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Central Asia Regional Economic Cooperation Institute↵

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CAREC Chai IX↵

Simplify ESG Compliance: Insights, Tools, and Regional Perspectives↵

Webinar↵

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HHBS

河海大学商学院

BUSINESS SCHOOL OF HOHAI UNIVERSITY

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THE DEVELOPMENT OF ESG IN CAREC COUNTRIES

Evidence from the Capital Markets in China
and Kazakhstan

CAREC
Institute 3rd
Research
conference

CHAPTER
09

**THE DEVELOPMENT OF ESG IN
CAREC COUNTRIES**

**Evidence from the Capital Markets in China
and Kazakhstan**

Main Contents

- Introduction
- Current Status and Challenges of ESG Development in CAREC Countries
- Research Framework
- Case Study: ESG Development in China
- Case Study: ESG Development in Kazakhstan
- Implications for the CAREC 2030 Strategic Framework
- Conclusion

Introduction

- **Significance of ESG Factors:**

ESG plays a pivotal role in driving sustainable development in the CAREC region. ESG factors allow a holistic evaluation of an organization's performance, assessing risks, and identifying opportunities, especially in light of environmental and social challenges.

- **Current ESG Development in CAREC:**

Despite its importance, ESG integration in the CAREC region is in its nascent stages, facing challenges like inconsistent disclosure standards and limited awareness.

- **Research Focus and Objective:**

This paper offers a comparative analysis of ESG development in China and Kazakhstan, aiming to bolster the CAREC 2030 strategy by promoting sustainable practices and enhancing resilience against potential global disruptions.

Current Status and Challenges of ESG Development in CAREC Countries

- **Diverse ESG Landscape in CAREC Countries:**

The CAREC countries, each with its unique socio-economic and political backdrop, recognize the importance of integrating ESG principles for sustainable growth. While there have been promising moves, like China's renewable energy projects and Kazakhstan's focus on education, challenges persist, especially regarding environmental concerns stemming from less stringent regulations, which risk these nations becoming "pollution havens" (Irfan, 2021).

- **Inconsistent ESG Reporting and Data Transparency:**

ESG development in the region is hampered by issues like the absence of unified ESG disclosure standards, inconsistent and non-comparable data, and varied quality of information.

- **Interplay with External Economies and the Path Forward:**

CAREC countries' ESG growth is significantly influenced by developed and developing economies. While external knowledge and technological transfers benefit the region, it's imperative for CAREC nations to reinforce robust regulatory systems ensuring these external contributions align with their sustainability aspirations.

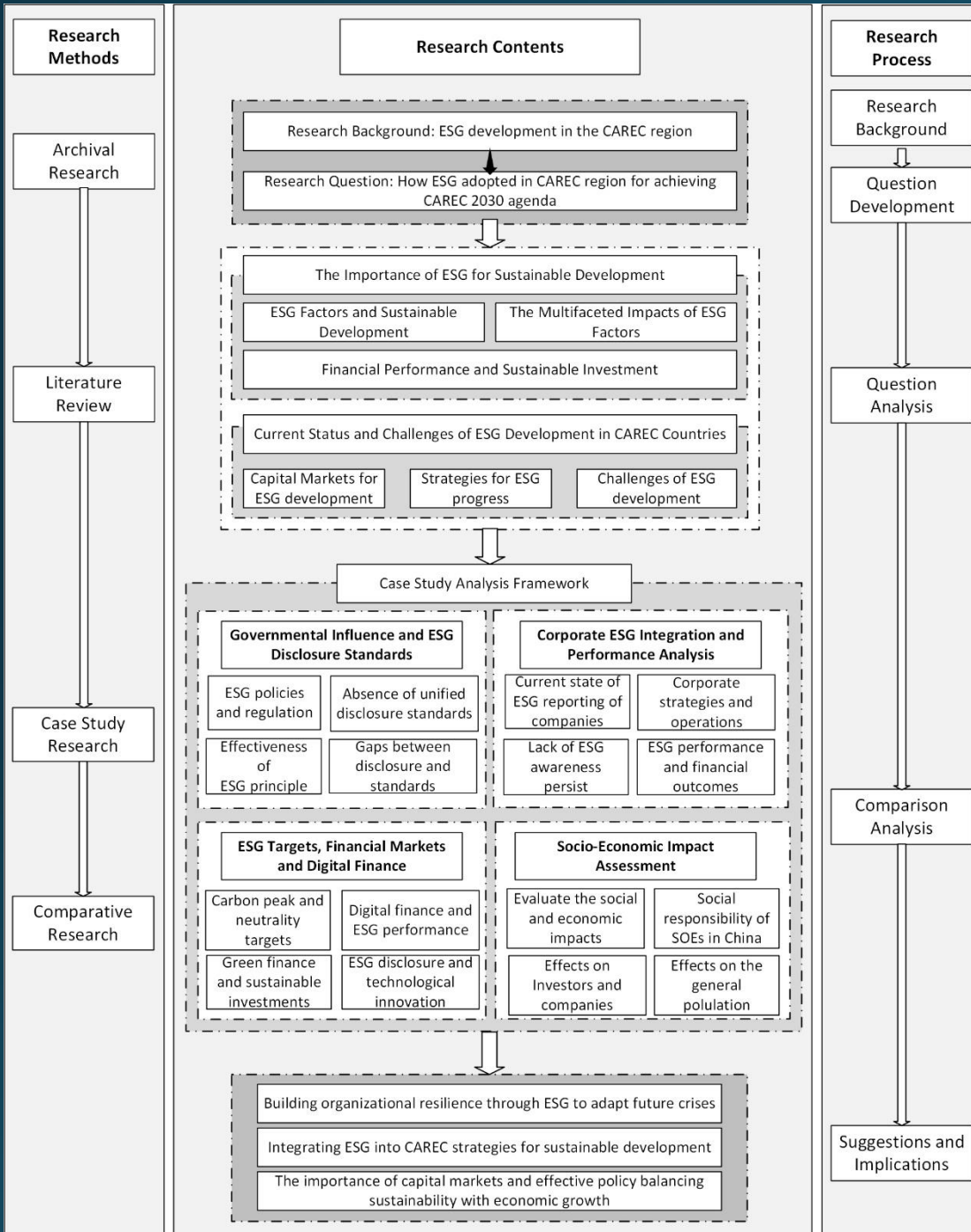
Research Framework

- Theoretical Framework:**

This study is grounded in sustainability theory, which posits that long-term economic growth must align with environmental stewardship and social well-being. Furthermore, institutional theory is incorporated to understand how norms, values, and regulations influence corporate behavior and governance practices.

- Methodological Framework:**

The study's methodological framework is rooted in a multipronged approach that integrates archival research, a literature review, case study research, and comparative analysis to investigate the adoption and integration of ESG practices within the CAREC region.



Case Study: ESG Development in China

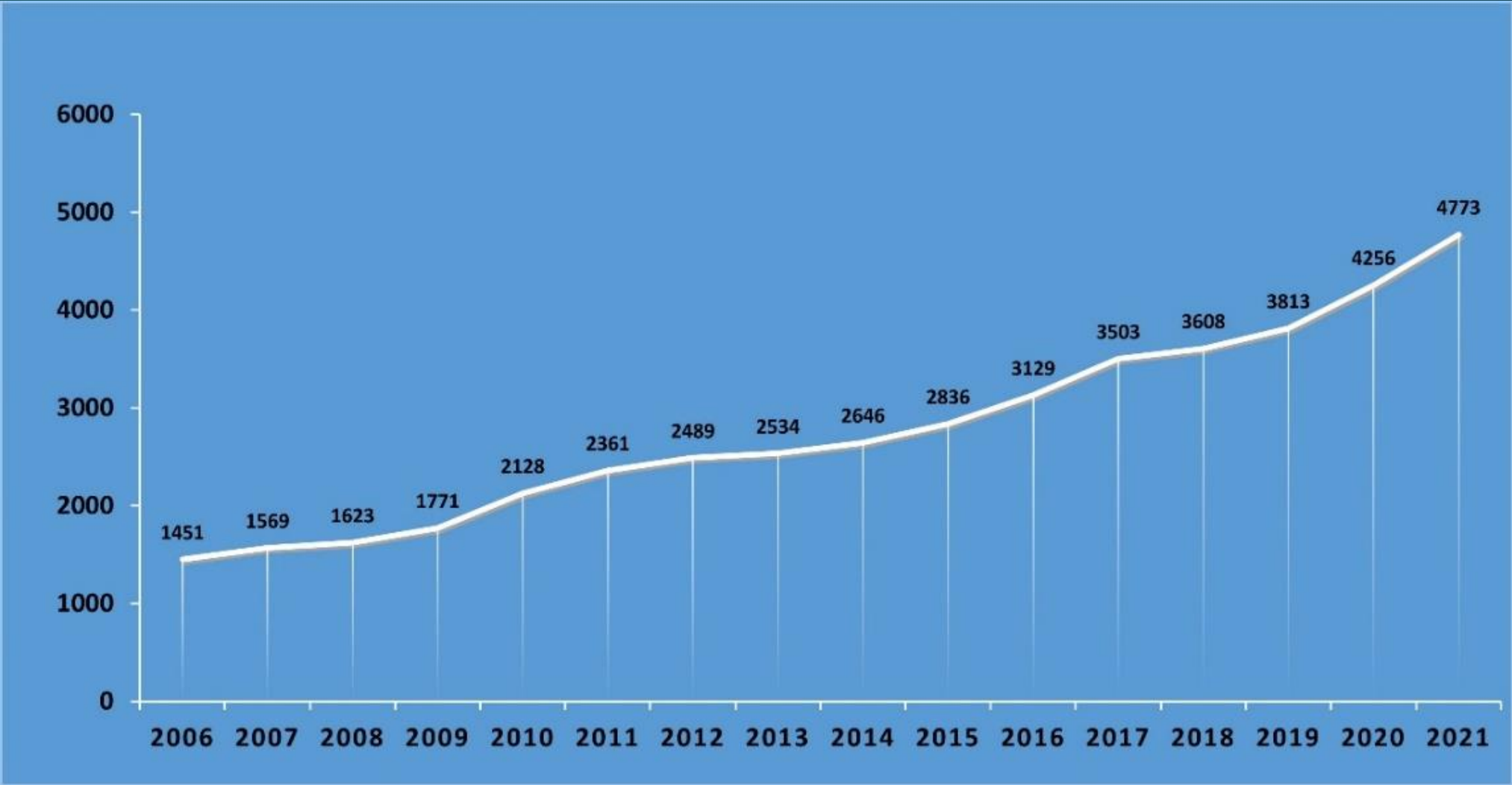
- **ESG's Growing Significance in China's Economic Fabric:**

China's meteoric economic rise has led to an increasing emphasis on ESG principles within policy frameworks, corporate strategies, and industrial guidelines. This shift is motivated by several factors, including the recognition of a positive correlation between ESG performance and financial health, the government's green growth agenda and carbon neutrality goals, and the need for better governance in light of recent corporate scandals (Broadstock et al., 2021; Bai et al., 2022; He, Du, & Yu, 2022).

- **Varied ESG Disclosures Among A-Share Listed Companies:**

While ESG report disclosures among A-share listed companies in China have shown an upward trend, there is a significant variance in the quality of these reports. High-quality ESG disclosures can enhance stock liquidity, reduce risks of stock price crashes, and even promote a company's technological innovation capability through improved stakeholder trust and R&D investment (Feng, Goodell, & Shen, 2022; Meng-tao et al., 2023; Chen, Khurram, Gao, Abedin, & Lucey, 2023; Shen, 2024).

Case Study: ESG Development in China



Trend in the Number of ESG Reports from 2006 to 2021

Case Study: ESG Development in China

- **Impact of Carbon Targets on ESG Public Funds:**

China's carbon targets (peak emissions by 2030 and carbon neutrality by 2060) necessitate a pivotal shift towards ESG-centered public fund investments. The growing acknowledgment that ESG investments often match or exceed traditional investment returns has invigorated the ESG public fund sector, with digital finance platforms playing an increasingly crucial role (Zhang, Zhao, & He, 2022; Chang et al., 2023).

- **The Path Ahead for China's ESG Development:**

China's ESG journey is complex, evolving, and integral to its strategic planning. Notwithstanding the advancements, there's an imperative need for refining ESG disclosure practices, fostering ESG comprehension, and bolstering ESG investments. The commitment to carbon neutrality highlights both the challenges and vast opportunities ahead, emphasizing ESG's paramount role in steering China towards a sustainable future.

Case Study: ESG Development in Kazakhstan

- **Kazakhstan's Commitment to ESG Reporting:**

Kazakhstan has demonstrated a commitment to sustainable development and transparency in its financial markets, notably with the Kazakhstan Stock Exchange (KASE) joining the United Nations Sustainable Stock Exchanges (UN SSE) initiative. This move is expected to foster corporate transparency and encourage sustainable investment practices in the region.

- **Adoption of International Standards:**

ESG report preparation in Kazakhstan has shifted towards alignment with international standards. The methodology, supported by the International Finance Corporation (IFC) and developed by KASE, integrates best practices from global bodies such as the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB).

Case Study: ESG Development in Kazakhstan

- **Linkage of ESG and Corporate Social Responsibility:**

The increase in ESG disclosures in Kazakhstani companies correlates with a growing emphasis on Corporate Social Responsibility (CSR). This integration signifies a transition towards sustainable business practices, providing both reputational benefits and, as research suggests, potential financial advantages.

- **Challenges and Future Outlook:**

While ESG development in Kazakhstan has made significant progress, challenges like ensuring complete transparency in ESG reporting and biases in ESG controversies remain. Quality assurance, continuous commitment to ESG principles, and the integration of robust regulatory mechanisms will be crucial for future growth, striking a balance between sustainability and economic advancement.

The sample, which comprises 98 companies operating in Kazakhstan includes companies that submitted official applications, and the ratings are taken from public reports in the year 2021.

Position	In overall ranking	Company	Rating
1	1	NAC Kazatomprom	A
2	2	NC KazMunayGas	B+
3	3	KazTransOil	B+
4	4	Kazakhtelecom	B+
5	5	AC Altynalmas	B+
6	6	Samruk-Energy	B+
7	7	Joint venture Inkai	B
8	8	Karachaganak Petroleum Operating B.V.	B
9	9	KEGOC	B
10	10	NOSTRUM OIL & GAS PLC	B
11	11	CAEP	B
12	12	NC Kazakhstan Temir Zholy	B

Top non-financial companies by ESG disclosure level in 2021

Implications for the CAREC 2030 Strategic Framework

- **Organizational Resilience through ESG:**

With the challenges presented by global crises like the COVID-19 pandemic and climate change, the importance of ESG principles in building organizational resilience has been underscored. Firms that incorporate strong ESG practices are better equipped to adapt to and navigate these crises, as demonstrated by China's policy-driven ESG practices and Kazakhstan's efforts in economic diversification, governance, and ESG integration.

- **Guidance for CAREC 2030:**

Both China and Kazakhstan's ESG journeys offer crucial lessons and practical examples. They illuminate the potential of ESG practices in spurring economic resilience and growth, thereby offering a roadmap for CAREC nations to realize their 2030 goals.

Implications for the CAREC 2030 Strategic Framework

- **Strategies for CAREC 2030:**

Drawing from the experiences of China and Kazakhstan, CAREC nations can enhance resilience by integrating ESG into their strategies. Policymaking to encourage ESG practices, including mandatory disclosures and tax incentives, coupled with corporate integration of ESG principles, can lead to sustainable development and heightened resilience. The role of financial institutions, as shown by China's experience, is pivotal in promoting ESG and enhancing organizational robustness.

- **Recommendations Moving Forward:**

To achieve the goals of the CAREC 2030 strategic framework, it's crucial to strengthen policy frameworks around ESG, bolster ESG education and awareness at multiple levels, and emphasize the significance of cross-border collaboration. Learning from China and Kazakhstan's ESG developments can provide a roadmap for CAREC nations to integrate ESG principles effectively, promoting sustainable economic integration in the face of global challenges.

Conclusion

- **Main Findings and Implications:**

ESG practices in China and Kazakhstan offer pivotal insights into the role of governmental policy and corporate strategies in fostering sustainability and economic growth. China's proactive governmental role, especially through policy initiatives, highlights the importance of effective policy in driving ESG practices. Meanwhile, Kazakhstan's efforts, balancing sustainability with economic growth, demonstrate a roadmap for resource-rich nations integrating ESG principles.

- **Solutions for ESG integration:**

To foster an ESG-friendly environment, governments should incentivize ESG integration through benefits such as tax reliefs and subsidies, while also ensuring accountability through penalties and mandatory reporting. Moreover, corporations need to embed ESG principles in strategic planning, with financial institutions promoting ESG investing to steer capital towards sustainable endeavors.

- **Future Research Directions:**

Comparative studies of other CAREC nations will deepen understanding of regional ESG practices, providing a richer landscape of challenges and strategies. Investigating the intricacies of how government policies and corporate leadership influence ESG practices could offer nuanced insights to better align corporate cultures with sustainability.



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