

The 2022 State of ESG in the GCC

 **SUSTAINABLE**
S Q U A R E



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www.sustainablesquare.com

Sponsored by:

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

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Introduction

At Sustainable Square, we believe that in order to achieve climate security for future generations, the work we do now must be collaborative and dynamic in order to adapt to the ever-evolving context we operate in. In the Gulf Cooperation Council (GCC) region, we've observed that one of the main challenges towards more efficient climate action is that data transparency in the region and best practices are minimal, and this knowledge sharing is required.

In meetings and conferences, data cited is usually taken from other countries or regions, such as the United States (US) and Europe, thus failing to provide insights relevant to the GCC region. Data cited on the global climate agenda is often very generic and does not properly analyse the work that is being done in this region, to the extent that is due. This has ultimately led to a lack of awareness of best practices, a lack of comprehensive solutions, and a lack of visibility for the work that is being done in the GCC region. As the UAE prepares to host COP28, we would like to shine the spotlight on the ESG trends and practices in the GCC region and provide an up-to-date and comprehensive overview of what the current ecosystem looks like in this region.

Not only can the findings of this study be used by companies to better assess and benchmark their sustainability practices on a national and regional level, but they can also be used by governments as a reference point to regulate sustainability performances in the private sector and identify where improvements can be made.

Acknowledgements

We would like to thank all of our respondents for their participation that contributed to this survey and report. We truly appreciate the time and effort you have taken towards giving us a comprehensive understanding of your work, and we hope that the action being taken towards sustainability will serve as a guide for other companies and regions.



We sincerely thank our sponsor, First Abu Dhabi Bank (FAB), a leader in the financial services sector, whose commitment to sustainable business practices in the GCC region is indisputable. FAB has made the execution of this study efficient with the invaluable support they have extended us. Additionally, we would sincerely like to thank the Middle East Investor Relations Association (MEIRA), without whom this work would not have been possible. It is the shared objective for both MEIRA and Sustainable Square to encourage transparency in the sustainability field in this region, and the MEIRA team has put in significant effort towards making this report possible. We truly appreciate the collaborative approach you have taken with us, and we hope that this report reflects the time and effort that our partners have put in.

Foreward

It gives me great pleasure to release the results of this study to the GCC market. This is a study for the region, about the region and by the region.

As Sustainable Square, our regional industry studies on ESG and sustainability provide data that captures the trends and evolution of our rapidly evolving market. I hope that as we intended, this study will be a valuable resource for decision making on ESG and sustainability and for companies to benchmark with their peers in the GCC.

As organisational sustainability becomes imperative for responsible business across the world, companies in the GCC region are compelled to align to the new regulatory dispensation. But beyond compliance, this report points to evolving corporate values as a driver for sustainability. Companies now realise that decarbonisation strategies must be integrated into business, with leadership from the board and executive being critical. As this report demonstrates, companies have grown to appreciate the risks and opportunities sustainability presents.

With over a decade of expertise in partnering with companies to outline their ESG and sustainability roadmaps, Sustainable Square is at the forefront of the transformation of business in the region. In our consultancy work, we have supported over 140 private sector clients on more than 250 projects, helped create over 10 government policies in the GCC and developed the world's first AI powered ESG report auto-drafting software. This gives us a wealth of experience on ESG and sustainability practices in the region, which we bring to bear in this study.

We had the invaluable partnership of First Abu Dhabi Bank (FAB) and Middle East Investor Relations (MEIRA) who have both demonstrated leadership in sustainability by going beyond their own organizational transformation to become champions for the cause of responsible business in the region.

We invite you to engage with us and give us feedback on this study and its impact in the GCC region. Together, let us take the path to net zero with unwavering commitment, for the benefit of our organisations, our region and the world at large.

Monaem Ben Lellahom
Group CEO
Sustainable Square

Foreward

It's a widely accepted fact: to get to net-zero, corporate entities must prioritise sustainability as an essential part of their business.

Of equal importance, this journey must be open and transparent, demonstrating impact with compelling evidence to support business leaders in navigating the challenges of decarbonisation as well as the opportunities that come with it.

Without a view into how companies are managing climate change effects or portfolio net-zero alignment, there's no way to accurately understand the financial effects of a warming planet.

Here in the Gulf, sustainability related developments have evolved rapidly in the last five years and there's now an immense opportunity to capture valuable insights from these developments to inform the path ahead.

With this in mind, Sustainable Square and First Abu Dhabi Bank (FAB) have partnered to develop the 2022 State of ESG in the GCC report.

The research undertaken for this report uses survey-based questions to identify the status of sustainability and ESG factors among corporate entities in the region.

Alongside this, the report has identified the drivers behind these trends, and it outlines the forces likely to shape the future of ESG across the region.

Amongst its findings: the report reinforces why greater access to reliable, timely, and standardised information serves to benefit institutions in managing the risks associated with climate change – specifically, highlighting how business leaders can make more effective decisions armed with this information.

At FAB, we recognise that companies need to start embedding sustainability in order to support the transition to a low carbon future.

As a regional pace-setter bank in sustainability we believe that a heightened level of transparency would bring vast benefits to the region. For a start, it would foster greater market integrity – and at the very same time, prompt corporates to improve their own environmental performance, thus creating a self-fulfilling cycle.

I believe this report provides that all-important window into the entire GCC ESG ecosystem, both present and future, serving as a valuable resource to some of the most important current issues in the world of sustainability.

Shargiil Bashir
Group Chief Sustainability Officer
First Abu Dhabi Bank (FAB)

Glossary

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.

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.

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)

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)

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)

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)

SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)

The Sustainability Accounting Standards Board (SASB) is an organization that develops and maintains sustainability accounting standards for use by publicly traded companies in the United States. SASB aims to provide standardized 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/)

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)

GREENHOUSE GAS PROTOCOL (GHG PROTOCOL)

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

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 analyzes 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/)

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 organizations 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/)

SCIENCE-BASED TARGETS INITIATIVE (SBTI)

The Science Based Targets Initiative (sbti) is a collaborative effort between organizations 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/)

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/)

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/)

UNITED NATIONS ENVIRONMENT PROGRAMME FINANCE INITIATIVE (UNEP FI)

The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between the United Nations Environment Programme and the global financial sector. UNEP FI works to mobilize the financial industry to incorporate sustainability principles into its practices, promote sustainable finance, and support the integration of environmental and social considerations into financial decision-making. (Source: www.unepfi.org/)

U.S. OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION (US OSHA)

The U.S. Occupational Safety and Health Administration (OSHA) is a federal agency responsible for ensuring safe and healthy working conditions in the United States. OSHA sets and enforces workplace safety standards, provides training and education, and conducts inspections to promote workplace safety and protect workers' rights. (Source: www.osha.gov/)

Methodology

Sustainable Square developed the survey questions based on our expertise in the ecosystem of sustainability, ESG and CSR in the Gulf Cooperation Council (GCC) region. The questions were specifically targeted at increasing general understanding about the current status of sustainability and ESG practices among companies in the region, identifying the drivers behind them and recognising future outlooks.

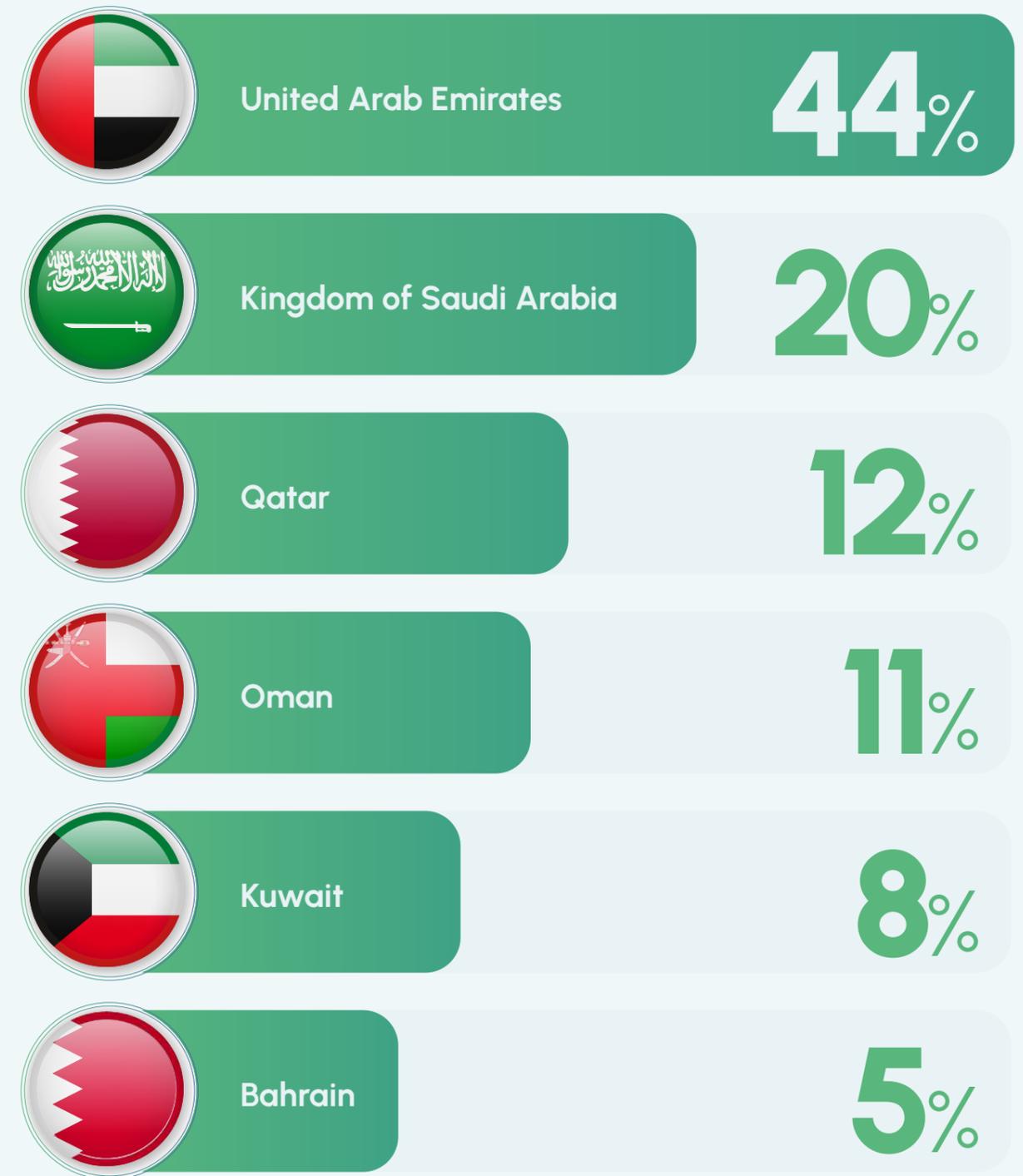
The survey was sent and shared publicly to companies across the 6 countries in the GCC region.

The nature of questions was mostly multiple choice, with an "other" option offered for almost every question, allowing respondents to give a more detailed response when the choices offered did not apply to them. To maximise efficiency and accuracy, there were limited open-ended questions.

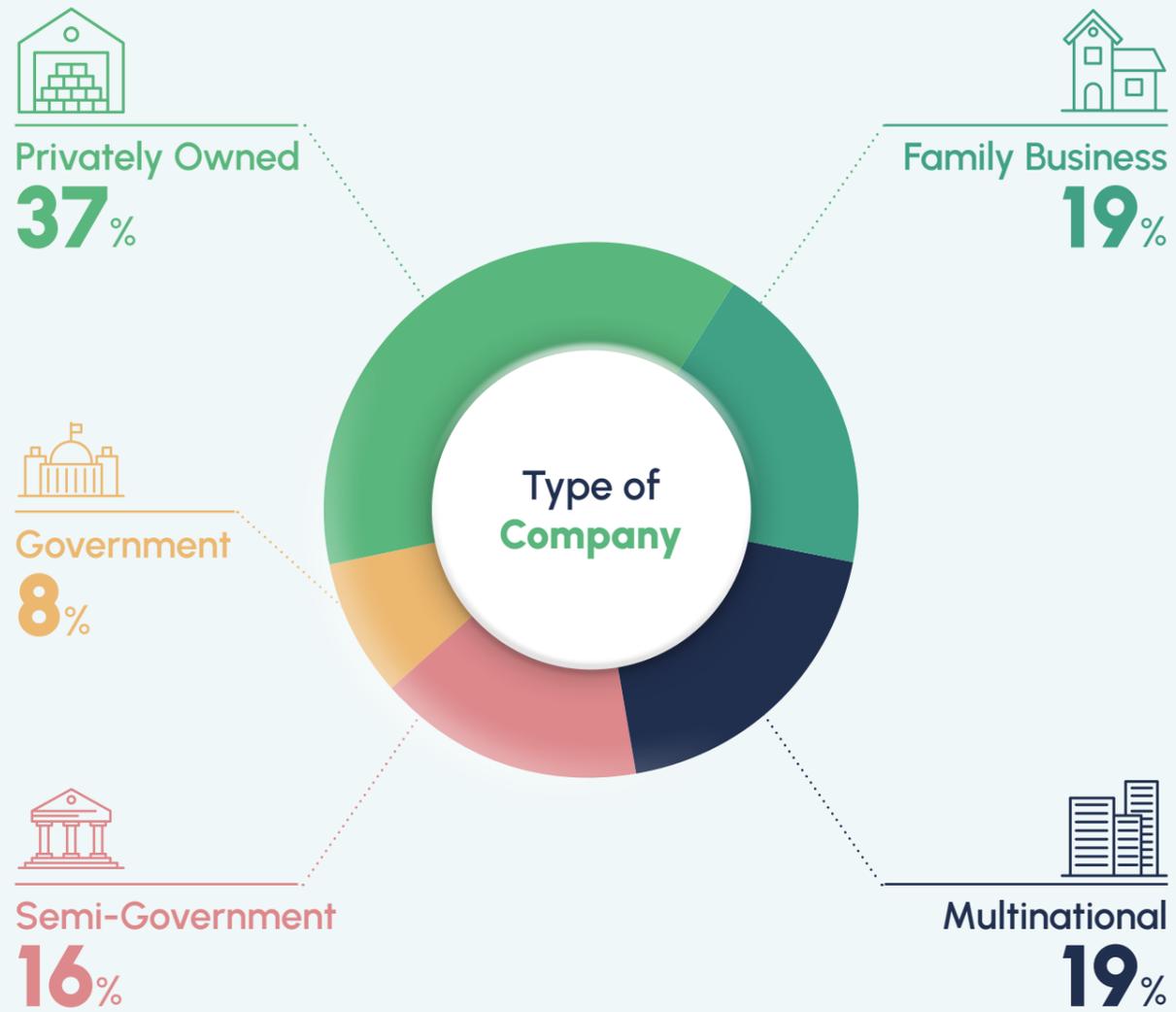
You will notice that some questions have different number bases - meaning that not all questions are answered from the total number of companies surveyed. This is because the survey had a cascading logic - depending on the answer a certain company chooses, it might get a different follow-up question. So for example, companies who have selected that they have a 'Sustainability/ ESG Strategy' will get questions relevant to that strategy that other respondents who have answered otherwise would not get.



Respondents' Profile



Type of Company

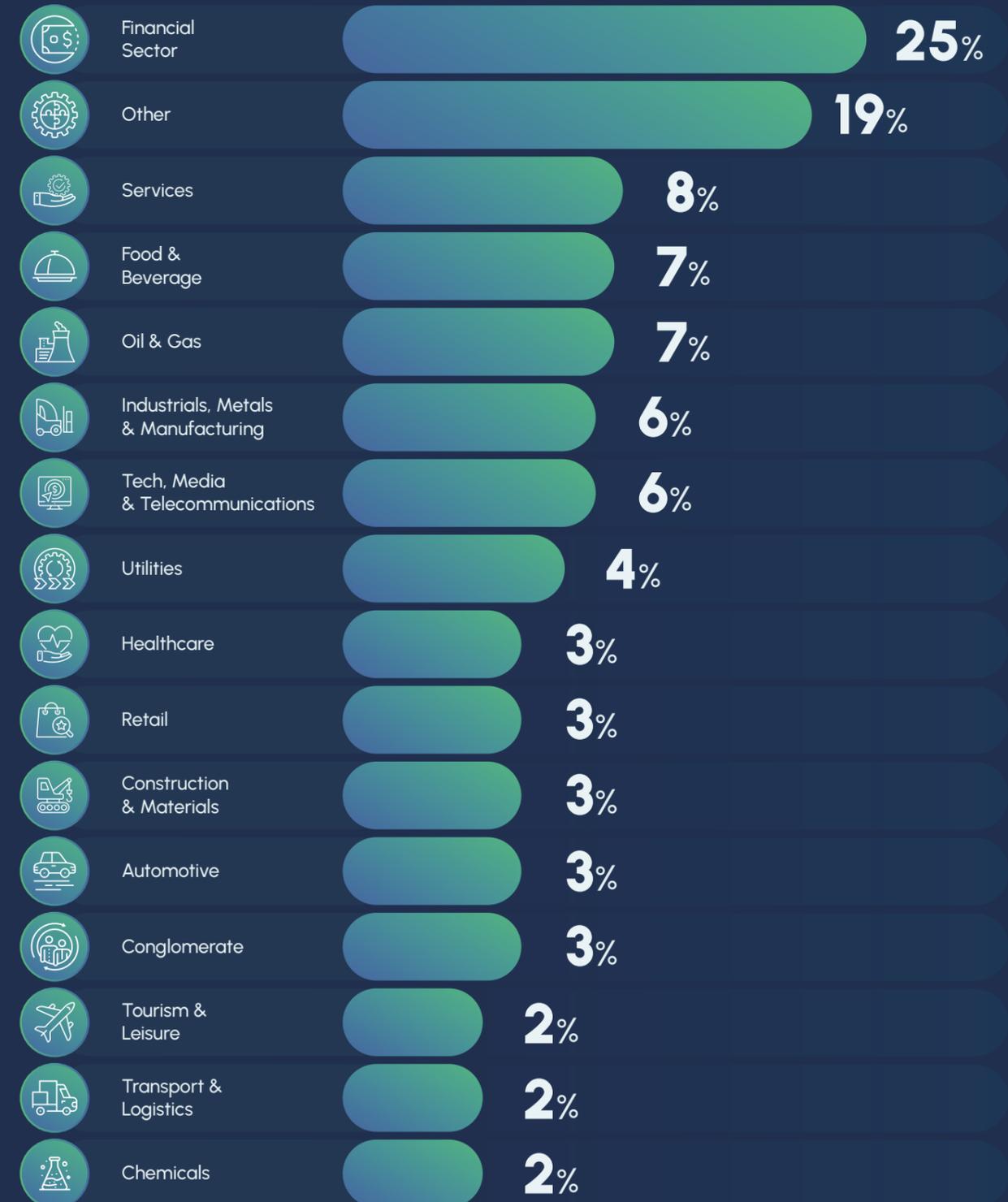


Disclaimer: total percentages may not add to 100% due to rounding up of percentages

Public listing



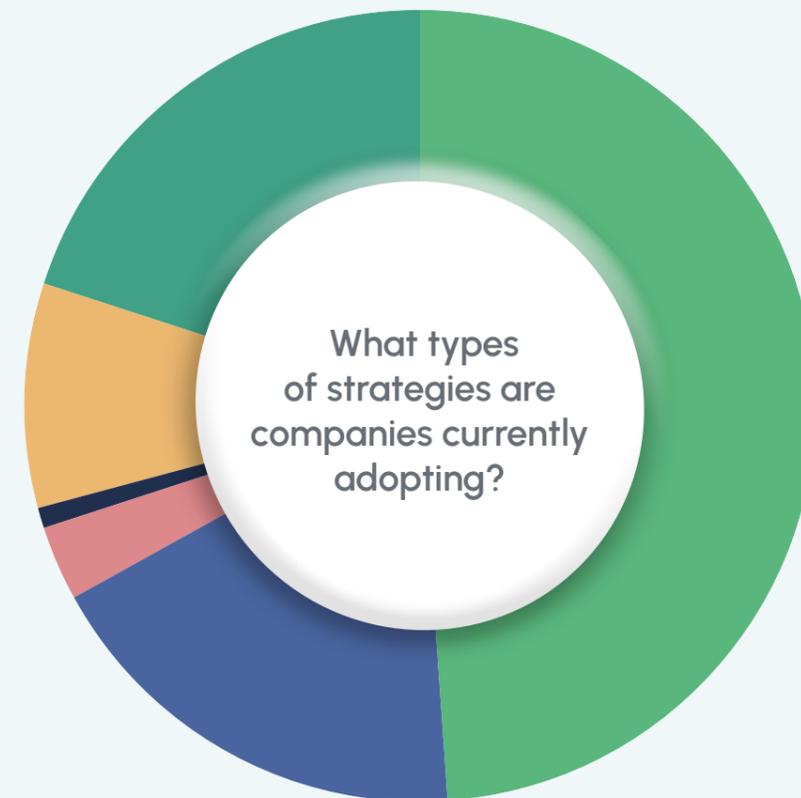
Sector



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

Executive Summary

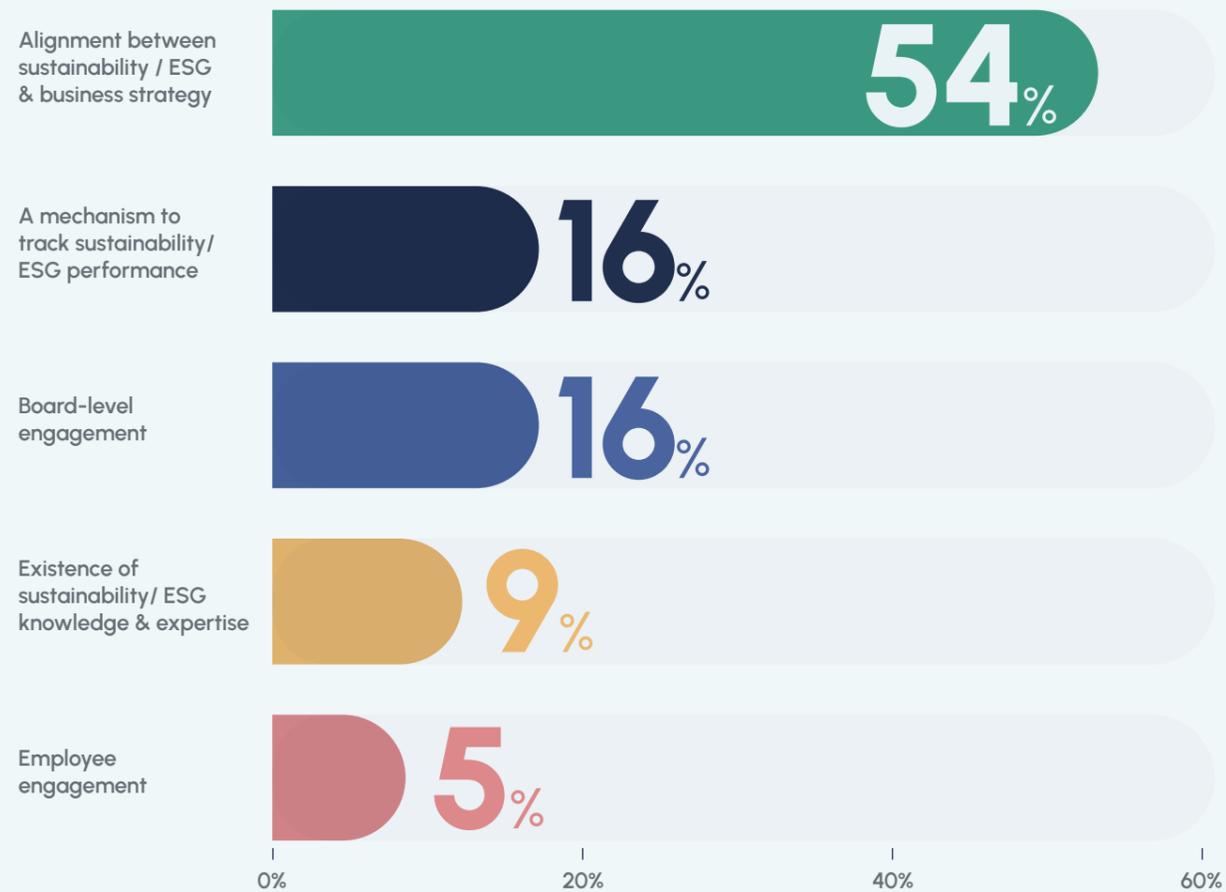
What Strategies are Being Adopted?



This data depicts the popularisation of Net Zero strategies, which has been a rapidly developing aspect within the sustainability space. While a small handful of companies have only a Net Zero strategy in place, a larger portion of survey respondents mentioned having a Net Zero strategy in place alongside another form of strategy as well.



Most Important Factors for a Successful Sustainability/ ESG Strategy



Of the survey respondents, 54% agreed that the alignment between Sustainability/ ESG strategy and the business strategy was the most important factor for a successful Sustainability/ ESG strategy. In our previous study, the 2018 State of Sustainability and CSR in the MENA region, the most important factor was 'a mechanism to track sustainability performance' which has now reduced popularity due to the development and evolution of various standards and frameworks in the sustainability sector.

Sustainability at a Board-level Discussion

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



We asked our respondents whether the company discussed ESG risks and opportunities at a board level and the majority of the respondents said yes, that these discussions were taking place at a board level. This shows that the ESG risks and opportunities are being considered progressively by companies and that these factors do have an influence on how these businesses operate.

Sustainability Reporting and Disclosure

When companies were asked how they disclose their sustainability/ ESG-related information, 82% of survey respondents said they report in the format of a sustainability/ ESG report.



Disclaimer: respondents were allowed to select more than one option, thus the total exceeding 100%

CSR Focus Areas

Top three priorities

80% Education

70% Environment

61% Women's Empowerment

Top Drivers for Incorporating ESG Factors

Top three drivers for incorporating ESG factors



The top three drivers for incorporating ESG factors as per survey respondents included Compliance with Regulations and Policies at 64%, Corporate Values and Culture at 43% and Stakeholders' Demands at 29%. This showcases that a mix of external requirements and internal demands push companies to address ESG concerns.

Disclaimer: respondents could select multiple options.

Top GCC Countries Prioritising Net Zero

From the respondents that report having a Net Zero strategy, below is the country hierarchy indicating which countries have the highest prevalence and prioritisation of net-zero aspects.

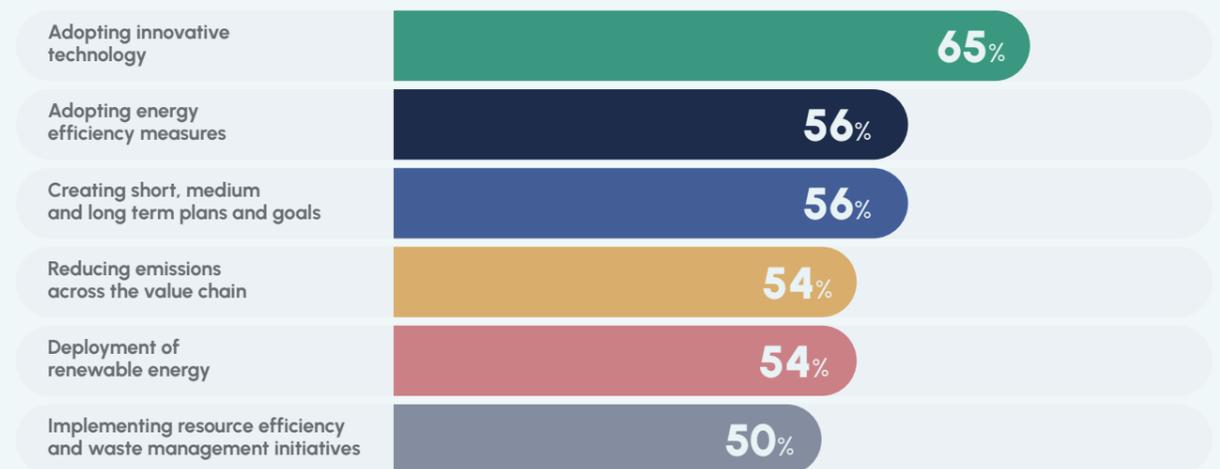


Disclaimer: This is reflective of the breakdown amongst the respondents for the survey only, actual country prioritisation of net-zero may differ

Transition to a Net Zero Economy

What initiatives are companies implementing to transition to a net zero economy?

The majority of respondents have noted that their companies are adopting innovative technology, adopting energy efficiency measures, and creating short/ medium/ long-term plans and goals to transition to a net-zero economy.



Disclaimer: respondents could select multiple options.

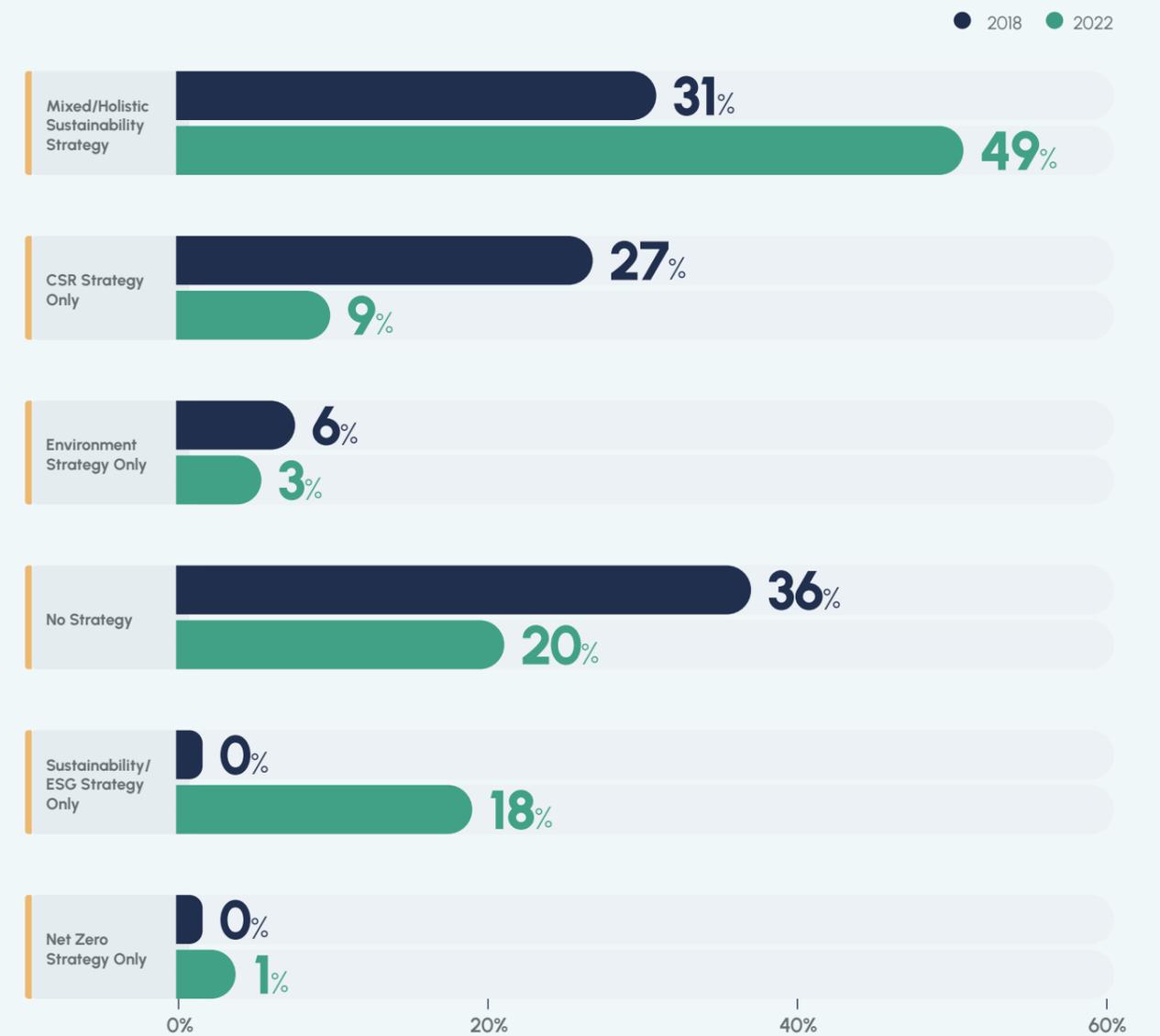
Trends from 2018 to 2022



The following chapter highlights the growth trends that are seen from the first study that was conducted, the 2018 State of Sustainability and CSR in the MENA Region, to the current situation of companies that is showcased in this report, the 2022 State of ESG in the GCC. The comparison of the two reports allows us to see which specific areas have seen a positive uptake in the region and have gained popularity and following:

Presence of Sustainability-Related Strategies

One of the key differentiating factors between what was seen in 2018 versus what we see in the ecosystem at present is the upgrade of terminology and the addition of technical and focused strategies, such as Net Zero strategies.



The information above depicts a clear reduction in the percentage of companies that reported having no sustainability-related strategy in place, from 36% in 2018 to 20% in 2022, indicating that companies are recognising the need for and importance of ensuring the presence of a sustainability-related strategy. We also see a reduction in companies opting for single strategies only such as a CSR strategy only or an Environment strategy only.

We also note an increase in the percentage of companies that report having a mixed / holistic sustainability strategy from 31% in 2018 to 49% in 2022. A mixed / holistic strategy refers to companies having more than one type of sustainability-related strategy in place, as these standalone strategies complement one another and contribute to overarching company goals and ambitions.

Most Important Factors for a Successful Sustainability / ESG Strategy



In both 2018 and 2022, companies ranked 'alignment between sustainability / ESG and business strategy' as the most important factor for a successful sustainability / ESG strategy. Over the past four years, the point of 'board level engagement' has seen a slight increase in popularity due to the importance of having senior management buy-in to ensure company-wide strategic alignment, to meet stakeholder expectations, for long term value creation and for genuine accountability of performance and metrics.

Top Drivers for Incorporating ESG Factors & Investing in Sustainability

In 2018, the top two drivers for investing in sustainability were to Improve Reputation (21%) and Out of a Sense of Responsibility (19%). While a larger handful of companies are still investing out of a sense of responsibility, as seen from the 19% to 26% growth, there is a decline in companies that feel investing in sustainability to improve reputation is compelling enough, as seen by the 6% decline in this aspect.

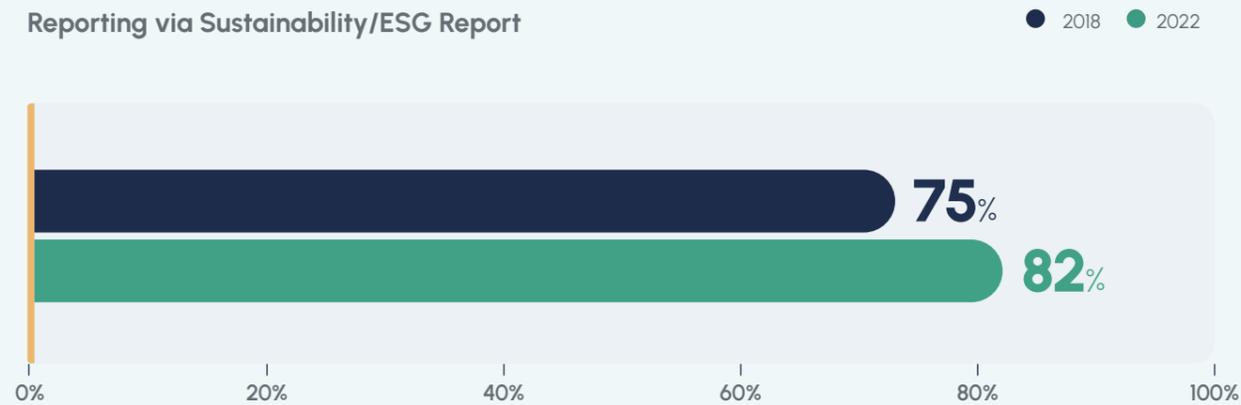
Companies in 2018 did not place much emphasis on incorporating ESG factors due to Compliance with Regulations and Policies and Stakeholders' Demands, however companies in 2022 see both these items as top drivers to invest in sustainability, with an increase from 14% to 64% and from 16% to 29% respectively. Needing to comply with regulations and policies and meet stakeholders' demands is an indication of the formal development and growth that has been established across different industries over the past few years, with new frameworks, standards and policies for companies to abide by.



Sustainability Reporting and Disclosure

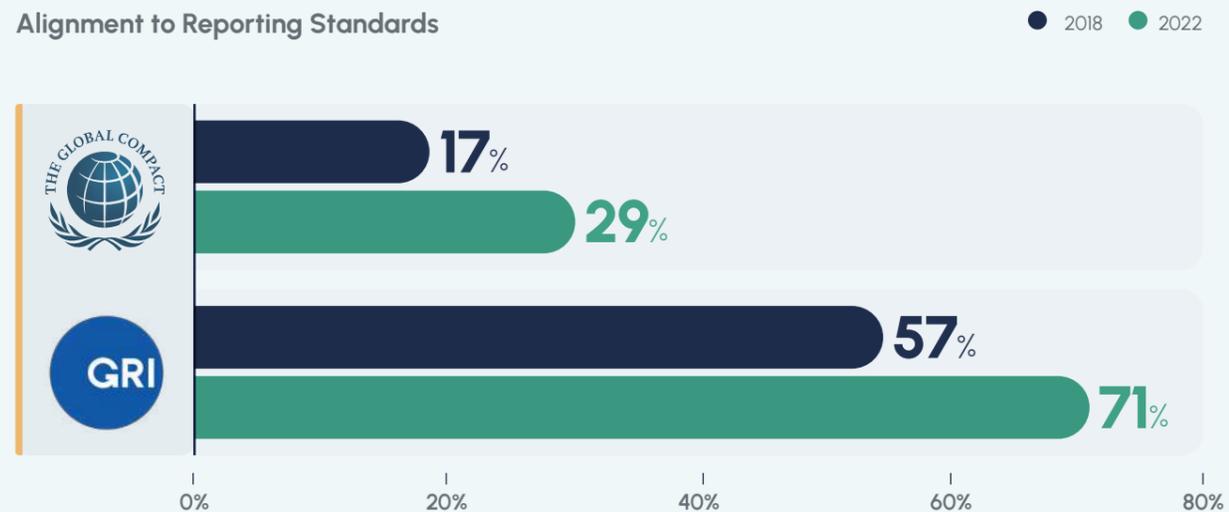
In 2018, 75% of organisations with a holistic sustainability strategy produced annual sustainability reports whereas in 2022, this has increased to 82% of companies reporting via sustainability / ESG reports. There is a clear increase in public reporting of sustainability-related matters as seen via the 7% growth over the past four years, potentially due to stakeholder demands, for transparency and increased accountability, investor interest, risk management, competitive advantage and / or regulatory requirements.

Reporting via Sustainability/ESG Report



From 2018 to 2022, we also see an increase in the alignment of sustainability reports to leading reporting standards such as The Global Reporting Initiative (GRI) and the UN Global Compact (UNGC). Both standards have seen an increase in uptake over the past four years with a 19% increase for GRI and 12% increase for UNGC. The popularisation and appeal of these standards could be due to several reasons including, but not limited to the standards' credibility, global reach, recognition and reputation and multi-stakeholder involvement.

Alignment to Reporting Standards



Corporate Social Responsibility (CSR Priorities)



When asked about focus areas to support their local communities, companies in 2018 and 2022 consistently ranked Education and the Environment and their top CSR priorities. With that said, the percentage of companies contributing to both these topics has significantly increased, from 16% to 80% for Education related matters and from 11% to 70% for Environmental related topics.

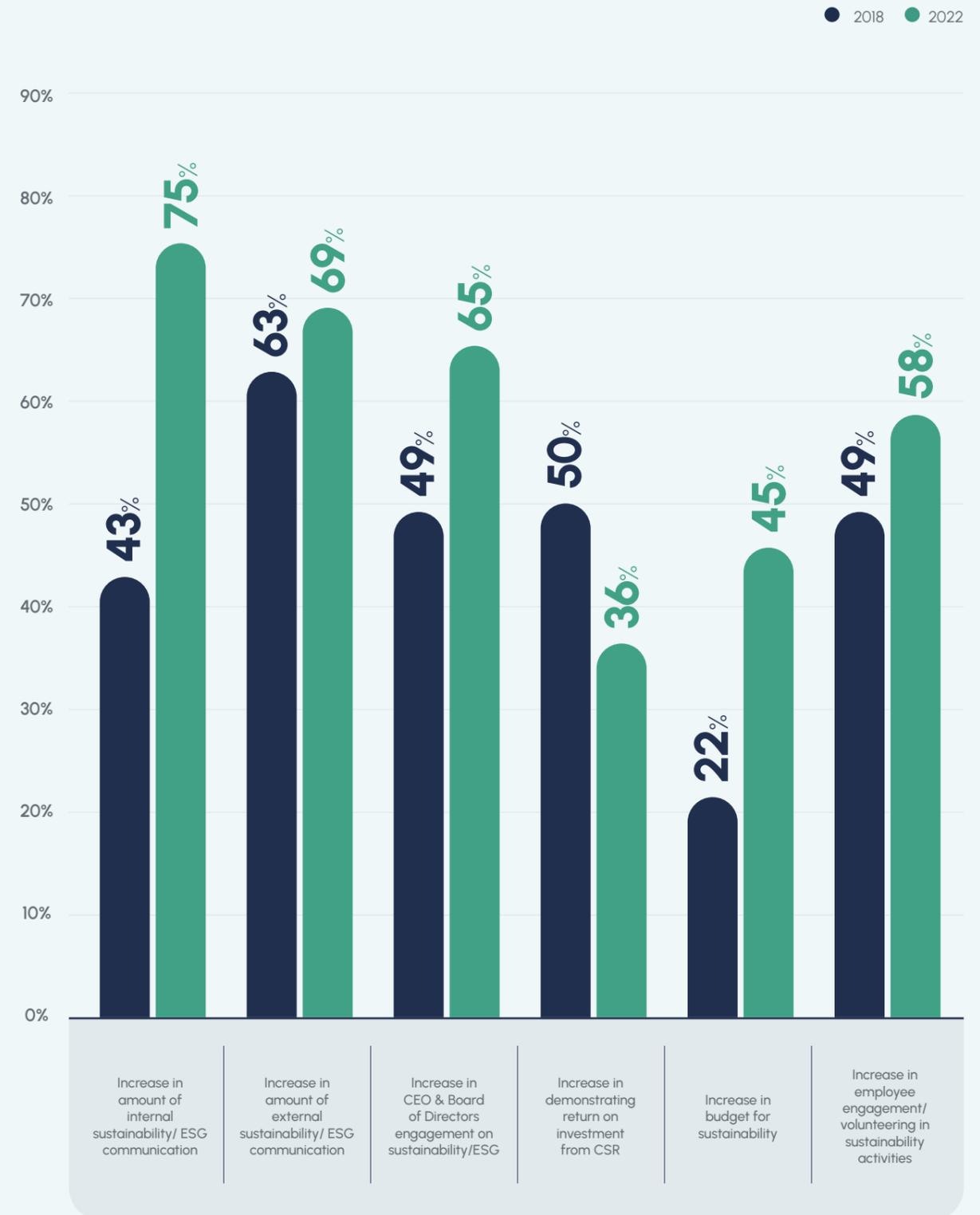
In 2018, while Youth Empowerment and Health were tied in third place as a top CSR priority, the context changed in 2022 as contributions to Women's Empowerment took the third spot with 61% of companies contributing to this topic. Although Youth Empowerment and Health are not part of the top three CSR priorities in the GCC in 2022, both are still largely important and would be part of the top five CSR priorities, with an increase in support from 9% to 56% for Youth Empowerment related matters and from 9% to 55% for Health related topics.

Future Outlook

In both 2018 and 2022 reports, respondents were asked to predict different aspects of their business and whether these were going to increase, decrease, or stay the same. The graph below includes the percentages of each business aspect that respondents mentioned were set to increase. As a result, we are able to see growth in 5 out of the 6 components including:

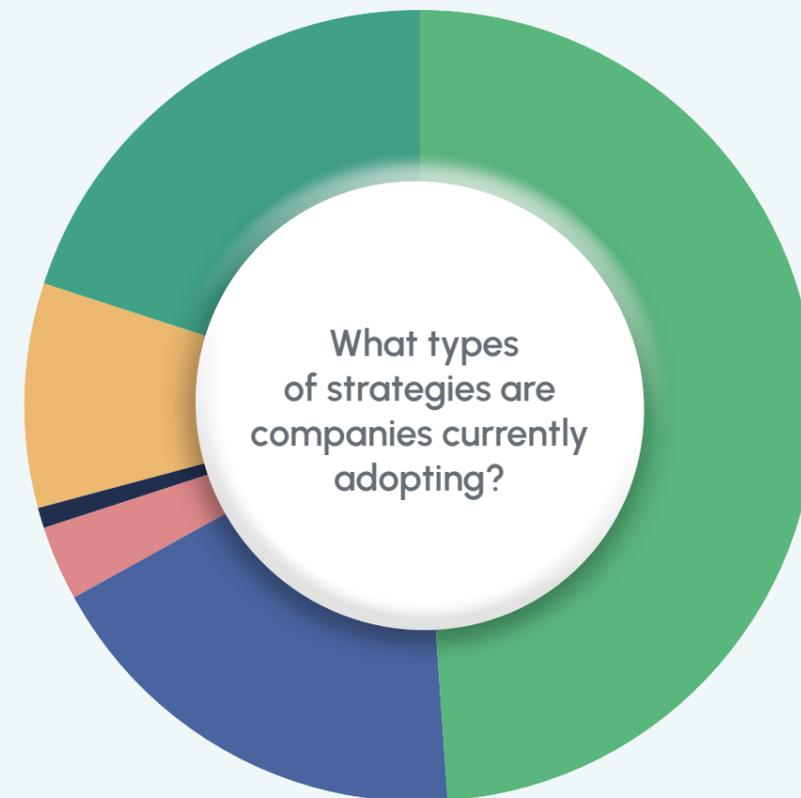
- Increase in the amount of internal sustainability/ESG communication
- Increase in the amount of external sustainability/ESG communication
- Increase in CEO & Board of Directors engagement on sustainability / ESG
- Increase in budget for sustainability
- Increase in employee engagement/volunteering in sustainability activities

The only component where a larger buy-in was seen in 2018 compared to 2022 was in the aspect of Demonstrating Return on Investment from CSR. A potential explanation for the decrease is due to the fact that companies are allocating a larger portion of their investments and resources into establishing all the necessary sustainability / ESG related structures and foundations, thus temporarily diverging their investments away from CSR activities and away from the measurement of the impact of these activities. It may be reasonable to believe that within the next few years as companies have established their sustainability foundations, that we see a re-spike in companies seeing a return on investment from CSR as they would have all their core components set and solidified and would have the bandwidth to re- look into these components and metrics.



Study Findings

What Strategies are Being Adopted?

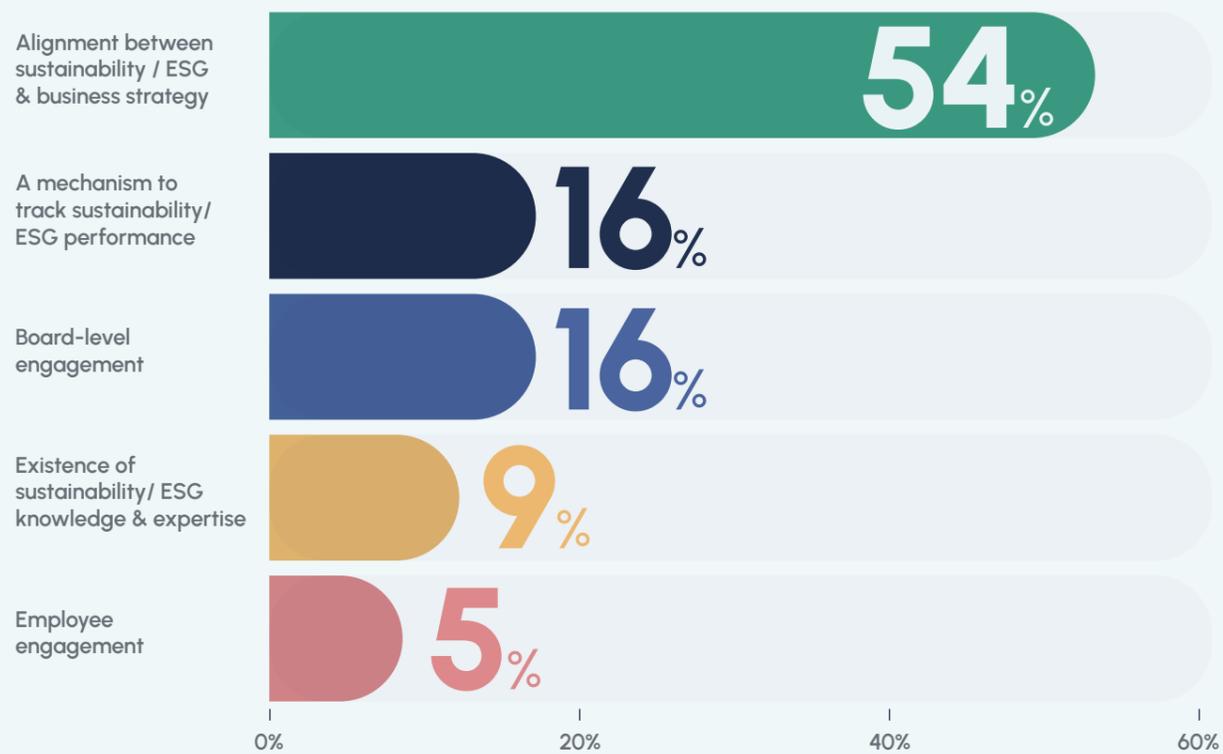


49.2% of respondents currently have a blend of a Sustainability/ ESG strategy along with another form of strategy, be it a CSR, Environmental and/ or Net Zero strategy. 20.3% of respondents said they did not have any form of sustainability strategy in place. This data depicts the popularisation of Net Zero strategies, which has been a rapidly developing aspect within the sustainability space. While a small handful of companies have only a Net Zero strategy in place, a larger portion of survey respondents mentioned having a Net Zero strategy in place alongside another form of strategy as well.



Most Important Factors for a Successful Sustainability/ ESG Strategy

Of the survey respondents, 54% agreed that the alignment between Sustainability/ ESG strategy and the business strategy was the most important factor for a successful Sustainability/ ESG strategy. In our previous study, the 2018 State of Sustainability and CSR in the MENA region, the most important factor was 'a mechanism to track sustainability performance' which has now reduced popularity due to the development and evolution of various standards and frameworks in the sustainability sector. These standards and frameworks provide guidance, support, and regulation for companies on what to track, and how to track this information. For instance, while the Task Force for Climate-related Financial Disclosures (TCFD) was launched in 2015, the largest uptake of this framework happened between 2019 and 2021.

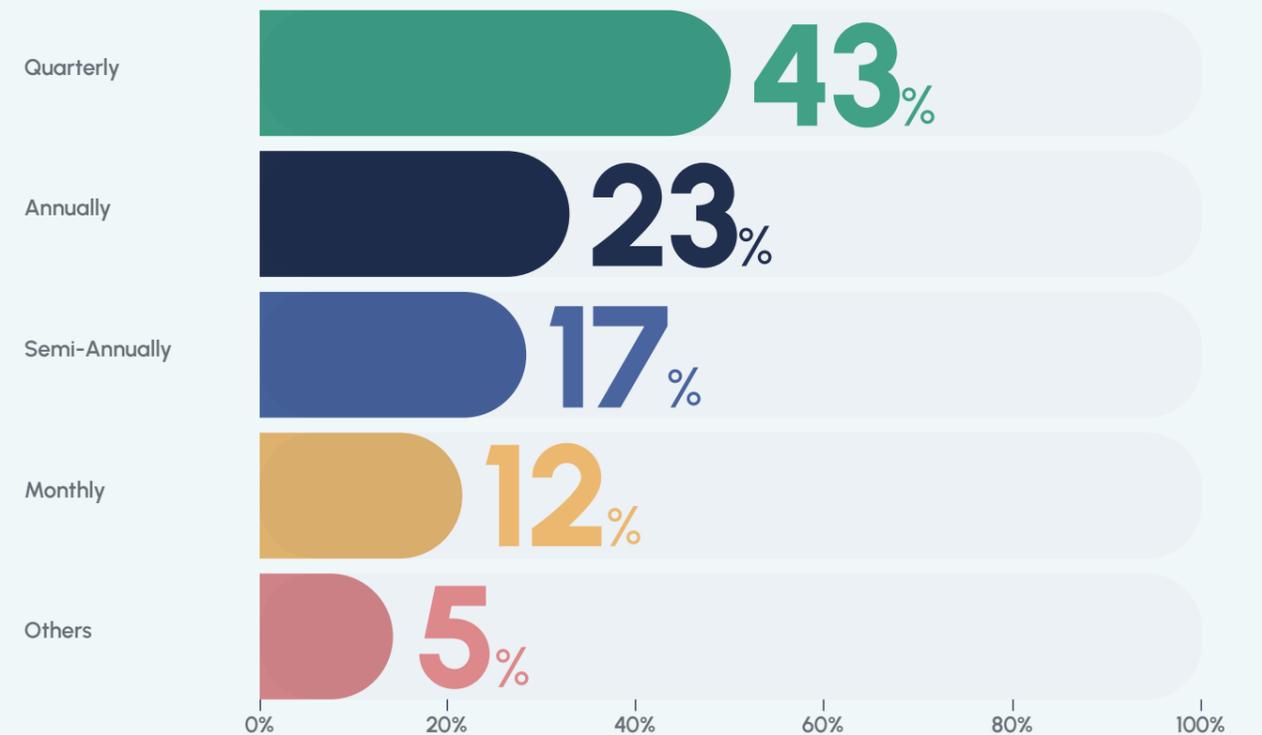


Are companies discussing ESG risks and opportunities at a board level?



When asked whether companies are discussing ESG risks and opportunities at a board level, the majority of survey respondents said yes, that these discussions were taking place at a board level. This shows that ESG risks and opportunities are being considered progressively by companies and that these factors do have an influence on how these businesses operate. This may also be because this is a requirement for publicly-listed companies, and they are therefore required to do so as part of their compliance.

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

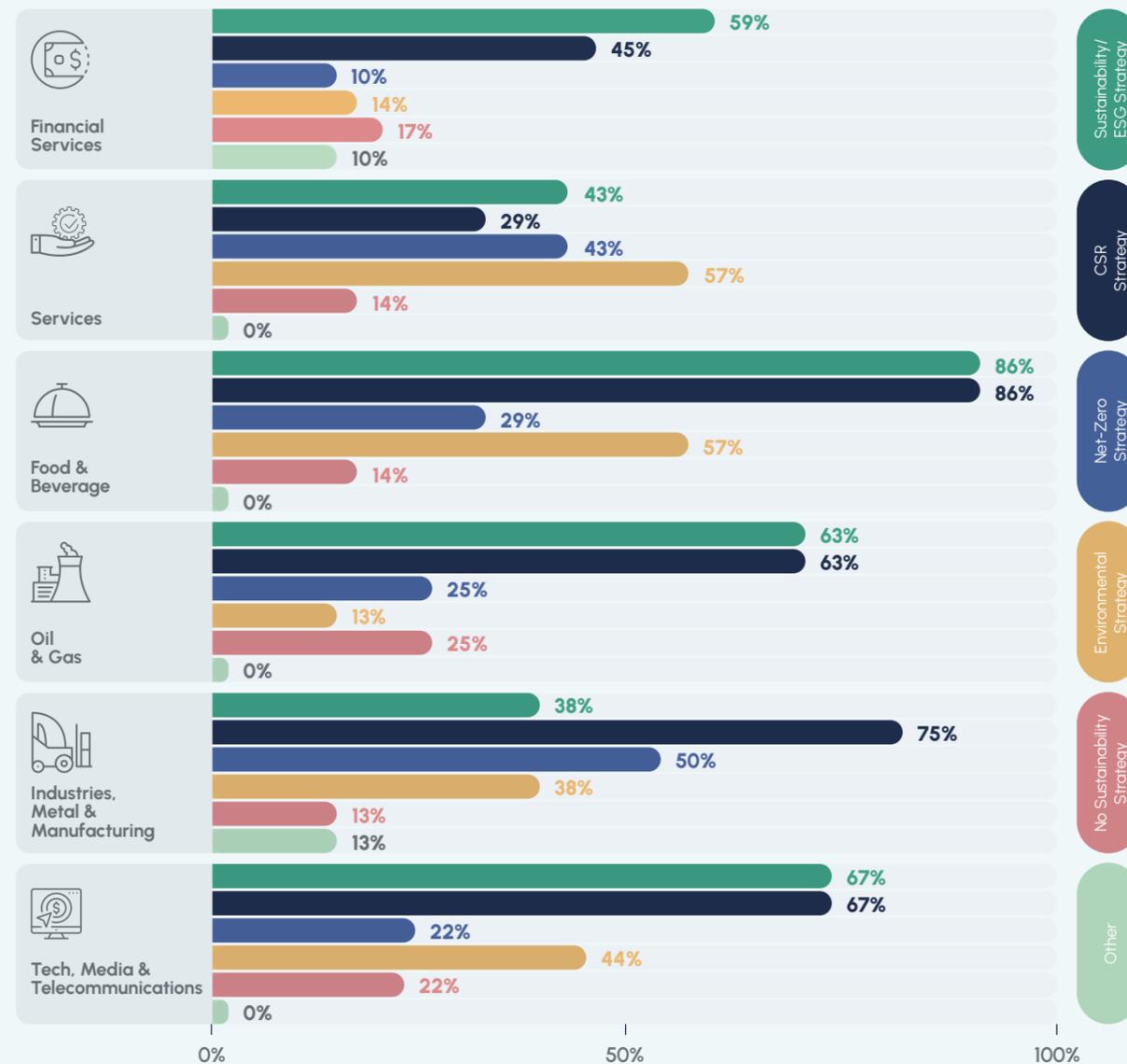


Of the 51% of respondents that discuss ESG risks and opportunities at a board level, 43% of them said they discuss ESG risks and opportunities quarterly, 23% said annually, 17% said semi-annually, and 12% said they discuss it monthly.

Industry Analysis of Strategy Adoption

The majority of survey respondents belonged to the 6 industries seen below. As such, the chart showcases these top 6 industries and looks into which strategy types each industry focuses on the most. The graph chart below depicts that where the Corporate Social Responsibility Strategy may be a priority in the Food & Beverages industry, it is not of similar priority in the Service industry. Likewise, where Industrials, Metal, and Manufacturing prioritise their Net-Zero strategy, the Financial Service industry has not done the same. The overarching tone is that the companies have picked strategies that address their most immediate concern or risk, and this would be a good way to show immediate awareness/ action towards neutralising this risk.

What strategies are top 6 industries focusing on the most?

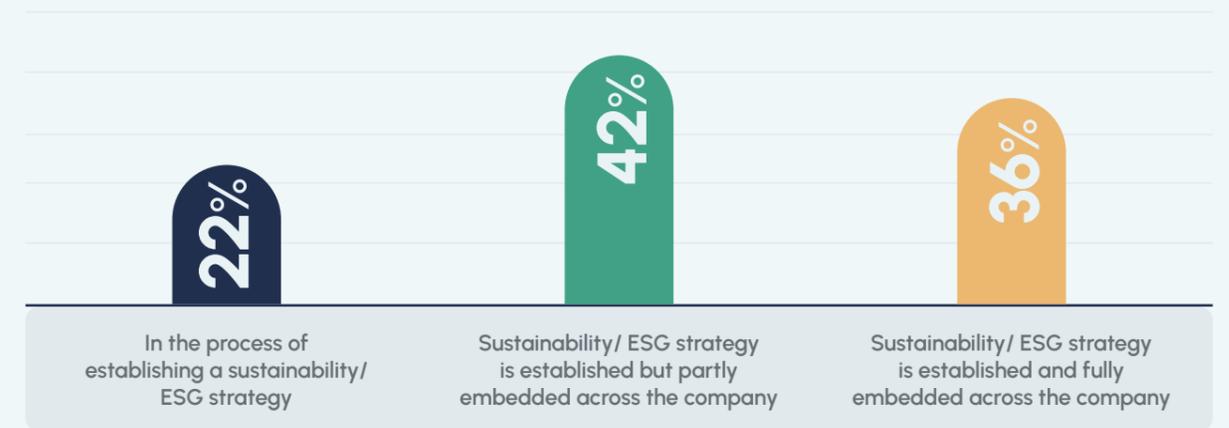


- Corporate Social Responsibility (CSR) strategies are present across the top 6 industries, with the highest adoption in the Food & Beverage Industry.
- Environmental strategies are most prevalent in the Services and Food & Beverages Industry.
- The Net-zero strategy is mostly adopted in the Industrials, Metal, and Manufacturing industries, likely because of the way that their B2B customers are regulating and setting their standards.
- A handful of companies (25% of survey respondents) in the Oil & Gas Industry have no Sustainability/ ESG strategy in place.

The Extent of Strategy Adoption

Of the survey respondents that have a Sustainability/ ESG strategy in place, despite it being a standalone strategy or combined with other strategies, the chart below depicts the extent of the strategy adoption within the company, thus signifying genuine maturity levels.

To what extent have companies established their Sustainability/ ESG strategy?



From the respondents who answered that there was a Sustainability/ ESG strategy in place in their company, the majority of respondents (42%) said their strategy was partly embedded across the company, thus indicating that the majority of companies are moving towards taking a formalised approach to their strategy adoption, which will eventually be fully embedded company-wide.

From the 22% of respondents who are in the process of establishing their Sustainability/ ESG strategies, this trend sheds light on the fact that there is a growing demand for companies to have an established approach to tackling their sustainability-related matters and could explain the upward trajectory from companies that are in the process of establishing their strategies and companies that have their strategies established but partly embedded across the company.

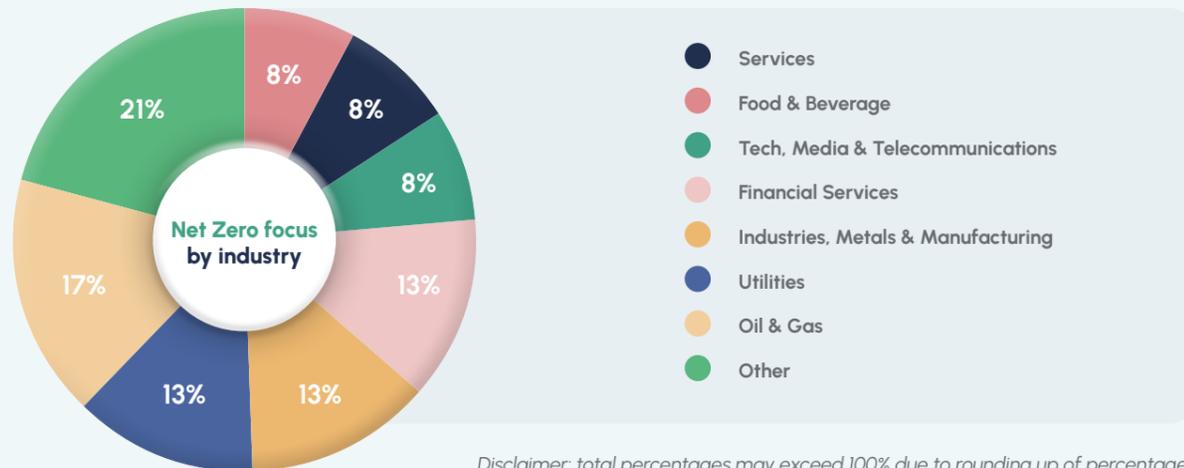
Top GCC Countries Prioritising Net Zero

From the respondents that report having a Net Zero strategy, below is the country hierarchy indicating which countries have the highest prevalence and prioritisation of Net Zero aspects.



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

Industries Prioritising Net Zero

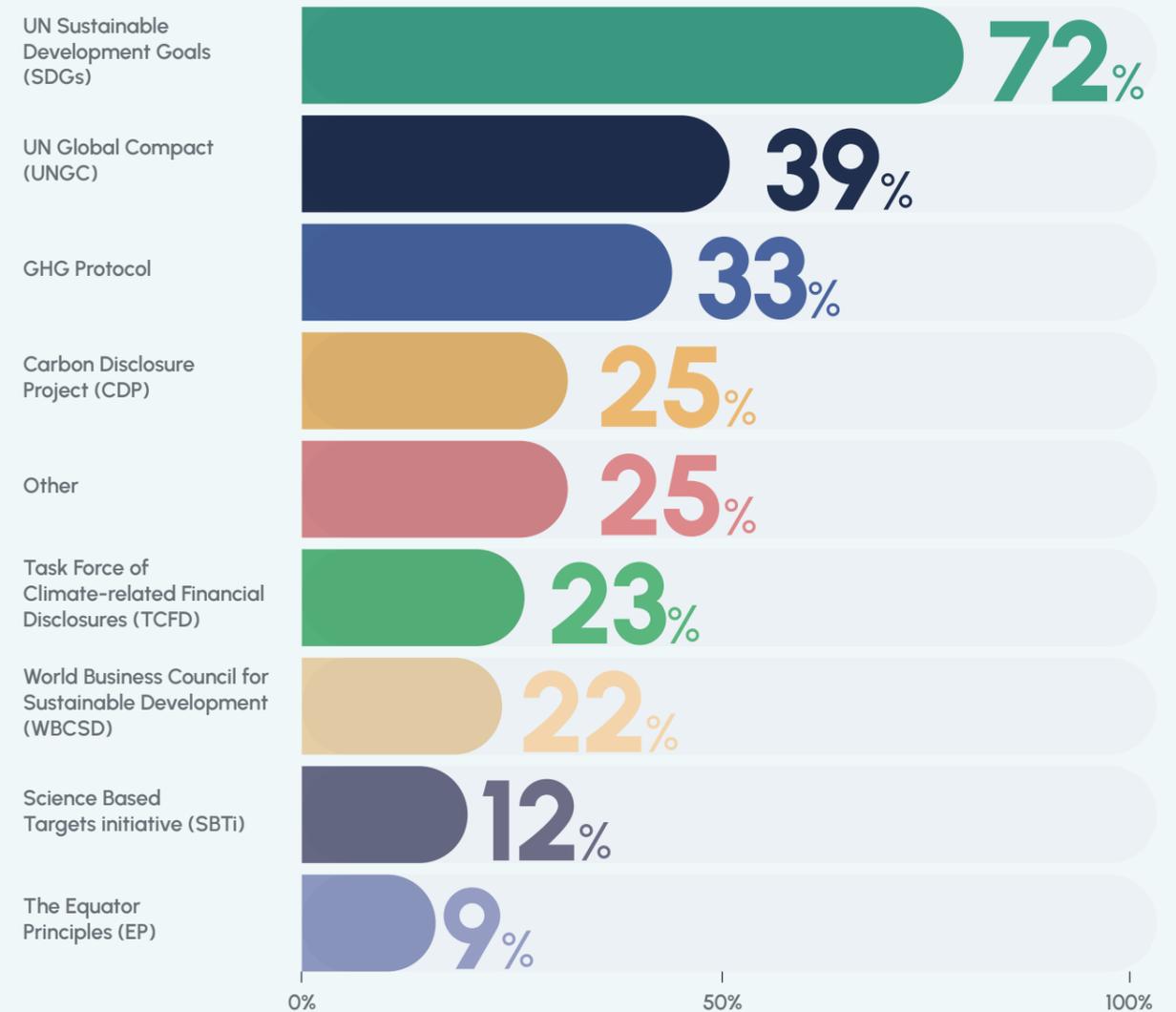


Disclaimer: total percentages may exceed 100% due to rounding up of percentages

The chart above shows that from the survey respondents that answered that they have a net-zero strategy in place, the majority were from the Oil & Gas and Other Categories. Other categories include real estate, chemicals, agriculture, and energy producers.

Framework Alignments

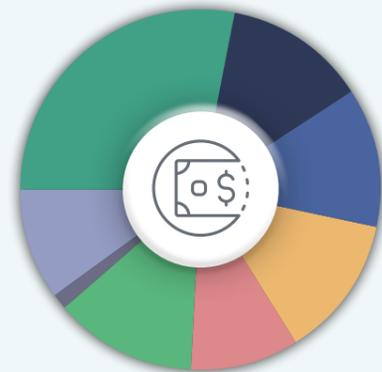
Which leading frameworks are companies aligning their Sustainability/ ESG strategies to?



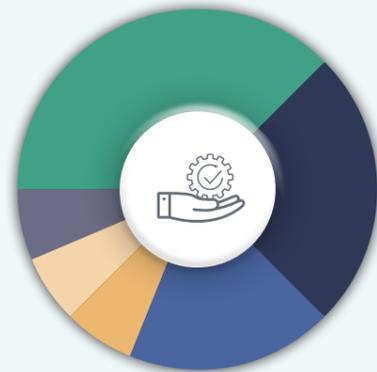
Disclaimer: respondents could select multiple options.

Companies with a sustainability/ ESG strategy in place were asked whether this strategy aligned with any leading frameworks. The study showed that 72% of respondents said their sustainability/ ESG strategies are aligned with the UN's Sustainable Development Goals, followed up by 39% of respondents saying their strategy is aligned with the UN Global Compact.

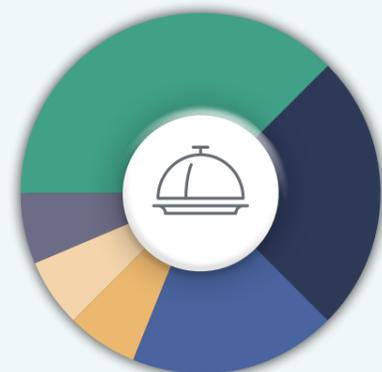
Industries and their Framework Alignments



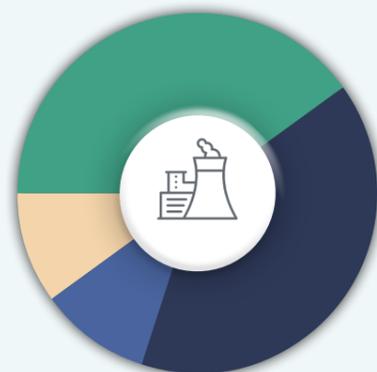
Financial Services



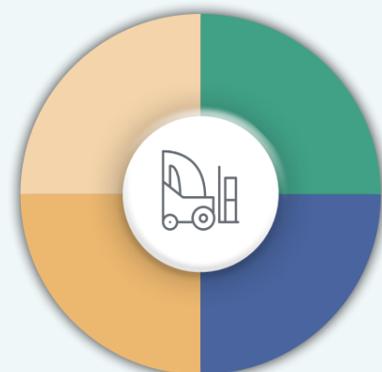
Services



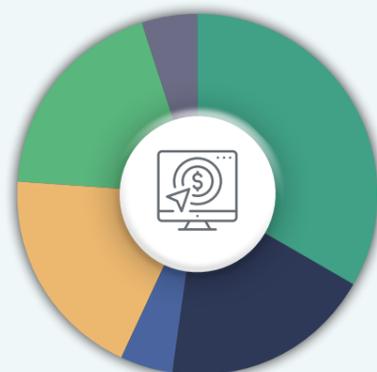
Food & Beverage



Oil & Gas



Industries, Metal & Manufacturing



Tech, Media & Telecommunication

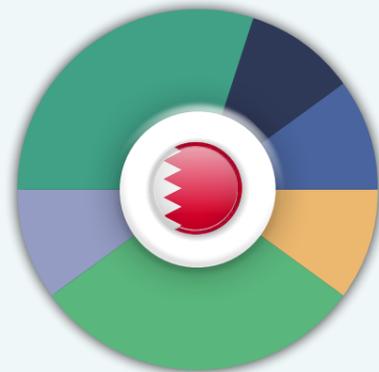


After gauging from the respondents what types of strategy their companies were implementing, we then asked the same respondents which frameworks their Sustainability/ ESG framework most aligned to, if they had one.

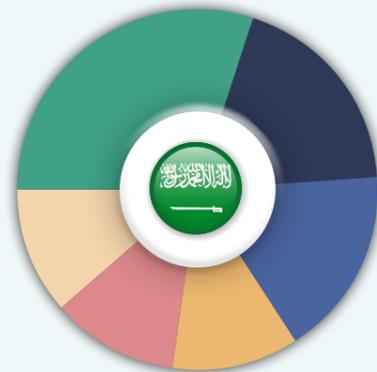
- Most of the respondents said that their strategies were in line with the UN Sustainable Development Goals, most likely because the UN SDGs are arguably the most popularised framework within the general population, they address issues in both local and global contexts, and they are comprehensive.
- The next most popular framework that companies align their Sustainability/ ESG strategies is the UN Global Compact, which focuses on human rights, labour, environment, and anti-corruption practices at the core.
- The Financial Services industry has the highest alignment to the Equator Principles, whereas the other industries don't align with the Equator Principles at all.
- Where some industries like Food & Beverage had a few respondents say their strategies were aligned to the WBCSD, Financial Services and Tech, Media, & Telecommunications did not have any respondents who said their companies aligned with the WBCSD.

- UN Sustainable Development Goals (SDGs)
- UN Global Compact (UNGC)
- GHG Protocols
- Carbon Disclosure Project (CDP)
- Other
- Task Force of Climate-related Financial Disclosures (TCFD)
- World Business Council for Sustainable Development (WBCSD)
- Science Based Targets initiative (SBTi)
- The Equator Principles (EP)

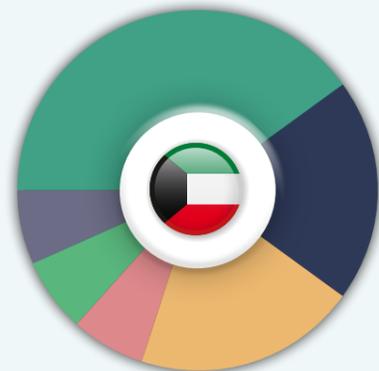
Countries and their Framework Alignments



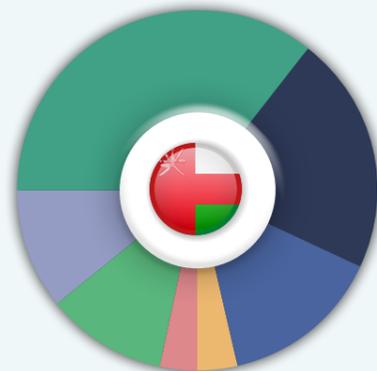
Bahrain



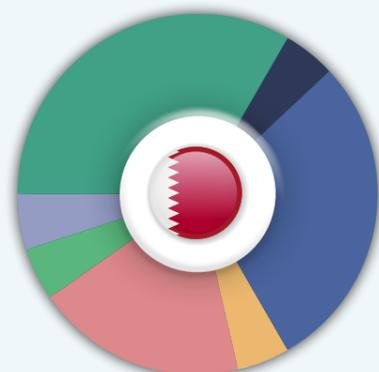
KSA



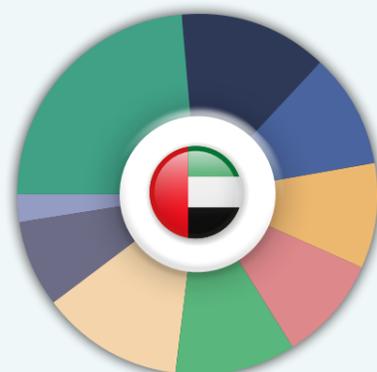
Kuwait



Oman



Qatar



UAE



- The least popular framework alignment for sustainability strategies are The WBCSD, The Equator Principles, and Science Based-targets, although the UAE does have a few respondents that have indicated alignment towards the SBTi
- Bahrain, Kuwait, Oman, and Qatar have their strategies least aligned with the World Business Council for Sustainable Development (WBCSD)
- Across all the GCC regions, the most popular framework that companies align their sustainability/ ESG is the UN Sustainable Development Goals
- The Carbon Disclosure Project framework is most aligned with companies in the UAE, compared to other GCC countries
- While the Task Force for Climate-related Financial Disclosures (TCFD) is a framework that is aligned to by a handful of companies in the UAE, based on the survey respondents, the rest of the companies in the GCC countries tend to have less than 5% of companies aligning their frameworks to the TCFD

- UN Sustainable Development Goals (SDGs)
- UN Global Compact (UNGC)
- GHG Protocols
- Carbon Disclosure Project (CDP)
- Other
- Task Force of Climate-related Financial Disclosures (TCFD)
- World Business Council for Sustainable Development (WBCSD)
- Science Based Targets initiative (SBTi)
- The Equator Principles (EP)

Corporate Social Responsibility (CSR) Priorities

When asked about focus areas to support their local communities, respondents said that their focus was mainly on Education, the Environment and Women's Empowerment. Although education and the environment were the top two focus areas in our previous study, the 2018 State of Sustainability and CSR in the MENA Region, women's empowerment (61%) has surpassed health and youth empowerment (55%) since the last study. The least common focus area for businesses is animal welfare, with just 7% of respondents contributing to this area.



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, and later on separately asked whether companies publicly disclose and report on any sustainability/ESG-related matters. The results show that the same respondents that said they are publicly listed, also selected that they publicly disclose and report their sustainability/ ESG information. This is corroborated by the regulation for publicly listed companies, as they have to disclose their sustainability initiatives on an annual basis, however, this also shows that there is little proactivity in this area.

This drive to publicly disclose only after it's a mandatory requirement for a company shows a reactive and dependent relationship between the regulation and work in the sustainability sphere. This could also indicate that even if there was substantial work being done in the private sector, the reporting and knowledge sharing of best practices is minimal, which should be encouraged for collective success.

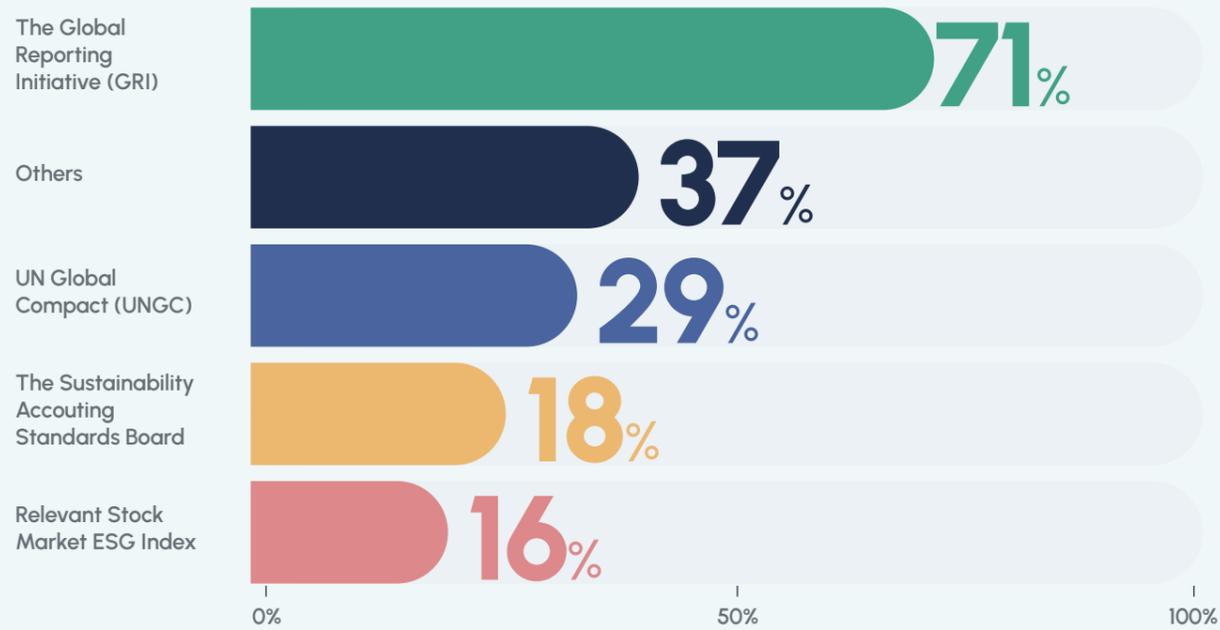
How are companies disclosing and reporting on their Sustainability/ESG-related information?

When companies were asked how they disclose their sustainability/ ESG-related information, 82% of survey respondents said they report in the format of a sustainability/ ESG report.



Are companies' publicly published reports aligned with leading standards?

The information below depicts the standards that publicly published reports are most aligned to, and the majority are reporting on the Global Reporting Initiative at 71%, which was previously only aligned to by 57% of respondents. "Other" standards that reporting initiatives were aligned to amongst the respondents include UNEP FI, TCFD, US OSHA, and WEF to name a few.

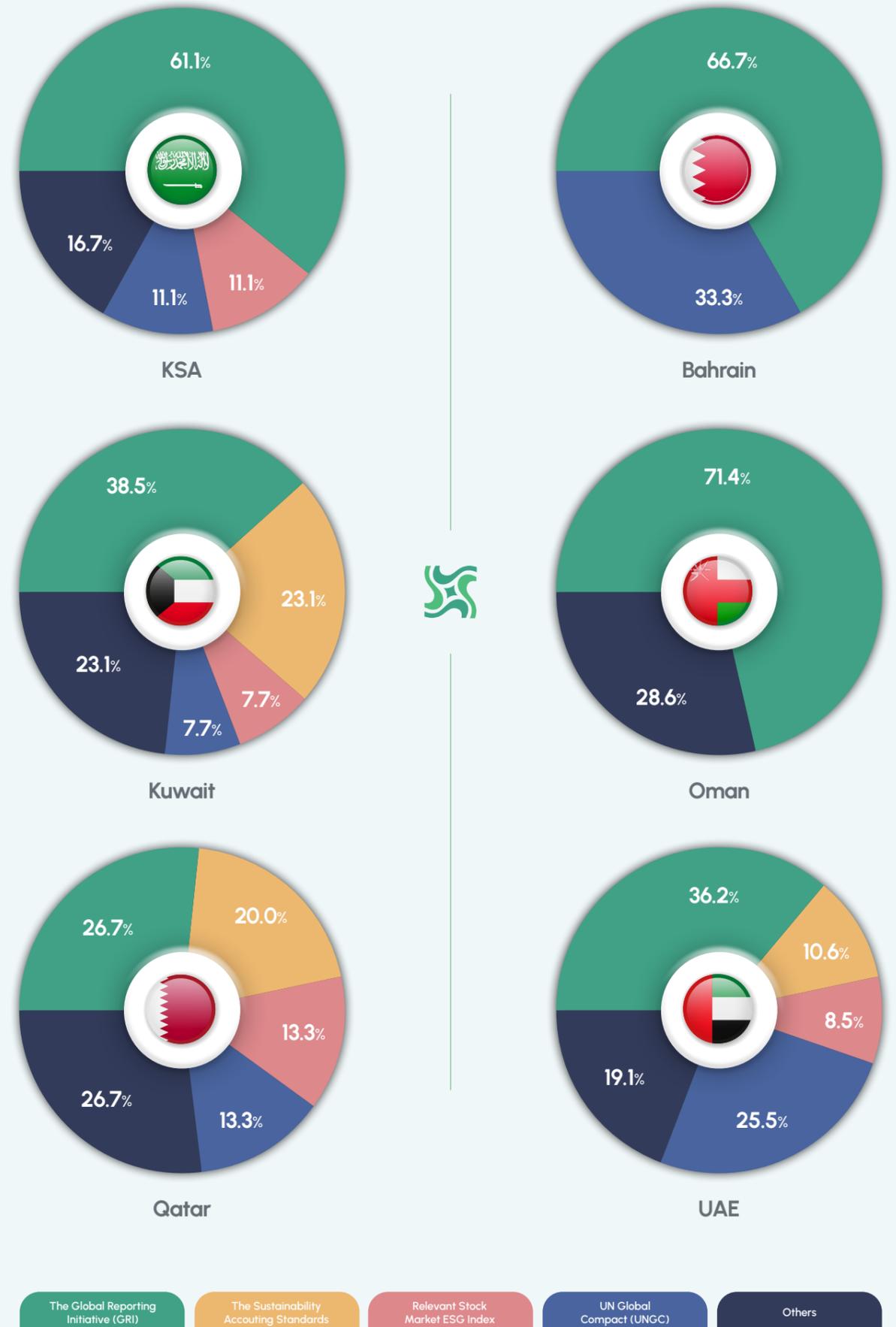


Disclaimer: respondents could select multiple options.

Reporting Frameworks Alignment by GCC Country

When looking at the alignment of different reporting frameworks by country, we can see the following trends:

- The most popular reporting framework to which companies across the GCC tend to align their reports is the Global Reporting Initiative (GRI)
- Bahrain has the highest percentage of survey respondents aligning their reports to the UN Global Compact standards
- The Sustainability Accounting Standards Board is mainly aligned with companies from Kuwait, UAE and Qatar



Intention to Start Disclosing and Reporting on Sustainability/ ESG-related Information

Of the 47% of respondents that said they do not currently publicly disclose or report on any sustainability/ESG-related information, 48% of them said they are planning on disclosing their sustainability/ESG-related information, and 29% of them said that they are not planning on reporting on their sustainability/ ESG- related information.

Is your company planning to disclose/ report on its sustainability/ ESG related information?



ESG Priorities

Survey respondents were given a comprehensive list of Environmental, Social, and Governance priorities, and they were asked to pick their top three priorities. Overall, the top three ESG priorities that were identified by the respondents were:

Climate Change

Diversity & Inclusion

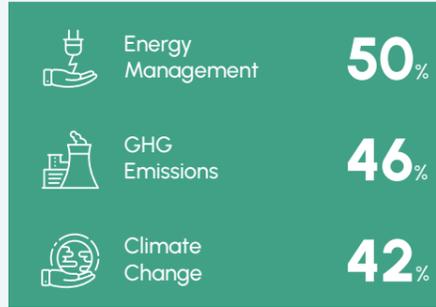
GHG Emissions

Industry Analysis of Top ESG Priorities



Top Environmental Priorities

When respondents were asked to select their top three Environmental priorities as a business, 50% said Energy Management was the top priority, followed by 46% saying GHG emissions and 42% said Climate Change in third place. The lowest priorities under the 'environmental' scope according to the survey respondents were biodiversity management and deforestation.



Top Social Priorities

When respondents were asked to select their top three Social priorities as a business, 60% said Employee Engagement was the top priority, followed by 49% saying Diversity and Equality, and 45% said local communities in third place. The lowest priorities within the 'social' scope were supplier social assessment and the freedom of association.

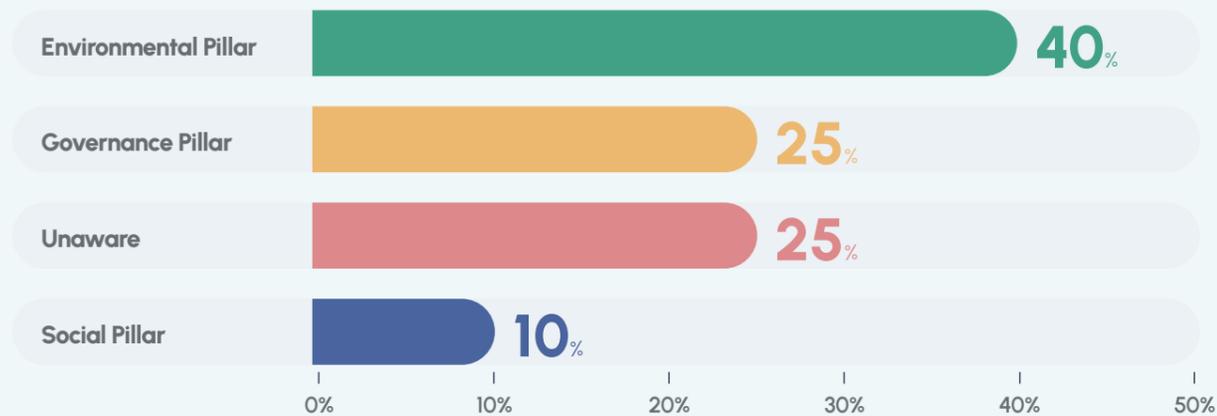


Top Governance Priorities

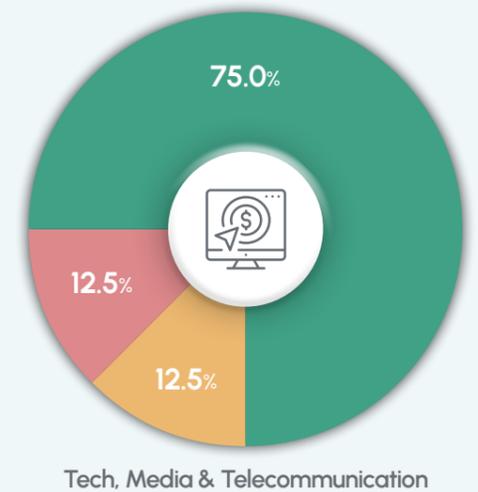
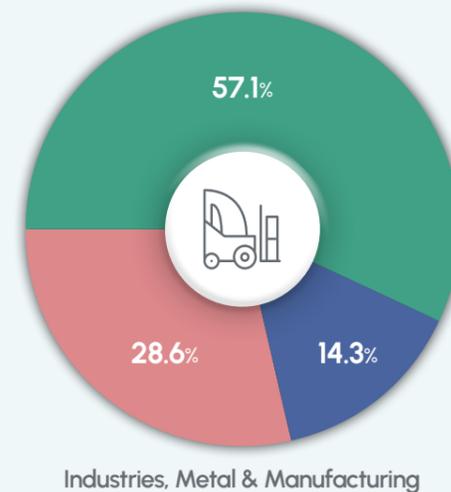
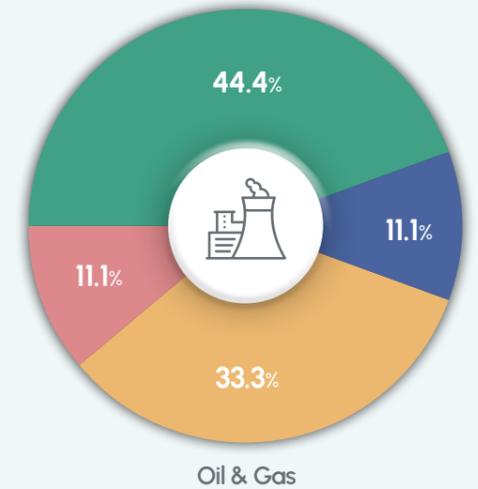
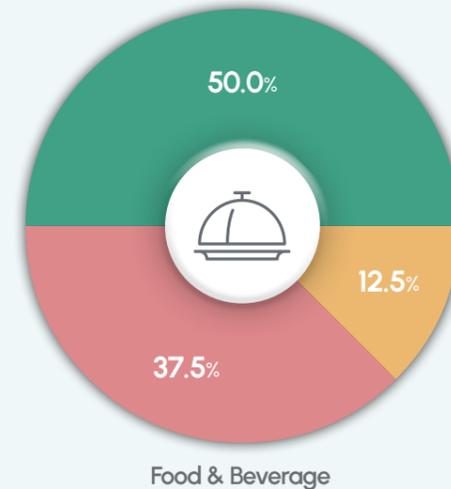
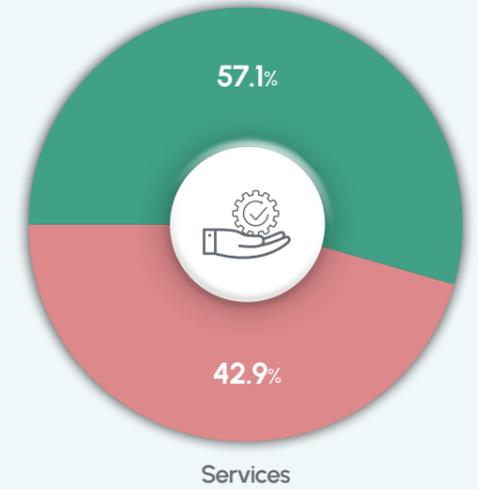
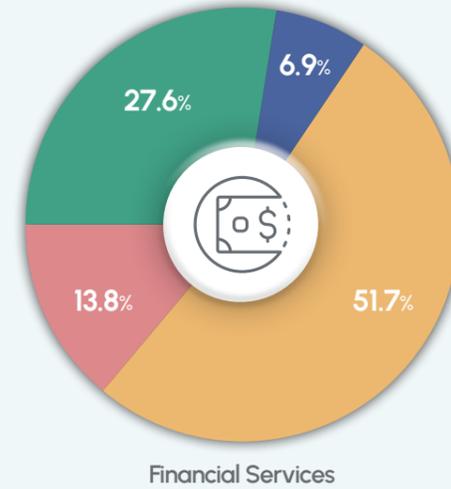
When respondents were asked to select their top three Governance priorities as a business, 62% said Business Ethics was the top priority, followed by 42% saying Internal Controls and Audits, and 37% said Corporate Transparency in third place. The lowest priorities within the 'governance' scope were tax transparency and anti-competitive behaviour.



Which ESG Pillar Posed the Most Risk for Companies?



Which ESG Pillar Posed the Most Risk for Companies?



Incorporation of ESG Factors

Are companies incorporating ESG factors into their business?

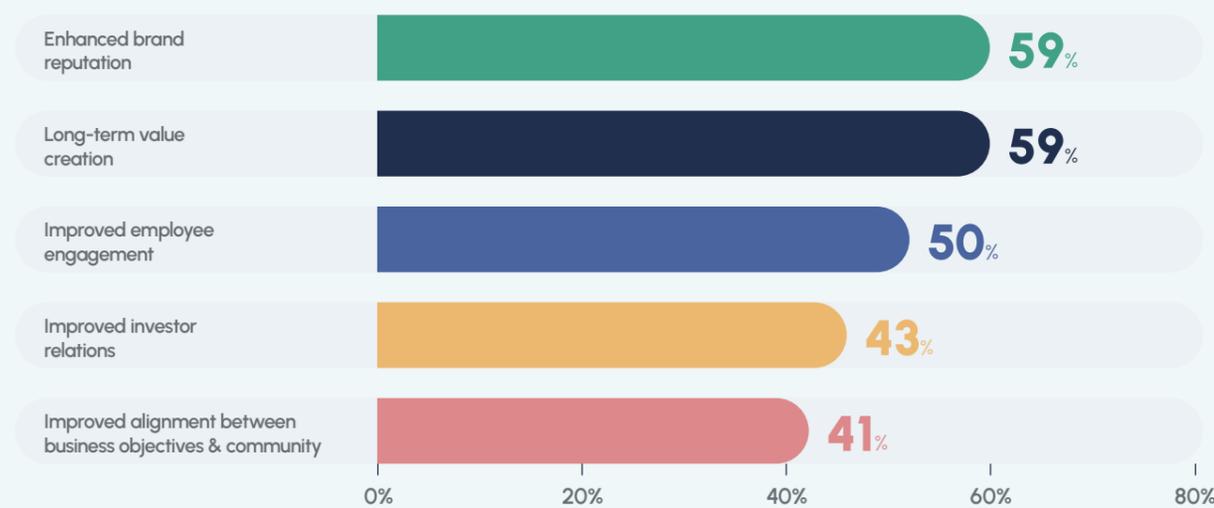


Have companies experienced any benefits from implementing ESG factors into their business?



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, long-term value creation, and improved employee engagement.



Disclaimer: respondents could select multiple options.

Top three drivers for incorporating ESG factors



Compliance with Regulations and Policies

64%



Corporate Values and Culture

43%



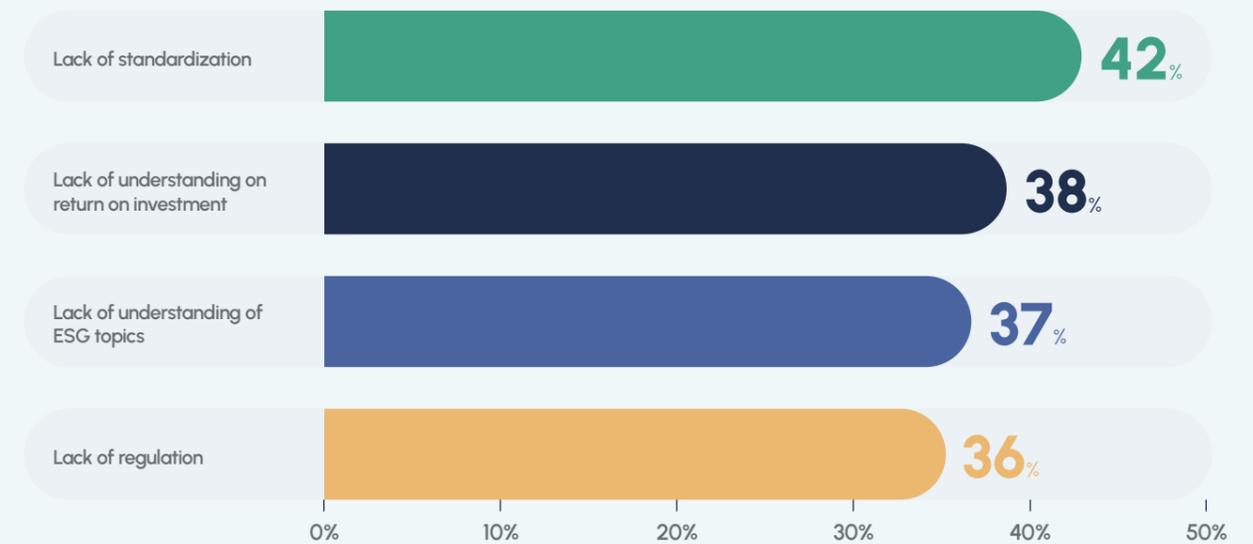
Stakeholders' Demands

29%

The top three drivers for incorporating ESG factors as per survey respondents included Compliance with Regulations and Policies at 64%, Corporate Values and Culture at 43% and Stakeholders' Demands at 29%. This showcases that a mix of external requirements and internal demands push companies to address ESG concerns.

Disclaimer: respondents could select multiple options.

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



Disclaimer: respondents could select multiple options.

Transition to a Net Zero Economy

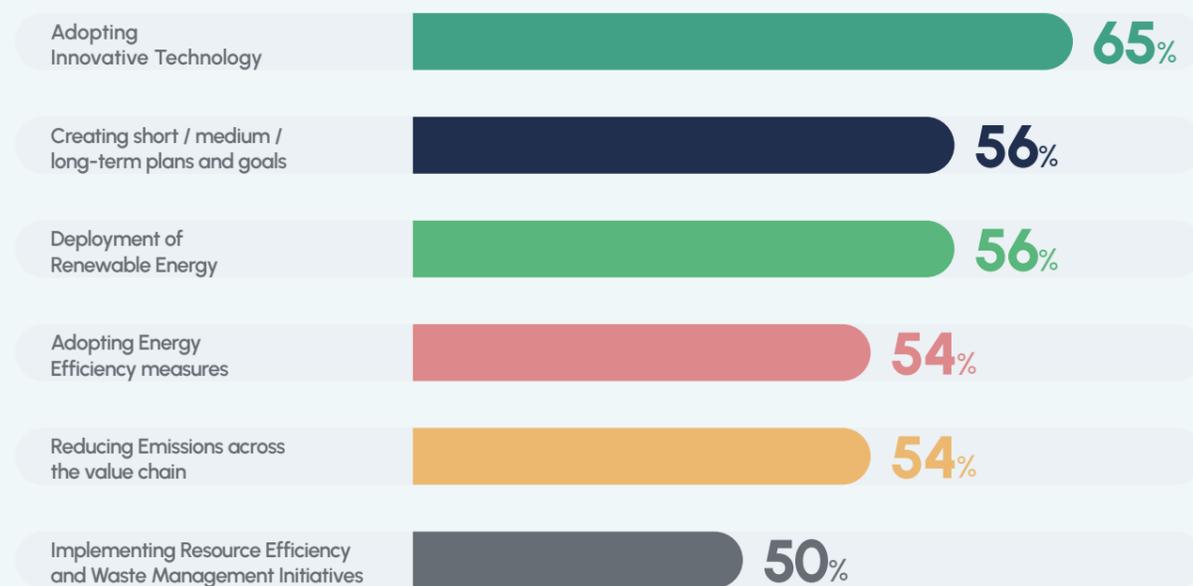
Are companies implementing any initiatives to transition to a Net Zero economy?



A slight majority of survey respondents indicated that their companies were not actively trying to implement initiatives to transition to a Net Zero economy. This may be attributed to the fact that while goals and demands have been outlined for a Net Zero economy, clear and detailed implementation and guidance are yet to be provided, making it further challenging for companies to take risks in this regard.

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

The majority of respondents have noted that their companies are adopting innovative technology, adopting energy efficiency measures, and creating short/ medium/ long-term plans and goals to transition to a Net Zero economy.



Industry Analysis of Net Zero Initiatives

Top 6 Industries and their Net Zero initiatives

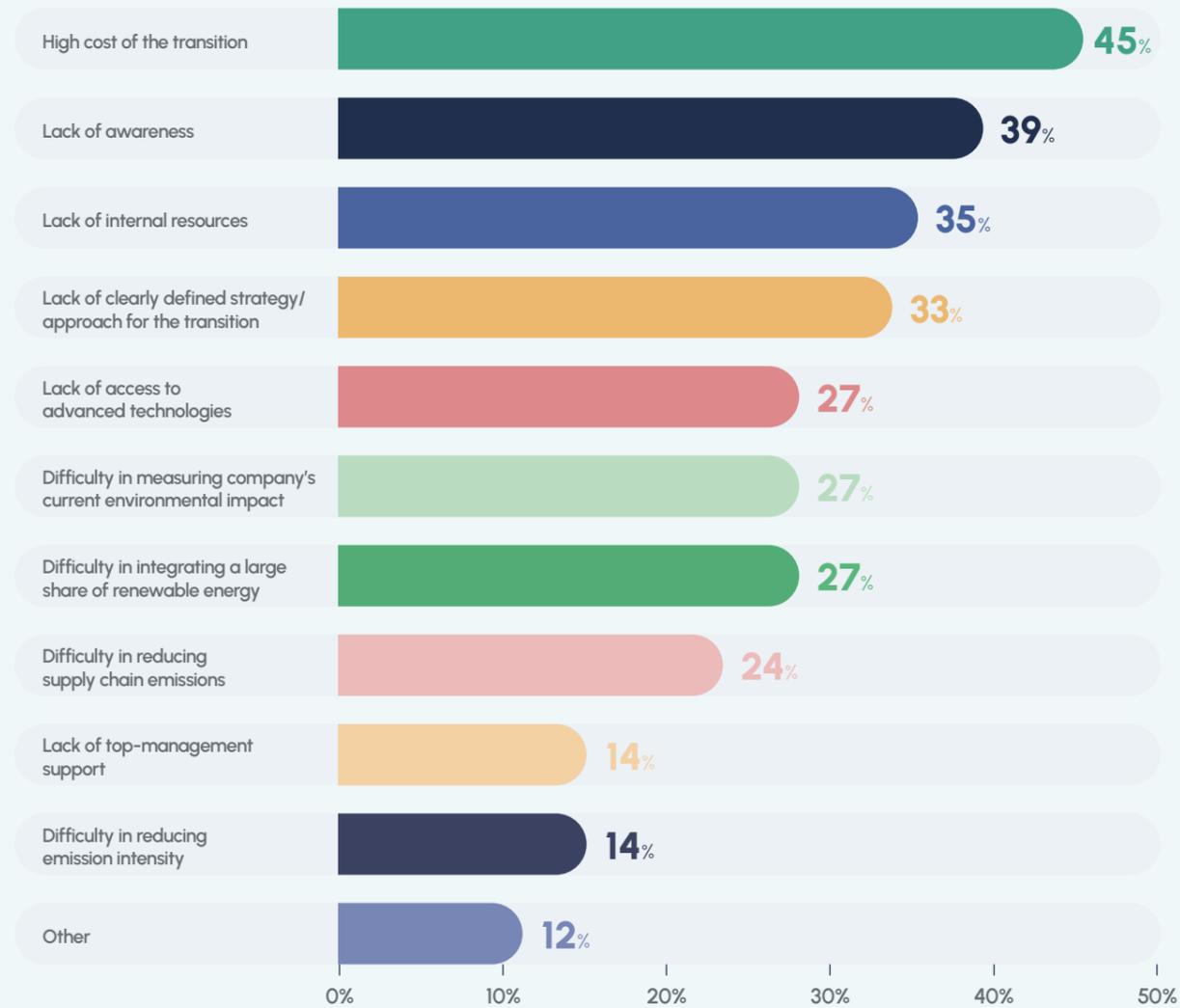


Are companies facing any challenges with regards to the transition to a Net Zero economy?



42% of respondents noted that their companies are facing challenges when trying to transition to a Net Zero economy, with 36% of respondents unaware of their situation.

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



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



Future Outlook

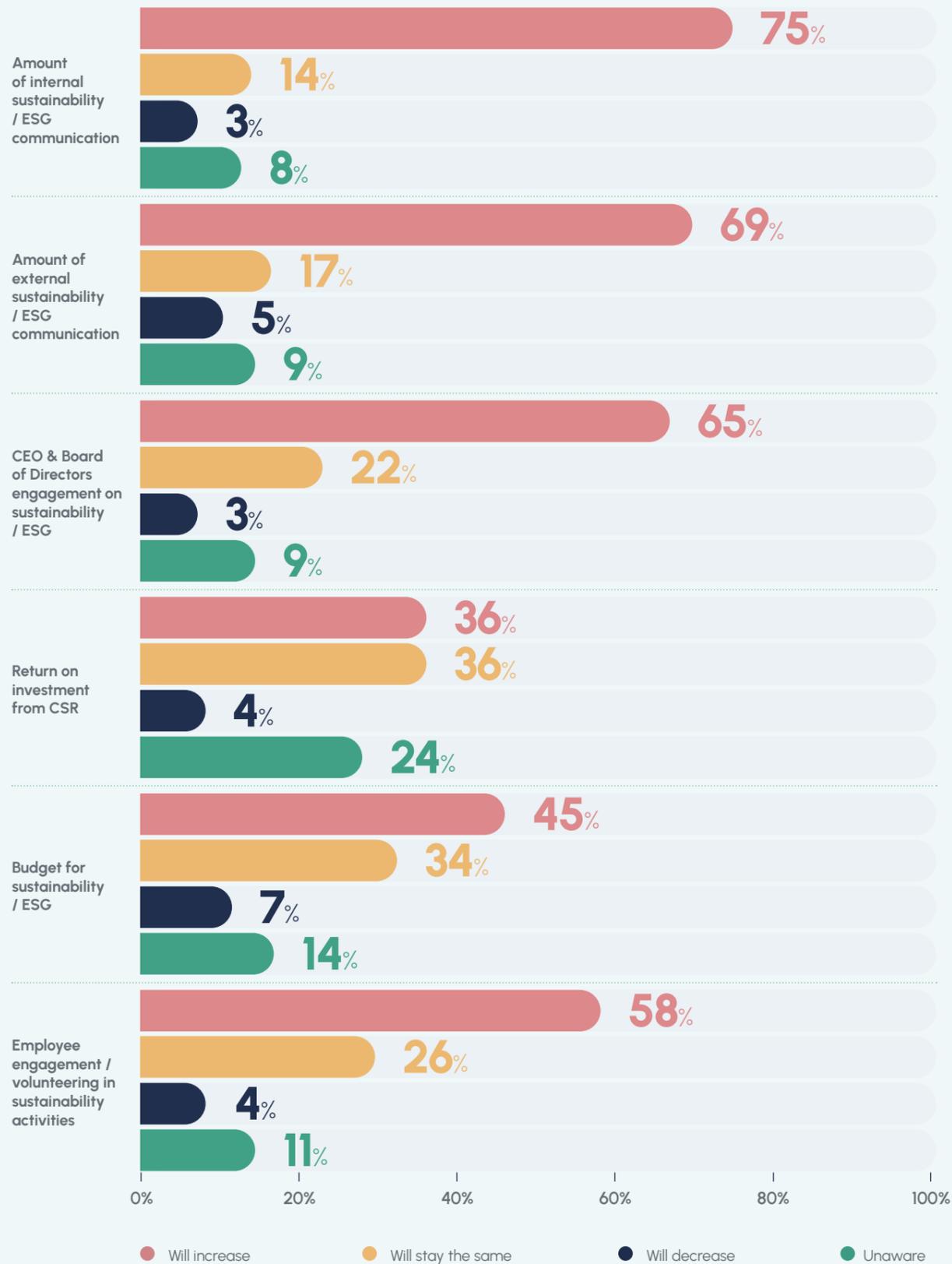
How respondents predict their sustainability practices to evolve over the next 12 months?

The current state of ESG in the GCC has been reported in this report, but this next section takes into account what the future of sustainability looks like in this region. When respondents were asked about different aspects of their business and whether these were going to increase, decrease, or stay the same, we received the following results:

- The amount of internal/ sustainability communication will increase, with over 75% of respondents selecting this option. This is reflective of the growing need within businesses to ensure all internal stakeholders are aligned with the sustainability agenda and working towards the same to achieve their commitments
- The amount of external communication regarding sustainability practices is set to increase with 69% of respondents selecting this option. This reflects the current push towards sustainability in marketing as 'added value' for a company, as opposed to a mandatory requirement
- The engagement of the CEO/ Board of Directors with the sustainability/ ESG agenda of a company is set to increase with 65% of respondents selecting this option
- Companies predict the return on investment from their CSR activities to more or less stay the same, and maybe slightly increase over the next few months
- 45% of respondents said that their budget for sustainability/ ESG aspects will increase in the next 12 months
- Employee engagement/ volunteering within sustainability activities is on track to increase. This is likely a reflection of the growing pressure on companies to have a positive local/ global impact on various levels and not just within the business sphere



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



Best Practices & Key Takeaways

To conclude the 2022 State of ESG in the GCC study report, we have consolidated a list of key takeaways derived from the data, trends and insights of companies that participated in the survey. Our objective is to showcase the valuable insights from the data gathered and to specifically highlight the best practices adopted by mature companies in their respective industries. Drawing purely on the data provided by the survey respondents, we have listed the key takeaways that not only summarises the information presented in the report, but also serves as a helpful starting point and foundation for companies seeking to begin or enhance their sustainability endeavors. Therefore, we present the following best practices as actionable recommendations for companies to thrive in the dynamic landscape of sustainability within the GCC.



Implement Industry-Relevant Sustainability/ESG Strategies for Lasting Impact Frameworks

Ensure you have sustainability/ESG strategies in place to address your company's short, medium and long term risks. This will allow you to position yourself as a responsible player and a leader in the realm of sustainability. 80% of survey respondents currently have some form of sustainability-related strategy in place.



Foster a Culture of Holistic Sustainability/ESG Integration Company-wide

To drive real change, it is essential to fully embed sustainability/ESG strategies across all aspects of your company. Now, while only 36% of survey respondents are in this position, we see the trend indicating that companies are working towards fully embedding sustainability/ESG matters such that these aspects are ingrained in the company's operations, decision-making processes, and long-term planning.



Enhance Sustainability/ESG Strategies through Alignment with Technical Frameworks

By aligning sustainability/ESG strategies to technical frameworks, your company can leverage these recognised industry standards by setting clear and measurable goals, tracking progress effectively and by identifying areas for continuous improvement. Currently, there is a large buy-in of the UN Sustainable Development Goals, the UN Global Compact and the GHG Protocol.





Prioritise Public Disclosure and Reporting of Sustainability/ESG Matters

Public disclosure allows your company to build credibility with its stakeholders and enhance its ESG equity story. By demonstrating transparency, your company showcases a dedication to being accountable for its ESG impacts. Of the survey respondents, a majority (53%) currently publicly disclose and report on sustainability/ ESG-related information and of the 47% that don't currently publicly report, 48% are planning on doing so. Thus, this trend indicates the movement towards public disclosure and reporting.



Prioritise ESG Risk Analysis and Mitigation

To safeguard your company's future, it is vital to analyse and recognise the ESG risks that pose the biggest threats to your company and companies within your industry. Conducting comprehensive assessments and prioritising ESG risk analyses will allow you to implement robust mechanisms to act accordingly and to proactively mitigate adverse effects, which all in all will strengthen your operations, reputation and bottom line. Survey respondents from the food & beverage industry identified the environmental pillar as posing the largest threat, whereas respondents from the financial services industry noted the governance pillar brought up the most potential risks. Having individual, unique and tailored insights on your own company will ensure it is equipped with the right tools, processes and mechanisms to make necessary and strategic decisions.



Embrace ESG Integration to Unlock Significant Benefits for Your Company

At present, 71% of survey respondents are incorporating ESG factors and 69% of them have experienced benefits because of this integration. Integrating ESG factors comes with a host of benefits such as enhanced brand reputation, long-term value creation, improved employee engagement, improved investor relations and improved alignment between the business objectives and the community needs.



Transition to a Net Zero Economy Frameworks

Embracing the transition to a Net Zero economy is a critical step towards a more sustainable and resilient future as companies collaborate with diverse stakeholders to drive collective action to reduce greenhouse gas emissions. From the survey respondents, it is observed that 41% have said they are implementing initiatives to transition to a Net Zero economy. While the transition requires continuous innovation, research and capital allocation to develop new technologies and solutions that contribute to a net-zero future, this allows companies gain a competitive advantage by being at the forefront of sustainable practices and a good starting place is for companies to adopt initiatives that are industry specific.



Leverage Industry Specific ESG Priorities to Unlock New Opportunities & Enhance Risk Management

Incorporating industry specific ESG priorities not only allows for better alignment between sustainability and business strategies, but also fosters resilience against potential challenges. A proactive approach in this realm opens doors to new opportunities and helps mitigate risks and minimize negative impacts, contributing to your company's long-term success and stability. We see this in practice as financial services companies are prioritising relevant industry specific ESG topics such as climate change, employee engagement and diversity and equal opportunity, whereas oil and gas companies are prioritising GHG emissions, waste and hazardous materials and energy management, thus showcasing the need to adopt a tailored approach to stand out as a leader in your field.



Discuss ESG Risks and Opportunities at a Board-Level

Discussing ESG risks and opportunities at a board-level is crucial for effective decision-making, responsible governance, and long-term sustainability. A majority of survey respondents, 51%, currently have board-level engagement and oversight of sustainability related topics and 43% of them are having these discussions regarding ESG risks and opportunities quarterly. As the importance of ESG matters continues to grow, companies need to ensure they have the right processes to make informed decisions to continuously improve the business, generate long-term value, meet stakeholder expectations and ensure the company's success in an everchanging global landscape.



About Sustainable Square



Headquartered in the UAE, Sustainable Square is a global advisory firm that delivers impact through redefined solutions in organizational sustainability, ESG transparency & disclosure, climate change, responsible investment and social impact.

With a presence in 3 regions and 10 markets of operations, Sustainable Square works with leading brands across various industries and sectors, supporting them to identify Environmental, Social, and Governance (ESG) risks and opportunities, empowering them to become more resilient and up-scale their impact, and assisting them in conducting their operations in a responsible and inclusive manner. Our advisors have established themselves as highly skilled, result-oriented and resourceful partners to our clients, and provide thought leadership on sustainable business in the MENA region.

A sustainability tech, climate tech pioneer, Sustainable Square offers Squarely ESG, an innovative ESG reporting tool that automates complex processes and tasks, using technology to save time, reduce cost and enhance collaboration in meeting sustainability targets.

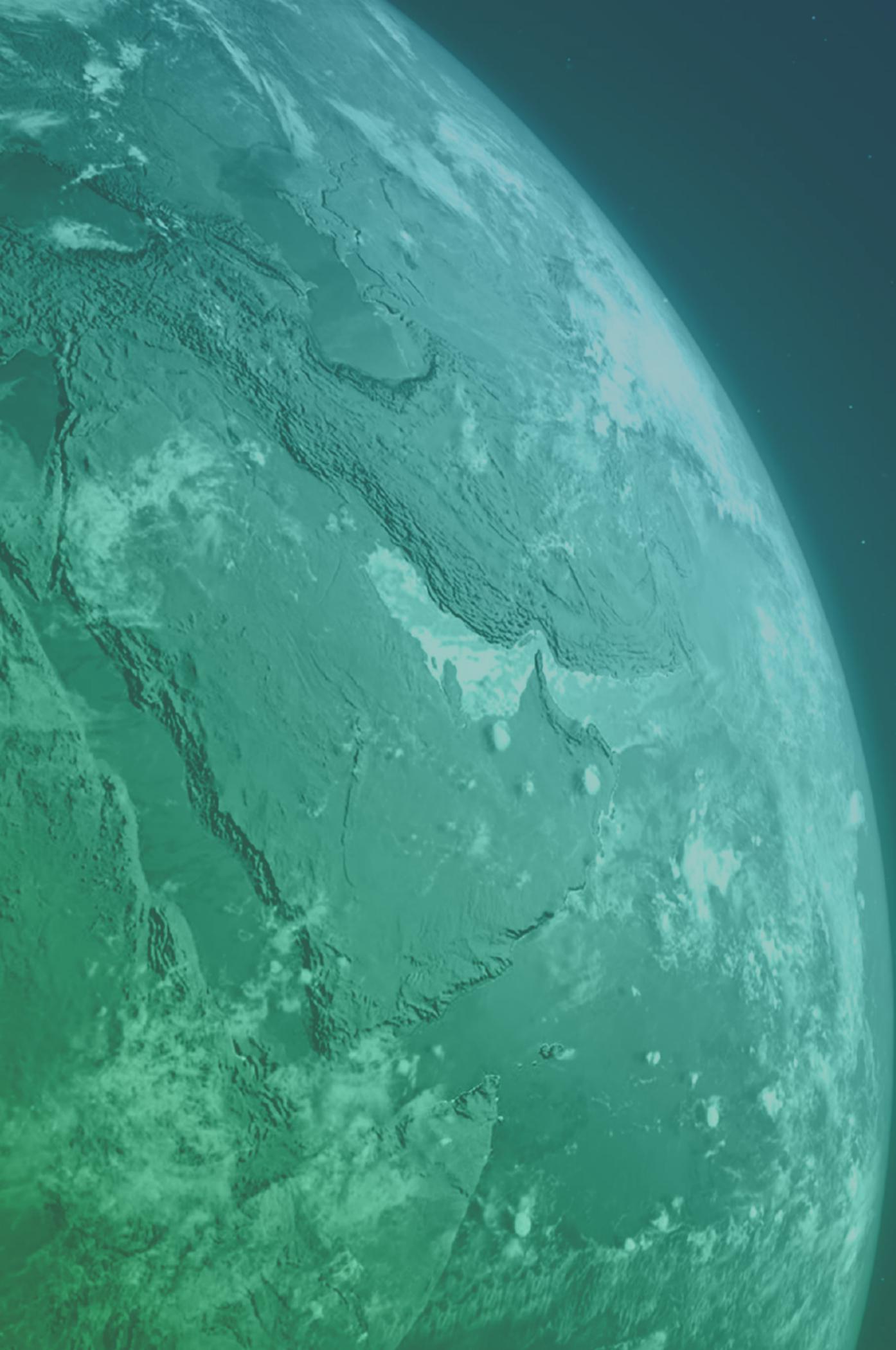
About First Abu Dhabi Bank (FAB)



FAB is the UAE's largest bank with an international network that spans five continents, providing global relationships, expertise and financial strength to support local, regional and international businesses seeking to do business at home and abroad. FAB is consistently ranked one of the world's largest, safest and most socially responsible banks. A global bank and regional banking powerhouse, FAB is established in 20 markets from the Americas to Asia, and is known for consistently delivering results, generating returns and creating value.

FAB is proactively shaping the future with purposeful action for sustainable growth. With total assets of AED 1.1 Trillion (USD 312 Billion) as of June-end 2023, FAB is rated Aa3/AA-/AA- by Moody's, S&P and Fitch, respectively - the strongest combined ratings of any bank in the MENA region. FAB was named the UAE's most valuable banking brand in the 2023 Brand Finance UAE 50 and Brand Finance Banking 500 rankings. The Bank has been ranked by Global Finance as the Safest Bank in the UAE and the Middle East since 2011, and #31 Safest Bank globally in 2022. The Banker's Top 1000 World Banks 2022 rankings, measured by Tier 1 capital, ranked FAB as #2 in the UAE, #5 in the Middle East and #90 across the globe. FAB is also a regional sustainability leader (MSCI ESG rating of 'A'), and a constituent of MSCI ESG Leaders and FTSE4Good EM indices.

For further information, visit: www.bankfab.com.



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