



Green, social, sustainability and sustainability-linked bonds in the Arab region

Innovative instruments for strengthening local bond market depth

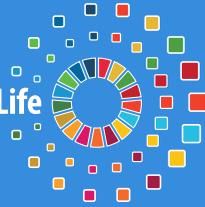


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Economic and Social Commission for Western Asia

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Abbreviations and acronyms

CBI	Climate Bond Initiative
ESCWA	Economic and Social Commission for Western Asia
ESG	environmental, social, and governance
FRA	Financial Regulatory Authority
GBP	Green Bond Principle
GSS	green, social, and sustainability bonds
GSSS	green, social, sustainability, and sustainability-linked bonds
ICMA	International Capital Market Association
IFC	International Finance Corporation
NGFS	Network for Greening the Financial System
OECD	Organisation for Economic Co-operation and Development
QFC	Qatar Financial Centre
SCA	Securities and Commodities Authority
SDGs	Sustainable Development Goals

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Introduction

Climate change is increasing at an alarming pace, forcing countries to commit seriously to policies of transition towards low-carbon economies. To address current environmental and sustainable challenges, the local debt market is designed as a credible alternative that presents a substantial opportunity to bridge the funding gap between current finance flows and estimated needs for building a resilient economy.

Much progress has been made in developing local debt markets in the Arab region. However, local bond market in the region could play a significant role in the transition to a net-zero emission, climate-resilient and sustainable economy.

The Arab region is one of the world's most exposed regions to climate risks. These new challenges are added to preexisting vulnerabilities that are caused by conflict, displacement, high poverty levels, unemployment and poor governance. These old challenges are expected to be exacerbated by climate change, while at the same time creating new risks.

Green, social, sustainability and sustainability-linked (GSSS) bonds are becoming more popular in Arab countries for raising funds to finance needed climate action. However, the resources mobilized in the local bond market are not sufficient to meet climate challenges and the Sustainable Development Goals (SDGs) financing gaps. Several factors explain this underperformance, including underdeveloped bond markets, a lack

of depth, diversity and liquidity, debt sustainability concerns, weak institutional capacity, costs of meeting GSSS bond requirements, difficulties in completing required reporting exercises that ensure genuine accountability and compliance with international standards, and fear of greenwashing.

How can we ensure that the sustainable debt market will be commensurate with challenges facing the sustainability transition and, as a result, able to present a compelling opportunity to bridge the gap between available funding and the critical needs for climate resilience? How can the difference in the pace of progress of GSSS bond frameworks among Arab countries be explained? What barriers prevent the development of local bond markets and undermine efforts to achieve the SDGs?

The purpose of the present technical report is to highlight the need to develop the sustainable segment of local bond markets in the Arab region, and to analyse how Arab countries can make their local bond markets more attractive to both domestic and foreign GSSS bond investors, thereby contributing to the transition towards more ecologically sustainable economies.

The present report is structured as follows. After the introduction, the first chapter examines how the development of GSSS bonds can be a driver for local bond readiness in the Arab region, and highlights the conditions required to ensure that local bond markets become more attractive for GSSS bonds in the Arab region. The second chapter analyses the differences between Arab countries in the pace of progress in GSSS bond

frameworks, and draws lessons learned from country experiences on establishing and strengthening the regulatory framework. The third chapter examines the development of GSSS bond markets in the Arab region, and the fourth

chapter explores the main challenges facing GSSS bond markets in region. Lastly, after highlighting the main concluding remarks, the fifth chapter sets out key recommendations for policymakers.

1. Local bond markets in the area of sustainable finance

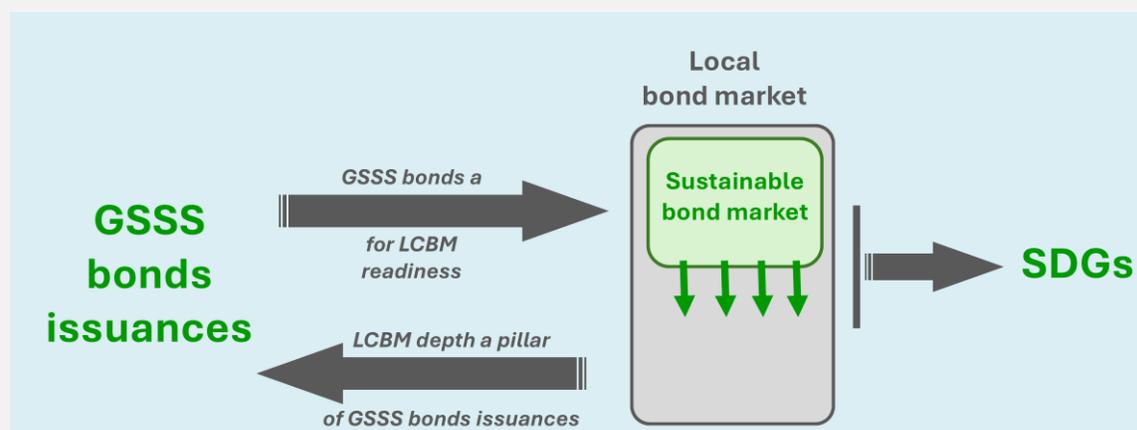
Key messages

- Local bond markets in the Arab region remain immature despite significant advances in recent years.
- Dynamism of the sovereign GSSS bond issuances improves liquidity and pricing in the corporate sustainable bond market, reducing asymmetries of information and making the bond market more complete.
- A well-regulated environment with clear rules and a robust regulatory framework builds investor confidence, which attracts sustainability-focused investors and generates a potential positive "greenium" (green premium).
- Strong presence of GSSS bonds traded on the local market has a positive impact on sovereign and corporate rating, and thus integrates local bond markets under the radar of international investors.

Globally, fast-growing GSSS bond issuance has been observed; a trend that is expected to continue reinforcing and accelerating the sustainable and green transition process, especially if the SDGs are to be achieved on a local level (box 1).

On the one hand, sustainable finance needs a liquid and deep bond market, a robust market infrastructure and a strong regulatory framework. A well-regulated environment could potentially be very attractive to domestic and foreign GSSS bond investors.

Box 1. GSSS bonds and local bond markets: a two-way causality



Source: Authors.

On the other hand, GSSS bonds are proving to be an attractive financing instrument that helps to standardize green and sustainable finance practices, and contributes significantly to deep local bond markets in many developing countries.

Overall, greening local bond markets is expected to play a crucial role in ensuring rapid and tangible progress on the SDGs and the Paris Agreement.

A. Bond markets in the Arab region: hurdles to overcome

Investors in Arab bond markets face several challenges in their early days. It is important and urgent to overcome these obstacles and improve the effectiveness of their investment strategies.

1. An immature market

The first major issue that the bond market faces is weak market depth. An efficient and mature bond market can play a crucial role in ensuring macroeconomic and financial stability. Local bond markets in the Arab region remain immature, although significant advances have been achieved in recent years. An immature bond market is mostly characterized by limited liquidity largely explained by “buy-and-hold” behaviour, the absence of a yield curve owing to a lack of depth and more specifically low liquidity in the long-term market segment, and a lack of diversification (asset classes, maturities, sectors and geographies), which constitutes an important source of potential instability and vulnerability. The situation is further complicated if the country is largely exposed to climate risks, and is not prepared to play a crucial role in strengthening economic resilience.

All of these characteristics of an immature bond market generate higher transaction costs and

limit the attractiveness of foreign investors in local bond markets.

2. Underdeveloped financial infrastructure

In the Arab region, it is necessary to distinguish between two groups of countries: countries with a high financial infrastructure, and the rest of the region with a weak financial infrastructure.

The group with a high financial infrastructure comprises several countries, namely Gulf Cooperation Council (GCC) countries, Egypt, Jordan, Lebanon, Morocco and Tunisia. In these specific cases, the bond market, and especially the secondary segment of its market, remains underdeveloped.

The second group encompasses both countries with weak financial infrastructure, and non-existent or poorly functioning bond markets.

A sustainable and deep bond market needs a secondary market infrastructure (quotation standards (yield versus price), repo markets and securities lending to support bond trading, among others), a primary market infrastructure (auction systems for government bonds, book-building mechanisms for corporate and municipal bond issues, disclosure platforms for issuance calendars, prospectuses, and investor roadshows, among others), and market participants and institutions (market makers ensuring liquidity through continuous bid-ask spreads, and local credit rating agencies providing credit assessments that influence pricing and investor appetite, among others).

3. High inflation environment and strong volatility in exchange rates and interest rates

In economies with high inflation rates, bond markets cannot be developed. Domestic investors prefer to hold real assets (such as gold

and real estate), and foreign investors choose to look for alternative market opportunities.

High inflation rates remain a persistent challenge for some Arab countries. According to a study by the Economic and Social Commission for Western Asia (ESCWA, 2024). Inflation across the Arab region rose to around 12 per cent in 2024. The situation becomes more worrying when focused on food price inflation.

Without overcoming the challenge of food security, the Arab region remains highly exposed to inflationary pressures, and thus deprived of the opportunity to have a deep and liquid local currency bond market. A significant challenge for many Arab countries is water scarcity and other climate-related risks.

Some countries in the region (GCC countries, Iraq and Jordan) and, to a lesser degree, Morocco, are spared from exchange rate volatility, given their fixed exchange rate regimes. This is different to the situation in other Arab countries, where strong volatility characterizes exchange rates and interest rates, largely explained by structural factors or inflationary pressures and amplified by the absence of risk-hedging products.

It is difficult to imagine a mature bond market in a country that suffers from a lack of innovative products for managing exchange and interest rates. Risk-hedging products remain crucial to attract foreign investors. The bond market in Arab region cannot ensure depth and liquidity as long as the financial system does not have modern risk management products.

4. Institutional factors

Two main institutional reasons are behind the poor performance of domestic Arab bond

markets and their lag far behind other regions such as Latin America and the Caribbean and Asia-Pacific.

Unfinished regulatory framework: the primary market dominates local bond markets, and the secondary market is conspicuous by its lack of depth in Egypt, Jordan, Morocco, Tunisia and GCC countries, while in the rest of the region it is almost non-existent. A shy presence of domestic investors, such as social security funds, pension funds and sovereign wealth funds, characterizes bond markets in the Arab region. The corporate segment continues to be dominated by the financial sector. This unfinished regulatory framework limits the attractiveness of the region's bond markets to foreign investors.

Capital account restrictions: except for GCC countries, the remaining Arab countries suffer from many restrictions on foreign exchange transactions, which penalize the development of local bond markets. This discouraging situation for foreign investors limits the attractiveness of the domestic bond market, another reason for the performance gap between the Arab region and other emerging areas. Nevertheless, openness to foreign capital could also become penalizing for the capitalization of the domestic bond market, given the opportunities offered to foreign banks compared with local banks in terms of alternative investments abroad (Berensmann and others, 2015; Dafe and others, 2018).

B. Local bond market depth, a pillar of GSSS bond issuances

The bond market plays a crucial role in developing the GSSS bond market to integrate green and sustainability requirements during issuing and reporting operations (ESCWA, 2022).

To support sustainable finance and boost GSSS bond issuances, local bond market depth requires several conditions, as follows.

1. A robust market infrastructure

Sustainable finance needs a robust market infrastructure, which includes several elements. Firstly, efficient and speedy electronic trading platforms that facilitate transactions between buyers and sellers and minimize fees. Secondly, efficient and effective clearing systems that ensure the integrity of the bond market and facilitate transactions between buyers and sellers. Thirdly, available data and efficient information systems that permit easier access to real-time market data, which is crucial for market players' decision-making.

2. A well-regulated environment

The adoption of international good practices remains crucial to strengthening the creditworthiness, stability and depth of the bond market, thus facilitating any innovation effort towards securities designed to finance sustainability.

A well-regulated environment with clear rules and a robust regulatory framework ensures a transparent, fair and efficient bond market, sufficiently reassured to build investor confidence, which attracts sustainability-focused investors and generates a potential “greenium” (box 2).

Box 2. Greenium

The “greenium”, or green premium, is determined from the spread between green/sustainable and conventional bonds with similar characteristics. The greenium refers to pricing benefits based on the logic that investors are willing to pay extra or accept lower yields in exchange for sustainable impact (United Nations Development Programme (UNDP), 2022).

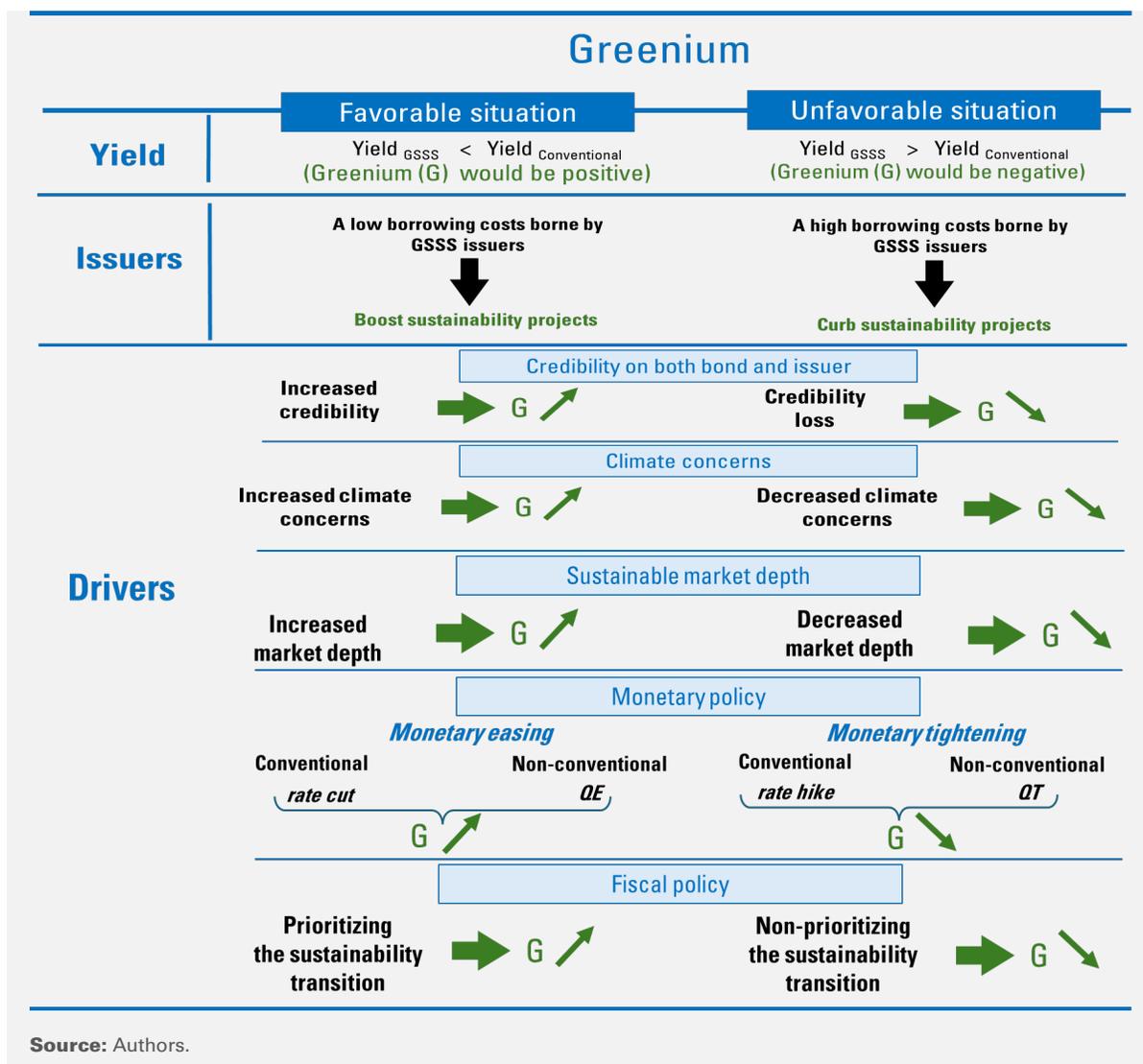
A positive greenium occurs when investors accept a lower yield compared with the yield offered by conventional bonds.

For the **issuer**, positive greenium is good news provided that GSSS bonds are issued at a lower yield than comparable conventional bonds.

For the **investor**, positive greenium represents a loss of revenues. However, investors might be attracted to GSSS bonds, despite a low yield, for various reasons:

- Compliance with environmental, social and governance (ESG) mandates: investors must allocate a portion of their portfolios to GSSS assets.
- Reputation: holding GSSS assets allows investors to benefit from a better reputation among stakeholders and regulators because of their climate commitment.
- Resilience: projects financed by GSSS bonds may be more resilient to a change of regulation and transition risks.

Several key factors explaining the greenium are grouped under the following four effects:



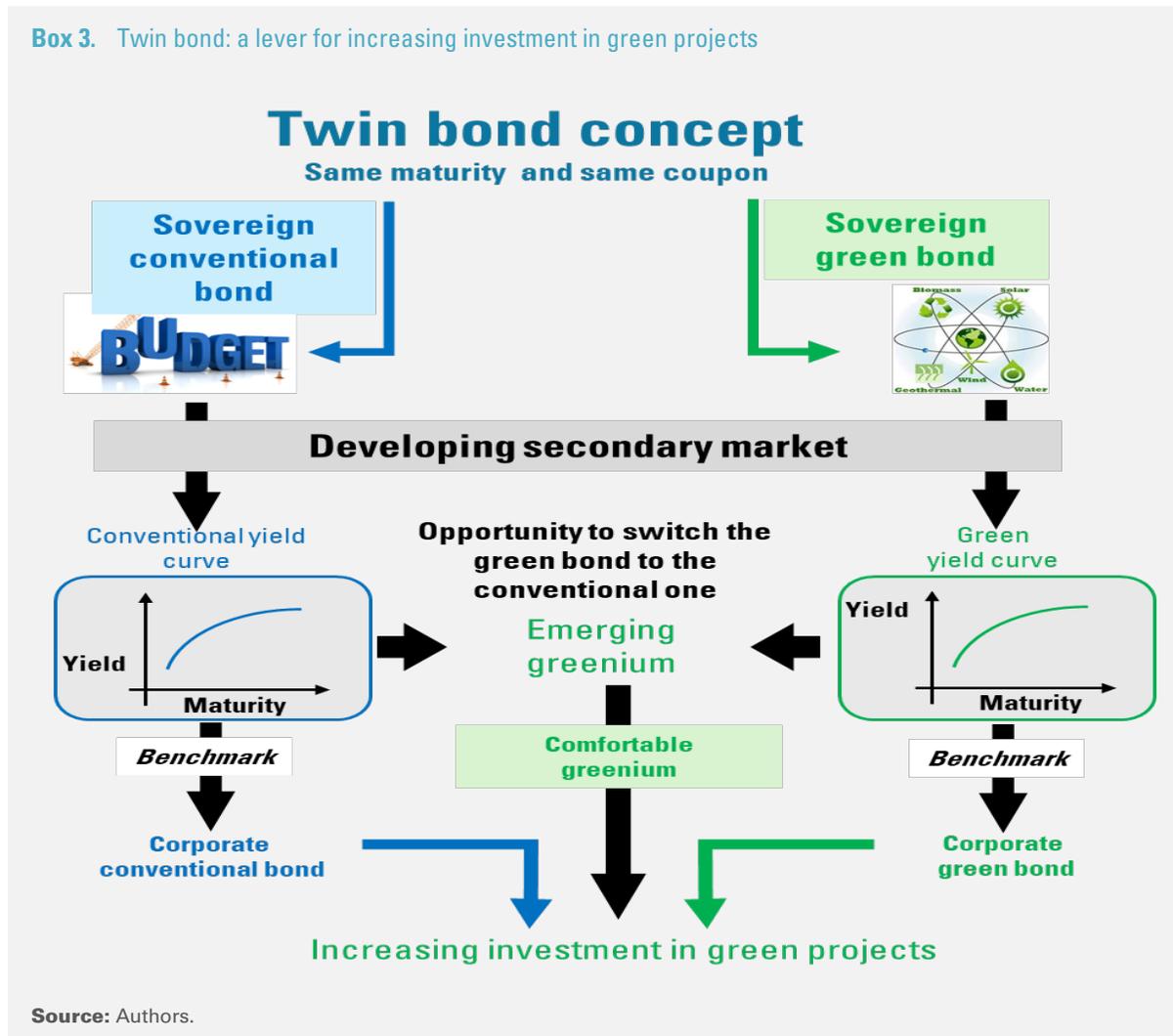
This regulatory framework should also include International Capital Market Association (ICMA) guidelines to support sustainable finance and to take preparatory measures to develop GSSS bond issuance.

3. A liquid current sovereign bond segment

The bond market cannot become increasingly deep and liquid without the development of a secondary market segment. On the secondary

market, liquid government bonds remain the bedrock of bond markets, and the yield curve, which represents the relationship between yield (interest rate) and the remaining time to maturity, could play the role of benchmarks both for conventional financial instruments in the market, such as mortgage bonds, corporate bonds and bank lending rates, and sustainable financial instruments such as sovereign and corporate GSSS bonds.

Box 3. Twin bond: a lever for increasing investment in green projects



Introduced by Germany in 2020, the twin bonds (green and conventional) (box 3), issued with similar financial characteristics (maturity, interest payment dates and coupon rate), have offered investors two yield curves (one conventional, and the other green), contributing to improved liquidity of the green segment of the bond market and reducing financing costs of the issuer through the emergence of a comfortable “greenium” (Organisation for Economic Co-operation and

Development (OECD), 2022; Ando and others, 2023).

C. GSSS bonds, a driver for local bond market readiness

The diversification of securities issued on the bond market contributes to the development of the green segment of the market. Sovereign GSSS bonds could be a driver for local bond markets’ readiness via the following four main channels.

1. Best practices channel

Promoting best practices in green and sustainable reporting and verification remains the only path leading to deep and liquid local bond markets. Standardization of definitions and disclosure requirements, in line with internationally agreed best practices (such as the Climate Bond Initiative (CBI) and the Green Bond Principle (GBP)), improves transparency and investor confidence and reduces the cost of GSSS bond issuance and reporting.

2. Market liquidity and pricing channel

Dynamism of sovereign GSSS bond issuances improves liquidity and pricing in the corporate sustainable bond market, reducing asymmetries of information and making bond markets more complete (Cheng and others, 2024). The result is a further narrowing of bid-asks spreads, and more favourable financing conditions for corporate issuers of GSSS bonds.

3. Rating channel

The rigorous discipline imposed by compliance with international transparency and reporting

standards will eventually spread to the rest of the market, especially when it is respected, thus improving the financial rating of GSSS issuers and boosting the market.

4. Maturity channel

In the GSSS universe, sovereign bonds often have the longest maturity. Many long-term investors (such as sovereign wealth funds and pension protection funds) are focusing on transitioning their capital towards innovative climate solutions in both local bond markets and abroad (Hillis, 2025). This investment strategy, which is often adopted by long-term investors, has proven to be beneficial for local bond markets in terms of depth, liquidity and volatility.

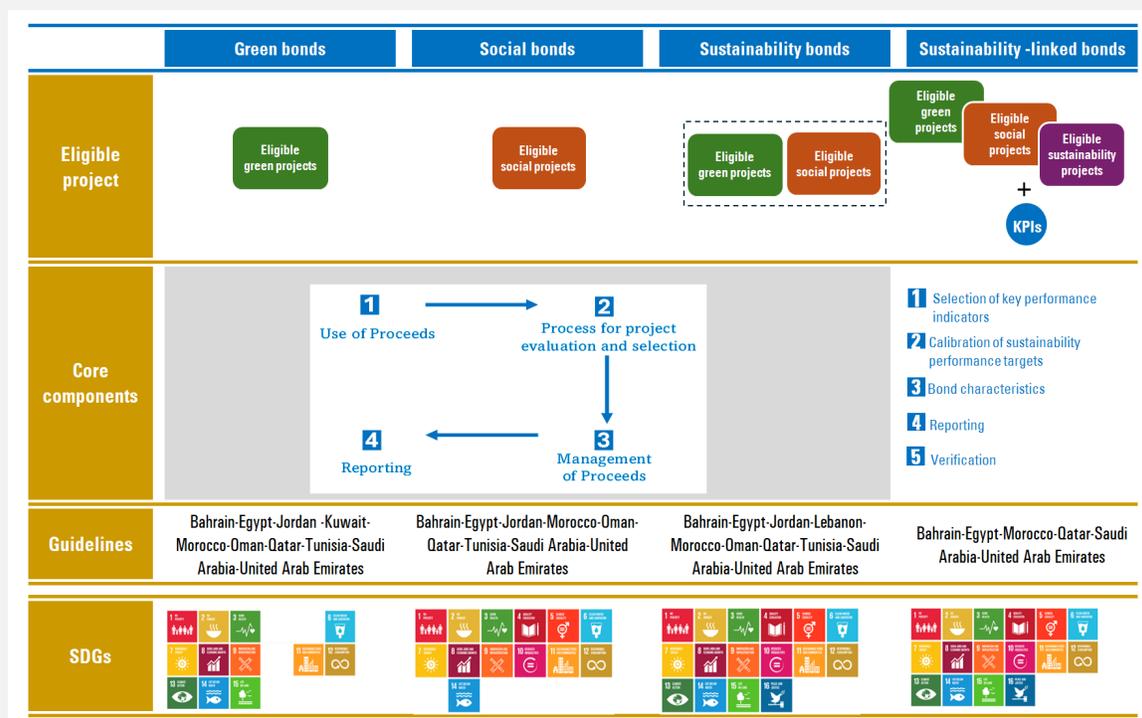
Significant progress has been made, including a greater level of issuances, the diversification of financial products, and the implementation of the regulatory framework. However, it is important to analyse differences in the pace of progress of GSSS bond frameworks among Arab countries.

2. GSSS bond frameworks in Arab region

Key messages

- Sustainable bond issuances in Arab countries are indicating a real commitment to align with ICMA-GBP.
- Regulatory authorities' attention is focused on green bonds, as shown by the high frequency of bond issues since 2016 compared with other types of sustainable bonds.
- Greater efforts are needed to renovate regulatory framework, so that sustainable bond markets may contribute to building a resilient Arab future.

Box 4. A GSSS bonds regulatory framework for SDGs: a timid incursion in the Arab region



Source: Compiled by authors.

The regulatory framework for sustainable bond markets in the Arab region can be classified into main country categories. Many countries have a very advanced GSSS bond regulatory framework compared with others, where these frameworks are still an ongoing process. The rest of the countries covered by our analysis have not yet committed to reforming their regulatory framework (box 4).

A. Countries with an advanced regulatory framework

A clear determination marks certain countries in the region, mainly **Egypt, Morocco, Qatar, Saudi Arabia and the United Arab Emirates**. Most of these countries have expressed their adherence to the four core elements of ICMA-GBP, namely use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.

Egypt, Morocco, Qatar, Saudi Arabia and the United Arab Emirates stand out for fully integrating these pillars into their national frameworks, and even extending them to sustainability-linked bonds in some of these countries.

On 27 May 2025, the **Saudi Capital Market Authority** approved standardized guidelines for issuing sustainable debt instruments, such as GSSS and *sukuks* (approved by the Authority's board pursuant to its decision 1-32-2025 of 17 March 2025). This action reflects the country's dedication to sustainable finance, in line with its Vision 2030.

In this regard, it should be noted that the guidelines provided are an outcome of an initiative entitled "Establishing the regulatory framework for green, social, and sustainable debt instruments" intended to deepen the local debt market. This initiative aims for an

anchoring at two levels. On the domestic side, it is aligned with the objectives of the Authority's 2024–2026 strategic plan, particularly those related to the development of the *sukuk* and debt instruments market, which aims to provide support to the Financial Sector Development Program targets under Vision 2030. On the global side, this initiative is aligned with ICMA standards.

Saudi Arabia seeks to attract domestic and foreign investors via this framework, allowing green and sustainable bonds to be listed on the Saudi Exchange. This effort not only broadens funding avenues but also aids national sustainability objectives, establishing Saudi Arabia as a vital participant in the worldwide shift towards a more sustainable economy.

Another GCC country enjoying a good position on the GSSS bond market in the Arab region is the **United Arab Emirates**, which is considered a leader in the regional sustainable bond market. In 2023, its Securities and Commodities Authority (SCA) established a comprehensive regulatory framework (resolution No. 20/Chairman) for green and sustainability-linked bonds and *sukuk*. This new regulatory framework has been adopted to accelerate the achievement of the goal to make the Emirati economy more resilient, dynamic and competitive as part of the UAE Vision 2031.

This resolution aligns with ICMA principles, ensuring that issuers direct proceeds to eligible green projects or connect financial and structural terms to quantifiable sustainability key performance indicators. A significant feature of the resolution is its uniform application to issuers in both the private and public sectors. Government entities do not receive permanent exemptions, ensuring consistent standards for disclosure, verification and reporting throughout the market. All issuers are required to have specific subaccounts for proceeds, adhere to

rigorous allocation and reporting guidelines, and secure independent external evaluations. To promote market adoption, SCA eliminated registration costs (0.01 per cent of the issuance value, limited to 30,000 dinars) for all eligible green and sustainability-linked issuances during 2023. This action was prolonged into 2024. The decision is intimately linked to the country's climate obligations under its Net Zero by 2050 Strategy and its position as the host of the 2023 United Nations Climate Change Conference. It bolsters the country's aim to establish itself as a prominent regional centre for sustainable finance and climate-oriented investments, boosting investor trust via clear and transparent regulations in line with global standards.

Similarly, **Egypt** has achieved notable advancements in fostering sustainable finance by creating a legal and regulatory framework for the issuance of green and sustainable bonds. In 2018, the Financial Regulatory Authority (FRA) amended the executive regulations of Capital Market Law No. 95 of 1992 (Egypt Ministry of Finance, 2022) to allow the issuance of green bonds in accordance with international standards, particularly the GBP set by ICMA. The regulatory structure promotes involvement from both public and private sectors, including via social bonds, sustainability-linked bonds, and tools aimed at wider ESG aims and gender equality objectives. To enhance market adoption, FRA provides financial incentives, such as lowered issuance and regulatory fees for green bond sales. These financial instruments may be listed on the Egyptian Exchange or made available to global investors, aiding the country's Vision 2030, and its goals for climate and sustainable development. Moreover, in 2021, FRA required ESG reporting for publicly traded companies and non-banking financial entities that have assets or capital of over 100 million Egyptian pounds (EGP). In 2022, the framework was

broadened to encompass Task Force on Climate-related Financial Disclosures (TCFD) reporting for larger enterprises (\geq EGP 500 million). Furthermore, in 2022, the inaugural Voluntary Carbon Market platform was introduced, in partnership with the Egyptian Exchange, to facilitate the trading of voluntary emission reduction certificates as a component of green financial market instruments. Through the development of a strong green finance ecosystem, Egypt seeks to broaden funding sources, draw in responsible investments, and position itself as a prominent player in sustainable capital markets in the region.

In the same vein, the **Qatar** Financial Centre (QFC) was the first in the GCC to launch a specific framework for sustainable bonds and *sukuks* to align with global sustainability standards and support the Qatar National Vision 2030. This framework is in accordance with international standards, even though sustainability-linked bonds lack formal regulations. This legal and regulatory structure facilitates the issuance of green bonds, sustainability bonds and sustainable *sukuks*. The QFC framework aims to draw in global investors, and allows corporations, financial institutions and other qualified entities to issue green bonds while accessing international capital. The main objective of the framework is to stimulate private sector engagement by establishing clear standards and trustworthiness to draw in global ESG investment.

Morocco has a long-standing tradition of green bond issuance. The Moroccan Capital Markets Authority (AMMC) issued its Green Bonds Guidelines in 2016. The 2016 United Nations Climate Change Conference, held in Morocco, served as a real driver for boosting the implementation of green finance projects in Morocco and facilitating the shift towards a

sustainable low-carbon economy. Several initiatives were undertaken, including the Marrakech Pledge, a commitment by African capital markets regulators to foster green capital markets in Africa (World Bank, 2018). After being tested on three issuances: the first by a State-owned enterprise, Masen, in November 2016 (State-owned enterprise–Sovereign); BMCE Bank in November 2016 (corporate) and Banque Centrale Populaire in June 2017 (corporate), the guidelines were expanded to reflect the broader scope of issuance. With International Finance Corporation (IFC) support, this led to the development of a comprehensive regulatory framework in July 2018 that includes GSS bonds. Furthermore, green bonds have been made available on the Casablanca Stock Exchange to support environmental projects.

AMMC released a comprehensive guide for the issuance of GSS bonds in June 2023, in line with ICMA Green Bond Principles and European Union Sustainability Bond Standards. Additionally, AMMC has become a member of the International Organization of Securities Commissions (IOSCO) Sustainable Finance Network, and is actively engaged in revising capital market laws and regulations to promote green financial instruments.

Bahrain is making significant progress in integrating sustainable finance into its regulatory framework. The Bahraini authorities have clearly recognized the importance of a leading banking and finance hub in the region to capture a new niche market and position itself in sustainable and green finance, which will be highly relevant to its economic resilience.

The Central Bank of Bahrain has not released specific regulations for green bonds so far, but it is developing wider ESG guidelines for financial entities. At the same time, Bahrain Stock Exchange has implemented required ESG

disclosures, and is investigating structures for green and sustainability-linked bonds and *sukuks*.

Despite its sophisticated financial market and extensive engagement with sustainable finance initiatives, Bahrain is late in issuing GSSS bonds. However, in 2022, a Bahrain company issued a green *sukuk*.

B. Countries with a regulatory framework in construction

These are countries that have a more or less completed regulatory framework to boost the bond market. They can be divided into the following two groups:

- First group: countries that have very limited experience in the sustainable bond market and, as a result, it is still very early to consider their regulatory framework as completed, considering their short experience, such as the case of **Jordan**, **Kuwait** and **Lebanon**.
- Second group: countries that have never had the opportunity to issue GSSS bonds on their local market, as is the case of **Bahrain**, **Oman** and **Tunisia**.

Lebanon has been eclipsed from the market for several years and has not yet returned, given its financial crisis. Consequently, even in the presence of a completed regulatory framework, Lebanon would not be able to attract demand for GSSS bond issuances from its local and diverse international investors. With the current regulatory framework, issuances are reserved only for green bonds and exclude subnational public entities, such as municipalities.

In 2022, the **Kuwaiti** Capital Markets Authority revised its regulations to officially permit the issuance of green and social bonds. These

instruments should adhere to global standards (such as ICMA or the Climate Bonds Initiative), undergo evaluation by impartial entities, and deliver frequent updates on environmental or social effects. Moreover, in late 2022, the Central Bank of Kuwait released a directive urging banks to incorporate ESG practices into their risk management and corporate governance. The Kuwaiti sustainable market remains dominated by the financial sector. In March 2022, the National Bank of Kuwait developed its Sustainable Financing Framework, in line with ICMA.

Several efforts and initiatives have been implemented to enhance green finance in the **Jordanian** financial sector. After establishing Green Bond Guidelines for corporate issuances in 2021, the Jordanian authorities launched the Sovereign Green Bond Framework to assist the issuance of sovereign green bonds in the country to fund environmentally public projects, and with a short-term objective to issue the first sovereign green bond by 2025. The Framework has been developed in accordance with the ICMA-GBP published in June 2021 (with annex in June 2022) and will be reviewed and updated regularly to ensure it fully aligns with international best practices (Jordan Ministry of Finance, 2024).

The Ministry of Finance of **Oman** has developed its Sustainable Finance Framework under which it intends to issue green, social and sustainability bonds, loans or *sukuk* (collectively sustainable finance instruments) for investments in projects that deliver environmental and/or social benefits (Oman Ministry of Finance, 2024).

The regulatory framework is aligned with the following:

- Locally with the goals of the Oman 2040 Vision, which prioritizes sustainability as a core element by diversifying funding sources, implementing green and sustainable financial tools, and establishing a trading system for green and sustainable bonds.
- Globally with ICMA, GBP principles, and Loan Market Association (LMA) green and social loan principles.

Tunisia has progressed significantly in establishing a sustainable finance framework that meets global benchmarks, but, until today, no sustainable bond has been issued on the market.

In October 2021, the Conseil du Marché Financier, in collaboration with IFC, released detailed guidelines for the issuance of GSS bonds. These guidelines align closely with ICMA-GBP, detailing the prerequisites for utilizing proceeds, assessing and selecting projects, managing proceeds, and conducting post-issuance reporting and verification. In May 2025, Tunis Stock Exchange published its first report (ESG 2024) based on the ESG Reporting Guide.

In sum, sustainable bond markets could contribute to building a resilient Arab future by achieving SDG objectives if the authorities commit to intensifying efforts to renovate their regulatory framework and align it with ICMA and GBP principles. Arab countries have everything to gain from developing their local bond market and strengthen sovereign bonds issuance, which can help buffer the economy from the impact of adverse macroeconomic and non-economic shocks, as shown by the increased flexibility and rapidity for mobilizing funds to contain the damage from the COVID-19 pandemic, observed in many countries with a mature financial market.

3. GSSS bond market development in the Arab region

Key messages

- The Arab region has significantly increased its issuance of GSSS bonds in recent years. However, GSSS bond issuances conceals significant regional and sectoral disparities.
- Over the period 2016–2024, only three countries (Qatar, Saudi Arabia and the United Arab Emirates) capture 92.2 per cent of the GSSS bonds issued in the Arab region.
- Given their limited fiscal space and debt services constraints, market access countries (MAC)-Arab countries (excluding GCC countries) find difficulties in accessing the sustainable bond market segment.
- In the sustainable bond market segment, green bonds continue to capture investors' attention, while sustainability-linked bonds have not yet the priority place in the agenda of sovereign and corporate issuers.

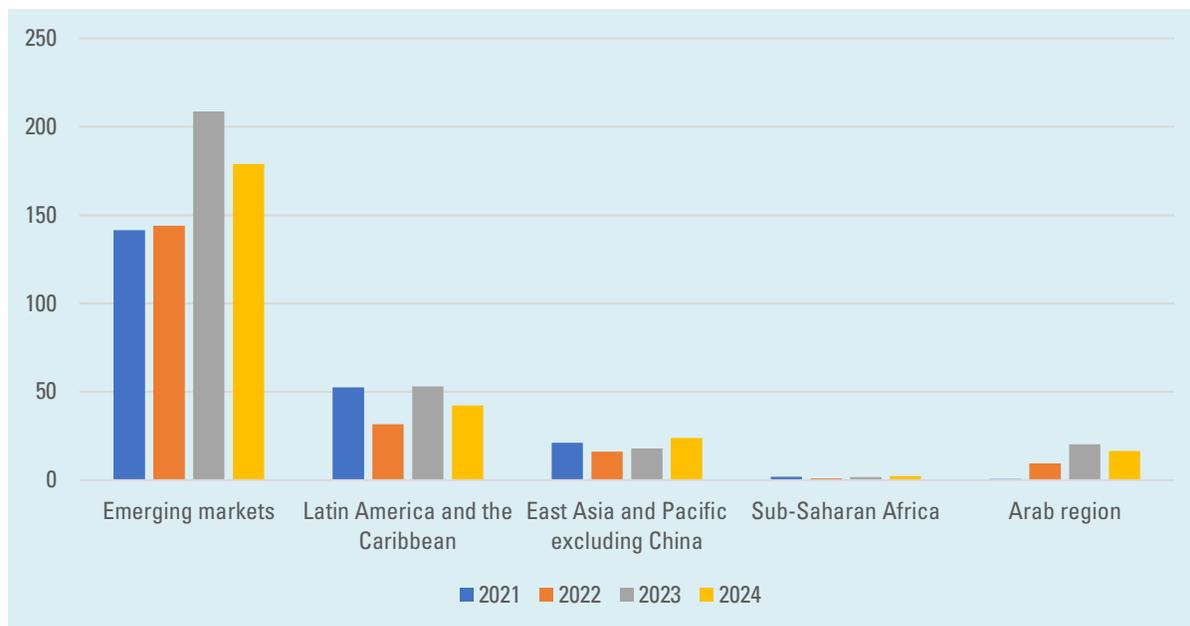
GSSS bond issuance hit a record \$1 trillion in 2024, up 3 per cent from a year earlier. Cumulative global GSSS bond issuance between 2018 and 2024 reaches \$5.1 trillion, mainly driven by advanced countries. The share of GSSS bonds issued in emerging countries accounted for 15.4 per cent of the total issued worldwide (IFC, 2025).

The Arab region has significantly increased its issuance of GSSS bonds, reflecting its determination to align with the SDGs and the Paris Agreement. However, the region remains heterogeneous in strengthening local bond markets, environmental and SDGs awareness, the green transition pace, appetites for GSSS bonds, and regulatory frameworks. All these factors remain a significant burden on sustainable bond market development, and

explain the performance gap recorded between the Arab region and other areas (figure 1).

Since 2012, annual GSSS bond issuance in the Arab region has increased significantly, reaching around \$33.4 billion cumulatively over the period 2012–2024, which is 3.9 per cent of all GSSS bonds issued globally.

In 2024, sustainable issuances (bonds and sukuks) in the Arab region barely exceed \$16 billion, compared with \$42.3 billion in Latin America and the Caribbean and \$23.9 billion in East Asia and Pacific, excluding China (figure 1). GSSS bonds and sukuks issuance in the Arab region are contributing only 15.4 per cent of total GSSS issuance in emerging markets (excluding China), and 1.6 per cent of total issuance in the global market.

Figure 1. Sustainable markets in 2024 (Billions of dollars)

Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

Note: Including GSSS sukus.

A. An overview of GSSS bond issuances in the Arab region 2016–2024

The Arab region has significantly increased its issuance of GSSS bonds in recent years. However, GSSS bond issuances conceals significant regional and sectoral disparities.

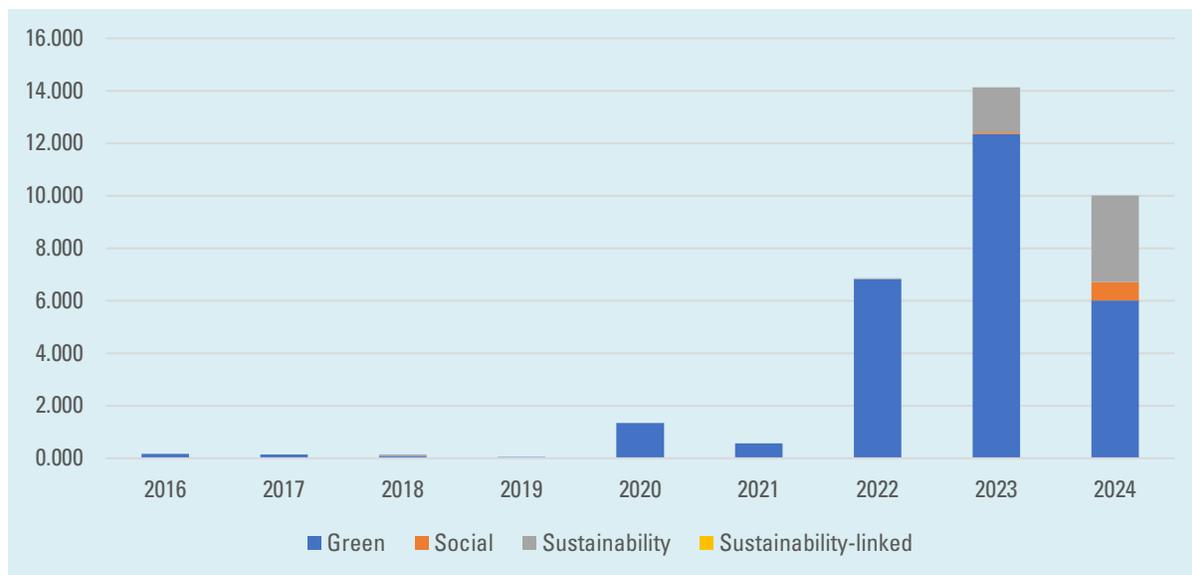
The cumulative amount of GSSS bonds issued by Arab countries reached almost \$34 billion. Most of this amount has been issued since 2022, when some countries, particularly in the GCC, adopted GSSS bonds to finance diversification, green projects and social outcomes. A peak of \$14.1 billion was

reached in 2023, compared with \$6.9 billion in 2022, representing a 106 per cent increase. In 2024, the opposite occurred, as total GSSS issuance fell by 30 per cent to \$10 billion (figure 2).

However, in recent years, GCC countries have taken the lead, and imposed their domination on the GSSS bond market.

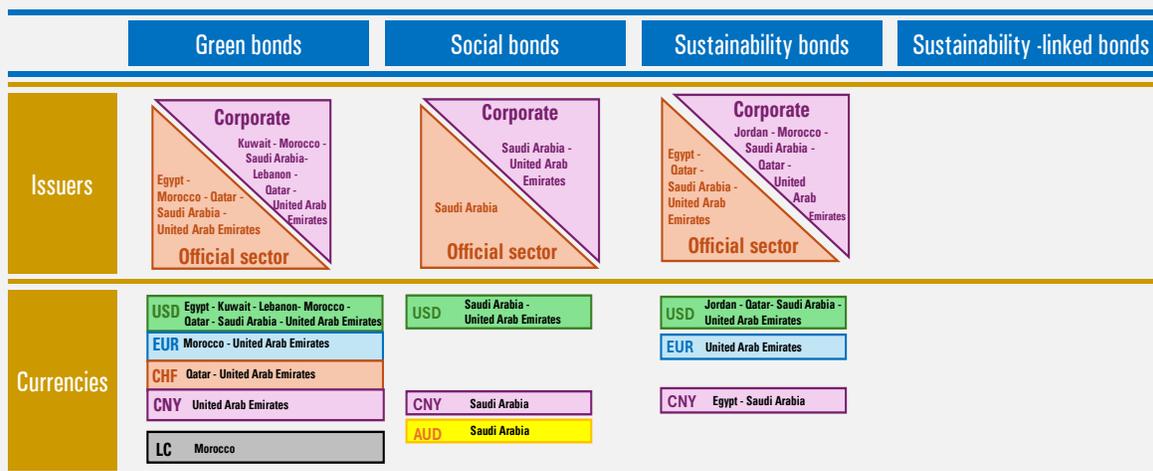
Three main trends characterize the evolution of GSSS bond markets in Arab region: green bond dominance, a clear predominance of the sovereign segment, and the crucial role of the dollar, which limits space for the local bond market (box 5).

Figure 2. GSSS bond issuance in the Arab region, 2016–2024 (By bond type in billions of dollars)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

Box 5. GSSS bond issuance in Arab region, 2016–2024 (Big picture)



Source: Compiled by authors from IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

Note: USD: United States dollar; EUR: euro; CHF: Swiss franc; CNY: Chinese yuan; LC: local currency; AUD: Australian dollar.

1. Green bond issuance dominates the sustainable bond market

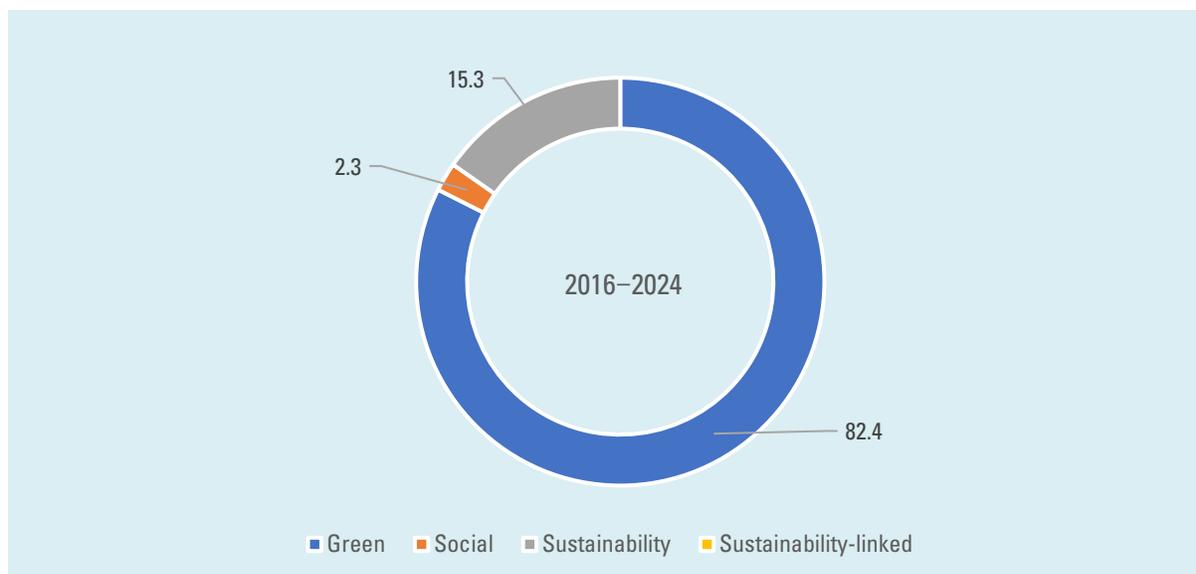
Green bonds continue to maintain their dominance in GSSS bond markets. They represent 60 per cent of all GSSS bonds issued in the Arab region in 2024, while this contribution increased to almost two-thirds in the global market. When sustainability bonds are added, altogether they accounted for over 92 per cent of GSSS bonds issued in the region.

Of 22 Arab countries, only 8 (Egypt, Jordan, Kuwait, Lebanon, Morocco, Qatar, Saudi Arabia and the United Arab Emirates) have tapped the GSSS bond market with green bond issuances. In 2016, Morocco was the global thought-leader in the region, with its first two green bonds issued by the Moroccan Agency of Sustainable Energy (1.15 billion dinars equivalent to \$117 million) and BMCE Bank (500 million dinars equivalent to \$50 million). In 2017, the United Arab Emirates penetrated the market. Abu Dhabi Bank issued the first green bonds in the GCC

and the second in the Arab region. The original issue was for \$587 million by the National Bank of Abu Dhabi.

Green bonds represent more than 80 per cent of the total GSSS bonds issued between 2016 and 2024, compared with 15.3 per cent for sustainable bonds. On the other hand, social and sustainability-linked bonds remain unattractive for investors. Social bonds cannot exceed 3 per cent (2.3 per cent of total GSSS). In contrast, there was no issue of sustainability-linked bonds in the sustainable market (figure 3), which is far from the case of Asian capital markets where sustainability-linked bonds reached 10 per cent of total sustainable issuances between 2020 and 2024 (OECD, 2025). Moreover, the *sukuk* segment of this market, Unity 1 Sukuk Ltd., a special purpose vehicle established to issue and manage *sukuk*, issued in 2020, in the United Arab Emirates, the first sustainability-linked *sukuk* for the region. The total amount outstanding for this *sukuk* is \$600 million.

Figure 3. Structure of GSSS bond issuance (Percentage of overall GSSS bond issuance)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

2. Clear dominance of official sector GSSS bond issuance

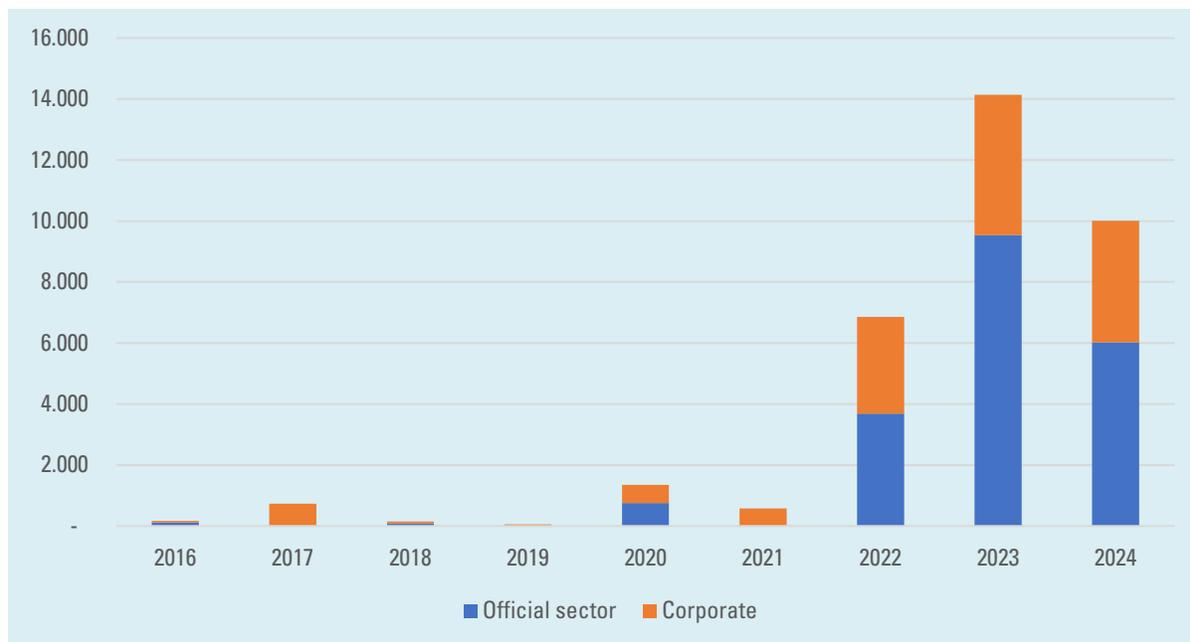
The history of debt markets reveals that corporate bond markets are developed on the margin of the sovereign bond markets. However, in the Arab region, GSSS corporate bond markets have been established centre stage as a driver of the local sustainable bond market.

In recent years, official sector issuance (sovereign, State-owned enterprises and municipalities) ranked first. In contrast, corporate issuance (finance institutions and non-finance corporates) dominated issuance in 2017 and 2021. The tipping point was reached in 2020 with the green bond loan issued by the Egyptian Government that allowed sovereign bonds to outstrip corporate bonds (figure 4). This trend

was consolidated by the strong presence of Saudi State-owned enterprises since 2022 in the sustainable market, and the increasing number of sovereign bonds issued by the Emirati Government since 2022 and the Qatari Government in 2024.

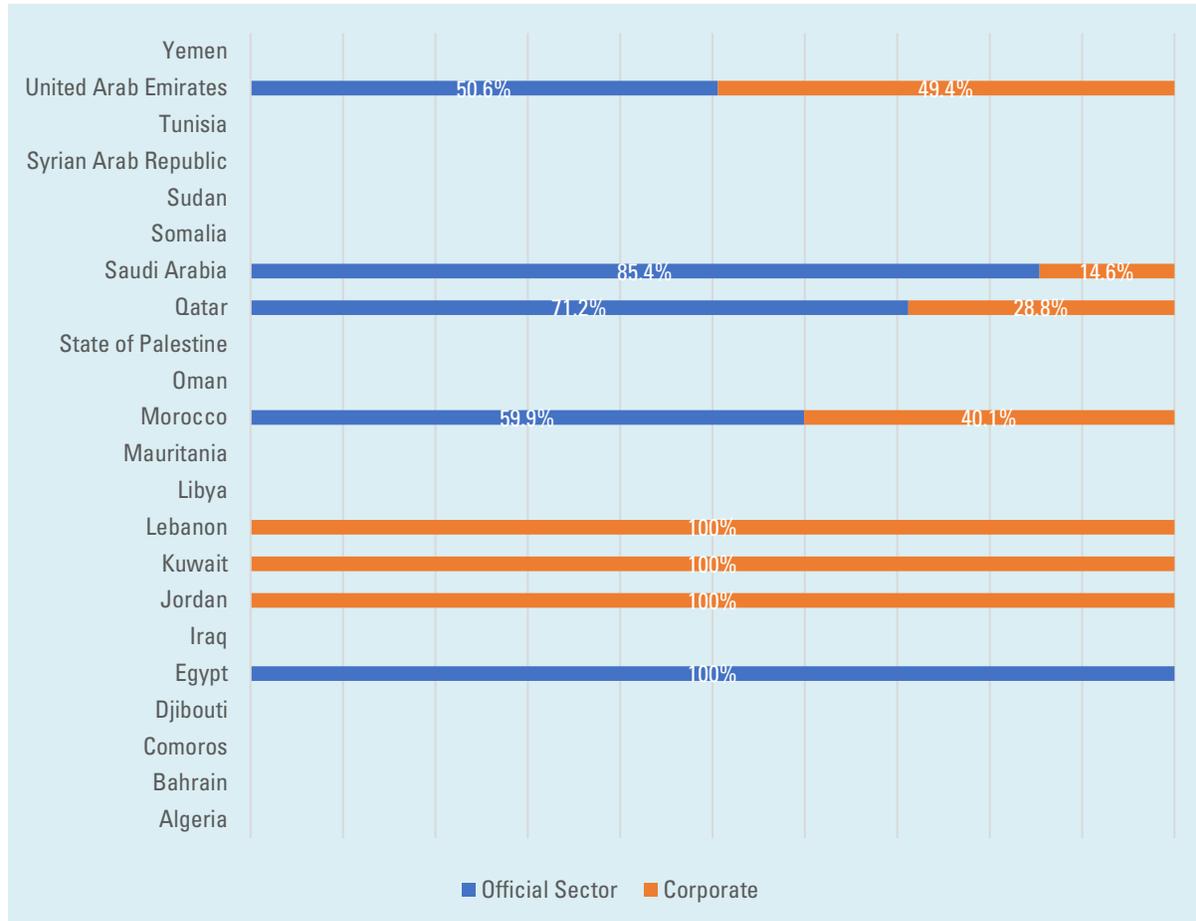
In three Arab countries, namely Jordan, Kuwait and Lebanon, the sustainable bond market remains dominated by corporate bonds. This is even more pronounced in the GCC region, where corporate GSSS bonds were the dominant asset class in terms of portfolio allocations and investor appetite until 2021. Such a situation has not, however, prevented the clear predominance of the official sector segment in the period 2016–2020, given the high amount of sovereign and State-owned enterprise GSS bonds issued by Qatar, Saudi Arabia and the United Arab Emirates since 2022 (figure 5).

Figure 4. GSSS bond issuance in Arab region, 2016–2024 (By issuer in billions of dollars)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

Figure 5. GSSS bond issuance in the Arab region by issuer type, 2016–2024
(Percentage of overall GSSS bond issuance)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

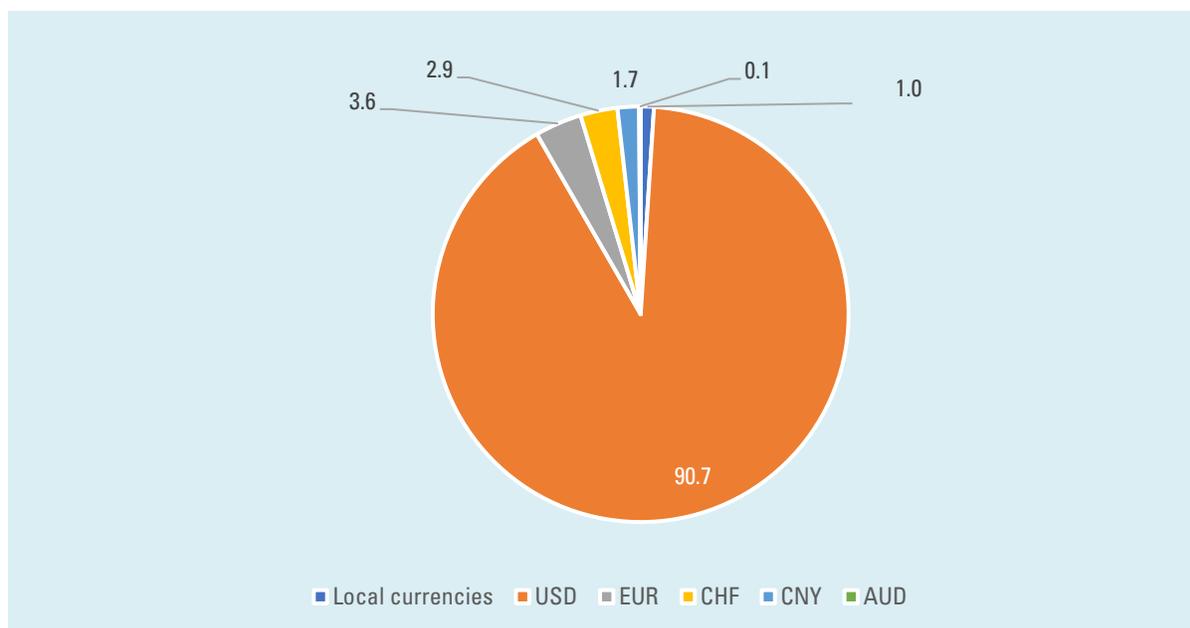
3. The dollar leads while local currencies lag

Figure 6 shows the distribution of GSSS bond issuance within the Arab region, categorized by currency. The dollar is the predominant currency for all bond issuances. It captures 91 per cent of the GSSS market over the entire period 2016–2024, thus leaving little place for other currencies. The euro comes second with 3.6 per cent, followed by the Swiss franc (2.9 per cent), the Chinese yuan (1.7 per cent), local currencies (1 per cent), and the Australian dollar (0.1 per cent).

The dollar is the predominant currency for both categories, representing \$12.1 billion for official sector issuance and \$20.2 billion for corporate issuance, emphasizing its ongoing status as the favoured currency for GSSS financing.

Sovereign issuers also utilize the euro and Chinese yuan to a lesser extent, with no issuances recorded in Swiss francs. Corporate issuers, while similarly reliant on the dollar, exhibit a broader range of currency usage (euro, Swiss francs, Chinese yuan, Australian dollar, and local currencies).

Figure 6. GSSS bond issuance in Arab region by currency, 2016–2024
(Percentage of overall GSSS bond issuance)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

Note: USD: United States dollar; EUR: euro; CHF: Swiss franc; CNY: Chinese yuan; AUD: Australian dollar.

In summary, the data indicate a significant dependence on international currencies, especially the dollar, for GSSS bond issuances in the Arab region.

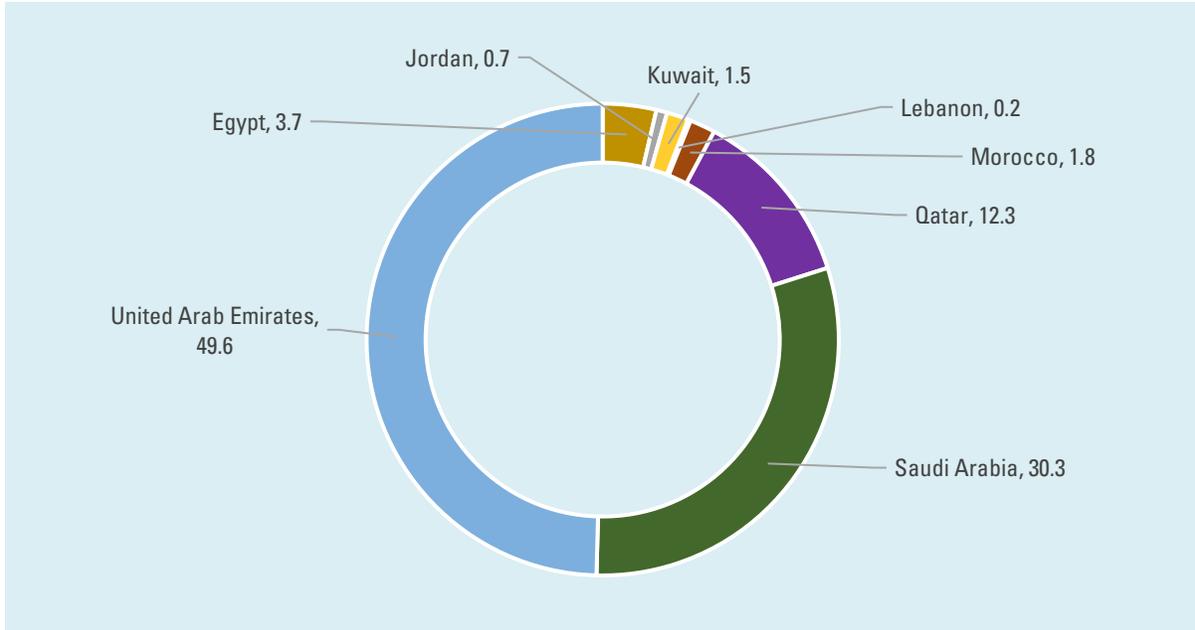
Three main reasons explain the dollar's dominance in GSSS bond issuance. Firstly, the strong position of GCC countries in this segment of the bond market is combined with their exchange rate policies based on pegging the local currency to the dollar. Secondly, other countries with high debt sustainability threats, such as Egypt and Jordan, is increasing dollar requirements to meet debt service obligations on schedule. Thirdly, the desire to attract foreign investors, pursue sustainable projects, and remain highly alert to exchange rate risk pushes bonds issuers to prioritize foreign currency issuances. Green and sustainable projects, when

they are well-defined and clearly identified, become very attractive to investors.

B. GSSS bond issuances in GCC countries: Saudi Arabia and the United Arab Emirates widen the gap with other Arab countries

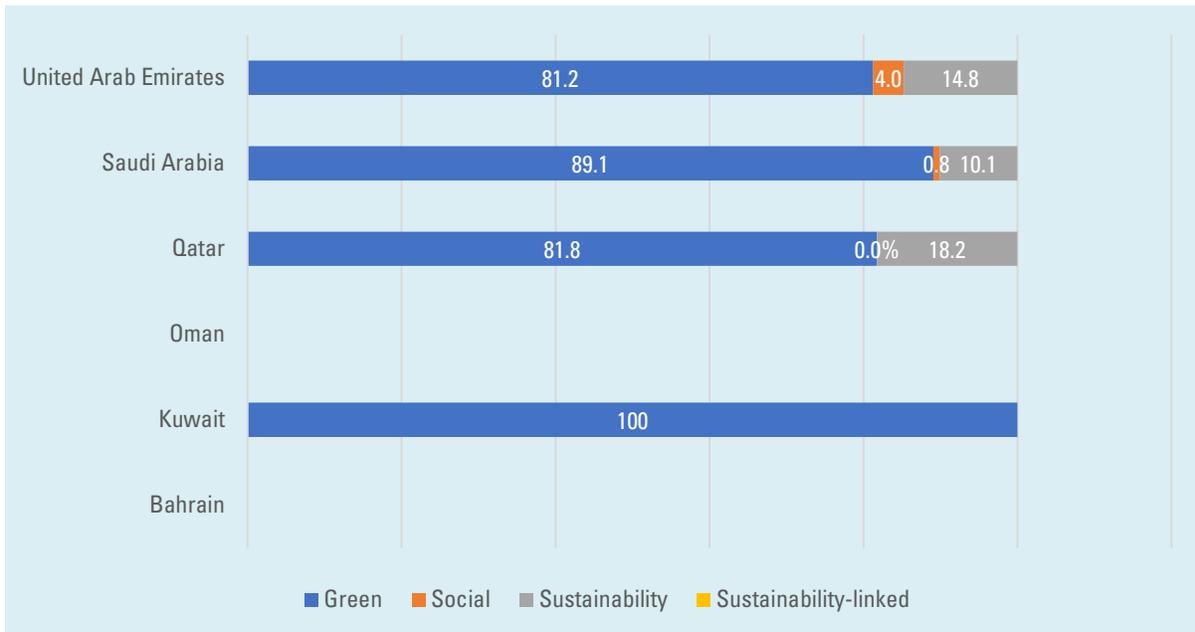
Another specificity of the sustainable bond market in the Arab region is the concentration of bond issuances in a smaller number of countries. Only four GCC countries (Kuwait, Qatar, Saudi Arabia and the United Arab Emirates) captured 93.3 per cent of the GSSS market in 2024, and only three countries (Qatar, Saudi Arabia and the United Arab Emirates) captured 92.2 per cent over the entire period 2016–2024 (figure 7).

Figure 7. GSSS bond issuance in the Arab region by country, 2016–2024 (Percentage of overall GSSS bond issuance)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

Figure 8. GSSS bond issuance in GCC countries, 2016–2024 (Percentage)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

In the remaining Arab countries, bond issues are either irregular (Egypt, Jordan, Kuwait, Lebanon and Morocco) or non-existent (Algeria, the Comoros, Djibouti, Iraq, Libya, Mauritania, Oman, the occupied Palestinian territory, Somalia, the Sudan, the Syrian Arab Republic, Tunisia and Yemen) (figure 5).

The Saudi Arabia and United Arab Emirates clearly lead the region in the three categories (green, social and sustainability), reflecting their comprehensive and active approach to sustainable finance. Qatar also maintains a notable presence, with \$3.362 billion in green, although it does not record any other type of GSSS bond issues. Kuwait has more modest corporate contributions, with \$0.5 billion in green bonds, although it does not record any social or sustainability bond issues (figure 8).

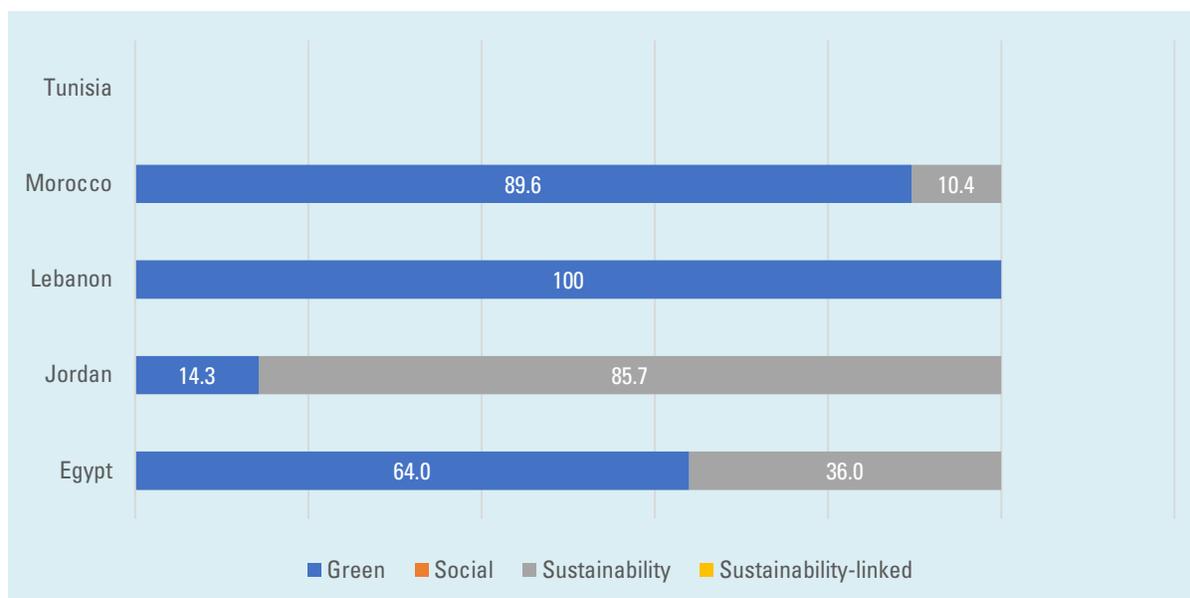
Overall, the data illustrate growing but uneven participation in GSSS bond market across the

region, with clear leadership from the United Arab Emirates.

C. GSSS bond issuances in MACs excluding GCC countries: the gap compared with GCC countries has not stopped widening

After pioneering green bond issuances in the region, with issues carried out by Lebanon, Morocco, and other MACs, they were largely overtaken by the three main GCC countries, namely Qatar, Saudi Arabia and the United Arab Emirates, both in terms of volume and number of issuances. In 2024, the number of issuances in GCC countries reached 18, compared to none from non-GCC MACs. This trend has been ongoing since 2019. The sustainable bond market in these countries remains dominated by green and sustainability bonds, in contrast with GCC-MAC countries where social bonds have been issued since 2022 (figure 9).

Figure 9. GSSS bond issuance in MACs excluding GCC countries, 2016–2024 (Percentage)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

This gap is mainly explained by the burden of debt servicing, which constrains the economic policies of these countries. As a result, debt is often used to finance budget deficits rather than sustainable development projects. This situation is far from being the case for the GCC countries, which benefit from a comfortable fiscal space.

Sustainability-linked bonds have not succeeded in attracting issuers in Arab region. Even though they have succeeded in penetrating the sukuk market, green bonds remain the driver of the sustainability bond market in the region.

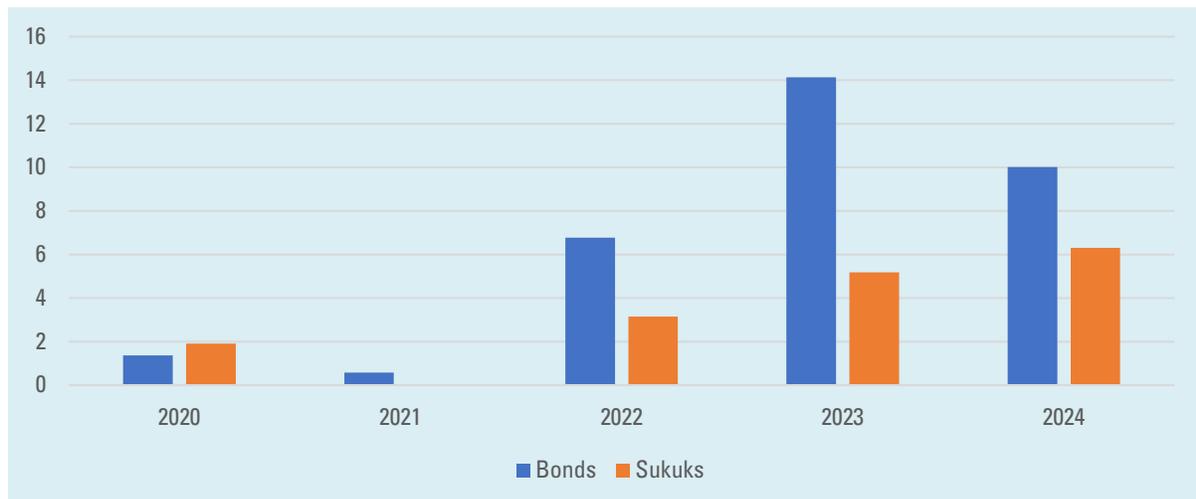
Sukuk issuance has skyrocketed in the Arab region in recent years. GSSS sukuk issuance is still attractive in the region (figure 10), and this segment of the sukuk market remains highly led by the Saudi Arabia and the United Arab Emirates. In 2024, a record sustainable sukuk were issued, totalling \$6.3 billion, compared with \$10 billion for sustainable bond issuance. Saudi Arabia and the United Arab Emirates capture 92.1 per cent of total sukuk issuance, and 91.5 per cent over the period 2020–2024. Outside the GCC, only two countries issued sustainable sukuk in 2023: Egypt (sovereign) and Jordan (corporate).

GSSS bonds and GSSS *sukuk* are most often complementary instruments. GSSS *sukuk* attract Islamic investors, expanding the green finance market beyond conventional players.

However, non-Sharia-compliant investors find themselves led to reduce their dependence on the bond market, or to capture the best investment opportunities to fructify their savings. In some special cases issuers (corporate or sovereign) are forced to choose between the two instruments for a specific sustainable project. This competition is far from harmful, because it enhances innovation and transparency, and reinforces market depth – a positive impact on the sustainable capital market.

In sum, Saudi Arabia and the United Arab Emirates remain the main issuers in the region, and all signs point to a continuation of this trend in the coming years in line with the growing dynamism of their economies. This is far from being a distinctive sign of sustainable bond market depth. It is difficult to imagine a mature bond market in the region without implementing the credibility of the GSSS bond marketplace.

Figure 10. GSSS sukuk and bond issuance in Arab region, 2020–2024 (Billions of dollars)



Source: IFC, Bloomberg, Climate Bonds Initiative and Environmental Finance.

4. Critical challenges facing GSSS bond markets in the Arab region

Key messages

- A regional sustainability taxonomy is essential to deepen and add liquidity to sustainable debt markets in the Arab region, as the absence of a common framework constrains local bond markets from complying with sustainability labelling requirements.
- GSSS bond markets have an important role to play in Arab region, not only in strengthening economic and non-economic resilience, but also in enhancing transparency and accountability.
- A lack of investment-ready and bankable projects limits the development of the GSSS bond market.
- A mature secondary bond market could enrich the central bank toolbox with unconventional instruments.

The Arab region is considered one of the most vulnerable worldwide to both climate change and debt service burden, which limit its ability to implement the adaptation measures needed to build economic, social, and environmental resilience.

Investing in GSSS bonds presents several risks that potential investors should consider. Apart from geopolitical tensions, particularly common in the Arab region, which affect investor confidence, Arab sustainable bond markets are lagging owing to several challenges faced by the region.

A. High costs of meeting GSSS bond requirements

To neutralize any risk of greenwashing, the green bond (or other GSSS instruments) status verification process requires recourse issuers to have an independent second opinion or third-party insurance providers (such as accounting firms,

specialized research agencies). This operation is expensive and therefore not accessible to some small issuers in emerging countries.

Consequently, the relatively high cost of obtaining a second opinion or third-party insurance (ranging from \$10,000 to \$100,000) represents a barrier that will only deter this type of issuer.

In addition to the costs of verifying the level of greening of securities issued on the market, the high costs of managing disclosure requirements are contested by some issuers. These costs create barriers that prevent the development of local sustainable bond markets in the Arab region.

B. Lack of GSSS bond ratings

In the rating industry, the big three (Moody's, S&P and Fitch) have shown great commitment to introducing ESG criteria in credit risk analysis, which could allow the integration of local bond markets under the radar of major global

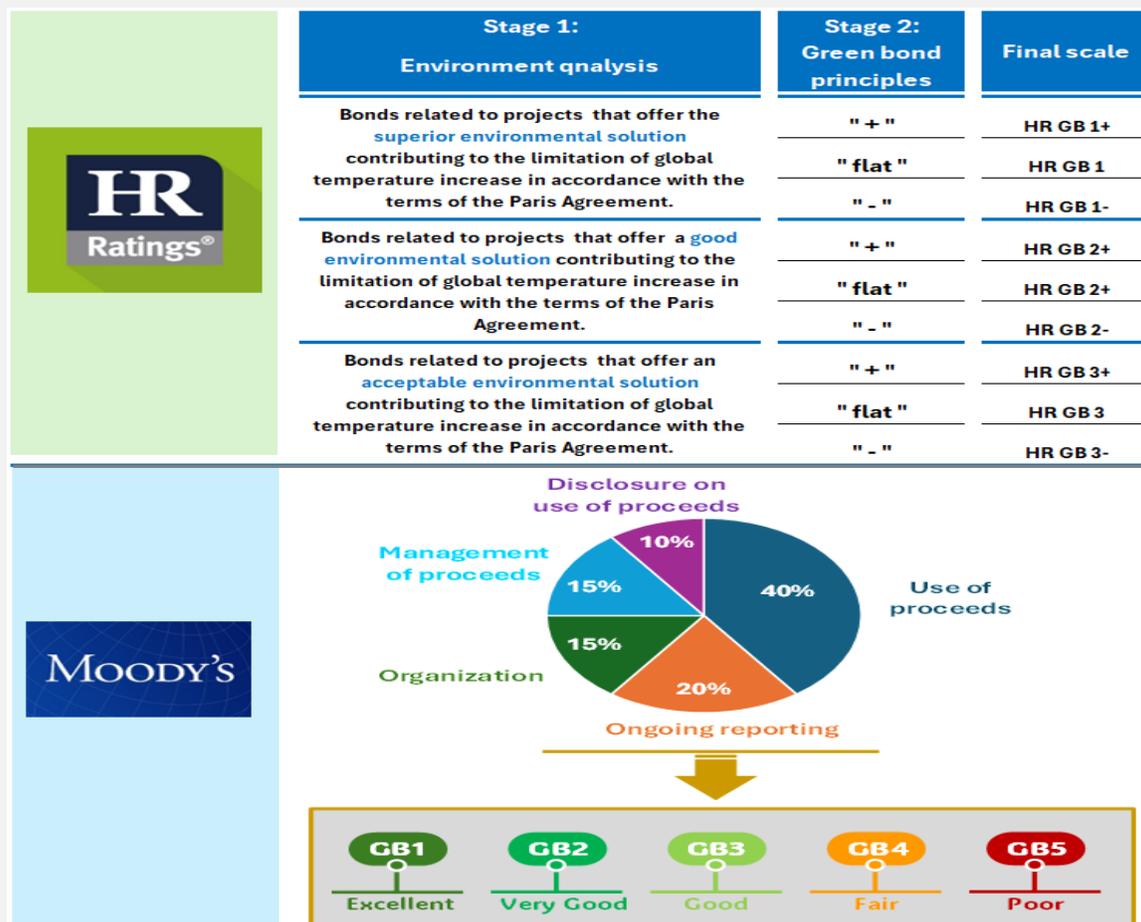
investors. The following two main approaches characterize GSSS bond ratings.

Standard credit rating approach: it is a question of adopting a standard rating approach augmented by ESG concerns. The objective is not to make a GSSS bonds assessment by examining their adherence to green/sustainability bond principles, but rather to allow investors to make an informed assessment of the impact of environmental threats on the overall risk profile of issuers.

GSSS bond ratings approach: the assessment process adopted by the rating

agency plays a pivotal role in closing the information asymmetry between issuers and investors on all ESG issues. It is important to clarify that the evaluation proposed here is not a standard credit rating approach nor a standard credit rating approach augmented, as shown above, but rather a GSSS level approach where the rating agency evaluates the alignment of GSSS bonds with international guidelines and standards. Moody's is the first rating agency to have launched a green bond rating methodology and service in 2016 (box 6). The Moody's Green Bond Assessment product offers an evaluation in alignment with the best practices recommended by GBP and CBI.

Box 6. Green bonds assessment overview



Source: HR Ratings and Moody's.

Some rating agencies focus on a process-based assessment of green bonds (disclosure, reporting and product management), and marginalize the assessment of the degree of greening projects funded by green bonds. Investors need more quality green assets, which rating agencies have not yet acquired the expertise needed to directly assess.

C. Green/sustainability washing

Green/sustainability washing risks are identified when issuers may distort the sustainability benefits of their projects or fail to comply with their sustainability promises.

Growing scepticism around the greenness and sustainability of GSSS bonds has its roots in the difficulties of the issuer complying with the two globally accepted guidelines (CBI and GBP), thus opening the door to greenwashing.

The rapid expansion of the GSSS bond market poses a serious problem for both regulators and investors who are concerned that it could encourage greenwashing, whereby issuers may be making exaggerated, misleading or unsubstantiated sustainability-related claims about their products (ICMA, 2023) to raise funds more easily and to benefit from a positive greenium.

Greenwashing scandals are harmful both in the primary and secondary markets (Volkswagen Dieselgate in 2015; Respol in 2017; Toyota sustainability bond in 2020; Adani Group Green bond backlash in 2023). They may adversely affect the issuer's reputation over many years, such as boycotts and negative greenium, (Teichmann and others, 2023), pushing investors to desert the GSSS bond market.

D. Fungibility of fiscal revenues

Fiscal revenues fungibility is often seen as one of the pillars of public financial management. As a result, it poses a real challenge for many sovereign issuers of GSSS bonds who are often tempted, under pressure from the erosion of fiscal space, to divert proceeds from GSSS bonds to non-specifically sustainable purposes.

In many cases, the proceeds from GSSS bonds can be allocated to refinance past expenditures, which generates tensions between sovereign GSSS bonds' prescribed use of proceeds and the fungibility requirements of public debt frameworks. This problem could be circumvented in the short term through external review and the adoption of refined reporting standards, and by encouraging greater transparency (Cheng and others, 2022).

E. Debt sustainability concern

Many Arab countries are now facing the double challenge of unsustainable debt and climate change. Climate vulnerability and debt distress are intertwined, creating a vicious circle where climate vulnerability augurs a further worsening in the real economy and exacerbates deterioration in debt ratios. Climate disasters could reduce fiscal revenues and increase the need for public spending, posing a real threat to debt sustainability and potentially leading to debt distress. Likewise, high debt services could hamper a country's ability to address climate challenges and implement the SDGs.

Sustainable bond markets have an important role to play in the Arab region (ESCWA, 2022). Transforming this vicious circle into a virtuous one of sustainability requires a strong and

renewed political will for speeding up green and sustainability transitions. A political portage should integrate green and sustainability transition reforms to guarantee their implementation without running the risk of a rise in social and political instability (Baghdadi and Labidi, 2023).

F. Lack of supply of labelled GSSS bonds

Current labels for green and sustainable finance instruments, like GSSS bonds, are inconsistent and often lack strict standards, leading to concerns about greenwashing (Network for Greening the Financial System (NGFS), 2024). The labelled bond market remains dominated by green bond issuances, representing 57 per cent of the annual issuance in 2024 (World Bank, 2025).

A lack of supply of labelled GSSS bonds remains a major handicap to the sustainable market's development. In the Arab region, efforts to comply with labelling requirements are vital, given the multiple factors (such as geopolitical risks, lack of transparency) that fuel the lack of attractiveness of domestic bond markets. Without implementing a regional sustainability taxonomy for sustainable debt instruments, the local bond market in the Arab region will face difficulties in complying with labelling requirements.

Without strict compliance with rigorous standards of transparency and accountability, it will be difficult to obtain an appropriate label for GSSS bonds, and thus play a crucial role in accelerating the transition to a sustainable and climate-resilient economy.

G. Lack of bankable projects

In the Arab region, the projects that have been identified as GSSS have not reached a sufficient

scale to attract a significant investor base (OECD, 2022; 2023). The lack of investment-ready and bankable projects limits the development of the GSSS bond market in a context severely undermined by the increase in climate threats, and where the need to build a resilient economy is pressing in most Arab countries, thus contributing to delaying the process of green transition and the achievement of SDG objectives.

To overcome this barrier, local governments should increase the supply of GSSS projects to meet the growing demand for sustainable investment opportunities through their collaboration with multilateral development institutions.

H. Central banks' lack of involvement in sustainable transition

Climate risks have not yet taken the place they ought to have on central bank's policy agendas. Arab central banks should not be satisfied with a passive NGFS membership to secure an entry pass into the green transition process (Labidi, 2024).

Given the strong appetite for GSSS bonds, a mature secondary bond market could enrich the central bank toolbox with unconventional instruments such as greening collateral frameworks and green quantitative easing (Dafermos, 2022; Abdmoulah and Labidi, 2023; Labidi, 2024) (box 7).

With greener collateral frameworks and green quantitative easing, central banks reallocate their balance sheets towards bonds issued by firms in clean or non-polluting sectors (Labidi, 2024), leading to lower yields. This would encourage green and sustainable projects and penalize brown investments.

Box 7. Greening monetary policy

	Conventional bonds		GSSS bonds	
	<i>Sovereign</i>	<i>Corporate</i>	<i>Sovereign</i>	<i>Corporate</i>
Collateral frameworks	<i>Higher haircuts</i>	<i>Exclusion</i>	<i>Lower haircuts</i>	
Quantitative easing	<i>Limit purchases</i>	<i>Exclusion</i>	<i>Prioritize purchases</i>	

Source: Authors.

5. Concluding remarks and recommendations

Bond markets in Arab region have gained in diversification, transparency and accountability with GSSS issues, but could fall short of what they need for SDGs objectives.

The following key lessons have emerged from the present technical report:

- The Arab region remains very heterogeneous in deepening of local bond markets, environmental and SDGs awareness, the green transition pace, appetites for GSSS bonds, and regulatory frameworks.
- Since 2020, Saudi Arabia and the United Arab Emirates have become the largest bond issuers in the region, followed by Qatar.
- Developing a sustainable local bond market is not an option but a necessity to bridge the gap between current finance flows and estimated needs for the rapid achievement of the SDGs.
- Local bond markets in the Arab region will not be able to gain depth without further diversification and globalization of the investor base.
- Green bonds remain the major driver of the sustainable bond market and sustainability-linked bonds have not succeeded in attracting issuers in the Arab region.
- Sustainability culture has not yet won its rightful place on the civil society agenda in the Arab region, which is largely preoccupied by poverty, social vulnerability and human rights concerns. However, deterioration of public service and water stress are emerging today as two levers for this awareness.

The following key recommendations are put forward to strengthen policymakers' efforts to enhance the depth of the local currency bond market, and to give more weight and ensure a greater presence for GSSS issuers in the bond market to guarantee rapid achievement of the SDGs.

- Arab countries should develop sound macroeconomic policy and improve international reserve buffers to help investors mitigate the adverse effects of economic shocks (including exchange rate and commodity price shocks), and non-economic shocks (including climate risks, pandemic crisis and geopolitical risk events).
- Arab countries should continue efforts to implement a robust regulatory framework, aligned with the principles developed by ICMA or other international benchmarks, to build a sufficiently liquid, deep and transparent bond market. This framework should be both sufficiently attractive for public and private investments and foreign and domestic capital; innovative enough to facilitate the introduction of more environmentally friendly financial instruments such as GSSS bonds; highly adaptive and agile to better cope with the growing challenges in funding and organization, and calibrated to country specificities for the pace and sequencing of implementation; and sufficiently flexible for foreign investors to repatriate profits in freely convertible currency and buy assets with an

array of high-performance instruments at their disposal to hedge exchange and interest rates risks.

- Finance ministries in the Arab region must ensure that sovereign GSSS bonds can play a leveraging role for the development of corporate GSSS bonds. The sovereign GSSS bond market plays a crucial role in boosting corporate GSSS bond issuances by improving liquidity and pricing in the corporate GSSS bond market; increasing the size of the corporate GSSS bond issuance; and enhancing the quality of reporting and verification of corporate GSSS bond issuance.
- Governments in Arab region should increase GSSS bond issues in their financing agenda and incentivize corporate issuers to meet ESG goals. The growing popularity of GSSS bonds may allow ministries of finance to issue bonds at preferential terms: lower borrowing cost relative to conventional bonds due to a positive greenium; and with longer maturities, which would be in line with the longer horizon of green projects.
- Local bond markets in the Arab region have a vested interest in launching their sustainable bond market segment, which could facilitate the emergence of two useful market indicators and tools for the debt management office: the green yield curve and greenium. These key indicators are important for monitoring the performance of the sustainable bond market if compared with the conventional one; providing a benchmark framework for sustainable corporate issuers; assessing investors' expectations about the future of the sustainable process; and tracking progress towards a green and sustainable economy.
- Closer coordination between fiscal and monetary policies is essential, not only to manage the inflationary pressure, but also to create a deep secondary bond market that enriches the central bank toolbox with unconventional instruments and allows it the opportunity to make more sustainable their bond purchase scheme by including climate change risks in their corporate bond holdings; to green their collateral framework by reviewing the pricing or/and eligibility criteria (European Central Bank, 2021) and applying additional haircuts related to the carbon intensity of the issuer; and to allocate a part of their foreign reserves to green and sustainable assets.
- Financial authorities in Arab countries should provide to market players the most effective hedging instruments against financial risks, generated by economic and non-economic shocks (including climate change, geopolitical shock and pandemic crisis), and to adopt, via stress testing exercises, a forward-looking approach for assessing the potential impact of serious exogenous shocks on their bond portfolios. The increasing sophistication of financial tools and their modelling had become especially critical to make local bond markets more attractive for local and foreign investors; and to ensure depth and liquidity in the GSSS market segment.
- Arab countries should boost green transition by developing sustainable financing frameworks and setting up relevant institutions, such as a green finance unit which oversees the implementation, monitoring and adaptation of the regulatory framework to international standards; identifies bankable projects linked to nationally determined contribution objectives; and introduces an early-warning system to identify climate financial risks.
- Sustainable bond market development in the Arab region requires a strong presence of long-term investors, such as sovereign wealth funds, pension funds and insurance companies. Given their well-known experience compared with domestic State-owned enterprises and corporate investors, and their ability to de-risk projects and to

hedge their long positions in times of high risk and volatility, these long investors are well positioned to bridge the gap in financing for achieving net-zero goals and the SDGs.

- To create a fully functioning sustainable bond market that contributes to building a resilient Arab future by achieving SDG objectives, local authorities will be obliged to strengthen coordination with various

ministries to promote better identification of green and sustainable projects; to ensure the best selection of eligible projects; to develop a post-issuance impact report; to be able to implement strong national regulatory frameworks in line with international standards (ICMA and GBP principles); and to develop a robust communication strategy for investors and other stakeholders.

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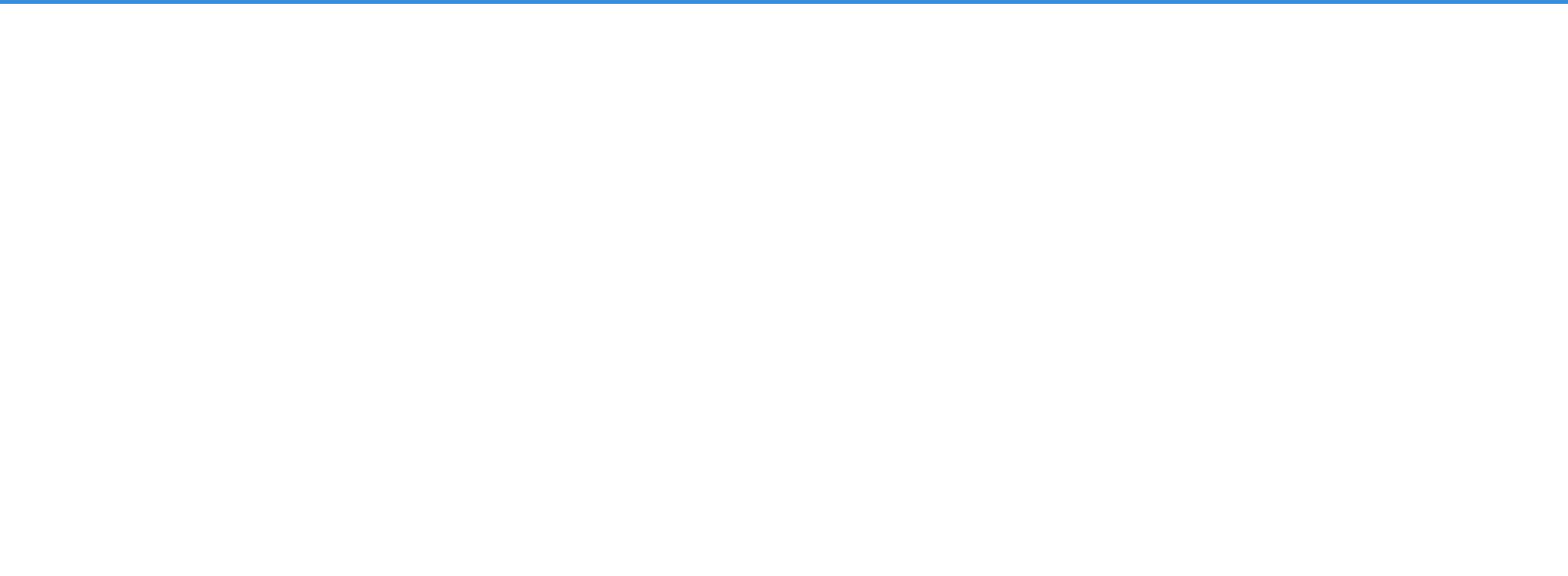
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This report examines how Arab countries can strengthen their local bond markets to attract greater domestic and foreign investment in green, social, sustainable and sustainability-linked (GSSS) bonds, thereby supporting the transition towards more sustainable economies. While bond markets in the Arab region have advanced in diversification, transparency and accountability, they still fall short of mobilizing the level of capital required to achieve the Sustainable Development Goals.

The report puts forward key recommendations to deepen local currency bond markets and increase the presence of GSSS bonds issuers. Achieving this requires sound macroeconomic management, regulatory frameworks aligned with international standards, and a more diversified global investor base. It also highlights that sovereign GSSS bonds issuances can catalyze corporate issuance, supported by incentives, tools such as green yield curves and greenium, closer fiscal-monetary coordination, enhanced risk-hedging instruments, and climate stress testing. Building resilient bond markets further depends on establishing sustainable finance frameworks, mobilizing long-term institutional investors, strengthening green finance institutions, and improving project selection and reporting.

