# *SCALING SUSTAINABLE FINANCE:* INSIGHTS AND INNOVATIONS FROM COP28

## PERSPECTIVES FROM COP28 PANELS

COP28 UAE

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The series of COP28 outcome papers represent the key insights and discussions from FAB's hosted panels and roundtables during COP28. They are not intended to provide a comprehensive overview of the topics covered.

# CONTEXT

In the face of escalating climate challenges, sustainable finance emerges as a crucial catalyst for global climate action. A significant aspect of this **transition involves heavy capital expenditure** (CAPEX), necessitating the scaling up of sustainable finance to meet these extensive investment needs in a **sustainable and affordable way**.

COP28 showcased the substantial movement in climate finance. A confluence of asset managers, banks, sovereign wealth funds, and various financial institutions highlighted the urgent need to scale up sustainable financing.

The scale of investment required for the transition to net zero and clean energy requires a shift towards **collaboration among private sectors, banks, and governments**. Financial institutions like FAB have adopted principles to minimise environmental and social impacts and have made strides in green bond issuance and by joining the NZBA, aligning their operations with the UAE's net-zero commitment.

## KEY FACTS

- Sustainable bond issuance (green, social, sustainability+) is on track **to reach USD 950 billion in 2023**[1].
- By 2050, **USD 9.2 trillion of annual investments** is required to support the transition to net zero[2].
- **The UAE Banks Federation** committed to mobilising over **AED 1 trillion** (more than USD 270 billion) in sustainable finance by 2030[3].

[1]ESG Today (2023) | [2]Earth.Org (2022) | [3]Central Bank UAE (2023)

## CHALLENGES

A primary challenge in scaling sustainable finance lies in the complexities of transition finance, where the **returns are often small and long-term**. Private sectors and commercial banks have low appetite towards financing long-term projects (e.g., for 25 years) and newly tested technologies, with bearing on risk and returns. **Exploring guarantees and risk sharing models** with the public sector is critical to upscaling such projects.

**The integration of ESG factors into traditional financial models** is another key challenge. Financial institutions and investors are increasingly recognising the importance of considering ESG criteria in their decision-making processes. However, this integration is not straightforward due to the diverse nature of ESG factors and the **lack of data, standardised metrics, and frameworks**. It also comes with the potential risk of greenwashing or greenhushing (underreporting or deliberately downplaying their sustainable practices to avoid criticism or scrutiny, or to keep a competitive advantage).

The discussions emphasised the need for a holistic approach where businesses integrate ESG strategies into their core operations. Financial institutions are grappling with the need to **better understand their clients' emissions and transition plans to better support them** with the tailored financial solutions.

There is little interest from the private sectors in financing decarbonisation activities due to the **lack of a clear definition of transition activities and sectors**, which leads investors to fear their potential involvement in “greenwashing” deals.

Finally, scaling private sustainable finance necessitates that **governments mitigate investment risks and consider cost of capital differentiation for brown and green assets** through policies and incentives. This action is essential to attract private investment, key for the widespread adoption of these nascent technologies.

## REGIONAL SPECIFICITIES

Developing region-specific strategies for sustainable finance is crucial, given the varying economic, environmental, and social contexts of different regions. This necessitates a **nuanced understanding of regional specificities and tailored financial solutions**. Additionally, the regulatory environment plays a significant role in fostering sustainable finance. There is a need for regulatory adjustments that not only encourage green financing but also penalise non-sustainable practices.

First Abu Dhabi Bank (FAB) announced a **substantial increase in its commitment to sustainable finance** during the COP28 climate conference in Dubai. FAB has pledged to **invest and facilitate over AED 500 billion** (approximately USD 135 billion) in sustainable and transition financing by 2030. **FAB has already facilitated over USD 34.4 billion** in financing for renewable energy, wastewater, green buildings, and other areas since 2022.

## OPPORTUNITIES AND INNOVATIVE SOLUTIONS

COP28 brought forward innovative **solutions in sustainable finance, both from private and public entities**. Green bonds, sustainability-linked loans, sustainable supply chain financing, and innovations like Black Rock's USD 600 billion sustainability platform were prominent examples.

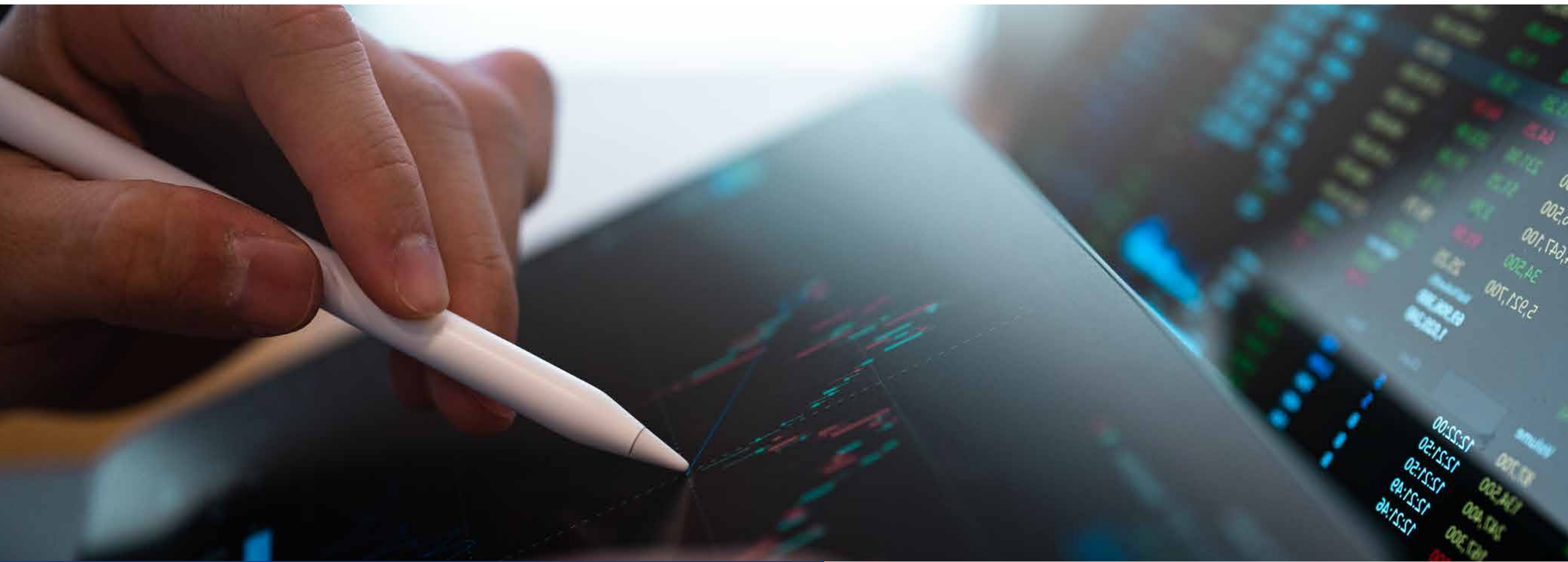
Majid Al Futtaim's pioneering use of sustainability-linked loans (SLLs) marks an advancement in sustainable finance. Their **SLLs are unique in the region for incorporating penalty clauses**, aligning the company's financing terms directly with its ESG performance.

FAB has launched the **Sustainable Development Goals (SDG) Fund**, aiming to attract investments in projects aligned with the United Nations' SDGs. Through this fund, FAB is actively contributing to global sustainability efforts, demonstrating the vital role of financial institutions in driving progress towards these goals.

Additionally, there is a growing trend towards **carbon trading initiatives** worldwide. Carbon markets are an innovative tool for sustainable finance, **transforming carbon emissions**

**reductions into tradable assets when all other GHG reduction efforts have been exhausted by companies**. They encourage businesses, including SMEs, to lower greenhouse gases by accessing new revenue streams.

Finally, implementing **multilateral development banks (MDBs) reforms** has emerged as a potential game-changer to scale transition and sustainability financing. Initiatives such as the **Bridgetown Initiative** exemplify efforts to reduce the capital costs gap between developing and developed markets. Successful execution could lead to an **annual mobilisation of up to USD 200 billion**.



## PRIORITIES AND NEXT STEPS

- Essential **collaboration** among financial institutions, asset owners, and other stakeholders along with enhanced data exchange is crucial for developing effective standards and innovative solutions like carbon budgeting in portfolios.
- **Tailoring transition pathways** will help to address the unique economic and environmental contexts of different regions, especially in emerging markets, to ensure effective sustainable finance.
- The development of **new, adaptable financial products**, such as green bonds or sukuks and sustainability-linked loans, and solutions for green project financing, are key to facilitating sustainable transitions.
- Implementing **effective regulatory frameworks and guidelines** will help to align financial objectives with sustainability goals.
- Focusing on **accurate data collection and analysis**, and enhancing client engagement, will help to guide informed decision making and support clients in their transitions to sustainable practices.

## COP28 ANNOUNCEMENTS:

- 12 key countries set out **ten climate finance principles** to make the trillions required available, accessible, and affordable.
- **The USD 30 billion ALTÉRRA fund** was announced, aimed at renewable energy investment in emerging economies, with a goal to mobilise USD 250 billion globally by 2030 to address the climate finance gap.
- The **UAE Banks Federation** committed to mobilising over **AED 1 trillion** (more than USD 270 billion) in sustainable finance by 2030[4].
- FAB has pledged to **invest and facilitate over AED 500 billion** (approximately USD 135 billion) in sustainable and transition financing by 2030.



[4]Central Bank UAE