AJMS Global

Consultant Content Programme

RiskTech 100 2023 Rising Star

Newsletter

ESG and Sustainable Finance in the GCC Region

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Key Issues for Sustainable Finance

Investor Demand and Cost of Capital – Issuers of sustainable finance instruments, such as green bonds, use sustainable finance to diversify and expand their investor base. Green bonds also tend to be significantly oversubscribed, which can result in tighter pricing.

Greenwashing – Increased scrutiny and allegations of “greenwashing” have prompted a strong emphasis on ensuring that sustainable finance instruments use “best-in-class” structures. Certain green bonds have attracted criticism for financing projects that do not align with their intended environmental impact (and/or that may cause social damage or inequity).

ESG Diligence, Disclosure and Materiality – ESG diligence and disclosure is critical for sustainable finance transactions due to the increasing importance of ESG factors and risks. The nature and extent of appropriate ESG diligence will depend on the sector, jurisdiction, business model, and risk profile of the issuer.

ESG Regulatory Landscape – The global ESG regulatory landscape is developing rapidly, covering issues such as ESG due diligence, climate and sustainability disclosure requirements, and the classification of investment funds in terms of their sustainability. Even though such regulations may not directly apply in the GCC Region, they do apply in many of the jurisdictions in which GCC Region organizations have investments and operations.

Background

The rapid growth of ESG and sustainable finance in the GCC region offers substantial opportunities, but also entails significant associated risks. ESG and sustainable finance are critical to attract and facilitate the investments required to meet public sustainability targets.

These investments will ultimately help the GCC Region to achieve its long-term economic and sustainability goals.

Future Trends in the GCC Region

In the GCC Region, market participants should expect continued, significant growth in ESG and sustainable finance, driven by the strong regional market momentum in 2022 and preparation for COP28.

In particular, there may be a greater focus on SLBs, transition finance and social finance as issuers with higher carbon footprints and less requirement for pure green expenditure seek to finance their sustainable transition activities, and organizations place more emphasis on social and biodiversity projects and initiatives.