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Building Resilience: Sustainable Financing in Emerging Markets

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Executive Summary

COVID-19 has shown how vulnerable and fragile our nations are. In a matter of months, millions of jobs were lost, and livelihoods shattered. Leading international organizations project Global Gross Domestic Production (GDP) growth for 2020 to range between -8.8% and 1%. Using some of the GDP projections, the number of people living in extreme poverty could increase by 420 million people.¹

The pandemic has also shown us the need for emerging markets to invest in and build a more resilient future. The economic returns for responsible investment are high; for every \$1 invested in more resilient infrastructure in low and middle-income countries, the return on investment is \$4.² For 2020 and until July, 72% of sustainable equity funds ranked in the top halves of their Morningstar Categories; all 26 ESG index funds have outperformed their conventional-index counterparts.³ While current pandemic disruption has forced governments, investors and businesses to scrutinize and tightly manage their social, human and financial resources, focus on Environmental, Social and Governance (ESG) financing portfolio should be given a priority given its long-term social, environmental and economic returns. Many businesses have already taken major steps forward during the pandemic by redirecting their resources to manufacture critical medical supplies overloaded hospitals and, in the case of some hotels, become makeshift quarantine shelter.⁴

Sustainable financing is a joint-up approach to financial products and services that integrate Environmental, Social and Governance (ESG) criteria into its decision processes, policy frameworks, and practices. It is about reducing financial gaps to solve major and global problems such as climate change and inequality. Seven trends in sustainable financing will transform the future landscape of ESG in the corporate sector, investments, regulations, and even governments in emerging markets.

¹ UNIDO. 04 May, 2020. *Coronavirus: the Economic Impact*. <https://www.unido.org/stories/coronavirus-economic-impact-4-may-2020>

² Hallegatte, S., Rentschler, J. and Rozenberg, J.. 2019. *Lifelines : The Resilient Infrastructure Opportunity*. Sustainable Infrastructure;. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/31805> License: CC BY 3.0 IGO.

³ Hale, J, 08 July, 2020. *Sustainable Stock Funds Held Their Own in Second-Quarter Rally*. <https://www.morningstar.com/articles/991091/sustainable-stock-funds-held-their-own-in-second-quarter-rally>

⁴ Dalton, M., Bender, R. , Douglas, J. 19 March, 2020. *Companies Retool Operations to Assist in Coronavirus Fight*. The Wall Street Journal. <https://www.wsj.com/articles/companies-retool-operations-to-assist-in-coronavirus-fight-11584637831>



- (1) **Increased Commitments to Address Climate Change:** In order for nations to prevent irreversible damage and stay at the current 1.5 degrees of global warming, global emissions must drop by 50% over the next decade.⁵ To help investors align their financial objectives with real economy impact to achieve the targets of the Paris Climate Agreement and Sustainable Development Goals, HSBC Global Asset Management, together with leading Development Finance Institutions (DFIs), have created Real Economy Green Investment Opportunity GEM Bond Fund (REGIO), which has raised \$474 million.⁶
- (2) **Intensified Interest in the Importance of ESG Investment and Disclosure:** Making, assessing and managing investments based on Environmental, Social, and Governance (ESG) factors is gaining momentum worldwide. In 2018, 80% of the world's largest corporations use GRI standards.⁷ In 2020, Dubai Financial Market (DFM) has launched the UAE Index for Environment, Social and Governance (ESG) to encourage listed companies in the UAE to expand embracing ESG best practices.⁸
- (3) **Minding the Gap through Innovative Financing:** The financing gap to achieve the SDGs by 2030 is US\$2.5 trillion annually.⁹ The challenging landscape of sustainable financing in emerging markets has given space for innovative financing to spur. An example of this is the South African Impact Bond Innovation Fund which is the first social impact bond focusing on early childhood in the Global South.¹⁰ Another example is the Majid Al Futtaim first Green Sukuk in the MENA region with a value of \$US 600 million.¹¹

⁵ UNEnvironment. 2019. *Emission Gap 2019 Global Progress Report on Climate Change*.

<https://www.unenvironment.org/interactive/emissions-gap-report/2019/>

⁶ HSBC. HSBC Real Economy Green Investment Opportunity Global Emerging Market. .

<https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/investment-expertise/fixed-income/region>

⁷ Kell, G. 2018. *The Remarkable Rise of ESG*. Forbes. <https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/#5c97a3f51695>

⁸ Khan, S. 22 April, 2020. DFM launches index to gauge UAE list companies' commitment to ESG. The National.

<https://www.thenational.ae/business/markets/dfm-launches-index-to-gauge-uae-listed-companies-commitment-to-esg-1.1009774>

⁹ Cooper, S. 05 February 2019. *The Evolution of Sustainable Finance*. <https://www.sc.com/en/feature/the-evolution-of-sustainable-finance/>

¹⁰ *ECD Impact Bond Innovation Fund*. Innovation Edge. <https://innovationedge.org.za/project/ecd-impact-bond-innovation-fund/>

¹¹ Majid Al Futtaim. 15 May, 2019. *World's 1st Benchmark Corporate Green Sukuk*.

<https://www.majidalfuttaim.com/en/media-centre/press-releases/2019/05/majid-al-futtaim-lists-world-s-first-benchmark-corporate-green-sukuk--on-nasdaq-dubai>



- (4) **Banks Stepping Up: Sustainability-Linked Loans and Green Loans:** Banks have been increasingly tying loan terms to ESG performance; Sustainability-linked loans totaled US\$71.3bn in the first three quarters of 2019.¹²
- (5) **Quest for Data:** Making sustainability financing and investment decisions requires data. However, companies lack adequate and useful data to quantify and measure their impact which could lead to inefficient investments. Refinitiv has launched, early this year, the Future of Sustainable Data Alliance with the objective of accelerating capital inflows into sustainable finance, providing investors and governments with the data needed to meet the requirements of both regulators and customers for sustainable investments and products.¹³
- (6) **Quest for Taxonomies, Regulations, and Legislations:** Regulations and legislations are considered key factors in driving sustainable financing in emerging markets. Until 2018, sustainable financing was regulated in China only.¹⁴ Increased attention has been given to regulatory, standardization, and guidelines to improving sustainable financing. Examples of sustainable financing measures taken by some emerging markets include Indonesia's Green Finance Roadmap, The Banco Central Do Brasil's voluntary requirements for banks to monitor environmental risks, and UAE's first set of guiding principles on sustainable financing.¹⁵
- (7) **Refocusing Sustainable Financing Post COVID-19:** The recent pandemic has shifted nations' focus to acute social risks such as health and employment. There is no doubt that building back the economies is the priority of all nations; however, it is crucial to keep in mind that economic recovery from COVID-19 may take years; the same years that are crucial to ensuring to meet the

¹² Guzman, D. 21 October, 2019. *Growth in Sustainability-linked loans boosts ESG rating firms*. Reuters. <https://www.reuters.com/article/growth-in-sustainability-linked-loans-bo/growth-in-sustainability-linked-loans-boosts-esg-ratings-firms-idUSL2N27615Y>

¹³ Evans, M. 29 January, 2020. *New data alliance to drive sustainable finance*. Better Society Network. <https://bettersociety.net/future-data-sustainable-alliance.php>

¹⁴ Meskin, M. 04 February 2020. *Give us regulation say MENA green leaders*. <https://www.globalcapital.com/article/b1k62slw8c0zz8/give-us-regulation-say-mena-green-leaders>

¹⁵ Berensmann, K. et al. 23 January, 2020. *Fostering sustainable global growth green finance- what role for G20?* G20 Insights. https://www.g20-insights.org/policy_briefs/fostering-sustainable-global-growth-green-finance-role-g20/



SDG and climate change targets and prevent an irreversible catastrophe. Sustainability and building resilience should be the core of the countries' recovery plans.

Research Objective

The main objective of this paper is to fill in some of the knowledge gaps about building nations' resilience through sustainable financing. The paper covers the current landscape of sustainable financing with a specific focus on emerging markets. It delves into the main global trends and best practices that can be adapted and adopted to accelerate the integration of environmental, social, and governance factors in a wide range of programs and policies as well as the achievement of national sustainable goals.

The Urgency for Building Resilience

COVID-19 has shown us that we have a baseline. A baseline for what collective global action can achieve and for what technology can accomplish in health, education, and telecommunication amongst other sectors.¹⁶ But the pandemic has also shown us how vulnerable and fragile our nations are. In a matter of months, hundreds of thousands of people died, millions of jobs were lost, and livelihoods shattered. Leading international organizations (Figure 1) project Global Gross Domestic Product (GDP) growth for 2020 to range between -8.8% and 1%. Using some of the GDP projections, the number of people living in extreme poverty could increase by 420 million people¹⁷; a number that is almost equivalent to the entire population of the continent of South America.¹⁸ The International Labour Organisation (ILO) estimated that four out of five of the world's workforce will be affected by the partial and full lockdown measures, and around 195 million jobs will be lost¹⁹.

¹⁶Al-Zeyoudi, T. and Al-Zu'bi, I. 2020. *A New Baseline for Greater Collective Action*.

[https://www.moccae.gov.ae/assets/download/61f813eb/A%20New%20Baseline%20for%20a%20Greater%20Collective%20Action%20-%20enhanced\[7\].pdf.aspx](https://www.moccae.gov.ae/assets/download/61f813eb/A%20New%20Baseline%20for%20a%20Greater%20Collective%20Action%20-%20enhanced[7].pdf.aspx)

¹⁷ UNIDO. 04 May, 2020. *Coronavirus: the Economic Impact*. <https://www.unido.org/stories/coronavirus-economic-impact-4-may-2020>

¹⁸ UN News. 08 April, 2020. *COVID-19: impact could cause equivalent of 195 million job losses, says ILO chief*. <https://news.un.org/en/story/2020/04/1061322>

¹⁹ ibid

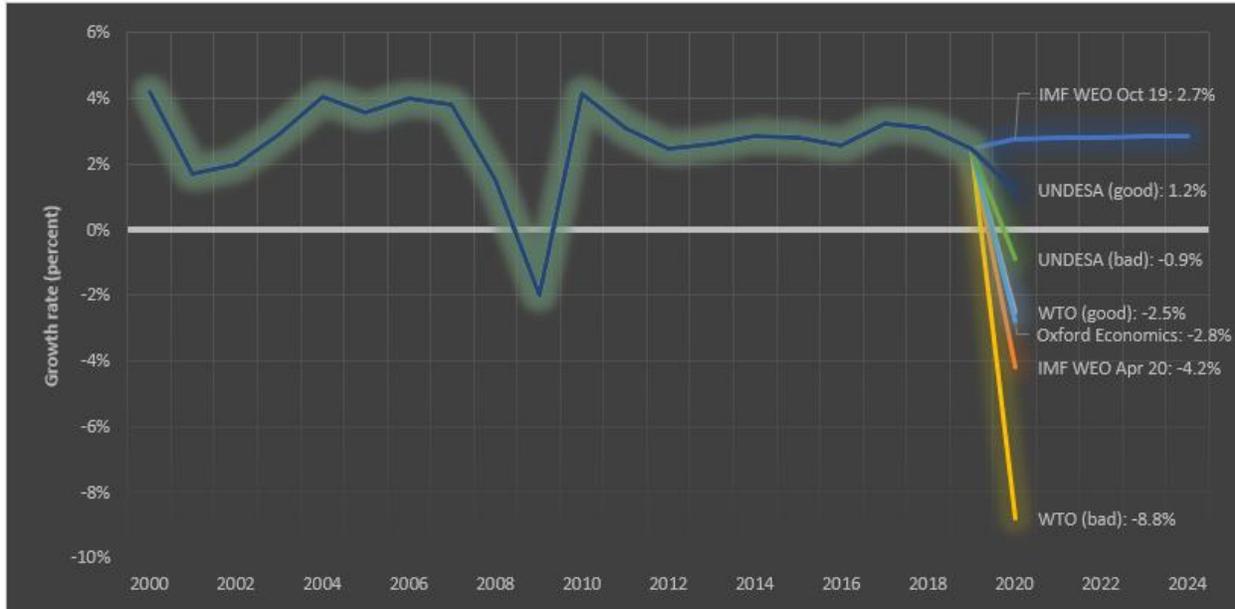


Figure 1: World growth outlook: latest projections by different organizations

The extent to which these aforementioned figures are alarming is incomparable to what climate change could cause if inadequate action is taken. The 2020 World Economic Forum (WEF) Report on Global Risks shows, and for the first time in its history, that all of the “top long-term risks by likelihood” are environmental and that climate change is the biggest global threat. Four in five of the WEF’s top global risks by impact are also environmental.²⁰

The next decade presents a “use it or lose it” moment for emerging markets to reorient their financial markets and build a more sustainable and resilient future. Not only investments in infrastructure are expected to reach US\$90 trillion by 2030 to meet the needs of increased populations around the world

²⁰ WEF. 2020. The Global Risks Report 2020. <https://www.weforum.org/reports/the-global-risks-report-2020>



but the COVID-19 pandemic has urged governments to provide large stimulus packages.²¹ As of end of April 2020, G20 governments alone are providing US\$6.3 trillion in fiscal support, 9.3% of 2019 G20 GDP.²² International organisations, such as the OECD, have highlighted the need for nations to use such stimulus packages and opportunities to prevent long-term threatening environmental black swan events and create a recovery that “builds back better” through sustainable financing.²³

The economic returns for responsible investment are high. According to a 2019 World Bank report entitled “Lifelines: The Resilient Infrastructure Opportunity”, for every \$1 invested in more resilient infrastructure in low and middle-income countries, the return on investment is \$4.²⁴ For 2020 and until July, 72% of sustainable equity funds ranked in the top halves of their Morningstar Categories; all 26 ESG index funds have outperformed their conventional-index counterparts.²⁵ The “Sustainability Report” by Morgan Stanley, and after analyzing the performance of more than 10,000 mutual funds, has also found that sustainability equity funds met or exceeded median returns of traditional equity funds during 64% of the time periods examined.²⁶ In Europe, ESG investors poured EUR 31.3 billion into sustainable equity funds in the second quarter of 2020 which is 63% more than the flows into traditional equity funds.²⁷ Another study of 656 companies, by the International Financial Corporation (IFC), found that companies with good

²¹ The Global Commission on the Economy and Climate. 2016. *The Sustainable Infrastructure Imperative: Financing for Better Growth and Development*. <https://www.un.org/pga/71/wp-content/uploads/sites/40/2017/02/New-Climate-Economy-Report-2016-Executive-Summary.pdf>

²² Segal, S. and Gerstel, D. 30 April, 2020. Breaking Down the G20 COVID-19 Fiscal Response. <https://www.csis.org/analysis/breaking-down-g20-COVID-19-fiscal-response>

²³ OECD. 05 June 2020. Building Back Better: A Sustainable, Resilient Recovery After COVID-19 https://read.oecd-ilibrary.org/view/?ref=133_133639-s08q2ridhf&title=Building-back-better-A-sustainable-resilient-recovery-after-COVID-19

²⁴ Hallegatte, S., Rentschler, J. and Rozenberg, J.. 2019. *Lifelines : The Resilient Infrastructure Opportunity*. Sustainable Infrastructure;. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/31805> License: CC BY 3.0 IGO.

²⁵ Hale, J. 08 July, 2020. *Sustainable Stock Funds Held Their Own in Second-Quarter Rally*. <https://www.morningstar.com/articles/991091/sustainable-stock-funds-held-their-own-in-second-quarter-rally>

²⁶ Morgan Stanley. 28 April 2015. *The Business Case for Sustainable Investing*. <https://www.morganstanley.com/ideas/business-case-for-sustainable-investing>

²⁷ Morningstar Manager Research. July 2020. *European Sustainable Fund Flows: Q2 2020 in Review*. <https://www.morningstar.com/content/dam/marketing/emea/shared/guides/European-Sustainable-Fund-Flows-Q2-2020.pdf>



environmental and social performance outperformed others by 210bp in terms of return on equity and by 110 on return on assets.²⁸

While current pandemic disruption has forced governments, investors and businesses to scrutinize and tightly manage their social, human and financial resources, focus on environmental, social and governance (ESG) financing portfolio should be given a priority given its long-term social, environmental and economic returns. Many businesses have already taken major steps forward during the pandemic by redirecting their resources to manufacture critical medical supplies overloaded hospitals and, in the case of some hotels, become makeshift quarantine shelter.²⁹

From Rio to Paris: The Vital Link

For the past few years, financial markets have started transitioning to a low-carbon economy. Sustainable financing should not be thought of as only environmental-linked investments but rather a joint-up approach to financial products and services that integrate environmental, social and governance (ESG) criteria into its decision processes, policy frameworks, and practices. It is about reducing financial gaps to solve major and global problems such as climate change.^{30 31}

The 1992 Rio Earth Summit marked the establishment of United Nations Environment Programme Finance Initiative (UNEP FI), a partnership between the global finance sector and UN Environment, to achieve sustainable developing through transforming private finance. Two years later, the first annual UNEP FI Global Roundtable on “Greening Financial Markets” was held in Geneva, Switzerland. Following achievements included the ISO 14001, a voluntary international standard for corporate environmental management system; the Dow Jones Sustainability World Index, the first global sustainability benchmark to provide guides to investors looking for profitable companies that follow sustainable development

²⁸ <https://www.sc.com/en/feature/the-evolution-of-sustainable-finance/>

²⁹ Dalton, M., Bender, R. , Douglas, J. 19 March, 2020. *Companies Retool Operations to Assist in Coronavirus Fight*. The Wall Street Journal. <https://www.wsj.com/articles/companies-retool-operations-to-assist-in-coronavirus-fight-11584637831>

³⁰ Taneja, T. 2019. *Trends in Sustainable Finance for 2019*. <https://www.sustainalytics.com/sustainable-finance/2019/03/06/trends-in-sustainable-finance-for-2019/>

³¹ EU High-Level Expert Group on Sustainable Finance. 2018. *Financing a Sustainable European Economy*. https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf



principles; and 2000 The Global Reporting Initiative (GRI) which helps organization understand their impact on global issues.³² As of 2019, 93% of the largest 250 corporations report on their sustainability performance using GRI standards.³³

In 2000, nations of the world agreed on eight UN Millennium Development Goals (MDGs) including ensuring environmental sustainability and achieving global partnership for development. This steppingstone provided a framework for the finance sectors to understand their role in sustainability and their impact. The goals have also led to an increased focus in finding innovative ways to fund the annual US\$2.5 trillion SDG investment gap in emerging and low-income countries.³⁴

Fast forward, the UN Principles for Responsible Investment (PRI) was launched in 2006 to support investors in integrating ESG factors into their investment and ownership decisions.³⁵ Since then, the number of PRI's signatories have reached over 3,000 from over 60 countries representing an excess of \$US 89 billion in assets under management. However, signatories from emerging markets are considered a minority; 62 from Brazil, 47 from China, and 102 from the all Middle Eastern and African countries.³⁶ The following year witnessed another key milestone in transforming the financial sector when the European Investment Bank issued the first "Climate Awareness Bond" and allocated EUR 600 million to 14 renewable energy and energy efficiency projects. The World Bank followed by issuing of US\$300 million green bonds in 2008.³⁷ The growth of green bonds has been quite high with 2019 issuances reaching a

³² UNEP. 06 June 2017. *The Evolution of Sustainable Finance*. <https://www.unepfi.org/news/25th-anniversary/timeline/>

³³ Cooper, S. 05 February 2019. *The Evolution of Sustainable Finance*. <https://www.sc.com/en/feature/the-evolution-of-sustainable-finance/>

³⁴ Ibid, 2019

³⁵ PRI. *About PRI*. <https://www.unpri.org/pri/about-the-pri#:~:text=The%20PRI%20is%20the%20world's,their%20investment%20and%20ownership%20decisions.>

³⁶ pei. Pei Asset Management implements international sustainability standards. 21 April, 2021. <https://pei.com.co/en/pei-asset-management-implements-international-sustainability-standards/>

³⁷ Eversheds Sutherland. 12 September 2019. *Green is good- green bonds continue growth*. <https://www.jdsupra.com/legalnews/green-is-good-green-bonds-continue-73144/>



record of US\$270 billion.³⁸ Emerging markets have also jumped on the wagon and issued green bonds; China has sold US\$25.5 billion in bonds in 2018³⁹, Russia has issued its first green bond in that same year⁴⁰, and Egypt has announced, in February 2020, that it will be issuing its first green bond which is also the first of its kind in the MENA region.⁴¹

Two of the most important historic and landmark events that ignited further transformation and innovation in the financial market were the Paris Agreement and the 2030 Agenda with its 17 Sustainable Development Goals (SDGs). In 2015, 195 nations signed the Paris Agreement which aims to keep global temperature rise this century well below 2 degrees Celsius.⁴² The new Sustainable Development Goals were also adopted that year. Not only the Paris Agreement and the 2030 Agenda highlighted the need for channeling more investment to cover the financial gap, but the United Nations Secretary General has also released, in 2019, a roadmap for financing all SDGs.⁴³

If these milestones prove anything, it proves that financial institutions can play a vital link through redirecting capital to influence the private sector, and even nations, to focusing more on ESG investments, greening their economy and industries, and achieving the targets of the Paris Agreement and SDGs.⁴⁴

³⁸ Irena. 03 March 2020. *Financing the Global Energy Transformation: Green Bonds*.

<https://www.irena.org/newsroom/articles/2020/Feb/Financing-the-Global-Energy-Transformation-Green-Bonds#:~:text=The%20green%20bond%20market%20started,energy%20and%20energy%20efficiency%20projects.>

³⁹ Cooper, S. 05 February 2019. *The Evolution of Sustainable Finance*. <https://www.sc.com/en/feature/the-evolution-of-sustainable-finance/>

⁴⁰ Latham and Watkins. 12 February, 2020. *The Future of Sustainable Finance in Russia and the CIS*. <https://www.lw.com/thoughtLeadership/the-future-of-sustainable-finance-in-russia-and-the-cis>

⁴¹ HSBC. 04 May, 2020. *Egypt's Great Green Transition*. <https://www.business.hsbc.com/eg/en-gb/eg/article/egypts-great-green-transition>

⁴² The UAE was the first country in the Middle East to Ratify the Paris Agreement

⁴³ United Nations. 2019. *United Nations Secretary General's Roadmap for Financing the 2030 Agenda for Sustainable Development*. <https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/UN-SG-Roadmap-Financing-the-SDGs-July-2019.pdf>

⁴⁴ Cummis, C. 05 March, 2020. *How Can Financial Institutions Deliver on the Paris Agreement?*

<https://www.responsible-investor.com/articles/how-can-financial-institutions-deliver-on-the-paris-agreement>



Four + Three: Understanding Financial and Non-Financial Implementation Means to Achieve Sustainable Development

The Addis Ababa Action Agenda, which assumes that countries will use their own national development strategies and plans,⁴⁵ has established a robust framework for sustainable financing by focusing on seven implementation means; four financial sources and three non-financial ones.⁴⁶ Emerging markets will need to consider all these sources to be able to achieve their ambitious targets; none of them can substitute the other.

- (1) *Domestic Public Resources:* Effective public sources mobilization, budgeting, use of resources, accountability, and alignment with SDGs and the Paris Agreement targets are essential. Emerging countries have been severely affected by COVID-19 which puts more pressure on public expenditure. At the same time, tax mobilization is insufficient; in 2018, 53 developing countries increased tax revenues compared to 46 countries who registered a decline. Not only emerging markets collect taxes at a percentage of 18% of GDP in comparison to 26% in advanced economies but they also generally have higher levels of corruption.^{47 48}

⁴⁵UNDP. 2016. *Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda*. <https://www.undp.org/content/dam/rbap/docs/meetTheSDGs/Achieving%20the%20Sustainable%20Development%20Goals%20in%20the%20Era%20of%20the%20AAAA%20-%20DFAs%20as%20a%20tool%20for%20Linking%20Finance%20with%20Results.pdf>

⁴⁶United Nations. 2019. *Financing for Sustainable Development Report 2019*. <https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2019.pdf>

⁴⁷ Akitoby, B., Honda, J. Miyamoto, H., Primus, K., and Sy. M. 2019. *Case Studies in Tax Revenue Mobilization in Low-Income Countries*. IMF.

⁴⁸ Mirayev, E. 10 April 2020. *How Corruption Affects Emerging Economies*. Investopedia. <https://www.investopedia.com/articles/investing/012215/how-corruption-affects-emerging-economies.asp#data-on-corruptions-impact>

(2) *Domestic and International Private Business and Finance:* Unlocking private sector’s potentials to address ESG-related issues and contribute to achieving the SDGs has been a challenge especially after economic downfalls such as COVID-19. However, the investment opportunities in emerging markets are massive. After signing the Paris Agreement, 189 countries submitted national plans to address climate change related issues that range from renewable energy and sustainable forest management to low-carbon cities and climate-smart agriculture. Based on these plans, commitments and policies, the IFC has conducted an analysis of rising investment opportunities in 21 emerging markets and sectors between 2016 and 2030. The estimated figure of investment opportunity, which is an underestimate give the lack of data in certain areas, was US\$23 trillion.⁴⁹

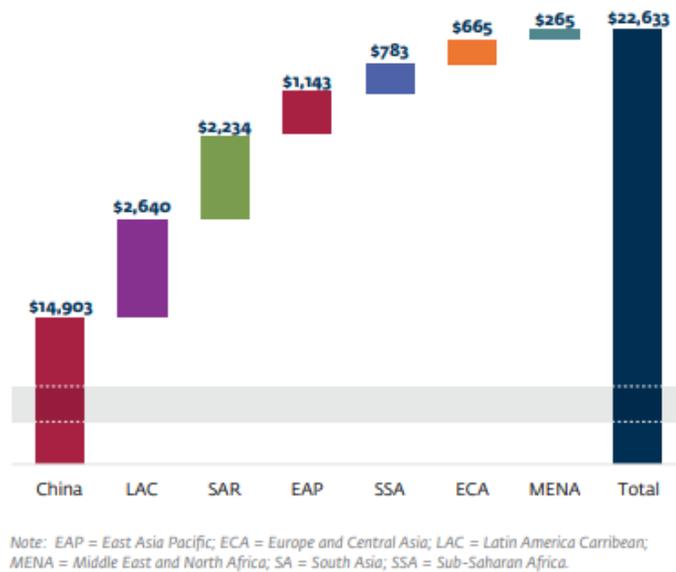


Figure 2: Climate-Smart Investment Potential 2016 - 2030 (\$ billion)

Investment opportunities in some of these emerging markets include green buildings in East Asia (China, Indonesia, the Philippines, and Vietnam), sustainable transport in Latin America (Argentina, Brazil, Colombia, and Mexico), climate-resilient infrastructure in South Asia

⁴⁹ IFC. 2016. Climate Investment Opportunities in Emerging Markets. https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=IBLd6Xq



(Bangladesh and India), energy efficiency and transport in Eastern Europe (Russia, Serbia, Ukraine and Turkey), and renewables in the MENA (Egypt, Jordan and Morocco) with an investment potential of US\$16 trillion, US\$2.6 trillion, US\$2.2 trillion, US\$665 billion, and US\$265 billion respectively.⁵⁰

The Addis Ababa action area of domestic and international private business and finance recognizes the different range of private sector actors, from individual households, direct investors, and international migrants to multinational corporations and financial intermediaries such as pension funds and banks.⁵¹ It does not only address investment opportunities but also looks into their alignment with SDGs, the enabling environment and the regulatory framework.⁵² Some of the emerging markets have invested in easing their business environment; out of the top ten most improving economies in at least three areas in the Doing Business Index, four are emerging markets which are Saudi Arabia, China, India, and Pakistan.⁵³ In the same report, some emerging countries have risen in their ranking such as Egypt⁵⁴ and Thailand⁵⁵ (six places each).

- (3) *International Development Cooperation*: This area of action covers Official Development Assistance (ODA), South-South Cooperation, and other international public finance, including their quality and effectiveness.⁵⁶ In 2019, the ODA increased by 1.4% but remains insufficient, especially after resources were reoriented to COVID-19. The IMF has already made US\$40 billion

⁵⁰ Ibid, 2016

⁵¹ Inter-Agency Task Force on Financing for Development. 2017. *Financing for Development: Progress and Prospects*. United Nations.

https://sustainabledevelopment.un.org/content/documents/24972017IATFReport_AUV_30Mar2017.pdf

⁵² Inter-Agency Task Force on Financing for Development. 2020. *Financing for Development Report 2020*. United Nations. https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2020_ChptIII.C.pdf

⁵³ The World Bank. 24 October 2019. *Doing Business 2020 – Sustaining the Pace of Reforms*.

<https://www.worldbank.org/en/news/feature/2019/10/24/doing-business-2020-sustaining-the-pace-of-reforms#:~:text=Doing%20Business%202020%20found%20that,China%2C%20India%2C%20and%20Nigeria.>

⁵⁴ Enterprise. 27 October 2019. *Egypt rises six spots to 114th in World Bank's Ease of Doing Business Report*.

<https://enterprise.press/stories/2019/10/27/egypt-rises-six-spots-to-114th-in-world-banks-ease-of-doing-business-report/>

⁵⁵ The Nation | Thailand. 24 October 2019. *Thai ranking in Ease of Doing Business up 6 places*.

<https://www.nationthailand.com/business/30377691>

⁵⁶ Inter-Agency Task Force on Financing for Development. 2020. *Financing for Development Report 2020*. United Nations. https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2020_ChptIII.C.pdf

available for emerging market through its rapid-disbursing emergency financing facilities as a response to the pandemic.⁵⁷ Out of the 26 emerging markets⁵⁸, 16 are on the 2020 list of the Development Assistance Committee of ODA.⁵⁹ The 2020 Financing for Sustainable Development report highlights the urgency for ODA to recover, after a significant drop in 2018, and meet its targets. In 2017, only 2% of the ODA went to SGD 13 on Climate Action and SDG 15 Life on Land each, 1% to Responsible Consumption and Production and Life below Water goals each, 8% to Industry, Innovation and Infrastructure; 6% to Affordable and Clean Energy; and 5% to Sustainable Cities and Communities.⁶⁰

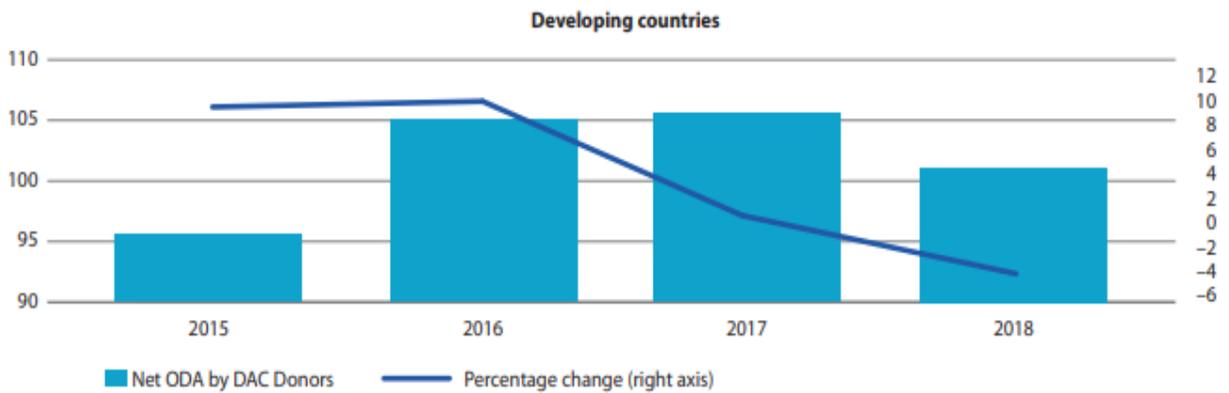


Figure 3: Total Net ODA by DAC members by country group on a cash basis, 2015–2018 (Billions of United States dollars, 2017 constant prices)

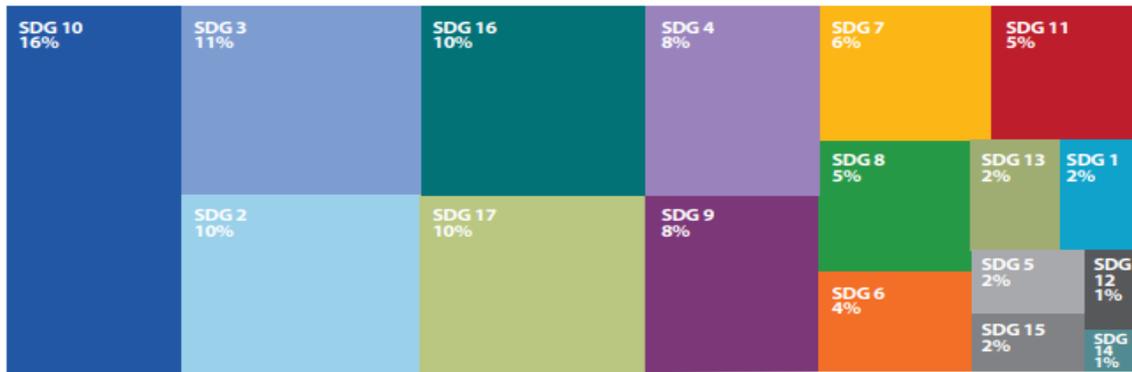
⁵⁷ Georgieva, K. 04 March, 2020. IMF makes available \$50 billion to help address Coronavirus.

<https://www.imf.org/en/News/Articles/2020/03/04/sp030420-imf-makes-available-50-billion-to-help-address-coronavirus>

⁵⁸ The MSCI classification is used to identify the Emerging Markets: <https://www.msci.com/market-classification>

⁵⁹ OECD. DAC List of ODA Recipients. <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-List-of-ODA-Recipients-for-reporting-2020-flows.pdf>

⁶⁰ Inter-Agency Task Force on Financing for Development. 2020. *Financing for Development Report 2020*. United Nations. https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2020_ChptIII.C.pdf



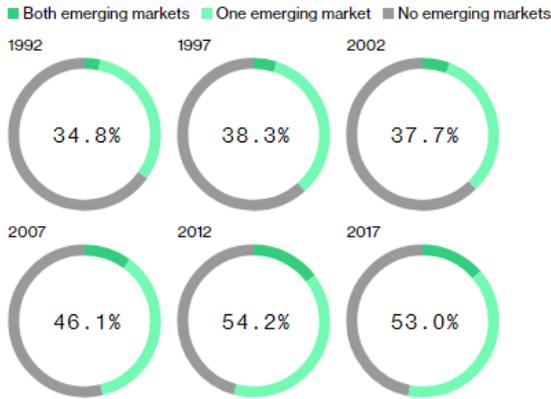
Source: OECD SDG Financing Lab based on OECD/DAC data.

Figure 4: Gross ODA disbursements by SDGs, 2017 (Percentage of total)

- (4) *International Trade as Engine for Development:* The fourth financial source in the Addis Ababa Action Areas cover strengthening multilateral trading system, facilitation of international trade, and promotion policy coherence in trade.⁶¹ International trade is one of the most important drivers of economic development and growth. In 2017, 53% of bilateral trade involved at least one emerging market; a significant increase from 38% in 1997. However, the share of trade between two developing countries is still low. The number of countries with the majority of trade is with emerging markets has also increased from 1 to 64 during the same period.⁶²

⁶¹ ibid, 2020

⁶² Tartar, A. and Sam, C. 07 May, 2019. How the rise of developing countries has disrupted global trade. Bloomberg. <https://www.bloomberg.com/graphics/2019-bloomberg-new-economy/global-trade-developing-nations/>



Note: Numbers in circles represent share of bilateral trade involving at least one partner that is an emerging market economy.

Figure 5: Relative Share of Bilateral Trade

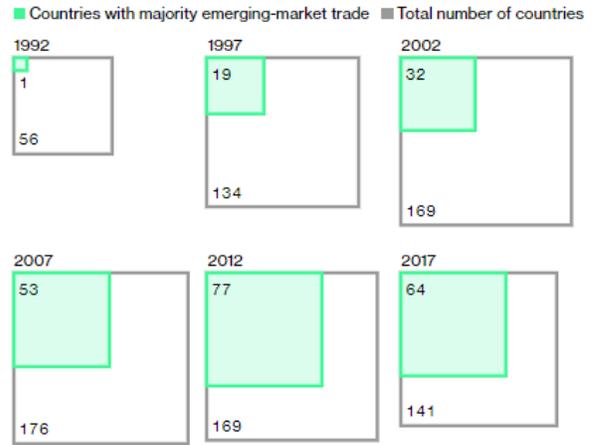


Figure 6: Emerging-Market Trade Focus

- (5) *Debt and Debt Sustainability:* Over the past 10 years, the official debt of the 30 largest emerging markets increased significantly to reach over USD\$70, a rise of 168%.⁶³ As debt distress continues to increase, especially after COVID-19, countries will not be able to invest in SDGs sufficiently.

The last two action areas, which are *Addressing Systematic Issues* and *Science, Technology, Innovation, and Capacity-Building* are two of the key trends driving the transformation of sustainable financing as will be covered in the final section.

⁶³ UN Environment. 2019. *Emission Gap 2019 Global Progress Report on Climate Change*. <https://www.unenvironment.org/interactive/emissions-gap-report/2019/>



Top Seven Trends in Sustainable Financing

Current trends in emerging markets will transform the future landscape of ESG in the corporate sector, investments, regulations, and even governments. The next few trends will give cover some context, provide some examples from some emerging markets, and cover some global best practices especially since ESG in emerging markets is still developing.

(1) Increased Commitments to Address Climate Change

In order for nations to prevent irreversible damage and stay at current 1.5 degrees of global warming, global emissions must drop by 50% over the next decade.⁶⁴ A 2019 report by the European Union's Technical Expert Group on Sustainable Finance states that the past 18 years were the warmest years on record and that Europe witnessed extreme heatwaves in four out of the last five years.

Many of the emerging markets could be even more susceptible to climate change given that they are naturally warmer than developed countries especially since agriculture, tourism, and forestry are key sectors in their economies. India is expected to lose 2.8% of its GDP by 2050 due to climate change impact on rising temperatures and changing monsoon rainfall patterns.⁶⁵ HSBC has ranked it the most vulnerable country to climate change among 67 developed, emerging and frontier markets. Some of the other countries that made it to the top ten most vulnerable countries include Mexico, Pakistan, Colombia, and South Africa.⁶⁶

According to the World Bank, the MENA's GDP losses are estimated to be higher with a loss of around 6-14% of its GDP by 2050 from climate-related water impact on agriculture, health and incomes, rendering

⁶⁴ EU Technical Expert Group on Sustainable Finance. March 2020. *Taxonomy: Final Report of the Technical Expert Group on Sustainable Finance*.

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

⁶⁵ World Bank. 28 June, 2018. *Climate Change Could Depress Living Standards in India*.

<https://www.worldbank.org/en/news/press-release/2018/06/28/climate-change-depress-living-standards-india-says-new-world-bank-report>

⁶⁶ WEF. 21 March 2019. *Why India is the most at risk from climate change*.

<https://www.weforum.org/agenda/2018/03/india-most-vulnerable-country-to-climate-change>



it the region with the greatest economic loss.⁶⁷ It is worth noting that 22% of the global GDP is exposed to high or very high-water stress, a figure that increases to over 70% for the MENA region. Warnings by international organisations, such as the Atlantic Council, reveal that while the region has historically endured harsh climate conditions, the rapid increase in population, urban growth, political instability, and migration coupled with insufficient regulations for natural resource use will further make the region less resilient to the threat of climate change.^{68,69} Climate change could potentially render the MENA region uninhabitable by 2100, due to increasing temperatures, if no action is taken to decrease global emissions.⁷⁰

In addition to rising temperatures, many coastal cities in emerging markets are at risk of sinking. Research estimates that there are 110 million people who live on land below the current high tide line and 250 million who live on land below annual flood levels.⁷¹ The same research shows cities like Alexandria, Egypt, will probably lose many of its cultural heritages.⁷² Areas in the UAE and Egypt are at risk due to a 0.5-metre rise forecast in sea levels by the end of this century. Jeddah in Saudi Arabia, which is considered one of the driest parts of the MENA region, has been experiencing floods almost on an annual basis for the past four decades. In 2018, floods in the city of Jeddah have resulted in 4,000 residents being evacuated and the killing of 30 others.⁷³

⁶⁷ World Bank. 23 August, 2017. *Beyond Scarcity: Water Scarcity in the Middle East and North Africa*. <https://www.worldbank.org/en/topic/water/publication/beyond-scarcity-water-security-in-the-middle-east-and-north-africa>

⁶⁸ Abouelnaga, M. 07 May, 2017. *Why the MENA region needs to better prepare for climate change*. Atlantic Council. <https://www.atlanticcouncil.org/blogs/menasource/why-the-mena-region-needs-to-better-prepare-for-climate-change/#:~:text=By%202050%2C%20the%20population%20in,be%20attributed%20to%20socioeconomic%20factors>

⁶⁹ Kandeel, A. 11 June, 2019. *In the Face of Climate Change: Challenges of Water Scarcity and Security in MENA*. Atlantic Council. <https://www.atlanticcouncil.org/blogs/menasource/in-the-face-of-climate-change-challenges-of-water-scarcity-and-security-in-mena/>

⁷⁰ Pal, J. and Eltahir, E. 26 October 2015. *Future temperature in southeast Asia projected to exceed a threshold for human adaptability*. <https://www.nature.com/articles/nclimate2833>

⁷¹ Kulp, S., and Strauss, B. 29 October 2019. *New elevation data triple estimates of global vulnerability to sea-level rise and coastal flooding*. <https://www.nature.com/articles/s41467-019-12808-z>

⁷² Lu, D. and Flavelle, C. 29 October 2019. *Rising Seas Will Erase More Cities by 2050, New Research Says*. The New York Times. <https://www.nytimes.com/interactive/2019/10/29/climate/coastal-cities-underwater.html>

⁷³ Kulp, S., and Strauss, B. 29 October 2019. *New elevation data triple estimates of global vulnerability to sea-level rise and coastal flooding*. <https://www.nature.com/articles/s41467-019-12808-z>



Nowadays, many countries are moving towards carbon neutral future. An example of that is the recent pledge by the Chinese President Xi Jinping who called for a green revolution to reduce carbon emissions and transform China, the world's largest contribute of planet-warming gases, to carbon neutral by 2060.⁷⁴

Case Study (1): HSBC Real Economy Green Investment Opportunity for Global Emerging Market (REGIO)

HSBC Global Asset Management, together with leading Development Finance Institutions (DFIs), have created REGIO to solve issues related to the Paris Climate Agreement and SDGs. REGIO enables investors to align their financial objectives with real economy impact to deliver against the Paris Climate Agreement and Sustainable Development Goal agenda. In May 2020, HSBC and IFC announced the third closing of REGIO, which has raised \$474 million of new financing to support climate mitigation investments across emerging markets in spite of prevailing market turmoil.

Source: <https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/investment-expertise/fixed-income/regio> and <https://ifcextapps.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/AD2A1792E469868B8525856E001151B7>

Case Study 1: HSBC Real Economy Green Investment Opportunity for Global Emerging Market (REGIO)

Making, assessing and managing investments based on environmental, social, and governance (ESG) factors is gaining momentum worldwide. In 2019, 75% of retail and institutional investors applied ESG principles to at least a quarter of their portfolios, a significant increase from the 48% in 2017.⁷⁵ ESG Investing covers many financial products and services such as ESG indices, different types of investments, and targeted strategies. Intensified pressures from investors as well as ESG indices and guidelines will play

⁷⁴ Regan, H. 23 September, 2020. China will become carbon neutral by 2060, Xi Jinping says. CNN. <https://edition.cnn.com/2020/09/22/china/xi-jinping-carbon-neutral-2060-intl-hnk/index.html>

⁷⁵ Collins, S. and Sullivan, K. 20 February 2020. *Advancing environmental, social, and governance investing*. Deloitte Insights. <https://www2.deloitte.com/us/en/insights/industry/financial-services/esg-investing-performance.html#:~:text=The%20sustainability%20movement%20is%20growing,-Social%20consciousness%20has&text=Globally%2C%20the%20percentage%20of%20both,to%2075%20percent%20in%202019.>



a major catalyst into normalizing entities disclosures on ESG factors by the end of this decade.⁷⁶ In 2018, 80% of the world's largest corporations use GRI standards.⁷⁷

Case Study (2): The World Economic Forum's (WEF) "Stakeholder Capitalism Metrics"

At the 2020 annual Davos, the Forum's International Business Council released a set of "Stakeholder Capitalism Metrics" and disclosures that can be used by companies to align their mainstream reporting on performance against environmental, social and governance (ESG) indicators and track their contributions towards the SDGs on a consistent basis. This set of metrics was launched after six-months of open consultation and commitment from more than 140 CEO's.

Source: http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf

Case Study 2: The World Economic Forum's (WEF) "Stakeholder Capitalism Metrics"

Case Study (3): UAE Index for Environment, Social and Governance (ESG)

Dubai Financial Market (DFM) has launched the UAE Index for Environment, Social and Governance (ESG) to encourage listed companies in the UAE to expand embracing ESG best practices. The index, which was launched in April of 2020, was developed in cooperation with S&P Dow Jones Indices and the Hawkamah Institute for corporate governance. The index is backed by the market regulator, the UAE Securities and Commodities Authority, already includes 20 listed companies, and is based on five years of past performance. The ESG Index help attract international institutional investors looking for exposure to socially responsible companies in emerging markets.

Source: <https://www.thenational.ae/business/markets/dfm-launches-index-to-gauge-uae-listed-companies-commitment-to-esg-1.1009774>

Case Study 3: UAE Index for Environment, Social and Governance (ESG)

⁷⁶ Papadopoulos, K. and Araujo, R. 02 March 2020. *Top 10 ESG Trends for the New Decade*. <https://corpgov.law.harvard.edu/2020/03/02/top-10-esg-trends-for-the-new-decade/>

⁷⁷ Kell, G. 2018. *The Remarkable Rise of ESG*. Forbes. <https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/#5c97a3f51695>



Case Study (4): China's Ping An CN-ESG Smart Rating System

In June 2020, Ping An Group announced the launch of the CN-ESG Smart Rating System for the market, providing a suite of smart ESG investment tools with comprehensive, intelligent and practical features that are China-specific. The main objectives of the system are to increase understanding of companies on how to enhance their ESG performance and disclosure standards as well as identify new value, mitigate ESG-related risks, and provide new insights and information to aid the investment decision process. The system, which covers 13 themes and around 400 mandatory and option indicators, is empowered by artificial intelligence technologies such as natural language processing, remote sensing image analysis and machine learning.

Source: <https://www.prnewswire.com/news-releases/ping-an-builds-china-specific-esg-smart-rating-system-to-promote-responsible-investment-in-china-301081066.html>

Case Study 4: China's Ping An CN-ESG Smart Rating System

(3) Minding the Gap through Innovative Financing

The financing gap to achieve the SDGs by 2030 is US\$2.5 trillion annually. The challenging landscape of sustainable financing in emerging markets has given space for innovative financing to spur. These innovations targets different groups and sectors ranging from consumer and micro, small and medium enterprises (MSMEs), impact venture investing, disaster insurance, real assets, thematic and labeled bonds, and structured products.⁷⁸ The following instruments are only some of the available innovative financing mechanisms.

Mobile-enabled payments and financial services: Mobile payments can help build community resilience against climate change through at least two approaches, first through providing mobile financing services such as savings, credit, insurance, remittances and government transfers and second through providing access to affordable and clean energy and helping to reduce carbon emissions.⁷⁹

⁷⁸ Thuard, J., Koh, J., Agarwal, A, and Garg, Riya. April 2019. *Financing the Future of Asia: Innovations in Sustainable Financing*. Rockefeller Foundation. https://www.rockefellerfoundation.org/wp-content/uploads/FSG_Financing-the-Future-of-Asia_Report.pdf

⁷⁹ Lopez, M. 18 December 2019. *Making the Connection between mobile money and climate change*. GSMA. <https://www.gsma.com/mobilefordevelopment/blog/making-the-connection-between-mobile-money-and-climate-change/>



FinTech platforms are expanding the reach of MSMEs and the poor to formal financial services through mobile-enabled payments such as Alipay and WeChat.⁸⁰ Emerging countries in the Middle East, Africa and Latin America are driving smartphone internet usage globally.⁸¹ In 2016, Turkey, Malaysia, Chile, and Brazil witnessed the most rapid growth in smartphone ownership.⁸² This presents a great opportunity for the FinTech industry.

Case Study (5): Enabling Faster, Cheaper, and Safer International Remittances

International remittances are extremely important for the livelihood of households in many emerging countries. In 2019, international remittances were the most significant international financial flows in low-income and fragile states, surpassing both foreign direct investment (FDI) and ODA. Mobile-money remittance services currently connect at least 35 remittance-sending countries with 40 remittance-receiving countries. These services have contributed to increasing the income of recipient families which ultimately stimulate local economies

Source: <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/05/Rave7-Carpooling-as-a-solution-to-Cairo%E2%80%99s-traffic-challenges.pdf>

Case Study 5: Enabling Faster, Cheaper, and Safer International Remittances

⁸⁰ Thuard, J., Koh, J., Agarwal, A, and Garg, Riya. April 2019. *Financing the Future of Asia: Innovations in Sustainable Financing*. Rockefeller Foundation. https://www.rockefellerfoundation.org/wp-content/uploads/FSG_Financing-the-Future-of-Asia_Report.pdf

⁸¹ Cornet, R. 01 June, 2017. *10 Facts about the Internet in Emerging Markets*. <https://borgenproject.org/internet-in-emerging-markets/>

⁸² Poushter, J. 22 February 2016. *Smartphone Ownership and Internet Usage Continues to Climb in Emerging Economies*. Pew Research Center. <https://www.pewresearch.org/global/2016/02/22/smartphone-ownership-and-internet-usage-continues-to-climb-in-emerging-economies/>



Case Study (6): Egypt's Carpooling Application Raye7

Raye7 is an Egyptian App for Enterprise-level carpooling for corporates. The platform helps people, through matching riders and drivers for their daily commute, find convenient and affordable rides while reducing traffic and ultimately reducing CO2 emissions. The application allows riders to use credit cards or mobile money to pay for the rides. Annual savings for every 100 people using Raye7 are estimated to be 72,000 hours for riders, USD\$ 130,000, and 262 tons of CO2.

Source: <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/05/Raye7-Carpooling-as-a-solution-to-Cairo%E2%80%99s-traffic-challenges.pdf>

Case Study 6: Egypt's Carpooling Application Raye7

Case Study (7): Alipay's Ant Forest

Every year, China's Gobi desert transforms over 3,600 kilometers of grasslands into inhospitable wastelands rendering it the fastest growing desert worldwide. To contribute to China's fight against desertification, Alipay, the largest FinTech company in the world, has developed the Ant Forest application. Ant Forest rewards its users with green energy points for choosing low-carbon activities like taking public transportation, recycling waste, using less plastic, etc. Once users have earned enough points, they can plant a virtual tree in the app. For every single tree planted in this app, Alipay plants a tree near the Gobi desert. The App also integrates the concept of gamification to engage people and increase interaction. So far, more than half a billion people signed up for the application and more than 100 million trees have been planted near the Gobi desert.

Source: <https://earth.org/how-the-worlds-largest-fintech-company-is-greening-china/>

Case Study 7: Alipay's Ant Forest



Micro, Small, and Medium Enterprise Financing (MSME's): Micro, small and medium-sized enterprises are a major driver for sustainable development around the world. They contribute to nations' economic growth and employment and help solve social problems. MSME's financing presents a crucial opportunity to achieve sustainable development goals.

Case Study (8): Abu Dhabi Global Market (ADGM) Innovation Challenge

Abu Dhabi Global Market (ADGM), Abu Dhabi's International Financial Centre, launched the FinTech Abu Dhabi Innovation Challenge since 2018 to focus on solutions that promote financing for small and medium enterprises (SMEs), sustainable financing and the adoption of RegTech, by bringing together emerging FinTech talent from across the world to address real challenges championed by UAE corporates and government agencies (Corporate Champions). Participating FinTechs and winners of the ADGM's Innovation Challenges have the opportunity to showcase their innovative solutions and work with financial institutions and government agencies in the UAE and wider MENA region. Several of these FinTechs also expanded their business to new markets. The 2020's Innovation Challenge calls for the development of proof of concept (PoC) solutions to promote financing for SMEs which are an instrumental stakeholder in the UAE's plans for economic transformation and diversification.

Source: <https://www.fintechabudhabi.com/fintech-abu-dhabi-innovation-challenge>

Case Study 8: Abu Dhabi Global Market (ADGM) Innovation Challenge

Crowdfunding in Sustainable Financing: Crowdfunding has become a new thriving source of finance. In 2017, \$US65 billion was raised on global crowdfunding platforms.⁸³ While China is the largest crowdfunding market in the world, other emerging markets have far lower crowdfunding.⁸⁴ In recent years, similar platforms were developed to fund sustainable projects such as renewable energy as part of impact investment venture innovative financing products.

⁸³ UNDP. 03 February, 2019. Introducing crowdfunding as an impact investment tool to finance startups in Egypt. <https://www.eg.undp.org/content/egypt/en/home/presscenter/pressreleases/introducing-crowdfunding-as-an-impact-investment-tool-to-finance.html>

⁸⁴ P2PMarketData. 16 May, 2020. Crowdfunding Statistics Worldwide: Market Development, Country Volumes, and Industry Trends. <https://p2pmarketdata.com/crowdfunding-statistics-worldwide/>



Case Study (9): The UK's Abundance Generation (Lending-Based Model)

Abundance Investment, the first crowdfunding platform to be accredited by the UK Financial Conduct Authority, was launched in 2012 with a mission to transform finance by allowing members of the public to invest in things they truly care about. Through the platform, The Engynious Project raised £650,000 to finance solar panels at 19 British Schools. So far, the project was able to secure funding for 42 projects, get investments of £103.5 million with £27.3 million paid in returns.

Source: <https://www.abundanceinvestment.com/about/our-story> , <https://www.cairn.info/revue-journal-of-innovation-economics-2018-2-page-195.htm#>

Case Study 9: The UK's Abundance Generation (Lending-Based Model)

Blended Capital Funds: The OECD defines blended finance as “the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries.”⁸⁵ The IFC defines it as “a financing package comprised of concessional funding provided by development partners and commercial funding provided by IFC and co-investors”.⁸⁶ This additional capital, which benefits societies and generate financial returns, would not have been otherwise available for development purposes. Blended financing can help addressing some of market barriers that could cause the private sector to shy out of investing in certain areas of strategic importance and high development impact.⁸⁷

⁸⁵ OECD. Blended Finance. <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/>

⁸⁶ IFC. Blended Finance at IFC. <https://www.ifc.org/wps/wcm/connect/b775aee2-dd16-4903-89bc-17876825bad8/IFC+Blended+Finance+Fact+Sheet+%28July+2019%29.pdf?MOD=AJPERES&CVID=mUEEV3E>

⁸⁷ *ibid*



Case Study (10): Scaling Up Solar Energy in Thailand

The Solar Energy market in Thailand was non-existent a decade ago. Despite the huge potential in solar energy investments, the new Thai governmental incentives for renewable energy companies, and the falling prices of new technology costs, the market did not grow. To capitalize on these opportunities, the IFC and Clean Technology Fund, a multi-donor fund with the Climate Investment Funds, provided an US\$8 million loan (each US\$4 million in concessional financing) to support the first mover, Solar Power Company Group (SPCG). This allowed the group to mobilize capital from three local banks to develop two power plans with 12 MW of aggregate capacity. The concessional financing support from these two key entities helped SPCG to develop nearly 300 MW of installed capacity. By 2018, not only the company has attracted more than \$US800 million in clean energy investments but also avoided over 200,000 tons of CO2 emissions annually.

Source: https://www.ifc.org/wps/wcm/connect/8e7889db-2860-4ed3-a465-54d1070ff2fb/EMCompass_Note_51-BlendedFinance_FIN+April+13.pdf?MOD=AJPERES&CVID=mbkK6ld

Case Study 10: Scaling Up Solar Energy in Thailand

Disaster Insurance: Insurance products that enhance the resilience of countries, institutions, and communities against the consequences of natural disasters. Some of these products include disaster bonds, insurance for communities, insurance for lending institutions, and hybrid insurance and debt products.⁸⁸

⁸⁸ Thuard, J., Koh, J., Agarwal, A, and Garg, Riya. April 2019. *Financing the Future of Asia: Innovations in Sustainable Financing*. Rockefeller Foundation. https://www.rockefellerfoundation.org/wp-content/uploads/FSG_Financing-the-Future-of-Asia_Report.pdf



Case Study (11): Parametric Disaster Insurance for Lending Institutions

Indonesia is one of the most vulnerable countries worldwide to natural disasters such as floods, drought, and tsunamis. While the country has witnessed around 289 disasters over the past 30 years, with an average human life loss of 8,000, these disasters will grow in number and increase in intensity due to climate change. One of the innovative financing and adapting tools that was developed is the parametric disaster insurance for lending institutions; this product helps beneficiaries through automatic payouts in case an earthquake with an intensity at a specific level occurs, without going through damage assessment paperwork. This helps beneficiaries in getting faster and cheaper relief.

Source: https://www.rockefellerfoundation.org/wp-content/uploads/FSG_Financing-the-Future-of-Asia_Report.pdf

Case Study 11: Parametric Disaster Insurance for Lending Institutions

Real Assets: The most direct form of investment in agriculture such as forests, fisheries, and plantations as well as low-income housing. Not only investors could earn revenues from capital appreciation but also from active land management.⁸⁹ The estimates, made by Credit Suisse and McKinsey, that that ecosystems on land and in oceans such as the Borneo rainforest in Malaysia and Brunei need around US\$300-400 billion to be preserved.⁹⁰

⁸⁹ Lang, K., Humphreys, J., and Rodinic, A. May 2017. *Impact Investing in Sustainable Food and Agriculture Across Asset Classes*. Trillium Invest. <https://www.trilliuminvest.com/whitepapers/impact-investing-in-sustainable-food-agriculture-across-asset-classes>

⁹⁰ <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/conservation-finance-en.pdf>



Case Study (12): The Meloy Fund

The Meloy Fund for Sustainable Communities Fisheries makes debt and equity investments in fishing and seafood-related enterprises that protect natural assets and secure more sustainable livelihoods. The Fund aims to conserve 1.2 million hectares of coastal habitats in Indonesia and the Philippines as well as impact the lives of 100,000 people dependent on fishing. The fund was able to raise US\$22 million through mobilizing private capital from several foundations and family funds as well securing partial credit guarantee from a Development Credit Authority.

Source: https://www.rockefellerfoundation.org/wp-content/uploads/FSG_Financing-the-Future-of-Asia_Report.pdf ,
<https://www.meloyfund.com/>

Case Study 12: The Meloy Fund

Thematic Bonds and Sukuk: The Inter-American Development Bank (IDB) defines thematic bonds as “debt securities issued by both the public and private sectors on the condition that the funds obtained are used to finance projects with a social and environmental impact.”⁹¹ There are four main thematic areas under which bonds fall: green bonds to finance projects linked to climate change, green buildings, clean transportation, renewable energy to name a few; social bonds focus more on investments to do with COVID-19, gender equality, affordable housing, social inclusion, and other basic infrastructure; sustainable bonds finance projects with both social and environment impacts; and lastly blue bonds which focus on ocean conservation.⁹²

⁹¹ Reyes, S. and Ruperez, V. 27 November, 2019. *Transparency is the Key to Thematic Bonds' Success*. Iadb. <https://blogs.iadb.org/bidinvest/en/transparency-is-the-key-for-thematic-bonds-success/#:~:text=Thematic%20bonds%20are%20debt%20securities,a%20social%20and%20environmental%20impact.>

⁹² ibid

In 2018, the worth of these bonds reached US\$167.6 billion, US\$14.2 billion, US\$21 billion, and blue bonds were still nascent with the first blue bond issued at US\$15 million by Seychelles.^{93 94} Thematic bonds market in emerging markets is still relatively new. While green bond market in these markets totaled US\$43 billion in 2018, they accounted for 3% only of total bond issuances⁹⁵; in 2019, the total increased by 21% bringing the total to US\$ 52 billion.⁹⁶

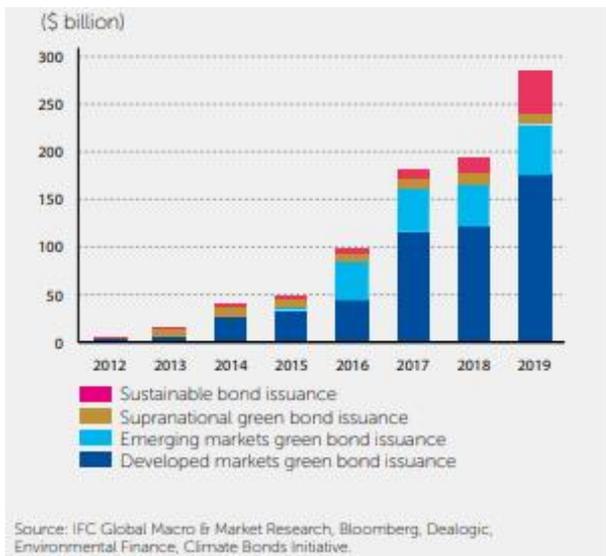


Figure 7: Green and Sustainability Bond Issuance

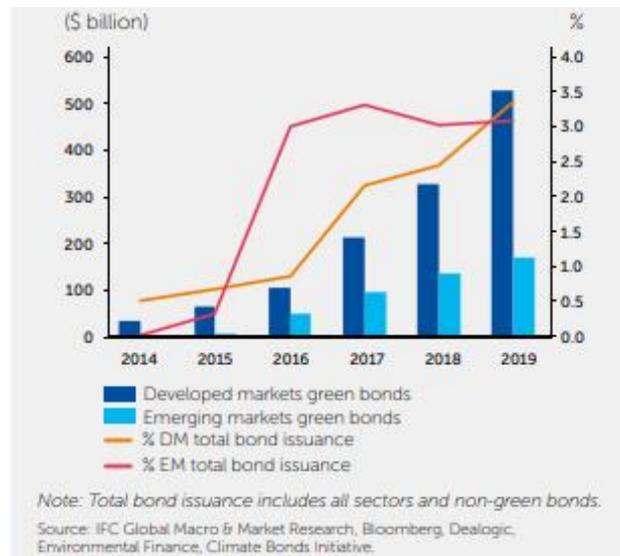


Figure 8: Green Bond Market Size⁹⁷

A new version of green bonds has emerged in 2017 to comply with Sharia law. The first “green sukuk” was raised in Malaysia by Tadau Energy to finance a US\$59 million solar power plant.⁹⁷

⁹³ ibid

⁹⁴ IISD. 06 November, 2018. *Seychelles Launches First Blue Bond*. <https://sdg.iisd.org/news/seychelles-launches-first-blue-bond/>

⁹⁵ Amundi. 2018. *Emerging Market Green Bonds Report 2018*. IFC. <https://www.ifc.org/wps/wcm/connect/9e8a7c68-5bec-40d1-8bb4-a0212fa4bfab/Amundi-IFC-Research-Paper-2018.pdf?MOD=AJPERES>

⁹⁶Amundi, 2019. *Emerging Market Green Bonds Report 2019: Momentum Builds as a Nascent Markets Grow*. https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Climate+Business/Resources/EM-GB-Report-2019

⁹⁷ Noronha, M. 23 March, 2020. *A new shade of green: Sukuk for Sustainability*. EIU. <https://eiuperspectives.economist.com/sustainability/new-shade-green-sukuk-sustainability>



Case Study (13): South Africa Early Childhood Impact Bond Innovation Fund

The Impact Bond Innovation Fund (IBIF) is the first Social Impact Bond focusing on Early Childhood Development in the Global South. IBIF, which is considered a public private partnership, is an outcome-based financing mechanism that aims to improve the cognitive and socio-emotion development of more than 2000 children in South Africa over a course of three years.

Source: <https://innovationedge.org.za/project/ecd-impact-bond-innovation-fund/>

Case Study 13: South Africa Early Childhood Impact Bond Innovation Fund

Case Study (14): Majid Al Futtaim Green Sukuk

Majid Al Futtaim, the leading shopping mall, communities, retail and leisure pioneer across the Middle East, Africa and Asia has issued the first green sukuk in the region with a value of US\$ 600 million. The 10-year deal was five times oversubscribed by an overwhelmingly high quality, long-term investor base.

Source: <https://www.majidalfuttaim.com/en/media-centre/press-releases/2019/05/majid-al-futtaim-lists-world-s-first-benchmark-corporate-green-sukuk--on-nasdaq-dubai>

Case Study 14: Majid Al Futtaim Green Sukuk

(4) Banks Stepping Up: Sustainability-Linked Loans and Green Loans

Banks have been increasingly tying loan terms to ESG performance; Sustainability-linked loans totaled US\$71.3bn in the first three quarters of 2019.⁹⁸ During the same year, some entities in emerging markets have signed sustainability-linked loans such as a US\$ 300 million facility for Ghana's Cocobod, a US\$ 2 billion revolver for the UAE's Noor Energy, and US\$ 1.1 billion loan for Russia's Rusal. More and more companies are requesting to be assessed against ESG rating systems whether to get similar loans or

⁹⁸ Guzman, D. 21 October, 2019. *Growth in Sustainability-linked loans boosts ESG rating firms*. Reuters. <https://www.reuters.com/article/growth-in-sustainability-linked-loans-bo/growth-in-sustainability-linked-loans-boosts-esg-ratings-firms-idUSL2N27615Y>



because investors are driving the change towards more sustainable and environmental projects and businesses.⁹⁹

Green loans, on the other hand, are a form of financing that seeks to enable and empower businesses to finance projects which have a distinct environmental impact, or rather, which are directed towards financing 'green projects'.¹⁰⁰ While green loans are still a new market, it is growing rapidly; in 2018 gross issuance of green loans totaled US\$ 60 billion which is a 30% increase from the previous year.¹⁰¹ Two emerging markets are showing significant progress in capitalising on this opportunity; India is one of the four biggest markets for green loans worldwide and UAE's green market is also growing fast.¹⁰²

Case Study (15): Masdar, Abu Dhabi Future Energy Company

In September 2018, the UAE-based company signed the first Revolving Credit Facility (RCF) in the Middle East. The three-year facility includes a number of 'green features' which are consistent with the Loan Market Association's Green Loan Principles (GLP). Masdar has signed the RCF with four local and international banks to provide funding for new and ongoing investments in its global clean technology and sustainable real estate projects.

Source: <https://news.masdar.ae/en/news/2018/11/28/09/48/masdar-signs-regions-first-green-revolving-credit-facility-to-drive-sustainability-goals>

Case Study 15: Masdar, Abu Dhabi Future Energy Company

(5) Quest for Data

Making sustainability financing and investment decisions requires data. According to an EY survey on nonfinancial report, 97% of investors who responded to the survey conduct an evaluation of target companies' non-financial disclosures, which includes ESG data. However, companies lack adequate and

⁹⁹ Meskin, M. 13 December 2019. *Green loans are coming to EM- eventually.*

<https://www.globalcapital.com/article/b1jd0hx0mnmsjv/green-loans-are-coming-to-em-eventually>

¹⁰⁰ Falzon, M. and Bajada, J. 02 July 2020. *European Union: Green Loans.* <https://www.mondaq.com/asset-finance/961236/green-loans>

¹⁰¹ Tifik, E., Mahmood, K. and Gibbs, S. 01 May, 2019. *Green Loans- Kickoff Time.* IIF.

https://www.iif.com/Portals/0/Files/2_SF_green_loan_issuance%20vf.pdf

¹⁰² *ibid*,



useful data to quantify and measure their impact which could lead to inefficient investments. Many tools are currently being developed to measure and report on sustainability performance such as the Sustainable Leadership Monitor developed by the World Economic Forum and Refinitiv which provides practical benchmarking capabilities powered by industry-leading ESG and financial data.¹⁰³ Another instrument is Morgan Stanley Impact Quotient™ which equips clients with the information they need to identify and prioritize more than 100 social and environmental impact preferences.¹⁰⁴

Case Study (16): The Future of Sustainable Data Alliance

Refinitiv has also launched, early this year, the Future of Sustainable Data Alliance with the objective of accelerating capital inflows into sustainable finance, providing investors and governments with the data needed to meet the requirements of both regulators and customers for sustainable investments and products. This growing alliance has major players in the sustainable financing arena such as the UN, Climate Bond Initiative, FinTech4good in addition to academics, banks, and other entities.

Source: <https://bettersociety.net/future-data-sustainable-alliance.php>

Case Study 16: The Future of Sustainable Data Alliance

(6) Quest for Taxonomies, Regulations, and Legislations¹⁰⁵

Regulations and legislations are considered key factors in driving sustainable financing in emerging markets. Until 2018, sustainable financing was regulated in China only.¹⁰⁶ Since then, Europe has made concrete strides to encourage redirecting capital to more sustainable activities and prevent greenwashing.

¹⁰³ Craig, D. 12 January, 2020. *Sustainable finance Starts with Data*. WEF.

<https://www.weforum.org/agenda/2020/01/sustainable-finance-starts-with-data/>

¹⁰⁴ Morgan Stanley. *A Powerful New Tool Provides Insights to Sustainable Investors*.

<https://www.morganstanley.com/ideas/morgan-stanley-impact-quotient-tool-measures-impact-of-sustainable-investments>

¹⁰⁵ Becker, J. 2019. *Green finance trends in 2019*. <https://focus.world-exchanges.org/articles/green-finance-trends-2019>

¹⁰⁶ Meskin, M. 04 February 2020. *Give us regulation say MENA green leaders*.

<https://www.globalcapital.com/article/b1k62slw8c0zz8/give-us-regulation-say-mena-green-leaders>



In June 2020, the European Parliament has adopted the Taxonomy Regulations which will contribute to the European Green Deal by boosting private sector investment in green and sustainable projects. The Taxonomy will help create the world's first-ever “green list” to classify different sustainable economic activities which investors can refer to.¹⁰⁷

Increased attention has been given to regulatory, standardization, and guidelines to improving sustainable financing. In June 2019, the International Organization of Securities Commission's (IOSCO) Growth and Emerging Markets Committee (GEMC) published the report, “Sustainable finance in emerging markets and the role of securities regulators” in which it identified five areas as prerequisites for creating a marketplace that facilitates sustainable finance in emerging markets: (1) Appropriate regulatory framework; (2) Fit-for-purpose market infrastructure; (3) Reporting and disclosure requirements; (4)

Governance and investor protection guidelines; and (5) Mechanisms to address the needs and requirements of institutional investors.¹⁰⁸ G20 Insights has also proposed areas through which countries could support green growth sustainable financing; promoting the standardization of green finance practices is the first area.¹⁰⁹ Financial regulators in the Middle East region, such as ADGM which championed the first MENA's FinTech regulatory regime and sandbox in 2016, soon saw the need to enable financial innovation and drive financial inclusion to support the growing economies.

¹⁰⁷ EU. *Sustainable Finance: Commission welcomes the adoption by the European Parliament of the Taxonomy Regulation*. https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1112

¹⁰⁸ IOSCO. June, 2019. *Sustainable finance in emerging markets and the role of securities regulators*. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD630.pdf>

¹⁰⁹ Berensmann, K. et al. 23 January, 2020. *Fostering sustainable global growth green finance- what role for G20?* G20 Insights. https://www.g20-insights.org/policy_briefs/fostering-sustainable-global-growth-green-finance-role-g20/



Case Study (17): Examples of Sustainable Finance Measures Adopted by Emerging Markets

Brazil: The Banco Central do Brasil has introduced requirements for banks to monitor environmental risks, building on a voluntary Green Protocol from the banking sector. Brazil's banking association is developing a standardized assessment methodology and automated data collection system to monitor flows of finance for green economy sectors.

- **China:** The People's Bank of China has introduced green bond standards and green banking regulation.
- **Indonesia:** The Indonesian financial regulatory authority published a Green Finance Roadmap in 2014.
- **India:** The Reserve Bank of India (RBI) has included lending to small renewable energy projects within the targets of its Priority Sector Lending requirement which require banks to allocate 40% of lending to key sectors such as agriculture and small and medium-sized enterprises.
- **South Africa:** Since 2010, environmental, social and governance (ESG) disclosure indicators have been introduced by the Johannesburg Stock Exchange.

Source: https://www.q20-insights.org/policy_briefs/fostering-sustainable-global-growth-green-finance-role-q20/

Case Study 17: Examples of Sustainable Finance Measures Adopted by Emerging Markets



Case Study (18): UAE's First Set of Guiding Principles on Sustainable Finance

Leading financial authorities in the UAE have published the UAE's first set of Guiding Principles on Sustainable Finance during the second edition of the Abu Dhabi Sustainable Finance Forum (ADSFF), a prominent event organized by Abu Dhabi Global Market (ADGM) and held during Abu Dhabi Sustainability Week. These Guiding Principles, which are voluntary, will serve as a gateway to the increased implementation and integration of sustainable practices among the UAE's financial entities and will secure the health and longevity of the nation's economy.

Source: <https://www.adgm.com/media/announcements/first-set-of-guiding-principles-on-sustainable-finance-published>

Case Study 18: UAE's First Set of Guiding Principles on Sustainable Finance

Case Study (19): The UK's Emission Trading Scheme (UK ETS)

The UK's Department for Business, Energy and Industrial Strategy (BEIS) has confirmed that a new UK emissions trading scheme (ETS) will run from the start of 2021 until 2030. The ETS will be similar to the reformed EU Emissions Trading Scheme in some aspects and will enforce around 1,000 UK companies to either reduce their carbon emissions to meet set limits, or buy carbon credits via carbon markets.

Source: <https://theenergyst.com/government-sets-out-stall-for-uk-carbon-market/>

Case Study 19: The UK's Emission Trading Scheme (UK ETS)

(7) Refocusing Sustainable Financing Post COVID-19

The recent pandemic has shifted nations' focus to acute social risks such as health and employment. While the shift from green financing to sustainable financing began before COVID-19, it has significantly accelerated it. The world has witnessed the growth of green bonds which was followed by social bonds and more recently COVID-19 bonds. There have also been some demands for structural shifts to "greener" stimulus post-pandemic packages such as the EU recovery plan; around US\$ 10 trillion of post-pandemic



economic stimulus packages have been announced.¹¹⁰ There is no doubt that building back our economies is the priority of all nations; however, it is crucial to keep in mind that economic recovery from COVID-19 will take years; the same years that are crucial to ensuring we meet our SDG and climate change targets and prevent an irreversible catastrophe. Sustainability and building resilience should be the core of our recovery plans.

Conclusion

The entire world is currently trying to recover from COVID-19 and build a more resilient future. This pandemic provides a timely opportunity for nations to integrate ESG factors throughout their decision-making processes and policy responses across all sectors and encourage the growth of sustainable financing to build back our planet better.

¹¹⁰ McKinsey. 27 May 2020. *How a post pandemic stimulus can both create jobs and help the climate.*
<https://www.mckinsey.com/business-functions/sustainability/our-insights/how-a-post-pandemic-stimulus-can-both-create-jobs-and-help-the-climate>



Meet the Authors



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