

IFC Advisory Services in the Middle East and North Africa

Sustainable Investment in the Middle East and North Africa Executive Summary

In partnership with: Italy, Ireland, Luxembourg, Netherlands,
Norway, and the United States



Introduction

To support the growth of sustainable capital flows, IFC's advisory services seek to influence, support and enable capital market stakeholders to better integrate environmental, social and governance factors (ESG) into capital allocation and portfolio management processes, using IFC's own investment practices as a model. IFC is playing its part to support the growth of the market by funding the development of enhanced stock market indices, financial instruments, and through targeted market research.

Compiling data on the sustainable investment (SI) industry's current state of development is important for global investors and investment managers to understand the scale and location of opportunities in the market for sustainable investment products.

This is IFC's first regionally focused report, covering 11 markets in Middle East & North Africa (MENA) - Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and

United Arab Emirates. It is part of a series of Sustainable Investment Reports that study large emerging capital markets attracting global portfolio investors. Previous reports have examined Brazil, China and India, while a report on Sub-Saharan Africa will be added to this series in the near future.

This summary version of the report Sustainable Investment in Middle East & North Africa 2010, which may be downloaded in full from IFC's website, provides a snapshot of SI opportunities in the MENA market. While countries in the region have made important strides, many areas are still in very early stages of development. Although there has been an increase in sustainability-related research and investable products—such as the Egypt ESG Index—challenges remain for the growth of SI in MENA.

In our own investments and through our interactions with clients and other stakeholders, IFC continues to promote sustainable investment.

IFC engaged Business for Social Responsibility (BSR) and Sustainability Excellence to conduct a regional study to form a baseline of current SI activity in the region. Interviews were conducted with asset managers, asset owners, researchers, and other stakeholders in the region. The primary data collection was supplemented with secondary research to assess current levels of SI awareness, practices and demand in MENA. The report identifies opportunities to increase the flow of sustainable investment funds to MENA and further develop this increasingly important market segment.

The MENA region produces more than \$1,500 billion per annum in Gross Domestic Product (GDP), or approximately three percent of global GDP¹, and accounts for six percent of the global population with 300 million people.² The report estimates total sustainability-related assets under management (AUM) in MENA at \$54.25 billion. In the global context, MENA SI levels are low, however they are higher than in China and India.

Market	Total AUMs Related to Sustainability	% of Total AUM
EU ³	\$3,700 trillion	16.97%
Brazil ⁴	\$70 billion	12.00%
USA ⁵	\$2,700 trillion	11.02%
MENA	\$54.25 billion	2.13%
China ⁶	\$4.12 billion	1.00%
MENA without Shari'ah - compliant investments	\$17.1 billion	0.67%
India ⁷	\$1.1 billion	0.67%

¹ World Development Indicators, World Bank, July 2010

² World Bank.org - regional overview

³ Eurosif: 2008 European SRI study

⁴ SI in Brazil, TERI/IFC Report 2009

⁵ Social Investment Forum 2007

⁶ SI in China, BSR/IFC Report 2009

⁷ SI in India, TERI/IFC Report 2009

Sustainability issues

Economic diversification

Oil and gas from the Gulf Cooperation Council (GCC) economies fuels much of the economic growth in MENA. GCC generates more than 60 percent of the regional GDP. Kuwait, Oman, Qatar, Saudi Arabia, and the UAE are five of the top 15 oil exporting countries in the world. The GCC has 37 percent and 23 percent of global proven oil and natural gas reserves,⁸ respectively.

Climate change

MENA is particularly vulnerable to the effects of climate change given scarce water resources, high levels of aridity, and the long coastal stretch threatened by rising sea levels. Natural and physical systems in the region are already under pressure, which are expected to intensify as temperatures increase and/or precipitation decreases. This will further stress services like agriculture, cooling systems, energy, and healthcare.

Water scarcity

MENA is among the most fresh-water scarce regions in the world. Average annual per capita water availability was 977 cubic meters in 2001, well below the United Nations (UN) definition of water scarcity.⁹ By 2023, this is expected to decrease to 460 cubic meters.¹⁰ With the exception of Egypt, Sudan, Iraq, Lebanon, Syria, all MENA countries are projected to be under severe water stress by 2025.

⁸ BP Statistical Review of World Energy, 2010

⁹ The 2008 Report of Arab Forum for Environment and Development: Arab Environmental Future Challenge.

¹⁰ The 2008 Report of Arab Forum for Environment and Development: Arab Environmental Future Challenge

Governance reform and greater transparency

Most MENA securities markets have achieved significant advancements in corporate governance regulations and disclosure requirements. Today, there is growing awareness among listed companies that the next phase of transparency will be related to environmental and social performance. There is a limited, but growing, demand from investors for companies to disclose such information.

Youth development and employment

The region's population is roughly the same as the European Union. However, two-thirds are below the age of 30, while roughly 27 percent are under 15 years—a proportion that is one of the highest globally.

Contribution of women to economic/social development and workplace opportunities

The 2005 Arab Human Development Report identified gender inequality as one of the most significant obstacles to human development in the Arab region.¹¹ Even a legal and regulatory environment that is “gender-neutral” in principle, may have gender differentiated outcomes. In the Arab region, traditional gender roles continue to limit women's employment and decision-making opportunities. While there have been significant improvements in the education of women, their economic participation and career advancement opportunities are lagging.¹²

Labor conditions, particularly foreign workers

In many MENA countries, particularly the GCC, a high percentage of the workforce in the private sector is made of up temporary migrant labor. Work and living conditions, pay, freedom of mobility, and other concerns require attention to ensure rights abuses are addressed.

¹¹ UNDP, Arab Human Development Report 2005: Towards the Rise of Women in the Arab World, 2005

¹² Responsible Competitiveness in the Arab World Report, 2009

Market Interest

The Market Interest component of the study attempts to quantify the percentage of total AUM that qualify as SI, while identifying the most significant prospects for increasing MENA SI over time.

Assessment Framework

To determine the current state of development of SI in MENA, the study used an assessment framework which primarily focused on “Market Preparedness” and current “Market Interest” in SI among active investors in MENA.

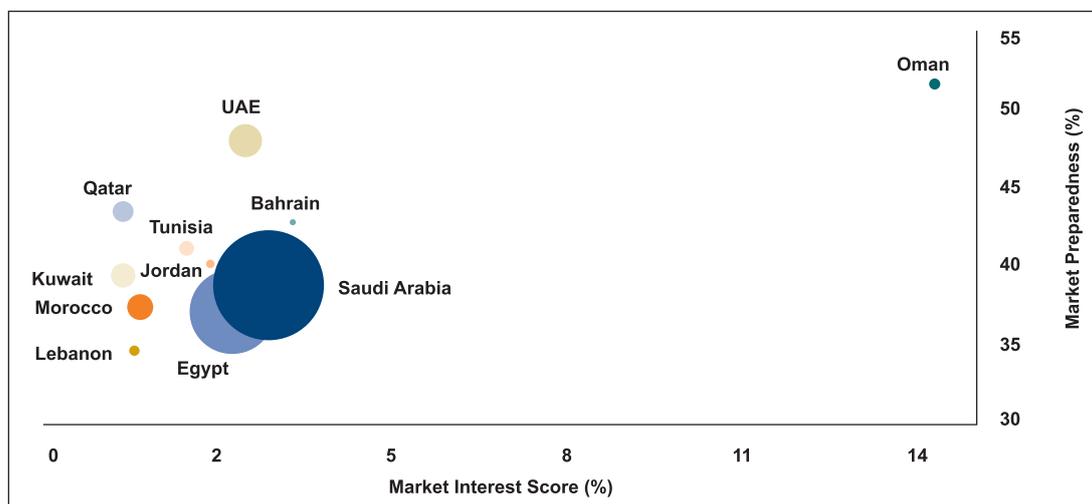
Market Preparedness for SI



The Market Preparedness assessment covers two components: investment, ESG regulations and country performance; and ESG disclosure.

Overall, the markets are tightly clustered on these measures, suggesting that some countries are at similar points of development. It may be possible to undertake regional/sub-regional efforts to augment Market Preparedness levels for SI.

SI Potential in MENA Markets



Challenges and Opportunities

The level of SI in MENA is low, but not insignificant, and there is a growing recognition of a need for action on sustainability issues. Whereas governance reforms have been initiated, there has been less progress on environmental and social elements of ESG. SI uptake by investors in MENA is likely to take time, but is expected to accelerate compared to the timeline in North America and Europe.

Sovereign wealth funds represent the greatest MENA SI opportunity. Foreign SI investment in MENA is at very low levels, primarily due to lack of disclosure. In this scenario regional efforts toward adoption of foreign-based guidelines (GRI, UN Global Compact, UNPRI, and others) may provide support for the adoption of SI. Additionally, Shari'ah-compliant investment funds represent a potential mass platform for creating greater awareness of SI in the region. SI initiatives by private equity stakeholders have the potential for having a disproportionate impact on improving current levels of Market Interest.

The challenges and solutions identified, as well as recommended strategies, are discussed in full detail in the report.

Sustainable Investment in Middle East & North Africa 2010, full report: <http://www.ifc.org/sustainableinvesting>

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