IDENTIFICATION AND USE OF SUSTAINABILITY AND RESILIENCE INDICATORS WITHIN BANKING INSTITUTIONS

Viorica POPA [10]

Abstract:

Organizational assessment and reporting on sustainability, a tool developed and conceptualized in the middle of the 20th century in the context of cooperative activity, is expanding and becoming an important tool for measuring and communicating organizational performance in order to achieve the objective of sustainable development, accountability for this performance to internal and external stakeholders. A sustainability report also presents the organization's values and governance model and demonstrates the link between its strategy and its commitment to a sustainable global economy." Increasingly, corporate sustainability reports take the SDGs into account. Through Directive 2014/95, the EU introduced, for certain large companies, the obligation of non-financial reporting in relation to certain minimum sustainability information. The reporting methods applied differ depending on the entity's management requests, the nature and usefulness of the non-financial information presented. The article was developed within the framework of Subprogram 030101 „Strengthening the resilience, competitiveness, and sustainability of the economy of the Republic of Moldova in the context of the accession process to the European Union", institutional funding.

Keywords: *Sustainable indicators, organization, research, sustainable, development, resilience.*

JEL classification: *J24, O15, I23*

Introduction

The Republic of Moldova's commitment to sustainable development is based on the commitment to comply with the 2030 Agenda, as well as on the country's European path, stemming from the reflection of sustainable development in the EU treaties. Organizational sustainability assessment and reporting, a tool developed and conceptualized in the mid-20th century in the context of cooperative activity, is expanding and becoming an important tool for measuring and communicating organizational performance in order to achieve the goal of sustainable development, accountability for this performance to internal and external stakeholders.

The Global Reporting Initiative, a major player supporting this development by proposing the most commonly used standards, considered as a reference by the European Commission bodies when developing recommendations, defines sustainability reporting as "a report published by a company or organization on the economic, social and environmental impact caused by its daily activities. A sustainability report also presents the values of the organization and its governance model and demonstrates the link between its strategy and its commitment to a sustainable global economy". Increasingly, companies' sustainability

[10] *PhD in economics, coordinator researcher, National Institute for Economic Research, AESM, Chisinau, Republic of Moldova, e-mail violin_s@yahoo.com*

reports take into account the SDGs. Through Directive 2014/95, the EU introduced, for certain large companies, the obligation of non-financial reporting in relation to certain minimum sustainability information. The reporting methods applied differ depending on the requests of the entity's management, the nature and usefulness of the non-financial information presented. In this context, the application of a specific grid for group reporting is at the forefront, but international standards are also applied, such as, for example, the Global Reporting Initiative, UN Global Compact, AA1000, SA8000, ISAE3000, etc. (Chorafas, D. N et al., 2021).

Sustainability reporting within banking institutions is a new tool in the case of the Republic of Moldova, being present only sequentially. Some local entities develop reports requested by the non-resident parent entity or voluntarily advocate for the application of European regulations, which allows them to align with international data reporting requirements. The US Agency for International Development (USAID), in partnership with FHI 360 and the International Center for Not-for-Profit Law (ICNL), and the local partner - the Center for Organizational Training and Consulting (CICO), is implementing the Civil Society Organizations Sustainability Index. This index, applied for a quarter of a century, although focused on the analysis of seven key dimensions (legal framework, organizational capacity, financial viability, advocacy, service delivery, sectoral infrastructure and public image), represents not only an assessment tool but also a basis for developing support measures for these organizations (European Central Bank et al., 2020).

The importance of expanding the application of the sustainability assessment of organizations is particularly relevant at the national level, given the continuous increase in the interest of stakeholders and organizations in non-financial information. Making the implementation process more efficient depends on the capacity to develop national expertise, adopt and adjust sets of indicators, including the evaluation methodology based on indicators, based on the specific needs of different types of organizations at the national level and the European experience. Achieving sustainability and the multiplier effect of the action is ensured by involving young people and integrating capacities from the research and education system (Gintz, D., & Miazga, M. et al., 2020).

The activity is to respond to the evaluation and reporting needs of organizations and stakeholders, considering the contribution of this exercise to democratization and transparency, to the development of adjustment and development strategies, to the completion of the SDG implementation tools. The implementation of the exercise at the national level, through an integration of the functional assessment needs of the organizations and the information of significant importance for the stakeholders, will allow to ensure the implementation of an exercise adapted to the local specifics, with the construction of a vision of implementation in stages, of training the necessary expertise and on the regulatory framework and existing practices at the national level. The implementation of the Project will contribute to reducing the costs of the model extension by considering the possibilities of automating the data collection process in order to increase their efficiency and comparability, selecting the most optimal models and methods based on international practice, identifying the information of significant importance to be considered in the first stages of implementation, ensuring the contributory basis for the training of specialists. The prior identification of the implementation challenges will represent a basis for facilitating the expansion of the practices (Grewal, J., & Serafeim, G. et al., 2019).

Sustainability assessment is the basis for extending complex approaches with a broad scope from the analysis of an organization's impact on the environment to a more comprehensive analysis of sustainability in its operational processes as a whole, examining the interdependence between the organization's impact on the environment and environmental changes on the organization's activity.

Literature Review

Banks and other financial institutions are intensely engaged in channelling financial resources toward sustainable activities (Cerqueti et al., 2023) through investment strategies (Xia et al., 2023). The SRP has become the core of the business strategy irrespective of the type of business operations (Ghosh, 2017). The stakeholder theory emphasises the importance of corporate disclosure in advancing the interests of stakeholders and society. According to the theory, firms must report all sustainability issues to maintain long-term stakeholder relationships (Freeman, 1994). Contemporary empirical literature noted the relevance of SRP in the banking industry considering the significant impact on society through investment and lending operations (Nobanee & Ellili, 2016; Islam & Kokubu, 2018). Bank strategies must undergo a paradigm shift to integrate ESG considerations into banking activities and advance sustainable development. Several national and international standard-setting bodies, including the United Nations Global Compact (UNGC) principles, have proposed environmental reporting frameworks, which organisations have widely embraced to improve ESG enactment. Consequently, to keep the stakeholders well-informed on business affairs and communicate ESG-based performance, sustainability reporting has become more popular and important over the past couple of years through BRR, SRP, CSR reports, and similar formats (Khan et al., 2009). In fact, any firm has explicit costs and implicit costs. The firm that attempts to decrease its implicit costs by being socially irresponsible will certainly incur additional explicit costs. Therefore, managers should satisfy the needs of all stakeholders, not just investors or shareholders (Melé, 2008) whereas sustainability reporting satisfy stakeholders' needs.

According to the trade-off hypothesis or traditionalist view (Friedman, 2007), there is a negative relationship between sustainability and financial performance. Spending resources to accomplish social and environmental goals (such as investment in pollution reduction, higher employee wages and benefits, donations, and sponsorships for the community) increase costs, harm profitability and impair competitive advantage (Galant & Cadez, 2017). Thus, firms should not be engaged in sustainability activities unless they have excess returns. Manchiraju and Rajgopal (2017) showed that forcing firms to invest in sustainability activities leads to a drop in their returns. The trade-off theory suggests that sustainability practices create additional expenses that reduce profitability (Aupperle et al., 1985). Firms that spend on sustainability activities will have lower profits (Balabanis et al., 1998; Friedman, 2007).

The results of research and discussions

Sustainability reporting in the banking system refers to the process by which banks present their economic, social and environmental impact on society and the environment, in order to demonstrate their responsibility towards sustainability. In the financial context, this type of reporting has become increasingly important due to strict regulations, customer and investor requirements and the need to support a transition to greener and fairer economies. In this sense, sustainability reporting for banks in the European Union (and beyond) has been regulated by directives such as the EU Corporate Sustainability Reporting Directive (CSRD), which replaced the old NFRD (Non-Financial Reporting Directive).

The banking financial system functions as a relay in the orientation of funds in the economy, so, in the context of ESG priorities, it has an increasingly defined and regulated mission to monitor and direct capital towards sustainable development according to the 2030 Agenda and the objectives of the transition to a low-carbon economy. In this regard, in recent years, over 10 new regulations have emerged (many of them from the European Commission, the European Central Bank and the European Banking Authority) with numerous requirements that also target the financial banking system in the Republic of Moldova.

In this context, the ESG (Environmental, Social, and Governance) strategy in the banking sector refers to the integration of environmental, social and governance factors into banking activities and decisions. Banks are subject to an increasingly rigorous regulatory framework, and the implementation of ESG strategies has become a priority not only for compliance with regulations, but also for building a solid reputation and responding to market demands.

Table 1

ESG strategy in the banking sector

Aspects of ESG strategy in the banking sector	
Environmental (E)	**Reducing carbon footprint:** *Banks can invest in green energy projects or adopt sustainable internal practices (e.g., using renewable energy in their offices).*
	Managing climate risk: Assessing and integrating climate risk into the lending process. For example, banks can refuse to finance polluting or climate-risk industries.
	***Financing environmental projects**: Banks can support companies that focus on developing green solutions or reducing their environmental impact, such as renewable energy solutions, sustainable transportation, or efficient resource management.*
Social (S)	***Social impact of financial decisions:** Banks can implement policies that promote financial inclusion, by providing affordable credit or by supporting small and medium-sized enterprises.*
	***Responsibility to employees:** Creating a safe and inclusive work environment, promoting diversity and equal opportunities*
	Measures against discrimination: Banks should adopt clear policies to prevent discrimination based on gender, age, race or other protected categories.
Governance (G)	***Transparency in decision-making**: Adopting corporate governance practices that ensure transparency to shareholders and other stakeholders, for example, by publishing annual ESG reports.*
	***Governance and compliance committees:** Creating committees dedicated to ESG responsibilities and aligning with international governance standards, such as OECD regulations or local legislation.*
	***Prevention of corruption:** Banks should apply rigorous control over corruption risks, including through compliance policies, internal audit and ongoing monitoring.*

Source: elaborated by the author.

Society and governments attach great importance to the growth of these aspects, so that the rating of companies is influenced by their ESG profile - therefore, the ESG policy begins to influence the market value and cost of financing of any entity.

In the context of the rapid expansion of new technologies and constantly changing market requirements, the banking community in the Republic of Moldova promotes projects of national and international scope and communicates to the market the role of the banking system in contributing to consumer welfare and economic development by increasing financial inclusion, increasing financial intermediation on a sustainable basis and reducing risks/barriers. The banking community has a key role in supporting companies in the transition to a green economy and supports the transition to climate transition financing through the development of green products. It is also considered that the implementation of the Action Plan on Sustainable Finance must reflect developments in the real economy.

Banking institutions in the Republic of Moldova are involved in promoting and implementing ESG strategy in the banking sector, with important steps being taken in this regard:

- ✓ *Clear internal policies and strategies:* Each bank must have specific internal ESG policies that apply to all its activities, including at the level of the loan portfolio, investments and customer relationships.
- ✓ *ESG risk assessment:* Banks can implement ESG risk assessment systems to help identify and manage environmental, social and governance risks.
- ✓ *Training and education for employees:* Bank staff must be trained to understand the importance of ESG and how to apply these principles in customer interactions and internal decisions.
- ✓ *Collaboration with other financial institutions:* Banks can collaborate internationally to establish common standards and share best practices regarding the implementation of ESG strategies (OECD et al., 2020).

To this end, we encourage companies to pay increased attention to these data, and if they already have a sustainability strategy or if ESG aspects are embedded in the business strategy, to make their long/medium and short-term objectives known to their banking partners. For each of the ESG components – environmental/social/governance, it is recommended that the objectives set be adapted to the specifics of the industry and the positive or negative impact of the company in the ESG areas. For example, such objectives may target actions such as 100% energy consumption from renewable sources, reducing or eliminating plastic from packaging, energy efficiency in company operations, adapting services to serve vulnerable categories. Each commercial bank will analyze within the internal lending process the information collected from companies, which may include, without being limited to those from the perspective of environmental, social and corporate governance principles, those usual in lending analysis in compliance with the regulations in force (Pereira, C. S., & Pereira, J. M. et al., 2020).

In the Republic of Moldova, ESG (Environmental, Social, Governance) regulations for the banking sector are still in their early stages, but there are important steps towards implementing international and European standards. Although local legislation is not yet as mature as in the European Union, there are regulations aimed at encouraging a transition to a more sustainable and responsible financial sector. Although Moldova is not part of the European Union, European regulations significantly influence national legislation, especially in the context of association agreements and economic integration. The main European regulations relevant to the banking sector in Moldova include:

a. Sustainable Finance Disclosure Regulation (SFDR): The Sustainable Finance Disclosure Regulation (SFDR) is a European regulation that requires financial institutions, including banks, to disclose how they take ESG factors into account in the management of their assets. It is part of a broader package of regulations aimed at integrating sustainability criteria into the financial sector. Although Moldova is not part of the EU, many international banks operating in the Moldovan market follow these regulations, and the Moldovan authorities are starting to implement similar regulations as part of the financial sector reform process.

b. European Taxonomy - The EU Taxonomy provides a common system for classifying economic activities that can be considered environmentally sustainable. Even if Moldova has not yet directly adopted this taxonomy, local financial institutions are likely to be influenced by this regulation in the context of their investment and lending activities, especially given the economic ties with the European Union.

c. NFRD and CSRD Directives - The Non-Financial Reporting Directive (NFRD) and the new CSRD Directive require large companies to report information on their ESG performance. Similarly, Moldovan banks that are subsidiaries of European groups will be influenced by these regulations, and the tendency is for local authorities to adopt similar measures in the near future.

Local ESG regulations for the banking sector in the Republic of Moldova - local regulations are less developed in the field of ESG compared to the European Union, but there are some initiatives that reflect concerns about sustainability and governance:

a. Law on Environmental Protection and Ecological Policy - While there are no specific regulations requiring banks to adopt detailed ESG policies, there are general laws regulating environmental protection, to which banks can contribute through their financing and investment policies. Banks are encouraged to support green projects, such as renewable energy or energy efficiency, by providing loans or financing in these areas.

b. Civil Code and governance regulations - Existing regulations regarding corporate governance in Moldova include requirements for transparency, financial reporting and accountability. Although not always focused on ESG principles, they are considered fundamentals of good governance, and financial institutions are subject to these rules. In addition, the Moldovan authorities are focusing on improving corporate governance standards.

c. National Bank of Moldova (NBM) regulations - The National Bank of Moldova has adopted regulations requiring financial institutions to have a risk management system, including environmental and social risks, which may affect long-term financial stability. In this regard, the NBM promotes responsible risk management, and Moldovan banks are encouraged to take into account climate change risks and the social impact of their activities. The NBM has also adopted regulations for the transparency of financial institutions and for consumer protection, which may be related to social aspects of ESG.

d. International initiatives and partnership agreements - Several Moldovan banks are part of international financial groups that promote ESG principles. For example, banks that are part of large groups will apply the ESG regulations and standards imposed by the parent group. Association and cooperation agreements with international organizations, such as the World Bank or the International Monetary Fund, may also indirectly influence the adoption of ESG policies and practices in the Moldovan banking sector (Ernst & Young (EY). et al., 2020).

Increasing ESG transparency and reporting: Moldovan authorities may implement stricter ESG reporting regulations in the future, especially for banks and large financial institutions. Such regulation could include reporting obligations on the social and environmental impact of financial and investment activities.

Sustainable finance: There is a growing trend in financing sustainable projects, including in the field of green energy and energy efficiency. Moldovan banks may be encouraged to adopt financial policies that support these areas.

Regulatory infrastructure challenges: One of the major challenges remains the lack of a clearly defined legislative and regulatory framework in the field of ESG. Currently, there is a growing need to create a more detailed legal framework that supports the implementation of good ESG practices in the banking sector.

To obtain a green loan, companies must meet the bank's requirements in terms of sustainability, demonstrate positive environmental impact, and ensure transparency and compliance with environmental regulations. It is also essential that the project is well documented, assessed, and certifiable, and that the company demonstrates a clear strategy for its implementation. This type of financing can represent a valuable opportunity for companies that want to contribute to environmental protection and access favorable financial conditions.

Table 2

Principles of obtaining a "green" loan from banks	
Defining a "green" project	*Eligible projects: First, the company must define a project that meets the "green" criteria set by the bank or sustainable finance rules (such as the EU Taxonomy or international regulations). These may include investments in renewable energy technologies (solar, wind, hydropower), energy-efficient infrastructure, carbon reduction projects, or waste and water management projects. Environmental impact assessment: Projects must demonstrate a significant contribution to environmental protection, such as reducing greenhouse gas emissions, saving natural resources, or improving energy efficiency.*
	Eligible projects: First, the company must define a project that meets the "green" criteria set by the bank or sustainable finance rules (such as the EU Taxonomy or international regulations). These may include investments in renewable energy technologies (solar, wind, hydropower), energy-efficient infrastructure, carbon reduction projects, or waste and water management projects. Environmental impact assessment: Projects must demonstrate a significant contribution to environmental protection, such as reducing greenhouse gas emissions, saving natural resources, or improving energy efficiency.
Developing a sustainability plan	*Companies must submit a sustainability plan that details the project's objectives, activities and expected environmental outcomes. This plan should include clear information on:* ✓ *Carbon footprint* ✓ *Use of renewable energy sources* ✓ *Environmental impact* ✓ *Any environmental or ecological certifications the company holds, if applicable (e.g. ISO 14001 for environmental management).*
Risk assessment and regulatory compliance	*Environmental due diligence: Banks will conduct a detailed assessment of the project to ensure that it complies with environmental standards. This process may include environmental risk analysis, assessment of the impact on local ecosystems, and verification of compliance with national and international environmental regulations.*
	Compliance with European taxonomy (for banks applying EU standards): If the bank follows European regulations (such as the EU Taxonomy for Sustainable Activities), the company must demonstrate that its project complies with these regulations, demonstrating that the economic activity in which it invests can be considered "green" or sustainable.
Submitting a Complete File to the Bank	*The company must prepare a complete dossier containing details about the green project, the expected environmental impact, the implementation strategy and the financial projections. It is also important to include information about environmental risks and their management plans.*
	If the project includes investments in innovative technology or infrastructure (for example, carbon capture technologies or renewable energy), a detailed feasibility assessment may also be required.
Getting Green Certification	*Some banks may require that green projects have external certification, issued by recognized organizations that validate that the project complies with environmental standards. Certifications may also include independent verifications of the project's environmental impact.*
The Benefits of Getting a Green Loan	*Favorable financial conditions: Banks often offer more advantageous loan terms for green projects, such as lower interest rates or longer repayment periods, as they are considered safer in the long term and contribute to achieving global sustainability goals*
	Access to European or international funds: In some cases, banks can facilitate access to additional funds from European or international sources for green

	projects. For example, through EU cohesion funds or other international financial institutions that support sustainable development.
Monitoring and Reporting Progress	*Ongoing monitoring: After granting the loan, banks will track the progress of the project, ensuring that the environmental objectives are met. This may include regular reporting on the project's environmental performance.*
	Reporting according to ESG standards: If the company is large or operates in international markets, it may be required to report according to relevant ESG standards, such as CSRD standards or other European or international regulations.
Partnerships and Collaborations	*Some banks collaborate with international organizations and environmental agencies to financially support sustainable projects. Companies can benefit from such partnerships to access funds and demonstrate their commitment to sustainability.*

Source: elaborated by the author

Companies wishing to obtain "green" loans (financing for environmentally sustainable projects) from banks must meet certain conditions and follow a specific process. These loans are granted to support projects that have a positive impact on the environment, such as investments in renewable energy, energy efficiency, CO_2 emission reduction, sustainable management of natural resources or biodiversity protection.

In this context, the Moldovan banking sector is in the process of integrating ESG principles, but there are still challenges related to the implementation of a complete and coherent regulatory framework. European regulations will continue to influence the local banking sector, and gradually, the Moldovan authorities will adopt measures to support the transition to more sustainable and responsible financing.

Conclusions

The identification and use of sustainability performance indicators by banking institutions will lead to better communication with external stakeholders on the achievement of sustainable development objectives and the positioning of banks in a sustainable environment and in step with current realities. The potential of these indicators is manifested, including, by promoting sound and sustainable investment decisions by companies.

Sustainability assessment and reporting is a response to the demand of investors, markets, civil society and consumers. Although the public and private sectors are based on different driving forces, stakeholder satisfaction is essential for both sectors, the motivations and benefits of reporting, both in the private and public sectors, being in some respects similar based on the two fundamental purposes, as a management tool and as a reporting tool at the management or organizational level. The implementation of the ESG strategy in the banking sector is not just a trend, but a necessity in the context in which banks must respond to the increasing demands of the market and international regulations. By integrating these principles, banks can contribute to the development of a sustainable and responsible economy, and at the same time, they can protect and improve their position in the market.

The implementation of the organizational sustainability assessment represents an action to facilitate, at the micro and macro level, sustainable development approaches, to establish conditions for increasing the country's investment attractiveness, to democratize processes and to promote sustainable management practices. The action will contribute to facilitating the European integration process, by contributing at the micro and macro level to the adoption of practices and approaches established at the European level. From the point of view of the obligations assumed by the Republic of Moldova, it is related to facilitating the achievement of the SDGs and the process of adopting the European acquis.

ACKNOWLEDGMENT: *This study was developed within the framework of Subprogram 030101 „Strengthening the resilience, competitiveness, and sustainability of the economy of the Republic of Moldova in the context of the accession process to the European Union", institutional funding.*

Bibliography

1. Bassen, A., & Kovacs, A. M. (2008). *Environmental, Social and Governance Key Performance Indicators from a Capital Market Perspective*. *Journal of Business Ethics*, 85(4), 39-52.
2. Batten, S., & Sowerbutts, R. (2018). Climate Change and the Financial Sector: An Overview of Risk and Resilience Indicators. International Review of Financial Analysis, 59, 27-37.
3. Chorafas, D. N. (2021). *Sustainable Finance: The Future of Banking and Investing*. Academic Press.
4. Clarke, T. (2019). The Governance of Financial Institutions: Banking and Beyond. Routledge.
5. Del Bosco, B., & Misani, N. (2020). *The Role of Banks in Promoting Environmental, Social, and Governance (ESG) Strategies in Their Financing Activities*. *International Journal of Business and Society*, 21(2), 497-520.
6. Deloitte. (2021). Global ESG Banking Report: A New Era of Sustainable Finance.
7. Ernst & Young (EY). (2020). *How ESG Factors are Reshaping the Banking Industry: Trends and Insights*.
8. European Central Bank (ECB). (2020). *Sustainability Indicators and Resilience in Banking Supervision*.
9. Friede, G., Busch, T., & Bassen, A. (2015). *ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies*. Springer.
10. Gintz, D., & Miazga, M. (2020). *Sustainability and Resilience in Banking: Key Metrics for Performance and Risk Management*. *Journal of Sustainable Finance & Investment*, 10(4), 292-310.
11. Grewal, J., & Serafeim, G. (2019). *Research on ESG and the Role of Financial Institutions*. *Journal of Applied Corporate Finance*, 31(2), 76-89.
12. International Finance Corporation (IFC). (2020). *Sustainable Banking and Finance in Emerging Markets: A Guide to Integrating Environmental, Social, and Governance Risks and Opportunities*.
13. Meier, A., & Schmittmann, J. (2021). *Resilience Indicators in the Banking Sector: Developing a New Framework for Assessing Financial Institutions' Capacity to Absorb Shocks*. *Journal of Financial Regulation and Compliance*, 29(3), 410-425
14. OECD. (2020). *Sustainability Metrics and Resilience Indicators for Banks: Best Practices and Frameworks for Financial Institutions.*
15. Pereira, C. S., & Pereira, J. M. (2020). *The Role of Banks in Promoting ESG: A Systematic Literature Review*. *Journal of Sustainable Finance & Investment*, 10(2), 162-189.
16. The Institute of International Finance (IIF). (2020). *ESG in Banking: A Global Benchmark Survey*.
17. Vasileva, D., & Yordanova, M. (2019). *ESG Performance and Bank Profitability: A European Perspective*. *Financial Innovation*, 5(1), 1-21.
18. Vives, X. (2017). *The Bank Business Model: Sustainability and Resilience*. Oxford University Press.
19. World Bank Group. (2020). *Sustainable Finance in Banks: A Framework for Identifying Sustainability and Resilience Indicators*.
20. World Economic Forum (WEF). (2020). *The Future of Sustainable Banking: Trends, Challenges, and Opportunities*.
21. Zhang, Y., & Wei, Z. (2019). *The Role of Resilience Indicators in Enhancing the Sustainability of Banking Institutions*. *Sustainability*, 11(24), 7149.