MAJRA

Green Finance & Sustainable Investment

Majra Guidelines

Table of Contents:

MAJRA

1 Introduction

In the current landscape of global finance, the imperative for sustainable investment has never been greater.

As the world faces the pressing effects of climate change and environmental degradation, the financial sector stands at the crossroads of economic activities and environmental stewardship.

One method to define sustainable finance is the application of financial resources to significantly advance the Sustainable Development Goals (SDGs) of the United Nations.

Green finance and sustainable finance aim to align capital allocation with the principles of ecological sustainability, social responsibility, and robust governance.

This guideline draws inspiration from the visionary leadership of Sheikh Zayed Bin Sultan Al Nahyan, whose legacy of environmental conservation and resource management continues to guide our path.

Purpose of this Guideline

This guideline serves as a framework for channeling funds into environmentally and socially responsible ventures.

It is designed to guide investors, organizations, and financial institutions through the complexities of green finance, enabling them to contribute to a resilient and sustainable economic future.

Moreover, it fosters a culture of corporate social responsibility that addresses immediate financial returns while ensuring long-term environmental and societal well-being.

Through a methodical approach, this document outlines a roadmap to make sustainable investment an achievable goal across the financial sector, ushering in an era of conscientious investment that benefits the economy, society, and the planet.

MAJRA

2 Framework

Section 1: Adoption of ESG Criteria

This section outlines the process and benefits of integrating Environmental, Social, and Governance (ESG) criteria into investment decision-making.

Adopting ESG criteria enables investors to identify companies that lead in sustainability practices and are likely to offer better long-term returns due to their forward-thinking approaches.

MAJRA

Action	Description
Policy Development	Develop ESG policy that defines the criteria for investment selection, including environmental stewardship, social responsibility, and governance standards. This policy should guide all investment decisions and be publicly available to ensure transparency.
Integration into Investment Analysis	Integrate ESG factors into the financial analysis process, assessing potential investments on financial returns and also on their environmental, social, and governance impacts. This analysis helps identify risks and opportunities that may not be apparent from financial data alone.
Continuous Monitoring and Performance	Establish mechanisms for ongoing monitoring of the ESG performance of investments and report these findings to stakeholders regularly

Section 2: Impact Investing

"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals." Global Impact Investing Network definition.

In the UAE, there's a growing interest in venture capital (VC) funds that focus on impact investing, reflecting the region's commitment to sustainable development.

Action	Description
Investment in Renewable Energy (Market Analysis + Selection)	Invest in renewable energy through direct project financing, green bonds, renewable energy funds, and public-private partnerships to diversify risk. Analyze different renewable energy markets and technologies to determine potential returns and environmental impacts.
Strategic Investment in Impact Funds	Allocate capital to PE and VC funds specializing in impact investments. (They typically invest in startups and growth-stage companies) Target funds that have a strong track record of supporting companies with clear, measurable impact objectives.
Due Diligence and Risk Assesment	Before investing, perform due diligence to evaluate the fund's impact thesis, the viability of its investment strategy, and its historical performance. Develop strategies to mitigate these risks, such as insurance, hedging, and diversifying investment portfolios.
Optimization	Monitor the performance and use this data to optimize the investment portfolio and reallocate resources.

Section 3 : Green bonds & Loans

Green bonds and loans in the UAE have become pivotal financial instruments within the country's sustainability framework.

Financial markets are increasingly embracing investments that prioritize environmental responsibility and sustainability.
The UAE plays an active role in environmental stewardship through the expanded issuance of Green Bonds and Sukuk, which are Islamic financial certificates.

In December 2023, the Securities and Commodities Authority (SCA) reported that the aggregate amount of green and sustainability-linked bonds and Sukuk recorded with the regulatory body amounted to nearly AED 15.45 billion over the initial 11 months of 2023.

Action	Description
Understand Regulatory Bodies and Ensure Compliance	Familiarize with the roles of the Securities and Commodities Authority (SCA), Dubai Financial Services Authority (DFSA), and the Central Bank of the UAE. These bodies provide the regulatory backbone for issuing Green Bonds and Sukuk. Compliance includes meeting the criteria for environmental benefits, disclosure requirements, and Islamic finance principles for Sukuk.
Project Selection	Identify and evaluate potential projects with clear environmental benefits, such as renewable energy production, energy efficiency improvements, or sustainable resource management.
Third Party Certification	Obtain certification from a recognized third party that the bond or Sukuk meets green criteria
Liquidity Considerations	Consider the liquidity of the Green Bond or Sukuk, facilitating ease of trade in the secondary market.

Section 4: Sustainability Reporting

In the UAE, the regulatory environment surrounding sustainability reporting has been evolving rapidly.

An example of this change is the introduction of sustainability reporting standards under the IFRS accounting standards, which will mandate sustainability and climate-related disclosures in financial statements.

Ensuring that sustainability reports are accurate and verifiable is crucial, as inaccuracies can lead to significant legal and regulatory liabilities, especially as regulations around ESG disclosures become more stringent.

Action	Description
Adopting Reporting Standards	Organizations should adopt and follow globally accepted frameworks and standards for sustainability reporting, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB), to ensure consistency and comparability of data.
Adhere to Regulatory Requirements	Companies must comply with the UAE's evolving regulatory landscape for ESG disclosures and sustainability reporting standards.
Mitigate Risks of Inacurrate Reporting	Develop internal controls and governance processes to ensure the accuracy of ESG disclosures. Inaccurate reporting can lead to greenwashing accusations and potential liability. Companies should undertake audits to verify their ESG claims and prepare their directors and officers for increased scrutiny in this area.

MAJRA

Section 5: Risk Management

Effective risk management in green finance requires a proactive approach to identifying, assessing, and managing environmental and climate-related risks.

By implementing robust risk management processes, investors and financial institutions can safeguard their investments against climate change impacts and contribute to a more resilient financial system.

Action	*Description*
Risk Assesment	Quantitatively and qualitatively assess the identified environmental and climate-related risks, considering both current impacts and future scenarios over the investment horizon.
Risk Management and Mitigation Strategies	Create strategies to manage or mitigate identified risks, such as diversifying investment portfolios, investing in resilience-building projects, and engaging with companies on sustainability practices.

3 Conclusion

The commitment to sustainability within the financial sector is integral to our responsibility as stewards of the environment and society. By incorporating sustainable practices into our financial strategies, we align investment flows with broader environmental and social objectives.

Embracing these principles, entities across the UAE are urged to lead initiatives that generate both financial returns and positive societal impact, fostering a more sustainable future.


MAJRA
الصندوق الوطني للمسؤولية المجتمعية
NATIONAL CSR FUND