Opportunities for the GCC to strengthen the sustainable finance ecosystem
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, 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.
The global agenda for climate change

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.” In 1997, the Kyoto Protocol was established as the first international treaty to bind greenhouse gas emission reductions targets for developed countries. 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. 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 UN Framework Convention on Climate Change and the Paris Agreement, 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 achieve the Sustainable Development Goals and it serves as an opportunity to recalibrate efforts and ensure that countries will evaluate the world’s response to the climate crisis in the past years.

The COP28 will become a landmark event for global climate action. While this presents a pivotal opportunity for recalibrating efforts, it also ensures that countries will evaluate the world’s response to the climate crisis in the past years.

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 a balanced ecosystem that promotes sustainable practices while safeguarding the long-term sustainability of financial systems, by incorporating environmental, social, and governance (ESG) elements into financial investment products and strategies, establishing clear guidelines to identify sustainable finance activities, and promoting sustainable finance as a key enabler of the sustainable development goals. The COP will focus on achieving ambitious negotiations and practical implementation strategies, with the goal of limiting global warming to well below 2°C, preferably to 1.5°C, and to keep the increase in global temperatures to 1.5°C.

This COP aims to bring together multiple public and private stakeholders, including governments, international organisations and financial regulators, to discuss and agree on actions that will help achieve global sustainable development. Convened under the UNFCCC, which has near-universal membership, the conference provides a platform for countries to present their climate action plans, share best practices and discuss ways to accelerate the transition to a low-carbon economy.

The COP28 is a key event in the global climate action agenda. It offers a unique opportunity for countries to evaluate their progress, discuss their challenges and share their successes, and provide a platform for governments, international organisations and financial regulators to discuss and agree on actions that will help achieve global sustainable development. The COP28 is a crucial moment for the world to come together and take action on climate change, and it represents a defining moment for the world to achieve the Sustainable Development Goals.

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. Sustainable finance incorporates environmental, social, and governance (ESG) elements into financial decision-making. This progressive approach aims to foster sustainable economic growth 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 sustainable development. The United Nations Sustainable Development Goals (SDGs) and the Paris Agreement as an ambitious negotiated outcome and practical implementation strategies. The central themes include ensuring the transition, aligning finance with human rights and gender equality, and avoiding harm to communities. With direct consideration of the SDGs...

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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:

1. Establishing clear guidelines to identify sustainable finance activities

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

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

*Classification based on priorities set by the G20 Sustainable Finance Working Group.

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. The COP28 will become a landmark event for global climate action. While this presents a pivotal opportunity for recalibrating efforts, it also ensures that countries will evaluate the world’s response to the climate crisis in the past years.

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The GCC landscape
Status of the sustainable finance ecosystem

The financial sector is a significant contributor to the GDP of the GCC countries. This provides an opportunity to develop 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 structured green finance institutions. The region has moved from a traditional linear economy powered by renewable energy, such as nuclear in Saudi Arabia, facilitating carbon-neutral projects such as Masdar City in Abu Dhabi, 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 establishing policies and frameworks for financing, and sustainable reporting requirements for companies.

Country cases

Bahrain

Bahrain has been making commitments in promoting sustainable finance initiatives in the GCC region. Bahrain’s Vision 2030 includes sustainability as one of its guiding principles, focusing on developing a comprehensive National Renewable Energy Action Plan and a National Energy Efficiency Action Plan to be enforced, and it keeps a detailed inventory of progress toward its SDGs to monitor its progress. 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 reinvigorating host, has made a significant commitment to the status of the sustainable finance ecosystem, particularly in the Sustainable Finance Working Group (SFWG) and the Status of the sustainable finance ecosystem section, and several leading banks in the region have been represented in a case study in the G20 Sustainable Finance 2022 report, namely the National Bank of Kuwait. The GCC Sustainable Finance Roadmap provides a comprehensive framework for sustainable finance practices.

The GCC 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, the United Arab Emirates (UAE) and Saudi Arabia have been at the forefront of sustainable finance initiatives.

The sustainable finance journey, which was initiated earlier in comparison to other countries in the region, continues by promoting several projects such as the National Green Financing Bank of Kuwait (NBFK) launched the Sustainable Finance Framework in March 2019, and the Central Bank of Bahrain (CBB) is seen in sustainable development by enabling and promoting Eco-Friendly Finance. CBB’s sustainable finance ecosystem includes multiple supporting tools, such as the National Green Finance Framework, to guide banks in adopting ESG investment practices. The largest sovereign wealth fund, announced in 2019, aims to curtail its entire portfolio in accordance with ESG standards. The country promotes state- level support for green bonds (in October 2022), and also in 2022, Royal Bank has built a sustainable finance framework to support banks in the GCC region to help achieve the SDG Vision 2030. KSA has not yet established ESG requirements for issuers, but the exchange recommends international initiatives such as the Global Reporting Initiative (GRI).

In line with the Oman Vision 2040, which aligns with the UN SDGs in building the country’s future, the Sultanate has developed a comprehensive National Renewable Energy Action Plan and a National Energy Efficiency Action Plan to be enforced, and it keeps a detailed inventory of progress toward its SDGs to monitor its progress. 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 reinvigorating host, has made a significant commitment to the status of the sustainable finance ecosystem, particularly in the Sustainable Finance Working Group (SFWG) and the Status of the sustainable finance ecosystem section, and several leading banks in the region have been represented in a case study in the G20 Sustainable Finance 2022 report, namely the National Bank of Kuwait. The GCC Sustainable Finance Roadmap provides a comprehensive framework for sustainable finance practices.

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As part of the Vision 2030, Saudi Arabia introduced the Saudi Green Initiative aimed to increase Saudi Arabia’s reliance on renewable energy, emissions, and protecting the environment. It aims to combat climate change, facilitating clean energy sources, and public and private sector collaboration to rapidly scale-up climate action. Saudi Arabia launched various ambitious projects such as NEOM, a futuristic city powered by 20 percent renewable energy, and the Saudi Green Initiative aimed at reducing carbon emission by more than 4 percent of gross domestic product. Saudi National Bank, the country’s largest bank, aims to reduce its own carbon footprint by 2025 by setting sustainability targets for its operations, such as reducing energy consumption and water use, and making lending decisions. In 2022, the Central Bank of Saudi Arabia issued a circular on sustainable finance circular to guide banks in adopting ESG investment practices. Some projects include developing sustainable cities and communities, replacing traditional methods of construction with sustainable materials, and making lending decisions. In 2022, the Central Bank of Saudi Arabia issued a circular on sustainable finance circular to guide banks in adopting ESG investment practices. Some projects include developing sustainable cities and communities, replacing traditional methods of construction with sustainable materials, and making lending decisions. In 2022, the Central Bank of Saudi Arabia issued a circular on sustainable finance circular to guide banks in adopting ESG investment practices. Some projects include developing sustainable cities and communities, replacing traditional methods of construction with sustainable materials, and making lending decisions.
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, Borsa 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

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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, sustainable finance to achieve their long-term economic success goals. This includes 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. 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 necessary incentives they need to invest in innovation and technology that will assist 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.

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.

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 cutting carbon emissions. Such actions will contribute to a cleaner, more sustainable future and strategically align the GCC’s sustainability objectives, such as diversifying their economies and creating new opportunities in sustainable sectors such as green technology and renewable energy. Given the widespread exposure to these concerns, the GCC’s leadership in sustainable finance could prove to be a game-changer for the achieving Net Zero agenda.

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.

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.

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 incentivized to implement sustainable methods that reduce their environmental footprint. Furthermore, supplying access to capital, mainly aligned with ESG standards can help GCC businesses improve their brand reputation and value.

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.

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 necessary incentives they need to invest in innovation and technology that will assist 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.

Building sustainable business models

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Sources


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