مـاجـدالـفـطـيـم
MAJID AL FUTTAIM

GREAT MOMENTS
FOR EVERYONE,
EVERYDAY

SUSTAINABLE FINANCE: ALIGNING GROWTH WITH PURPOSE

LEADING BY EXAMPLE: SUSTAINABILITY THOUGHT LEADERSHIP SERIES

IN THIS REPORT

OUR ALIGNMENT TO THE SDGS

DARE TODAY, CHANGE TOMORROW

In 2023, we launched the second phase of our sustainability strategy, *Dare Today, Change Tomorrow*. This phase captures the findings from our most recent materiality review to ensure we are managing our greatest challenges and opportunities, according to the needs and expectations of our stakeholders.

The strategy sets out 11 Sustainable Business Commitments to be achieved by 2028, which are a continuation of our work over the past five years and previous 2022 Sustainable Business Commitments. These commitments span our three strategic focus areas: Rethinking Resources, Transforming Lives, and Empowering Our People. This thought leadership paper investigates the role of and barriers to sustainable finance and how businesses can use it to achieve positive ESG outcomes.

OUR COMMITMENT TO SUSTAINABLE FINANCE

At Majid Al Futtaim, we have increasingly sought to link our ESG performance with how we finance our operational and capital expenditures, embedding accountability surrounding the ESG implications of our activities.

We have raised US$4.95 billion through multiple sustainable instruments, including three Green Sukuk, a green hybrid bond and two sustainability-linked loans. These instruments have been vital for scaling up our ESG initiatives and incentivising the achievement of measurable and impactful targets. The next phase of our sustainability strategy will require even more investment as we look to build out our initiatives in line with nature-based solutions, and science-based targets, and implement a new social impact strategy.

FOREWORD

“In an era characterised by escalating environmental and social challenges, sustainable finance continues to emerge as a catalyst for positive change. Across the globe, organisations are adapting their financial strategies to align with sustainability goals to effectively and holistically address environmental, social and governance (ESG) risks. This strategic transition not only unlocks pathways to sustainable growth but also underpins the long-term prosperity of businesses. Sustainable finance extends the myopic focus on short-term financial returns; rather, it represents the integration of sustainable development principles into the decision-making processes of financial institutions, investors, and businesses.

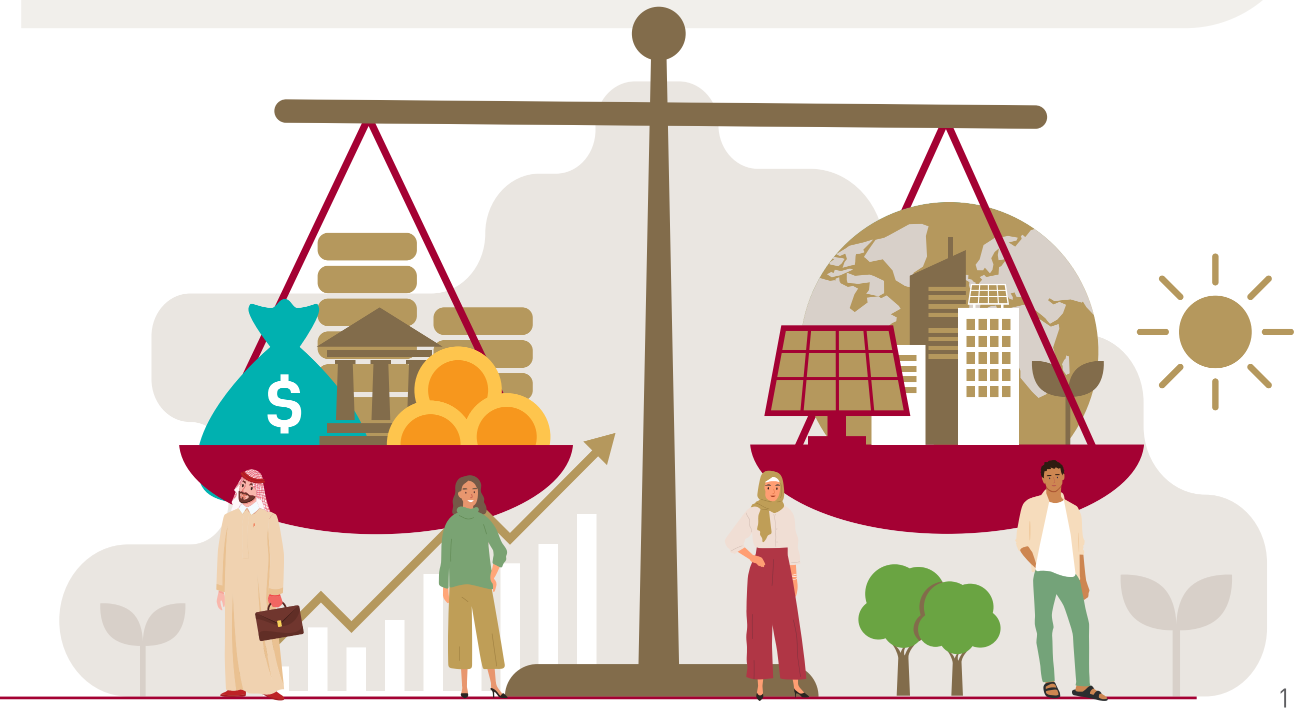
The Middle East and North Africa (MENA) region is currently experiencing an extraordinary surge in sustainable finance[1,2], as investors actively seek opportunities to allocate capital to projects with a strong ESG focus. Countries in the region are poised to benefit significantly from this trend thanks to abundantly available and low-cost renewable energy. Among the six Gulf Corporation Council (GCC) countries alone, green investments could have a profound impact by 2030, unlocking up to US$2 trillion in GDP contribution. Finance is a critical enabler of climate action, and by doubling down on developing the right structure and mechanisms, the MENA region is positioned to become a thriving hub for sustainable finance, leading the way toward a low-carbon and resilient future.

As the first privately-owned Dubai corporation to incorporate Green Islamic financing into its funding structure and introduce innovative sustainability-linked loan (SLL) financing with a 'penalty-only' loan structure, Majid Al Futtaim has established a replicable model for other private sector players to follow. Moreover, the consistent confidence demonstrated by investors in our initiatives sends a clear signal for more businesses to follow suit and ensure that climate finance reaches the most critical areas of concern. Through coordinated and determined action across both the public and private sectors and by committing to building more resilient, equitable, and sustainable organisations, we have the capacity to future-proof the global economy.

With the topic of climate finance anticipated to take centre stage at COP28, I look forward to seeing the positive outcomes that are generated in the UAE this December.”

Ahmed Galal Ismail
Chief Executive Officer
Majid Al Futtaim

> “***A sustainable financial system is...***
> *one that creates, values and transacts financial assets in ways that shape real wealth to serve the long-term needs of an inclusive, environmentally sustainable economy*[3]”



WHAT IS SUSTAINABLE FINANCE?

In 2021, a record **US$859 billion** was borrowed globally through sustainable bonds, with around **56%** and **22%** on environmental and social projects, respectively[4]

The market value of sustainable investment products totalled **US$5.2 trillion** in 2021, up **63%** from 2020[5]

In the first seven months of 2023, sustainable bond and sukuk issuance in the MENA region totalled **US$14 billion**, compared to **US$8.9 billion** in 2022[6]

61% of financial centres believe that poor data quality and reliability remain the top barrier to scaling up sustainable finance[7]

During COVID-19 in 2020, more than **eight out of 10** sustainable investment funds outperformed funds not based on ESG criteria[8]

In contrast to traditional finance, which looks only at a company's risk and return profile for purely financial returns, sustainable finance takes a longer-term view and accounts for the symbiotic relationship between finance and the people and planet it impacts. In simple terms, sustainable finance refers to any kind of financial activity across asset classes that considers sustainability implications when making investment decisions, from the preservation of biodiversity and climate change mitigation, to human and animal rights and the compensation of private and public organisations.

In a rapidly evolving market, sustainable finance takes many forms, as demonstrated on the right, and is adopted at various levels, including corporations, banks, international financial institutions, non-profit organisations, national governments, and institutional investors[9]. Underpinning the widespread roll-out of multiple forms of sustainable finance is the demand for a redesigned, sustainable financial system that operates in a way that shapes wealth to meet the future, long-term needs of an environmentally sustainable and inclusive global economy[10].

Sustainable finance takes many forms...

CLIMATE FINANCE	Climate finance is the use of public funds combined with private finance and expertise to fund climate change-associated projects, helping mitigate a project's risks, reduce costs, and increase the chances of project success[11]
GREEN LOANS/ BONDS	Green loans/bonds enable borrowers to use their proceeds to fund projects that substantially contribute to an environmental objective exclusively. Examples of eligible projects can include green buildings, renewable energy and clean transportation[12]
SUSTAINABILITY-LINKED LOANS/ BONDS	Sustainability-linked loans/bonds are performance-based instruments that tie interest rates to achieving sustainability targets. They provide greater flexibility than green loans, as they are based solely on a borrowers' ESG performance and do not have to be used to fund specific activities[13]
SOCIAL BONDS	Social bonds aim to directly address or mitigate specific social issues or achieve a positive social outcome[14], especially for identified target populations such as low-income groups, the unemployed, or otherwise vulnerable people[15]
TRANSITION BONDS	Transition bonds are issued by carbon-intensive organisations with the intent of supporting their decarbonisation goals[16]
GREEN SUKUK	Green Sukuk are green bonds that are compliant with Shari'ah principles, meaning they prohibit speculation and demand high levels of transparency[17,18]

THE BENEFITS OF SUSTAINABLE FINANCE

During COVID-19, the resilience of sustainable finance compared to traditional finance was witnessed, with analysis by BlackRock highlighting that during 2020, more than eight out of 10 sustainable investment funds outperformed share portfolios not based on ESG criteria[19] and reduced investment risk[20]. Amid high levels of volatility and uncertainty, sustainable finance will become increasingly popular in ensuring businesses can endure a changing planet and market[21].

Although the proportion of companies adopting sustainable finance is not yet clear, the headline deals of recent years provide a solid indication of the level of buy-in from some of the world's largest and most influential companies. For example, Apple has issued US$4.7 billion in green bonds since 2016[22], whilst in 2021, Amazon issued a sustainability bond worth US$1 billion[23]. Meanwhile, 88% of asset owners who responded to the FTSE Russell 2022 Sustainable Investment Survey stated that they are implementing or evaluating sustainable investment considerations in their investment strategies – nearly double when compared to five years ago[24]. Studies suggest that sustainable investing can generate favourable long-term returns by identifying companies with sustainable business models, strong governance practices and greater resilience[25,26]. Some of the benefits awarded to companies that engage with sustainable finance are highlighted below.

88%

of asset owners are implementing or evaluating sustainable investment considerations in their investment strategies[24]

The benefits of engaging with sustainable finance...

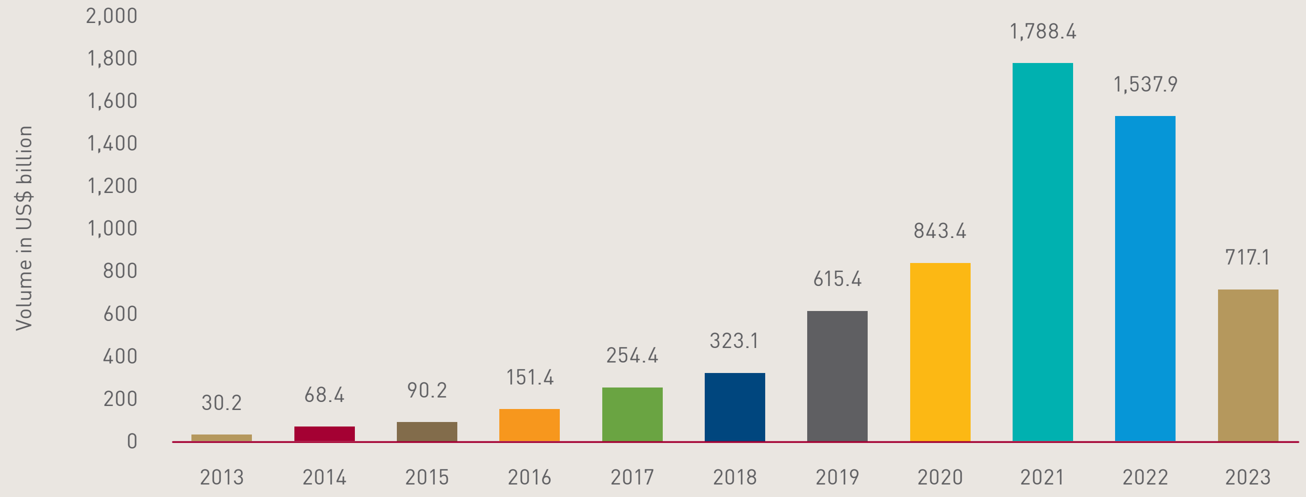
Access to capital	Investors are increasingly considering ESG performance when making investment decisions. By incorporating sustainability into financial strategies, businesses can showcase their efforts to integrate ESG into operations and risk management, attracting a broader range of investors and potentially gaining access to new sources of capital[27]
Innovation and new market opportunities	Embracing sustainable finance encourages businesses to foster innovation by updating their business models, technology, and processes to unlock opportunities that align with the evolving needs of a sustainable future[28]
Cost savings	Adopting sustainable finance often involves making investments in resource efficiency, which can result in long-term cost savings through reduced energy consumption and lower operational costs[29]
Risk mitigation	Companies that adopt sustainable finance can identify and manage ESG risks more effectively and therefore reduce their risk exposure. The effective management of ESG risks is particularly attractive to investors as it indicates resilience[30]
Enhanced transparency and accountability	Sustainable finance helps companies to measure, benchmark and communicate their sustainability-related KPIs, as the terms of an issuance often require the disclosure of a set of performance criteria, providing an incentive for companies to improve their performance[31]

THE SUSTAINABLE FINANCE MARKET

The sustainable finance market has experienced significant growth in recent times, growing more than a hundred-fold between 2012 and 2021[32]. Once a niche concept, green and sustainability-linked bonds and loans are now indicated to be one of the fastest-growing segments in the global financial services industry[33]. According to the United Nations Conference on Trade and Development (UNCTAD), the market value of sustainability-themed investment products amounted to US$5.2 trillion in 2021, up 63% from 2020[34].

Yet despite exceptional market growth in 2021, in 2022, momentum slowed amid broader market declines and volatility[35], with reduced activity levels across all types of green finance[36]. Nonetheless, sustainable finance is set for recovery in 2023 and beyond[37]. Bloomberg analysis predicts that the market will continue to grow, with the total value of ESG investments set to exceed US$53 trillion by 2025, accounting for more than a third of all global investments[38].

Global issuance of sustainable finance[39]



Note: The 2023 figure represents January to June data

Following several years of rapid growth, the sustainable finance market was disrupted in 2022, amid a harsh macroeconomic environment. The market is expected to rebound in 2023, with sustainable finance product issuance totalling US$717 billion in the first half of the year, and with the potential to exceed 2022's volume by the end of the year[39].

THE SUSTAINABLE FINANCE MARKET

The 2023 World Investment Report issued by UNCTAD highlighted a widening investment gap in developing countries to address the United Nations Sustainable Development Goals (SDGs), from US$2.5 trillion in 2014 to US$4 trillion in 2022, with the most significant gap in projects related to energy, water, and transport infrastructure[40]. Overall, it is predicted that US$30 trillion of new investment will be necessary over the next eight years to achieve the SDGs by 2030. This demonstrates a need to scale global investment into these regions and projects, which will only likely be achieved by mobilising global capital flows[41]. Innovative finance instruments will likely be the best solution to bridging this gap.

US$30 trillion

of new investment is necessary over the next eight years to achieve the SDGs by 2030[41]

SUSTAINABLE FINANCE AND COLLABORATIVE ACTION

Sustainable finance will have a fundamental role as we transition to a net zero carbon economy and collectively strive to meet the aims of the Paris Agreement and the SDGs. Progress, however, will rely on coordinated and determined action across both the public and private sectors, with governments responsible for enabling favourable conditions and incentives for investment, whilst private sector leadership and finance will be critical in driving transformation[42].

Several bodies are working to support this collaboration. For example, the World Economic Forum (WEF) is playing a crucial role in advocating for sustainable finance by hosting the Sustainable Development Investment Partnership (SDIP), a global platform which brings together public and private actors to catalyse sustainable infrastructure investment, mobilising private sector finance for projects in emerging countries. Furthermore, the G20 (the premier forum for international economic cooperation) Sustainable Finance Working Group (SFWG) is assisting in coordinating international efforts to mobilise sustainable finance and drive policy change. So far, the working group has been tasked with identifying barriers and solutions to green finance and developing a roadmap of actions to achieve a sustainable financial system, helping to better align the efforts of international financial institutions with the Paris Agreement[43].

Similarly, in 2019, the UN Global Compact established a coalition of Chief Financial Officers (CFOs), uniting them with their peers, investors, and UN agencies to harness the full potential of corporate finance. The coalition aims to shift finance away from traditional approaches and provide the funding needed to combat the climate crisis. Meanwhile, the World Business Council for Sustainable Development (WBCSD) has established a similar CFO Network, creating a forum for its members to discuss the redesign of financial systems and to redefine leadership in business and finance towards sustainable ends[44]. In November 2022, the group was reported to have raised roughly US$70 billion in sustainability-related instruments[45].

With bodies such as the SFWG and WBCSD providing the strategic direction, the need for actionable tools and guidance for those operating in the sector was identified as a critical enabler to bring about a green financial transition. In response, the Glasgow Financial Alliance for Net Zero (GFANZ) was founded in 2021 during COP26 in partnership with the UNFCCC Race to Zero campaign. The Alliance includes more than 550 financial firms spanning the developed and developing world[46]. It is tasked with creating the tools and resources every bank, investor, and insurer will need to adjust their business models for clean green growth.

Climate finance at the Conference of the Parties (COP)

Climate finance, which specifically funds activities supporting climate change mitigation and adaptation, has been a longstanding element of global climate negotiations[47]. It was set out at the first United Nations Framework Convention on Climate Change (UNFCCC) meeting in 1992 called the Conference of the Parties (COP), where it was agreed that developed countries should provide financial resources to developing countries that are less endowed and more vulnerable to climate-related risks, to support them in meeting its growing cost[48]. The most significant breakthrough on climate finance to date was witnessed at COP27 in 2022, which ended with an agreement on the establishment of a 'Loss and Damage Fund'. While details of the fund are not yet decided, a dedicated financial mechanism that channels investment to developing countries to address the unavoidable risks of climate change is highly encouraging.

Discussions and negotiations on climate finance are anticipated to take centre stage at COP28. As the hosts of the conference this year and with a burgeoning sustainable finance market of its own, the MENA region has a critical role to play in supporting the development of a thriving sustainable finance ecosystem. To learn more read our whitepaper on COP28 here.

WHAT ARE SOME OF THE BARRIERS TO SUCCESS?

Despite progress, notable barriers prevent widespread uptake and success in transitioning to a more sustainable global financial system. A 2021 report published by the UN's Financial Centres for Sustainability, which surveyed 29 of the world's leading financial centres, highlighted a range of challenges to scaling up sustainable finance[49]. Some of the challenges are highlighted below.

Poor quality data and data availability

61%

reported poor data quality and reliability, leading to inefficient investments

Poor supply of sustainable financial products

60%

reported a lack of sustainable financial products on the market

Lack of a qualified workforce

52%

reported a limited pool of qualified workforce with sustainable finance skills

Lack of a standardised approach

52%

indicated that more consistency across the development of standards, taxonomies, and guidelines is required in the absence of a globally recognised approach to sustainable investment

Inadequate regulatory framework or policy uncertainty

48%

emphasised that improving policy and regulatory engagement was a top priority in enabling a sustainable transition

Inadequate sustainable investment project pipelines

40%

reported that a lack of investment-ready projects and pipelines was preventing private capital from investing in sustainable projects and creating uncertainty surrounding the commercial and economic viability of projects

Other challenges affecting the sustainable finance market are credibility, the risk of greenwashing, and a need for more transparency. One key concern is the traditional investors who are marketing products as ESG financing despite the investment still supporting polluting activities. A review of the 20 largest ESG funds found that, on average, each maintains investments in 17 fossil-fuel producers[50]. Another concern is the need for more regulation to ensure investment is made in projects with genuine ESG credentials. To combat this, in the European Union, the EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR) enable the classification of sustainable economic activities. The potential success of these tools in avoiding greenwashing and strengthening investor confidence could represent an opportunity for other regions to develop their own taxonomies.

Lastly, sustainable finance has been heavily weighted toward environmental projects. For example, of the US$859 billion borrowed in sustainable bonds globally in 2021, only 22% was invested in social projects[4] compared to 56% invested in environmental projects. To accelerate progress, a more holistic approach to sustainable investment must be considered, with a greater emphasis on supporting social and governance initiatives.

SUSTAINABLE FINANCE IN THE MENA REGION

In 2021, the sustainable finance market in the MENA region totalled US$24.6 billion, representing a 532% year-on-year escalation, and outpacing global growth[51]. With high vulnerability to climate-related risks such as water scarcity, land degradation, and desertification, financial institutions in the region are posed with significant challenges in ensuring they manage the risks and opportunities to their operations[52]. Yet, it is estimated that an additional US$230 billion must be mobilised annually in the Middle East to achieve the SDGs. This demonstrates a need to ensure that finance continues to be channelled into projects working to address these goals.

Despite the private sector providing the most sustainable finance, governments also play an essential role in mobilising finance in the MENA region. For example, in many MENA countries, government expenditure as a percentage of GDP is particularly high, reaching 28% of GDP in Saudi Arabia compared to the global average of 17%[53]. Alongside generally longer-term governments, this allows MENA countries to follow through with well-funded long-term projects[54]. Furthermore, analysis conducted in 2022 found that green investments in the six GCC countries could have a profound impact by 2030, unlocking up to US$2 trillion in GDP contribution, creating more than 1 million jobs and further encouraging investment[46]. For example, the Commercial International Bank in Egypt has engaged in sustainable financing since 2015. In 2020, the bank achieved a first, issuing a US$750 million green bond that has successfully brought five climate mitigation projects to the market, focusing on green buildings, renewable energy, energy efficiency, innovation, infrastructure, and climate action[55].

The UAE is widely considered the regional leader in this space, with research suggesting that nearly all key financing mechanisms that promote climate-compatible development in the region are being led by the UAE[56]. With the UAE's Net Zero by 2050 strategic initiative in place, a national drive to achieve net zero emissions by 2050, a host of top-down initiatives promote sustainable finance in the key financial centres of Abu Dhabi and Dubai[57]. For example, in 2020, the UAE Government published a set of Guiding Principles on Sustainable Finance to incentivise financial entities to incorporate sustainable practices into their operations based on the UN Agenda for Sustainable Development[58]. Similarly, in 2021, the UAE's own Sustainable Finance Working Group issued a roadmap for building a sustainable finance framework in the country, setting out crucial steps in progressing sustainable finance, including strengthening ESG disclosure standards, educating investors, and developing a UAE taxonomy of sustainable activities[59,60].

The first-ever GCC sustainable bond

In February 2023, the Government of the Emirate of Sharjah became the first GCC government to issue a sustainable bond, worth US$1.5 billion. Through the bond, the government has committed to financing and refinancing sustainable projects in accordance with the Government's Sustainable Financing Framework, aligned with the UAE's sustainable development strategy and the UAE's Net Zero by 2050 strategic initiative, and in support of the SDGs. Eligible projects cover environmental and social issues related to renewable energy, clean transportation, economic inclusion, and the provision of affordable housing, for example[61].

In the UAE real estate sector, sustainable finance is gaining traction amongst stakeholders. For example, in 2022, renewable energy company Masdar launched the first sustainable real estate investment trust in the region, Masdar Green REIT, in collaboration with the Emirates National Bank of Dubai. This investment vehicle allows professional investors to invest in Masdar City's expanding sustainable real estate portfolio, with assets including LEED Platinum-certified buildings, Abu Dhabi's sustainable community and innovation hub, and Etihad Airways Eco Residences. The REIT enables climate-resilient development in Masdar City and supports the pathway to net zero[62]. Furthermore in 2020, Aldar properties issued the GCC's first social impact bond worth US$500 million, to fund the ATMAH project. This project brings Aldar Properties together with the Department of Community Development and social service provider, Zayed Higher Organisation, to equip 25 people of determination in Abu Dhabi with job skills and help them secure permanent employment through a 12-month programme.

While the UAE is leading sustainable finance efforts in the region, other countries in the GCC are making efforts to quickly adapt. Research conducted by PwC into the GCC's progress on sustainable finance shows that, in addition to the UAE, Saudi Arabia, Kuwait and Bahrain have developed sustainable finance strategies of their own, whilst Bahrain and Oman have developed sustainable finance training programmes[63]. See the table below for a stock check on sustainable finance within the GCC.

GCC progress on sustainable finance

	KSA	UAE	Qatar	Kuwait	Bahrain	Oman
Public sustainability pledges	✓	✓	✓	✓	✓	✓
Sustainable finance strategy	✓	✓	✗	✓	✓	✗
Corporate sustainability reporting standards	✓	✓	✓	✓	✓	–
Financial disclosure of climate risks standards	✓	✓	✗	✗	–	✗
Sustainable finance taxonomy	–	–	✗	✗	✗	✗
Standards for sustainable investment products	–	–	✗	✗	✗	✗
Sovereign sustainable bond programme	✓	✓	✓	✗	–	–
Sustainability indices	–	✓	✓	✗	✗	✗
Sustainable finance training programme	✗	✓	✗	✗	✓	✓

✓ Progressed – In progress ✗ No publicly reported progress

Source: Opportunities for the GCC to strengthen the sustainable finance ecosystem, PwC[63]

LEARNING FROM OTHER ORGANISATIONS

Several organisations are leading the way to a more sustainable financial system, with several best practice examples highlighted below.

ADIDAS' FIRST SUSTAINABILITY BOND

Adidas successfully placed its first sustainability bond in 2020, worth US$500 million. It is used to finance sustainability projects, whose eligibility is defined by Adidas' own Sustainability Bond Framework, which was externally validated as credible, impactful, and aligned with its existing sustainability principles[64]. Adidas provides annual updates on the allocation of bond proceeds and the impact of KPIs driven by these proceeds[65]. One cause in which Adidas is heavily investing is using sustainable materials to become a more circular company, reporting US$183 million of investment to this end in 2022. Adidas reports against a range of KPIs to demonstrate its progress; for example, in 2022, it reported producing over 26 million pairs of shoes using ocean plastic, up from 17 million in 2021.

ETIHAD AIRWAYS' FIRST SUSTAINABILITY-LINKED LOAN

In 2021, Etihad Airways issued its first sustainability-linked loan and the first in the global aviation industry, worth US$1.2 billion. The loan aims to support Etihad Airways in its efforts to reduce the carbon emissions of its passenger fleet by 20% by 2025 and 50% by 2030 compared to its 2019 baseline, and to reach net zero by 2050. The loan is helping drive multiple decarbonisation programmes, including research into locally produced biofuels in association with the Masdar Institute[66]. The loan's terms are tied to sustainability performance targets, which are externally verified against a range of KPIs. The loan is also linked to the company's commitment to upskilling Emirati women for a career in the aviation industry and upholding the highest standards of corporate governance, ethics and integrity, demonstrated through an integrity score, a detailed measure used to assess internal culture and integrity[67].

BURBERRY'S SUSTAINABILITY BOND

In 2020, Burberry issued a sustainability bond of £300 million, the first by a luxury fashion company, to finance eligible sustainability projects as defined by its Sustainability Bond Framework[68]. Eligible projects must be tied to the company's overall sustainability objectives and focus on green buildings, the sustainable management of natural resources and land use, or pollution prevention and control. As per the bond terms, Burberry publishes a report on how its proceeds are allocated each year, which is assured by an external provider. For example, in 2022, Burberry reported a spend of £30 million on projects related to procuring certified materials. By sourcing more sustainably grown cotton through the Better Cotton Initiative, a project funded by the bond, Burberry met its 2022 target to procure 100% of cotton more sustainably. As part of its commitment to be a net positive business by 2040, Burberry refinanced the bond in 2022 to continue linking funding sources to sustainable initiatives.

FIRST ABU DHABI BANK'S INNOVATIVE SUSTAINABLE FINANCING

First Abu Dhabi Bank (FAB) has a strong track record of climate action, and as the largest lender in the UAE, is playing a crucial role in supporting the country's net zero commitments. In 2017, FAB became the first bank in the MENA region to issue a green bond, which after maturing in March 2022, was demonstrated to have created a notable impact, contributing 2,577 MW of renewable energy globally, reducing emissions by around 34.8 million tCO_2 annually and delivering 430,000 m^3 of wastewater treatment capacity[69]. In 2016, FAB set a target of US$10 billion in sustainable financing by 2026, which it met in 2019, six years ahead of plan, and in 2021 alone it financed over US$10 billion to activities focussed on sustainable solutions. FAB has since set a target to invest, lend and facilitate US$75 billion in environmental and socially responsible solutions by 2030[70]. Projects allocated to FAB's sustainable finance products fall under one of three categories: renewable energy, energy efficiency and sustainable water management. The bank summarises the anticipated impacts of projects related to these three categories within its annual sustainable finance report. In 2022, it was reported that through three solar plant projects, almost 2 million tCO_2 would be avoided yearly[71].

In positioning itself as a leader in this space, FAB became the first bank in the GCC to join the global Net-Zero Banking Alliance (NZBA) and is advocating for more banks in the region to commit to collective action[72]. In recognition of its leadership, in 2023, FAB won the majority of the sustainable finance awards available for the Middle East at the Global Finance Awards[73]. Furthermore, in September 2023, FAB and Blue Carbon, a UAE-based environmental asset developer with a portfolio of projects across Africa and Asia, including nature-based solutions and carbon removal projects[74], entered a Memorandum of Understanding (MOU), aimed at channelling investment towards carbon reduction initiatives and mitigation-based efforts. This partnership will help to develop long-term collaboration and drive initiatives spearheaded by Blue Carbon and funded by FAB[75].

HOW MAJID AL FUTTAIM IS ADOPTING SUSTAINABLE FINANCE

A timeline of our engagement with sustainable finance

- **Apr 2019** Published our Green Finance Framework
- **May 2019** Issued the world's first benchmarked corporate Green Sukuk
- **Oct 2019** Issued our second Green Sukuk
- **July 2021** Executed our inaugural sustainability-linked loan
- **June 2022** Issued the region's first green hybrid bond
- **Sept 2022** Executed our second sustainability-linked loan
- **May 2023** Issued our third Green Sukuk

At Majid Al Futtaim, we are proud to be a regional pioneer in sustainable finance, by linking our ESG performance with how we finance our operational and capital expenditures. We have engaged in sustainable finance practices since 2019, when we issued the world's first benchmarked corporate Green Sukuk and the first Green Sukuk issued by a corporate in the region, raising US$600 million to finance and refinance existing and future green projects. We have since issued a further two Green Sukuk and one green hybrid bond, with our most recent green Islamic issuance in May 2023, demonstrating our continued preference for sustainability-linked funding.

Our Green Finance Framework is aligned with the ICMA Green Bond Principles 2018 and outlines the rationale for using sustainable finance to achieve our sustainability strategy, *Dare Today, Change Tomorrow*. It also details the processes for using, managing, and reporting on our green capital market issuances, including how we evaluate and select appropriate sustainability projects to be funded through these instruments. In June 2022, Majid Al Futtaim issued the region's first green hybrid bond worth US$500 million. We report the emissions, energy and water performance of the assets within our Green Capital Market Issuances portfolio annually (see our 2023 Green Capital Market Issuances Report). Our framework was externally reviewed and verified through a Second Party Opinion. In order to ensure ongoing transparency and accountability, we have appointed a third-party auditor to provide independent assurance of the data we report on an annual basis.

Alongside our Green Sukuk and green hybrid bond, in 2021, we arranged our inaugural sustainability-linked loan (SLL) worth US$1.5 billion. This loan made Majid Al Futtaim the first privately-owned Dubai corporation to borrow through such an innovative facility and the region's only 'penalty-only' borrower. This means that failing to meet the performance targets set out in the loan will result in a penalty for the business, causing an increase in the margin applicable to the loan. In 2022, we refinanced an existing revolving credit facility through a second SLL worth US$1.25 billion, making us the largest SLL private corporate borrower in the region. Key to both loans' terms are predetermined sustainability performance targets, that seek to jointly reduce our emissions, increase our portfolio's green building certifications, and enhance gender balance within our senior management. Annual target performance is reported within our ESG Report and is externally and independently verified to ensure credibility and transparency. Our 2022 sustainability performance targets and progress are outlined on the right. In 2022, we achieved all three of the sustainability performance targets. Setting stretch targets and signing on to the challenging structure of 'penalty-only' borrowing demonstrates our commitment to responsible business practices, providing a replicable model for other corporates to follow.

SLL SUSTAINABILITY PERFORMANCE TARGETS*	DEFINITION	2022 TARGET (Test date: 25th June 2023)	2022 PERFORMANCE	2022 PROGRESS
KPI 1 Reducing the Scope 1 and 2 emissions intensity of Majid Al Futtaim's property portfolio, calculated as $kgCO_2e$/managed m^2, in line with Majid Al Futtaim's science-based targets and net positive 2040 ambition	Reduce the emissions we own or control within our properties	173.0	151.6	Achieved
KPI 2 Reducing the number of malls in Majid Al Futtaim's portfolio that do not have a green building certification of a minimum level of LEED Gold, or equivalent	Increase the number of shopping malls with a green building certification	⩽ 8	8	Achieved
KPI 3 Increasing gender diversity among Majid Al Futtaim's senior management, defined as the percentage of women in the top three seniority levels (board, senior executive and senior management) to reach 30% and therefore align to the 30% club	Increase the number of women in senior positions	⩾ 20%	20%	Achieved

* SLL 1 has the same sustainability performance targets as SLL 2 for reporting years 2022 up until 2024 inclusive. For the reporting years 2025 and 2026, for SLL 2, KPI 1 is extended to an additional year, in line with the validated science-based targets. In addition, KPI 2 will have an additional target to increase the number of malls with a LEED Platinum or equivalent rating to more than two. For KPI 3, the percentage will increase from 30% to 32%.

SPOTLIGHT ON

Building resilience: sustainable financing in emerging markets

In 2021, at the height of COVID-19, we conducted a piece of research in partnership with the UAE Ministry of Economy (MOE) and Abu Dhabi Global Market (ADGM), to close some of the knowledge gaps on the use of sustainable finance to build back better and shape a more resilient future, within nations most impacted by sustainable development challenges. COVID-19 demonstrated the fragility of nations and the need for further investment in low and middle-income countries to reorient their financial markets to accelerate the achievement of national sustainability goals.

The paper highlights the top seven trends in sustainable financing, set to transform the future landscape of ESG within these nations. Read the paper here to learn more.

LOOKING TO THE FUTURE

Our application of sustainable finance to date reflects our understanding that businesses have a fundamental role to play in supporting the transition towards a more equitable financial system, and we will continue to leverage our position as a regional leader to drive positive change. It is encouraging to see this opportunity being recognised more widely, with a 2020 HSBC survey finding that 93% of issuers and 65% of investors in the region recognise the benefits of including ESG factors in investment decisions[76]. Therefore, more companies should take advantage of sustainable financial instruments to finance their ESG projects and to incentivise improvements in their ESG performance.

Integrating sustainable finance into our approach also underscores how we can continue building long-term value for our stakeholders by responsibly managing our business. We look forward to continuing to identify pioneering and innovative ways to meet our ambitious sustainability commitments through sustainable financial mechanisms.

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