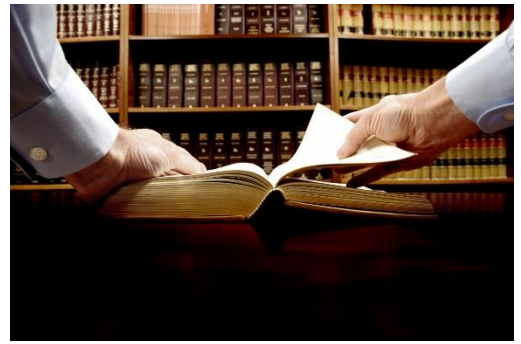


## inBrief

**ESG in the UAE: Has it arrived?**

By Abdus Samad and Ayush Sharma | 19 June 2023

Over the past few years, the United Arab Emirates has witnessed an increase in awareness and significance of environmental, social and governance (ESG) issues. While businesses in the UAE have begun to acknowledge that conscious efforts towards ESG compliance is imperative for growth and longevity of their business, the question remains whether ESG compliance can truly be said to now form a part of the UAE compliance ecosystem.

**ESG significance on the rise: Key Factors**

M&A has been on a steady rise in the MENA region (with the UAE continuing to demonstrate resilience despite global headwinds). ESG compliance has become a point of concern for investors, who are frequently concerned to fully investigate and understand the nature and extent of ESG compliance by UAE targets.

In cases where such compliance can be successfully demonstrated, investors derive comfort regarding sustainable financial performance and the ability of the management to identify and account for long term business risks. On the other hand, a lack of transparency concerning ESG compliance often results in questions regarding the sustainability of the business and management's lack of sensitivity to an issue that is increasingly important to investors and stakeholders.

As a consequence, ESG rating agencies are often engaged by potential investors for the purposes of conducting an ESG diligence which has led to the "ESG Score/Ratings" becoming increasingly significant in evaluating, and to an extent negotiating certain contours of an investment. In most cases, the ESG score/rating will have a direct impact on the valuation of a target.

**Good-to-have or must-have: Where do we stand?**

While the UAE business ecosystem awaits further and more granular regulation of ESG matters, the question arises whether UAE businesses should of their own initiative, take cognizance of an issue

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that is now at the core of many investment mandates. Improved capability of risk management, higher brand value, advantage over non-compliant competitors and potentially reduced business costs resulting in higher valuation are only a few of the factors that influence the decision-making process. ■

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