Dubai International Financial Centre
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DUBAI
SUSTAINABLE FINANCE
WORKING GROUP

# SUSTAINABLE ISSUANCE GUIDE

## Acknowledgment

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# Contents

# 1 Global Growth of Sustainable Issuance as Interest in ESG Increases

- While the economic outlook globally has been significantly altered against the backdrop of COVID-19, channelling sustainable finance will support building sustainable economies and businesses, and accelerate the progress towards the global Sustainable Development Goals (SDGs).
- Growth in sustainable issuance volumes and issuer diversification is continuing in the green, social and sustainability bond markets. While green issuances have led the way over previous years, the COVID-19 pandemic has seen the rise of social bonds in response.
- Total sustainable issuance exceeded USD534 billion in 2020, representing a near 80% increase on 2019 levels.[1] At the same time, investors' appetite for financial assets that incorporate Environmental, Social and Governance (ESG) factors is growing, the regulatory landscape is evolving, new technologies are emerging at a significant pace and customer behaviour is changing.[2]
- Within this context, business leaders are seeking to reshape their businesses to align with evolving customer demands and identifying new growth pathways to sustain revenues.[3]
- Sustainable finance presents lucrative opportunities for companies. According to the Business & Sustainable Development Commission, globally businesses stand to gain at least USD12 trillion a year in market opportunities by adopting sustainable practices and contributing to achieving the SDGs. Aligning business strategy and funding with sustainable development provides companies with a competitive advantage and global exposure, particularly within highly competitive industry sectors such as transport, banking and finance, energy, and retail.
- Furthermore, an increasing number of large institutional investors are incorporating ESG metrics into their capital allocation and providing diversification of investor base, with at least USD30.7 trillion of funds held in sustainable or green investments in 2019, up 34% from 2016.[4]

Globally, sustainable issuance has continued to accelerate, as the graphic shows:

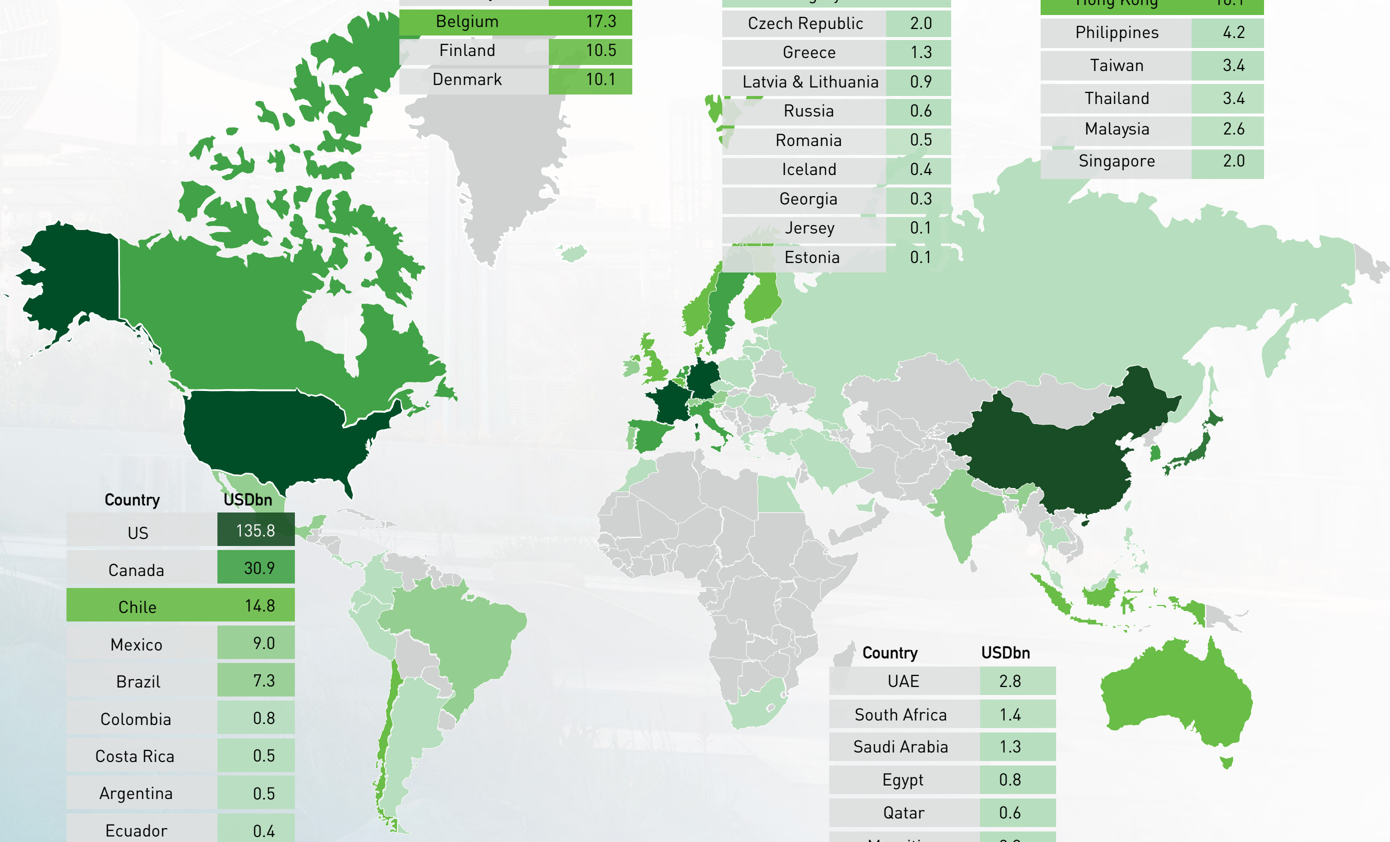
1. Moody's Investor Service Research Moody's - Green, social and sustainability bond issuance to jump 24% in 2020 to $400 billion (3rd February 2020)
2. World Economic Forum Annual Meeting 21-24 January 2020
3. Covid-19 Business Impact – Accenture (14 May 2020)
4. Global Sustainable Investment Alliance Report (2019)

## Geographical Growth of Labelled Green/Sustainability Bonds

From tall trees to green shoots: green bonds are spreading across the world

**Total issuance volume for Supranational**
entities from 2007 to January 2021 is $257.2bn
Includes $63.8bn issued by EU under the SURE* social bond instrument

<USD5bn
5-10bn
10-20bn
20-50bn
50-100bn
> 100bn



| Country | USDbn |
|---|---|
| France | 199.0 |
| Germany | 113.8 |
| The Netherlands | 70.1 |
| Spain | 48.0 |
| Sweden | 43.5 |
| Italy | 33.7 |
| UK | 24.8 |
| Norway | 18.5 |
| Belgium | 17.3 |
| Finland | 10.5 |
| Denmark | 10.1 |

| Country | USDbn |
|---|---|
| Ireland | 8.6 |
| Switzerland | 8.6 |
| Luxembourg | 7.4 |
| Portugal | 7.0 |
| Austria & Slovenia | 6.4 |
| Poland | 4.7 |
| Turkey | 2.4 |
| Hungary | 2.1 |
| Czech Republic | 2.0 |
| Greece | 1.3 |
| Latvia & Lithuania | 0.9 |
| Russia | 0.6 |
| Romania | 0.5 |
| Iceland | 0.4 |
| Georgia | 0.3 |
| Jersey | 0.1 |
| Estonia | 0.1 |

| Country | USDbn |
|---|---|
| China | 158.1 |
| Japan | 50.6 |
| Korea | 41.8 |
| Australia & New Zealand | 19.8 |
| India | 12.3 |
| Indonesia | 10.6 |
| Hong Kong | 10.1 |
| Philippines | 4.2 |
| Taiwan | 3.4 |
| Thailand | 3.4 |
| Malaysia | 2.6 |
| Singapore | 2.0 |

| Country | USDbn |
|---|---|
| US | 135.8 |
| Canada | 30.9 |
| Chile | 14.8 |
| Mexico | 9.0 |
| Brazil | 7.3 |
| Colombia | 0.8 |
| Costa Rica | 0.5 |
| Argentina | 0.5 |
| Ecuador | 0.4 |
| Panama | 0.3 |
| Peru | 0.2 |

| Country | USDbn |
|---|---|
| UAE | 2.8 |
| South Africa | 1.4 |
| Saudi Arabia | 1.3 |
| Egypt | 0.8 |
| Qatar | 0.6 |
| Mauritius | 0.3 |
| Morocco | 0.2 |
| Seychelles | 0.015 |

Source: Dealogic and Bloomberg as of 31 January 2021
* Support to mitigate Unemployment Risks in an Emergency (SURE)

# 2 The Growth of Sustainable Issuance in Dubai and the Wider MENA Region

To date, Dubai has been driving the Middle East's market for financing sustainable projects. Dubai is also the leading listing venue in the region for sustainable debt issuances.

Notable examples of sustainable financing in Dubai include:

2016

هيئة كهرباء ومياه دبي
Dubai Electricity & Water Authority

Establish **100 billion dirhams** (USD27 billion) Dubai Green Fund to stimulate investment in clean energy and other green projects by providing seed financing.[1]

2020

Third Green Sukuk of **USD750** million listed on Nasdaq Dubai by the Government of Indonesia.[4]

2018

DP WORLD

Dubai ports operator DP World securing a **USD2 billion** green Shariah-compliant loan which had an interest rate linked to the company's carbon emission intensity.[2]

2020

IsDB
البنك الإسلامي للتنمية
Islamic Development Bank

A **USD1.5 billion Sukuk** issued by the Islamic Development Bank to fund COVID-19 related projects, also listed on Nasdaq Dubai.[4]

2019

ماجد الفطيم
MAJID AL FUTTAIM

A UAE-based developer and shopping-mall operator, with two Green Sukuk issuances valued at **USD600 million** each listed on Nasdaq Dubai, demonstrating its long term commitment to support its transition to a low carbon economy.[3]

2020

CCB 中国建设银行
China Construction Bank

Two green bonds listed on Nasdaq Dubai issued by China Construction Bank totalling **USD1.2 billion**.[5]

1. https://www.arabianbusiness.com/dewa-invite-global-funds-invest-in-27bn-dubai-green-fund-648042.html
2. https://av.sc.com/ae/content/docs/ae-sc-leads-first-green-loan-in-middle-east-for-dp-world.pdf
3. https://www.zawya.com/mena/en/business/story/Dubais_Majid_Al_Futtaim_bets_on_sustainability_to_solve_COVID19_climate_crses-ZAWYA20200709035342/
4. https://www.nasdaqdubai.com/exchange/media/press
5. https://www.nasdaqdubai.com/press/china-construction-bank-celebrates-listing-two-green-bonds-on-nasdaq-dubai-with-total-value-usd-1-2-

Dubai's position as a leading financial hub and global capital of Islamic economy provides a wide appeal for Islamic bonds and emerging funds that could attract global ethical and sustainable investment into the region.

Furthermore, the favourable UAE regulatory environment and industry-wide initiatives are facilitating sustainable capital markets. For example:

**Master Plan for Sustainable Capital Markets**[6]
by Securities and Commodities Authority (SCA), regulator of DFM

**Green Bond Best Practice Guidelines**[7]
by Dubai Financial Services Authority (DFSA), regulator of Nasdaq Dubai

There are also the UAE Guiding Principles on Sustainable Finance for companies and investors which have been developed by the country's regulatory and financial authorities in line with international best practices and standards.

The Dubai Financial Market (DFM) has published the DFM Sustainability Strategy 2025, ESG reporting guidance on voluntary sustainability disclosures,[8] and DFM Sharï'a Standards with reference to green Sukuk, Shares and green Investment Funds that are issued by companies for projects supporting the preservation and protection of the environment from materialized or expected risk or harm.

Additionally, in 2020, the S&P/Hawkamah UAE ESG Index was launched by the DFM in cooperation with S&P Dow Jones and Hawkamah Middle East Institute for Corporate Governance, which showcases the top-performing sustainable companies listed across the UAE exchanges.

These initiatives further support the expansion of sustainable funding options which include social bonds, transition bonds, SDG-linked bonds, and more recently Covid-19 bonds, creating new and untapped funding opportunities for companies.

6. The Securities and Commodities Authority Master Plan for Sustainable Capital Markets (January 2019)

7. DFSA Green Bond Best Practice Guidelines  Issue No. 18 (August 2018)

8. DFM Sustainability Report 2018

# 3 Sustainable Finance Product Overview

## Bonds and Sukuk

Fixed income is moving to the forefront of ESG financing, with green bonds alone accounting for more than half of the sustainable debt market in 2019 at a total volume of USD271 billion issued for the year. ESG bond and Sukuk issuances come in a number of widely recognized categories, often with some overlap in definitions:

### Green

These are issuances whose proceeds are targeted at climate-related or other environmental projects, including green infrastructure. In the Middle East such activities can include water management, renewable energy, energy efficiency and green buildings. Other sectors include clean transport, sustainable agriculture, fishery and forestry, conservation of ecosystems, new green technologies and mitigating climate change.

### Social

Social bonds and Sukuk are targeted at projects with positive social outcomes, often aimed at the less well off.  Examples include health, education, access to financial services, and housing. Clean water, sewage systems, food security and affordable transport are other sectors, as well as promoting employment opportunities, entrepreneurship and SME financing.

### Sustainable

These bonds and Sukuk are designed to finance activities that meet the criteria for being both Green and Social. Examples include clean transport, improving water quality in rivers and lakes, and solar energy in areas that are off the power grid.

### Transition

This asset class is designed to help 'brown' companies, defined as large emitters of carbon dioxide, shift to greener activities. Sectors include energy, mining, aluminium, chemicals, utilities and transport.  For example an aluminium company might seek financing to buy more of its electricity from sustainable sources, or a transport company could increase its fleet of hybrid vehicles.

### Sustainability-linked

These are bonds where there is no restriction on use of proceeds, instead they incorporate ESG metrics in the form of sustainability performance targets (SPTs), which are assessed over the life of the instrument. These metrics, or key performance indicators (KPIs), are measured annually and compared to the target. If met within a certain time frame there is a structural change in the instrument which is designed to incentivise the issuer to achieve the target. This is most commonly in the form of an increased coupon if the issuer fails to meet the target.

## Loans

The loan market has also been a significant driver of the sustainable finance market over the last few years. Some of the most significant growth has come from the sustainability-linked loan market, where volumes enjoyed a 168% jump year-on-year to USD128 billion in 2019.

### a) Green

These are loans whose proceeds are targeted at climate-related or other environmental projects. These are most often seen as financing for specific green projects, such as financing for renewable energy infrastructure or water management facilities.

### b) Sustainability-linked

Like the bond equivalent, these are loans where there is no restriction on use of proceeds, instead they incorporate ESG metrics in the form of SPTs, which are assessed over the life of the instrument. These metrics, or KPIs, are measured annually and compared to the target. If met within a certain time frame there is a structural change in the instrument which is designed to incentivise the issuer to achieve the target. Unlike in the bond market, there is more frequently a symmetrical margin change associated with such instruments, meaning that reaching the targets reduces the pricing and missing them will cause an increase.

## Equities

- Some IPOs and other share issuances fall into the category of ESG financing. High impact sectors such as energy, transportation, logistics, insurance and banking, retail, and healthcare are developing sustainability practices within their business operations including in the Middle East. For example, a maker of equipment for producing renewable energy would be a likely candidate.
- Some renewable energy companies list 'yieldcos'. These are vehicles that pay shareholders dividends generated from assets, such as a wind farm that has signed long-term contracts to deliver energy.
- REITs are also well placed to be considered green if their properties meet various criteria including energy and water use.
- 2020 also saw the first instance of a company publishing a Green Equity Framework. In this case, K2A of Sweden demonstrated corporate level alignment with a low-carbon and climate resilient future.
- Listed companies which report on their sustainability practices can also increase their opportunities to join ESG indices globally and regionally to attract investor interest, such as the S&P/Hawkamah UAE ESG Index which showcases the top sustainable companies listed in the UAE.

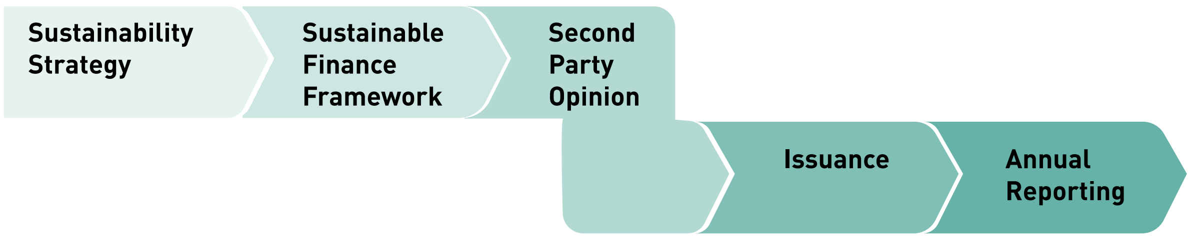
# 4 Roadmap to Sustainable Issuance

The route to a Sustainable Issuance is by now fairly well established, with successful transactions meeting a number of key criteria that investors have started to expect. The process is described in the flow chart below, with further detail on each section provided subsequently.

Following this process and meeting the expectations in standards that have now come to the fore will also help to deliver one of the key benefits of sustainable finance – helping the issuer to share their sustainability story to their key stakeholders, not just investors, but also banks, regulators and their customers.

This can also help to improve ESG ratings, since by the end of the process, the issuer will have concisely and clearly disclosed the key ESG information that is applicable to them, and set out a process for regular updates.

This is an increasingly important exercise, given that investor attention around ESG ratings continues to grow, for conventional investors as well as those with a sustainability focus.




## Sustainability Strategy

The roadmap to sustainable finance starts with a company putting in place a sustainability strategy that lays out its ambitions in the space, aligning them to its corporate strategy.

A comprehensive strategy will include considerations of how to manage the current and likely future environmental and social risks associated with the existing asset base and strategy, an idea of what the more sustainable future business model looks like and how to reach it, including what the key sustainability performance indicators are along that journey.

When setting these key sustainability indicators, it is important to set both a baseline and an end goal. The former ensures it is possible to measure progress and the latter frames each milestone as part of a larger ambition.

## Sustainable Finance Framework

The Sustainability Strategy serves as the first building block for sustainable finance. The strategy can be translated into a Sustainable Finance Framework which lays out alignment to the relevant key standards. The Framework also provides an opportunity to concisely state the sustainability strategy and any key goals in the introduction.

For an issuer, there are two routes:

1. Use of proceeds-focused issuance

2. Sustainability-linked issuance

### Use of proceeds-focused Issuance

- A use of proceeds issuance aligns to ICMA's Green and Social Bond Principles, as well as the Sustainability Bond Guidelines. For maximum flexibility, many issuers also ensure alignment to the LMA's Green Loan Principles, not least given the high degree of overlap with the Green Bond Principles.

  The Framework covers the following four sections:

  1. Use of proceeds;
  2. Process for project evaluation and selection;
  3. Management of proceeds; and
  4. Reporting.

- The use of proceeds section lays out the eligible categories of projects that can be funded, in line with the Green Bond Principles (GBPs) and Social Bond Principles (SBPs) therefore showing clear environmental or social benefits, for example renewable energy, energy efficiency, water management, access to finance, healthcare infrastructure or low carbon transport.

- Once these eligible areas have been identified, they should be aligned to the UN SDGs, ensuring that the Framework is in a universal language that is easily digestible.

- The other sections lay out how projects are confirmed to be in line with the eligible activity areas, how finance raised under the framework will be managed and what the reporting commitment will be.

- To ensure credibility in these sections, it is critical to lay out appropriate governance structures that will ensure those reviewing the framework will feel confident that these processes will be carried out appropriately.

- It is recommended that reporting is carried out annually and involves both a qualitative and quantitative element to show where funding has been allocated and what the impact is.

### Sustainability-Linked Issuance

- A sustainability-linked issuance aligns to ICMA's Sustainability-linked Bond Principles (SLBPs) and contains the following sections:

  1. Selection of Key Performance Indicators (KPIs)
  2. Calibration of Sustainability Performance Targets (SPTs)
  3. Bond Characteristics
  4. Reporting
  5. Verification

- The key to a successful sustainability-linked issuance is transparent communication from the issuer on the rationale behind selecting the KPIs and SPTs. Where issuers have existing targets, aligning to these not only helps to meet the key criteria but also provides the benefit of demonstrating their sustainability agenda.

- For the choice of KPIs, the question is whether they are relevant and material to the issuer's business, measurable with a consistent methodology behind it, externally verifiable and able to be benchmarked, particularly to external reference points, such as industry-wide goals.

- For the calibration of SPTs, the focus is on level of ambition. This includes whether the target is beyond the usual course of business approach that the issuer is taking, whether it is consistent with their overall ESG strategy and meets a predefined timeline, that has routes in historic behavior. The ability to compare the SPTs to other reference points is also key, such as peers, industry benchmarks and global goals, all of which can be strengthened through systematic reference to science-based scenarios.

- The primary feature of a sustainability-linked bond is the change in financial or structural characteristics that occurs whether or not the KPIs reach, or not, the SPTs. These should be proportionate and meaningful to the characteristics of the original bond, but are also intended to act as an incentive to the issuer to strive to meet them.

- Reporting should be done at least annually to provide up to date information on the progress of the KPIs towards the SPTs, but also information that allows investors to assess the ambition of the SPTs. External verification is a core component of the SLBPs, providing comfort that reports are accurate and reliable.

## Second Party Opinion

Typically, investors, financers and other stakeholders, such as NGOs and the media, gain comfort from a Framework having a Second Party Opinion. This provides independent assurance that the Frameworks are in line with the market standard and that the measures and processes in place are appropriate.

The largest verifiers by market share are Sustainalytics, Vigeo Eiris and Cicero, but other institutions also carry out these services, such as the 'Big 4' audit firms.

A key consideration for companies in the UAE is the importance of aligning with international best practices and a Second Party Opinion helps to demonstrate this. Allegations of 'greenwashing' can significantly reduce the positive impact that sustainable finance can have for a company looking to demonstrate its sustainability credentials by aligning funding to strategy. It is of course critical as a minimum to abide by all local laws as for all transactions but ensuring that these standards are applied as well will help to give credibility to the transaction.

Not only does this have the benefit of reducing the likelihood of allegations of greenwashing but it is also what investors and financers are increasingly looking for. Given that a key benefit of sustainable finance is a diversified investor base through the connection to sustainable investors, it is critical to ensure that the expectations set by investors in the space are met.

## Issuance

- With a Framework in place, companies can embark on sustainable finance transactions.
- Appropriate language must be added into the documentation referencing the Framework, for example on the restrictions around use of proceeds in line with the eligible criteria or for how the bond characteristics change depending on whether the KPIs meet the SPTs.
- However, before issuance, it is highly recommended for issuers to go on a Non-deal Roadshow to meet with investors, including those with a sustainable focus, to explain the sustainability side of the transaction, not just looking at the Framework but also covering the issuer's sustainability strategy to bring a holistic picture to the investor community.

### Listing in Dubai

As the issuance of sustainable bonds and Sukuk continues to gain momentum, issuers are increasingly listing their securities on exchanges. In 2019, USD167 billion of green bonds were listed globally, representing 65% of all green bonds issued that year.[1] Certain exchanges are proving particularly attractive to issuers, including those with appropriate regulatory infrastructure and guidance such as that provided in Dubai (see Section 2).

- In the Middle East, Dubai has emerged as the 'go to' listing venue for sustainable bonds, notably but not exclusively Sukuk.
- Since 2018, eight green and one Covid-19 related debt issuances have listed on Nasdaq Dubai with a total value of US$7.8 billion. The issuers are based in various countries around the world (as detailed in section 2) and include government, multilateral organisations, and private sector entities.

1. https://www.climatebonds.net/files/reports/2019_annual_highlights-final.pdf

- As with other debt securities, issuers benefit from listing on an exchange that provides high visibility and respected regulation. In the case of Sukuk, issuers are also joining one of the world's largest exchanges by value for Islamic bond listings when they list on Nasdaq Dubai.
- Many companies that carry out an IPO on markets globally, or are already listed, are increasingly publicising their sustainability activities and credentials in order to attract investors. In Dubai, DFM and Nasdaq Dubai welcome IPOs by sustainable companies and encourage sustainable practices by their existing listed companies.
- Dubai Financial Market, a member of the United Nations Sustainable Stock Exchanges initiative, provides guidance for issuers on Going Public, ESG reporting of sustainability disclosures, and Shari'a Standards which include reference to green Sukuk, Shares and green Investment Funds that are issued by companies for projects supporting the preservation and protection of the environment from materialized or expected risk or harm.

## Annual Reporting

- While reporting has already been touched on as a key component of both the GBPs/SBPs and the SLBPs, it is worth highlighting as a key area for consideration.
- Reporting can be standalone, in which case it is expected to be annual from the date of issuance, or can be integrated into existing sustainability reporting. The latter brings the benefit of linking the financing into the issuer's overall sustainability agenda and the progress being made there, meeting the key goal that has already been described of highlighting the issuer's sustainability story.
- For use of proceeds transactions, reporting should first focus on allocation, i.e. what have the proceeds of the issuance gone towards, aligning to the categories in the framework. Best practice would add a further element to this, demonstrating the impact of the financing, for example showing the emissions displaced by financing renewables instead of bringing the same quantum of the conventional power mix online in a country.
- The term 'impact reporting' is used to define any type of reporting that seeks to quantify the climate or environmental impact of a project/asset numerically. Impact reporting can be very helpful to investors as they seek to measure the positive externalities through their investments.
- For sustainability-linked transactions, the reporting will focus on the KPIs and the progress towards the predetermined SPTs. Where these have been based on existing targets that an issuer has set, integrating into existing reporting can be especially useful in showing the progress of the company, as well as setting a strong precedent for future meaningful reporting beyond the life of the transaction.

1. https://www.climatebonds.net/files/reports/2019_annual_highlights-final.pdf

# 5 Future Trends of Sustainable Finance

- The sustainable finance market continues to evolve as participants learn from what has been put in place before. The above processes have now been able to mature and are therefore comfortably entrenched.
- One key trend that is emerging clearly is the importance of verification. This is most clear for loan transactions where the use of proceeds was indisputably green or sustainable. Previously a confirmation of the use of proceeds was seen as sufficient to be a green loan but there is now a greater push in the market for certification that the loan is not only green but in line with the Green Loan Principles. In the bond market, the importance of a Second Party Opinion has been clear for some time for use of proceeds transactions and although often expected was only a recommendation in the GBPs and SBPs, but in the SLBPs verification is actually a required element.
- Transition finance is also emerging as the next frontier. This has been driven by the recognition that for brown companies where there is no immediately obvious green option, it is crucial to become as green as possible in order to meet global sustainability objectives, even if the current end point is not fully green. Just like with Sustainable Finance Frameworks, Transition Frameworks can be put in place. These will help ensure that transition themes are clearly explained so that investors can understand how the financing is helping to drive improvement.
- For the UAE and the wider region, transition finance has a significant potential to drive progress towards sustainability goals. This includes both national targets such as those of the UAE Energy Strategy 2050 that call for 50% clean energy in the energy mix and a 70% reduction in carbon footprint by 2050, as well as targets set by the individual Emirates themselves, such as Dubai's targets for 25% renewable energy and 30% energy and water savings by 2030, moving to 75% clean energy by 2050 as part of the Dubai Clean Energy Strategy 2050.
- Finally, the trends driving the shift to increased sustainability are here to stay. The COVID-19 pandemic has done nothing to deter these forces, instead highlighting the importance of ESG factors on both markets and society.

**DUBAI**
SUSTAINABLE FINANCE
WORKING GROUP

The Dubai Sustainable Finance Working Group launched in July 2019 to coordinate efforts to create the most sustainable financilal hub in the region, as part of the UAE's Sustainable Development Goals 2030 and the Dubai Strategy Plan 2021. The group aims to combine Dubai's finance sector's initiatives to promote best practices in Environmental, Social and Governance (ESG) integration. It focuses on four key pillars including responsible business operations, responsible investing, growing sustainable finance and diversity and inclusion.

## Group Members

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Nasdaq Dubai

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ZURICH

Enquiries:

Email: sustainability@dfm.ae

Tel: +971 4 305 5555