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## **METHODOLOGY FOR ASSIGNING ESG RATINGS TO REGIONS – SHORT PUBLIC VERSION**

**The Methodology presented is a short public version.**

### **1. General definitions**

This methodology describes a system of factors and weights used in the process of assigning environmental, social and governance (ESG) ratings to regions.

An ESG rating of a region represents the opinion of the Agency on the environmental, social and governance strengths and weaknesses of a region.

These ratings are mainly used by investors to integrate the ESG factors when building a responsible investment portfolio and to compare the entities or projects performance with its peers. Furthermore, these ratings are used by the rated entities as well as the general public to assess the entity's ESG risks and opportunities. Additionally, investors can make localization decisions of companies and projects more easily by considering the ESG assessment of a region.

### **2. Sources of information**

2.1 While assigning a rating score, the following sources of information are used:

- Questionnaire filled by the region according to the Agency's form;
- Information from the mass media and other public sources;
- National or regional bureau of statistics;
- Budget law or budget execution summary;
- Official website of the region.

2.2 The Agency is neither responsible for controlling the accuracy of the documents provided by the region, nor for the authenticity of the information included in these documents.

2.3 The Agency has the right to use other sources of information in case of data incompleteness.

### 3. Structure of the rating analysis

3.1 The ESG rating of a region is defined as the weighted sum of the assessment of three sections: Environment (1); Social (2); Governance (3).

3.3 The section “**Environment**” includes the analysis of the following integral factors: *environmental risks and opportunities, environmental performance and environmental programmes.*

3.4 The section “**Social**” includes analysis of the following integral factors: performance of social metrics, social responsibility and investment responsibility.

3.5 The section “**Governance**” includes the analysis of the following integral factors: presence of political risks and support to the government, investment attractiveness and business support, transparency, corruption and quality of the budget management.

### 4. System of indicators

| Section     | Sub-section   | Sub-section Weight | Section weight |
|-------------|---|--------------------|----------------|
| Environment | Environmental risks and opportunities                     | 11,1%              | 1/3            |
|             | Environmental performance                                 | 11,1%              |                |
|             | Environmental programmes                                  | 11,1%              |                |
| Social      | Performance of social metrics                             | 11,1%              | 1/3            |
|             | Social responsibility                                     | 11,1%              |                |
|             | Investment responsibility                                 | 11,1%              |                |
| Governance  | Presence of political risks and support to the government | 8,3%               | 1/3            |
|             | Investment attractiveness and business-support            | 8,3%               |                |
|             | Transparency and corruption                               | 8,3%               |                |
|             | Quality of the budget management                          | 8,3%               |                |

#### 4.1 Environment Section

- Environmental risks and opportunities

The larger the influence of environmental risks the more negative the impact on the assessment of the region’s ESG. However, if the region has actions in place to mitigate

these risks, we consider it to partially offset the aforementioned negative effect of risks in our assessment.

Environmental opportunities have a positive impact on the ESG assessment but are counterbalanced by the level of involvement efficiency of them. If the region has in place or has joined any environmental program, this has a positive impact on the rating. The efficiency of programs involvement is either neutral (if they are efficient) or negative (if they are inefficient).

- Environmental performance

The fact that the region has an environmental policy implementation plan has a positive influence on the rating assessment. If the region has such plan, the body responsible for its implementation as well as its transparency and depth are considered for the analysis. A deep and publicly available environmental implementation plan has a positive impact on the assessment.

- Environmental programmes

In general the higher the share of the budget spent on environmental programmes, the better for the rating assessment. The types of environmental programmes and the efficiency are considered and assessed manually by the expert.

#### 4.2 Social section

- Performance of social metrics

This section considers social metrics, such as social benefits and security functions, education, health care system and security. The better the performance of these indicators the stronger the positive impact on the rating assessment.

- Social responsibility

In this section the involvement of the region in socially responsible programmes and whether the region allows the community to get involved in direct financing projects. Both of these factors have a positive impact in the rating assessment.

- Investment responsibility

In this section the involvement of the region in past public-private partnerships. Such involvement has a positive impact on the rating.

#### 4.2 Governance section

- Political risks and support to the government

This section assesses the stability and support of the government. Both metrics have a positive impact on the rating.

- Investment attractiveness and business support

The higher the investment attractiveness as well as the presence and characteristics of industrial parks in the region the more favorable the ESG rating assessment.

- Transparency and corruption

In this section the presence, disclosure and depth of the region's mechanisms to foster transparency and reduce corruption are evaluated.

- Quality of the budget management

The better the quality of the fiscal budget planning, execution, debt management and the higher the tax deductions and credits for investors, the better for the rating assessment.

## Annex 1. List of rating classes

The environmental, social, governance and total ESG ratings assigned by Rating-Agentur Expert RA GmbH are defined on the basis of allocating the company to one of 9 rating classes according to the following scale:

| Rating ESG | Rating E | Rating S | Rating G | Rating level          | Score     | Rating Band  |
|------------|----------|----------|----------|-----------------------|-----------|--|
| AAA[esg]   | AAA[e]   | AAA[s]   | AAA[g]   | Highest level         | 89 - 100% | <b>A-rating band</b><br>The entity's position is above average. Minor or no further actions are required, but the entity can benefit from any additional improvement or innovation.  |
| AA[esg]    | AA[e]    | AA[s]    | AA[g]    | Very high level       | 78 - 89%  |  |
| A[esg]     | A[e]     | A[s]     | A[g]     | High level            | 67 - 78%  |  |
| BBB[esg]   | BBB[e]   | BBB[s]   | BBB[g]   | Moderately high level | 56 - 67%  | <b>B-rating band</b><br>The entity's position is average. The entity faces a bearable amount of risks, which can be mitigated with a reasonable number of further actions.           |
| BB[esg]    | BB[e]    | BB[s]    | BB[g]    | Sufficient level      | 44 - 56%  |  |
| B[esg]     | B[e]     | B[s]     | B[g]     | Moderately low level  | 33 - 44%  |  |
| CCC[esg]   | CCC[e]   | CCC[s]   | CCC[g]   | Low level             | 22 - 33%  | <b>C-rating band</b><br>The entity's position is below average. Strong actions are required. The entity faces a significant amount of risks but there is a big room for improvement. |
| CC[esg]    | CC[e]    | CC[s]    | CC[g]    | Very low level        | 11 - 22%  |  |
| C[esg]     | C[e]     | C[s]     | C[g]     | Lowest level          | 0 - 11%   |  |