

# Comparative Analysis of ESG Transformation of Banking Sector in Asian Countries and Russia

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## Abstract

ESG transformation of commercial banks has become one of the developing directions in the banking sector in recent years. The adoption of the concept of responsible investment, achievement of carbon neutrality and impact level on the climate change has turned to be the key focus point of this development. Banks of Asian-Pacific region and Russia are actively involved in ESG agenda, finance ESG direction and develop new products, which allow integrating ESG solution into the strategy of their development. Our article is dedicated to the comparative analysis of ESG banking development in Russia and Asian countries. We are discussing the evolution development and latest tendencies in ESG banking development under the conditions of global challenges. Besides, we are extrapolating possible development directions of banking sector ESG transformation. Our results can be interesting and useful for researchers and experts in the banking sector, innovative economics, as well as interested parties dealing with the climatic agenda and ESG direction.

**Keywords:** ESG banking; ESG tools; ESG crediting; ESG transformation; comparative analysis.

## Introduction

The expansion of ESG principles into the activities of subjects of world economy, including Asian countries and Russia, started with the adoption of responsible investment concept (Townsend, 2020). Nonfinancial information based on the information about ESG transformation attracted the great public attention, the value of ESG principles rised, the number of regular ESG information disclosure increased, the standards assigning the application of ESG practices started to emerge (Litvinenko et al., 2022).

The established conditions form the tendency among major investment and pension foundations to refuse from investing into securities of companies with high values of carbon dioxide emission, such as oil-and-gas and coal-extracting companies. World leading companies started

reporting about their plans to achieve carbon neutrality, decrease the impact level on the climatic change. Thus, such companies as Microsoft and Unilever declared about their intention to execute the plans in sustainable development by 2030, Danone and Repsol – by 2050.

Commercial banks started actively mastering ESG banking. Foreign banks are actively financing ESG direction and developing new products, which allow integrating ESG solutions into a company's policy. Thus, they decrease the negative impact onto ecological and social spheres. The major US banks are also not an exemption. Bank of America became one of the first banks having taken the responsibility for following the principles of sustainable development.

Geographically, ESG model originated in the USA and EU countries, in particular, due to spreading of UNO initiatives in sustainable development (Avetisyan & Ferrary, 2013). The first regulatory documents, governing the application of ESG principles in financial sphere, were formed in these countries.

The increased interest in sustainable development and decrease in own “carbon footprint” in the West is driven by the stimulation of this interest by the state. The running of “responsible” business, initiation of a new “green” project in the USA and EU countries can be encouraged by lower credit rates or introduction of tax exemptions.

A highly-developed ESG agenda in Europe and the USA is characterized by the increased attention to the issues of sustainable development in this region. The implementation of projects in forming the sustainable economy in Europe and the USA started long time ago and is more carefully elaborated in the legal framework, this experience in regulating ESG banking is especially urgent, toward which many other countries, including Russia, are mainly geared.

However, after the events of 2022 the West has basically terminated cooperation with Russia in the financial sphere and practically completely — in sustainable development (minus global ranking agencies, evaluation organizations, as well as GRI (“Global Reporting Initiative”), CDP

(“Carbon Disclosure Project”), Lead Breem and others).

In such situation, both banks and companies are trying to shift to the East, China and Africa. Western countries are considered to be the region of ESG establishment (Strielkowski et al., 2021), however, the initiatives are also actively growing in the Middle East.

ESG banking aimed, first of all, at the environmental security, social responsibility and corporate management (ESG) is being very speedily developed in Asian-Pacific region (Urazova, 2020), besides, faster than in Europe and the USA. Today, Russia is also actively involved in ESG transformation of the banking sector.

In our research we are trying to reveal the priority tendencies in the banking sector ESG transformation in Asian countries, and, based on this, to carry out the comparative evaluation of these tendencies with the situation in the Russian banking sector.

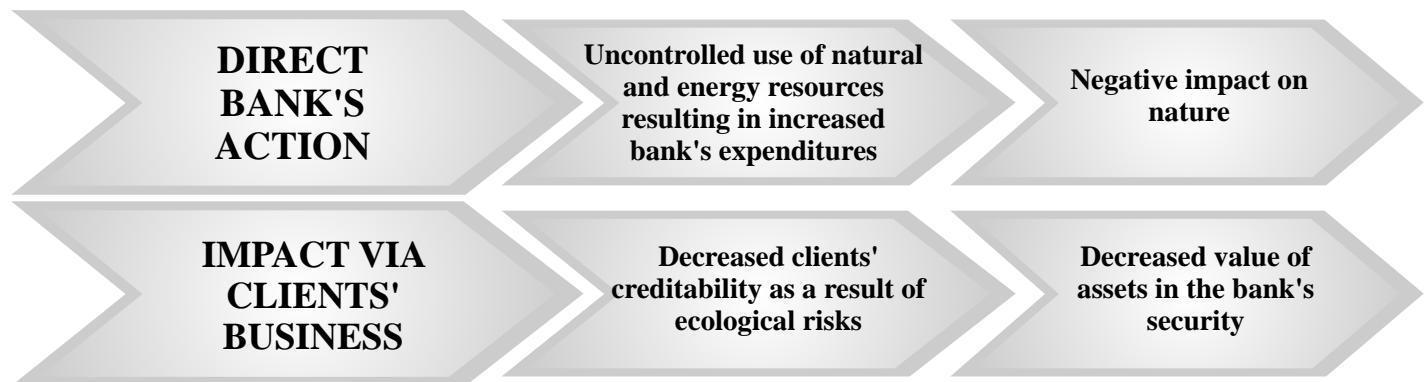
The aim of this research is the comparative analysis of ESG banking in Russia and Asian countries and determination of key problem areas in the nearest future.

## Literature Review

According to the world community, banks play an important role in ESG transformation of world economy and act as reference entities in weighing up ESG risks (Streimikiene and Kaftan, 2021). The banking activity and possibility to specialize in a certain branch allow banks to finance the “green” economy and, thereby, to stimulate its development (Campiglio, 2016), (Tarkhanova et al., 2020).

Besides, the practice of introducing ESG principles via banks, existing in Asian countries, Russia and other countries, defines the accountability of credit institutions towards central banks of their countries (Dikau and Volz, 2021). This factor allows introducing ESG transformation on all levels of the banking system, distributing the emerged tendency among the population.

The practice of responsible financing in the banking sector defines the sources of emerging ecological risks for banks (Chen et al., 2022) (Fig. 1).

**Fig.1. Sources of emerging ecological risks for banks**

*Source: compiled by the authors.*

Banking institutions have a direct influence on the environment and society, for example, in consuming energy, natural resources and paper in great quantities, realization of air travels by the bank staff during business trips (Bukhari et al., 2020).

The indirect impact of banks on ESG risks consists in the bank's action upon its clients' risks. The regulation of the clients' nonobservance of ecological norms and requirements by banks can serve as an example. The emergence of this risk results in the arising of new expenditures, besides, both for the company and the bank (Böffel and Schürger, 2023).

Taking into account the growing role of ESG risks among banks and financial institutions, one of the ways to minimize this type of risks is the efficient system of its management (Zioloatal, 2019).

ESG risks directly influence the financial sustainability and liquidation of banks, since banks incur financial consequences of losing the financial liquidity of companies, which they provide credits to, and financial sanctions imposed as a result of nonobservance of regulatory acts and taking measures having harmful effect on the environment (Aboretal, 2019). One of the financial consequences for banks is the probability of losing the marketable value of the legal support for the credit repayment provided by them, in particular, as a result of polluting the environment (Schiantarelliatal, 2020).

Ecological risks, physical risks, transitional risks, responsibility risks, market risks, credit and operational risks, legal, reputational risks can be referred to the risks emerging in the process of banking activities in the context of sustainable development (Feridun & Güngör, 2020).

The significant influence of ecological risks on banks' operation results in active ESG transformation of the banking sector, as well as the emergence of ESG banking – the concept of banking sector development of the economy based on the principles of sustainable development (Zioloatal, 2021).

There is no unified, generally accepted definition of ESG banking in Russia and Asian countries. The problem of ESG banking and ESG principles interpretation consists in setting up different approaches to the concept implementation among institutions, as well as problems in working with contractors (Komarnicka & Komarnicki, 2022). This problem forms a high probability of emerging expenditures, use of approaches of traditional banking and retardation of banking sector ESG transformation expansion in general.

According to ESG the Report, ESG banking is the type of sustainable banking business, which focuses on ecological, social and managerial factors (ESG). The main aim of ESG banking is the support of projects and companies, which positively influence the society and environment (Bukhari et al., 2020).

In general, different Russian and international

organizations understand ESG banking as the concept, which comprises ecological, social and corporate responsibility of banks. It includes measures for supporting the interests of current and future generations, financing of projects connected with ecological and social responsibility, as well as the participation in the projects connected with the aims of sustainable development.

The concept of ESG banking becomes more and more popular in banking industry since it contributes to the sustainable development of economy and society in general (Miralles-Quirós et al., 2019). The new model of performing the banking activity is the subject of active scientific interest among Russian and Asian economists.

The overview of the literature dedicated to ESG banking indicates that the key specific features of the banking activity within ESG are such features as: achievement of UNO goals (SDG), responsibility towards the current and future generations, creation of “new” banking, protection provision from ESG risks, observance of sustainable development principles in the bank's operational activity, implementation of projects aimed at preserving and improving ecology, improvement of corporate culture and management, improvement of population's social life. At the same time, all researchers agree with that ESG banking is the banking based on ESG principles, i.e. principles of ecological, social and corporate-managerial responsibility.

### Research Methodology

In this research we conducted the comparative analysis of ESG transformation of the banking sector in Russia and Asian countries. We investigated the events aimed at the

development of ESG banking in Russia, East, South and South-East Asia, summarized the development of ESG banking in these countries.

The research methodology was based on the comparative analysis of the events aimed at the development of ESG banking in Russia, East, South and South-East Asia and indices of ESG information disclosure on the financial markets of these countries.

### Results

Taking into account the huge size of the local market, Asian-Pacific region will probably become the world leader in ESG transformation of the banking sector in the near future. This change goes on fast and corporate leaders and asset managers in Asian-Pacific region are speedily introducing ESG.

The demand for climatic reports from the government, investors and consumers in the countries under research is actively growing. This situation will eventually motivate Asian-Pacific region to take the political course, similar to the European one, but taking the regional nuances into consideration.

The development of ESG policy in Asian-Pacific region contributed to constant increase in disclosing the corporate ESG information. During the recent 5 years the number of ESG policies in Asian-Pacific region has doubled and is currently 20% from the world ESG policies (Western Europe has 44%, and North America much less – 4%). The events aimed at the development of ESG banking in Asian countries are given in Table 1.

**Table 1 - Events aimed at the development of ESG banking in East, South and South-East Asia**

Country	Events
China	People's Bank of China (PBC) launched several programs of concessional crediting, including concessional crediting of banks and program of crediting projects in the sphere of “pure coal”.
	The set of voluntary guiding principles for Chinese companies on reporting about ecological, social and managerial indices came into effect in June 2022.
	The first document regulating the sphere of issuing green bonds was issued in 2015 — Green Bond Endorsed Project Catalogue, it was reviewed in compliance with international standards in 2021.
	PBC is currently working on creating the taxonomy of transitional financing of the most carbon-intensive sectors.
	In May 2021 PBC launched the mechanism of evaluating green finance for financial institutions, in July 2021 it published mandatory Principles of disclosing ecological information for banks.

Country	Events
South Korea	The main regulator of South Korea in ESG – Financial Services Commission (FSC) was developed.
	Ministry of Economy and Finance monitored the implementation of “Green new course”.
	Korean Financial Investment Association (KOFIA) supported “Green new course” and announced the initiative to provide tax exemptions for investors in ESG tools.
	The national green taxonomy — -taxonomy (Korean Green Taxonomy) has been in effect since May 2021.
	“Green new course” — the plan for South Korea decarbonization by 2050 was published in 2020.
	Korea Exchange (KRX) launched the platform for promoting ecological, sustainable and social bonds in June 2020.
Hong Kong	Interdepartmental coordination group in ecological and sustainable financing (“ESG Coordination Group”) was founded in 2020.
	The experts are currently working on creating national green taxonomy.
	In 2019 the schemes of trading green certificates was introduced within the long-term program in decreasing carbon emission.
	In December 2021 Hong Kong Currency Management (HKMA) presented the guidelines “Management of climatic risks”.
Indonesia	In autumn 2021 a half of the participants of the country banking market, who together control 91% of Indonesian banking assets, made the obligation to increase the financing of projects aimed at sustainable development.
	Indonesian authorities adopted “Long-term strategy on low-carbon and climatic sustainability by 2050” in summer 2021.
	Indonesian authorities published “Green taxonomy” in January 2022.
India	Reserve Bank of India (Central bank) and Ministry of Finance of India were defined as the main regulators responsible for the regulation, recommendations and stimulation of ESG initiatives in the financial sector.
	The plan for responding to climatic changes constituting 8 directions (“missions”) was adopted. The state initiative on including ESG projects in the number of priority ones for funding was launched.
	The road map for ESG in the financial sphere was developed.

*The source: compiled by the authors.*

Banks of East, South and South-East Asia are actively involved into ESG agenda and introduce the required practices to correspond to international standards and increase the clients' trust, the demand for services of consulting companies connected with the evaluation and improvement of ESG indices is actively growing.

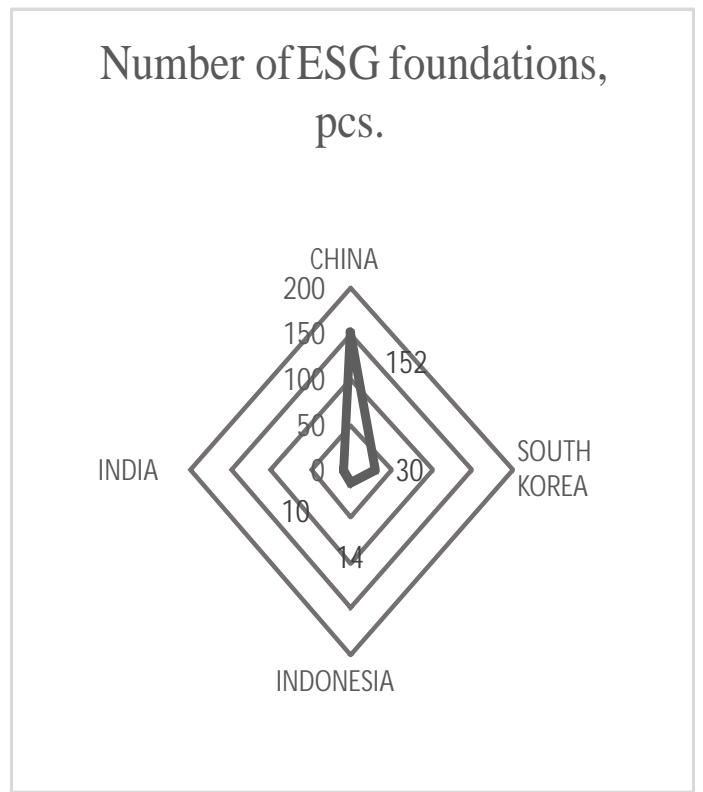
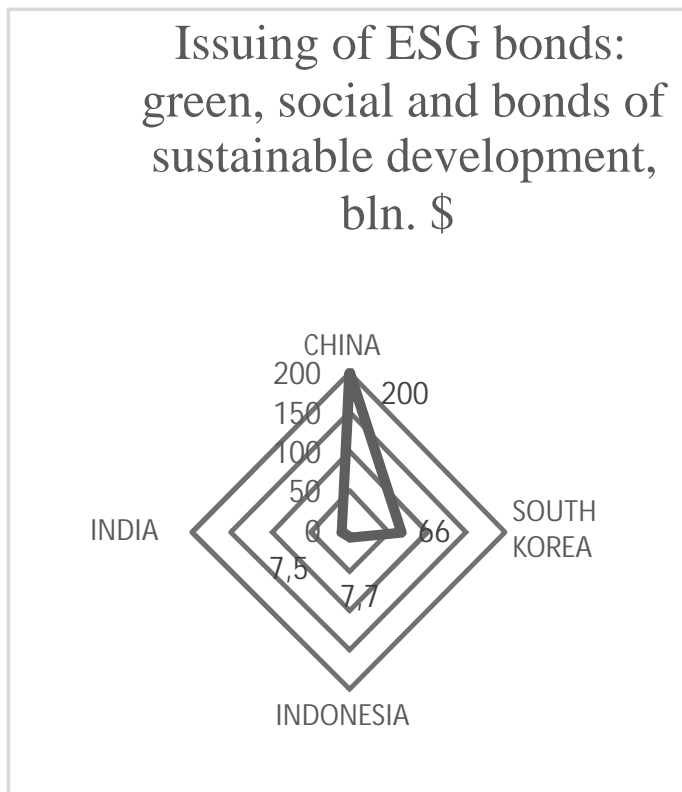
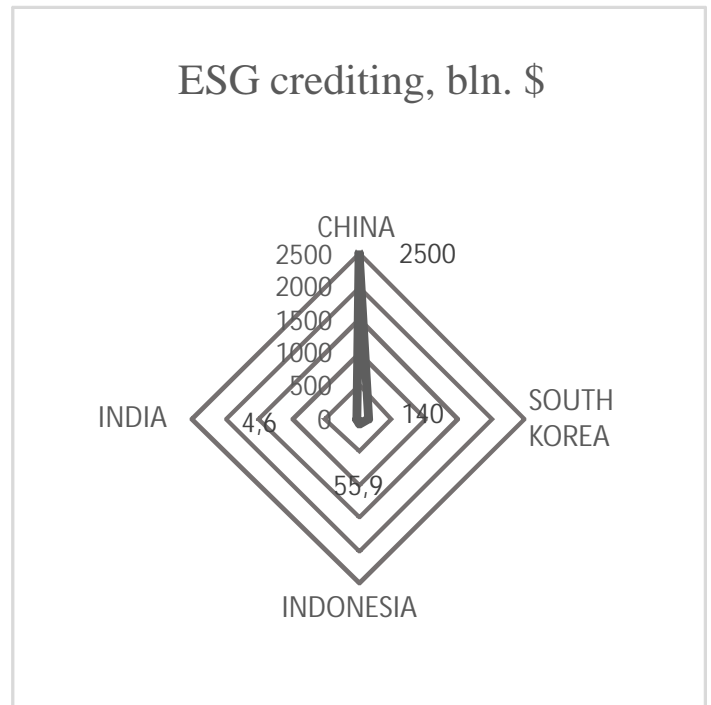
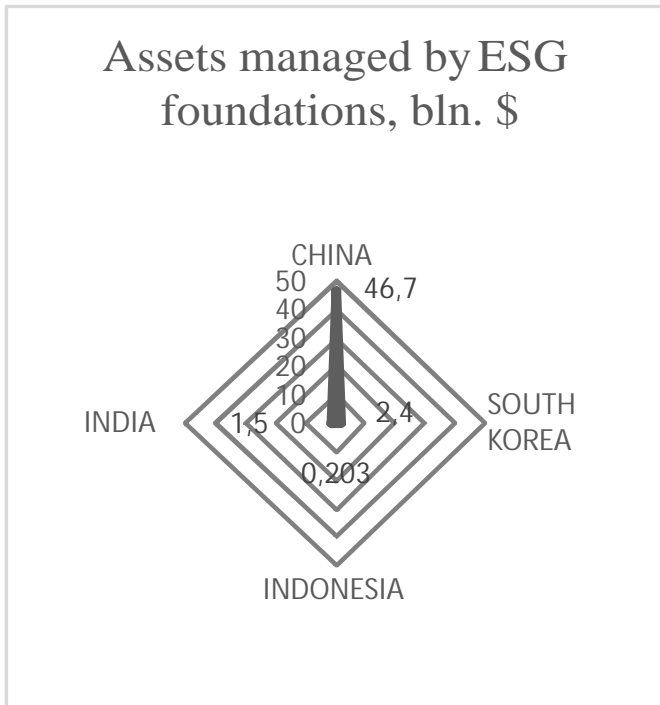
The key political tendencies in the field of sustainable development in Asia follow the European tendencies and touch upon such issues as climate / carbon, supply chains and ESG information disclosure (including companies and foundations of ESG).

However, banks are significantly behind their western competitors in the field of introducing ESG factors in their

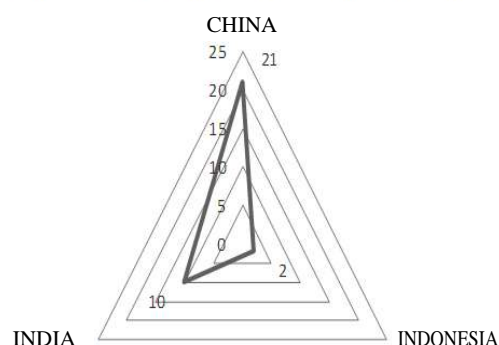
activities. The retardation is especially noticeable in corporate management, management of ESG risks and information disclosure.

Nevertheless, the average level of ESG information disclosure on the majority of markets of Asian-Pacific region currently exceeds the same index in the USA. The data of ESG financing of East, South and South-East Asia are demonstrated in Fig. 2.

**Fig.2. ESG financing in East, South and South-East Asia in 2021**



Required financing to achieve carbon neutrality, tln. \$



The source: compiled by the authors.

With the development of ESG agenda abroad the interest in sustainable projects and ESG financing has also grown in Russia. Russian companies started accepting ESG principles forming new strategies of “green” projects, commercial banks started implementing complex approaches to managing ESG risks and forming new products and services in their activities.

It should be pointed out that spreading of ESG information in Russia directly depends on the development of the domestic legislation in the field of sustainable development and climatic policy. The data, reflecting the evolution of ESG transformation of the banking sector in Russia, are given in Table 2.

**Table 2 - Development of ESG transformation of the banking sector in Russia in 2018-2022**

Year	Event
2018	The national project “Ecology” aimed at the improvement of ecological situation in the country and level of population’s health was launched.
2019	Paris Climate Agreement was ratified.
2019	Sector of Sustainable Development aimed at the development of financing of ESG projects was established and indices — “Index of Moscow Exchange — RUIE Responsibility and Openness” and “Index of Moscow Exchange — RUIE Vector of Sustainable Development” were launched by Moscow Exchange.
2019	Bank of Russia published the Concept of organization of methodological system on the development of green financial tools and projects of responsible financing in Russia.
2020	Association of Banks of Russia set up the project group “ESG banking”.
2020	Russian State Development Corporation VEB.RF was assigned as a methodological center on financial tools of sustainable development.
2020	VEB.RF developed the taxonomy of “green” projects.
2020	The project of the strategy of long-term development of Russia, in which three scenarios of Russian economy decarbonization, including power engineering, was prepared.
2020	The interdepartmental work group (IWG) on the issues of investment activity development and attraction of off-budget funds to the projects of sustainable development was created.
2020	Bank of Russia published the revised Regulations on the emission standards of securities, which envisaged the possibility to issue “green” and social bonds, and Recommendations on implementing the principles of responsible investments were issued.
2020	Ministry of Economic Development of Russia established the expert board on sustainable development.
2021	Strategy of social-economic development of Russia with low emission of greenhouse gases by 2025 was approved.
2021	Practical recommendations of the banking community for the introduction of ESG banking in Russia were issued.
2021	Federal law “On the limitation of emission of greenhouses gases” providing the control of emissions, as well as the realization of climatic projects, was published.

Year	Event
2021	Decree “On the criteria verification for projects of sustainable (green, as well) development in the Russian Federation and requirements to the verification of the projects of sustainable (green, as well) development in the Russian Federation” was published.
2021	Recommendations of Central Bank of Russia on registering ESG factors and sustainable development by boards of directors of public companies were issued.
2021	Association of Banks of Russia (ABR) issued Recommendations for credit institutions on introducing ESG principles of ecological, social and managerial responsibility.
2021	Bank of Russia formed the road map of key tactic goals in the field of sustainable development of the Russian banking sector for the next three years and for the longer term – by 2030.
2022	VEB.RF published the list of national organizations-verifiers called on to verify financial tools of sustainable development.

*The source: compiled by the author.*

It should be pointed out that Russian legislation currently requires more detailed elaboration in the sphere of ESG transformation. In Russia the concept of ESG banking is spread in less than 30% of banking sector participants,

however, the significant growth in the scale of activities in this direction in the nearest 3-5 years is forecasted. The data of ESG financing in Russia are given in Table 3.

**Table 3 - Indices of ESG financing in Russia in 2022**

Index	Volume
Assets managed by ESG foundations	9851.88 mln.rub.
ESG crediting	424.26 bln.rub.
Issuing of ESG bonds: green, social and bonds of sustainable development	524.57 bln.rub.
Number of ESG foundations	6 pcs.
The required financing to achieve carbon neutrality	458 tln.rub.

*The source: compiled by the author.*

In contrast to Asian countries, the Russian development of ESG banking, including the legislative regulation, is significantly behind. The growth of institutional preconditions for enhancing the activity in the direction of following the principles of sustainable development is observed in Russia – ESG divisions and offices in banks are formed, new “green” banking products and financial tools disclosing information in ESG sphere are offered.

In general, the Russian regulation of ESG banking is mainly behind the standards of Asian countries. However, a more active legislative regulation for following the principles of sustainable development in the banking sector is gradually taking place.

## Discussion And Conclusion

The events of 2022, having resulted in the introduction of sanctions and escape of western investors from the Russian market, led to shifting the course of Russian economic relations to BRICS countries.

Countries of Asian-Pacific region demonstrate the increased interest to domestic ESG projects that allows Russia to continue the development of ESG transformation to get additional investments. Asian markets are also regulated according to international and European standards, therefore, the implementation of ESG projects between Russia and ATP countries assumes the development of globally competitive sovereign ESG banking taking the international experience into account.



The events connected with sanctional limitations resulted in changing the focus of Russian ESG banking from the West to the countries of Asian-Pacific region.

At the moment, ESG investments and banking products are actively promoted only among major commercial banks in Russia. Nevertheless, the number of banks highlighting ESG agenda is constantly growing. The banks design strategies of ESG transformation, define the systems managing ESG risks and issue ESG accountability, undertake the obligations to accomplish SDG, obtain ESG rankings, present new banking ESG tools.

Despite all topicality and popularity of this direction, the Russian banking sector faces a number of significant problems preventing the development of ESG banking in Russia. The lack of unified acknowledged conceptual framework, lack of unified approaches to disclosing ESG information, low degree of ESG agenda popularity, “greenwashing”, lack of experience, problem of perceiving “green label” are referred to the problems of ESG transformation of the banking sector.

The development of ESG transformation of the banking sector requires the significant stimulation by the state, which would help to increase the interest to this direction among banks, attract more investments into ecologically clean products and companies with a high level of social and corporate responsibility.

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