

Financial Development and ESG Performance: Insights from MENA Countries

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ABSTRACT

This study examines the relationship between financial development and environmental, social, and governance (ESG) performance in 17 countries in the Middle East and North Africa (MENA) region from 2012 to 2020. The analysis incorporates various financial development indicators, including overall financial development (FD), financial institutions (FI), and financial markets (FM), to evaluate their influence on ESG performance. The study controls for trade openness, economic growth, and foreign direct investment. Results indicate that financial development in MENA countries significantly negatively impacts ESG scores. Economic growth positively correlates with improved ESG performance, while increased trade openness has a negative influence. Additionally, the advancement of FM negatively affects ESG scores, whereas the impact of FI is statistically insignificant. Using the Generalized Method of Moments (GMM) estimator, the findings consistently demonstrate the adverse effects of FD and FM on ESG performance in the MENA region. These results suggest that policymakers in the MENA region can enhance environmental sustainability and achieve long-term economic growth by promoting sustainable financial development and economic policies.

Keywords: financial development, environmental, social, governance, ESG performance, Middle East, North Africa, MENA

JEL Classification: C33, C58, G2, Q01, Q56

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