Opportunities for the GCC to strengthen the sustainable finance ecosystem

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Introduction

In recent years, sustainable finance has gathered significant attention embracing the ultimate goal of achieving sustainable development. The term has emerged as a thoughtful approach to impact investing, addressing environmental, social, and governance considerations (ESG). As the world seeks to address global challenges more comprehensively, it is critical to explore sustainable finance and its offerings and distinguish similar practices such as green and climate finance. Green finance primarily concentrates on funding projects and initiatives that yield environmental outcomes[1], while climate finance is a subset of it that focuses on actions that directly address climate change. Both terms fall under the umbrella of sustainable finance, only covering the “E” of the ESG considerations.

While the world has grown starkly aware of these practices, similarly in the Gulf Cooperation Council (GCC) region, there is a growing recognition of the importance of incorporating sustainable finance principles into financial systems, with a shared vision of promoting sustainable development. Such adjustments align with the global agenda for climate change mitigation and adaptation, where fostering sustainable finance practices is pivotal in steering the world toward a low-carbon and resilient future.

In this report we provide an overview of the sustainable finance ecosystem, focusing on the GCC’s progress against global policy discussions.

[1] UNEP

The global agenda for climate change

The shapers of the climate agenda

2030 Development Agenda
Adoption of Sustainable Development Goals
1987

UNFCCC
Global treaty to stabilise greenhouse gas emission and prevent harmful human interference with climate
1994

Kyoto Protocol
International treaty to reduce an average 5 percent emission levels compared to 1990
1997

Paris Climate Agreement
Legally binding treaty to limit global warming to well below 2, preferably to 1.5 degrees Celsius
2015

Conference of Parties Discussion
Coordination of efforts to address climate change
2023

The global agenda for climate change has been shaped by a series of landmark agreements and initiatives over the past few decades. In 1987, the World Commission on Environment and Development introduced the term 'sustainable development', framing an understanding of meeting present needs without compromising the ability of future generations to meet their needs[2].

These initial efforts paved the way for the establishment of the 2030 Sustainable Development Agenda in 2015. In 1994, the United Nations Framework Convention on Climate Change (UNFCCC) entered into force, aiming to stabilise greenhouse gas emissions "at a level that would prevent dangerous human-induced interference with the climate system."[3]. In 1997, the Kyoto Protocol was established as the first international treaty to set binding greenhouse gas emissions reduction targets for developed countries[4]. Fast forward to 2015, the Paris Climate Agreement was adopted, which set a goal of limiting global warming to well below 2°C above pre-industrial levels, with a target of 1.5°C[5]. This historic agreement was a turning point for global climate action.

In recent years, the global community has continued to ramp up efforts to address climate change. Convened under the UNFCCC, which has near-universal membership today, the Conference of Parties (COP) is the main forum where multiple public and private stakeholders come together to discuss these actions. The COP represents a defining moment for the world to gather and accelerate progress towards a more sustainable future. In the last decade, key takeaways from previous COPs included, the establishment of a dedicated fund for loss and damage, a clear intention to limit warming to 1.5° C, a focus on accountability, the mobilisation of more financial support for developing countries, and the implementation of climate pledges, all while requiring all countries to make extra efforts to address the climate crisis[6].

The COP is set to take place in a GCC country for the first time in its history. The UAE will hold the incoming presidency for COP28. The event will focus on achieving ambitious negotiated outcomes and practical implementation strategies. The central themes include expediting the energy transition, revising climate finance to honor previous commitments and establish a new financial framework, prioritising nature and people in climate action, and holding an exceptionally inclusive COP. Notably, the first-ever Global Stocktake is scheduled for COP28[7]. During this process, the countries will evaluate the world's response to the climate crisis in the past years. While this presents a pivotal opportunity for recalibrating efforts, it also ensures that COP28 will become a landmark event for global climate action.

[2] Report of the World Commission on Environment and Development: Our Common Future, 1987.
[3] United Nations Framework Convention on Climate Change, 1994.
[4] Kyoto Protocol, 1997.
[5] Paris Agreement, 2015.
[6] Five Key Takeaways from COP27, 2022.
[7] COP Presidency, 2023.

The concept of sustainable finance

Sustainable finance gained momentum in the early 2000s due to several factors, including increased awareness of environmental and social issues, the growing importance of corporate social responsibility, and the emergence of new investment products and strategies incorporating ESG factors[8]. Sustainable finance incorporates environmental, social, and governance (ESG) elements into financial decision-making. This progressive approach aims to foster sustainable economic progress while safeguarding the long-term sustainability of financial systems.

Governments, international organisations and financial regulators worldwide are taking steps to promote sustainable finance, recognising its potential to help achieve global sustainability goals such as the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement. As sustainable finance rapidly grows, financial regulators in many countries find it increasingly necessary to develop a balanced ecosystem that promotes sustainable practices while risk management plans are effectively accounted for.

To this effect, efforts of countries can be broadly grouped into the following priorities, with varying levels of progress between priorities depending on the local context:

01 Establishing clear guidelines to identify sustainable finance activities or investment opportunities that apply to project, entity, and industry levels.

02 Compatibility with the Paris Agreement goals, while remaining dynamic and adaptive to evolving market conditions, scientific, and technological developments.

03 Organising an equitable and affordable transition, while limiting negative effects on employment, affected households, and communities, with direct consideration of the SDGs[9].

These priorities have become increasingly important as the world grapples with climate change and social inequality. Sustainable finance will be critical in promoting a sustainable and equitable future, gaining significant attention from policymakers, investors, and financial regulators worldwide.

[8] World Investment Report, UNCTAD, 2022.
[9] Classification based on priorities set by the G20 Sustainable Finance Working Group

The GCC landscape

Status of the sustainable finance ecosystem

The financial sector is a significant contributor to the GDP of the GCC countries[10]. This presents an opportunity to accelerate the adoption of sustainable finance practices in the region. According to the World Bank, the GCC countries have made significant progress in developing sustainable finance frameworks, with a focus on promoting sustainable investments, supporting green projects, and encouraging sustainable financial institutions. Such projects include developing sustainable cities powered by renewable energy, such as NEOM in Saudi Arabia, facilitating carbon-neutral urban development projects such as Masdar City in UAE, and diversifying energy sources to reduce the carbon footprint across all GCC nations. The GCC countries have adopted various policies and regulations to support sustainable finance, including guidelines for green bonds, environmental risk assessments for financing, and sustainability reporting requirements for companies[11].

Specifically, green finance is experiencing a surge in popularity in the GCC, as evidenced by the record high total value of over $8.5 billion in green and sustainable bonds and Sukuk[12] issuance in 2022, compared to just $605 million in 2021. This increase in numbers is particularly noteworthy since global issuance of green bonds declined by 14% during the same year, as reported by Bloomberg's capital market league tables[13]. Major issuers include Saudi Arabia's Public Investment Fund and Abu Dhabi National Energy Company.

Saudi Arabia, as a G20 member, and UAE as a recent G20 recurring invitee, have also been involved in significant engagements on the development of the sustainable finance ecosystem, particularly in the Sustainable Finance Working Group (SFWG), where they have both made notable contributions which have been represented in a case study in the G20 Sustainable Finance 2022 report, namely the efforts regarding the G20 Sustainable Finance Roadmap[14], which provides a comprehensive framework for sustainable finance practices.

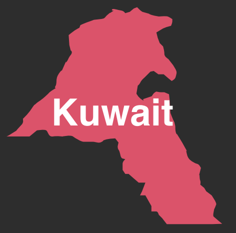
[10] Gulf Cooperation Council: Economic Prospects and Policy Challenges for the GCC Countries, IMF, 2022.
[11] Gulf Economic Update: Green Growth Opportunities in the GCC, World Bank, 2022.
[12] Sukuk are financial instruments used in Islamic finance that are similar to bonds. They indicate ownership in a tangible asset, project, or commercial enterprise, with holders entitled to a share of earnings.
[13] The National: GCC green bond and Sukuk issuances hit a record in 2022.
[14] The G20 Sustainable Finance Roadmap

In terms of efforts on sustainable finance in each GCC country, there are varying levels of progress. While UAE and Saudi Arabia are leading the sustainable finance efforts in the region, other GCC countries are making efforts to adapt quickly. The below table measures the progress of the GCC countries across 9 areas. These areas represent the status of sustainable finance strategies, sustainable finance sector definitions, standards and programmes which are some of the key policy tools required to build a thriving sustainable finance ecosystem.

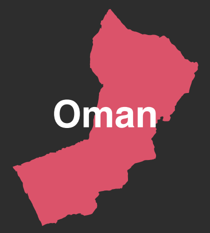
Country cases

Bahrain has been making commitments in promoting sustainable finance initiatives in the GCC region. Bahrain's Vision 2030 includes sustainability as one of three guiding elements in the country's overall economic agenda. Bahrain has developed a comprehensive National Renewable Energy Action Plan and a National Energy Efficiency Action Plan to assist this, and it keeps a detailed inventory of progress toward its SDGs. In 2018 the Bahrain Association of Banks (BAB) established a permanent sustainable development committee to enhance the role of the banking sector and its contribution in line with the UN 2030 Sustainable Development Agenda. Bahrain encourages but does not mandate ESG reporting, although government stakeholders monitor certain aspects of ESG compliance. In recognition of the importance of sustainability, the Bahrain Stock Exchange, Bahrain Bourse (BHB), joined the United Nations Sustainable Stock Exchange (SSE) Initiative in 2019[15]. Likewise, TAMKEEN is an existing national program that promotes sustainable growth particularly in renewable energy and sustainable development. To promote banks' extension of green loans and increase the financing of environmentally friendly projects, TAMKEEN signed a partnership agreement with several leading banks[16]. Nogaholding, Bahrain's national oil corporation, refinanced a $2.2 billion sustainability-linked corporate credit facility last year.

[15] Promoting Sustainable Finance and Climate Finance in the Arab Region - United Nations Environment Programme
[16] TAMKEEN



The sustainable finance journey, which was initiated later in comparison to other countries in the region, continues by gaining momentum in Kuwait. The National Bank of Kuwait (NBK) launched the Sustainable Finance Framework in March 2022 as it continues to establish a market-leading position in sustainable development by enabling and promoting responsible business practices to support the Kuwait National Adaptation Plan (NAP) to address climate change[17].
In November 2022, the Central Bank of Kuwait issued a sustainable finance circular to guide banks in adopting ESG finance[20]. Kuwait Investment Authority (KIA), the world's third largest sovereign wealth fund, announced it will ensure its entire portfolio adheres to ESG standards. The country provides state-level support for sustainable finance and encourages listed companies to participate in voluntary ESG reporting.



In line with the Oman Vision 2040, which aligns with the UN SDGs in building the country's future, the Sultanate has published a circular requiring all banks and financial institutions to take ESG aspects into account when assessing credit risks and making lending decisions. In 2022, the Central Bank of Oman and Oman Environmental Services Holding Company signed a Memorandum of Understanding that called for collaboration in green finance, investments in ESGs, and support for FinTech focused SMEs.

In line with the climate objectives of Qatar National Vision 2030, The National Climate Change Action Plan 2030 has been developed in coordination with more than 50 entities to enhance sustainability efforts[19]. Qatar aims to reduce its greenhouse gas emissions by 25 percent by 2030 and has launched a plan to embed principles of the circular economy, including the use of 35 percent recycled materials in construction projects. The state has developed ESG frameworks to promote sustainability and facilitate greenfield investment, particularly in sustainable financing. Successful examples of these efforts include the Qatar Stock Exchange joining the United Nations Sustainable Stock Exchanges Initiative (SSEI), and the launch of the ESG Guidance, the first sustainability platform, and the first ESG tradable index. Sustainable finance initiatives are expected to open a large window of opportunity of at least USD 75 billion by 2030 for sustainable investments[20].

As part of the Vision 2030, Saudi Arabia introduced the Saudi Green Initiative aimed to increase Saudi Arabia's reliance on clean energy, offsetting emissions, and protecting the environment. It aims to combat climate change, facilitating whole-of-society, and public and private sector collaboration to rapidly scale-up climate action[21]. Saudi Arabia launched various ambitious projects such as NEOM, a futuristic city fueled by 100 percent renewable energy, and the Saudi Green Initiative aimed at reducing carbon emission by more than 4 percent of global contributions[22]. Saudi National Bank, the country's largest commercial bank, issued $750 million in sustainable sukuk bonds in its initial offering. Saudi Arabia's sovereign wealth fund, the Public Investment Fund (PIF), issued three tranches of green bonds totaling $3 billion in October 2022. Also, In 2021, Riyad Bank has built a sustainable finance framework to support sustainable development and help achieve the Saudi Vision 2030. KSA has not yet established ESG requirements for the private sector, while Saudi Exchange recommends international initiatives such as the Global Reporting Initiative (GRI).

The UAE has been a pioneer in sustainable finance in the GCC region, marked by the Dubai and Abu Dhabi Sustainable Finance Declarations in 2019, as well as the publication of its first guiding principles on sustainable finance in January 2020. The UAE Sustainable Finance Framework 2021-2031 has set a common national agenda for sustainable finance, while ADGM and DIFC have collaborated with global organisations to provide training programs for finance professionals. UAE was the first government within the region to commit to a net-zero emission objective with substantial initiatives, including mandating ESG reporting from publicly traded corporations. Recently, Abu Dhabi's sovereign wealth fund, Mubadala, established an independent ESG business and Dubai's Emirates NBD raised $1.75 billion in the Gulf region's first sustainability-linked loan. Additionally, Masdar Green is issuing green bonds to facilitate sustainable asset development for Masdar City's future growth.

[17] NBK
[18] CBK
[19] The National Climate Change Action Plan 2030
[20] Invest Qatar
[21] Saudi Green Initiative
[22] Atlantic Council

The table shows that all GCC countries have launched initiatives that focus on sustainability. Saudi Arabia launched the Saudi Green Initiative as part of Vision 2030 aimed to increase Saudi Arabia's reliance on clean energy and reducing carbon emissions by more than 4 percent of global contributions, while Qatar launched the National Climate Change Action Plan 2030 to enhance sustainability efforts and reduce its greenhouse gas emissions by 25 percent.

Notably, most of the GCC countries have also adopted voluntary corporate sustainability reporting standards, such as the Saudi National Sustainability Standards, Dubai Financial Market's ESG Reporting Guide, Qatar Stock Exchange's Guidance on ESG Reporting, Boursa Kuwait's ESG Reporting Guide, and Bahrain Bourse's ESG Reporting Guide. Many GCC governments have also announced sovereign sustainable bond programs, especially for green bonds and sukuk. Progress is underway in other areas of disclosure, taxonomy and governance.

Progress of sustainable finance in the GCC

Item	KSA	UAE	Qatar	Kuwait	Bahrain	Oman
Public sustainability pledges	Progressed	Progressed	Progressed	Progressed	Progressed	Progressed
Sustainable finance strategy	Progressed	Progressed	No publicly reported progress	Progressed	Progressed	No publicly reported progress
Corporate sustainability reporting standards	Progressed	Progressed	Progressed	Progressed	Progressed	In progress
Financial disclosure of climate risks standards	Progressed	Progressed	No publicly reported progress	No publicly reported progress	In progress	No publicly reported progress
Sustainable finance taxonomy	In progress	In progress	No publicly reported progress	No publicly reported progress	No publicly reported progress	No publicly reported progress
Standards for sustainable investment products	In progress	In progress	No publicly reported progress	No publicly reported progress	No publicly reported progress	No publicly reported progress
Sovereign sustainable bond program	Progressed	Progressed	Progressed	No publicly reported progress	In progress	In progress
Sustainability indices	In progress	Progressed	Progressed	No publicly reported progress	No publicly reported progress	No publicly reported progress
Sustainable finance training program	No publicly reported progress	Progressed	No publicly reported progress	No publicly reported progress	Progressed	Progressed

Progressed In progress No publicly reported progress

Sources: PwC research adapted from the Atlantic Council, 2022. Official public resources, 2023

Building the case for the GCC to accelerate sustainable finance

Several factors need to be considered to ensure that the financial sector supports the sustainability goals in the GCC. In the region's case, there is a concerning vulnerability to climate change with pressing issues such as water availability, food security and social welfare. Given the widespread exposure to these concerns, promoting sustainable finance, and fully integrating ESG factors into core financial strategies hold the utmost importance for the GCC to adapt and mitigate the effects of climate change.

Given that the region is on the way to achieving economic diversification, GCC financial sectors may face a higher hill to climb in meeting commitments, considering the transition's complexity and costs as major obstacles. Governments and business leaders need to accelerate their efforts to fully transition towards sustainable finance to achieve their long-term economic success goals.

Accordingly, GCC countries can achieve immense strategic benefits from accelerating the development of globally competitive sustainable finance regimes.

These opportunities include:

01 Expanding the GCC's sustainable impact and influence

Sustainable finance further allows the GCC to align policymaking with international development priorities. By establishing globally competitive sustainable finance ecosystems, the GCC countries can demonstrate their technological capabilities and economic feasibility to promote environmentally and socially conscious outcomes. Such leadership will position the GCC as a key player in the international scene, capable of influencing global policy decisions through meaningful representation in global policy forums, such as UNFCCC, COP, and G20,
among others.

02 Spearheading the net zero agenda

By embracing sustainable finance principles, the GCC can potentially spearhead the global net zero agenda. Adopting sustainable finance practices, including establishing a target cap for financed emissions and scaling up investments in sustainable energy, would reduce the dependency on conventional energy sources while promoting energy efficiency and curbing carbon emissions. Such actions will contribute to a cleaner, more sustainable future and strategically align with GCC's sustainability objectives, such as diversifying their economies and creating new opportunities in sustainable sectors such as green tech and renewable energy. With the potential to stimulate job creation and technological innovation, the GCC's leadership in sustainable finance could prove to be a game-changer for the achieving Net Zero agenda.

03 Broadening instruments in achieving SDGs

Sustainable finance has the potential to be a vital tool in achieving SDGs. By helping address the financing gap in SDGs, sustainable finance will unlock funding for projects and initiatives supporting sustainable development, such as renewable energy and sustainable infrastructure. Additionally, it will encourage accountability and transparency, enabling private investors and stakeholders to assess the impact of investments and pinpoint areas for improvement.

04 Bolstering social inclusion and development

Sustainable finance may assist GCC nations in improving social inclusion and development by providing access to financing for socially responsible initiatives. These principles are essential in empowering women, youth, and SMEs. Furthermore, by addressing issues such as water scarcity and financing sustainable infrastructure projects such as clean water initiatives, sustainable finance can contribute to a healthier environment and an improved quality of life for all citizens.

05 Promoting islamic sustainable finance

Sustainable finance is a vehicle that presents an exceptional potential for promoting Islamic finance if the integration is done right. By embedding Islamic finance principles into their sustainable finance regimes, the GCC countries can enhance the credibility and attractiveness of their Islamic finance offerings. Being inherently rooted in ethical principles and values, Islamic finance provides an adequate, sustainable financing framework as ESG considerations are embedded into its core foundations. By including Islamic sustainable finance principles in their sustainable finance regimes, GCC countries can tap into an expanding market of socially responsible investors looking for ethical investment opportunities,
providing an opportunity for the GCC to lead on a sustainable development agenda globally.

06 Attracting international investments

The GCC can communicate a clear commitment to sustainable finance by adopting high transparency and accountability in reporting financial decisions. This also means providing businesses with the resources they need to invest in innovation and technology that will assist them in achieving their sustainability goals. Taking these steps in presenting a dedication to ESG factors will boost investor confidence and represent the region as an even more attractive investment destination for socially responsible investors.

07 Building sustainable business models

Sustainable finance may play a significant role in helping private businesses build sustainability models. Private companies can improve their social impact and increase their long-term viability by being incentivised to implement sustainable methods that reduce their environmental footprint. Furthermore, supplying access to capital, mainly allocated for ESG projects, can help GCC businesses improve their brand reputation and value.

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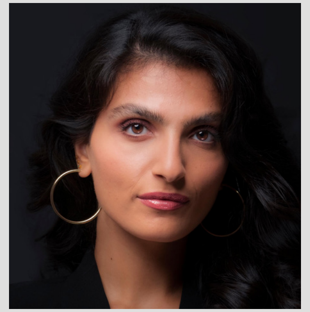

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