

Results of Implementing ESG Agenda Plans of Russian Commercial Banks

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Abstract

Today ESG transformation is actively penetrating financial sector of economy and is extensively influencing banking activity. Banks are concerned not only about own influence in ESG sphere but also about risks and opportunities of ESG agenda impacting them as creditors. Russian banks are actively working out plans for implementing ESG agenda, correcting the implementation timeframes and content of ESG agenda plans, financing ESG sphere and designing new products, which allow integrating ESG solutions into their own development strategy. Our article is dedicated to the investigation of results of implementing ESG agenda plans of Russian commercial banks. We are discussing the latest tendencies in implementing ESG agenda by Russian commercial banks in the conditions of global challenges. Besides, we are extrapolating modern trends in the sphere of ESG transformation of Russian commercial banks. Our results can be interesting and useful for researchers and experts in the sphere of banking and sustainable development, as well as those interested in climate agenda and ESG sphere.

Keywords: ESG banking; ESG tools; ESG agenda; ESG transformation; Russian commercial banks.

Introduction

During the last five years, Russia has been holding and changing the course to sustainable development, and the letters, well-known worldwide – E, S, G, have been largely defining the development of Russian economy, including the banking sector (Tarkhanova et al., 2020). ESG (E — Environment, ecology; S — Social, social policy; G — Governance, corporate governance) is the set of principles for running banking business, which correspond to the general philosophy of sustainable development based on 17 global goals reflected in UN resolution “Agenda in sustainable development sphere till 2030” (Table 1).

Table 1: ESG principles of running banking business

| E –principles | S –principles | G – principles |
|--|---|--|
| Decreasing environmental pollution rate | Observing labor conditions | Transparency of activity |
| Decreasing climate change impact rate | Providing labor safety and protection | Lacking corruption |
| Decreasing carbon dioxide emission | Lacking gender discrimination | Protecting stakeholders' interests |
| Decreasing natural resource depletion rate | Supporting education, human capital development | Supporting business reputation |
| Decreasing utilization level of wastes produced during manufacturing | Availability and volume of investments in social projects | Availability of risk management system |
| Preserving biodiversity | Improving human health quality | Protecting intellectual property |

Source: compiled by the authors

In recent years, the consideration of ESG principles by Russian commercial banks has resulted in active use of such notion as ESG banking, meaning the approach to banking activity, which takes social, environmental and governance principles into account (Chang et al, 2021). Banks, following this approach, are targeted at the principles of sustainable development, taking into consideration the influence of banking activity onto environment, society and economy. They are investing in projects aimed at sustainable development and are also minimizing risks connected with the unfavorable impact of their and their customers' activity onto environment and social sphere.

ESG banking is becoming more and more popular among investors and consumers who are striving for responsible and sustainable consumption and investments (Mishra, 2015). At the same time, international environmental (climatic) agenda for decreasing carbon dioxide emission, emergence of new requirements in ESG sphere from buyers and clients, development of national priorities in sustainable development, significance of reputational effect in performing economic activity, companies' need in maintaining operational efficiency, necessity in developing evaluation and control system for ESG risks, transformation and digitalization of financial sector, regulation of ESG aspects and ESG agenda can be attributed to the drivers of development and distribution of trends to ESG transformation of Russian banking sector

(Dovbiy & Kovrizhkina, 2022), (Tarkhanova et al, 2024).

Today, the overall engagement and awareness of ESG banking in Russia are still insignificant, the majority of banks are only planning to start ESG transformation of their business. However, at the financial market there is a need in updating the existing strategies of bank development taking into account the introduction of ESG principles into their business processes. Major systemically important banks are already supporting “green” projects, including those in the sphere of renewable energy and environmentally friendly technologies. “Green” crediting and “green” investments of banks can become a strong incentive for projects in sustainable development and motivate companies to shift to a more environmentally friendly and sustainable business model (Tarkhanova, 2018).

In general, the banking agenda of sustainable development is becoming more and more popular, more and more banks are realizing the need in integrating environmental, social and governance factors into their business practice.

In our investigation we are trying to define the results of implementing the plans of ESG agenda of Russian banking sector, to reveal the key tendencies of sustainable development of Russian banking sector in the conditions of global challenges.

This article is aimed at studying the results of Russian banks in implementing ESG agenda and defining modern trends in ESG transformation of Russian commercial banks.

Literature Overview

ESG transformation is an important step for commercial banks trying not only to gain the profit but also to take social and environmental aspects of their activity into account (Ji et al, 2023). It helps banks to minimize risks and create long-term value for all interested parties. As a result, ESG transformation becomes a necessary process for achieving business sustainable development (Sancak, 2023).

The international practice distinguishes three stages of ESG transformation of banking sector (Galletta et al, 2022). These stages depend on the bank development level and availability of different practices in the field of sustainable development.

At the first stage of transformation, a commercial bank takes responsibility for observing the requirements of legislation in the sphere of ESG transformation, integrates ESG values into its activity, forms ESG strategy of its development, evaluates the current efficiency of banking activity in the aspects of environmental, social and corporate governance (Zhu & Jin, 2023).

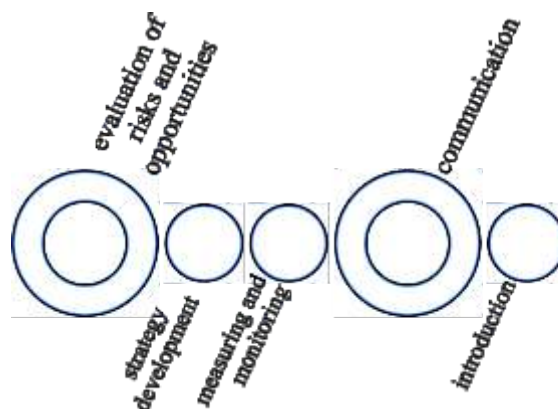
The second stage assumes the systematization of ESG practices in a commercial bank, introduction of ESG principles into its operational system, making decisions based on these principles (Ziolo et al, 2019).

The third stage represents the complete transformation of the business model of a commercial bank and comprises a mandatory evaluation and registration of ESG risks, emergence of ESG tools and services, introduction of the model into work with customers and intermediaries, provision of transparency in the sphere of transformation (Mélou & Mercina, 2024).

ESG agenda of banking institutions positively influences not only the environment but also the provision of their financial sustainability that is connected with improved economic indicators (El Khoury et al, 2023). Therefore, ESG transformation is actively penetrating today into the financial and banking sector of the Russian economy and is greatly influencing the banking activity (Bogoviz et al, 2023). Russian banks are concerned about both own influence in ESG sphere and consideration of sustainable development principles in the banking business

(Yuzvovich et al, 2023). In this regard, they either already have the plans for implementing ESG agenda or are planning its implementation in future (Ermakova & Vildanova, 2022). The plans for implementing ESG agenda comprise certain steps (Figure 1).

Figure 1: Stages for forming plans for implementing ESG agenda of banks



Source: compiled by the authors.

In the context of ESG agenda, banks start their ESG transformation process with the evaluation of risks and opportunities (Ziolo et al, 2021). This helps to define the limits and opportunities, which can emerge when reaching ESG goals and completing ESG tasks. Based on the revealed risks and opportunities banks decide, which strategy should be selected for implementing ESG agenda (Kalfaoglou, 2021). For example, they can focus on social responsibility, environmental standards or governance principles – or all three of them. After that the banks develop the methods of measuring their success in implementing ESG strategy and monitor own progress against the set goals and indicators, then they present the reports on their progress in implementing ESG agenda (Veenstra & Ellemers, 2020). This helps creating the bank's positive image and demonstrates its social responsibility and devotion to environmental and governance indicators. The process of forming sustainable development plans results in introducing the plan of ESG agenda implementation and active work to provide the compliance with the regulatory requirements and best practices in this sphere (Sancak, 2023).

In general, the plans for implementing ESG agenda comprise many details, such as studying the needs of market participants and interested parties, compiling reports, as well as risk and financial sustainability management. It is important for banks to work actively on these plans, creating a more sustainable and responsible financial system.

In the frameworks of ESG agenda implementation, Russian banks are actively using ESG tools, taking the growing investors' interest in ESG principles of running a business into account (Alekseev, 2023).

Counseling on business ESG transformation is one of the most popular banking ESG tools (Alkaraan et al, 2022). Counseling helps facilitating a company transition to a more sustainable and responsible business model focused on observing the principles of environmental, social and governance responsibility.

Banks are also actively involved in issuing ESG bonds (Semenyuta et al, 2021). This ESG tool helps customers to define the parameters of issued ESG bonds, prepare the documentation for issued ESG bonds, receive necessary permissions and registration from regulatory bodies, arrange the process of placing bonds and signing contracts with investors, provide accountability and transparency in using the funds received from issued ESG bonds.

Apart from this, the banking sector provides the opportunity to receive credits linked with ESG indicators and transition credits (Mejia-Escobar et al, 2020). Transition credits, as a rule, are provided for companies working in industries with high pollution rates to decrease the negative impact of these companies onto environment and their transition to more sustainable and environmentally responsible business models (Clark et al, 2018). Credits linked with ESG indicators serve as an

important tool for encouraging sustainable development of companies and decreasing their negative impact onto the environment and society (Dursun-de Neef et al, 2023).

The relevant ESG tools provided by Russian banks are: “green” mortgage and “green” credits. “Green” mortgage is provided for buying or repairing real-estate using environmentally friendly technologies and materials, as well as for installing energy-efficient devices in residential and commercial buildings (Litvinova et al, 2023). “Green” credits are provided for purchasing environmentally friendly goods and services, as well as for implementing environmental projects (Tarkhanova et al, 2024).

Methodology

In our investigation we evaluated the results of implementing plans of ESG agenda of Russian banks, summed up the results of ESG transformation of Russian banking sector.

The research methodology was based on the methods of calculating the dynamics and structure indicators, characterizing data about the plans for implementing ESG agenda of Russian commercial banks, as well as on the comparative analysis. To reach the setup goals, we used certain data presented by Association of Russian Banks, Bank of Russia and various analytical agencies.

Results

At the moment, Russian banks either already have plans for implementing ESG agenda or are planning its implementation in future. Table 2 presents information about the number of banks highlighting ESG agenda of their activity. The data demonstrate that during the last three years the number of banks highlighting ESG agenda in Russia increased in 2.5 times.

Table 2: Dynamics of the number of commercial banks highlighting ESG agenda in Russia during 2020–2022

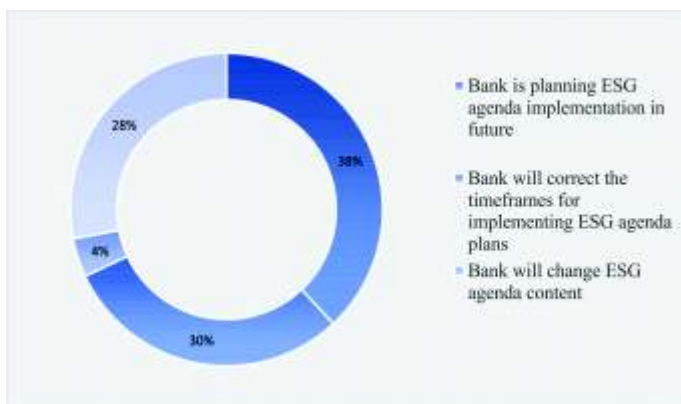
| Indices | 2020 | 2021 | 2022 | Growth rate, 2022/2020 |
|--|------|------|------|------------------------|
| Number of banks | 402 | 366 | 335 | 83% |
| Number of systemically important banks | 12 | 13 | 13 | 108% |
| Number of banks highlighting ESG agenda | 6 | 11 | 15 | 250% |
| Specific weight of banks highlighting ESG agenda | 1.5% | 3.0% | 7.5% | 500% |

Source: compiled by the authors

The plans of Russian banks for implementing ESG agenda comprise many details, such as studying the needs of market participants and interested parties, compiling reports, as well as risk and financial sustainability management. It is important for banks to work actively on these plans, creating a more sustainable and responsible financial system.

The data on the plans for ESG agenda implementation in the banking sector are shown in Figure 2.

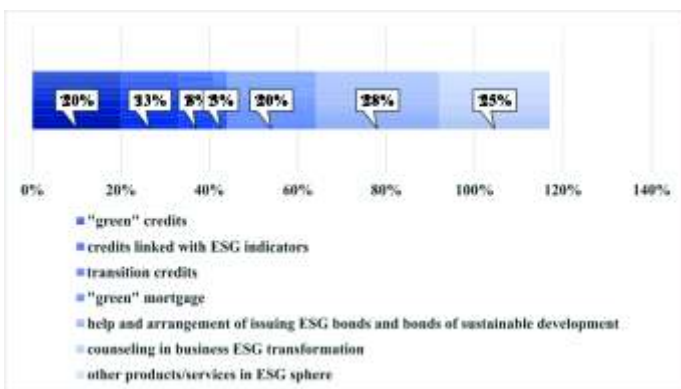
Figure 2. Plans for implementing ESG agenda of Russian banks



Source: compiled by the authors

Today, the majority of Russian banks are actively developing plans for implementing ESG agenda in future or they continue implementing urgent plans of ESG agenda. When implementing ESG agenda, Russian banks are developing such tools of “green” financing as “green” bonds, carbon units, preferential “green” crediting, “green” mortgage and subsidies (Figure 3).

Figure 3. ESG tools used by Russian banks in 2022

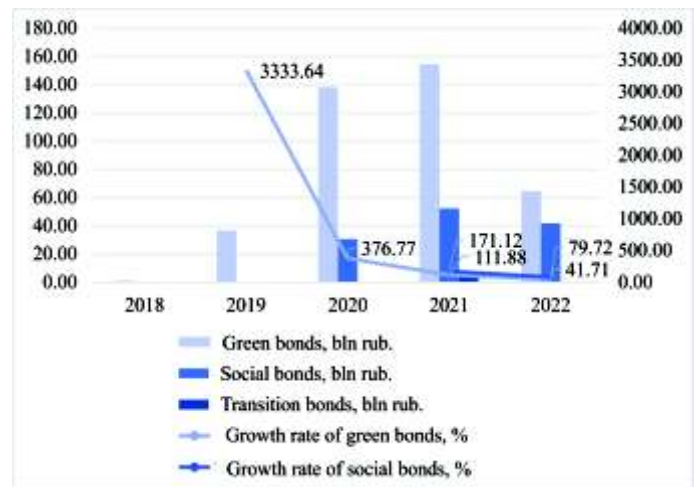


Source: compiled by the authors

ESG bonds serve as the most widely spread ESG tool. The average annual volume of the issued bonds in the format of sustainable development is growing. Thus, in 2021 this index exceeded 16 billion rubles, in 2022 – 15 billion rubles.

In 2018–2022 40 issues of bonds in the format of sustainable development of Russian emitters totaling to 524.57 billion rubles were carried out. “Green” bonds are dominating in the market structure, however, the volumes of social bonds have been growing faster than “green” ones starting from 2020 (Figure 4). Social bonds have been issued starting from 2020, their growth was over 70% in 2021, and in 2022 their issuance decreased by 20%.

Figure 4: Dynamics of issued bonds in the format of sustainable development of Russian emitters, including commercial banks, by types during 2018-2022



Source: compiled by the authors.

ESG credits are the key ESG tool in Russia. During several recent years banks have considerably increased the volumes of their “green” crediting portfolios. The total volume of ESG credits in the early 2023 in Russia was about 1.85 trillion rub., being 3.5 times less than the total volume of the issued bonds. At the same time, during 01.07.2022-01.01.2023 the volume of portfolio of provided ESG credits demonstrated the 42%-growth.

The comparative analysis of systemically important

Russian banks' participation in ESG transformation demonstrated that major Russian banks are actively introducing ESG principles into their activity, transforming their behavior model (Table 3). Eight systemically important Russian banks were taken for the comparative

analysis. The analyzed banks are developing ESG strategies of their development, reporting their sustainable development, forming workgroups and committees targeted at ESG transformation, taking ESG risks into account, producing new ESG products and services.

Table 3: Comparative analysis of participation of systemically important Russian banks in ESG transformation

| ESG transformation criteria | % of banks' participation |
|--|---------------------------|
| Bank announced plans for achieving carbon neutrality | 50 |
| Bank took responsibility for achieving SDGs | 100 |
| Bank has ESG bonds in its ESG portfolio | 100 |
| Bank has ESG credits in its crediting portfolio | 88 |
| Bank renders counseling services in the sphere of ESG transformation | 63 |
| Bank published the strategy in the sphere of sustainable development | 75 |
| Bank evaluates ESG risks | 100 |
| Bank provides various ESG products and ESG services | 63 |
| Bank started ESG transformation of its offices | 38 |
| Bank publishes official non-financial reports in the sphere of sustainable development | 63 |
| Bank developed the taxonomy of "green" projects | 25 |
| Bank approved the policy in the sphere of ESG development | 75 |
| Bank participates in financing ESG projects and projects of sustainable development | 100 |
| Bank is a participant of UNEP FI Principles for Responsible Banking | 50 |
| Bank is assigned ESG ranking by "Expert RA" | 25 |

Source: compiled by the authors.

Discussions and Conclusions

At this stage, ESG transformation of Russian banks is expressed in decreasing "carbon footprint", evaluating ESG risks, introducing new banking tools connected with sustainable development, working out policies in the sphere of ESG development, publishing non-financial reports. Commercial banks started introducing complex approaches to managing ESG risks and forming new products and services into their activity. During the recent three years the number of Russian banks highlighting ESG agenda has increased in 2.5 times. Banks started taking responsibility for achieving SDGs, publishing non-financial ESG reports.

Russian banks either already have plans for implementing ESG agenda or plan its implementation in future. Plans for

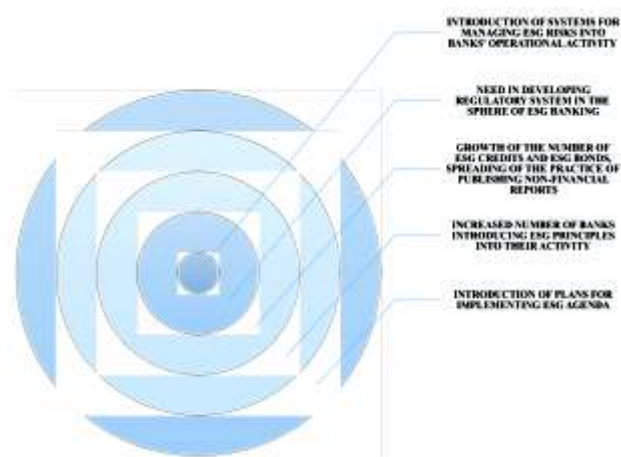
implementing the agenda comprise many details, such as studying the needs of the market participants and interested parties, preparing reports, as well as managing risks and financial sustainability.

Today, ESG risks are managed only by a few Russian banks. Many banks are planning to conduct works in managing ESG risks when receiving the corresponding recommendations of Bank of Russia.

At the moment, ESG banking requires stimulation in introducing ESG principles into the banking sector from the state. Banks declare the need in introducing the unified taxonomy, benefits when reserving and decreasing risk burdens in ESG credits, as well as introducing state subsidies when crediting ESG projects and tax benefits for ESG projects.

The current situation in the sphere of ESG transformation of Russian commercial banks is characterized by the following development tendencies and trends (Figure 5).

Figure 5: Modern trends in ESG transformation of Russian commercial banks



Source: compiled by the authors.

In general, it can be said that ESG banking is the direction, which is becoming more and more significant in Russia and is gradually acquiring importance for banks and customers. Today, ESG rankings of Russian commercial banks are emerging, active participation of banks in different initiatives encouraging the development of ESG banking is observed. At the same time, in modern conditions of economic and political turbulence certain problems and challenges occur in implementing plans of ESG transformation of commercial banks.

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