Grant Thornton

Shaping Malta's Future 2021

Malta's way forward: sustainable recovery, development and growth

Grant Thornton | Malta

2021

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The environment and sustainable development

The Covid-19 pandemic has distracted and caught the world off-guard. In response, EU countries were allowed to temporarily distance themselves from their Medium-Term Objectives as defined by the Stability and Growth Pact, since the General Escape Clause came into effect. Governments would pursue their efforts to revive the economy by investing through schemes and measures which they hope, would ultimately yield sustainable development and kickstart the economy. Now that private and public organisation are combining their efforts to restart the economy, one might argue that it is the perfect opportunity for organisations to bounce back into business. However, such investment should incorporate the European Green Deal, which aims to improve the health and wellbeing of both present and future generations, thereby creating both organisational and environmentally sustainable development. This first section of the report will include an overview of the contributions that the private sector is and can do for sustainability, a look at Malta's Vision 2050, and the implications of remote work on the environment.

The decade prior to the pandemic showed a consistent proportion of individuals working from home in the EU-27, with around 5.4% of total EU employees stating that they often worked remotely. Malta had been experiencing a gradual increase year-on-year. As expected, during the pandemic, this statistic increased, reaching 12% in terms of EU employees and 15% of Maltese employees, as of 2020.

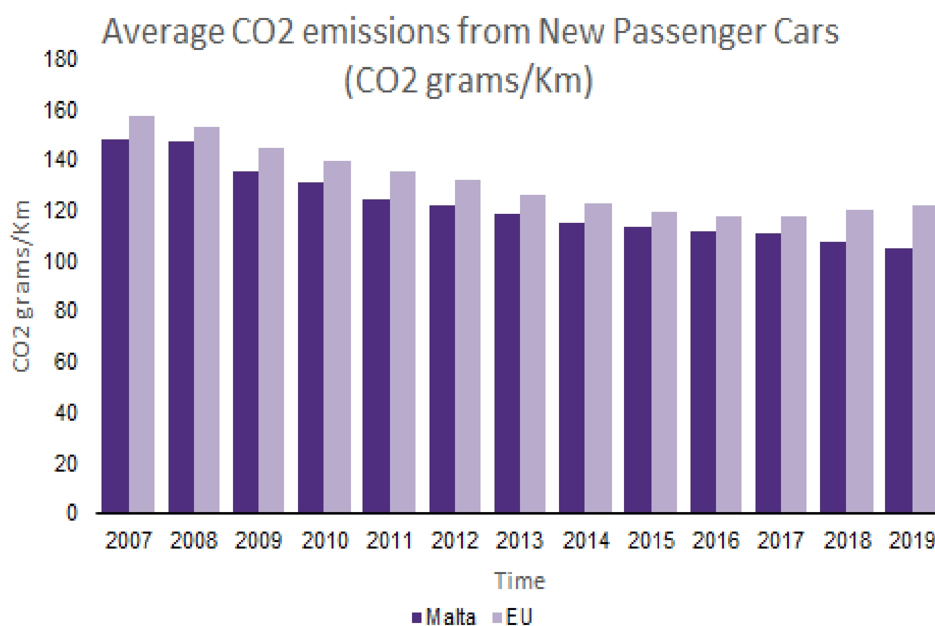
Private sector contributions

It has been recognised, at the UN level, that the public sector and civil society on their own cannot overcome the unsustainable and environmentally degrading shortcomings that have accumulated over recent decades. In other words, the private sector will prove to be key in unlocking the potential to bring about a much-needed collaborative effort towards sustainability. Afterall, the private sector has always been hailed for coming up with creative and innovative solutions to pertinent problems. Moreover, if 85% of the world's investment is done through the private sector, it is easily argued that much of the environmental damage that has and is being caused should be, at least partially, blamed on the private sector's disregard of externalities. Additionally, as most of the world's resources are in private hands, it would be pointless to push for change without the cooperation of the private sector.

Firstly, the private sector might do its part by leading developing and undeveloped countries through a cleaner industrialization since most of the financing for investment within these countries comes from private sources. Despite this, there is always the shortfall that private investment is made unevenly across Least Developed Countries (LDCs), with the poorest, due to the poor infrastructure, wide-spread corruption, and wars, often being left out. The so-called Lesser Developed Countries (LLDCs) are thus rendered as the most vulnerable to miss out on more sustainable development.

Furthermore, the private sector should be responsible for a combined efforts toward the removal of unsustainable or environmentally harmful resources from the market. For example, the local business 'Maypole' has managed to remove a million plastic bags from circulation, replacing them with paper bags instead. A McKinsey study in 2016 has estimated that more than 90% of a companies' environmental impact comes from their supply chains. Indeed, an average company triggers emissions levels which are 21 times higher from its suppliers than from its own activities.

Perhaps the biggest motivator for firms to go green is the forecasted increase in sales of sustainable products. This has been reinforced by a 2019 report based on EU retail markets which estimated an increase of 92% in expected sales of sustainable products in the following 5 years. Resisting this change is not only an unwise business decision, but also a poor one. Curiously, in the realm of new passenger cars being introduced, Malta has been more environmentally conscious than the EU average.



Public sector assurance

Malta's Framework for Sustainable Development Governance is based on a long-term plan, referred to as the 'Vision 2050'. This cohesive plan is based on three pillars which are:

- Enhancing Economic Growth;
- Safeguarding Our Environment; and
- Social Cohesion and Wellbeing.

This plan has and will continue to be drafted with consultation from various stakeholders, including but not limited to, civil societies, academia, and the private sector. However, Vision 2050 is only the first phase of a 3-phase plan. Whilst Vision 2050 defines what is to be achieved, the Sustainable Development Strategy defines how such plan can be achieved. The third step would be specifically defined action plans for any policies, initiatives, and reforms. It goes without saying that all of this is aligned with the Agenda 2030 and the 17 Sustainable Development Goals (SDGs). Malta's Sustainable Development Strategy focuses primarily on SDGs 2, 6, 7, 9, 11, 12, 13, 14 and 15.

Teleworking and the environment

The most logical conclusion one would make is that returning to the office will have an adverse impact, and hence, maintaining remote work is desirable, from an environmental point of view. The reality is more complicated than that. Of course, it is easy to see that working remotely leads to less commuting and hence, less emissions from cars. But, can it not also be argued that employees working from home consume more power than working from the office? In fact, EU Ministers responsible for energy emissions discussed the enormous pressure the pandemic was putting on energy consumption, whilst also acknowledging lower fuel levels.

An interesting take is that remote working may be significantly more sustainable if it takes place in a certain season, depending on the country. For instance, as the UK relies more on heating than cooling, it would make sense for teleworking to be organised in summer, since in the winter, heating an office is cheaper than heating all the residential homes. Similarly, in Malta, it would make more sense for more remote work to take place in winter, since Malta relies more on cooling in the summer. Of course, taking the EU in general, more energy is consumed by the residential sector on heating rather than on cooling, but discrepancies with this statement will arise as one moves towards southern European countries.

Sustainable finance and the sustainable finance disclosure regulation: a focus on harmonization and standardisation

In order to fulfil the objective of the European Green Deal, that of a more sustainability-sensitive economy, the transformation of the Financial Services Sector is a necessity. Afterall, it is this very finance that will enable the necessary investment to build up not only an environmentally conscious economy, but a rapid and lasting recovery, especially given the context of the pandemic. Through the publication of the EU's Official Journal, it has been expressed that, as long as divergencies remain, transparency deficiency will still exist with regards to Enivronmental, Social Governance (ESG) risks and sustainable investment decisions. Harmonisation will be present on the information required about sustainability risk policies and adverse sustainability impacts, to name a few. The following section will explore the three initiatives taken at an EU level in reaching the harmonization objective: Taxonomy Regulation, Disclosure Regulation, and Benchmark Regulation.

Taxonomy Regulation

To achieve sustainable development, we must agree on what is considered a 'sustainable activity' as such. This is where the taxonomy regulation will play part, providing the classification for sustainable activities. This regulation provides a clear criteria of what activities would constitute making a substantial contribution towards one of the EU's climate and environmental objectives and what it means to do no significant harm. Despite its voluntary appeal, that is, investors are still free to invest wherever they like, it is expected to enable a transition towards sustainability. There is, however, the mandatory disclosure requirement. Large companies falling within the scope of the Non-Financial Reporting Directive must disclose to what extent the activities that they carry out meet the criteria set out in the EU Taxonomy.

There are wide-spread advantages to the alignment with the Taxonomy Regulation attributable to:

- Investors – Know which firms are striving for sustainability and such companies attract investment
- Institutional Investors – Financial products may be designed to the benefit of Taxonomy-aligned firms
- Financial institutions – Mutually beneficial since banks will be identified as promoting a greener economy attracting a certain class of clientele

All these factors provide an incentive for a company to move towards sustainable policies and activities, without the need for obligatory alignment; thus, the market itself moves towards a greener economy.

Disclosure Regulation

Having established which actions would be considered sustainable via the taxonomy regulation, the actual disclosures are established by the Sustainable Finance Disclosure Regulation (SFDR). The SFDR applies to financial-market participants, including pension funds, asset managers, insurance companies and banks, as well as financial advisors. It is thought that this regulation will prevent 'greenwashing' which refers to when firms exaggerate their environmental commitments without much substance, since it is now easier to compare firms' commitments. For example, financial-market participants (FMPs) must publish information about their policies on the integration of sustainability risks on their websites. Therefore, parties will be able to compare and contrast their efforts. By the end of 2021, funds will have to classify themselves as either being fully focused on sustainable objectives; fully or partly focused on environmental, social issues or sustainability issues; or not at all focused on sustainability.

The Malta Financial Services Authority (MFSA) set the SFDR as from March 10, 2021, with some other related compulsions set to be in effect at a later date. One should also note that the Authority will apply the exemption of the implementation of the SFDR to insurance intermediaries providing consultancy with regards to IBIPs (Insurance Based Investment Product) and investment firms providing investment advice, according to Article 17 (1) if, and only if, they employ fewer than three individuals. Despite this 'privilege,' such firms are still expected to consider and factor in sustainability risks.

It is important to note that the SFDR will apply at two levels: the entity level, and the product level. For instance, at the entity level, firms are to disclose Information on how an entity integrates sustainability risks in its investment decision-making process or financial advice. At the product level, one of the disclosures is that for 'Article 8' within the REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector, products that promote "Environmental" or "Social" characteristics, there must be additional information on how these are met, including disclosure on the degree of Taxonomy alignment of underlying economic activities.

Benchmark Regulation

:Having suffered benchmark manipulation, the EU made several efforts to curtail any future abuse, with the Market Abuse Regulation (MAR) and a new Market Abuse Directive (MAD) to replace the original MAD. To compliment these two, the Benchmark Regulation was adopted in 2016, establishing rules with regards to the production and use of benchmarks. The scope of the regulation is to improve the governance and control over the benchmark process, to avoid any conflicts of interest by ensuring that contributors to these benchmarks are subject to adequate controls. Moreover, it also ensures that supervised entities have a clearly written procedure if and when there are material benchmark changes or cessations.

The Benchmarks regulation has empowered ESMA (European Securities and Markets Authority) to develop Regulatory Technical Standards (RTS), which "develop, specify and determine the conditions for consistent harmonisation of the rules included in the basic legislative act", and Implementing Technical Standards (ITS) which, by implication, ensure uniform application of provision in the basic legislative act.

Concluding Remarks

It is expected that such initiatives will continue to increase the number of firms that publish information on their sustainability efforts, as has been the trend. The chart below deduces the results of efforts in ensuring that registered organisations report sustainability disclosures in line with the aforementioned regulations.

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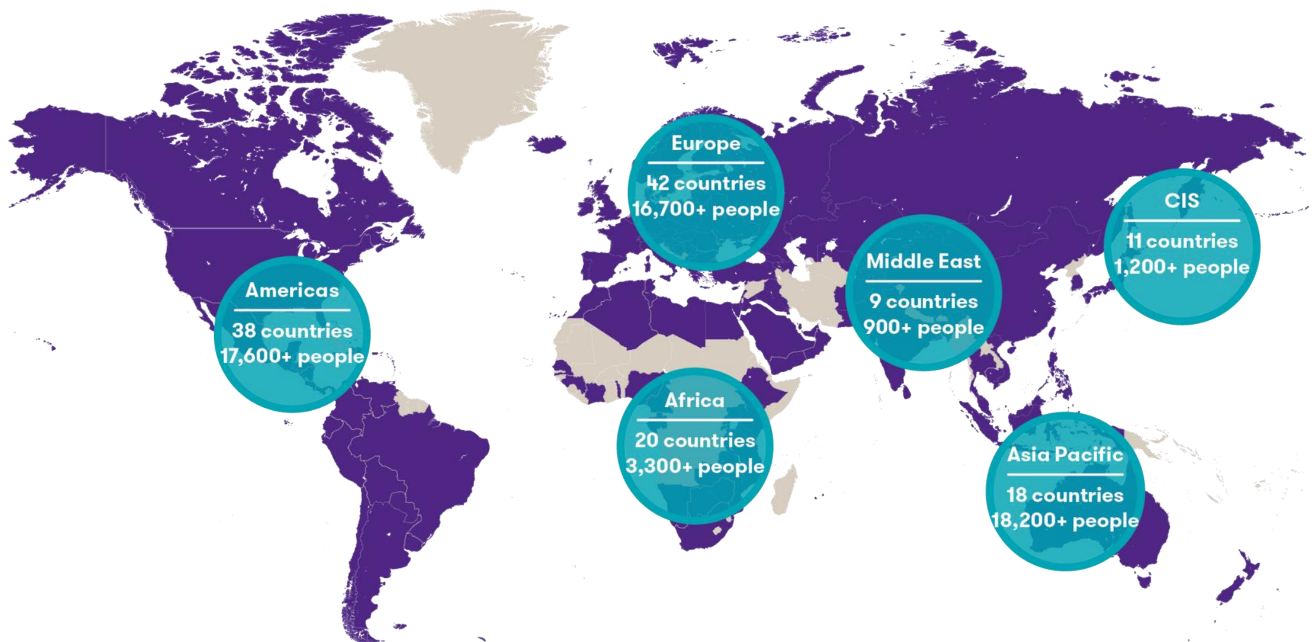

Our distinctive client experience sets us apart

USD5.76bn (2020 revenue)

58,000+ people

750+ offices

138 countries

Grant Thornton Malta

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- financial statement reviews
- financial statement compilations
- reporting on controls at a service organisation
- IFRS
- audit quality monitoring
- global audit technology
- systems and risk assurance

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- internal audit
- risk management and internal controls consulting
- governance and risk management
- regulatory services
- risk modelling services
- forensic and investigation

Business consulting services

- general business consulting
- business planning and performance improvement
- change and program management
- business intelligence and analytics
- business valuation and litigation support
- business process outsourcing and consulting

Transaction services

- mergers and acquisitions
- capital markets, including Prospects and WSM
- project financing
- due diligence
- valuations
- foreign direct investment

Recovery and reorganisation

- operational and financial restructuring and reorganisation
- recovery

IT and Technology

- IT business consultancy
- technology implementation
- blockchain technology
- fintech consultancy
- cyber security consultancy

Tax and regulatory

- direct international tax
- global mobility services
- indirect tax advisory
- transfer pricing
- estate planning
- wealth advisory
- FATCA/CRS advisory and compliance
- IRS qualified intermediary advisory and compliance
- regulatory and legal
- corporate services
- ship and aircraft registration
- company formation
- financial regulatory services
- trust and fiduciary services

Outsourcing

- bookkeeping and financial accounting
- payroll and personnel administration
- direct and indirect tax compliance
- human resources
- compilation of financial statements
- business process outsourcing including back office and secretarial
- consulting and processing engagements
- family business consulting

Economic advisory services

- economic impact assessments
- cost-benefit analyses
- cost effectiveness analyses
- value for money analyses
- public private partnership advisory
- public procurement advisory
- advocacy reporting
- evaluations of projects, policies and programmes
- strategy development
- product development costing and determination of pricing strategies
- market research
- survey design, collection and analyses
- ad-hoc engagements

Quantitative risk advisory

- ICAAP & ILAAP
- capital requirements
- ALM & Actuarial ALM
- stress testing (BASEL III / SOLVENCY II)
- independence reviews
- credit risk
- interest rate risk
- price risk (hedging)
- foreign exchange risk
- data mining
- data science
- Tableau dashboard
- data management
- statistics and data analytics
- remediation and anti-money laundering
- tool kit using research techniques

Other services

- assistance with EU and local funding
- marketing and communications consultancy
- brand development
- human resource consultancy

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