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Why does small business need ESG

About how banks work with the green agenda, its role for small businesses, ESG ratings and much more.

The concern over the ESG agenda's future in Russia not only persists, but gives rise to new details and solutions. In June, the Association of Banks of Russia conducted a [survey](#)¹ on banks participation in SME sustainable development training programmes. According to the [survey results](#)², only a fifth of banks currently have projects focused on this type of training, while ¾ of banks are willing to participate in the Bank of Russia's [SME Finance Roadmap](#)³ for 2023–2024 addressing the SME training for responsible investment and sustainability issues.

Banks have formulated possible positive expectations from the introduction of the ESG agenda in the work of SMEs: attractiveness for large corporate customers, increasing the availability of lending and investment attractiveness, scaling the business and entering new markets, as well as increasing efficiency, sustainability and marketing opportunities.

A logical question arises – how can SMEs confirm their commitment to ESG values, how and where to get the coveted ESG rating?

ESG rating for business

Currently, Russia has [four rating agencies](#)⁴ that can assign ESG ratings. The demand for such a rating from small businesses is yet hampered by the complexity and expense of such an evaluation. The Bank of Russia has published a [report for public guidance](#)⁵ on the model methodology for ESG ratings, in which it recommended the key components and weights to be used in each rating block, greatly limiting the degree of freedom for rating agencies to choose the methodology. In addition, recommendations are provided on the development of a methodology and the assigning of ESG ratings, which are advisory in nature for financial institutions performing internal customer assessment, but nevertheless serve as a universal starting point for any methodology.

Since 2010, the Center-invest Bank has an internal system of non-financial rating of clients. Its implementation is associated with the start of lending by the bank to energy efficiency projects and the need to comprehensively assess the client's business when making a financing decision. Since 2019, it has evaluated

¹ <https://asros.ru/news/asros/v-assotsiatsii-bankov-rossii-obsudili-uchastie-bankov-v-programmakh-obucheniya-msp-praktikam-ustoych/>

² <https://asros.ru/upload/iblock/e3b/i0y46xpb1g3ey4n9tt9e19zixsfjafzq/ESG3-dlya-MSP.pdf>

³ <https://www.cbr.ru/press/event/?id=14474>

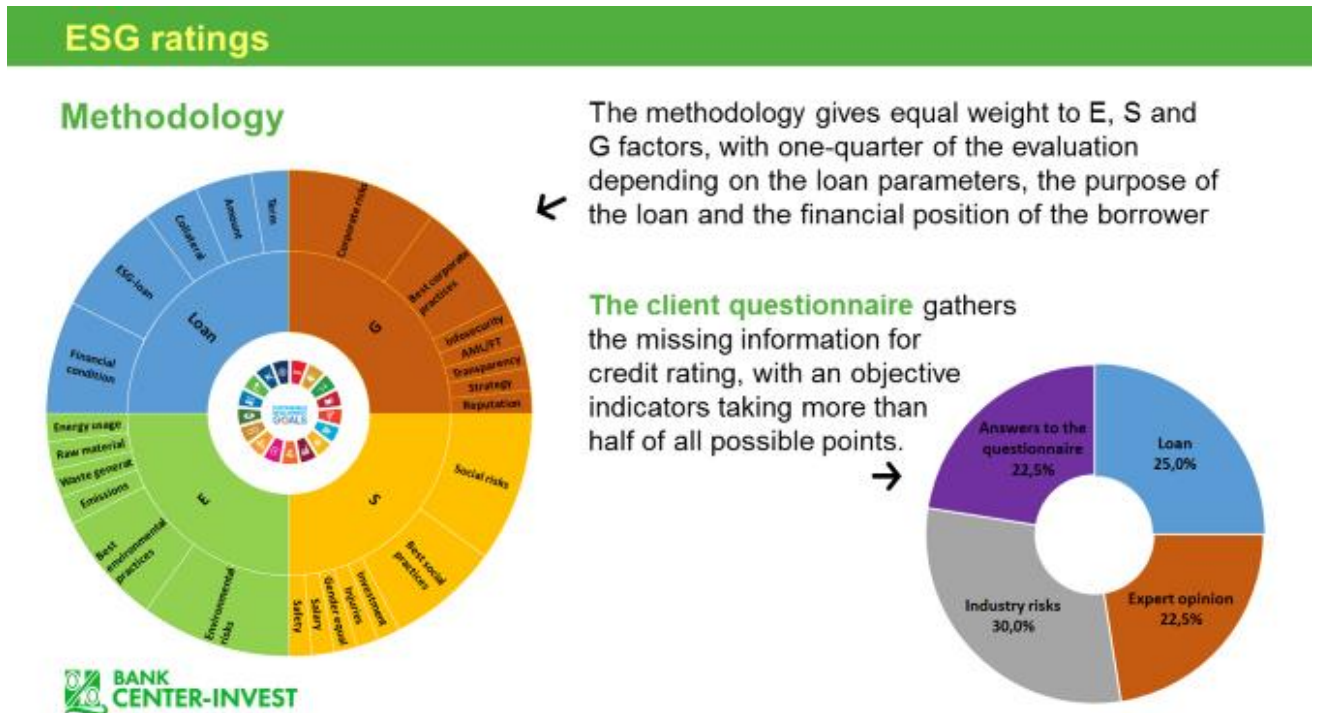
⁴ https://www.cbr.ru/vfs/finmarkets/files/supervision/list_kra.xlsx

⁵ https://www.cbr.ru/content/document/file/144085/consultation_paper_17012023.pdf

how well [clients' operations](#)⁶ align with the UN Sustainable Development Goals. Moreover, the Bank is an issuer of [exchange-traded green bonds](#).⁷

It is pleasant to realize that the approach of the Center-invest Bank meets the modern recommendations of the regulator. In 2022, the bank updated the methodology and criteria for analyzing customer business. For rating purposes, [Center-invest Bank](#)⁸ uses its own model, which incorporates 25 different parameters and is also well-balanced by source of information (objective indicators, expert opinion, self-assessment).

Main components of SME rating



Beginning on 1 July this year, the bank is going to start evaluating ESG factors for clients who have current accounts with the bank, thus engaging 100% of its corporate clients in the sustainability agenda, while forging a sustainable ecosystem that includes regional businesses, communities and educational institutions. The assignment of [ESG ratings for borrowers](#)⁹ is a strategy for lowering lending risks that complements the financial evaluation of a company. An organisation that employs modern technology, stays environmentally friendly, respects employees' rights and has transparent corporate procedures is considered to be less exposed to regulatory, legal, corporate and environmental risks.

Supporting the promotion of sustainable development

Any kind of support should have a specific objective and purpose. The mortgage subsidy programme, which was designed to help households but ended up supporting the construction industry, is the most illustrative example.

⁶ <https://www.centriinvest.ru/about/press-releases/36706>

⁷ <https://www.centriinvest.ru/about/press-releases/33462>

⁸ https://asros.ru/upload/iblock/2fa/6tc07xw81azzv7e9i5jbbqf973kiw64n/2_Smirnov- ESG .pdf

⁹ https://www.centriinvest.ru/media/about/investors/reports/metology-ESG_092022.pdf

State support measures need to be regularly reviewed and synced, setting the most significant priorities at each point in time. For example, the bank's estimates show that the [technological sovereignty task](#)¹⁰, which is currently being actively debated, has so far fallen behind other support programmes in terms of its appeal. . A [credit risk reduction factor](#)¹¹ can normally offer a 0.5 to 1.0% discount to the market rate of the loan, provided that the bank shares all of the resulting efficiencies with the borrower. For reference, agricultural loans are discounted by 7.5–8.5%, and our country long ago achieved grain self-sufficiency.

Table: Comparison of state support for borrowers

FORM OF SUPPORT	DISCOUNT TO THE MARKET RATE FOR THE BORROWER	SUPPORT FACILITY
AGRICULTURAL LENDING (GOV. DECREE 1528)	7.50–8.50%	INTEREST SUBSIDY PROGRAMME
LENDING TO PRIORITY SECTORS (GOV. DECREE 1764)	2.25%	INTEREST SUBSIDY PROGRAMME
LENDING TO IMPORTERS (GOV. DECREE 895)	7.25%	INTEREST SUBSIDY PROGRAMME
INDUSTRIAL MORTGAGES (GOV. DECREE 1570)	7.50–9.50%	INTEREST SUBSIDY PROGRAMME
LENDING INCENTIVE PROGRAMMES (BANK OF RUSSIA, SME CORPORATION)	1.00%	FUNDING AT BELOW-MARKET CONDITIONS
GUARANTEE-BASED MECHANISM	1.00%	REDUCTION OF THE BANK'S CREDIT RISK BY MEANS OF GUARANTEES
TECHNOLOGICAL SOVEREIGNTY (GOV. DECREE 603)	0.50–1.00%	CREDIT RISK REDUCTION FACTORS FOR CALCULATING BANKS' CAPITAL ADEQUACY RATIOS
STRUCTURAL ADAPTATION OF THE ECONOMY (GOV. DECREE 603)	0.25–0.75%	CREDIT RISK REDUCTION FACTORS FOR CALCULATING BANKS' CAPITAL ADEQUACY RATIOS

Center-Invest Bank makes an active use of rate reduction measures for individual and group lending, but these measures are always linked to an assessment of the loan repayment risks. For [energy efficiency projects](#)¹², the risk is decreased by the company's use of new, cutting-edge energy efficient technologies; for [loans to women](#)¹³, the risk is decreased by the category's higher payment discipline, as demonstrated by long-standing statistics; for loans to borrowers with [high ESG ratings](#)¹⁴, the discount reflects the bank's thorough assessment of the loan's non-financial risks; and for [green commercial mortgages](#)¹⁵, the risk is decreased by a reduction in future operating costs. Therefore, the preferential rate for the bank is not charity but a reduction of lending risks based on a comprehensive analysis. As a result, Center-invest Bank's loan arrears rate is noticeably lower than the market average. Ultimately, the ESG ratings of clients form the ESG rating of the bank.

What is the development of ESG ratings?

Only time will tell, whether a unified system for market participants can be implemented, but in any case, such a rating should factor in the size of the company (revenues, headcount, account turnover, loan amount) and maintain a balance between complexity of completion and potential risks. For businesses, however, it is crucial to have clear guidelines for the ESG rating application and to know that getting an ESG rating is reasonable.

¹⁰ <http://government.ru/news/48272/>

¹¹ <https://www.cbr.ru/press/event/?id=15832>

¹² <https://www.centriinvest.ru/business/business-crediting/investitsionnyi-kredit-dlia-modernizatsii-energoeffektivnykh-tekhnologii>

¹³ <https://www.centriinvest.ru/business/business-crediting/biznes-kredit-dlia-zhenshchin>

¹⁴ <https://www.centriinvest.ru/business/business-crediting/overdraft>

¹⁵ <https://www.centriinvest.ru/business/business-crediting/zelenaiia-ipoteka-dlia-biznesa>



Preferential financial facilities, competitions, inclusion of a rating criterion for participation in procurement, and marketing activities can stimulate SMEs to act in this area. The bank can tackle new problems thanks to its vast experience and assist employees in mastering cutting-edge ESG banking techniques, especially those relating to the small-sized business sector.