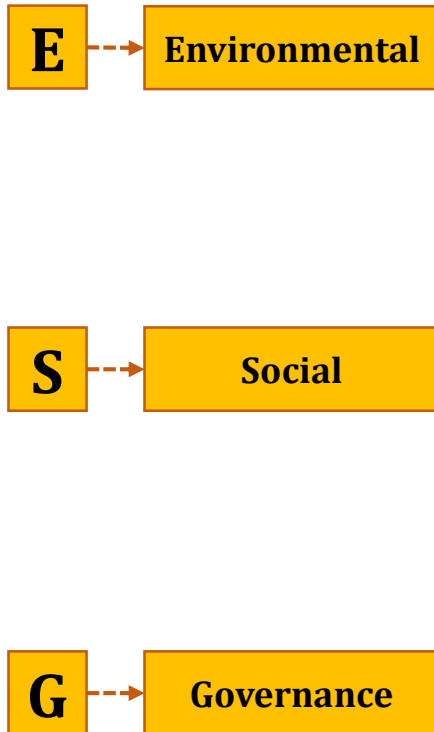# ESG rating of the Lipetsk region

Vladimir Gorchakov
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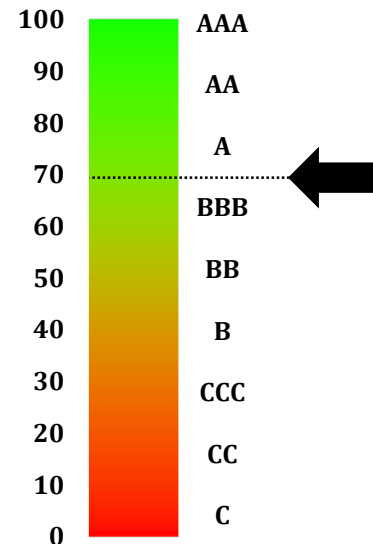gorchakov@raexpert.eu

Frankfurt am Main, December 2019

Our ESG rating

ESG?

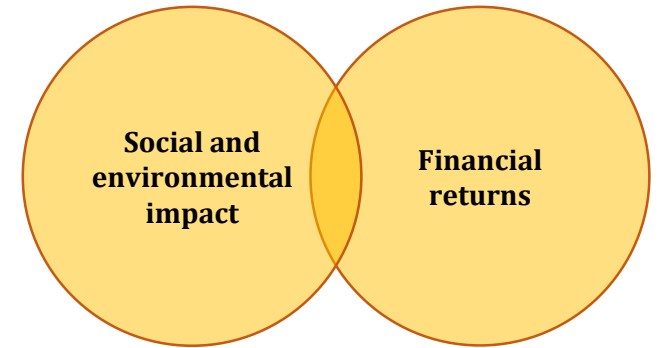|	
E --→	**Environmental**
S --→	**Social**
G --→	**Governance**

What is an ESG rating?

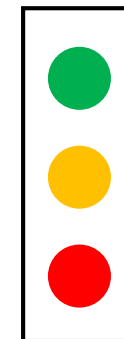*A measure of how well an entity manages its exposure to environmental, social and governance risks and opportunities.*

100	AAA
90	AA
80	A
70	BBB
60	BB
50	
40	B
30	CCC
20	CC
10	
0	C

What are the benefits?

For Investors

Social and environmental impact

Financial returns

For the rated entity

Signal for investors and consumers

The ESG rating process

Data Input → Data Analysis → Preliminary Score Calculation → Final Score Calculation

E
S
G
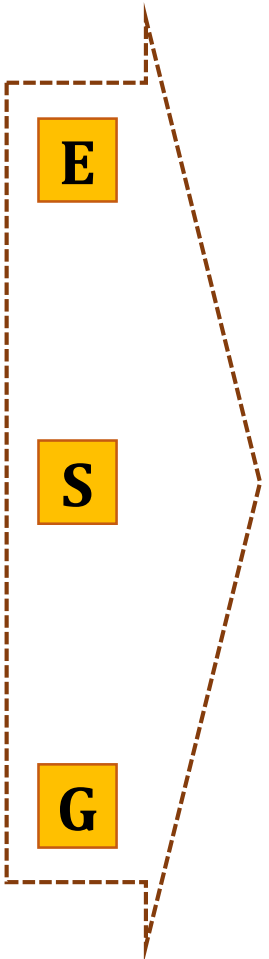
Sources of information:

- Rated entity
- Government
- Media
- Other public sources

The ESG rating process

Data Input → Data Analysis → Preliminary Score Calculation → Final Score Calculation

E

S

G

Current and potential exposures

↓

Policies in place and level of reporting

↓

Performance shown by empirical evidence

The ESG rating process

Data Input → Data Analysis → Preliminary Score Calculation → Final Score Calculation
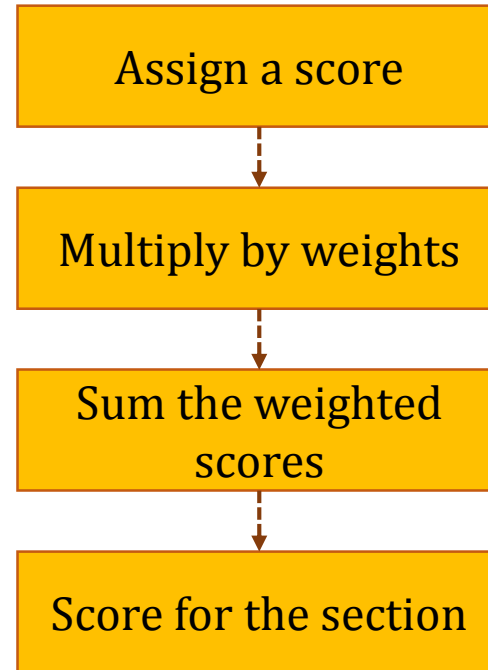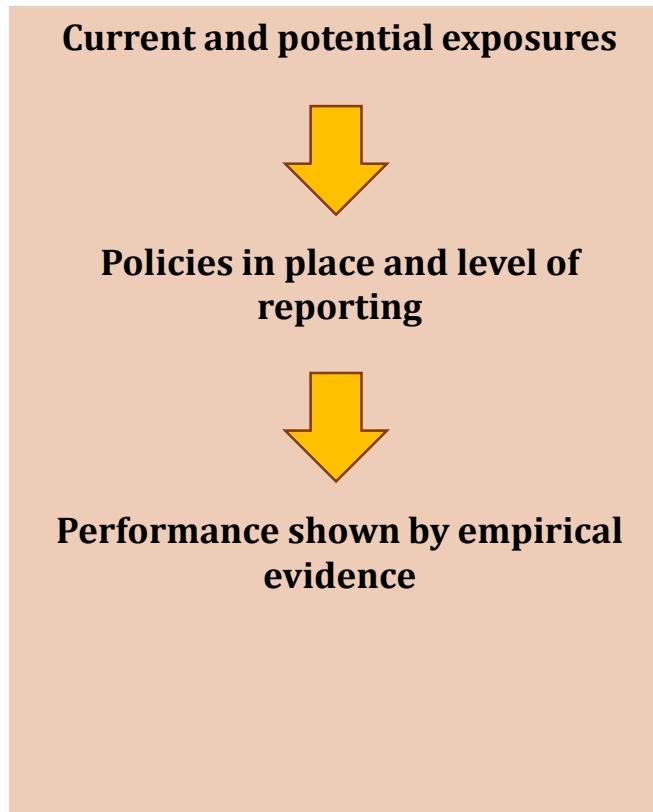
E

S

G
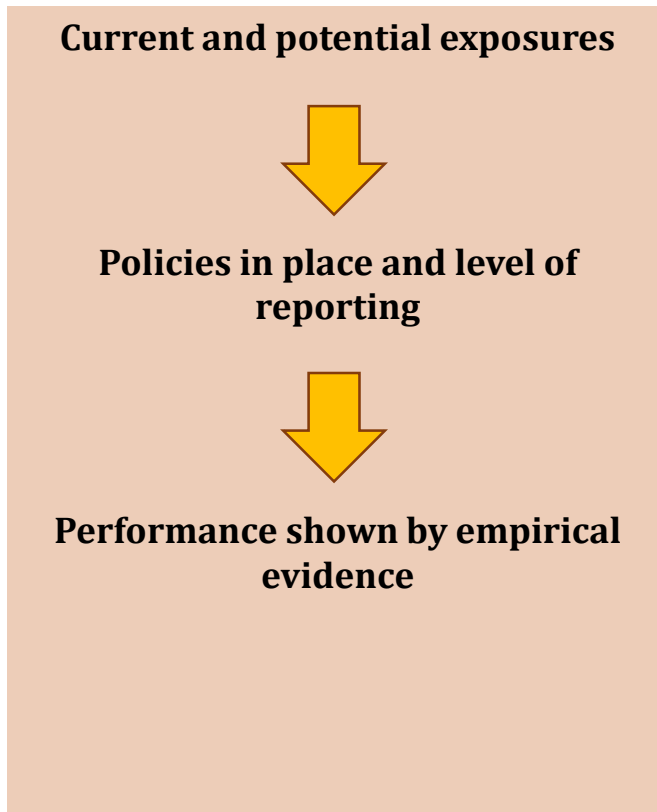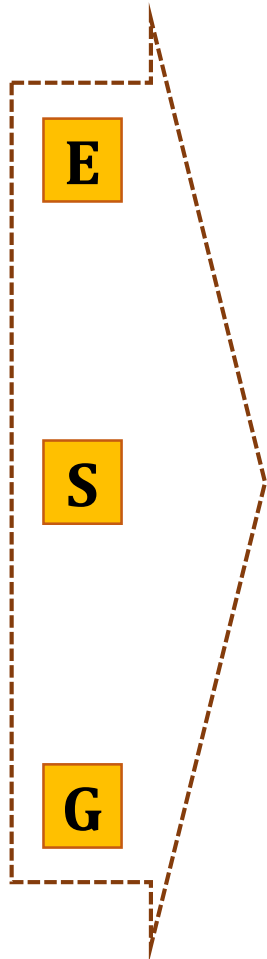
Current and potential exposures

Corruption.

Policies in place and level of reporting

The entity has a strong anti-corruption and compliance policies.

Performance shown by empirical evidence

The entity is not under investigation for corruption, bribery or any other type of fraud.

The ESG rating process

Data Input → Data Analysis → Preliminary Score Calculation → Final Score Calculation

E
S
G

Current and potential exposures

↓

Policies in place and level of reporting

↓

Performance shown by empirical evidence

Assign a score

↓

Multiply by weights

↓

Sum the weighted scores

↓

Score for the section

The ESG rating process

Data Input → Data Analysis → Preliminary Score Calculation → Final Score Calculation

E **S** **G**

Current and potential exposures

⬇

Policies in place and level of reporting

⬇

Performance shown by empirical evidence

Assign a score

⬇

Multiply by weights

⬇

Sum the weighted scores

⬇

Score for the section

Score	ESG	E	S	G
89 - 100%	AAA[esg]	AAA[e]	AAA[s]	AAA[g]
78 - 89%	AA[esg]	AA[e]	AA[s]	AA[g]
67 - 78%	A[esg]	A[e]	A[s]	A[g]
56 - 67%	BBB[esg]	BBB[e]	BBB[s]	BBB[g]
44 - 56%	BB[esg]	BB[e]	BB[s]	BB[g]
33 - 44%	B[esg]	B[e]	B[s]	B[g]
22 - 33%	CCC[esg]	CCC[e]	CCC[s]	CCC[g]
11 - 22%	CC[esg]	CC[e]	CC[s]	CC[g]
0 - 11%	C[esg]	C[e]	C[s]	C[g]

E 78% AA[e]

S 60% BBB[s]

G 68% A[g]

A[esg]
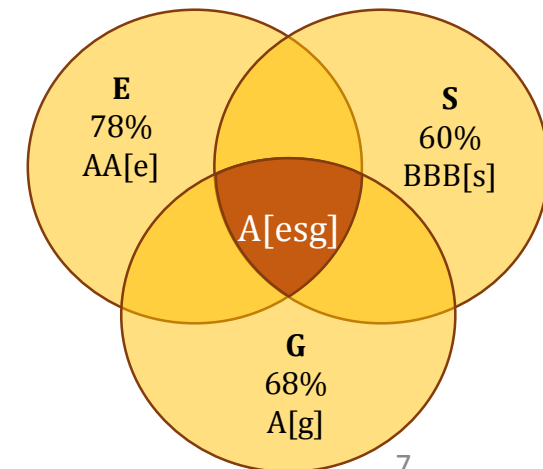
Why an ESG rating?

ESG and Credit ratings not correlated
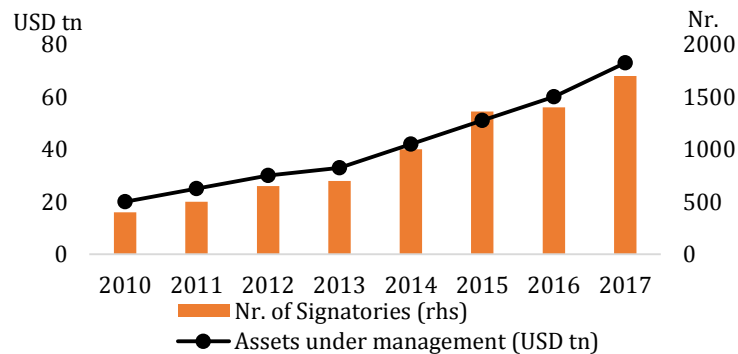

Source: Allianz Global Investors
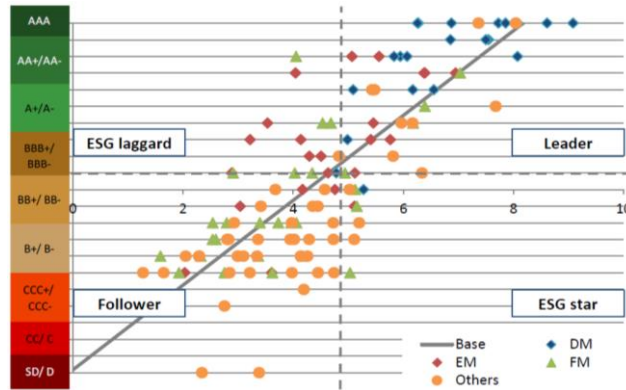
Positive overall performance

- Corporate financial performance
- Better returns on bonds
- Lower cost of capital
- Better operational performance
- Less volatile

Source: Deutsche Bank, Morgan Stanley Institute for Responsible Investing, University of Oxford

UNPRI Signatories

Source: RAEX Europe based on data from the UN

Demand

90% of millennials are more interested in responsible investing.

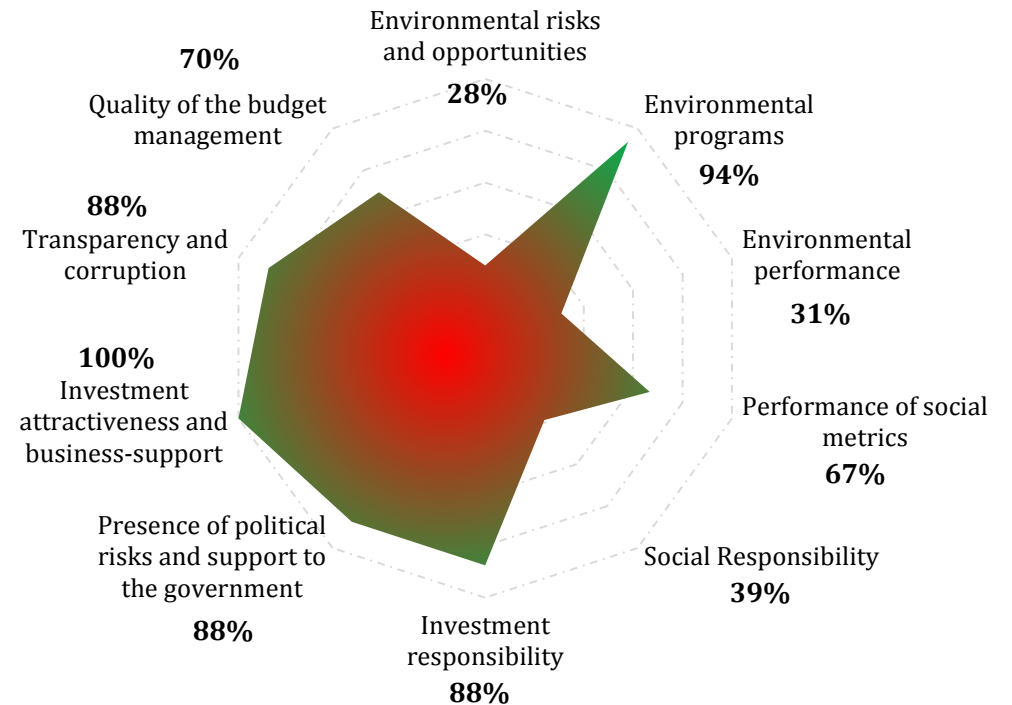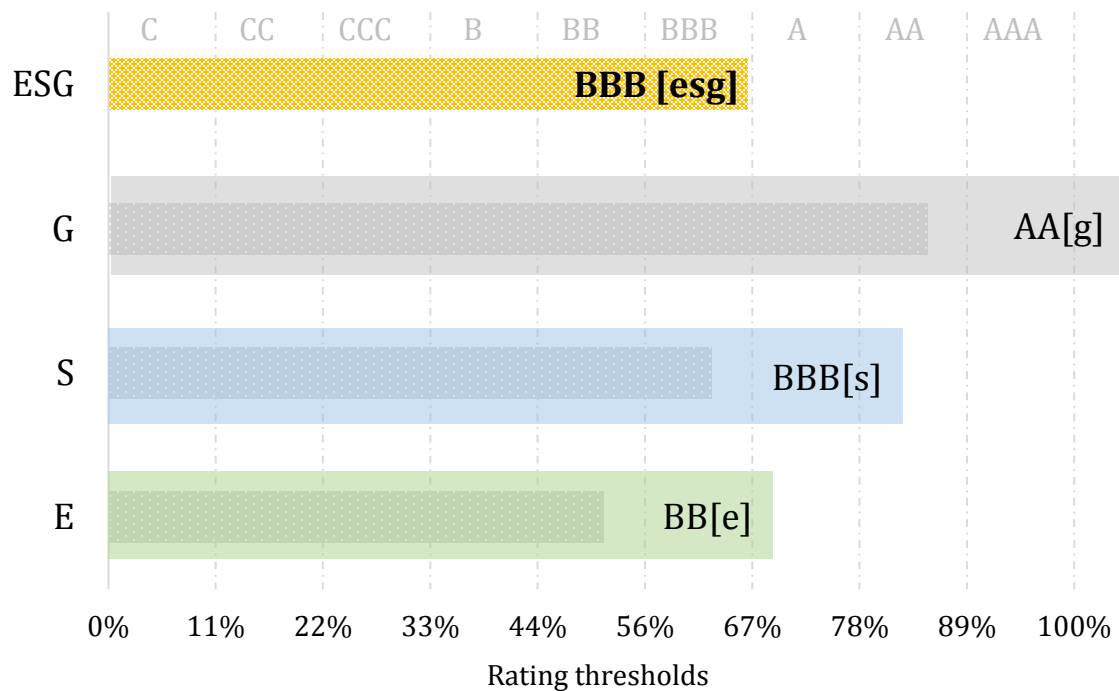**60%** of assets under management could be influenced by some sort of ESG motivated policy or regulation.

Source: TIIA, Investment Company Institute

ESG Rating of the Lipetsk region

ESG score and rating per section:

ESG: BBB[esg] 🔺

- E: BB[e] 🔺
- S: BBB[s] 🔺
- G: AA[g] 🔺

	C	CC	CCC	B	BB	BBB	A	AA	AAA
ESG						**BBB [esg]**			
G								AA[g]	
S						BBB[s]			
E					BB[e]				

0% 11% 22% 33% 44% 56% 67% 78% 89% 100%

Rating thresholds

- Environmental risks and opportunities **28%**
- Environmental programs **94%**
- Environmental performance **31%**
- Performance of social metrics **67%**
- Social Responsibility **39%**
- Investment responsibility **88%**
- Presence of political risks and support to the government **88%**
- Investment attractiveness and business-support **100%**
- Transparency and corruption **88%**
- Quality of the budget management **70%**

Environmental

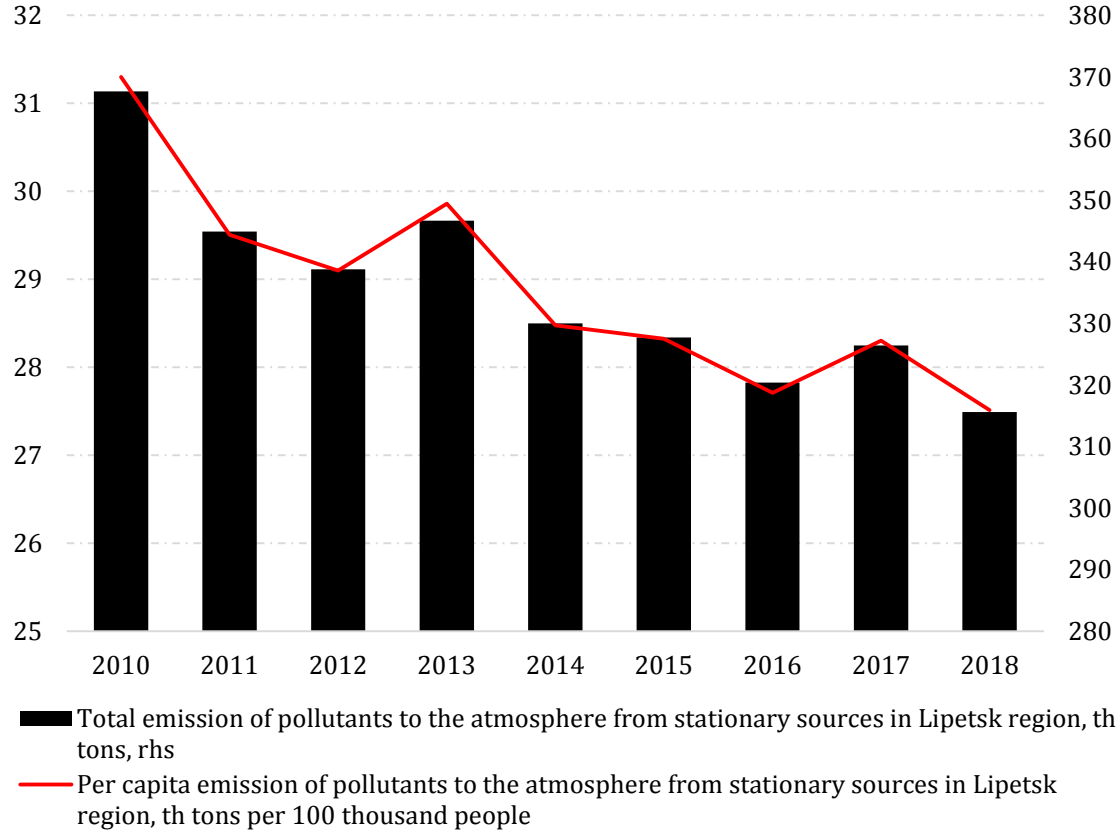| Sub-factor	Score
Environmental risks	18%
Environmental opportunities	38%
Environmental policy implementation and transparency	94%
Budget expenditure and efficiency	31%

Presence of a detailed and comprehensive long-term environmental policy program and public bodies responsible for the policy

Moderate level of involvement in environmental opportunities

Moderate level of environmental protection programs financing

The exposure to industry related environmental risks remains high, but mitigating actions from local authorities and local businesses are leading to gradual decline of the pollution metrics
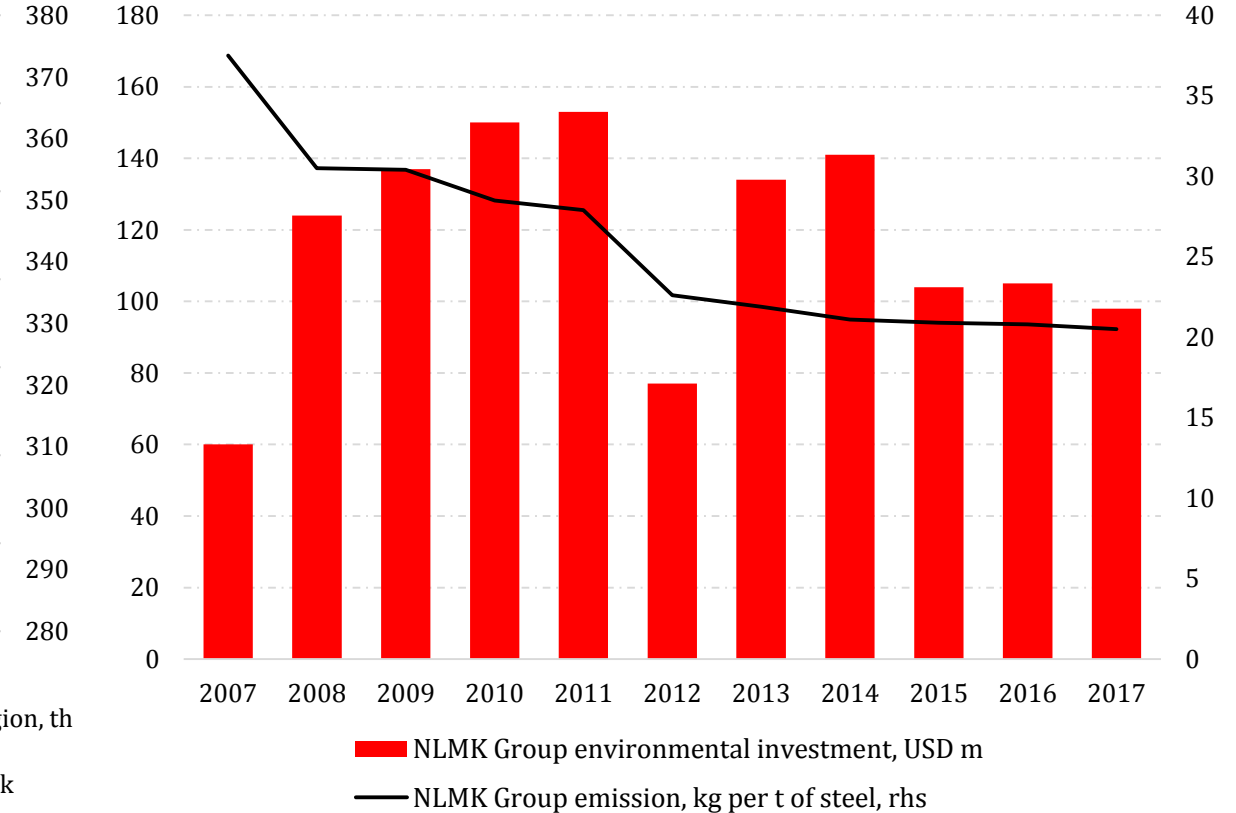
Environmental

Key environmental metrics of Lipetsk oblast

Industrial air emission metrics of Lipetsk region

Total emission of pollutants to the atmosphere from stationary sources in Lipetsk region, th tons, rhs

Per capita emission of pollutants to the atmosphere from stationary sources in Lipetsk region, th tons per 100 thousand people

NLMK Group's environmental metrics

NLMK Group environmental investment, USD m

NLMK Group emission, kg per t of steel, rhs
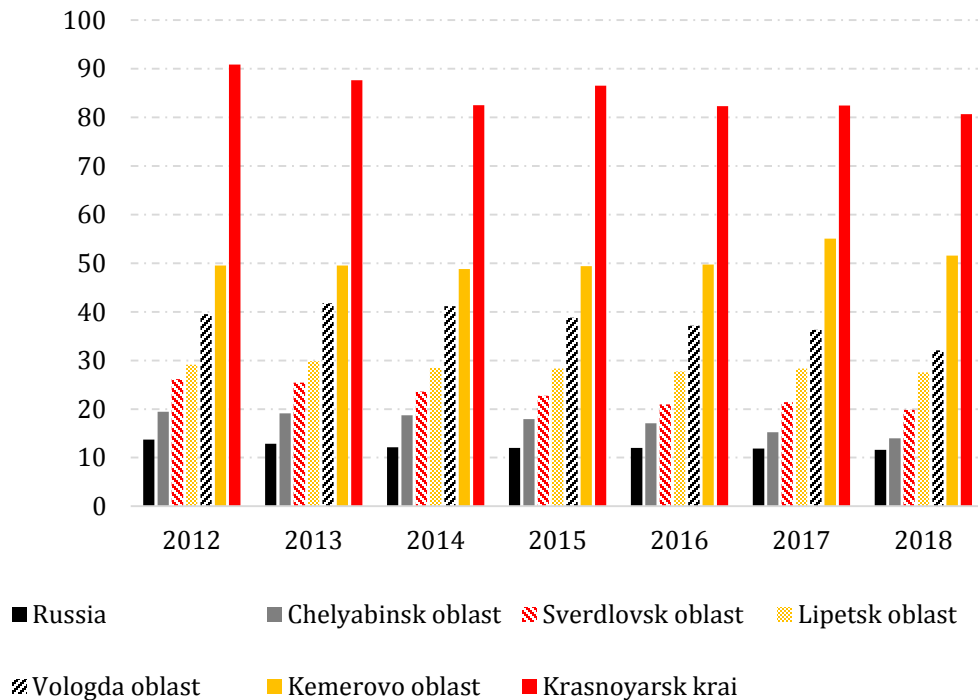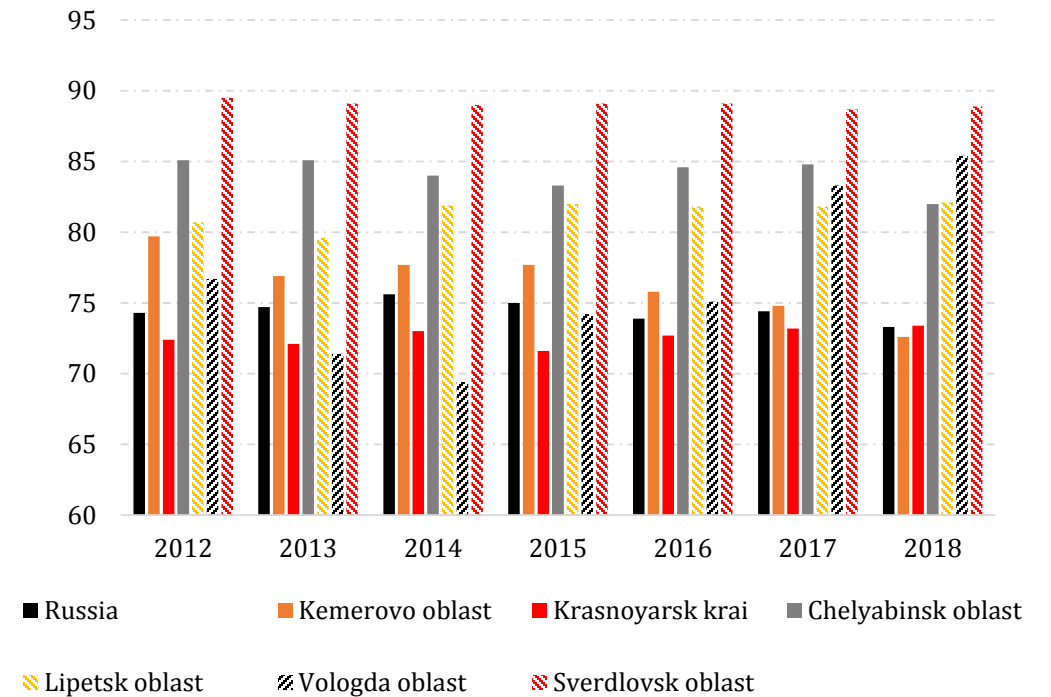
Environmental

Key environmental metrics of Lipetsk oblast

Per capita emission of pollutants to the atmosphere from stationary sources, th tons per 100 thousand people

Legend: Russia, Chelyabinsk oblast, Sverdlovsk oblast, Lipetsk oblast, Vologda oblast, Kemerovo oblast, Krasnoyarsk krai

Share of captured and detoxified air pollutants in the total volume of departures from stationary sources, %

Legend: Russia, Kemerovo oblast, Krasnoyarsk krai, Chelyabinsk oblast, Lipetsk oblast, Vologda oblast, Sverdlovsk oblast

Social

Sub-factor	Score
Social benefits and social security functions	75%
Education	40%
Health care system	82%
Security	66%
Socially responsible industry	26%
Socially responsible programmes	58%
PPP Investment	88%

Low poverty levels in national terms combined with elevated levels of public spending on social support per capita

Presence of social oriented PPP-projects and various socially responsible programs

Moderately low level of infant mortality rate combined with adequate level of health care public spending

Moderate level of education metrics

Moderately high crime rates are mitigated by elevated pubic spending on security in the region

Lack of priorities for socially responsible industries and restrictions for controversial industries, is partially mitigated by the ecological and technological investment priorities set out by the government

Governance

Sub-factor	Score
Stability of the government	100%
Support to the government	75%
Investment attractiveness / business-climate	100%
Industrial parks and free economic zones	100%
Transparency of the regional government in the Internet	79%
Regulatory Impact Assessment (RIA) practices OR Similar practices	100%
Anti-corruption commission / department in the regional administration	82%
Characteristics of self-declarations of the employees of administration bodies	80%
Quality of the fiscal budget planning	29%
Quality of the fiscal budget execution	63%
Quality of the debt management	100%
Tax deductions and credits	100%

High level of investment attractiveness combined with the acting special economic zones, industrial parks as well as various tax reliefs for investors complemented by the assessment of their efficiency

Sufficient level of the **regional government transparency** and well developed regulatory impact assessment procedures

Presence of **anti-corruption procedures** and satisfactory level of the self-declarations disclosure

Moderately high quality of **fiscal budget execution** and debt management

Low level of political risks

Moderate quality of fiscal budget planning

ESG-ranking of Russian regions 2019: methodology

Environmental risks and mitigation		Social risks and mitigation		The quality of governance
Amount of pollutants emitted from stationary sources into the atmosphere, per capita	The share of captured and neutralized air pollutants in the total amount of waste from stationary source	The share of population with incomes below the subsistence level	Amount of expenditures from the consolidated budget of the region on the "Social policy", adjusted for the cost of living, per capita	Position in the rating of investment attractiveness of Russian regions
Emissions of harmful substances (pollutants) in the atmosphere from motor vehicles, per capita	The share of cars, trucks and buses in the regions of the Russian Federation, with the possibility of using natural gas as a motor fuel	The share of school students enrolled in the second shift	Amount of expenditures from the consolidated budget of the region on the "Education", adjusted for the cost of living, per capita	The presence of certified industrial park / parks
Discharge of polluted wastewater into surface water bodies, per capita	The volume of recycled and used consistently water, per capita	Infant mortality rate (Number of registered death in the first year of life per 1,000 births	Amount of expenditures from the consolidated budget of the region on the "Health care", adjusted for the cost of living, per capita	The presence of special economic zones
…	…	…	…	…

In total **more than 20 indicators**

ESG-ranking of Russian regions 2019: results

Region / position	E	S	G	ESG
Republic of Tatarstan	7	12	1	**1**
Moscow	32	4	3	**2**
Sverdlovsk region	6	34	10	**3**
Kursk region	5	18	28	**4**
Tver region	3	40	32	**5**
Lipetsk region	4	21	36	**6**
Khanty-Mansiysk Autonomous Okrug-Ugra	52	8	7	**7**
Chuvash Republic	8	30	26	**8**
Ryazan region	43	23	6	**9**
Irkutsk region	20	73	5	**10**

ESG-ranking of Russian regions 2019

ESG

Thank you for your attention!

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