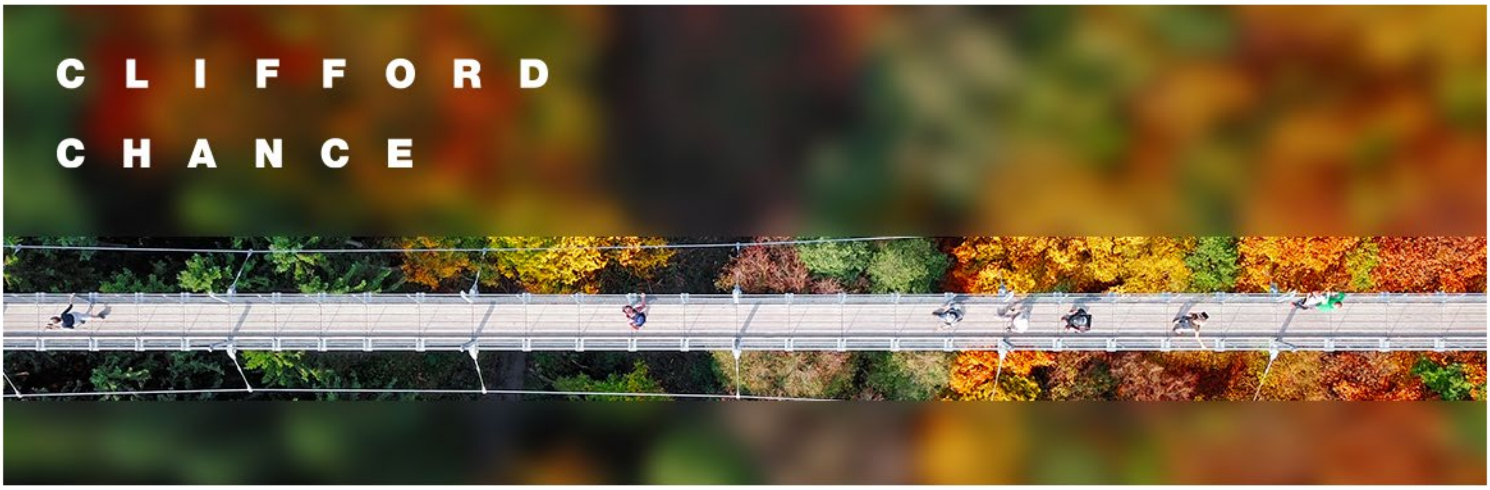

MENA REGION: THREE EMERGING ESG FINANCE TRENDS

The MENA region is experiencing rapid growth in green loans and sustainability-linked loans with issuers/borrowers ranging from sovereign wealth funds and GREs to financial institutions and corporates tapping into the ESG market. As the market grows, a number of trends are emerging, including the potential for the introduction of mandatory external reporting, the need for a harmonised regulatory framework and the diversification of products.

Green finance encompasses obtaining funds for addressing climate and environmental issues (such as reducing greenhouse gas emissions, climate change mitigation and biodiversity protection and restoration).

Sustainable finance has a broader scope, integrating environmental as well as social and governance factors into investment decisions.

1. THE INTRODUCTION OF MANDATORY EXTERNAL REPORTING?

As part of their broader ESG strategies, several governments in the MENA region have enacted laws and regulations pertaining to reducing carbon emissions and net zero targets, gender parity, personal data protection and privacy and corporate governance standards. In the UAE, for example, the UAE Securities and Commodities Authority now requires public joint-stock companies listed on the Abu Dhabi Exchange or Dubai Financial Markets to publish an annual sustainability report while Abu Dhabi Global Markets has implemented a sustainable finance regulatory framework which (amongst other things) provides an "opt-in" framework for ESG finance classification and continuous reporting. This is a positive move to instil investor confidence and enhance the accountability of borrowers and issuers to ensure material ESG factors are disclosed and addressed. Although most of these regulations and guidelines are voluntary for now, particularly, for the private sector, there is a fairly unambiguous pivot towards comprehensive reporting (particularly given global concerns around "greenwashing"). In our view, mandatory external reporting is not a question of "if" but "when."

2. THE NEED FOR A HARMONISED REGULATORY FRAMEWORK

Investors and the regional (and global) financial industry require a cohesive, overarching framework which allows access to comparable ESG metrics and reporting. This would mitigate compliance risks associated with financial reporting (and disclosure) regulations. ESG financing is the new normal and the industry, as a whole, is maturing rapidly. We foresee a situation where very few organisations in the region do not have an ESG policy, risk framework or a senior management member in place to oversee that entity's ESG compliance and reporting. With this evolution in ESG governance, there is a need to enact a harmonised, overarching framework at the country-level (if not at the Gulf Cooperation Council – GCC – level) in order to: provide certainty to ESG issuers/borrowers, avoid regulatory "fatigue" and reduce compliance costs, while ensuring the transparency and comparability of information made available to investors, lenders and other stakeholders.

Realistically, a harmonised framework of this nature is likely a few years away given definitional complexities and broader investing themes. We hope that COP28 will shed much-wanted light.

3. THE DIVERSIFICATION OF PRODUCTS

The region continues to see co-ordinated leadership across the financial industry, regulators and governments and meaningful investor and shareholder participation when it comes to devising ESG financing strategies and products. With ambitious energy investment and diversification plans in place, and the energy transition towards renewables well under way, a driver of sustainable finance growth has been sustainability-linked and "use of proceeds" financing. Whilst "use of proceeds" financing is only available for specific green or social projects or activities, sustainability-linked financing appeals to a wider group of issuers and borrowers as the proceeds can be used for general corporate purposes. The focus is instead on certain predetermined sustainability performance targets of the issuer/borrower. For example, a reduction in greenhouse gas emissions, social inclusion targets or industry-specific KPIs such as for the pharmaceutical industry, affordable healthcare, and for the construction industry, reducing workplace accidents.

With the development of regulations which would provide clarity on the classification of ESG financing products (i.e., what is and is not ESG financing), the opportunities for new products will only increase. ESG equity, for instance, is a promising product which could have an immense impact and the "S" element of ESG remains relatively untapped in the region. The challenge is in developing a holistic taxonomy on the basis of regulations or, failing that, market consensus. Given the liquidity and investor interest as well as political will, the MENA region is poised at the cusp of a surge in ESG finance – not just in terms of volume, but innovative products and structures.

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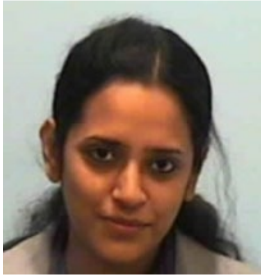

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