

Business with a purpose

The UAE and Abu Dhabi's evolving approach to ESG is in line with the increasing focus among consumers and investors on environmental and social issues that ever before, writes Stephen Sullivan and Hannah Chima of Trowers & Hamlins.

Environmental, Social and Governance (ESG) is increasingly used by investors as an indicator of a business's success. In response, businesses are having to re-evaluate their practices, strategies and ways of working to remain attractive to investors and consumers alike. In both Abu Dhabi and the UAE, the government has also come to recognise that it is no longer sufficient to focus only on economic success. They have introduced initiatives showing their commitment to ensuring economic development takes place in an environmentally and socially sustainable way across the emirates.

ESG acts as a guide for businesses that goes beyond the principal objective of attaining financial success and refers to considerations that businesses may have relating to their (i) environmental impact and how they look to mitigate the harm they

cause to the environment; (ii) relationships with internal and external stakeholders and how they look after consumers, for example protecting their privacy; and (iii) ways of working, how their management operates and how transparent they are as a business.

INITIATIVES ACROSS ABU DHABI AND THE UAE

Initiatives are being introduced that demonstrate that the emirate of Abu Dhabi and the UAE, as a whole, are committed to improving ESG. These initiatives are a significant step. Although there is no overarching obligation on all businesses to consider ESG in their day-to-day operations, the initiatives clearly show that the government and core financial bodies see ESG as central to the future of the UAE and its economy.

Abu Dhabi's vision includes a plan to reduce reliance on the oil sector as a source of economic activity and to focus on creating knowledge-based industries, as well as ensuring balanced social and regional economic development. The current strategy builds on the previous UAE Vision 2021 that set 'Sustainable Environment and Infrastructure' and 'Cohesive Society and Preserved Identity' as areas of national priority. The Abu Dhabi Global Market (ADGM) has launched a number of initiatives to encourage sustainable economic growth, whilst recently being announced as the world's first-carbon neutral international financial centre after offsetting its 2021 carbon



emissions. ADGM's initiatives include the ADGM Sustainable Finance Platform which will share finance data and trends on areas including ESG Disclosure and Responsible Banking, and provide indicators aligned with the ADGM Sustainable Finance Guiding Principles. As many businesses in Abu Dhabi are set up in the ADGM free zone, ADGM's initiatives are likely to have a positive and widespread impact on ESG in Abu Dhabi as a whole.

The Abu Dhabi Securities Exchange (ADX) has also demonstrated a significant commitment to driving ESG in the emirate. The ADX is now a partner of the United Nations led Sustainable Stock Exchanges initiative. As part of this, ADX has issued ESG disclosure guidelines for listed companies that provide 31 indicators of how such companies can integrate environmental and societal sustainability standards into their ways of working, whilst still facilitating economic growth.

Furthermore, the Abu Dhabi Investment Office (ADIO) introduced an ESG policy last year. The policy covers ADIO's plans to maximise the ESG benefits of its incentive and public-private partnership programmes by including ESG considerations in decision-making processes. The introduction of ESG policies by bodies such as the ADIO, will further encourage businesses in Abu Dhabi to follow suit and focus more on their ESG portfolios.

In line with government direction, Abu Dhabi's businesses are already starting to show commitment to making a change. Mubadala, TAQA and ADNOC, partnering under the 'Abu Dhabi Future Energy Company (Masdar)' brand, have come together to strengthen their efforts in the clean energy sector. They plan to boost their renewable energy capacity to over 50 GW by 2030.

ESG REQUIREMENTS IN ABU DHABI AND THE UAE

Whilst the above initiatives introduced in Abu Dhabi and the UAE are likely to incentivise some businesses to take action to better their ESG profile, there were previously no actual requirements for them to do so. We are now seeing a shift aligned with global best practice, as the UAE Security and Commodities Authority (UAE SCA) goes a step further to impose an ESG-related requirement on certain companies.

The UAE SCA now requires all listed companies to submit a sustainability report regarding their business strategy and their resulting impact on the environment, society and economy. The report must be submitted either 90 days after the end of their financial year or before the company's AGM, whichever comes first.

Whilst there are not widespread obligations on all businesses to improve their ESG portfolio, the recent introduction of the above requirements, should be an incentive for all businesses in the UAE to adopt ESG frameworks and reporting to ensure they remain attractive and competitive.

THE EVOLVING APPROACH TO ESG

It is particularly interesting to see this new focus on ESG in the UAE given the previous reliance on the oil economy. Local and federal governments are now looking to diversify the economy and are encouraging businesses into more sustainable practices to secure the longevity of the UAE's economy.

This new focus on ESG seems in line with the fact that consumers, and therefore investors, are more concerned about environmental and social issues than ever before, with subjects such as climate change and diversity being very prevalent in today's world.

In the coming years we are only likely to hear more of ESG. If the fact that investors are increasingly looking at a business' ESG practices is not enough to encourage them to implement change, there are also likely to be widespread obligations placed on all businesses in the coming years to require them to disclose their efforts and report on their work with regard to their social and environmental impact. 🏡



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