Economic Brief

Environmental, Social, and Governance in the CAREC Region

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Table of Contents

Figures:

Tables:

Introduction

Environmental, Social, and Governance (ESG), which embeds environmental, social, and governance considerations into investment and business activities, has been an important direction of sustainable finance. At the start of 2020, global sustainable investment reached USD 35.3 trillion in the five major markets (Europe, United States, Canada, Australasia, and Japan), and ESG assets under management employing an ESG integration approach increased to US$25.2 trillion in 2020.[1] Global issuance of ESG-labelled bonds may reach US$4.5 trillion annually by 2025.[2] ESG development can help accelerate the transition of CAREC member economies to green, sustainable economies, given the region's relatively fragile natural and geographical conditions. However, ESG development in most CAREC members is still in its infancy and faces issues such as weak ESG awareness, difficult access to data, underdeveloped policy and regulatory frameworks, and a lack of relevant evaluation agencies, pointing to the necessity for member economies in the region to draw on international experience, strengthen regional exchange and cooperation, and promote regional ESG infrastructure development and sustainable finance.

Table 1. Global growth of sustainable investment (2016-2020).

	2020	2018	2016	GROWTH 2016-2020	COMPOUND ANNUAL GROWTH RATE
Impact/community investing	$352	$444	$248	**42%**	**9%**
Positive/best-in-class screening	$1,384	$1,842	$818	**69%**	**14%**
Sustainability-themed investing	$1,948	$1,018	$276	**605%**	**63%**
Norms-based screening	$4,140	$4,679	$6,195	**-33%**	**-10%**
Corporate engagement and shareholder action	$10,504	$9,835	$8,385	**25%**	**6%**
Negative/exclusionary screening	$15,030	$19,771	$15,064	**0%**	**0%**
ESG integration	$25,195	$17,544	$10,353	**143%**	**25%**

NOTE: Asset values are expressed in billions of US dollars.

Note: Reprinted from Global Sustainable Investment Review 2020, Global Sustainable Investment Alliance, Figure 7 Global growth of sustainable investing strategies 2016-2020, from www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf

ESG investing as the main form of global sustainable financing

"The term ESG is an acronym which stands for environmental, social, and governance – categories representing values that drive investment" (Institute for Pension Fund Integrity, 2020, Page 1),[3] refers to the three main topic areas in measuring the sustainability, ethical and societal impact of an organization. "It encompasses strategies and practices that feature the systematic management of economic, environmental and social performance with the goal of optimizing benefits for both business and society" and "helps stakeholders understand how an organization manages risks and

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[1] *Global Sustainable Investment Review 2020*, Retrieved from http://www.gsi-alliance.org

[2] *ESG-labelled bond issuance poised to explode in coming decade – Pictet/IIF study*, (2022, January). Retrieved from https://www.iif.com/About-Us/Press/View/ID/4746/ESG-labelled-bond-issuance-poised-to-explode-in-coming-decade-PictetIIF-study.

[3] *Defining ESG: Clarifying the Myths and Facts*, Retrieved from https://ipfiusa.org/wp-content/uploads/2020/08/IPFI-Issue-Brief-Defining-ESG.pdf

opportunities around sustainability issues".[4]

ESG describes a set of factors used to measure the non-financial impacts of particular investments and companies.[5] Figure 2 summarizes some of ESG key factors in respect of their risks, impacts, and opportunities which stakeholders are incorporating into their business, strategies and decision-making process.[6]

Environmental issues refer to potential or actual changes to the physical or natural environment and related risk management practices, including climate change, carbon management (like GDG emission), resource depletion (including water), loss of biodiversity, waste and pollution, energy consumption, land use, innovations or products or services that reduce environmental impact, etc.

Social issues refer to potential or actual changes on surrounding community and people, including job creation and working conditions (including slavery and child labor), equal opportunity, employee conditions and diversity, impacts on local people and indigenous communities, health and safety, human rights, grievance mechanisms, social impact of products, services or company operations, gender-based violence and harassment, etc.

Governance issues refers to structure and processes by which organizations are directed and controlled including their purpose, values and culture, board diversity and structure, bribery and corruption, succession planning, executive pay, internal controls, risk governance, ethics and compliance, shareholder rights, disclosure and transparency, etc.

Table 2. Some examples of ESG factors.

Environmental	Social	Governance
• climate change • carbon management • resource depletion • waste and pollution • loss of biodiversity • energy consumption	• job creation and working conditions • equal opportunity • employee conditions and diversity • impacts on local communities • social impact of products • gender-based violence and harassment	• values and culture • board diversity and structure • ethics and compliance • shareholder rights • disclosure and transparency

Source: PWC, IFC.

The unforeseen risks, such as Covid-19 pandemic, climate change events and Russia-Ukraine conflict

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[4] Deloitte (2022). *Environmental, Social, and Governance*, Online resource. Retrieved from https://www2.deloitte.com/xe/en/pages/about-deloitte/articles/environmental-social-governance.html

[5] Bergman, Ariel J. Deckelbaum and Brad S. Karp (2020, August 1), *Introduction to ESG.* Retrieved from https://corpgov.law.harvard.edu/2020/08/01/introduction-to-esg/.

[6] Contents in the following paragraphs on ESG three topics are based on ESG definition made by IFC (International Finance Corporation) and Deloitte (Deloitte Touche Tohmatsu Limite) and Pricewaterhouse Coopers
IFC ESG Guide Book, Retrieved from https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/environmental_social_and_governance;
Deloitte, *op. cit.*

have further highlighted the importance of social and governance factors. According to MSCI,[7] studies show that companies with robust ESG practices tend to present a lower cost of capital, lower volatility, and fewer instances of bribery, corruption and fraud. Investors, policymakers and the public realize that ESG approach can drive economic growth while helps to enhance employment creation, business resilience, worker and public safety, equitable growth, natural resources protection, and social development, among others.

In the international capital market, ESG investing has been widely adopted by diversified investment entities, including pension funds, mutual funds, and other institutional investors. According to a report which the Global Sustainable Investment Alliance released in July 2021,[8] the total assets managed under ESG strategy shows a prominent growth of 143% to about U$25 trillion between 2016 and 2020. As per Morningstar's Global Sustainable Fund Flows Report, by the end of 2020, total ESG funds in Asia ex-Japan amounted to US$25.4 billion, growing by 130% compared with 2019 in 2019.[9] Refinitiv Lipper reported that global ESG funds received a record US$649 billion in investment in 2021 up to November 30.[10] ESG bonds have also been hugely popular in emerging markets, with global issuance increasing from US$75 billion in 2020 to US$230 billion in 2021.

ESG History: some milestones of ESG-related initiatives, regulations and frameworks

The term ESG was coined first in Who Cares Wins published by the United Nations Global Compact in 2004, encouraging the inclusion of ESG considerations in business activities in the capital market. However, its roots could go back to the 1960s, when socially responsible investing (SRI) was originally introduced as a result of opposition to the Vietnam War and the civil rights movement in US. From then on, ESG has evolved from historical movements that focused on health issues, safety problems, pollution reduction, and corporate social responsibility.

Through the 1960s to 1970s, investors and capital market attached more importance on social issues such as labor rights, race and gender equality, environmental protection in investment selection based on the needs of investors and public to align business goals with moral and ethical values. In 1980s, the ESG concept continued to evolve, inspired by actions like "Comprehensive Anti-Apartheid Act", which outlawed any additional investment in South Africa.

In the 1990s, investors began to synthetically consider ESG factors and performance in their decisions. UNEP established the Finance Initiative (UNEP FI), a global sustainability framework within the finance industry, addressing global environmental, social and governance challenges and leverage the power of financial sectors to promote sustainable development at the 1992 Earth Summit in Rio de Janeiro. In 1997, UNEP and CERES jointly launched the

[7] *How has integrating ESG considerations into the investment process affected performance?* Retrieved from https://www.msci.com/esg-101-what-is-esg/esg-and-performance
[8] *Global Sustainable Investment Review 2020*, Retrieved from http://www.gsi-alliance.org
[9] *Global Sustainable Fund Flows: Q4 2020 in Review: ESG Fund Assets Reach USD 1.65 Trillion Boosted by Record Inflows.* (2021, January 28). Retrieved from https://www.lyxoretf.ch/pdfDocuments/GlobalESGQ42020Flowspdfdff27c04493ff4e02e9f612338fa189f.pdf.
[10] *SEC unveils rules to prevent misleading claims and enhance disclosures by ESG funds.* Retrieved from https://www.cnbc.com/2022/05/25/sec-unveils-rules-to-prevent-misleading-claims-by-esg-funds-.html.

Global Reporting Initiative (GRI) to cover the three ESG parts of sustainability reporting.[11]

In 2006, the United Nations Principles for Responsible Investment (UNPRI) issued the Principles for Responsible Investment (PRI) to promote the systematic inclusion of ESG factors in investment decisions by the business community. In 2015, the United Nations introduced 17 Sustainable Development Goals (SDGs), which provide a comprehensive guiding framework for ESG evaluation.

Since then, countries have accelerated their rollouts of ESG policies, frameworks, and regulations, especially ESG disclosure guidelines, with a gradual shift of relevant policies towards quantitative requirements and mandatory enforcement.

The United States released the Commission Guidance Regarding Disclosure Related to Climate Change in 2010, requiring companies to disclose quantitative financial information regarding the environmental impact of their business activities, such as environmental expenses; in 2021, the U.S. House of Representatives passed the ESG Disclosure Simplification Act , requiring all publicly traded companies to regularly disclose their environmental, social, and governance performance, an important step towards mandatory ESG disclosures. The EU enacted the Non-financial Reporting Directive in 2014 in its first ESG legislation, requiring non-financial information disclosure of large companies to cover ESG issues; in 2019, the EU promulgated the Sustainability-related Disclosures in the Financial Services Sector, which extends the non-financial information disclosure regime to all financial market participants and ESG-related financial products.

At the same time, global and regional ESG disclosure mechanisms have thrived, offering a variety of corporate sustainability reporting framework options, such as the Sustainability Accounting Standards Board (SASB), Task Force on Climate-Related Financial Disclosures (TCFD), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), and International Integrated Reporting Council (IIRC). In September 2020, the World Economic Forum's International Business Council (IBC), in conjunction with the Big Four accounting firms, released the white paper "*Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*"[12], which identifies a common set of ESG indicators and more than 150 companies had committed to the measurement approach and over 70 firms had already adopted it till May, 2022.

CAREC region's considerable progress in ESG development

The PRC and Mongolia have put in place comprehensive national ESG plans and frameworks that cover all parts of financial system with effective coordination of policies and positive actions from both regulatory authorities and industry associations; Georgia and Pakistan made strides through the introduction of a succession of ESG-related regulatory rules, guidelines, disclosure templates, and training programs, and are pushing the integration of ESG rules of relevant financial departments; The Kyrgyz Republic is in the stage of preparation and the financial authorities are drafting ESG policies, regulations, guidelines, and principles of voluntary action and carrying out relevant

[11] CERES, a nonprofit organization transforming the economy to build a just and sustainable future for people and the planet, https://www.ceres.org/homepag

[12] World Economic Forum, (2022, September 22), Retrieved from https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation.

preparatory activities including research, investigation, stakeholder engagement, and awareness promotion; Kazakhstan is in the process of determining policy directions, with the financial regulators and industrial associations having announced plans to formulate ESG rules, guidelines, and principles of voluntary action and organized relevant activities such as symposiums attended by stakeholders.[13]

Azerbaijan

The Government of Azerbaijan has enacted a series of policy documents, such as *Azerbaijan 2020* and the *Renewable and Alternative Energy Development Strategy 2012-2020* towards the establishment of a development framework that encourages investment in low-carbon, climate-resilient development. *Azerbaijan 2020* focuses on the possible effects of climate change on the country's society, emphasizing that necessary countermeasures should be taken. The *Renewable and Alternative Energy Development Strategy 2012-2020* proposes, among other goals, to mobilize US$7 billion in alternative energy investments by 2020. In February 2021, the government issued *Azerbaijan 2030: National Priorities for Socio-Economic Development*, which highlights the development of renewable energy and green technologies and requires that "all sectors of the economy increase the share of alternative and renewable energy sources in primary consumption and reduce their impact on climate change"[14]. The government has also adopted measures to support renewable energy development, such as the signing of power purchase agreements (PPAs) and the provision of grants and soft loans, but a systemic green finance framework is yet to be established.

On January 22, 2020, the Ministry of Economy of Azerbaijan and UNDP organized a webinar on "Sustainable Investment: Trends and Opportunities in the Economy of Azerbaijan" to discuss how to promote resource optimization and finance for the Sustainable Development Goals under the 2030 Agenda, which requires concerted efforts of all stakeholders. The parties plan to continue to hold a series of dialogues on public finance, sustainable investment, and green growth.

Georgia

Georgia has made steady, rapid progress in promoting ESG development. The country has actively advanced the *Paris Agreement* and the *Agenda 2030 for Sustainable Development* by its ESG development led by its central bank, the National Bank of Georgia (NBG). The NBG advocates for the financial system to actively mobilize funds for sustainable development and develop strong policy measures to guide green and inclusive growth.

The NBG has been committed to promoting a financial system that supports sustainable development and fully incorporates environmental and social considerations into banking

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[13] The classifications are based on respective situation in CAREC economies and use standard by IFC in "Accelerating Sustainable Finance Together" as reference.

[14] *Order of the President of the Republic of Azerbaijan on approval of "Azerbaijan 2030: National Priorities for Socio-Economic Development",* (2021, February 2). Retrieved from https://azertag.az/en/xeber/Order_of_the_President_of_the_Republic_of_Azerbaijan_on_approval_of_Azerbaijan_2030_National_Priorities_for_Socio_Economic_Development-1724707

supervision system and capital market reform. In 2018, the NBG issued the *Corporate Governance Code for Commercial Banks*, requiring banks to follow ESG standards and disclose information on their governance and business activities. In 2019, the NBG released the *Roadmap for Sustainable Finance in Georgia*, highlighting actions to construct a green, social, and sustainable finance framework and explicitly stating that banks and other financial institutions should devote much attention to environmental and social issues in lending and other financial operations. On this basis, the NBG, in cooperation with the Organization for Economic Cooperation and Development (OECD), formulated the *Environmental, Social and Governance (ESG) Reporting and Disclosure Principles* (ESG Principles) (issued in February 2020) to guide commercial banks and other financial institutions to provide the ESG disclosure in a relevant, useful, consistent and comparable manner. The *ESG Principles*, as non-binding guidelines developed within the framework of the *Roadmap for Sustainable Finance in Georgia*, requires all commercial banks and encourages other financial institutions and non-financial entities to make ESG disclosures. In 2021, the NBG began publishing ESG reports of commercial banks and released its first *Sustainable Finance Status Report*. The NBG has developed and put into use a range of enabling tools, including ESG guidelines and reporting templates, training and knowledge sharing activities, online tools, and related management guidelines.[15]

According to statistics of the NBG, Georgia's total green loans reached approximately 405 million Georgian Lari (GEL), equivalent to US$123 million, with the share of green loans in total loans averaging around 5% (within a range from 1% to 11%) in 2020. By the end of 2020, the outstanding balance of green loans was about GEL 1.4 billion (US$416 million), accounting for about 6% of all outstanding loans, with the highest share at around 17%.[16]

Kazakhstan

The Government of Kazakhstan has issued a series of initiatives, including the *Strategy Kazakhstan-2050: New Political Course of the Established State* in 2012 and the *Concept on Transition to Green Economy* in 2013, with the aim of establishing a brand-new natural resource management system. In 2015, it identified sustainable and green economy as a prioritized goal under the *Strategy 2050* to further improve its sustainability policy framework. In 2017, the government affirmed its commitment to establishing a green finance system, with its long-term roadmap including the development of green finance instruments, the creation of a pipeline of green projects, and capability building.

The Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (ARDFM) and the Ministry of Ecology, Geology, and Natural Resources jointly formulated the Green Finance Taxonomy, which was approved in December 2021. In July 2021, ARDFM announced that it would prioritize the development of a "green finance market" and "the introduction of ESG principles in financial organizations and institutions." In March 2022, ARDFM and EBRD signed a memorandum of understanding for cooperation to facilitate the implementation of ESG standards

[15] https://nbg.gov.ge/

[16] National bank of Georgia. *Sustainable Finance in Georgia Status Report 2021.* Retrieved from https://nbg.gov.ge/en/page/sustainable-finance-in-georgia.

and Corporate Climate Governance (CCG) practices by financial institutions in Kazakhstan. The Kazakhstan Stock Exchange (KASE) has also responded positively by joining the UN Sustainable Stock Exchanges (SSE) Initiative in 2015, publishing its first edition of ESG principles in 2016, and issuing new rules in 2020 requiring additional ESG disclosures by listed companies in their annual reports, in addition to plans to shift from voluntary to mandatory ESG reporting.[17]

At present, ESG development has gained momentum in Kazakhstan. The KASE has organized a series of ESG awareness promotion and investor education activities. In particular, it has presented the annual "Best Sustainability Report" award since 2018, which receives more than 100 reports for consideration annually. Of the 150 companies listed on the KASE, eighty-six make ESG disclosures in their annual reports. The AFDFM held a hands-on training workshop on ESG risk management in September 2021. The KASE has also partnered with international organizations and institutions such as the WFE, the SSE Initiative, the International Finance Corporation (IFC), and PwC to conduct various ESG dialogues and training and other activities to promote the inclusion of ESG into wider investment decisions.

Kyrgyz Republic

ESG development is in a preparatory stage. The government formulated the *National Strategy for Sustainable Development 2040,* promulgated the *National Development Strategy 2018-2040* and the *Development Program of the Kyrgyz Republic for the Period 2018-2022 in 2018*, with the aim of promoting green and inclusive economic development. In these documents, sustainable finance was featured prominently, with relevant contents including the promotion of green finance principles, the introduction of systems for assessing and monitoring the green economic activities of financial institutions, and the implementation of sustainable finance in the banking and microfinance sectors. The Ministry of Economy, in cooperation with UNDP and the Partnership for Action on Green Economy (PAGE),[18] developed the *Programme for the Development of Green Economy 2019-2023* to guide the transition to a green and inclusive economy. The Union of Banks of Kyrgyzstan is actively promoting the development of a national sustainable finance framework (e.g., roadmap, policies, and regulatory guidance). In this regard, work is yet to be done on various fronts, including raising ESG awareness in the financial and other sectors, initiating dialogues between public and private sector stakeholders, and studying sustainable finance practices and experience from other countries.

Mongolia

The Government of Mongolia attaches importance to sustainable development issues and has developed a series of relevant policy plans, including, inter alia, the *Millennium Development Goals*

[17] The Sustainable Stock Exchanges (SSE) initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG (environmental, social and corporate governance) issues and encourage sustainable investment.

[18] PAGE: United Nations Partnership for Action on Green Economy, was launched in 2013 as the response to the call at Rio+20 to support countries to build economies which improve human well-being and social equity while significantly reducing environmental risks and ecological scarcities. https://www.un-page.org/about-page/

(MDGs)-based Comprehensive National Development Strategy (2008-2021) (NAPCC) in 2008, the *National Action Programme on Climate Change (2011-2021)* in 2011, the *National Green Development Policy (2014-2030)* (NGDP) in 2014, and *Mongolia Sustainable Development Vision (2016-2030)* in 2016. Among them, the NGDP focuses on sustainable finance and proposes to support green economic growth through finance, tax, loan, and other incentives. The *Mongolia Sustainable Development Vision* encourages the financial sector to take a long-term view and actively leverage funds for sustainable development. In 2013, the Mongolian Bankers Association (MBA), together with the Office of the President, the Bank of Mongolia (Mongolia's central bank, BOM), and the Ministry of Environment, Green Development and Tourism established a sustainable finance working group and launched the Mongolian Sustainable Finance Initiative (MSFI). In 2014, Mongolia published the *Sustainable Finance Principles*, aiming to support green finance, promote the adoption of ESG principles by banks, and encourage all financial institutions to embrace sustainable finance practices.

At present, Mongolia has put in place a comprehensive national ESG framework which promotes ESG integration across all parts of financial sector. Under the push of the BOM and the Mongolian Sustainable Finance Association (MSFA),[19] and based on the integration of existing ESG schemes of the financial sector, the country has formed a national ESG policy framework covering the banking and non-banking sectors, including the *National Financial Market Development Programme 2025* (jointly issued by the Ministry of Finance, the BOM, and the Financial Regulatory Commission in 2017) which requires financial institutions to formulate relevant measures to examine, manage, and report ESG risks and performance, and the *National Sustainable Finance Roadmap of Mongolia* (MSFA, 2018).[20] One of objectives of the Roadmap is to "integrate sustainability in financing and investment policies and frameworks taking into account climate, environmental, social, and governance considerations".[21] At the same time, Mongolia has introduced the corresponding implementation guidelines and technical tools, including the *Sector Guidelines of the Mongolian Sustainable Finance Principles* for five sectors, including agriculture and manufacturing and the MSFA sustainable finance e-learning platform, and launched the *Reform and Development Program of Financial Market Until 2025*, which consists of two phases of implementation (2018-2020 and 2021-2025). In August, Mongolia's financial sector authorities and development partners, including UNDP released *"The ESG and Sustainability Reporting Guidance for Mongolian Companies"*. The Guidance provides an eight-step outline of how listed companies and other issuers can build the capacity to report on sustainability, and a list of indicators that companies can select from to fulfill their sustainability disclosure requirements.

Moreover, relevant government agencies such as the BOM and the Ministry of Finance and financial

[19] The Mongolian Sustainable Finance Association (MSFA), was founded by banks and the Mongolian Bankers Association in December 2017 as a member-serving NGO, building on the success of the Mongolian Sustainable Finance Initiative. Retrieved from https://www.unglobalcompact.org/library/2001#:~:text=The%20Sustainable%20Stock%20Exchanges%20%28SSE%29%20initiative%20is%20a,and%20corporate%20governance%29%20issues%20and%20encourage%20sustainable%20investment.

[20] *National Sustainable Finance Roadmap of Mongolia*: Iain Henderson, Nomindari Enkhtur, Tumurkhuu Davaakhuu (2018), https://unepinquiry.org/publication/national-sustainable-finance-roadmap-of-mongolia/.

[21] Ibid. p. 10.

institutions like the Mongolian Stock Exchange (MSE) have also taken measures to promote ESG. In March 2018, the BOM, the MSFA, and the IFC announced cooperation in sustainable finance to develop a guideline for the Bank of Mongolia to support the implementation of sustainable finance principles in the banking sector and collect data related to green finance and ESG assessment in the banking sector, among others. In 2019, the Mongolian government, the Green Climate Fund, and Macquarie's Green Investment Group announced to jointly establish the Mongolian National Green Finance Corporation to support the private sector's participation in green investment. The MSE has also actively embraced ESG practices. In 2017, it joined the United Nations Sustainable Stock Exchanges (SSE) Initiative. In 2021, it signed a *Memorandum of Understanding on Cooperation to Support the Development of Sustainable Stock Markets* with the MSFA with the aim of jointly developing ESG reporting standards and guidelines, carrying out market capability building, and promoting responsible investment and sustainable business practices. In addition, the BOM and the MSFA organized the "Best ToC Bank" competition event as part of the "Bank-95" exhibition for the 95th anniversary of Mongolia's banking sector to recognize banks with the best sustainable finance practices and environment-friendly officers.[22]

By 2021, a total of 11 Mongolian banks had established their internal ESG frameworks and implementation systems, with US$1.499 billion of credit/loans having passed the ESG and environmental and social (E&S) reviews. Local financial institutions have actively promoted green finance and loan business. XacBank, for example, has been active in investing in renewable energy projects and became the first local commercial bank to invest in a 10MWh solar power plant. The Khan Bank and the Sustainable Fibre Alliance have introduced credit products supporting herder cooperatives to embrace more sustainable livestock production practices.

Pakistan

In 2016, the National Assembly of Pakistan passed a resolution to set the United Nations Sustainable Development Goals (SDGs) as a national development agenda, integrate them into government policy planning and related strategies, and establish SDG support institutions in state and provincial planning agencies to guide implementation and monitor progress, including by seeking diversified sources of financing for sustainable development while ensuring the alignment of public finance allocations with the SDGs.

The Government of Pakistan and financial institutions have embraced the ESG movement. In 2017, the State Bank of Pakistan issued the *Green Banking Guidelines* (GBG), encouraging financial institutions to incorporate environmental cost assessment into credit assessments and implement green alternatives with enhanced awareness of green finance. Pakistan's Finance Minister Shaukat Tarin said that the country is actively making use of ESG bonds to fund environmental protection and sustainable development and investing all funds so raised in sustainability projects such as clean water and countryside enhancement and announced the plan to raise US$1 billion via an ESG-

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[22] The Bank of Mongolia. (2019, February 28). *The Bank of Mongolia and the Mongolian Sustainable Finance Association Announce the "Best TOC-BANK" Competition.* Retrieved from https://www.mongolbank.mn/eng/news.aspx?tid=1&id=2183

compliant Eurobond in March 2022.[23] In May 2021, the Pakistan Water and Power Development Authority (WAPDA) issued the country's first green bond with a maturity of ten years and raised US$500 million to mainly fund environmental projects, which received a positive response from international institutional investors.[24] Pakistan's investment institutions have also actively developed sustainability products, with long-standing asset management firm NITL having launched the first social impact fund in the country.[25]

Agencies such as the Pakistan Stock Exchange (PSX) and the Securities & Exchange Commission of Pakistan (SECP) have taken active measures to promote sustainability disclosures by the private sector. In December 2021, the PSX and the CFA Society Pakistan jointly held a meeting on ESG investing to discuss the applications of ESG criteria in business and investment activities. The SECP introduced a corporate social responsibility (CSR) directive in 2009 and approved the *Corporate Social Responsibility Voluntary Guidelines* in 2013, encouraging listed companies to strengthen sustainability awareness. In 2019, it updated the *Code of Corporate Governance for Listed Companies (2019)* which requires "listed companies to adopt a 'comply or explain' approach to the development of both policy and implementation of ESG in the organization"[26]. In 2021, it released the *Guidelines for Green Bonds Issuance,* paving the way for a new fundraising channel for Pakistani bond issuers.

People's Republic of China

Overall, the People's Republic of China has put in place a national ESG framework that integrates the ESG systems of banks and other segments of the financial sector and is aligned with the country's sustainable development strategy based on extensive cooperation between relevant government agencies, implementation tools and measures, and good international practices.

The relevant government authorities have introduced a succession of policy measures to promote green finance and develop a green finance system, mainly including the *Green Credit Guidelines* released by the China Banking and Insurance Regulatory Commission (CBIRC) in 2012 for supporting green, low-carbon and circular economy projects and the *Integrated Reform Plan for Promoting Ecological Progress* issued by the State Council in 2015 which proposes actions to establish a green finance system, including promoting green credit, establishing a green credit rating regime, and implementing mandatory environmental disclosure for listed companies. In 2016, seven ministries and commissions, including the central bank, the Ministry of Finance, and the National Development and Reform Commission, jointly issued the *Guidelines for Establishing the Green Financial System*, which emphasizes gradually establishing and improving a mandatory environmental disclosure system for listed companies and bond issuers. In 2017, the *Guidelines for Supporting Green Bond Development* was released, requiring financial institutions to consider ESG-related risks and

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[23] *Pakistan to offer $1b 'green' bond in March, its first ESG offering*. (2022, February 3). Retrieved February 3, 2022, Retrieved from https://gulfnews.com/business/pakistan-to-offer-1b-green-bond-in-march-its-first-esg-offering-1.85393621

[24] Khalid Hasnain. (2021, May 28). *Wapda floats first green Eurobond for $500m*. Retrieved from https://www.dawn.com/news/1626110.

[25] The National Investment Trust Limited (NITL), formed in 1952, is the first Asset Management Company of Pakistan,

[26] Nazish Shekha. (2020, July). *Attracting Investment by Disseminating ESG Disclosures.* Retrieved from https://cerb.pbc.org.pk/article-attracting-investment-by-disseminating-esg-disclosures/.

performance in their operations and activities. In 2018, the China Securities Regulatory Commission (CSRC) issued the amended *Code of Corporate Governance for Listed Companies*, establishing for the first time the basic framework for ESG disclosure. In the same year, the Asset Management Association of China (AMAC) published the *Green Investing Guidelines* and the *Research Report on China's Listed Companies ESG Assessment System*. The guidelines emphasized the importance of information disclosure and imposed ESG investing requirements for investment institutions, marking a new milestone of ESG investing in PRC. In June 2021, the CBIRC issued the *Code of Corporate Governance for Banks and Insurance Institutions*, encouraging banks and insurers to attach greater importance to environmental and social factors. In June 2022, the CBIRC issued the *Green Finance Guidelines for the Banking and Insurance Industries*, requiring banks and insurers to accelerate the growth of green finance at a strategic level, strengthen the efforts to foster the green, low-carbon and circular economy, promote ESG disclosures, prevent and control environmental, social and governance risks, integrate ESG requirements into the management processes and risk management systems, and improve relevant policies, mechanisms and process management.

The government plays a key role in ESG development in PRC, with regulators pushing the development of ESG infrastructures in a top-down manner. The sustainable finance framework is supported by implementation guidelines and technical tools. Banks generating category-based statistics of green credit portfolios using the *Green Credit Statistics System* and conducting green credit implementation self-evaluation based on *Key Performance Indicators of Green Credit Implementation* and the CBIRC regularly monitoring their implementation.[27] Moreover, stakeholders such as market platforms have also taken active measures to support ESG development, including issuing relevant investing guidelines and carrying out ESG rating. For example, the *Listing Rules of the SSE STAR Market* issued by the Shanghai Stock Exchange in 2019 requires listed companies to include social responsibility disclosures in their annual reports and publish environmental, social, and sustainability reports where appropriate. China Enterprise Reform and Development Society (CERDS), alongside major Chinese companies including Ping An Insurance Company issued the *Guidance for Enterprise ESG Disclosure* in April 2022, which is China's first ESG disclosure guideline, and covers all industries and companies.[28]

At present, PRC's ESG investing market is experiencing rapid development. A total of 21 major banks in PRC (representing 70% of all bank assets nationwide) have established their internal ESG management structures and submit regular reports to the CBIRC on their ESG performance and activities. The first three quarters of 2021 saw a spurt in the number of ESG public offering funds, with a total of 48 new ESG products launched, close to the total number for the previous five years. As of September 2021, the total size of ESG public offering funds jumped to 250 billion Yuan, nearly double the figure for the same period last year. The number of A-share listed companies publishing ESG-related reports such as social responsibility reports increased from 872 in 2018 to 1,130 in 2021,

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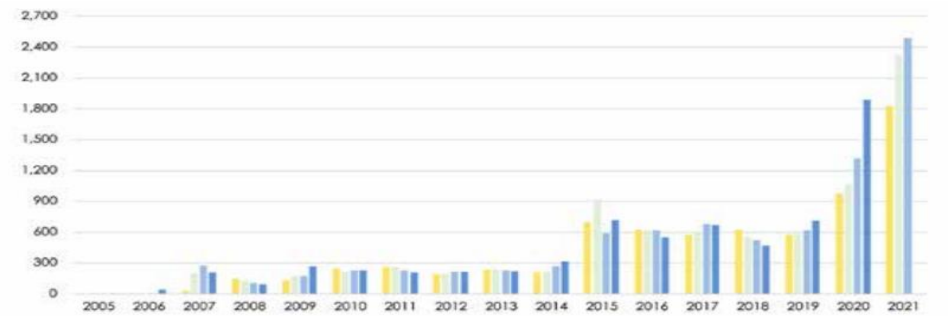
[27] In 2013, China Banking Regulatory Commission (CBRC) launched the Notice of the General Office of CBRC on the Submission of Green Credit Statistics Form (YINJIANBANFA [2013] No. 185) and the Notice on the Submission of Green Credit Statistics Form (YINJIANTONGTONG [2014] No. 60). These two documents form the Green Credit Statistics System (GCSS). *Notes on the Green Credit Statistics Information Disclosure*. www.cbirc.gov.cn/en/view/pages/ItemDetail.html?docId=175523&itemId=983.

[28] The Guideline follows the environmental disclosure rules which had been issued by China's Ministry of Ecology and Environment (MEE).

with nearly 90% of CSI 300 companies making ESG disclosures. In 2021, a total of 66 companies issued standard ESG reports, accounting for approximately 1.57% of all A-share listed companies.

Figure 1. ESG public offering funds (2005-2021, hundred million RMB).



Note: Reprinted from China ESG Development White Paper 2021.[29]

Uzbekistan

In February 2021, the government of Uzbekistan published the first-ever sovereign ESG report, "Progress in Uzbekistan: Environment, Social and Governance Report 2020" to review and assess the country's progress on environmental, social and governance aspects of the country since 2017.[30] The report, prepared based on the United Nations' 2030 Agenda for Sustainable Development framework (SDGs) and the World Bank Sovereign ESG Data Framework, aims to introduce to international stakeholders Uzbekistan's progress in relevant ESG fields and provide important reference for domestic and international stakeholders and global businesses seeking opportunities and partners in Central Asia.

Figure 2. The 17 Sustainable Development Goals (SDGs) for 2030 Agenda.

Source: United Nations, https://www.un.org/development/desa/disabilities/envision2030.html

[29] *China ESG Development White Paper 2021*, Retrieved from https://index.caixin.com/upload/2021esgwhitepaperv2.pdf

[30] *Progress in Uzbekistan: Environment, Social and Governance Report 2020*. https://innovationtoday.org/wp-content/uploads/2021/02/Uzbekistan_210204_compressed.pdf

This first-of-its-kind report focuses three core pillars of economic development including Infrastructure for Growth, Active Governance & Strong Civil Society, and Sustainable Livelihoods. It outlines the country's continued efforts to promote infrastructure construction. Projects range from new and upgraded transport and freight facilities, improving conditions for logistics and trade to developing banking and digital infrastructure. It reviews fundamental changes in the country's governance structure, including improvements in transparency, legal certainty, enforcement, and government decisions which have been more accessible and predictable. It emphasizes that sustainable livelihoods are the core issue of long-term economic growth, focusing on creating higher value-added jobs and elevating living standard for Uzbek population by making progress on education, automation and use-of-resources, supported by the sustainable use of natural resources and mitigation of diminishing natural resources and environmental problems.[31]

In addition, the Uzbekistani government has promoted sustainable finance through the capital market. In August 2021, Uzbekistan issued an SDG bond on the London Stock Exchange, becoming one of the first countries in Central Asia to issue a sovereign SDG bond. The bond aims to raise and transfer funds from the private sector to support public projects for sustainable development in areas such as water management, green transport, pollution control, and green energy.[32] It is an important move of the country's financing mechanism innovation for sustainable development.

Conclusions and Policy Implications

The CAREC country members have varying levels of ESG policy and investment development. ESG disclosure and transparency have been improving in recent years in several CAREC members while much progress still has to be made in the practical development and implementation of ESG frameworks. All stakeholders, including governments, financial institutions, standard setters, industry groups, academic institutions should work together to better shape ESG strategies at the national and multinational levels and design and implement ESG rules and standards at the firm level and to accelerate the process of ESG development.

At the country level:

- Develop ESG frameworks and ensure them aligned with national development objectives, policies, plans and targets for green, inclusive and sustainable development, which can provide guidance for relevant stakeholders such as policy makers, regulators, industries, companies, investors, etc.
- Conduct research on the existing practices, awareness, and competencies of government agencies and government participants to ensure that regulations, initiatives, or voluntary principles are well aligned with sector capacities.
- Expand and implement ESG strategies in the financial sector and related industries as the foundation for investment opportunities, competitiveness, and sustainable development.

[31] Ibid.
[32] *Government of Uzbekistan issues historic bond on London Stock Exchange*, (2021, August 2), Retrieved from https://www.undp.org/uzbekistan/press-releases/government-uzbekistan-issues-historic-bond-london-stock-exchange.

- Governments should play a leading role in ESG policy and regulation formulation, development of ESG standards, and related capability building. Governments can integrate ESG-related policies and measures in various sectors through policies and programs, regulatory measures, and incentive mechanisms, engage stakeholders, and accelerate the fundamental transformation of the public and private sectors in such aspects as awareness enhancement, mechanism construction, and market cultivation.
- Financial institutions, standard setters, industry groups, academic institutions, and civil society coalitions are all enablers that also can play important roles in coordinating actions, including the integration of ESG principles in asset allocation and operations, participating in development and implementation of ESG standards and mechanisms, mobilization of stakeholders to promote collaboration, and promotion of public ESG awareness, and capacity building of regulators and practitioners.
- Stakeholders' participation in meetings, dialogues, trainings, research, initiatives, can help accelerate ESG progress and result in a better ESG investment environment.

At the regional level:

- Enhance the international exchange and collaboration to promote regional ESG progress in the CAREC region, working with multilateral organizations and development institutions, such as UN agencies, IMF, OECD, World Bank, ADB, etc. They have close relationships with governments and are credible partners for social capital such as financial institutions and institutional investors. By providing supports such as policy advice, knowledge sharing, capability building, and project funding, they can help to accelerate ESG progress.
- As the regional economic cooperation platform, the CAREC Institute can play a key role in promoting ESG process in this region by peer learning, knowledge sharing, capacity building and advocating collective actions to raise awareness, increase capacity of stakeholders, improve ESG framework development, consolidate the knowledge base including data, policies and rules, establish information disclosure and assessment mechanisms and system for members economies to learn and collaborate on specific aspects of ESG integration, and make the national ESG frameworks align with international good practice.