Environmental, social and governance finance for enterprise circularity in the Arab region

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Expert reviewers
Some sections of the report were reviewed by a group of experts from the Suliman S. Olayan School of Business, American University of Beirut.

Key messages

- *Investment aligned with environmental, social and governance (ESG) principles is expanding globally, creating opportunities to mobilize greater investment in the Arab region, particularly for circular economy projects and small and medium-sized enterprises (SMEs).*
- *A combination of green and circular finance instruments and broader sustainable financing options can help address the varying needs and risk profiles of SMEs.*
- *ESG frameworks can help improve the allocation of sustainable finance. Further measures beyond disclosure are needed to enable SMEs to access the financing needed to transition towards circular business models.*
- *Stronger regulatory frameworks, clear taxonomies, measurable indicators and proactive public–private partnerships can help mobilize ESG-aligned investment and support the circular transition of SMEs.*
- *Strengthening access to finance, capacity and information can support SMEs in investing in circular models, particularly in lower- and middle-income countries and in Arab least developed countries. Closer links between investors and SME suppliers along value chains can facilitate circular innovation, particularly when combined with technical assistance and accelerator programmes.*

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Glossary

Greenhouse gas emission scopes

Scope 1 emissions

Direct greenhouse gas emissions from sources owned or controlled by the company, such as fuel burned in its facilities, equipment or vehicles.

Scope 2 emissions

Indirect emissions from the generation of purchased energy that the company uses, including electricity, heating, cooling or steam bought from external providers.

Scope 3 emissions

All other indirect emissions that occur along the value chain. These include emissions from suppliers, business travel and logistics, use of the company's products by customers, and the treatment or disposal of products at the end of their life.

Types of finance for ESG

Impact investing

Impact investing involves investing in companies, organizations or funds with the intention of generating measurable social and environmental impact alongside financial returns. Investors might target small and medium-sized enterprises (SMEs) that are actively working to implement circular economy models, such as those focusing on resource efficiency, sustainable production and waste management.

Blended finance

Blended finance combines public and private investment to de-risk and catalyse funding for projects with significant social and environmental benefits. This approach can help SMEs access the necessary capital for circular economy initiatives, such as developing new sustainable products or redesigning supply chains to reduce waste.

Sustainability finance

Sustainability finance supports activities that generate environmental and social benefits alongside financial returns. It can help SMEs finance initiatives related to circular economy practices, resource efficiency, decent employment and social inclusion.

Green finance

Green finance refers to funding directed towards projects and activities that deliver environmental benefits, such as renewable energy, energy efficiency, pollution prevention, sustainable water management and circular economy solutions. It can be provided through loans, bonds, investment funds and other financial instruments.

Climate finance

Climate finance refers to local, national or international financial resources directed towards addressing climate change. It includes funds used for mitigation efforts (reducing or preventing greenhouse gas emissions) and adaptation measures (adjusting to the effects of climate change). Climate finance can come from public, private or alternative sources and is critical for implementing climate-related projects and policies.

Financial instruments

Equity

Equity financing involves selling an ownership interest in a company in exchange for capital.

(a) Equity investment in ESG funds

ESG-focused equity funds invest in companies that meet specific environmental, social and governance criteria. These funds often target businesses that align with circular economy principles. SMEs that demonstrate a commitment to ESG criteria can attract equity investment from these funds to support their transition to more sustainable practices.

(b) ESG-themed exchange-traded funds

ESG-themed exchange-traded funds invest in companies that meet specific ESG criteria. Circular SMEs can benefit from being included in these exchange-traded funds by attracting a broader range of investors interested in supporting sustainability and circular economy initiatives.

Debt

Debt financing involves borrowing money that must be repaid, typically with interest, within a specified timeframe.

(a) Green bonds

Green bonds are debt instruments issued by companies or public authorities and sold to investors to raise capital exclusively for environmentally beneficial projects. These may include projects related to renewable energy, energy efficiency, waste and water management, recycling and sustainable resource management. Issuers are expected to report on how the funds are used and the environmental impacts achieved.

(b) Green loans

Green loans are specifically designed to fund environmentally sustainable projects and can support SMEs in implementing circular business models of a shorter tenure. The borrower must use the loan proceeds exclusively for projects that contribute to environmental sustainability, such as developing circular products or improving resource efficiency.

(c) Interest-free, unsecured loans

Loans provided without charging interest and without requiring collateral. The borrower repays only the principal amount, based on an agreed schedule, and does not pledge specific assets as security.

(d) Sustainability-linked bonds

Bonds where the financial terms (usually the coupon rate) are linked to the issuer’s achievement of predefined sustainability or ESG targets. If the targets are not met, the cost of the bond typically increases.

(e) Sustainability-linked loans

Sustainability-linked loans are a type of loan where the interest rate is linked to the borrower’s achievement of specific ESG-related goals, such as reducing waste or increasing the use of recycled materials. SMEs transitioning to a circular economy can benefit from these loans by receiving favourable interest rates as they meet their sustainability targets.

Quasi-equity

Quasi-equity, also known as mezzanine finance or hybrid financing, is an instrument that blends characteristics of both debt and equity. It sits in the capital structure of the company between senior debt and common equity.

Grants

Non-repayable financial contributions provided by a public authority, foundation or company to support specific activities, projects or beneficiaries, conditional on meeting agreed objectives or eligibility criteria.

Subsidies

Financial support provided mainly by governments to reduce the cost of certain activities, products or services. They may include direct payments, tax reductions or reduced financing costs and can encourage SMEs to adopt circular and environmentally sustainable practices.

Other ESG funding and support mechanisms

Carbon credits and offset programmes

SMEs that reduce their carbon footprint by implementing circular economy practices may be eligible to earn carbon credits, which can be sold to other companies looking to offset their emissions. This can provide additional revenue streams and incentivize further investment in sustainability.

Corporate sustainability programmes

Larger corporations often have sustainability programmes or venture funds dedicated to investing in or partnering with smaller companies that align with their ESG goals. Circular SMEs can tap into these programmes for funding, technical support and market access.

Type of investors

Banks and funds

Commercial banks, development banks and investment funds (such as equity, debt or ESG funds) that provide loans or invest capital in companies and projects.

Listed companies

Companies whose shares are traded on a stock exchange. Listed companies must comply with strict disclosure, governance and reporting requirements, including on ESG matters in many markets.

State-owned companies

Companies that are fully or majority-owned by a government (national or local). These entities often implement public policies and may receive State backing for strategic or infrastructure investments.

Other companies

Any privately held firm that is not listed on a stock exchange and not owned by the State (for example, family businesses, large privately owned groups or unlisted subsidiaries).

Clubs and alliances

Groups of investors or companies that pool resources and coordinate action around shared objectives, such as climate and ESG targets (for example, investor clubs, industry alliances or coalitions for net zero).

Others

Fintech solutions

Digital technologies and tools used to deliver financial services in faster, cheaper and more user-friendly ways than traditional methods (mobile banking applications, online payment platforms, digital wallets, crowdfunding and peer-to-peer lending platforms, robo-advisors, and data-driven credit scoring).

Abbreviations

ESG	Environmental, social and governance
LT-LEDS	Long-term low emission development strategies
MENA	Middle East and North Africa
MSX	Muscat Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PIF	Public Investment Fund
SDGs	Sustainable Development Goals
SMEs	Small and medium-sized enterprises

Introduction

Small and medium-sized enterprises (SMEs) make up the majority of firms in the Arab region and account for a significant share of employment and value creation. Their transition towards regenerative and circular business models can play an important role in addressing resource scarcity and environmental degradation while strengthening resilience to climate change. A series of regional dialogues organized by the Economic and Social Commission for Western Asia (ESCWA) highlighted the critical role of access to finance in enabling SMEs to transition towards circular business models.

Thus, environmental, social and governance (ESG) finance has become an increasingly prominent and rapidly growing source of financing for sustainable development. In the Arab region, access to ESG finance remains limited, and sustainable investment flows remain modest. SMEs often face information, technical capacity and financing constraints that hinder their ability to redesign products, invest in resource-efficient technologies and participate in circular value chains.

The present report combines literature reviews, regional data, international benchmarks and case studies of financial institutions and corporations deploying ESG-aligned financing instruments, including loans, bonds, grants, equity and blended finance. It also examines how ESG-aligned financing instruments can support the transition of SMEs towards circular business models.

The report has three main objectives:

- Clarify the conceptual and operational links between ESG-aligned finance, SMEs and the transition to a circular economy.
- Identify key barriers and opportunities for SMEs to access ESG-aligned investments.
- Analyse institutional, corporate and regulatory initiatives that can help shape future policy and investment decisions in the Arab region in support of SMEs transition towards circular business models.

The report aims to connect three debates that are often treated separately: SME development, ESG and sustainable finance, and the circular economy. It focuses specifically on the Arab region, combining global evidence with regional data, country examples and concrete instruments that can be adapted to local contexts. The report is intended for policymakers, financial institutions, regulators, development partners, business support organizations and corporate leaders seeking actionable options to align ESG investments with SME-driven circular transitions.

The present technical report is part of a series of reports developed by ESCWA to support the transition towards a circular economy across the Arab region, including by promoting the integration of SMEs into this transition. ESCWA is also developing a circular economy monitoring framework for SMEs. The framework will assist policymakers and business support organizations in assessing the progress of SMEs in adopting circular economy practices and complying with relevant policies and regulations through clear and practical indicators that minimize reporting burdens.

1. ESG principles, SMEs and the transition towards a circular economy in the Arab region

A. Concepts and framing

ESG stands for “environment, social and governance” and refers to how responsibly a company behaves towards the environment and the people, and how it is managed. In practice, this means looking at issues such as greenhouse gas emissions and pollution (E), how workers and communities are treated (S), and whether the company is well-managed, transparent and has measures in place to prevent corruption (G).[1] Governments, investors, banks and consumers are placing increasing emphasis on these considerations, while companies are expected not only to generate profits but also to reduce harm and create positive impacts.[2] Today, ESG reporting provides the public with clearer information on how much progress the company has made with regard to sustainability. Within the broader ESG landscape, the circular economy is emerging as an increasingly important area of corporate action.[3]

Box 1. ESG-aligned financing for the circular economy

ESG-aligned finance is expanding rapidly, alongside approaches such as impact investing and climate finance, contributing to a greater focus on sustainability considerations within financial systems.[a] Two main categories of ESG tools are used: funding instruments (grants, subsidies and blended finance facilities that mix concessional and commercial capital) and debt instruments (loans and dedicated green or circular credit lines). Medium- and long-term loans account for over 80 per cent of public bank funding, 65 per cent of private bank funding and around 40 per cent of SMEs own financing. Grants and promotional programmes complement these sources. However, circular economy projects currently receive only a modest share of this financing, ranking sixth among eight sustainability priorities. Moreover, only about 30 per cent of financial institutions report having explicit circular economy strategies, with most still focusing primarily on climate change mitigation and adaptation.[b]

[a] Michael König and others, Financing circular economy: insights for practitioners, 2022.

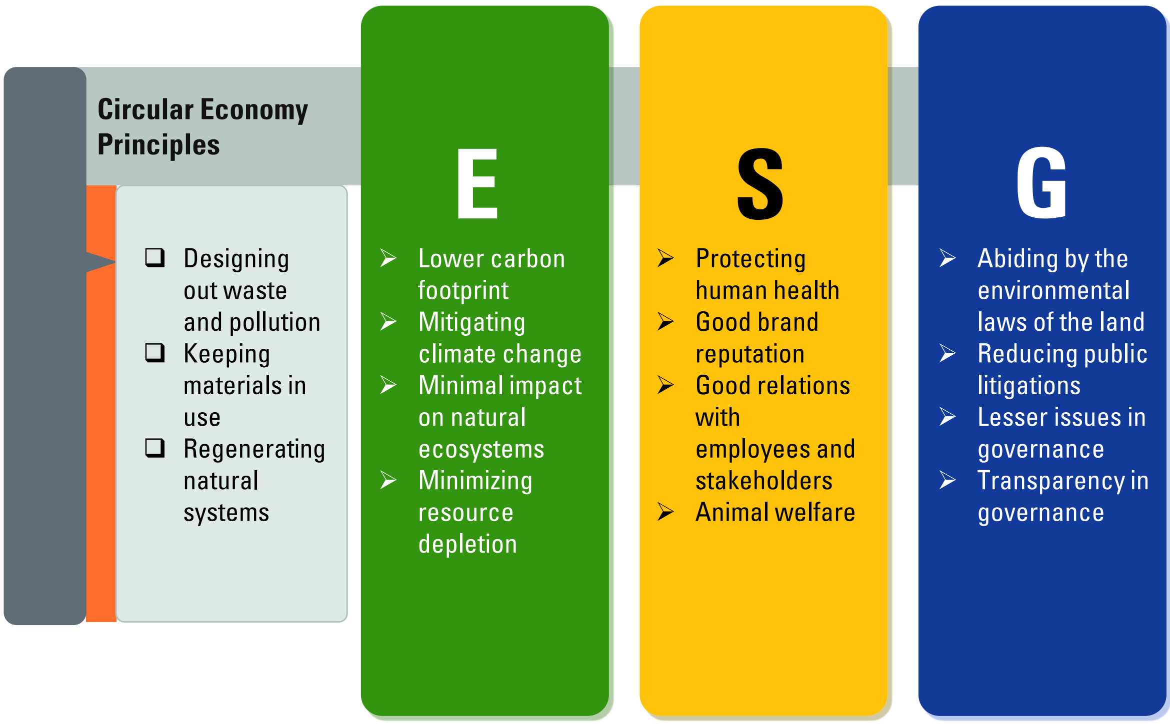
[b] Organisation for Economic Co-operation and Development (OECD), Financing SMEs for sustainability—Financial institution strategies and approaches: Results of an OECD survey of public and private financial institutions, 2023.

1. IMD, ESG investing explained: how to drive sustainability in your company?, 2024.
2. Samuel Boluwatife Oni, ESG metrics and reporting: best practices for companies, 2025.
3. World Bank, SME finance, n.d. (accessed on 22 July 2026).

In the Arab region, integrating ESG considerations into SME operations is essential to supporting a circular economy, which is an economic model where products and materials are kept in use for as long as possible through repair, reuse, remanufacturing and recycling, instead of the traditional linear model. Two simple ideas support this. First, stakeholder theory[4] indicates that a business should create value for all those affected by it (employees, customers, suppliers, communities and the environment), which fits well with circular practices that require cooperation along the whole value chain. Second, the triple bottom line (people, planet, profit)[5] encourages firms to measure social and environmental outcomes alongside financial performance, thereby increasing the attractiveness of circular solutions.

Figure 1 shows that each ESG pillar directly underpins core circular economy principles: the E pillar supports resource efficiency and closing material loops; the S pillar promotes green, decent jobs and safer, healthier communities; and the G pillar ensures transparency, accountability and responsible sourcing across circular supply chains.

Figure 1. Circular economy principles across ESG pillars



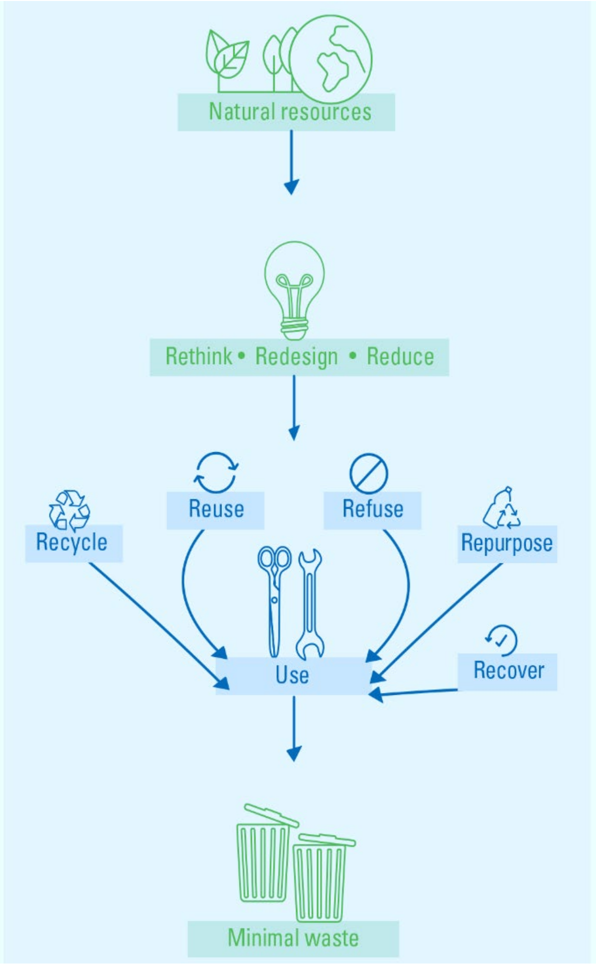
Source: Rashmi Anoop Patil, Patrizia Ghisellini and Seeram Ramakrishna, Towards sustainable business strategies for a circular economy: environmental, social and governance (esg) performance and evaluation, 2021.

4. The Beautiful Truth, What is stakeholder theory?, 2025.
5. Kelsey Miller, The triple bottom line: What it is & why it's important, 2020.

ESG-aligned finance can help SMEs shift from linear to circular value chains by directing investment into activities such as product life-cycle management, supply-chain integration and better waste management, while still delivering financial returns.

Figure 2 illustrates how materials circulate, highlighting pathways such as reuse, repair, remanufacturing, recycling and regeneration.

Figure 2. Model of circularity built on design changes, short loops and long loops



Source: ESCWA, Accelerating circularity in the Arab region, 2023.

Box 2. Understanding the SME landscape to support the circular transition in the Arab region

SMEs account for more than 90 per cent of businesses in the Arab region. They are also a major source of employment.[a] This positions them as key drivers of economic diversification and the transition towards more resource-efficient and circular business models. For example, SMEs represent more than 95 per cent of non-agricultural private enterprises in Egypt and account for around three-quarters of recent job creation.[b] In Kuwait, they represent about 90 per cent of private labour,[c] and in Lebanon, they account for nearly 90 per cent of employment and more than 95 per cent of total firms.[d] In the United Arab Emirates, SMEs represent roughly 94.3 per cent of commercial ventures, employ nearly 62 per cent of the population, and generate around 75 per cent of gross domestic product (GDP). Similar patterns are observed in Yemen (where SMEs were reported to contribute up to 96 per cent of GDP in 2005) and in Algeria, the occupied Palestinian territory and Saudi Arabia, where SME contributions to GDP are estimated at about 77 per cent, 59 per cent, and 25 per cent, respectively.[e]

[a] ESCWA, Trade facilitation for small and medium enterprises in the Arab region, 2024.
[b] ESCWA, A better future: SME potential to generate youth employment in Egypt, 2024.
[c] The Times Kuwait, Kuwait and its SMEs, 2022.
[d] Ministry of Economy and Trade - Republic of Lebanon and United Nations Development Programme, Lebanon SME strategy: A roadmap to 2020, 2014.
[e] Khaled Otman, Small and medium enterprises in the Middle East and North Africa region, 2021.

B. ESG-aligned investments and the circular transition: barriers and opportunities

SMEs contribute significantly to employment and GDP in the Arab region but face considerable barriers to adopting circular business models and ESG practices. The global circular economy could generate about $4.5 trillion in value by 2030[6] and ESG finance could help SMEs tap into opportunities related to water, energy and waste efficiency, but access to this capital remains limited. In 2018–2019, the unmet finance needs of formal micro, small and medium enterprises (MSMEs) in nine Arab countries were estimated at $207 billion, equivalent to 24 per cent of their combined GDP.[7] Beyond funding, SMEs face technical, institutional, operational, informational and social barriers, including limited know-how, unclear ESG guidance and weak enabling policies. The following subsections classify these constraints to help inform appropriate policy and investment responses.

Table 1. Key barriers to SME transition in the Arab region

Barrier type	Key barriers
Financial	• Access to affordable, long-term credit and investment for circular projects is limited (equipment, eco-design, waste facilities). • Limited collateral, thin credit histories and informality lead to stricter collateral requirements, higher interest rates and fewer approvals. • Banks and investors lack data on SME performance and circular business risks/returns. • High public debt in many Arab countries limits public credit-support schemes and subsidies.
Institutional and regulatory	• ESG and circular economy concepts are not fully embedded in SME policies, regulations or incentive frameworks. • National SME/industrial policies rarely include explicit circularity targets or dedicated support instruments. • Credit-guarantee schemes and public financial institutions are only starting to add sustainability/circular criteria, giving weak signals to commercial lenders.
Operational and technical	• SMEs lack technical know-how, skills and internal capacity to redesign products, adopt resource-efficient technologies or obtain certifications. • Working-capital constraints limit experimentation, pilot investments and the hiring of sustainability staff. • Circular models often require new logistics and reverse supply chains (collection, sorting and recycling) and partnerships that individual SMEs struggle to establish alone.
Informational and awareness	• Low awareness of circular economy concepts and their business benefits; many SMEs do not know where to start or which technologies to use. • Understanding of ESG-related disclosure requirements demanded by lenders and buyers is limited. • Digital divide: fintech and digital finance mainly benefit SMEs with strong digital footprints, while more traditional firms have less access to data-driven credit scoring and online products.
Equity and inclusion	• Women-owned and minority-owned SMEs face discrimination and restrictive social norms. • Reduced access to collateral, networks and formal finance contributes to a disproportionately large financing gap for women-owned MSMEs.

Source: Authors.

6. Victoria Masterson and Ian Shine, What is the circular economy, and why does it matter that it is shrinking?, 2023.
7. ESCWA, Annual SDG review 2023: The private sector and the SDGs in the Arab region, 2023.

ESG-aligned investments do not only ease constraints but also create opportunities for SMEs. Table 2 highlights the main opportunity areas that ESG-aligned investments can unlock.

Box 3. Business support organizations in the Arab region: challenges and strategic priorities for SME resilience

Business support organizations in the Arab region note that SMEs, and start-ups in particular, face difficulties in adopting new technologies, accessing finance, building management and workforce skills, reaching markets, and dealing with complex regulations. These organizations themselves work in a challenging context of political and economic instability, bureaucracy, corruption, fragmented markets, weak coordination, limited budgets and talent drain.[a] As a result, they emphasize the need for more demand-driven services, a stronger focus on sustainability and green competitiveness to reduce costs and access new markets, and greater support to help SMEs in developing resilient and agile business models that can withstand supply-chain disruptions and adapt to evolving regulations.[b]

[a] Harold Macarthy, Supporting informal enterprises transition towards sustainable growth and formalization in Sierra Leone: National action plan for enterprise formalization, 2024.

[b] Boost4BSO Project Consortium, BSO capacity building in Central Europe: Handbook, 2022.

Table 2. SME opportunities to unlock with ESG funds

Opportunity area	How ESG funding helps SMEs
Risk assessment	• Set clear and measurable ESG objectives. • Collect data on environmental and social performance to improve access to finance. • Identify and manage risks and opportunities linked to circular business models more effectively.
Circular design and innovation	• Redesign products and services using circular principles at every stage of the value chain. • Invest in tools and processes that support reuse, repair, remanufacturing and recycling. • Achieve cost savings through lower material use and more efficient resource management, while increasing resilience.
Supply chain and stakeholder integration	• Engage suppliers, customers and other partners in the SME circular transition. • Select and work with stakeholders committed to circular and responsible practices across the supply chain. • Strengthen market access by aligning with buyer and investor sustainability expectations.
ESG reporting, transparency and compliance	• Align with international and national ESG and circular economy regulations and standards. • Increase consumer and investor trust through clearer communication of ESG performance. • Enhance company reputation and employee engagement by showing progress on sustainability goals.
Organizational competency and training	• Raise awareness of the circular economy within the company culture. • Build skills and know-how to integrate circularity into business models and daily operations. • Stay up to date with new circular solutions, technologies and market opportunities.

Source: Authors.

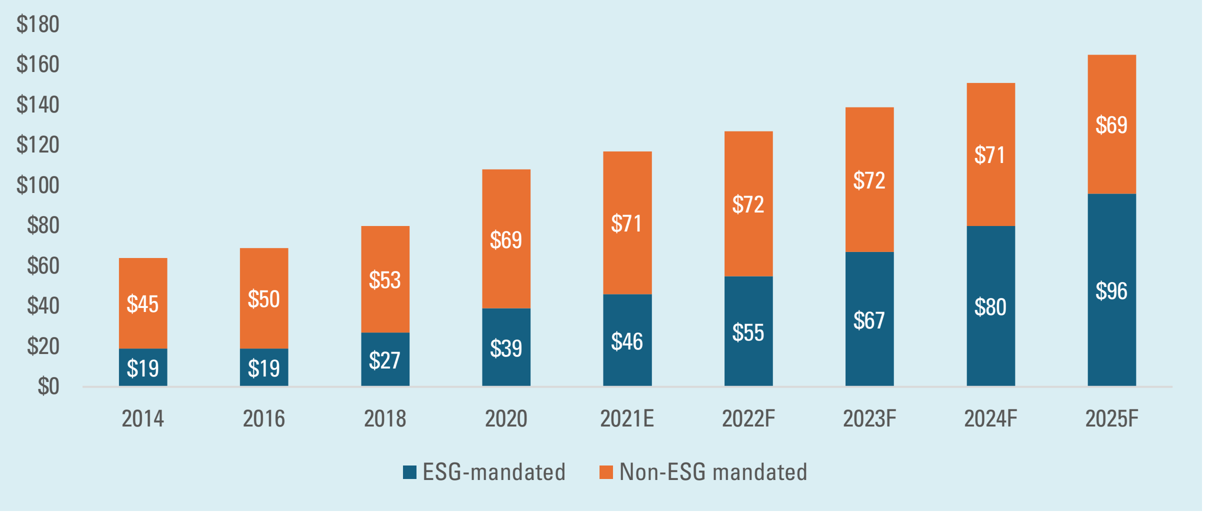
Closing SME financing and capability gaps requires private and public action: lenders should offer products based on business strength rather than collateral, while Governments and international financial institutions provide guarantees, risk-sharing and blended-finance schemes, supported by reforms and fintech solutions that widen access for women, micro-enterprises and green/circular projects.

C. ESG and green finance growth: a shifting paradigm in the Arab region

Global ESG-aligned investment is expanding rapidly. Debt and equity for clean energy and the green transition stood at around $1.3 trillion in 2022 (around 70 per cent more than in 2019).[8] ESG-mandated assets have been rising steadily since 2014, accounting for an even larger share of total assets (figure 3). This trend is also visible in the Arab region, especially in Gulf Cooperation Council (GCC) countries, although initiatives remain fragmented and environmental priorities are driven mainly by water scarcity, energy diversification and waste management, with less regulatory pressure on carbon dioxide (CO_2) reductions compared to Europe.[9]

In the Arab region alone, around $230 billion in additional financing is needed each year to support the achievement of the Sustainable Development Goals (SDGs).[10] Closing this gap requires realigning financial systems to direct both public and private capital towards sustainable and circular investments, particularly for SMEs.

Figure 3. Evolution of global ESG-mandated assets over time



Source: Deloitte Insights, Ingraining sustainability in the next era of ESG investing, 2022.

8. International Renewable Energy Agency, Maintaining momentum in the energy investment lifecycle, n.d.
9. European Investment Bank, European Bank for Reconstruction and Development, and the World Bank, Unlocking sustainable private sector growth in the Middle East and North Africa: evidence from the enterprise survey, 2022.
10. Najib Saab and Abdul-Karim Sadik (eds.), Financing sustainable development in Arab countries: 2018 report of the Arab Forum for Environment and Development, 2018.

ESG finance for SMEs is currently dominated by debt and funding instruments.[11] Loans remain the primary financing instrument for SME sustainability and net-zero investments: medium- and long-term loans account for over 80 per cent of public banks support, around 65 per cent of private banks support and about 40 per cent of SMEs own financing, complemented by guarantees, grants, subsidies and promotional programmes.[12]

However, circular economy objectives continue to receive only a modest share of ESG finance. Among the sustainability goals prioritized by financial institutions, climate protection and climate change adaptation rank highest, while the transition to a circular economy remains a mid-level priority. Only around 30 per cent of surveyed institutions report explicit circular economy strategies and targets; most focus their environmental strategies on climate-related objectives (table 3). Overall, circularity remains a secondary priority even for active ESG and climate finance providers.

At the same time, ESG and green finance are gaining momentum in the Arab region. The use of green bank loans and bonds is expanding, and the issuance of green bonds and sukuk in the Middle East more than doubled to $24 billion in 2023[13] (figure 4). More regional companies are adopting international ESG standards; in the GCC, and particularly in Qatar and the United Arab Emirates, around 80 per cent of the top 200 publicly listed and privately owned companies publish ESG reports.[14] Country experiences illustrate both progress and gaps. In Lebanon,[15,16] emerging ESG trends are shaped by national climate strategies, particularly long-term low emission development strategies (LT-LEDS), as well as European Union-linked disclosure requirements and local initiatives. These efforts focus primarily on renewables, green bonds and energy efficiency, with support from partners such as the European Bank for Reconstruction and Development and Bank Audi. However, economic instability and weak frameworks continue to constrain scale-up. In Jordan, growth in ESG and green finance is underpinned by national visions (Vision 2025, National Green Growth Plan), public financing initiatives (the Jordan Renewable Energy and Energy Efficiency Fund and the Jordan Environment Fund), and efforts to mobilize greater private-sector investment. They target renewables, water, waste and social priorities. However, challenges remain in SME access to green finance and regulatory consistency.[17]

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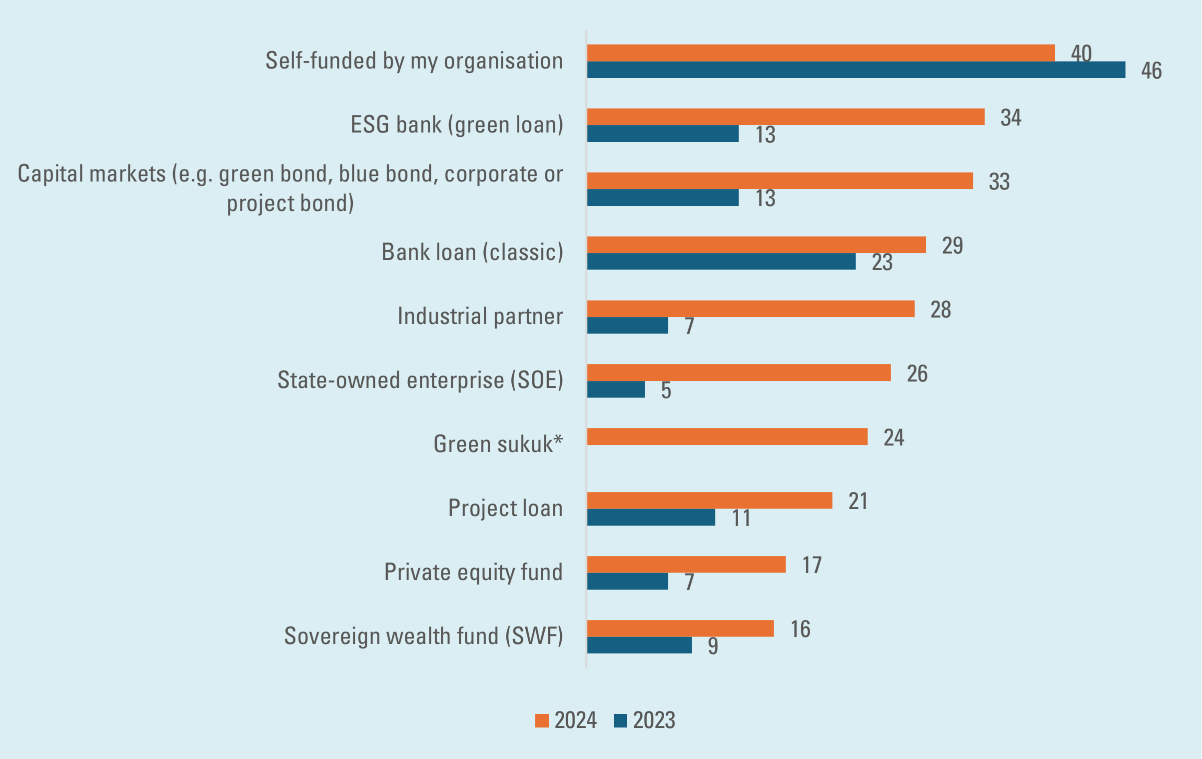
11. Eurochambres and SMEunited, Access to sustainable finance for SMEs: A European survey 2023, 2023.
12. OECD, Financing SMEs for sustainability—Financial institution strategies and approaches: Results of an OECD survey of public and private financial institutions, 2023.
13. PwC Middle East, Middle East Economy Watch – April 2024, 2024.
14. Kelsey Goodman and others, The Middle East is gearing up to combat climate change—its private sector can lead the way, 2022.
15. Simon A. Kachar, Nada R. Naufal, and Mohamed Y. Alem, Collaborative ESG pathways: The role of governance and public-private sectors in achieving long-term carbon reduction, 2025.
16. Talal F. Salman, Walid Sayegh, and Abdelrahim Ayoubi, Green bonds, 2016.
17. Leaders International, The green economy in Jordan: sustainability leading the way for growth, 2025.

Table 3. Rating of sustainability goals pursued through ESG-aligned investments

	Based on total answers (percentage)	Answers per company (percentage)
Climate protection	27.3	39.5
Adaptation to climate change	11.3	16.3
Pollution prevention and control	16.1	23.3
Transition to a circular economy	7.2	10.4
Sustainable use and protection of water and marine resources	5.1	7.4
Protection and restoration of biodiversity and ecosystems	4.5	6.4
Social goals	11.6	16.8
Good corporate governance goals	17.0	24.6

Source: Eurochambres and SMEunited, Access to sustainable finance for SMEs: A European Survey, 2023.

Figure 4. Green finance evolution in the Middle East and North Africa from 2023 to 2024 by tool typology (Percentage)

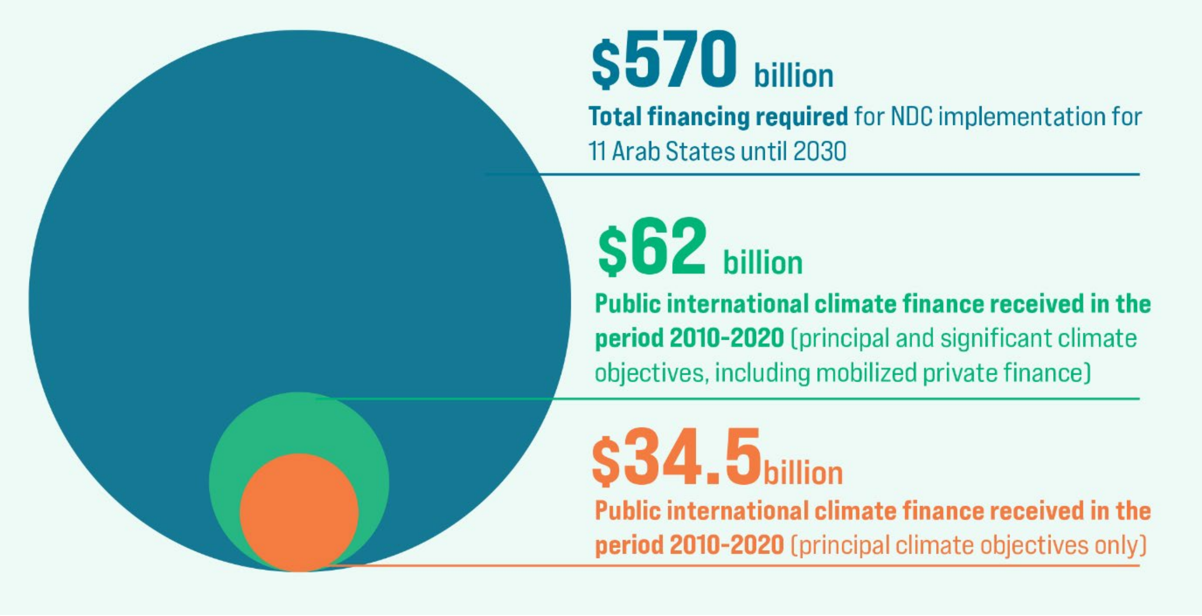


Source: PwC Middle East, Middle East Economy Watch - April 2024, 2024.

D. Climate finance inequality and ESG disclosure gaps in the Arab region

Public international climate finance in the Arab region remains far below identified needs and is unevenly distributed across countries.[18] This financing gap is compounded by limited ESG and sustainability reporting. ESCWA finds that ESG considerations are not yet widely integrated across the Arab private sector and that sustainability reporting remains limited. Consequently, investors may have limited access to consistent and comparable information needed to assess sustainability performance and channel capital towards green and circular investments.[19] Limited disclosure can also make it more difficult for firms to demonstrate the business case for allocating internal resources to circular economy projects. Figure 5 shows a major gap between the Arab region climate finance needs and actual flows; Arab countries require about $570 billion to implement their nationally determined contributions (NDCs) by 2030, while public international climate finance during 2010–2020 amounted to only $62 billion (or $34.5 billion for principal climate objectives only), resulting in a significant gap. Although global ESG assets and regional green bonds are growing rapidly, finance remains highly uneven: six Arab least developed countries (Comoros, Djibouti, Mauritania, Somalia, Sudan and Yemen) receive only about 5–7 per cent of regional climate finance, while countries such as Egypt, Jordan, Morocco and Tunisia receive the vast majority (figure 6).[20]

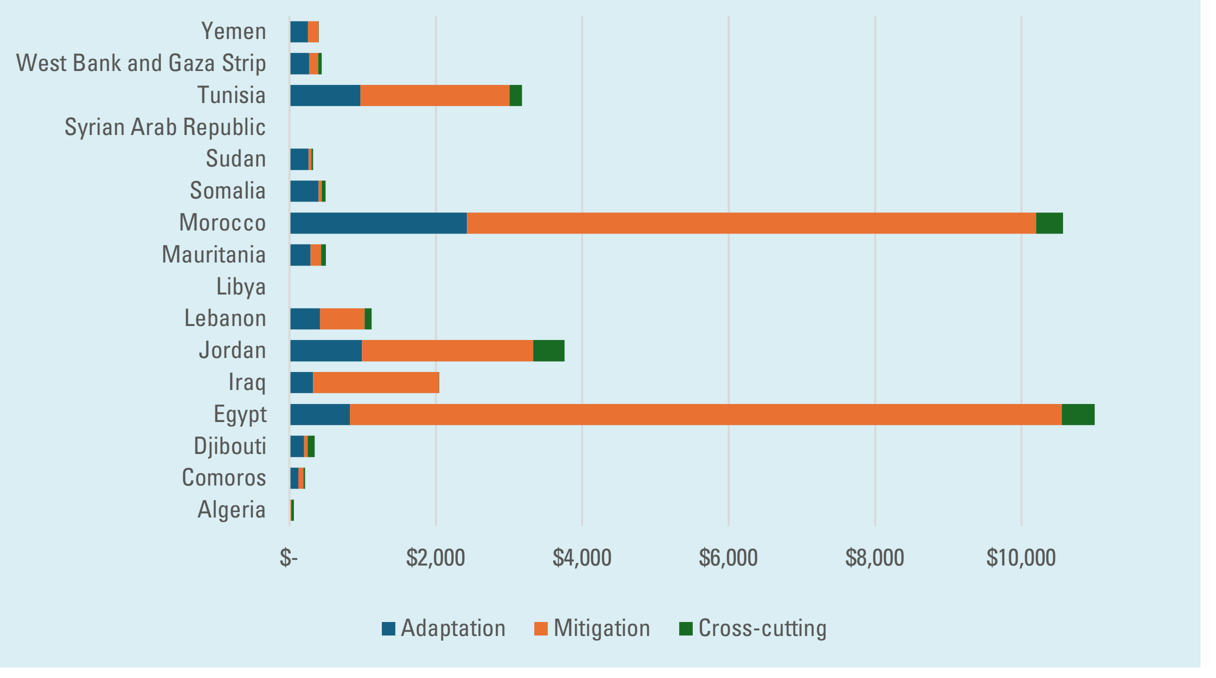
Figure 5. Climate finance received during 2010–2020 relative to financing needs expressed for NDC implementation through 2030



Source: ESCWA, Climate finance needs and flows in the Arab region, 2022.

18. ESCWA, Climate finance needs and flows in the Arab region, 2022.
19. ESCWA, Annual SDG Review 2023: The Private Sector and the SDGs in the Arab Region, 2023.
20. CEDARE, Drowning in debt: the shocking truth about climate finance in the Arab region, 2025.

Figure 6. Climate finance flows in the Arab region by country and purpose, 2010–2020 (In 2020 millions of dollars)



Source: ESCWA, Climate finance needs and flows in the Arab region, 2022.

E. Towards a diversified green and circular finance toolbox for Arab SMEs

These patterns suggest that ESG-aligned, green and sustainable finance are expanding in the Arab region, but the circular economy continues to receive relatively limited financing. To respond to debt-financing challenges, including high levels of public debt in several Arab countries, and to address SMEs specific needs, a broader mix of financing instruments is needed, including:

- **Islamic green finance,** such as green sukuk and Sharia-compliant green funds, which can mobilize large pools of regional savings for climate and circular projects while respecting Islamic finance principles.
- **Venture capital and growth equity** for green and circular SMEs, helping early-stage and high-growth firms to develop and scale innovative circular solutions (e.g. waste-to-resource and digital product-as-a-service models).
- **Impact funds** that explicitly target measurable environmental and social outcomes alongside financial returns, using ESG and circularity metrics as investment criteria.
- **Blended-finance models** that combine concessional public or philanthropic capital with commercial investors, thereby de-risking circular SME projects and crowding-in private finance that might otherwise remain on the sidelines.

Developing such a diversified toolbox, adapted to local contexts and supported by stronger ESG disclosure, will be essential to scale circular SME investments across the Arab region.

2. Supporting SMEs circular transition: institutional investment initiatives

A. International institutional investment initiatives

Many large companies, especially in energy- and resource-intensive sectors, integrate sustainability into their core strategies by establishing dedicated ESG or corporate social responsibility (CSR) units and strengthening partnerships with suppliers, non-governmental organizations and communities, aligning stakeholders around net-zero and circular economy goals. These actors include banks, alliances/clubs, listed companies and other private firms, which track impact[21,22] using Scope 1, 2 and 3 emissions[23] to determine where circular practices can reduce emissions and resource consumption. However, progress is uneven. Recent developments, including revisions to the United States Securities and Exchange Commission's climate disclosure rule and delays and changes in scope to the European Union's Corporate Sustainability Reporting Directive, have increased uncertainty surrounding future ESG reporting requirements and investor expectations.

Box 4. ESG countertrends in major markets

- **United States Securities and Exchange Commission's climate disclosure rule (2025):** The United States Securities and Exchange Commission has revised parts of its climate disclosure rule, limiting the range of data that listed companies are required to report. This has raised questions about the long-term direction of mandatory climate reporting in one of the world's largest capital markets.
- **European Union's Corporate Sustainability Reporting Directive "Omnibus Package":** In the European Union, policymakers have agreed to delay the application of the Corporate Sustainability Reporting Directive and to reduce its scope for some companies for at least two years. While the directive remains a cornerstone of the European Union's sustainability reporting, the postponement signals a slower and more cautious rollout than initially planned.

For the Arab region, these developments underline that ESG and sustainability regulation are still evolving globally. They also highlight the importance of designing region-appropriate disclosure and reporting frameworks that provide clarity to investors without over-burdening SMEs.

21. OneMoneyWay, Understanding investors: types, roles, strategies, and market impact, 2024.
22. CFI Team, Financial intermediary, 2020.
23. Definitions in the Glossary.

The principal investors involved in ESG-aligned and circular economy finance include banks and funds, listed companies, State-owned companies, other private companies, and clubs or alliances. Banks, funds, clubs and alliances may be either public or private, while listed companies and other companies are generally private. State-owned companies are public.

The following case studies illustrate how these investors use different financing instruments to support SMEs transition to a circular economy.

1. Financial institutions (banks and funds)

To illustrate how several types of financial actors are already supporting ESG and circular economy investments, table 4 presents three examples: an investment management firm, a commercial bank and a private equity firm. These three examples illustrate the thematic objectives and investment structures that can be used to channel capital towards circular business models and SME finance.

Table 4. ESG and circular economy financing initiatives by investor type

Company name and type	Type of tool(s)	Objectives	Investment structure	Results (if available)
Circulate Capital, investment management firm backed by large corporations (P&L, Pepsico)[a]	Equity, quasi-equity and debt	Focus on recycling supply chain companies, covering three key areas: • Waste management. • Upcycling technologies. • Digitization to improve efficiency, transparency and traceability across the supply chain.	"Circulate Capital Disrupt – Innovation" strategy, which covers the following topics of investment: • Innovative materials (such as bio-based materials). • Circular business models: digital platforms that drive efficiency, improve data, and/or enable reuse/refill systems. • Advanced recycling technologies.	✓ Supported the development of eight SMEs. ✓ Invested +$80 million in 2022.
HSBC (United Kingdom), commercial bank and financial services[b]	Debt: green term loans, sustainability-linked loans, green revolving credit facilities, green asset finance, green deposits, green and sustainable trade finance, green and	Provide and facilitate $750 billion to $1 trillion of sustainable finance and investments by 2030.	500 million pound sterling Green SME Fund.	—

Company name and type	Type of tool(s)	Objectives	Investment structure	Results (if available)
	sustainability-linked bonds			
KKR, investment firm (private equity firm)[c]	Debt: green term loans, sustainability-linked loans, green revolving credit facilities, green asset finance, green deposits, green and sustainable trade finance, green and sustainability-linked bonds	Invest in scalable commercial solutions to address critical global challenges across four key investment themes: climate action, sustainable living, lifelong learning and inclusive growth.	Portfolio that includes a category focusing on the circular economy.	✓ Since 2010, over $45 billion were invested across multiple asset classes in trends such as energy transition, workforce development and circularity.

[a] Circulate Capital, Circulate Capital, n.d. (accessed 22 July 2026).
[b] HSBC UK, HSBC Go Greener SME Reward, n.d. (accessed 22 July 2026).
[c] KKR, Working Together: 2023 Sustainability Report, 2024.

2. Industry alliances and clubs

Another example of innovative ESG and circular financing is provided by multi-stakeholder alliances. Box 5 presents the CIRCLE Alliance, a public–private collaboration that mobilizes impact investment to support SMEs working on plastic reduction and circular plastic value chains. In the Arab region, similar alliances could be built around priority sectors such as food packaging, construction materials or textiles, linking international partners with regional brands and local SMEs. Structural differences to consider include a more fragmented SME ecosystem, varying regulatory enforcement on waste and recycling, and more limited grant and philanthropic funding.

Box 5. Example of a public–private alliance supporting circular SMEs

The CIRCLE Alliance is an example of a public–private collaboration supporting circular SMEs. Backed by major partners including the United States Agency for International Development (USAID), EY and Unilever, the alliance uses an impact investing approach to scale solutions developed by SMEs that reduce plastic use and tackle plastic waste.

Its investment structure is based on support from several major corporate groups and development partners. The alliance has mobilized $21 million in funding for SMEs working on the transition to a circular plastic value chain.

Source: Unilever, The CIRCLE Alliance: Scaling packaging circularity to reduce plastic waste, 2024.

3. Publicly listed companies

Large multinationals are using a range of ESG tools, such as bonds, loans and grants, to finance circular projects and support SME partners (table 5). In the Arab region, similar approaches could be adopted by national oil companies, utilities and major retailers, using green instruments and accelerators to back local suppliers and circular start-ups. However, higher levels of State ownership, less developed green-bond markets and limitations in the enforcement of waste, recycling and labour regulations call for close coordination with public authorities, gradual market development and strengthened capacity among SMEs and regulators.

Table 5. Examples of large companies using ESG instruments for circular economy initiatives

Company name and type	Type of tool(s)	Objectives	Investment structure	Results (if available)
ENEL, Italian multinational energy company[a]	Sustainability-linked bonds	Interest rates are linked to reductions in the company Scope 1 carbon intensity, with a focus on four areas: • Renewable energy. • Smart grids and storage. • Product lifecycle management. • Circular procurement.	• Circular Economy Fund and Enel Green Power branch. • Funding the development of circular economy projects in partnership with start-ups and SMEs on the following topics: energy efficiency, renewable energy, waste-to-energy technologies and sustainable resource management.	✓ $11.6 billion sustainability-linked bonds issued in 2022. ✓ 23 boosting programmes to develop circular projects with SMEs and local communities. ✓ Elaboration of the Circular Economy Report tool, aimed at measuring and improving ESG business performance.
TotalEnergies, major global energy company[b]	Interest-free, unsecured loans	Develop the local economic fabric around circular economy in France.	Support provided through Club Circul'R, a network of more than 100 French SMEs developing circular economy solutions.	✓ 130 SMEs benefited from loans worth 5 million euros in 2023.
Veolia, major global energy company[c]	Funding, grants	• Re-invent and disrupt the waste collection business. • Develop a recycling culture in the Middle East.	Veolia SPARK accelerator programme for SMEs in the Middle East.	—

Company name and type	Type of tool(s)	Objectives	Investment structure	Results (if available)
		• Strengthen the economic balance of recycling businesses.		
H&M, major retail company[d]	Grants, green bonds	100 per cent of materials made from recycled or sustainably sourced materials by 2030.	• Circular Innovation Lab. • H&M foundation "Global Change Award" accelerator programme. This initiative supports innovation with the potential to fundamentally change the textile industry to be circular, fair and regenerative.	✓ Each winner of the Global Change Award received a grant of $200,000 + 1 year of the acceleration programme. ✓ A 500 million euros green bond with a maturity of eight years was issued.
LVMH, major retail company[e]	Grants	• Supplier transition plans to match the Scope 3 emission reduction target.	• LVMH Circularity. • LIFE 360 Business Partners: aims to accelerate circularity and sustainability within the luxury sector.	—

[a] Enel S.p.A., Sustainability Report 2023: Consolidated Non-Financial Statement, 2024.
[b] TotalEnergies, Sustainability & Climate 2024 Progress Report, 2024.
[c] Veolia, ESG: The Heart of Veolia's Multifaceted Performance: Multifaceted Performance Progress Report 2023, 2023.
[d] H&M Hennes & Mauritz AB, Annual and Sustainability Report 2025, 2026.
[e] LVMH, For the environment, n.d. (accessed 22 July 2026).

Many other large companies in different sectors, such as PepsiCo, with a $1.25 billion green bond in 2022,[24] are using ESG strategies to support SME circular transitions. However, the Arab region has specific environmental, economic and regulatory conditions that shape how ESG-aligned investments work in practice. To make these global models effective for Arab SMEs, strategies must be adapted to regional realities and local barriers.

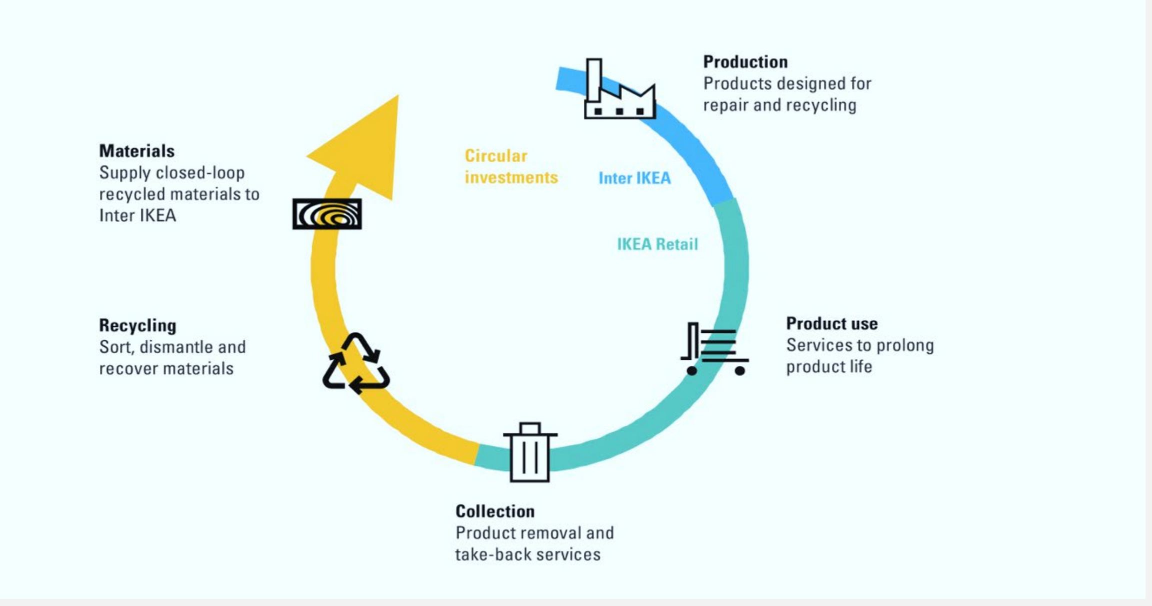
24. PepsiCo, Inc., PepsiCo issues new $1.25 billion 10-year green bond as company accelerates pep+ transformation, 2022.

Box 6. IKEA: a retail corporation using equity and impact investing to advance circular economy objectives

IKEA, a major retail company, provides an example of how a global corporation can use equity and impact investing to advance circular economy objectives across its value chain. Its approach includes offering only products with circular capabilities by 2030, enabling suppliers to reach 100 per cent renewable energy, and investing in SMEs to develop technologies or expand capacities that help prevent waste and increase the supply of recycled materials.

This investment structure is supported through Ingka Investments (the IKEA fund), including its circular investment category, as well as IKEA Social Entrepreneurship. Available results indicate that IKEA has invested $3 billion across circular economy initiatives, forestland investment and renewable energy.

IKEA ESG strategy to support the circular value chain



Source: Inter IKEA Group, IKEA sustainability report FY23, 2024.

4. South–South cooperation for green SME finance

South–South cooperation is advancing scalable green finance models for SMEs. In India, the Small Industries Development Bank of India provides affordable loans, risk-sharing instruments and technical assistance,[25] including through the Green Climate Fund-supported Micro and Small Enterprises Green Investment and Financing for Transformation (MSE-GIFT) programme, to help SMEs adopt clean technologies.[26] In Kenya, the Climate Innovation Centre and green SME programmes

25. Small Industries Development Bank of India, Incentive schemes for green loans, n.d.
26. Green Climate Fund, FP241: Financing Mitigation and Adaptation Projects in Indian MSMEs, 2024.

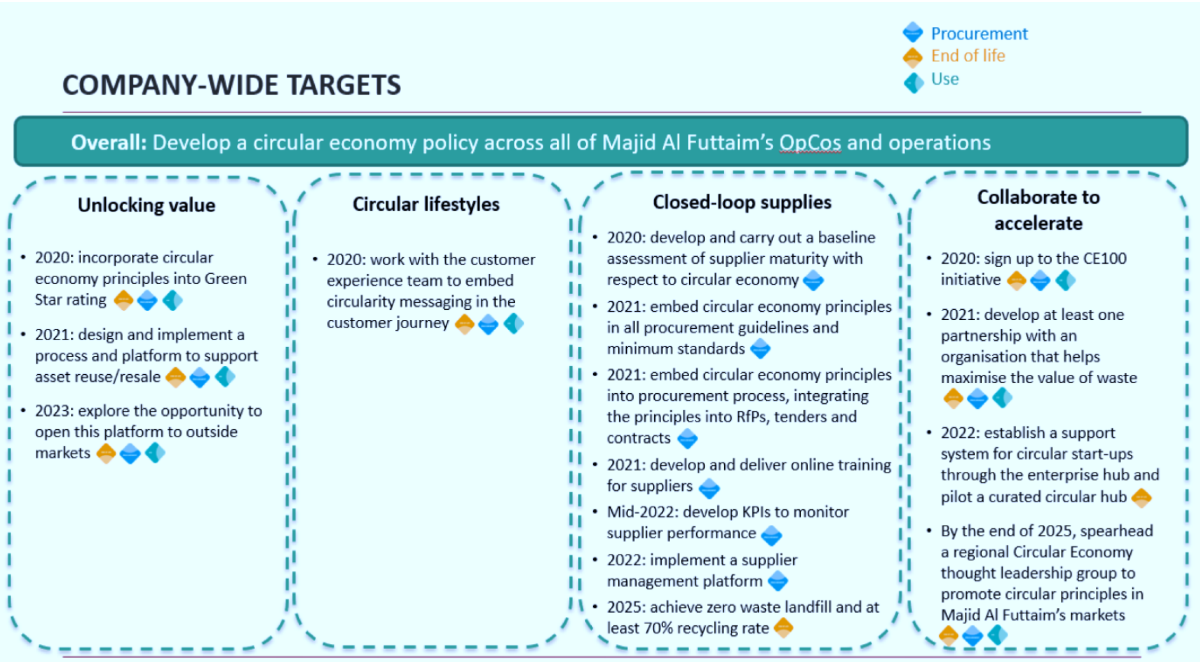
support green entrepreneurs through incubation, market development and tailored financing, helping transform local innovations into bankable investments.[27]

B. Arab institutional investments: pioneering corporate-led circular initiatives

Some companies, such as Masdar and Saudi Aramco, are advancing their strategies to finance the green transition. Their ESG reports indicate that a significant share of their green funding is allocated to advancing initiatives related to the energy transition, including renewable energy, carbon capture and solar and wind projects, which align closely with their areas of expertise.

In the United Arab Emirates, Majid Al Futtaim, a shopping mall, retail and leisure company, is also investing in the circular economy, particularly in building construction and circular waste management practices. Through a dedicated internally-funded acceleration programme, the company directly contributes to the circular transition of SMEs in its ecosystem. The programme aims to achieve net-zero emissions by 2040 and align the company's approach with the Taskforce on Nature-related Financial Disclosures, placing it among the early adopters of the framework in the Middle East and North Africa (MENA) region (figure 7).

Figure 7. Overall circular economy strategy for Majid Al Futtaim group



Source: Majid Al Futtaim, *Unlocking Value: Majid Al Futtaim's Roadmap to Circularity*, n.d.
Note: OpCos stands for operating companies.

27. Kenya Climate Innovation Center, GreenBiz programme, n.d.

3. Regulatory and policy landscapes related to ESG-aligned investments and circular economy transitions

The Arab region is increasingly recognizing ESG-aligned investments and the circular economy as important drivers of sustainable development. Yet their impact depends largely on the regulatory and policy frameworks in place, which vary considerably across countries. This section reviews existing ESG rules in the region, and the state of disclosure and incentives, and compares them with global practices, with a specific focus on what they mean for SMEs and their access to ESG-aligned investments.

A. Existing ESG regulatory frameworks in the Arab region

ESG regulatory frameworks vary across the Arab region. Some countries have introduced sustainability reporting requirements and green finance strategies, while others rely primarily on voluntary initiatives and high-level visions and strategies. A common gap is the absence of a unified regional ESG taxonomy, which makes it harder for investors to compare projects and for SMEs to understand what qualifies as "green" or "circular".

In this context, ESCWA developed a regional workstream on green and climate finance taxonomies, including a dedicated webinar series and training course that examine taxonomy concepts, classification and reporting approaches, national applications, and options for mobilizing climate finance in the Arab region.[28]

Country experiences illustrate this diversity. Table 6 summarizes how Oman, Saudi Arabia and the United Arab Emirates are embedding ESG principles through securities regulators, sovereign investors and stock-exchange rules, and how these measures indirectly impact SMEs through supply chain and procurement requirements. In most cases, the primary obligations fall on listed companies or large public entities, and SMEs are affected through market channels (e.g. pre-qualification criteria, buyer expectations) rather than direct regulations.

Beyond securities authorities and stock exchanges, central banks and financial supervisors are critical to mainstreaming ESG in capital markets.[29] Internationally, bodies such as the Network for Greening the Financial System and the International Monetary Fund stress that climate and environmental risks are also financial risks, and that supervisors should integrate them into prudential oversight, stress-

28. ESCWA, Fostering regional approaches for informing climate policy and climate finance, n.d.
29. Mainstreaming Climate in Financial Institutions, Central Banks and Supervisors Network for Greening the Financial System (NGFS), 2022.

testing and risk-management expectations for banks.[30] For Arab regulators, this suggests an important agenda: using supervisory tools (such as guidelines on climate risk management, expectations on ESG due diligence for lending to high-impact sectors) to steer finance towards sustainable and circular activities, including those led by SMEs.

Table 6. Selected ESG regulatory frameworks and their impact on SMEs in Oman, Saudi Arabia and the United Arab Emirates

Country	Regulatory body	Mandates	Enforcement	Impact on SMEs
Oman	Muscat Stock Exchange (MSX)	MSX ESG guidelines for listed firms Mandatory disclosure on carbon, diversity and water management	ESG disclosure is compulsory for companies listed on MSX	Direct reporting duties for listed SMEs; indirect pressure on others Growing requests for basic ESG metrics from buyers and lenders SMEs with good ESG data gain advantage in partnering with listed firms[a]
Saudi Arabia	Public Investment Fund (PIF)	Vision 2030 focus on sustainable and diversified growth PIF to develop around 70 per cent of the country's renewable energy target by 2030 PIF member of One Planet Sovereign Wealth Fund initiative	No specific SME ESG disclosure rule cited	New demand from PIF-linked renewable/green projects More opportunities in "green" value chains with higher entry standards Impact is mainly market-driven and not compliance-driven for SMEs[b]
United Arab Emirates	Securities and Commodities Authority Abu Dhabi Global Market (ADGM)	Securities and Commodities Authority: annual sustainability reports for public joint-stock companies listed on the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market ADGM: developing sustainable finance and ESG disclosure rules[c]	Mandatory ESG/sustainability reporting for listed public joint-stock companies	Mostly indirect impact through supply chain requests from listed clients[d,e] ESG data are increasingly needed to access capital and large contracts Risk of cost/capacity gap for SMEs on ESG reporting[f,g]

[a] Centre for Sustainability and Excellence, Top 10 challenges and considerations for ESG executives in MENA countries, 2025.
[b] Public Investment Fund, Green Finance Framework, August 2024.
[c] Norton Rose Fulbright, The developing legal and regulatory regime for ESG in the Middle East and emerging D&O exposures, 2023.
[d] Charles Russell Speechlys, ESG reporting for public and listed companies, 2024.
[e] Abu Dhabi Securities Exchange, Environmental, Social and Governance (ESG) Disclosure Guidance for Listed Companies, 2025.
[f] Abu Dhabi Global Market, ESG disclosures framework, n.d. (accessed 3 August 2026).
[g] Abu Dhabi Global Market, Sustainable finance, n.d. (accessed 3 August 2026).

30. Network for Greening the Financial System, Guide for Supervisors: Integrating Climate-Related and Environmental Risks into Prudential Supervision, 2020.

B. ESG disclosure and reporting requirements

Disclosure is a key component of ESG frameworks. In the Arab region, ESG and sustainability reporting is governed by diverse approaches across countries:

- **Mandatory reporting** in a few markets, such as the annual sustainability reports for listed public joint-stock companies in the United Arab Emirates[31] and ESG disclosure rules for firms listed on the Muscat Stock Exchange in Oman.[32]
- **Voluntary guidelines** or general corporate-governance codes that encourage ESG disclosure but do not set detailed formats, sector priorities or enforcement mechanisms in many other countries.
- **Limited SME-specific guidance**, which means that smaller firms are often unsure what information investors and banks expect from them.

This fragmentation creates three problems: (i) limited comparability across countries and sectors; (ii) higher transaction costs for international investors; and (iii) a widening capability gap for SMEs that do not have the resources to interpret multiple frameworks. As global value chains increasingly require ESG and circularity data, SMEs in loosely regulated environments risk being excluded from contracts or facing costly bespoke reporting demands.

At the same time, the global ESG disclosure landscape continues to evolve. Recent developments, such as the European Union decision to delay and streamline parts of the Corporate Sustainability Reporting Directive through an “Omnibus Package”[33] and the United States Securities and Exchange Commission revising its mandatory climate disclosure rules, signal growing political push-back against stringent ESG mandates.[34] These countertrends do not reverse the broader trend towards greater transparency, but they introduce uncertainty about the pace and design of future rules. Box 4 provides more detail on the evolving climate disclosure developments.

Arab policymakers could adopt a phased approach to ESG reporting, gradually introducing mandatory requirements for large listed companies and financial institutions while supporting SMEs through simplified reporting templates and capacity-building.

C. Government incentives and public policy instruments

Governments in the Arab region have begun to deploy policies to promote ESG-aligned investments and circular practices, but these efforts remain uneven and are often small-scale compared with the needs of countries. Financial incentives include tax benefits, subsidies and grants for renewable energy, resource efficiency and cleaner production. For example, the Circular Economy Policy of the United Arab Emirates provides a framework for sustainable resource management and encourages the private sector to adopt cleaner production methods.[35]

31. Clifford Chance, MENA region: three emerging ESG finance trends, 2023.
32. Muscat Stock Exchange, ESG disclosure guideline, 2023.
33. Genevra Forwood and others, EU Omnibus Package: 10 Things You Should Know About the Proposed Changes to Key Sustainability Legislation, 2025.
34. Moriah Costa, SEC moves to freeze its climate disclosure rule, 2025.
35. Government of the United Arab Emirates, UAE Circular Economy Policy 2021–2031, 2021.

Additionally, public-private partnerships are increasingly used to finance green infrastructure, waste management and renewable energy, drawing on private sector expertise and capital.

However, international experience shows that government leadership should extend beyond individual incentives. Best practices link ESG and circular economy objectives directly to a country's nationally determined contributions, long-term low emission development strategies (LT-LEDS), and national development plans, and then embed these objectives into public financial management systems through tools such as climate budget tagging, budgeting for SDGs and integrated national financing frameworks.[36] When ministries of finance and planning agencies align budgets, tax policy and public investment with ESG and circular priorities, they provide clearer signals to investors and reduce uncertainty for SMEs.

From an SME perspective, the most relevant policy tools include targeted credit guarantee schemes and blended finance facilities for green and circular projects; green public procurement that rewards SMEs with strong ESG practices; and technical assistance programmes that help SMEs meet disclosure and performance requirements set by banks and large buyers.

D. Regional best practices: insights and recommendations

Comparing Arab ESG frameworks with those in the European Union, United States and Asia offers practical lessons rather than a simple "scorecard".

European Union: The European Union has developed the most comprehensive architecture, combining the Corporate Sustainability Reporting Directive (for detailed sustainability reporting), the European Union Taxonomy (defining environmentally sustainable activities) and related regulations on sustainable finance and disclosure.[37] Together, they create a coherent system that directs capital towards activities aligned with climate and environmental goals. Recent Omnibus reforms, however, have postponed timelines and narrowed scopes for some companies, reflecting a recalibration rather than abandonment of the agenda (box 4).

United States: ESG progress is driven more by markets and investors than by uniform federal regulation. While the Securities and Exchange Commission initially proposed mandatory climate-risk disclosure rules, political and legal challenges have led the Commission to scale back or halt its defence of the rule, contributing to a patchwork of State-level and private-standard requirements.[38] Large United States firms nonetheless face disclosure obligations in other jurisdictions, including the European Union, and continue to respond to investor pressure (box 4).

Asia (China, Japan, Singapore): China relies on strong State-led green finance policies[39] and mandatory environmental disclosure in key sectors. Japan has integrated ESG principles into

36. Nick Bain, Lena Nguyen and Kevork Baboyan, Knowing what you spend: a guidance note for governments to track climate finance in their budgets, 2019.
37. Jasper Akkermans, CSRD after Omnibus: how to take advantage of the two-year reporting delay, 2025.
38. Moriah Costa, SEC moves to freeze its climate disclosure rule, 2025.
39. Mengdi Yue and Christoph Nedopil Wang, China Green Finance Status and Trends 2024–2025, 2025.

corporate-governance codes and requires sustainability reporting for listed firms.[40] Singapore has positioned itself as a green finance hub with clear disclosure rules and incentives for sustainability-linked loans and bonds.[41]

From these experiences, several actionable lessons emerge for the Arab region:

- Start with clear road maps: adopt national sustainable finance strategies that set timelines for ESG integration in banking regulation, capital markets and public investment.
- Use phased regulation: combine voluntary guidelines and "comply or explain" regimes[42] initially, then progressively move towards mandatory disclosure and risk management expectations for large entities, while keeping simplified regimes for SMEs.
- Leverage supervisors and central banks: issue guidance on climate and environmental risk management, incorporating ESG principles into stress testing and prudential reviews, in line with the Network for Greening the Financial System principles.
- Link financing to measurable outcomes: use taxonomies, green bond guidelines and sustainability-linked instruments to link financial incentives to verifiable environmental and social performance, including circularity metrics relevant for SMEs.

While promising initiatives are emerging across the Arab region, gaps remain across several ESG dimensions compared with more advanced regulatory jurisdictions. Table 7 compares the Arab region with the European Union, the United States and Asia in terms of regulatory standards, enforcement, green finance incentives, public–private collaboration, disclosure requirements and data transparency.

Table 7. Comparison of ESG best practices across the Arab region, the European Union, the United States and Asia

ESG dimension	Arab region	European Union	United States	Asia (China, Japan, Singapore)
Regulatory standards	Largely voluntary ESG regulations; lack of unified ESG taxonomy	Mandatory ESG regulations, including the Corporate Sustainability Reporting Directive and the European Union Taxonomy, with clear sustainability definitions	Growing regulatory framework; the Securities and Exchange Commission is considering mandatory climate disclosures	Varies by country: China has State-led green finance; Japan mandates ESG disclosures; Singapore has established ESG reporting requirements

40. Rebecca Jinks, ESG disclosure is driving impact in Japan, 2024.

41. Legal Business, Sustainable finance hub Singapore, 2024.

[42] A comply or explain regime requires companies either to follow specified governance or disclosure requirements or, where they do not comply, to publicly explain the reasons for their decision. Such regimes can serve as an intermediate step between voluntary guidance and fully mandatory regulation.

ESG dimension	Arab region	European Union	United States	Asia (China, Japan, Singapore)
Enforcement and compliance	Weak enforcement and limited penalties for non-compliance	Strong legal consequences for ESG non-compliance and greenwashing	Some enforcement, but ESG accountability is mostly driven by the private sector	China enforces ESG indirectly through State policies; Japan and Singapore have formalized disclosure requirements
Green finance and incentives	Limited access to structured ESG investment products and minimal sustainability-linked finance	Green bonds, sustainability-linked loans and extensive ESG grants	Large-scale private ESG investments in clean energy, infrastructure and sustainability	Tax incentives, sustainability-linked loans and green finance initiatives
Public-private collaboration	Lack of multi-stakeholder ESG platforms and coordinated efforts	Well-established collaboration among Governments, corporations and financial institutions	Strong industry-wide ESG commitments and an investor-driven sustainability push	Government-led sustainability frameworks with corporate participation
ESG disclosure requirements	Few mandatory reporting requirements and fragmented ESG data	Comprehensive and mandatory ESG disclosure frameworks	Climate-related disclosures are becoming mandatory for listed companies	Mandatory ESG reporting in Japan and Singapore; China is improving expanding sustainability reporting requirements for listed companies
Investor confidence and transparency	Low due to the lack of standardized ESG disclosure and rating	High due to transparent and standardized ESG reporting systems	Moderate to high due to strong investor demand for ESG-related investments	High in Singapore and Japan and improving in China through State-driven ESG reforms and disclosure requirements

Source: Authors.

For SMEs, these gaps translate into limited access to ESG-aligned investments, inconsistent expectations from banks and buyers, and scarce technical support for implementing circular business models.

Going forward, the Arab region can strengthen its ESG landscape through incremental but coordinated reforms:

- Develop regional or national ESG taxonomies and simplified SME disclosure templates.
- Gradually introduce mandatory reporting requirements for large listed companies and financial institutions, while supporting SMEs through capacity-building and digital tools to reduce reporting costs.
- Align nationally determined contributions, national development plans and public budgets with ESG and circular economy targets, giving investors a clearer and long-term policy signal.[43]
- Use central bank and supervisory guidance to integrate climate and environmental risks into financial sector regulation, ensuring that banks and investors systematically consider circularity and SME impact.

By leveraging these lessons and tailoring them to local contexts, Arab policymakers can close regulatory and financing gaps, attract more ESG capital, and support SMEs in driving the region's transition to a circular and resilient economy.

43. Network for Greening the Financial System, Guide for Supervisors: Integrating Climate-Related and Environmental Risks into Prudential Supervision, 2020.

Conclusion

The transition towards a circular economy in the Arab region is both an environmental necessity and a strategic economic opportunity. ESG awareness is growing, and circular economy concepts are becoming more prominent in corporate reporting. However, their integration remains relatively limited, especially in a context where ESG regulatory and taxonomy frameworks are still developing and access to green finance remains limited. Integrating ESG principles into corporate and policy agendas is essential to unlocking SMEs full potential of circular models for job creation, resource security and competitiveness.

ESG-aligned investments can directly address key SME barriers by easing high up-front costs and providing the technical know-how needed to redesign products, improve resource efficiency and meet emerging disclosure requirements. Case studies show that firms with large Scope 3 footprint, such as retail, consumer goods, oil and gas and other sectors with long supply chains and high downstream emissions, have the most to gain from investing in circular solutions (reuse, repair, recycling, product-as-a-service). Circular practices reduce Scope 3 emissions by lowering the volume of virgin inputs, cutting transport and logistics impacts and extending product lifetimes, making them an important component of credible net-zero strategies and ESG performance.

Corporate programmes and internal funds, particularly those targeting SMEs within a company's own ecosystem, can help scale up circular practices. Financing SME projects within value chains that align with the investor's areas of expertise can generate mutually reinforcing benefits; corporates can provide training, ESG measurement tools and market access, while benefiting directly from lower downstream emissions and more resilient supply chains. Accelerator grants, corporate venture funds and equity investments in circular start-ups are already demonstrating how co-created solutions can be tailored to mutual needs and replicated on a scale.

Building on these emerging practices, several policy and programmatic priorities could support the broader adoption of circular practices across the Arab region:

- **Establish clear ESG and circular economy taxonomies and disclosure pathways,** with phased requirements for large firms and simplified reporting tools for SMEs. Building on the work of ESCWA regarding green and climate finance taxonomies and its forthcoming circular economy monitoring framework for SMEs can help define eligible sustainable activities, improve reporting consistency, reduce compliance burdens, strengthen comparability across the Arab region and support more targeted policies and financing for SMEs transitioning to circular business models.
- **Create regional and national ESG-aligned investment platforms and SME circularity schemes**, combining guarantees, blended finance facilities and targeted incentives (such as tax breaks and

green procurement) that reward measurable circular and Scope 3-reducing practices.

- **Strengthen the role of central banks, supervisors and development banks** in steering finance towards green and circular activities, including specific guidance on climate and circular risks, and dedicated lines of credit for SME transitions.

Looking ahead, the region’s success depends on turning these priorities into a concrete road map. Regional ESG and green finance dialogues, SME capacity-building programmes and upcoming forums, such as Conference of the Parties processes and Arab SDG or financing for development summits, offer immediate opportunities to align Governments, financial institutions, corporations and SMEs around shared circular and ESG goals. With clear standards, targeted incentives and a focus on circular solutions that address Scope 3 emissions, ESG-aligned investments can become an important driver of SME-led, inclusive and resilient circular business models across the Arab region.

The transition to a circular economy offers significant opportunities for small and medium enterprises (SMEs) in the Arab region to create jobs, strengthen resilience to resource shocks, and advance climate and environmental objectives. Realizing this potential requires mobilizing more environmental, social and governance (ESG)-aligned investment from domestic, regional and international sources, channelling it towards SMEs in the region and expanding their access to green and sustainable finance. The present report examines how ESG-aligned investment can accelerate SMEs transition to circular business models by exploring the interconnections between ESG, SME development and circularity, identifying key financing barriers and disclosure gaps, and assessing how global and regional trends in green and climate finance are creating new opportunities. The analysis draws on literature, regional data, international benchmarks and case studies of financial institutions and corporations using ESG-aligned instruments, including loans, bonds, grants, equity and blended finance.

The findings show that weak regulatory frameworks, limited disclosure practices, high collateral requirements and capacity constraints continue to restrict SME access to ESG-aligned finance across the Arab region, although emerging policy reforms and corporate initiatives point to growing opportunities and scalable solutions. The report recommends establishing clear ESG and circular economy taxonomies and disclosure pathways, expanding access to a diversified toolbox of green and circular financing instruments, and strengthening regulatory and supervisory frameworks. Together, these measures can better channel ESG capital towards SME-led circular innovation and support a gradual inclusive transition to a circular economy across the region.

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