Responsibilities in sustainability. How Uzbek banks can be responsible. Deutsche Bank.

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BDA-88: Bank and audit

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March 10, 2023

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INTRODUCTION

Relevance

The EU has made the most progress with regards to sustainable finance policies, standards, and regulations. The EU institutions have been looking for creative methods to include sustainability into its financial market regulation and governance in order to mobilize additional investments for the European Green Deal. The Green Deal, which was approved in 2020, is a package of bold policy measures designed to make the EU a modern, resource-efficient, and competitive economy by 2050, with no net emissions of greenhouse gases, and no person or place left behind.

A framework for categorizing all of the EU's initiatives is the EU taxonomy for sustainable activities. It serves as the cornerstone of the EU's sustainable finance strategy, together with the Sustainable Financial Disclosure Regulation 2019/2088 (SFDR) and the planned Corporate Sustainability Reporting Directive (CSRD).

The taxonomy makes it apparent which economic activities are categorized as environmentally sustainable.

The determination of which economic activities fell within the "green" category of the EU taxonomy is two main issues. EU authorities had to first determine how the complex scientific data on climate change should be properly linked with economical concerns. The European Commission has consistently referred to the taxonomy as a trustworthy, scientifically supported transparency tool. In order to give input on the technical selection criteria for the EU taxonomy, the Commission formed the Technical Expert Group on Sustainable Finance and later the PSF.

The rapid speed of regulation changes has also been criticized in the EU's sustainable finance policy.

Little time was given to financial market players and businesses to comprehend intricate and extensive regulatory requirements. Additionally, regulatory timetable misalignments resulted from delays in the approval of certain legislative instruments.

Aim & Objectives

The objective of this study is to examine the nature and scope of sustainability in the banking industry in the European Union (EU) and Uzbekistan.

The aim of the research is to compare the EU policies towards higher incentives for banks to implement sustainability strategies while making decisions about which financial products to offer to their customers to promote investments which would result in better environmental conditions and, hence, quality of lives of all the people around the world with those of the Uzbekistan's policies. And also during the process of analyzing the strategies of EU try to understand how banks can adapt EU policies to improve the Uzbekistan banks' strategies toward improvements in sustainability. And we will also try to find new solutions for this.

Scientific novelty

In order to increase the responsibility for sustainable banking to stimulate long-term, sustainable investments while taking the materialization of the goal into account, incentives should be properly constructed related risks and how they affect the financial system in the EU. Moreover, this evaluation must take into account the multiplicative impacts of incentives at the levels of the product issuer, investor, and investee. Moreover, they have to be examined in the context of global efforts and in line with the objectives of the EU Action Plan on Financing Sustainable Growth. Throughout the approval and monitoring phase, specific requirements and accurate information should be set in order to access and take use of such incentives.

Massive individual transactions are required in order to make sustainable finance possible through products like Green Bonds, Green Loans, or Positive Impact Loans. As a result, these instruments may omit a large portion of smaller investments that are necessary collectively to achieve global sustainability objectives.

Hence, using alternative finance strategies may help in reaching significant economic milestones, leading to a faster pace of project completion. Merging smaller-scale projects may offer a size and structure that appeals to institutional investors, bringing in cash that would not otherwise be available for sustainable usage. This aggregate would benefit from the development of a green loan securitization system.

Moreover, green bonds, green loans, or green securitization should be listed under the eligible assets as suitable collateral provided specific conditions are met, such as the eligibility requirements mentioned for the Sustainable Finance Supporting Factor.

Suggestions can be made also for tax advantages for environmentally friendly goods, as these directly and significantly influence capital formation for the aim of sponsoring environmentally friendly activities.

Body 1

Experience of EU in the promotion of the responsibilities of banks for sustainability

Due to deteriorating conditions of European countries' environment and catastrophic climate changes EU decided that it is necessary to bring the sustainability in relation to the economy to the main topic of everyone's considerations. As we found in the document which was provided in the official website of EU, the contributions aimed at the improvement of the climate (green financing) as well as the mitigation and management of the financial risks related to the environmental issues (greening finance) require huge investments which couldn't be provided with the only help of the government, that is, public sector, thus, the help of the private sector should be incentivized.

In order to unify Environmental, Social and Governance with financial services Sustainable Finance was created, which also has a goal to promote sustainable economic growth. All the financial sector has to be aware of all the risks associated with the catastrophic climate changes and also which can result from inappropriate management and other financial decisions. Hence the higher transparency is required from the European banks. We also found one Action plan on Financing Sustainable growth which was deleted, unfortunately, but on the official website was written that there were all the recommendations and a roadmap necessary for the future work of the whole financial system.

The European Banking Authority plays a significant part in assisting the European banking industry in achieving the goals of shifting to a more sustainable economy and reducing risks associated with ESG. The EBA was established on 1 January 2011 as part of the European System of Financial Supervision (ESFS). As it is a special agency it operates as one of the most important European organizations.

Through issuing legally enforceable Regulatory and Implementing Technical Standards (RTS and ITS) and Guidelines, the EBA's main duty is to support the creation of the European Single Rulebook in Banking. The Single Rulebook aims to create a single set of harmonized prudential requirements for financial institutions across the EU in order to level the playing field and guarantee depositors, investors, and consumers a high degree of protection.

To ensure appropriate implementation of prudential rules, the Authority is essential in promoting the uniformity of supervisory practices. Finally, in order to identify the risks and vulnerabilities in the EU banking system, the EBA is obligated to carry out routine risk assessment studies and pan-European stress tests.

Additional duties detailed in the EBA's mission statement include:

- looking into allegations of erroneous or inadequate application of EU legislation by national authorities

- making judgments in a crisis scenario aimed at certain authorities or financial institutions.

- resolving disputes between the relevant authorities in cross-border circumstances. Lead the charge in fostering equity, brevity, and openness in the internal market for consumer financial goods and services. - serving as an unbiased advisory body to the European Parliament, Council, or Commission.

To carry out these duties, the EBA develops both regulatory and non-regulatory documents, such as legally enforceable technical standards, guidelines, recommendations, views, and ad hoc or quarterly reports.

The European voluntary system created for organizations desiring to analyze, monitor, and improve their environmental performance is the Eco-Management and Audit Scheme (EMAS), which has been authorized by the European Parliament and Council. The EMAS provides a formal framework for incorporating environmental considerations into the management and daily operations of any organization, which is important because sustainability is a rising priority for European residents and enterprises.

In 2019, it became clear that the EBA should evaluate its obligations and make sure its own environmental implications were handled while the Commission developed its Green Deal and pursued its sustainable finance action plan. As a result, the EMAS project was created, with the goal of registering EMAS by the end of 2021.

Sustainability and beyond was used to describe the first phase of a "lifelong" continual improvement of the EBA's affects, both positive and bad. The EBA will continue to reduce its environmental impact thanks to the ongoing EMAS registration.

And below are illustrated the stakeholders, regarding those who have an influence on the Environmental Management System, which was taken from the official report provided by EU:

Stakeholder(s)	Needs and expectations of the stakeholder(s)	Needs and expectations of the EBA regarding the stakeholder
European Commission	Integrate environmental, social and governance (ESG) factors and take into account sustainable business models, within the mandate given by the Regulation	Provide means to integrate ESG factors into the EBA's activities, and specifically to implement a sustainable finance action plan
Board of Supervisors Management Board	Comply with the EBA's mandate and Regulation, in due time respecting a proportionality principle	MB: support the EMAS registration
Building manager	Regularly communicate the 'private' energy consumption Participate in environmental performance improvement actions	Support legal compliance in environmental matters; be responsive Hold annual discussions on the environmental performance improvement action plan
Staff	Give priority to the following environmental aspects 1. Reducing (business) trips 2. Segregating waste Improving heating, ventilation and air conditioning	Maintain discipline in applying environmental best practices; Propose improvement actions or ideas

ENVIRONMENTAL POLICY AT THE EUROPEAN BANKING AUTHORITY

The European Banking Authority (EBA) acknowledges that it has a long-term obligation to contribute favorably to sustainable development. Thus, we have chosen to organize our strategy around the environment and adopt the Eco-Management and Audit Plan, which is the European standard for environmental management (EMAS).

The EBA's actions and products are all subject to this environmental policy. The purpose of EMAS is to protect the integrity, effectiveness, and smooth operation of the European banking industry. Its scope includes operational activities carried out in Paris as well as fundamental business activities and products. The policy is meant to provide as a roadmap for establishing yearly or multi-annual goals in this area.

Regarding the incorporation of environmental, social, and governance (ESG) elements into its regulation and oversight actions, the EBA has a clear mission. This is in keeping with its goals to develop a single set of uniform regulations for financial institutions across the EU and to encourage the convergence of supervisory techniques.

The European Commission will look at the viability of including climate-related and other environmental-related dangers in institutional risk management practices and the estimation of future capital requirements

The European Banking Authority (EBA) is tasked with determining whether a dedicated prudential treatment of exposures connected to assets or activities that are strongly linked to environmental and/or social objectives would be justified under the Capital Requirement Regulation (Article 501c). This evaluation also examines the approaches used to determine how risky particular exposures actually are in relation to other exposures.

The primary goal of the European Investment Fund (EIF), Europe's top supplier of risk financing for mid-caps and small- and medium-sized businesses (SMEs), is to make financing more accessible. The European Investment Fund (EIF), a member of the European Investment Bank (EIB) Group, develops, promotes, and executes equity and debt financial instruments that are tailored to the needs of SMEs. In this capacity, the EIF promotes EU goals for innovation, R&D, entrepreneurship, growth, and employment by assisting businesses across Europe through a variety of carefully chosen financial intermediaries.

Throughout the past few decades, there have been more loan guarantee programs supporting European SMEs. There are many key guarantee programs in operation, including the Employment and Social Innovation Program, the Cultural and Creative Sectors (CCS) Guarantee Facility, and the "InnovFin SME Guarantee Facility" program, which targets innovative SMEs and small- to mid-cap companies (EaSI).

One of the three pillars of the Investment Plan for Europe and one of the guarantee instruments, the European Fund for Strategic Investment (EFSI), managed by the European Investment Bank, plays a significant role in risk financing for SMEs as well as financing strategic investments in important fields like infrastructure, research and innovation, education, renewable energy, and energy efficiency.

In contrast to the European Council's (June 2019) call for the EIB to increase its climate-related activities, the Political Guidelines of Commission President von der Leyen (July 2019) state that one of her goals as Commission President is to transform portions of the EIB into Europe's Climate Bank.

The sustainable infrastructure policy window is the main one among the four policy windows that make up the budget guarantee. "Sustainable investments in the areas of transport, energy, digital connectivity, supply and processing of raw materials, space, oceans and water, waste, nature and other environment infrastructure, equipment, mobile assets, and deployment of innovative technologies that contribute to the environmental or social sustainability objectives" are included in its purview.

A total of €11.5 billion, or 30%, of the European Commission's guarantee will go toward sustainable infrastructure; the amount may be raised by up to 15% to account for changing market needs and policy goals.

The partial preliminary agreement between the co-legislators from March 2019 mandates that at least 55% of investments undertaken within the Sustainable Infrastructure Policy Window must serve the environmental and climatic objectives of the European Union.

The Experience of the Deutsche Bank

After covering all the policies in relation to sustainability found by us let’s look at the Deutsche Bank’s Sustainable finance framework to see how all the strategies and policies undertaken by EU government and also banks’ stakeholders might have influenced the decisions made by banks towards solving some of the environmental issues.

So, based on the bank’s framework we will analyze its practices towards the increase in the responsibility for sustainability. As was provided in the framework sustainability principles enhance the bank’s obligations towards ESG. Some of the principles, based on which the bank conducts its business are:

Commitment to balancing economic success with environmental and social responsibility;

Identification of the environmental and social impacts of our business activities;

Promotion of business that enables sustainable growth;

Additionally, by establishing an ambitious goal of facilitating €200 billion in ESG finance in addition to its portfolio of sustainable assets by 2025, Deutsche Bank has shown its willingness towards contributions to sustainability. The UN Global Compact, the UN Guidelines for Responsible Investing, and the UN Guiding Principles on Business and Human Rights are only a few examples of globally recognized standards that the bank adheres to.

The Deutsche bank decides whether it will finance some projects based on the following conditions: the environmental and social factors will be used to assess if the underlying economic activities are judged sustainable when a dedicated use of earnings can be identified. There are two essential factors to think about: First, initiatives that support, enhance, and safeguard the environment; second, initiatives that foster social development, particularly among underprivileged target populations.

As an example we will take several sectors in which the company will decide whether to invest in or not in relation to the promotion of the ESG principles:

1. Manufacturing

The following criteria should be met in order for the project to become acceptable for the promotion of sustainability:

- Manufacturing of key components, equipment and machinery for renewable energy technologies, lowcarbon transportation eligible under this taxonomy, energy efficiency of buildings, e.g. high efficiency lighting
- Development and manufacturing of low-carbon technologies that substantially reduce GHG emission in other sectors of the economy (incl. private households)
- Transition of industrial production to low-carbon and high-energy efficient production using the EU Taxonomy as a guidance for identification of respective performance thresholds
- Recycling and reutilisation of material (e.g. plastics; scrap steel)

2. Water&Waste

The following criteria should be met in order for the project to become acceptable for the promotion of sustainability:

- Front-to-end water collection, treatment and supply systems with high energy efficiency in terms of water consumption per cubic meter
- Activities which substantially reduce energy consumption (20%) of a system

- Activities which improve water quality and/or water use efficiency
- Waste reuse and recycling
- Recovery of secondary raw materials
- Production of biogas (should include controls for methane leakage) for electricity, heat or bio-fuel generation
- Gas from landfills in closure used for electricity, heat or bio-fuel generation
- Direct air capture of CO_2

3. Transportation&storage

The following criteria should be met in order for the project to become acceptable for the promotion of sustainability:

- Any zero-direct emission vehicles
- Other vehicles (passenger) with direct emissions < 50g CO_2 per passenger km until 2025 or meet threshold-based on IEA Mobility Model data
- Freight transport either meets threshold based on IEA Mobility Model data or follows the respective vehiclespecific thresholds set by the EU Taxonomy
- Infrastructure required for zero direct emissions transport and low carbon transport including e.g. infrastructure/equipment for active mobility (e.g. cycling)

4. Information and Communications Technology (ICT)

The following criteria should be met in order for the project to become acceptable for the promotion of sustainability:

- Energy-efficient data centers and equipment
- Data-driven solutions enabling GHG emission reductions

5. Agriculture&forestry

The following criteria should be met in order for the project to become acceptable for the promotion of sustainability:

- Measures aimed at improving the sustainability of agricultural processes, e.g. optimize water consumption, use of fertilizers including organic fertilizers etc.

- Avoidance or significant reduction of GHG emissions

- Maintenance or increase of existing carbon stocks

- Compliance with Sustainable Forest Management requirements for any afforestation and other forest restoration/conservation measures

And despite all the above projects that could be financed by the bank it also provides organizations with investments in order to expand the access to clean water, clean energy and types of transportations. And it can also make contributions to the development of new telecommunication networks. The bank also tries to make the access to the health care more affordable as well as education. And it also wants the housing to become more achievable for people.

Body 2

Experience of Uzbekistan in the promotion of the responsibilities of banks for sustainability, comparative analysis

In 2021, Uzbekistan for the first time published a report on ESG aspects to measure and assess the country's progress in implementing the Sustainable Development Goals.

The Government of Uzbekistan was the first in the CIS to place government bonds government bonds for targeted financing of SDGs - Sovereign SDG Bonds.

The Ministry of Finance is leading the reform of the fiscal system to support the transition to a green economy. Green budgeting methodology, reform of green taxes and other measures are being developed.

Uzbekistan does not have legislation on responsible business conduct, but many companies participate in charity and adhere to the principles of corporate social responsibility, either on their own initiative or at the direction of local authorities.

There is no carbon exchange in Uzbekistan, green taxonomy has not been developed, but all these issues are discussed at the level of the ministry.

Uzbekistan ranks fifth in the world in terms of intensity of greenhouse gas emissions. The country intends to reduce specific emissions per unit of GDP by 35% by 2030 and achieve carbon neutrality by 2050.

By 2030, about 30% of the electricity generated in the country should come from renewable sources. By 2026, Uzbekistan has set a goal to increase the total capacity of solar and wind power plants in the country to 8,000 MW

The electric transport industry in the country is gradually developing: by 2030 it is planned increase the share of electric vehicles in total sales to at least 15%. There are national manufacturers of electric vehicles in Uzbekistan.

The Development Strategy of Uzbekistan for 2022-2026 pays special attention to intensive development of hydrogen energy in the country. Government approved research program for the development of production technologies, storage and transportation of hydrogen.

A few banks in Uzbekistan are promoting green finance. Despite this, the leader in the list of such banks is SQB Bank, which in terms of policy is very similar to European banks such as Deutsche Bank. In addition, SQB does not try to make health care, education more affordable by providing its clients with more affordable loans. It certainly neglects some if the social aspects of the ESG principles.

The goal, according to the green banking policy which is provided in their official website, is to assist initiatives that are focused on the environment and society.

The following number of green tasks is provided there:

- Energy Efficiency Assessment
- Green Technology Consulting
- Funding for green projects
- Assessment of environmental and social risks
- Raising resources for green projects
- Working with donors of green projects
- Recommendations for reducing environmental and social risks
- Introduction of renewable energy sources

SQB provides mortgages for certain projects in construction and renovations which meet certain environmental standards, it also lends to small and medium businesses for business projects that meet criteria which characterizes them as being socially and environmentally responsible.

They also list which benefits are provided towards the promotion of green financing:

- Acceptable loan conditions
- Project technical support
- Green Technology Selection Usage
- Energy Saving

It lends to SME based on the following categories of projects:

- renewable energy projects
- projects related to pollution prevention and waste management
- climate change adaptation projects
- projects related to the rational use of water
- energy efficiency projects
- projects related to environmentally friendly transport

- projects related to the conversion of existing buildings into energy efficient
- projects related to the financing of energy audits

It also has a financial product called corporate green loan aimed at financing spending on energy efficiency, the production and purchase of renewable energy sources, green transportation, the conversion of existing buildings into energy efficient ones, the reduction and recycling of waste, the rational use of water and energy audits, and other "green" projects.

Despite the weak development of sustainable banking, Uzbekistan is trying to introduce the following policies into the practice of organizations such as: projects related to renewable energy sources; projects related to energy efficiency; projects related to pollution prevention and waste management; projects related to environmentally friendly transport; projects related to adaptation to climate change; projects related to the conversion of existing buildings into energy efficient ones; projects related to the rational use of water and projects related to the financing of energy audits.

Body 3
Which methods of EU can be adapted in Uzbekistan

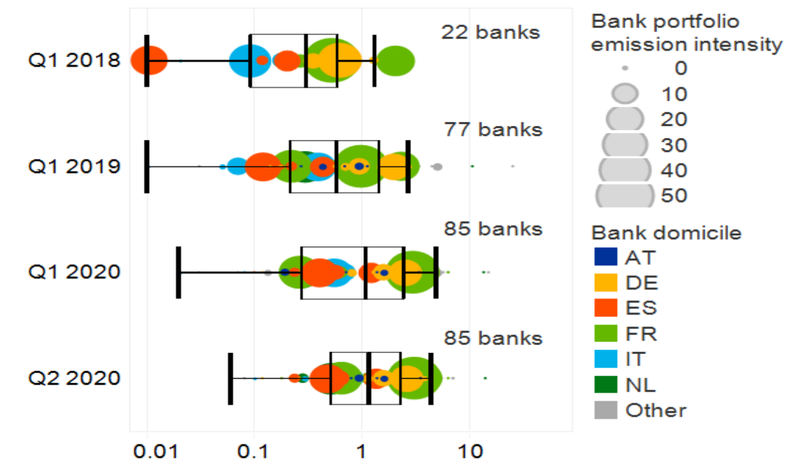
Our government should intervene in the sphere of sustainable banking by the creation of the regulatory authority as the EU did in the example of EBA, which prepares certain recommendations which banks can apply into their practices when making decisions on which projects to choose for financing.
In the case of the SQB bank much was close to the ones of European banks' green financing and green finance decisions except that it offers lower quantity of financial products aimed at the increase of the improvement of social and environmental conditions, it also focuses on lending to businesses rather than to borrowers to make health care and education services more affordable for people which could substantially increase social well-being.

And as we all noticed, there are not such a huge quantity of banks and organizations overall which provide priviliges towards “green” projects, we think that Uzbekistan should incentivize them by supporting financial institutions with kind of subsidies or increasing their reputation in the market by making announcements that the government would stand by them in times of need in case those organizations met certain conditions which would be specified in the official website of the special government agencies.

And as was found in the Financial Stability Review, November 2020, part of which was conducted by Marco Belloni, Petya Radulova and others Euro area banks have expanded their involvement in green finance as green markets have grown. Although while the median share of green assets is still just slightly above 1% of all bank securities held, euro area banks have raised the proportion of green bonds in their portfolios. Banks are boosting their own green bond issuance as well, often to offer green financing options to businesses that are typically financed through loans. With the strong growth of the green bond market in the second half of the year, new green bond issuance accounted for 13% of all euro area bank bond issuance in the third quarter of 2020, up from just 4% in the first.

Share of green bond holdings in banks' securities portfolios

(box plots, percentage shares)



But it is important to mention, that, although green projects are the focus of green bonds, there is no proof that the bonds really cause issuers to emit less carbon. Also, even though the standardization of verification and reporting of green bonds is now being discussed at the European Commission as part of the EU Green Bond Standard, issuers are not responsible for the goals of projects financed by green bonds not being met.

But we know that in Uzbekistan financial markets differ from those in European countries, but in case it develops to high levels where funds could be easily raised in times of need by companies with high credit ratings, and in case banks are permitted to hold bonds as a means of increase in liquidity, it would be a great opportunity to promote sustainability through such action.

CONCLUSION

The inclusion of environmental concerns has a significant drawback in that, despite their potential relevance, many of them do not face high attention, especially in light of other issues and real-world difficulties.

If information flows were enhanced, it would be considerably easier for financial firms to take environmental problems into account.

In order to analyze and classify financial services and products as sustainable or green, there are presently no global standards or accepted market norms. This could influence how different parties assess financial services and financial goods. New rules on ESG (Environment, Social, and Corporate Governance) and Sustainable Finance also need to be verified, and further draft legislation is now being prepared in these areas. As a result, presently labeled sustainable or green financial services and financial products could not satisfy upcoming regulatory standards for certification as sustainable.

While preparing this research we analyzed using the case of the Deutsche Bank how strategies of EU contributed to the promotion of the sustainability in the banking sector as well as how the Uzbek banks in the case of SQB implements its Green Banking policy to make decision which will lead to borrowers being able to have higher access to funds in order to achieve positive externalities from their operating activities on the environmental condition and on society as a whole.

We also found that despite the lower quantity of banks involved in the process of the implementation of green policies some of the Uzbekistan banks' still make huge contributions towards sustainability.

And also we believe that Uzbekistan should establish a special agency, like EBA, which will oversee banks' activities and the implications of that activities on the environment. It would require them to increase disclosure of the activities which make positive contributions to environment. Good decision would be to rank banks based on the preparation and implementation of their green policies, and based on that banks that could receive the help from the Government through that regulatory authority in the form of subsidies.