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The Emirate of Sharjah's Sustainable Financing Framework

Feb. 2, 2023

The Emirate of Sharjah is one of the seven emirates that constitute the United Arab Emirates (UAE). Federal authorities have responsibility for foreign affairs, defense, and education among other areas, while Sharjah exercises powers not assigned to the federation and has its own local government, retaining sufficient autonomy to make certain political and financial decisions. The Al Qasimi dynasty has ruled the emirate since the 18th century. Sharjah covers 2,590 square kilometers and has a population of 1.8 million people--making it the third largest emirate behind Abu Dhabi and Dubai--of which less than 20% are nationals. Sharjah's GDP was UAE dirham (AED) 131 billion (US\$ 36 billion) and its GDP per capita US\$24,600 in 2021.

In our view, the Emirate of Sharjah's sustainable financing framework, published in February 2023, is aligned with:

- ✓ Social Bond Principles (with June 2022 Appendix), ICMA, 2021 (SBP)
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2021 (SLP)
- ✓ Green Bond Principles (with June 2022 Appendix), ICMA, 2021 (GBP)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021 (GLP)
- ✓ Sustainability Bond Guidelines ICMA, 2021 (SBG)

Issuer's Sustainability Objectives

The government of Sharjah has formulated its long-term strategy and policies under the wider UAE's environmental and social objectives, such as targeting net zero carbon emissions by 2050, as well as the UAE's Centennial 2071 program, which has four key themes (a future-focused government, excellent education, a diversified knowledge economy, and a happy and cohesive society). Sharjah contributes to these objectives within its jurisdiction and in coordination with the other emirates. The UAE's environmental themes include net zero emissions, waste management, and biodiversity conservation. Its social topics cover education, health care, housing, and remote area connection.

Sharjah put together its sustainable financing framework to raise funding for expenditure that will contribute to meeting the UAE 2050 net zero target, UAE Centennial 2071, and the Sustainable Development Goals (SDGs) of the United Nations' (U.N.'s) Agenda 2030.

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Second Party Opinion Summary


Use of proceeds

Alignment  The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Score Not aligned **Aligned** Strong Advanced

The framework clearly articulates Sharjah's commitment to allocating the net proceeds raised under the framework exclusively to finance or refinance eligible environmental and/or social projects. The framework lists 14 eligible categories, with the detailed SDG targets they are tackling. It includes a maximum look-back period of the previous two calendar years before the year of issuance (meaning up to 36 months in practice).


Process for project evaluation and selection

Alignment  The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Score Not aligned **Aligned** Strong Advanced


The framework describes the process for project evaluation and selection, including the exclusionary criteria for eligible projects. Sharjah Finance Department will establish a committee to lead the screening of projects and ensure their initial and continued eligibility. Risk management is comprehensive, including an environmental impact assessment and social considerations.

Management of proceeds

Alignment  The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Sharjah will earmark an amount equivalent to the net proceeds raised under the framework to finance/refinance eligible expenditures using a dedicated sustainable financing register. It will deposit the proceeds in its operating accounts and manage proceeds pending allocation in cash and/or cash equivalents in its single treasury account.

Reporting

Alignment  The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.


Score Not aligned Aligned **Strong** Advanced

Sharjah will disclose annually the allocation of the net proceeds by eligible category, as well as the projects' environmental and social impacts until the full allocation of the net proceeds. This information will be available on the Sharjah Finance Department website. The emirate will have an independent third-party verification for its allocation reporting post-issuance.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

-  The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Commitments score



We consider Sharjah's overall use of proceeds commitments to be aligned.

Sharjah will allocate the net proceeds raised under the framework exclusively to finance or refinance eligible environmental and/or social projects. It has an exclusion list to ensure investments are not made in any projects that may contradict the framework's objectives. The framework outlines the timeframe for the emirate to fully allocate the net proceeds, which is within two years after the issuance of financial instruments.

The framework has eight eligible environmental categories: (i) renewable energy; (ii) clean transportation; (iii) pollution prevention and control; (iv) sustainable water and wastewater management; (v) energy efficiency and green buildings; (vi) climate change adaptation; (vii) environmentally sustainable management of living natural resources and land use; and (viii) terrestrial and aquatic biodiversity. In addition, it includes six eligible social categories: (i) affordable housing; (ii) affordable basic infrastructure; (iii) access to essential services--health care; (iv) access to essential services--education; (v) employment generation; and (vi) socioeconomic advancement and empowerment. Each eligible project category supports at least one U.N. SDG.

Sharjah's green categories align with the wider UAE's environmental targets and initiatives (such as the 2050 net zero target). Renewable energy, clean transportation, and energy efficiency, for example, support the economy's systematic decarbonization, thereby contributing to climate change mitigation and SDG 13 (climate action). SDG target 13.2--integrate climate change measures into national policies, strategies and planning--is the common foundation for these categories, which all include additional and more specific targets. Likewise, pollution prevention and control imply the development of stronger waste management foundations, contributing to the transition toward a circular economy and to SDG 12 (responsible consumption and production, with an emphasis on 12.2--by 2030, achieve the sustainable management and efficient use of natural resources--and 12.5--by 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse. Specific objectives add credibility to the eligible categories.

Sharjah's eligible social project categories aim to improve the empowerment and economic inclusion of underserved people (individuals from low-income families; people in remote areas), through its direct investment and/or expenditure on services. Funding affordable housing, for example, aims to improve low-income groups' access to accommodation, which contributes to SDG 10 (reduced inequalities) and SDG 11 (sustainable communities and cities). Similarly to green categories, overarching SDG objectives are broken down into specific targets, such as 11.1--by 2030, ensure access for all to adequate, safe, and affordable housing and basic services and upgrade slums--and 11.3--by 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated, and sustainable human settlement planning and management in all countries. Similarly, access to essential services includes better education for low-income families and young populations through scholarships. The framework discloses eligibility criteria in line with government definitions for a few populations, including low-income and elderly people.


Overall, the extensive list of eligible projects includes some types that may have less environmental or social benefit than others, potentially constraining the impact of Sharjah's sustainable financing. In addition, the target populations in some social categories seem narrow when compared to the total inhabitants of the country.

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Sharjah will disclose the ratio of funds used for financing versus refinancing. The framework includes a maximum look-back period of the previous two calendar years before the year of issuance (meaning up to 36 months in practice).

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Sharjah's overall process for project selection and evaluation commitments to be aligned.

The framework explains the process for identifying and selecting eligible projects, including provision of a broad exclusionary list (among others, fossil fuels-based and nuclear power generation; exploration, production, or transportation of fossil fuels; alcohol; weapons; tobacco; and gambling).


Sharjah Finance Department will establish a committee with members from the Debt Management Office, Fiscal Policy Department, Budget and Financial Planning Department, and Accounts Department. This committee will identify, review, and approve eligible expenditure, and then monitor invested projects to ensure continued compliance with the sustainable financing framework, and accordingly remove projects that have been disposed of or no longer meet the eligibility criteria. The director general of Sharjah Finance Department will chair the committee, which will meet at least semi-annually.

Risk management is comprehensive over the lifecycle of projects. There will be an environmental impact assessment to ensure all green risks are identified and addressed. Social risks identification and management will rely among others, on the UAE Labor Law. Beyond the initial screening, the committee will monitor environmental and/or social risks, and/or controversies that may arise, potentially leading to the removal of projects from the eligible assets pool. For social categories, the framework discloses eligibility criteria in line with government definitions, adding objectivity to the selection process.

Not all project categories include clearly defined thresholds or incorporate market-based taxonomies. There is a reference to a few certifications for energy efficiency and green buildings, and the framework includes very comprehensive performance thresholds for renewable energy projects. However, the performance criteria for projects in some categories, especially in climate change adaptation, are less transparent. This could reduce the readability of the associated benefits for those projects.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Sharjah will track all proceeds from instruments issued under the framework through a dedicated sustainable financing register. The register will include (i) the details of the outstanding instruments (such as transaction date, amount of proceeds, maturity date, and International Securities Identification Number code) and (ii) details on the use of proceeds, such as invested projects, amounts allocated and yet to be allocated, and the estimated environmental and social

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impact. The emirate aims to allocate net proceeds to eligible projects within two years of receiving the funds.

In case of asset divestment or where projects cease to be eligible, Sharjah Finance Department will ensure a timely reallocation of proceeds, so that the balance of tracked net proceeds matches the allocation to eligible expenditure.

Sharjah will manage unallocated net proceeds in accordance with its general other government funds--namely, keeping them in cash and/or cash equivalents--until the full allocation of the net proceeds.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 The Emirate of Sharjah's sustainable financing framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Sharjah's overall reporting practices to be strong.

Sharjah commits to reporting annually the allocation of the net proceeds and the environmental and social impacts of the financed projects or expenditures until the full allocation of the net proceeds. The allocation reporting and impact reporting will be available on the Sharjah Finance Department website.

The allocation reporting will include the: (i) allocated net proceeds by project category; (ii) type of expenditure (such as direct investment, subsidy, or grant); (iii) ratio of financing and refinancing, but information is unavailable on the look-back period for each project; and (iv) unallocated balance.

Sharjah will disclose the actual and/or expected environmental and social impacts of financed expenditure by project category and aims to align its disclosures with the International Capital Market Association' (ICMA)'s harmonized framework for impact reporting. For on-going projects, Sharjah will report provisional impact metrics, where possible. As necessary, Sharjah may provide additional updates due to the time lag in estimating or assessing certain impact indicators.

The environmental impact metrics include: (i) greenhouse gas (GHG) emissions reduced or avoided in tons of carbon dioxide equivalent for renewable energy and clean transportation; (ii) absolute or relative reduction in air/water pollutants for environmentally sustainable management of living natural resources and land use; (iii) reduction of flood risk and/or assets at risk for climate change adaptation; and (iv) volumes of water managed or saved for sustainable water and wastewater management.

Likewise, the social impact indicators include the: (i) number of units built for affordable housing, (ii) number of jobs created for employment generation, (iii) number of people from low-income families who get into higher education for access to essential services on education, and (iv) number of individuals or families benefiting from social minimum income for socioeconomic advancement and empowerment. In line with market practice, the social impact indicators focus typically on the count of beneficiaries, providing limited insight on the effectiveness of projects.

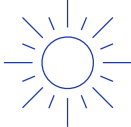








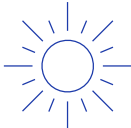


Sharjah will disclose the key underlying calculation methodologies and/or assumptions for actual and provisional impact metrics. The emirate will have an independent third party verify its allocation reporting post-issuance. Such commitments add transparency to the sovereign's reporting practices.

Mapping To The U.N.'s Sustainable Development Goals

The SDGs, which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Sharjah's Sustainable Financing Framework intends to contribute to the following SDGs:

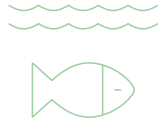
Use of proceeds	SDGs		
Renewable energy			
	7. Affordable and clean energy*	13. Climate action	
Clean transportation			
	11. Sustainable cities and communities*	13. Climate action	
Pollution prevention and control			
	11. Sustainable cities and communities*	12. Responsible consumption and production*	13. Climate action
Sustainable water and waste water management			
	6. Clean water and sanitation*	13. Climate action	
Energy efficiency & green buildings			
	7. Affordable and clean energy*	11. Sustainable cities and communities*	13. Climate action

Climate change adaptation



13. Climate action*

Environmentally sustainable management of living natural resources and land use



14. Life below water*



15. Life on land*

Terrestrial and aquatic biodiversity

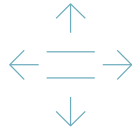


14. Life below water*



15. Life on land*

Affordable housing



10. Reduced inequalities



11. Sustainable cities and communities*

Affordable basic infrastructure



11. Sustainable cities and communities*

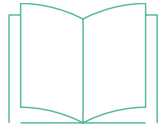
Access to essential services - healthcare



3. Good health and well-being*

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Access to essential services -
education

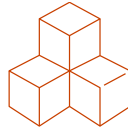


**4. Quality
education***

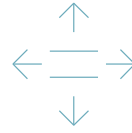
Employment generation



**8. Decent work
and economic
growth***



**9. Industry,
innovation and
infrastructure***

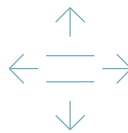


**10. Reduced
inequalities**

Socioeconomic advancement and
empowerment



**8. Decent work
and economic
growth***



**10. Reduced
inequalities***

*The eligible project categories link to these SDGs in the ICMA mapping.

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