

# In Cyprus, ESG is here to stay

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**“W**h a d m o r e c o n v e r s a t i o n s about ESG in recent months than we have had in the past few years. There is seriously growing interest in the subject, and not just from listed companies but from privately-held entities too," insists Antonis Christodoulides, Partner & ESG platform leader at PwC Cyprus.

"The recently announced US commitment to achieve ambitious climate neutrality targets has created an enhanced sense of urgency, and has helped the subject gain significant momentum on a global level.

"It's equally true that most companies in Cyprus are still at the stage of understanding what ESG is and what it means. Some companies are already formulating their approach on the subject. They are coming to terms with Cyprus legislation on the subject: the financial disclosure regulation and the non-financial reporting directive. Naturally, these pieces of legislation obliged businesses to take a greater interest. But pressure from various stakeholders out there is growing, more and more companies realise that they need to have an ESG plan," Christodoulides points out.

"ESG is a topic which has been somewhat high on the agenda, certainly over the past year," he continues. And the reasons for that so far have been purely regulatory. There were a couple of important pieces of EU legislation, which came into effect and this is what prompted interest and discussion on the subject. However, the audience up to now has been somewhat limited, because obviously listed companies and the largest companies have had the greatest interest, and they are a minority in the Cyprus market.

The Sustainable Finance Disclosure Regulation is the first piece of legislation, and

the other one is the Non-Financial Reporting Regulation, with the anticipated changes thereon.

"These are the drivers, and it's interesting to see many other dynamics developing out there. I would say that the most notable and interesting trend relates to the evolution of ESG from the periphery of a company's strategic agenda, right to the core of its major strategic choices. Based on the conversations that we have had with clients so far, the moment that the company makes the realisation that ESG is more of an opportunity than a risk, is probably the landmark in the ESG journey, it puts the whole subject on a different level," Christodoulides explains.

In Cyprus, companies are generally at the initial stages of implementing ESG.

But what is clear about companies here, irrespective of the choice of strategy, is that ESG is now a fundamental part of doing business, with an eye to long-term gains, Christodoulides notes.

"This is precisely the attitude which comes with positioning the ESG agenda, right up the top of strategy, rather than looking at it as a risk mitigation exercise. This is the fundamental shift that we see in the quality of our conversations with clients. And in our view, ESG is here to stay, ESG is not a temporary trend, the world is moving in an irreversible direction, taking into account the huge political commitments that have been made at the United Nations level, at the European Union level and, as we said, by the US. Given that we are living in the time of stakeholder capitalism, a wide range of constituencies are nowadays being listened to as companies realise that the sustainability of their business may be at risk if they are not. So this is here to stay, this is part of a long-term business strategy and companies will be looking for long-term gains.

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that have the most entities which are regulated, like banking, insurance companies, funds, and so on are moving ahead faster. Certainly, the regulated space is more developed in their ESG journey than the rest of the market. But we see that more privately-held players from other sectors are joining these discussions and are opening up this conversation about the future and what kind of stance they will be taking in terms of ESG," he points out.

Listed companies, which are required by their exchanges to have an ESG agenda, are of course at the forefront.

"They are the ones which can be expected to be more easily adaptable to have a strong ESG performance. Being listed obliges them to maintain a culture of transparency and openness.

"For privately owned and managed companies, understandably, you can see some concerns. This is precisely because they will have to open up, they will have to tell the world what they are doing, how much they are doing and how they are doing it. To a certain extent, this is why it takes a little bit more time for them to become engaged."

What about Cyprus in terms of targets for ESG investment? Can investors find return on the island within ESG parameters?

"The prospects for ESG investment evolving in Cyprus are tremendous. The European Recovery Fund

will invest more than billion euros in sustainable development initiatives and green energy as part of the plan in addition to digital transformation projects. This will create substantial opportunities for market players to up their ESG game, and to benefit from the upscaling of our green economy across various sectors. Another reason that I see growing prospects is the fact that we are expecting increased regulatory and fiscal pressure because, as a country, our scores on key environmental areas like air pollution, waste management, water management and so on are below EU averages and we are also lagging behind schedule to improve them. Therefore, I would expect significant pressure coming from regulators and the government to put this right."

For these reasons, the ESG agenda will be pushed forward in a more accelerated and far-reaching manner than we have seen before.

It is worth mentioning that PwC Cyprus issued back in December a comprehensive study entitled 'Restart Cyprus: Now', which included a series of proposals, aimed at promoting reforms to restart and transform the economy and achieve sustainable growth in the post Covid-19 era. The proposals included in study focus on social developments, environmental reforms as well as on public sector reforms showing the value of ESG as well. ■