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*Intensive Course
Green Finance & Sustainability*



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Importance of ESG-s and European Commitment to Sustainable Finance

- Case studies from Albania and Balkan region

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Understanding ESG

What ESG state for?

- **Environmental:** Refers to a company's effects on the environment.
- **Social:** Covers a company's interactions with employees, communities, and society at large.
- **Governance:** Concentrates on a company's internal systems, leadership, and organizational structures.



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Importance of ESG

- Strengthens a company's risk management,
- Enhancing its ability to tackle challenges like climate change
- Regulatory shifts.



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The European Union's Commitment to Sustainable Finance

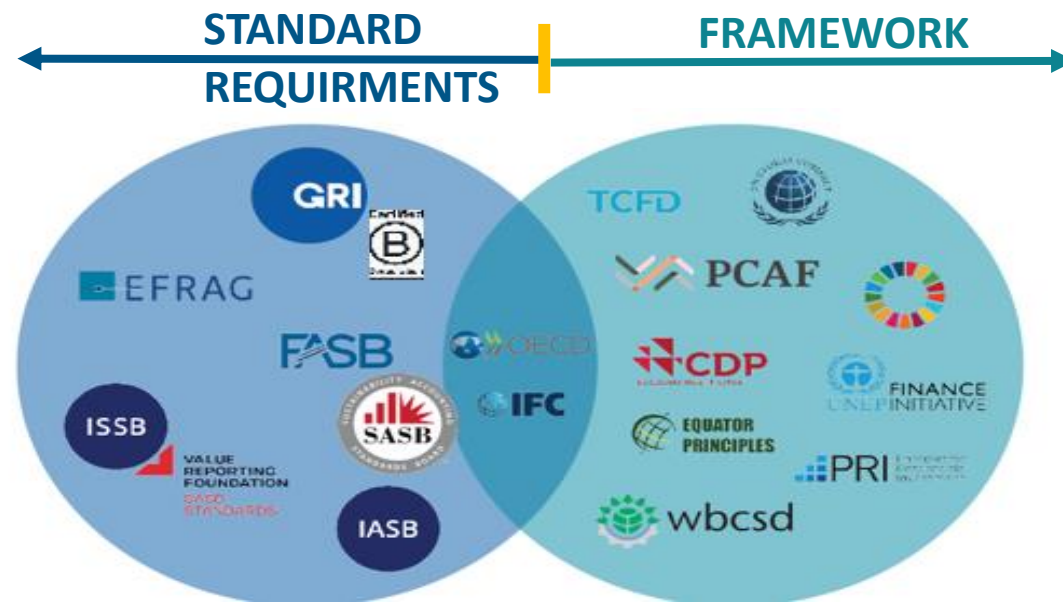
Europe has been a pioneer in embedding ESG into its financial system. The EU's 2018

ESG is transforming corporate responsibility in Europe by requiring companies to go beyond profit and contribute to societal goals. This framework aligns corporate strategies with global sustainability objectives.



Numerous standards and frameworks are currently in existence.

- For instance, TCFD, ISSB, CDP, SASB, etc., serve the purpose of communicating with and fostering transparency for financial entities, investors, and capital markets.
- Additionally, voluntary standards and guidelines such as UNGC, SDG, B-corp, OECD, etc., contribute to transparency for all stakeholders.



What is still to come in terms of legislation & standards:

- **CS3D - Directive on Corporate Sustainability Due Diligence:** Anticipated regulations focusing on Corporate Sustainability Due Diligence to enhance corporate responsibility and accountability.
- The Carbon Border Adjustment Mechanism (CBAM): Expected regulations related to the Carbon Border Adjustment Mechanism, aiming to address carbon leakage and ensure fair competition in the context of climate policies.
- Sustainable Product Initiative, based on Circular Economy Action Plan: Anticipated standards and initiatives related to sustainability in product design and production, aligned with the Circular Economy Action Plan.

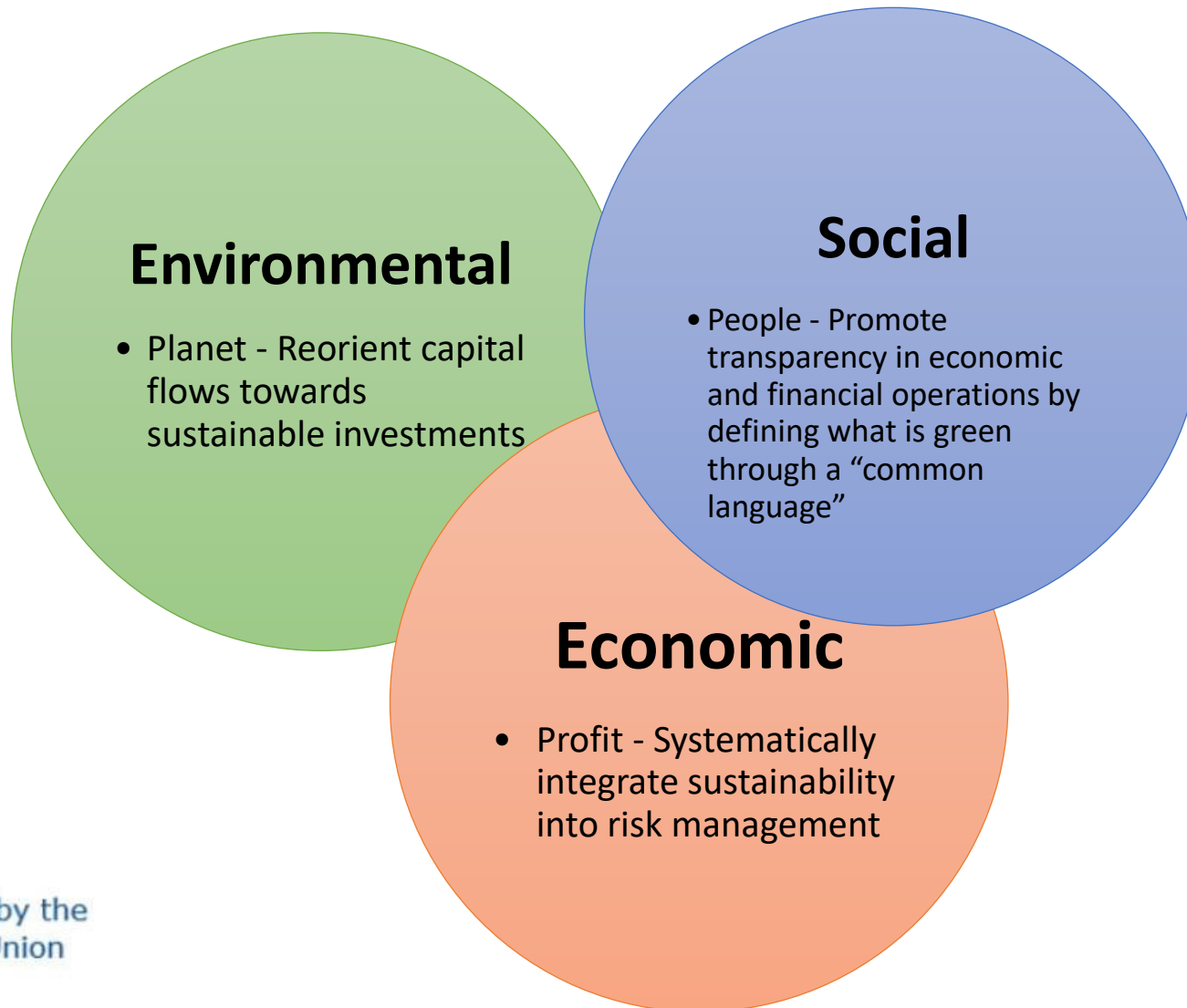


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Three pillars of the EU action plan of sustainable growth

Promoting transparency and reorienting capital flows towards sustainable investments in the wake of the EU Green Deal and Paris agreement



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FOCUS ON ALBANIA AND BALKAN REGION

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Climate trends in Albania

Climate in Albania is changing with projections indicating continued rise in average temperatures and decrease in precipitation.

Projections indicate that the mean annual temperature in Albania would **increase** between **1.3°C and 2.2°C by 2050**, along with the frequency of extremely high temperatures. Albania's summers are expected to experience the greatest degrees of warming, with an increase of **2.4°C to 3.1°C during June to August**.

Due to a combination of political, geographic, and social factors, Albania is recognized as **vulnerable to climate change** impacts, **ranked 75 out of 181 countries** in the 2020 ND-GAIN Index, which calculates a country's vulnerability to climate change and other global challenges as well as their readiness to improve resilience.

Physical Risks

- **Damage to property, infrastructure and facilities** due to Floods, Seismic, Heatwaves, Storms, Sea level rise, Wildfires Soil erosion
- **Revenue losses** due to operational and supply chain disruptions
- **Human health and safety risks** due to heat-related deaths, especially among the elderly and under-developed public health system
- **Water availability** due to drought seasons
- **Biodiversity loss** due to changing rainfall and weather patterns

Transition Risks

- **Regulatory Risks:** Carbon pricing and energy regulations will affect energy-intensive sectors leading to increased operating costs
- **Technological Risks:** Industries slow to adopt low-carbon technologies may lose competitiveness, while those investing heavily may face risks if these technologies do not perform or get adopted as anticipated
- **Market Risks:** Changes in supply and demand dynamics for fossil fuels and low-carbon products can have significant impacts on target markets
- **Reputational Risks:** Companies failing to align with growing public and consumer expectations around climate change can suffer reputational damage, affecting their customer base and investor relationships



Climate change impacts across key sectors

Albania needs to introduce mitigation and adaptation strategies in order to protect its economy from negative climate change impacts



Agriculture (19% of GDP)

Less land will be suitable for production

Climate change impact

Extreme temperatures pose a threat to agricultural production and heavy rainfall events increase the risk of crop losses.

Mitigation and adaptation options

Additional funding will be needed to improve farmers' access to and use of technology as well as the dissemination of hydrometeorological data in order to make Albania's agricultural industry more climate change-resistant.



Water (included in agriculture and energy)

Damaged and contaminated resources

The increasing risk of river floods and droughts is associated with higher risk of pressure on water supply infrastructure.

In order to decrease loss and boost efficiency, Albania would benefit from repairing, expanding, and modernizing its water distribution networks and infrastructure.



Energy (12% of GDP)

New regulations for sustainable resources and energy efficiency of buildings

Given the high reliance of the country on hydropower, floods and droughts might rise a challenge for electricity generation.

Solar energy and hydropower have a great deal of potential to dominate the nation's developing clean energy sector. Albania would gain from enhanced meteorological and hydro-meteorological condition monitoring, forecasting, and information dissemination.



Health (13% of GDP)

Low air quality, contaminated water, heatwaves causing health issues

Climate change-related disasters can lead to losses of lives, injuries, and destruction of homes.

Albania's healthcare infrastructure has to be improved to support greater systemic resiliency to climate change, as well as capacity building to promote adaptation to extreme weather events and support the essential response capacities.



Coastal zones (9% of GDP)

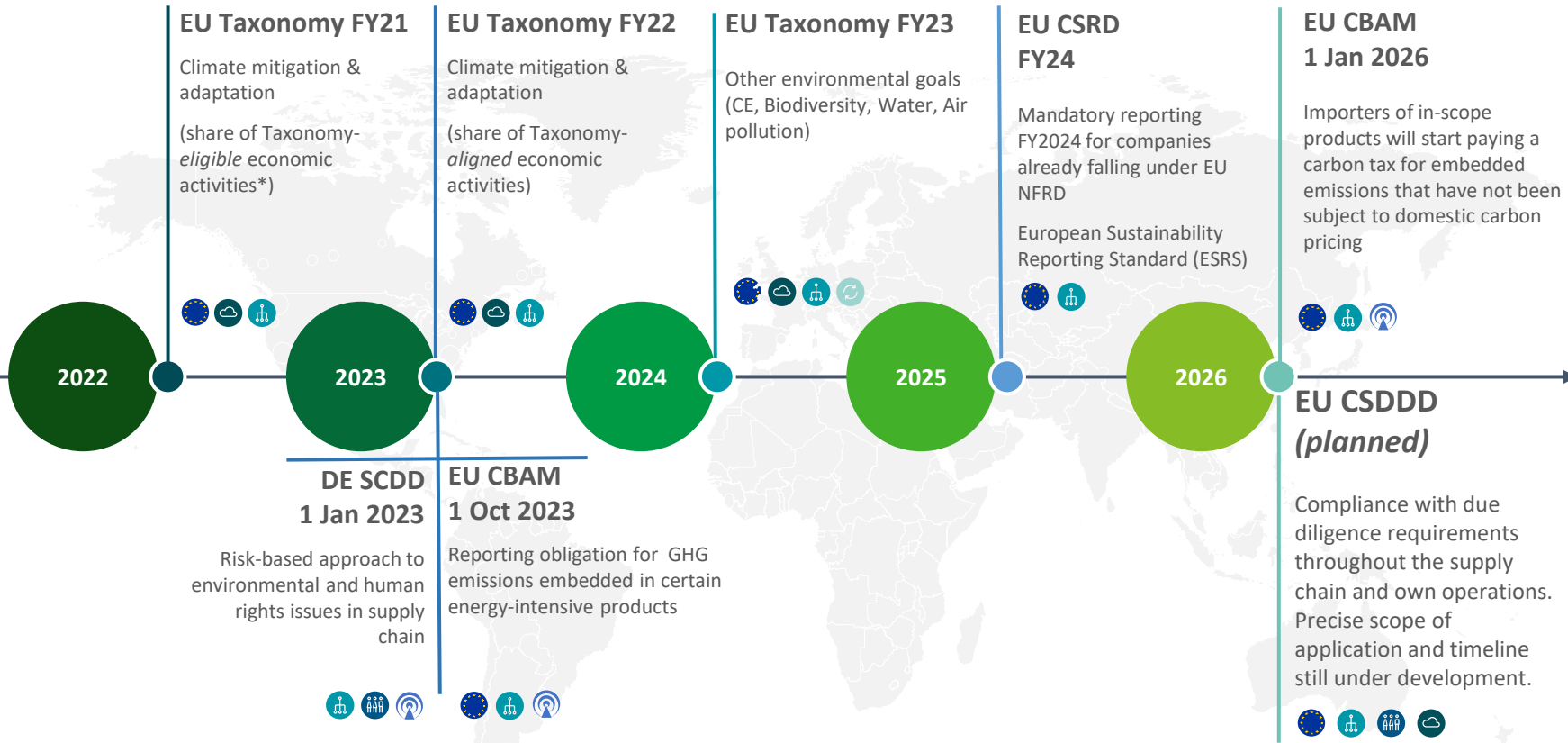
Sea erosion, flooding, biodiversity losses

Sea level rise is also expected to affect coastal population and tourism adversely.

Implementing a coastal zone adaptation strategy for Albania is likely to be challenging and expensive, but it is anticipated to be less expensive than attempting to manage the severe effects of climate change on the country's coastal zone.

ESG regulation the key driver of sustainable business actions in the EU

The EU regulation is increasingly having a cross-boarder effect



Europe	Climate (Company, product)	Circular Economy
Cross-border effect	KPIs & Reporting	Human Rights



Impact on companies

- Growing diversity of topics** - increasing requirements for management approaches and scope of data collection
- Increasing data demands** - higher granularity and quality of disclosed data
- Increased need for integration** - in functions and processes
- Increasing investor requirements** - information needs and management quality
- Increasing audit requirements** - limited assurance and reasonable assurance

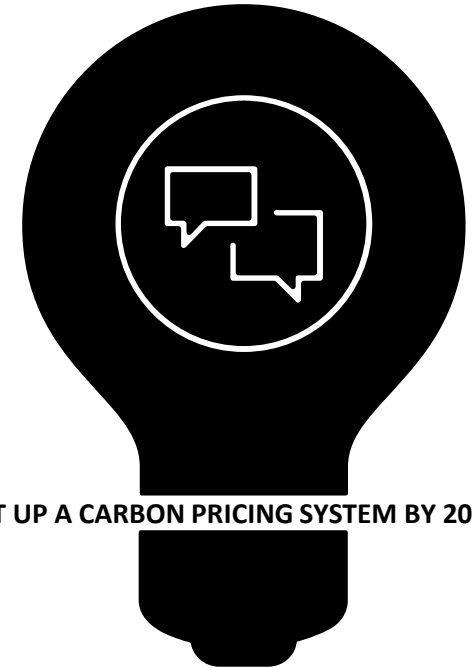
Balkan countries are faced with three options



From 2026, when CBAM enters into force, export to the EU with an added price tag, with the full cost of CO₂ reflected in the price from 2032 or 2035 (depending on the EU's final decision)



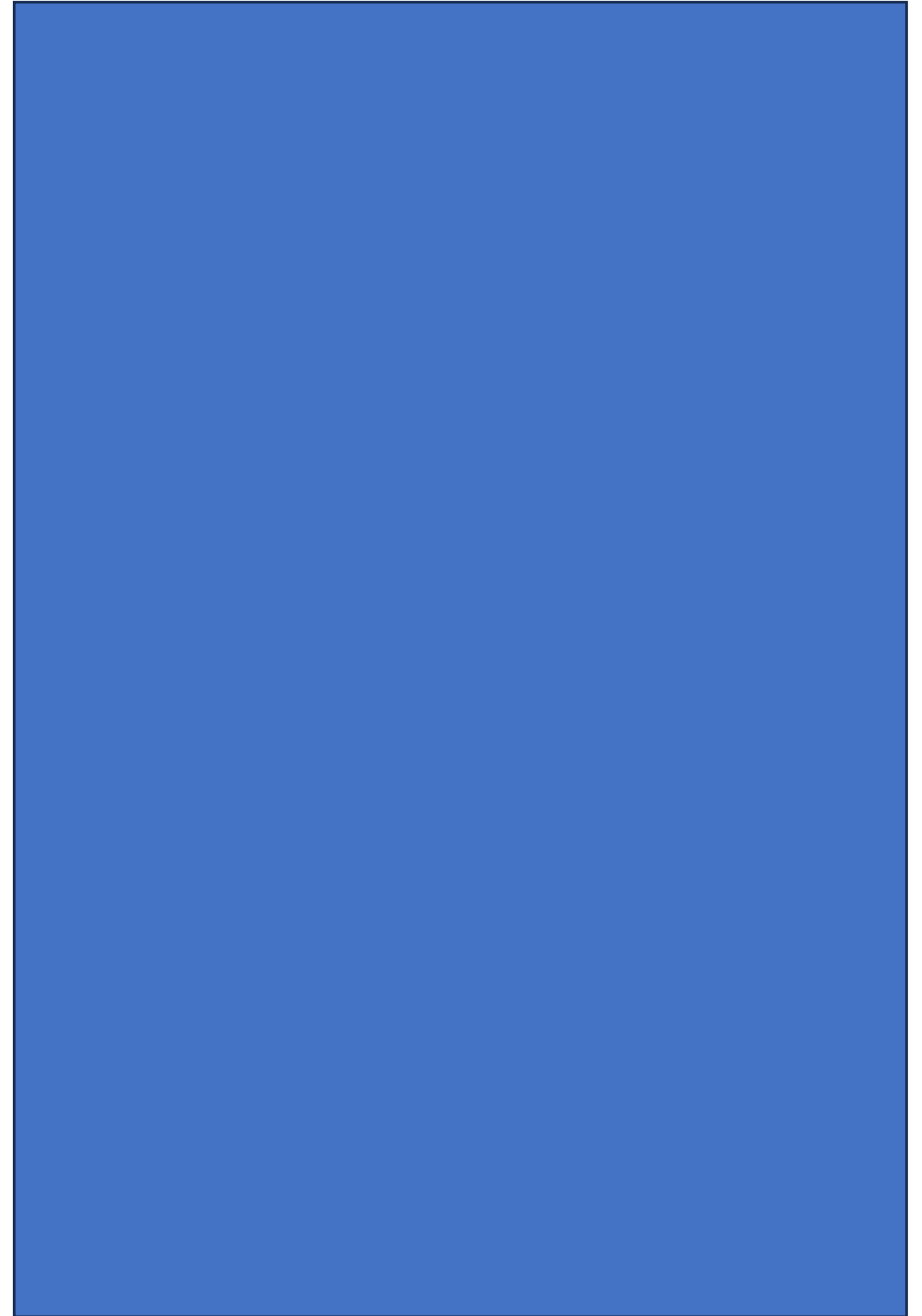
... and comply with the conditions of the Commission's CBAM proposal, including setting up an emissions trading scheme by 2030



... to ensure exemption from CBAM, faster decarbonisation of their industrial sectors and higher revenues that can be used to fund the energy transition

Example 1: Company X

ESG Integration: Company X, a multinational corporation, implemented a comprehensive ESG strategy focusing on reducing its carbon footprint, enhancing diversity and inclusion, and strengthening its governance structures. They aligned their business operations with the UN Sustainable Development Goals (SDGs) and adopted the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.



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Positive Impacts:

Financial Performance: Over the past three years, Company X has consistently outperformed industry peers on various ESG performance metrics. Investors have recognized their commitment to sustainability, leading to increased investment inflows.

Market Recognition: Company X received accolades for sustainable practices, resulting in improved brand reputation and consumer loyalty. This positive image translated into increased market share and customer trust.

CASE
STUDY

Example 2: Financial Institution Y

ESG Integration: Financial Institution Y, a leading bank, incorporated ESG factors into its investment decisions and loan portfolios. They established a dedicated team for ESG risk assessment and implemented the Principles for Responsible Banking. The institution also actively engaged with clients to encourage sustainable practices.



CASE
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Positive Impacts:

Risk Mitigation: By incorporating ESG risk assessments, Financial Institution Y successfully mitigated exposure to environmentally and socially sensitive industries. This proactive approach shielded them from potential financial losses associated with climate-related and ethical issues.

Investor Attraction: The institution attracted a growing number of ESG-focused investors. This influx of capital contributed to the development of new sustainable financial products, fostering long-term financial stability.

Example 3: Tech Firm Z

ESG Integration: Tech Firm Z embedded ESG considerations into its corporate culture and innovation processes. They committed to using 100% renewable energy, promoting workplace diversity, and ensuring responsible sourcing of materials for their products



CASE STUDY



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Positive Impacts:

Innovation and Efficiency: By prioritizing sustainability in product development, Tech Firm Z achieved cost savings through energy efficiency and waste reduction. Their commitment to renewable energy sources also led to positive collaborations with clean energy providers.

Talent Acquisition and Retention: Tech Firm Z experienced increased interest from top talent attracted to their sustainability values. Employee satisfaction and retention rates rose, creating a positive feedback loop that contributed to the firm's overall success.

These case studies demonstrate that integrating ESG strategies not only contributes to a more sustainable future but can also lead to tangible positive impacts on financial performance, market reputation, and investor relations.

CASE STUDY

