NBF KNOWLEDGE SERIES

EMBRACING SUSTAINABLE FINANCE

Wednesday, **9th November 2022**
Capital Club, DIFC, Dubai
8:00AM – 1:30PM

Agenda

Incorporating environmental, social, and governance (ESG) activities into business and banking has clear benefits, from lower borrowing costs and higher returns on investments, to greater resiliency and an enhanced reputation among stakeholders, consumers, and employees. As such, two themes stand out: how to embrace sustainable business strategies and how to embrace sustainable finance.

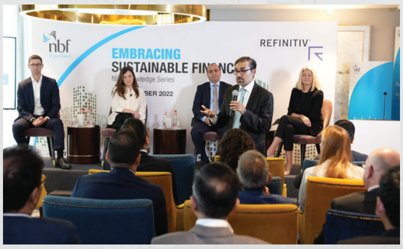
On the first theme, deploying an ESG focus can improve financial performance: companies worldwide which emphasise on ESG factors have achieved average revenue growth of 9.7% over the past three years, versus only 4.5% for those that did not, according to accountancy firm Moore Global. Unsurprisingly, therefore, 26% of 2,213 business decision-makers surveyed worldwide – including many in the UAE – are prioritising ESG, ahead of new products or services (24%), and financial growth (21%), as reflected in the research by the IT company Cloudera.

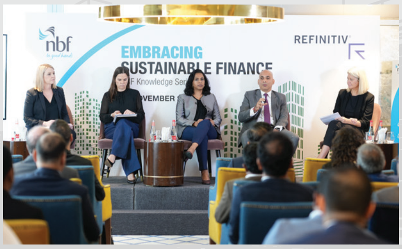
Additionally, some experts predict that by 2030 most major markets worldwide will be covered by mandatory ESG disclosure rules. UAE issued such requirements in 2021, obligating all public joint-stock companies listed in the country to comply with certain ESG elements and periodically report on them. This requirement may extend to all businesses, especially as the UAE readies to host COP28 in 2023.

On the second theme, investors globally are shifting increasingly towards sustainable finance by making investment decisions with ESG criteria in mind. In fact, a 2020 survey by Edelman found that 88% of institutional investors worldwide use ESG performance indicators in making investment decisions. Consequently, ESG investments will soar, growing from $8 trillion in 2021 to up to $30 trillion by 2030, according to fintech firm Broadridge Financial Solutions.

With the Middle East hosting both COP27 and COP28, sustainable investing is gaining traction in the region, and as the ESG agenda advances, some banks are also beginning to screen their investment products and loan portfolios for climate consequences.

To explore these developments and their implications for UAE businesses, NBF brought together leading finance and sustainability experts to discuss the latest trends, opportunities, and challenges in sustainable finance.





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Session 1

Sustainable Business Strategies

MODERATOR: Jane Witherspoon, Middle East Bureau Chief, Euro News

PANELLISTS:

- **Ashraf Abdelkhalek,** Sustainability Leader at Schneider Electric, Gulf Countries
- **Silvina Bruggia,** Director, Emerging and Frontier Markets, London Stock Exchange Group (LSEG)
- **Jeremy Crane,** CEO, Yellow Door Energy

Discussion Summary

Integrating ESG into strategy and decision-making must start now

The first panel began with a discussion on integrating ESG into strategy and decision-making. Jane Witherspoon, Middle East Bureau Chief, Euro News, asked how this could be done. Ashraf Abdelkhalek, Sustainability Leader at Schneider Electric for Gulf Countries, remarked that "businesses first need to recognise the importance of ESG". Elaborating further, Abdelkhalek explained that businesses must recognise that ESG issues such as climate change present both risks and opportunities. Once they acknowledge this, they should decide on a model to adapt their operations for climate change. For instance, climate change will create both physical and transition risks for businesses. Given the critical nature of these issues, Abdelkhalek also stated that "regardless of the timeframe, businesses must start now and evolve", giving the example of Schneider's own ESG strategy which started in 2005 and has developed over time.

Corporate sustainability is increasing, but challenges persist, and more innovation is required

Talking on the motivations behind corporate sustainability, Jeremy Crane, CEO, Yellow Door Energy, stated that the opportunity to reduce energy consumption and decrease costs is the primary driver. When asked on other pathways that companies should explore, Crane replied that "more must be done". In other words, apart from eliminating carbon dioxide (CO_2) from companies' processes and supply chains, we must remove CO_2 from the atmosphere too. Crane said, "we need to take out CO_2 that we have been pumping into the atmosphere for over 200 years". Silvina Bruggia, Director Emerging and Frontier Markets, London Stock Exchange Group, concurred, opining, "the challenge is so big, we need to rethink our way of doing things. Innovation is needed". Abdelkhalek stated in this regard that due to technology and innovation today, we can do better than before, citing the example of smart home systems.

On timing, Abdelkhalek emphasised that now is the best time to act, instead of waiting for future technologies. Crane agreed, noting, "if you make a choice today, you can make a change today, and have an impact today".

Bruggia also stressed that ESG factors are integrated. As she explained in response to a question on whether any pillar was being neglected by regional corporations, Bruggia cited the example of how in the context of COP, the Middle East is placing a lot of stress on the 'E' pillar. Yet following the pandemic, 'S' has become important too, e.g. safety and flexibility in the workforce, and equal opportunities. Put simply, "E is the what, S is the why, and G is the how," she said.

Challenges and concerns proliferate, but numerous opportunities also exist for investors

The discussion transitioned naturally into a consideration of the challenges, with a focus on Middle East and Africa. Crane stated that although "there are certainly common challenges across the region", each country is different. He contrasted two: South Africa and the UAE. In South Africa, the challenge is a lack of reliable energy, whereas in the UAE, the issue is the cost of power. Explaining further, Crane noted that how we bring that cost down for renewables is a problem. Crane highlighted two other challenges, namely, retaining talent and showing organisational agility and flexibility.

Moreover, in Abdelkhalek's view, if companies truly want to reduce emissions, they must also consider indirect emissions and their whole value chain including suppliers and clients. This is "in order to get an effective result for decarbonisation", he said. Abdelkhalek gave an example from Schneider Electric, mentioning the company is working with its top 1,000 global suppliers to reduce its emissions by 30%. He also noted end-of-lifecycle issues must also be considered when striving for decarbonisation.

Asked by Witherspoon about their concerns for the ESG sector, the panellists highlighted awareness, data, and the pace of change. For Abdelkhalek, greater awareness among the wider public is important because "this challenge is the biggest challenge in human history". Bruggia agreed that awareness was a concern, adding that getting more data into the system and structuring unstructured data are crucial to provide industry players with the information they need to make decisions. Crane noted that the pace of change concerned him because there is so much to do. Thinking aloud, he asked "how can we get things done quickly"?

For Bruggia, there were also plenty of opportunities in the region, with demand among investors indicating that ESG is already mainstream. Bruggia cited that the survey data which showed 86% of asset owners already implemented ESG in investment strategies and gave the example of the wealth management segment where many private businesses are becoming family offices that have a key focus on governance. This will also drive many future decisions.

The panel concluded with a question and answer (Q&A) session. One question asked was about ESG requirements for the UAE listed companies and whether these will be adopted by other regional countries. Bruggia answered that such regulations and requirements are in progress, and that it was important to consider what was occurring in the fixed income market as well, including work done to boost demand for instruments such as green sukuk and sustainable bonds. Another question focused on whether there might be any future incentives from regional governments. Crane replied that de-subsidisation of conventional energy would help. Explaining his answer, he stated that the low energy costs gives businesses little motivation to switch to more efficient and environmentally friendly energy sources such as solar.

Key Recommendations

- **Be specific:** Try to understand what ESG factors are important to your organisation specifically.
- **Measurement is key:** Measurement is one of the immediate issues on which to focus.
- **Start now:** Begin immediately to develop an ESG strategy because it will evolve further.
- **Stay ahead of current developments:** Decarbonisation and de-subsidisation are already taking place in markets, and efforts in these directions will likely become more commonplace.

Session 2

Sustainable Finance

MODERATOR: Jane Witherspoon, Middle East Bureau Chief, Euro News

PANELLISTS:

- **Jessica Robinson,** MENA Sustainable Finance Leader, EY Parthenon
- **Melissa Forbes-Miranda,** Partner – M&A, Corporate & Commercial, Stephen Harwood Middle East LLP
- **Anusha Sheshadri,** Sustainable Finance Consultant
- **Ashish Gokhale,** Executive, Strategic Marketing, National Bank of Fujairah (NBF)

Discussion Summary

ESG is evolving, and the sustainable finance talent shortage needs to be addressed

The second panel included a wide-ranging discussion. Starting with emerging trends in ESG, Ashish Gokhale, Executive, Strategic Marketing, NBF, stated that two specific trends are gaining traction. First, there is a growing realisation that "exclusionary criteria may not be the answer", and that engagement and influence may be better strategies instead for investors. Secondly, although ESG used to be mainly ethical or moral in nuance, now that there is significantly more data and empirical research, the business case for ESG is considerably stronger as well. Gokhale also cited a trend for so-called green-tech.

On the resulting sustainable finance talent shortage, Anusha Sheshadri, a sustainable finance consultant, acknowledged, "it is a problem right now, and it is an international challenge". Explaining the issue in greater detail, Sheshadri said cross-sector expertise is needed in this field, so "cookie cutter" approaches to talent will not succeed. Consequently, companies must endeavour to upskill their employees. In this regard, multistakeholder projects are crucial, as "we will have to problem solve collectively".

Melissa Forbes-Miranda, Partner – M&A, Corporate & Commercial, Stephen Harwood Middle East LLP, also stated two more trends: the use of data in assessing compliance, and improving adaptation to climate change, citing the example of Miami, i.e., increasing ground levels in response to rising seas.

Non-compliance can have serious consequences, and several other challenges also exist

Forbes-Miranda stated that non-compliance can have huge repercussions; a Bank of America study showed how compliance controversies wiped out $600 billion of share value from the main S&P index. On challenges, Forbes-Miranda stated that governments must work together more on common standards. Digging deeper into regional realities, Jessica Robinson, MENA Sustainable Finance Leader, EY Parthenon, said that the financial institutions are moving to the reporting aspect of ESG before dealing with the strategic aspects of implementing ESG principles. Now is the time, Robinson stated, for banks to provide more details on how they will meet their commitments to Net Zero, and for investors to learn and understand the transition risks too. Robinson also flagged 'talent shortage' as a challenge.

Panellists also stated some of the developments they would like to see over the next 12 months

For Gokhale, two words summed up the present need: "more action". Concurring with this view, Sheshadri urged companies to "just jump in and get started" stating that because the data framework for the Taskforce on Nature-related Financial Disclosures (TNFD) is being finalised, now is the suitable time for companies to think about nature-related risks. Robinson also agreed that companies should "demonstrate on commitments", and make things happen. UAE will host COP28 in late 2023, so the next 12 months will be exciting. Finally, Forbes-Miranda added that more must be done to counteract the anti-ESG movement through more consistency and data analytics.
There was a brief Q&A session at the end of the second panel, with one audience member asking about the optimal way to deliver progress on ESG goals. Robinson replied that ESG is a journey, and that understandings regarding ESG evolve over time, saying, "it is about taking that first step and moving at the right pace for the company". Sheshadri agreed, stating that "anything done as a tick boxing exercise will always backfire".

Key Recommendations

- **Embed ESG across your company:** ESG is not simply a compliance strategy. For it to be impactful, it must be built into the organisation's commercial objectives. ESG is very much about opportunities.
- **ESG issues need specific consideration:** Think about ESG concerns through an integrated ESG lens.
- **Consider global best practices:** For example, looking to nature for solutions is also another realisation that is coming to the fore, and Europe leads the way on nature-based solutions.
- **Get started now:** 'Perfect is the enemy of the good'; now is already a good time for companies to analyse nature-related risks and decide how to address them.