



FINANCIAL OUTCOMES OF ESG FRAMEWORK IMPLEMENTATION IN COMMERCIAL BANKS

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Abstract:

The article examines the scientific and theoretical foundations of implementing ESG principles in commercial banks. In this regard, the situation in commercial banks, particularly in JSC “O’zsanoatqurilishbank”, has been analyzed, and the necessary discussions and conclusions have been made.

Keywords: ESG, commercial banks, sustainable development, “green” economy, risk.

Introduction

In recent years, Uzbekistan has been paying great attention to the transition to a “green” economy, and the issue of sustainable development is of particular importance. One of the main goals of the “Uzbekistan-2030” strategy is “transition to a green economy, sharply increasing the use of renewable energy as its basis,” and within the framework of this goal, the following efficiency indicators to be achieved by 2030 are noted: increasing the share of renewable energy sources to 25 thousand MW and their share in total consumption to 40 percent, reducing greenhouse gases per unit of gross domestic product by 30 percent compared to 2010, etc. [1].

World Bank experts say that only 10% of enterprises in Uzbekistan take environmental issues into account when planning their activities, and 8% clearly understand their role in solving these problems [2].

The above data shows that the government of the country has set ambitious goals for the transition to a “green” economy by 2030, and the figures given by World Bank experts are insufficient to achieve such goals.

Therefore, commercial banks, recognized as the main participants in the country's financial market, have a significant role in achieving the above-mentioned target



indicators set in the "Uzbekistan-2030" strategy, and for this, it is important to introduce ESG, i.e. environmental, social and governance principles. Today, the introduction of such principles, which are one of the main contributors to the transition of many countries of the world to a "green" economy, is also becoming a strategic necessity for the activities of commercial banks in our country.

LITERATURE REVIEW AND METHODOLOGY

The issues of the financial impact of implementing ESG principles in commercial banks are being studied by a number of foreign, CIS countries, and local scientists and researchers, and below we will briefly analyze their conclusions on this issue.

Indonesian scholars Hilyati Zikriani, Nur Fatwa, Fazo Fatiyurrabbani, Lokot Zeyn Nasutiyan, and Nova Rini argue that the implementation of ESG principles in commercial banks can have a positive financial impact on their operations, especially through reducing banks' funding costs, improving asset quality, and improving risk management. According to scholars, such benefits of ESG principles may be more noticeable in large commercial banks, especially commercial banks operating in developed countries.

According to Indonesian scholars, the implementation of ESG practices in commercial banks attracts socially responsible investors, enhances the bank's position, and strengthens operational stability, which in turn contributes to the long-term profitability and sustainability of commercial banks. In addition, the implementation of ESG principles in commercial banks may require maintaining a balance between "traditional" and "green" lending, as well as the proper regulation and orientation of new regulatory requirements [3].

According to Russian scientists M. F. Gumerov, I. A. Rizvanov and A. I. Manukhin, in the activities of commercial banks, the assessment of the extent to which work that serves to solve the most pressing problems of the modern world - such as environmental, social and governance - is becoming more important, which in turn brings into focus the group of lending risks called ESG, that is, ESG principles. Since the areas of activity of clients - legal entities, associated with these risks, are expressed mainly in qualitative characteristics and characteristics that are not subject to clear standards, it is becoming a difficult task for modern risk management to regulate the process of assessing them when making specific decisions on lending.



Russian scholars add that for commercial banks, integrating ESG factors and ESG risks into their lending activities affects all stages of the lending process – from sales to loan origination, monitoring and after-sales service [4]. In other words, ESG factors and risks can be integrated into each stage of the lending process, as shown in Table 1.

According to local researcher F. Kh. Esanov, today, ESG is becoming an important factor in the financial stability of commercial banks. Environmental, social and governance principles help commercial banks not only make a profit, but also strengthen long-term sustainability.

Table 1 The impact and extent of ESG factors and risks on the lending process of commercial banks [5]

| № | Stages of the lending process | Description | ESG impact level |
|-----------|--|--|-------------------------|
| 1. | Sales Stage. Marketing and Customer Behavior | <ul style="list-style-type: none"> • the need to target different sectors and customer groups, for example, mortgages for energy-efficient homes; • offering new environmentally friendly products and services; • setting a lower threshold for customers who do not meet sustainability (i.e. environmentally) criteria. | Medium |
| 2. | Loan allocation stage. The stage of establishing a relationship with the client and accepting the loan application | <ul style="list-style-type: none"> • the need to assess the borrower's level of exposure to ESG factors and the appropriateness of the risk mitigation strategies it proposes; • Inclusion of all relevant ESG-related costs in the cost of the loan. | High |
| 3. | Post-sales phase. Monitoring and reporting | <ul style="list-style-type: none"> • Introduce additional criteria to portfolio management and collateral assessment processes; • Analyze the accumulation of physical (risks related to natural disasters or climate change) and transit (risks arising from the fight against climate change or the transition to a sustainable economy) risks in the portfolio; • Discuss with the client the transition to a low-carbon economy and the climate risks that may arise as a result. | High |
| 4. | Service stage. Assistance in the regulation of debt obligations. | <ul style="list-style-type: none"> • Introducing additional criteria into the ongoing restructuring procedures; • Directing additional efforts in working with clients with high ESG ratings. | Medium |



According to the researcher, the environmental component reduces climate and sector risks. Financing of renewable energy and "green" projects by commercial banks reduces the risk of asset obsolescence and strengthens the position of banks in international financial markets.

The social component (Social) expands the customer base of commercial banks and increases customer confidence in banks. Financial inclusion, responsible lending and social policy contribute to the growth of bank deposits and the stability of the bank's position and resource base.

Corporate governance (Governance) increases transparency and trust for investors. A strong governance system in a commercial bank reduces operational and reputational risks, facilitates access to international capital sources and improves the bank's rating. According to F. Kh. Esanov, ESG should be approached not only as an initiative to improve the image of commercial banks, but also as a strategic tool that allows banks to increase financial stability and adapt to global sustainable development standards. In the case of Uzbek commercial banks, ESG can become a tool for them to use preferential financing opportunities, cooperate with international financial institutions, and integrate into global markets [6].

In general, it is possible to cite the conclusions of many more foreign, CIS countries, and local scientists and researchers on the financial impact of implementing ESG principles in commercial banks, all of whom note that ESG principles are one of the most important market requirements for commercial banks today.

Regarding the methodology used in the article, this article was prepared in accordance with the international IMRAD requirements, and three main research methods were used: scientific-theoretical, theoretical-practical, and economic-statistical analysis. The scientific-theoretical analysis method was mainly used in the data analysis for the "Literature Analysis" section of the "Literature Analysis and Methodology" section of the article, while the economic-statistical analysis method was used in the data analysis for the "Results" and "Discussion" sections of the article. The theoretical-practical analysis method was used in all three sections of the article.

In preparing the article, an effort was made to maximize the use of information and data, adhere to logical sequence and coherence, and avoid the use of the "copy-paste" method, which can lead to plagiarism. This helped to effectively study the main goal of the study - the problems of the financial impact of implementing ESG principles in commercial banks.



RESULTS

Today, “sustainable development” is becoming the main concept of social development, which aims to meet the current needs of people without harming future generations. If we think from the content of this concept, then in order to pass on the benefits to future generations and ensure that they also fully enjoy these benefits, representatives of the current generation should pay great attention to preserving nature and the environment. The “green” economy is taking shape precisely from this perspective, and now environmental problems have become an important and integral part of the economy.

The concept of ESG is relatively narrow, consisting of only three factors: Environmental, Social, and Governance. Modern businesses must meet the specific requirements of these factors.

While environmental principles determine the extent to which a company cares about the environment and seeks to reduce its potential environmental impact, social principles determine the company's relationship with its employees, suppliers, customers, partners, and consumers. To meet the standards set by social principles, a company must work to improve working conditions, achieve gender balance, or invest in social projects. Governance principles, on the other hand, concern the quality of a company's management, which is reflected in the transparency of reporting, the remuneration of management personnel, a healthy environment in the company's offices, relations with shareholders, and anti-corruption measures.

Today, the main reasons why enterprises and organizations in our country, including commercial banks, are focusing on the implementation of ESG principles are the following:

Firstly, the national legislative framework aimed at transitioning to a “green” economy is being strengthened in the country. Such legislation is developing as a result of Uzbekistan’s active participation in global initiatives in this regard in recent years and the goal of achieving carbon neutrality by 2060 [7]. Naturally, enterprises and organizations, including commercial banks, must comply with the requirements of such legislation;

Secondly, the state begins to impose certain obligations on large organizations and enterprises in the local market to achieve its goals. Since most commercial banks are large state-owned enterprises, they are also imposed certain obligations by the state;



Thirdly, according to local experts, the country's financial sector is a very important driver of the decarbonization process [8]. As we have already mentioned, commercial banks act as the main "players" in the country's financial sector.

In general, the introduction of ESG principles in commercial banks can bring two-fold benefits to the country's economy. First, by introducing ESG principles, commercial banks will be able to adapt their activities to the requirements of the global market, which will be an important impetus for further increasing the flow of foreign investments into the domestic market. Second, by introducing ESG principles, commercial banks will pay greater attention to financing social and environmental projects, which, as mentioned above, will increase the chances of achieving the relevant goals and target indicators set for our country by 2030 and 2060.

Table 2 Implementation of ESG principles in “Uzsanoatqurilishbank” JSCB (SQB) [9]

| | | | |
|--|---|---|---|
| ESG and sustainable finance | | The direction is designed to support socially and environmentally oriented projects. | |
| Main directions | | | |
| Lending | Project support | Green technologies | Energy saving |
| Favorable rates and flexible terms | Expert support at all stages | Environmental solutions for business | Cost optimization and ecology |
| Green financing tools | | | |
| Loans for individuals | Loans for small and medium-sized businesses | For the corporate segment | |
| For the installation of renewable energy sources and the purchase of eco-homes | Financing projects in the field of renewable energy sources | Lending for socially and environmentally responsible projects | |
| Green Banking – Key Tasks | | | |
| Finance for a sustainable future | Energy efficiency assessment | Green technology tips | Green financing |
| Investing in eco-friendly projects and supporting green initiatives with SQB | Energy efficiency assessment | A wide range of financial tools and benefits for Green Banking users | Supporting environmentally responsible initiatives aimed at the sustainable development of green energy |
| Environmental and social risk assessment | Compliance with environmental regulations | Reducing environmental risks | Introducing the energy of the future |
| To analyze the impact on the environment and society, reduce risks and achieve sustainable development | Assist in adhering to and ensuring compliance with environmental business practices and standards | Implementing strategies that help reduce environmental risks and strengthen business sustainability | A wide range of financial tools and benefits for Green Banking users |



Today, there is a growing interest in the implementation of ESG principles in commercial banks of Uzbekistan in order to achieve sustainable development, attract investments and develop activities in accordance with international standards. However, despite this, only JSCB “Uzsanoatqurilishbank” is achieving significant positive progress. Table 2 provides brief information on this.

As can be seen from Table 2, the implementation of ESG principles at Uzsanoatqurilishbank JSCB has been systematically implemented, and it is worth noting that, according to the results of 2022, this bank was the winner in the nomination "Best ESG Bank of Uzbekistan". In particular, experts highlight the bank's cooperation with the International Finance Corporation and the European Bank for Reconstruction and Development in the field of transformation, development of green banking, and the implementation of ESG principles [10].

In addition, in 2020, Uzsanoatqurilishbank JSCB, in collaboration with the International Finance Corporation, the European Bank for Reconstruction and Development, and other leading financial institutions, launched a platform for “green” financing and created the necessary internal ESG ecosystem. This ecosystem includes marketing, branding, development of new “green” products, development of sales channels, and training of employees, all of which allow the bank to correctly assess and regulate the financial impact of implementing ESG principles.

Overall, the success of Uzsanoatqurilishbank JSCB in implementing ESG principles is noteworthy, but the positive progress of only one bank among the many state-owned commercial banks in the country in this area is not enough to timely and effectively achieve the goals of the country's transition to a "green" economy. This situation indicates that there is still much work to be done in implementing ESG principles in the country's commercial banks.

Now we would like to draw your attention to Table 3. This table provides information on Uzbekistan's green bonds placed on local and international stock exchanges in February 2025.

Table 3 Green bonds of Uzbekistan placed on local and international stock exchanges [11]

| Quantity | Offered in currency | Term | Interest rate |
|-------------|---------------------|--------|---------------|
| 500 million | USA Dollar | 7 year | 6,95 % |
| 500 million | Euro | 4 year | 5,1 % |
| 6 trillion | Sum | 3 year | 15,5 % |



In addition to the information in this table, we can say that the proceeds from the placement of green bonds issued in US dollars and soums will be used to finance the program to provide housing for the population of the republic and to cover the costs associated with the construction, repair and reconstruction of secondary schools, preschool institutions and other social facilities.

The proceeds from green bonds in euros will be used to finance the introduction of water-saving technologies, the organization of sanitary cleaning works and other similar projects.

As can be seen, the issuance of such bonds is closely related to ESG principles, which create an opportunity to attract the necessary funds for the development of our country's economy. Undoubtedly, the participation of commercial banks in the issuance of these bonds and their placement on local and international stock exchanges has played a significant role, which can be considered the beginning of a significant positive success in the implementation of ESG principles in our country's commercial banks.

DISCUSSION

- Based on the above observations, we can say that the implementation of ESG principles in commercial banks in the country is not sufficiently developed, and in order to take a broader approach to this situation and effectively overcome it, we would like to refer to the following discussions:
- The state is strengthening legislation in the field of green economy, sustainable development, implementation of ESG principles and other similar areas, and over the past 4 years, namely in 2021-2024, more than 20 important regulatory and legal documents have been adopted in this area. Among them, the following can be distinguished: “Program for transition to a “green” economy and ensuring “green” growth in the Republic of Uzbekistan until 2030” [12], “National Action Plan of the Republic of Uzbekistan to reduce natural disaster risks and increase resilience to climate change in 2023-2030” [13] and others;
- The state is introducing incentive measures, including financial support. As a result, over the past 3 years, namely in 2022-2024, the “green” financial market has been developing, including the development of “green” financial products, the emergence of “green” bonds, social mortgages, lending on preferential terms, and preferential loans for the purchase of electric vehicles;



Commercial banks are gradually starting to offer their own products in the field of sustainable development, which is leading to increased attention to the implementation of ESG principles in them.

In general, many more such discussions can be cited, and we can say with certainty that the role of the state in the implementation of ESG principles in commercial banks in our country is extremely high. However, in the current competitive environment and in times of sharp global changes, it is not a positive situation for commercial banks to rely only on the state in terms of ESG principles, and the initiatives of commercial banks themselves also play an important role in their success in this regard. We believe that for this it is necessary to further develop the competitive environment between commercial banks, privatize them through IPOs, and further develop non-bank structures that can compete with them.

CONCLUSION

- In conclusion, the active implementation of ESG principles in commercial banks in our country can lead to many positive results, and below we briefly express our thoughts on such results:
- Commercial banks will establish a competitive, high-quality and effective management system. In fact, the three factors included in the ESG framework have the potential to cover the entire activities of any organization, and the introduction of such principles will undoubtedly have a significant positive impact on increasing the efficiency of commercial banks;
- The system of working with customers of commercial banks will be further improved. The “social” principle included in the ESG will allow banks to improve their image and position in front of customers. It is no secret that today many customers, especially those who cannot repay their loans on time, are faced with “rude” treatment by bank employees. This may lead to the fact that these customers will no longer want to work with the bank from which they received the loan. Banks that have successfully implemented ESG principles will not have such relations with customers; As we have already noted, commercial banks will have the opportunity to find and successfully work with international partners by implementing ESG principles. Large financial institutions in many developed countries, especially in the European Union, prefer to cooperate with commercial banks that adhere to ESG principles.



In general, the financial impact of the implementation of ESG principles in commercial banks can be seen mainly in the increase in their operating income as a result of the implementation of these principles. If the implementation of ESG principles begins to play a significant role in increasing the operating income and profits of commercial banks, this will lead to the mass implementation of ESG principles in the activities of commercial banks.

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