IFC Advisory Services in Sustainable Business

Sustainable Investment in the Middle East and North Africa

ISSUE BRIEF

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

International Finance Corporation
World Bank Group

INTRODUCTION

To support the growth of sustainable capital flows, IFC seeks 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. Although a number of organizations provide this information in developed economies, such data are scarcely available in emerging markets (EM).

Thus IFC launched a series of sustainable investment country reports initially covering the largest emerging capital markets attracting global portfolio invests: Brazil, India, Turkey and China. 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, Turkey and United Arab Emirates. 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 2011*, which may be downloaded in full from IFC's website, provides a snapshot of SI opportunities in the MENA market.

OVERVIEW

The MENA region produces more than $1,500 billion per annum in Gross Domestic Product (GDP), or approximately three percent of global GDP[1], 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.

TABLE 1 ASSETS UNDER MANAGEMENT RELATED TO SUSTAINABILITY

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 - compli-ant investments	**$17.1 billion**	**0.67%**
India[7]	$1.1 billion	0.67%

SUSTAINABILITY ISSUES

The main sustainability issues identified in *Sustainable Investment in Middle East & North Africa 2011* are economic diversification, climate change, water scarcity, governance reform and greater transparency, youth development and employment, contribution of women to economic/social development and labor conditions.

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.

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
8. BP Statistical Review of World Energy, 2010

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.

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

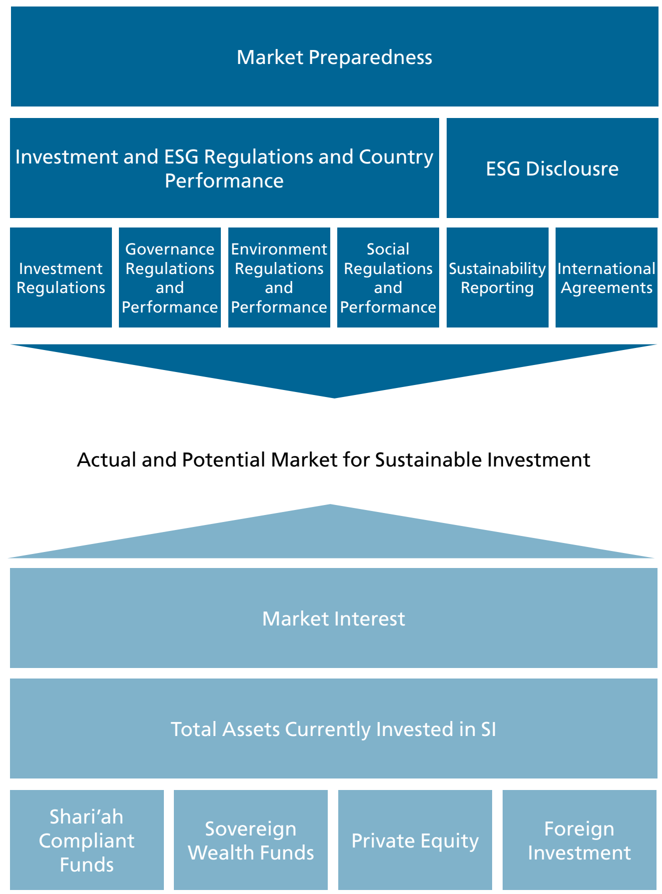
In many MENA countries, particularly the GCC, a high percentage of the workforce in the private sector is made of up temporary migrant labor. Work and living conditions, pay, freedom of mobility, and other concerns require attention to ensure rights abuses are addressed.

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
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

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. The Market Preparedness assessment covers two main components: investment, ESG regulations and country performance; and ESG disclosure. With regard to the former:

- MENA countries have made important strides, although many areas are still in the very early stages of development. Securities markets have initiated significant governance reforms and established new requirements, but this has not yet extended to the environmental and social components of ESG. The research also suggests that country level ESG performance is lagging what is mandated under existing ESG regulations.
- Sustainability understanding and action at government levels currently is fragmentary. While sustainable development is now being incorporated into some national strategic plans,

it is at even earlier stages of being put into practice, as measured by country ESG performance. An implementation gap in environmental, social and governance policy continues to prevail. Addressing such implementation gaps will be important to bolster MENA's sustainability credentials and market SI preparedness going forward.

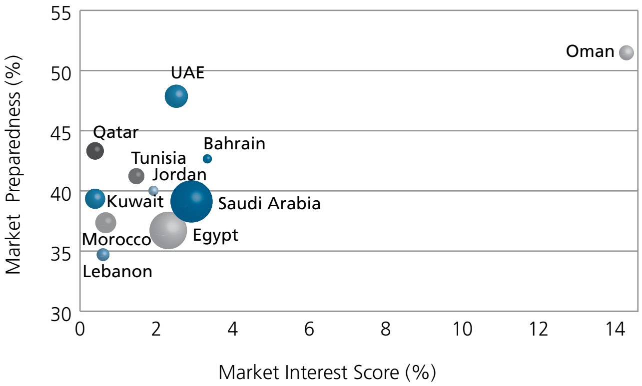
With regard to ESG disclosure:

- The number of corporate ESG reporters and the number of signatories to existing international voluntary agreements for SI are both very low. While there are multiple explanations for this limited progress, the most apparent appears to be lack of awareness. However, the activities of the Arab Sustainability Leadership Group and Abu Dhabi Sustainability Group are generating considerable interest and their members account for the vast majority of ESG disclosure in the region.

Market Interest

Approximately 2.13 percent of MENA AUMs incorporate SI (see Table 1). This includes Shari'ah-compliant investments. If Shari'ah-compliant investments are excluded, the percentage decreases to 0.67 percent. This is a conservative estimate based solely on disclosed data, and excludes publicly committed investments which cannot be verified as already invested.

FIGURE 1 SI POTENTIAL IN MENA MARKETS



Overall, the markets are tightly clustered (see Figure 1), suggesting that some countries are at similar points of development and that it may be possible to undertake regional or sub-regional efforts to enhance Market Preparedness for SI.

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. Some countries in the region have made important strides, but many areas are still in very early stages of development and challenges remain for the growth of SI in MENA.

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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