The 2023 State of ESG in the GCC

Publication 2024

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Foreword

I am pleased to present the 2023 State of ESG in the GCC report, which is the result of a study driven by Sustainable Square's commitment to advancing sustainability and responsible business practices across the region. This annual study has become an essential resource for organisation seeking to understand and navigate the evolving landscape of ESG in the region.

In today's dynamic business landscape, reliable and relevant data and well-researched insights are more important than ever. Businesses need to not just understand the current trends but also anticipate shifts that will shape their future.

While we are headquartered in the UAE, we are a global advisory firm specialising in the strategic elevation of sustainability in business. Our team at Sustainable Square has been privileged to work alongside over 170 clients on more than 380 projects. Our deep expertise in organisational sustainability, robust ESG disclosure, climate change mitigation, net zero strategies, responsible investment, ESG technology and social impact allows us to provide leadership on the state of ESG in the region, enhance transparency, and inspire meaningful impact.

Worldwide, there is a significant shift in corporate mindsets, with companies increasingly recognising that sustainability is more than just compliance—it's a driver of long-term value creation, innovation, and resilience.

I would like to express my gratitude to our partners and the broader business community in the GCC, whose unwavering support has helped shape this study. Together, we are driving a collective effort to accelerate sustainable progress in the region, and I look forward to continuing this journey with you all.

I invite you to explore the insights from the 2023 State of ESG in the GCC report and share your feedback with us.

Monaem Ben Lellahom
CEO, Sustainable Square

Introduction

Sustainable Square is committed to the pursuit of a sustainable future for generations to come. We believe that achieving climate security requires collaborative, adaptive, and region-specific approaches. In the Gulf Cooperation Council (GCC), the need for enhanced data transparency and knowledge sharing remains paramount to effective climate action.

Since our 2022 report, the global climate landscape has evolved significantly, particularly following COP28. However, the GCC region continues to grapple with challenges related to data availability and best practices. Relying on data from other regions can obscure the unique context and challenges faced by the GCC, hindering the development of tailored solutions.

The 2023 State of ESG in the GCC Study aims to bridge this gap by providing a comprehensive and up-to-date analysis of the region's ESG ecosystem.Our study will delve into key trends, challenges, and opportunities, offering valuable insights for businesses, governments, and stakeholders alike.

By understanding the latest developments in ESG practices and policies within the GCC, it is our hope that organisations can enhance their sustainability performance assessment and benchmarking, identify areas for improvement and innovation, contribute to the region's broader climate goals, and help inform government policies and regulations for a more sustainable business environment.

Acknowledgement

We extend our sincere gratitude to all the respondents who participated in this survey and contributed their invaluable insights to this report. Your time and effort in sharing your detailed perspectives are greatly appreciated. We believe that the progress reflected in this report regarding sustainability in the GCC will inspire other companies and regions to pursue similar advancements. We would also like to express our deep appreciation to the Middle East Investor Relations Association (MEIRA). This publication would not have been possible without MEIRA's unwavering support and a shared mission to foster transparency and drive impactful change in the sustainability sector across the region. MEIRA's team has played a pivotal role in bringing this report to fruition, and their collaboration and dedication have been truly commendable. We hope this report stands as a testament to the significant contributions of our partners and serves as a catalyst for progress in sustainability efforts across the GCC.

Glossary

CARBON BORDER ADJUSTMENT MECHANISM (CBAM)
The Carbon Border Adjustment Mechanism (CBAM) is a new European Union policy that aims to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries. The goal of CBAM is to encourage global decarbonisation and prevent carbon leakage, which occurs when companies relocate their operations to countries with less stringent environmental regulations to avoid emissions costs. (Source: https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#cbam)

CARBON DISCLOSURE PROJECT (CDP)
The Carbon Disclosure Project (CDP) is an organisation that operates a global disclosure system for companies, cities, states, and regions to measure and disclose their environmental impacts, including carbon emissions and climate-related risks. It collects and analyses environmental data from thousands of organisations worldwide and shares the information with investors, policymakers, and the public to promote transparency and encourage sustainable practices. (Source: www.cdp.net/en/)

COP28
COP28, or the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change, was a major international climate summit held in Dubai, United Arab Emirates, in late 2023. It was a critical gathering for countries to negotiate and agree upon ambitious climate action plans to limit global warming to 1.5 degrees Celsius. COP annually plays a significant role in shaping global climate policy and setting the stage for future climate action.

CORPORATE SOCIAL RESPONSIBILITY (CSR)
The management of social risks and responsibilities of an organisation to ensure long-term sustainable growth. CSR in this study relates mostly to an organisation's work within its local communities. We view CSR as a part of the overall sustainability of an organisation since it is mostly focused on the "social" aspect of sustainability.

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)
The Corporate Sustainability Reporting Directive (CSRD) is a new European Union regulation that requires all large and all listed companies to disclose detailed information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment. It aims to enhance transparency, comparability, and reliability of sustainability reporting, providing investors and other stakeholders with more robust information to make informed decisions. (Source: https://finance.ec.europa.eu)

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)
Environmental, Social, and Governance (ESG) factors are used to evaluate a company's non-financial performance in these three key areas. It encompasses a wide range of factors, including but not limited to environmental impact, social responsibility, and corporate governance practices. ESG considerations are becoming increasingly important for investors, consumers, and other stakeholders, as they assess a company's long-term sustainability and ethical practices.

GLOBAL REPORTING INITIATIVE (GRI)
GRI is the most widely adopted independent standard by organisations reporting on impact. It is an independent, international organisation that has pioneered sustainability reporting since 1997. (Source: www.globalreporting.org)

GREENHOUSE GAS PROTOCOL (GHG PROTOCOL)
The GHG Protocol is a widely recognised and widely used accounting tool for measuring and managing greenhouse gas (GHG) emissions. It provides a standardised framework for organisations to quantify and report their emissions, enabling them to set reduction targets and implement strategies to address climate change. (Source: www.ghgprotocol.org/)

GULF COOPERATION COUNCIL (GCC)
The Gulf Cooperation Council (GCC) is a regional political and economic alliance comprising six Arab states in Western Asia: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The GCC promotes economic cooperation, political stability, and security among its member states. It plays a significant role in the global energy market and is a major economic hub in the Middle East.

INTEGRATED REPORT (IR)
An Integrated Report is a concise overview of how an organisation's strategy, governance, performance and prospects lead to the creation of value over short, medium and long-term periods. The IR framework was developed by the International Integrated Reporting Council (IIRC) in 1999. (Source: www.integratedreporting.org)

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards are a set of global standards that provide guidance for companies on how to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. It also sets out specific climate-related disclosure requirements for a company to disclose information about its climate-related risks and opportunities. These standards aim to enhance transparency, comparability, and reliability of sustainability reporting, enabling investors and other stakeholders to make informed decisions about a company's long-term value. (Source: www.ifrs.org)

INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)
The purpose of the ISSB is to empower capital market participants with the right information to support better economic and investment decision-making. The ISSB uses a transparent, rigorous due process to develop market-informed standards that enable companies to disclose decision-useful, comparable information and consolidate the 'alphabet soup' of voluntary sustainability-reporting initiatives. (Source: www.ifrs.org)

NATIONALLY DETERMINED CONTRIBUTIONS (NDCs)
Nationally Determined Contributions (NDCs) are at the heart of the Paris Agreement and the achievement of its long-term goals. NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. NDCs are updated every five years with increasing ambition, reflecting each country's capabilities and circumstances. (Source: www.unfccc.int)

NET-ZERO
"Net-zero" refers to achieving a balance between the greenhouse gases emitted into the atmosphere and those removed from it, resulting in no net increase in overall emissions. This concept has gained prominence in the context of combating climate change and is often used as a target for countries, companies, and other entities to reduce their carbon footprint. (Source: www.un.org/en/climatechange/net-zero-coalition)

SCIENCE-BASED TARGETS INITIATIVE (SBTI)
The Science Based Targets Initiative (SBTI) is a collaborative effort between organisations such as the United Nations Global Compact, the World Resources Institute (WRI), and other partners to promote science-based target setting as a means to combat climate change. SBTI provides guidelines and criteria for companies to set greenhouse gas emission reduction targets that align with the latest climate science and contribute to limiting global warming to well below 2 degrees Celsius. (Source: www.sciencebasedtargets.org/)

SUSTAINABILITY
The management of economic, social and environmental risks to ensure the long-term sustainable growth of businesses. It is about applying conscientious, ethical and responsible practices within business operations and driving a positive impact in the surrounding community.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)
The Sustainability Accounting Standards Board (SASB) is an organisation that develops and maintains sustainability accounting standards for use by publicly traded companies in the United States. SASB aims to provide standardised guidelines for companies to disclose financial material sustainability information in their public filings to the U.S. Securities and Exchange Commission (SEC). (Source: www.sasb.org/)

TASK FORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)
The Task Force on Climate-related Financial Disclosures (TCFD) is a global initiative established by the Financial Stability Board (FSB) to develop consistent and effective climate-related financial disclosures for companies and financial institutions. It provides a framework for organisations to assess and disclose climate-related risks and opportunities, helping investors, lenders, and other stakeholders make informed decisions regarding climate related financial impacts. (Source: www.fsb-tcfd.org/)

THE EQUATOR PRINCIPLES (EP)
The Equator Principles is a risk management framework adopted by financial institutions to assess and manage environmental and social risks in project financing. It provides a set of guidelines for banks and other financial institutions to evaluate and address the potential environmental and social impacts of projects they finance, with a focus on sustainability and responsible lending practices. (Source: www.equator-principles.com/)

THE TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)
The Taskforce on Nature-related Financial Disclosures (TNFD) is a set of disclosure recommendations and guidance that encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities. The aim is to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. (Source: www.tnfd.global/)

UNITED NATIONS GLOBAL COMPACT (UNGC)
The UNGC is a framework for companies to align strategies, policies and operations with 10 principles on human rights, labour, environment and anti-corruption. The UNGC framework is aligned with the Sustainable Development Goals. (Source: www.unglobalcompact.org)

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (UN SDGs)
The SDGs are the blueprint set by the UN calling for everybody from governments to individuals to work together to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. (Source: www.un.org)

WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT (WBCSD)
The World Business Council for Sustainable Development (WBCSD) is a global network of businesses committed to promoting sustainable development and finding solutions to environmental and social challenges. It brings together companies from various sectors to drive sustainable business practices, advocate for policy change, and collaborate on sustainability initiatives. (Source: www.wbcsd.org/)

Methodology

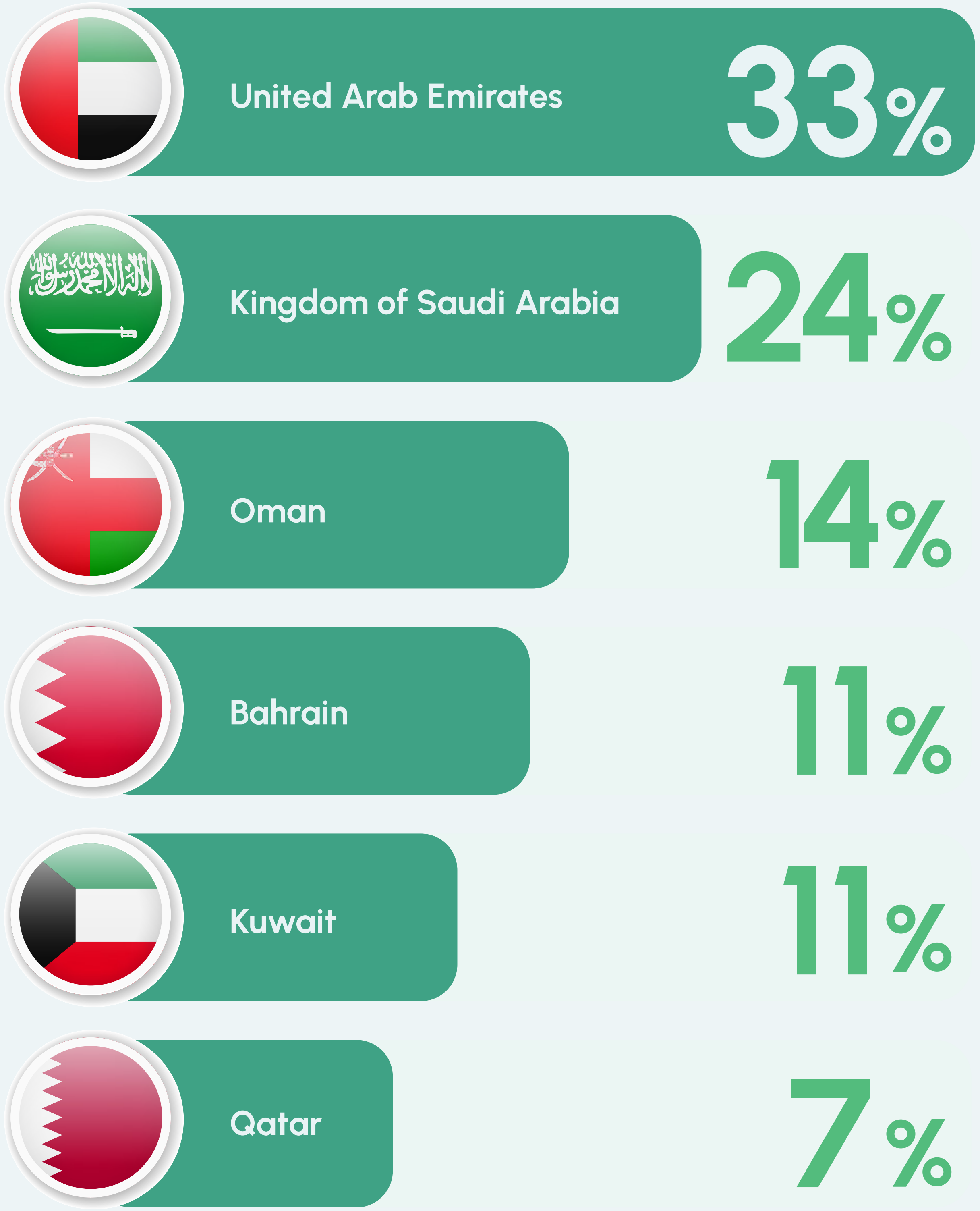
Sustainable Square developed the survey questions for the 2023 State of ESG in the GCC Study based on our extensive experience and expertise in the sustainability, ESG, and CSR landscape within the Gulf Cooperation Council (GCC) region. The survey was designed to gather insights into the current state of ESG practices, identify key drivers and challenges, and explore emerging trends.

Building upon the lessons learned from COP28 hosted in the UAE, the 2023 survey incorporated questions specifically tailored to assess the region's progress in aligning with global climate goals and implementing sustainable practices. Additionally, to reflect the evolving regulatory landscape, the survey included questions related to the International Financial Reporting Standards (IFRS) and Corporate Sustainability Reporting Directive (CSRD), which are gaining prominence in ESG reporting and disclosure.

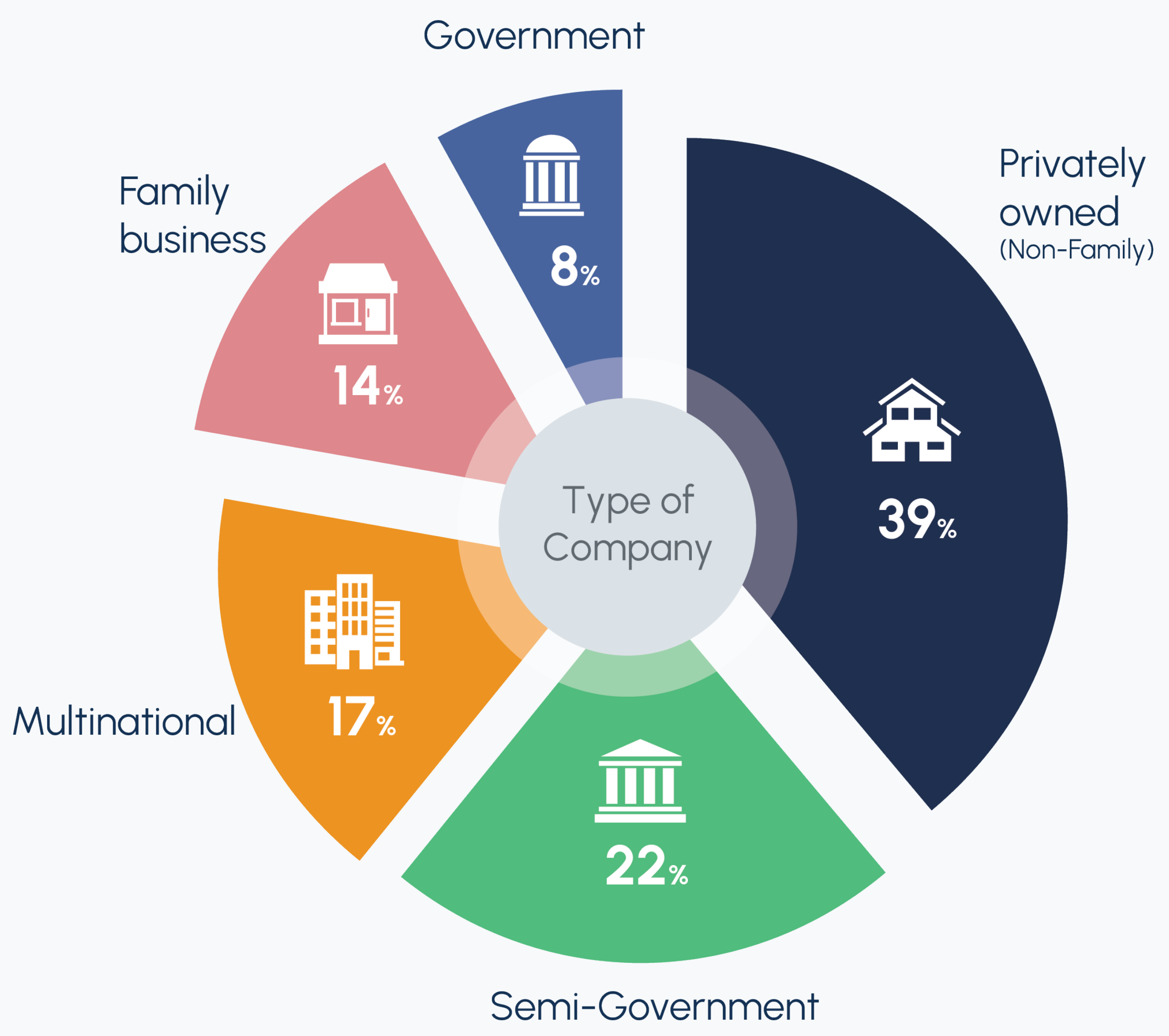
The survey was distributed publicly to companies across all six GCC countries, encouraging broad participation and representation. The questionnaire primarily employed a multiple-choice format, with an "other" option provided for most questions to accommodate diverse responses. To enhance efficiency and accuracy, open-ended questions were kept to a minimum.

It's important to note that the survey utilised a cascading logic, meaning that certain questions were only presented to respondents based on their previous answers, therefore certain questions have different number bases. This approach ensured that the survey remained relevant and focused, providing more in-depth insights into specific areas of ESG practice.

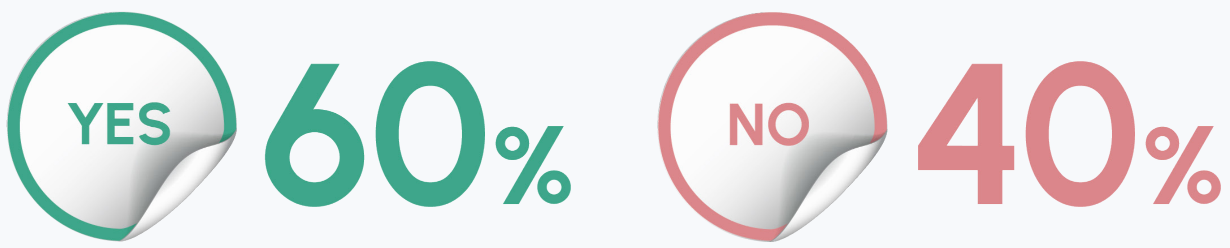
Respondent's Profile



Type of Company



Public Listing

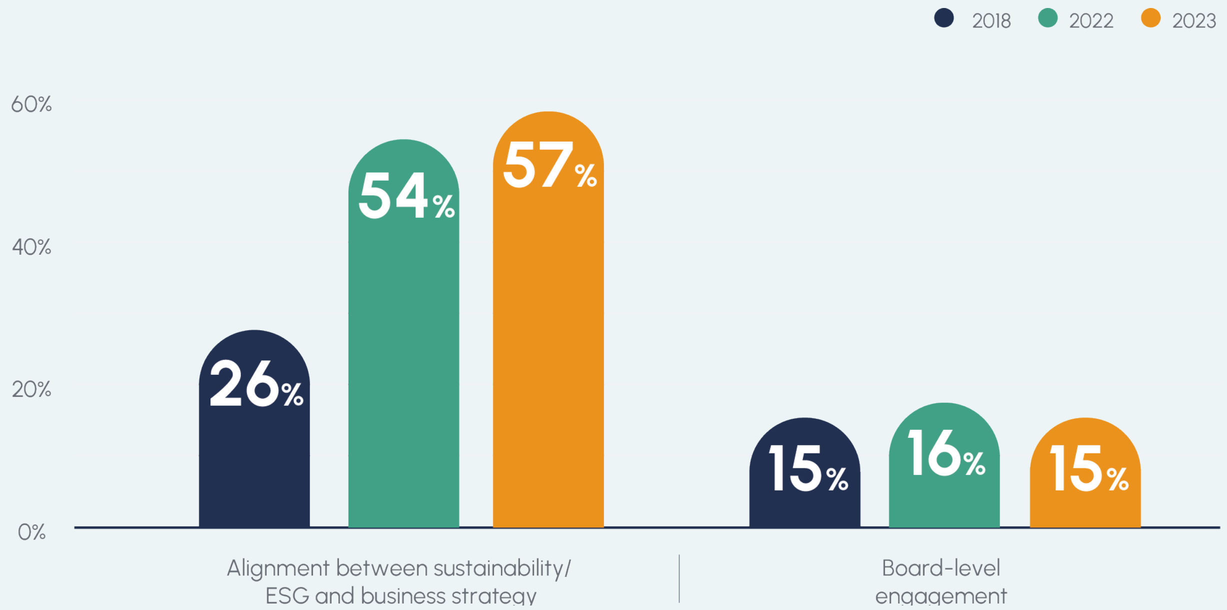


Company Sector

Trends from
2018 – 2022 – 2023

Most Important Factors for a Successful Sustainability / ESG Strategy

Similar to the results of the 2018 and 2022 surveys, companies in 2023 continued to rank 'Alignment between sustainability/ESG and business strategy' as the most important factor for a successful sustainability / ESG strategy. This consistent prioritisation of alignment between sustainability / ESG and business strategy indicates a growing recognition that sustainability is not merely a peripheral concern but rather a central driver of long-term success.

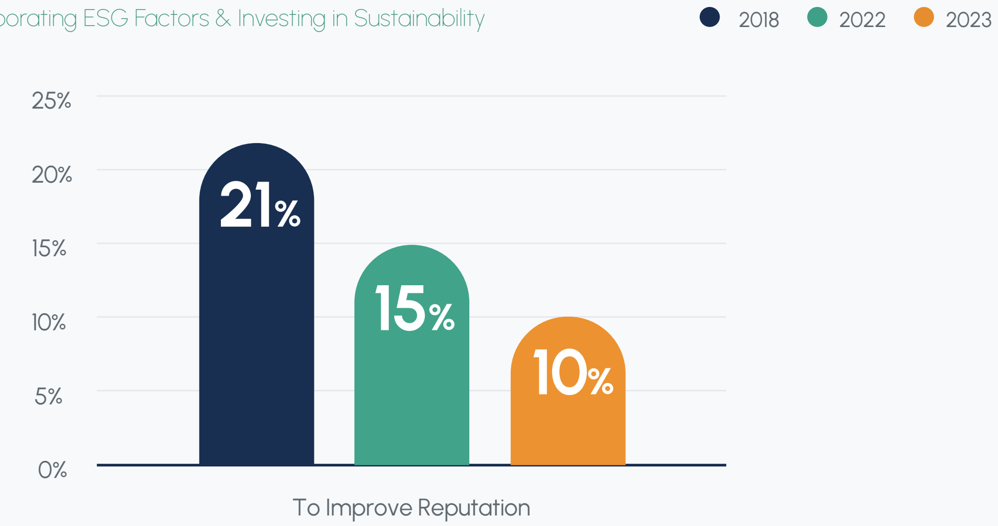


Secondly, while 'board-level engagement' has experienced slight variations over the years, it remains a crucial factor overall. This demonstrates the importance of leadership involvement in advancing sustainability initiatives. Through active support and oversight, boards play a vital role in ensuring that sustainability remains a strategic priority and is seamlessly integrated into the company's broader objectives.

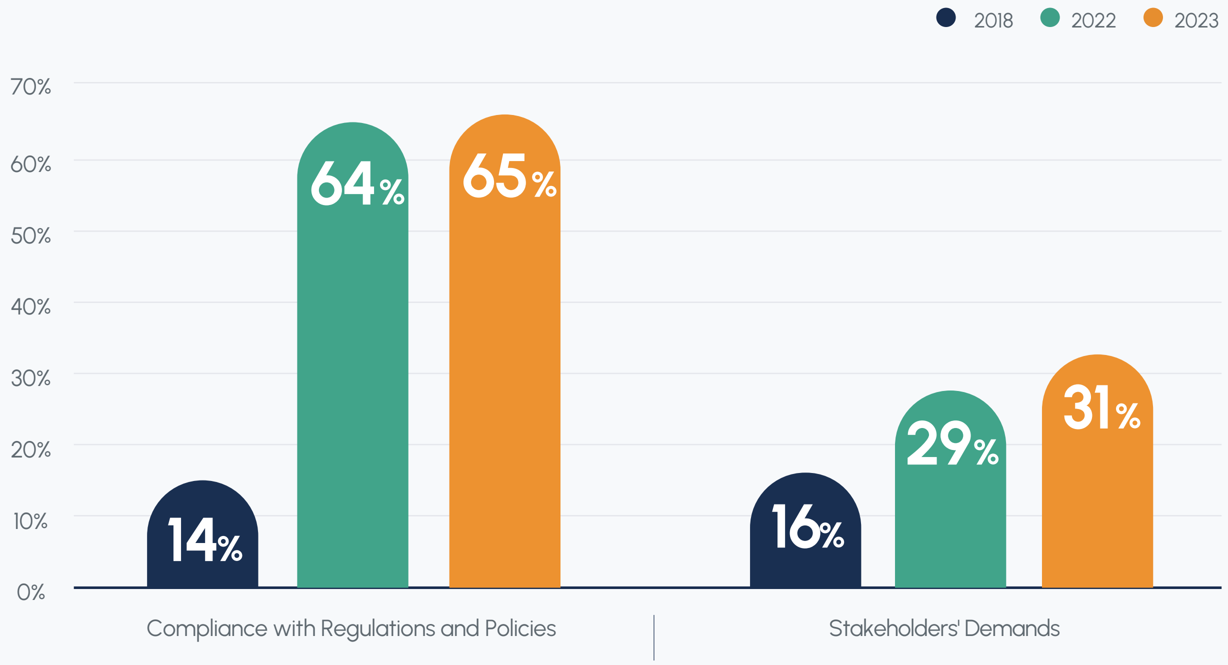
Top Drivers for Incorporating ESG Factors & Investing in Sustainability

The percentage of companies citing 'To improve reputation' as a top driver for incorporating ESG factors and investing in sustainability has declined from 21% in 2018 to 10% in 2023. While it still remains a factor in driving ESG initiatives, it is no longer a primary motivator, and its significance has notably diminished over time. As companies increasingly embed sustainability into their core operations, they are likely to be motivated by a broader range of factors including regulatory and ethical considerations, risk management, and a focus on long-term value creation, rather than solely aiming to enhance their reputation.

Top Drivers for Incorporating ESG Factors & Investing in Sustainability



While 'Compliance with regulations and policies' has always been an important driver for incorporating ESG factors and investing in sustainability, it has seen a significant rise in importance over the last 5 years rising from 14% in 2018 to 64% in 2022 and now to 65% in 2023. As ESG regulations continue to evolve and become more stringent, companies will need to stay compliant in order to maintain market competitiveness, attract foreign capital, and build long-term resilience against growing climate change impacts.



Additionally, 'Stakeholders' Demands' has emerged as another significant driver, increasing from 16% in 2018 to 31% in 2023. This rise can be attributed to increased regulatory pressure, growing investor interest, more consumer awareness and a recognition of the importance of active stakeholder engagement. Companies may be more focused on addressing stakeholder concerns to avoid penalties, attract capital, and build trust.

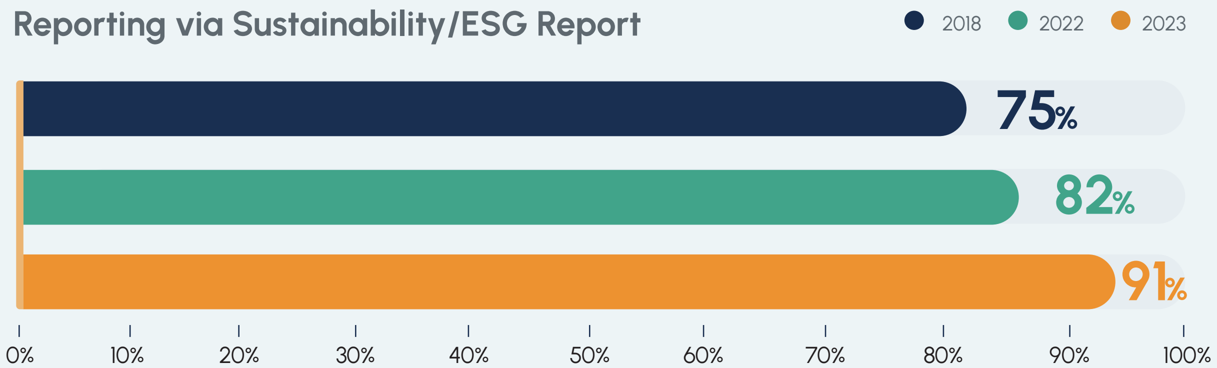
Sustainability Reporting and Disclosure

There has been a substantial and consistent upward trajectory in the percentage of companies disclosing and reporting on their sustainability-related information via sustainability/ESG reports going from 75% in 2018 to 82% in 2022 and 91% in 2023. This trend reflects a growing recognition of the importance of transparency and accountability in ESG reporting.

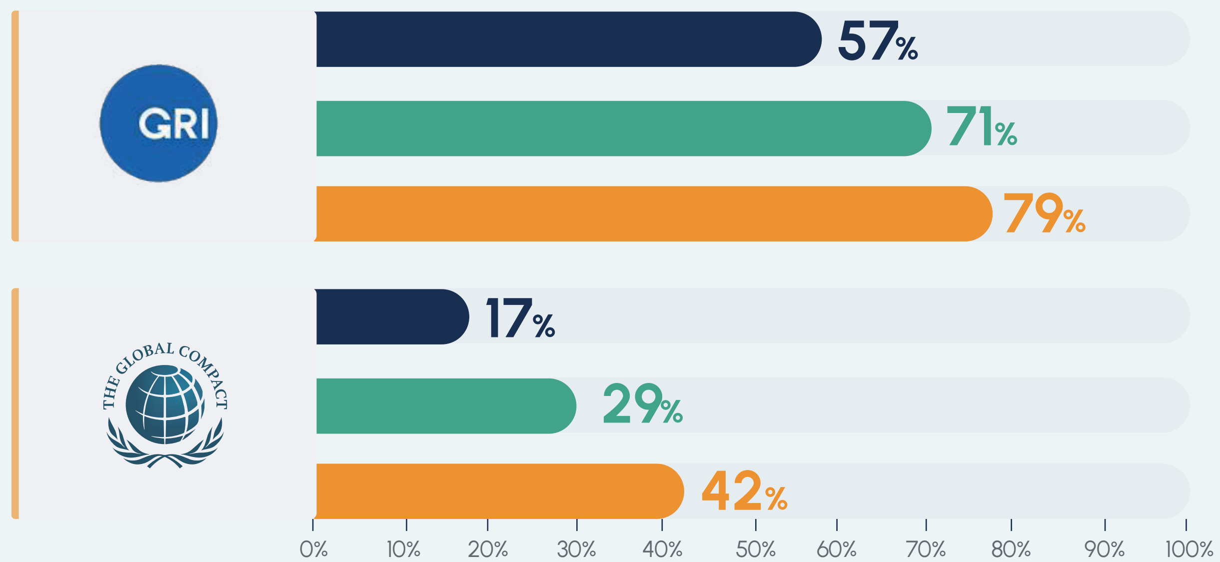
The rise in ESG reporting can be attributed to a few factors; firstly, as governments and regulatory bodies worldwide implement stricter ESG disclosure requirements, companies are compelled to enhance their reporting practices. Secondly, investors are increasingly demanding transparency and accountability from companies regarding their ESG performance. This has led to a surge in demand for ESG-related information, which has incentivised companies to disclose their sustainability efforts. Lastly, beyond investors, other stakeholder groups, such as customers, employees, and communities are also placing greater emphasis on corporate sustainability.

As a result, companies are recognising the importance of addressing stakeholder expectations through transparent and comprehensive ESG reporting.

Reporting via Sustainability/ESG Report



Alignment to Reporting Standards



The Global Reporting Initiative (GRI) has consistently been the most popular framework for companies to align their ESG reports to. We saw a significant rise in its adoption between 2018 to 2022 going from 57% to 71% and this trend has continued by rising to 79% in 2023. This rise could be attributed to GRI's comprehensive and globally recognised standards that provide companies with robust guidelines and a structured approach for disclosure on sustainability-related performance.

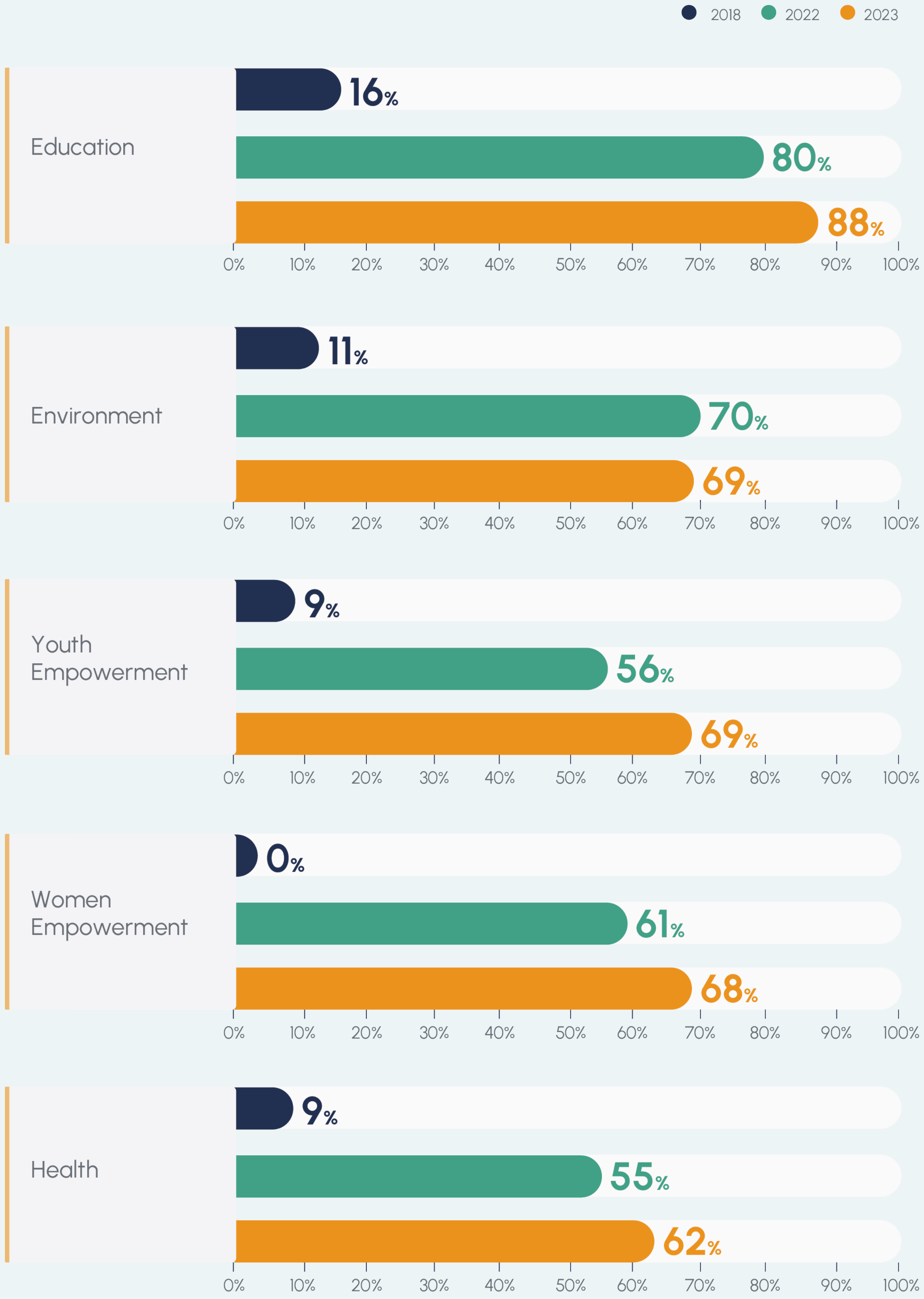
While GRI remains the dominant framework, the UN Global Compact (UNGC) has experienced a significant increase in adoption, rising from 17% in 2018 to 42% in 2023. This growth could be attributed to the UNGC's emphasis on human rights, labour standards, and environmental protection. As companies seek to demonstrate their commitment to these principles, the UNGC has emerged as an appealing option, offering a comprehensive framework that aligns with evolving stakeholder expectations and global sustainability trends.

Corporate Social Responsibility (CSR) Priorities

When asked about focus areas to support their local communities, 'Education' has consistently been a top CSR priority, seeing a significant rise from 16% in 2018 to 80% in 2022 to 88% in 2023.

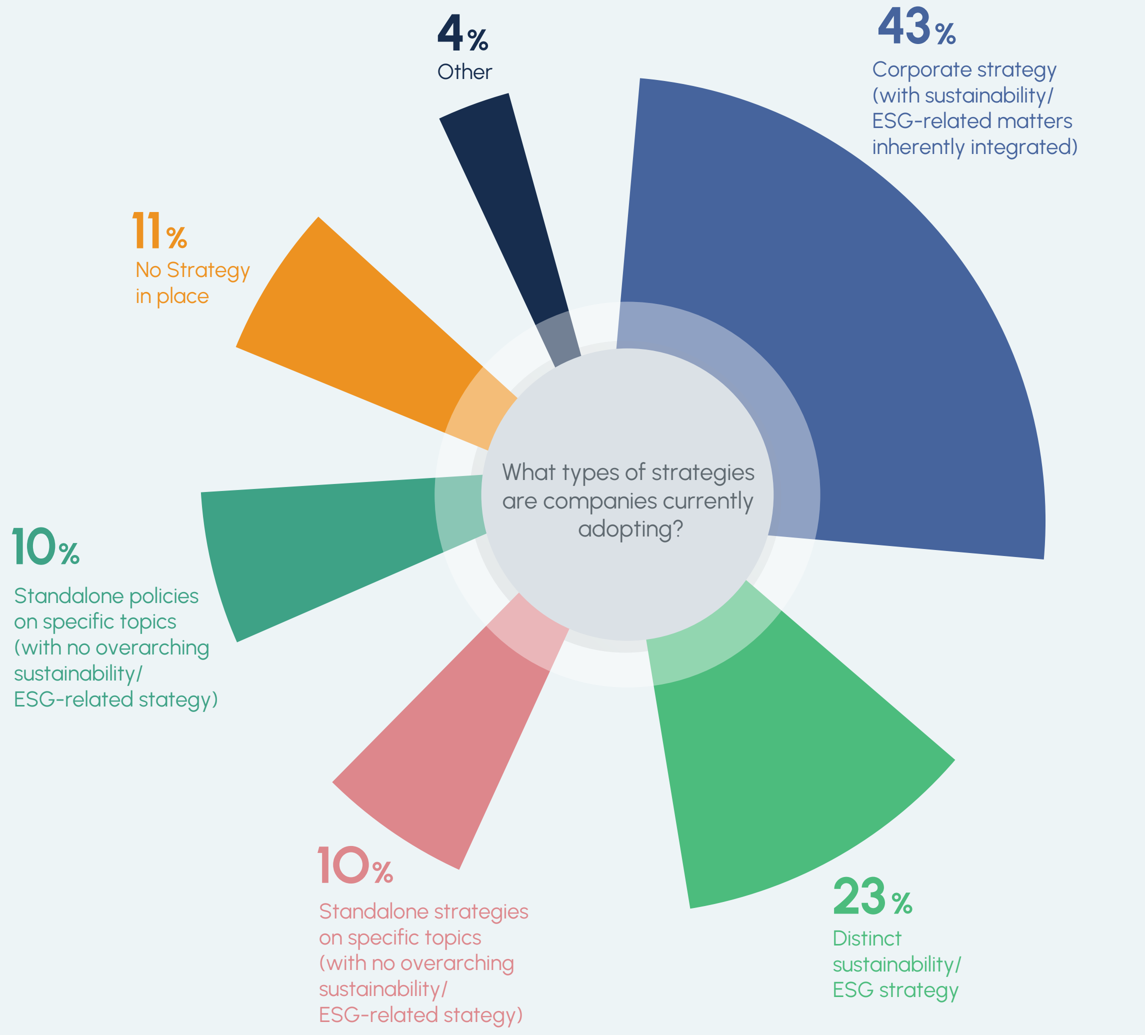
'Environment' is another priority that is gaining significant ground aligning with growing concerns about climate change and sustainability. Companies are likely recognising the importance of addressing environmental issues and contributing to a more sustainable future.

Other CSR focus areas that have continued to gain momentum between 2018 to 2023 are 'Youth Empowerment', 'Women Empowerment' and 'Health'. Out of them, youth and women's empowerment, have seen a significant increase in prioritisation from 2018 to 2023. This rise indicates a growing awareness of the critical role these groups play in societal progress. Companies are increasingly investing in programs that promote equal opportunities, education, and leadership development for marginalised groups.



Study Findings

Strategy Adoption



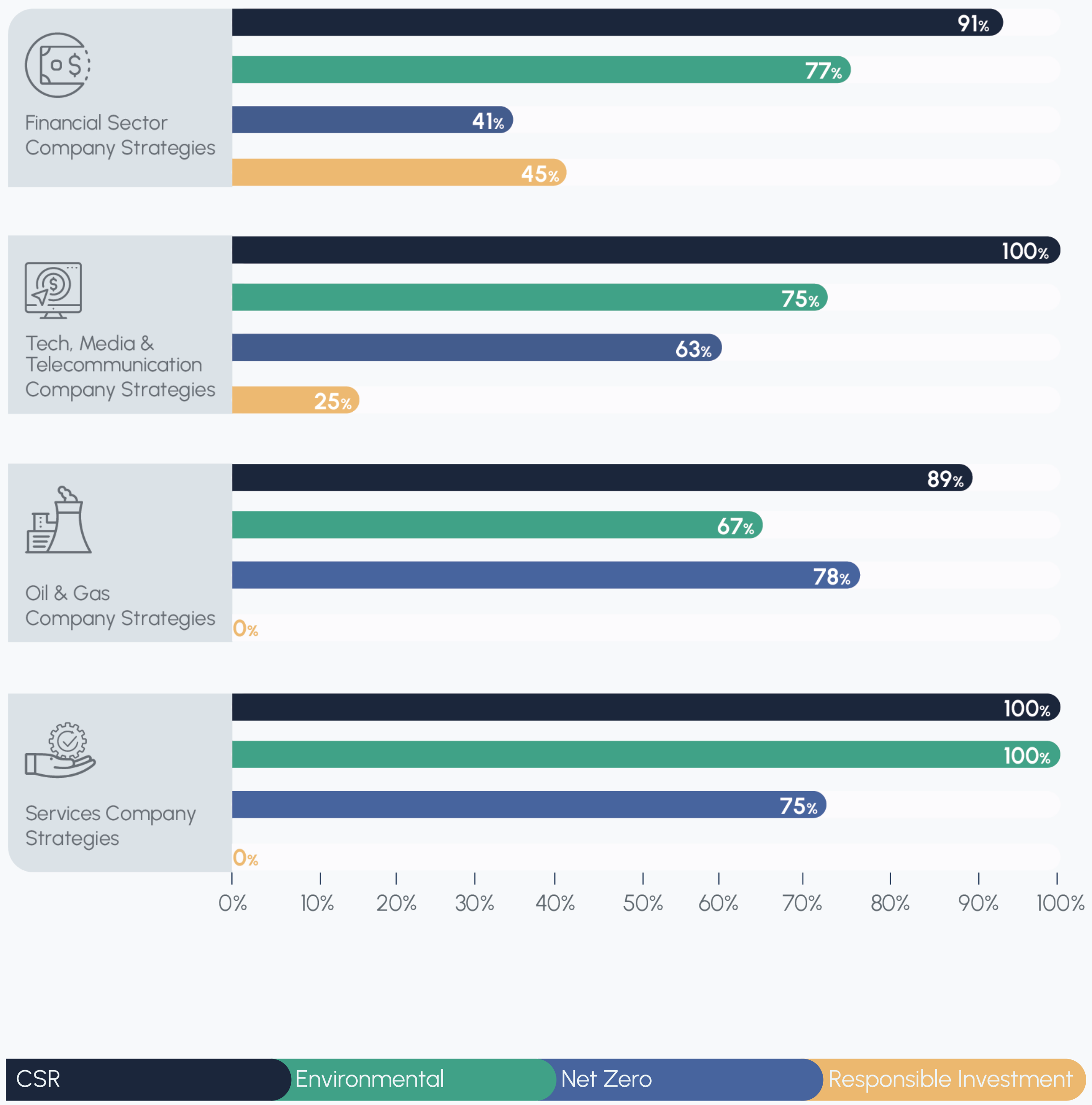
Disclaimer: Total percentages may exceed 100% due to rounding up of percentages

The GCC region is witnessing a growing emphasis placed on sustainability, with companies increasingly realising the need for sustainability to be deeply intertwined and linked to core business operations and strategies, with 43% of respondents mentioning they have a corporate strategy in place with sustainability / ESG-related matted inherently integrated.

While there is still a significant portion of companies that lack a formal approach to sustainability management, we see a decline in this aspect as 20% of survey respondents in 2022 had no sustainability-related strategy in place compared to 11% in 2023. This is a positive indication that companies in the GCC are kickstarting their sustainability journeys and there is a need for continued efforts to promote and support companies on their journeys regardless of how novice or advanced they may be.

Industry Analysis of Strategy Adoption

A majority of the survey respondents belonged to the 4 industries seen below. As such, the data highlights the most prevalent strategies in each of the industries. While those in the Financial Services industry prioritise Responsible Investment strategies, those in Oil & Gas and the Services industry aren't doing the same. We do see a relatively high presence of Environmental strategies irrespective of the industry. The charts suggest that companies from varying industries tend to choose strategies that address their most pressing concerns, demonstrating a proactive approach to risk mitigation.



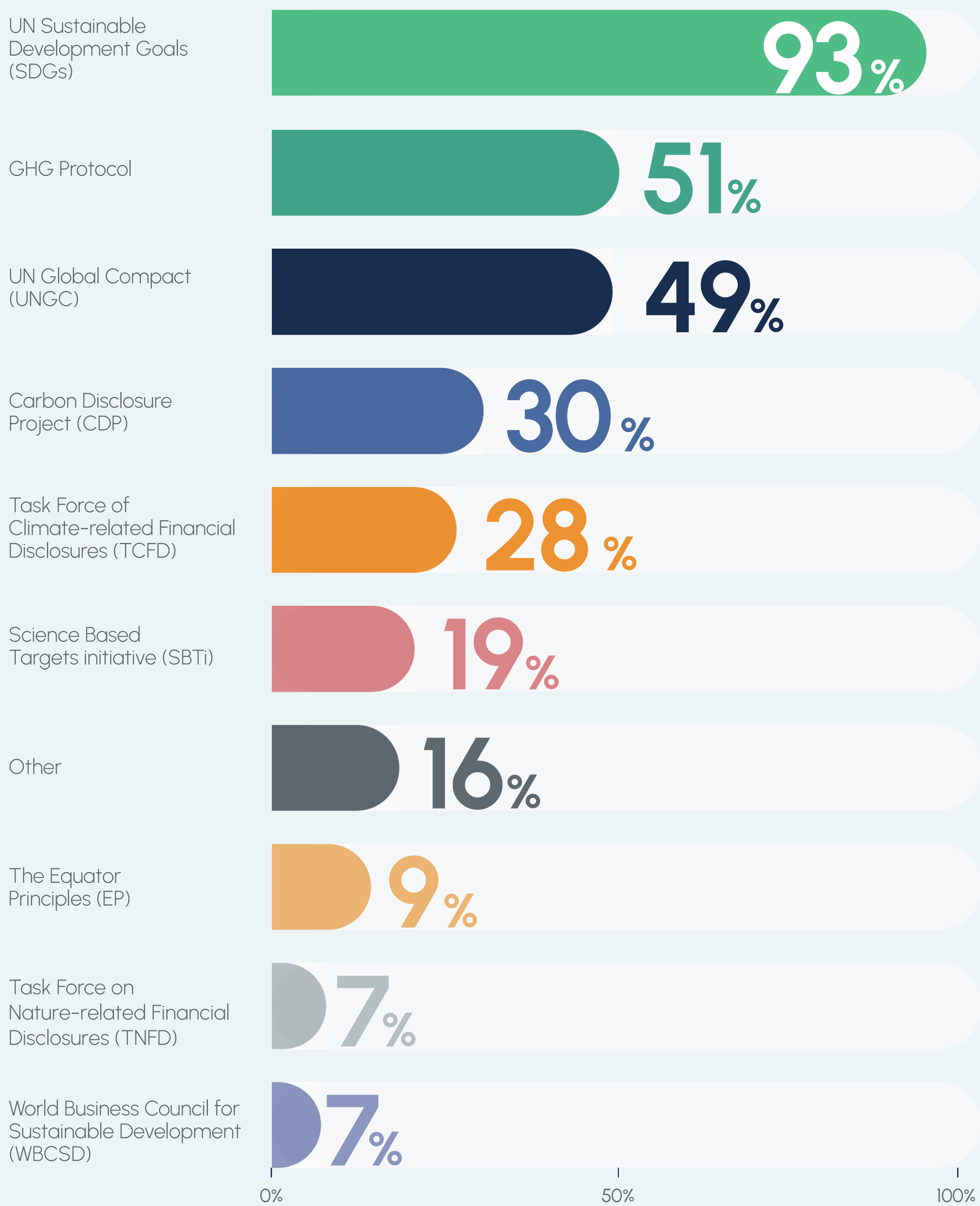
The Extent of Strategy Adoption

The data above reveals a positive trend in the maturity of sustainability-related strategies within the GCC region. A significant portion of respondents (40%) who mentioned they have a corporate strategy in place, have it established and fully embedded across the company. This represents a 4% increase compared to the previous year, indicating a growing commitment to genuine sustainability integration across companies in the GCC.

Framework Alignments

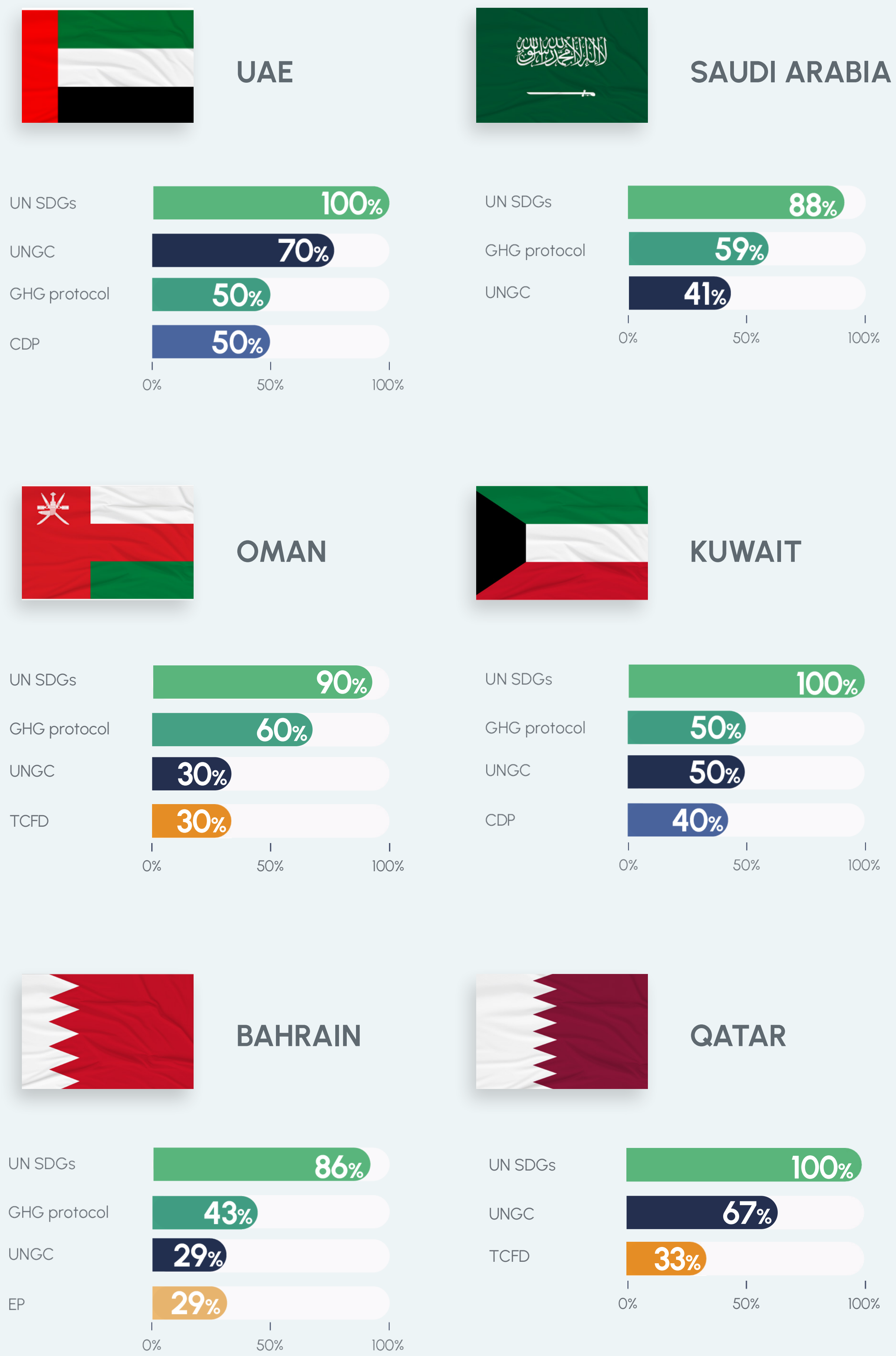
Companies with any form of sustainability/ ESG-related strategy in place were asked whether their strategy aligned to any leading frameworks. The study found that a significant majority (93%) of companies aligned their strategy to the United Nations' Sustainable Development Goals (SDGs). This represents a substantial increase from the previous year, where 72% of respondents reported alignment with the SDGs in 2022. Additionally, there has been a notable rise in alignment with other leading frameworks. 51% of survey respondents now indicate alignment with the GHG Protocol, compared to 33% in 2022. Similarly, alignment with the UN Global Compact has increased from 39% in 2022 to 49% in 2023.

Which leading frameworks are companies aligning their Sustainability / ESG strategies to?



Countries and their Framework Alignments

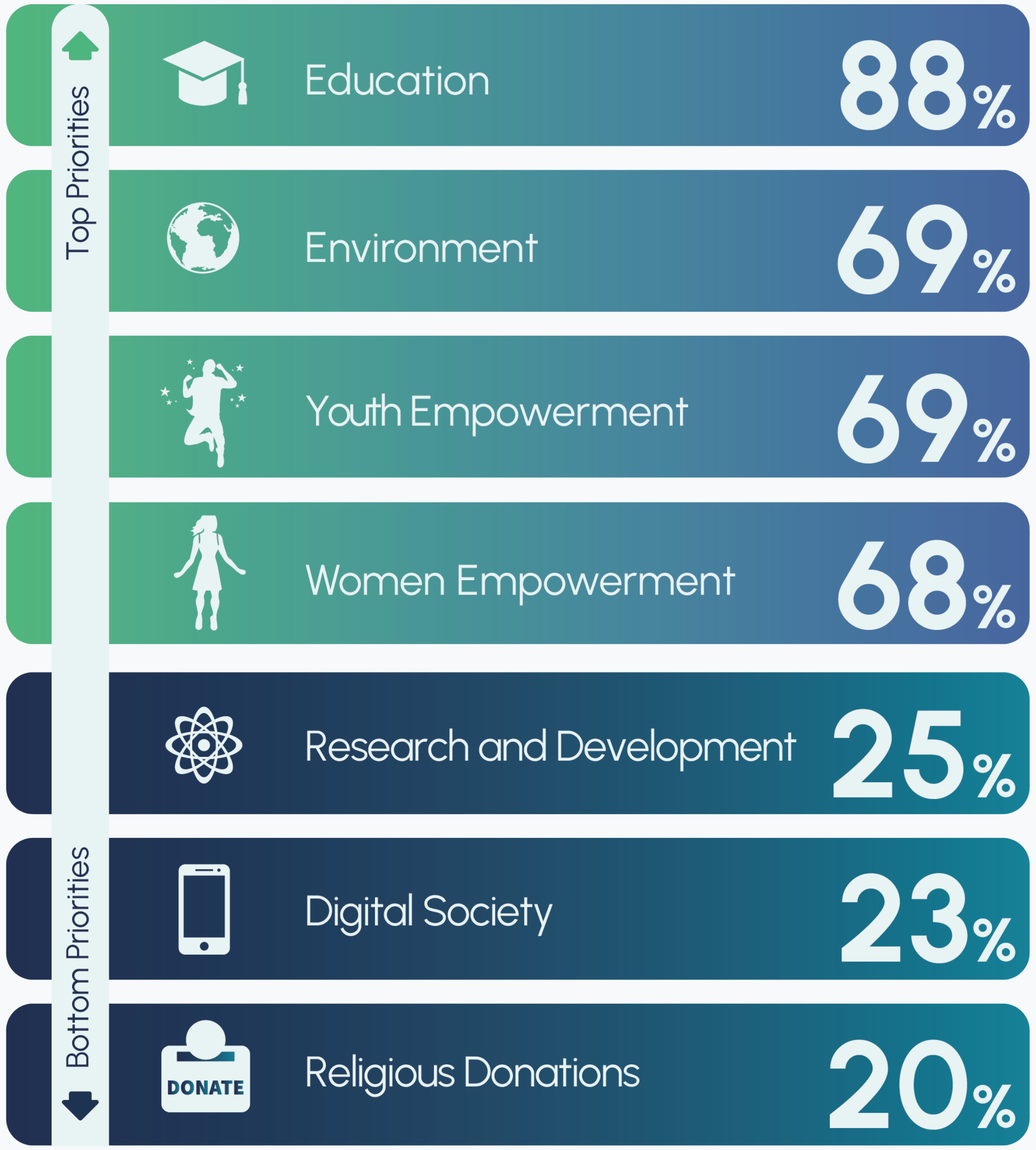
Consistent with the findings of our 2022 study, the UN Sustainable Development Goals remains the most popular framework for aligning sustainability / ESG-related strategies within companies across the GCC. This underscores their global recognition and relevance in guiding corporate sustainability initiatives. The charts below highlight the most frequently cited frameworks that survey respondents align their sustainability-related strategies to:



CSR Priorities

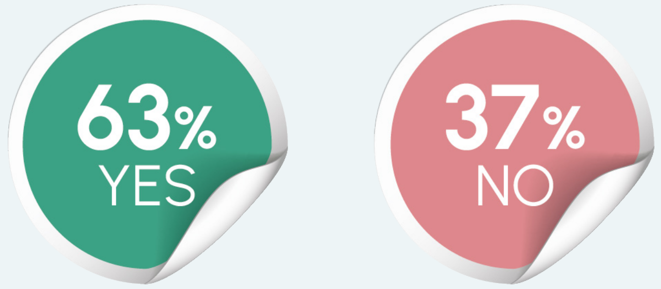
In line with previous years, when asked about focus areas to support their local communities, Education once again emerged as the top corporate social responsibility (CSR) priority for companies in the GCC in 2023. This focus on education has strengthened, with the percentage of companies prioritising it increasing from 80% in 2022 to 88% in 2023.

Other key CSR priorities included environmental initiatives, youth empowerment and women empowerment. These areas also saw growth in prioritisation compared to the previous year, with particular increases in youth empowerment (from 56% in 2022 to 69% in 2023) and women empowerment (from 61% in 2022 to 68% in 2023).



Disclosure & Reporting

Are companies publicly disclosing and reporting on any Sustainability/ESG-related information?



The survey initially asked respondents if their company was publicly listed (60% said yes), and later asked whether companies publicly disclose and report on any sustainability/ESG-related matters. To this, 63% of survey respondents said their companies do indeed disclose sustainability/ESG-related information. These insights suggest that regulatory pressures for publicly listed companies play a significant role in driving ESG disclosure.

This trend is consistent with last year's study findings, which also highlighted a lack of proactivity in this domain. While public listing is a key driver for disclosure, it's evident that many companies are primarily motivated by regulatory requirements rather than a voluntary commitment to transparency. A reactive approach in public disclosure and reporting can limit the sharing of best practices and hinder collective progress in sustainability.

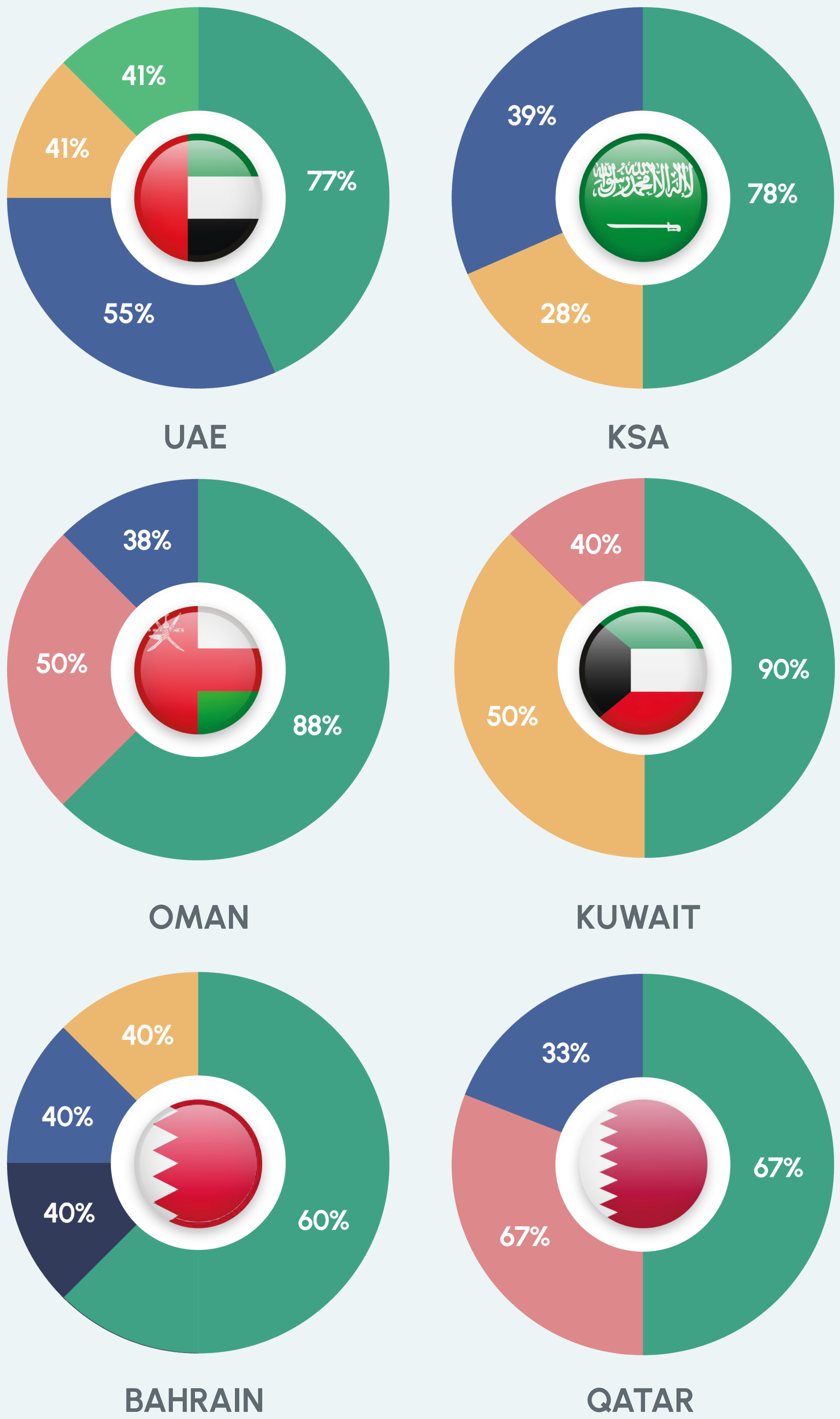
Of the 37% of survey respondents who are not currently publicly reporting any sustainability-related information, a large proportion (45%) are planning to do so in the future. While this insight presents an optimistic view of the future of public disclosure and reporting, it cannot be said for certain whether this will be done as a proactive measure, or simply if more companies are going public and would have to report out of regulatory compliance.

Reporting Standards Alignment by GCC Country

Our data on the alignment of different reporting frameworks by country show the following trends:

- Consistent with our 2022 study, the most popular reporting framework to which companies across the GCC tend to align their reports continues to be the Global Reporting Initiative (GRI)
- Bahrain has the highest percentage of survey respondents aligning their reports to the new IFRS Standards
- Sustainability Accounting Standards Board (SASB) is mainly used by companies from UAE, KSA, Kuwait and Bahrain

- The Global Reporting Initiative (GRI)
- UN Global Compact (UNGC)/ Communication on Progress (COP)
- The Sustainability Accounting Standards Board (SASB)
- IFRS Sustainability Disclosure Standards (IFRS SDS)
- Task Force on Climate-Related Financial Disclosure (TCFD)
- Relevant Stock Market ESG Index



Top drivers to publicly report and disclose non-financial related information

83% Stakeholder expectations

67% Regulatory compliance

48% Risk management

32% Access to capital

Disclaimer: respondents could select multiple options

The survey asked respondents what the main drivers were for their company to publicly report and disclose non-financial related information. While regulatory compliance has traditionally been a leading factor, stakeholder expectations emerged as the dominant driver in this 2023 survey, with 83% of companies citing it as the primary reason. This indicates a growing recognition of the importance of addressing stakeholder concerns and building trust. It also highlights a positive trend towards a more stakeholder-centric approach, with companies recognising the value of transparency and accountability.

Regulatory compliance remains a significant factor, with 67% of survey respondents citing it as a key driver. This continues to emphasise the role of regulatory frameworks in shaping ESG disclosure practices.

Emerging Topics & Stakeholder Expectations

Out of the options provided, Board of Directors and Top Management were consistently ranked as the stakeholder groups demanding the most transparency on ESG-related information, with 69% and 63% of respondents citing them, respectively. This highlights the critical role of leadership in driving transparency and accountability.

Which stakeholder group do companies believe is demanding the most transparency on ESG-related information?

69% Board of Directors

63% Top Management

61% Investors

58% Government/ Regulators

Disclaimer: respondents could select multiple options

Surprisingly, data shows that it is internal stakeholders (like Board of Directors and Top Management), rather than external ones (like Investors), who are leading the push for ESG transparency within companies in the GCC. This may show an intrinsic desire for GCC companies to adopt more mature ESG practices and highlights a growing recognition of sustainability's importance.

Awareness of Newly Introduced IFRS Sustainability Disclosure Standards

YES 51%

NO 16%

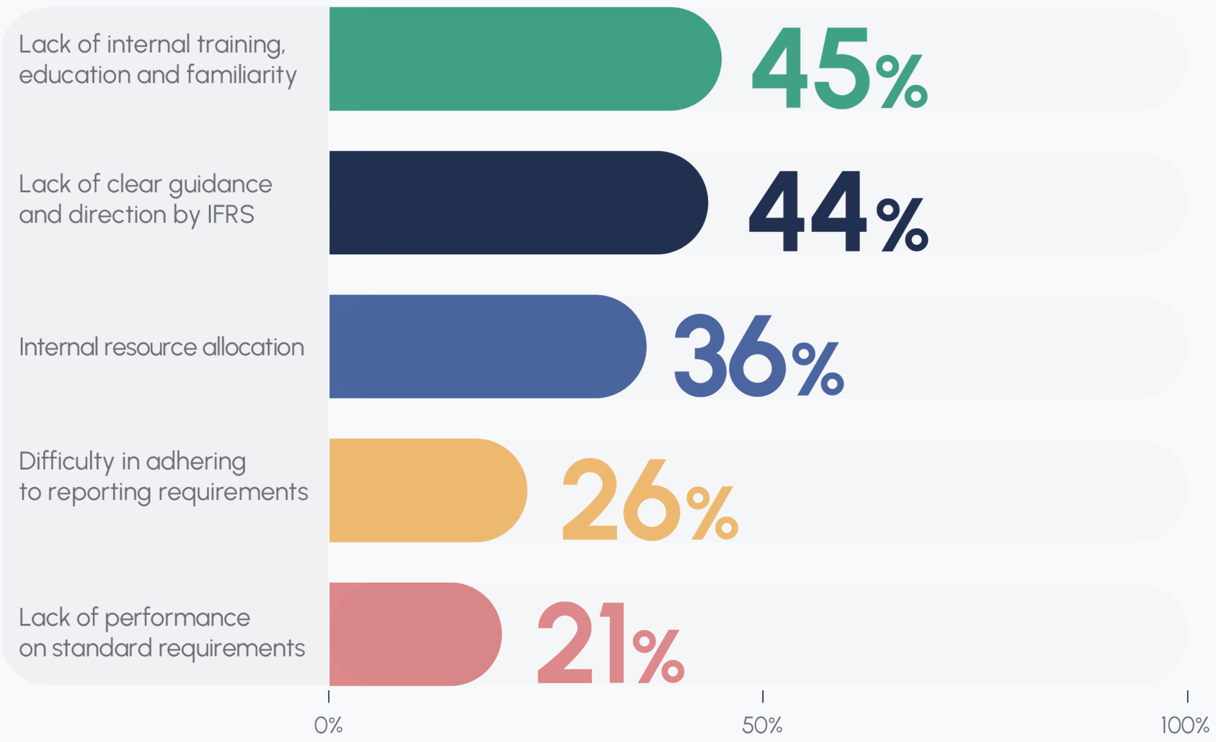
Unaware 33%

The survey asked respondents if they were aware of the newly introduced IFRS Sustainability Disclosure Standards developed by The International Sustainability Standards Board (ISSB). In response, a significant majority (67%) of survey respondents said they are aware of the newly introduced standards.

Additionally, companies were asked if they were planning to report in accordance with the new standards and once again, a majority of survey respondents (51%) indicated their intention to do so in alignment with these new standards.

This positive sign may indicate how companies in the GCC are up to date with global trends, allowing for better consistency and comparability, are evolving and innovating to provide foreign investors with confidence, and are truly evaluating their material sustainability risks for improved risk management and overall resiliency.

Potential challenges companies are facing regarding the new IFRS Sustainability Disclosure Standards



Disclaimer: respondents could select multiple options

When asked about the potential challenges that companies are either facing or foresee facing in trying to report in accordance with the new IFRS sustainability standards, the most cited obstacle is the lack of internal training, education, and familiarity with the new standards, noted by 45% of survey respondents.

Additionally, 44% of survey respondents highlighted the need for clearer guidance and direction from the IFRS. Other challenges identified include internal resource allocation constraints (36%), difficulties in adhering to the reporting requirements (26%), and uncertainty about the ability to meet the standard requirements (21%).

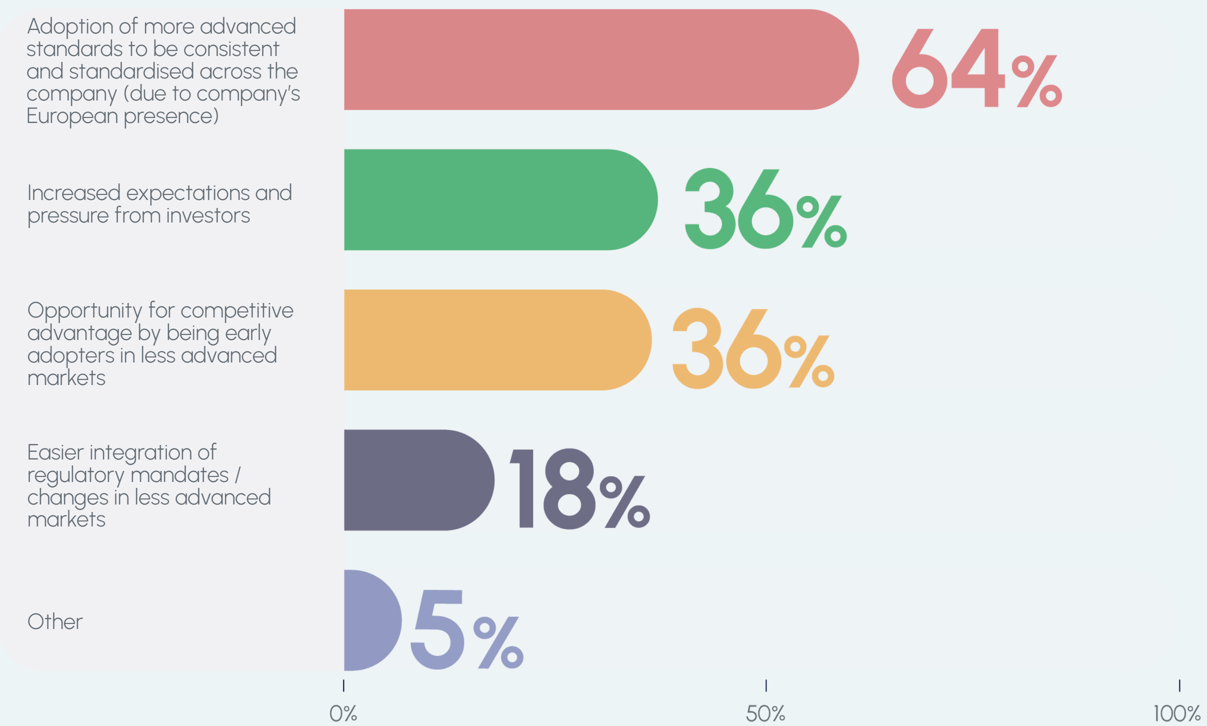
To address these challenges, it is imperative to prioritise increased capacity building and the development of more specific and practical guidance. By investing in training and providing clear guidance, companies can effectively implement the IFRS sustainability standards and enhance their sustainability reporting practices.

Influence of the Corporate Sustainability Reporting Directive (CSRD) on companies in the GCC

The Corporate Sustainability Reporting Directive (CSRD) is a new European Union (EU) regulation that requires large companies to disclose detailed information about their environmental and social impacts. The CSRD aims to drive transparency and accountability, to allow for more informed data driven decision making.

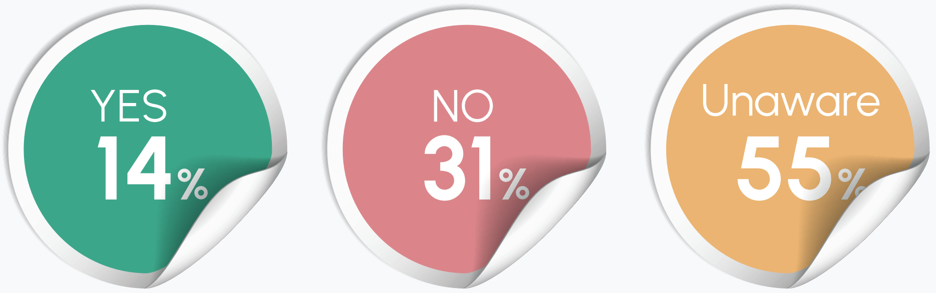
The survey assessed the influence and impact of CSRD on reporting practices in the GCC. While 21% of respondents noted that the CSRD is influencing their company's reporting and disclosure in the GCC, 35% of survey respondents no influence, while 44% were unaware of any potential impact.

For those impacted by the CSRD, the primary influence was the adoption of more advanced reporting practices to be consistent and standardised across the company. 64% of survey respondents highlighted this new task of consistency in advanced reporting even for their GCC entities due to their company's European presence, while 36% noted increased expectations and pressure from investors. Additionally, 36% viewed the CSRD as an opportunity to gain a competitive edge by being early adopters in less advanced markets.



Disclaimer: respondents could select multiple options

Is the new Carbon Border Adjustment Mechanism (CBAM) impacting your company?



The Carbon Border Adjustment Mechanism (CBAM) is a new European Union (EU) policy that imposes a carbon tax on imports from countries with less mature climate policies, aimed at encouraging global decarbonisation.

The survey assessed the potential impact of the CBAM on companies in the GCC region. While 14% of survey respondents indicated that they are or will be affected by the CBAM, a significant majority (55%) expressed uncertainty or unawareness of its implications. Only 31% of survey respondents foresee no impact. This data highlights a need for increased awareness and understanding of the CBAM and its potential consequences on businesses globally. As the CBAM is implemented, companies should carefully evaluate its implications and take proactive steps to mitigate any potential pitfalls.

ESG Priorities

Survey participants were presented with a detailed list of Environmental, Social, and Governance (ESG) priorities and asked to select their top three. The most frequently identified ESG priorities were:

GHG Emissions | Climate Change | Water and Waste Management

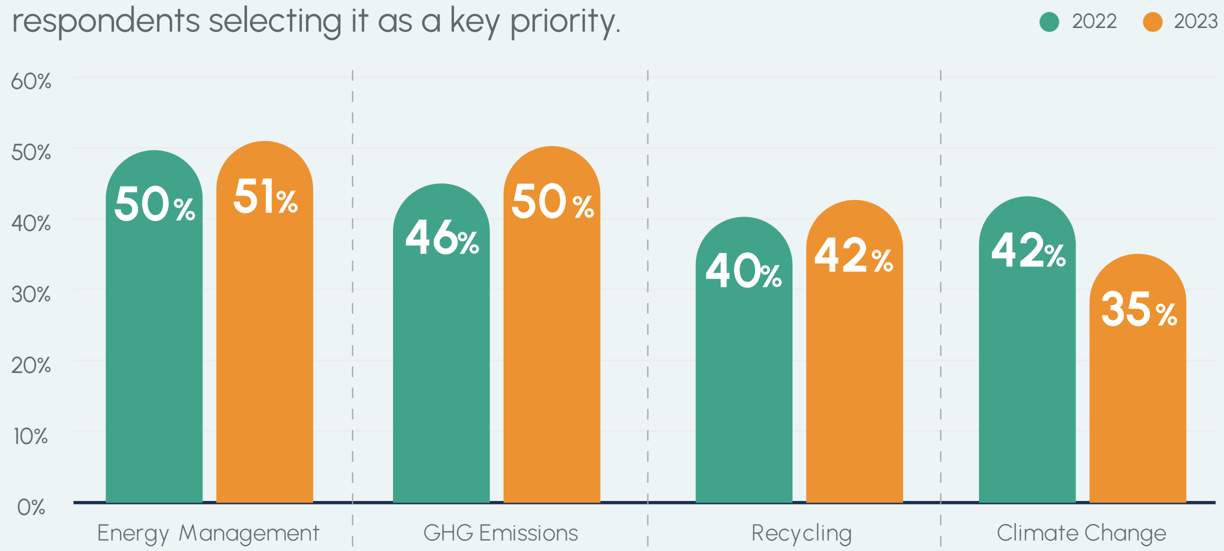
While GHG Emissions was the third highest priority topic in 2022, we see it climb in importance as it is now identified as the number one ESG priority for 2023 survey respondents in the GCC.

Industry Analysis of Top ESG Priorities

Financial Services Sector	- Climate Change - Diversity & Equal Opportunity - GHG Emissions - Business Ethics	- Recycling - Customer Privacy - Employee Engagement - Renewable Energy
Tech, Media & Communication Sector	- Customer Privacy - Diversity & Equal Opportunity - Employee Engagement - Local Communities - Business Ethics	- Climate Change - Recycling - GHG Emissions - Internal Controls & Audits - Renewable Energy
Oil & Gas Sector	- GHG Emissions - Climate Change - Occupational Health & Safety	- Recycling - Waste & Hazardous Materials Management - Water & Wastewater Management
Services Sector	- Recycling - Water & Wastewater Management - Business Ethics	- Customer Privacy - Employee Engagement - Renewable Energy

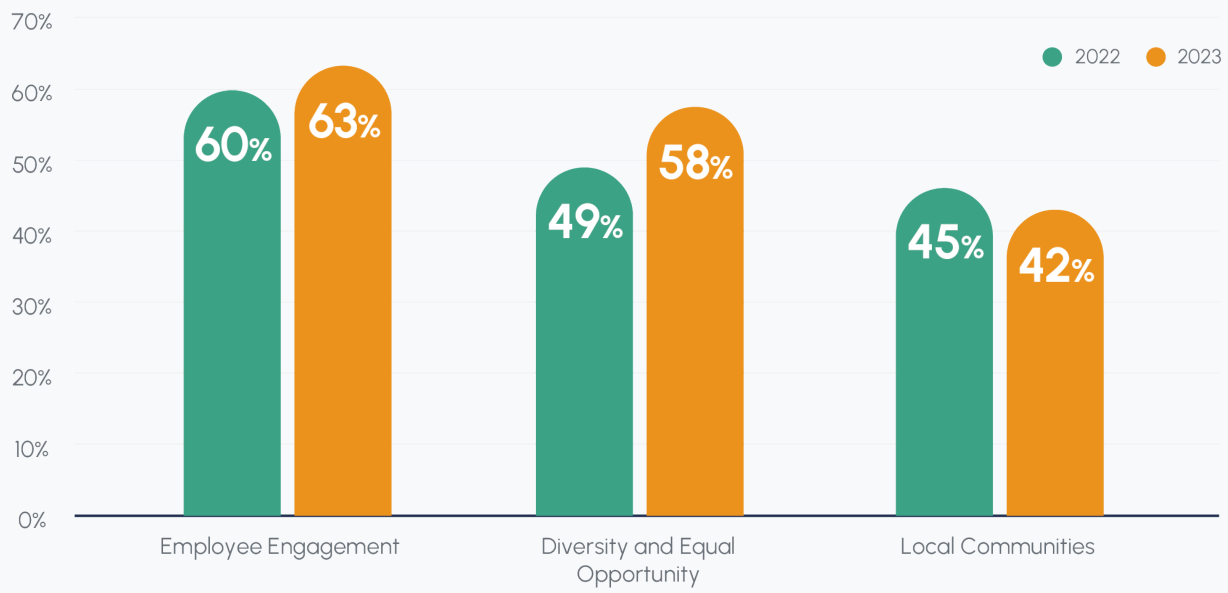
Top Environmental Priorities

In both 2022 and 2023, the top two Environmental priorities remained consistent: Energy Management and GHG Emissions. Energy Management saw a slight increase from 50% in 2022 to 51% in 2023, while GHG Emissions rose more significantly from 46% to 50%. In 2022, Climate Change was the third highest Environmental priority at 42%, but in 2023, Recycling took its place with 42% of respondents selecting it as a key priority.



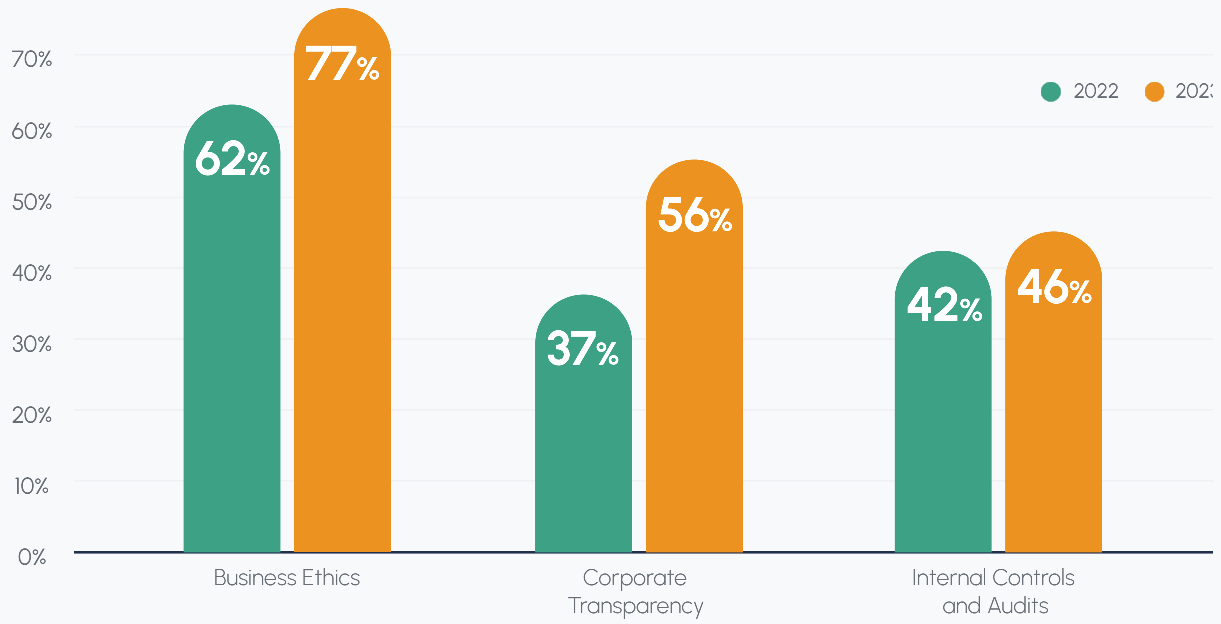
Top Social Priorities

In both 2022 and 2023, survey respondents consistently selected the same top three Social priorities for their businesses: Employee Engagement, Diversity and Equal Opportunity, and Local Communities. Employee Engagement rose from 60% in 2022 to 63% in 2023, and Diversity and Equal Opportunity increased from 49% to 58%. Although Local Communities remained the third highest priority in 2023, there was a slight decrease from 45% to 42%.

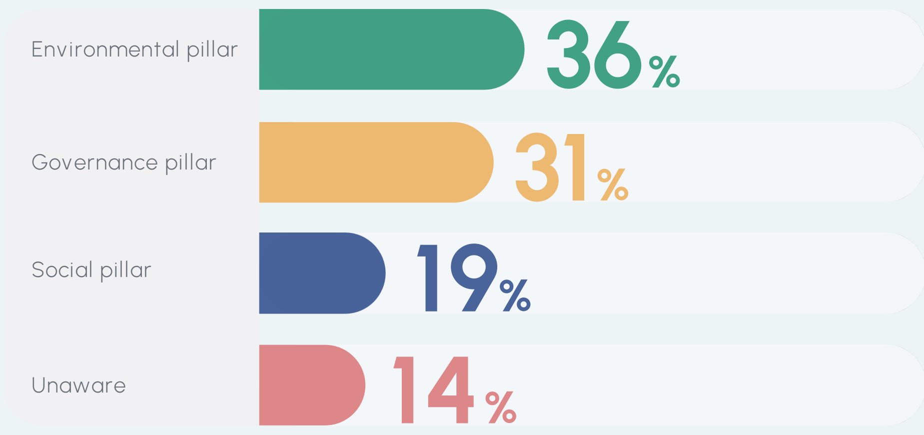


Top Governance Priorities

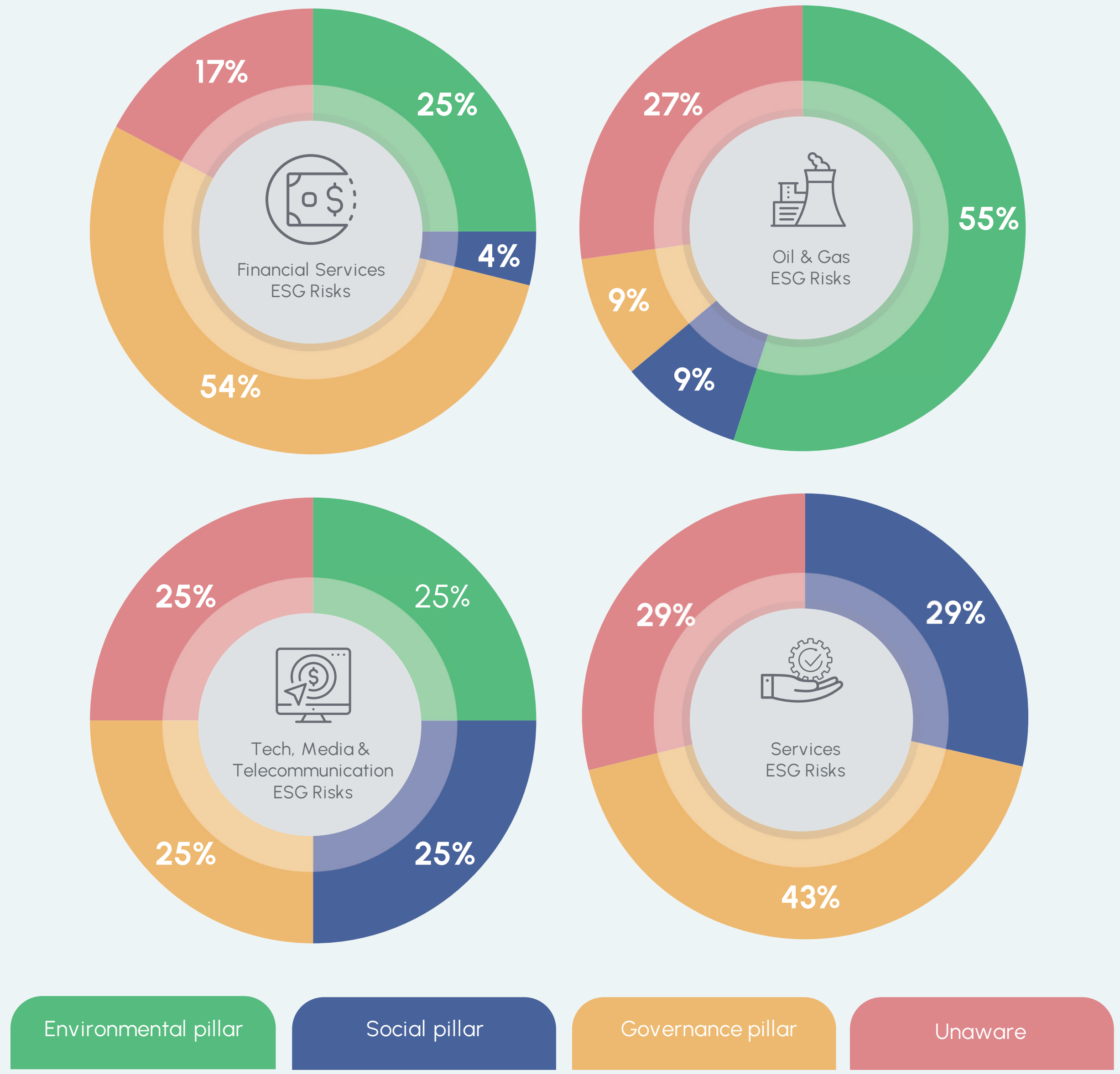
In 2022 and 2023, the Governance priority topics remained consistent, though the hierarchy of some topics shifted. Business Ethics remained the top priority, rising from 62% to 77%. In 2023, Corporate Transparency became the second highest priority, with a significant increase from 37% to 56%. While Internal Controls and Audits ranked higher in 2022, it still saw an increase from 42% to 46% in 2023.



Which ESG Pillar Posed the Most Risk for Companies?



ESG Risks Analysis by Industry



Prioritisation of Female Leadership and Gender Equality

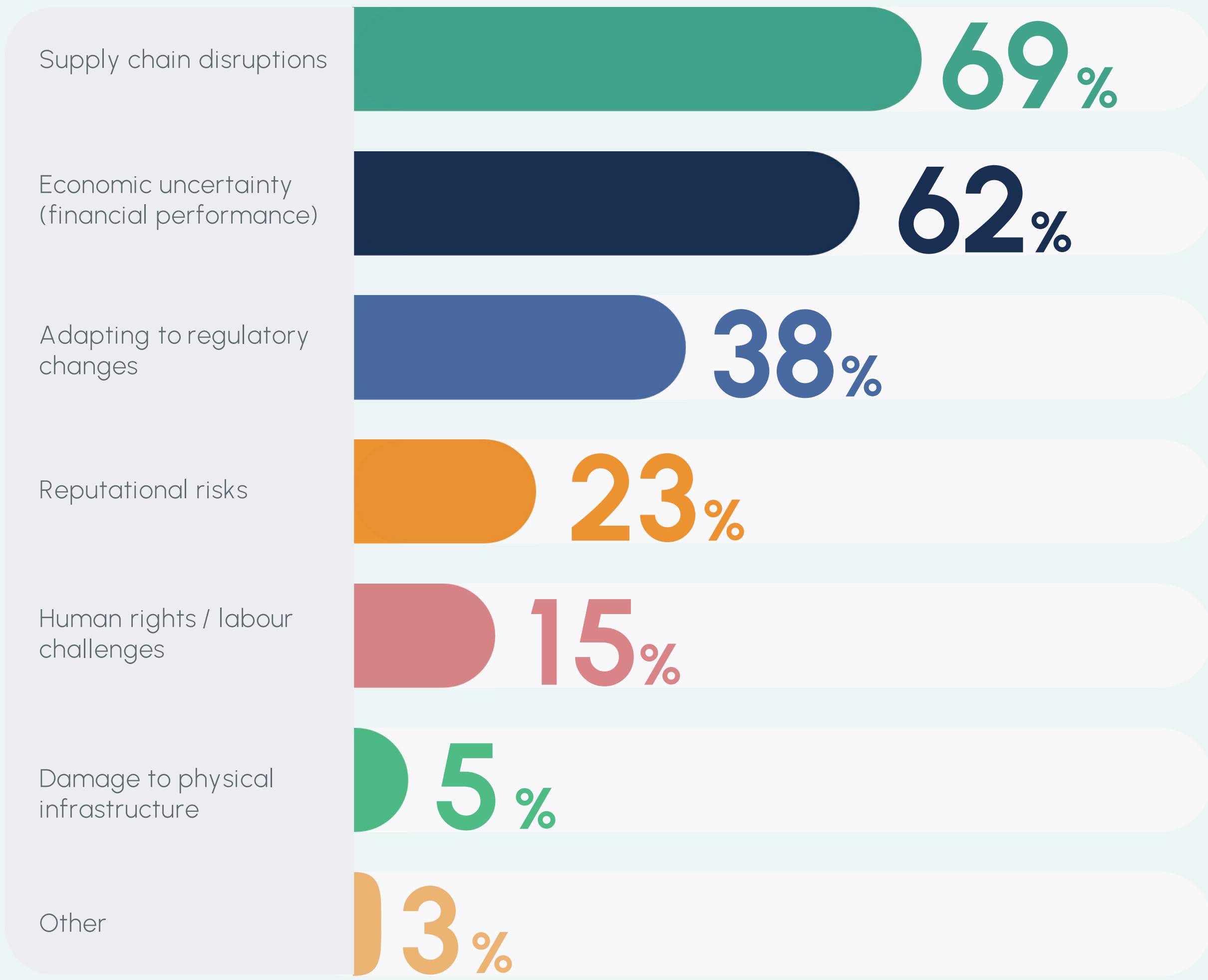
Are companies actively prioritising female leadership and gender equality for a fair and inclusive economy?

The 2023 survey assessed companies' commitment to gender equality and female leadership in the GCC. A significant majority (80%) of survey respondents indicated that their companies actively prioritise these efforts. We could be seeing the emergence of female leadership and gender equality as a growing number of GCC countries are establishing policies and laws to ensure fair representation of women in the workplace and in key senior positions, and thus, companies are recognising the importance of following such practices too.

Are companies discussing geopolitical risks at a Board level?

When asked whether companies are discussing geopolitical risks at a board level, 48% of respondents confirmed that such discussions are taking place, 13% indicated that they are not, and 39% expressed unawareness. The data indicates the need for greater transparency, engagement and open dialogue on the matter of geopolitical risks. Doing so can enable companies to mitigate risks better, identify opportunities, and build resilience in an increasingly volatile global environment.

Impact of unexpected geopolitical risks

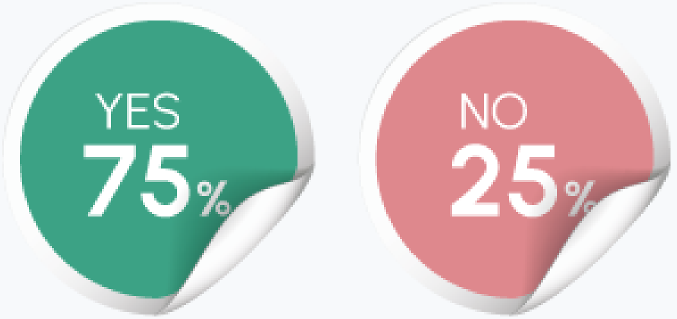


The survey further explored the impact of unexpected geopolitical risks on businesses in the GCC region. While 38% of respondents confirmed having been impacted by geopolitical risks, 28% reported no effects, and 35% were unaware of any influence.

For those affected by geopolitical risks, supply chain disruptions were the most common consequence, cited by 69% of survey respondents. Economic uncertainty impacting financial performance was also a significant concern for 62%. Additionally, 38% of survey respondents faced challenges in adapting to regulatory changes due to unexpected geopolitical risks.

Incorporation of ESG Factors

Are companies incorporating ESG factors into their business?



Top three drivers for incorporating ESG factors

65% Compliance with Regulations and Policies

49% Corporate Values and Culture

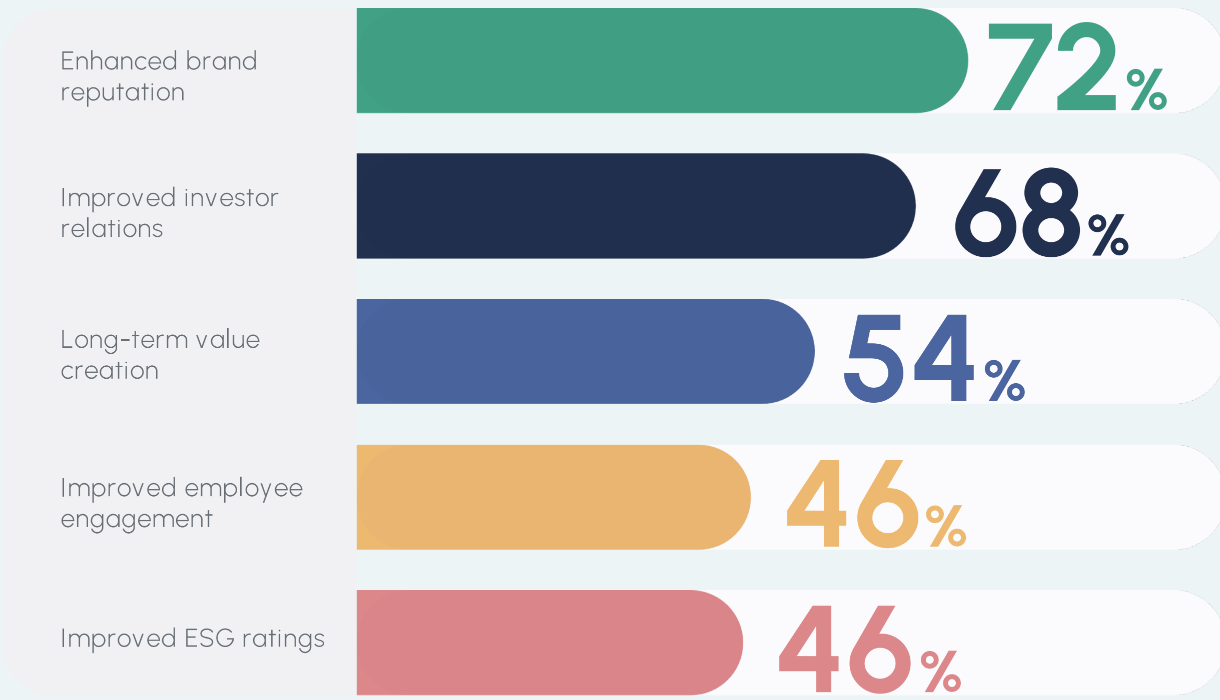
32% Improved ESG Ratings

The primary drivers for incorporating ESG factors as per survey respondents included compliance with regulations and policies at 65% and corporate values and culture at 49%. This is consistent with the findings in our 2022 study where the top drivers were compliance and corporate values at 64% and 43% respectively. Improved ESG ratings has emerged as a new key driver, seeing growth from 17% in 2022 to 32% in 2023.

Have companies experienced any benefits from implementing ESG factors into their business?

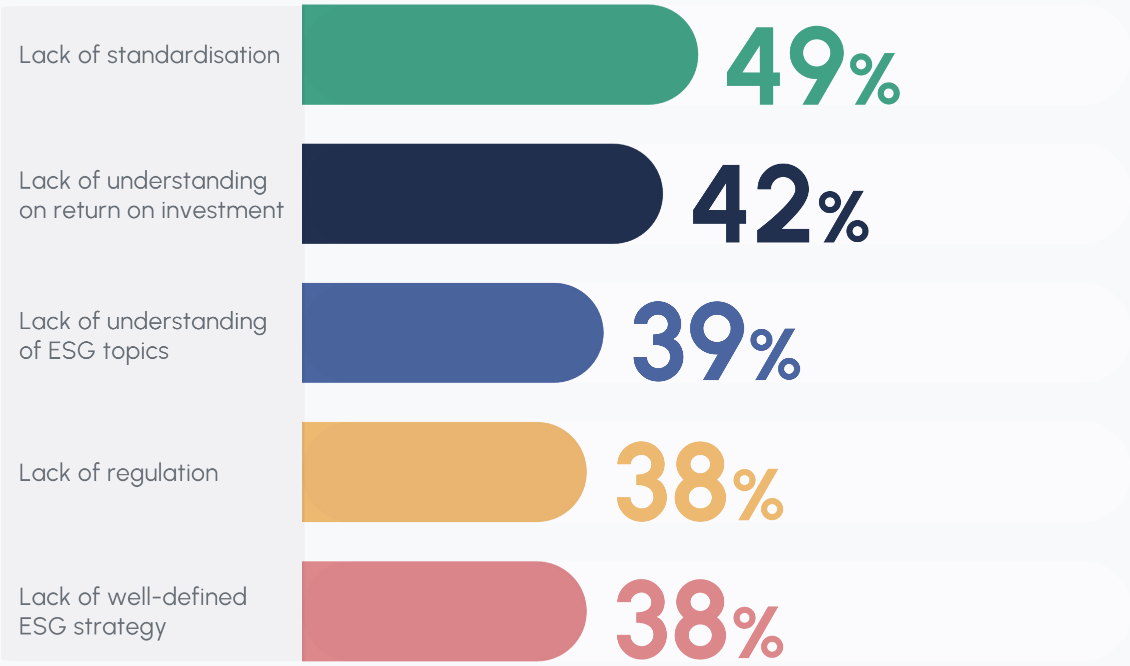
Benefits of incorporating ESG factors

When asked what benefits have been experienced as a result of incorporating ESG factors, most respondents selected enhanced brand reputation, which is consistent with our 2022 study findings. We see an increase in this aspect from 59% in 2018 to 72% in 2023. Interestingly, improved investor relations also significantly increased from 43% in 2022 to 68% in 2023.



Disclaimer: respondents could select multiple options

What are the Top Challenges Companies are facing regarding ESG Integration?



Disclaimer: respondents could select multiple options

Anticipation of upcoming regulation regarding sustainability / ESG practices

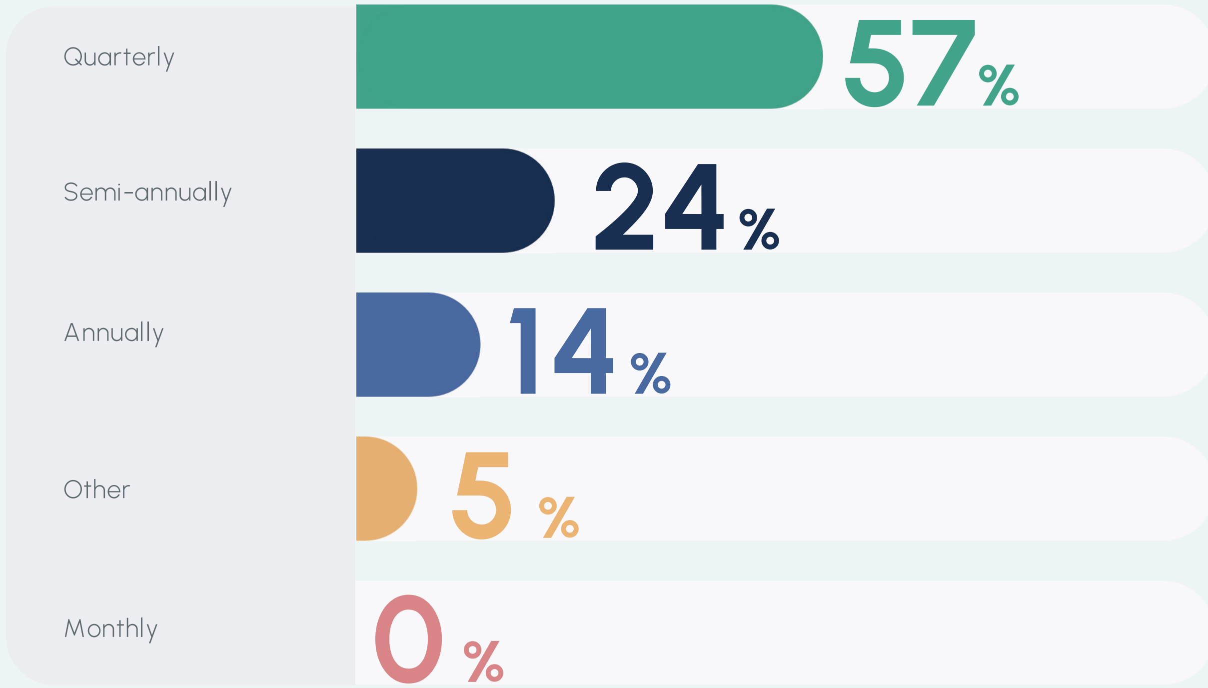
A significant majority (48%) of survey respondents anticipate the introduction of new industry-specific ESG regulations. While 20% foresee no changes, 32% remain unaware. Among those expecting new regulations, prominent examples involve implementation of IFRS sustainability-related standards, CSRD, CBAM, localised ESG banking frameworks, and GCC Carbon Markets related regulations.

Sustainability at a Board-level Discussion

Are companies discussing ESG risks and opportunities at a board level?

When asked whether companies are discussing ESG risks and opportunities at a board level, 61% of survey respondents said yes reflecting a substantial increase from the 51% reported in our 2022 study. This demonstrates a growing recognition among boards of the importance of ESG considerations in strategic decision-making. Board level discussions of ESG risks and opportunities allow for better strategic alignment, risk management, regulatory compliance, reputation management, innovation, employee satisfaction and overall resilience.

How often are companies' boards discussing ESG risks and opportunities?

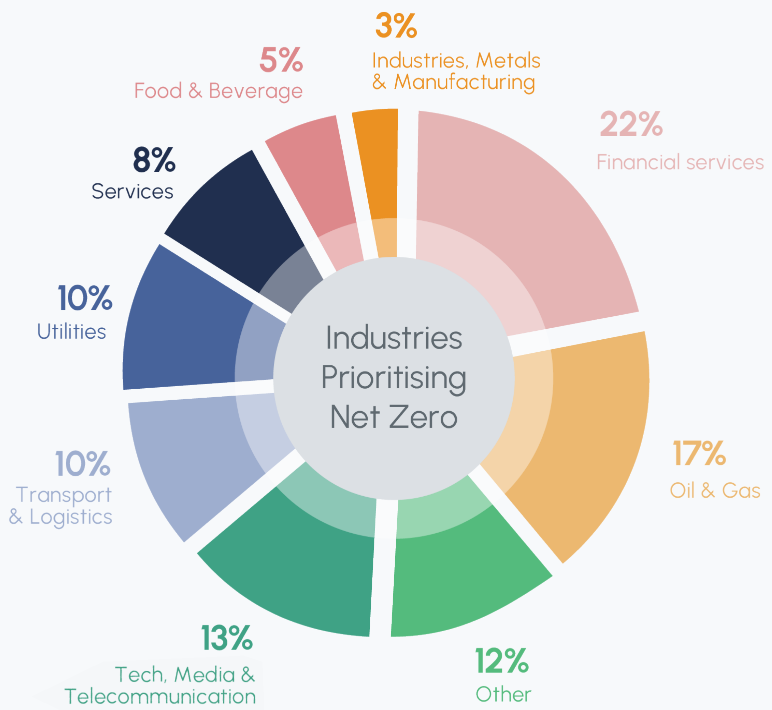


Of the 61% of respondents that discuss ESG risks and opportunities at a board level, 57% of them said they discuss ESG risks and opportunities quarterly, which is an increase from our 2022 study which indicated 43% of them discussing quarterly. We see a decrease in percentage of companies discussing ESG risks and opportunities annually from 23% in 2022 to 14% in 2023. This is a positive indication as companies are recognising the need for continuous, ongoing and regular sustainability-related discussions for long-term value creation.

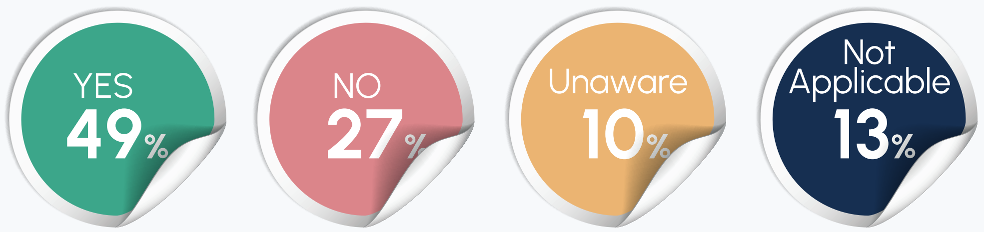
Net Zero and Climate Transition

Industries Prioritising Net Zero

The chart shows that from the survey respondents that answered that they have a net zero strategy in place, the majority were from the Financial Services and Oil & Gas Industries.



Does your company have a short-term plan (with interim GHG emission reduction targets), to reach its net zero strategy?



Among companies with any form of sustainability/ESG strategy or policy in place, a large section of them (49%) have developed short-term plans to achieve their net zero targets. This indicates a growing commitment to climate action and a recognition of the need for concrete steps to reduce greenhouse gas emissions.

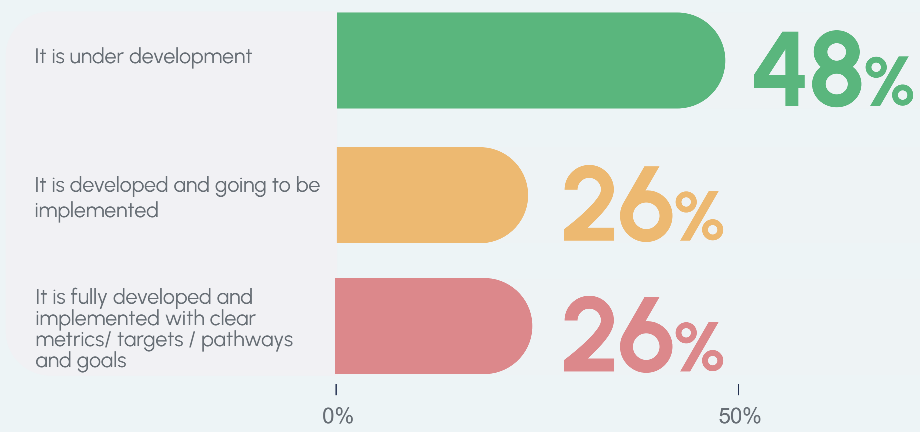
However, there is still work to be done despite the prevalence of short-term plans since a considerable portion of companies (37%) either do not have such plans or are unaware of their existence. This highlights that while there is a general understanding of the importance of net zero, there are potential knowledge gaps and challenges in developing and implementing effective short-term strategies which may hinder companies' ability to effectively address climate change.

Does your company have a climate transition action plan?

A Climate Transition Action Plan is forward-looking actions taken in the near-term to align internal strategies of your organisation and external climate and energy policy advocacy to reduce GHG emissions in line with a 1.5°C pathway and achieve a just transition (such as supporting your existing workforce, suppliers, customers/communities) for a net zero ambition.

When asked about the presence of a climate transition action plan, a concerning 58% of survey respondents indicated that their companies do not have one in place, with an additional 16% of survey respondents unaware of the matter overall. Only 26% of survey respondents reported having a climate transition action plan. This alarming data highlights a critical gap in climate preparedness to address the risks and challenges posed by climate change and underscores the urgent need for immediate action to address the climate crisis.

Maturity of Climate Transition Action Plans



Among companies that mentioned they had a climate transition action plan, only 26% of companies reported having a fully developed and implemented plan with clear metrics, targets, pathways, and goals. Nearly twice as many companies indicated that their plans were still under development, while another 26% had developed plans that remained to be implemented. The data suggests a significant gap between the intention to address climate change and the concrete actions required to achieve meaningful progress. It is imperative for companies to accelerate the development and implementation of comprehensive and actionable climate transition plans to address the climate crisis.

Is your company currently using carbon credits to help meet Net Zero goals and targets?

YES 9% | NO 63% | Unaware 15% | Not Applicable 13%

Carbon credits can be used to offset emissions that are difficult or costly to reduce directly, helping companies achieve their climate targets more efficiently. Despite the growing importance of carbon credits in achieving net zero goals, most companies in the GCC region are not currently utilising them. Only 9% of respondents indicated that their companies are employing carbon credits to offset emissions and contribute to climate mitigation.

A significant portion (63%) are not using carbon credits, while 15% are unaware of their potential benefits. This significant gap could be due to several challenges, such as high cost, lack of high-quality and credible carbon credits, and reputational risks surrounding the use of carbon credits to offset emissions.

To accelerate progress towards net zero, companies in the GCC should explore the use of carbon credits as a valuable tool. However, it must be noted that only verifiable and credible carbon credits should be used to complement the company's efforts in emissions reduction. The primary focus must be on implementing strategies and deploying technologies that directly reduce emissions.

By supporting high-quality carbon credit projects, companies can also generate co-benefits by contributing to sustainable development and biodiversity conservation.

Acquisition of carbon credits

44% Voluntary market | 33% Compliance market | 22% Unaware

Among companies that mentioned they currently use carbon credits to help meet their Net Zero goals and targets, a large proportion of companies (44%) source them from the voluntary market. This likely provides flexibility and opportunities to support specific environmental projects. Another 33% of survey respondents source their credits from the compliance market, often driven by regulatory requirements or compliance obligations. However, 22% of survey respondents remain unaware of the origin of their carbon credits, highlighting a need for greater transparency and traceability in carbon credit markets.

Future demand for carbon credits to help meet net zero goals / targets

YES 43% | NO 27% | Unaware 30%

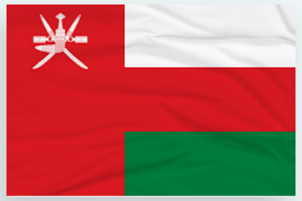
Despite not currently using carbon credits, 43% of survey respondents foresee the need for them in the future. This suggests a growing recognition of the potential role of carbon credits in achieving climate neutrality. However, 27% of companies do not anticipate a future need, while 30% remain uncertain. This indicates a range of perspectives on the role of carbon credits and highlights the need for further education on the role of carbon credits and how they can be an effective tool in the achievement of Net Zero aspirations.

Top GCC Countries Prioritising Net Zero

Mirroring the findings of our 2022 study, among the companies that reported having a Net Zero strategy in place in 2023, the UAE, Kingdom of Saudi Arabia, and Oman once again remain the top three GCC countries prioritising this initiative.

1  United Arab Emirates

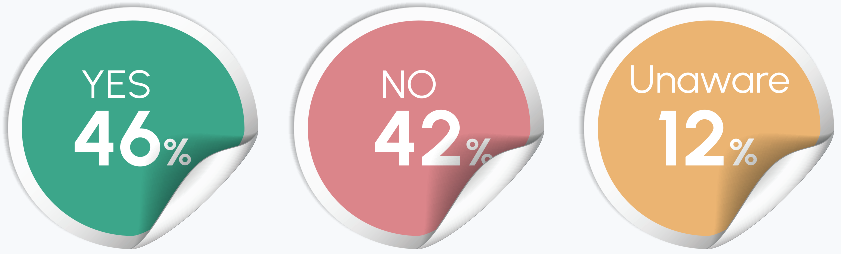
2  Kingdom of Saudi Arabia

3  Oman

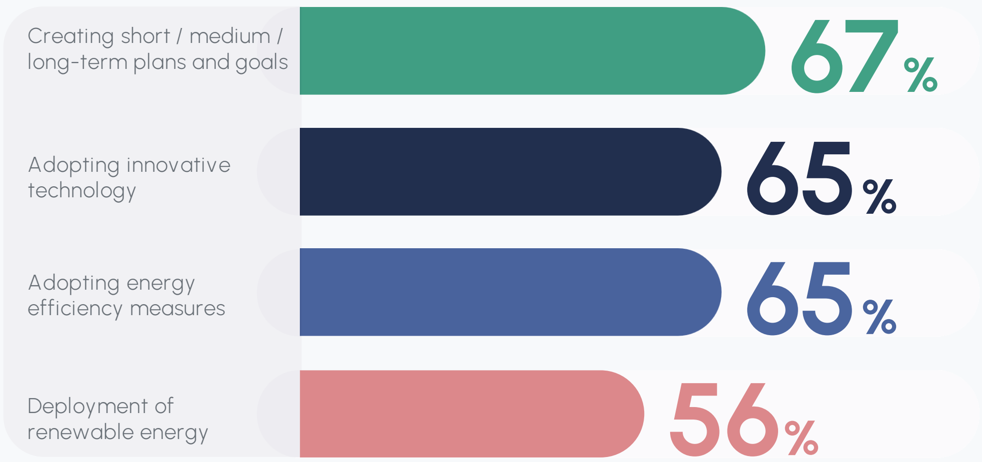
Disclaimer: This is reflective of the breakdown amongst the respondents for the survey only, actual country prioritisation of Net Zero may differ

Are companies implementing any initiatives to transition to a Net Zero economy?

A slight majority (46%) indicated that their companies are implementing initiatives to transition to a net zero economy, reflecting an increase from 2022's 41%. However, a significant portion (42%) remain inactive in this aspect, which is consistent with the 2022 findings. This suggests that companies may be facing challenges in implementing net zero strategies potentially due to a lack of clear guidance, resources, expertise and external support in how to embark on this journey.



What initiatives are companies implementing to transition to a Net Zero economy?



Disclaimer: respondents could select multiple options

We are seeing a growing percentage of companies creating short / medium / long-term plans and goals to transition to a net zero economy from 56% in 2022 to 67% currently. This growth indicates a potential increased awareness within companies in the GCC of the benefits of having clear plans in place that allow them to be able to consistently track progress over time, to evaluate costs appropriately and to be able to mitigate risks in a timely and cost-effective manner.

We also see an increase in companies adopting energy efficiency measures from 54% in 2022 to 65% in 2023. This could be associated to the 49% of respondents who noted earlier having interim GHG emissions reduction targets, which requires them to frontload their emissions. In climate targets, frontloading emissions refers to the strategy of accelerating the reduction of GHG emissions early in a company's transition to net zero. Energy efficiency is the most direct and feasible path for a company in accelerating emissions reduction.

Industry Analysis of Net Zero Initiatives

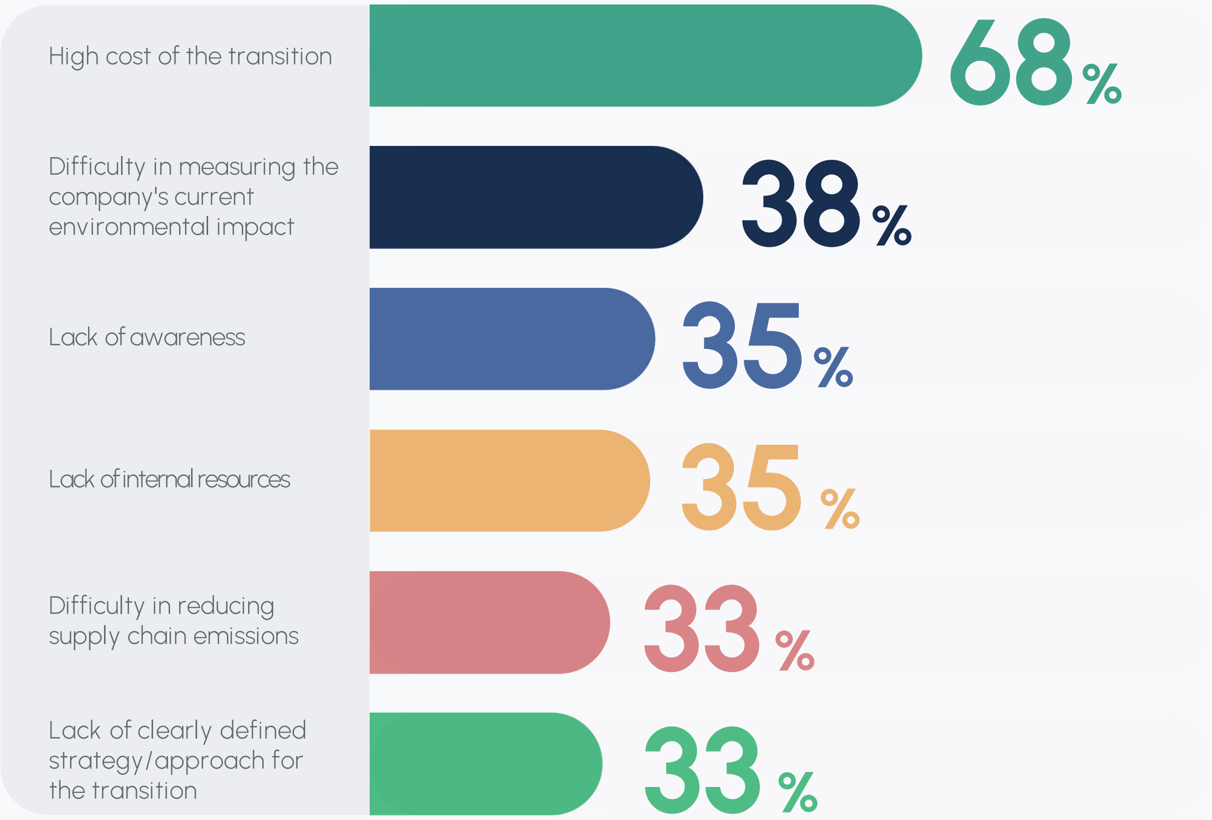
Top 4 Industries and their most prevalent Net Zero initiatives:

Financial Services Sector	- Creating short / medium / long-term plans and goals - Financing / investing in a green economy - Deployment of renewable energy - Adopting energy efficiency measures
Tech, Media & Communication Sector	- Adopting innovative technology - Adopting energy efficiency measures - Creating short / medium / long-term plans and goals - Implementing resource efficiency and waste management initiatives - Reducing emissions across the value chain (scope 3 emissions) - Setting targets using the Science-Based Targets initiative
Oil & Gas Sector	- Creating short / medium / long-term plans and goals - Adopting innovative technology - Deployment of renewable energy - Adopting energy efficiency measures
Services Sector	- Adopting energy efficiency measures - Financing / investing in a green economy - Reducing emissions across the value chain (scope 3 emissions) - Setting targets using the Science-Based Targets initiative - Sourcing responsibly

Are companies facing any challenges with regards to the transition to a Net Zero economy?

While 38% of respondents reported encountering challenges regarding the transition to a net zero economy, a significant improvement has been observed compared to 2022 where 42% of survey respondents faced challenges. Additionally, the percentage of companies reporting no challenges increased from 22% in 2022 to 30% 2023. These positive changes suggest that companies are becoming more aware and more knowledgeable regarding the challenges of the transition and are taking the necessary steps to address them.

What challenges are companies facing when transitioning to a net-zero economy?



Disclaimer: respondents could select multiple options

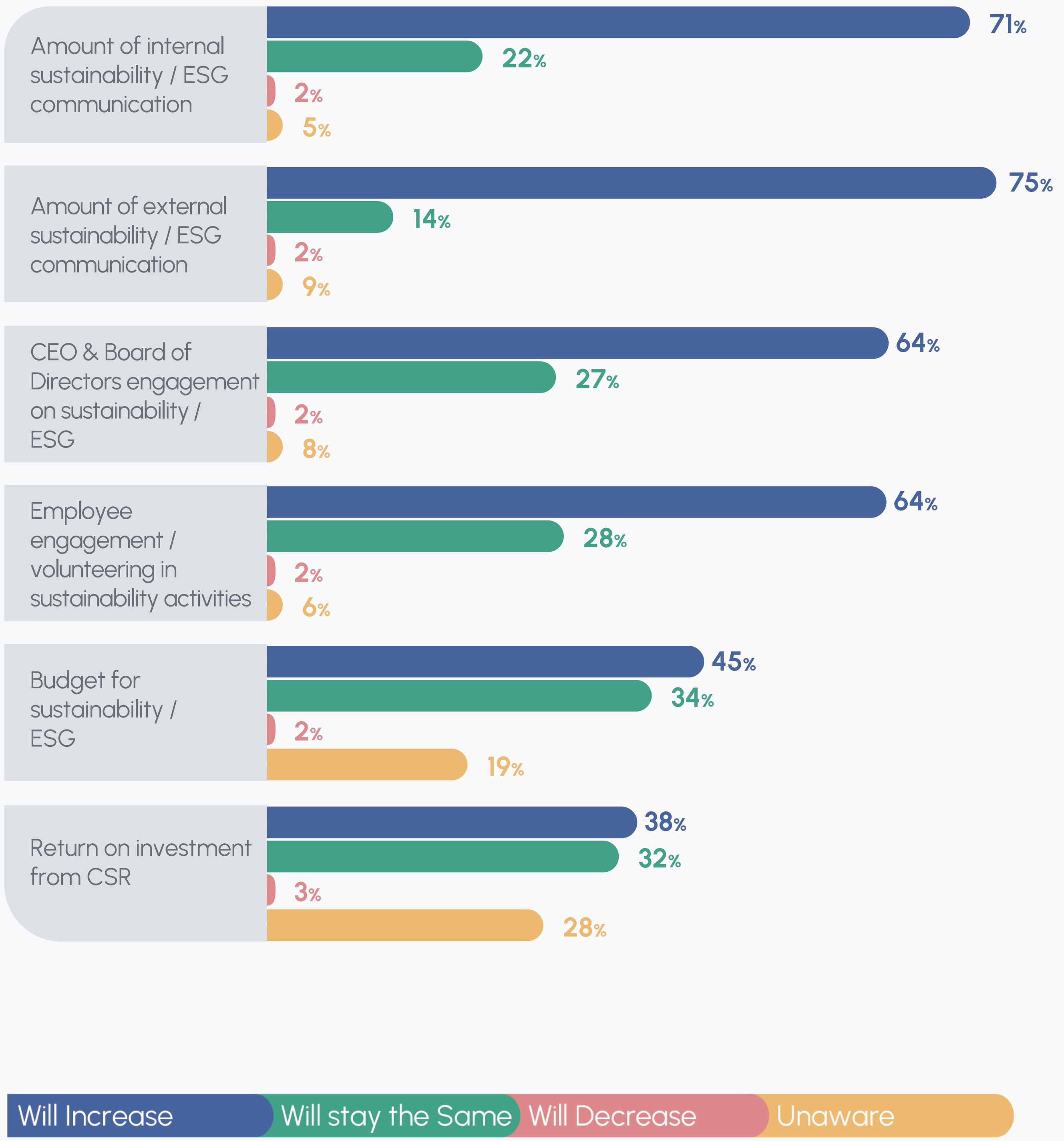
Awareness of Nationally Determined Contributions (NDCs)

Nationally Determined Contributions (NDCs) are crucial for addressing climate change. They outline countries' commitments to reducing greenhouse gas emissions and adapting to climate impacts. The survey revealed that the majority of respondents (52%) were unaware of the country's NDCs where their HQ was located. Only 48% of respondents were aware of these national climate pledges, highlighting a need for increased awareness and understanding of their significance.

Are companies noticing a shift in consumer preferences towards companies that adhere to ESG standards?

Future Outlook

How respondents predict their sustainability practices to evolve over the next 12 months?



Best Practices & Key Takeaways

Prioritise alignment of ESG initiatives and strategies with national climate goals

Businesses in the GCC region must be aware of their country's Nationally Determined Contributions (NDCs) to effectively contribute to climate goals. NDCs outline national commitments to reducing greenhouse gas emissions and adapting to climate change. However, our survey found that only 48% of survey respondents were aware of these national climate pledges. By understanding their country's NDCs, companies can identify opportunities to align their operations and strategies with national climate objectives. This alignment can enhance reputation, tackle climate risks, unlock more green government funds and aid the government in building a more sustainable future.

Adopt innovative technology to increase overall sustainability management

Adopting innovative technology is essential for companies in the GCC to achieve their ESG and climate action goals. Emerging technologies can enhance efficiency, reduce emissions, and develop sustainable solutions. By investing in innovation, companies can improve their environmental footprint, enhance operational efficiency, and contribute to a more sustainable future. Additionally, through the use of innovative technologies, companies can collect, process, and analyse vast amounts of data with greater speed and accuracy, therefore improving their overall ESG data management.

Prioritise creating a climate transition action plan

Our findings revealed that an alarming 58% of survey respondents indicated that their companies do not have a climate transition action plan in place. Companies must recognise that a well-crafted climate transition action plan is essential for businesses navigating the complexities of climate change and achieving net zero. It provides a clear roadmap, outlining specific goals, strategies, and timelines for reducing emissions and building resilience ensuring that companies are able to stay on track towards their sustainability objectives. By developing and implementing a climate action plan, businesses can demonstrate leadership, enhance their reputation, and contribute to a more sustainable future.

Enhance your business by building a more diverse workforce

Prioritising female leadership and gender equality is essential for creating a fair and inclusive economy. By empowering women, companies can tap into a vast pool of talent, leading to more innovation and better decision-making. Gender diversity enables better corporate governance, more balanced perspectives, improved problem-solving, increased employee satisfaction, and enhanced organisational performance. Embracing gender equality is not only a moral imperative but also a strategic necessity for long-term success in the GCC.

Stay ahead of the curve by embracing the latest frameworks and standards

Staying informed about the latest frameworks like the CSRD, IFRS, CBAM etc is crucial for businesses in the GCC region. These frameworks can significantly impact operations, compliance, and market positioning. Of the survey respondents, 48% anticipated the introduction of new industry-specific ESG regulations. Understanding their implications will allow companies to proactively adapt strategies, mitigate risks, and seize opportunities. By staying updated, businesses can ensure they are well-prepared for the evolving regulatory landscape and remain competitive in the global market.

Voluntarily disclose ESG information to unlock more value

Even if not mandated by regulations or stock exchanges, voluntary ESG reporting and disclosure is highly recommended as it offers significant benefits for companies. By proactively disclosing sustainability information, companies can demonstrate their commitment to responsible business practices, enhance their reputation, attract investors and build trust with key stakeholders. Voluntary reporting also helps foster collaboration among GCC companies, enabling the sharing of best practices and the development of collective solutions to sustainability challenges. This collective action can contribute to a more sustainable and resilient future for the region.

Discuss ESG risks and opportunities at a Board-Level consistently

Board-level engagement on ESG is essential for informed decision-making, responsible governance, and sustainable growth. Leading companies prioritise regular ESG discussions, at least quarterly, to assess risks and opportunities. As ESG becomes increasingly critical, companies must ensure they have robust processes to make informed decisions, drive continuous improvement, create long-term value, meet stakeholder expectations, and navigate the evolving global landscape successfully.

SUSTAINABLE SQUARE

About Sustainable Square

SUSTAINABLE SQUARE

Headquartered in the UAE, Sustainable Square stands at the forefront of global advisory firms, specialising in the strategic elevation of sustainability in business. We provide a suite of consultancy services designed to streamline organisational sustainability, robust ESG disclosure, climate change mitigation and net zero strategies, responsible investment, and social impact.

We see ourselves as a partner for businesses, helping them navigate the complex world of ESG performance. Working to amplify the performance of businesses, we leverage our expertise and technology to support companies in becoming more transparent, responsible, and inclusive.

We customise our offerings to align with an organisation's unique sustainability goals and to ensure that your business stands out. We have conducted over 2,000 board capacity building sessions and work with managers and C-suite executives to craft sustainability roadmaps that help organisations thrive by creating value for all stakeholders.

A sustainability tech, climate tech pioneer, Sustainable Square offers SQUARELY, an innovative AI-powered ESG reporting SaaS platform that automates complex processes and tasks, using technology to save time, reduce cost and enhance collaboration.

With a proven track record, including over 380 successful projects and a 92.3% Customer Satisfaction Score, we've worked with over 170 clients to shape their ESG, responsible investing, climate action and social impact narratives.

If you would like to get in touch with our expert consultants to find out what Sustainable Square can do for your organisation's sustainability goals, reporting and disclosure please write to us at info@sustainablesquare.com or call +971 4 240 8298.