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Master Thesis

Sustainability and Corporate Strategy in the Azerbaijan Banking Sector:
The Role of Green Finance

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We have already started making active investments with our investors in green energy projects.
(Aliyev 2024)

Bibiheybat bay, which was featured in a James Bond movie. If you watch that movie, you will see how it looked. But now it's one of the greenest parts of Baku. (Aliyev 2024)

President Ilham Aliyev: We have already managed to a certain extent to diversify our economy, and now, oil and gas make up less than half of our GDP. But our exports are something like 95% based oil and gas. So, one of the main objectives now is to diversify our exports. (Aliyev 2024)

Carlo Marino: Mr. President, thank you for the honor you give me. I am a friend of Azerbaijan. I am also vice-president of Italy Azerbaijan Association in Milan. Are there opportunities for collaboration between our two countries in the fields of green economy?

President Ilham Aliyev: On green energy, we'll be happy to work with Italian companies. So far, we haven't started, but the potential is here. (Aliyev 2024)

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Abstract

There has been a structural shift within the world's financial system during the last decade, driven increasingly by sustainability and climate resilience drivers. This shift is most observable in national banking systems' green finance strategic reorientation nowhere else as well as in our country. This thesis examines the Azerbaijan banking sectors interlink between sustainability and company strategy, particularly the changing role of green finance both as a regulatory imperative and strategic option.

While green finance is a very active topic worldwide through instruments like the EU Taxonomy (Council 2020) and IFRS Sustainability Disclosure Standards (I. S. Board 2023), its localized definition and application in developing and transition economies remains largely unexplored. Azerbaijan, a rich hydrocarbon upper-middle-income country (worldbank 2020), has the singular challenge of reconciling its carbon-footed past economy with ambitions towards a sustainable and diversified financial system. It is being driven by the Central Bank of the Republic of Azerbaijan (CBAR) (CBAR, sustainable-finance n.d.), which has issued guidelines and frameworks to include environmental, social, and governance (ESG) in financial oversight, risk management, and credit extension.

This study integrates qualitative and quantitative sources, qualitative information is derived from expert interviews, while quantitative findings are based on secondary statistical data from Central Bank of Azerbaijan's Sustainable Finance Survey Reports (2023 and 2024) and comprises an extensive literature review with thematic content analysis of Azerbaijani bank CEOs' CEO, regulatory official, and sustainability officer interviews. It has two purposes: (1) an examination of the degree to which the sustainability principles inform firm strategy in the Azerbaijani banking industry, and (2) an exploration of the degree of effectiveness as well as green finance practice maturity in the industry.

The research draws on three theoretical underpinnings: Stakeholder Theory, which posits that banks must become more attentive to broader social and environmental expectations; Institutional Theory, which addresses the influence of norms, regulation, and mimetic pressures on organizational action; and the Resource-Based View (RBV), with its emphasis on internal resources and innovation as a source of competitive advantage. The theories enable multi-dimensional analysis of drivers, barriers, and implications of integration of sustainability into banking strategy.

Early observations, based on a wide reading of policy reports, regulatory papers, and ESG reports, find Azerbaijan's banking industry to be in an emerging but gaining momentum stage of embracing sustainability. CBAR's Supervisory Review and Evaluation Process (SREP) and climate stress test project are the regulatory milestones that say it all for this nation. The partially covered by commercial banks falls behind in adoption, though. Institutional resistance to change, lack of domestic expertise, and the unavailability of environment-specific green taxonomies are generally

identified as impediments. Banks that have embraced green credit products, ESG risk ratings, and digital sustainability platforms, however, enjoy reputational gains, enhanced investor confidence, as well as greater alignment with international development finance best practices. This research contributes to the scholarship of the academic community in sustainable banking with one of the pioneering empirical research studies in Azerbaijan—a market that has been largely overlooked in the global ESG conversation. It provides action guidance to policymakers who want to bridge the regulatory intent-institutional preparedness gap, and banking CEOs who want to infuse sustainability into their strategic DNA without compromising profitability or resilience.

Lastly, the research argues that green finance is no longer an extremist agenda but part of Azerbaijan's banking's strategic vision in the long run. But if sustainability has to be converted into practice, it not only needs to be driven through policy but also through profound organizational change, inter-sectoral collaboration, and ongoing capacity building.

Chapter 1. Introduction

Background and Context

Climate changes and their impact on the living world are increasingly disturbing the world community. The 21st century has seen a new foundation revolution of the international financial system, driven by the double impulse of economic growth and protection of the environment. At a time when the world is subject to an unparalleled pressure from global warming, biodiversity loss, and degradation of the environment, the financial system is being called on to play a growing role as a provider of sustainable development. This paradigm shift is not confined to the Western world economies of the developed world but also to emerging economies and developing nations, including the Republic of Azerbaijan. As a hydrocarbon economy transitioning towards a more diversified economic model, Azerbaijan is at a crossroads where policy for the banking sector needs to be aligned with broader national and international sustainability objectives. Despite ongoing global geopolitical and geoeconomics fragilities, a growth dynamic has been observed in Azerbaijan's economy in 2024. During this period, the growing aggregate demand, coupled with a surplus foreign trade balance and the non-oil and gas sector, has made significant contributions to economic growth. In the reporting year, real GDP increased by 4.1%, reaching a nominal value of 126 billion manats (S. S. Azerbaijan 2025). The non-oil and gas sector has continued to be the main driving force of economic growth. During this period, the share of the non-oil sector in GDP was 60% (Akhundov 2024). This will help maintain the economy's growth rate. Compared to 2023, inflation rate in Azerbaijan decreased from 8.8% to 2.2% in 2024 (O'Neill 2025). The main reasons for this decline include the stability of global commodity prices, particularly the reduction in fluctuations in energy and food prices, the stable exchange rate of the manat (tradingeconomics.com 2025), and the effective monetary policy of the Central Bank of Azerbaijan.

Azerbaijan's commitment to sustainable development can also be witnessed by its adherence to the Paris Agreement, participation in United Nations Sustainable Development Goals (SDGs) (Development, 2025) and formulating national strategies such as the "Socio-Economic Development Strategy 2022–2026" (P. O. Azerbaijan 2022) and the "Azerbaijan 2030: National Priorities for Socio-Economic Development. (President 2021)" These roadmaps prioritize a strategic shift toward a green economy, circular economy, digitalization, and climate resilience. In this rapidly changing policy landscape, the banking industry has a crucial part to play as a growth financier and as a change agent in the ability to channel capital flows to sustainable purposes. Green finance, ranging from loans, investments, and bonds to other financial products directed toward green projects directly, is becoming a pre-eminent vehicle for this goal. It is at least as much a function of reputational signaling as one of regulatory, investor expectation, and risk management. Green finance is gaining ground everywhere, and development on climate risk disclosure, ESG integration, and taxonomies of sustainable finance is continuing. Green finance institutionalization in Azerbaijan, however, is in its infancy stage, scattered, and plagued by structural and operational issues. This gap between intention and practice is the analytical focus of this thesis.

Problem Statement, Research Objectives and Questions

Although international momentum and national policy pledges towards sustainability are on the rise, green finance is yet to be included in mainstream business strategy among Azerbaijan's banks. Banks are stuck in old models of profitability with very few exceptions, with little focus on ESG considerations in credit decisions, risk management, or product development. Even though there are few stand-alone instances of green bonds, sustainable lending, and ESG reporting, they remain exceptions and not norms. The reasons are diverse: lack of regulatory mandates, low in-bank capacity, and low customer and stakeholder awareness. Additionally, the overall perception still is that green practices are image-driven or cost-positive instead of value-improving. In this regard, thus, it is critical to appreciate how Azerbaijani banks frame, incorporate, and mainstream sustainability into their strategic plans. This thesis seeks to establish the role of green finance in the corporate agenda of Azerbaijani banks, how far executive decision-making is being influenced by sustainability, how far regulators and policymakers are working to develop the enabling environment, and where challenges and opportunities exist in aligning financial development with ecological responsibility.

The overall purpose of this study is to examine the intersection of sustainability and corporate strategy in Azerbaijan's banking industry with a specific focus on the green finance role. This study aims to:

- Look at the extent to which green finance is embedded in the corporate strategies of Azerbaijani banks.
- Identify the drivers, both internal and external, of the adoption of sustainability practices in the banking industry
- Identify barriers and impediments that deter the adoption of green finance schemes by banks.
- Assessment of the policy and regulatory factors' impact on sustainable finance conduct.
- Theoretical contributions and empirical findings on strategic sustainability for emerging markets' financial institutions.

As guided by the following general research question below:

How is sustainability, and more particularly in the context of green finance, integrated into Azerbaijani banks' corporate strategy?

This overall question is addressed by the subsequent sub-questions:

1. What are Azerbaijani banks' strategic visions on sustainability and green finance?
2. What internal organizational and decision-making structures support or hinder the implementation of green finance?
3. How do market, policy, and regulatory drivers influence the implementation of green finance in banking?
4. What are the key opportunities and challenges for different stakeholders (executives, ESG officers, regulators)?

5. What are the consequences of incorporating green finance for long-term competitiveness and resilience?

This thesis involves a mixed-methods approach with thematic analysis of semi-structured interviews supported by secondary analysis of quantitative survey data from publicly available survey reports. Primary qualitative data were collected by conducting semi-structured interviews with the three most critical stakeholder groups:

- (1) CEOs and Senior Banking Executives
- (2) Sustainability Officers and ESG Specialists, and
- (3) Policymakers and Regulators.

This allowed the research not only to consider action at the surface, but also at values, institutional logics, and strategic motivations that lie behind take-up—or non-take-up—of green finance.

The quantitative-qualitative combination provides interpretive depth, contextual richness, and empirical traction. Triangulating by actor type and supplementing with nationally representative survey research, the study builds a multilayered picture of institutional behavior, strategic purpose, and policy relevance in Azerbaijan's emerging financial sector.

This study is timely and crucial. With Azerbaijan planning to diversify its economy, develop its financial sector, and fulfill international climate commitments, the role of banks as capital providers and agents of change becomes highly pertinent. Deficiency of empirical studies on sustainability practices of the Azerbaijani banking sector creates an important gap in policy and academia literature. Furthermore, this study has real-world implications for bank managers, regulators, development partners, and civil society actors engaged in building efficient strategies for a green transition. Through mapping whether or how sustainability is being worked on strategically within banks, the study can inform interventions, capacity building, and policy formulation in a targeted and evidence-based manner.

This thesis is a contribution to the emerging field of sustainable finance in emerging economies through the provision of context-relevant analysis from Azerbaijan. This develops theoretical debate on corporate sustainability through its application to a hitherto highly under-researched geopolitical context, and provides new empirical evidence on strategic behavior, institutional constraints, and regulatory effectiveness. Along with that, research positions green finance in international banking strategy debate and crosses narrative to examine the subtler coordination among sustainability and competitiveness positioning. It is possible to extend findings even for other resource-rich or transformational economies as they have the same ecological modernization and innovation in finance concerns.

Chapter 2. Contextual Foundations: Strategic and Regulatory Perspectives on Green Finance in Azerbaijan

This chapter presents a comprehensive contextual review of the convergence of corporate strategy and sustainability in the banking sector, with a focus on green finance in the case of Azerbaijan. Drawing on policy papers and institutional reports exclusively, the review traces four overarching themes: (1) conceptual connection between corporate strategy and sustainability; (2) international trends in green finance across regions and countries; (3) building regulation in Azerbaijan's financial sector; and (4) evidence of shared practice and Azerbaijani banks' challenges. Through this, the chapter provides a theoretical and practical basis for comprehending how green finance can be incorporated into the strategic plans of financial institutions.

Corporate Strategy and Sustainability: Conceptual Intersection

The role of sustainability in corporate strategy has evolved significantly in the last years. To support the development of a sustainable financial system integrating climate-related and environmental, as well as social and governance factors, and to ensure financial stability, CBAR adopted the "Sustainable Finance Roadmap: 2023-2026" in February 2023 (Central Bank of the Republic of Azerbaijan 2023). The Sustainable Finance Principles has been developed within the framework of the Pillar 2 of the roadmap "Enabling environment for sustainable finance flows" (CBAR, Sustainable Finance Principles 2024). The principles are **advisory** in nature and support the central bank's policy on the transition to sustainable finance. (CBAR, Central Bank of Azerbaijan Republic 2024)

The financial institution provides information on the indicators it uses in its climate related and ESG risk disclosures, the methodology used to calculate them, as well as quality indicators and the concepts to which they refer. Financial institutions describe a methodology for assessing the materiality of climate related and ESG risks in the disclosures. If the financial institution determines that the risks related to climate change are not material, it shall justify this with an appropriate quantitative and/or qualitative assessment. Sustainability must be introduced at the banks' corporate strategy level, at the level of their governance, product design, and risk management models. Yet the gap between strategic intention and institutional practice runs deep. Currently, only a few Azerbaijani banks report ESG metrics in annual reports, and no banks have conducted climate stress tests or scenario analysis. (Banker.az 2024) The Central Bank of Azerbaijan (CBA) is working on the ESG (Environment, Social Responsibility and Corporate Governance) stress test, which will be made mandatory in the coming years. CBAR director general Shahin Mahmudzade said this at the event "Climate Risk Measurement for smarter adaptation and mitigation solutions" organized within COP29 (report.az 2024). According to him, gradually ESG risks will be associated with "green loans", "green bonds" and National Taxonomy: "we are also trying to include ESG risk management in our stress testing framework. We also have a project on the risks of transition with the International Monetary Fund. With this project, we want to identify the effects of the transition period." The ECB official noted that the development

of ESG principles for the local financial system began this year: “in this regard, we have prepared several guidelines for the management of banks. We start the process with instructions. Because regulation change or policy setting is a kind of two-edge sharp knife. If you apply it harder, it will remain on paper and will not be implemented.” These institutional shortcomings indicate the gap between rhetoric and the reality of practice—a gap one is trying to explore in this study.

Green Finance: Regional Relevance and Global Trends

2024 has been the hottest year on record in the last half century, and global average temperature growth has risen by 1.5°C above the pre-industrial level than the average temperature between 1850 and 1900 (Figure 1). (Madge 2025)

In 2015, world leaders in Paris set a goal to keep the global temperature rise below the pre-industrial level by a maximum of 2 degrees Celsius and limit it

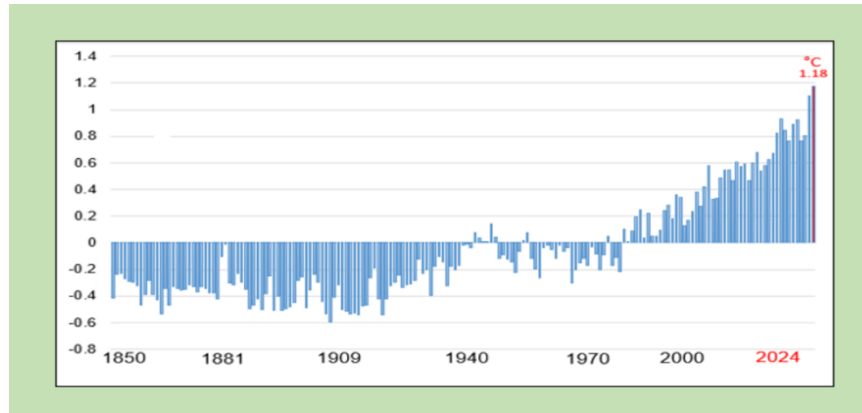


Figure 1 Global annual average temperature changes 1850-2024 (Madge 2025)

to 1.5 degrees Celsius as much as possible. The global average temperature recorded last year was almost close to the target set in the Paris Agreement. The World Meteorological Organization of the United Nations (UN) reports that over the next four years, the probability of not only approaching the 1.5°C threshold, but exceeding it is 66 percent ((UN) 2024). Greenhouse gas emissions have been increasing for decades. Although the growth trend has temporarily declined during the COVID-19 pandemic, it has moved up again with the recovery of economic activity. In 2024, a record was also recorded in IEG emissions. Carbon dioxide (CO₂) emissions from fossil fuel use (accounting for about three-quarters of the entire IEGs) increased by 1.08 percent over the year and from the 1990 level by 60 percent to 37.41 billion metric tons (GtCO₂) (Statista 2025). The following graph, based on data shared by the Global Carbon Budget, debuts the country's annual percentage of CO₂ emissions from fossil fuels and industry (Data 2024) (Figure 2). The calculations did not include land use changes, emissions from international air transport and Maritime Affairs. This data, compiled by the global carbon budget, follows trends in global carbon emissions and absorption and is considered an important indicator for measuring progress towards the Paris Agreement goals.

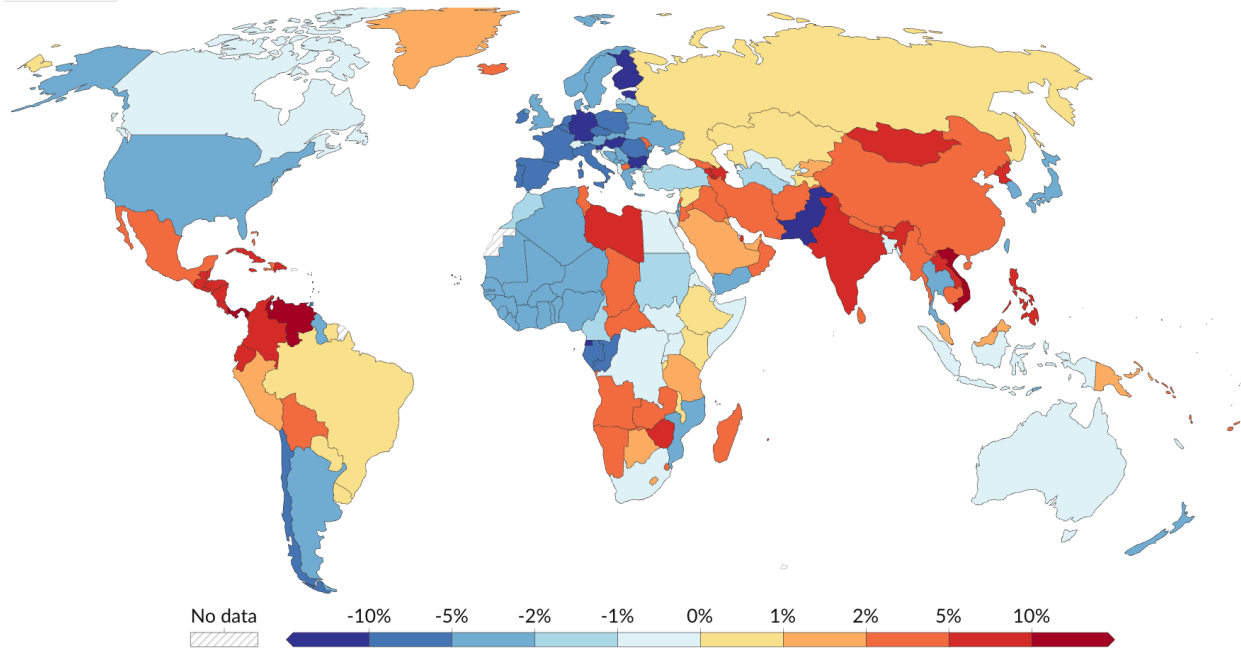


Figure 2 Annual growth rate of carbon emissions. (Data 2024)

The use of new technologies plays an important role in reducing OECD emissions, but it is difficult to achieve these goals only with budgetary funds. According to a report by Bloomberg New Energy Finance (BNEF), an annual average of at least US \$ 4.84 billion in clean energy investments is needed to keep global average warming below 2°C between 2024 and 2030 (Mathis 2024). According to an analysis by the International Monetary Fund (IMF), countries' efforts to achieve their carbon neutrality targets for 2050 by fiscal means alone could increase their debt burden by 45-50 percentage points (Era Dabla-Norris 2023).

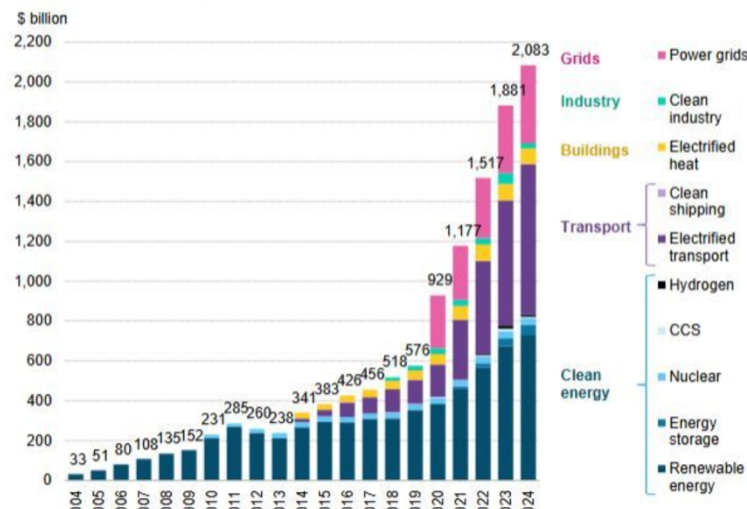


Figure 3 Global energy transition investments by sectors. Source: Bloomberg New Energy Finance (BNEF) (BloombergNEF 2025)

In 2024, global investment in energy transition technologies showed an increase of 11% compared to 2023 and approached a record level (\$2.1 trillion) (Catsaros 2025). In Chart 3, the number of investments made in the world in sectors for 2004-2024 is noted. Among the sectors, the largest investments were in electrified transport (\$757 billion), renewable energy (\$728 billion) and energy networks (\$390 billion), and these three sectors accounted for 90% of total investments over the past year (BloombergNEF 2025).

Decarbonization policy of the Central Bank of Sweden

The Swedish central bank, Sveriges Riksbank, took an important step in 2019 by removing bonds from its portfolio from regions with a high carbon footprint (Breman 2020). This decision was part of Riksbank's efforts to integrate climate factors into its fiscal policy and external resource management. More green bonds were added to the portfolio to replace bonds sold after 2019. The Figure 4 below shows that the share of green bonds in the total bond portfolio in Sweden has increased significantly since 2019 as a result of the decision taken in this direction. (EEA 2024)

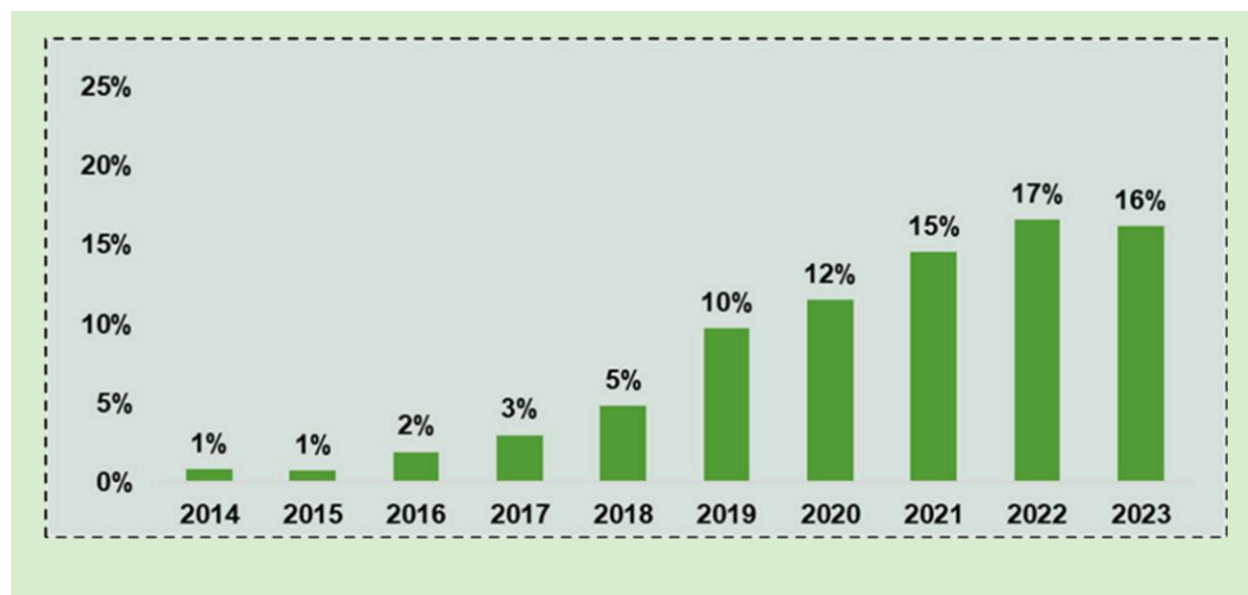


Figure 4 Share of green bonds in the total bond portfolio in Sweden (EEA 2024)

In its ESG Report, *one of the leading banks in the United Kingdom* identified six economic sectors with high carbon emissions and transition risks in 2018 to assess the impact of transition risks. (plc 2020) In 2019, the bank held more than 3,000 meetings to identify strategies and approaches to manage the impact of climate change. In addition, the bank prepared a survey to study the approach to assessing the impact of climate change and collected information from 750 clients making 34% of the portfolio. (plc 2020) The results of the survey enabled the bank to assess its clients' adaptation to changes and the identification of business opportunities. (plc 2020) A model for integrating climate-related risks into the corporate governance and risk management function of a bank operating in the United Kingdom. Given its importance to the business model and the customers it serves, the financial institution has integrated climate-related risk management into its Risk Appetite Statement. The financial institution has established a climate risk team within the second line of defense and appointed a Group Chief Risk Administrator for climate-related risk management at senior management level. (England 2024)

As reflected *UniCredit Group* in their 2024 Annual Report, UniCredit has made substantial progress in aligning corporate strategy with green finance. The bank has developed a Group ESG Strategy that is woven into every aspect of its operations (S.p.A. 2024). Key highlights include:

A commitment to achieving net-zero emissions by 2050.

€25 billion allocated toward green lending initiatives in 2023 alone.

Integration of ESG considerations into credit policies and risk models.

Launch of green financial products, such as sustainability-linked loans and green mortgages.

UniCredit's strategy emphasizes both environmental impact and social value creation, positioning the bank as a leader in Europe's green transition. UniCredit have introduced SLLs into their corporate lending strategies, demonstrating their effectiveness in promoting sustainable business practices. In their 2024 annual report, UniCredit highlighted over €35 billion in sustainability-linked lending, showcasing the scalability of this model. UniCredit has allocated a new €5 billion plafond to support companies taking part in "Transizione 5.0", a public initiative offering tax credit for energy efficiency projects. This allocation is part of the third edition of "UniCredit for Italy", our broader programme supporting families, individuals and businesses since 2022. With this new plafond, the total amount made available to Italian companies in 2024 has reached €15 billion, for a total value of €35 billion earmarked for individuals and businesses since 2022 (Italy 2025).

With Sustainable Future Financing Plus UniCredit wants to accompany companies on a personalized path to achieve their Environmental, Social and Governance (ESG) objectives. UniCredit offers a free initial assessment of ESG positioning indicators so that we can guide the company in choosing tailor -made objectives that can be monitored over time. In fact, a reduction in the rate applicable to financing is foreseen from the beginning for the company that, at the time of signing, undertakes to measure its ESG performance through the specific indicators identified in the initial assessment, choosing at least two objectives, one of which is "Environmental", which can thus identify a transition path towards a more sustainable business model. In the event of failure to achieve the identified objectives or if the customer does not provide evidence of this within the established terms, the Bank will cancel the facilitation granted during the subscription and commitment phase by the company. In the event, however, of effective achievement of the objectives, the Company will maintain the rate reduction for the remaining duration of the financing (UniCredit 2024).

Green finance has become a dominant paradigm in the global financial system, driven by the Paris Agreement, the SDGs, and the rising investor demand for ESG-conforming instruments. Green finance presents feasible entry points for Azerbaijani banks, particularly through sustainability-linked loans and green bonds, though they remain underutilized. Development partners such as the IFC and ADB have backed green lending programs, but these are primarily pilot initiatives and not part of a sector-wide shift. Globally, integration of ESG into core banking is today a standard for identifying large banks. In emerging economies, and particularly in post-Soviet countries such as Azerbaijan, adoption remains patchy. Everywhere, commercial banks have limited awareness of climate-related financial risks, and few have internal capacity to incorporate ESG factors into

credit risk analysis. Such deficiency undermines the credibility and impact of any ESG-related financial innovation.

Regulatory Developments in Azerbaijan's Financial Sector

Azerbaijan's adaptation to climate change and the transition of the economy to a low-carbon development model require the involvement of financial resources and structural reforms. According to the country climate and Development Report (CCDR) published by the World Bank in 2023, by 2060, Azerbaijan requires a discounted investment [of 75 billion](#) Manats for decarbonization and sustainability goals (Duarte 2025). Priority areas are - Energy sector transformation; - Improving water efficiency; -Decarbonization of transport. The net zero emission scenario requires an additional investment in the energy system for the years [2022-2030 of \\$ 7.9 billion, and for the years 2022-2060 of \\$ 28.1 billion.](#) (Group 2023)

Azerbaijan is implementing reforms in accordance with the UN Sustainable Development Goals and international climate agreements to ensure sustainable and inclusive economic growth. Within the framework of Azerbaijan 2030 – national priorities for socio-economic development and socio-economic development strategy of the Republic of Azerbaijan in 2022-2026", measures aimed at ensuring sustainable economy, social welfare, innovation, and environmental stability were implemented (IFC, New Roadmap 2022).

By hosting the COP29 event in November 2024, the country has demonstrated its active participation in the international climate agenda and its commitment to global green funding agreements. Within the framework of the document “national priorities – 2030” (President 2021) important steps have been taken in the direction of a competitive economy, an inclusive society, an innovation space, a great return to the liberated territories and green growth.

In order to stimulate and promote the use of environmentally friendly motor vehicles, 15% import customs duty applied to electric motor cars has been reduced to 0% (S. C. Azerbaijan 2022). So far, a number of concessions have been introduced in this direction. Proceeding from the state program and the national priority, in order to renew the car fleet, stimulate the use of environmentally friendly electric vehicles, it was proposed to exempt import and sale of hybrid cars with an engine capacity of up to 2500 cubic centimeters from VAT (VALUE-ADDED TAX) for 3 years, and sell cars with an electric motor exempt from import VAT. It was also proposed to exempt imports of electric chargers for these cars from VAT from January 2022 for a period of 1 to 3 years. Thus, in addition to the import of cars powered by an electric motor, as a result of the reduction in prices for these cars on the market as a result of VAT exemption from their sales, as well as imports and sales of hybrid cars from next year, their accessibility to the population will increase and make a positive contribution to the ecological environment (S. T. Azerbaijan 2021).

New initiatives to protect and effectively manage water resources are expanding. In order to manage water resources and increase environmental sustainability, the “National Strategy for the efficient use of Water Resources” was approved by the Order of the president of the Republic of

Azerbaijan dated October 10, 2024. Within the framework of the strategy, measures have been identified to protect water resources, effectively use water and reduce the impact of climate changes on Water Resources (Agency, President Ilham Aliyev approves "National Strategy on Efficient Use of Water Resources" - ORDER 2024).

In 2024, the Leaders ' Summit of the 29th Session of the Conference of parties to the UN Framework Convention on Climate Change (COP29), held in our country, was successfully completed, which created an important impetus to attract flows to green finance, improve the investment climate and ensure environmental sustainability (COP29 2024). The central Bank made an important contribution to the agenda of the "Financial day" organized during COP29 with thematic events and announced the global initiative "roadmap for the development of interconnection and comparability of sustainable financial taxonomies". The announcement of a sustainable financial commitment within COP 29, as well as the intention of the Azerbaijani banking sector to allocate AZN 2 billion to sustainable and green projects by 2030, is an important step in transforming the banking sector into sustainable finance (Agency, Azerbaijan's banking sector announces pledge for green projects 2024). The central Bank has also implemented numerous initiatives to increase the capacity of financial institutions for Sustainable Finance, to form a sustainable financial ecosystem, to manage financial risks arising from climate change and other areas in accordance with the "road map for Sustainable Finance". The adoption of the Green taxonomy among these initiatives creates the basis for the entry of sustainable finance into a qualitatively new stage in our country (CBAR, The Management Board of the Central Bank of the Republic of Azerbaijan approved the Green Taxonomy 2024).

In November 2024, the COP29 event in Baku was regarded as the beginning of a new era in terms of climate finance. This conference, called the "financial COP" (Griffa 2024), on the one hand, made great strides and, on the other hand, kept important issues on the agenda that still remain open. The main achievement of the conference was the adoption of a new collective quantitative goal (NCQG) in the field of climate finance. Under this Agreement, developed countries have pledged by 2035 to mobilize at least US \$ 300 billion annually for developing countries (Tumi 2024). These funds aim to form an important financial base for adapting to climate changes and reducing emissions. In addition, within the framework of COP29, a new initiative called "1.3 T Road Map from Baku to Belem" was presented. This roadmap aims to mobilize climate funding by 2035, totaling US \$ 1.3 trillion. This initiative will focus on COP30 as one of its top priorities.

Another great success of the conference is associated with the completion of the implementation of Article 6 of the Paris Agreement. This substance regulates international carbon markets and allows countries to trade on carbon credits. COP29 consolidated the legal foundations of carbon markets by filling in the technical and legal gaps left in this area. The summit once again brought to the fore the urgent need for adaptation measures related to the effects caused by climate change, including the elimination of damage and damage. The US \$ 702 million currently in the loss and damage Fund is not enough to prevent hundreds of billions of dollars worth of losses that occur annually around the world (Schalatek 2024). During COP29, discussions were also held on strengthening national contributions (NDCs) in order to ensure that countries achieve their climate

goals. The conference emphasized the importance of global cooperation and solidarity in the fight against climate change.

The holding of COP29 in Azerbaijan is an expression of the growing prestige and leadership of our country at the international level. The central Bank took an active part in organizing the event and put forward a number of initiatives in the fight against climate change. On the Financial day held within the framework of the conference, the Central Bank organized two thematic events dedicated to strengthening the global sustainable financial architecture and increasing climate finance.

The main target of the event is Multilateral Development Banks: World Bank Group, International Monetary Fund, Asian Development Bank, European Bank for Reconstruction and Development, Islamic Development Bank, European Investment Bank, European Investment Fund and other financial institutions of the same status with “AAA” credit rating issued by international rating agencies, it consisted of bringing together leaders from the public and private sectors, including investors, to contribute to accelerating climate financing activities and mobilizing resources on the scale necessary to achieve the objectives of the Paris Agreement on the green transition. In panel discussions the leaders of IMF, WB, ADB, EBRD, ADB, "J.P." Morgan and Commerzbank AG participated.



Figure 5 During COP29

The Central Bank of Azerbaijan in the context of COP29 presented the “roadmap for the development of interconnectivity and comparability of sustainable financial taxonomies” within the framework of cooperation with IFC, WBC, DMBP and the United Nations Development Program. The goal of the roadmap is to increase the interconnectedness and comparability of various sustainable financial frameworks, as well as expand sustainable finance through concrete action plans and support the green transition. Leaders of organizations such as the UNDP Regional Bureau for Arab states, the European Commission's General Directorate for Climate Action, the UN Environment Program's financial Initiative, “Raiffeisen Bank” and Climate Bonds Initiative participated in the discussion on the presentation of the roadmap.

Another important result was the announcement by the Azerbaijani banking sector of a sustainable financial commitment within COP 29:

- Promoting Green and Sustainable Banking; Supporting environmentally responsible businesses through green loans and sustainable finance products.
- Integrating Climate Risks into Bank Operations; Contributing to long-term stability by incorporating climate risk management into strategic decisions.
- Enhancing ESG Transparency and Accountability; Disclosing the environmental, social, and governance (ESG) impact of banking activities transparently in line with ESG standards.
- Collaborating with Stakeholders for Sustainable Development; Supporting policies that promote a sustainable economy through cooperation with regulators and financial institutions.
- Strengthening Institutional Capacity and Supporting Innovation; Enhancing knowledge in sustainable finance and developing innovative banking products and technologies.
- Pledge of 2 billion AZN by 2030; Allocating 2 billion manats for sustainable projects in Azerbaijan by 2030.

Sustainable financial taxonomies have become important tools for identifying and promoting investments that contribute to environmental and social sustainability. Taxonomies form a common language for investors, issuers, policymakers, and other stakeholders, helping to avoid "green imitation" (greenwashing) cases and ensure compliance of financial flows with sustainability goals. However, because of the rapid growth of sustainable financial taxonomies on a global scale, there have been differences in approaches, criteria, and classification of appropriate activities. As a result, while an economic activity may be classified as green or transitional activity in one jurisdiction, it is known to be evaluated in this way in another jurisdiction. This leads to market fragmentation and difficulties for cross-border investments (Network 2024).

In addition, most of the current taxonomies do not cover all sectors of the economy. They focus mainly on activities that are green and close to being green and do not adequately support the wider range of investments required for a large – scale climate transition-including the transition activities of sectors with high greenhouse gas emissions. This complicates the access of these industries to bank loans and capital markets.

There are several initiatives to solve these problems. For example, the International Sustainable Finance Platform (BDMP) has developed a common taxonomy (CGT) based on the taxonomies of [China and the European Union \(EU\)](#) (Finance, 2021). [The G20 Working Group on Sustainable Finance \(SFWG\)](#) developed voluntary and high-level principles aimed at jurisdictions to identify transition activities and investment opportunities ((SFWG) 2024). Established with the support of the International Finance Corporation, the Sustainable Banking and Finance Network launched a two-year process involving collective research and knowledge sharing on taxonomy development and application and presented the results of this process in the Sustainable Banking and Finance Network sustainable financial taxonomies tool. Although efforts in this direction continue, there remains a need for more comprehensive and effective initiatives in the field of mutual harmonization of standards and strengthening the financing of sustainable initiatives.

The Green taxonomy approved during COP29 is designed to be adapted to national laws and strategies, classifying activities that serve climatic, green, and social purposes. Taxonomy defines social and sustainability criteria across 10 sectors and enables financial institutions to finance green projects on preferential terms (CBAR, THE GREEN TAXONOMY 2024). The relevant sectors are listed below:

1. Renewable energy
2. Energy efficiency
3. Sustainable water management;
4. Pollution prevention and pollution control
5. Green transport
6. Sustainable agriculture, farming and aquaculture
7. Biodiversity conservation
8. Circular economy and waste management
9. Green buildings and sustainable construction
10. Green services.

However, the institutional infrastructure in Azerbaijan is still under development in green finance. The simplest challenge is the absence of mandatory ESG disclosure. The World Bank reports that "the absence of mandatory reporting requirements deters the development of green finance products in the Azerbaijani market." This institutional limitation makes banks incapable of mapping products and portfolios to globally accepted ESG standards. Furthermore, regulatory fragmentation is an endemic problem. ADB/UNEP FI states that "there is no national-level coherence between the monetary policy and green financing objectives of the Central Bank, resulting in regulatory fragmentation." Such a lack of coherence generates institutional inertia and limits incentives for strategic change. The same source shows that "institutional investors are not yet considering ESG factors in portfolio selection, partly because of a lack of regulatory guidance."

In return, it has been suggested to experience a gradual regulatory reform process. ADB/UNEP FI suggests that "a phased approach to mandatory ESG disclosure—beginning with voluntary pilot programs like sector-specific ESG reporting pilots, capacity-building workshops for compliance

officers, or green loan portfolio simulations—can spur capacity building and prevent overregulation at the nascent stage." with voluntary pilot programs—can spur capacity building and prevent overregulation at the nascent stage." This approach can reconcile the need for movement with the sector's limited preparedness.

Empirical Observations Based on Azerbaijani Banks

Current green finance in Azerbaijan is in its early stages. Empirical evidence from institutional sources suggests systemic policy, capacity, and market readiness gaps. As reported by the World Bank, "climate-related financial disclosures are practically nonexistent among banks," which severely limits systemic risk assessment and strategic planning. Besides, the ADB/UNEP FI also explains further that "the development of a green bond market in Azerbaijan is hindered by shallow capital markets, limited investor education, and absence of green certification standards."

During 2024, a number of trainings on green finance were organized for the financial sector as a result of mutual cooperation with international partners.

Initiatives, goals, and priorities related to sustainable finance and socio-economic development strategies in Azerbaijan were discussed in "Sustainable Finance in Azerbaijan" Training by EY & ACCA. The workshop on Wednesday, 3 April 2024 was attended by more than 100 participants representing government entities, financial institutions, Chamber of Auditors of Azerbaijan, businesses, the British Embassy in Baku, and KGK Turkey, the Public Oversight, Accounting and Auditing Standards Authority (T. A. Board 2024).

CBAR presented the recently approved sustainable finance principles and gave a keynote address on the central bank's sustainable finance agenda. The Republic of Azerbaijan's Ministry of Economy fulfilled the nation's goals for sustainability and socioeconomic growth. A high-level summary of the new standards by the International Sustainability Standards Board (ISSB) and the experience of Türkiye's KGK (Public Oversight, Accounting, and Auditing Standards Authority) with the implementation of sustainability standards were two of the workshop's main features. In-depth instruction on IFRS S1 and S2, the new sustainability disclosure standards, and how both firms are preparing companies for a more sustainable future were also provided by ACCA and EY. (ACCA 2024)..

The EBRD is enhancing support for partner banks by providing e-learning on climate risk and transition since 2023, implementing a climate leadership module pilot program in 2024, and holding masterclasses on climate transition in Azerbaijan. Two of the three modules of the masterclass were held in 2024. Participants from the financial industry learnt about transition planning and climate risk management in the first module, and they gained knowledge from global experience in developing climate strategies in the second module. Beginning in 2025, the EBRD will provide program graduates with online support by exchanging best practices and certain types of assistance. The number of national forums for financial sector climate discussions is increasing. National platforms provide possibilities for peer interaction on local concerns and remedies, while

worldwide initiatives play a major role in driving climate action. Banks polled indicated participation in programs like the Azerbaijan Banks Association, and an increasing number of industry groups at the national level are supporting the climate transition of their respective financial sectors. (EBRD 2024).

IFC provides \$20 million in local currency financing to Bank Respublika in Azerbaijan, aiming to enhance financing access for low-income individuals and support climate finance programs. (IFC, IFC Supports MSMEs, Low-income Households, and Climate Financing in Azerbaijan 2024).

Azerbaijan has pledged to reduce greenhouse gas emissions by 40 percent by 2050, though it now aims to reach this goal by 2035. Achieving decarbonization and resilience will require substantial investment, estimated at \$44 billion by 2060, or approximately \$1.35 billion per year, according to the World Bank Group Country Climate and Development Report. (IFC, IFC Supports MSMEs, Low-income Households, and Climate Financing in Azerbaijan 2024).

IFC aligns financial sector funding with growth potential, demonstrating successful lending for sustainable growth. Half of recent loan to Bank Respublika supports climate-related projects by MSMEs and low-income households. (IFC, IFC Supports MSMEs, Low-income Households, and Climate Financing in Azerbaijan 2024).

Azerbaijan's Central Bank has created its first Green Taxonomy with World Bank Group assistance, aligning with the country's climate finance strategy and hosting COP29. This initiative aims to coordinate financial operations with environmental objectives. (IFC, IFC Supports MSMEs, Low-income Households, and Climate Financing in Azerbaijan 2024).

On September 05, 2024, the Central Bank of the Republic of Azerbaijan organized a webinar on the “Climate Assessment Instrument for financial institutions” of the International Finance Corporation (IFC).

The webinar covered climate risk assessment by financial institutions in the direction of “building capacity in the field of Sustainable Finance”, which is one of the strategic priorities of the roadmap for Sustainable Finance (ABA, Webinar on “Climate Assessment tool for financial institutions ” organized 2024). Furthermore, CAFI allows financial institutions to track the share of green investments in their portfolios and assess the environmental impact of these investments and prepare impact reports. As part of the initiative to "develop potential in the sustainable finance sector," the webinar addressed issues related to the assessment of climate risks by financial institutions.

On August 06, 2024, an online meeting was held on the presentation of the instruction document on “Environmental Risk Management in banks” approved by the Board of the Central Bank of the Republic of Azerbaijan to the representatives of the Azerbaijan Banks Association (ABA) member banks in the relevant field. During the meeting, discussions were held on the issues mentioned in the instruction document. It should be noted that by the decision of the Board of the Central Bank of the Republic of Azerbaijan dated July 11, 2024, the document “instruction on Environmental Risk Management in Banks” was approved. The main purpose of the instruction is to integrate

climate and other environmental risks into the risk management system in banks and increase their resilience to these risks (ABA, An online meeting on the presentation of the instruction document on "Environmental Risk Management in banks " was held 2024).

Locally, banks are battling to grasp the technical elements of green finance. As the World Bank highlights, "commercial banks have limited knowledge of climate-related financial risks, and most lack internal capability to incorporate ESG factors into credit risk assessment." These gaps need particular technical assistance and professional development training. Nevertheless, the CBA is positive and suggests that "government incentives in the form of targeted subsidies, green guarantee schemes, or preferential refinancing rates can stimulate commercial banks' engagement in green lending."

Public-private partnerships (PPPs) might be a likely impetus to expand green finance in Azerbaijan. (A. D. Bank 2025) The ADB/UNEP FI identifies that public-private partnerships will be necessary to scale green finance, especially in sectors such as clean energy, water efficiency, and green buildings. (Programme 2018) In economies with similar developmental profiles—such as Kazakhstan and Georgia—effective PPP models have been state-supported green investment funds co-financed with commercial banks, and risk-sharing agreements for infrastructure projects backed by multilateral development institutions. Implementing such models in Azerbaijan would involve setting up an independent green finance facility under public oversight, with co-investment by international donors and private banks to support financing renewable energy facilities, water treatment plants, or building energy efficiency retrofits. These examples are meant to illustrate the manner in which well-designed PPPs can offload risk, generate credibility, and mobilize investment into green finance projects that are often high-risk and capital-intensive in the view of commercial lenders. to fund green growth, especially in sectors such as clean energy, water conservation, and green buildings." The success of these partnerships will, however, depend on regulatory clarity and institutional readiness. Participating in the international initiatives and collaborating with other central banks or financial supervisors on sustainable finance. In this regard, a visit to the Central Bank of Georgia was organized on 08-09 November 2023 for the purpose of exchanging experience. As part of the internship program, the Central Bank of Georgia's experience in developing a national coordination platform for the application of sustainable finance, developing a taxonomy, applying sustainable financial instruments, and assessing climate change and ESG risks was studied (CBAR, SUSTAINABLE FINANCE 2024). In order to study and exchange international experiences, an application has been made for membership of the Network of Central Banks and Regulators for Greening Financial System (NGFS), which is considered to be the most important international institution in this field. Discussions on the membership process are currently underway. (hələ də üzv deyil)

Briefly, Azerbaijani banks appreciate the strategic value of sustainability and green finance, but structural limitations—in regulation, market infrastructure, and internal capacity—limit meaningful advancement. This literature review reaffirms the imperative for integrated policy, regulatory reform, and capacity building to bring Azerbaijani banking practices to international

standards. The findings here provide the analytical context for the interview-based empirical chapters that follow.

Chapter 3: Theoretical Framework

This chapter theoretically anchors the analysis of the adoption of sustainability and green finance by Azerbaijani banks into their corporate strategies. Drawing on three interconnected theoretical lenses—the Stakeholder Theory, Institutional Theory, and the Resource-Based View (RBV)—the framework constitutes the template of analysis for the following empirical chapters. All three theories provide unique insights into the motivations, traps, and capabilities of banks undergoing the transition to sustainability in the context of regulatory uncertainty and economic transition.

Stakeholder Theory

Stakeholder Theory, as originally developed by Freeman (1984), argues that the firm is a network of relationships among different actors whose interests must be considered in managerial decision-making. This theory expands the traditional shareholder-concentration model of the firm in an attempt to emphasize the importance of trade-offs between the interests of different stakeholders, including regulators, customers, employees, communities, and the environment. In green finance, Stakeholder Theory presents a normative case for banks' engagement with sustainability in strategy—not merely to achieve regulation or aim for market gain, but in order to satisfy moral obligations towards broader society.

The general subjects of ESG reporting have been widely debated in the prior literature (Buallay 2019) (Hong Yuh Ching 2017) (Prof. Isabel Gallego-Álvarez 2017) (Nazim Hussain 2018) (Bokhari 2019) in alignment with the stakeholder theories, ESG involvement is a competitive advantage source where long-term fundamental strategies embraced agents' interests and stakeholders' welfare such as employees, consumers, governments and local communities (Hichem khelif 2015). On the other hand, according to the neoclassic theory of (Milton Friedman 2007), there exists a negative relationship between ESG and financial performance because ESG practices would increase costs, harm corporate performance and ruin competitive position. To this end, some scholars hold the view that social and environmental objectives would distract managers from attempting to maximize shareholder value.

The relevance of Stakeholder Theory to the context of Azerbaijan is indicated in institutional reports describing sparse stakeholder participation in green finance. The World Bank acknowledges that "climate-related financial disclosures are virtually nonexistent among banks," which erodes transparency and shatters investor and civil society trust. The ADB/UNEP FI also highlights "public-private partnerships" to encourage green investment, suggesting that stakeholder alignment is necessary to up-scale sustainable finance. Stakeholder Theory consequently instructs us on why transparency practices, stakeholder mapping, and inclusive governance are not just moral imperatives but strategic instruments in mainstreaming sustainability.

Secondly, the theory provides a perspective by which to examine the internal culture of Azerbaijani banks. The Central Bank of Azerbaijan (CBA) said that "sustainability has to be internalized at the

corporate strategy level of banks, including in their governance, product design, and risk management models." The call for governance refers to the importance of more wide-ranging accountability frameworks, possibly by stakeholder expectations. Thus, Stakeholder Theory not only clearly identifies who is significant in corporate decision-making but also highlights the manner in which stakeholder relationships propel the design and execution of green finance strategy.

Institutional Theory

Institutional Theory emphasizes the effect of formal and informal rules, norms, and cultural expectations on organizational behavior. Institutional isomorphism by DiMaggio and Powell (Paul J DiMaggio 1983) whereby organizations respond to prevailing norms as part of efforts to gain legitimacy is an appropriate reason for Azerbaijani banks responding to global and domestic sustainability requirements.

(Scott 2003) Scott sees pillars of institutional organization, being compounded by regulatory, normative, and cultural-cognitive structures and activities that give stability and meaning to social behavior. This is relevant to this study because the implementation of sustainable finance rules, which goes hand in hand with the development of industry norms and standards, falls under the three processes of coercive, normative, and mimetic isomorphism. Most institutional theorists emphasize the regulatory aspect of institutions and, in the literature, see above all stable regulations supported by monitoring and enforcement mechanisms as a prerequisite for the proper functioning of institutions. Scott also rekindles interest in the role of the state as a judge, policymaker, and rule enforcer by highlighting the regulatory qualities of institutions. Values and norms are the foundation of the normative pillar of institutions. Values are defined as conceptions of the preferred or the desirable together with the construction of standards to which existing structures or behavior can be compared and assessed, while norms are the means by which the desired goals are pursued. Scott claims that "actors conform because it is expected of them, not because it serves their individual interests, narrowly defined." According to the normative idea, "institution behavior is morally governed behavior," which implies that people adopt and spread societal viewpoints. According to DiMaggio and Powell, the social approach of institutionalism identifies three processes that induce institutional change in relation to organizations: (i) coercive, through political influences; (ii) normative, through professionalization pressures; and (iii) mimetic, as a response to uncertainties. North goes one step farther and asserts that the harshness of punishment and the impracticability of detecting violations seem to be essential elements of institutional rulemaking. According to DiMaggio and Powell, the first crucial tool for managing the social interaction in this situation is coercion. (North 1991). North goes one step farther and asserts that the harshness of punishment and the impracticability of detecting violations seem to be essential elements of institutional rulemaking. According to DiMaggio and Powell, the first crucial tool for managing the social interaction in this situation is coercion. Last but not least, the cultural-cognitive pillar is the outcome of ambiguities that encourage businesses to copy procedures and create isomorphic organizations by making mimetic choices. (Paul J DiMaggio 1983). The first

component of inquiry, which was extensively examined via the prism of institutional theory, was the coercive driving force. Legal and regulatory actions may compel financial firms to include ESG factors into their operations.

Institutional Theory particularly applies in the context of weak or changing regulatory environments, such as the case of Azerbaijan. Lack of mandatory reporting requirements discourages the introduction of green finance products into the Azerbaijani market. Without this institutional space under such regulatory void, banks do not have a clear institutional environment to adhere to, thereby stalling the diffusion of sustainability norms. But Institutional Theory also points out that mimetic and normative pressures, fueled by professional associations, peer benchmarking, and international partnerships, can drive change without obligatory legislation.

This observation is underlined in the [ADB proposal of](#) "a phased approach towards mandatory ESG disclosure—starting with voluntary pilot schemes." (Institute 2018) These pilots may be institutional templates through which early movers can pilot test sustainability practice in a low risk setting. As more and more institutions come on board, a tipping point may be reached where sustainability is a taken-for-granted aspect of banking practice. In this context, Institutional Theory illustrates how norms are created and become institutionalized, and institutions handle institutional uncertainty by applying isomorphic mechanisms. Moreover, the theory explains resistance to change. A lack of national-level coherence between the Central Bank's monetary policy and green financing objectives, such inconsistency is a case of pitted institutional logics that impede reform. Institutional Theory thus offers analytical tools for explaining how structural contradictions and institutional voids shape organizational inertia or innovation.

Resource-Based View (RBV)

The Resource-Based View (RBV) of the firm attempts to theorize how firm capabilities and resources can be strategically aligned to create sustainable competitive advantage. Barney initially developed the RBV, based on which, resources must be valuable, rare, inimitable, and non-substitutable (VRIN) to create a basis for strategic differentiation (Barney 1995). According to Hart's conceptualization of the "natural resource-based view of the firm," competitive advantage in the years to come will be based on the ability to support economically viable, ecologically friendly operations (Hart 1995). Businesses can develop a shared vision, foster product stewardship to outsmart rivals, and prevent pollution to get a competitive edge and a cost advantage over customers.

In the context of green finance, the RBV points to how banks can deliberately leverage sustainability-capabilities—like ESG risk management solutions, green product development, and sustainability reporting systems—as assets. Hart and Milstein took this logic further with their Natural-Resource-Based View (NRBV) hypothesis that companies with engaged interaction with environmental issues can potentially become more competitive through new market opportunities, reduced long-term risk, and brand value creation (Milstein 2003). Hart and Milstein advise businesses to cultivate the innovative ability to reposition through clean technology, the vision to

create a shared future roadmap, and communication with many stakeholders in order to increase revenues and lower risk through pollution avoidance.

Green finance must be viewed not just as an environmental necessity, but also as a strategic economic opportunity to diversify Azerbaijan's hydrocarbon-based economy. NRBV believes that banks in emerging first-mover advantage in sustainability can build competitive advantage in changing market expectations. Literature also substantiates that Azerbaijani banks have internal limitations as well. Commercial banks are not strongly conscious of climate-related financial risks, and most do not possess an internal capability for incorporating ESG factors into the credit risk evaluation. It's a strategic constraint from an RBV point of view. RBV also provides direction for capacity-building priorities. Although there may be preferential refinancing rates, green guarantee schemes, or targeted subsidies which the global partners and CBA demand, they are all themselves seen as trying to strengthen the internal capabilities that lie at the heart of strategic sustainability. RBV thus provides a realistic roadmap to gauging the readiness of banks and gaps in terms of resources toward adopting a green finance route.

Together, these three theories offer a comprehensive analytical framework. Stakeholder Theory offers the ethical and strategic imperative for stakeholder involvement. Institutional Theory describes how external pressure and norms shape internal strategy. The RBV offers a means of measuring internal resources and organizational capability. Together, their application enables an integrated understanding of the structural, cultural, and strategic drivers of green finance adoption by Azerbaijani banks. This theorization will inform the subsequent empirical research. The design of questionnaires and the interpretation of both qualitative and quantitative findings will be informed by theory propositions generated here, allowing for triangulation between institutional, normative, and strategic poles. By this, rather than simply documenting present practice, the research aims to uncover the logics, constraints, and possibilities that form the sustainability of the future of Azerbaijan's banking industry.

Chapter 4: Methodology

The research approach employed to examine the integration of business strategy and sustainability in the banking sector of Azerbaijan, within the framework of the role of green finance, is discussed in this chapter. As a reaction to contextual, regulation, and strategic challenges outlined in the prior literature review, a mixed-methods research design was deemed to be most suitable. This chapter is structured into four fundamental components: research philosophy and defense of the application of qualitative and quantitative methods; defense of thematic analysis as a chosen qualitative tool of analysis; steps in developing interview guides and participant selection; and ethical base of this study.

Research Philosophy and Justification for Mixed-Methods

The research adopts a constructivist epistemology and an interpretivist ontology. Constructivism believes that knowledge is not uncovered but constructed by the researcher-participant subjective interaction. This is in harmony with the broad research aim: to identify how Azerbaijani banks' strategic decision-makers view, understand, and respond to changing discourse and institutional pressures on green finance. To be able to cover extensively the complex and dynamic nature of sustainable finance, the research integrates both qualitative and quantitative aspects. Qualitative data were collected through face-to-face, semi-structured interviews to gather rich institutional information. Quantitative data were sourced from the Central Bank of Azerbaijan's Sustainable Finance Survey Reports for 2023 and 2024, which provide country-level data regarding the take-up of ESG in financial institutions. Triangulating these sources of data, the study combines interpretive depth with empirical breadth, enhancing the validity and richness of evidence. This approach is particularly justified in the case of Azerbaijan, where green finance is a new institution and institutionalized ESG indicators are not yet uniformly applied by all financial actors.

Thus, the union of survey data and qualitative interviews gives a multi-faceted image of interior emotions and external tendencies. As in conformity with exploratory research guidelines, the method conforms to methodological procedure approved by institutions like the World Bank and Asian Development Bank (ADB) that focuses on interpretive understanding and complementarity of empirical measures in forming robust finance ecosystems.

Thematic Analysis as Analytical Method

To symbolize interview qualitative data, the research employs thematic analysis as a versatile and highly pervasive qualitative analysis technique that enables the identification, interpretation, and synthesis of patterns (themes) within a dataset. Braun and Clarke's (2006) six-step process—

familiarization, initial coding, theme identification, theme review, theme definition and naming, and final write-up—is the analytical framework used. Thematic analysis will be best suited for this study because deductive and inductive coding are allowed. On the one hand, themes are allowed to emerge inductively from participant accounts (inductive logic) to unpack how stakeholders redefine and practice sustainability on their own terms in organizational strategy. Alternatively, though, some codes—regulatory thresholds, ESG integration, product innovation, and green lending practice—are steered by Chapter 3 literature and institutional reports (deductive reasoning).

Furthermore, thematic analysis enables cross-group comparison (e.g., regulators, CEOs, sustainability officers) and enables the researcher to monitor convergence and divergence between their perspectives. This approach aligns with ADB/UNEP FI and World Bank's request to analyze the sectoral ecosystem as a whole, in acknowledgment of heterogeneity of green finance transition in institutional logics and actor incentives. The output of thematic analysis is not descriptive but interpretive and critical. It brings to the fore discursive tensions, strategic blind spots, and institutional lacunae that characterize the state of green finance evolution in Azerbaijan. For instance, while most of the interview respondents may have accepted sustainability in principle, thematic analysis enables the researcher to unearth the tacit hesitations, perceived risks, or structural limitations that rule out outright implementation.

Interview Guide and Participant Selection

The interview guide was tailored to provide rich, thoughtful responses from three sets of stakeholders: (1) top bank CEOs and managers; (2) sustainability professionals and ESG specialists; and (3) policymakers and regulators. Interview guide structure is theoretical scaffolding in theory and literature review sections. There were individual questions asked of each person in a group, collapsed into five broad dimensions:

- Strategic Vision and Implementation: To what degree do banks view green finance as part of their strategy overall?
- Internal Capacity and Governance: Organizational or capacity for ESG integration, what is it?
- Regulatory Environment: To what degree do participants consider Central Bank and government role in green finance shaping?
- Challenges and Barriers: Internal and external impediments to higher ESG adoption are what?
- Future Outlook: What opportunity or incentives might be driving change?

This structured yet adaptable format ensured uniformity and richness in data gathering and enabled comparison between interviews while allowing new ideas to be developed. Purposive sampling was utilized in the research where sampling of the participants was done according to experience, role, and importance to green finance activity in Azerbaijan. 12–15 participants were targeted to provide a good but reasonable number of representatives of stakeholders. The screening criteria were:

- For bank managers: strategic decision-making impact, ESG planning impact, or leadership in innovation
- For sustainability managers: technical knowledge on ESG reporting, environmental risk, or green product development;
- For regulators: direct responsibility for financial regulation, policymaking in a

regulatory environment, or sustainable development policy. Recruitment was conducted on ethical and practical grounds through professional networks, institutional networks, and publicly available contact details. An advance information sheet and consent form outlining the study purposes, information use, and confidentiality arrangements was advertised.

Moral Issues

Sincerity at the ethical level is of utmost importance in planning and carrying out this study. In order to achieve compliance with normal academic practice along with LUISS University ethical rules, the following was achieved: • Consent: Participants were given a written information sheet about the purpose of the study, the voluntary aspect of the participation, and use of anonymized data. Signed or oral recorded consent was acquired especially prior to interviews. • Anonymity: Participant anonymity was ensured through using generic identifiers (e.g., "Bank Executive A," "Regulator B") and removal of any personally identifiable information from transcripts or final products. Data were stored in encrypted, password-protected files. • Right to Withdraw: It was informed to participants that they can withdraw at any time without incurring a penalty and their answers would be erased from the data set if demanded. • Non-maleficence: Because of the politically sensitive subject matter of Azerbaijan's green finance reform, care was taken not to put participants in a position of reputational, institutional, or legal risk through research. Institutional rather than individual opinions were sought through careful question design and no public denigration of individual actors was asked for. • Ethics Approval: Ethical clearance of the interview protocols and the research design was requested and procured via the routine ethics review process of the Graduate School of Government at LUISS University.

This chapter of methodology has provided a glimpse of the philosophical frameworks, data gathering strategy, research analysis procedure, and ethical protocols used in this study. Employing a mixed-methods strategy grounded in constructivist philosophy and thematic analysis, the research provides a sound backdrop for understanding the construction of green finance and sustainability in the banking sector of Azerbaijan. This transparent and robust methodology ensures that the empirical findings presented in the following chapters are grounded in both contextual insight and reliable secondary data. It is here that practitioner, regulator, and strategist voices assert themselves, and a vital link between aspiration and policy, and institutional fact is forged.

Chapter 5: Analysis / Findings

This chapter consolidates the data obtained through two primary sources: (1) senior banking officials', ESG practitioners', and policymakers' interviews; and (2) 2023 and 2024 Sustainable Finance Survey Results of the Central Bank of Azerbaijan. By applying qualitative and quantitative data, this chapter provides a mixed-methods analysis of the green finance context in Azerbaijan's banking sector. Key thematic areas include institutional preparedness, market demand, enabling regulations, operating challenges, and ESG integration initiatives. Outcomes envision a transition sector—early stage as regards green product maturity, but increasingly attuned and strategically positioned for expansion.

Analysis

Banks' Business strategies

15 of the 21 banks surveyed have an action plan in place to implement the activities outlined in the Central Bank's Sustainable Finance Roadmap, while others have announced that they will develop such a plan during 2025. In most banks, ESG factors are integrated into the decision-making process for creating credit products. Interviews show that X bank's ESG expert mentioned that although there were no specific rules in this direction, work is underway to study international criteria and develop an internal methodology to ensure compliance with ESG principles. Y bank's ESG expert emphasized the bank has a separate green credit product that does not belong to credit products, the cost of which is due to funds raised from European funds. In addition, ESG factors are integrated into the decision-making processes for the creation of non-credit, treasury and investment products. 7 banks reported that they have not integrated ESG factors into their decision-making processes (Figure 6).

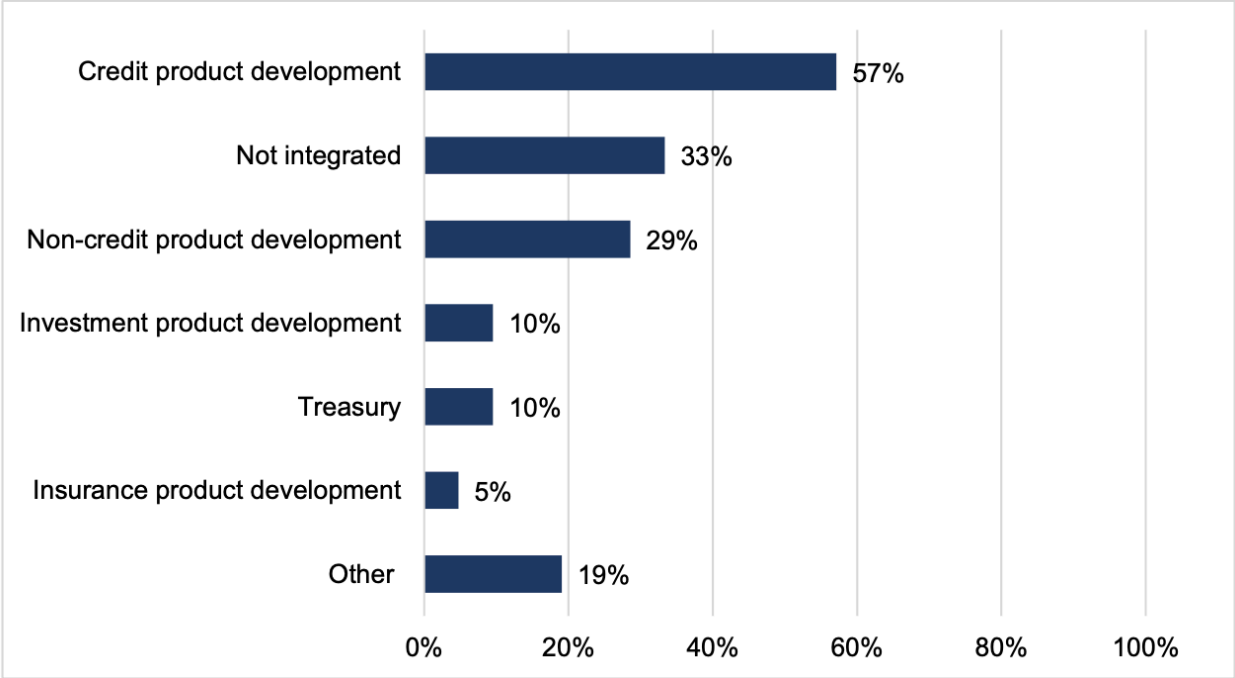


Figure 6 Integration of ESG factors into banks' decision-making processes.

43% of banks offer products focused on social projects such as economic inclusion, affordable housing, and gender equality. At the same time, 57% of banks said they plan their activities in this direction. This indicates that social responsibility is increasingly being implemented in the banking sector. However, the limited number of financial products offered in environmental areas is striking energy efficiency and alternative energy (24%), carbon emission reduction (24%), sustainable agricultural products (29%) and efficient use of water resources (19%). Overall, the current picture shows that demand for environmental products and services is low and that there is a need to promote environmental projects in this direction (Figure 7).

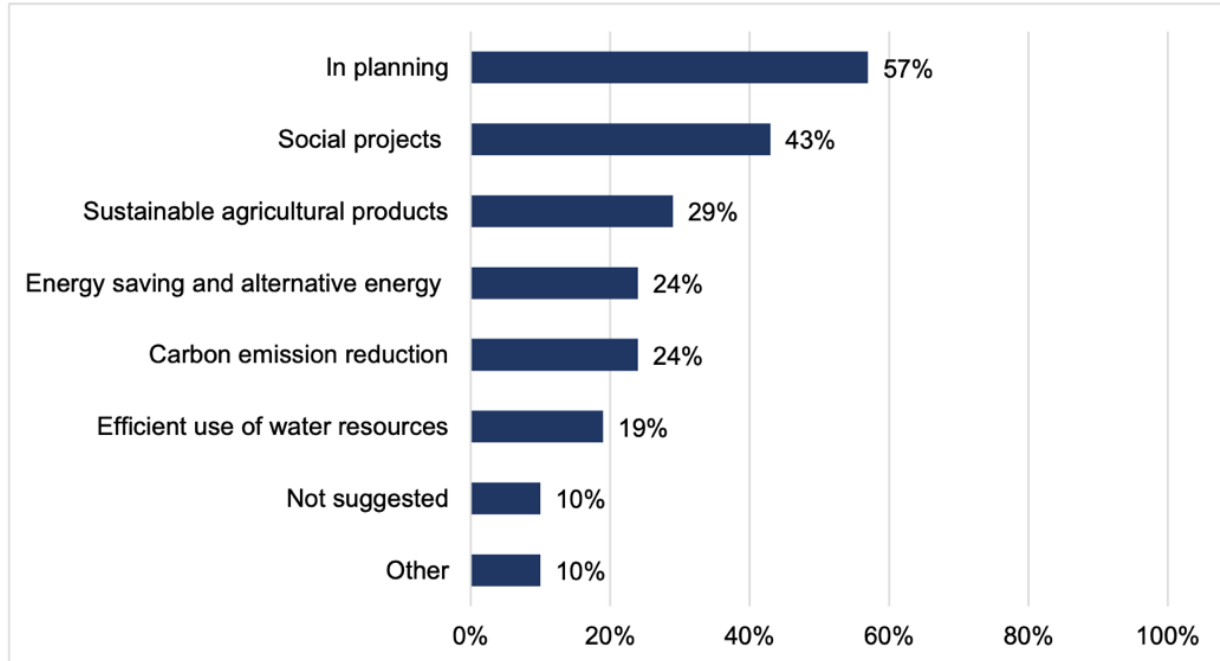


Figure 7 Product areas incorporating ESG.

Incentive differentiation for sustainable goods is currently used to a limited extent in the industry. 48% of respondents say they offer discounts on interest rates, while 19% offer discounts on interest-free terms. Many banks also present interest rate discounts for the financing of hybrid and electric vehicles as an important incentive mechanism. More than 70% of banks have started to cooperate with international organizations in various directions towards sustainable finance. Multilateral development banks play a key role in this cooperation. Cooperation with global companies in terms of consulting and training is also on the rise. Currently, 4 banks have started to attract funds from international foundations to combat climate change and to promote sustainable development. These initiatives demonstrate the existing international integration in sustainable finance and the prospects for developing the sector. Resource efficiency has been considered in the strategic approach of many banks. The majority of respondents identified energy, water and paper savings as a priority in their operations. These results indicate that banks are focusing on managing resources according to sustainability principles in their operations.

Banks' Corporate governance

The integration of ESG principles into the corporate governance of banks has made significant progress. Thus, 52% of banks have appointed board-level ESG officers. 43% of banks have established a structural unit responsible for ESG, and 38% have set up working groups comprising staff from different structural units (Figure 8).

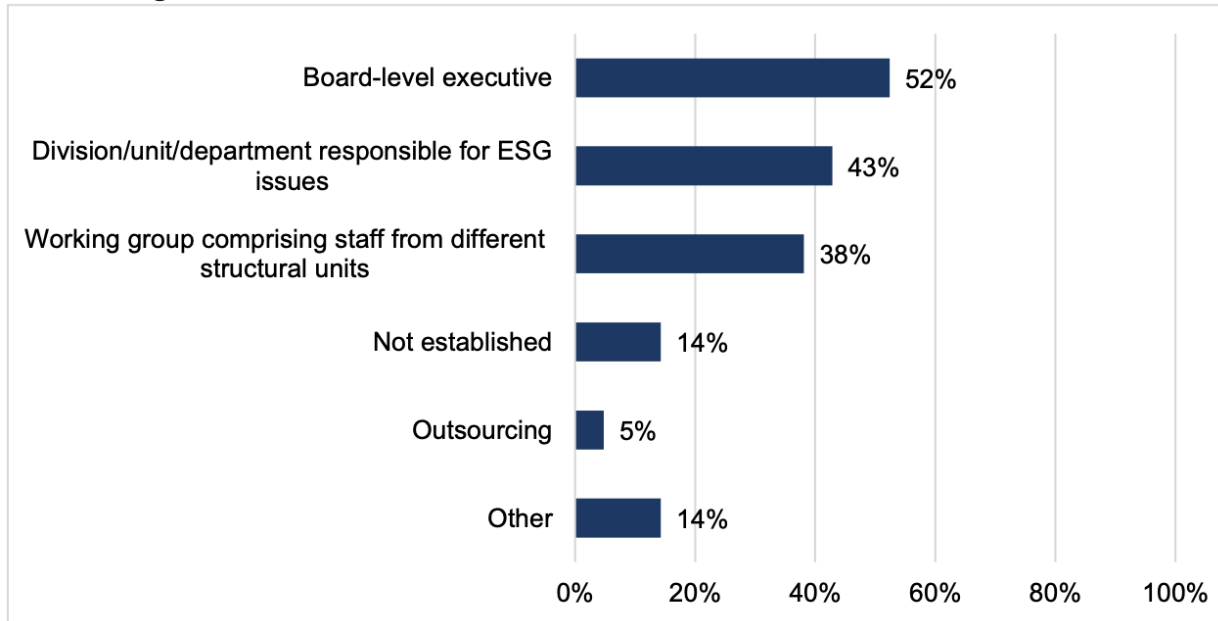


Figure 8 Integration of ESG and sustainability activities into the organizational structure in the banking sector.

There has been some progress in managing sustainable finance and ESG risks at the bank supervisory board (SB) level. For example, 10 banks' SBs have defined the appropriate segregation of duties and authorities for implementing sustainable finance investments, and 12 banks' SBs have defined the appropriate segregation of duties and authorities for managing climate change and ESG risks. Most financial institutions have started to implement training and education programs to develop qualified human resources on climate change, ESG risk management and sustainable financial instruments. For example, 15 of the respondents indicated that they have defined programs in this direction. However, the participation of SB members in trainings on climate change and ESG risks is limited. Banks have integrated ESG factors into their internal policies in several areas. The most frequently mentioned areas include regulations on prohibited activities (9 banks), on ethical conduct (8 banks), remuneration (4 banks) and procurement policies (4 banks). In addition, some banks reported integrating ESG factors into their credit decision-making processes and into the formulation of corporate social responsibility policies (Figure 9). Overall, while significant steps have been taken to integrate ESG principles into various internal policies, the sector needs to apply these principles more broadly.

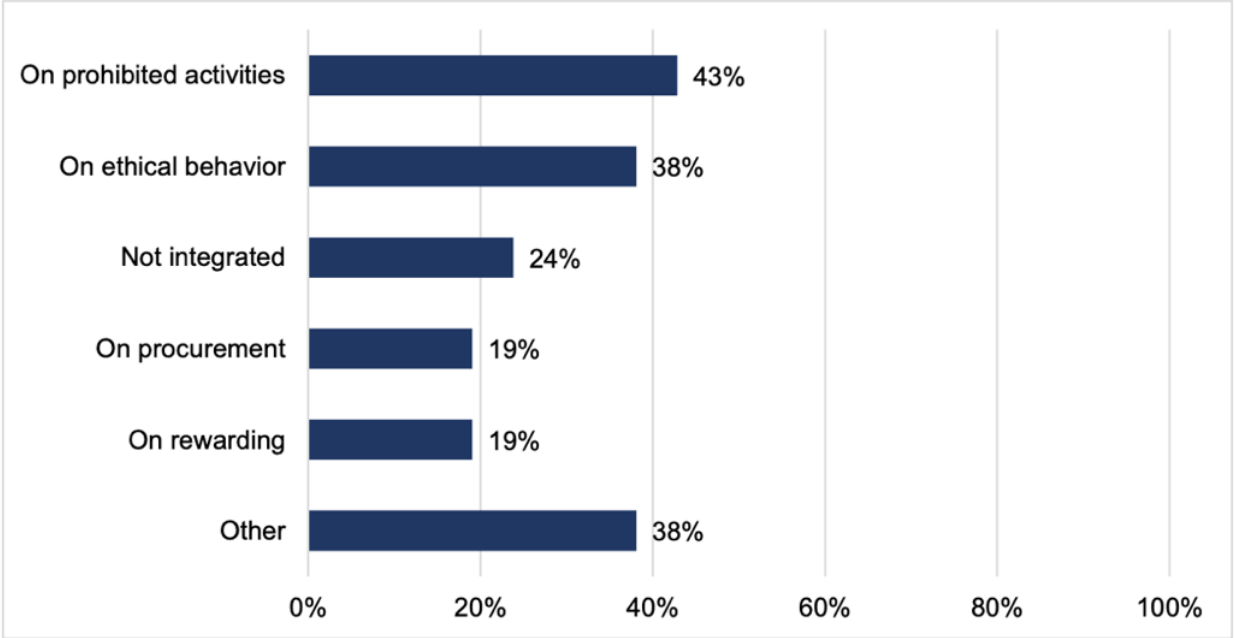


Figure 9 Integration of ESG factors into banks' internal regulations.

There has been no significant change in the total number of women employed in the banking sector and in the statistics of those hired in the last 12 months compared to the previous year. Women represent 39% of the total workforce and 34% of those hired in the last 12 months. This compares to 38% of the total workforce last year. Women are less represented at the management level. The proportion of women among department and division heads is 21%, and among members of the SB and the Management Board (MB) it is 9% and 11%, respectively. Internal requirements to consider gender diversity are reflected in the documents of only 8 banks, indicating the need for additional steps to promote gender equality at management level (Figure 10).

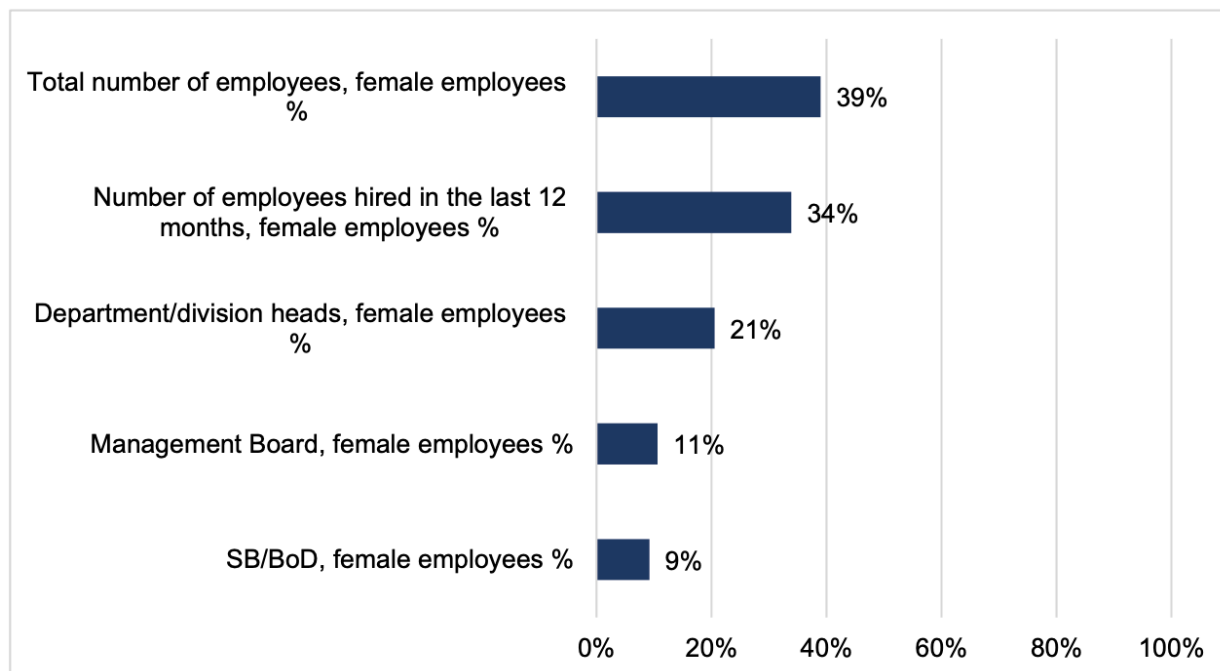


Figure 10 Share of female employees in the banking industry.

Some banks have started to strengthen their internal audit function to implement ESG principles and monitor the implementation of targets, as shown by the responses to the question on internal audit plans for 2025. For example, 12 banks reported that they have incorporated ESG issues into their internal audit plans. This is an indicator of progress in integrating ESG principles into corporate governance.

Banks' Risk management

In terms of integrating ESG factors into the risk management process, several banks identified physical and transition risks, as well as the list of economic sectors sensitive to transition risks. 5 banks identified physical risks and 6 banks identified the potential impact of transition risks, as well as the list of economic sectors that may be exposed to transition risks. Within this classification, the energy, transport, and logistics sectors came to the fore. On the other hand, 15 banks indicated that they do not currently have a classification in this area, but that they plan to conduct such an assessment in the future (Figure 11).

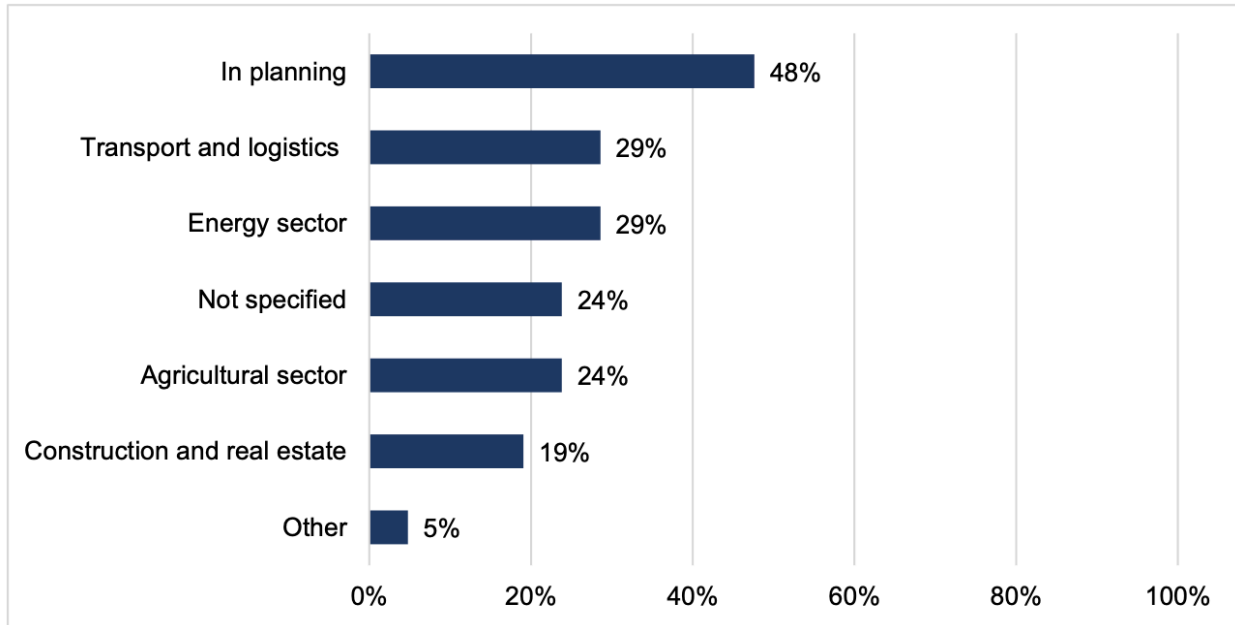


Figure 11 Identification of economic sectors vulnerable to climate risks.

The integration of physical and transition risks into the stress testing framework is currently limited. Only 2 banks reported having integrated transition risks into the stress testing framework. The majority of banks surveyed indicated that they plan to do so in the current year (2025). At the same time, only 2 banks have experience in setting limits for physical and transition risks. A number of banks have policies and procedures in place to manage ESG risks. Banks noted the existence of documents such as ESG risk assessment and management guidelines, action plans, and monitoring templates. A number of banks were found to lack such policies and procedures (Figure 12).

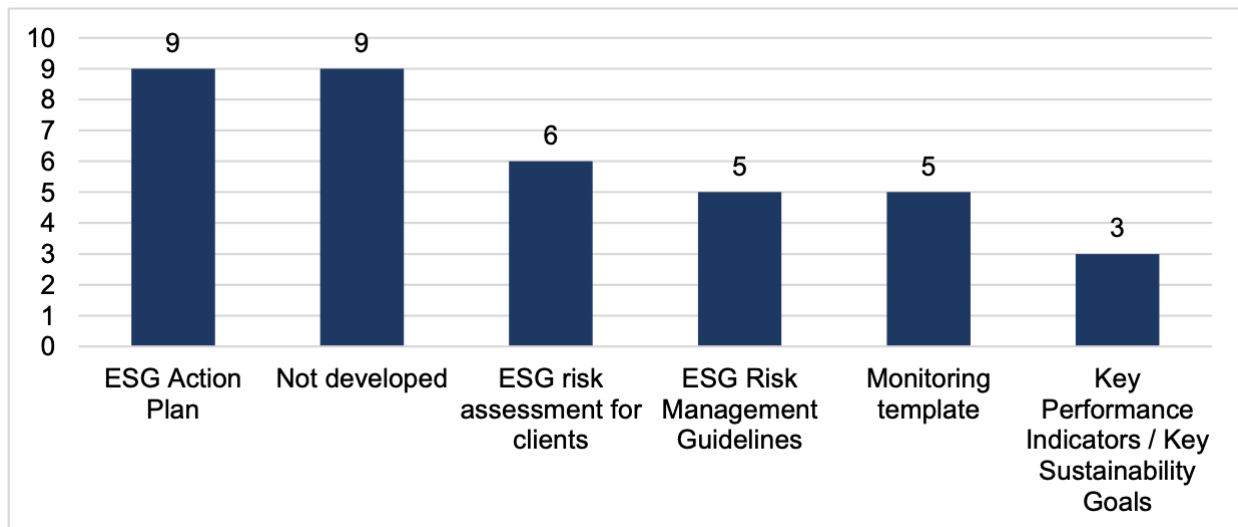


Figure 12 Policy and procedures

Banks' ESG Reporting

Half of the banks report on their ESG strategies and sustainability activities. These banks mainly report on ESG for stakeholders and through sustainability reports. However, about half of the banks surveyed do not report on ESG strategies, commitments and progress against Key Performance Indicators (Figure 13).

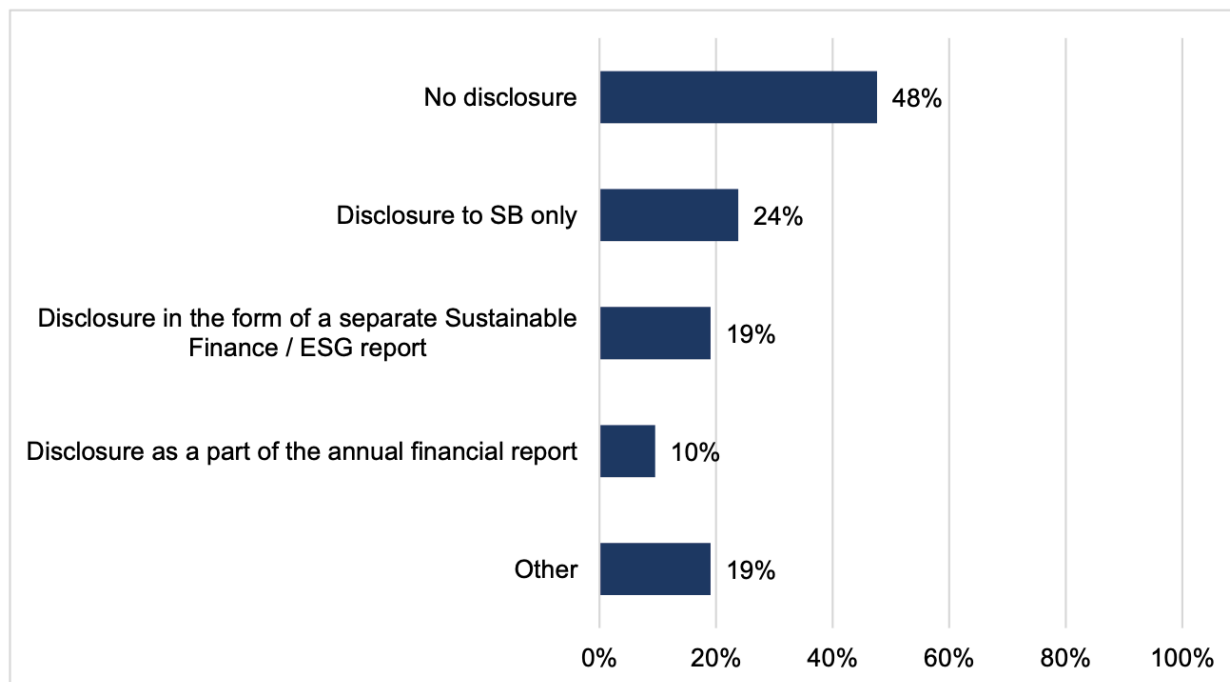


Figure 13 Disclosure of ESG strategy and activities.

Established and published greenhouse gas (GHG) reduction and resource efficiency targets for the banking sector are not yet widespread. Only 5 banks reported measuring and disclosing Scope 1 and 2 GHG emissions. Only 1 bank reported measuring Scope 3 GHG emissions. However, 10 banks reported that they plan to measure and take actions on carbon emissions in the next period.

Findings

Institutional Readiness: Progress and Fragmentation

Over 70% of Azerbaijani banks have developed action plans as per the Central Bank's Sustainable Finance Roadmap (2023–2026), says the 2024 Survey. This is a much higher proportion than last year, when few banks had so far taken such strategic steps. ESG factors are becoming more integrated into credit, investment, and treasury decision-making (Survey 2024, p. 7).

However, readiness is lopsided. While some pioneer banks—most notably Unibank—have launched green bonds and initiated impact reporting, most institutions are in infancy. Bank "A" and Bank "B" interview respondents revealed that green bond proceeds are being reserved for

climate-smart initiatives, but standard procedures for monitoring impact and reporting are ongoing. Banks also raised the lack of a comprehensive legal framework, which limits scalability.

Bank "C" and bank "D" ESG officers confirmed that the majority of their activities remain theoretical, grounded on international taxonomies (EU taxonomy, CBI guidelines) because no national classification scheme exists. Internal guidelines for defining eligible green project assessment, reporting, and monitoring performance are currently under development but have not yet been institutionally embedded.

Market Appetite and Product Innovation

Investor's green financial products purchasing is low but growing. 2024 Survey indicates 24 percentage of the banks offer carbon reduction emission products and 19 percentage offer products on water saving—reflecting the low rate of environment financial products. Nevertheless, 43 percentage of the banks indicate that they deal in social impact products such as economic inclusion and housing affordability.

Executives at Bank "A" and Bank "B" pointed to growing awareness on the institutional investor level but also expressed concerns about low retail demand and lack of appropriate financial literacy for sustainability-linked products. Both banks refer to a strategic imperative to drive market trends and not respond to them, which makes them market leaders in ESG branding and risk management.

In growing there is engagement with international institutions such as EBRD, IFC, and the ADB. Banks' "C" and "D" ESG professionals described co-operations where green loans financed by the EU required screening against locations such as the Green Technology Selector (GTS), aligning regional lending with global norms.

ESG Integration into Governance and Strategy

Survey results and interviews both indicate a growing institutional commitment to ESG governance. As of 2024, 52% of banks reported having a board-level ESG executive, while 43% established structural ESG units. This contrasts with 2023 figures, where such arrangements were far less common (Survey 2023, p. 9) (Survey 2023).

Internal governance structures are evolving. ESG concerns are now partially integrated into procurement, ethics, and credit policies. However, only 5 banks had specific risk management frameworks for ESG risks, and few incorporated ESG into stress testing scenarios. As noted by the Central Bank's Sustainable Finance Manager, the current taxonomy is at an early stage and needs to be embedded in legal code (Survey 2024, p.13) (Survey 2024).

Although there has been some formalization of certain of the ESG frameworks, interviews uncovered unequal application. Banks "C" and "D" ESG managers explained reliance on hand reports, lack of digital infrastructure, and talent shortcomings in risk analysis. Digitalization of

ESG data systems, reconciliation with IFRS S1/S2 standards, and institutionalization of monitoring for performance are high priorities for this industry.

Regulatory Evolution and Policy Alignment

Both the 2023 and 2024 surveys identify the Central Bank of Azerbaijan as playing the lead role in spearheading the green finance revolution. Some of the key milestones include:

- The Sustainable Finance Roadmap (2023–2026)"
- Adoption of ESG integration into corporate governance standards
- First publication of a national Green Taxonomy
- Launch of guides for environmental risk management

Yet gaps of real necessity remain. Interviews with regulators and MPs indicated green bonds remain uncodified in civil law, ESG disclosure is voluntary, and reporting frameworks are not enforceable by law. Policymakers expressed strong interest in tax incentives and blended finance vehicles but acknowledged the absence of needed legal infrastructure.

Interestingly, the 2024 Survey also shows an evolution: institutions today name fewer regulatory gaps as the largest challenge, and more mention internal capacity and demand factors. This would suggest that the policy environment is evolving faster than institutions are adjusting.

Challenges in Implementation, Opportunities and Forward Momentum

Major green finance implementation challenges were encountered repeatedly in both sets of data:

- Human capability: 59% of banks in 2024 cited insufficient ESG skills as a primary bottleneck.
- Awareness: Low awareness was also the most frequently cited barrier in both years.
- Data infrastructure: Scalability is being affected by manual processes and standardizing performance metrics.
- Market demand: Some respondents included weak public demand for green financial products.

Intriguingly, not a single bank considered green finance unprofitable—hidden interest, only one restrained by systemic strictures.

Azerbaijan's financial system has firm bases for future development in green finance even when at an early stage of maturity:

- Institutional drive: Banks are shifting from CSR to ESG integration into core products.
- Policy harmonization: The Central Bank's roadmap offers a credible direction.

- International alliances: Enhanced connections with development banks and ESG-focused funds.

Both survey and interview findings suggest great latent potential. Institutionalization of reporting standards, incentivization of green investments, and stakeholder capacity building can help Azerbaijan accelerate its transition towards sustainable finance.

The challenges and opportunities in relation to sustainable banking practices are as follows: Lack of awareness and understanding: one of the major concerns in relation to sustainable banking practices is the lack of awareness and understanding of the principles of sustainable banking among the stakeholders. therefore, there is a necessity to create awareness among the stakeholders in relation to the benefits and importance of these practices. Complexity of ESG Integration: Corporate governance integration of ESG factors can be challenging and may require changes in risk management, investment products and strategies. Banks can also be faced with having to identify material ESG indicators, collect available data and follow adequate reporting and reporting procedures. Short-term Financial Pressures: Banks can face challenges to sustainable practices due to short term financing cost or trade-offs. Especially in the companies with low incomes or high capitals, it will be difficult to balance ESG factors with financial performance expectations. Regulatory Uncertainty: variability in the regulatory framework and absence of uniform standards regionally make integration by banks of sustainable practices difficult. Uncertainty of future regulations and compliance is a risk to dissuading long term investment and planning in sustainable ventures. Legacy System Transition: legacy systems and processes will not sufficiently support sustainable financial markets. Re-engineering processes and modernizing technology infrastructure to address security goals is colossal investment and management turnaround.

In this light, the following suggestions can be made to policymakers and banks: Banks must accord highest priority to embracing sustainable banking practices like ESG integration, stakeholder engagement, and transparency to achieve long-term financial success and reduce risks. Banks must invest in robust data management systems, stakeholder engagement systems, and sustainability reporting systems to allow them to track and report their ESG performance. Policymakers must develop enabling regulatory frameworks, incentives, and capacity-building initiatives to promote sustainable finance and responsible banking. Banks, regulators, investors, and civil society stakeholders have to work together to facilitate collective action, sharing of best practices, and collective problem-solving on addressing challenges towards advancing sustainable banking agendas. Sustainable banking is not only a requirement for achieving environmental and social objectives but also assists in promoting long-term financial stability and resilience. By embracing sustainability as a strategic imperative and collaborating with stakeholders, banks and policymakers can encourage a more sustainable and inclusive financial system that addresses the needs of society, the economy, and the environment.

Chapter 6: Conclusion

This thesis explored the relationship between business strategy and sustainability in the banking sector of Azerbaijan based on green finance. It examined how far sustainability issues are being integrated into banks' strategic planning and what facilitates or hinders this within institutional, regulatory, and organizational settings. Based on qualitative interviews among regulators, top managers, and ESG representatives, and second-order data from regulatory reports as well as sector reports, the study provided an empirically grounded and multi-faceted analysis of sustainable finance institutions in Azerbaijan.

Three additional theoretical frameworks on which the study leaned were Institutional Theory, Stakeholder Theory, and the Resource-Based View (RBV). These frameworks allowed mutual conceptualization of the external environment, normative pressures, and competence within the firm to merge in influencing banks' sustainability strategies.

There were several main findings of the study:

1. **Strategic Awareness but Low Integration:** Most Azerbaijani banks are familiar with sustainability and green finance as an emerging requirement. However, actual integration into core corporate strategy remains in its nascent stage. Mission statements may refer to ESG, but operational decision-making and key performance indicators are often not a matter for aligning with long-term sustainability goals.
2. **Institutional Readiness is Uncoordinated:** The regulatory structure, while evolving, is plagued by incoherence and enforceability issues. Institutions like the Central Bank of Azerbaijan (CBAR) have put in place green finance guidelines and a sustainable finance strategy, although these are recommendatory rather than obligatory, hence resulting in patchwork compliance and awareness within banks.
3. **Cultural Inertia and Human Capital Deficiencies:** Banks have no technical expertise and skills to undertake ESG. Sustainability functions, if any, are inadequately staffed or siloed and non-strategic in approach. Cultural inertia, because of conventional business models with a short-term emphasis on profit, also does not allow banks to engage proactively in green finance.
4. **Weak Market Pull and Regulation Pull:** Unlike other more developed financial markets with high regulatory force and investor pressure to drive ESG incorporation, the Azerbaijani market does not experience strong external forces or robust internal incentive frameworks. The mutual absence equates to poor disclosure of ESG, product innovation shortage, and risk aversion in green lending.
5. **Early Adopters and Opportunity Spaces:** In spite of these hurdles, there are some banks that have managed to innovate—designing sustainability-linked loans, ESG-integrated models, and green digital platforms. These institutions show that reputational gains, access to global funds, and long-term resilience can be achieved through successful ESG adoption.

6. Creating Policymaker Commitment: COP-29 in Baku was Azerbaijan's start call, and green finance was a new phenomenon on the national agenda. Policymaking pledges like the establishment of a national Green Taxonomy's initial version and standards of sustainable finance are indicators of the way that strategy is set up. Long-term political commitment, cross-cutting coordination, and building institutional capacity will, however, be needed to implement them.

This thesis offers one of the first empirical studies of green finance within Azerbaijani banking. It adds to the new body of research on sustainable finance in emerging economies and developing economies through context-relevant, stakeholder-focused, and policy-relevant account. Key contributions include:

Demonstrating how sustainability can be strategically framed by banks in emerging markets.

Highlighting the institutional and cultural constraints that inhibit ESG mainstreaming.

Offering evidence-based recommendations for regulatory design, organizational capacity-building, and stakeholder engagement.

Policy and Managerial Implications

For policymakers and regulators:

- **Mandate Disclosure Policy for ESG:** Non-binding policies are of little use. It is important to have stepwise legal obligations starting from disclosure and reporting on governance, sustainability, & risks assessments.
- **Build Institutional Capacities:** Collaborations with foreign institutions and universities necessitate regulators developing significant expertise in ESG and training available for commercial banks.
- **Design Market Incentives:** Support for interest rate subsidies, guarantees for green bonds, and tax incentives should make the balance of expenditure and revenue more favorable for banks to finance green sustainable programs.

For bank chief executive officers:

- **Restructure Management around ESG:** Treating ESG as a matter of marketing sub-brands will ensure lower returns socially and financially. It is necessary to resolve, that willful neglect requires oversight at board, risk management level, and actionable plans.
- **Pre-Emptive Change:** Setting internal policies is the first step to attracting and retaining trained personnel who are ESG practitioners, reskilling organizing, and policy-making will ensure long-term success.
- **Collaborate with Other Organizations:** Share and co-invest in provisioning ESG data and information to increase industry pace, lower cost, and learn faster.

For development banks and international partners:

- Focus on framework appropriation under sustainable finance: Help should enable bridging resources and public-private cooperation rather than funding designs.

Limitations of the Study

Even though this work gives compelling evidence, certain limitations must be acknowledged:

- Scope of Stakeholders: The study reached senior regulators and senior executives but failed to obtain the voice of borrowers and civil society actors. Their voices should be addressed in future studies for a more comprehensive view.
- Time Sensitive: The data collection constitutes a snapshot of a fast-changing policy environment, especially with regard to post-COP29 developments. Some regulatory initiatives may have advanced or shifted since the interviews were completed.
- Generalizability: Implications may apply to similar resource-rich emerging economies in Asia, but the direct extrapolation of findings to any other regions remains limited from an institutional and cultural viewpoint.
- One of the major drawbacks of this study is in terms of access and availability of interviewees. While the study was designed to take extensive opinions within the Azerbaijani banking sector, outreach to about a dozen additional banks authenticated a systemic constraint: most declined participation on the grounds that they did not have dedicated sustainability officers or ESG departments. This overall absence of institutional mechanisms for sustainability did not only limit the range of qualitative data collection but also pointed to a salient empirical fact—the fact that sustainability is not yet operationally anchored in the majority of Azerbaijani banks. Accordingly, although the study offers data from banks and stakeholders which are relatively more advanced in taking up ESG, it may exaggerate progressive cases relative to the overall sectoral benchmark. This deficit, however, is revealing in and of itself: it reveals just how embryonic the green finance transformation is, and how pressing institutional capacity-building still is to a system-wide change.

Recommendations for Future Research

- Longitudinal Studies: Future work should trace the long-term evolution of green finance use, especially as regulatory regimes solidify, and institutional capacities become more developed.
- Comparative Analysis: Post-Soviet or upper-middle-income economy cross-country analyses between Azerbaijan and other countries could release significant policy and market information.

Final Reflections

Concrete sustainability-related concerns are now incumbent on the entire banking industry. As the global financial sector pursues climate resilience and green innovation, Azerbaijani banks find themselves at a crossroads. Pressing in recent times from ideal policy declarations, international meetings such as COP29, and early green finance implementers mentioned by way of example,

the window is now open. But, without bold institutional changes, continuous capacity-building efforts, and restructuring of market incentives, the window may shut before we see any tangible changes.

This thesis seeks to shine light on both sides of green finance in Azerbaijan: its potentials and its challenges. This thesis exemplifies that the rhetoric is copious, yet in terms of systemic change, the bulk remains to be done." There is need now for strategic leadership to turn the talking into action within government and the financial institutions. With such strategic leadership, the banking sector would then be able to act as a credible vehicle undergoing transition toward green development objectives and shining examples for other transition economies in sustainable finance capital.

Beyond banking and regulation, this research proposes a thought: could green finance transitioning in Azerbaijan serve as a facilitator for cultural and generational shifts? As young professionals drift into the financial sector, many received training abroad, are digitally native, and operate on global sustainability norms-they think in ways that are fundamentally different from the legacy models that dominate today. The slow move of the people from this demographic is a revolutionary happening. The result is a fresh way of thinking about money in the society that is based on responsibility, creativity, and the ability to last. Green finance is beyond just climate goals or ESG metrics to a point that it is the change in the design of the future of trust, leadership, and purpose in Azerbaijani finance. This new financial morality that is slowly being sown...

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