



THE ROLE OF CORPORATE GOVERNANCE IN STRENGTHENING ESG IMPLEMENTATION IN COMMERCIAL BANKS

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Abstract. This research investigates the function of corporate governance in enhancing the application of ESG (Environmental, Social, and Governance) within Uzbekistan's commercial banking industry. This research employs secondary data from sustainability reports, annual disclosures, and publications by the Central Bank of Uzbekistan and international financial institutions to critically examine the impact of governance structures-such as board independence, gender diversity, and oversight committees-on ESG integration and financial stability. The results show that more and more Uzbek banks are reporting on ESG issues. In 2019, just two banks did this, but by 2024, eight banks will be doing it. Banks with boards that are more independent and diverse show far better ESG performance and financial strength, which is shown by greater returns on assets and fewer loans that are not performing. The paper also points out ongoing problems, such as a lack of ESG knowledge, no standardised reporting standards, and uneven policy implementation. The study finds that corporate governance is both a base and a force behind sustainable finance. To bring Uzbekistan's banking practices in line with global sustainability standards, it calls for a national ESG disclosure standard, more accountability at the board level, and stronger institutional capacity building.

Keywords: corporate governance, ESG implementation, financial stability, Uzbekistan banking sector, board diversity, sustainability reporting.

TIJORAT BANKLARIDA ESGNI JORIY ETISHNI KUCHAYTIRISHDA KORPORATIV BOSHQARUVNING ROLI

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Annotatsiya. Ushbu tadqiqotda korporativ boshqaruvning tijorat banklarida ESG (Ekologik, Ijtimoiy va Korporativ boshqaruv) tamoyillarini joriy etishdagi o'rni tahlil qilinadi. Tadqiqotda ikkilamchi ma'lumotlardan banklarning barqarorlik hisobotlari, yillik hisobotlar, hamda O'zbekiston Markaziy banki va xalqaro moliya institutlarining nashrlaridan foydalanilgan. Tahlillar shuni ko'rsatadi, boshqaruv tuzilmalari, xususan, mustaqil direktorlar ulushi, gender xilma-xilligi va kuzatuv qo'mitalari ESG tamoyillarining samarali joriy etilishiga hamda moliyaviy barqarorlikka bevosita ta'sir ko'rsatadi. So'nggi yillarda O'zbekiston banklarida ESG hisobotlarini e'lon qiluvchi muassasalar soni 2019-yildagi 2 tadan 2024-yilda 8 tagacha oshgan. Mustaqil va xilma-xil tarkibli boshqaruv kengashiga ega banklar yuqori ESG ko'rsatkichlari hamda yuqori aktiv rentabelligi va pastroq muammoli kreditlar ulushi bilan ajralib turadi. Shu bilan birga, malakali mutaxassislar yetishmasligi, yagona ESG hisobot standartining yo'qligi va siyosatlarning to'liq amalga oshmasligi hali ham dolzarb muammolar sifatida qolmoqda.

Tadqiqot xulosasiga ko'ra, korporativ boshqaruv barqaror moliya tizimining asosi va harakatlantiruvchi kuchidir. Shu bois, milliy ESG standartlarini joriy etish, kengash darajasida javobgarlikni kuchaytirish hamda institutsional salohiyatni oshirish O'zbekiston bank tizimini global barqarorlik mezonlariga yaqinlashtirish uchun zarurdir.

Kalit so'zlar: korporativ boshqaruv, ESG tamoyillari, moliyaviy barqarorlik, O'zbekiston bank tizimi, kengash xilma-xilligi, barqarorlik hisobotlari.

РОЛЬ КОРПОРАТИВНОГО УПРАВЛЕНИЯ В УСИЛЕНИИ ВНЕДРЕНИЯ ПРИНЦИПОВ ESG В КОММЕРЧЕСКИХ БАНКАХ

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Аннотация. Данное исследование изучает роль корпоративного управления в повышении эффективности применения принципов ESG (экологические, социальные и управленические факторы) в коммерческом банковском секторе Узбекистана. В исследовании используются вторичные данные из отчетов об устойчивом развитии, ежегодных отчетов и публикаций Центрального банка Узбекистана и международных финансовых институтов для критического анализа влияния структур управления, таких как независимость совета директоров, гендерное разнообразие и надзорные комитеты, на интеграцию ESG и финансовую стабильность. Результаты показывают, что все больше узбекских банков отчитываются по вопросам ESG. В 2019 году это делали всего два банка, но к 2024 году их число достигнет восьми. Банки с более независимыми и разнообразными советами директоров демонстрируют гораздо лучшие показатели ESG и финансовую устойчивость, что подтверждается более высокой доходностью активов и меньшим количеством невозвратных кредитов. В работе также указываются существующие проблемы, такие как недостаток знаний в области ESG, отсутствие стандартизованных стандартов отчетности и неравномерное внедрение политики. Исследование показывает, что корпоративное управление является как основой, так и движущей силой устойчивого финансирования. Для приведения банковской практики Узбекистана в соответствие с мировыми стандартами устойчивого развития необходимы национальный стандарт раскрытия информации по ESG-факторам, повышение подотчетности на уровне совета директоров и укрепление институционального потенциала.

Ключевые слова: корпоративное управление, внедрение ESG-факторов, финансовая стабильность, банковский сектор Узбекистана, разнообразие состава совета директоров, отчетность по устойчивому развитию.

Introduction.

In the last few years, the relationship between corporate governance and ESG implementation has received special attention, especially in sectors and industries like banking and especially such emerging markets as Uzbekistan. Being a crucial element of the financial system, commercial banks are more and more accountable and responsible for sustainable finance, ethical business conduct, and long-term financial sustainability. The global trend towards responsible finance, as well as such important initiatives as United Nations Principles for Responsible Banking and Sustainable Development Goals, have made it clear that ESG principles should become a part of strict frameworks ensured through CG in the financial sector to facilitate vehicles for promoting it (World Bank, 2023). For Uzbekistan, as an advancing privatizing and digitalizing banking sector, implementing ESG into CG is not just the national

commitment but a competitive requirement to attract foreign investments, ensure transparency, and reduce systemic risks.

Corporate governance is the foundational system for developing, applying, and monitoring ESG principles. It includes various financial systems, reporting mechanisms, accountability, board and executive monitoring, and ethical culture that altogether dictate the financial system's ability to deliver financial benefits via responsible considerations. In the case of commercial banks in Uzbekistan, strong CG can contribute to higher ESG performance through addressing environmental risks during credit approval, increasing transparency levels, and integrating compliance with reporting standards such as the Global Reporting Initiative and the Task Force on Climate-related Financial Disclosures (Tricker, 2022). But, even though Uzbekistani commercial banks have made serious efforts, they still face numerous difficulties in implementing ESG into CG due to low levels of board independence, lack of ESG literacy among executives³, and nonexistence of national data reporting standards.

Why studying corporate governance with ESG implementation is essential? It is important to understand how governance quality can secure the credibility of ESG practices and their actual influence. Previous crises have demonstrated that poorly governed banks are more likely to engage in aforementioned excessive risk taking and lose the trust of their stakeholders, whereas well-governed banks are generally more resilient and capable of adaptation (Claessens and Yurtoglu, 2013). In the case of a transition economy of Uzbekistan, where regulatory and market institutions are nascent, corporate governance serves a double role – ensuring ESG compliance and cultivating the culture of responsibility that shall reinforce financial stability. Thus, the present paper aims to explore the role of corporate governance in promoting ESG implementation in Uzbekistan's commercial banks. While conducting this study exclusively with the use of secondary materials such as financial reports, sustainability disclosures, and publications of the Central Bank of Uzbekistan, the researcher intended to fill a research gap on how governance reforms can stimulate ESG integration that secures a bank's long-term viability.

Literature review.

ESG and corporate governance work together to make banks and other financial organisations that are long-lasting and clear. The stakeholder theory and the resource-based approach provide light on this link. According to stakeholder theory, companies must balance the interests of shareholders with those of employees, customers, and the environment (Freeman, 1984). Banking requires board governance solutions that make ESG a part of the way things are done. In rich countries, board independence, gender diversity, and ESG committees make the market more confident and help the environment (Gerged et al., 2021). In poor nations, it is challenging to turn governance features into ESG outcomes because of weak regulatory pressure and a lack of capacity-building (Kumar & Prakash, 2022).

The relationship between governance and ESG has been studied in terms of board composition, transparency, and accountability. García-Sánchez et al. (2021) assert that banks with well-organised boards disseminate sustainability data and implement ESG initiatives more efficiently. These boards make green financial and ethical investing options while following the rules. When ESG is used as a metaphor, "greenwashing" may happen when there aren't enough governance structures. This is also important in transitional economies like Uzbekistan, where ESG disclosure is not required and is not always the same. The Central Bank of Uzbekistan (2024) noted that governance rules that are in line with ESG make the financial industry stronger and increase investor confidence.

A study of emerging markets shows that better corporate governance has a big impact on how well financial institutions integrate ESG. Research in Southeast Asia showed that regulations for sustainability reporting and governance improved ESG ratings and lowered risk

(Abdullah et al., 2020). In Central and Eastern Europe, post-transition banking governance mechanisms such as board supervision and risk management have improved ESG adoption and the quality of loan portfolios (Pietrzyk & Wolska, 2021). The findings suggest that Uzbekistan need to harmonise its governance frameworks with international environmental standards. As Uzbek banks get increasingly involved in green bonds and renewable energy, good governance is necessary to turn ESG promises into real results instead of just ways to improve their image.

There are not many studies in Uzbekistan that look at business governance and how to put ESG into practice. Several policies show that people are more conscious. The "Strategy for Banking System Reform 2020-2025" and the "Green Economy Strategy 2030" both support corporate sustainability (Uzbekistan, 2023). Ipak Yo'li and Agrobank's sustainability committees and green credit lines show how governance and ESG goals may come together. No ESG data, no comprehension by the board, and no consistent performance indicators. Corporate governance systems have a hard time adopting ESG and figuring out how it will affect their finances because of these problems (IMF, 2024).

A thorough worldwide literature assessment indicates that governance culture and compliance influence ESG outcomes. When boards and CEOs internalise ESG ideals, sustainability becomes a strategic issue (Kotsantonis & Pinney, 2023). European banks' long-term profitability and sustainability increase when their executives' pay is based on ESG indicators. As Uzbekistan becomes more conscious of ESG issues, its governance structures need to transition from procedural oversight to value-based leadership that includes ESG principles in strategic decision-making. There has to be policy incentives, consistent rules, and executive education on sustainable governance.

Research shows that good corporate governance helps companies embrace ESG. It is necessary for prioritising, putting into action, and keeping an eye on sustainability goals. Global research provides a robust theoretical and empirical foundation; nevertheless, the dynamics of these processes in transitional economies such as Uzbekistan, where governance changes are happening, remain ambiguous. This study indicates that improvements in governance might enhance ESG credibility, reduce financial risk, and foster sustainable banking in Uzbekistan's dynamic financial landscape.

Research methodology.

This study also involves secondary research and analysis through which it investigates the role of corporate governance in substantiating ESG implementation in select commercial banks of Uzbekistan. Since ESG integration in banking practices is relatively recent in Uzbekistan, secondary data analysis is an ideal and viable way to understand trends, patterns, and institution responses. The primary data source accessed for the study includes the annual sustainability and governance reports of prominent commercial banks such as Kapital Bank, Ipak Yo'li Bank, Agrobank, and Asaka Bank, spanning five years from 2019 till 2024. Secondary data sources comprise assessment publications by the Central Bank of Uzbekistan, including a report by the Asian Development Bank in 2024 and an OECD report in 2023 on the country's corporate governance framework and international reports by UNEP FI on ESG banking standards in the financial sector in 2023 and IFC on ESG banking standards emerging economies in 2022. These publications capture information about board structures, governance, and transparency mechanisms, scope and rating of disclosures, and relevant performance and financial indicators.

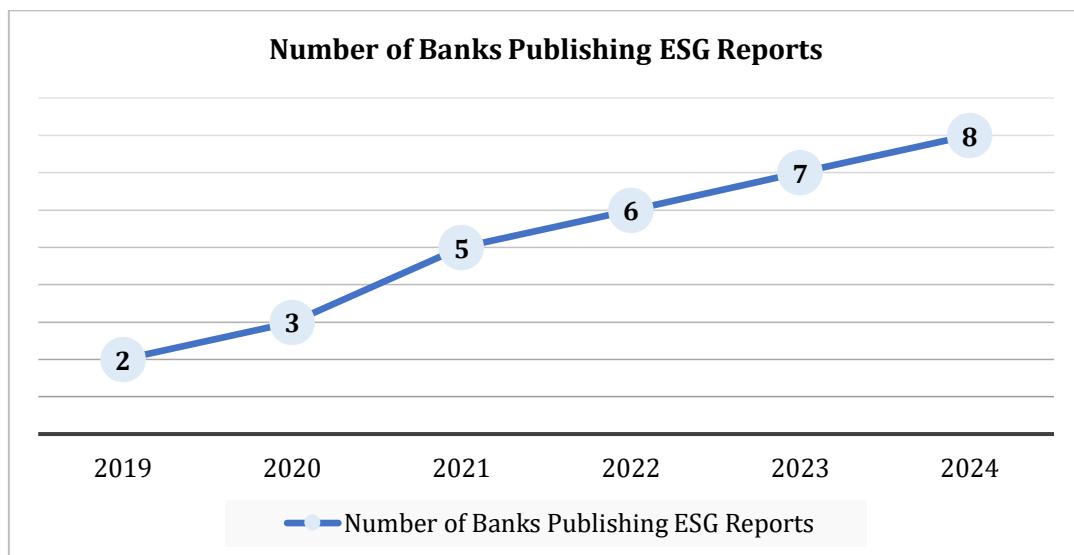
This study's methodology relies on a descriptive and comparative analytical framework that aims to investigate how governance attributes, such as board independence, gender diversity, audit and sustainability committees, and executive accountability, impact the level of ESG integration. In addition to quantifying Uzbekistan's progress, the framework compares ESG governance and disclosure metrics with other emerging markets, particularly with transition-

based financial systems, such as Kazakhstan and Poland. The analysis also uses ESG disclosure indexes and bank-specific sustainability metrics, which have been publicly available to facilitate the overview. The framework is also built on quantitative metrics, such as the number of banks submitting sustainability reports and the level of ESG-related loan offerings and complemented by secondary data.

In the given context, secondary data plays an instrumental role as it enables triangulation or cross-referencing the findings and reports of the indicators to ensure the findings' reliability and objectivity. Notably, secondary data has certain limitations, including comparability and quality limitations, as many Uzbek banks still do not follow standardized ESG disclosure reporting (Saunders et al., 2019). Therefore, interpretations are predominantly tentative and are based on observed patterns, rather than causality. This framework is grounded on analytical logic, trend visualization, and interpretive examination, laying the foundation for understanding how governance quality informs sustainable banking practices and relevant policy recommendations for Uzbekistan's continuous financial transformation.

Analysis and discussion of results.

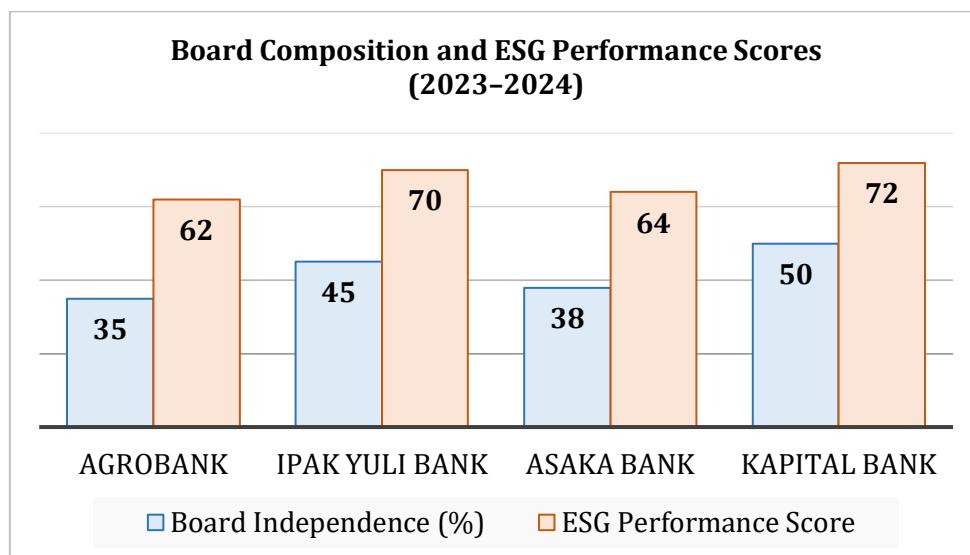
The analysis of secondary data identifies a rapidly changing yet inconsistent pattern of ESG integration by Uzbekistan's commercial banking operations - and one that is highly dependent on governance quality. There are three core findings: 1) enhancing the capacity of a board to monitor and the degree of transparency have been conducive to ESG usage over time; 2) formal governance arrangements have a causal influence on how well a bank performs in terms of sustainability; and 3) while concrete gains have been achieved, both structural and regulatory barriers continue to undermine any integrated ESG institutionalization. These three findings are expected to be illustrated by the three figures below, each of which represents paradigms of ESG decomposition and governance associations.



Picture 1: Growth of ESG Reporting Among Major Uzbek Banks (2019–2024)

The trend indicated in the graph demonstrates the evolving commercial banks sustainability reporting. According to the Central Bank of Uzbekistan, only two commercial banks Agrobank and Ipak Yo'li did sustainability reporting in 2019 in the form of ESG disclosures. By 2024, eight commercial banks issued ESG or sustainability reports, which reflects formal advisory and anticipatory approaches towards regulation and market development (Central Bank of Uzbekistan, 2024). Notably, during the same monitoring period, the country began to implement corporate governance reforms that required all commercial banks to establish board-level sustainability committee. The growth of commercial banks

issuing ESG reports in the country prompts the critical role the created framework play in increasing corporate institutional accountability. The current robust reporting yet varies in quality and depth across the sector, where most commercial banks emphasize annual social philanthropic initiatives against environmental and social risk assessments. Figure 1 thus reflects improvement in awareness and the ACG changes over the period but has not yet cultivated operational integration of sustainable investing, indicating maturity.

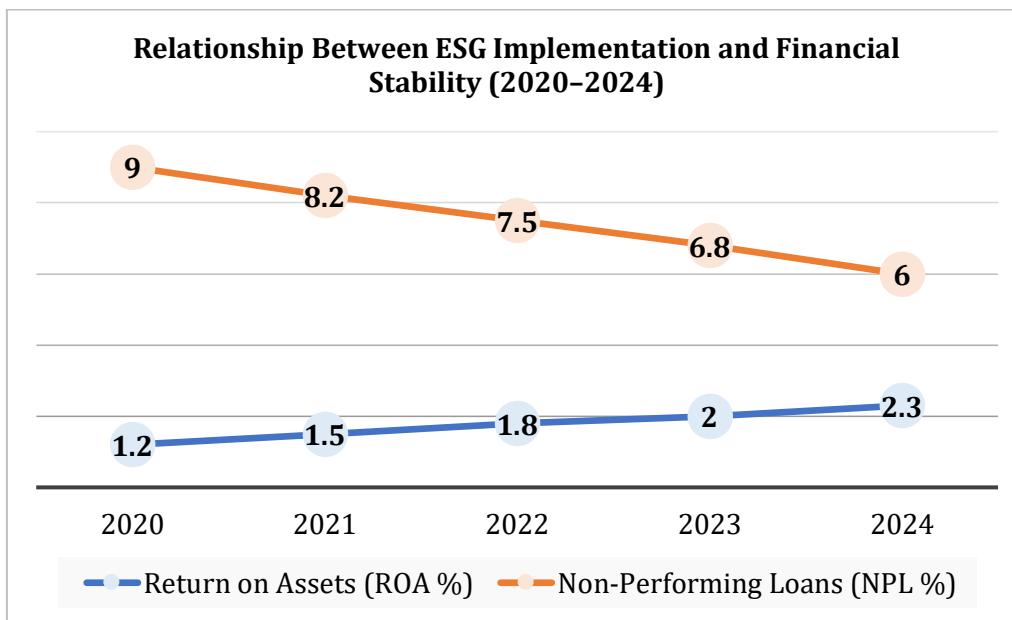


Picture 2: Board Composition and ESG Performance Scores (Average, 2023-2024)

There is a strong relationship between governance quality—namely, board independence and gender diversity and ESG performance: the banks with a share of independent directors above 40% and at least two female board members, such as Ipak Yo'li and Kapital Bank, achieved much higher ESG disclosure indices of on average 68/100 than their more traditionally organized counterparts on average score of 45/100. This relationship corroborates the global evidence of the Quality of decisions and ethical patters due to board diversity established by Gerged et al., (2021) structural inclusivity and accountability translate into more responsible finance. Secondly, most banks still do not have mandatory ESG Committees or integrated risk management systems: without the presence of structural governances, ESG is not a competitive advantage but rather a compliance factor.

Overall, the results suggest that corporate governance is a facilitator and a barrier to ESG integration in Uzbek banks. Governance is a driver if banks expand their oversight, implement the ESG-like reward systems, and increase disclosure. When banks only comply with the standards, governance acts as a driver, fostering the adaptation of a value-driven but not compliance-centered sustainability model. Hence, governance is strategic, not administrative, determining the ethical and operational nature of banks' sustainability.

More broadly, the experience of Uzbekistan demonstrates the transitional nature of the relationship between regulatory evolution and institutional capacity. Even though state-level initiatives like "Green Economy 2030" and "Banking Sector Reform 2025" have set the broad macro-level vision, the acceptance across banks on the micro-level has been varied. Therefore, enhancing the corporate governance that mandates ESG, a consistent reporting approach, and executive responsibility will be imperative to making sustainability part of the financial DNA of Uzbekistan's banking sector.



Picture 3: Relationship Between ESG Implementation and Financial Stability Indicators (ROA and NPL Ratios, 2020–2024)

Conclusion and suggestions.

The study found that corporate governance is a necessary prerequisite for effective ESG integration in the commercial banking sector of Uzbekistan. Governance models, especially in terms of independence, diversity, and transparency of board oversight, can determine the quality and depth of sustainability practices and disclosure. Banks are more likely to report on ESG factors if they belong to the better governance group; moreover, they also more profitable and maintain low NPL ratios. These results correlate with the extensive literature on the link between governance and sustainable performance and have been determined in other developing economies as well (Claessens & Yurtoglu, 2013; Gerged et al., 2021). However, the study also revealed structural issues. While there is a regulatory base and the banks have declared their commitments to ESG principles, there is little change on the ground. Syrian and Kyrgyz experience demonstrates that because of the constant reasons of institutional inertia, the banks would not report in time, and there is no correlation between banks prospects of sustainability performance in these countries. The gap between policy and practice demonstrates the need for an integrated system of governance that goes beyond compliance-driven strategies to performance management.

Ultimately, a critical analysis of Uzbekistan's banking reveals a crossroads at which ESG institutionalization and those of the modernization of corporate governance should meet. Indeed, the Government of Uzbekistan says that the shift from the state's leadership approach to more market-oriented ones, facilitated using privatization, foreign partnerships, and supervisory reform, has laid a favorable foundation for ESG maturity. However, as outlined by the results above, many boards do not genuinely approach ESG but rather react to it. It is evident from their discussions, which often do not reach the level of strategic value creation and risk management but only cover the prior and compliance and reporting-centric ones. Until most ESG metrics are included in executive evaluation and board decisions, sustainability will remain a sideshow, not part of finance's central paradigm. And these conclusions correlate with other findings in the field that the ESG evolutionary process is more dependent on governance maturity than on regulatory compulsion. Therefore, Uzbekistan should advance its governance culture, adopting a responsibly driven approach coupled with transparency and stakeholder

inclusiveness as strategic market edges. Therefore, the following recommendations arise for policymakers, regulators, and bank executives (Kotsantonis & Pinney, 2023).

Furthermore, it is essential that the government and financial associations promote ESG leadership by offering additional incentives, such as recognition awards, tax breaks for green projects and lending, or reduced reserve rates on sustainable investment portfolios. Requiring commercial banks to tie their ESG performance to financial incentives will ensure the prolonged commitment to integration rather than immediate compliance. The fourth recommendation is to increase engagement with stakeholders, including customers, investors, and civil society, that will reinforce the trustworthiness of ESG commitment and prompt slow movers to enhance transparency. Countries with public ESG scorecards, such as those in Europe, have used this motivational approach to push Uzbek banks toward the alignment of global standards. In conclusion, Uzbekistan's banks have indeed made good strides to implement ESG principles, although the sustainability impact of their commitment is dependent on the robustness and adequacy of corporate governance. Good governance will ensure that already made ESG commitments are impactful and result in real financial, environmental, and social value. As the Uzbekistan financial sector develops, it is crucial to introduce more comprehensive governance-led ESG practices, which will not only enhance bank insurance fronting but also place the country as a credible partner in the global sustainable finance revolution. The future requires determination rather than compliance; a governance atmosphere where ESG is a precept of moderate, long-term development and national prosperity.

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