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MASHREQ AL ISLAMI FORUM IN ASSOCIATION WITH MEED

Sustainable Asset Management

Financing the future of real estate and manufacturing in the UAE

FEBRUARY 2024

MEED
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Foreword

The UAE's disruptive financial infrastructure is transforming the nation's business landscape

Today's investors are increasingly seeking opportunities that contribute to sustainable development. This shift in perspective recognises that sustainable investments not only align with societal values but also contribute to long-term financial performance and risk mitigation.

In the Middle East, where environmental concerns such as water scarcity and climate change are prominent, considering environmental, social and governance (ESG) factors in investment decisions becomes crucial for risk management.

This convergence of global trends, investor preferences and increased awareness of ESG factors is propelling sustainable asset management into the mainstream.

On their part, asset managers can contribute to a more sustainable and responsible financial landscape through ESG integration, impact investing, Islamic finance and sustainable investments.

Financial tools that align investor interests with sustainable outcomes will be integral in driving adoption.

Continued innovation in financial instruments such as green bonds, social impact bonds and sustainability-linked finance is another way to further these objectives.

It then lies with the governments and regulatory bodies to implement policies that encourage or mandate the integration of ESG considerations in financial decisions. This includes disclosure requirements and sustainable finance regulations.

These issues were at the core of debate at an exclusive, invite-only forum on 7 December hosted by Mashreq Al Islami in association with MEED. During the event, attendees discussed the challenges and opportunities in managing assets sustainably, with a particular emphasis on the real estate and manufacturing sectors in the UAE.

The one-day forum saw insightful discussions led by a panel of industry experts and case studies from regional technology vendors at the forefront of driving sustainable practices. This report captures high-level insights from the subject experts and key stakeholders at the event.

A responsible approach to financial decisions

By channelling funds into projects and businesses prioritising eco-friendly practices, sustainable finance has become a powerful tool for combating climate change

$270bn

Amount the UAE has pledged to mobilise for sustainable finance by 2030

The growing threat of climate change has prompted global markets to prioritise investments in climate-neutral economic activities.

This is reflected in Cop28 climate summit pledges, such as the UAE's promise to mobilise AED1tn ($270bn) in sustainable finance by 2030.

Beyond the UAE, public and private organisations around the world have also declared substantial commitments to help shape a sustainable and responsible financial future (see Cop28 finance pledges on p4).

"As the world approaches a turning point for global climate action, investments in renewable energy, energy-efficient technologies and environmentally conscious infrastructure have become significant for reducing carbon footprints," said Ibrahim Al Mheiri, executive vice-president and head of Islamic banking at Mashreq, speaking at the Sustainable Asset Management forum hosted by Mashreq Al Islami and MEED in Dubai.

The greater focus on environmental, social and governance (ESG) factors has spurred companies, banks and governments to evaluate and enhance their practices, he noted – fostering sustainable business approaches, minimising carbon emissions and reinforcing accountability.

"The collective effort contributes significantly to the broader transition towards a net-zero economy," he added during his

Cop28 Finance Pledges

- The **UAE has pledged $30bn** to a fund that invests in global climate-friendly projects, with $5bn for the Global South.
- The World Bank aims to **increase climate funding to 45%** of its total lending, an annual increase of $9bn.
- UAE banks have pledged to **mobilise AED1tn ($270bn)** in green finance.
- The Development Bank of Latin America and the Caribbean will invest more than **$2bn annually until 2030** in South America to fight climate change.
- The Asian Development Bank will **allocate $10bn for climate investment** in the Philippines between 2024 and 2029.
- **Japan and France have pledged to back a plan** by the African Development Bank and Inter-American Development Bank to leverage IMF Special Drawing Rights for climate and development.
- Charitable donors, including the Bezos Earth Fund, joined forces with the World Bank's private investment arm in a climate financing **venture to generate $11bn in investments** in developing countries.
- The US has **promised $3bn to the Green Climate Fund (GCF)** for reducing emissions and adapting to climate change in developing countries. With more than $20bn in pledges, the fund is the largest international fund dedicated to supporting climate action in developing countries.

keynote address at the one-day event.

Al Mheiri told attendees that global awareness of the need for sustainability has prompted companies to align themselves with this goal: "A case in point is the UAE's pledge of $30bn made at Cop28 to a new fund for investing in climate-friendly projects across the globe."

Al Mheiri's remarks mirror the Cop28 presidency, led by Sultan Al Jaber, which highlighted the urgency of tackling the lack of accessible and affordable finance at the recent intergovernmental climate summit in Dubai.

Al Jaber emphasised that this financial gap jeopardises global climate goals and sustainable development, making it a top priority for the summit.

Shaping economies

Sustainable finance can be categorised into two main groups: sustainable products and sustainability- or ESG-linked markets.

"The dual categorisation of sustainable finance into sustainable products and sustainability-linked markets reflects the diverse strategies employed to promote environmental and social responsibility within the financial sector," said Hussam Abdel Al, senior director of origination and head of sustainable finance, investment banking, Mashreq.

Sustainable products refer to financial instruments designed to support such initiatives. This category includes green bonds, which are fixed-income securities earmarked for projects with positive environmental impacts.

While these projects could be anything from building solar farms to improving water conservation and establishing sustainable infrastructure, there needs to be more clarity on what constitutes a green or social project.

"Typically, the criteria is outlined in a sustainable finance framework provided by the issuing company where qualifying projects can range from renewable energy to clean transportation and social inclusion. Therefore, it is important for issuers to establish a proper framework," said Abdel Al.

Another facet of sustainable products is social bonds, aimed at financing projects that address social issues such as affordable housing, healthcare and education.

In contrast, sustainability-linked finance tie interest rates to the borrower's performance in meeting predefined sustainability targets. At the same time, ESG-linked markets provide a platform for companies committed to responsible business practices, fostering transparency and accountability.

Abdel Al further explained that in such approaches, the funding provided for general corporate purposes or capital expenditures is tied to achieving predefined KPIs and targets.

"These KPIs should be relevant to the industry and set at ambitious levels, going beyond business-as-usual activities," added Abdel Al.

"As the world approaches a turning point for global climate action, investments in renewable energy, energy-efficient technologies and environmentally conscious infrastructure have become significant for reducing carbon footprints"

Ibrahim Al Mheiri
Executive vice-president and head of Islamic banking
Mashreq

Green savings

The rise of sustainable finance is not just a response to ethical considerations; it is driven by the realisation that long-term financial success is intertwined with environmental and social sustainability.

"Sustainable practices go hand-in-hand with operational efficiency," said Abdel Al. "By identifying opportunities to optimise energy consumption, reduce waste and streamline processes, environmentally conscious firms can achieve significant cost savings in the long run."

Addressing whether sustainable finance is more expensive than traditional funding, Abdel Al clarified, "Interestingly, there is no noticeable difference."

He dispelled the notion that green finance should come with a substantial discount, explaining that banks do not receive direct benefits or incentives from central banks for offering green financing. "While competition for financing green assets may impact prices, the funds do not come from a separate pool."

"Banks, as intermediaries between depositors and projects, prioritise ensuring the creditworthiness of the projects they support."

Banks do not show more leniency on credit solely because a project is green, he noted.

"For early-stage sustainable projects, alternative liquidity sources might be more suitable, but as projects progress and scale up, banks are willing to support their growth, similar to their approach with any other corporate endeavour."

Islamic alignment

Islamic finance has gained recognition for its ethical and equitable approach to financial transactions. It complements the goals of sustainable finance, as both aim to promote economic development while considering social and environmental factors.

Sharia-compliant finance aligns with the sustainability agenda by promoting investments in environment-friendly and socially responsible projects, and prohibiting investments in industries such as gambling, alcohol and tobacco.

"There is a strong connection between Islamic principles and sustainability as both aim to do good," said Abdel Al.

"Despite differing product structures, the core principle of promoting positive actions for long-term success remains the same. Islamic finance encourages partnership, where both profit and risks are shared. This Islamic concept aligns well with sustainability goals.

"And therefore, the screening process in Islamic finance, known as sharia compliance, can serve as a model for sustainable finance, ensuring ethical considerations in investment decisions."

E

Environmental

How a company impacts the planet. Does the company care about saving energy, reducing waste or using eco-friendly materials?

S

Social

Is all about people and communities. How does a company treat its employees? Does it contribute positively to the community it operates in? Socially responsible companies prioritise fair wages, diversity and community engagement.

G

Governance

Is there transparency in decision-making? Are there strong ethical guidelines in place? Good governance ensures that a company follows the rules and does so with integrity.

Tackling carbon emissions in global construction

The integration of digital technologies across a project lifecycle is essential to achieve net-zero carbon objectives

40%

Proportion of global carbon emissions contributed by the built environment

By 2060, worldwide building growth is projected to increase the amount of space taken up by buildings to about 223 billion square metres (2.4 trillion square feet), according to global consultancy Deloitte.

While this growth will have a positive economic impact, it also poses a significant challenge for ESG (environment, social, and governance) goals.

"Globally, the built environment accounts for almost 40% of carbon emissions," Toufic Riman, manager for the Gulf region at Autodesk, told the Sustainable Asset Management forum, hosted jointly by Mashreq Al Islami and MEED in Dubai on 7 December.

Manufacturing, including for the construction supply chain, "adds another 18-20% on top of these emissions," he said.

Greener buildings

The increased production of embodied carbon – the upfront greenhouse gas (GHG) emitted during the manufacturing, transportation, installation, maintenance and disposal of building materials – has led to growing demand for greener buildings.

Substantial changes need to be made to the built environment, with the focus firmly on constructing energy-efficient, durable and high-performing structures.

This will require massive investment. According to the International Finance Corporation (IFC) emerging markets require $1.5tn in investment before 2035 to make new and existing buildings environmentally friendly.

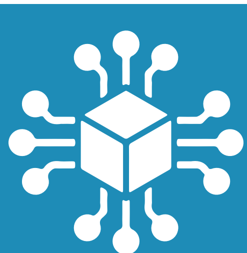
"Achieving net zero by 2050 does not imply waiting until the year to act," said Hussam Abdel Al, senior director for origination and head of sustainable finance, investment banking at Mashreq.

"There are interim goals that need to be addressed and require decarbonisation efforts to commence immediately."

Greener buildings come with inherent benefits. Environment-friendly structures are advantageous to capital investors as they are more likely to have a better market value and attract premium tenants.

"It is very important to think about the sustainability and economic factors right from the design stages of a project"

Katarina Hasbani
Director of strategy and advisory
AESG



Building information modelling (BIM), geographic information systems (GIS) and digital twins play essential roles in facilitating eco-friendly design and evaluating embodied carbon

But to ensure an optimal outcome, design and operations must be considered from the onset. "It is very important to think about the sustainability and economic factors right from the design stages of a project," said Katarina Hasbani, director of strategy and advisory at sustainability consultancy AESG.

To move in this direction, developers must analyse their operations and look to work with partners capable of delivering cost-effective solutions that present opportunities for savings.

"Efficient energy usage, water conservation methods and strategic waste reduction contribute significantly to cost reduction while enhancing sustainability efforts for businesses or property owners," said Hasbani.

"Implementing energy, water and waste management measures across existing assets offers potential savings of up to 10% in operating costs."

Moreover, with about 72% of landfill emissions coming from construction waste, according to Autodesk's Riman, there are further opportunities for savings during the building phase.

New-age digital tools

While the Middle East has lagged in terms of shifting to greener construction, tools that enable sustainable design construction and operations have led to significant progress in the region in recent years.

Tools such as building information modelling (BIM), geographic information systems (GIS) and digital twins today play essential roles in facilitating eco-friendly design and evaluating embodied carbon.

The advent of sustainability-geared digital technologies has empowered project owners. They are now able to oversee construction projects in real-time, enjoy enhanced communication with contractors and use data to underpin informed decision-making among all stakeholders.

In 2013, Dubai Municipality mandated the use of BIM for architectural and mechanical (MEP) works on projects.

BIM integrates smart data analysis and predictive modelling into a building's physical components, improving workflow efficiency and reducing the risk of expensive mistakes.

The tool can optimise efficiencies, substitute traditional construction materials with recycled, low-carbon alternatives and prevent potential issues in both the design and construction phases.

BIM has been used on several high-profile projects in the UAE, including the Dubai Opera, Dubai's Museum of the Future and the Louvre Museum in Abu Dhabi.

Saudi Arabia is ramping up the integration of new and innovative technologies across the majority of its projects. Sustainability is a key part of the government's Vision 2030 strategy as the country strives to achieve net zero by 2060.

Saudi's five official gigaprojects have put sustainability at the core of their procurement processes. The $500bn Neom project, for example, will be powered entirely by renewable energy once operational, while Public Investment Fund-backed real estate developer Roshn has integrated power-saving technologies and adopted water treatment and reuse across the communities it is developing in the kingdom.

"For any company to stay competitive and attract more business and financing, it is crucial to embrace the most recent innovations and technologies, particularly those that have demonstrated success on a global scale," said Riman.

Digital twins, if integrated effectively during the design phase, enable the post-completion tracking of assets to detect issues and enhance operational effectiveness. This is achieved by creating exact replicas of real-world spaces and generating real-time data.

Additionally, the tool allows the monitoring of key performance indicators that measure the project's sustainability criteria, helping project owners to assess efficiency.

"We are seeing a drastic change when it comes to owners and operators, especially in the Gulf region, regarding their expectations from projects," said Riman.

"Leaders are seeing the incredible opportunities a digital twin can offer."

A study by McKinsey states that the deployment of digital-twin technologies could boost revenues by 10%, halve the time to market and enhance product quality by up to 25%.

"For larger organisations in particular, failing to integrate ESG into their strategic planning could lead to future irrelevance and potentially result in a competitive disadvantage"

Hussam Abdel Al
Senior director of origination and head of sustainable finance, investment banking
Mashreq

GIS, meanwhile, is a mapping software that allows project managers to create detailed maps of project sites to determine their suitability for construction. These maps provide information on the topography, soil type, drainage patterns and other environmental factors that could impact construction.

Furthermore, the integration of artificial intelligence, specifically generative design, is helping to solve manufacturing challenges in unique ways. The technology allows design goals, materials, cost constraints and other data points to be inputted and evaluated, providing diverse solutions.

ESG objectives

Green building certifications and codes serve as valuable frameworks, guiding investors towards environmentally and socially responsible development. This aligns with their ESG objectives and offers financial and reputational benefits in the long run.

"The increasing significance of ESG lies in its integration within corporate strategies," said Mashreq's Abdel Al.

"For larger organisations in particular, failing to integrate ESG into their strategic planning could lead to future irrelevance and potentially result in a competitive disadvantage."

International certifications such as LEED and BREEAM help determine the environmental impact of any given building.

Sustainability requirements are becoming essential in global markets, influencing decisions, disqualifications and procurement mandates. Holding these premium certifications helps clients adhere to principles laid out by the World Green Building Council (WorldGBC).

The WorldGBC works alongside businesses, organisations and governments to deliver on the ambitions of the Paris Agreement and UN Global Goals for sustainable development.

"Businesses are urged to consider sustainability not as a cost centre, but a pathway to results," said Hasbani.

"The focus remains on making these discussions practical and relevant to each clients' digital capabilities and financial growth, drawing inspiration from successful examples."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Green finance and decarbonisation

Understanding sustainable finance frameworks is imperative if net-zero objectives are to be achieved

The global sustainable finance market was valued at $3.65tn in 2021 and is expected to hit $22.48tn by 2031, according to projections from Allied Market Research.

Over the years, sustainable finance has garnered significant interest, especially considering its role in driving sustainable development. The concept represents an approach to impact investing that addresses environmental, social and governance (ESG) considerations.

With global challenges increasing, it is important to understand the concept of sustainable finance and to address elements including green and climate finance.

Green finance primarily concentrates on funding projects and initiatives that yield environmental outcomes.

In addition, sustainable finance also emphasises the significance of environmental and social risk management, acknowledging

$1.5bn

Amount raised by DP World in green sukuk issuance in October 2023 to finance its global decarbonisation initiatives

the importance of assessing and mitigating potential risks associated with economic activities, ensuring both financial viability and positive societal impact.

For its part, the UAE aims to establish itself as a worldwide centre for sustainability by introducing solutions that safeguard the environment and economy for future generations. In recent times, the focus on integrating sustainability into everyday practices and adopting environmentally friendly economic approaches has become a priority for government entities and international bodies, aligning with this vision.

Speaking on 7 December at the Sustainable Asset Management forum hosted jointly by Mashreq Al Islami and MEED in Dubai, Carlin Naidoo, group director of sustainability at global ports operator DP World, said: "Amid the frequent use of terms like 'green' and 'sustainable', having a framework outlining clear eligibility criteria is essential.

"It sets strict criteria – defining what genuinely qualifies as green or sustainable. These guidelines ensure organisations communicate consistently about genuine sustainability efforts."

Financing the transition to net-zero

To achieve these net-zero objectives, organisations must have a robust sustainable finance framework that encourages the issuance of green and sustainable debt instruments to finance projects that enable the transition to a low-carbon and climate-resilient economy.

Issuing green, social and sustainability (GSS) bonds can directly support ESG and net-zero objectives. Industries with high carbon footprints can utilise green bonds to raise funds for decarbonisation projects, accelerating the shift towards cleaner energy.

Corporate green bonds and sukuk (Islamic bonds) resemble traditional bonds in their structure, risks and returns. The key difference lies in their allocated funding, specifically for environmentally beneficial projects like those addressing climate-change mitigation and adaptation.

"When issuing a green bond, companies are essentially showcasing their internal governance for managing it," said Hussam Abdel Al, senior director of origination and head of sustainable finance, investment banking at Mashreq.

"External auditors verify compliance with set standards, enabling companies to confidently verify their adherence to these guidelines and show their commitment to meeting such standards."

A green sukuk functions much like a traditional interest-free bond that is compliant with sharia principles, but it channels its funds specifically into initiatives focused on climate-related activities.

A shift towards sustainable financing is gradually taking place across the region.

Green bond and sukuk issuances in the GCC hit a record high in 2022 of $8.5bn from 15 deals, compared to $605m from six deals in 2021, according to data recorded in Bloomberg's Capital Markets League Tables.

In October 2023, DP World raised $1.5bn in a green sukuk issuance targeted at financing its worldwide decarbonisation initiatives, further aligning its financial approach with its sustainability goals.

The proceeds generated from the sukuk issuance will be allocated to qualified green initiatives, including electrification, renewable energy, sustainable transportation and enhancements in energy efficiency.

Similarly, UAE-based Abu Dhabi Future Energy Company (Masdar) raised a $750m green bond targeted at funding dark green renewable energy projects. Such projects focus on developing economies and climate-vulnerable countries in critical need of investment.

This bond marks the initial step in the company's wider initiative of raising up to $3bn in bonds. The funds generated from these bonds will support essential projects within the renewable energy sector, including wind power, solar energy, infrastructure for transmitting and distributing renewable energy and investments in battery storage assets.

Investors typically prioritise three key mandates when it comes to bond issuance.

"Possessing strong assets, maintaining a balanced portfolio and presenting compelling success stories strengthens a company's strategy, making it more attractive to potential investors," said Naidoo.

> **"The focus is to reduce our scope one and scope two emissions by 28% by 2030 in an effort to achieve carbon neutrality"**
>
> **Carlin Naidoo**
> Group director of sustainability
> **DP World**

Sustainable finance framework

Organisations aiming to shift towards sustainable practices must focus on strengthening their financial frameworks, as making sustainable changes often requires upfront investment and long-term commitment.

Developing robust financial frameworks ensures the necessary resources are allocated efficiently, supporting the transition to sustainable practices while maintaining the organisation's stability and growth.

To align with evolving best practices and reinforce its commitment to sustainability, DP World decided to update its sustainable development financing framework to a sustainable finance framework.

The decarbonisation plan under this framework is expected to cover five core elements, including electrification of equipment, enhancing process efficiency through digitalisation, sourcing renewable energy, securing low-carbon fuel and implementing carbon offset measures.

"In terms of frameworks, it is important that an organisation's sustainability strategy aligns with the UN Sustainable Development Goals of achieving a more sustainable and better future for all," said Naidoo

This aligns with the firm's objectives of achieving carbon neutrality by 2040 and net-zero carbon emissions by 2050.

Risk management

To achieve their sustainability objectives, organisations must have strong controls and procedures in place, especially when it comes to managing risks associated with projects.

Adopting a sound environmental and social risk-management approach can help identify, analyse and respond to any risk that arises during a project's life cycle.

It is also vital for companies to have policies and guidelines in place that fall under the health, safety and environment management system, to achieve overall sustainability objectives. Certifications such as ISO45001 aim to improve the safety of employees and other parties in the workplace.

Naidoo further explained how DP World has adopted a science-based approach to reduce its carbon footprint and emissions. This includes scope one, or direct emissions from owned and controlled sources; scope two emissions, which are indirect emissions associated with the purchase of electricity; and scope three emissions, which covers all indirect upstream and downstream emissions in the value chain.

"The focus is to reduce our scope one and scope two emissions by 28% by 2030 in an effort to achieve carbon neutrality," said Naidoo.

Role of standards and regulations in green investments

Transparency and accountability in financial decisions lead to ethical and responsible investment practices

60

Number of policies, initiatives and decisions issued by the UAE cabinet on sustainability and climate change in 2023

Global initiatives such as the Paris Agreement underscore the urgency of sustainable practices in combatting climate change. In the Middle East, many countries have embraced this imperative with policies that are making substantial strides towards sustainability.

The UAE cabinet, for instance, issued 60 policies, initiatives and decisions on sustainability and climate change in 2023. As well as hosting the Cop28 global climate summit at the end of last year, the nation has established the Net Zero 2050 Charter and National Framework for Sustainable Development.

Similarly, Qatar launched a national climate change action plan in 2021 aimed at achieving a 25% reduction in greenhouse gas emissions by 2030. Saudi Arabia has also announced its goal to increase the contribution of renewable energy to its energy mix by 50% by 2030.

As countries set binding emission-cutting commitments, companies must prioritise routine reporting and active management.

Delaying action is not an option, Hussam

> **"Immediate efforts to reduce greenhouse gases are essential to achieve net-zero carbon emissions by 2050, necessitating proactive management and ongoing accountability well before the deadline"**
>
> **Hussam Abdel Al**
> Senior director of origination and head of sustainable finance, investment banking
> **Mashreq**

Abdel Al, senior director of origination and head of sustainable finance, investment banking at Mashreq, told a forum on sustainable asset management, hosted in Dubai by Mashreq Al Islami and MEED.

"Immediate efforts to reduce greenhouse gases are essential to achieve net-zero carbon emissions by 2050, necessitating proactive management and ongoing accountability well before the deadline," he said.

Addressing the need for standardised frameworks, the forum highlighted the importance of regulations in combatting greenwashing and fostering transparency and accountability in sustainable practices.

Sustainability frameworks

Sustainable finance involves directing capital towards projects that yield environmental and social benefits. Yet without established guidelines, it will be challenging for consumers, investors and stakeholders to differentiate genuine sustainability initiatives from marketing tactics.

The risk of misallocation or unintended use of funds also exists, potentially undermining the intended positive impact.

To address these concerns, companies must define sustainable finance frameworks and adopt a structured approach to utilise funds dedicated to green initiatives.

The emphasis on defining these processes resonates with the broader movement towards corporate social responsibility and sustainable business practices.

"The goal is to cultivate long-term sustainability practices rather than superficial initiatives," said Katarina Hasbani, director of strategy and advisory at AESG.

Hasbani stressed the importance of integrating principles into core operations, adding: "Without clear frameworks, companies may struggle to demonstrate accountability, transparency and adherence to ethical standards."

This would not only affect their credibility, but also hinder the overall progress of sustainable finance initiatives.

Established standards, methodologies and data validation procedures can guide collaborative efforts in establishing a strategic sustainability framework, Hasbani explained.

Internationally recognised sustainability frameworks, such as the Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosures (TCFD), play a crucial role in helping companies achieve ambitious targets and report on performance.

The GRI helps firms understand and report on their impact on the economy, environment and people in a comparable and credible way.

Similarly, the TCFD assists organisations in disclosing climate-related financial risks and opportunities in line with its recommendations.

Hasbani advised proactively adopting leading practices to help gain competitive advantages ahead of tighter policies.

"By increasing the credibility of their sustainability efforts, corporations can also facilitate better evaluation by financiers," Abdel Al added.

Sustainability-linked finance, according to Abdel Al, plays a pivotal role in assessing the credentials of a project and determining its eligibility under established frameworks.

"As global and regional stakeholders increasingly scrutinise sustainability performance, they are pressuring governments and industries to strengthen policies driving action on climate change and sustainable development goals (SDGs)," he added.

In response to these pressures, regulatory bodies in the UAE and abroad are likely to mandate reporting against frameworks for high-emission industries, starting with carbon emissions data collection.

These market and policy trends imply that sustainability disclosure aligned with international standards will become a regulatory and competitive necessity across high-impact industries and supply chains within the next decade.

Regulatory requirements

Regulations increasingly require businesses to accurately represent their commitment to sustainability, preventing misleading practices and fostering transparency in environmental messaging.

Several countries have already implemented regulations to ensure financial institutions and asset managers integrate sustainability considerations into their investment decisions.

"The government's recognition of the necessity for clear regulations is evident in its exploration of ways to establish carbon disclosure requirements for key economic activities, including buildings, transportation, manufacturing and utilities"

Hussam Abdel Al
Senior director of origination and head of sustainable finance, investment banking
Mashreq

For example, the European Union's Sustainable Finance Disclosure Regulation (SFDR) requires financial firms to disclose how they integrate environmental and social factors into their investment processes. This regulation promotes transparency and empowers investors to make informed decisions based on a company's sustainability performance.

The Middle East is making similar progress in establishing sustainable finance regulations.

The UAE Sustainable Finance Working Group, which collaborates with local financial institutions to develop sustainable finance guidelines, is a good example.

Meanwhile, the Abu Dhabi Global Market's Financial Services Regulatory Authority has implemented its Sustainable Finance Agenda to encourage the incorporation of environmental, social and governance (ESG) factors through disclosure against international standards.

Islamic financial institutions, such as Kuwait Finance House, have also adopted banking principles that align with sustainable finance practices, showcasing their commitment to responsible asset management.

While voluntary actions have merit, clear regulations are needed to mandate transparency and drive meaningful change at scale, noted Mashreq's Abdel Al.

Acknowledging the positive strides taken by the UAE government, he said: "The government's recognition of the necessity for clear regulations is evident in its exploration of ways to establish carbon disclosure requirements for key economic activities, including buildings, transportation, manufacturing and utilities."

This is demonstrated through initiatives such as the creation of the Emirates Green Building Council that promote sustainable practices in construction.

Additionally, the introduction of the UAE National Climate Change Plan 2017-50 reflects the government's effort to regulate carbon emissions across different sectors.

As companies navigate the complexities of sustainable and responsible business

> **"Well-defined policies must, therefore, be implemented, establishing guidelines for substantiating sustainability commitments"**
>
> **Katarina Hasbani**
> Director of strategy and advisory
> **AESG**

operations, awareness and consideration of these evolving standards have become integral to strategic decision-making.

Green risks

Greenwashing poses a significant barrier to addressing the climate crisis. It occurs when companies exaggerate or falsely advertise their commitment to eco-friendly practices, aiming to appear more environmentally responsible than they genuinely are.

A coordinated effort is required to overcome this challenge.

"Increased transparency through standardised disclosure practices and independent validations can help build credibility," said Hasbani. "Well-defined policies must, therefore, be implemented, establishing guidelines for substantiating sustainability commitments."

This approach will help prevent superficial claims and foster a more consistent evaluation of sustainable investment activities.

It also supports comparative benchmarking that can drive continuous improvement. Such harmonised oversight is integral to guiding capital allocation toward authentic solutions.

While ESG disclosures can benefit companies, they also enable greater scrutiny, Abdel Al noted.

"Without sufficiently ambitious targets and performance tracking, even well-meaning efforts risk allegations of superficial 'greenwashing' that inflict more damage to a brand than benefit them," he said.

Hasbani added that including meaningful key performance indicators and framework targets will help demonstrate progress. She suggested a balanced approach that prioritises steady yet meaningful improvement to avoid allegations of shallow reforms.

Strategic goals

Achieving sustainability ratings is a commendable goal for any organisation, but approaching this with a strategic mindset is essential.

Rather than targeting unrealistic key performance indicators, companies should focus on small, incremental steps towards sustainability, prioritising achievable milestones within reasonable timeframes, Hasbani explained.

"Reporting efforts should start with optimising the more significant aspects of a company's operations, such as energy use, water management, waste reduction, pollution impacts, labour practices and diversity.

"Organisations must also stay informed as policies evolve and adjust practices to comply with the updated reporting requirements and performance standards. The aim should be establishing an ongoing evaluation and improvement process," Hasbani added.

As climate change impacts intensify, the Middle East is following global trends towards tighter sustainability policies and alignment with established frameworks to accelerate progress on emission reductions and UN SDGs.

Speakers at the Mashreq Al Islami Sustainable Asset Management forum noted that mandatory reporting and performance standards are on the horizon.

"We believe it is inevitable that reporting requirements will become mandatory over the next few years," Abdel Al said, indicating that carbon disclosure will likely become compulsory for high-emission industries in the UAE within the next few years.

Hasbani added that sustainability reporting expectations are already in place for publicly traded companies through stock exchanges, each with its own set of defined criteria.

"However, the trajectory of the regulatory landscape indicates a broader and more robust framework is taking shape. This evolution is not limited to disclosure expectations; it extends to developing comprehensive policies and legislative requirements."

Cop28 has placed regional sustainability efforts under an international microscope.

Hasbani added that hosting the climate forum will expedite the strengthening of regulatory frameworks.

"Moving forward, the onus is on governing bodies to adopt a more rigorous approach in mandating transparent reporting and quantifiable achievement of emissions reduction targets across all industries," she added.

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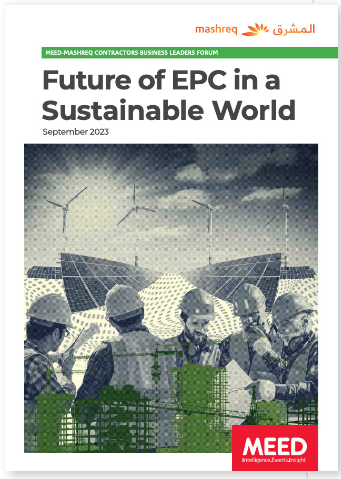

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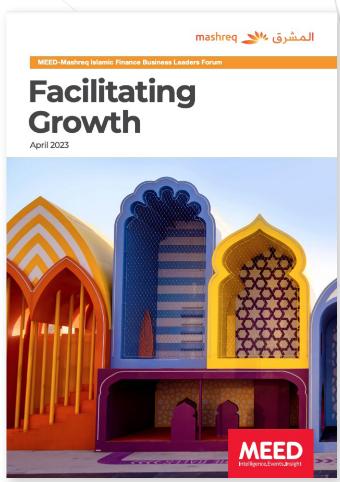

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Ibrahim Al Mheiri
Executive vice-president and
head of Islamic banking
Mashreq

About Mashreq

Established in 1967, Mashreq is the oldest privately-owned bank in the UAE, with award-winning financial solutions and services. Through its 50 year history, Mashreq has differentiated itself through innovative financial solutions, making it possible for its customers to achieve their aspirations.

Today, Mashreq has a significant presence in 11 countries outside the UAE, with 21 overseas branches and offices across Europe, the US, Asia and Africa. Mashreq launched its new Vision and Mission recently, outlining its commitment towards its clients, colleagues and the community.

In line with its vision to be the region's most progressive bank, Mashreq leverages its leadership position in the banking industry to enable innovative possibilities and solutions for its customers across corporate, retail, international, treasury and Islamic banking.

Mashreq is proud to be the first financial institution in the UAE to be awarded the Gallup Great Workplace Award for four consecutive years from 2014-17. Mashreq also continues to invest in recruiting, training and developing future generations of UAE national bankers.

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About MEED

MEED has been integral to delivering business information, news, intelligence and analysis on the Middle East economies and activities for over 65 years.

Attracting a key senior management audience through its content and activities, MEED is a media brand, publication and data business that covers a spectrum of services which inform, engage, connect and ultimately support our subscribers and partners in their business development and strategic growth.

Acquired by GlobalData Plc in 2017, MEED is now part of one of the largest data and insights solution providers in the world with the capacity to build global communities for our clients.

Our purpose is to support the region's companies make better and more timely decisions through our innovative data solutions and grow through our comprehensive and worldclass marketing solutions.
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