ABU DHABI SUSTAINABILITY WEEK

WORLD FUTURE ENERGY SUMMIT

ADSW ADVISORY COMMITTEE INSIGHTS REPORT

CLIMATE FINANCE

2025

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Contents

Foreword

Successive COPs have pushed one burning realization to the very heart of the global discussion on climate action – more money is needed, fast. Addressing the growing climate finance gap is one of the most pivotal considerations relevant to every area of sustainable development. The race is on to unlock greater capital flows towards decarbonization efforts and "fully green" projects through private sector engagement, the revitalization of carbon markets, more ambitious regulations, and support for a raft of innovative climate finance models.

Despite growing interest from public entities and private investors in climate finance, recent political developments undermine international collaboration and weaken overall market confidence. As with any other market, uncertainty brings hesitancy, which in turn delays the deployment of capital. Pushing through the political headwinds, new sustainable finance instruments are coming to market, and global investment in clean energy and decarbonization is still hitting record highs. Net-zero goals remain on the table for most leading economies and major corporate entities, fuelling demand for reliable, bankable green projects that can credibly produce results. The long-term vision for a cleaner, greener global economy still holds water and continues to attract a rising tide of funding.

Creating the right conditions for climate financing to thrive requires collective action on every front. Policymakers, financiers, project developers, tech innovators – everyone has a role to play and a unique perspective to contribute. Abu Dhabi Sustainability Week (ADSW) brings these unique voices together to share the knowledge and experience necessary to collaboratively advance our shared sustainable future. In this spirit, each year ADSW convenes Advisory Committees to discuss and advise on critical sustainability topics, bringing together leaders from across business, finance, academia, and the public sector. These closed-door sessions, held under Chatham House Rule to encourage frank and open dialogue, enable experts to share what they are witnessing in their fields, what actions they are taking, and what they believe must happen next.

This insights report details the key themes and perspectives from the 2025 ADSW Advisory Committee on Climate Finance. The discussion, held in early 2025, reflected on a rapidly evolving financial landscape for climate action. The sections below are devoted to the major themes that emerged from geopolitical shifts and private sector dynamics to the state of transition finance, regulation, emerging market investment, carbon markets, and the role of technology. These insights, drawn from first-hand experiences and expert analyses of committee members, collectively serve as a snapshot of where the Middle East region – and the wider world – stands in its efforts to finance a sustainable, net-zero future.

Holding the Line: Why Climate Finance Remains Resilient

In 2025, global policy and economic landscape uncertainty has increased, with markets adjusting to heightened volatility across multiple sectors. Although rising international tensions have diverted some capital from climate finance toward defence and national security, momentum in climate finance has remained resilient. The committee emphasized that while political headwinds may slow progress, they are unlikely to derail it entirely. Others pointed out that despite market disruptions related to the imposition and temporary suspension of tariffs by the USA, there was no widespread withdrawal from lending markets and no observed impact on financing for green fuel investments.

However, the impact on lenders who rely on sovereign contributions has been much more acute. "The withdrawal of the United States from major international climate agreements has created a 'multidimensional impact,'" according to Advisory Committee members. The US decision to rescind around $4 billion a year can only widen the climate finance gap. It is also causing hesitancy among other nations that can fill it, but now have to factor in their own relations with the United-States. The dismantling of USAID is another blow to the established norms of global, US-led investment in better climate outcomes to protect many of the most at-risk communities and ecosystems in the world.[1]

> **The new US administration has slowed down the shift to clean energy in the US but not stopped it. It's a reduction from 24% to 16% by 2035. It's a potential headwind, but it's certainly not stopping the momentum that's being built.**

For now, the business case for climate financing is only growing stronger, particularly in more tried-and-tested areas such as renewable energy projects. State-level initiatives, and global market demand are sustaining a baseline momentum that outlives election cycles and short, sharp political shocks. Europe, for example, has largely maintained its climate regulatory agenda despite a brief scare that a "simplification" push would weaken sustainable finance rules – the core policies remain intact. Across Europe's financial services sector, there are 20 rules and 25 voluntary guidelines pertaining to ESG, compared to just two rules and five voluntary guidelines in the United States.[2]

Similarly, most corporations that have made net-zero pledges are holding to them, though some have quietly adjusted timelines or targets. The overall direction of travel – toward decarbonization – "remains the same for now," even if the pace has slowed.

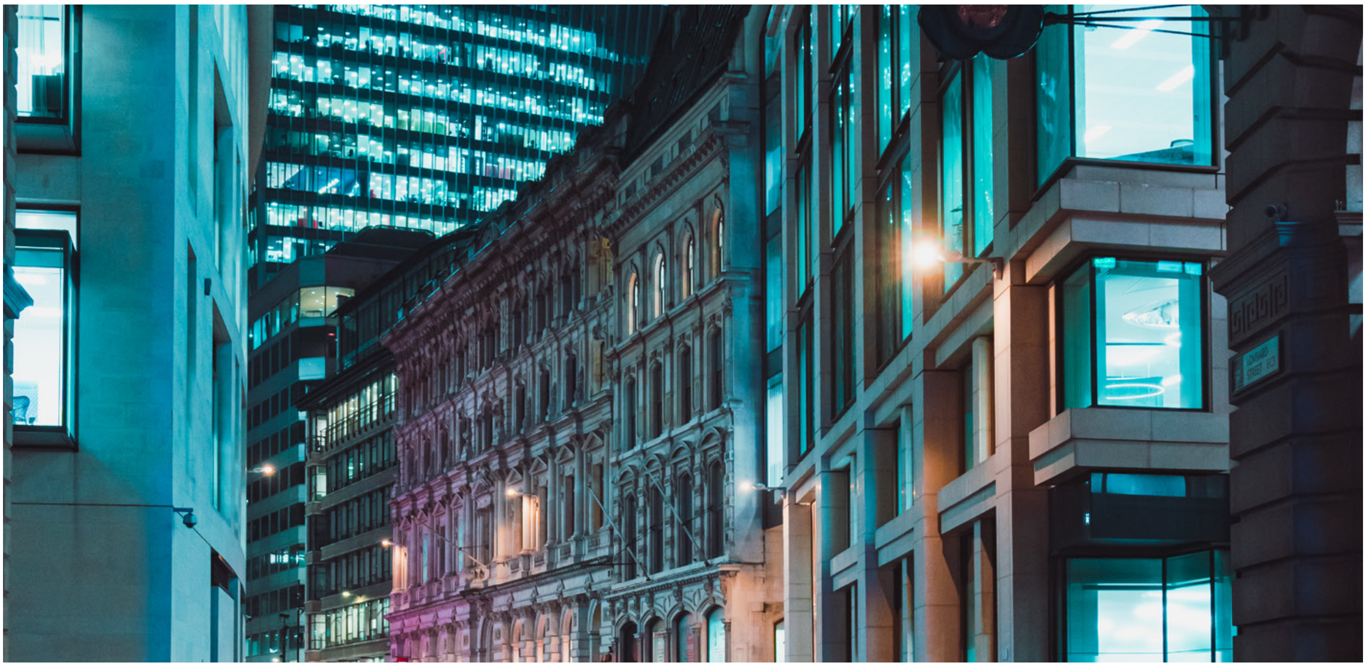
While climate finance may be holding its own, the committee remains concerned that long-term geopolitical fragmentation may "bleed the market" or, at the very least, suppress its momentum. Large-scale capital deployment for climate purposes relies on clear, coordinated signals that major global economies are in alignment, that markets will remain stable, and that critical technology transfers will become easier, rather than more restricted.

Private Sector and Market Liquidity

"Capital for climate financing is abundant," claimed some members, "but there aren't enough bankable projects to absorb it." While some major development banks are deprioritizing green and climate-based projects, plenty more are maintaining or even accelerating their activities in these areas. The problem isn't one of investment appetite, it's the lack of clear avenues to place capital in projects that meet the risk requirements and ROI parameters of varying investor categories.

The committee focused on the Net-Zero Banking Alliance (NZBA) as an instructive example of current climate investment attitudes. Members noted that over the past year several large North American banks (including JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, and Goldman Sachs) exited NZBA. Though reduced, the collective still stands as a pivotal player in global banking, managing $64tn in assets, with European banks like HSBC, Barclays, and BNP Paribas holding more influence than before.[3]

> **"Big banks always have reputational considerations – they have to factor in the political climate and their existing relationships. If climate action becomes too politicized, that's a real risk they must address. Still, despite the added scrutiny, lots of banks and big corporates are just keeping their heads below the parapet and quietly getting on with it. If the projects are there, if they fit the investment strategy, then they will give their backing."**



However, these exits reflect a change in tactics more than a change in underlying strategy. Freed from the constraints (and public scrutiny) of formal alliances, many banks appear to be keeping their decarbonization plans on track – the climate work continues, just with less fanfare. The commitment of private financial institutions to climate goals remains intact, but they are having to adapt their approaches in response to external pressures.

Market liquidity for sustainable projects remains robust; banks are still eager to fund renewable energy and low-carbon infrastructure at scale. The committee shared that a recent renewable energy project in Europe saw an oversubscription of loans: "€14 billion of commitments" collected for a project that initially sought much less. European banks continue to make green lending a board-level priority, aided by incentives like favourable regulatory capital treatment for green assets. Even banks headquartered in the United States must consider the long game and plan for a future where pro-green market sentiment and international climate goals align under a future US presidency.

Clearly, demand for climate projects outstripping the supply of capital remains an issue, and the committee repeatedly returned to the related issue of project complexity and size. “Institutional investors have minimum investment thresholds; they don’t want to cut a check for less than a couple of hundred million dollars,” shared one finance expert. Though appetite remains strong among serious private asset owners (such as sovereign wealth funds, pension funds, and other institutional investors), structuring deals in the green opportunities space can be arduous. If major investors can’t or won’t commit to smaller projects, then bundling those projects into larger platforms or funds is often the only way to secure big-ticket capital. The downside to this approach is that it comes with a slew of legal and regulatory complexities that can turn off even the most committed investors.

Committee members believe that threading this needle requires more innovative structuring and collaboration efforts. If public and private players can work together to bundle projects efficiently, standardize legal parameters, and create flexible investment vehicles that match institutional criteria, that could allow dozens or even hundreds of small-scale climate projects to be scooped up into a diversified, de-risked platform.

In terms of specific climate investment avenues, interest remains broad. Large-scale renewables are seen as attractive, stable investments given the undeniable rise in global energy demand and a growing need for domestic energy security. “Deep climate tech” and industrial decarbonization ventures carry more risk, but within acceptable limits for more ambitious venture capital firms. The committee noted that a convergence of factors is accelerating private investment into climate technologies and firm, dispatchable clean energy. These drivers include stronger carbon pricing signals – such as emerging carbon markets and the EU’s Carbon Border Adjustment Mechanism (CBAM) – alongside expanding ESG disclosure requirements and a growing commercial case for low-carbon industrial solutions.

Private sector capital is available, and its owners are eager to deploy it into climate financing projects; creativity and collaboration are the twin keys to fully unlocking it. While political certainty may be at a low ebb, there is still plenty of scope for both domestic and international finance institutions to collectively address green market opportunities and develop viable investment vehicles that satisfy regulators and their own investment strategies.

Transition Finance in the GCC Region

In the GCC, decarbonizing high-emitting sectors (power, oil & gas, heavy industry) is both a complex challenge and an enormous opportunity. The committee underscored that transition finance is rapidly rising on the agenda in the GCC. This reflects a pragmatic approach where financial institutions no longer view the landscape as a binary "green vs. brown," but a journey from brown to green. Committee members from regional banks shared that many clients are increasingly eager for transition-themed financing through loans, bonds, or sukuk that support emissions reduction projects in existing industries (efficiency upgrades, carbon capture, cleaner feedstocks, etc.). All major banks in the UAE are "keen to tackle" this area, as the committee noted, because it enables them to grow their sustainable finance portfolios while addressing the current reality that local economies still rely heavily on fossil fuels.

New guidelines and definitions are in the works to bring credibility to this space. Members highlighted ongoing efforts by industry groups and regulators: for instance, the Loan Market Association (LMA) – in collaboration with regional and international banks – has been developing its own transition finance guidelines to be published soon, providing a much-needed framework on what qualifies as "transition" projects and how companies can report on them. There was wide agreement among the committee that clarity on this front will help standardize practices and avoid accusations of greenwashing – a perennial problem for companies on both sides of the public-private divide.

> **There's a lot of debate on where transition finance starts and ends, but it's one of the most important topics in the GCC. When we see where the LMA guidelines land, we'll be able to push sustainable financing to a wider scope in the region, and grow our book on decarbonization investments. Everyone is eager to go faster on this.**

Despite the growing market appetite, challenges remain in making transition finance mainstream. Not all investor types are on board yet – some ESG-focused funds still prefer to avoid anything that isn't "fully green," and there is work to do in educating global asset managers that funding a gas power-plant retrofit or a blue hydrogen project can be a legitimate climate solution, if done right. The committee stressed the importance of ensuring there is genuine investor demand: "It's important that there are transition-related funds and uptake from asset managers. It can't just be pushed by banks." Dedicated pools of capital, along with appropriate policy support, will be needed to bring a wider range of investors on board, bringing transition finance into the mainstream where it will be best placed to support overall climate finance efforts.

In the coming year, the committee expects to see the first wave of labelled transition bonds and loans emerging from the Middle East, likely backed by new guidelines to ensure credibility. If done properly, the GCC can position itself as a leader in defining this crucial facet of climate finance – showing the world how to finance the grey-to-green journey in a way that is rigorous, transparent, and impactful.

Strengthening Regulatory Frameworks and Risk Disclosure

The committee repeatedly emphasized the foundational role of regulatory frameworks, standards, and disclosure requirements in scaling climate finance. Money flows much more readily when investors have clear, decision-useful information about climate risks and when regulatory compliance measures align with climate goals.

On the risk integration side, financial regulators are increasingly treating climate change as a core risk factor. The committee pointed to initiatives by central banks and supervisors globally – from climate stress tests to guidelines on managing climate and ESG risks in loan portfolios. In the UAE, regulators are focusing on ensuring that banks and financial institutions integrate climate risk into their risk management processes. International standards are coalescing – the International Sustainability Standards Board (ISSB) released its climate disclosure standard (based on TCFD principles), which many regulators see as a global baseline. The UAE is considering adopting ISSB's framework for corporate reporting, but with phased implementation to allow companies time to build capacity.[4] The message is that better disclosure of climate-related risks and plans will ultimately lower uncertainty and facilitate investment, but regulators are balancing ambition with realism in rollout.

Government policy can also directly spur sustainable finance through incentives and mandates. One interesting example discussed was how some Asia-Pacific governments have offered interest rate discounts or other benefits for companies meeting sustainability targets in their loans. Such "sustainable finance incentive schemes" make it financially attractive for corporates to improve their ESG performance, such as preferential loan rates or rebates on previously paid interest. The committee noted this has worked well in certain APAC markets, effectively nudging companies to participate in sustainability-linked financing. Members agreed that similar approaches could work well in the Middle East

On the corporate disclosure front, the landscape is evolving rapidly. Europe's comprehensive ESG reporting mandate (the CSRD) is phasing in, and as the committee observed, there has been a slight "pause" or adjustment in timelines, but largely the plan is moving ahead. In India, notably, the top 1,000 listed companies have been required to publish detailed sustainability reports (including climate metrics) since 2023 – a major step that was highlighted as a driver for better data in emerging markets.[5] These moves are crucial because data transparency is the lifeblood of climate finance. Investors need reliable information on companies' emissions, targets, and climate risks to price loans and investments appropriately.

The committee noted that regulation must strike the right balance: too lax, and greenwashing or mispricing of risk proliferates; too strict or sudden, and it could discourage climate investment or overwhelm companies. The consensus was that current trends are generally positive – we are seeing more clarity gradually. Continued strengthening of these frameworks – done in a collaborative way with industry input – will unlock even greater capital flows.

> **We can always use more clarity from the regulators. Last year, we saw a lot of potential investors acting more cautiously due to regulatory uncertainties and shakeups. But they are still bullish, they still want highly credible, high-quality projects in their portfolio. The same goes for carbon credits – if they get regulatory clarity, they'll happily invest.**

Carbon Market Development and Support

After years of fitful progress, carbon markets are showing signs of momentum – but if there are to genuinely support climate finance, it will be vital to bolster and maintain their integrity. For investors and climate activists, the success of COP29 (which delivered a consensus on standards for the creation of carbon credits under Article 6.4 of the Paris Agreement) was a long-awaited outcome that may finally inject some enthusiasm into transforming a troubled and underperforming vehicle for climate investment.

The committee discussed carbon markets on multiple fronts: compliance markets (like emissions trading systems) and voluntary carbon markets (VCMs). Both are evolving quickly in 2025. On the compliance side, committee members were intrigued by developments such as Japan's GX-ETS, which is transitioning from a voluntary system to a mandatory, nationwide emissions trading scheme. With this move, Japan is poised to create Asia's second-largest carbon market, and the government's commitment of massive funding ($1 trillion over the coming decade) to drive decarbonization sends a strong signal.[6]

The committee noted that this provides an ideal opportunity for companies in places like the UAE to learn from how Japanese firms prepare for cap-and-trade rules, as the UAE itself plans its own carbon market in the future. Indeed, several Gulf countries (UAE, Saudi Arabia, Qatar) have announced intentions to launch domestic carbon trading platforms. These moves, along with established systems in Europe, China, and elsewhere, suggest that carbon pricing is becoming an increasingly common policy tool. If successful, well-functioning carbon markets should unlock new financing streams: the committee observed that each new carbon market "offers new opportunities for market financiers, incentivizes innovation, and provides budgetary revenue for governments".

The committee repeatedly warned that credibility is key. The rising tide of corporate net zero pledges is driving demand for carbon offset credits, but companies are increasingly wary of buying into schemes with poor reporting and uncertain impact. If companies are buying increasing quantities of credits in VCMs, they will want to leverage that in their marketing activities, meaning that scrutiny will be higher than ever to avoid any serious risk of propping up unreliable offset activities and inviting an "own goal" in the form of greenwashing accusations.
For a revitalized carbon market economy to work, its integrity must be consistently evaluated and reinforced by regulators and the people buying them. Double counting is a major flaw under current systems. As the committee pointed out, it's essential that each credit is only used once towards a climate target, and then "retired," yet in practice credits are often "double claimed" (by the host country and the buyer or inadvertently reused in overlapping schemes). This is precisely the kind of issue that Article 6 of the Paris Agreement framework is intended to prevent at the international level. The committee underscored the need for robust accounting and third-party verification in carbon markets, both compliance and voluntary, to establish and maintain trust.

Building on the progress of COP29, all eyes will be on COP30 as the ideal setting to develop rules on global carbon trading and perhaps fleshing out the relevant Article 6 mechanisms. This could represent a turning point for carbon markets overall. If they are properly formalized and supported by rigorous standards of credit quality verification, they could unlock vast new tranches of climate finance.

Key Takeaways

Political uncertainty will not derail climate finance: Shifting policy environments and regulatory unpredictability are creating financial uncertainty and challenging international alignment. However, the momentum behind clean energy and climate finance remains strong. While some institutions have slowed investment activity, most continue to find viable pathways to allocate capital to credible, bankable projects despite political and legal headwinds.

Private capital is increasingly available for green projects: Banks and investors around the world are committed to sustainable finance in 2025. The primary constraint isn't liquidity; it's the availability of viable projects. Regulators need to clarify investment rules, while green project developers should be looking for innovative ways to bundle smaller initiatives together into diversified, de-risked platforms. Increasing the availability and scalability of such projects will unlock greater flows of private capital.

Transition finance is critical for high-emitting sectors, especially in regions like the GCC: Achieving climate goals requires greening the "hard-to-abate" sectors (oil & gas, heavy industry, etc.), not just investing in pure green projects. Transition finance is gaining traction as a mainstream concept in the GCC, where banks and regulators see it as a bridge to a sustainable future. Clear guidelines and standards are needed to validate this approach and prevent greenwashing. With proper frameworks, transition finance can unlock significant investment for emissions-cutting projects that would otherwise be left out of "green finance" portfolios.

Stronger regulatory frameworks and disclosure drive climate investment: Policy and regulation continue to be a major lever in scaling climate finance. Consistent disclosure (aligned with frameworks like TCFD/ISSB) reduces uncertainty for investors, while regulatory incentives (or requirements) ensure that climate considerations become mainstream in financial decision-making. Transparent data and supportive policy will fuel a more confident market.

Carbon markets are poised for growth, but integrity is non-negotiable: There is renewed optimism that carbon pricing and markets can get significant private capital flowing towards climate finance, with new systems coming online as companies seek offsets for their emissions. Transparency and credibility are more important than ever – low-quality or dubious credits not only fail to help the climate, they also undermine trust and participation in the market. With robust standards and transparency, carbon markets can finally live up to their promise as a powerful tool for channelling funds into climate action.

About the ADSW Advisory Committees

Abu Dhabi Sustainability Week (ADSW) Advisory Committees serve as a platform for high-level dialogue and knowledge exchange on pressing sustainability topics. Convened by Masdar as part of the ADSW initiative, these committees bring together a diverse group of leaders and experts from business, government, academia, and civil society. Each committee focuses on a specific theme – such as smart cities and mobility, water, or, in this case energy – reflecting the complexity and interdependence of sustainable development challenges.

The committees are designed to foster candid discussions that break down silos between sectors and regions. Participants include CEOs and senior executives of international companies, government policymakers, leading researchers, and technology innovators. This diversity ensures a wide range of perspectives. In closed-door sessions, members share insights, highlight key challenges, and propose actionable solutions and areas for collaboration. Discussions are held under the Chatham House Rule, allowing participants to speak openly about successes and setbacks, learn from one another, and identify common ground. The dialogue is intentionally forward-looking and focused on practical outcomes.

Insights from the committees help shape ADSW's content, direction, and related initiatives. Recommendations are distilled into official reports such as this one and shared with a broader audience to inspire continued dialogue and action. These findings often inform the agendas of ADSW summits, panels, and workshops, and may guide Masdar and its partners in developing new initiatives or advancing policy advocacy aligned with the committee's conclusions. In past years, the committees have contributed to meaningful outcomes, from catalyzing cross-border partnerships to introducing new topics into global forums such as the World Future Energy Summit.

Advisory Committee Members

Nalin Agarwal
Founding Partner
Climate Collective
Foundation

Ahmed Badr
Director, Project Facilitation
and Support
IRENA

Yasmin Bahgat
Head of Export Finance
Etihad Credit Insurance

Allan Baker
Managing Director, Global Head
of Power
Societe Generale

Victoria Barbary
Director of Strategy
International Forum of
Sovereign Wealth Funds

Mikael Down
Executive Director, Global
Sustainability Office
Morgan Stanley

Georges El Hajj
Senior director -
sustainable finance
Emirates NBD

Miguel Gutiérrez
Senior Advisor Corporate
Strategy & Sustainability
KfW IPEX-Bank

Bruce Johnson
Associate Director -
Structured Finance,
Treasury and Insurance
Masdar

Jonathan Keyes
Director of Sustainable
Finance - Middle East
Ing Bank - Middle East

Mohamed Khalil
Board Affairs Manager,
Office of Governance Affairs
The Green Climate Fund

Howard Lambert
Head of Corporate Client
Coverage
ING

Omar Lazrak
CEO - Middle East
BNP Paribas

Mohamed Yousef Abdulla Mohamed Hasan
Environmental Analyst
MOCCAE

Oliver Phillips
Regional Head of Sustainable
Finance Barclays
Barclays

Philippe Richard
Head of International
Affairs-Executive Director
ADGM

Aida Sitdikova
Director Energy Eurasia, Middle
East & Africa
EBRD

Natalya Tueva
Executive Director, Head of
Sustainable Capital Markets,
EMEA Sustainability Solutions
SMBC

Bart White
Global Head of Energy
Structured Finance
Santander

Xing Zhang
Senior Climate Specialist
Asian Infrastructure Investment
Bank

Meeting Co-Chairs

Valerie Peyre
Director, Abu Dhabi
Sustainability Week
Masdar

Oisin Commane
Head, Thought Leadership and
Programing ADSW
Masdar

About Abu Dhabi Sustainability Week

Abu Dhabi Sustainability Week (ADSW) is a global platform supported by the UAE and its clean energy leader, Masdar, to address the world's most pressing sustainability challenges through crucial conversations accelerating responsible development and fostering inclusive economic, social and environmental progress.

For more than 15 years, ADSW has convened decision-makers from governments, the private sector and civil society to advance the global sustainability agenda through dialogue, cross-sector collaboration and impactful solutions. Throughout the year, ADSW conversations and initiatives facilitate knowledge sharing and collective action that will ensure a sustainable world for future generations.

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About the World Future Energy Summit

The World Future Energy Summit is the leading global event for clean energy and sustainability, bringing together innovators, business leaders, policymakers, and investors to turn ambition into action.

Over three days, the international exhibition and conference addresses the most pressing challenges of our time—clean energy, climate change, sustainable cities, water security, waste management, green finance, and the transformative power of artificial intelligence.

By uniting almost 42,000 attendees from public, private, and non-profit sectors, it serves as a critical bridge between bold policy and real-world solutions.

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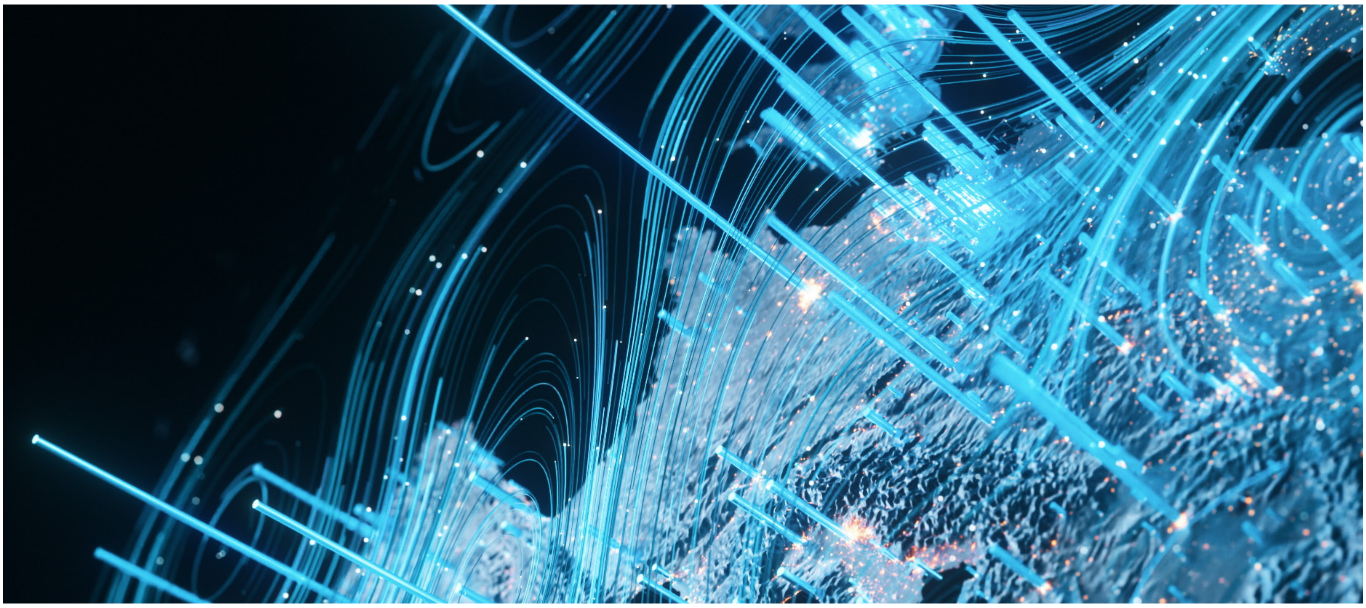

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