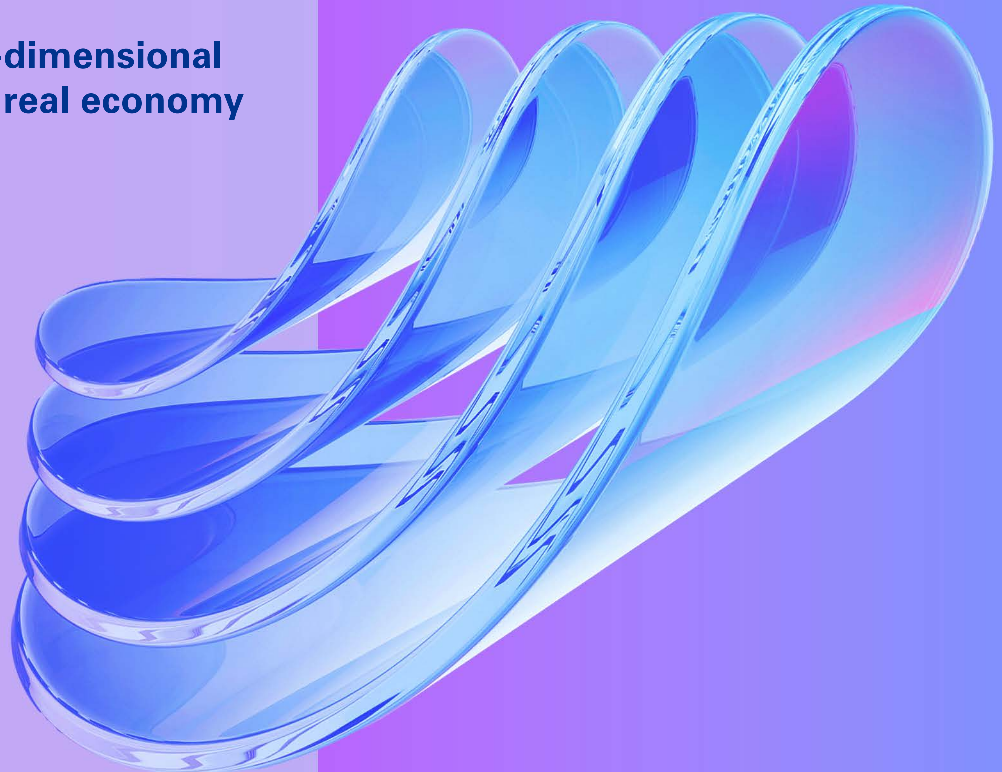
The sustainable finance imperative

Driving multi-dimensional impact in the real economy



January 2025

Foreword

As the global call for environmental and social responsibility grows, sustainable finance has emerged as a critical lever in supporting a more resilient and inclusive world. No longer confined to niche markets, sustainable finance has surged into the mainstream, bolstered by international frameworks such as the UN Sustainable Development Goals, the Paris Agreement, the Global Biodiversity Framework, and net-zero commitments by national governments. Companies and financial institutions are increasingly mobilizing capital toward green and socially beneficial projects, transforming sustainable finance into an imperative rather than an option.

Across the GCC region, the United Arab Emirates (UAE) is particularly taking the lead in the financial flows' commitments toward socially and environmentally responsible investments. During COP 28, the UAE Banks Federation announced its intent to mobilize more than AED 1 trillion ($270 billion) in sustainable finance by 2030, marking a significant turning point in the region's growing dedication to the cause.[1] As part of this effort, the UAE Sustainable Finance Framework (2021-2031) acts as a roadmap that defines the country's long-term approach and strategy for incorporating ESG principles into its financial system. It provides a comprehensive framework for implementation and action, aligning with the UAE's broader sustainability goals and supporting the transition to a low-carbon economy.[2]

Three primary themes take center stage regionally: renewable energy projects, energy-efficient infrastructure, and sustainable water management. These areas are gaining traction due to their proven bankability, government incentives, and robust policy support. Additionally, there is a pressing need to scale up innovation and infrastructure development across the region.

Beyond these core themes, other key opportunities are emerging, including the circular economy, sustainable agriculture, sustainable tourism, sustainable mobility, and SME financing. Sustainable finance can provide crucial leverage and support for the growth of these thematic areas, as they directly contribute to economic diversification across GCC countries.

While the GCC region is making significant strides, systemic challenges remain and hinder the scaling of sustainable finance volumes. These include regulatory harmonization, capacity building, and improving the quality and accessibility of ESG data for informed decision-making. Beyond these systemic challenges, an impeding challenge remains–the definition and management of impact.

Climate finance and carbon markets took center stage at the 2024 UN Climate Conference of Parties (COP29), with discussions focusing on the increased funding requirements and fostering effective carbon market mechanisms. The discussions resulted in the "New Collective Quantified Goal for Climate Finance" to support developing countries through: $1.3 trillion per year to be "enabled by all actors", and $300 billion for developed countries to "lead on delivering". Despite this development, more climate finance is still required to realize the transition.

> Three primary themes take center stage regionally: **renewable energy projects, energy-efficient infrastructure,** and **sustainable water management.** These areas are gaining traction due to their proven bankability, government incentives, and robust policy support.

In this paper, we aim to:

Provide an overview of the systemic challenges impeding the growth and mainstreaming of sustainable finance, including regulatory inconsistencies, data gaps, and capacity constraints.

Present and analyze the next frontier for impact that can directly contribute to progressing the region's national development programs and sustainability commitments.

Propose a set of actionable, forward-looking strategic recommendations for key market stakeholders – including financial institutions, policymakers, corporations, and civil society – to accelerate the adoption and scaling of sustainable finance practices, with a focus on innovation, collaboration, standardization, and systemic change to create a more resilient and impactful financial system.

Articulate a compelling, evidence-based case for sustainable finance as a catalyst for positive impact and long-term value creation, emphasizing its role in addressing global challenges, driving innovation, and generating robust financial returns across various asset classes and investment strategies.

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Understanding sustainable finance

Sustainable finance is the practice of integrating environmental, social, and governance (ESG) considerations into financial decision-making, investment strategies, and financial product development to support economic activities that contribute to sustainable development and the transition to environmental integrity, social inclusivity, and good governance within the economy.[3]

Sustainable finance in numbers

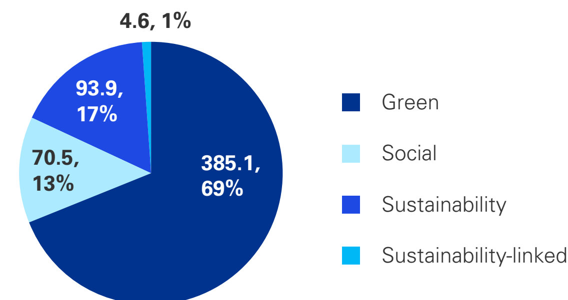
The increasing focus on environmental and social sustainability, driven by global initiatives such as the UN Sustainable Development Goals (SDGs), the Paris Agreement, the Global Biodiversity Framework, and national net-zero commitments, has catalyzed an unprecedented rise in sustainable finance issuance. This shift is no longer a niche consideration but a mainstream imperative.

The cumulative issuance of green, social, and sustainability-linked (GSS+) bonds exceeded $5.1 trillion since the market's inception in 2006, achieving an average year-over-year growth rate of nearly 31% over the last decade between 2014 and 2023.[4, 5] In H1 2024 alone, the issuance of GSS+ bonds surged to $554 billion, in which green bonds continue to dominate, accounting for over 64% of the total volume historically and representing 70% of issuance in H1 2024. For the complete breakdown of different sustainable debt issuances please see the graphs below.[6]

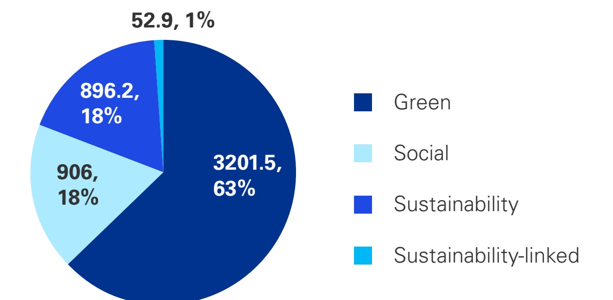
Looking ahead, as regulatory frameworks evolve and investor expectations heighten, companies and financial institutions must increasingly demonstrate the deployment of capital toward environmentally and socially sustainable projects. Organizations that proactively integrate sustainability into their financial strategies will not only mitigate risks but also unlock new opportunities for innovation and growth. Those who lag risk obsolescence in a world that demands resilience, sustainability, and long-term value creation.

Breakdown of sustainable debt issuances

H1 2024 sustainability debt issuances (USD billion)



Cumulative sustainability debt issuances since 2006 (USD billion)



Source: Climate Bonds Initiative[7]

The sustainable finance policy agenda

The evolution of regulations, frameworks, and taxonomies has been instrumental in shaping the rise of sustainable finance by fostering greater transparency, accountability, and a clear sense of direction within financial institutions. These developments can be broadly categorized into four key areas of focus, including the **harmonization of standards and taxonomies, expansion of disclosure requirements, management of ESG and climate risks, and transition finance planning.**

Collectively, these developments provide a unified structure and common standards to guide market participants toward better alignment of their financial activities with global sustainability goals. The table below provides an overview of key regulatory development and their outcomes:

Focus area	Key regulatory initiatives, frameworks, and guidelines (non-exhaustive)	Outcomes
Harmonization of frameworks and taxonomies	• International Capital Market Association (ICMA) • EU Taxonomy • ADGM Sustainable Finance Regulatory Framework • Singapore-Asia Taxonomy	Establish standards and taxonomies for sustainable activities, enabling consistent and comparable assessments within the market of adoption
Expansion of disclosure requirements	• EU Sustainable Finance Disclosure Regulation • CBUAE Principles for Sustainability-Related Disclosures	Improve transparency by detailing the required disclosures for sustainability-related risks and impacts.
ESG and climate risk management	• European Central Bank Guide on Climate-related and Environmental Risks • CBUAE Guidelines on Principles for Effective Management of Climate-Related Financial Risks	Ensure that climate factors are integrated into banks' risk management procedures, policies, and methodologies for risk assessment.
Transition finance planning	• UK Green Finance Strategy and Transition Plan Taskforce • Japan's Climate Transition Finance Guidelines	Guide financing strategies for transitioning to a low-carbon economy, supporting decarbonization and sustainability goals.

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Sustainable finance as a catalyst in advancing impact

Funding the future: sustainable finance as a force for climate action, biodiversity, and social inclusion

One of the most prominent impacts driven by sustainable finance instruments so far has been climate mitigation: increasing the share of renewable energy generation, bolstering the use of energy-efficient technologies, sustainable infrastructure, and agriculture.[8] As governments and companies commit to decarbonization plans, significant emission reductions often require large-scale investments that can be facilitated through targeted green financing vehicles. Climate finance is equally important for adaptation, especially as adverse effects of climate change pose increasing risks in vulnerable regions. Although adaptation financing remains scarce globally, it has a significant potential to foster impact through enabling early-warning systems and flood protection, as well as strengthening the resilience of infrastructure and food systems[9]. In the UAE, it is reasonable to expect more imminent sustainable finance flows focused on these impact areas as entities double down on climate adaptation plans, driven by the provisions of the Federal Decree-Law No(11).[10]

Protecting biodiversity is also part of the solution to climate change, and a range of sustainable finance solutions is being used to enhance and protect biodiversity, such as green bonds aligned with biodiversity-focused uses of proceeds, biodiversity offsets, payments for ecosystem services, and debt-for-nature swaps. Blue bonds are also increasingly deployed, supporting the crucial cause of marine ecosystem conservation.[11] A growing impact is likely to be observed in the realm of nature conservation as market stakeholders are empowered by standardized metrics for biodiversity, which are emerging through initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD).[12]

Sustainable finance also has a social impact aspect that focuses on promoting inclusive economic growth that reaches all segments of society. It has been utilized to support projects that foster inclusion, enhance health outcomes, improve education, increase the share of affordable housing, and enable access to basic resources in underserved communities. Beyond this, sustainable finance as a tool promotes good governance: it incentivizes transparency, accountability, and ethical decision-making in organizations. By aligning financial strategies with ESG principles, sustainable finance fosters a culture of long-term thinking and stakeholder trust, ultimately enhancing operational integrity. This alignment not only drives better governance practices within individual companies but also raises industry standards, contributing to a more trustworthy market.

Beyond green: sustainable finance driving positive economic impact

In addition to contributing to driving environmental and social outcomes, sustainable finance can drive economic impact at national and regional levels through several key levers.

GDP growth and economic diversification

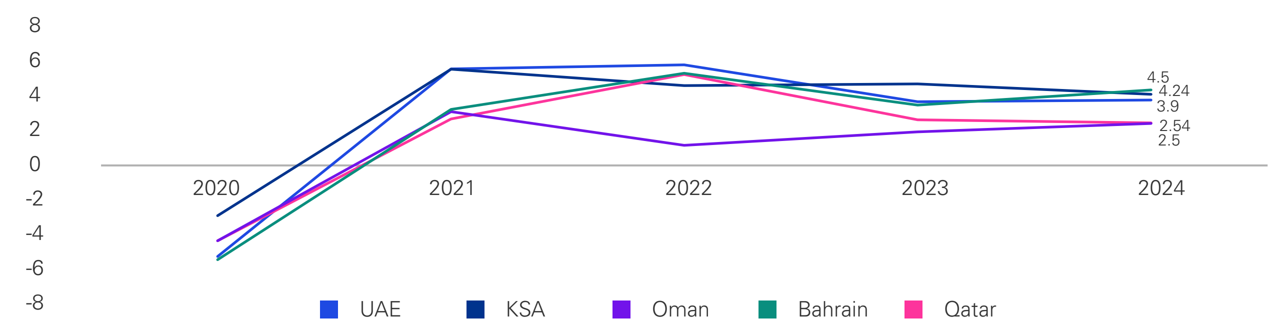
Sustainable finance plays a crucial role in directing investments toward green projects and technologies, such as renewable energy generation, which have the potential to significantly boost economic growth. This notion is supported by evidence across nations: research examining 30 countries during the COVID-19 pandemic revealed that government investments in green projects significantly enhanced economic growth.[13] The vast economic potential of sustainable finance is evident in emerging markets, where there is a lot of room for innovation and infrastructure development: the International Finance Corporation (IFC) estimates $23 trillion in climate-smart investment opportunities in emerging markets from 2016 to 2030.[14] In the context of the GCC, there is a potential $2 trillion in cumulative GDP that can be unlocked by 2030 through investments in renewable energy and sustainable infrastructure.[15]

There is an array of opportunities for GCC leaders to advance sustainable economic development through economic diversification towards sectors that reduce reliance on fossil fuels. Investing in green industries helps countries build a more resilient economy, one that is less vulnerable to the volatility of non-renewable resource markets. Moreover, sustainable finance can foster more inclusive financial systems by encouraging diversity in the sources and types of capital available. Instruments like green bonds and sustainability-linked loans cater to a broader range of projects and enterprises. A series of strategic initiatives in the region have led to strong momentum in economic diversification. The UAE's non-oil economic sector is expected to achieve growth rates of 4% to 5% in 2025, being the primary contributor to economic growth in the country.[16] The non-oil GDP in the GCC has been growing over the past five years.[17]

The non-oil revenue as a share of non-oil GDP has also been on an upward trend across most GCC economies, demonstrating the solidifying government budgets stemming from non-oil activities.[18]

> Sustainable finance can foster more inclusive financial systems by encouraging diversity in the sources and types of capital available. Instruments like green bonds and sustainability-linked loans cater to a broader range of projects and enterprises.

Non-oil real GDP growth in selected GCC countries (% change)



Source: World Bank Data[19]

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Job creation

Sustainable finance has the potential to significantly impact job creation globally, mainly by driving investments toward projects in ancillary sectors that promote environmental sustainability and social well-being. The GCC region alone anticipates over one million jobs created due to green investments by 2030. For instance, energy efficiency retrofitting, sustainable construction, and nature-positive farming, scaled by sustainable finance, can foster demand for new jobs within economies. Even more significantly, investments in renewable energy sectors create jobs in the manufacturing, installation, and maintenance of energy systems. The global renewable energy sector employed about 12 million people in 2020. Further growth is expected as financing of renewables accelerates to meet global decarbonization goals.[20] In the UAE, over $16.8 billion has been invested in renewable energy projects so far, contributing to local job creation in future-proof sectors.[21]

Foreign direct investment

Sustainable finance can foster foreign direct investment (FDI) by creating an attractive investment environment centered around sustainability. In the GCC, the emphasis on investments in 'green' activities is anticipated to draw international investors seeking ventures that align with their sustainability objectives. This capital inflow has the potential to not only strengthen local economies but also integrate them into global value chains that are increasingly driven by sustainability principles. As evidence from OECD markets shows, FDI channeled towards green projects is linked to sustainable economic growth.[22]

An ESG transformation strengthens organizations' capacity to preemptively address potential risks and enhance overall risk management processes, thus mitigating the likelihood of disruptive incidents. As sustainability becomes a key differentiator, organizations can use the ESG lens to gain a strategic edge in market expansion, build regulatory trust, or appeal to increasingly conscientious consumers. Moreover, companies seek sustainable finance opportunities to unlock better lending rates, enhance access to capital, and secure subsidies or tax breaks, utilizing ESG as a lever for revenue maximization as part of their financial planning programs.

For financial institutions, integrating ESG criteria into decision-making can reduce overall risk exposure, enhance resilience to shocks, and attract new business opportunities. This is aided by the additional benefits of strengthening the reputational standing in the market and deepening client relationships. This positions sustainable finance as both a financial and strategic imperative.

As companies increasingly pursue sustainability as an integral element within their wider financial and business planning, this contributes to enhancing the pool of eligible transactions that clients' banks can tap into as they work to advance sustainable finance and leverage the co-benefits it produces.

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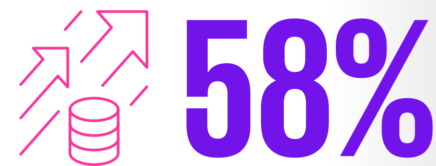
Impact on financial performance

Sustainability can advance financial performance not just at the level of the economy, but also within organizations: a meta-analysis concluded that ESG correlated positively to corporate financial performance in 62.6% of studies and produced negative results in less than 10% of instances.[23] Furthermore, confidence among senior decision-makers in their ESG-driven investment is also growing: according to KPMG data, in 2024, 58% of CEOs anticipate receiving a significant rate of return on their ESG investments within three to five years[24], up from 53% the year before[25].

In the real economy, implementing ESG principles can help companies mitigate rising operational expenses and mitigate risks associated with resource dependency, such as those tied to volatile energy prices, supply chain disruptions, and environmental regulations. Through this, ESG-driven businesses can achieve greater efficiency and resilience, as well as reduce their exposure to potential regulatory costs. Internally, an ESG-centered ethos fosters employee engagement and talent attraction and retention, contributing to long-term shareholder value.

Overall, ESG and ESG-driven finance is increasingly moving away from being a standalone pursuit, but rather a consideration being integrated into financial planning and risk management of organizations.



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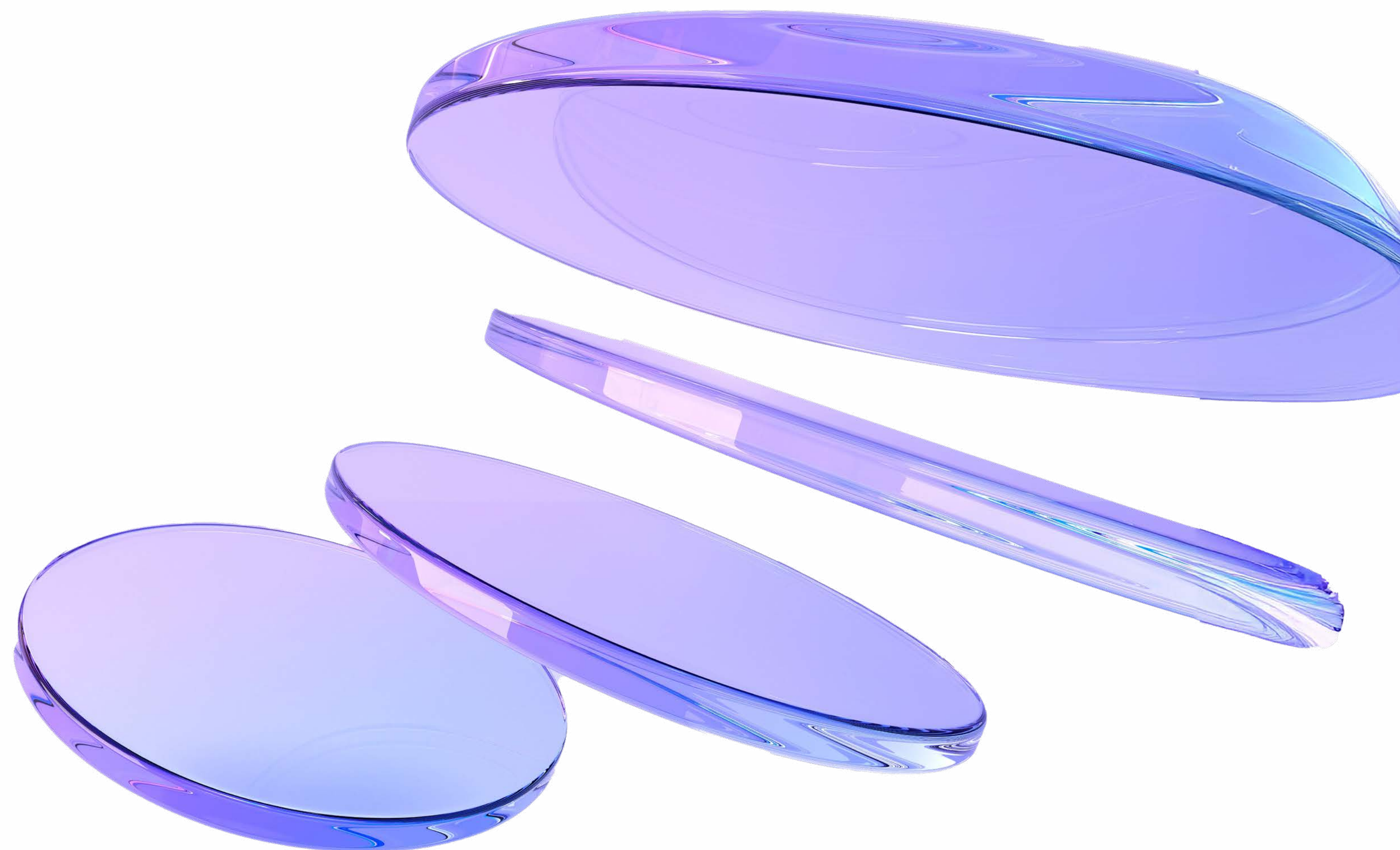

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Bringing it home: sustainable finance in the GCC

The first green bond in the region was issued in 2017 by the National Bank of Abu Dhabi (now FAB, after its merger with First Gulf Bank).[26] Since then, sustainable financing instruments – such as green and social bonds/Sukuk, and sustainability-linked loans – have gained significant traction.

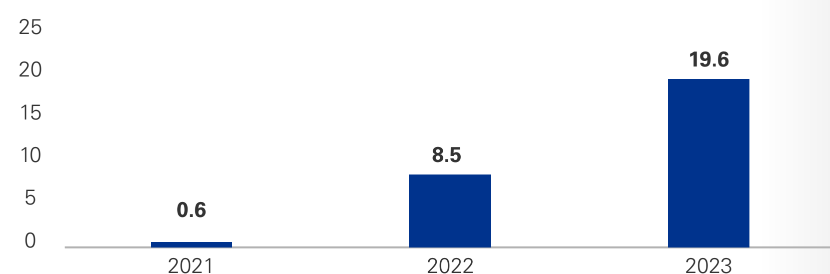
As the sustainable finance market in the GCC matures, the market has seen a growing diversity in both sectors and financing products. Government actors, financial institutions, and companies have been leveraging these instruments to fund their ambition to accelerate the shifts toward more diversified, resilient, and low-carbon economies. Over the past three years, notable developments in the GCC region's sustainable finance landscape have underscored this deepening commitment.

Some of the landmark transactions include Majid Al-Futtaim's (MAF) $1.5 billion sustainability-linked loan in 2021, aimed at reducing emissions intensity, advancing the application of LEED certification standards, and promoting gender diversity in senior management roles.[27] In 2022, Etihad Airways adopted sustainable time deposit solutions to direct corporate treasury funds toward sustainable projects.[28] In 2023, the market saw significant green bond issuances, including Public Investment Fund's (PIF) $5.5 billion, Saudi Electricity Company's $2 billion, and Masdar's $1 billion, all channeling capital toward renewable energy and other eligible activities. Notably, 2024 marked the GCC's first issuance of a social bond, a milestone in the region's evolving sustainable finance trajectory.[29 30 31]

The status quo

Overall, the GSS+ market in the GCC surged from a modest aggregate of approximately $600 million in 2021 to a substantial $8.5 billion in 2022, nearly doubling again to reach $19.6 billion in 2023.[32 33]

Total GSS+ issuance in the GCC (in USD billion)



Source: IFC, Funds Global Mena

As the most popular sustainable finance instrument in the region, the total outstanding green bonds in the GCC stood at $35 billion as of H1 2024. The UAE leads the region, accounting for nearly 49% of these green bond issuances, followed by Saudi Arabia at 32%, and Qatar at 16%.[34] This surge in green bonds underscores a broader shift towards environmental financing as the region intensifies its focus on decarbonization, climate resilience, and energy transition.

In addition to the rise of green bonds in the GCC, the growth of ESG sukuk, financial instruments compliant with Islamic principles and designed to support ESG objectives, is another powerful indicator of the region's sustainable finance expansion. As of H1 2024, the GCC's outstanding ESG sukuk reached $18.5 billion, accounting for 43% of the global ESG sukuk market. Saudi Arabia holds the largest share of the GCC market (42.7%), followed closely by the UAE at 33.8%.[35]

Overview of the themes driving sustainable finance in the GCC

The expansion of sustainable finance, led by green bonds, in the GCC is primarily driven by the need to invest in **renewable energy projects, sustainable water management, and energy-efficient infrastructure**[36].

Given the high solar and wind potential of the region, GCC countries are focusing on **renewable energy** to diversify their energy mix and reduce reliance on hydrocarbons. The UAE has increased its clean energy contribution to 27.83% of the total energy mix in 2023, with projects like the 5,000 MW Mohammed bin Rashid Al Maktoum Solar Park in Dubai[37]. Saudi Arabia plans to launch new renewable energy projects with an annual capacity of 20 gigawatts starting in 2024[38]. Oman is set to connect 2,670 MW of solar and wind power to its electricity grid by 2027, including the 1,000 MW Solar PV IPP in Manah and several wind farm projects[39]. The country aims to achieve 35-39% renewable energy generation by 2040 . Bahrain has commissioned its second-largest solar power project at Dragon City, a 5.7 MW solar carport plant[41]. Overall, the region is expected to have 40 gigawatts (GW) of utility-scale PV projects and 200,000 solar PV jobs by 2030, according to IRENA estimates[42]. The region is also exploring innovative solutions like floating solar installations on artificial water reservoirs and offshore locations to further increase renewable energy capacity.

Case study: Financing renewable energy with ACWA Power

FAB facilitated its first sustainable Islamic financing in Azerbaijan, through a Facility Agreement signed with ACWA Power on the sidelines of COP28 in the UAE to enhance the country's energy transition ambition.

The $120 million financing represents an Equity Bridge Green Islamic Financing for a 240MW wind farm project in Azerbaijan.

As Azerbaijan's first independent wind power project with foreign investment, structured as a public-private partnership, this project will play a key role in supporting the country's goal to achieve 30% renewable energy capacity by 2030, by supplying energy to 300,000 households and offsetting 400,000 tonnes of emissions annually.

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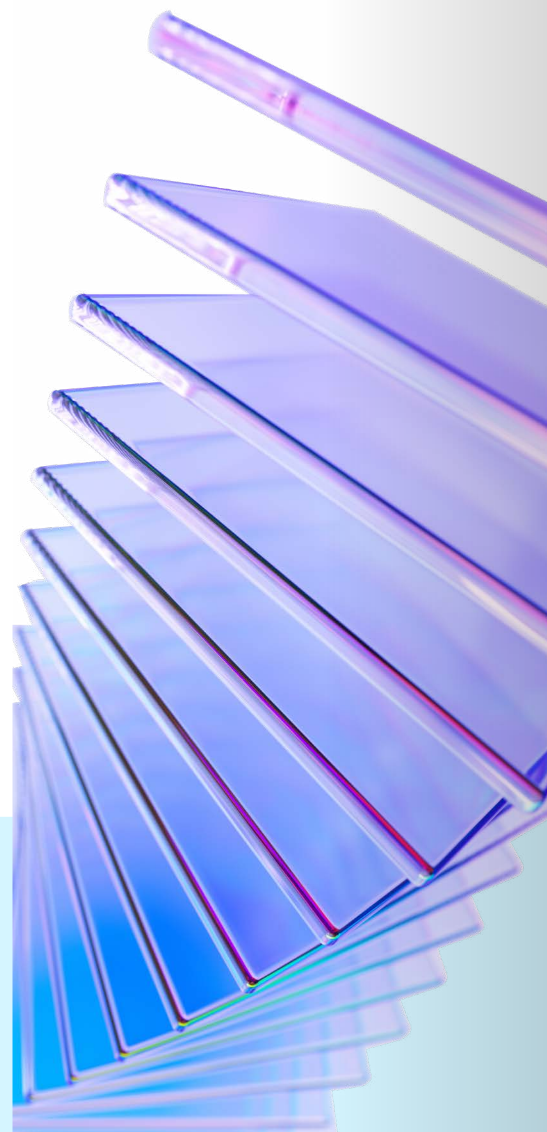
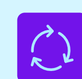
In terms of **green buildings and energy-efficient infrastructure**, the GCC region, particularly the UAE and Saudi Arabia, is making significant strides. Saudi Arabia leads the region with 2,000 out of 5,000 green building projects across the Arab world[43]. The Saudi green building market is projected to generate $16.4 billion in revenue in 2024, with an expected growth of $33 billion by 2030[44]. In the UAE, Dubai has implemented green building regulations and specifications, which have become mandatory for all new buildings since 2014. These regulations aim to improve building performance by reducing energy consumption, water usage, and waste production. The Dubai Green Economy Partnership program seeks to boost public-private partnerships to create new business opportunities in the green building sector. Additionally, initiatives like DEWA's Shams Dubai encourage households and building owners to install PV panels to generate electricity and connect them to the utility's grid.

The GCC countries are also implementing **comprehensive strategies to address water scarcity challenges**. The UAE and Saudi Arabia have national water strategies in place, focusing on increasing water recycling, improving desalination technologies, and enhancing wastewater treatment. These initiatives aim to ensure continuous access to safe water, improve demand management, and preserve water resources while maintaining the local environment. The strategies also promote the use of renewable energy in water production and transmission operations. Bahrain has a national water strategy in place that aligns with the GCC unified water strategy (2016-2035). The kingdom has also received a green climate fund grant to enhance the climate resilience of the water sector, and it is working actively on expanding its water storage capacity and water transpiration network.



The next frontier of sustainable finance opportunities in the GCC

The positive trend of the GCC's sustainable finance market is projected to maintain its significant growth, with the market size expected to exhibit a compound annual growth rate (CAGR) of 31.1% during the period 2024-2032.[45] However, to fully realize the region's sustainability potential, the scope of sustainable finance must expand beyond its current focus. While significant allocations have been made to decarbonization and water security, other high-impact areas – such as circular economy, agriculture, tourism, Small and medium-sized enterprises (SMEs), and transportation – can benefit from increased financing. While government-led agendas provide a foundation, the broader market push for sustainable finance requires strengthening through policy reinforcement and a stronger private-sector role. Addressing sector-specific challenges and implementing targeted recommendations can catalyze this transition, fostering economic diversification and environmental resilience across the GCC.



Circular economy

The UAE and Saudi Arabia continue to lead the implementation of circular economy frameworks. The UAE Circular Economy Policy 2021-2031 aims to foster environmental health and support the private sector adoption of clean production methods, focusing on sustainable infrastructure, transportation, manufacturing, and food production. As part of Vision 2030, Saudi Arabia's Circular Carbon Economy (CCE) Framework has similarly made progress, with the Saudi Investment Recycling Company investing $2 billion in developing innovative and sustainable waste management solutions, including electronic waste, which is a growing environmental challenge[46].

While these policies and initiatives have sparked interest, the market demand for circular practices remains subdued due to limited financial incentives and underdeveloped infrastructure. SMEs especially face hurdles in financing circular models, with limited awareness and resources to transform.

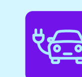
Establishing dedicated circular economy fund structures could accelerate more financing and investment, and particularly support SMEs focused on innovative circular solutions. Also, implementing extended producer responsibility (EPR) schemes may further incentivize sustainable practices by transferring responsibility from governments to producers. It can be established via a private-public partnership (PPP) model that can incentivize producers to design sustainable products and increase recycling rates while alleviating government waste management hurdles. This in turn contributes to more innovation, enhances resource efficiency, and drives consumer participation in sustainability initiatives. Additionally, building circular economy innovation hubs would boost skills development and drive consumer awareness, stimulating a market push toward circularity.

Sustainable agriculture

With food security at the forefront, the UAE National Food Strategy 2051 has led to impressive growth in domestic production, including water-efficient technologies and renewable-powered farms. For example, Badia Farms in Dubai now produces over 1,500 tons of leafy greens annually with a water use reduction of 95%, thanks to its use of controlled environment agriculture (CEA) techniques.[47] Similarly, Qatar's National Food Security Strategy 2024-2030 emphasizes increased local production to curve the reliance on food imports.

While innovative technologies like vertical farming and hydroponics offer solutions, their adoption is hindered by high capital costs, limiting access for smaller farmers. These technologies typically require significant upfront investments in infrastructure, advanced systems, and specialized equipment, which many smaller-scale operators may not afford without substantial financial backing. Additionally, ongoing operational costs for energy, water, and technology maintenance can further strain limited budgets, making it challenging for smaller farmers to compete with larger agribusinesses that can more easily absorb these expenses.

To address this, governments could enhance blended finance options that mobilize capital for projects focused on water efficiency and emissions reduction throughout the food value chain. Implementing targeted subsidies for advanced irrigation technologies, such as precision agriculture systems and drip irrigation, would incentivize farmers to adopt eco-friendly practices that optimize water usage and minimize environmental impact. Establishing a dedicated innovation fund could support research and development of drought-resistant crops and sustainable farming techniques through public-private partnerships, fostering collaboration among academia, research institutions, and agribusinesses. Furthermore, deploying technical assistance on sustainable agricultural practices would equip farmers with the necessary skills and knowledge to access sustainable financing options and implement practices that enhance resource efficiency, reduce waste, and lower emissions in their production.



Sustainable tourism

The UAE's Tourism Strategy 2031 aims to increase the sector's contribution to GDP to AED 450 million, whereas Saudi Arabia targets 150 million visitors by 2030.[48][49] Considering these national expectations to increase the appeal of the GCC's tourism sector, embedding sustainability into tourism plays a key role in aligning with the broader national goals.

Linking the efforts of tourism appeal and sustainable performance, Dubai Sustainable Tourism 2024 initiated a Sustainable Tourism Stamp that certifies hotels exhibiting exceptional performance against the 19 Sustainability Requirements.[50] This type of initiative represents the reward mechanism for driving the sustainability transition in the region.

However, access to sustainable finance poses challenges. There is a shortage of dedicated financial products for sustainable tourism projects, and investors may perceive these ventures as risky. Many businesses lack awareness of available funding sources, and existing financial incentives may not be attractive enough to encourage sustainable practices.

To foster a stronger market push toward sustainable tourism, introducing eco-tourism financing options and subsidies for renewable energy-powered facilities could attract further investment. Implementing tourist eco-taxes may also support conservation efforts, while a regional sustainable tourism certification program could incentivize businesses with financial rewards for compliance, further driving market demand.

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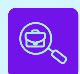

SME financing

SMEs are vital for economic diversification and job creation. In the GCC, they constitute close to 90% (i.e., about 1.5 million SMEs) of the total companies' base with significant contributions to national GDPs.[51] Considering their large composition in the GCC economy, a complete sustainability transformation of the region cannot occur without the transition of SMEs.

However, these enterprises face significant challenges in accessing sustainable finance due to limited collateral, inadequate credit history, and a lack of skills and dedicated teams to lead end-to-end sustainability programs. While initiatives and organizations like the Mohammed bin Rashid Fund, Emirates Development Bank, and Etihad Credit Insurance offer a variety of financial solutions to support SMEs, the market for sustainability-focused SME financing remains underdeveloped.

To address this gap in sustainable finance, governments could establish green credit guarantee schemes that specifically support businesses transitioning to sustainable models. These schemes would mitigate risks for lenders, encouraging them to offer sustainability-linked loans (SLLs) with favorable terms. Additionally, an SME advisory could provide crucial capacity building, sustainable funding opportunities, and a network of sustainable champions, empowering SMEs to integrate sustainable practices into their operations. Ultimately, implementing sustainable supply chain finance initiatives would enable larger corporations to invest in sustainability improvements among their SME suppliers, thereby promoting wider adoption of green practices across the market.

Case study: Supply chain financing for healthcare SMEs: partnership with the Abu Dhabi Department of Finance

In 2021, FAB partnered with the Abu Dhabi Department of Finance on an AED 6 billion Supply Chain Finance (SCF) program aimed at increasing liquidity for SMEs in the healthcare sector during the challenging COVID-19 period and beyond.

Through this program, the Abu Dhabi Department of Finance and FAB have enabled immediate cash access to SME healthcare providers, contributing to FAB's ongoing commitment to social impact and the wider implementation of its ESG strategy. Since its launch, over 300 healthcare providers (clinics, pharmacies, or hospitals) based in the UAE benefitted from the program with over 200,000 invoice discounts.

Sustainable mobility

As GCC countries work toward reducing their carbon footprint and achieving net-zero targets, sustainable mobility has become a strategic priority. In the UAE, transportation is one of the six sectors with interim decarbonization targets set for 2030 and 2040.[52] Additionally, Qatar's Transportation Master Plan for 2050 and Saudi Arabia's Vision 2030 place strong emphasis on sustainable transportation infrastructure as a critical enabler of long-term growth and environmental objectives. Expanding the public low-carbon options and accelerating the uptake of zero-emission vehicles along with developing the necessary infrastructure are the key levers for sustainable mobility ambition.

For public transportation, the expansion of the Dubai Metro and Doha Metro systems, along with the development of the Riyadh Metro serve as megaprojects in the region to drive decarbonization, ease commute, and reduce traffic congestion. Upon completion, the Riyadh Metro will reduce the city's fuel consumption by 400,000 liters per day by cutting nearly 250,000 daily car journeys.[53]

Regarding zero-emission vehicles, despite public infrastructure advancements, the adoption of electric vehicles (EV) and hydrogen vehicles among consumers is constrained by high costs and limited EV charging infrastructure, resulting in range anxiety.[54]

Sustainable finance can accelerate the adoption of low-carbon transportation. In 2023, the UAE Ministry of Energy and Infrastructure signed cooperation agreements with a large number of globally leading manufacturers and investors to catalyze the development of necessary infrastructure options in the country.[55] Against this backdrop, financial incentives – such as tax breaks for EVs, and green bonds for public transport and electric charging station projects – could stimulate interest for manufacturers, start-ups, and investors in sustainable transport infrastructure. Furthermore, public awareness campaigns can highlight the benefits of sustainable transportation to encourage further consumer uptake.

Case study: Improving the economy's sustainable connectivity through Etihad Rail

FAB supported the development of the UAE's national railway network, Etihad Rail, by providing a bespoke sustainable finance loan of AED 1.9 billion. The financing is aimed at developing the passenger rail network project, spanning approximately 1,200 km across the UAE and connecting 11 cities from Al Sila to Fujairah.

FAB served as a book runner, mandated lead arranger, facility and security agent, green coordinator, green structuring bank, and account bank certified lead arranger for the senior secured green term loan agreement.

The loan was structured in line with the LMA Green Loan Principles and used for the development of Etihad Rail's passenger rail service, which is one of the largest land transport projects in the UAE and forms a critical part of the UAE National Railways Program. This will address Sustainable Development Goals (SDGs) number 10 and 11 by providing access to people from different cities and developing sustainable cities and communities.

The Etihad Rail project supports the UAE's journey towards its Net Zero 2050 target and aims to reduce GHG emissions by 80%.

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Systemic challenges

Building on the sector-specific challenges previously discussed, it is crucial to address the overarching systemic issues that impact sustainable finance. A significant hurdle is the lack of harmonized regulatory frameworks, creating inconsistencies and barriers to effective implementation. Additionally, the absence of standardized definitions and metrics for evaluating impact complicates investors' ability to assess and compare sustainability efforts. The data dilemma further intensifies these challenges, as inadequate mechanisms for data collection and reporting undermine transparency and accountability. Moreover, there is a critical need to develop ESG skills related to market stakeholders to align with emerging standards.

Regulatory limitations

The GCC regulatory landscape for sustainable finance is marked by significant disparities, particularly in the development and implementation of sustainable product taxonomies. These taxonomies are essential for fostering communication and transparency among financial institutions.

The absence of standardized sustainable product taxonomies hinders the effective classification and labeling of sustainable finance products. This inconsistency challenges the ability of stakeholders to assess and compare investments based on their sustainability credentials, leading to ambiguity in the market, which increases the risk of greenwashing.

This misrepresentation undermines investor confidence and can lead to reputational damage for financial institutions. Another challenging point is the clarity around enforcement mechanisms that can reinforce the degree of accountability among market stakeholders. This may lead to gaps in sustainability practices and the misrepresentation of sustainability claims.

Despite these challenges, there is a growing recognition among regulators in the GCC of the need for improved guidelines that address ESG and climate risk management. Such developments could pave the way for more robust frameworks that enhance accountability and reduce the risk of greenwashing.

The data dilemma

Data forms the foundation of sustainable finance, supplying the necessary insight for making informed investment decisions, managing risks, evaluating the performance of products, and assessing impact while aligning financial objectives with environmental and social responsibility. Financial products cannot meaningfully be qualified as 'sustainable' unless there are comprehensive metrics to track their sustainability performance and alignment with global sustainability goals and priorities. Without robust data, claims of sustainability could lack credibility, undermining trust and leading to greenwashing concerns. Despite the sustainable finance market maturing, the availability and quality of ESG data remains one of the major challenges in the sustainable finance landscape. The consultative survey within the development of the UAE Sustainable Finance Framework shows that the lack of high-quality data related to risk management, and the application of minimum eligibility requirements for investment evaluation and selection represent a barrier for financial institutions.[56]

The challenge is two-fold: ensuring the availability of high quality of data. ESG data is often highly limited – 65% of investment professionals cite this factor as a significant challenge in integrating ESG parameters into their investment process.[57] Banks pursuing sustainable finance face a high number of ESG KPIs to be collected, verified, stored, and analyzed. This requires a detailed analysis of public disclosures, which can be incomplete and non-standardized across clients. Additional outreach to clients through document requests and questionnaires is a resource-consuming process that may potentially cause fatigue and damage client relationships.[58] Moreover, SMEs and companies in emerging markets often do not have the resources to regularly capture, track, and provide ESG information.

65%

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In addition, ESG data often comes from different sources and is measured through various metrics, creating difficulties for comparability. Some data is obtained through proxies or heterogenous third-party providers due to calculation constraints, diminishing the accuracy and comparability of key metrics, such as greenhouse gas emissions and social impact. Research cautions against over-reliance on third-party provider information as ESG ratings from different providers may vary substantially, with correlation coefficients between ratings ranging from 0.38 to 0.71.[59]

However, a range of positive developments are underway. KPMG research shows that despite the leadership of a few voluntary frameworks, there is a wide discrepancy in reporting standards used across markets, increasing inconsistencies in ESG data.[60] The International Sustainability Standards Board (ISSB) S1 and S2 standards aim to tackle this barrier by creating a comprehensive global baseline of sustainability-related disclosure standards to help investors and other capital market participants better assess ESG-related impacts, risks, and opportunities. As jurisdictions around the world adopt S1 and S2 standards, the increasing harmonization of reporting regulations will advance and standardize ESG disclosures, facilitating the availability of high-quality data for sustainable finance. To reap these benefits, it is key that financial institutions dedicate investments to data technology solutions and ESG data management efforts and develop suitable ESG data governance policies and procedures.

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Impact variability

The diverse ways in which metrics, methodologies, and interpretations of 'impact' are defined across sectors and regions is one of the main issues behind the sustainable finance taxonomy. Cross-sectoral comparisons become a challenge when each sector has different goals and metrics to track progress. For example, the energy sector might focus on carbon emission reductions, while the healthcare sector may prioritize social indicators like improved access to services. Furthermore, the available data might not be easily aggregated across economic activities even within a single company – impact indicators are not always accompanied by sufficient explanations of methodology, causing discrepancies in data quality and scope.

Additionally, as sustainable finance taxonomies are developed on a country-by-country basis or regionally, this may result in fragmented definitions and guidelines that are difficult to reconcile for global investors or real economy entities that are seeking financing opportunities. The ICMA standards have served as a baseline for the development of several regional and country-based taxonomies. Yet, the variation in the degree of flexibility and required level of reporting between the EU Taxonomy and ICMA's standards could lead to inconsistent applications of what is considered 'sustainable' across markets, confusing investors attempting to make cross-border comparisons on sustainable investment performance. Lastly, environmental metrics are frequently more easily quantifiable, through established methodologies; however, social and governance metrics are more challenging to quantify due to the absence of universally accepted KPIs, increasing the risk of complicated definitions of impact and unclear reporting.

Clear definitions in sustainable finance taxonomies on what constitutes 'green', 'social', and 'sustainable' investments allow investors to confidently allocate capital towards assets that align with their values. It simplifies price discovery by enabling comparability across products and encouraging transparency and market integrity through shared standards. A key opportunity for the GCC to strengthen its sustainable finance ecosystem is the establishment of clear taxonomies aligned with existing global best practices, while offering tailored provisions specific to the regional context. These initiatives are already emerging in the UAE and KSA, paving the way for the Middle East and the region.[61 62]

A key opportunity for the GCC to strengthen its sustainable finance ecosystem is the establishment of clear taxonomies aligned with existing global best practices, while offering tailored provisions specific to the regional context.

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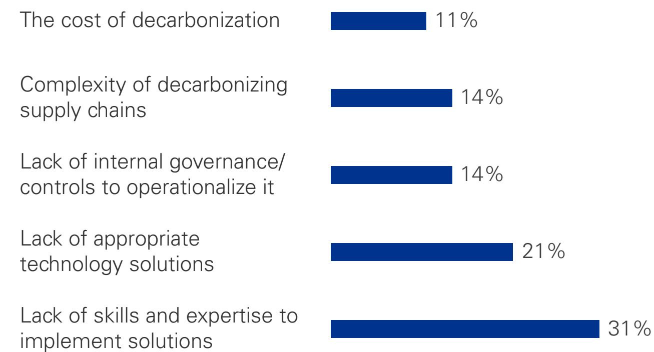
ESG skills and expertise

A crucial success factor for the advancement of sustainable finance that goes alongside high-quality ESG data is the availability of necessary expertise and capabilities. There is a wider issue of a skills gap in sustainability: 31% of CEOs feel that a lack of skills, technology, and expertise to implement solutions is a major barrier to achieving net-zero ambition.[63]

Top five barriers to achieving net-zero



Source: KPMG CEO Outlook Banking 2024[64]

> With transition finance, which is gaining prominence in the UAE and GCC markets, the need for highly technical skills is even greater as credible solutions depend on complex methodologies of identifying and labeling eligible transactions.

As an additional layer to this, there is a skills gap in driving and implementing sustainable finance solutions. It requires an understanding of the diverse and complex issues like climate risk, human rights, biodiversity, and corporate governance. Financial professionals often lack the deep expertise required in ESG to effectively assess and manage these risks and opportunities, including the collection and analysis of ESG metrics.[65] They may struggle to integrate ESG data into traditional financial and risk analysis, and investment or financing strategies. In turn, there is intense competition for a scarce pool of qualified individuals who have intersectional skills in finance and ESG. With transition finance, which is gaining prominence in the UAE and GCC markets, the need for highly technical skills is even greater as credible solutions depend on complex methodologies of identifying and labeling eligible transactions. As a result, significant investment in training and development is required to build internal capacity to drive sustainable finance solutions – this should become a strategic priority for financial institutions.

These challenges are significant in emerging markets. In recent years, several international and non-governmental organizations have offered training and technical support to emerging markets and developing economies on different aspects of sustainable finance market development. Yet, there are budget challenges that prevent the scalability of these programs, and many are narrowly focused and ad-hoc as opposed to offering comprehensive capacity building that reaches wide audiences.[66] There are reasons to remain hopeful, with initiatives like the Capacity-building Alliance of Sustainable Investment (CASI), an international cooperation platform aiming to deliver high-quality and high-impact sustainable finance capacity-building services, working to address these challenges.

The way forward

The rising commitments to sustainable finance across the GCC are pivotal for achieving both economic goals and socio-environmental outcomes. As stakeholders mobilize resources towards transformative projects, it is essential to maintain the momentum and increase financial flows into sustainable practices. The GCC's proactive approach not only advances transformation and innovation within the Middle East, but also contributes significantly to global climate and energy transition objectives. Ultimately, scaling sustainable finance will ensure a resilient and prosperous future for generations to come. To achieve this, there are important considerations that financial institutions, corporations in the real economy, and regulators will have to keep in mind to progress the sustainable finance agenda for impact across the region.

Developing sustainable taxonomies for impact measurement and reporting

GCC regulators have a critical opportunity to drive alignment within sustainable finance by establishing a comprehensive sustainability taxonomy. This will provide a standardized framework for defining and classifying sustainable activities, enabling stakeholders to reliably distinguish eligible activities. A standardized taxonomy will also ease collaboration and comparability between local and international markets, enhancing the GCC's position in the global sustainable finance ecosystem. Additionally, by requiring more comprehensive and detailed impact and risk reporting, regulators can ensure that banks properly evaluate and disclose the ESG risks associated with their investments and engage closely to enhance the positive impact of their portfolios.

Implementing policy incentives and PPPs to capture emerging opportunities

Policy-driven incentives, including tax reductions, grants, and subsidies, can catalyze growth in largely untapped sustainable activities such as the circular economy, sustainable tourism, and sustainable agriculture, reinforcing the GCC's broader decarbonization and economic diversification agendas. These policy tools not only lower the entry barrier for companies and investors in these areas, but also signal long-term commitment from the government, creating a favorable environment for investment. To further accelerate impact, governments can mobilize a broad range of stakeholders through PPPs, pooling cross-sector expertise and resources. Such collaborations can de-risk investments and unlock larger pools of capital on profitable terms, making it more attractive for financial institutions and less risk-bearing for real economy actors.

Enhancing capabilities for sustainable impact data collection, measurement, and reporting

For sustainable finance to have its intended impact, companies and financial institutions must build robust data infrastructure to monitor and report environmental and social outcomes accurately. Companies should develop end-to-end data collection processes that span their value chains, ensuring the data accurately reflects both expected and realized impacts. This level of transparency can position companies as credible candidates for sustainable financing and foster stronger relationships with investors. Financial institutions must also establish data governance frameworks to ensure that impact data is meticulously collected, managed, and reported, supporting accountability in ESG commitments. The adoption of advanced digital tools and third-party technologies can bridge information gaps across the sustainable finance ecosystem, streamlining data-sharing and decision-making.

Building ESG capabilities across the financial ecosystem

Strengthening ESG competencies across all stakeholders is essential to embedding sustainability within the region's financial system. Regulators play a key role here by setting explicit expectations for ESG expertise within financial institutions, ensuring that sustainable finance knowledge permeates decision-making processes at all levels.

In parallel, financial institutions and companies in the real economy should focus on comprehensive training programs on sustainable finance and impact management. This approach ensures that sustainability is ingrained in the organization's culture, enabling informed decision-making, risk assessment, and oversight. By aligning ESG knowledge and practices, the actors can create a coherent approach to sustainable finance that fosters resilience, credibility, and alignment with international best practices standards.

Creating clear and collaborative transition plans

With existing net-zero targets, GCC governments, companies, and financial institutions must come together to establish time-bound transition plans that define sectoral decarbonization pathways over time horizons.

Collaborative transition planning enables all stakeholders to operate from a unified playbook, fostering greater alignment and focus across sectors. This approach allows each actor to clearly understand their role and facilitate more accurate impact assessments.

Clear planning for transition also provides the financial sector with visibility on capital needs and deployment timelines, encouraging more confident investments and catalyzing the flow of capital into sustainable projects. This alignment can enable the GCC countries to solidify their credibility in sustainable finance while delivering measurable, long-term impacts aligned with the global climate agenda.

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About KPMG Lower Gulf

For more than 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. KPMG firms operate in 143 countries and territories. Established in 1973, KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise.

We are committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviors both professionally and personally.

Our Values guide our behavior day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, and all of our stakeholders. They are: Integrity: We do what is right; Excellence: We never stop learning and improving; Courage: We think and act boldly; Together: We respect each other and draw strength from our differences; For Better: We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change.

At KPMG Lower Gulf, we believe that ESG is core to sustainable growth. KPMG's Global ESG Plan details its commitments across four ESG categories: planet, people, prosperity, and governance. These four priority areas assist us in defining and managing our environmental, social, economic and governance impacts to create a more sustainable future. We aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the SDGs, so all our communities can thrive and prosper. Disclaimer: Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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FAB, the UAE's largest bank and one of the world's largest and safest institutions, offers an extensive range of tailor-made solutions, and products and services, to provide a customized experience.

Through its strategic offerings, it looks to meet the banking needs of customers across the world via its market-leading Corporate and Investment Banking and Personal Banking franchises.

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