



بنك الإمارات دبي الوطني
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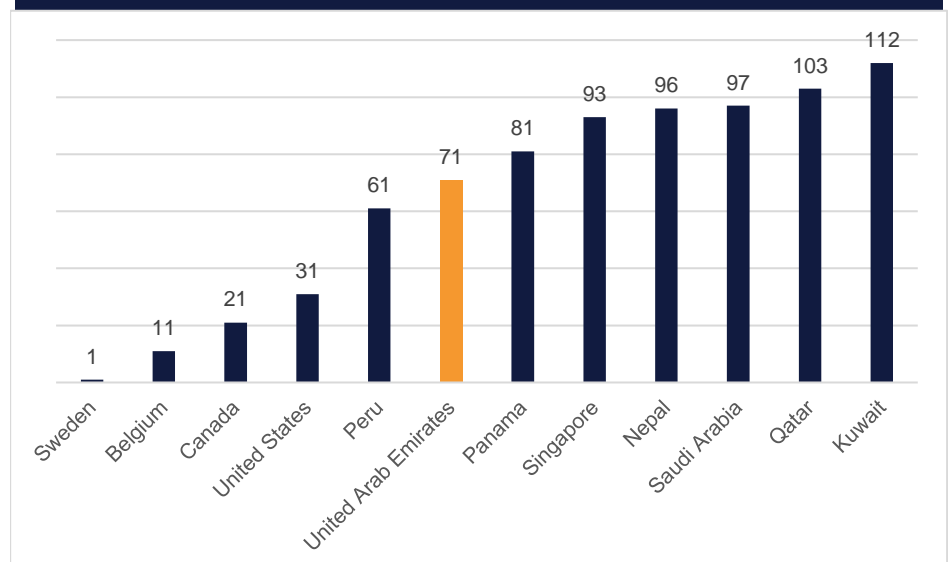
ESG: Sustainability In Focus

Environmental, social and governance (ESG) sustainability is a growing area of focus for organizations in the United Arab Emirates, with its importance beginning to impact many areas of corporate operating dynamics. UAE companies are seeing the benefits of developing a more sustainable approach to business, in addition to understanding the potential risks associated with climate change both on their own operations and the societies in which they operate. Policy makers in the UAE are driving through a sustainability agenda through strategic development policies such as Vision 2021's 'sustainable environment and infrastructure' goals, and the UAE's national development agendas and charters including UAE Energy Strategy 2050, UAE Green Agenda 2015-2030, and the National Innovation Strategy. Furthermore, the importance of this theme is highlighted through the promotion of sustainability as one of the core themes of Expo 2020 taking place later this year.

ESG disclosure guidelines released by the Abu Dhabi Stock Exchange and the Dubai Financial Market are pushing corporates in the UAE to be better corporate citizens by disclosing their ESG performance metrics, and allowing investors an additional and equally important benchmark to financial performance with which those companies can be assessed. Those disclosure guidelines along with a more proactive approach adopted by companies in the UAE will lead to better alignment with long-term government development goals and increased stakeholder confidence in the role corporates will play in promoting more sustainable growth. There is scope for corporates in the UAE to both deepen and broaden their sustainability practices and disclosures, especially as global investor benchmarks become increasingly more stringent.

In this short note, we will focus on the gains specifically in the UAE, as it leads both MENA and the GCC region in the development of its sustainability agenda. This short primer to the ESG space is broken down into three parts. The first is a description of what ESG is and where the UAE is placed. Secondly, we look at ESG reporting regulations in the UAE that companies are required to report on from their fiscal year ending 2020 and beyond. Finally, we highlight a few of the many initiatives that UAE corporates and policymakers are driving in the race for ESG excellence. This is a space with plenty of scope for growth, and we hope to share future insights on specific verticals in this area going forward.

Sustainable Development Report 2020 Rankings



Source: Sustainable Development Report, Emirates NBD Research

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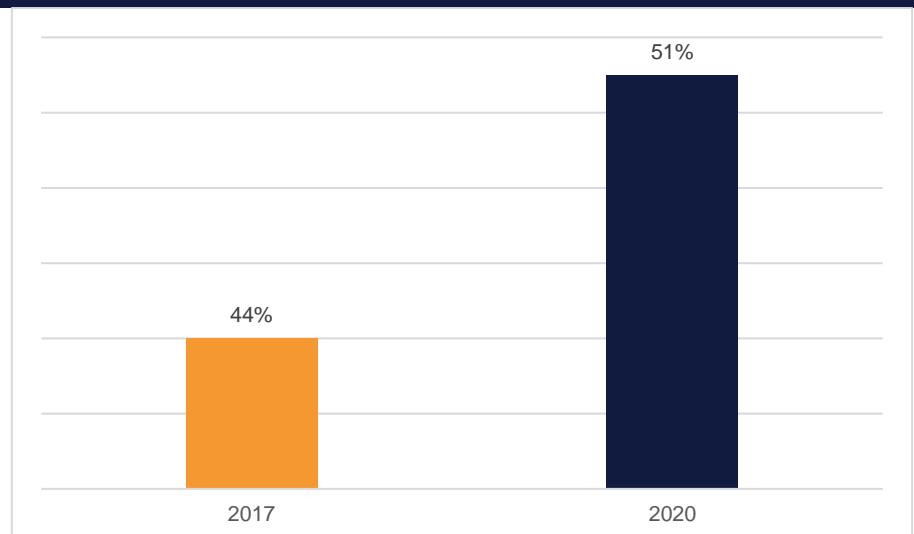
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What is ESG?

ESG stands for Environmental, Social, and Governance and refers to these three central factors in measuring the sustainability and societal impact of an investment in a company or business. Investors use these metrics as non-financial factors in their analysis process to identify growth opportunities and risks of companies and the environments in which they operate. ESG driven investing is now a global theme where key investors are seeking to account for both financial returns and social/environmental good in their investment decision.

There is a growing confidence that ESG analysis can provide important insights about factors having a significant impact on the financial metrics of a company and therefore better inform investment decisions and financial performance. ESG is also growing increasingly important for public companies to improve their public credentials as they battle for capital. The disclosures are pushing corporates to improve their ESG credentials and mindset and correspondingly inform the market. ESG is also a major pillar of public policy in the UAE through its long-term development objectives and charters and forms a core part of the United Nations Sustainable Development Goals.

Companies reporting on sustainability in the UAE



Source: KPMG, Emirates NBD Research

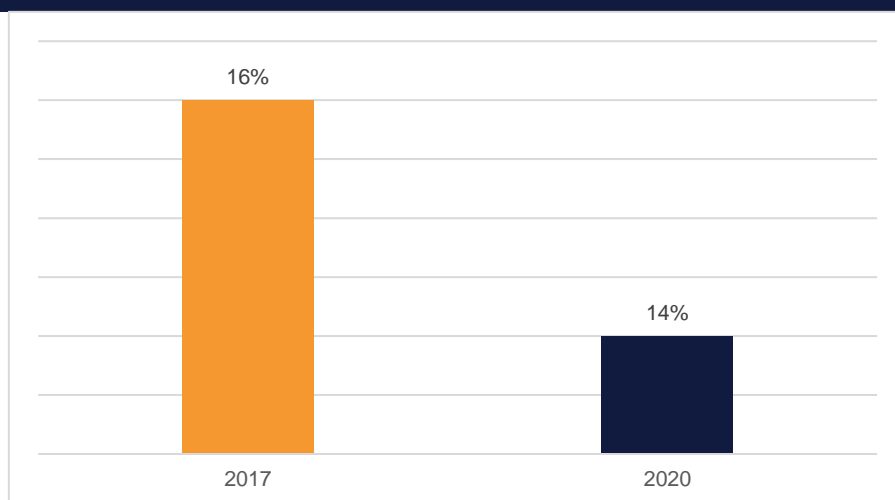
In 2015, the UAE joined the 2030 Agenda for Sustainable Development, and in the following year made a commitment to implement the United Nations Sustainable Development Goals (SDGs) on a national scale. As a result, a growing number of companies operating in the UAE are reporting how their activities fared in light of those SDGs. The scope for increased reporting though has much room to grow in the UAE. In a report released by KPMG in December 2020, 36% of the world's 250 largest companies have reported on their impact on biodiversity in 2020, this compares with only 9% of UAE companies. Also last year, 76% of the world's leading 250 companies now report on their carbon reduction targets, compared with only 11% of the top UAE companies.

The KPMG report points that the Corporate Responsibility reporting rate in the UAE has increased from 44% in 2017 to 51% in 2020, highlighting that reporting on environmental, economic, and social performance is gradually becoming 'business as usual' for organizations in the UAE. This comes on the back of increased regional

commitment to align with national charters and initiatives and to gain stakeholder confidence by proactively communicating ESG performance.

KPMG also predicts a rise in the number of companies in the UAE attaining third-party assurance for their sustainability data in the coming years. We believe this reflects the growing importance UAE corporates will place on attracting a more global investor base that is increasingly keen on benchmarking ESG on global standards. In 2017 the Financial Stability Board created the Task Force on Climate-related Financial Disclosures. The Task Force was asked to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risk. KPMG expects the UAE to adopt this framework on corporates as part of their risk assessment for climate change.

UAE Companies obtaining external ESG reports



Source: KPMG, Emirates NBD Research

ESG Reporting Requirements in the UAE

The United Arab Emirates Securities and Commodities Authority (SCA) now requires public joint stock companies listed in the UAE to adhere to specific ESG disclosure requirements. The legislation is in accordance with Article (76) of the Chairman of SCA Board Decision No. (03 R.M.) of 2020, this concerns adopting the Corporate Governance Guide for Public Joint Stock Companies, public joint stock companies listed on the Abu Dhabi Securities Exchange (ADX) or the Dubai Financial Market (DFM) in the UAE (Listed PJSCs) must publish a sustainability report. A further legislation issued on the 10th of January 2021, set out further details on the content of the sustainability report and an affirmation that the report must be published annually.

According to the legislation listed companies in the UAE are required to prepare a sustainability report reflecting the company's long-term strategy and its impact on three key parameters: **The environment** - the impact of the company's operations and decisions on the environment and the communities in which the company operates; **society** - how the company's policies and operations contribute or could contribute to social justice, the well-being of workers and employees and the surrounding community; **the economy and governance** – how the company is contributing to the economic benefit of society and the impact of the company's operations on the local economy. Listed companies must comply with the Global Reporting Initiative (GRI) standards and also any sustainability standards and requirements that are issued by the DFM or ADX, depending on which market the company is listed. In 2020 companies are allowed to publish the report within six months of their fiscal year end; however, thereafter the reports need to be published within 90 days of the fiscal year end.

ESG Opportunities

Estimates put global ESG investments at almost USD 53tn and rising, with Bloomberg Intelligence estimating that almost a third of assets undermanagement global are ESG driven. With a regional drive to reduce hydrocarbon dependence and drive economic diversification across non-oil sectors, it's clear to see why regional regulators are pushing corporates towards boosting their ESG credentials, especially as it becomes an increasingly important differentiator in the fight for capital inflows. Federal and emirate regulators in the UAE are responding by not only requiring disclosures but also by driving initiatives that seek to capitalize on opportunities in the ESG space. Last year the Abu Dhabi Global Market (ADGM) launched its sustainable finance initiative, while Dubai Financial Market (DFM) launched the UAE Index for Environment, Social and Governance (ESG) to encourage listed companies in the UAE to expand embracing ESG best practices. The Carbon Disclosure Project awarded both First Abu Dhabi Bank and DP World, a rating of "A" for their carbon metrics.

Corporates in the UAE are starting to adopt somewhat aggressive targets on carbon target emissions. Majid Al Futtaim, a major retail and property conglomerate, aims to achieve a Net Positive business model by 2040, producing more energy and water than it consumes. The UAE's Etihad Airways, the first airline in the Middle East to announce net-zero carbon emissions by 2050, is exploring the potential use of synthetic fuel -- hydrogen mixed with carbon -- on future flights and is working on boosting its offsets program. The airline is already committed to a 50% reduction in net emissions by 2035, and a 20% reduction in emissions intensity in its passenger fleet by 2025. The Dubai power provider DEWA said measures it undertook over recent years contributed to reducing the net carbon emissions in Dubai by 22% in 2019, two years ahead of the target of the Dubai Carbon Abatement Strategy 2021 to reduce 16% of carbon emissions by 2021. The company is working within the framework of the Dubai Clean Energy Strategy 2050 which aims to provide 75% of Dubai's total power capacity from clean energy sources by 2050 from 9% currently.

S&P/Hawkamah ESG UAE Index Price Return (USD)



Source: S&P/Hawkamah, Emirates NBD Research

As with many of the successful initiatives in the UAE, a successful ESG drive will depend on private sector take-up of government initiatives in the field. Importantly we note that initiatives at the highest levels of policy making are driving companies toward achieving genuine ESG gains that will have a positive impact on the national goals and interests of the UAE. Combined with a global climate that is now more fully engaged on the environment, especially with a US administration that is more committed to taking a leadership role in climate change. ESG is one of those fields that is full of promise towards achieving true long-term sustainability.

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