



Interreg Europe Good Practices on and Future of Impact Investing The SRI Tool

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Dr. Eudokia Balamou
Larnaca and Famagusta Districts
Development Agency
Road-CSR



**Interreg
Europe**



European Union | European Regional Development Fund

Who we are - ANETEL



- Founded in October 2003 ⇒ stakeholders the municipalities and Communities of Larnaca District and 4 business associations ⇒ Expanded in 2012 to Famagusta District.
- Total Area Population: 221,540
- Vision: to achieve self-sustaining, diversified, vibrant territory that will attract people for work, habitation, and visit.

What we do:

- ✓ Development planning and preparation of Local development
- ✓ Technical support to the public authorities of the area.
- ✓ Undertaking initiatives in subjects of protection of the environment, circular economy and natural heritage ⇒ Environmental Information Centre
- ✓ Management and Implementation of E.U. Programmes (more than 40 EU projects)
- ✓ Create conditions and coordinate new innovative initiatives that broaden the economic activity (investments), local labor market and diversify the economy.
- ✓ Funding Agency (LAG and FLAG)



Cyprus – Investment Context

- Cyprus is situated in the north-eastern basin of the Mediterranean Sea at the crossroads of Europe, Asia and Africa ⇒ strategic location that plays an important role in its continuing development into a financial centre.
- Total Population: 888.000
- Open, free-market, service-based economy with some light manufacturing.
- Services sector is dominant ⇒ 70% contribution to GDP and its share in employment.
- Services include tourism, banking, accounting, legal, medical, telecommunications and human capital.
- Cyprus today is firmly established as a reputable international financial centre, the ideal bridge between East and West ⇒ offering unique experience to investors and trading partners.



Cyprus – Social Investment Context



Cyprus has succeeded in **differentiating** itself from other financial centres

Local Market Opportunities

- ✓ Energy
- ✓ Research and Innovation
- ✓ Real Estate
- ✓ Tourism
- ✓ Shipping
- ✓ Wholesale – trade



- ❑ The discussion of ESG in Cyprus began in 2016 ⇒ gained momentum in the financial services and asset management industry, arising from investor demands and regulatory pressure for sustainability or ESG practises
- ❑ COVID-19 pandemic ⇒ reinforced the need to redirect capital flows towards sustainable projects
- ❑ The interest in ESG has grown ⇒ Investors, Asset Managers, major banks and other financial services organizations beginning to look at the ESG contribution or disclosure requirements
- ❑ The Government is committed to the UNSDGs and is working to apply sustainable-finance criteria in policymaking.
- ❑ (ISO) standards for sustainable finance before the end of 2021

The Road-CSR project



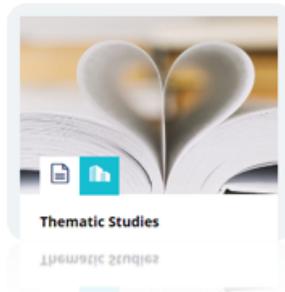
- Road-CSR helps EU member states to apply CSR to SMEs to help them become more competitive, sustainable, innovative and accomplish long term profitability with social justice and environmental protection.

Road CSR – results

4

Policy changes reported

More than half of the policy instruments addressed have already been improved



A content rich library of thematic CSR knowledge developed

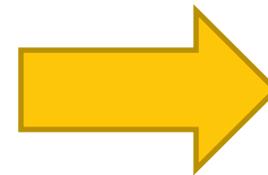


50

Good practices identified and shared

18

published in the PLP GP database



Continue Road-CSR under the 5th call of projects

Make the national policies to **think CSR as “COVID-19 Social Responsibility”**

✓ more adaptive to the new COVID-19 situation ⇒ CSR plays a crucial role in alleviating the negative consequences of the pandemic for companies and society.

Socially Responsible Investment (SRI)



- Challenge: difficulty in examining and evaluating non-financial issues of a company in the context of investment decisions and strategies.
- Need of assessment of social, environmental and governance (ESG) practises and wider economic issues in the context of the investment decisions ⇒ enable to consider these extra-financial factors as part of investment decisions.
- Socially Responsible Investment (SRI): inclusion of ESG factors into investment portfolios and solutions. ⇒ Fund managers are able to identify truly sustainable companies in which to invest.





4 Benefits of Responsible Investment

1. BETTER ANALYSIS

A company is more than just the numbers. Analyzing a company's environmental, social, and governance (ESG) performance can help investors to identify risks and opportunities that are not visible with traditional financial analysis.



2. LONG-TERM PERFORMANCE

Responsible investing can lead to better long-term financial performance. A meta-analysis of over 2,000 academic studies found that there is a positive correlation between ESG performance and corporate financial performance.



3. RISK MANAGEMENT

Responsible investing can reduce exposure to risks that may not be visible on a company's financial statements. Analyzing a company's ESG performance, in addition to financial metrics, provides a more holistic view of a company's quality of management and its long-term prospects for success.



4. A BETTER WORLD

The benefits of responsible investing go beyond just financial risk and opportunity. By providing capital to corporate sustainability leaders and improving a company's ESG performance through shareholder engagement, responsible investors contribute to positive social and environmental outcomes.



Socially Responsible Investment (SRI)



About the SRI Tool

- The tool is entirely interview-based,
- 28 questions across the SRI framework, using Account Ability's global responsible competitiveness framework,
- Use of publicly available information and also easily be applied in an interview format,
- Fund managers are given responsibility to decide their own benchmarking standards,
- Methodology results in overall score for the company at the end of the process,
- The final score indicates the level of the company's sustainability performance.

Supply Chains									
Responsible supply chains looks at social and environmental issues along company's supply chains (e.g. Otto Group's "Cotton Made in Africa" project has trained over 40,000 farmers to improve social and environmental performance)									
1 = There is no evidence that the company does this; 7 = The company is a national leader. Analysts jointly decide benchmarks within this range.		Indicate with X at the appropriate number below and mark the score in the red column							Answer
Leadership	To what extent does the company consider social and environmental criteria when choosing to work with suppliers?	1	2	3	4	5	6	7	
Systems	To what extent does the company require verification from suppliers on their social and environmental performance? (eg requiring suppliers provide ISO14001 certificates, quality standards etc)	1	2	3	4	5	6	7	
Engagement	To what extent does the company itself work with suppliers to improve supplier social and environmental performance and impact (eg through audits and supplier training schemes)?	1	2	3	4	5	6	7	
Performance	To what extent does the company track or measure improvements in the social and environmental performance of suppliers?	1	2	3	4	5	6	7	

Socially Responsible Investment (SRI)



Assessment Areas

- Governance and Transparency,
 - Environment,
 - Sector Sustainability,
 - Human, Health and Safety Management,
 - Supply Chain Management,
 - Community Engagement,
- All questions use a 1-7 scoring system
 - The minimum scores a company can receive is 14%.
 - Low performers score approximately 20%.
 - Improvers score approximately 30-40%.
 - National best practice is between 40-50%.
 - International best practice is in the region of 70% and higher.
 - The maximum score a company can receive is 100%
 - All scores out of 7 are converted into a percentage.
 - The tool has a methodology guideline as well as tool guidelines.

Socially Responsible Investment (SRI)



Evidence of Success

- ✓ The SRI tool has been pilot tested by 5 companies ⇒ today more than 40 companies are using it,
- ✓ Easy to implement and can be used by any company ⇒ no need to be a sustainability expert,
- ✓ Allows discussion on the questions which enables maximum accuracy,
- ✓ Scores are comparable between companies and across sectors,
- ✓ Application across different sectors,
- ✓ Developed to measure specific areas of company performance across leadership, systems, engagement and performance measurement.

Socially Responsible Investment (SRI)



Lessons Learnt

- ✓ This tool is designed for use by analysts using publicly available information, such as audited accounts, CSR reports and company websites. It is at the analysts' discretion if they want to use the tool on an interview basis,
- ✓ Investors have an improved insight into the social and environmental performance of firms and can make better decisions.
- ✓ The tool's 'conclusion' could be validated through a discussion of the assessment with company representatives. The discussion would also help to identify where specific circumstances may imply that the tools results indicate a stronger vulnerability to risk than is actually the case.
- ✓ The company is informed of the performance weaknesses identified by the tool, and thereby enabled to develop strategies to address these weaknesses.
- ✓ Assess how to weigh the sustainability score into your investment decision ⇒ Some investors go even further, and conduct the SRI screening first and use this as a basis for further financial and risk investigation.

Socially Responsible Investment (SRI)



Companies Benefits from Using SRI Tool and ESG criteria in investments

- Poor management of ESG issues leads:
 - ✓ Harms company's reputation
 - ✓ Impedes its operational efficiency and business continuity
 - ✓ Harm its relationships with key stakeholders and thereby the business' license to operate
 - ✓ Harm the welfare of society and the environment
- Good and strategic management of ESG issues:
 - ✓ Offers opportunities for strategic and competitive differentiation
 - ✓ Enhances operational and resource efficiency (i.e. cost savings)
 - ✓ Improves relationships with and goodwill amongst key stakeholders
 - ✓ Helps in the attraction and retention of talented employees
 - ✓ Contributes to shaping an operating environment ⇒ sustainable business success
 - ✓ Secures supplies of high quality inputs
 - ✓ Pre-empts pending regulation
 - ✓ Creates confidence in the company's commitment to quality of management, products and services.

Socially Responsible Investment (SRI)



The Future

- The European Commission has launched several initiatives on sustainable development within a framework aimed at putting ESG factors at the heart of the financial system ⇒ transform Europe's economy into a greener, more resilient and circular system
- The tool can be considered as a part of the objectives that shape the European Union's CSR policy, encouraging investors and businesses to contribute to sustainable development through socially responsible investment decision.
- Socially responsible investment seeks to maximize welfare while earning a return on one's investment that is consistent with the investor's goals.
- There is an increasing demand for SRI and Green Investments ⇒ many countries have already implemented some regulations in this regard.
- The SFDR was introduced by the European Commission alongside the Taxonomy Regulation and the Low Carbon Benchmarks Regulation as part of a package of legislative measures arising from the European Commission's Action Plan on Sustainable Finance.
- However, for private and institutional investors profit maximization still plays a dominant role in the investment decision making process but social investments are gaining ground.



Thank you!



Dr. Eudokia Balamou
Larnaca and Famagusta Districts Development Agency
ebalamou@anetel.com



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