

# الاستثمارات العامة والمسؤولية

## الاجتماعية للشركات:

دراسة قانونية لنظام صندوق الاستثمارات العامة  
بالمملكة العربية السعودية

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Sovereign Wealth Investment and CSR:  
A Case Study of Public Investment Law  
of the Kingdom of Saudi Arabia

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## الاستثمارات العامة والمسؤولية الاجتماعية للشركات: دراسة قانونية لنظام صندوق الاستثمارات العامة بالملكة العربية السعودية

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### ملخص البحث:

تركز الشركات بشكل متزايد جهودها على الاستثمارات التي من شأنها أن تولد عوائد مالية ضخمة على أصولها السنوية، وتنمية السوق الاقتصادية للشركات بشكل خاص والبلدان التي تتواجد فيها بشكل عام. واتجهت العديد من الشركات لتطبيق الشراكات المحلية مع الجهات الحكومية المتمثلة في صناديق الاستثمار السعودية مثل هيئة صندوق الاستثمارات العامة، مبادرات الاستثمار وفقاً لرؤية 2030، ونظام الاستثمار العام الصادر بالمرسوم الملكي No, M/92 in 2019.

توضح الدراسة ضرورة تحديد المساهمين وأصحاب المصلحة والمستثمرين في صندوق الاستثمارات العامة لأهدافهم المستقبلية بالتوافق مع استراتيجيات ولوائح الحكومة (الدولة) لتكون تلك المشاريع فعالة بشكل يحقق الأهداف الاقتصادية المنشودة. وقد يبرز دور مجلس إدارة الشركات بشكل فعال في المساهمة لتوجيه تلك السياسات والأهداف الاستثمارية في تنفيذ تلك المشاريع من خلال آلية وضع سياسات الشركة واجتماعاتها السنوية بشكل جزئي. تهدف هذه الدراسة إلى تحليل الإطار القانوني لنظام الاستثمارات العامة في المملكة العربية السعودية وتوضيح بعض الأحكام الواردة بهذا النظام وشرح بعض المفاهيم الدولية لإسهامات صناديق الاستثمارات من منظور دولي. مع التركيز على تحليل مدى إمكانية تنفيذ تلك المشاريع وفق مفاهيم المسؤولية الاجتماعية

للشركات من خلال قرارات أصحاب المصلحة، المدراء التنفيذيين، والمستثمرين ودورهم في تحديد ورسم سياسات واهداف الشركة. سيحلل هذا البحث التوجهات الوطنية في الاستثمارات عن طريق اللوائح والأنظمة القانونية والتشريعات الوطنية باستخدام البيانات المتاحة والتي يمكن أن توضح وظائف وأهداف صناديق الاستثمار على المستوى الوطني والدولي.

**الكلمات المفتاحية:** قانون الشركات، نظام صندوق الاستثمارات العامة

١٩٧١ م، أصحاب المصلحة، المسؤولية الاجتماعية للشركات، المستثمرين، هيئة صندوق الاستثمارات العامة.

## **Sovereign Wealth Investment and CSR: A Case Study of Public Investment Law of the Kingdom of Saudi Arabia.**

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### **Abstract:**

**Businesses are increasingly** focusing on investments that would generate solid returns on their annual assets and the development of the economic markets of corporations or countries. Many implementations of Sovereign Wealth Funds have turned toward partnering with governing authorities to invest in and improve their economies and societies, including the Kingdom of Saudi Arabia (KSA). The Saudi Sovereign Investment Authority has legislated its Public Investment Law and initiatives through its ٢٠٢٠ Vision. Shareholders and investors of SWFs should identify their investment targets, along with government strategies and regulations, to be effective with the investments and economic objectives of a country.

**The country's** regulations must clarify the board of directors' opportunities in implementing SWF businesses through their roles and policies. This study analyzes the legal theoretical framework of the PIL of Saudi Arabia in some provisions, including the meaning of SWFs and international perspectives, focusing on determining how far these aspects could include CSR in their implementation while maximizing shareholders' interests. Performance and decision-making based on national and international principles examine business strategies and governmental financial governance. Finally, this study discusses relevant legal guidelines and legislation for implementing SWFs using the primary resources of the Saudi PIL and any available data that could explain the functions of SWFs nationally or internationally. As a result, Saudi Arabia has implemented many business development programs through its Public Investments Authority, demonstrating good business governance performance .

**Keywords:** Sovereign Wealth Investment, CSR Strategy, Compliance and Regulations, Saudi Public Investment Fund Law, Shareholders' Interest, Sustainability, and Decision-Making.

## 1. Introduction

Sovereign wealth funds (SWFs) are founded by oil-rich countries or those with excess currency, or a balance of payment. Moreover, studies have revealed the motivation for creating SWFs as a procedure for the security and strength of their economies, producing extra returns and cumulative funds for future businesses<sup>(1)</sup>.

Others define SWF as an investment vehicle controlled and created by state-controlled entities that invest in intangible and financial assets<sup>(2)</sup>.

Furthermore, there is no universal definition of a SWF because of its diverse associations, international organizations, governmental provisions, and procedures<sup>(3)</sup>.

Significant increases in public investment funds and government investment opportunities underline the need for numerical transformations and sustainable businesses in any country. The Saudi SWFs have established many business development programs in cities in the Kingdom of Saudi Arabia (KSA). For example, the KSA established its Public Investment Law (PIL) in ١٩٧١, which was amended due to a new regulation transforming the Saudi economy by Royal Decree No M/٩٢ in ٢٠١٩<sup>(4)</sup>.

The PIF law has identified the principles of governance, provisions, the board of directors' responsibility, and the authority of

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(1) Felix I. Lessambo, *International Finance: New Players and Global Markets* (Palgrave Macmillan, Cham 2021) 139-155.

(2) Charles Ho Wang Mak and Sau Wai 'Sovereign Wealth Funds and National Security-Three Purposes of Regulations and Beyond' (2022) 12 *King's Student Law Review* 61.

(3) Manda Shemirani, *Sovereign Wealth Funds and International Political Economy* (Ashgate 2010) 1 (hereafter Shemirani), and Anthony Elson, 'Sovereign Wealth Funds and the International Monetary System' (2008) 9(2) *The Whitehead Journal of Diplomacy and International Relations* 71.

(4) See Saudi Public Investment Fund Law, < <https://laws.boe.gov.sa/BoeLaws/Laws/LawDetails/2541255e-9e5b-4393-a8b0-a9a700f1a596/1> >

members for public investment funds ( discussed in this study). However, this study analyzes and examines the function of the Saudi Public Investment Fund and the recent implementation of SWFs concerning CSR performance. Beyond economic returns, investors should also consider the environmental, social, and governance (ESG) impacts on their business performance and make decisions based on national and international principles and standards<sup>(1)</sup>.

The combined SWFs with ESG-stability corporate the financial stability and profitability<sup>(2)</sup>.

This study examines how SWFs work in governmental financial strategies and incorporates the influence of CSR in Saudi companies. Finally, this study discusses any relevant legal issues and legislative guidelines for corporations to act following these functions. The choice of Saudi Arabia as the primary subjects of this research will be determined by the intention of compelling opportunity to examine how practices are shaped by distinct cultural, regulatory, and economic factors and global challenges. While Saudi Arabia new vision imperative of aligning business practices with societal and environmental concerns. Through a comparative international method, this research aims to expose both commonalities and differences in implementation. This study qualitatively examines and evaluates the issue of implementing SWF, including CSR, using a legal analysis in specific contexts of the Saudi Public Investment Law in answering this research questions (with will describe below). The method and information would rely as a Secondary resource on publicly available data. The data in this research include

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(1) Wei Yin, 'Sovereign Wealth Fund Investments and The Need to Undertake Socially Responsible Investment' (2017) *International Review of Law* 30. P1.

(2) Seyed Alireza Athari et al, 'Examining the Quadratic Impact of Sovereign Environmental, Social, and Governance Practices on Firms' Profitability: New Insights from the Financial Industry in Gulf Cooperation Council Countries' (2024) 16 *Sustainability* 1-25.

explanations of universal SWF meanings and implications from international perspectives and Saudi regulatory framework, which will include theses, books, monographs, and journal articles addressing implementation in Saudi Arabia using an international perspective.

## • Research Questions and Methods

The main research question that this paper seeks to answer is how to make the investment of Saudi Sovereign funds and corporations businesses work effectively? The following sub-questions will be examined:

- How SWF includes the concepts of CSR in its business to increase Saudi Social and economic development?
- How shareholders and investors of SWFs should identify their investment targets, along with government strategies and regulations, to be effective with the investments and economic objectives of a country.

This study will analyse the concept of the KSA established its Public Investment Law (PIL) in ١٩٧١, which was amended due to a new regulation transforming the Saudi economy by Royal Decree No M/٩٢ in ٢٠١٩<sup>(1)</sup>, addressing the research questions stated above which aims to define the methods of this research as following goals:

- Analysing the implementation of Sovereign Wealth investments through CSR and corporations' strategies and making-decision.
- Examining the extent of the international's perspectives and SWFs compliance.
- Evaluating the provisions of Saudi Public Investment Fund Law and roles.

The choice of Saudi Arabia as the primary subjects of this research will be determined by the intention of compelling opportunity to

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(1) See Saudi Public Investment Fund Law, < <https://laws.boe.gov.sa/BoeLaws/Laws/LawDetails/2541255e-9e5b-4393-a8b0-a9a700f1a596/1> >

examine how practices are shaped by distinct cultural, regulatory, and economic factors and global challenges. While Saudi Arabia new vision imperative of aligning business practices with societal and environmental concerns. Through a comparative international method, this research aims to expose both commonalities and differences in implementation.



## 1.2 Sovereign Wealth Investment and CSR Strategy

Business entities are increasingly focusing on investments that reflect good returns on income in their annual assets. Many implementations have moved towards working with governance authorities through partnerships to invest in and develop their countries, such as the KSA. The Saudi Sovereign Investment Authority has established a business project among many cities to pragmatize their vision for ٢٠٣٠. In ٢٠٠٥, according to Andrew Rozanov, certain entities that are "typically ... a by-product of national budget surpluses, accumulated over the years owing to favorable macroeconomic, trade and fiscal positions, coupled with long-term budget planning and spending restraint,' are defined as SWFs. However, the situation with SWF has not improved significantly among academics and decision-makers, particularly when using the term along with common concepts for businesses<sup>(1)</sup>.

Companies and other influential investors maximize shareholder value using long-term investment approaches.

In sovereign wealth investments, investors usually present themselves as government partners who work to construct a structure and legal status and manage state financial markets<sup>(2)</sup>.

Considering whether these funds can undermine financial markets and national security in the KSA, this study determines how these dimensions of CSR affect SWF investors' business in the KSA. Therefore, a long-term ESG strategy allows management to maximize profits, including securing the stakeholders' interests<sup>(3)</sup>.

However, all ESG measures are constructively associated with investment in SWFs. Public investment funds are global

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(1) Chris Thomale, 'Sovereign Wealth and Social Responsibility' (2017) 52(4) *Wake Forest Law Review* 981

(2) Locknie Hsu, 'Sovereign Wealth Funds: Investors in Search of an Identity in the Twenty-First Century' (2015) *International Review Law* 6.

(3) Rochelle Spencer, Eduardo Pereira and Fadzai Matambanadzo, 'Sovereign Wealth Funds and Impact Investing in Australia' (2021) *Book Chapter* 231-248 ( *Sovereign Wealth Funds, Local Content Policies and CSR*)

investment entities that support diverse development sectors and create new opportunities for economic transformation in the KSA. Therefore, the fund's mission is to continue effective investment over a long-term business strategy to enhance its financial returns by localizing technology, expanding investment portfolios, and participating in worldwide sectors and markets within the ٢٠٣٠ initiative<sup>(1)</sup>.

The next section explains how SWF includes the concepts of CSR in its business to increase Saudi Social and economic development.

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(1) See Public Investment Funds via < [https://www.pif.gov.sa/ar/strategy-and-impact/the-program/?gad\\_source=1&gclid=Cj0KCQjw-5y1BhC-ARIsAAM\\_oKkpCjxwovKrPXFGH7jzYpAufmqeTLqstOHUJ2JdyeKQFqD-JQ8hM1QaAvyHEALw\\_wcB](https://www.pif.gov.sa/ar/strategy-and-impact/the-program/?gad_source=1&gclid=Cj0KCQjw-5y1BhC-ARIsAAM_oKkpCjxwovKrPXFGH7jzYpAufmqeTLqstOHUJ2JdyeKQFqD-JQ8hM1QaAvyHEALw_wcB) >

### 1.3 SWFs and investments of ESG engagements: Compliance and Regulations

Recently, scholars have examined the importance of SWFs in making decisions, particularly regarding the ESG of a corporation's businesses.<sup>(1)</sup> The examination evaluated whether the corporation's CSR performance raises the value of SWFs in the financial market and what the investment potential dimensions could be. The evidence expressed that 'SWFs are more likely to invest in firms with a higher CSR score.'<sup>(2)</sup> Further, research findings have advanced the theoretical model associated with a corporation's sustainability and long term's activities.<sup>(3)</sup> The classifications of this theoretical model appear in a corporation funded by the public sector because of its value of requiring public goods and concerns explicitly in a social return. This would identify the relations of the public sectors with corporations in investing of a business activity within the vision of Saudi economics of ٢٠٣٠. Therefore, developing a socially responsible corporate culture within business enterprises can lead to social, environmental, and ethical outcomes that reflect a commitment to sustainability.<sup>(4)</sup>

International regulations, conventions, and soft laws can encourage SWFs to implement CSR strategies and consider ESG elements.<sup>(5)</sup> In practice, many SWFs do not have explicit

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(1) Liyan Dai et al, 'Do Sovereign Wealth Funds Value ESG Engagement? Evidence from Target Firm's CSR Performance' (2022) 50 *Finance Research Letters* 1-8.

(2) Ibid. P1.

(3) Ľuboš Pastor, Robert F. Stambaugh and Lucian A. Taylor, 'Sustainable Investing in Equilibrium' (2021) 142(2) *Journal of Financial Economics* 550-571.

(4) Mia Mohmudur Rahim, 'Meta-regulation Approach of Law: A Potential Legal Strategy to Develop Socially Responsible Business Self-regulation in Least Developed Common Law Countries' (2001) 40 (2) *Common Law World Review* 174-206.

(5) Wei Yin, 'Sovereign Wealth Fund Investments and The Need to Undertake

guidelines or policies related to CSR investment. Instead, they indicate what socially responsible investment (SRI) is in their reports as evidence of their commitment to official websites. Some firms do not disclose any information to the public; therefore, it is difficult to ascertain whether or how they accept ESG issues as part of their business and investment practices<sup>(1)</sup>.

Influential investors are entering a state of SRI, incorporating ESG factors into decision-making based on internationally recognized standards and principles. As influential institutional investors, SWFs have considered and extended the interests of their host countries globally<sup>(2)</sup>.

Meeting the government's target in promoting these concerns and sustainable businesses, particularly from Sovereign Wealth Investment, should undertake SRI in line with certain legislative content or specific guidelines.

Corporations and investors should aim to maximize shareholder value and enhance their methods by exploiting various investment strategies. Investment strategies help businesses address other problems, including violation of human rights, corruption, and other environmental problems. Institutional investors play a critical role in adopting a socially responsible business approach by embracing regulatory principles that support private entities in their SRI initiatives<sup>(3)</sup>.

In examining the social investment influence, the European Commission's Joint Research Centre presented a report (٢٠١٨) wherein 'the changes of the structure, governance and modes of implementation of the EU investment and social market investment impact: Social innovation and impact investment are

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Socially Responsible Investment' (2017) *International Review of Law* 30.

(1) Hugues Létourneau, *The Responsible Investment Practices of the World's Largest Government Sponsored Investment Funds* Carleton University, 2013).

(2) Wei Yin, above n 8. P 3.

(3) Ibid. P 3.

the two popular terms used in the debate on the political and institutional changes required to address the challenges undertaken.<sup>(1)</sup> The challenges of European societies represent a wide range of progress in the public and commercial sectors' approaches to societal concerns, the extremely assorted range of policy actors, and the activities involved in developing creative ways. To deal with these societal transformations, it is crucial to clarify their significant reproductions.

Recent research has focused on whether SWFs consider ESG factors when making decisions. According to Velayutham, SWFs consider CSR a business investment priority; however, data to identify the impact of ESG measures is lacking<sup>(2)</sup>.

Furthermore, increased ESG engagement encourages more SWFs to invest in the target firm in subsample business activities.<sup>(3)</sup> First, in implementing the dimension of SWF investment decisions, the focus should potentially increase investment activity dealing with the financial characteristics of the firm and investment strategy, such as ethical factors and the value of ESG engagement<sup>(4)</sup>.

However, sovereign ethical investment practices could impact investors' roles if a regulatory association structures their performance<sup>(5)</sup>.

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(1) Social Impact Investment in the EU Report (2018) <

[file:///Users/elham/Downloads/jrc111373\\_jrc-s4p\\_report\\_sii-eu\\_maduro-pasi-misuraca\\_def\\_12122018%20\(1\).pdf](file:///Users/elham/Downloads/jrc111373_jrc-s4p_report_sii-eu_maduro-pasi-misuraca_def_12122018%20(1).pdf) > 1-100

(2) Liyan Dai et al, 'Do Sovereign Wealth Funds Value ESG Engagement? Evidence from Target firm's CSR Performance' (2022) 50 *Finance Research Letters* 2-8. See also Sivakumar Velayutham and Rashedul Hasan, 'Sovereign Wealth Funds and Corporate Social Responsibility: A Comparison of Norway's Government Pension Fund Global and Abu Dhabi Fund for Development' (2021) 24(2) *Public Admin Policy* 139–15.

(3) Ibid. P 2.

(4) Liyan Dai et al, above n (8). P 1-8.

(5) Niklas Kreander, Ken Mcphail and Vivien Beattie, Charity Ethical Investments in Norway and the UK: A Comparative Institutional Analysis including the Impact of a Sovereign Wealth Fund, (2015) 28(2) *Emerald*

For example, the investments of UK charities are governed by a set of governmental needs. Institutional theory has been developed as a direct theoretical approach for analyzing and understanding the assessment and dynamics of society organizations<sup>(1)</sup>.

Thus, the results of the current institutional examination recognize the importance of socio-political effects in consideration of an organizational dynamic.

Scott (٢٠٠٨) argues that 'organizational fields are subsumed within and influenced by their larger societal contexts,' identifying the economy, state, and recognition of sociocultural characteristics<sup>(2)</sup>.

The characteristics of social, environmental, and governance interests should be identified in the context of management, public policy, and societal development strategies.<sup>(3)</sup> The state, owners, and directors, as legislative organizers, are key elements for understanding firms' decision-making and obtaining external advice.<sup>(4)</sup> Scholars define the impact of government rule on players in their financial capital as acting as commercially oriented global investors to manage the nation's wealth as a legal protector<sup>(5)</sup>.

Others argue that the governments of the Arab Gulf countries would not fully secure the concepts of Western democracy and reform the governance of SWF instruments<sup>(6)</sup>.

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Group Publishing Limited 581-617.

(1) Ibid. P 585.

(2) Richard Scott, 'Approaching Adulthood: The Maturing of Institutional Theory' (2008) 37(5) *Theory and Society* 427-442

(3) Jose-Luis Godos-Diez et al, ' Factors Influencing Board of Directors' Decision-Making Process as Determinates of CSR engagement' (2018) *Review Management Science* 230.

(4) Mason A. Carpenter et al., 'Upper Echelon Research Revisited: Antecedents, Elements, and Consequences of Top Management team composition' (2004) 30(6) *Journal of Management* 749-778.

(5) William L. Megginson and Veljko Fotak, ' Rise of the Fiduciary State: A Survey of Sovereign Wealth Fund Research' (2015) 29(4) *Journal of Economic Surveys* 733-778.

(6) Salman Bahoo et al, ' A model of the Islamic Sovereign Wealth Fund'

The concept of SWFs in Arab countries applies Sharia Law and the ethical standards of investments, finance, transparency, and governance<sup>(1)</sup>.

Both transparency and governance principles are discussed in Article ٦ of the Saudi Public Investment Law, which states that the board will oversee the management and operations of the fund, ensuring that its goals are met and that its power is applied. To achieve this, the board must have all the relevant authority and capabilities<sup>(2)</sup>.

Additionally, it will authorize and publish fund policies and regulations, such as establishing investment policies, strategies and procedures, desired returns, keeping track of its performance, withdrawing, and establishing a distribution policy for fund earnings<sup>(3)</sup>.

Therefore, the board of directors or investors of PIF has more responsibility for governing their business decisions, representing the fund of the judicial branch, overseeing the fund's administrative and financial affairs, as well as its employees, including ensuring funds' operations and compliance performance<sup>(4)</sup>.

Other studies have indicated that the Arab Gulf government is powerless to unconditionally cover Western concepts of democracy, restructure governance, and control the contrivance

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(2019) 27(1) Islamic Economic Studies 2-22.

(1) Ibid. P 3.

(2) Article 6 of Public Investment Fund Law, See <  
<https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://www.pif.gov.sa/-/media/project/pif-corporate/pif-corporate-site/our-investments/governance-and-investments/pdf/pif-law-documents-en11.pdf&ved=2ahUKewjFupXBw4uHAXU8VKQEHRsOjMQFnoECBsQAQ&usq=AOvVaw3rVASBdN46LxY8GdQEcpMP> >

(3) Ibid. See all the PIF authorities on the article 6.

(4) See Article 11 of Public Investment Fund Law.

of SWFs<sup>(1)</sup>.

While Muslim countries adopt and implement SWFs through ethical standards of investment, finance, transparency, and governance, other countries have established their regulations for public investment funds, such as the KSA. Research indicates that Islamic finance is one of the main streams of management, transparency, and business control.<sup>(2)</sup> The next section discusses the SWFS performance under corporate governance using Saudi legislation and implementation.

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(1) Salman Bahoo, above n (29).P 2.

(2) Al-Bashir Al-Amine M., ' Product Development and Maqaid in Islamic Finance: Towards a Balanced Methodology' (2015) 23(1) Islamic Economic Studies 33-72. See also Shafi A. Khaled, 'Risk, Return, and Profit-loss Shared under a Zero-Interest Financial System' (2018) 26(1) Islamic Economic Studies 1-30.



## 1.4 Saudi Public Investment Fund Law (SWFs) and Corporate ESG performance

Corporations actively integrate ESG principles into their operations to address global issues and achieve sustainable systems. Moreover, accomplices in ESG businesses may benefit stakeholders and provide an ESG governance framework<sup>(1)</sup>.

However, according to shareholder theory, companies must have an ethical responsibility to maximize the value for their shareholders<sup>(2)</sup>.

Others have indicated that a strong connection between ESG and a corporation's financial performance could positively associate a corporation's profitability and governance principles with shareholder decisions<sup>(3)</sup>.

Studies show that the higher capital shares of banks in Arab markets are linked to a higher sovereign governance performance, including reduced corruption, increased governance effectiveness, and a strengthened legal system<sup>(4)</sup>.

These facts can affect governance strategies and requests to include rules for governance management risks. The data show that, even in the case of potential insurance settlements and government assistance initiatives, natural disasters harm the financial stability of creditors or shareholders and decrease bank or corporate

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(1) Seyed Alireza Athari et al, above n (5). P 2.

(2) R. Edward Freeman, Andrew C. Wicks and Bidhan Parmar, 'Stakeholder Theory and "The Corporate Objective Revisited"' (2004) 15(2) *Informa Pubsonline* 364-369.  
<<https://pubsonline.informs.org/doi/10.1287/orsc.1040.0066> >

(3) Jérôme Caby, Ydriss Ziane and Eric Lamarque, 'The Impact of Climate Change Management on Banks Profitability' (2022) 142 *Journal of Business Research* 412-422.

(4) Seyed Alireza Athari, 'Examining the Impacts of Environmental Characteristics on Shariah-Based Bank's Capital Holdings: Role of Country Risk and Governance Quality' (2022) 9(1) *Economic Financial Literature* 99-109.

stability<sup>(1)</sup>.

Maintaining financial performance is the responsibility of public investment funds and their members. According to articles ٢٢ - ٢٣ of the Saudi PIF, the financial statements of the fund will be prepared and examined by an external auditor chosen by the board in compliance with the accounting standards and guidelines decided upon by the board. Therefore, when performing an audit of a fund's operations and financial records, competent monitoring authorities should follow the fund's laws and policies<sup>(2)</sup>.

The Saudi PIF employs experts who drive the fund's methods to achieve growing industries and fulfill Saudi Vision ٢٠٣٠ objectives. Moreover, the PIF directs its domestic and international investment strategies to ensure effective management, multidimensional implementation, and governance performance<sup>(3)</sup>.

Using a shareholder method to maximize returns for all investors and accomplish strategic goals, the fund maintains its performance and updates its firms' assets. However, implementing an investment strategy in each sector can deliberate on transparency and governance mechanisms<sup>(4)</sup>.

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- (1) Felix Noth and Ulric Schuwer, 'Natural and Disasters and Bank Stability: Evidence from the U.S Financial System' (2023) 19 *Journal of Environmental Economics and Management* 119. See <<https://www.sciencedirect.com/science/article/abs/pii/S0095069623000104?via%3Dihub> >
- (2) Article 22-23 of Pubic of Investment law <<https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://www.pif.gov.sa/-/media/project/pif-corporate/pif-corporate-site/our-investments/governance-and-investments/pdf/pif-law-documents-en11.pdf&ved=2ahUKewjFupXBw4uHAXu8VKQEHRsOjMQFnoECBsQAQ&usq=AOvVaw3rVASBdN46LxY8GdQEcpMP> >
- (3) Saudi Public Investment Funds <<https://www.pif.gov.sa/en/> >
- (4) PIF Our Governance and Investment Decisions <<https://www.pif.gov.sa/en/our-investments/governance-and-investment-decisions/> >

Global Financial Crises (GFC) not only formed public discussions on the issues of better and sustainable governance to decrease international economic crises but also created much attention to the weaknesses connected with finance capitalism<sup>(1)</sup>.

Similarly, the GFC has generated much interest in how responsible businesses should promote social and environmental awareness as part of a larger comprehensive economy<sup>(2)</sup>.

Financial experts argue that the heavy financial responsibility of CSR may be resolved through better investment objectives<sup>(3)</sup>.

This reflects that businesses had to become responsible for exercising corporate environmental performance, especially when corporations had to focus on the duties of boards of directors regarding where investments were headed<sup>(4)</sup>.

Socially responsible business activities comprise three main strategies: (١) social screening, (٢) shareholder activism, and (٣) community investment. Notably, most CSR activities occur through social screening and shareholder activism<sup>(5)</sup>.

Social assessment primarily reflects whether a corporation funds a social cause or charity to tackle important societal issues<sup>(6)</sup>.

Shareholder activism refers to shareholders taking advantage of their ownership rights and voting on important issues at annual

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(1) Benjamin J. Richardson, 'Socially Responsible Investing for Sustainability: Overcoming Its Incomplete and Conflicting Rationales.' (2013) 2(2) *Transnational Environmental Law* 311-338.

(2) United Nations Conferences on Sustainable Development, 'Financing a Sustainable Future: Is the Financial Community Listening?' available at: <https://ininet.org/the-environment-in-the-news-friday-14-october-2011.html> (14 October, 2011).

(3) Gail E. Handerson, 'Making Corporations Environmentally Sustainable: The Limits of Responsible Investing' (2012) 13(12) *German Law Journal* 1412-1437.

(4) *Ibid.*

(5) Wei Yin, 'Sovereign Wealth Fund Investments and the Need to Undertake Socially Responsible Investment' (2017) 1 *International Review of Law* 1-30.

(6) *Ibid.*

general meetings, for example, to support the improvement of corporate directors' policies or the ESG performance of a company<sup>(1)</sup>.

Shareholder influence can shape and guide corporate governance and lead to finances or profits earmarked for social philanthropic outcomes<sup>(2)</sup>.

The performance of a shareholder in a national or local government investment needs to be discussed more transparently regarding the investment approach by providing more information on the type of businesses and the amount of assets they hold<sup>(3)</sup>.

Shareholders should clarify investment classification according to national initiatives and local opportunities to avoid conflicts of interest in their performance. For example, in Malaysia in ٢٠١٩, Velayutham and Hasan explained how Khazanah National's CSR projects misrepresented themselves as a public-private partnership to avoid several conflicts of interest<sup>(4)</sup>.

However, CSR is an important business activity for SWFs and has been exploited to avoid corruption during governance processes. Therefore, there is limited literature on SWF governance business criticisms and implementation results<sup>(5)</sup>.

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(1) Ibid. Page 4.

(2) William Q. Judge, 'Antecedent of Shareholder Activism in Target Firms: Evidence from a Multi-Country Study.' (2010) 18 Corporate Governance: an International Review 258-259. \*\* See Qawariri, E. M. M. (2022). Making CSR and Sustainable Development Financially Effective. Modern Economy, 13, 449-481.

<https://doi.org/10.4236/me.2022.133025>, and See also Elham Mohammad M. Qawariri, Corporate Social Responsibility under Saudi Arabia's Company Law: A Comparative Legal Study with Australia (2023, PhD in Law, University of Wollongong, Australia) via <https://hdl.handle.net/20.500.14154/69258>

(3) Yulin Zhou, 'Government Investment Behaviour: Evidence from California Pooled Money' (2023) SHS Web of Conferences 169, 01075 – 1-9 < <https://doi.org/10.1051/shsconf/202316901075>>

(4) Sivakumar Velayutham and Rashedul Hasan, "The Malaysian Trust School Programme: Is it a Public-Private Partnership (PPP)?" (2019) 30 (1) Asian Review of Public Administration 140.

(5) Ibid. P 140.

Most studies explain the national targets of SWF investments and the business projects that aim to be achieved. Empirical Studies have identified three sustainability measures for investments in alternative asset classes: hiring external fund managers, spending on social and environmental projects, and causing re-identification to achieve the SWF goal. These methods are then examined through various theoretical lenses, finding that resource-based theory can improve the validation of hiring external fund managers, natural resource-based theory can justify spending on social and environmental projects and causes, and portfolio diversification theory can justify investments in alternative asset classes. In conclusion, the resource-based theory is employed to establish a new conceptual model of SWF sustainability that contends with developing and improving a country's financial, social, and environmental performance<sup>(1)</sup>.

It is necessary to recognize the restrictions that can limit corporations' potential risk of contributing to economic development by partnering with other countries to implement SWF business projects. This is particularly true when contracting with other countries that do not regulate their SWF strategies, unlike the KSA, which has identified its rule through the Saudi Public Investment Fund Law and the ٢٠٣٠ National Economic Development Vision. However, CSR has always been a contentious issue with arguments and controversial topics<sup>(2)</sup>.

The argument against CSR often starts with Milton Friedman's economic aspect from the late ١٩٧٠s: management has one responsibility, which is to maximize the profits of its owners or shareholders<sup>(3)</sup>.

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(1) Fatemal M. Behbehani, *The Role of Sovereign Wealth Funds in the Global Capital Markets* (2023, PhD thesis submitted of University of Rading-Henley Business School)1-30.

(2) See Archie B. Carroll, 'Carroll's Pyramid of CSR: Taking Another Look' (2016) 3(1) *Carroll International Journal of Corporate Social Responsibility* 5.

(3) Milton Friedman, *The Social Responsibility of Business is to Increase its Profits*, New York. See < <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html> >

Friedman claimed that social issues should be resolved through a free-market system or by government and law. He asserts that a business is not the right entity to undertake social activities, while shareholders should decide on their social business initiatives<sup>(1)</sup>.

Authoritarian governments manage SWF decisions and the national political power of economic development and economic assets. Since the SWF does not depend on its government's leadership, it should maintain its legitimacy in its national targets and countries where it invests in business projects. The gradual increase in the business of SWFs in Saudi Arabia has impacted the development of Saudi society and economy. The Saudi Public Investment Funds has implemented and comprised around ٣,٤٧ trillion Riyals in assets under its management, ٧٦٣,٠٦٠ direct and indirect job opportunities, and ٩٥ establishment enterprises, including ١٣ important industries<sup>(2)</sup>.

Saudi PIFs ranked second globally, alongside many international funds, and first in the Middle East, among ١٠٠ sovereign funds in the universal SWF governance, sustainability, and resilience rankings, which track the performance of sovereign investment funds and pension funds<sup>(3)</sup>.

Therefore, the PIF progressed to five levels and achieved a ٩٦% compliance rating, up from the previous year. Additionally, the governance, sustainability, and resilience report emphasized the role of Public Investment Funds as important and responsible for

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(1) Ibid. See also Qawariri, Elham Mohammad M, Corporate Social Responsibility under Saudi Arabia's Company Law: A Comparative Legal Study with Australia (2023, PhD in Law, University of Wollongong, Australia) via <https://hdl.handle.net/20.500.14154/69258> (P 53-54) .

(2) Public Investment Fund <[https://www.pif.gov.sa/ar/?gad\\_source=1&gbruid=0AAAAABozKaQp3MS4YiMRvH9RUuPW291OH&gclid=EA1aIQobChMljfD\\_6a3bhwMV17ZoCR28JQjDEAAAYASAAEgKA3fD\\_BwE](https://www.pif.gov.sa/ar/?gad_source=1&gbruid=0AAAAABozKaQp3MS4YiMRvH9RUuPW291OH&gclid=EA1aIQobChMljfD_6a3bhwMV17ZoCR28JQjDEAAAYASAAEgKA3fD_BwE)>

(3) Public Investment Fund <<https://www.pif.gov.sa/ar/news-and-insights/newswire/2024/pif-ranks-second-globally-for-governance-sustainability-and-resilience/>>

investors, including their commitment to implementing best practices that prioritize sustainability, transparency, corporate ethics, and governance obligations. The Saudi government identifies its rules and regulations on its investment targets and categories by defining these policies under its PIL, although no law has identified its CSR policy as a regulation that investors can follow. However, the Saudi government still pressures corporations and investors to act in governance, responsibility, and transparency with their businesses.

## 1.5 Conclusion:

The SWFs have diverse impacts on business investment and the social, economic, and environmental development of a nation. The significant growth of public investment funds and government business opportunities in the KSA influences its international performance. However, in KSA, the Public Investment Funds Authority initiated its roles and policies in ١٩٧١ through its PIF Law to be supervised by national and international partners and investors. Investors consider applying CSR aspects to their businesses in the decision-making process. This study explains how SWFs can improve governments' financial, social, and governance strategies. Legal analyses of implementation and literature have identified the relationship between SWFs and the perspectives of sustainability, shareholder theory, and corporate governance performance. This paper will refer to further researches which has focusing on the criminal protections of the investment's wealth and businesses such as the UAE<sup>(1)</sup>.

The United Arab Emirates has resorted, through its penal legislation, to offering security for its markets to advance their efficiency and develop the confidence of national and foreign investors in the feasibility of investing<sup>(2)</sup>.

The recommendation of this paper it to investigate the impact of PIF and CSR businesses through Saudi Stock Market as an empirical data collections from governmental associations and examine the implementations of the rules and regulations in order to identify the criminal and civil violations.

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(1) Mohammad Bin Sultan Al-Nuaimi and AbduAllah Mohammed Al-Nawaisa, 'Criminal Protections for Investments in the Stock Market' (2024) 21(4) University of Al Sharjah Journal of Legal Sciences 1-35.

(2) Ibid. See P. 14 ( First Section: Cases of Stock Market Crimes)



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