

Steps Taken By UAE Towards Sustainable Development And ESG Compliance

Omer Khan - Partner - Corporate Structuring / Turnaround, Restructuring and Insolvency

o.khan@tamimi.com - Dubai International Financial Centre

Jogan Punjabi

j.punjabi@tamimi.com - DIFC, Dubai

Introduction

In recent years, UAE has deployed extensive efforts towards driving sustainability forward in the country under the framework of the UAE Vision 2021, Dubai 2040 Urban Master Plan, and in alignment with the UAE Green Agenda 2015-2030, the Paris Agreement and the UN Sustainable Development Goals (“**SDGs**”). The UAE government regards climate change as a great concern and in line with this they have extended their efforts through their global participation and internal policies, placing themselves among regional leaders in climate action over the past decade.

Paris Agreement and sustainable development goals

The UAE was one of the first countries to ratify the Paris Agreement on climate change action in 2016. The UAE submitted its first Nationally Determined Contribution (“**NDC**”) to the Secretariat of the UN Framework Convention on Climate Change (“**UNFCCC**”) in 2015, which included an increase of clean energy to 24 percent of the total energy mix by 2021, and other actions such as infrastructure development, energy and water efficiency, water management, food security, education, training and public awareness. The second NDC was submitted by UAE to UNFCCC in 2020, under which it targeted to reduce greenhouse gas emissions by 23.5 percent compared to business as usual for the year 2030. The UAE’s efforts to reduce emissions include increasing reliance on clean energy, boosting energy efficiency, expanding capacity for carbon capture, use, and storage, conserving blue carbon ecosystems, promoting sustainable agriculture, and implementing environment-friendly waste management. Federal Law No 12 of 2018 on Integrated Waste Management regulates the waste management operation and its proper disposal through applying the best available practices and technologies to protect the environment. It also prescribes penalties on private entities and persons who litter, bury or burn waste in areas not specified for this purpose.

SDGs were finalised at the UN Sustainable Development Summit in September 2015, where the 2030 Agenda for Sustainable Development that includes 17 SDGs including no poverty and zero hunger, as well as climate action, affordable and clean energy, and responsible consumption and production were formally adopted. The UAE joined the UN SDGs in 2015 and highlighted its contribution to access to clean energy, alongside sufficient and affordable food, quality education and healthcare, sustainable economic growth, healthy ecosystems and increased resource efficiencies, as issues that resonate strongly with the country.

Post Covid sustainable recovery

The Global Green Growth Institute (“**GGGI**”) is a treaty-based international, inter-governmental organization dedicated to supporting and promoting strong, inclusive and sustainable economic growth in

developing countries and emerging economies. Recently, in the Abu Dhabi Sustainable Finance Forum, which took place in January 2021, the director general of GGGI stressed the importance of sustainability recovery in the post Covid-19 era highlighting the increased need for more employment, and that green investments bring about more employment and green jobs than conventional investments. GGGI is working with its member governments to come up with Low Emission Development Strategies that go along with net-zero targets, which will then provide greater clarity for companies and markets.

Vision 2021

Vision 2021 is a long-term development plan for the UAE which was launched by His Highness Sheikh Mohammed bin Rashid Al Maktoum. The UAE Vision 2021 addresses six major challenges for the UAE that require a compass to enable the nation to steer a course, which includes cohesive society and preserved identity, safe public and fair judiciary, competitive knowledge economy, first-rate education system, world-class healthcare and sustainable environment and infrastructure.

Vision 2040

In March 2021, His Highness Sheikh Mohammed bin Rashid Al Maktoum launched the Dubai 2040 Urban Master Plan that maps out a comprehensive future map for sustainable urban development in Dubai. The sustainable urban development plan envisions green and recreational spaces and areas dedicated to public parks to double in size, while nature reserves and rural natural areas will constitute 60 percent of the emirate's total area. Several green corridors will be established to link the service areas, residential areas and workplaces, facilitate the movement of pedestrians, bicycles, and sustainable mobility means across the city.

UAE Green Agenda 2015-2030

In January 2015, the UAE Cabinet approved the UAE Green Agenda 2015-2030 as an overarching framework of Green Economy actions. The Green Agenda consists of five strategic objectives being Competitive Knowledge Economy, Social Development & Quality of life, Sustainable Environment & Valued Natural Resources, Clean Energy & Climate Action and Green Life & Sustainable Use of Resources. Under the Green Agenda 2030, the programs include promoting sustainable environmental practices, promoting awareness and providing incentive schemes to businesses supporting green manufacturing, use of alternative fuels and promotion of green jobs to fresh graduates, amongst others.

Importance of sustainability for businesses and incentives to green industries

The UAE's leadership made critical and ambitious strides in the transition to a green economy through approving the UAE Green Growth Strategy. Under this strategy, the UAE is taking steps to promote the green economy concept at the global level. This initiative consolidates the UAE's environmental stewardship and its status as a hub for the export and re-export of green products and technologies by facilitating the production of green products, diversifying its energy sources and enhancing its experience

in international energy markets as a global hub of Renewable Energy Research and Development. In doing so, it seeks to help support long-term economic growth. Subsequent to the launch of UAE's Green Growth Strategy in 2012 and a rise in need for green financing, the Dubai government announced a AED100 billion Dubai Green Fund aiming to leverage private sector investments for its clean and alternative sources of energy target. An amount of AED 2.4 billion (US \$650 million) was further raised by the late 2017 and is expected to be invested locally in green industries and green energy projects. This fund has invested in projects such as Mohammed Bin Rashid Al Maktoum Solar Park – Phase 4 (green energy power generation), Dubai International Airport (energy efficiency) and Economic Zones World (JAFZA) (energy efficiency).

First Abu Dhabi Bank (“**FAB**”) had announced in January 2016, its commitment to lend, invest, and facilitate a total of USD 10 billion (AED 36.7 billion) of financing within the next 10 years to environmentally and socially-sound business activities, defined in accordance with the Green Bond Principles (“**GBP**”) set out by the International Capital Markets Association and issued its first Green Bond in March 2017. This move prioritized sustainable business and was a statement of strategic intent for the bank. The GBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP have four core components: 1. Use of Proceeds 2. Process for Project Evaluation and Selection 3. Management of Proceeds 4. Reporting. Green bonds allow investors to invest in sustainable projects while offering issuers affordable funding to finance these projects.

In 2019, FAB acted as sole mandated lead arranger, lender and facility agent for the region's first SDG loan and the first SDG facility availed by a commercial airline globally, providing funding to Etihad in support of their long-term lease of the Etihad Eco-Residence located in Masdar City. As of March 2020, FAB selected nine UAE-based projects to allocate to the Green Bonds. These include four solar plants projects (in the renewable energy category), two green building projects (in the energy efficiency category), and three district cooling projects (in the energy efficiency category and allocated to FAB Green Private Placements). The inclusion of these projects continues to help align FAB's green financing efforts with the UAE Government's sustainable development plans. Internationally, FAB is financing two projects including one renewable energy plant in Morocco (in the renewable energy category), and one green building (in the energy efficiency category) in France. In June 2020, FAB successfully issued a landmark Hong Kong Dollar HKD750 million five-year Green Bond through a private placement. In January 2021, FAB priced its first Swiss Francs (CHF) denominated Green Bond by an international issuer. Globally, the green bonds market is estimated to peak into **US \$500 billion per year in 2021** outranking oil and gas. Lenders, capital markets and investors have an increasing appetite to divert their capital towards renewable energy and sustainable projects.

ESG and sustainability

The term ESG, which is Environmental, Social and Governance, is mainly used by the investment community to assess the performance of companies on key environmental, social, and governance factors that may affect financial performance. With responsible investment gaining momentum, there is a greater demand for ESG information from companies.

Most of the world's largest institutional investors – including sovereign wealth funds, are increasingly allocating capital to companies that are well prepared to benefit from the transition to a green economy, as they wish to protect their portfolios against risks associated with ESG issues.

Just like credit rating agencies, ESG rating agencies have become popular of late, whereby such agencies evaluate publicly disclosed qualitative and quantitative non-financial data and transpose this information

into ESG scores, ratings, and insights that are used by investors to inform their investment decisions.

The way a company handles its ESG issues, can affect its long-term performance and its valuation. In view of this, ESG due diligence has become common in merger and acquisition transactions. Under an ESG due diligence, sustainability experts would typically identify the risks and opportunities with respect to the ESG information of a potential transferor company.

Abu Dhabi Securities Exchange (“**ADX**”) and Dubai Financial Markets (“**DFM**”) are also promoting sustainability reporting among listed companies. Both exchanges are actively positioning themselves as leading sustainable financial markets in the Middle East, being members of the United Nations Sustainable Stock Exchange Initiative. Recently, the DFM launched its Sustainability Strategic Plan 2025 aimed at underpinning its continuous efforts to promote ESG best practices amongst listed companies and other stakeholders.

Conclusion

Based on the above, UAE is evidently taking major steps to address climate changes, achieve its NDCs, promote ESG compliance and sustainable development in all aspects.

For further information, please contact [Omer Khan](mailto:O.Khan@tamimi.com) (O.Khan@tamimi.com).