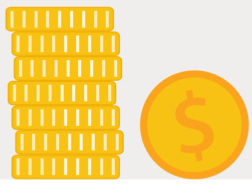
The diverse nature of the private sector implies that the ability of businesses to mobilize financing for the SDGs varies significantly. In particular, micro, small and medium-sized enterprises (MSMEs) face constraints in accessing credit and financial services. Unmet finance needs by formal MSMEs in nine Arab countries were estimated at $207 billion in 2018–2019, or 24 per cent of their combined GDP. The financial inclusion of MSMEs has the potential to generate jobs, reduce poverty and advance sustainable development. This is reflected in the 2030 Agenda, which calls for the formalization and growth of MSMEs, including through access to financial services (SDG target 8.3).

Unmet finance needs by formal MSMEs in nine Arab countries were estimated at

$ 207 billion

in 2018–2019

or 24% of their combined GDP



A. Bridging the SDG financing gap

Original estimate

$2.5 trillion per year

For **developing countries** to achieve SDGs by 2030

Prior to the COVID-19 pandemic and the war in Ukraine, total investment needs in developing countries in SDG-related sectors were projected at $3.3 trillion to $4.5 trillion per year between 2015 and 2030.[40]

Considering that investment in these sectors was estimated at $1.4 trillion at the time, developing countries faced an average annual funding shortfall of $2.5 trillion

Cascading crises (climate change, COVID-19 and the war in Ukraine) have increased investment needs and reduced resource availability, widening the estimated SDG financing gap in developing countries to $4.3 trillion a year.[41]

Given the methodological limitations and data gaps associated with their calculations, SDG costing and financing gap projections should be approached with caution.

Updated estimate

$4.3 trillion per year

For **developing countries** to achieve SDGs by 2030

12 Arab countries need financing in the order of

$660 billion per year

to achieve selected SDGs by 2030

Prior to the COVID-19 pandemic and the war in Ukraine, ESCWA had estimated a financing gap of $545 billion per year to achieve nationally determined priority targets in 12 middle- and high-income Arab countries.[42]

Following these crises, the estimate has been revised to $660 billion per year.[43]

Although SDG financing gaps are colossal, private capital is abundant. For example, transnational corporations and pension funds domiciled in developed countries had combined holdings of over $25 trillion.[44]

In the Arab region, the 15 largest companies held $2.4 trillion in assets,[45] and ultra-high-net-worth individuals held over $950 billion in 2020.[46]

Only a small share of this capital is channelled to investments in SDG-related sectors. The challenge resides in effectively mobilizing private capital to help close the SDG financing gap in the Arab region.

$25 trillion

Holdings of transnational corporations and some pension funds

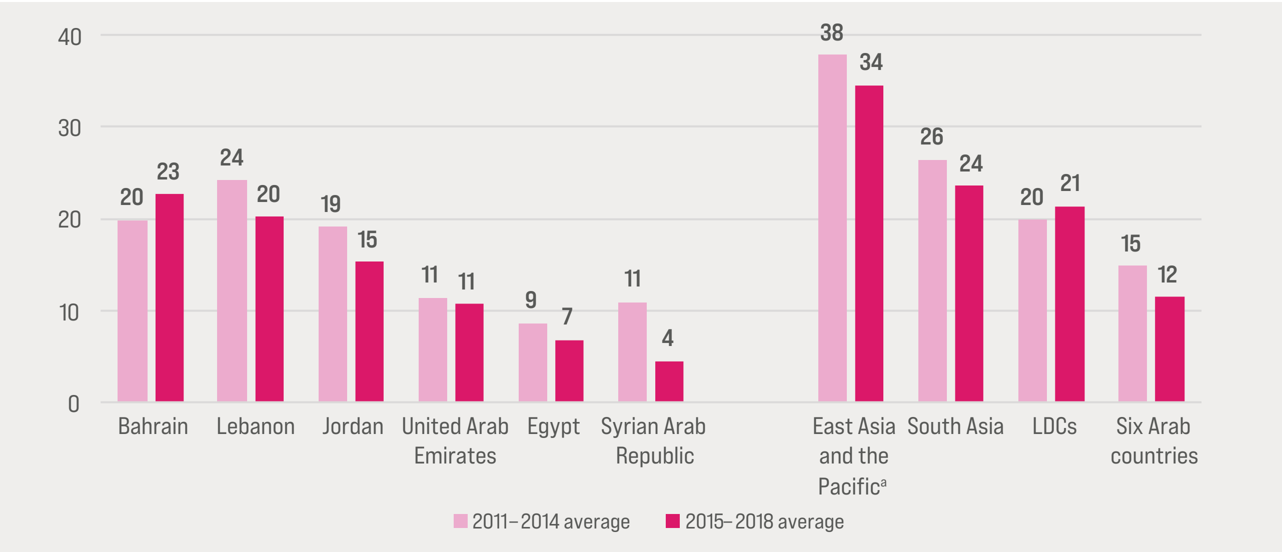
B. Private investment for the SDGs

The private sector in the Arab region has been less effective in mobilizing investment than in other developing regions and falls short of its potential. Domestic private investment and FDI witnessed a notable retraction in the aftermath of the 2008 global financial crisis and continued to fall following the adoption of the 2030 Agenda. This downward trend is in stark contrast with SDG target 17.3, which calls for the mobilization of additional resources from multiple sources, including the private sector. Moreover, **private investment in the region is highly concentrated on SDGs associated with the provision of economic infrastructure, as opposed to those related to providing social infrastructure and services, fighting inequality or promoting peace and justice**.

1. Domestic private investment

Domestic private investment in the Arab region is low compared to peer regions. In the six Arab countries for which data are available,[47] average gross fixed capital formation in the private sector in 2015–2018 was equal to 12 per cent of GDP, half as high as in South Asia (24 per cent) or nearly one third as high as in developing East Asia and the Pacific (34 per cent) (figure 3). Notably, the six Arab countries also underperformed when compared to LDCs (21 per cent). Among the 75 economies for which data are available, the Syrian Arab Republic and Egypt had the second and fifth lowest values, at 4 per cent and 7 per cent of GDP, respectively.

Figure 3.
Domestic private investment, 2011–2014 and 2015–2018 (Percentage of GDP)



Source: ESCWA calculations, based on World Bank data.
Note: Domestic private investment is measured as gross fixed capital formation in the private sector.
[a] Excluding high-income countries.

Compared to 2011–2014, domestic private investment as a percentage of GDP declined in five of the six Arab countries. Retraction was substantial in the four Mashreq countries, and less pronounced in the United Arab Emirates. Only in Bahrain did domestic private investment increase relative to GDP. Shortages of foreign exchange, high borrowing costs, political turmoil and protracted conflict have contributed to the decline in domestic private investment in many Arab countries.

Despite this bleak picture, domestic corporations are actively engaged in SDG-related infrastructure projects in many Arab countries, often through PPPs

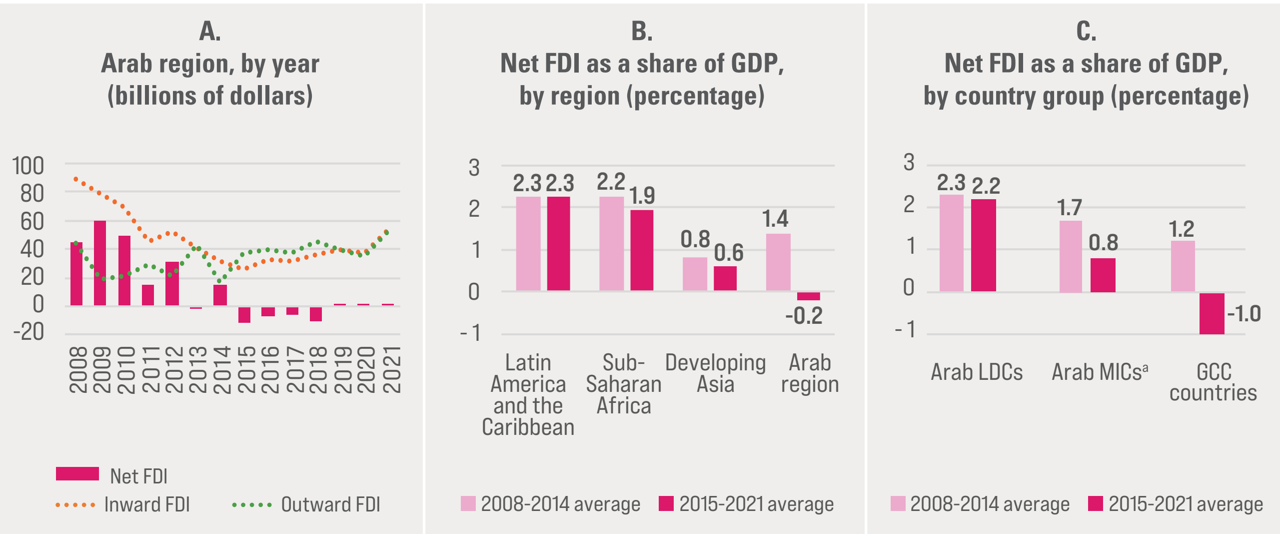
and as part of consortiums with foreign investors. For example, in Egypt, 12 domestic corporations have sponsored $3.3 billion in projects in the energy, transportation and water and sanitation sectors. This corresponds to 26 per cent of total private investment (domestic and foreign) in active infrastructure projects in the country. Two of the top three private investors in infrastructure projects in Egypt are domestic corporations: Orascom Construction PLC, with $1.3 billion invested in the New Cairo wastewater treatment plant, the Ras Ghareb wind farm and the Cairo monorail transit system, and Arab Contractors, with $868 million invested in the Gabal El Asfar water treatment plant and Cairo's monorail transit system, which it cosponsors with Orascom and Bombardier (Canada). These projects are expected to improve the lives of millions of Egyptians and decrease greenhouse gas emissions.

2. Foreign direct investment

Net FDI flows to the Arab region fell from a record $60 billion in 2009 to $15 billion in 2014, and remained negative or close to zero between 2015 and 2021 (figure 4A), pushed by large FDI outflows from the GCC countries. As a share of GDP, net FDI fell from an average of 1.4 per cent in 2008–2014 to –0.2 per cent in 2015–2021. Notably, the Arab region is the only developing region where average net FDI was negative during the first seven years of the implementation period of the 2030 Agenda (figure 4B). Moreover, it was also the region with the most sizeable decline relative to 2008–2014 (1.6 per cent of GDP, compared to 0.3 per cent of GDP or less in the other regions).

Regional averages mask substantial intraregional variance. While the high-income countries of the GCC became net direct investors in 2015–2021, Arab LDCs and middle-income countries (MICs)[48] remained net FDI recipients (figure 4C). However, the downward trend in net FDI among Arab MICs raises questions about the extent to which they can continue to rely on such flows. Moreover, inward FDI did not go to where the need is greatest within the Arab region. Indeed, underfunded LDCs received only 5 per cent of total inward FDI in the Arab region in 2015–2021, while cash-rich GCC countries received 67 per cent and MICs 28 per cent. This deviates significantly from SDG target 10.b, which calls for increased financial flows, including FDI, to countries with the greatest needs. This unequal distribution of FDI is often replicated within country borders, as a small number of municipalities or governorates tend to concentrate most inflows. For example, in Egypt, five governorates account for 90 per cent of investments, while the remaining 22 governorates share the other 10 per cent.[49]

Figure 4.
FDI flows, Arab region and other developing regions, 2008–2021

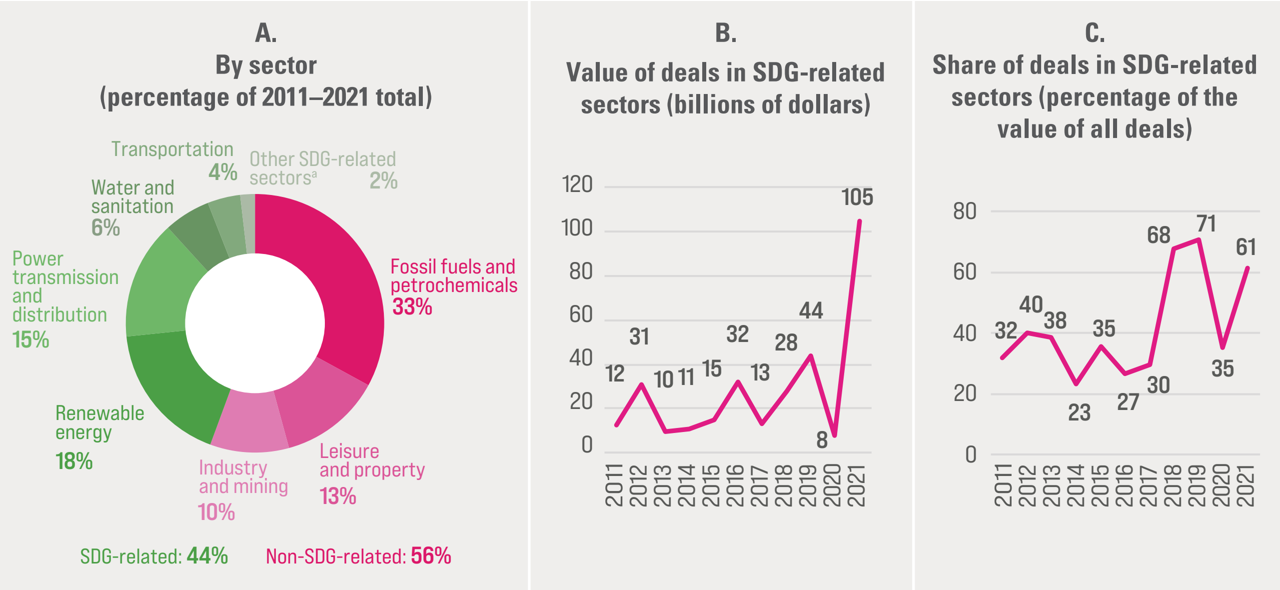


Source: ESCWA calculations, based on UNCTAD (2022). World Investment Report 2022. Geneva.
[a] Excluding Comoros, Djibouti and Mauritania, which are included under Arab LDCs.

Inward FDI in the Arab region has been traditionally concentrated in sectors that create few jobs and fall short of having the transformative impact called for by the 2030 Agenda (box 15). Most international corporate finance deals targeting the region in 2011–2021 were concentrated in non-SDG sectors (56 per cent), most notably fossil fuels and petrochemicals (33 per cent) (figure 5A). However, deals announced in recent years suggest that inward FDI in the region is moving towards increased sustainability. Deals in SDG-related sectors reached an all-time high of $105 billion in 2021 (figure 5B), or 61 per cent of the total value of the deals announced that year (figure 5C).

Figure 5.

International project finance deals targeting the Arab region, 2011–2021



Source: ESCWA calculations, based on UNCTAD (2022).

[a] Other SDG-related sectors: agriculture and forestry, health, telecommunications, waste management and recycling, and education.

Box 15.

Is FDI contributing to transformative change in the Arab region?

The Arab region has not been as successful as other developing regions in attracting FDI. Moreover, the FDI it has attracted has often not contributed significantly to development gains. A review of FDI in eight countries[a] of the region from the perspective of five revealing qualities (productivity and innovation, employment and job quality, skills, gender equality and carbon footprint) showed mixed but overall unfavourable results. FDI projects tend to perform slightly better than domestic projects in terms of gender equality and carbon footprint, offering more but not necessarily better career opportunities to women and adopting energy efficiency measures. They are also typically more productive, engage in R&D and use more advanced technologies.

However, FDI projects performed equally or less favourably than their domestic peers in terms of job creation (being concentrated in sectors that are not labour intensive) and job quality (offering equal or lower wages and employing unskilled labour).

Egypt, Jordan, Morocco and Tunisia are among the few non-OECD members that have adhered to the OECD Declaration on International Investment and Multinational Enterprises, signalling political will to advance the principles and standards for responsible business conduct.

Source: OECD (2021). Middle East and North Africa Investment Policy Perspectives. OECD Publishing, Paris.

[a] Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the State of Palestine and Tunisia.

C. Innovative approaches to mobilize private capital for sustainable development

Given the relatively low levels of private investment in the Arab region, a scale-up of private capital is needed to bridge the SDG financing gap. A number of innovative approaches to mobilize private capital for sustainable development have been proposed, including sustainable bonds, sustainability-themed funds, blended finance, PPPs and bankable project portfolios.

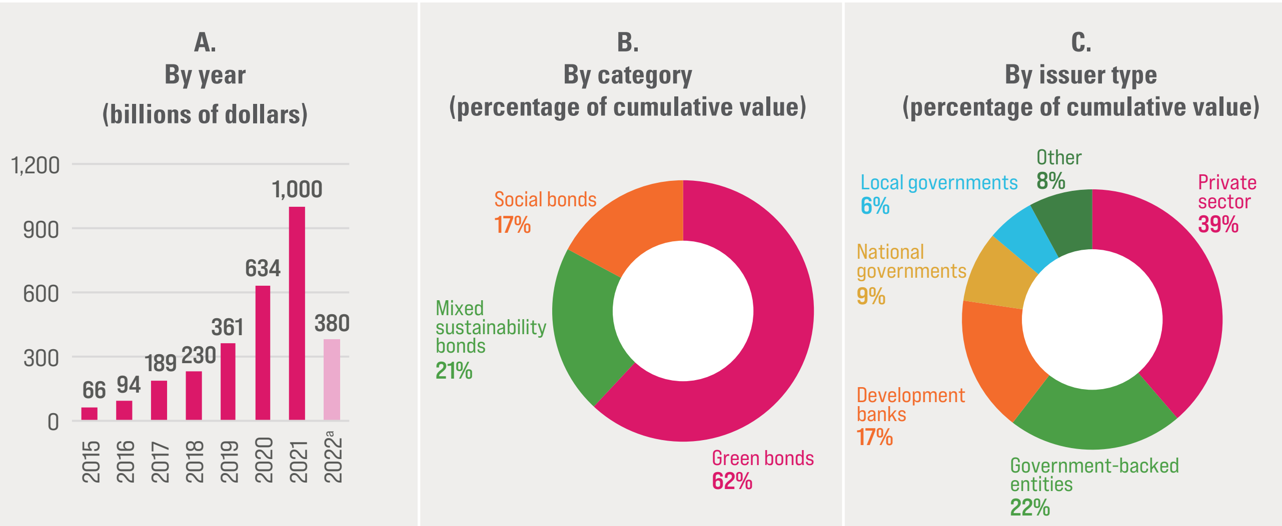
1. Sustainable bonds

To meet longer-term SDG financing needs, Arab countries must work towards developing sustainable domestic capital markets, particularly long-term bond and insurance markets. Global issuance of sustainable bonds increased 16-fold since the adoption of the 2030 Agenda and the Paris Agreement, from $66 billion in 2015 to $1.1 trillion in 2021. The private sector is a key player in sustainable bond markets, both as an issuer and a buyer.

Sustainable use-of-proceeds (UOP) bonds are debt instruments from which net proceeds are used to finance projects with positive environmental or social impacts, including green, social and mixed sustainability bonds. Global issuance of sustainable UOP bonds reached $1 trillion in 2021 (figure 6A), accounting for 91 per cent of the sustainable bond market. Cumulative global issuance between 2015 and June 2022 reached $3 trillion, split between green bonds (62 per cent), social bonds (17 per cent) and mixed sustainability bonds (21 per cent) (figure 6B).

Green bonds raise funds for projects with environmental benefits, most notably in infrastructure. Nearly 90 per cent of the net proceeds raised through green bonds between 2015 and June 2022 were invested in the energy, buildings, transportation and water and sanitation sectors. **Social bonds** finance projects with positive social outcomes, such as employment generation and access to healthcare, while **mixed sustainability bonds** combine social and environmental benefits. **SDG bonds** are a special type of mixed sustainability bond that channel net proceeds into eligible SDG projects.[50]

Figure 6.
Global sustainable UOP bond issuance, 2015–2022



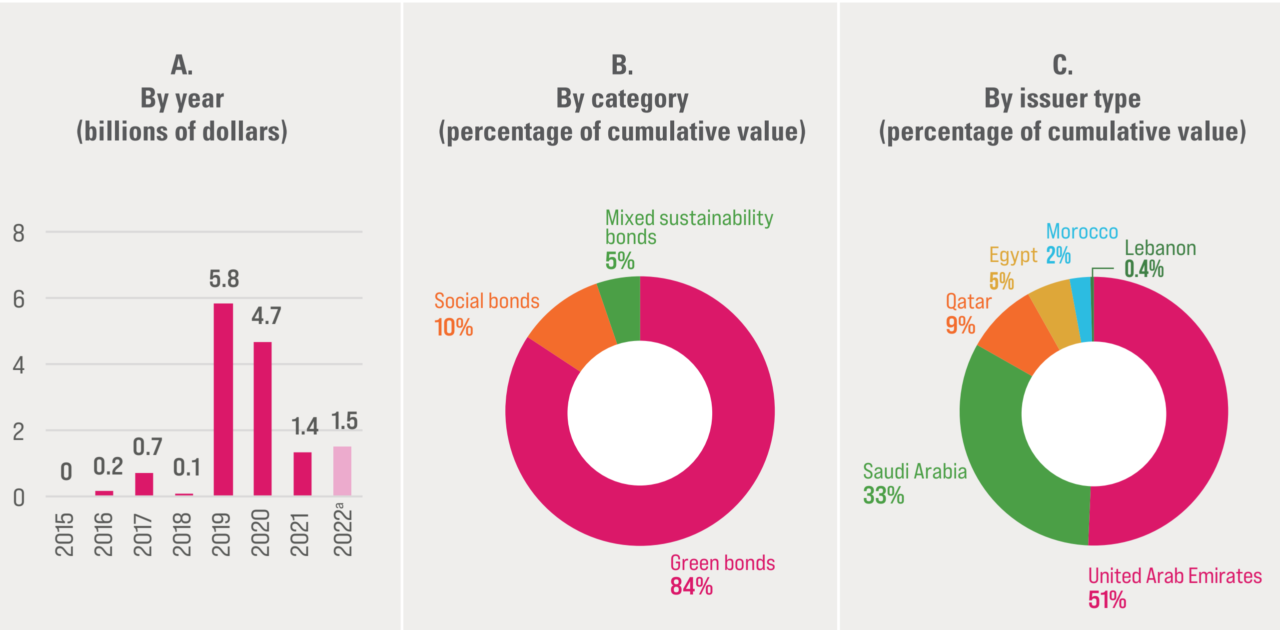
Source: Climate Bonds Initiative.
[a] January-June 2022.

Globally, the private sector is the leading issuer of sustainable UOP bonds, accounting for 39 per cent of the issued value in 2015–2022 (figure 6C). Other issuers include government-backed entities (22 per cent), development banks (17 per cent), national Governments (9 per cent) and local governments (6 per cent). Institutional investors, including banks, mutual funds, hedge funds and insurance companies, are the main buyers of sustainable bonds, often guided by ESG mandates. Other purchasers include Governments, corporate investors and – to a lesser extent – retail investors.

The Arab region raised $14.4 billion in proceeds from sustainable UOP bonds between 2015 and June 2022, or 0.5 per cent of the global total, behind every developing region except for sub-Saharan Africa. Average annual issuance rose from $250 million in 2015–2018 to $5.3 billion in 2019–2020, and subsequently fell to $1.4 billion in 2021 (figure 7A). Green bonds represented 84 per cent of the total of the cumulative issuance value between 2015 and June 2022 (figure 7B). Three GCC countries – the United Arab Emirates, Saudi Arabia and Qatar – concentrated 91 per cent of total UOP bond issuance in the region, with Egypt, Morocco and Lebanon making up the remainder (figure 7C). Most of these bonds were issued by corporations or government-backed entities. As of October 2021, Egypt was the only Arab country to have issued a sovereign green bond, the proceeds of which were used to fund budgetary expenditures in the transportation and water and sanitation sectors.

SDG-related projects in the Arab region have also benefited from the proceeds of sustainable bonds issued by supranational entities and purchased by a mix of investors, including private investors. For example, the Islamic Development Bank committed $110 million from its first **sustainable sukuk** (i.e. sharia-compliant sustainable bond) to a photovoltaic solar power plant in the United Arab Emirates, and $35 million to an integrated agricultural development project in Tunisia.[51] In addition, the World Bank allocated proceeds from its sustainable development bonds to SDG-related projects in the Arab region, including $1 billion for financial inclusion and private sector development in Egypt, $674 million for water supply in Lebanon and $200 million for disaster risk management in Morocco.[52]

Figure 7.
Sustainable UOP bond issuance in the Arab region, 2015–2022



Source: ESCWA calculations, based on data from the Climate Bonds Initiative.
[a] January-June 2022.

2. Sustainability-themed funds

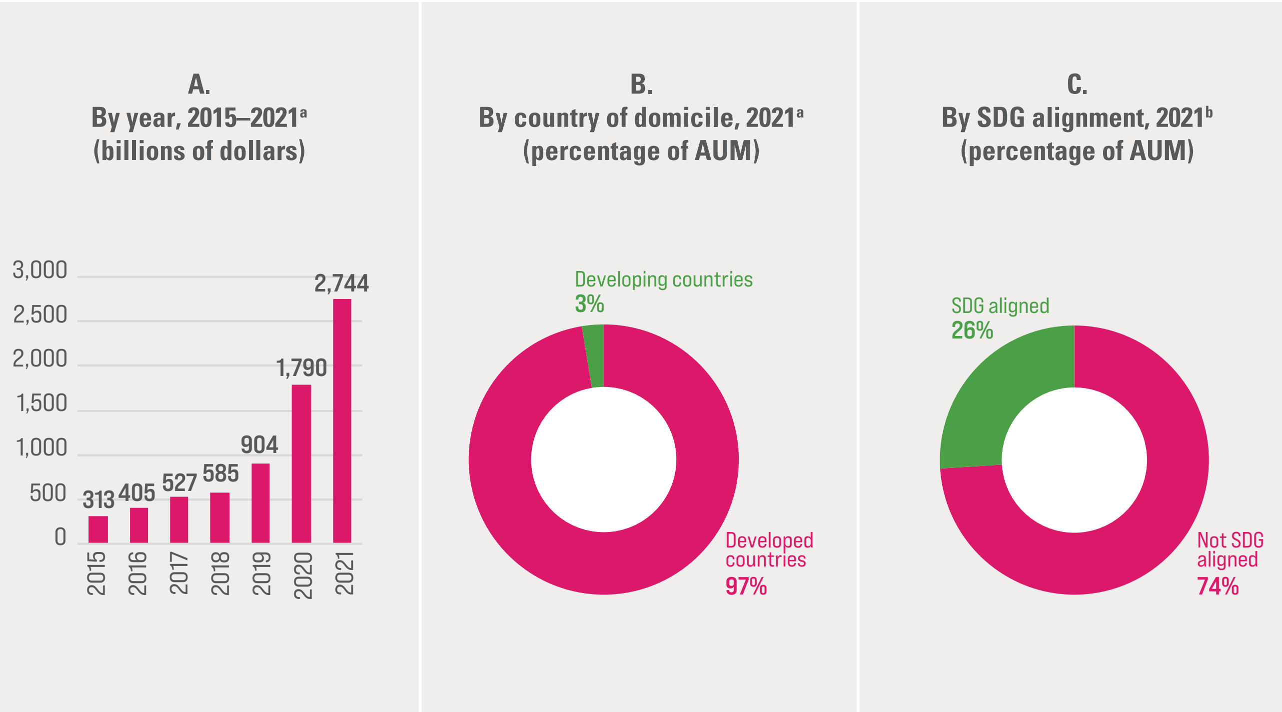
Globally, assets under management (AUM) of sustainability-themed funds reached a record of $2.7 billion in 2021, a 53 per cent increase from the previous year (figure 8A).[53] Nonetheless, the vast majority (97 per cent) of sustainable funds are domiciled in developed countries (figure 8B), where most of their assets are also targeted. The Arab region has not yet tapped into this rapidly growing market, even less than the sustainable bond market.

The first impact investing fund in the Middle East was launched in Egypt in March 2022 by Catalyst Private Equity, the investment arm of Catalyst Partners Holding, a merchant bank with a focus on SMEs and family businesses. The Catalyst Capital Egypt Fund, with a first closing of 450 million Egyptian pounds, aims to invest in SMEs. Through a partnership with UNDP, the fund developed an impact measurement and management tool based on the global SDG Impact Standards.[54]

Some sustainable funds domiciled outside the Arab region cover assets or products from Arab countries. One example is the Amundi Planet Emerging Green One, a fixed income fund managed by Amundi (France) that invests in green bonds in emerging markets, including €101 million in bonds issued by the Qatar National Bank and the First Abu Dhabi Bank (United Arab Emirates), which fund projects in the green buildings, energy efficiency, renewable energy and water management sectors in these two GCC countries.[55]

Fund providers use the label **SDG fund** for some of their sustainable funds. However, the lack of rules on what should count as an SDG fund makes it difficult to assess SDG alignment. A study by UNCTAD on more than 800 sustainability-themed equity mutual funds found that only 26 per cent of their total AUM were in SDG sectors (figure 8C), 90 per cent of which were concentrated in three sectors – health, climate change mitigation, and food and agriculture.[56]

Figure 8.
Global sustainable funds and assets under management



Source: UNCTAD (2022).
[a] Full sample of 5,932 sustainable funds. [b] Subsample of 800 sustainable equity funds.

3. Blended finance

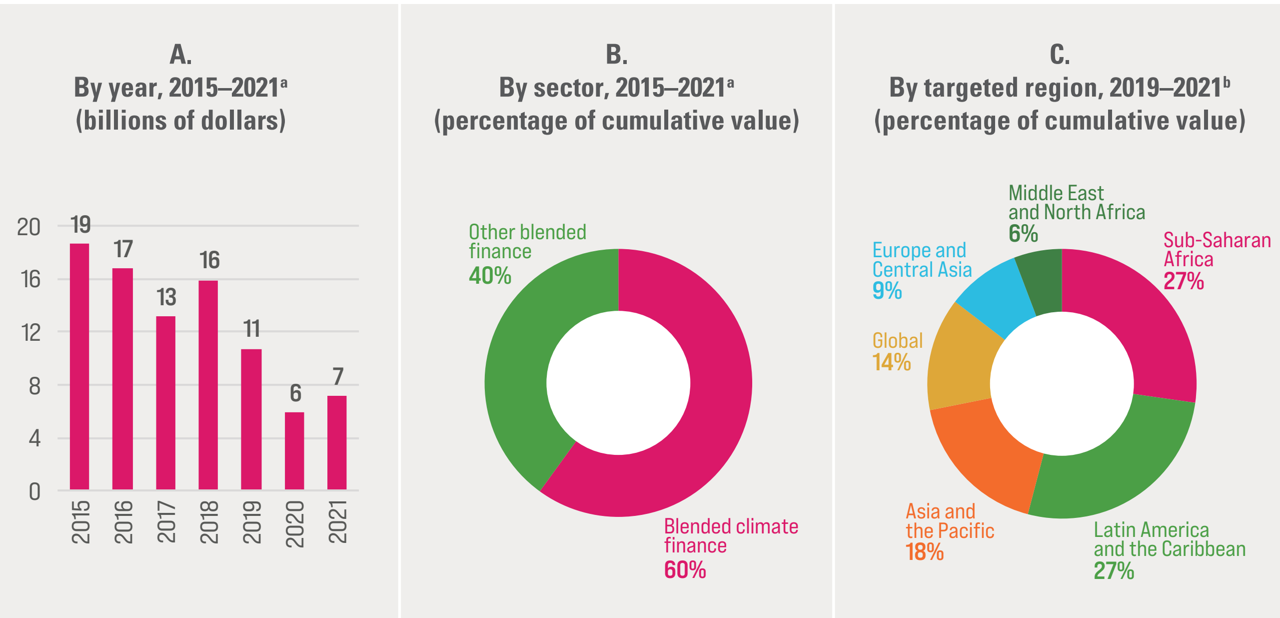
Blended finance uses concessional capital from public or philanthropic sources to mobilize private investment for sustainable development projects that are otherwise unable to proceed on strictly commercial terms. Rather than an investment instrument, it is a structuring approach that addresses two common impediments to private investment: high risks and below-market returns. It can be structured as debt, equity, risk-sharing, guarantee or insurance products that mitigate investments risks and rebalance risk-reward profiles for private investors. In its most common form, public or philanthropic investors provide funds at below-market rates to lower the cost of capital and lock-in additional private capital.

Global blended finance transactions totalled $7 billion in 2021, down from $19 billion in 2015 (figure 9A). Blended climate finance accounted for 60 per cent of overall blended finance between 2019 and 2021 (figure 9B). As blended finance is used to promote projects in high-risk countries,[57] it is heavily concentrated in developing countries. Nonetheless, the Middle East and North Africa trail behind all developing regions, accounting for 6 per cent of blended climate finance in 2019–2021 (figure 9C).

One example of blended finance targeted at the Arab region is the Green for Growth Fund III, a debt fund initiated by the European Investment Bank and the KfW Development Bank (Germany), which leverages risk capital from European public institutions with additional private capital to promote investment in energy efficiency and renewable energy in six Arab countries (Egypt, Jordan, Lebanon, Morocco, the State of Palestine and Tunisia). The fund provides private debt to financial intermediaries that lend to end-borrowers (SMEs and households), and invests directly in renewable energy projects, companies and municipal entities.[58]

Another example is the $75 million financing package announced by the International Finance Corporation (IFC) to help a food conglomerate in Yemen boost food production and distribution amid the ongoing humanitarian crisis. The package includes a loan of up to $55 million directly from IFC funds, and a syndicated loan of up to $20 million from FMO (Netherlands), a bank with 51 per cent of its shares held by the Dutch State and 49 per cent by commercial banks and other private sector institutions.[59]

Figure 9.
Global blended finance



Source: ESCWA calculations based on data from Convergence.
[a] Full sample of blended finance transactions. [b] Subsample of blended climate finance transactions.

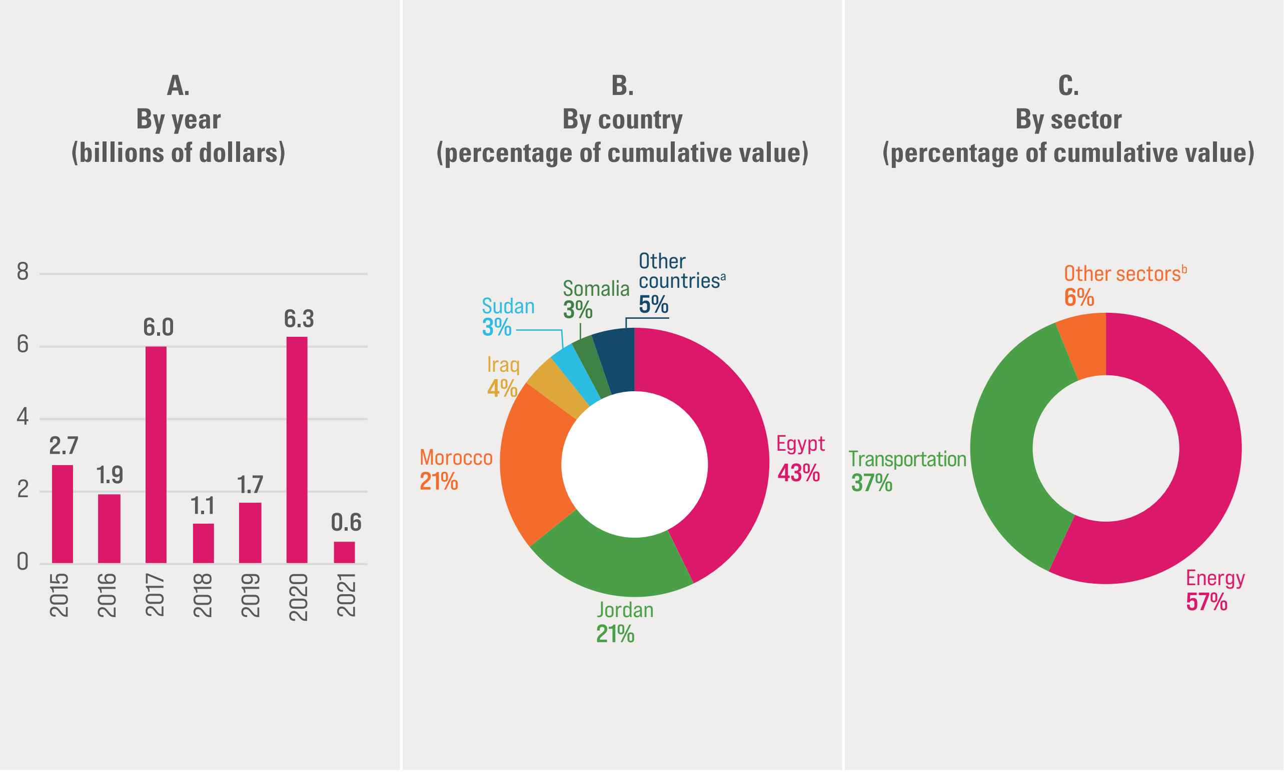
4. Public-private partnerships

PPPs are a mechanism that helps Governments procure and implement infrastructure and services using private sector resources and expertise. The public sector must put in place dedicated legal and institutional frameworks to support such partnerships and ensure that risks and responsibilities are balanced and that long-term development objectives are prioritized. PPPs may involve multiple partners in addition to the companies in charge of implementing the project, including private institutional investors, donor agencies and international financial institutions.

The public sector can also contribute to the mobilization of private capital for SDG-related projects by identifying projects to be carried out through these partnerships and promoting capacity-building on the design and implementation of PPP projects. Several Arab countries have enacted PPP-specific legislation to promote this type of partnership, while others conduct dealings with the private sector under general commercial and administrative laws. In addition, many Arab countries have established PPP units within government entities, including the PPP Central Unit in the Ministry of Finance in Egypt, the PPP Directorate in the Prime Minister's Office in Jordan, the National PPP Commission in Morocco and the National Center for Privatization and PPP in Saudi Arabia.

Announcements of PPP infrastructure projects in low- and middle-income countries in the Arab region totalled $20 billion between 2015 and 2021. These investments were highly concentrated: 85 per cent were targeted at three countries (Egypt, Jordan and Morocco) and 94 per cent at two sectors (energy and transportation) (figure 10).

Figure 10.
Infrastructure PPPs in low- and middle-income countries in the Arab region, 2015-2021



Source: ESCWA calculations based on data from the World Bank.
Note: Figures do not depict totals for the Arab region as they exclude high-income countries.
[a] Other countries: Algeria, Comoros, Djibouti, Lebanon, Mauritania, the Syrian Arab Republic and Tunisia.
[b] Other sectors: information and communication technologies, water and sewage, and municipal solid waste.

5. Bankable projects

The shortage of bankable projects and transparent project pipelines remains a primary bottleneck to private sector participation. Investment currently falls short of what is needed not because of a lack of capital, but because there are not enough identifiable, investment-ready and bankable projects.[60] Action to identify bankable projects and build robust pipelines is underway in the Arab region. For example, 30 bankable projects were presented by member States at the Arab Regional Forum on Climate Finance, hosted by ESCWA in 2022, most of which targeted climate adaptation and co-benefits in the water, energy and food sectors.[61] Another example is the UNDP SDG Investor Platform, which contains SDG investor maps for Djibouti and Jordan (box 16). However, despite these and other initiatives, the supply of bankable projects remains minimal compared to the region's SDG investment needs.

Box 16.

SDG investor maps in Djibouti and Jordan

The SDG investor map is a market intelligence product created by UNDP and partners to help private investors identify investment opportunities areas with significant potential to advance the 2030 Agenda. They translate development needs and policy priorities into investor language, including indicative returns, investment timeframe, average ticket size, impact metrics and social and environmental risks. SDG investor maps are produced locally by UNDP country offices and provided online through the UNDP SDG Investor Platform. As of October 2022, SDG investor maps were available for two Arab countries: Djibouti and Jordan.

The Djibouti SDG Investor Map presents 21 investment opportunity areas, with an overall focus on regional integration and trade. One of the proposed business models seeks to develop new airport facilities and enhance connections between air cargo and maritime transport. With an average ticket size of $10 million and a potential addressable market of $100 million to $1 billion, the project is expected to contribute to SDGs 8, 9 and 10.

In turn, the Jordan SDG Investor Map identifies three priority sectors (education, food and beverage and renewable resources) and 14 investment opportunity areas. One of these is the provision of technical and vocational training services, including through blended learning solutions, with an investment timeframe of 5–10 years and an indicative return on investment of 20–25 per cent. The investment is expected to address unemployment, the gender gap in vocational education and the demand for graduates, and contribute directly to SDG 4 and indirectly to SDGs 1, 5 and 8.

Source: ESCWA, based on information from the UNDP SDG Investor Platform.

D. Actions needed to fill the gaps

What actions are needed to address current impediments to private investment in sustainable development in the Arab region? The table below identifies key gaps and actions to address them based on guidance from the Addis Ababa Action Agenda and good practices at the regional and global levels.

Gaps	Actions
Low level of domestic savings	• Boost domestic savings to stimulate investment and generate greater employment, economic growth and sustainable development
Inadequate investment plans	• Imbed resilient and quality investment plans in national sustainable development strategies, which recognize a role for private investment in the SDGs in synergy with public investments
Insufficient number of well-prepared investable projects	• Translate investment plans into concrete project pipelines • Encourage investment promotion agencies to prepare bankable projects that contribute to achieving the SDGs • Build capacity on the preparation of feasibility studies, the negotiation of complex contracts and project management
Insufficient lending from commercial banks	• Based on good practices from peer countries, identify regulatory reforms that could encourage long-term investment within a framework of prudent risk-taking and robust risk control
Investors' incentive structure not aligned with investment in risky environments	• Promote blended finance to lower investment-specific risks and incentivize additional private finance across key sectors

Gaps	Actions
Unbalanced sharing of risks and returns in PPP projects	• Enact PPP-specific legislation to ensure that risks and returns are shared fairly across the public and private sectors, including by setting accountability mechanisms and safeguarding social and environmental standards • Establish specialized PPP units within Government • Build capacity to enter partnerships, including on planning, contract negotiation, management, accounting and budgeting for contingent liabilities • Hold inclusive, open and transparent discussions when developing and adopting guidelines and documentation for PPPs • Ensure transparent and competitive bidding processes for PPPs and procurement practices
Underdeveloped domestic capital markets	• Design capital market regulations that promote incentives along the investment chain that are aligned with long-term performance and sustainability indicators, and that reduce excess volatility • Develop regional markets to achieve scale and depth not attainable when individual markets are small
Proliferation of standards and lack of accountability on non-financial returns	• Harmonize sustainable financing initiatives to ensure investor confidence • Strengthen reporting on non-financial returns to ensure an effective contribution to the SDGs

Engaging the private sector in SDG planning and coordination

3

Engaging the private sector in SDG planning and coordination

In adopting the 2030 Agenda, Governments committed to a robust, voluntary, effective, participatory, transparent and integrated follow-up and review framework. To support this objective, VNRs became the tool of choice for member States to conduct follow-up and review at the national level. They are State led but provide a platform for partnerships through the participation of key stakeholder groups, including the private sector, labour unions, civil society and academia.

In the Arab region, countries have strived to establish or re-organize institutional structures to lead or coordinate the implementation of the SDGs at the national level. In most countries, the same structure is also responsible for follow-up and review.

A. Who represents the private sector

Of the 21 Arab countries covered in the survey and desk research by ESCWA,[62] the large majority (90 per cent) have engaged the private sector in institutional structures for the 2030 Agenda and its follow-up and review processes. Chambers of commerce and industry are the most common type of private sector representatives, cited by 71 per cent of countries, followed by business associations covering specific sectors (43 per cent) and individual companies (29 per cent) (figure 11).

Chambers of commerce and business associations were generally selected to participate in SDG processes on the basis of being the most representative of the private sector. Their members are diverse in terms of sector and geographic coverage (for more on chambers and the SDGs, see box 17). Examples pointing to good practices in the Arab region include the involvement of the professional association of banks in Morocco.

B. How the private sector is engaged

Different approaches have been used to select representatives, including: (1) selecting companies based on existing partnerships with the Government, (2) considering companies that are part of a governmental database, (3) allowing companies to express interest via an open call, and (4) getting support from United Nations Global Compact local networks to identify companies within their participant bases. In some cases, individual companies were proactive and approached the Government during events to express their interest in contributing to the 2030 Agenda.

Examples of good practices include the establishment of an authority for development in Libya, which facilitates collaboration between the private sector and the Government, and the formation of the Private Sector Advisory Council in the United Arab Emirates, where members from private companies collaborate with the governmental National Committee on the SDGs. The Private Sector Advisory Council in the United Arab Emirates contributed to the production of the country's VNR and published reports on the private sector and the SDGs.[63]

Box 17.

Are chambers of commerce and industry in the Arab region engaged in the SDGs?

Chambers of commerce and industry are the main representatives of the private sector in the Arab region. They provide governments with a reference institutional body to engage and communicate on development and other issues. Their memberships are comprehensive of the diverse private sector including large companies and MSMEs across subsectors. The structure and scope of chambers vary considerably across countries. While some countries, such as Jordan, have separate chambers for commerce and industry, others have only one chamber, which may also represent other sectors, such as agriculture or artisans. Countries may also have many local chambers and one union or federation of chambers.

At the regional level, the Union of Arab Chambers is the overarching organization bringing all chambers together. In 2017, the Union issued a vision for supporting sustainable development projects in collaboration with the Union of Arab Banks. The vision focuses on financing gaps and identifies a set of priorities for the region including investing in human capital, increasing the scope of bank financing, investing in innovation, new financing tools, PPPs, strengthening the role of central banks, the role of companies in investing and sectors of priority.

Despite the existence of this regional vision, in most countries of the Arab region, chambers do not explicitly align their work with the 2030 Agenda or the SDGs. Their policy of reference is the Government's vision or strategy. For example, chambers in Saudi Arabia refer strongly to Vision 2030 as the main guidance for socioeconomic development initiatives, the Bahrain Chamber aligns its work with the country's Economic Vision 2030 and the Jordan Chamber of Industry aligns with the Economic Priorities Programme. This highlights the important role played by Governments in aligning national visions or national development plans with the SDGs, which in turn guide the alignment of the chambers with the SDGs.

While mostly focused on economic development and representing the interests of the private sector, chambers do address some dimensions of sustainable development in their structures, studies or projects. Chamber committees focus on a range of subjects that are relevant to development, including employment, food, transport and logistics, technology, health, industry, renewable energy, education, women in business and entrepreneurs. For example, in Jordan and Lebanon, chambers are involved in donor-funded projects on green economy, circular economy and renewable energy. The Jordan Chamber of Industry has a dedicated unit for energy and environmental sustainability that provides support to Jordanian companies in their journeys towards sustainability. Yet, when reporting on sustainable development activities, chambers limit the scope to CSR, charitable work and volunteering.

There is growing interest in the region for collaboration with the United Nations Global Compact in the mobilization of the private sector towards the achievement of the SDGs. For example, the Federation of Saudi Chambers and the Kuwait Chamber of Commerce and Industry have communicated their support for greater promotion of the United Nations Global Compact.

There are also examples of collaboration at the global level. The International Chamber of Commerce is working with national institutions, including chambers, to set up centres of entrepreneurship. Four such centres have been established, including the ICC-ESCWA Centre of Entrepreneurship, which aims to prepare and mobilize the next generation of entrepreneurs in the Arab region.

The engagement of chambers of commerce and industry in the VNRs and SDG coordination structures points to opportunities, which remain largely unseized, for an increased role of the private sector in the 2030 Agenda through chambers. These opportunities range from advocacy, consulting, and capacity-building to reporting and incentives for better alignment with the SDGs.

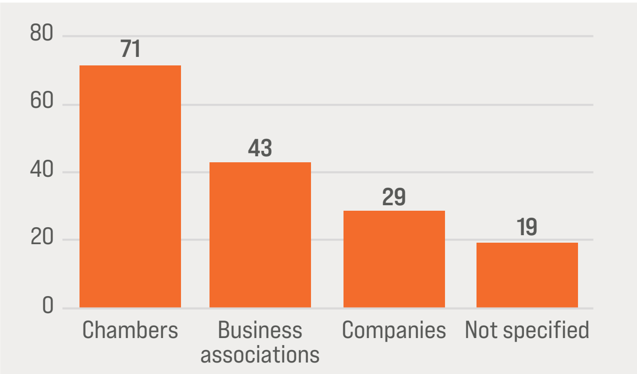
Source: ESCWA.

The means of engaging the private sector in the SDG process varied across countries in the region. Governments either consulted with the private sector, facilitated its contribution to decision-making or merely kept it informed of developments. Considering the follow-up and review of SDGs, out of 16 countries that responded to the survey, 93 per cent consulted with the private sector in preparing their VNRs. This is followed by 73 per cent in which the private sector provided input to the VNR report. In less than a third of countries was the private sector engaged in decision-making in the VNR process (figure 12). It is worth noting that these means of engagement are not mutually exclusive. In more than two thirds of countries, the private sector was engaged through two or more means.

Private sector representatives that participate in VNR processes are often invited to attend coordination meetings, report on contributions and present recommendations. In some countries, such as Lebanon, they are asked to draft written contributions that are incorporated directly into the VNR report. The latest VNR report of the United Arab Emirates included a contribution from the United Nations Global Compact local network in the section on private sector engagement.

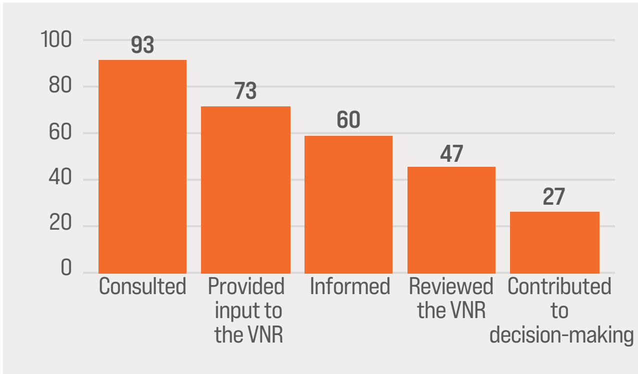
Regardless of membership status, the private sector is engaged in VNR processes through public consultations, workshops, reflection groups and meetings. These events facilitate the collection of information from the private sector and reflect their viewpoints in the VNR. Information on the private sector was mostly obtained from published reports and during workshops (in 64 and 57 per cent of countries, respectively). Interviews and surveys were also used but to a lesser extent, in 36 per cent and

Figure 11.
Private sector representation in national SDG institutional structures, by type of entity (Percentage of surveyed Arab countries)



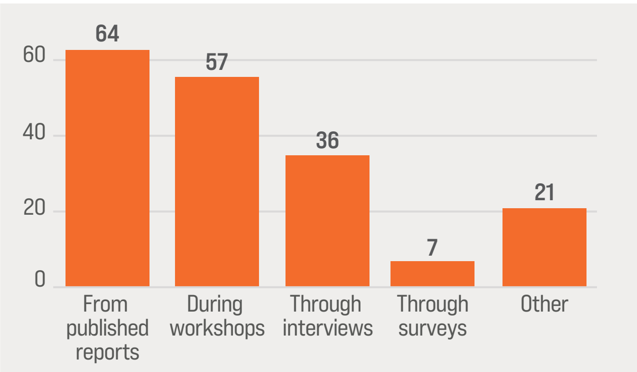
Source: ESCWA.

Figure 12.
Private sector engagement in VNR processes, by role played (Percentage of surveyed Arab countries)



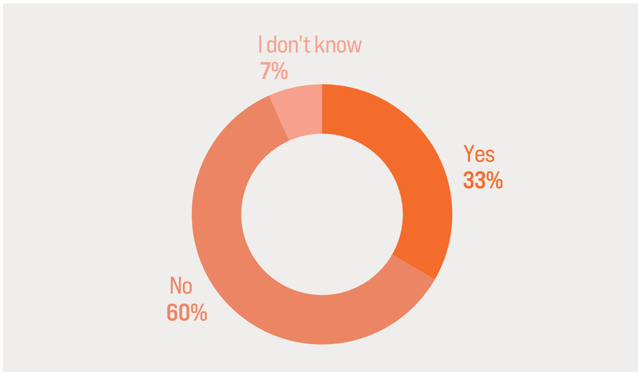
Source: ESCWA.

Figure 13.
Sources of information on the private sector for VNRs (Percentage of surveyed Arab countries)



Source: ESCWA.

Figure 14.
Governments publishing national reports on private sector contributions to the SDGs (Percentage of surveyed Arab countries)



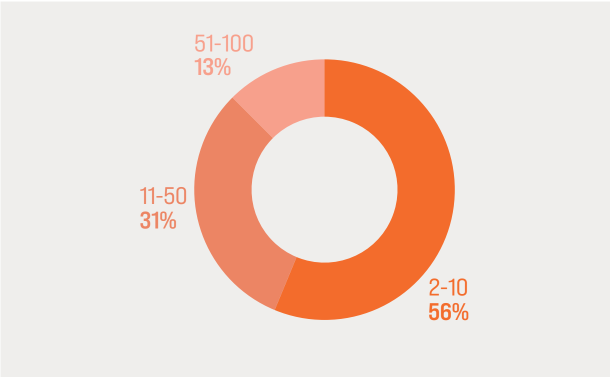
Source: ESCWA.

7 per cent of countries, respectively (figure 13). In only a third of countries do governments publish reports on the private sector contribution to the SDGs (figure 14).[64]

Member States have adopted tools to facilitate engagement with the private sector and other stakeholders, such as the Partnerships for Development platform in Egypt, which was designed to capture stakeholder initiatives interlinkages with different SDGs, outcomes and challenges. Other platforms were established, such as a national forum for sustainable development in Libya that engaged companies, young entrepreneurs and businesswomen. In addition, some countries utilized reports that United Nations Global Compact participants are required to publish on an annual basis. These reports, known as communications on progress, showcase progress towards alignment with the United Nations Global Compact and the SDGs.

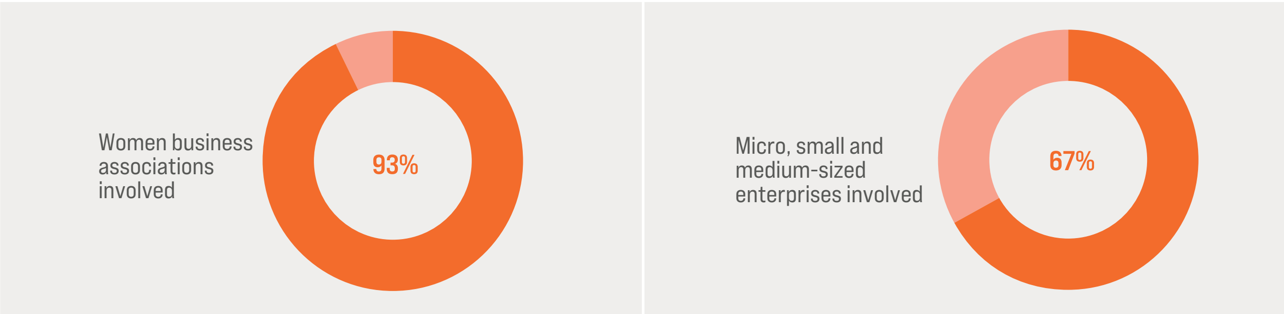
In most countries (56 per cent), the number of private sector representatives engaged in the VNR process was less than 10 (figure 15). Interestingly, most countries (93 per cent) have engaged women business associations in their SDG processes, although less so during the VNR. The participation of MSMEs in the SDG process is lacking in more than a third of countries (figure 16).

Figure 15.
Number of private sector representatives involved in VNR processes in the Arab region (Percentage of surveyed countries)



Source: ESCWA.

Figure 16.
Involvement of women business associations and MSMEs in SDG processes in the Arab region (Percentage of surveyed countries with positive response)



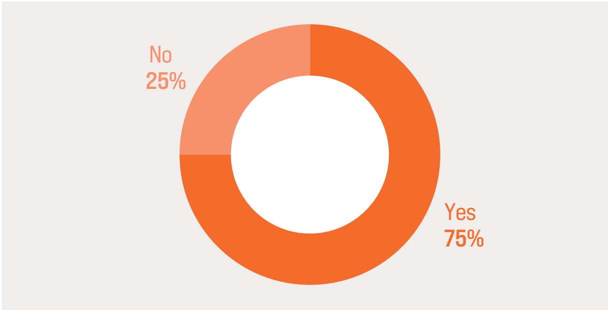
Source: ESCWA.

C. The post-VNR phase

Most countries' VNR reports (85 per cent) include recommendations for improving the private sector's engagement in SDG achievement, stressing the role of the sector as a development partner. Most recommendations focus on the role of the private sector in providing employment opportunities and helping diversify the economy, with limited reference to transformative actions or innovative roles. Some recommendations focus on improving legislation for PPPs and public procurement. Others address the mobilization of private sector resources for the implementation of national development plans and the enhancement of investments on specific sectors, such as education, health, industry and food. Partnerships with the private sector are also seen as means for data collection. For example, a report on public-private data sharing by the Private Sector Advisory Council of the United Arab Emirates proposes a framework for collaboration based on four pillars: effective data-sharing governance; a unified public-private vision for sustainability; ensuring trust and transparency are built into data partnerships; and building partnerships with strong mutual benefits.[65] The report also provides examples of how companies in the United Arab Emirates shared data during COVID-19.

Despite these recommendations, communication with the private sector post-VNR remains a challenge in some countries, with 25 per cent indicating that communication is not maintained post-VNR (figure 17).

Figure 17.
Post-VNR communication with the private sector in the Arab region (Percentage of surveyed countries)



Source: ESCWA.

D. Actions needed to fill the gaps

Gaps	Actions based on good practices
Engaging a wider and more diversified group of private sector representatives, notably MSMEs, but also the informal private sector	Engage the private sector in local level SDG planning and review, as this can greatly help in reaching MSMEs that tend to conduct their business at the local level. The emerging interest in the region in local reviews is helpful in that respect.
Reflecting the contributions of the private sector to the SDGs in VNR content, given the low level of company disclosures and reporting on the subject	Use digital reporting platforms where businesses can self-document their contributions to the SDGs. These can help standardize disclosure for incorporation into VNRs; the transparency helps put soft pressure on companies to better align with the SDGs and allows governments to direct public-private partnerships to fill SDG gaps.
Maintaining and enhancing the partnership with the private sector after and in-between VNRs and raise the level of ambition when it comes to private sector contributions to the SDGs	Avoid tokenistic, piecemeal engagement approaches and the multiplicity of institutional mechanisms – instead, have one, unified and stable mechanism to engage the private sector across all stages of the policy cycle. This is critical to maintain engagement and ensure coherence and a cumulation of results.

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27 The companies highlighted in boxes 8 and 9 were selected randomly among the many MSMEs that contribute to the SDGs in the Arab region. Mention of any firm, product or licensed process does not imply the endorsement of ESCWA or the United Nations.

28 https://www.sharedvalue.org/about/what-is-shared-value/.

29 The companies highlighted in boxes 10 and 11 were selected randomly among the many companies that contribute to the SDGs in the Arab region. Mention of any firm, product or licensed process does not imply the endorsement of ESCWA or the United Nations.

30 Adapted from Ernst and Young (2022).

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37 Seven Arab countries had concluded association agreements with the European Union as of October 2022: Algeria, Egypt, Jordan, Lebanon, Morocco, the State of Palestine and Tunisia.

38 ESCWA (2022b). Climate/SDGs Debt Swap.

39 UNCTAD (2022). World Investment Report 2022. Geneva.

40 UNCTAD (2014). World Investment Report 2014. Geneva. The report classifies the following sectors as SDG related: basic infrastructure (roads, rail and ports; power stations; water and sanitation; telecommunications), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education.

41 UNCTAD (2022). World Investment Report 2022. Geneva.

42 ESCWA (2022a). Financing for Development Gateway, National SDG-Financing Simulators. Available and retrieved November 28, 2022, from https://ffd.unescwa.org/. This estimate reflects nationally determined priority targets for the following 12 countries: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates.

43 ESCWA (2022a). Financing for Development Gateway, National SDG-Financing Simulators. Available and retrieved November 28, 2022, from https://ffd.unescwa.org/. The updated estimate refers to the same 12 countries as in the original estimate.

44 UNCTAD (2014). World Investment Report 2014. Geneva.

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46 Conservative estimate based on Knight Frank (2021). The Wealth Report – Middle East Supplement, and Forbes (2022b), World's Richest Arabs.

47 The variable under analysis is gross fixed capital formation in the private sector), which includes capital formation in the private sector only. This is different from overall gross fixed capital formation), which includes both public and private capital formation.

48 Henceforth, references to MICs exclude Comoros, Djibouti and Mauritania, which are instead treated under the LDC category.

49 Moataz Yeken. The Role of the Business Sector. In M. Mohieldin (ed.) (2022). Financing Sustainable Development in Egypt Report. Cairo: League of Arab States.

50 The Government of Mexico spearheaded the SDG bond market in 2020, with the issuance of an SDG sovereign bond to finance eligible expenditures contemplated in the country's federal budget. The country issued a second SDG sovereign bond in 2022. Other countries followed suit, including Benin and Uzbekistan.

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61 ESCWA (2022c). Towards COP27: Arab Regional Forum on Climate Initiatives to Climate Finance and the SDGs – Project postcards for catalysing adaptation, achieving co-benefits and scaling up mitigation.

62 This chapter is based on a survey and desk research conducted by ESCWA on the engagement of the private sector in national structures for SDG coordination and VNR preparation in the Arab region. ESCWA circulated a survey questionnaire to the 22 Arab States represented in the VNR Community of Practice in the Arab Region. The survey was open between August and September of 2022 and was extended to delegates nominated to participate in the 7th Workshop on VNRs in the Arab Region (Beirut, 18–19 October 2022). Responses were received from a total of 16 countries: Algeria, Bahrain, Comoros, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Oman, the State of Palestine, Somalia, the Sudan, the Syrian Arab Republic, Tunisia and the United Arab Emirates. Additional research focused on VNR reports was conducted for five other countries: Djibouti, Kuwait, Mauritania, Qatar and Saudi Arabia. Yemen was not included in the analysis as it had not published a VNR as of 2022.

63 See, for example, Accelerating achievement of the SDGs in the United Arab Emirates: A blueprint for public-private data-sharing partnerships 2021 and Achieving Sustainable Development Goals in the UAD: private sector contribution.

64 Arab countries indicating that they publish reports on the private sector's contribution to the SDGs: Libya, Morocco, Oman, the Sudan and the United Arab Emirates.

65 Federal Competitiveness and Statistics Centre and Kearney National Transformation Institute (2021). Accelerating achievement of the SDGs in the UAE: A blueprint for public-private data-sharing partnerships.

The ESCWA Annual SDG Review 2023, the second in the series, explores the contributions of the private sector to the realization of the 2030 Agenda and the SDGs in the Arab region. Building on limited available data on the subject, the report offers an indicative reading of existing trends and gaps in the region. The analysis is guided not only by the Agenda's goals and targets, but also by the whole-of-society and rights-based approaches and the principles of universality, leaving no one behind, combating inequality and promoting gender equality and the empowerment of women.

The Review examines the contributions of the private sector to sustainable development in the Arab region from three lenses: delivering the SDGs through business action, mobilizing private finance for the SDGs, and engaging the private sector in SDG planning and coordination. Each chapter assesses evidence for private sector engagement in the delivery of the SDGs in the region and provides guidance on actions needed to address current gaps.

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