Decarbonizing through regulations in finance in the UAE

Advised by the GITEX Impact council

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Summary

It is found that while the European Union (EU) stands as one of the front runners in embedding ESG principles including decarbonization into financial frameworks, the United Kingdom (UK) is balancing the growth and climate stewardship of its financial institutions to support sustainable economic growth in the medium and long term. By providing guidance, the United Arab emirates (UAE) has laid a strong foundation of support for its financial institutions to make sustainable investments. On the other hand, the United States (US) has historically taken a market-led approach to ESG, emphasizing voluntary responses rather than regulatory mandates. Canada is regulating its financial sector to influence itsindustry towards sustainability. The country's approach to push ESG requirements for financial institutions is based on the fact that banks form a large chunk of the economy and shaping this sector would have profound effects on the entire economy.

The interviews conducted for this research find that a majority of executives across seniority levels admit to both not understanding climate-related compliances applicable to their organization as well as feeling perplexed about growing climate-related compliances in their organizations. Among those interviewed, the perplexity about the growing climate-related compliances for financial institutions was found to be more among professionals from regional banks in comparison to those working in international banks. A clear majority of the 35 finance sector professionals interviewed anticipated needing additional skills and knowledge in case their roles changed to

comply with climate-related regulations. This indicates a need for targeted awareness and education programs on the subject in the UAE.

The UAE is on the right track and has thus far provided guidelines to financial institutions for implementing sustainable practices without establishing mandatory policies. This approach can be followed up by these 5 recommended next steps:

1. **First build capacity across sectors, including the financial industry, to understand, measure, and report emissions data.**

2. **Roll out government-driven training programs on climate related compliances, regulations, and pro-climate investments for finance industry professionals.**

3. **Establish a framework for financial institutions to assess and invest in/lend to low carbon products and services.**

4. **Establish feedback loops with financial institutions about their understanding, needs, and progress on making pro-climate investments.**

5. **Incentivize financial institutions to decarbonize industry and consider exploring establishment of a carbon tax in the UAE.**

Introduction to the White Paper

Regulators are becoming aware of the connections between sustainable growth and financial markets. By supplying credit and financial resources, financial institutions can either be crucial enablers of sustainable economic growth or catalysts for catastrophic climate events. Reforms in financial regulations to direct the flow of capital away from high-carbon investments and towards diversifying investments to climate-focused industries are growing at an unprecedented pace.[1] This is despite the continued debate in the industry about the merits and even definition of ESG-focused investing, which could easily become a marketing and greenwashing tool for many with little to no impact.[2]

On the other hand, there is also growing awareness that climate change presents financial risks, which necessitates the need for financial markets to have high-quality information on the impact of climate change on their investments. This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies. In the past few years, frameworks and regulations pressuring companies to disclose information related to financial risks faced by the company in the context of climate change has increased substantially.

1. OECD (2021), Financial Markets and Climate Transition: Opportunities, Challenges and Policy Implications, OECD Paris, https://www.oecd.org/finance/Financial-Markets-and-ClimateTransition-Opportunities-challenges-and-policy-implications.htm

2. Serafeim, G. (2021, June 2). *Social-Impact efforts that create real value*. Harvard Business Review. https://hbr.org/2020/09/social-impact-efforts-that-create-real-value

The Task Force on Climate-Related Financial Disclosures (TCFD), established in December 2015, has developed a set of voluntary climate-related financial risk disclosures to be made by companies globally which would help inform investors and other members of the public about the risks associated with climate change.[3]

In Europe, under the European Commission's sustainable finance action plan laid out by the commission in 2018, there are two key regulations – the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy.[4] The SFDR came into effect on March 10, 2021, preceded by the EU Taxonomy, which entered into force on July 12, 2020.[5] They put in place a "comply or explain" requirement for premium listed companies to make climate-related disclosures.

Governments in Belgium, Sweden, and the UK - through disclosure of climate-related financial risks - are also encouraging information disclosure by firms and investors. French authorities and regulators have mandated the disclosure of climate-related financial risks by listed firms, banks and credit providers, and investors under France's energy transition law for

3. Recommendations of the Task Force on Climate-related Financial Disclosures. (2017). In *https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf*.

4. *Sustainable Finance Disclosures Regulation*. (n.d.). Finance. https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/sustainable-finance-disclosures-regulation_en

5. *EU taxonomy Navigator.* (n.d.). European Commission - European Commission. https://ec.europa.eu/sustainable-finance-taxonomy/

6. Principles for Responsible Investment. (2015). French Energy Transition Law - Global Investor Briefing. In *unepfi.org.*

green growth.[6] The Bank of Japan, through green central bank financing, provides concessional loans to banks that further lend to environment and energy businesses.[7] China requires banking institutions to report loan balances in 12 green sectors based on international sustainability standards, and has established a monitoring and evaluating system for green credit.[8]

It is perceived that regulatory authorities and banks that can position themselves as pioneers and sustainability leaders in green finance are likely to improve their reputation and inspire greater trust among stakeholders. Regulatory trends in the past few years that are pressing for climate-focused investing and the prospect of more regulations to follow hold significant value for financial institutions around the world. In the Middle East, in particular, not only do the complex and mounting global regulations on climate-related investing impact the regional economy, but regional financial institutions are also questioning the possibility of climate-related regulations making an appearance in the Middle East region.

7. Park, H., & Kim, J. D. (2020). Transition towards green banking: role of financial regulators and financial institutions. *Asian Journal of Sustainability and Social Responsibility*, 5(1). https://doi.org/10.1186/s41180-020-00034-3

8. Harper Ho, V. (2018). Sustainable Finance & China's Green Credit Reforms: A Test Case for Bank Monitoring of Environmental Risk. *Cornell International Law Journal.*

With the backdrop of this **unprecedented push** in several regions of the world towards leveraging the financial sector for **decarbonizing the economy**, this White Paper explores the way forward for the UAE.

Goals and methodology of the research underpinning this White Paper

Goals

1. Gain an understanding of the current state of regulations for leveraging the UAE's financial sector for decarbonising industry.

2. Assess the perceptions, challenges, and expectations of financial professionals regarding ESG regulations in the UAE.

3. Place the findings in the UAE within the global context of evolving frameworks and regulations for the financial sector, discerning parallels, and distinctive factors affecting the UAE.

Methodology

The research first employed a literature review to understand the current status of ESG regulations in countries and regions across the world. Based on this literature review, the GITEX Impact council members deliberated, advised, and decided on the key questions that were to be answered. This was followed by structured in-person interviews with a sample of 35 professionals working in regional and international banks in the UAE.

Research sample for the White Paper

Interviewees working in regional banks in the UAE		Interviewees working in international banks in the UAE	
10 senior-level executives 9 mid-level executives 7 junior executives	14 men 12 women	4 senior-level executives 3 mid-level executives 2 junior executives	5 men 4 women
A total of 35 professionals were interviewed for the research underpinning this White Paper			

The interviews were conducted by Sustain Labs Paris through September 2023.

There are distinct models that countries have adopted to leverage the financial sector to decarbonize their industry

The EU stands as a front runner in embedding ESG principles, including decarbonization, into financial frameworks. In 2021, the SFDR came into effect, exemplifying the EU's commitment to transparency in sustainable investments. Furthermore, the EU Taxonomy Regulation, effective from January 2022, establishes a comprehensive classification system, providing a common language to identify environmentally sustainable economic activities.[9]

The UK is ensuring financial services markets make a positive contribution to levelling up the country as well as support sustainable economic growth in the medium and long term. The government remains committed to introducing mandatory reporting of climate-related financial information.[10] The focus is on growth, competitiveness, and climate change.

On the other hand, the US has historically taken a market-led approach to ESG, emphasizing voluntary responses rather than regulatory mandates.[11] However, recent signals from the U.S.

9. *EU taxonomy for sustainable activities.* (n.d.). Finance. https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

10. Mobilising Green Investment - 2023 Green Finance Strategy. (2023). In *www.gov.uk.* HM Government.

11. Ho, V. H. (2020). Non-Financial Reporting & Corporate Governance: Explaining American Divergence & Its Implications for Disclosure Reform. *Accounting, Economics, and Law, 10*(2). https://doi.org/10.1515/ael-2018-0043

Securities and Exchange Commission indicate a shift. Plans unveiled in March 2022 propose standardized climate-related disclosures for all listed companies, reflecting a growing acknowledgment of the need for uniformity and transparency.[12]

Canada has adopted a strong push on regulating its financial sector for influencing its companies towards sustainability. The country's approach to tackle ESG requirements for financial institutions first is based on the fact that banks form a large chunk of the economy and shaping this sector would have profound effects on the entire economy. With a plan to mandate climate-related financial risk reporting for federally regulated financial institutions by 2024, the country is leveraging the influence of its financial sector to drive sustainability within its industry.[13]

With the world's largest carbon market launched in 2021 and a commitment to achieving carbon neutrality by 2060, China is also leveraging financial markets notably through the carbon credits market towards driving a low-carbon economy.[14] In Singapore, regulatory initiatives such as the monetary authority of Singapore's green finance action plan underscore the nation's commitment.[15]

12. *SEC.gov* | *SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors*. (2022, March 21). https://www.sec.gov/news/press-release/2022-46

13. Office of the Superintendent of Financial Institutions, Government of Canada (2023, April 26). *Climate risk management*. https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/b15-dft.aspx

14. UNFCCC. (2021). *China's Achievements, New Goals and New Measures for Nationally Determined Contributions (Unofficial Translation).*

15. https://www.mas.gov.sg/development/sustainable-finance

The cases above make it clear that there is no singular way to leverage financial institutions towards achieving regional and national net-zero targets. There is also an undoubted and unprecedented push towards rapidly increasing compliances for financial institutions to make pro-climate investment and lending decisions.

Challenges for the financial industry in the UAE

The significant movement globally with regards to climate driven investments is a source of much confusion for banking professionals in several regions, including the UAE as indicated by the research for this White Paper.

A significant portion (49%) of respondents to the survey conducted for this White Paper admit to not understanding climate-related disclosures and compliances applicable to their organization. Senior, mid-level, and junior professionals admitted varying levels of understanding, indicating a need for targeted education programs on the subject. There is a need for clearer and more effective communication from regulatory bodies globally to financial institutions, ensuring a shared understanding of compliance requirements. Respondents to the survey for this research in the UAE highlighted challenges in communication regarding climate-related regulations, with 46% of respondents reporting feeling confused about growing climate-related compliances in their organizations.[16]

16. Based on 35 interviews conducted by Sustain Labs Paris, September 2023

Emotional response towards growing climate-related compliances in the financial sector in the UAE

Seniors

Executives working in regional financial institutions in the UAE						
50%	30%	10%	10%	0%	0%	0%
Confused	No feelings	Anxious	Satisfied	Bored	Excited	Fearful

Executives working in international financial institutions in the UAE						
50%	50%	0%	0%	0%	0%	0%
Excited	Anxious	Bored	Confused	Fearful	No feelings	Satisfied

Mid-level

Executives working in regional financial institutions in the UAE						
67%	11%	11%	11%	0%	0%	0%
Confused	Anxious	No feelings	Satisfied	Bored	Excited	Fearful

Executives working in international financial institutions in the UAE						
100%	0%	0%	0%	0%	0%	0%
Confused	Anxious	Bored	Excited	Fearful	No feelings	Satisfied

Junior-level

Executives working in regional financial institutions in the UAE						
57%	29%	14%	0%	0%	0%	0%
No feelings	Confused	Satisfied	Anxious	Bored	Excited	Fearful

Executives working in international financial institutions in the UAE						
100%	0%	0%	0%	0%	0%	0%
Excited	Anxious	Bored	Confused	Fearful	No feelings	Satisfied

Source: Based on 35 interviews conducted by Sustain Labs Paris, September 2023

Understanding of the climate-related disclosures and compliances in the financial sector in the UAE

Level	Group				
Seniors	Executives working in regional financial institutions in the UAE	60% Moderate understanding	20% I understand them well	20% I do not understand them at all	0% I understand them very well and support them
	Executives working in international financial institutions in the UAE	100% Moderate understanding	0% I understand them very well and support them	0% I do not understand them at all	0% I understand them well
Mid-level	Executives working in regional financial institutions in the UAE	89% I do not understand them at all	11% Moderate understanding	0% I understand them very well and support them	0% I understand them well
	Executives working in international financial institutions in the UAE	67% Moderate understanding	33% I do not understand them at all	0% I understand them very well and support them	0% I understand them well
Junior-level	Executives working in regional financial institutions in the UAE	86% I do not understand them at all	14% Moderate understanding	0% I understand them very well and support them	0% I understand them well
	Executives working in international financial institutions in the UAE	100% Moderate understanding	0% I do not understand them at all	0% I understand them very well and support them	0% I understand them well

Source: Based on 35 interviews conducted by Sustain Labs Paris, September 2023

The research for this White Paper revealed somewhat divergent views among professionals from regional and international financial institutions. The perplexity about the growing climate-related compliances for financial institutions was found to be more among professionals from regional banks (50%) in comparison to those working in international banks (33%) that were interviewed. Among those interviewed, 44% of professionals working in international banks in the UAE and none of the professionals working in the regional banks in the UAE, reported to be enthusiastic about the growing climate-related compliances globally. While 35% of professionals working in regional banks in the UAE linked pro-climate business engagement to mandatory disclosures, a majority of professionals working in international banks (56%) expressed willingness to engage in climate disclosures even without such regulations.

A majority (69%) of the 35 finance sector professionals interviewed anticipated needing additional skills and knowledge in case their roles change to comply with climate-related regulations. Bridging this skill gap will require targeted training programs and initiatives.

The UAE is aligned with global ESG standards thus far by providing guidance to its financial sector towards sustainable practices, laying a strong foundation for next steps

The UAE has thus far taken the approach of providing support and guidelines to financial institutions for implementing sustainable practices, without establishing mandatory practices. In January 2020, both the Central Bank of UAE and the Ministry of Climate Change and Environment jointly announced sustainable practices guidelines for financial institutions.[17][18] These guidelines provide a framework for financial entities to follow, ensuring they integrate sustainability into their operations.

The UAE has shown a commitment to green finance through various initiatives. Notably, as early as 2016, Dubai made a declaration on sustainable finance, underlining the commitment of financial institutions in the UAE to develop a green economy. This aligns with the broader goals of the UAE's green agenda.[19] In

17. United Arab Emirates Ministry of Climate Change & Environment. (2021). *UAE Sustainable Finance Framework 2021-2031 (Page 6).*

18. *UAE regulators and exchanges issue High-Level Statement on Sustainable Finance to advance national net-zero goal.* (n.d.-b). https://www.centralbank.ae/media/5shftpwe/sfwg_high-level-statement-on-sustainable-finance_press-release_eng.pdf

19. Dubai Declaration on Sustainable Finance (2016). https://www.moccae.gov.ae/assets/download/7811ab55/Dubai%20Declaration_English.pdf.aspx

2019, the Abu Dhabi Global Market (ADGM) launched the Abu Dhabi finance sustainable declaration, which included signatures from leading banks in the UAE.[20] Subsequently, the ADGM sustainable working finance group was established and is working to further sustainable finance practices.

The UAE's sustainable finance framework 2021-2031, built on the 2016 State of Green Finance in the UAE report, aimed to deepen the engagement and cooperation between the public and private sectors to derive sustainable finances. It proposed 5 recommendations to strengthen sustainable practices through initiatives from both public and private entities:

i. Establishment of working groups to learn from best practices and to draw industry-wide consensus on the direction of sustainable finance.

ii. Conduct a baseline study on the country's market potential of green projects and investment opportunities.

iii. Establishment of working groups to learn from best practices and to draw industry-wide consensus on the direction of sustainable finance.

iv. Development of policy measures that enable scaling up green finance practices.

v. Setting a mechanism to estimate the green finance market and monitor financial sector initiatives.

20. https://www.adgm.com/initiatives/sustainable-finance/declaration

To mainstream the ongoing sustainable finance practices, the recommendation from different stakeholder components was designed as 3 main pillars under the framework: mainstream sustainability in financial decision making and risk management; enhance supply and demand for sustainable finance products and green investment projects; strengthen enabling environment that promotes sustainable finance practices through collaboration between financial and real sector stakeholders.21

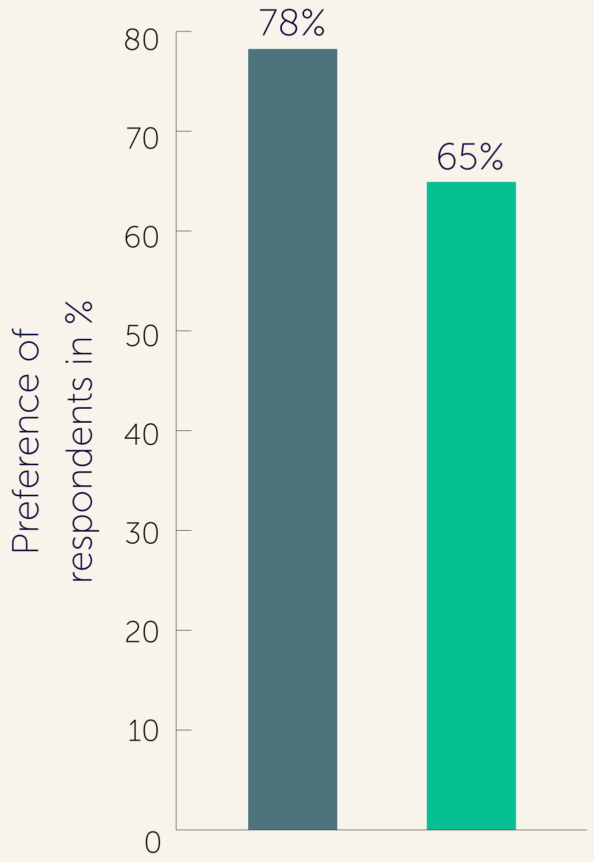
Opportunities now abound for the UAE to pivot on the foundations it has laid, to emphasize more on awareness and training related to climate disclosures and climate action. The research for this White Paper has also indicated the preference of financial institution executives in the UAE for taxes on carbon emitted (69% respondents supported carbon tax).[22] This indicates an openness among those interviewed to regulatory measures to incentivize sustainable practices. While the preference of carbon tax over other regulations is based on 35 interviews conducted for this White Paper, it may be useful to further explore the readiness among professionals across sectors towards incentivizing pro-climate business.

21. United Arab Emirates Ministry of Climate Change & Environment. (2021). UAE Sustainable Finance Framework 2021-2031.

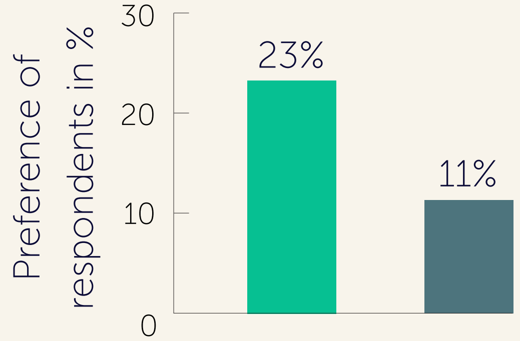
22. Based on 35 interviews conducted by Sustain Labs Paris, September 2023

Preference of interviewees towards climate-related compliances:

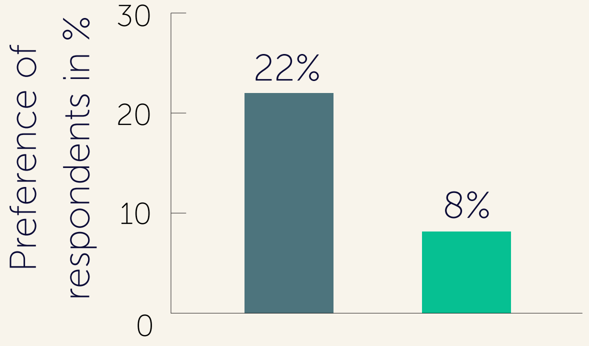
Taxes on carbon emitted



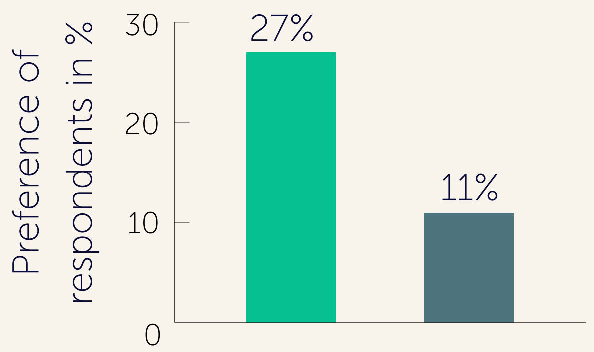
I do not know



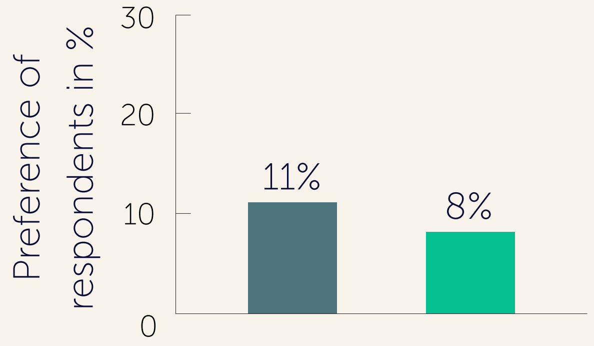
Mandatory climate-related data disclosures



Voluntary climate-related data disclosures



No climate-related compliances should be placed



Executives working in regional financial institutions in the UAE

Executives working in international financial institutions in the UAE

Source: Based on 35 interviews conducted by Sustain Labs Paris, September 2023

Recommendations

1. First build capacity across sectors including the financial industry to understand, measure, and report emissions data.

Emphasize the importance of careful and thoughtful implementation of reporting requirements and regulations. First build capacity across all industry sectors including financial institutions to understand, collect, and report emissions data. Acknowledge the challenges of implementation and leverage technology solutions for simplifying reporting. Advocate for simplicity in reporting models, transparent frameworks, and a phased approach to implementation of emissions data reporting.

2. Roll out government-driven training programs for finance industry professionals.

Initiate training programs for professionals, especially in regional financial institutions, to enhance understanding of international and any upcoming regional climate-related disclosures and compliances for the finance sector. Highlight positive impacts of regulations to demonstrate the ethical and business case for compliance.

3. Establish a framework for financial institutions to assess and invest in/lend to low carbon products and services.

The criteria for investing in or lending to low carbon products and services differs across financial institutions. The disparities are often based on various factors such as knowledge, intention, and skills. The government can initiate a task force to establish a common framework that can be adapted to all sectors for financial institutions to assess organizations for their climate impact and make appropriately pro-climate investment decisions.

4. Establish feedback loops with financial institutions about their understanding, needs, and progress on making pro-climate investments.

Establish mechanisms for continuous monitoring of sentiment and understanding of climate-related regulations, using feedback to refine educational and communication strategies. Regular feedback and collaborative platforms can address the perplexity and anxiety surrounding climate-related regulations among finance sector professionals.

5. Incentivize financial institutions to decarbonize industry and consider exploring the establishment of carbon tax in the UAE.

Review, measure, and reward financial institutions in the UAE that are investing in or lending to low carbon products and services. Also consider exploring the establishment of taxes on carbon emitted by industry in the UAE. A study can be launched by the government to study options and feasibility of doing so.

Conclusion

The recent years have especially witnessed an unprecedented increase of regulatory guidance and pressures on financial institutions to invest in and lend to low carbon products and services. The research for this White Paper has shown that the EU, UK, US, Canada, and the UAE present strong and distinct approaches for ensuring their financial industries support the decarbonization of industry. This involves preparing the financial institutions for climate-focused decisions as well as preparing all other sectors for measuring and reporting emissions data - both are needed for capital to effectively and appropriately flow towards pro-climate products and services. The UAE has laid the foundation by focusing on building capacity within its financial institutions as well as companies across other sectors towards prioritizing sustainable growth. This is of paramount importance as countries where emissions disclosures, taxes, and other regulatory enforcements have been abruptly administered have failed to effectively move capital into a direction that is both pro-growth and pro-climate.

This White Paper highlights the existence of different models for leveraging the financial sector for achieving national net-zero targets. The interviews conducted in the UAE for this research found that a majority of executives across seniority levels admit to both not understanding climate-related compliances applicable to their organization as well as feeling perplexed about growing climate-related compliances in their organizations. The perplexity about the growing climate-related compliances for financial institutions was found to be more among professionals from regional banks in comparison to those working in international banks that were interviewed. A clear majority of the 35 finance sector professionals interviewed anticipated needing additional skills and knowledge in case their roles change to comply with climate-related regulations.

This White Paper therefore offers 5 recommended next steps:

1. First build capacity across sectors, including the financial industry, to understand, measure, and report emissions data.

2. Roll out government-driven training programs on climate related compliances, regulations, and pro-climate investments for finance industry professionals.

3. Establish a framework for financial institutions to assess and invest in/lend to low carbon products and services.

4. Establish feedback loops with financial institutions about their understanding, needs, and progress on making pro-climate investments.

5. Incentivize financial institutions to decarbonize industry and consider exploring establishment of a carbon tax in the UAE.

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incorporating%20ESG%20risks%20in%20the%20 supervision%20of%20investment%20firms.pdf

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