ASSET MANAGEMENT

The Evolution of ESG in the Middle East

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With thanks to Bhavin Siyani for his helpful contributions

Executive Summary

Sustainable investing assets have doubled from 2016-2020, and grown more than ten-fold since 2002 to USD 40.5[1] trillion worldwide. This rapid growth continues to be led by Europe, the US and regions in the East. What is less well understood is that the Middle East is at the core of global ESG development – the region has seen sizeable and somewhat uncelebrated successes. The region has always embraced sustainability and today, it is also embracing the best of international ESG developments.

This paper discusses the Middle East's early roots in sustainable finance – from Islamic finance, to more recent green finance, renewable energies and Sustainable Development Goals (SDGs). Companies are now stepping up their sustainability obligations to meet with global standards. Asset owners are also demanding more from their investments than typical financial returns. Middle Eastern companies have growing responsibilities to adhere with ESG criteria. It concludes that the lack of a universal roadmap for ESG adoption presents some challenges, but also attractive growth opportunities through ESG improvements. The paper discusses these opportunities and briefly analyses Middle Eastern Equity markets from an ESG perspective.

Cover image provided by The Red Sea Development Company

[1] OCED Business and Finance Outlook 2020: Sustainable and Resilient Finance

1. Introduction

1.1. Unpicking the term 'ESG investing'

The terms 'Environmental, Social Governance (ESG) investing' and 'sustainable investing' are often used interchangeably with 'responsible investing'. Socially responsible investing (SRI) however, is a subset of ESG investing. The United Nations' Principles for Responsible Investment (UN PRI)[2] defines responsible investment as "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership"[3]. As with mainstream investing, there is no single approach to responsible investment. It can take place in various forms as shown in Figure 1. A combination of techniques may be employed to satisfy investors' needs and objectives.

Figure 1: ESG Investment Approaches

ESG Incorporation				Stewardship/Active Ownership	
Incorporating specific/general ESG issues into an investment process through a combination of techniques.				The use of shareholder power to influence and encourage improved ESG outcomes, which could improve performance.	
Negative/ exlusionary screening	Positive/ best-in-class screening	Thematic/ Impact-driven	Integration	Proxy voting	Engagement
Applying filters to exclude securities from investment portfolios based on specific ESG criteria and/or investor values.	Applying filters to identify the securities with superior ESG metrics relative to industry and geographic peers.	Identifying securities that contribute to a single or combination of ESG outcomes. Impact-driven seeks to measure and achieve specific impacts.	The systematic and explicit inclusion of ESG factors into financial analysis to better identify and take advantage of opportunities and manage risks.	Considering ESG criteria and expressing formal approval or disapproval through voting on shareholder resolutions.	Discussing ESG issues with companies to move them onto a roadmap of change and to realise ESG and performance improvements.
For example: Exclusion of companies exposed to weapons, tobacco, gambling.	**For example:** Inclusion of companies managing the energy transition.	**For example:** Investing in securities focused on improving water security, health and nutrition.	**For example:** Incorporating annual water usage growth rates into the financial analysis of an agribusiness.	**For example:** Voting on executive remuneration and board composition.	**For example:** Discussing guidance on ESG disclosure and areas in need of improvement.

Adapted from: UN PRI, 2021

1.2. A Middle Eastern ESG perspective

Usage of the above labels has not, historically, been as prevalent in the Middle East as it has been globally. A major challenge with responsible/ESG investing is the lack of universal measures and standards. Although this is being addressed by leading institutions and initiatives worldwide like the FII Institute, World Economic Forum and CFA Institute, the field remains exposed to differences in opinion. The Middle East is no different and one must not overlook the Middle East's key historic contribution to responsible investing. Integration, screening and thematic investments have historically taken place in different forms, not specifically labelled as ESG investing.

Some typical examples of the Middle East's early integration of ESG are presented in Figure 2.

Cover image provided by The Red Sea Development Company

[1]OCED Business and Finance Outlook 2020: Sustainable and Resilient Finance

[2] The UN PRI is a voluntary initiative that encourages investors to embed environmental, social and governance (ESG) factors into their investment decision-making. As at March 2020, the UN PRI had over 2700 investor signatories with a combined AUM of over USD 103 trillion. See: https://www.unpri.org/annual-report-2020/how-we-work/building-our-effectiveness/enhance-our-global-footprint#:~:text=The%20collective%20AUM%20represented%20by,of%2031%2F03%2F2020

[3] Adopted from the UN PRI, 2021. See: https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article

Figure 2: Middle Eastern adoption of ESG practices across the sustainable investing spectrum

Integration	The integration of good governance has always been at the heart of Islamic finance. Middle Eastern family endowments have survived for centuries because of it. Indeed, some endowments go back over 700 years. They focus on two main values, capital protection (al habs) and using earnings for charitable purposes. Furthermore, Islamic finance prohibits Gharar (excessive risk), because it runs counter to the notion of certainty and openness in business dealings. Accordingly, investors normally take into account ratios such as debt-to-total assets, cash and interest bearing securities-to-total assets and cash and accounts receivable-to-total assets, to assess risk. Gharar instils a culture of caution for both Shariah-compliant and conventional investors.
Screening	Middle Eastern investors have historically applied Shariah-compliance screens to their portfolios. These screens strip out business activities like alcohol, tobacco, adult entertainment and gambling. They also ensure relatively safe debt ratios [<33.33%][4] from equity and other investments. Others have taken it a step forward and removed other industries, products and geographies that do not align with their values.
Thematic	The Middle East is a forward-thinking region, which continues to manage its energy transition. Instead of selling its stake early on, the KSA has been constantly managing this transition; from the Master Gas Gathering System[5] to the creation of downstream industries to NEOM today, which plans to invest USD5 billion to build Helios Green Fuels. This will be one of the largest hydrogen plants in the world, powered by 4 gigawatts of wind and solar power. Today, Saudi Arabia is one of the most efficient countries when it comes to energy and sustainable energy production.
Active Ownership	Middle Eastern investors, have typically engaged with investee companies to drive positive change in their local communities. From world-renowned DFIs like the Islamic Development Bank (IsDB) to major economic powerhouses like the Public Investment Fund (PIF) of KSA – investors have used their capital as a force for good in their communities through job creation, project finance, local empowerment and local aid.

To learn about ESG investing and Islamic finance, our paper Religion, Philanthropy and Risk: ESG and Islamic Finance discusses the similarities and differences.

2. The business case for sustainability

2.1. Performance

Global asset managers ultimately strive to meet and exceed clients' investment objectives. They are typically attracted to companies with higher ESG ratings. Research suggests that exposure to companies with high ESG credentials provides greater long-term risk-adjusted returns and superior sustainability impacts.[6]

Figure 3: Return on capital: High ESG rating linked to stronger performance over long run

ESG rating	10 year	3 year
High	119.5	25.9
Average	96.3	24.8
Below Average	80.6	27.7
All funds	99.8	25.8

Average performance for Global Large Cap Growth Equity sector.
Note: All funds refer to all funds in the market regardless of rating.
Source: Citywire Selector, 2020[7]

[4] Based on MSCI Islamic Index Series methodology (2019).

[5] This Master Gas Gathering System unlocked many possibilities for the KSA's key natural resource, ensuring a clean, low-cost supply of fuel gas and feedstock to fuel the whole nation.

[6] Ashwin Kumar et al (2016). ESG factors and risk-adjusted-performance: a new quantitative model.

[7] Citywire Selector (2020). Revealed: how ESG funds fared in the meltdown months. Available from: https://citywireselector.com/news/revealed-how-esg-funds-fared-in-the-meltdown-months/a1373364

2.2. The triple bottom line

Businesses should commit to measuring their social and environmental impact, rather than solely focusing on generating profit, or the standard 'bottom line'. In many cases, adopting sustainability initiatives has proven to drive business success. The 'triple bottom line' focuses on the intersections between people, planet and profit. Today investors focus on three elements which drive the rationale for higher long term risk-adjusted returns:

1 **Financial materiality:** ESG scores and ESG investing in general recognise the relevance of a sustainability factor to a company's financial performance. Financially material ESG factors can significantly impact company fundamentals.

2 **Opportunities:** Companies that capitalise on different ESG factors may outperform over the long-term, through more efficient practices, anticipating future demands as well as solving major untapped challenges.

3 **Risk reduction:** A specific focus on governance, coupled with environmental and social factors could minimise the risk of future reputational risks and also help companies adhere to the evolving climate change and wider environmental/social targets.

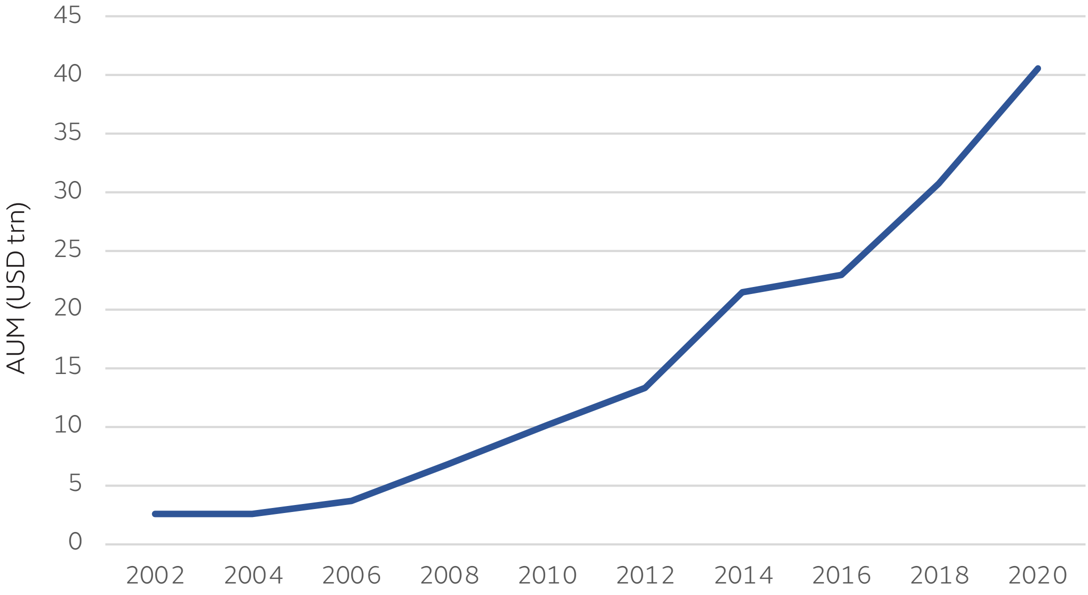
Example: Addressing Water Stress

The impact of a factor such as water stress varies from industry to industry. It is financially material for an Agriculture company, where water stress is directly related to core Agriculture activities. It is not as obviously material for a Technology company. However, poor water management may significantly impact cost of sales and also lead to fines if not governed effectively. Companies may consider setting strategies, policies and effective systems to minimise risks of increased costs and fines. Similarly, innovators may reap the opportunities and benefits arising from water management, usage and waste and hence see their margins grow due to their efficient processes. A Technology company may also monitor its water usage. Though this may be seen as impactful especially if the whole industry joins forces, its impact on the bottom line may be minimal and not directly related to core performance. However, there may still be positive impacts for its brand, reputation and footprint on the planet and local community. ESG investing requires an understanding of all these factors to enable better informed decisions.

3. The Global ESG journey and the Middle East

Assets in ESG and sustainable investment products have almost doubled from 2016-2020, growing to over USD 40.5trn worldwide[8], with over 75% held by institutions. Europe remains the global leader owning 50% of total assets invested according to ESG principles. The US and Far East continues to grow. While the Middle East is seen to be at an early stage, what is less well understood is that the region is at the core of global ESG development and more advanced than some think.

Figure 4: The sustainable investment timeline



Source: Adapted from GSIR 2012, 2014, 2016, 2018, FTSE Russell 2020 and OECD 2020

At the heart of the misperception of the Middle East as a relative latecomer to ESG investing is the current methodology for reporting. This was addressed in a recent virtual summit by the Future Investment Initiative (FII) Institute entitled The Neo-Renaissance: Mobilizing ESG for a Sustainable Future. A series of speakers addressed the issues around varying ESG frameworks and problems around comparability. While the benefits of varying ESG perspectives were highlighted, there was widespread agreement amongst panelists on how some of the current ESG data has been crafted to suit developed markets rather than Emerging Markets. This relates to challenges around understanding data requirements, data collection and establishing the right infrastructure.

The reporting element is being addressed by Middle Eastern stock exchanges (see Section 3.5) and the FII Institute has recently announced it will tackle this by creating a new ESG rating methodology. This will be a good addition to today's existing scoring systems, as more (material) information typically leads to better-informed investment decisions. Investors today are able to adopt and/or create meaningful ESG data that aligns with their values and fundamental analysis needs. At GIB AM, the availability and transparency of ESG data has led to the development of our ESG+ Scoring solution – our proprietary data-driven ESG scoring tool.

[8] OCED Business and Finance Outlook 2020: Sustainable and Resilient Finance

As the awareness of sustainable investing has grown, so too have approaches to ESG investing. Today, ESG investing has expanded beyond negative screening to encompass more integrated methods. The existence of a multitude of ESG research and ratings coupled with today's networked age means there is no one size fits all approach. ESG considerations are now blended with mainstream fundamental analysis inputs to create a consolidated investment view. This can be deployed to devise long-term opportunities, predict industry growth figures or through adjusting fundamental analysis inputs based on ESG compliance. These are then quantifiable in many forms ranging from specific ratios and multiples through to discounted cash flow analysis. One thing is for sure, the magnitude of thought and innovation being deployed, means that sustainable investing is here to stay.

3.1. Early signs of adoption

Our conversations with investors and clients coupled with global surveys and insights drawn from conferences and events all point in the same direction – Middle Eastern investors are no different from their counterparts around the globe. They have started to formally embrace ESG investing. Middle Eastern governments have long managed the transition of power and energy, economic development and now sustainable development. A combination of government initiatives and enablers, coupled with investor preferences and business practices have shown some early signs of adoption.

3.2. A culture based on family values

PwC's recent Middle East Family Business Survey (2021)[9] highlighted 'Impact' as a key business requirement. 59% of family businesses surveyed saw a direct opportunity to integrate sustainable business practices and 93% engaged in some form of social responsibility. Family businesses also supported their staff and local communities during the Covid-19 pandemic. This is a manifestation of a culture based on family values. Some 65% of Middle Eastern family businesses are reaching a critical succession stage. These businesses are expected to develop robust sustainability strategies and re-align in that direction. Another recent BCG study (2021)[10] found 80% of surveyed consumers willing to adopt more sustainable practices – a significant demand driver for family-owned businesses and conglomerates.

Of further significance is the decades long role of Middle Eastern family endowments (waqf; plural: awqaf) in distributing wealth and resources. The strict and robust governance procedures of these endowments has, in large, led to sustainable development for generations. Research has shown a potential alignment between the SDGs, awqaf and the objectives of Shariah (Maqasid Al Shariah)[11]. Awqaf have been used to fund, on a perpetual basis, projects that support poverty alleviation, education, health care, water sanitation, natural resource preservation and other societal objectives.

3.3. Investor perspectives

Another 2020 survey by HSBC[12] supported this view. It established that 36% of Middle Eastern investors currently had firm-wide ESG policies, and that 41% (higher than the global average) intend to develop the necessary policies. Other positive signs include a high conviction by investors in the ability of ESG strategies to outperform, once again higher than the global average. Nonetheless, as with other geographic regions, investors face challenges around ESG data, a shortage of local expertise and slow, but growing, demand from asset owners. The family values argument is further supported in HSBC's survey where 47% of investors (vs. 38% globally) believe 'it is the right thing to do'. This, coupled with succession further reinforces the possible pick up in adoption.

Over the next 10 years, it is estimated that almost USD 2 trillion will be passed to the next generation in the GCC.[13] In an attempt to reorganise the mega-wealth transfer, the region has seen a surge in the formation of family offices, thus creating a corporate-like structure to managing wealth.

[9] PwC, 2021. Middle East Family Business Survey 2021

[10] BCG, 2021. Are Consumers in the Gulf States Ready to Go Green?

[11] Abdullah, Mohammad. 2017. Waqf, Sustainable Development Goals (SDGs) and Maqasid al-Shariah. International Journal of Social Economics. 45. 00-00. 10.1108/IJSE-10-2016-0295

[12] HSBC, 2020. Sustainable financing and investing survey 2020 Middle East report

[13] Citywire Selector, 2021. "Family offices are growing in the Middle East". Available from: https://citywiremiddleeast.com/news/family-offices-are-growing-in-the-middle-east/a1498401

Millennials in the Middle East are no different than their global counterparts. Having been brought up in an era of globalisation and connectivity, they share an interest in sustainability and responsible investing. Our discussions with numerous family offices, even before the big succession, point to a need for ESG integration due its financial materiality. So far, the demand has mainly been driven by investment performance. The region is however slowly recognising the increased societal benefits and impacts, especially through progress in government awareness and alignment with national development programs like the Saudi Vision 2030.

3.4. A top-down government approach

Gulf Cooperation Council (GCC) states have long been at the forefront of national development. Dubai in particular has transformed from a fishing village/port to a global business capital. This would have not been possible had it not been for the long-term vision of its leaders, coupled with strong governance controls. Mirroring the Kingdom of Saudi Arabia's approach to energy transition, the UAE had also swiftly managed its economic transition. In the space of just half a century, Dubai witnessed exponential growth in its population (50,000 in 1960 to over 3 million in 2021), GDP and overall economy.

Governments in the Middle East have long recognised the role of sustainability in satisfying the needs of the present without compromising the needs of future generations. The transition continues to be managed to this day, albeit with a different agenda and more established knowledge of sustainability considerations. For example, Bahrain's National Development Program, Vision 2030, is underpinned by sustainability, competitiveness and fairness. It integrates the United Nations (UN) Sustainable Development Goals (SDGs), where 78% of the targets form part of the government action plan. Bahrain also recently took part in the Voluntary National Review (VNR) 2018 . Some notable findings are presented below.

Figure 5: Bahrain Voluntary National Review 2018

Bahrain Voluntary National Review 2018 – a snippet

100% coverage of safe water, sanitation and clean energy networks.

0% of the population living in extreme poverty.

Basic education is free and compulsory. Net enrolment ratio for primary and secondary levels is 100% and 86.4% respectively, thus eliminating illiteracy. While Kindergarten enrolments stood at 82%.

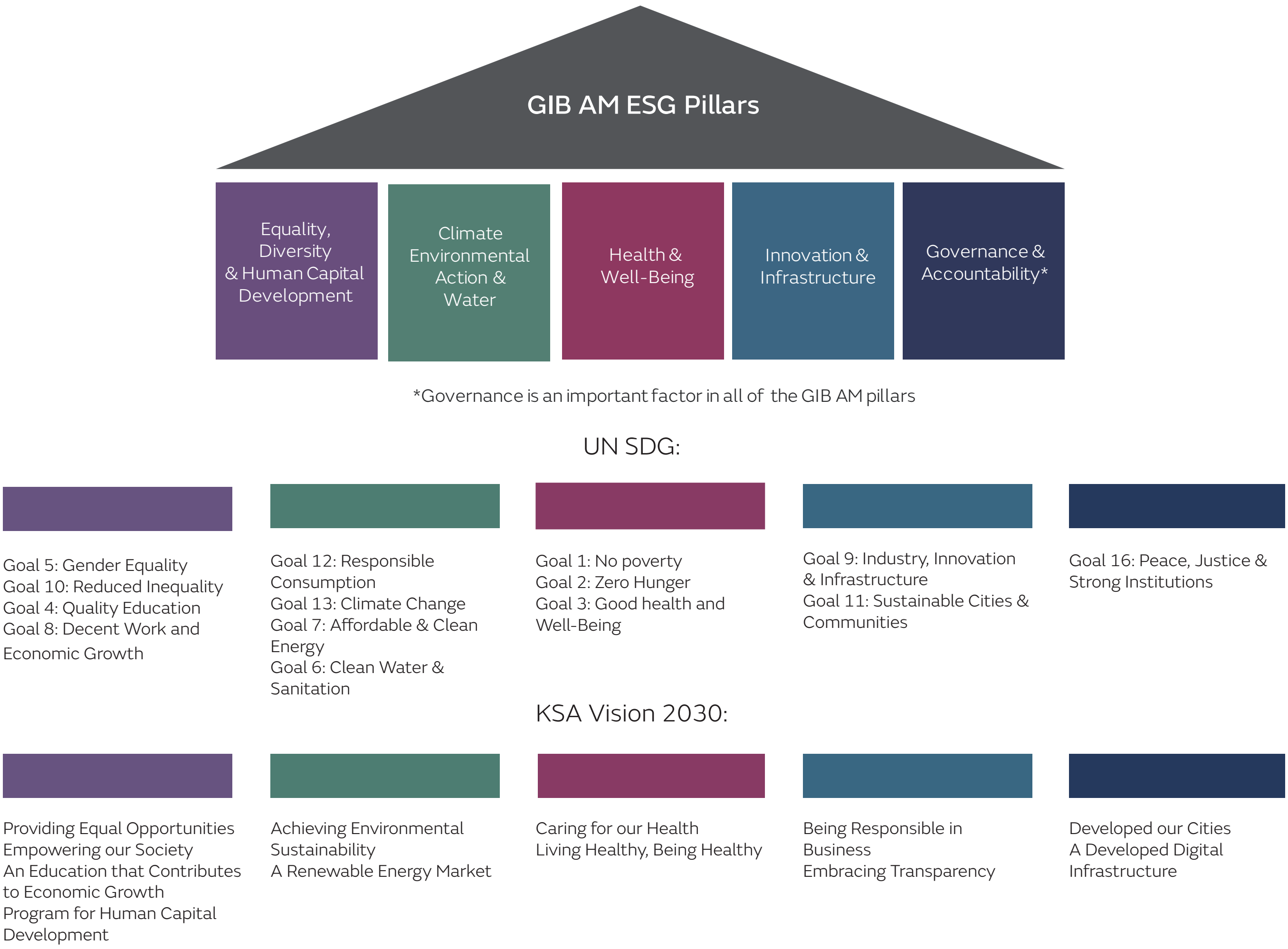
The Labor Fund (Tamkeen) provides vast support to SMEs. More than 47,000 SMEs and 120,000 individuals including women, youth, and persons with disabilities benefited from its financial and training support.

Similarly, the Kingdom of Saudi Arabia's impressive 90+ page VNR[15] sets out a precise roadmap "towards Saudi Arabia's sustainable tomorrow". As well as showcasing some of the highlights and accomplishments, it also draws the linkages between Saudi's Vision 2030 and the UN SDGs. GIB Asset Management's Responsible Investment approach draws on both frameworks.

[14] See: https://sustainabledevelopment.un.org/memberstates/bahrain
[15] See: https://www.sa.undp.org/content/saudi_arabia/en/home/library/SDGs/VNR.html

As well as local developments, Middle Eastern governments and institutions also strive to tackle and solve global challenges. The One Planet Sovereign Wealth Fund Framework was founded in 2017 by six sovereign wealth funds (SWFs), four of which are from the GCC. The framework sets out how SWFs should factor climate change-related risks and opportunities into how they invest and improve the resilience of their portfolios. The Framework was founded by the Public Investment Fund (PIF), Abu Dhabi Investment Authority (ADIA), Kuwait Investment Authority (KIA), Qatar Investment Authority (QIA), Norges Bank and NZ Super Fund. Today, the initiative has added nine more members mobilising trillions of USD assets towards the integration and consideration of climate-related risks.[16]

Figure 6: GIB AM's Responsible Investment Approach



With over USD 3 trillion combined assets under management, the scale and influence of GCC sovereign wealth funds is vast. They are at the forefront of diversifying their nations' wealth away from oil – another evolution in their long history of transitions. The PIF recently (2021) sent a request for proposals for the development of its ESG policy. Although the PIF's existing strategy already aligns with a number of UN SDGs and ESG frameworks, the exercise is expected to further solidify its ESG footprint in response to some of the issues around ESG data and incompatibility with all regions. Similarly, ADIA announced plans to apply specific ESG criteria to its indexed equity investments. Note the value of ADIA's developed and emerging markets equity investments (passive and active) is estimated to range from USD300-430bn.[17]

[16] See: https://oneplanetswfs.org/#who

[17] Based on asset allocation published on ADIA's website 32%-42% DM and 10%-20% EM. Note. figure included above combines both active and passive investments. See: https://www.adia.ae/en/investments

Notable successes of Saudi Arabia:

- One of the world's largest green hydrogen plant unveiled in Saudi Arabia – a USD 5bn plant to be powered by 4 gigawatts of wind and solar power.
- The Saudi Green initiative and the Middle East Green Initiative both aim to improve the quality of life and protect future generations.
- The PIF's investment in Lucid motors and the future production in Saudi Arabia.
- The PIF launched 4 giga-projects to unlock new sectors and support KSA's economic and sustainable development; NEOM, Qiddiya, The Red Sea Development Company, ROSHN.
- Commitment to reach Net Zero by 2060 – investing more than USD 180bn to reach the goal.

3.5. Sustainability is also integrated from the bottom up

The Sustainable Stock Exchanges (SSE) Initiative encourages stock exchanges to promote responsible investment in sustainable development. To date, Saudi Arabia, Kuwait, Bahrain, Qatar and the UAE have partnered with the SSE therefore committing a combined market cap of over USD 3 trillion to responsible investment principles. Since signing up to the SSE, stock exchanges have started to launch sustainability reports, provide written guidance on ESG reporting, ESG training, and ongoing plans to launch ESG indices.

Middle Eastern stock exchanges have also considered their own initiatives:

- In 2020, Bahrain Bourse released its voluntary ESG reporting guidelines for listed companies and other stakeholders.
- In 2021, Bahrain Bourse and HSBC launched a guide to evolving Bahrain's ESG landscape.
- Also in 2021, Saudi Arabia's Tadawul was the first GCC country to announce its plans to launch a national ESG index and it launched its ESG reporting guidance.
- Boursa Kuwait also recently launched its ESG guide corresponding with the UN SDGs, the Global Reporting Initiative (GRI) framework, Kuwait National Development Plan and the New Kuwait Vision 2035.[18]

[18] See: https://www.albawaba.com/business/pr/boursa-kuwait-launches-esg-reporting-guide-drive-corporate-sustainability-financial

4. Capital market developments

4.1. Coverage

Despite the increased adoption of ESG ratings across geographies, certain areas, typically emerging markets, continue to exhibit significant gaps. An ESG score does not usually signify completeness. Rather it is a systematic tool that assesses financially material ESG information relating to a company/issuer. Nevertheless, coverage in the MENA region continues to improve. As at December 2020, over 85%[19] of both the Tadawul All Share Index (TASI)[20] and the S&P Pan Arab Composite displayed ESG scores. Coverage was only just over 60% in 2017.

4.2. An analysis of the Tadawul All Share Index (TASI)

A deeper dive into the Tadawul All Share Index (TASI) showed high carbon emissions, fossil fuel and water usage. All of these have a sizeable weight in contemporary scoring models. Materials, Utilities and Energy represented 35% of the index but, understandably, 95% of carbon emissions. Companies can balance exposure to carbon intensive operations by introducing mitigating practices such as emission reduction targets and tangible ways to verify them. Nevertheless, ESG scoring models are constantly evolving and new data points may offset some of the negative impacts presented against MENA/EM companies.

Figure 7: Significant ESG laggards in the Middle East

ESG Metric	TASI	S&P MENA	MSCI EM
Carbon Risk (T Co_2E/$M Sales)	532.10	601	272
Fossil Fuel Reserves (%)	11.6%	3.5%	8.2%
High Impact Fossil Fuel Reserves (%)	11.6%	3.1%	5.9%
Exposure to High Water Risk (%)	25.8%	26%	14%

Source: Based on MSCI ESG Ratings as of 31 December 2020

With every challenge comes an opportunity to improve. Water provides a concrete example. It remains a key resource for the Middle East that is being managed and preserved through national development programs. The removal of wheat subsidies in the Kingdom of Saudi Arabia recognised the value of water for all of society rather than a small number of influential vested interests.

The analysis in Section 4.1 shows a steady increase in the coverage of ESG data across the Middle East. We envisage a subsequent phase of ESG score improvements. This may take several forms, ranging from awareness of key data points and reporting capabilities, to more active engagement by investors and/or stakeholders such as local stock exchanges. Our recent paper 'Engagement in Emerging Markets' explains the power of engagement in unlocking and driving greater market recognition of fundamental value. Our experience as an investor, as well as an advisor on ESG related issues allows us to partner with companies on their sustainability journey, especially on aspects related to investor preferences. This is delivered through GIB Asset Management's Sustainability Advisory service.

Overall, the alignment of the Vision 2030 goals with the UN SDGs should resonate positively with ESG. Companies with improving ESG metrics/performance are likely to be key players in achieving the Kingdom's goals, alongside the triple bottom line argument.

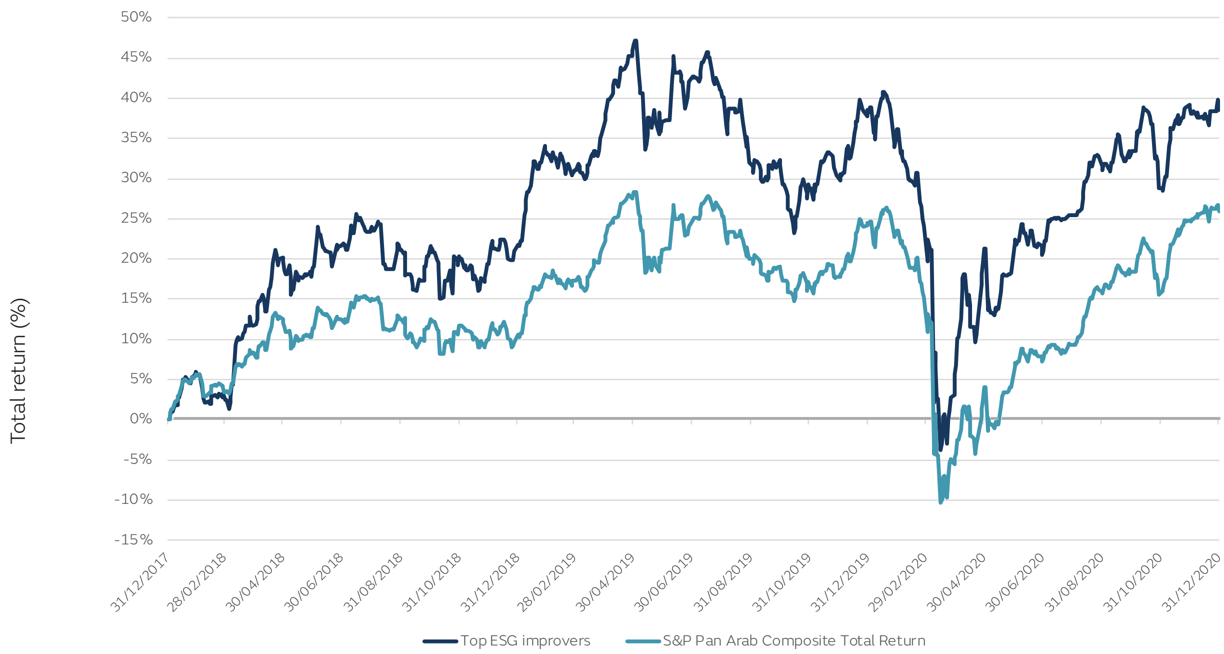
[19] Percentage based on constituent weights.
[20] As at December 2021

4.3. An analysis of the broader MENA region

Shifting to the broader region, our analysis of the S&P Pan Arab Composite is also promising. Considering companies that have improved their ESG score the most from 2017 to 2020, the modeled portfolio outperformed the index by 12.25 percentage points. This simplified approach, does not constitute standalone investment advice and/or an investment offering. However, it does prove a simple point that improving ESG credentials continues to be rewarded by the market. Whether through engagement, robust policies or sustainability advisory, Middle Eastern companies are benefitting from the sea of opportunities in ESG reporting and developments.

There has been increased focus on region-specific matters including health, food security, supply chains and logistics, combatting modern day slavery and renewable energy project. These channels have mainly played out through the banking system, which explains Financials contributing to most of the ESG improvements.

Figure 8: Analysis of the top ESG improvers in the S&P Pan Arab Composite



Source: Bloomberg 2021

4.4. Healthcare: A theme in focus?

The Kingdom of Saudi Arabia has one of the highest prevalence rates of lifestyle diseases in the world – 18.5% of the population over 20 have diabetes, 35% obesity and over 23% suffer from hypertension.[21] The Kingdom is the largest spender on healthcare across the Middle East with over USD37 billion spent between private and semi-government sectors, the Ministry of Health and private expenditures. These healthcare challenges also bring opportunities. For example, asthma levels in the region were exacerbated by the urbanisation of the 1980-1990 period. The region as a whole is responding to this by imposing stricter adherence to planning regulations, whereby new real estate is built with ventilated car parks, new metro transport systems and new cities in mind.

The considerable social reforms and health challenges within the Kingdom create an environment where meaningful economic and societal benefits can be achieved by strong ESG improvements. The FII institute recently ran a virtual session labelled 'Health is Wealth' where it announced a Global Infectious Diseases index to tackle and prevent future outbreaks – providing further opportunities to tackle the global challenge.

Bupa Arabia, a leading healthcare insurance provider in KSA, doubled its GIB ESG score between 2017 and 2020. Its efforts to tackle the region's most pressing needs have shown results, with a record high net promoter score of 52, revenue of SAR 10.4bn and an ROE over 20%. This is much ahead of its peers. Benefiting their top line growth and aligned to a material ESG factor is their contribution to the Access to Healthcare theme. Bupa Arabia has actively invested in its robust digital transformation to increase access to and availability of its healthcare services. Notably, the expansion of its remote healthcare services such as "tebtom", now with over 5 million users. Its cybersecurity and data protection efforts are also to be commended given its growing user base.

The benefits to Bupa and to the region as a whole stem from Bupa's early adoption. Today, several government and wider initiatives relating to healthcare have been rolled out. Bupa remains at the forefront of solving those challenges with its established foundations and processes.

5. Conclusion

Today, ESG is no longer an option or theme for investors. Integration takes place at all levels given the abundance of data and ESG scoring mechanisms. Opportunities, risks and the financial materiality of ESG data are difficult to ignore especially in light of global initiatives. Fortunately, doing good does not always mean excluding certain securities/sectors. Similarly, there is no one size fits all approach to responsible investing. Certain sectors may prioritise specific segments of responsible investing. For example, while oil remains essential for many, divestment is challenging. Rather, transition is the solution – a measured and steady shift of focus to renewable energy sources. Responsible investors are enabling this transition – as well as transitioning other major industries – thus, presenting attractive growth opportunities.

The scale of change witnessed in the Middle East over the past decade is one to admire. The roll out of nationwide initiatives, awareness campaigns and inclusive disclosures can lead to a virtuous cycle of adoption. Alignment between business activities and sustainable nationwide targets could present promising growth opportunities. What is now labeled as ESG and sustainable development has taken place in the Middle East for centuries and we believe that the region will continue to develop and transition in line with its global peers.

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[21] Bupa (2019). The Rising Burden of Medication in KSA: A pragmatic approach to minimize it. Available from: https://bupa.com.sa/docs/default-source/default-document-library/white-paper-en-v2b4f44b8879506cfa95a5ff0000e296c7.pdf?sfvrsn=2aa427b5_4